

# FINAN CIAL RE PORT

ANDRITZ FINANCIAL REPORT 2017

**ANDRITZ**

ENGINEERED SUCCESS

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# KEY FINANCIAL FIGURES OF THE ANDRITZ GROUP

	Unit	2017	2016	2015	2014	2013
Order intake	MEUR	5,579.5	5,568.8	6,017.7	6,101.0	5,611.0
Order backlog (as of end of period)	MEUR	6,383.0	6,789.2	7,324.2	7,510.6	7,388.5
Sales	MEUR	5,889.1	6,039.0	6,377.2	5,859.3	5,710.8
Return on sales	%	6.8	6.4	5.8	5.0	1.6
EBITDA	MEUR	541.7	542.4	534.7	472.0	255.2
EBITA <sup>1)</sup>	MEUR	444.0	442.1	429.0	379.5	164.1
Earnings Before Interest and Taxes (EBIT)	MEUR	399.3	385.8	369.1	295.7	89.8
Earnings Before Taxes (EBT)	MEUR	400.6	398.4	376.4	299.4	80.3
Net income (including non-controlling interests)	MEUR	265.6	274.8	270.4	210.0	53.2
Net income (without non-controlling interests)	MEUR	263.0	274.6	267.7	210.9	66.6
Cash flow from operating activities	MEUR	246.5	366.6	179.4	342.1	93.7
Capital expenditure	MEUR	116.8	119.5	101.4	106.5	111.4
Free cash flow	MEUR	129.7	263.7	85.0	245.8	-11.5
Free cash flow per share	EUR	1.2	2.5	0.8	2.4	-0.1
Employees (as of end of period; without apprentices)	-	25,566	25,162	24,508	24,853	23,713
Non-current assets	MEUR	1,860.8	1,913.7	1,844.7	2,007.4	1,851.2
Current assets	MEUR	4,404.5	4,284.9	3,933.3	3,987.8	3,720.2
Total shareholders' equity	MEUR	1,325.4	1,344.2	1,215.6	1,038.3	929.5
Provisions	MEUR	1,066.1	1,118.9	1,130.4	1,056.2	993.6
Liabilities	MEUR	3,873.8	3,735.5	3,432.0	3,900.7	3,648.3
Total assets	MEUR	6,265.3	6,198.6	5,778.0	5,995.2	5,571.4
Equity ratio	%	21.2	21.7	21.0	17.3	16.7
Return on equity	%	30.2	29.6	31.0	28.8	8.6
Return on investment	%	6.4	6.2	6.4	4.9	1.6
Liquid funds	MEUR	1,772.3	1,507.1	1,449.4	1,701.6	1,517.0
Net liquidity	MEUR	908.0	945.3	984.0	1,065.1	893.1
Net debt	MEUR	-530.6	-550.2	-601.6	-659.4	-585.0
Net working capital	MEUR	-121.0	-215.8	-182.1	-570.9	-539.4
Capital employed	MEUR	801.9	772.2	736.7	387.0	443.6
Gearing	%	-40.0	-40.9	-49.5	-63.5	-62.9
EBITDA margin	%	9.2	9.0	8.4	8.1	4.5
EBITA margin	%	7.5	7.3	6.7	6.5	2.9
EBIT margin	%	6.8	6.4	5.8	5.0	1.6
Net income/sales	%	4.5	4.6	4.2	3.6	0.9
ROE	%	20.0	20.4	22.2	20.2	5.7
EV/EBITDA	-	7.4	7.4	6.9	7.8	15.1
Depreciation and amortization/sales	%	2.3	2.4	2.4	2.9	2.8

1) Identifiable assets acquired in a business combination and recognized separately from goodwill amount to of 38,301 TEUR (2016: 41,913 TEUR); impairment of goodwill amounts to 6,428 TEUR (2016: 14,379 TEUR).

All figures according to IFRS. Due to the utilization of automatic calculation programs, differences can arise in the addition of rounded totals and percentages. The Schuler Group was consolidated into the consolidated financial statements of the ANDRITZ GROUP as of March 1, 2013 and is allocated to the Metals business area.

# KEY FINANCIAL FIGURES OF THE BUSINESS AREAS

## Hydro

	Unit	2017	2016	2015	2014	2013
Order intake	MEUR	1,317.2	1,500.3	1,718.7	1,816.7	1,865.4
Order backlog (as of end of period)	MEUR	2,921.8	3,269.6	3,640.9	3,708.6	3,722.4
Sales	MEUR	1,583.1	1,752.4	1,834.8	1,752.3	1,804.8
EBITDA	MEUR	154.1	167.2	183.6	177.2	176.8
EBITDA margin	%	9.7	9.5	10.0	10.1	9.8
EBITA	MEUR	123.0	127.6	145.3	144.8	146.9
EBITA margin	%	7.8	7.3	7.9	8.3	8.1
Capital expenditure	MEUR	36.3	26.1	27.4	39.4	44.5
Employees (as of end of period; without apprentices)	-	7,237	7,260	8,230	8,339	7,445

## Pulp & Paper

	Unit	2017	2016	2015	2014	2013
Order intake	MEUR	2,033.4	1,919.5	2,263.9	1,995.7	1,907.7
Order backlog (as of end of period)	MEUR	1,787.0	1,803.3	1,998.6	1,875.4	1,885.6
Sales	MEUR	2,059.7	2,094.4	2,196.3	1,969.3	2,005.3
EBITDA	MEUR	221.5	207.7	214.8	127.6	-11.5
EBITDA margin	%	10.8	9.9	9.8	6.5	-0.6
EBITA	MEUR	194.9	182.2	190.9	102.9	-35.7
EBITA margin	%	9.5	8.7	8.7	5.2	-1.8
Capital expenditure	MEUR	42.1	34.1	21.1	28.1	26.0
Employees (as of end of period; without apprentices)	-	8,002	7,522	7,324	7,236	7,136

## Metals

	Unit	2017	2016	2015	2014	2013
Order intake	MEUR	1,606.5	1,551.5	1,438.6	1,692.8	1,233.8
Order backlog (as of end of period)	MEUR	1,309.7	1,369.0	1,332.5	1,566.1	1,427.6
Sales	MEUR	1,643.5	1,598.4	1,718.1	1,550.4	1,311.0
EBITDA	MEUR	129.7	141.7	104.8	134.0	76.6
EBITDA margin	%	7.9	8.9	6.1	8.6	5.8
EBITA	MEUR	98.6	115.2	70.5	110.2	53.5
EBITA margin	%	6.0	7.2	4.1	7.1	4.1
Capital expenditure	MEUR	29.7	49.1	40.2	27.9	32.7
Employees (as of end of period; without apprentices)	-	7,573	7,608	6,160	6,432	6,300

The Schuler Group was consolidated into the consolidated financial statements of the ANDRITZ GROUP as of March 1, 2013 and is allocated to the Metals business area.

## Separation

	Unit	2017	2016	2015	2014	2013
Order intake	MEUR	622.4	597.5	596.5	595.8	604.1
Order backlog (as of end of period)	MEUR	364.5	347.3	352.2	360.5	352.9
Sales	MEUR	602.8	593.8	628.0	587.3	589.7
EBITDA	MEUR	36.4	25.8	31.5	33.2	13.3
EBITDA margin	%	6.0	4.3	5.0	5.7	2.3
EBITA	MEUR	27.5	17.1	22.3	21.6	-0.6
EBITA margin	%	4.6	2.9	3.6	3.7	-0.1
Capital expenditure	MEUR	8.7	10.2	12.7	11.1	8.2
Employees (as of end of period; without apprentices)	-	2,754	2,772	2,794	2,846	2,832

# MANAGEMENT REPORT

## GENERAL ECONOMIC CONDITIONS

The global economy was characterized by the continuing economic recovery in the world's main economic regions in 2017.

In the USA, the economic upswing that has now prevailed for eight years, continued. Growth of the gross domestic product (GDP) amounted to 2.3% during the reporting period. The main growth driver was private consumption, which accounts for around 70% of the economic performance in the USA. Unemployment dropped again slightly, reaching a level of 4.1% at the end of the year, which is the lowest level in 17 years. Due to this positive economic environment, the US Federal Reserve (FED) increased the key interest rate as expected in mid-December for the third time in 2017 to a range between 1.25 and 1.50% and signaled further increases in interest rates if the economic upswing also continues in 2018.

The euro zone also saw a strong economic upswing during the reporting period and, at 2.5%, achieved the highest GDP growth in ten years. The driving force behind the upswing is, above all, the expansive monetary and low-interest policy pursued by the European Central Bank (ECB), which supports private consumption and investments in industry. In addition, the European export market was able to profit from the favorable economic climate in the emerging markets. The ECB left the key interest rate at the record low of 0.0% in spite of the improved economic environment, but announced that it would halve the monthly bond purchase program to 30 billion euros as from January 2018.

As in the USA and Europe, economic development was also positive in the main emerging economies during the reporting period. China's economic growth reached around 6.9% in the past year. Both private consumption and exports were the main contributors to this. Industrial production remained at a stable level. After two years of recession and in spite of the Western sanctions, Russia's economy saw a recovery in 2017, with growth of around 1.8%. In addition to Russia, Brazil also profited from increasing prices for raw materials and emerged from a long recession phase.

Source: Research reports by various banks, OECD

## MARKET DEVELOPMENT

### Hydro

Global investment and project activity for electromechanical equipment for hydropower plants continued at a subdued level during the 2017 business year – individual projects were awarded selectively in Asia, Europe, and North America. Due to the unchanged, difficult market conditions caused by low electricity and energy prices, many modernization and refurbishment projects were postponed until further notice, especially in Europe. In the emerging markets, particularly in Asia, Africa, and South America, some new hydropower projects are currently in the planning phase. Overall, good project activity was noted for pumps. Some larger orders were awarded for special pumps in Asia in particular – especially in India.

### Pulp & Paper

The international pulp market saw positive development in the 2017 business year and thus continued its upward trend. In view of the continuing high demand for pulp – particularly from Chinese paper producers – accompanied by a stable supply, the price of short-fiber pulp (eucalyptus) increased from around 650 USD per ton at the beginning of the year to approximately 980 USD per ton at the end of 2017. The price for NBSK (Northern Bleached Softwood Kraft Pulp) long-fiber pulp also increased from around 810 USD per ton at the end of December 2016 to approximately 1,000 USD per ton at the end of December 2017. Overall, the market for pulping equipment showed good project activity.

### Metals

In the Metal Forming sector (presses, press lines) for the automotive and automotive supplying industry (Schuler), project and investment activity by the manufacturers of so-called “high premium” cars was moderate overall. Only a few individual orders were awarded selectively. Project and investment activity in the market segment served by Yadon in the Chinese automotive supplying industry continued to see favorable development.

Project activity for equipment for the production and processing of stainless steel and carbon steel strip increased slightly during the reporting period, however starting from the very low levels of the past few years. The main investment drivers were rising steel prices on the international markets and the improved financial situation of many steel producers. Competition on the equipment market remained challenging despite the somewhat improved market conditions.

### Separation

The global market for solid/liquid separation equipment continued to show good development overall in 2017. The environmental and also the mining and minerals sectors in particular showed good project activity. The demand in the chemical and pharmaceutical industries was also satisfactory. Only the food industry showed unchanging, low investment activity. In the Feed Technologies sector (plants for the production of animal feed and biomass pellets), project activity was moderate.

## BUSINESS DEVELOPMENT

### Change in the Consolidation Group

Information on the consolidation scope can be found in the notes to the consolidated financial statements, chapter "C) Consolidation scope".

### Sales

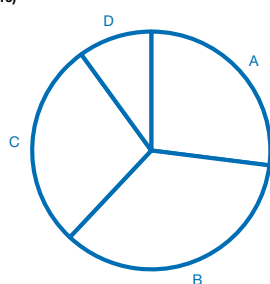
Sales of the ANDRITZ GROUP amounted to 5,889.1 MEUR in the 2017 business year and were thus slightly lower than the reference figure for the previous year (2016: 6,039.0 MEUR). Sales in the Hydro business area dropped significantly (-9.7%), mainly due to the decline in order intake in the past few years and the resulting lower sales generation. Similarly, sales in the Pulp & Paper business area declined slightly (-1.7%) compared to the previous year, which was positively impacted in particular by processing of a large order for a new pulp mill. In contrast, the Metals (+2.8%) and Separation (+1.5%) business areas saw a slight increase in sales compared to the previous year. The business areas' sales development at a glance:

	Unit	2017	2016	+/-
Hydro	MEUR	1,583.1	1,752.4	-9.7%
Pulp & Paper	MEUR	2,059.7	2,094.4	-1.7%
Metals	MEUR	1,643.5	1,598.4	+2.8%
Separation	MEUR	602.8	593.8	+1.5%

#### Sales by business area

2017 in %

(2016)

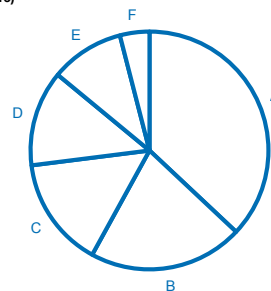


A	<b>27</b>	(29)	Hydro
B	<b>35</b>	(35)	Pulp & Paper
C	<b>28</b>	(26)	Metals
D	<b>10</b>	(10)	Separation

#### Sales by region

2017 in %

(2016)



A	<b>37</b>	(35)	Europe
B	<b>21</b>	(21)	North America
C	<b>15</b>	(12)	China
D	<b>13</b>	(12)	Asia (without China)
E	<b>10</b>	(15)	South America
F	<b>4</b>	(5)	Africa, Australia

## Share of service sales of Group and business area sales in %

	2017	2016
ANDRITZ GROUP	34	32
Hydro	29	26
Pulp & Paper	42	41
Metals	24	22
Separation	47	46

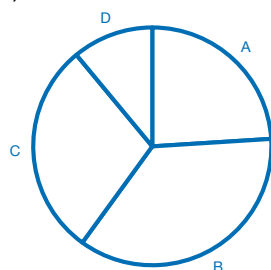
## Order intake

The order intake of the Group amounted to 5,579.5 MEUR and was thus practically unchanged compared to the previous year's reference figure (2016: 5,568.8 MEUR). The business areas' development in detail:

- Hydro: In view of the unchanged, difficult market conditions – caused by the low electricity prices, particularly in Europe, the order intake of 1,317.2 MEUR was significantly lower than the – already low – previous year's reference figure (-12.2% versus 2016: 1,500.3 MEUR).
- Pulp & Paper: The order intake developed very satisfactorily – both for the capital and the service business – and increased to 2,033.4 MEUR (+5.9% versus 2016: 1,919.5 MEUR).
- Metals: At 1,606.5 MEUR, order intake was 3.5% higher than the previous year's reference figure (2016: 1,551.5 MEUR). While the Metals processing sector saw a significant increase in order intake compared to the previous year, the order intake in the Metal forming sector for the automotive and automotive supplying industries (Schuler) was slightly below the level of the previous year's reference period.
- Separation: At 622.4 MEUR, order intake developed favorably (+4.2% versus 2016: 597.5 MEUR). The solid/liquid separation sector saw very positive development and was able to increase its order intake significantly compared to the previous year's reference period and thus overcompensated the declining order intake in the feed technologies sector.

### Order intake by business area 2017 in %

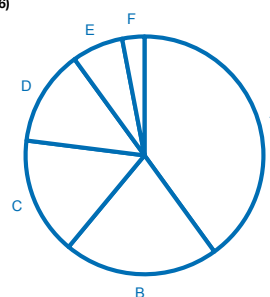
(2016)



A	24 (27)	Hydro
B	36 (34)	Pulp & Paper
C	29 (28)	Metals
D	11 (11)	Separation

### Order intake by region 2017 in %

(2016)



A	40 (41)	Europe
B	21 (20)	North America
C	16 (16)	China
D	13 (11)	Asia (without China)
E	7 (8)	South America
F	3 (4)	Africa, Australia

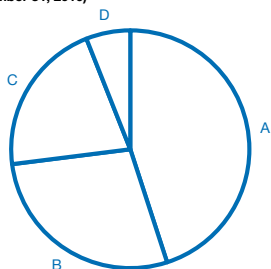


## Order backlog

As of December 31, 2017, the order backlog of the ANDRITZ GROUP amounted to 6,383.0 MEUR (-6.0% versus December 31, 2016: 6,789.2 MEUR).

### Order backlog by business area as of December 31, 2017 in %

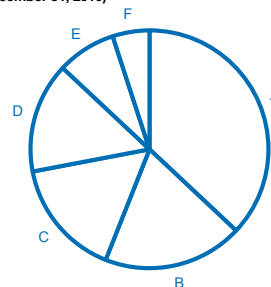
(December 31, 2016)



A	<b>45</b>	(48)	Hydro
B	<b>28</b>	(27)	Pulp & Paper
C	<b>21</b>	(20)	Metals
D	<b>6</b>	(5)	Separation

### Order backlog by region as of December 31, 2017 in %

(December 31, 2016)



A	<b>37</b>	(34)	Europe
B	<b>19</b>	(19)	Asia (without China)
C	<b>16</b>	(17)	North America
D	<b>15</b>	(14)	China
E	<b>8</b>	(10)	South America
F	<b>5</b>	(6)	Africa, Australia

## Earnings

Despite the slight decline in sales, the EBITA of the Group reached 444.0 MEUR and was thus practically at the same level as the reference figure for the previous year (2016: 442.1 MEUR). Among other things, this was positively impacted by the sale of the Schuler Technical Center in Tianjin, China, which was launched in 2014 and has developed successfully since then. Profitability (EBITA margin) increased to 7.5% (2016: 7.3%). Excluding extraordinary effects, the Group's EBITA would have amounted to 420.4 MEUR and profitability to 7.1%.

Development of profitability by business area:

- The EBITA margin in the Hydro business area reached – despite a decrease in sales – a satisfactory level of 7.8% (2016: 7.3%).
- In the Pulp & Paper business area, profitability increased to 9.5%, reaching a very favorable level such as in the previous year (2016: 8.7%), with very positive developments in both capital and service business.
- At 6.0%, the EBITA margin in the Metals business area was below the previous year's level (2016: 7.2%) in spite of the extraordinary effect mentioned above. This is largely attributable to cost overruns on some projects in the Metals processing sector.
- In the Separation business area, the EBITA margin increased to 4.6% (2016: 2.9%).

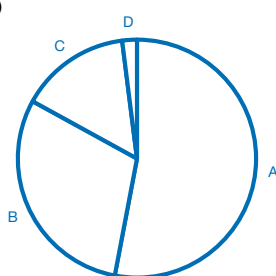
## Consolidated income statement

(in MEUR)	2017	2016	+/-
<b>Sales</b>	<b>5,889.0</b>	<b>6,039.0</b>	<b>-2.5%</b>
Changes in inventories of finished goods, work in progress and capitalized cost of self-constructed assets	38.6	13.7	+181.8%
Other operating income	188.4	77.5	+143.1%
Cost of materials	-3,028.8	-3,121.4	+3.0%
Personnel expenses	-1,717.8	-1,656.6	-3.7%
Other operating expenses	-827.7	-809.8	-2.2%
<b>EBITDA</b>	<b>541.7</b>	<b>542.4</b>	<b>-0.1%</b>
Depreciation, amortization, and impairment of intangible assets and of property, plant, and equipment	-136.0	-142.2	+4.4%
Impairment of goodwill	-6.4	-14.4	+55.6%
<b>EBIT</b>	<b>399.3</b>	<b>385.8</b>	<b>+3.5%</b>
<b>Financial result</b>	<b>1.3</b>	<b>12.6</b>	<b>-89.7%</b>
<b>EBT</b>	<b>400.6</b>	<b>398.4</b>	<b>+0.6%</b>
Income taxes	-135.0	-123.6	-9.2%
<b>NET INCOME</b>	<b>265.6</b>	<b>274.8</b>	<b>-3.3%</b>
Thereof attributable to:			
Shareholders of the parent	263.0	274.6	-4.2%
Non-controlling interests	2.6	0.2	+1,200.0%
Basic earnings per no-par value share (in EUR)	2.58	2.69	-4.1%

## Allocation of expenses in %

Distribution of total expenses  
2017 in %

(2016)



A	<b>53</b> (54)	Cost of materials
B	<b>30</b> (29)	Personnel expenses
C	<b>15</b> (14)	Other operating expenses
D	<b>2</b> (3)	Depreciation

53.0% of total operating expenses were attributable to material expenses in 2017 (2016: 54.4%). The material expenses to sales ratio amounted to 51.4% (2016: 51.7%). The share of personnel expenses, at 30.1%, was slightly higher than the figure for the previous year's reference period (2016: 28.9%), the personnel expenses to sales ratio amounted to 29.2% (2016: 27.4%).

Other operating expenses amounted to 827.7 MEUR in the reporting period (2016: 809.8 MEUR) and mainly include sales expenses, travel expenses, repairs and maintenance as well as rents and lease expenses. Other

operating income, at 188.4 MEUR, was significantly higher than for the previous year (2016: 77.5 MEUR) and mainly includes profits on disposal of intangible assets and property, plant, and equipment (mainly attributable to the sale of the Schuler Technical Center in Tianjin, China, and the sale of properties in Germany and Switzerland), insurance income and government grants.

The depreciation and amortization of intangible assets and of property, plant, and equipment amounted to 136.0 MEUR in 2017 (2016: 142.2 MEUR). Thereof 42.8 MEUR (2016: 48.7 MEUR) are attributable to depreciation and amortization of intangible assets and 86.7 MEUR (2016: 91.2 MEUR) to depreciation and amortization of property, plant, and equipment.

In 2017, the Group's goodwill impairment amounted to 6.4 MEUR (2016: 14.4 MEUR), and the impairment charges for intangible and tangible assets were 6.4 MEUR (2016: 8.0 MEUR). The goodwill impairment relates to Hydro (5.9 MEUR), and the Separation business areas (0.5 MEUR), where the business of some Group companies did not develop as expected. Impairment of intangible and tangible assets mainly relates to plant, technical installations, and equipment.

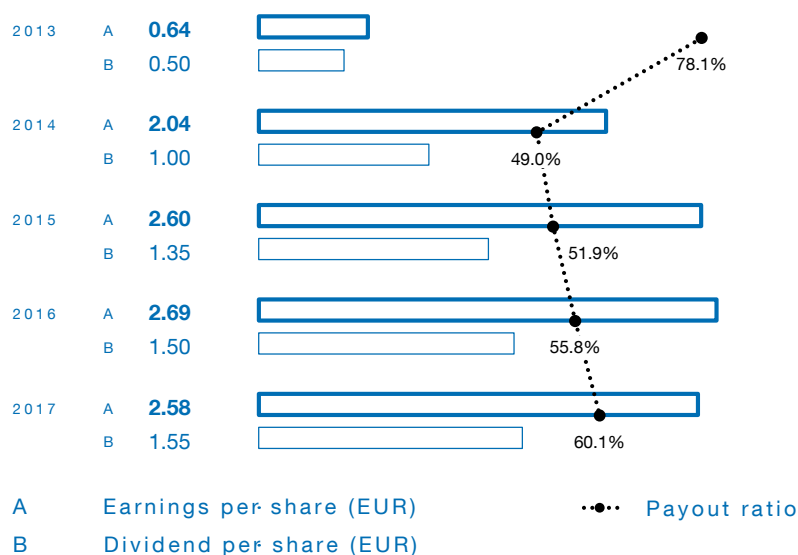
The financial result decreased significantly to 1.3 MEUR (2016: 12.6 MEUR). This is mainly due to the substantially lower interest rates in Brazil as well as interest expense for both the Schuldscheindarlehen issued in June 2017 and the call option for the remaining stake in Yadon. The improved other financial result mainly relates to gains from the sale of securities as well as the valuation of intercompany loans and bank balances in foreign currencies (FX) on balance sheet date.

The tax rate increased to 33.7% (2016: 31.0%) due to changes in valuation allowances and in non-recognition of deferred tax assets, among other things, and due to the tax reform in the USA (see also notes to the consolidated financial statements, chapter "G) 8. Income taxes".

The net income (including non-controlling interests) amounted to 265.6 MEUR (-3.3% versus 2016: 274.8 MEUR). Thereof 263.0 MEUR (2016: 274.6 MEUR) are attributable to the shareholders of the parent company and 2.7 MEUR (2016: 0.2 MEUR) to non-controlling interests (see also notes to the consolidated financial statements, chapter "I) 23. Equity".

The earnings per share decreased to 2.58 EUR (2016: 2.69 EUR). At the Annual General Meeting on March 23, 2018, the Executive Board will propose an increase of dividend to 1.55 EUR (2016: 1.50 EUR) per share for the 2017 business year. This is equal to a payout ratio of around 60.1% (2016: around 55.8%).

## Earnings and dividend per share/payout ratio



Dividend for 2017: Proposal to the Annual General Meeting.

## Treasury shares

As of December 31, 2017, the company held 2,940,870 treasury shares, i.e. 2.8% of the share capital, with a market value of 138.5 MEUR.

More information on treasury shares is available in the notes to the consolidated financial statements, chapter "I) Notes to the consolidated statement of financial position".

## Net worth position and capital structure

The net worth position and capital structure as of December 31, 2017 remained solid. Total assets amounted to 6,265.3 MEUR (December 31, 2016 adjusted: 6,198.6 MEUR). The equity ratio reached 21.2% (December 31, 2016: 21.7%).

Liquid funds amounted to 1,772.3 MEUR (December 31, 2016: 1,507.1 MEUR), net liquidity amounted to 908.0 MEUR (December 31, 2016: 945.3 MEUR). The increase in liquid funds is mainly due to the issuance of a long-term Schuldscheindarlehen of 400 MEUR at a fixed interest rate in June 2017.

## Development of liquid funds and net liquidity

2013	A	<b>1,517.0</b>	
	B	893.1	
2014	A	<b>1,701.6</b>	
	B	1,065.1	
2015	A	<b>1,449.4</b>	
	B	984.0	
2016	A	<b>1,507.1</b>	
	B	945.3	
2017	A	<b>1,772.3</b>	
	B	908.0	

A Liquid funds (MEUR)

B Net liquidity (MEUR)

In addition to the high liquidity, the ANDRITZ GROUP also had the following credit and surety lines for performance of contracts, down payments, guarantees, and so on, at its disposal:

- Credit lines: 131 MEUR, thereof 99 MEUR utilized
- Surety lines: 6,074 MEUR, thereof 2,571 MEUR utilized

### Assets

A	B	C

A	Long-term assets: 30%	1,860.8 MEUR
B	Short-term assets: 44%	2,767.2 MEUR
C	Cash and cash equivalents and marketable securities: 26%	1,637.3 MEUR

### Shareholders' equity and liabilities

A	B	C	D

A	Shareholders' equity incl. non-controlling interests: 21%	1,325.4 MEUR
B	Financial liabilities: 14%	873.8 MEUR
C	Other long-term liabilities: 12%	773.9 MEUR
D	Other short-term liabilities: 53%	3,292.2 MEUR

On the asset side, property, plant, and equipment (762.3 MEUR), goodwill (547.6 MEUR), and intangible assets (160.7 MEUR) were the most important items in non-current assets (1,860.8 MEUR). The most important items in the other current assets, amounting to 2,767.2 MEUR, are trade accounts receivable as well as cost and earnings

of projects under construction in excess of billings (1,491.5 MEUR) booked according to the percentage-of-completion method, and inventories (761.0 MEUR).

On the liabilities side, the other current liabilities (3,292.2 MEUR) mainly include billings in excess of cost and earnings of projects under construction booked according to the percentage-of-completion method (1,052.6 MEUR), provisions (484.1 MEUR), and trade accounts payable (461.2 MEUR). The most important items in other liabilities (943.0 MEUR) are accruals and outstanding order-related costs (482.0 MEUR), as well as unused vacation and other personnel-related accruals (234.4 MEUR). Non-current liabilities, at 773.9 MEUR, largely contain provisions (582.1 MEUR) and deferred tax liabilities (87.9 MEUR).

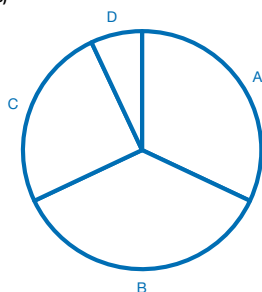
Further information on provisions is shown in the notes to the consolidated financial statements, chapter "I) Notes to the consolidated statement of financial position".

## Capital expenditure

Investments in tangible and intangible assets amounted to 116.8 MEUR in 2017 and were thus slightly below the previous year's level (2016: 119.5 MEUR). Investments breakdown by business area as follows:

### Capital expenditure by business area 2017 in %

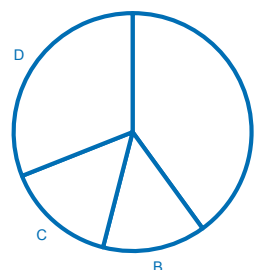
(2016)



A	<b>32</b>	(21)	Hydro
B	<b>36</b>	(29)	Pulp & Paper
C	<b>25</b>	(41)	Metals
D	<b>7</b>	(9)	Separation

### Capital expenditure by category 2017 in %

(2016)



A	<b>40</b>	(39)	Manufacturing
B	<b>14</b>	(11)	IT
C	<b>15</b>	(10)	Research and Development
D	<b>31</b>	(40)	Others

As in previous years, investments mainly focused on workshop modernizations and selected extension projects. Investments in new facilities mainly included the construction of the Tissue Innovation & Application Center (TIAC) as well as the renovation of the office building of ANDRITZ AG in Graz, Austria.

## Cash flow

The cash flow from operating activities, at 246.5 MEUR, was significantly lower than the previous year's reference figure (2016: 366.6 MEUR). The change mainly resulted from the decrease in Gross cash flow as well as higher paid income taxes.

The cash flow from investing activities amounted to -544.0 MEUR (2016: -239.6 MEUR). The major change mainly resulted from higher payments made for securities and other current financial assets.

The cash flow from financing activities amounted to 134.5 MEUR (2016: -123.2 MEUR). The change mainly resulted from the issuance of a Schuldscheindarlehen in June 2017 (nominal value: 400 MEUR).

## Further important key figures at a glance

	Unit	2017	2016	2015	2014	2013
Return on sales	%	6.8	6.4	5.8	5.0	1.6
EBITDA	MEUR	541.7	542.4	534.7	472.0	255.2
Earnings Before Interest and Taxes (EBIT)	MEUR	399.3	385.8	369.1	295.7	89.8
Earnings Before Taxes (EBT)	MEUR	400.6	398.4	376.4	299.4	80.3
Net income (including non-controlling interests)	MEUR	265.6	274.8	270.4	210.0	53.2
Free cash flow	MEUR	129.7	263.7	85.0	245.8	-11.5
Free cash flow per share	EUR	1.2	2.5	0.8	2.4	-0.1
Return on equity	%	30.2	29.6	31.0	28.8	8.6
Return on investment	%	6.4	6.2	6.4	4.9	1.6
Net debt	MEUR	-530.6	-550.2	-601.6	-659.4	-585.0
Net working capital	MEUR	-121.0	-215.8	-182.1	-570.9	-539.4
Capital employed	MEUR	801.9	772.2	736.7	387.0	443.6
Gearing	%	-40.0	-40.9	-49.5	-63.5	-62.9

## Acquisitions

ANDRITZ GROUP has acquired a 100% stake in Paperchine, Inc., USA, and its subsidiaries. The company has approximately 180 employees and manufacturing facilities in the USA, Canada, Thailand, and Germany. Paperchine is a global supplier of highly engineered equipment and services to the paper industry's leading manufacturers. For ANDRITZ, the acquisition of Paperchine strengthens its presence in North America and adds new products, such as the horizontal GapFormer, SigmaPro headbox, dewatering elements (former Johnson Foils), moisturizer (former VIB), and related service to its offerings for international clients. This acquisition complements the Pulp & Paper business area's product portfolio. The closing of the transaction took place at the end of June 2017.

In April 2017, the ANDRITZ GROUP acquired a 50.1% stake in the laser company Powerlase Photonics Ltd., Crawley, United Kingdom, and its subsidiaries. The high-tech company supplies – beside the Metals business area – international customers from the photovoltaic, microelectronics, automotive, and aerospace industries. This acquisition complements the Metals business area's product portfolio. Due to the minor importance for the assets, liabilities, financial position, and profit or loss these companies will not be included in the consolidated financial statements.

Further information on acquisitions can be found in the notes to the consolidated financial statements, chapter "D) Acquisitions".

## RISK MANAGEMENT

The ANDRITZ GROUP is a globally-operating company serving a large variety of industrial markets and customers. As such, the Group is subject to a series of risks. The main, general risks largely include:

- Risks relating to financial instruments
- Strategic risks
- Operational risks

The active risk management implemented by the ANDRITZ GROUP for many years now serves both to safeguard the company's existence in the long term as well as to increase its value, and is thus an essential success factor for the entire Group. For the purposes of value-oriented company management, risk management is an integral part of the business processes and extends over all strategic and operative levels.

The planning and controlling process within the entire ANDRITZ GROUP is an integral part of risk monitoring and control. Continuous controlling and regular reporting are intended to increase the likelihood of identifying major risks at an early stage and allow countermeasures to be implemented if necessary. Still, there is no guarantee that the monitoring and risk control systems are sufficient and adequately effective.

The current political tensions between the USA and North Korea could have a negative effect on the world economy if it continues to escalate and thus could also have a negative impact on development of the ANDRITZ GROUP's order intake. The medium- to long-term economic impact of the United Kingdom (UK) leaving the European Union (EU) cannot be estimated yet. However, its influence is expected to be minor, according to economic researchers. If economic growth in Europe drops significantly as a result of Brexit, this could have a negative impact on the business development of the ANDRITZ GROUP because Europe is the most important economic region for the Group, accounting for an average of 35-40% of its total sales. However, the ANDRITZ GROUP's direct business volume in the UK is small.

The medium- to long-term effects that the Trump administration will have on the global economy cannot be estimated at this point in time. However, ANDRITZ has a very strong local presence in the USA, with over 20 production and service locations and approximately 2,000 employees. All four business areas are represented in the USA. From today's perspective, the effects on ANDRITZ can be considered insignificant. On the other hand, if other regulatory measures are implemented that have negative consequences for non-American companies, the impact on ANDRITZ would be substantial after all.

The risks described below are monitored continuously. If any of these risks materializes, the Group will be prepared to react and to counteract as far as possible.

### Risks relating to financial instruments

The principal financial risks include payment default, liquidity risks, and market risks, such as exchange rate risks, interest rate risks, and raw material price risks.

A detailed description of all financial risks of the ANDRITZ GROUP is provided in chapter "L) Risk management – Risks relating to financial instruments", of the Notes to the Consolidated Financial Statements.



## Strategic risks

### Political risks

The countries in which the Group is active include some that are classified as politically risky or very risky. Terrorist activities or political changes could result in orders being suspended. Risks related to deliveries to countries with medium to high political risks are typically covered by comprehensive insurance. However, the requirements for full hedging of these risks are not always available. The measures and procedures in this respect are specified in the credit risk policy applying throughout the Group.

### Regulatory risks

Regulatory risks include both tax risks as well as compliance risks.

The ANDRITZ group companies are subject to local tax laws in the respective countries and have to pay income taxes as well as other taxes. Changes in tax legislation and different interpretations of the regulations applying in each case can result in subsequent tax burdens. As a result, the tax rate can be exposed to either positive or negative fluctuations.

The ANDRITZ GROUP is subject to a variety of legal compliance risks, including compliance with anti-trust and anti-bribery laws in Austria and other countries where the Group conducts business. The Group has established a Compliance Committee to control its compliance efforts and adopted a number of compliance policies, including policies prohibiting insider trading and violation of the applicable anti-trust and anti-bribery laws, as well as a global Code of Business Conduct and Ethics. While the Group attempts to make sure that such policies are observed, there can be no assurance that no violations will occur or have occurred. Any such violation could have a lasting adverse impact on the financial position and reputation of the Group and may also lead to the cancellation of existing orders.

### Competitive position

The ANDRITZ GROUP does business in highly competitive markets in which only a few large suppliers bid for only a few large orders. In addition, there are many small companies competing locally that have a comparatively low cost base. The competitive situation or a possible change in the competition structure can have a negative effect on sales margins of the Group. There is no guarantee that the Group can also maintain its current market position in the future.

As the Group's competitive position is also based on proprietary technology, the increase in product piracy and industrial espionage facilitated by the digital era and accompanying theft of intellectual property can also have an adverse effect on the Group's competitive position. The Group protects its intellectual property wherever possible, but there can be no assurance that these efforts will always be successful.

### Customer concentration

In many of the industries served by the ANDRITZ GROUP, there is a trend towards consolidation and mergers. This applies above all to the pulp and paper industry, and also the steel industry. Such consolidation may result in the Group having to negotiate with fewer companies in the future, but these companies have greater purchasing power. The dependence on key customers may increase, and this could have direct consequences on the Group's business activities.

### Volatility of incoming orders

Some customers and industries served by the ANDRITZ GROUP are directly dependent on general economic developments and thus subject to frequent fluctuations in the demand for their products. This is especially true of the Pulp & Paper and the Metals business areas, but all business areas may be affected. The prices for equipment and products supplied by ANDRITZ in these segments are, in part, directly dependent on the

prevailing relationship between supply and demand for the goods produced by such equipment and products of ANDRITZ. Possible price fluctuations can, therefore, have a direct influence on each customer's capital investment decisions, with subsequent impact on the Group's order intake. This may lead to some volatility in the development of the Group's order intake.

The Schuler Group, in which the ANDRITZ GROUP holds a majority stake, derives approximately 80% of its sales from the automotive industry, which is generally exposed to severe cyclical swings. Thus, possible negative cyclical fluctuations can have a negative impact on the sales and earnings development of the Schuler Group and thus of the ANDRITZ GROUP.

Among other things, the Group's future performance depends on securing new contracts. It can be difficult to predict when an order for which the ANDRITZ GROUP has provided a quotation, will actually be awarded. Contract awards are often affected by events outside the control of the Group, such as prices, demand, general economic conditions, the granting of governmental approvals, and the securing of project financing. This uncertainty can cause difficulties in aligning the Group's fixed costs and predicted order volume.

In addition, natural disasters or pandemics could also have a negative effect on development of the order intake, the liquidity, and the financial structure of the Group.

#### **Acquisition and integration of complementary business segments**

One of the Group's main strategic goals is to become a full-line supplier in all of its business areas through organic growth and complementary acquisitions. In the course of implementing this strategy, the Group has acquired and integrated a number of companies with worldwide operations since 1990.

However, there is no guarantee that the Group will be successful in identifying and acquiring appropriate acquisition candidates in the future, or that suitable candidates and sufficient financing will be available. In the past, ANDRITZ was largely successful in integrating newly acquired companies. However, there is no guarantee that planned objectives and synergies can be realized for all acquisitions in the future (including the ongoing integration of the most recently acquired companies), or that the Group will not be exposed to new or legacy risks that have not been identified or accurately evaluated.

#### **Procurement and manufacturing**

The Procurement department regularly checks the important suppliers for the ANDRITZ GROUP in order to identify risk potentials (ability to deliver, quality management, financial situation, etc.) and risks at an early stage. This also applies to orders beyond a defined amount. In addition, capacities are checked and, if possible, a second supply option is reviewed.

In manufacturing, precise planning, high commitment, and flexible employees are essential factors to ensure short lead times and on-time production. Internally, ANDRITZ uses flextime contracts and, especially in Europe, a flexible contingent of temporary workforce to cope with cyclical fluctuations and peaks in workload. Also, the fluctuations in capacity utilization that are typical of project-related business are balanced better with a targeted make-or-buy strategy and best possible utilization of the company's own manufacturing capacities. At the same time, process-relevant key components for ANDRITZ plants and products are mainly manufactured and assembled in the Group's own workshops. Simple components, on the other hand, are largely purchased from qualified suppliers, who are subjected to regular checks on quality, on-time delivery, and compliance. The ANDRITZ GROUP tries to balance out fluctuations in capacity utilization as flexibly as possible. However, there is no guarantee that ANDRITZ will always be able to compensate immediately for larger fluctuations in capacity utilization, and failure to do so could in turn have a negative impact on the earnings development of the Group.

### Human resources

In Human resources, special emphasis was again placed on developing and strengthening the necessary personnel resources in the past year. The corresponding measures largely include offering interesting career opportunities, incentive plans, and focused training programs. The ANDRITZ GROUP seeks to be an attractive employer for its employees and also tie them to the company in the long-term. High quality standards in the selection process guarantee that the most suitable candidates are recruited for the positions becoming vacant. As part of succession planning, internal candidates for key positions are identified in order to have enough candidates available in the short and medium term. However, ANDRITZ cannot guarantee that it will always be able to fill vacant positions immediately with people that meet the requirements and are qualified for the position concerned. As a result, external candidates are also considered for vacant positions, and the recruiting process increasingly uses social media platforms for this purpose.

Local development programs for special target groups (for example employees working in sales or procurement, or management staff in the manufacturing department) were conducted in many of the Group's companies. In order to address the possible need for personnel on account of increased business activities in China, more attention is being paid to management training there. In developing the programs, care is taken wherever possible to combine these training courses with globally organized ANDRITZ personnel development programs. Existing training programs are adapted regularly to current requirements. Potentials to optimize the existing organizational structure were assessed with the support of professional partners.

### Digitalization

Based on extensive and long-term experience as a supplier of technologies and systems for various branches of industry, ANDRITZ offers a broad portfolio of intelligent, digital solutions that provide significant help to customers in achieving their production and corporate goals. These innovative Industry 4.0 solutions that have been tested worldwide in many reference plants are combined under the technology brand Metris. Metris is based on three strategic pillars: Industrial IIoT with technology focus on smart sensors, big data and augmented reality, Smart services, and the Ventures sector. Metris technologies are the very latest state of the art, and they are subject to constant further development and can be fully tailored to individual customer requirements. ANDRITZ considers digitalization to be a vital growth sector for the future and hence, will focus strongly on development of digital products and solutions, including data security, in the coming years. However, the speed at which digitalization is progressing also presents a risk if ANDRITZ does not succeed in mastering the challenges relating both to development of products and solutions and to internal processes with the necessary speed.

### Loss of image and customers due to suppliers having inadequate environmental and social standards

Adherence to internationally applicable environmental and social standards is important, especially when working with suppliers from emerging economies. Possible violations (e.g. child labor, disregarding of safety regulations, underpayment, disposal of hazardous substances, etc.) not only harm ANDRITZ's own image, but also jeopardize its existing or future business relationships with customers. This could have a negative effect on order intake and/or on the Group's order backlog. Thus, ANDRITZ endeavors to forge ahead with the implementation of internationally recognized environmental and social standards at suppliers' premises and also to check whether these standards are obeyed. A first important step was taken in developing a specific policy for suppliers on the basis of the general code of conduct. Two auditors have been deployed in China and India since last year in order to check standards at suppliers' premises.

### Capital market risks

Apart from company-related factors, development of the ANDRITZ share price is also dependent on price fluctuations on the international financial markets. Major price fluctuations and high volatility on major stock markets may have a negative effect on the ANDRITZ share price.

As a publicly listed company, ANDRITZ is regularly assessed by financial analysts and institutional investors. Analysts' recommendations to buy or sell ANDRITZ shares and subsequent investment decisions by shareholders may cause considerable fluctuations in the share price. ANDRITZ has consistently followed a policy of open and transparent information exchange with shareholders and the financial community to avoid unfounded fluctuations in its share price.

The high level (just under 70%) of public free float of ANDRITZ's total outstanding shares and its intensive investor relations activities have led to active trading in ANDRITZ shares on the Vienna Stock Exchange. There is no assurance, however, that active trading will be maintained in the future. If active trading was not maintained, the liquidity and market price of ANDRITZ shares would suffer adverse effects, and investors may not be able to sell their shares at what they perceive to be an acceptable price. In the absence of active trading or in the event of a major change in market capitalization, the ANDRITZ share could be removed from various international industrial and stock exchange indexes, for example the ATX, the leading index of the Vienna Stock Exchange, or other indexes. This could result in major changes in the price of the ANDRITZ share.

## Operational risks

### Project risks

In conjunction with the delivery of equipment and services supplied by ANDRITZ, the Group is under contractual obligation in many cases to provide performance guarantees and to meet certain deadlines. If the performance data stated are not achieved or if deadlines are not met, the Group may have to perform remedial work at its own expense or pay damages. If a guaranteed performance level is missed by a wide margin, deadlines are significantly exceeded, or the customer does not accept the plant for other reasons, the customer may have the right to terminate the agreement and return the subject of the contract to ANDRITZ for a full refund and recover damages. Such action could have a negative effect on the Group's financial development.

Many of ANDRITZ's projects are based on long-term, fixed price contracts. The sales and operating margins realized in a fixed price contract may vary from original estimates as a result of changes in costs (especially fluctuating material costs), particularly on projects that include engineering and/or construction of complete plants, and where labor services have to be bought from third parties.

As certain parts of the Group's supplies are outsourced, the Group may be forced to quote at a fixed price to the customers without knowing the exact cost of the parts purchased. While ANDRITZ makes estimates using empirical data and quotes from potential suppliers, these estimates may not always be completely accurate. As a result, the Group has experienced considerable losses on some projects in the past. Problems and losses of this kind may also occur in future in a way that would adversely affect the Group's financial development.

In individual projects, ANDRITZ also has responsibility for plant-wide engineering and/or installation and construction in addition to the supply of ANDRITZ equipment and systems. These contracts bear the risks discussed above, but also entail certain risks relating to greater on-site responsibilities, including environmental matters, local labor conditions as well as risks relating to geology, construction, and installation. Additionally, the Group is exposed to the risks inherent in managing the third parties providing construction, installation, and engineering services on these projects (such as strikes and other labor disruptions, which can lead to delays in start-up or failure to meet deadlines). The Group has put risk management procedures in place, including insurance programs, contract policies, and project management discipline, to reduce these EPC-related risks (Engineering, Procurement, and Construction) as far as contracts allow. Nevertheless, there is no guarantee that these procedures are sufficient to prevent negative financial consequences. The Group has experienced significant losses on certain past projects in this regard, and similar difficulties and losses may occur in the future in a way that would adversely affect the Group's financial condition.

In many EPC and other projects, the ANDRITZ GROUP participates with third parties with whom it shares several joint liabilities. While the Group attempts to make sure that risks in such projects are properly allocated, there can be no assurance that this will always be successful. Moreover, the inability of one of the Group's consortium partners to fulfill its obligations on the project, including indemnity obligations to the Group, may have an adverse material impact on the financial results and the liquidity of the Group.

#### Limitations of liability

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

#### Government contracts

A certain amount of the orders are placed by government entities. These projects can involve the performance, liability, and EPC/turnkey contract risks described above. Due to public bid requirements and local laws, it may not always be possible for the Group to obtain its desired contractual safeguards, and thus it may remain more exposed to such risks in connection with these projects.

#### Legal proceedings

In the course of its business, the ANDRITZ GROUP is party to numerous legal proceedings before both administrative and judicial courts and bodies as well as before arbitration tribunals. The substantial majority of such proceedings is of a nature considered typical of the Group's business, including contract and project disputes, product liability claims, and intellectual property litigation. Where appropriate, provisions are made to cover the expected outcome of proceedings to the extent that negative outcomes are likely and reliable estimates can be made. There is no guarantee, however, that these provisions will be sufficient. Given the amounts at stake in some of these disputes, a negative decision for ANDRITZ in one or several of these legal disputes may have a significant, adverse effect on the earnings and liquidity position of the Group.

In product liability, there are a number of cases alleging injuries and/or death resulting from exposure to asbestos. Details are available in the Notes to the Consolidated Financial Statements, chapter N) "Contingent Liabilities".

#### Currencies

A substantial number of the ANDRITZ GROUP's subsidiaries are located outside the euro zone. Since ANDRITZ AG reports in euros, the company converts the financial statements of these companies into euros in the consolidated financial statement. In order to address translation-related foreign exchange risks, it is generally assumed for the purposes of risk management that investments in foreign companies are made in the long term and the results are reinvested continuously. The effects of fluctuations in exchange rate when converting net asset items into euros are included in currency translation adjustments in Group equity.

A significant portion of the Group's sales and costs are denominated in non-euro currencies, mainly in US dollars. The currencies in these countries are subject to fluctuations in exchange rates. Currency risks in connection with orders that are not invoiced in euros are minimized by derivatives, in particular forward contracts and swaps.

Although the Group attempts to hedge the net currency exposure of those orders not invoiced in euros by forward contracts, currency fluctuations can result in the recognition of exchange rate losses in the Group's financial statements. Developments of exchange rates may also have both positive and negative translation effects on the Group's sales and earnings whose values are converted into euros. In addition, shifts in exchange rates may affect ANDRITZ's position relative to its competitors, although many competitors of ANDRITZ are also based in the euro zone. As some of ANDRITZ's major customers are based outside of the euro zone, changes in

exchange rates could lead to delays in project decisions by those customers. Also, the shareholders' equity of the ANDRITZ GROUP is not hedged and is thus susceptible to being affected by changes in the exchange rate.

The change in the exchange rate of the euro against many other currencies could also have both a positive and a negative impact on the shareholders' equity as well as on the sales and earnings development of the ANDRITZ GROUP (translation effect).

### **Safety and environmental matters**

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

In addition, the ANDRITZ GROUP supplies many systems with products and/or processes that pose the risk of serious or fatal injury (also to a larger number of people), or of substantial property damage. Several systems involve the use of dangerous and hazardous chemicals and materials. Products of ANDRITZ are also used in the primary cooling circuits of nuclear power plants. The Group provides installation and other services on industrial sites containing dangerous and hazardous chemicals and materials. In the event of an accident, for example a spill of such hazardous materials, a fire, or an explosion, the Group could be held liable for property damage, personal or fatal injury, and environmental remediation. The Group can also be held liable in the event of industrial accidents by ANDRITZ employees or by third parties working on behalf of ANDRITZ.

### **Travel safety**

A global Travel Risk Management Policy defines the key points of the travel safety program. In order to make foreign assignments by ANDRITZ employees as safe as possible, the Corporate Security Group Function continuously monitors the situation in risk countries to which employees are deployed and provides information on current developments to travelers and project managers. In 2017, this information source was greatly simplified and the quality very much improved.

A new – and significantly improved – country portal that can also be accessed via a smartphone app offers country-specific information, country analyses, and practical tips on the topics of travel health care and safety as well as updates and analyses on current developments in a specific country. An important innovation is the facility to inform travelers of probable forthcoming events (demonstrations, strikes, difficult weather conditions, airport closures, etc.) that may disrupt travel arrangements. The goal is to provide employees with as much information as possible on special risks and developments in a country so that they can make the best possible arrangements.

Two helplines – the ANDRITZ Medical and the ANDRITZ Security Travel Helplines – are available 24/7 to provide help before, during, and after the trip in the event of an emergency. The helplines' travel medicine specialists, safety experts, and situation analysts can answer general queries on the topic of safety when traveling as well as specific questions relating to the actual destination. In addition, they can recommend medical or meet-and-greet services at the travel destination. The primary objective is to offer staff comprehensive information and support to guarantee their safe return home. However, the possibility of employees being harmed – in spite of the comprehensive informative and safety measures – and the Group being held liable for this cannot be excluded.

### **Insurance**

While the ANDRITZ GROUP maintains insurance programs to cover typical insurable risks related to its business, there can be no guarantee that this insurance can fully cover potential losses, that the insurers will be liable to

pay damages, nor that the amount of the Group's insurance will be adequate. Moreover, the Group is involved in certain industries (for example the space and nuclear industries) for which risks are uninsurable or cannot be insured against in full, or where it is not always possible to comply with all of the conditions required to contract insurance. Any material liability not covered by insurance could have a substantial, adverse effect on the Group's financial condition.

#### **Cyber security, hacker attacks**

The increasing digitalization and networking of plants and machinery requires highly effective and efficient solutions to maintain data security. Unauthorized access to or copying of sensitive company data as well as insufficient system availability as a result of hacker attacks are substantial risks to which ANDRITZ is increasingly exposed. This may not only affect ANDRITZ's own systems, but also IIoT solutions installed by ANDRITZ at customers' premises. ANDRITZ counters cyber risks and potential hacker attacks by using the latest IT security technologies (for example firewall systems) and by stricter control of access rights. One focus lies on continuous further development of security measures. Cyber attacks should be detected at an early stage with the aid of an optimized IT infrastructure so that they can be repelled successfully. However, unauthorized access to and loss of sensitive and confidential data both at ANDRITZ and at its customers' premises as a result of cyber attacks cannot be ruled out, nor can any resulting enormous financial losses for which ANDRITZ may be held responsible.

### **Internal control and risk management system**

ANDRITZ has a Group-wide internal control and steering system (ICS) whose main task is to identify nascent risks at an early stage and – if possible – to take countermeasures. This system is an important element of active corporate management. However, there is no guarantee that these monitoring and control systems are effective enough.

The Executive Board is responsible for implementing and monitoring the ICS for the accounting process and financial reporting. For this purpose, binding Group-wide regulations and guidelines/policies have been implemented for the major business risks and also for the financial reporting process.

The accounting department, which includes financial accounting, reports directly to the Executive Board. Organizational measures have been made to ensure as far as possible that the legal requirements to make complete, correct, timely, and orderly entries in the books and other records are met. The entire process from procurement to payment is subject to guidelines/policies that are intended to minimize any essential risks these processes may entail. These measures and rules include separation of functions, signature authorization matrices, and signatory powers for authorizing payments applying on a collective basis only and restricted to a small number of employees, as well as system-supported checks by the financial software in use (SAP).

By using a standardized, Group-wide financial reporting system, together with instant occasion-driven reporting on major events, the Group endeavors to ensure that the Executive Board is properly and promptly informed on all relevant issues. The Supervisory Board is informed in Supervisory Board meetings held at least once every quarter on the current business development, including operative planning and the medium-term strategy of the Group – for example in the event of acquisitions or restructuring – with direct and immediate information being provided to the Supervisory Board in special cases. In addition, the Chairman of the Supervisory Board receives a monthly report, including the key financial figures with comments. Internal control and risk management are among the topics dealt within audit committee meetings.

Internal Auditing, set up as an executive department reporting to the Executive Board, audits individual processes or Group companies according to an audit schedule defined for each year as well as conducting

audits in special cases. It is active in reporting and assessing the audit results as an independent, internal department that is not bound by instructions from outside bodies.

The auditor of the Group's financial statements assesses risk management functionality in the ANDRITZ GROUP and reports on it to the Supervisory and the Executive Boards. Risk management functionality was checked and approved in 2017 by the auditor of the Group's financial statements.

### **Consolidated Corporate Governance report**

The consolidated Corporate Governance report is available in the section "Consolidated Corporate Governance report" or on the ANDRITZ website [andritz.com](http://andritz.com).

### **Significant events after the balance sheet date**

There were no events of material significance after the balance sheet date.



## CONSOLIDATED NON-FINANCIAL STATEMENT

The following section describes non-financial performance indicators on social, employee, and environmental matters and in respect of human rights. Information on measures to combat bribery and corruption is available in the consolidated Corporate Governance report.

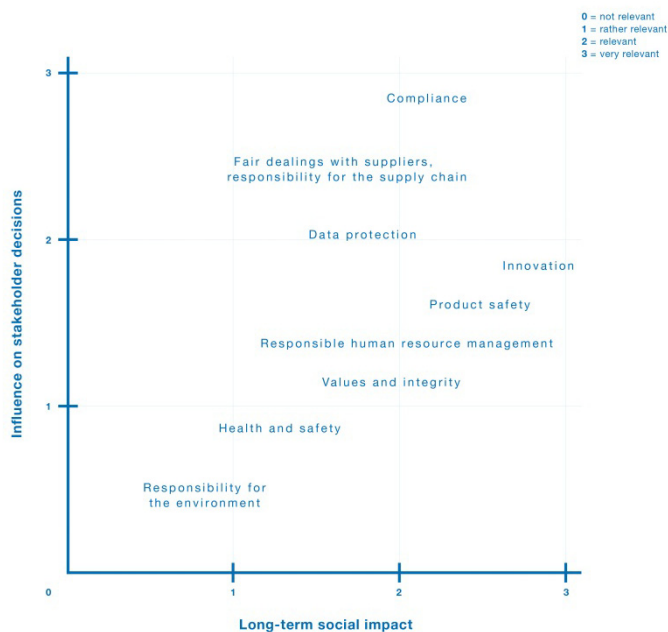
### Materiality analysis

The ANDRITZ GROUP reports information relating to sustainability in accordance with the criteria of the Global Reporting Initiative (GRI Standards, Option: Core).

A stakeholder survey completed by approximately 300 participants was conducted in autumn 2017 in order to establish the main reporting topics and important fields of activity.

The survey dealt with just over 50 topics in total from six fields of activity. These questions addressed the long-term social influence of the respective topics on the one hand and the influence that these topics have on stakeholder decisions in connection with their business relations with ANDRITZ on the other hand. The survey was anonymous and conducted using an online questionnaire. In addition to the stakeholder survey, a media and market analysis was performed in order to find out which topics were predominant in public reporting about ANDRITZ.

The result of the survey showed the following: As in previous surveys, compliance and fair dealings with suppliers and business partners as well as accepting responsibility for the supply chain were rated as very important topics. Data protection, product safety, and responsible Human Resources (HR) management were also considered relevant. In addition, occupational safety and responsibility for the environment were categorized as important topics. Thus, all of these topics are relevant for ANDRITZ and, as a result, also form the basis of the reporting content.



A list of all Key Performance Indicators (KPIs) reported, including comments, is provided in the “GRI Index” chapter in the Notes to the Consolidated Financial Statements. New information provided can be found in the “Waste and energy” section because a new environmental management reporting system was used for the first time for the 2017 business year, gathering and analyzing data on the basis of the GRI indicators.

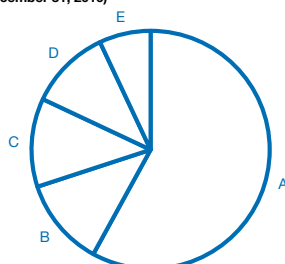
## Employees

Motivated and committed employees are one of the fundamental requirements for ANDRITZ’s long-term success. As a result, employee satisfaction, comprehensive education and training opportunities, and work-life balance are the focus of our activities in HR management. Equal treatment, reliability, integrity, and respect are the central values to which ANDRITZ has committed and also shows towards its approximately 25,600 employees.

The structure of the workforce is as diverse as the individual products and business areas: As of the end of 2017, ANDRITZ had 25,566 employees (December 31, 2016: 25,162 employees) from more than 30 different countries. This diversity is important to ANDRITZ because it creates positive effects as a result of the exchange of knowledge and practical experience between people of different origins, ages, religions, and cultures.

**Employees by region**  
as of December 31, 2017 in %

(December 31, 2016)



A	<b>58</b> (59)	Europe
B	<b>12</b> (12)	China
C	<b>12</b> (11)	North America
D	<b>11</b> (12)	South America
E	<b>7</b> (6)	Asia (without China), Australia, Africa

The proportion of women in the Group increased slightly compared to the previous year and amounted to 15.4% in 2017 (2016: 15.1%).

### Employees by gender

	Absolute 2017	Absolute 2016	Percentage 2017	Percentage 2016
Men	21,630	21,362	84.6%	84.9%
Women	3,936	3,800	15.4%	15.1%
<b>TOTAL</b>	<b>25,566</b>	<b>25,162</b>	<b>100.0%</b>	<b>100.0%</b>

Development and coordination of global HR activities is handled by the Group Human Resources department, which is also responsible for succession planning to key positions as well as for developing talented employees and candidates for executive positions within the Group.

A central element of Group-wide human resources development is the mentoring program. Employees taking part in the program for the development of management personnel for key positions are assigned a mentor who has held a management post at ANDRITZ for many years. The future executive can approach this mentor at any time with professional and personal queries. There are also regular private meetings to jointly discuss defined topics, pass on experience, and reflect upon the results.

The HR departments at the company's locations also run local employee development programs to support this process. The training programs are based on annual appraisal interviews, which cover not only the employee's personal job satisfaction, but also individual goals as well as professional advancement and vocational training measures. The annual appraisal interview provides an opportunity to provide mutual feedback and establish a detailed definition of future tasks and further career development within the company. In 2017, approximately 69.8% of the workforce Group-wide took part in annual appraisal interviews. In order to be able to identify optimization potential in the existing organization chart, management audits were also conducted in the past year with support from professional, external partners.

#### **Equal treatment and fairness towards all employees creates job satisfaction**

As an attractive employer, ANDRITZ's goal is to offer its workforce a working environment offering equal opportunities, attractive means of further development, and fair pay for all, regardless of their location worldwide.

The basic rights apply to all employees throughout the Group. These include the legal right of employees to co-determination and compliance with the principles and standards of the International Labour Organization (ILO) concerning the freedom of association, abolition of forced labor, child labor, and discrimination as well as fair and performance-based pay.

Regular and also event-driven meetings are held by the ANDRITZ AG Executive Board and the members of the Works Council to ensure and support an open and transparent exchange of information between both bodies. The company supports the formation of internal committees representing employees' interests. Freedom of assembly applies at all locations in accordance with the respective local legislation.

ANDRITZ does not condone or tolerate any form of employee harassment or discrimination by other employees due to gender, age, origin, religion, nationality, and so on. The working environment should be free of intimidating and offensive behavior for every employee. This is clearly documented in the Group-wide Code of Business Conduct and Ethics and in the HR policy applying throughout the Group. Possible ways of lodging a complaint are also defined. The notification periods for communication of significant changes in operations (closure of company locations, layoffs, etc.) are defined in a policy applying Group-wide.

#### **Personnel expenses and social benefits**

Personnel expenses amounted to 1,717.8 MEUR in the previous year (2016: 1,656.7 MEUR). Salaries for women averaged approximately 85% of salaries for men during the reporting period. Although this figure is within the European average, ANDRITZ is making every effort to close this pay gap. The goal defined is equal pay for equal work regardless of gender. ANDRITZ supports female employees with special career development opportunities and helps them while out studying at university or with child care, including company-run kindergarten facilities that have been opened at several locations.

At the end of 2017, there were 428 employees on parental leave (226 women and 202 men); this corresponds to 5.7% women and 0.9% men measured across the total number of employees in the Group (December 31, 2016: 352 employees total; 197 women and 156 men or 5.2% women and 0.7% men).

In countries where the welfare system is not as well developed as it is in Europe, ANDRITZ helps its employees with voluntary social services that extend beyond the legal requirements. These range from voluntary accident insurance, contributions to pension funds and life insurance policies, to support for dependents.

#### Work-life balance and employee retention

ANDRITZ pursues the goal of enabling all employees to maintain a good work-life balance. Part-time contracts, educational leave, sabbaticals, or other employment models are agreed if necessary and if the respective position allows. Health care also has high priority within the company. Various programs are running at the individual company locations that are adapted to the special needs of the employees in each case.

Age distribution in the company is well balanced. More than half of the employees are between 30 and 50 years old (2017: 57%; 2016: 56%), while the proportion of under-thirties is 15% (2016: 16%). 28% of the employees are over the age of 50 (2016: 28%).

Employee retention at ANDRITZ remains consistently at a very high level, amounting to approximately 11.3 years within the Group. The employees in Europe remain with the Group for the longest, averaging 13.9 years, followed by North America (9.4 years on average). The fluctuation rate amounted to 14.4% or 3,658 employees in 2017 (2016: 14.0% or 3,499 employees) and thus corresponds to the European average for industrial companies. 4,336 employees were given new employment contracts in the past year, 12% of whom were over 50 years old. In addition to the classic media, social media like LinkedIn were used increasingly in recruitment of external candidates.

In 2017, new employees took part in an anonymous survey that was conducted for the first time to find out about the initial period in the company, integration, and perception of ANDRITZ as new employer. This so-called "onboarding process" is to be conducted regularly in the future. The results are also intended to help optimizing the recruitment process at the various Group companies and further enhance employee satisfaction.

#### Fluctuation by gender and age group

	Contracts terminated 2017	Contracts terminated 2016	Fluctuation rate 2017*	Fluctuation rate 2016*
Men	3,206	3,043	14.8%	14.3%
Women	452	456	11.7%	12.0%
< 30 years old	859	954	22.0%	23.7%
30-50 years	1,874	1,781	13.0%	12.6%
> 50 years old	925	764	13.0%	11.1%
<b>TOTAL</b>	<b>3,658</b>	<b>3,499</b>	<b>14.4%</b>	<b>14.0%</b>
<b>without site workers**</b>	<b>2,968</b>	<b>2,687</b>	<b>11.6%</b>	<b>10.7%</b>

\* Calculation of fluctuation rate: contracts terminated in relation to the average number of employees. Contracts terminated include dismissals by the employer and resignation of employees, including project-related site workers.

\*\* Projection

#### Vocational training as an important social task

The apprentices of today are important skilled workers of tomorrow. This is why ANDRITZ focuses on sound vocational training in the apprentices' workshop in Graz established in 1922 or in the other locations around the world. As of December 31, 2017, there were 866 apprentices worldwide undergoing vocational training at a total of 41 subsidiaries (2016: 877 apprentices). During their training, the young employees acquire not only specific specialist knowledge, but also such key qualifications as quality awareness or a capacity for teamwork.

Through close cooperation with universities and other educational institutions, ANDRITZ has access to highly qualified young talents and is keen to motivate and gain them as employees for the company in the long term. For example, students receive support with their final papers and are also employed in the company during their studies in various ways – from marginal employment on an ongoing basis parallel to their education, to internships lasting several months.

### **Operating responsibly along the entire value chain is an important target for the company.**

ANDRITZ has around 40,000 suppliers worldwide, but only around 10% of them cover almost 80% of the Group's external purchasing volume. All of the suppliers are inspected at regular intervals by the worldwide ANDRITZ purchasing organization, particularly with regard to their activities to promote sustainability.

The basic criteria for collaboration with a supplier in addition to quality, cost, and on-time delivery are the supplier's attitude towards occupational health and safety, compliance, and sustainability, as well as strict adherence to the ANDRITZ Supplier Code of Conduct. ANDRITZ relies on long-term partnerships on an equal footing and remains in close contact with suppliers during the entire execution period of an order. In the event of critical components or new suppliers, ANDRITZ also monitors the production process on the spot in many cases.

Global supply chain management at ANDRITZ is divided into three main areas: Strategic Purchasing Management (Forward Sourcing), Procurement Operations Development, and Global Logistics. These areas are supported by other functions such as Supplier Compliance and Sustainability. The global purchasing organization specifies strategic requirements and creates technical and contractual framework conditions for collaboration with the suppliers.

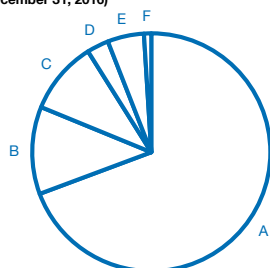
The purchasing volume in the past year was 4,021.5 MEUR (2016: 4,083.9 MEUR). In execution of its orders, ANDRITZ tries – as far as possible – to source its materials near the manufacturing facilities. Now that production capacities are being moved increasingly to China and India, ANDRITZ is using more suppliers from emerging economies.

The proportion of services and products sourced locally was 71.3% in 2017 (2016: 72.9%). 70.4% of the purchasing volume was generated in Europe, 16.3% in Asia, and 9.6% in North America.

The Group's manufacturing capacities are being transferred more and more towards the emerging markets, which will also have an effect on the distribution of purchasing volume in the long-term perspective.

**Purchasing volume by region  
as of December 31, 2017 in %**

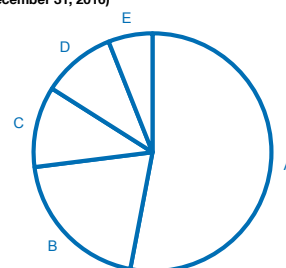
(December 31, 2016)



A	<b>70</b>	(69)	Europe
B	<b>12</b>	(12)	China
C	<b>10</b>	(10)	North America
D	<b>3</b>	(5)	South America
E	<b>5</b>	(4)	Asia (without China)
F	<b>1</b>	(1)	Others

**Manufacturing capacity by region  
as of December 31, 2017 in %**

(December 31, 2016)



A	<b>53</b>	(56)	Europe
B	<b>20</b>	(18)	China
C	<b>11</b>	(11)	North America
D	<b>10</b>	(8)	Asia (without China)
E	<b>6</b>	(7)	South America

**Material consumption**

Project materials and services account for the largest share of materials required (70%) – measured on the basis of cost. This includes mechanical parts, electrical components, structural steel and conveying technology, mechanical constructions, installation work, and start-up/commissioning. Overheads covering material, services and investments account for 20% and manufacturing materials such as sheet metal, screens, bars, profiles, or cast and forged parts account for 10%.

**Logistics**

The Logistics department – as a part of Global Procurement – assists the business areas with the logistical implementation of customer projects. Other important tasks in the logistics department are definition of transport standards and guidelines, calling for tenders, negotiating framework agreements with logistics service providers, and conducting internal training courses. Almost all services are outsourced as the company does not have its own vehicle fleet. As a result, CO<sub>2</sub> emissions are generated externally so these figures cannot be reported in any detail.

**Compliance and sustainability in the supply chain**

Compliance with sustainability criteria in the supply chain plays a decisive roll in the ANDRITZ GROUP's sustainability management. As a result, a specific policy was developed for suppliers on the basis of the general Code of Business Conduct and defines the minimum requirements for collaboration with ANDRITZ. Implementation of this policy and checking supplier's compliance and sustainability measures are handled by a department specially created for this task within the global Purchasing organization.

Suppliers must confirm in writing that they accept and comply with the Supplier Code of Conduct right away during the selection process. In addition, suppliers are required to document their activities in the compliance and sustainability sectors by means of a questionnaire so that corrective action can be initiated on the part of the ANDRITZ Purchasing organization if needed.

In order to verify that the high standards relating to human rights and fair working conditions, the environment, business integrity, export controls, and the right to intellectual property are observed in the emerging economies, ANDRITZ has deployed two auditors in China and India. In India, 33 suppliers have already been audited. All

deviations observed are documented in reports and sent to the suppliers, who must give notification of improvement measures within a certain period. Implementation of these measures is also verified and assessed.

Ideally, the suppliers' understanding of sustainability principles should become a voluntary commitment out of conviction. That is why the requirements of business partners and the content of the Supplier Code of Conduct have been illustrated in online training courses since October 2016 so that competencies are improved within the ANDRITZ Purchasing organization and the supply chain. This training is available in six languages and was completed in 2017 by 85% of the employees dealing with purchasing in their everyday tasks. Almost 500 supplier employees have also completed this training successfully.

Supplier audits are to be further extended and standardized in the coming year in order to establish compliance on a sustainable basis in supplier companies. In addition, further internal and external training is planned. Risk management along the supply chain is also to be optimized in 2018.

## Quality management

Quality management in the ANDRITZ GROUP covers products and applications, business processes as well as safety and environmental topics and is viewed holistically. Global requirements and standards improve the general understanding of processes and functions as well as enhancing collaboration and clear areas of responsibility. These measures should increase transparency, minimize risks, and support employees in their day-to-day work.

In everyday work, the quality requirements are structured along the business areas and at local level and can be accessed easily by employees in the company's intranet. Quality management accompanies an order from its award up to completion. There are also guidelines applying to support activities such as IT or communications.

External verifications confirm consistent and effective implementation of the standards. Meanwhile, 33 locations have been certified according to OHSAS 18001 (work safety) and 25 according to ISO 14001, and more are to follow. Furthermore, all products are certified internally and externally (Machinery Directive, ASME, NR 12, GB 150, ISO, ANSI, EN, and DIN). Thus, they meet the highest standards and are checked continuously for potential health and safety impacts.

### Occupational safety at ANDRITZ

Occupational safety has highest priority at ANDRITZ. That is why high standards are applied both in the company's own manufacturing facilities and on job sites.

The content of health and safety management is oriented very closely towards the basic rules of OHSAS 18001 certification and is a part of the integrated management system. At Group level, the Safety and Environmental Officer reports to the Head of Group Quality and Safety Management. Ultimate responsibility for occupational safety lies with the Executive Board.

The "Safety first" initiative launched in the spring of 2016 is intended to embed an awareness for safety at work firmly in the minds of the employees and integrate this awareness into the working routine. Initial success was demonstrated in the reduced accident rate by one percent (2017: 6.1%, 2016: 7.1%). The aim is to reduce accident frequency by 30% every year in order to achieve zero accidents.

### Accidents at work

	2017	2016
Accidents at work (with more than three days of absence)	304	362
Accident frequency (accidents with more than three days of absence per 1 million working hours)	6.1	7.1
Fatal accidents at work	1	1
Severity of accidents (absence periods in hours per accident)	144	132

The Group-wide safety policy specifies minimum standards for occupational safety. Its implementation and application is binding on all locations and job sites. At local level, the heads of location must set up and chair an occupational safety committee and also compile, implement, and maintain an annual health and safety program. The committee must not only comply with all regulations, but also conduct and document risk assessments. In addition, the locations must put together and implement a competence matrix and an annual schedule for safety training.

The safety specialists at all locations must document all accidents in full detail so that lessons can be learned from past accidents and appropriate measures taken to prevent others in the future. As a result, experts from the company concerned should be trained and also receive more vocational training on this topic in the next few years.

Safety audits were conducted at locations where there have been many accidents in order to form a detailed picture on the spot. The first improvement measures have already been implemented on the basis of these audits. Internal rankings should also motivate the individual locations to pay more attention to safe processes in everyday work and to make improvements if necessary.

### Training on awareness raising

Basic training on occupational safety is provided regularly throughout the Group for new employees; workplace-related training must be organized by the locations themselves.

A two-day training course was also conducted at Group level with project managers, commission agents, and supervisors in order to illustrate how to carry out safety planning and implementation on sites and in project execution. In addition, five training courses were provided in 2017 in the regions relevant to ANDRITZ's business activities.

## Manufacturing

Around 130 manufacturing locations worldwide produce tailor-made key components as well as spare and wear parts for ANDRITZ plants and machinery. Around two thirds of these locations are in Europe and North America and one third in the emerging markets of Asia, South America, and Eastern Europe. Each location produces project- and order-related items for different business areas in the Group, and sometimes for several business areas.

ANDRITZ's manufacturing strategy focuses on the production of technology- and quality-critical core components, while everything else is largely outsourced to qualified suppliers. As a result, it is easier to deal with fluctuations in capacity utilization and ensure optimum use of own manufacturing capacities. Precise planning, high commitment, and flexible employees are essential factors to ensure short lead times and on-time production.



Investments are concentrated on the one hand on building up and expanding manufacturing capacities in the emerging markets of Asia and South America as well as in Central and Eastern Europe, and on modernizing existing locations in Central Europe and North America on the other hand.

In order to plan manufacturing processes in exact detail, but also deal carefully and efficiently with the available resources, the Group Manufacturing function initiates and implements optimization and improvement projects on a continuous basis.

One of these projects is the “Manufacturing Execution System” (MES), which steers, controls, and monitors manufacturing in real time. The goal is to collect all data centrally on planning, lead time, and costs, right up to machinery and operating data, using an IT solution that can be adapted to local requirements if necessary. The advantage is that all the important information can be linked on a single platform. Considerable advantages are expected, especially if planning has to be revised or there are some planning deviations due to re-working, changes to delivery dates, materials missing, and so on. MES is also a component for further developments in the digitalization sector.

A second system for continuous improvement of the manufacturing processes is the ANDRITZ Production System (APS). APS is to improve the success indicators and performance at the locations. In the past two years, the core elements were set up and developed, and the system was rolled out at all locations. The focus is on three different levels.

The first stage comprises the assessment of and search for improvement potentials at the individual production locations and has been executed at virtually all locations.

The second stage, the so-called “shop floor management”, is intended to help improve communication at and between locations, create greater transparency, solve problems quickly, and increase efficiency in the long term. In the meantime, two-thirds of productive manufacturing hours are covered with shop floor management.

The third stage focuses on optimization of work processes that can only be achieved by providing training on the appropriate specialist skills. The “Lean Training Program” helps the manufacturing staff achieve the defined goals with targeted training.

#### **Key energy figures**

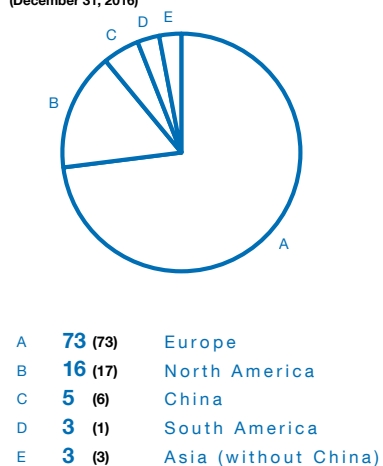
The environmental data for the largest ANDRITZ production locations (91% of the overall annual manufacturing capacity) are surveyed and checked on a regular basis and then used to derive possible improvement measures.

61% of all the manufacturing facilities surveyed are in Europe, 16% in North America, 10% in South America, 8% in China, and 4% in India.

These figures correlate with the electricity consumption: The most electricity is consumed in Europe, followed by North America, China, South America, and India.

**Energy consumption by region  
as of December 31, 2017 in %**

(December 31, 2016)



The Group's overall electricity consumption increased compared to the previous year and amounted to 197,305,539 kWh (2016: 180,532,508 kWh). The CO<sub>2</sub> emissions arising due to the electricity consumption, heating energy, and process heat (Scope 1; energy consumption in the company) amounted to 170,832 tons in 2017 (2016: 110,360 tons). The strong increase compared to the previous year results from an improved data collection in 2017, for the first time distinguishing between energy sources for district heating and electricity consumption.

Around 85% of the Group's electricity consumption is used directly in manufacturing operations, mostly for the production processes. The remaining electricity consumption is used for lighting, IT equipment, and for electric heating where needed.

All six main groups of manufacturing processes are used at all ANDRITZ locations worldwide: forming and casting mainly uses electrical equipment, particularly induction furnaces. The other processes, such as rolling, pressing, machining, welding, soldering and gluing are also performed with the aid of electrically powered machines. Only hardening and annealing processes use gas-powered machinery. As a general principle, the production processes in the ANDRITZ GROUP are less energy-intensive (except for one location in North America which has a foundry attached to it).

**Energy consumption within the organization**

	Unit	2017	2016
Heating oil (for heating and production processes)	MJ	102,205,463	92,232,031
Natural gas (for heating and production processes)	MJ	536,081,125	531,325,296
District heating	kWh	30,527,041*	20,347,838
Liquid (petrol) gas	MJ	30,589,718	32,516,426
Diesel	MJ	23,062,247	22,203,884
Gasoline	MJ	6,362,964*	3,957,017

\* The increase results primarily from two large manufacturing locations in China and Germany being included in the data collection process for the first time.

The bulk of energy and fuel consumption (heating oil, natural gas, district heating) is used for heating the company premises. In addition, a few production processes require oil. At one location in Germany, for example, heavy oil is used to heat the presses, but this is to be changed over to gas in the coming year. At another location

in Germany, oil is needed for looms to make metal mesh. Natural gas is needed in production primarily to operate hardening and annealing furnaces. Gasoline and diesel fuel are needed for company vehicles, while liquefied gas is required to operate stacker trucks and, in some countries, also for vehicles.

ANDRITZ strives to reduce energy and fuel consumption in the production process. Annual fluctuations in consumption are largely due to the varying utilization according to the order situation and projects and make very detailed comparisons with previous years difficult.

Resources are valuable and not unlimited. That is why particular attention is paid to conservation and re-use of materials. The important factors are the efficient use of materials and keeping waste to a minimum on the one hand, and sparing energy consumption in material processing on the other hand. The largest share of waste comes from steel from the manufacturing process. Metal waste is separated into different types and then recycled. Other recyclable waste like plastic from packaging, waste from wooden crates and cardboard packaging, as well as waste paper are collected and recycled.

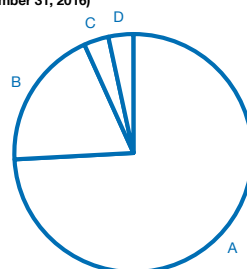
Non-hazardous residual waste and hazardous waste are collected according to the legal provisions and taken away by disposal companies. Special attention is paid in observing all official regulations and record-keeping obligations, particularly when disposing of hazardous substances.

#### Water consumption

Water consumption in the past year was 591,344 m<sup>3</sup> (2016: 415,555 m<sup>3</sup>). The increase results primarily from two large manufacturing locations in China and Germany being included in the data collection process for the first time. The water supply comes primarily from the public water system, but a few locations also recycle service water or take water from their own wells. Water consumption consists of process water for production plants (including cooling water) as well as water for drinking and for hygiene purposes. A small amount is also needed for hydraulic test stands.

#### Water consumption in manufacturing as of December 31, 2017 in %

(December 31, 2016)



A	<b>88</b>	(89)	Tap water
B	<b>6</b>	(3)	Ground water
C	<b>3</b>	(2)	Surface water
D	<b>3</b>	(3)	Rain water

## Respect of human rights in execution of projects

ANDRITZ is often exposed to criticism from NGOs in connection with supplies for individual large-scale projects. Before taking part in projects, ANDRITZ surveys and analyzes all the relevant facts. Among the aspects examined are whether all the approvals are available for the respective project and whether the local legal provisions are observed in full in each case.

ANDRITZ takes any concerns relating to individual projects very seriously. Safeguarding of human rights has particularly high priority. In addition, detailed investigations are conducted beforehand on occupational safety, health and safety of the population, land purchases and resettlement, protection of cultural heritage, as well as opportunities available to the people affected by the project to be consulted and raise any objections.

Of course, ANDRITZ obeys the legal provisions applying in each case as well as any project-related requirements. Furthermore, ANDRITZ is committed to enhanced work protection and strict compliance with human rights regulations as determined in various internal policies. Over and above, ANDRITZ supports its customers in creating the best possible conditions in which to reduce social and ecological impacts to a minimum.

## Research & development

The ANDRITZ GROUP spent 95.3 MEUR (2016: 87.5 MEUR) on research and development activities during the reporting period. Research and development expenses, including order-related work, amounted to around 3% of sales.

The ANDRITZ GROUP currently holds approximately 6,100 patent rights. 75% of these patent rights are already granted, the remaining part is under examination. In addition, the Group owns around 2,200 trademarks.

Rising population figures, high rates of urbanization, and increasing energy demand will push conventional energy sources to their limits in the near future. Taking account of current consumption data and based on international studies, we expect that use of fossil fuels will no longer be possible or only possible to a limited extent in a few decades. Integrated solutions combining fossil and renewable energy sources are already in demand today and will have even greater priority in the future. In this context, ANDRITZ is focusing on further development of products that will slow down climate change. ANDRITZ already realizes just under 50% of its sales from “green” products that contribute towards sustainability and conserving resources.

### Main R&D projects in the business areas:

#### Hydro

One important focus is digitalization of processes and the use of intelligent products in the operation and maintenance of hydro-electric power plants. The goal is to increase the efficiency and profitability of customers' plants.

The HIPASE automation platform for protection, excitation, and synchronization systems and turbine governors that was specially developed for use in hydropower plants and launched on the market successfully last year, covers various applications in a single hardware and software system. A standard engineering tool is also used here. HIPASE can provide significant reductions in the costs and design engineering effort required for configuration and installation of the automation system. Other advantages are easier operation and servicing of the system during power plant operations.

The business area offers an integrated system called DiOMera for monitoring the machinery and optimizing the maintenance intervals by means of Condition Based Maintenance (CBM) and Predictive Maintenance. This system focuses on optimizing output, reducing maintenance costs, and minimizing risks. Digitalization is also used in the development of new solutions for the internal processes. The new generator sizing tool GECCO, for example, was rolled out in 2017. This is a modern software solution to harmonize the sizing process in sales and project execution, and it enables integration of other extensively digitalized processes.

Pump storage is by far the most important energy storage technology worldwide for long-term storage and stabilizing the power grid, and there is a rising demand for this equipment. In intensive development work, both in the hydraulics lab and with complex computer simulations, the efficiency level and operating stability of the pump turbines offered by ANDRITZ were further increased, starting from a level that was already very high.

In the pumps segment, customized concrete spiral pumps were developed for water transport. The technology of multi stage pumps was extended systematically with regard to high-pressure applications and confirmed in a three-stage laboratory test. The new pump models with the ES05 brand were added to the standard pump portfolio. These single-stage centrifugal pumps feature very low energy consumption compared to others in this segment and are thus the ideal pump solution for water supplies and transport in various industries. The pumps have already been launched on the market successfully at the new location in India.

#### Pulp & Paper

In the pulp production sector, environmental compatibility, efficiency of energy and raw materials, 100% re-use of all by-products of pulp production, and operations without fossil fuels are the central topics of research and development work. Some innovative products have been developed in the past few years and already sold successfully on the market.

These include the HHQ chipper, which can produce wood chips from round timber with up to 30% less energy consumption and enables a higher yield and lower chemicals consumption during subsequent processing. The 360° storage and reclaiming technology – a chip storage system that helps reduce the moisture content in the wood – can also provide its first references in cold climatic zones as well. The HHQ bark presses already in operation at customers' facilities increase dry content in the bark by 5%. This can increase the energy yield by up to 15%.

Further development of the D-Screen used in recycled fiber lines should further improve operating reliability. The new design offers enhanced machine accessibility and enables shorter downtimes and easier maintenance.

ANDRITZ is the leading supplier of pulper drums (Fibre Flow Drums FFD) for production of pulp from recovered paper. In 2017, a small pulper drum was developed that can be used primarily in tissue production plants with a capacity of less than 200 tons per day.

After two years of development, the first ANDRITZ Vertical Screw Thickener (VST) was installed successfully in a semi-chemical pulp mill in Thailand. Start-up took only one day, and the design parameters were achieved after only three days in operation. The VST dewateres 240 tons of unbleached, semi-mechanical pulp per day from a consistency of 6% to 30% and significantly improves the washing performance of the fiber production line.

In the Automation sector, the focus of research and development work lies on remote online customer support, digital image processing, and various sensor projects, such as wear sensors for rotation bars in the refiner, vibration measurement to protect refiner plates, or sensors for measuring the plate gap during rotation.

In addition, a technology was developed to operate the IDEAS simulation software in real time and is linked directly to the control center of a plant in operation. In this way, measurements can be taken without any historical data being available, which is a huge advantage compared to mere data analysis.

ANDRITZ built the world's most modern R&D center for tissue in Graz, Austria. The *PrimeLineTIAC* – Tissue Innovation and Application Center – allows all stakeholders in the tissue industry to conduct production tests and research under industrial conditions. It comprises a complete tissue production line that features eight configurations in one machine, including steel Yankee, TAD drums, and a modern stock preparation line.

#### Metals

The stricter regulations for CO<sub>2</sub> emissions in many countries are currently determining the further development of lightweight materials for car body parts. The Metals business area is responding to this development by adapting or developing new production plants and machines.

ANDRITZ is constantly designing new solutions for the required annealing cycle in the strip processing furnace and rolling the new high-strength steel grades in cold rolling mills for the production of high-strength steel.

Laser-welded blanks optimize a car's weight and crash behavior. ANDRITZ has developed high-efficiency laser welding machines for this purpose, many of which are already operating successfully. Another important development in weight optimization of the body shell is the use of press-hardened steel. As a result, less material is needed at higher strength, which saves on weight with higher crash performance. The use of press-hardened steel for blanks requires an additional new technology to remove the surface coating (ablation) from the press-hardened steel before laser welding. This ablation technology is available from ANDRITZ both as inline version, i.e. integrated into the laser welding machine, and offline as a separate ablation plant. Another measure in series production of lightweight cars is the use of aluminum instead of steel. ANDRITZ has developed and implemented a patented technology – a process for regulating the coiling temperature of a metal strip – for aluminum manufacturers' processing lines in Europe and North America.

In the Industry 4.0 sector, the Metris OPP application already widely used in the pulp and paper industry is being adapted to the needs of the metal industry. The focus lies on reducing the consumption of energy and raw materials as well as the waste water volumes produced at customers' plants. In addition, work is proceeding on physical models and simulations in order to simulate operator training and control of process lines and rolling mills by means of so-called digital twins (3D simulation). This leads to faster start-up and a steep run-up curve for the plant.

In the past year, Schuler developed the new servo-forging press MSE 2000. This unit can produce significantly more parts than conventional equipment within the same time period. At the same time, the service life of the die is extended significantly, while energy consumption by the entire machine is reduced.

With the newly developed servopress, Schuler is continuing its MSP series: Following the 100- and 200-ton punching machines, the market and technology leader in metal forming technology is now offering a machine with a pressing force of 400 tons and an innovative drive concept. The MSP 400 press will be delivered to a customer in the automotive supply industry. The new generation of presses is aimed at customers who value a balanced cost-benefit ratio, but without having to do without the flexible ServoDirect technology and easy operation.

## Separation

The business area's research and development work above all addresses the task of reducing production costs while increasing efficiency and productivity at the same time. In the service sector, the main goal is to meet customers' demands to extend the life cycle of the machines.

The C-press is the latest development by Separation and is based on over 20 years of experience in the construction and manufacture of screw presses. By combining the various dewatering technologies and the features specially developed for easy operation, sludge dewatering operations are possible on the C-press without any operating personnel and with very low energy and maintenance costs.

The latest development in the drum drying sector enables very fast knife changing. Disposable knives that can be changed within one or two minutes reduce loss of production to a minimum. No knife adjustment is required because the thin blade aligns itself automatically to the surface of the main drum. Stress in the knife material is prevented because the knife is not clamped in place and can expand as a result of heating up during operation. This in turn offers the best doctor properties for drum drying.

The side bar filter press SP is the first ANDRITZ filter press with air-over-oil technology. Thanks to the pneumatic drive, neither electricity nor electrical components are required. This low-cost technology offers easy handling and is suitable for simple plug & play installation.

With the PUREVO, ANDRITZ is offering a centrifuge for the pharmaceutical industry with special focus on clean and hygienic operation combined with easier maintenance.

Metris addIQ is the platform-independent control system for machinery and plants in solid/liquid separation for new installations, modernization, and optimization by means of automation equipment. The product is unique because Metris addIQ solutions combine know-how with automation knowledge in intelligent control solutions. The key message is "Intelligent control systems for process and machines increase performance, productivity, and profit." By harmonizing both hardware and software, cost savings can be achieved in the triple-digit range.

## OUTLOOK

Economic experts expect the upswing in the world's main economic regions to continue in 2018. According to estimates by economists, the global economy should grow by 3.9% (2017: 3.7%). Strong economic growth is expected in both the USA and Europe, as well as in the emerging markets of Asia and South America.

The prospects for the ANDRITZ business areas are largely unchanged compared to the preceding year. In the Hydro business area, the overall moderate market development for electromechanical equipment for hydropower plants is expected to continue. Many modernization projects are still postponed or temporarily stopped, particularly in Europe, due to the continuing low electricity wholesale prices. Some larger, new hydropower projects are currently in the planning, especially in Southeast Asia and Africa; selective award of individual large-scale projects is likely. Project and investment activity in the Pulp & Paper business area should also continue at a high level in 2018, both for modernization of existing plants and construction of new pulp mills. Market experts expect support for the international pulp market to continue due to the sustained high demand for tissue and cardboard boxes/packaging, especially from the emerging economies. At the same time, there will be only a few new pulp production capacities in the market over the next two years. In the Metal Forming sector (Schuler), project activity is expected to remain at the same level as in 2017. In the Metals processing sector (production and finishing lines for steel strip), the solid investment activity is expected to remain unchanged. A continuation of the positive market development is also expected in the Separation business area.

ANDRITZ will also focus on creating internal growth in 2018 by launching new products. Particularly in the digitalization sector, the emphasis lies on building up and expanding the product and service portfolio for networking of machinery and plants. At the same time, further possible company acquisitions that complement the product portfolio in the four business areas will be evaluated. An additional focus lies on optimization of organizational and cost structures in order to ensure or increase the overall competitiveness of the Group, but also of individual business areas.

Based on the expectations mentioned above for development of the general economic environment and of project and investment activity in the business areas, the ANDRITZ GROUP expects to see satisfactory business development overall in the 2018 business year.

However, if – contrary to general expectations – the global economy suffers setbacks in 2018, this could have a negative impact on ANDRITZ's business development. This may lead to organizational and capacity adjustments and, as a result, to possible financial provisions that could have a negative effect on the ANDRITZ GROUP's earnings.



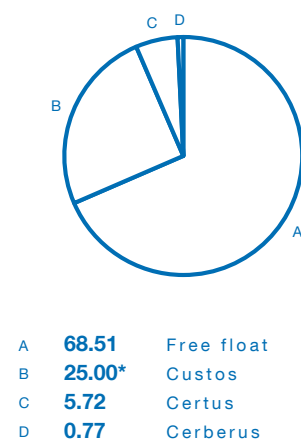
## SHARES AND SHAREHOLDER STRUCTURE

### Disclosure according to Article 243a of the Austrian Commercial Code (Unternehmensgesetzbuch – UGB)

The capital stock of ANDRITZ AG as of December 31, 2017 amounted to 104,000,000 EUR. The proportionate amount of the capital is 1.00 EUR per no-par value share. There are no limitations concerning the voting rights or the transfer of shares.

ANDRITZ has a stable and well-balanced shareholder structure. Custos Vermögensverwaltungs GmbH owns 25% plus one share, while Cerberus Vermögensverwaltung GmbH holds 0.77%. Some of the shares in these companies are held directly and some indirectly by Custos Privatstiftung and by Wolfgang Leitner, President and CEO of ANDRITZ AG, respectively. Certus Beteiligungs-GmbH, whose shares are owned indirectly by Manile Privatstiftung, holds 5.72%. With a free float of just under 70%, national and international institutional investors and private investors comprise the majority of shareholders. These include FMR LLC (Fidelity Management & Research, a Boston, Massachusetts-based investment company founded in 1946) holding 5.76%, BlackRock, Inc. (a United States investment firm founded in 1988 with headquarters in New York City, New York) holding 3.99%, and The Capital Group Companies, Inc. (an investment firm founded in 1931 with headquarters in Los Angeles, California) with 3.96%. The majority of institutional investors come from the UK, Austria, and Germany, while most private investors are from Austria and Germany.

Shareholder structure  
as of December 31, 2017 in %



\* 25.00% + 1 share

At present, there is no authorized capital. Based on authorizations of the Annual General Meeting and with approval from the Supervisory Board, the Executive Board adopted share buy-back and share resale programs for buying up to 10,400,000 no-par value shares between November 6, 2013, and March 31, 2016 as well as between April 14, 2016 and September 30, 2018. Furthermore, a share buy-back program which enables the acquisition of up to 2,000,000 no-par value shares between November 11, 2016 and September 30, 2018 was decided in the 2016 business year. There is no authorization of the members of the Executive Board – especially regarding the possibility to issue or buy back shares – that does 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, nor regarding 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 2012-2019 issued in July 2012, all holders of a bond are entitled to accelerate maturity of their bonds and to require immediate repayment at the nominal value plus any interest accumulated up to the day of repayment in the event of a change of control by a large new shareholder and of this change of control leading to a substantial impairment of the issuer's ability to fulfill its obligations from the bond.

According to the terms of the "Schuldscheindarlehen" issued in June 2017, each lender is entitled to accelerate maturity of the amount corresponding to his contribution to the "Schuldscheindarlehen" and to require immediate repayment of this principal amount plus the interest accumulating up to the day of repayment in the event of a change of control. Acceleration of maturity shall only apply if the corresponding notice of termination is made within 30 days after the change of control is announced.

Compensation agreements exist between the company and members of its Executive Board in the event of a change of control. No such compensation agreements exist for the members of the Supervisory Board or any employees.

Graz, February 23, 2018

The Executive Board of ANDRITZ AG



Wolfgang Leitner  
President and CEO



Humbert Köfler  
Pulp & Paper  
(Service & Units),  
Separation



Joachim Schönbeck  
Pulp & Paper  
(Capital Systems),  
Metals



Wolfgang Semper  
Hydro



Mark von Laer  
Executive Board Member  
and CFO

**Disclaimer:**

Certain statements contained in the annual financial report 2017 and in the annual report 2017 constitute "forward-looking statements." These statements, which contain the words "believe," "intend," "expect," and words of a similar meaning, reflect the Executive Board'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.

The annual financial report 2017 and the annual report 2017 contain assumptions and forecasts which were based on the information available up to the copy deadline on February 23, 2018. If the premises for these assumptions and forecasts do not occur, or risks indicated in the chapter "corporate risks" and in the management report in the annual financial report 2017 do arise, actual results may vary from the forecasts made in the annual financial report 2017 and the annual report 2017. Although the greatest caution was exercised in preparing data, all information related to the future is provided without guarantee.

# CONSOLIDATED CORPORATE GOVERNANCE REPORT

The present report explains the structures, processes, and rules implemented with respect to financial management and towards shareholders, and which ANDRITZ follows in the corporate governance sector. As a publicly listed company with headquarters in Austria, the formal framework for corporate governance is derived from Austrian law, the articles of association, and the rules of procedure for the company boards, as well as the Austrian Code of Corporate Governance. The present report also contains the consolidated Corporate Governance report.

## Commitment to the Austrian Corporate Governance Code

ANDRITZ has adopted the rules of conduct laid down in the Austrian Code of Corporate Governance without restriction and regards the Code as an essential requirement for implementation of responsible company management, which is directed towards creating sustainable and long-term added value and a high degree of transparency for shareholders and other stakeholders. The Executive Board and the Supervisory Board, as well as the entire staff of the ANDRITZ GROUP, are committed to complying with the Code.

The Austrian Code of Corporate Governance applicable to the business year (January 2015 edition) is publicly accessible and available on the website of the ANDRITZ GROUP at [andritz.com](http://andritz.com) as well as on the website of the Austrian Working Group for Corporate Governance at [corporate-governance.at](http://corporate-governance.at).

The Austrian Code of Corporate Governance is based on a voluntary commitment and goes beyond the legal requirements for corporations. ANDRITZ obeys the rules of the Code almost entirely. In the interests of the basic principle of "Comply or Explain" in the code, ANDRITZ justifies its non-observance or non-compliant observance of those rules that go beyond the legal requirements (so-called C-rules) as follows (based on the Code applicable to 2017, January 2015 edition):

**Rule 30** (Disclosure of the basic principles of the remuneration system for the Executive Board): The variable portion is based exclusively on the net income; there are no non-financial criteria that impact the extent of the variable remuneration. The ANDRITZ GROUP operates in business areas that show considerable differences in some respects, which is why it is only useful to a limited extent to define uniform non-financial criteria for the entire Group. This fulfills the requirements of the objectivity and clear traceability concepts. The sustainability aspect was taken into account in designing the share option program by including a three-year waiting period and by requiring an increase of profits of 10 and 15%, respectively, and share price increase of 10 and 15%, respectively (both targets – profit and share price increase – must be achieved in order to exercise the options).

## Composition of the Executive Board

The Executive Board of ANDRITZ AG was composed of five members as of December 31, 2017.

Name (date of birth)	Function	Date of first appointment to Executive Board	End of current mandate	Supervisory Board mandates in other companies in Austria and abroad
Wolfgang Leitner (March 27, 1953)	President & CEO	October 1, 1987 (CFO) June 29, 1994 (President & CEO)	June 28, 2018	Schuler AG; ETI Elektroelement d.d.
Humbert Köfler (January 11, 1961)	Member of the Executive Board	April 1, 2007	March 31, 2020	None
Joachim Schönbeck (January 30, 1964)	Member of the Executive Board	October 1, 2014	September 30, 2022	Westag & Getalit AG
Wolfgang Semper (March 9, 1958)	Member of the Executive Board	April 1, 2011	March 31, 2019	None
Mark von Laer (January 9, 1969)	Chief Financial Officer (CFO)	March 1, 2017	February 29, 2020	None

### Wolfgang Leitner

#### Areas of responsibility

Central Group functions such as Human Resources Management, Corporate Communications, Investor Relations, Internal Auditing, Information Technology, and Manufacturing Management

#### Professional career

Member of the Managing Board of AGIV AG, founder and President of GENERICON Pharma GmbH, Management Consultant at McKinsey & Company, Research Chemist at Vianova/HOECHST

### Humbert Köfler

#### Areas of responsibility

Pulp & Paper (Service & Units), Separation, and Group Procurement Management

#### Professional career

Head of the Paper Mill Services division at ANDRITZ AG, Head of the Mechanical Pulping Systems division at ANDRITZ AG, Regional Sales Manager at ANDRITZ Sprout-Bauer GmbH, Export Marketing Manager at Biochemie GmbH

### Joachim Schönbeck

#### Areas of responsibility

Pulp & Paper (Capital systems), Metals, as well as Group-wide Quality and Safety Management

#### Professional career

Spokesman of SMS Holding GmbH and Chairman of the Management Board of SMS Meer GmbH, management positions at SMS Group, Siemens, and Mannesmann

### Wolfgang Semper

#### Areas of responsibility

Hydro and Group-wide Automation

#### Professional career

President of ANDRITZ HYDRO GmbH and Head of the Large Hydro division of the HYDRO business area, management functions at VA TECH VOEST MCE and Voest-Alpine MCE, Technical Calculations Engineer at Voest-Alpine AG

### Mark von Laer

#### Areas of responsibility

Central group functions such as Controlling and Accounting, Treasury, Order and Project Financing, Legal, and Compliance

#### Professional career

Chief Financial Officer at Lürssen Werft GmbH & Co KG, Germany, management positions with financial responsibility at Kraftanlagen Gruppe in Munich and at Lurgi Group

## Composition of the Supervisory Board

The ANDRITZ AG Supervisory Board consists of six appointed members and three delegated members.

Name (date of birth)	Function	Date of first appointment to Executive Board	End of current mandate	Supervisory Board mandates in other (stock-exchange listed) companies in Austria and abroad
<b>APPOINTED MEMBERS</b>				
Christian Nowotny (July 23, 1950)	Chairman of the Supervisory Board	December 29, 1999	Until the Annual General Meeting in 2022	Schuler AG
Fritz Oberlerchner (June 16, 1948)	Deputy-Chairman of the Supervisory Board	March 29, 2006	Until the Annual General Meeting in 2020	STRABAG AG, Cologne
Jürgen Hermann Fechter (November 30, 1962)	Member of the Supervisory Board	March 30, 2016	Until the Annual General Meeting in 2021	None
Alexander Isola (July 24, 1957)	Member of the Supervisory Board	March 30, 2016	Until the Annual General Meeting in 2021	None
Monika Kircher (July 8, 1957)	Member of the Supervisory Board	March 21, 2014	Until the Annual General Meeting in 2019	RWE AG
Kurt Stiassny (October 6, 1950)	Member of the Supervisory Board	December 29, 1999	Until the Annual General Meeting in 2020	None
<b>DELEGATED MEMBERS</b>				
Georg Auer (October 12, 1974)	Member of the Supervisory Board	July 1, 2011		None
Isolde Findenig (April 1, 1956)	Member of the Supervisory Board	January 1, 2012		None
Andreas Martiner (November 11, 1964)	Member of the Supervisory Board	February 14, 2001		None

Isolde Findenig stepped down from the Supervisory Board as of December 31, 2017. She is succeeded by Monika Suppan, who was delegated to the Supervisory Board by the Works Council as of January 1, 2018.

## Diversity

The main criteria in selecting the members of the Supervisory Board are professional qualifications and personal skills, as well as long-term experience in leading positions. However, various diversity aspects, such as the internationality of the members, representation of both men and women, and the age structure, are also taken into account. The Supervisory Board has two female members, thus the proportion of women is approximately 22%. The members of the Supervisory Board are aged between 43 and 69 on the reporting date. One member is not an Austrian citizen, and has knowledge and experience gained as a former Executive Board member of a large German corporation operating globally.

## Information relating to the independence of the Supervisory Board members

Regarding the independence criteria, the Supervisory Board of ANDRITZ AG follows the guidelines laid down in the Corporate Governance Code. According to these guidelines, it is assumed that members are not independent if they belong to the Supervisory Board for more than 15 years. This applies to Christian Nowotny and Kurt Stiassny. Nevertheless, both have confirmed that they perform their duties entirely independently and do not have any legal or economic relationship with the company or its executive bodies that could compromise their independence. The Supervisory Board is independent of the company and its executive bodies. No member of the Supervisory Board of ANDRITZ AG holds more than 10% of the total shares. The requirements of C-rules 53 and 54 of the Austrian Corporate Governance Code are thus met.

## Disclosure of information on the remunerations of the Executive Board and Supervisory Board

The remuneration report explains the amount and the structure of the remunerations paid to members of the Executive Board and of the Supervisory Board of ANDRITZ AG.

### Executive Board remunerations

The Executive Board remunerations in the 2017 business year amounted to 10,018,340 EUR (2016: 8,823,096 EUR) and are divided as follows:

(in EUR)	Fixed	Variable	Other remunerations	Total
Wolfgang Leitner (President and CEO)	838,000	2,648,160	13,379	3,499,539
Humbert Köfler	394,286	1,324,080	11,921	1,730,287
Joachim Schönbeck	425,000	1,324,080	13,301	1,762,381
Wolfgang Semper	390,000	1,324,080	70,570	1,784,650
Mark von Laer	291,667	939,583	10,233	1,241,483
	<b>2,338,953</b>	<b>7,559,983</b>	<b>119,404</b>	<b>10,018,340</b>

The chairman of the Executive Board Wolfgang Leitner waived his remuneration as chairman of the Schuler AG Supervisory Board.

The principles applied in establishing the remunerations of the Executive Board and of senior managers comply almost entirely with the Austrian Code of Corporate Governance.

The remuneration of the Executive Board is composed of a fixed and a variable/success-based portion. The amount of the variable portion depends on the net profit. The maximum value for the variable annual remuneration was determined at three times the fixed annual remuneration. Any amounts in excess of this sum will be credited as a variable remuneration for the following years. If the net income of the Group falls short of a defined minimum amount, this results in a "malus" that is also carried forward to the following years and in a

reduction in future variable salary components. The other remunerations relate primarily to taxable benefits in kind for company cars.

In all share option programs for managerial staff and the Executive Board since the Initial Public Offering (IPO), participation was contingent on investing at least 20,000 EUR in ANDRITZ shares for managerial staff and 40,000 EUR for members of the Executive Board no later than the allocation date of the options. This investment must be maintained continuously until exercise of the options by those persons subscribing to the option program and evidence thereof must be brought when the options are exercised. There is a waiting period of three years before options can be exercised if the contract of employment is still in force (exception: end of employment contract as scheduled according to contract provisions).

No options were exercised by Executive Board Members in the 2017 business year.

No advances or loans were granted to members of the ANDRITZ AG Executive Board.

The Austrian Financial Market Authority fma.gv.at stopped publishing notifications of directors' dealings by the Executive Board and Supervisory Board members or their related parties on July 3, 2016. This information must now be published by the issuers.

The members of the Executive Board are entitled to receive pension scheme benefits. In addition to a retirement pension, these include benefits in the event of occupational disability, as well as pension payments for dependents following the death of the beneficiary. The retirement pension is normally paid as from a certain age provided that the employment contract has already been terminated by this date. The administration work has been outsourced to pension funds. Pension arrangements are either defined-contribution or defined-benefit plans. In the event that the employment contract is terminated prematurely, contributions made up to this point shall still be vested. The pension amount to which the beneficiary is entitled is not subject to an escalation clause before any benefits become payable; after this, annual adjustments can be made to take account of the development in wages and salaries and of ANDRITZ's economic status.

Most of the Executive Board members shall, upon termination of their function and concurrent termination of employment, be entitled to severance payments in the meaning of Article 23 of the Austrian Employees Act unless such termination is the result of justified dismissal. Severance payments in the event of premature termination of activities as member of the Executive Board without good cause are provided for in the Executive Board contracts according to Article 27 of the Austrian Salaried Employees Act.

ANDRITZ AG took out Directors' and Officers' liability insurance (D&O insurance) for 2017. The costs are covered by the company. The D&O insurance covers certain personal liability risks of persons in the ANDRITZ GROUP acting under responsibility. The annual cost is approximately 200,000 EUR.

In connection with the execution of a project in Austria, two administrative criminal proceedings for alleged violations in temporary hiring and employment of foreign nationals were opened against members of the ANDRITZ AG Executive Board. In the opinion of the company and of the defendants, these accusations are entirely unfounded. The Supervisory Board has dealt with the accusations in detail and on the basis of the current state of knowledge considers that the costs of defense should be borne by the company. These costs amounted to approximately 280,000 EUR by the end of the year.

#### **Supervisory Board remunerations**

Subject to approval by the Annual General Meeting, the Supervisory Board remunerations (including attendance fees) for the 2017 business year amount to a total of 300,000 EUR (2016: 292,500 EUR) and are divided between the individual Supervisory Board members as follows:

(in EUR)	Remuneration (including attendance fees)
Christian Nowotny (Chairman of the Supervisory Board)	72,500
Fritz Oberlerchner (Deputy Chairman of the Supervisory Board)	57,500
Jürgen Hermann Fechter	42,500
Alexander Isola	42,500
Monika Kircher	42,500
Kurt Stiassny	42,500
	<b>300,000</b>

No Supervisory Board remuneration was paid to the Supervisory Board members delegated by the employee representative organizations.

The chairman of the Supervisory Board, Christian Nowotny, is also a member of the Schuler AG Supervisory Board and received a remuneration amounting to 25,000 EUR (excluding attendance fees) for the 2017 business year.

The remuneration scheme of the Supervisory Board is composed of a fixed and an attendance-related portion. The fixed portion is a global sum, which is to be distributed such that the chairman of the Supervisory Board receives double the amount and his deputy one-and-a-half-times the amount paid to the other members. The second portion consists of a lump sum fee paid in respect of each meeting that the member attends.

No advances or loans were granted to members of the ANDRITZ AG Supervisory Board. There were no agreements subject to approval between ANDRITZ AG and individual members of the Supervisory Board or companies closely associated with Supervisory Board members.

The remuneration report for the Executive Board and the Supervisory Board of ANDRITZ AG is available in the notes to the consolidated financial statements in the 2017 Annual Financial Report.

## Working procedures for the Executive Board and the Supervisory Board

### Allocation of competencies in the Executive Board

The Executive Board of ANDRITZ AG holds board meetings at regular intervals on essential, Group-relevant topics and individual business areas. The competencies and responsibilities of the individual Executive Board members are listed in the notes on the Executive Board members in this Corporate Governance report. The rules of procedure for the Executive Board contain a comprehensive catalog of those business transactions requiring the prior approval of the Supervisory Board in addition to those stated in the mandatory regulations in the Corporation Act.

The Executive Board and Supervisory Board, particularly their chairmen, maintain ongoing contact to discuss the company's development and strategy beyond the scope of the discussions at the Supervisory Board meetings.

### Supervisory Board committees

The Supervisory Board of ANDRITZ AG established an audit committee that held two meetings to deal with the annual and consolidated financial statements for 2017, prepare the review of the annual and consolidated financial statements for 2017 and of the proposal for distribution of profits, additionally to deal with issues concerning the auditor, and implementation of the internal control and risk management systems in the ANDRITZ GROUP. Christian Nowotny - as financial expert - is chairman of the audit committee.



The Supervisory Board has also established a nomination and remuneration committee that held two meetings in 2017 and whose scope of activities includes the remuneration paid to the Executive Board members and the content of their employment contracts, the extension of an executive board member's mandate, as well as appointments to Executive and Supervisory Board positions that become vacant, and succession planning matters.

The ANDRITZ AG Supervisory Board held five regular meetings in the 2017 business year (four regular meetings, one constituent meeting). All members participated in more than half of the meetings. The focus of these meetings were monitoring of the current business development of the ANDRITZ GROUP, including possible deviations from the budget, the strategic goals, medium-term planning for the individual business areas, as well as specific topics, such as company acquisitions, granting of joint procurations, and other business subject to approval. The chairman and deputy-chairman receive a monthly report on the main developments. One business area is presented at each of the regular Supervisory Board meetings and this business area's strategy is discussed. A comprehensive report on Group-wide compliance is provided at one of the Supervisory Board meetings; this meeting also deals with the results of internal audits, and any measures resulting from these audits are presented and discussed.

Pursuant to the requirement of the Austrian Code of Corporate Governance (C-rule 36), the Supervisory Board conducted a self-evaluation in the past business year and discussed the efficiency of its activities, especially its organizational structure and working methods.

Committee	Members
Audit committee	<ul style="list-style-type: none"><li>▪ Christian Nowotny (Chairman)</li><li>▪ Fritz Oberlerchner (Deputy-Chairman)</li><li>▪ Monika Kircher</li><li>▪ Andreas Martiner</li></ul>
Nomination and remuneration committee	<ul style="list-style-type: none"><li>▪ Christian Nowotny (Chairman)</li><li>▪ Fritz Oberlerchner (Deputy-Chairman)</li><li>▪ Monika Kircher</li></ul>

## Auditors

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, was selected by the 110<sup>th</sup> Annual General Meeting of ANDRITZ AG held on March 28, 2017 as independent auditor for the 2017 financial statements and the consolidated financial statements.

## Diversity concept

One of the Supervisory Board's most important tasks is to prepare and ensure appointments to the Supervisory Board and Executive Board, as corporate bodies, that are appropriate to the company. The persons appointed to the Executive Board and Supervisory Board of ANDRITZ AG should have the necessary knowledge, abilities, and the personal competences and experience required to manage and supervise a globally operating company oriented towards the capital market and working in the mechanical and industrial plant engineering sector and also guarantee these capabilities. A diversity concept was prepared in 2017 for this purpose and will be submitted for resolution in 2018.

The Executive Board has no female members; there are two female members on the Supervisory Board. There are women in management functions at the first and second reporting levels in numerous sectors. The proportion of women in the total workforce Group-wide was 15.4% as of December 31, 2017 (2016: 15.1%).

The ANDRITZ GROUP supports and encourages the appointment of women, particularly in technical sectors. In many countries however, ANDRITZ is frequently confronted with the situation that there are still far fewer women than men in technical professions or graduating in technical subjects.

Thus, ANDRITZ supports various initiatives to encourage women to opt for a technical profession or take a degree in a technical subject. These initiatives include participating regularly in various events like recruiting and job orientation days for young women at universities. ANDRITZ also takes measures and makes investments to improve employees' work-life balance. The company-run kindergarten set up beside the headquarters of the ANDRITZ GROUP in Graz as well as the new kindergarten at the ANDRITZ location in Vienna and the flexible working hours available to employees with young children are examples of these measures. When creating office space as part of new building projects, establishing child care facilities for the children of employees is always considered as well. In addition, a strict equal opportunities policy is considered very important in the recruitment process. In its efforts to promote female employees, ANDRITZ will refrain from any measures that would discriminate against male employees.

## Compliance at ANDRITZ

ANDRITZ has been committed to strict compliance for many years now. Compliance with the laws and international regulations applying in each case always has top priority and is monitored by a group-wide compliance committee. This commitment is expressed in a series of policies and guidelines applying throughout the group, and compliance with these policies and guidelines is strictly monitored.

### Organization

"Awareness and Prevention", "Detection", and "Response" are the pillars of the Compliance Management System, which consists of two committees: a compliance committee with competence for the subject matter, and a panel of legal experts with competence for the various geographical regions. The Compliance Management System is based on the content of the Code of Business Conduct and Ethics published in 2010.

The Compliance Management System was certified according to ISO 19600 ("Compliance Management System") in December 2017. This international standard contains guidelines for the implementation of compliance management systems and is intended to help identify, understand, and respond correctly to the risks of conduct that is in breach of the regulations. In this way, the probability of such conduct should be kept to a minimum.

The compliance sector has been assigned to the newly appointed CFO since March 2017. The main focus of his work lies on updating the risk management system and integrating the compliance function more closely with internal auditing under standardized corporate governance principles.

At the "Austrian Compliance Awards", ANDRITZ received an award for the Global Sales Network in the "Compliance Process of the Year" category. The project convinced due to its full and mandatory implementation in the IT workflow and integration into the SAP system. As a result, all test stages are documented and only tested payments are approved.

### Training

If compliance is to be established properly within the company and also lived by all employees, one of the most important basic requirements is that they understand the rules and regulations. For this reason, online

compliance training was introduced many years ago to convey the main content of the regulations and standards in a way that is easy to remember.

Each new employee must undergo basic training within the first few weeks after joining the company. This training is available online in nine languages. The training content is repeated regularly in refresher courses. In 2017, 15,563 employees took part in compliance training.

In addition, classroom training was conducted at three Chinese locations in the past year in order to communicate special compliance content to employees at management level as well as those working in sales and purchasing.

Additional training concerning corruption, anti-trust laws, insider trading, and handling of sensitive data is also provided regularly for the groups of employees exposed to these topics. Moreover, training on prevention of money laundering and on export controls is to be introduced in 2018 because these two topics have become much more important and relevant.

#### **Whistleblowing system**

The online whistleblowing system launched in the spring of 2016 enables employees and external business partners to report compliance-related incidents anonymously. These include insider trading, bribery and corruption, export controls, personnel-related topics, and so on.

In the meantime, the whistleblowing system is available in seven languages and can be accessed by anyone via the ANDRITZ web site as well as the intranet.

The system is operated in a high-security data center. The input and content of the data base are encrypted and can only be accessed by employees of the Group Compliance function. Furthermore, authorization to access the content can only be granted by Group Compliance.

#### **Measures to prevent social engineering (data theft)**

Due to the increasing number of incidents in the world of business, ANDRITZ is also looking closely at the possibility of attacks on information systems with the aim of manipulating the systems' users, with phishing mails for example, and thus gaining access to sensitive internal data and information or triggering unwarranted payments. ANDRITZ has tightened up the instructions and procedure for secure payment transactions. In addition, the employees are provided regularly and pro-actively with information on this topic, for example with more and more information in the intranet and in the employee magazine. E-mails from external sources are clearly marked as such.

### **Internal auditing**

The Internal Auditing Group function conducts comprehensive audits on ANDRITZ subsidiaries and Group Functions, focusing on financial and operational topics. In suspicious cases, event-driven audits are also conducted without prior notice. The purpose of the audits is to ensure compliance with internal guidelines and the fundamental principles of profitability and to highlight potential areas for improvement in the operational workflows. Another task handled by this Group function is identification of risks and dealing with them in an appropriate way.

The department reports directly to the President and CEO, the audit schedule for the coming two years will be established by the Executive Board. The audit reports are also presented to the Executive Board and in summarized form to the members of the Supervisory Board. In the 2017 business year, 38 audits were conducted

(2016: 40 audits). The improvement measures proposed in these audits are aligned directly with the management of the company or Group Function under audit.

## External evaluation of the corporate governance report

The Austrian Code of Corporate Governance requires regular external evaluation of the Code by the company. The last evaluation of this kind was conducted for the 2016 business year by BDO Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna. As a result of the evaluation, the auditors found that ANDRITZ AG had adhered to the C-rules of the Austrian Code of Corporate Governance. The next external evaluation is planned for the 2019 business year. The full report on external evaluation is available on the ANDRITZ web site, [andritz.com](http://andritz.com).

Graz, February 2018

The Executive Board of ANDRITZ AG

Wolfgang Leitner m.p.  
(President and CEO)

Humbert Köfler m.p.

Joachim Schönbeck m.p.

Wolfgang Semper m.p.

Mark von Laer m.p.  
(CFO)

# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board and the Executive Board held five meetings (four regular meetings, one constituent meeting) during the reporting period for in-depth discussions on the economic situation and strategic development of the company, as well as on major events, capital expenditures, and possible acquisitions. In the course of regular reporting and in all meetings, the Executive Board informed the Supervisory Board extensively in writing and verbally, by means of detailed reports, on the business and financial situation of the Group and its affiliates, as well as on topics regarding human resources, medium-term planning, capital expenditure, and acquisition projects. At one meeting, the Supervisory Board discussed safety at work and corresponding measures. At another meeting, compliance was one of the main points on the agenda. At individual meetings, medium-term planning by the individual business areas was discussed with the Executive Board. Additional information was provided on special occurrences. The Chairman of the Supervisory Board and the Chief Executive Officer were also in regular contact to review and discuss the company's strategy and business development. The Supervisory Board conducted a self-evaluation of its activities and discussed the result at its meeting on December 6, 2017. An external audit on compliance with the "C Rules" of the Austrian Corporate Governance Code (ÖCGK) had already been commissioned in 2016. The report dated February 28, 2017 by BDO Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft confirms that the company complies with the "C Rules" in this Code during the audit pursuant to Rule 62 of the ÖCGK. Mark von Laer took up the position of Chief Financial Officer on March 1, 2017. At its meeting on May 31, 2017, the Supervisory Board resolved to extend Joachim Schönbeck's appointment to the Executive Board for the period October 1, 2017 to September 30, 2022.

The Presidium of the Supervisory Board acted on behalf of the company in matters concerning the Executive Board. The nomination and remuneration committee dealt in two meetings with matters relating to the Executive Board.

All members of the Supervisory Board attended all of its meetings.

The audit committee dealt in two meetings in particular with the proposal for the appointment of the auditor of the financial statements and consolidated financial statements, the quality of the internal control system relating to presentation of financial statements, the risk management program, reporting by the Internal Auditing department, and the measures to safeguard the independence of the annual auditor when providing permitted non-audit services. In addition, individual topics such as risk analysis and IT security to prevent external attacks were discussed and reported to the Supervisory Board. All members of the audit committee attended the committee meetings at all times.

In dealing with the financial statements for 2016, the audit committee called in the annual auditor to attend its meeting on March 2, 2017 in order to review the financial statements, consolidated financial statements, the management report, and the Executive Board's proposal for distribution of profits. Furthermore, a proposal was made for the choice of auditor of the financial statements and consolidated financial statements for the 2017 business year. This auditor's relationship with the ANDRITZ GROUP and its executive bodies was examined, the fee for the annual audit was negotiated, and a suggestion was made to propose KPMG Austria GmbH to the Annual General Meeting for appointment as auditors of the 2017 financial statements and consolidated financial statements. Further items on the agenda were the auditor's report on the function of the risk management system in the company, a report on the Internal Auditing department, and the compliance report.

At the audit committee meeting on December 6, 2017, the committee members – with the auditor also present – discussed the organization, scheduling and auditing of the 2017 financial statements and consolidated financial statements as well as a report by the Executive Board on the form and modus operandi of the internal control system and internal auditing. The committee also decided to give limited permission to provide non-audit services up to completion of the audit for the 2017 financial year.

The mandate of Christian Nowotny expired at the end of the Annual General Meeting on March 28, 2017. The Annual General Meeting resolved to extend this mandate by five years until the Annual General Meeting in 2022. At the Supervisory Board meeting on March 28, 2017 after the Annual General Meeting and held on the same day, Christian Nowotny was elected Chairman of the Supervisory Board and Fritz Oberlerchner as Deputy-Chairman. Christian Nowotny (Chairman), Fritz Oberlerchner (Deputy-Chairman), and Monika Kircher were elected as members of the audit committee and Andreas Martiner was delegated to the committee by the employees' representatives. Christian Nowotny (Chairman), Fritz Oberlerchner (Deputy-Chairman), and Monika Kircher were elected as members of the nomination and remuneration committee.

The financial statements and management report of ANDRITZ AG and the consolidated financial statements for 2017 drawn up according to IFRS were audited (including the accounts) and certified by KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, who had been appointed as auditors by the Annual General Meeting. The Supervisory Board examined the documents in accordance with Article 96 of the Corporation Act as well as the Management Report and approved the financial statements, which are hereby adopted in accordance with Article 96, para. 4, of the Corporation Act; the Supervisory Board also examined and approved the Executive Board's proposal for distribution of profits. The final results of the audits conducted did not give rise to any objections.

Graz, February 2018

Christian Nowotny m.p.  
Chairman of the Supervisory Board

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# CONSOLIDATED INCOME STATEMENT

## For the 2017 financial year

(in TEUR)	Note	2017	2016
<b>Sales</b>	<b>1.</b>	<b>5,889,047</b>	<b>6,038,974</b>
Changes in inventories of finished goods and work in progress		31,282	8,606
Capitalized cost of self-constructed assets		7,296	5,142
		<b>5,927,625</b>	<b>6,052,722</b>
Other operating income	2.	188,394	77,521
Cost of materials	3.	-3,028,822	-3,121,384
Personnel expenses	4.	-1,717,830	-1,656,628
Other operating expenses	5.	-827,707	-809,831
<b>Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)</b>		<b>541,660</b>	<b>542,400</b>
Depreciation, amortization, and impairment of intangible assets and of property, plant, and equipment	6.	-135,970	-142,227
Impairment of goodwill	11.	-6,428	-14,379
<b>Earnings Before Interest and Taxes (EBIT)</b>		<b>399,262</b>	<b>385,794</b>
Result from associated companies	13.	16	20
Interest income		33,521	42,486
Interest expenses		-44,047	-37,651
Other financial result		11,851	7,795
<b>Financial result</b>	<b>7.</b>	<b>1,341</b>	<b>12,650</b>
<b>Earnings Before Taxes (EBT)</b>		<b>400,603</b>	<b>398,444</b>
Income taxes	8.	-134,980	-123,628
<b>NET INCOME</b>		<b>265,623</b>	<b>274,816</b>
Thereof attributable to:			
Shareholders of the parent		262,967	274,646
Non-controlling interests	23.	2,656	170
Weighted average number of no-par value shares		101,850,822	102,106,518
Basic earnings per no-par value share (in EUR)	9.	2.58	2.69
Effect of potential dilution of share options		0	9,460
Weighted average number of no-par value shares and share options		101,850,822	102,115,978
Diluted earnings per no-par value share (in EUR)	9.	2.58	2.69
Proposed or paid dividend per no-par value share (in EUR)	23.	1.55	1.50



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## For the 2017 financial year

(in TEUR)	Note	2017	2016
<b>NET INCOME</b>		<b>265,623</b>	<b>274,816</b>
<b>Items that may be reclassified to profit or loss:</b>			
Currency translation adjustments of foreign operations		-63,874	11,481
Reclassification to profit or loss		-816	0
<b>Currency translation adjustments of foreign operations</b>		<b>-64,690</b>	<b>11,481</b>
Result from available-for-sale financial assets		-17,712	-4,439
Reclassification to profit or loss		-6,362	0
Related income taxes		3,638	657
<b>Result from available-for-sale financial assets, net of tax</b>	<b>K)</b>	<b>-20,436</b>	<b>-3,782</b>
Result from cash flow hedges		363	2,678
Reclassification to profit or loss		726	1,198
Related income taxes		-60	-1,253
<b>Result from cash flow hedges, net of tax</b>	<b>K)</b>	<b>1,029</b>	<b>2,623</b>
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial gains/losses		7,774	-15,160
Related income taxes		-1,310	4,761
<b>Actuarial gains/losses, net of tax</b>	<b>25.</b>	<b>6,464</b>	<b>-10,399</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-77,633</b>	<b>-77</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>187,990</b>	<b>274,739</b>
Thereof attributable to:			
Shareholders of the parent		186,024	274,953
Non-controlling interests		1,966	-214

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2017

(in TEUR)	Note	2017	2016
<b>ASSETS</b>			
Intangible assets	10.	160,701	201,253
Goodwill	11.	547,637	563,427
Property, plant, and equipment	12.	762,267	786,688
Shares in associated companies	13.	6,407	6,830
Investments and other financial assets	14.	170,471	100,652
Trade accounts receivable	15.	19,370	14,431
Other receivables and assets	16.	41,344	52,922
Deferred tax assets	8.	152,647	187,528
<b>Non-current assets</b>		<b>1,860,844</b>	<b>1,913,731</b>
Inventories	17.	761,013	736,889
Advance payments made	18.	99,264	105,709
Trade accounts receivable	15.	891,980	840,138
Cost and earnings of projects under construction in excess of billings	19.	599,550	726,307
Other receivables and assets	16.	341,183	404,402
Receivables from current taxes		54,741	35,557
Investments	20.	565,780	110,796
Cash and cash equivalents	21.	1,071,478	1,296,336
Assets held for sale	22.	19,515	28,723
<b>Current assets</b>		<b>4,404,504</b>	<b>4,284,857</b>
<b>TOTAL ASSETS</b>		<b>6,265,348</b>	<b>6,198,588</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Share capital		104,000	104,000
Capital reserves		36,476	36,476
Retained earnings		1,160,334	1,187,027
<b>Equity attributable to shareholders of the parent</b>		<b>1,300,810</b>	<b>1,327,503</b>
Non-controlling interests		24,600	16,728
<b>Total shareholders' equity</b>	<b>23.</b>	<b>1,325,410</b>	<b>1,344,231</b>
Bonds	K) c)/26.	349,759	359,325
Bank loans and other financial liabilities	26.	424,851	118,433
Obligations under finance leases	M) b)/26.	17,196	18,880
Provisions	24./25.	582,058	586,534
Other liabilities	27.	103,941	118,595
Deferred tax liabilities	8.	87,892	104,300
<b>Non-current liabilities</b>		<b>1,565,697</b>	<b>1,306,067</b>
Bank loans and other financial liabilities	26.	80,890	78,922
Obligations under finance leases	M) b)/26.	1,138	1,384
Trade accounts payable		461,239	499,737
Billings in excess of cost and earnings of projects under construction	19.	1,052,571	1,117,963
Advance payments received	28.	277,219	256,690
Provisions	24.	484,079	532,317
Liabilities for current taxes		71,515	101,056
Other liabilities	27.	942,979	958,072
Liabilities relating to assets held for sale	22.	2,611	2,149
<b>Current liabilities</b>		<b>3,374,241</b>	<b>3,548,290</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>6,265,348</b>	<b>6,198,588</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

## For the 2017 financial year

(in TEUR)	Note	2017	2016
<b>Earnings Before Taxes (EBT)</b>		<b>400,603</b>	<b>398,444</b>
Interest result	7.	10,526	-4,835
Depreciation, impairment losses, and reversals of impairment losses of fixed and financial assets		142,398	156,606
Result from associated companies	7.	-16	-20
Changes in provisions		-22,962	-41,620
Gains/losses from the disposal of fixed and financial assets		-55,530	-6,489
Other non-cash income/expenses		-24,354	5,822
<b>Gross cash flow</b>		<b>450,665</b>	<b>507,908</b>
Changes in inventories		-40,868	-8,733
Changes in advance payments made		870	24,444
Changes in receivables		-121,375	-68,004
Changes in cost and earnings of projects under construction in excess of billings		96,062	10,481
Changes in advance payments received		28,409	-50,470
Changes in liabilities		24,894	-8,528
Changes in billings in excess of cost and earnings of projects under construction		-31,672	54,855
<b>Change in net working capital</b>		<b>-43,680</b>	<b>-45,955</b>
Interest received		33,840	41,903
Interest paid		-28,201	-24,659
Dividends received		3,573	2,576
Income taxes paid		-169,686	-115,137
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>246,511</b>	<b>366,636</b>
Payments received for asset disposals (including financial assets)		62,343	19,402
Payments made for intangible assets and for property, plant, and equipment		-115,453	-122,086
Payments made for non-current financial assets		-118,887	-34,800
Net cash flow from company acquisitions	J)	-13,435	-104,059
Net cash flow from sale of subsidiaries		23,966	0
Payments received for investments and other current financial assets		151,217	138,543
Payments made for investments and other current financial assets		-533,790	-136,632
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>-544,039</b>	<b>-239,632</b>
Payments received from issuance of Schuldscheindarlehen		400,033	0
Payments received from other financial liabilities		46,332	75,626
Payments made for other financial liabilities		-103,603	-40,774
Dividends paid by ANDRITZ AG	23.	-153,090	-137,802
Dividends paid to non-controlling interest holders		-2,074	-2,391
Purchase of own corporate bonds		-4,019	-2,947
Purchase of non-controlling interests and payments to former shareholders		-817	-2,380
Purchase of treasury shares	23.	-48,310	-12,544
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>134,452</b>	<b>-123,212</b>

ANDRITZ financial report 2017  
Consolidated statement of cash flows

(in TEUR)	Note	2017	2016
<b>CHANGES IN CASH AND CASH EQUIVALENTS</b>		<b>-163,076</b>	<b>3,792</b>
Currency translation adjustments		-52,618	36,635
Changes in consolidation scope		1,082	998
Reclassification as held for sale		-10,246	-835
Cash and cash equivalents at the beginning of the period	21.	1,296,336	1,255,746
Cash and cash equivalents at the end of the period	21.	1,071,478	1,296,336

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 2017 financial year

(in TEUR)	Note	Attributable to shareholders of the parent							Non-controlling interests	Total shareholders' equity	
		Share capital	Capital reserves	Other retained earnings	IAS 39 reserve	Actuarial gains/ losses	Currency translation adjustments	Treasury shares			Total
<b>BALANCE AS OF JANUARY 1, 2016</b>		<b>104,000</b>	<b>36,476</b>	<b>1,144,880</b>	<b>48,932</b>	<b>-70,534</b>	<b>2,852</b>	<b>-68,573</b>	<b>1,198,033</b>	<b>17,543</b>	<b>1,215,576</b>
Net income				274,646					274,646	170	274,816
Other comprehensive income					-1,247	-10,010	11,564		307	-384	-77
<b>Total comprehensive income</b>				<b>274,646</b>	<b>-1,247</b>	<b>-10,010</b>	<b>11,564</b>		<b>274,953</b>	<b>-214</b>	<b>274,739</b>
Dividends	23.			-137,802					-137,802	-601	-138,403
Changes in treasury shares	23.			164				-11,600	-11,436		-11,436
Changes concerning share option programs	23.			3,672					3,672		3,672
Changes in consolidation type				83					83		83
Other changes				1,589		-1,589					
<b>STATUS AS OF DECEMBER 31, 2016</b>		<b>104,000</b>	<b>36,476</b>	<b>1,287,232</b>	<b>47,685</b>	<b>-82,133</b>	<b>14,416</b>	<b>-80,173</b>	<b>1,327,503</b>	<b>16,728</b>	<b>1,344,231</b>
<b>BALANCE AS OF JANUARY 1, 2017</b>		<b>104,000</b>	<b>36,476</b>	<b>1,287,232</b>	<b>47,685</b>	<b>-82,133</b>	<b>14,416</b>	<b>-80,173</b>	<b>1,327,503</b>	<b>16,728</b>	<b>1,344,231</b>
Net income				262,967					262,967	2,656	265,623
Other comprehensive income					-19,433	6,153	-63,663		-76,943	-690	-77,633
<b>Total comprehensive income</b>				<b>262,967</b>	<b>-19,433</b>	<b>6,153</b>	<b>-63,663</b>		<b>186,024</b>	<b>1,966</b>	<b>187,990</b>
Dividends	23.			-153,090					-153,090	-422	-153,512
Changes in treasury shares	23.			179				-47,111	-46,932		-46,932
Changes concerning share option programs	23.			-4,390					-4,390		-4,390
Transactions with non-controlling interests				-4,004			-3,150		-7,154	6,335	-819
Changes in consolidation type				-1,151					-1,151	-7	-1,158
<b>STATUS AS OF DECEMBER 31, 2017</b>		<b>104,000</b>	<b>36,476</b>	<b>1,387,743</b>	<b>28,252</b>	<b>-75,980</b>	<b>-52,397</b>	<b>-127,284</b>	<b>1,300,810</b>	<b>24,600</b>	<b>1,325,410</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2017

## A) GENERAL INFORMATION

ANDRITZ AG 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” or “ANDRITZ”) is a leading producer of high-technology industrial machinery and operates through four strategic business areas: Hydro, Pulp & Paper, Metals, and Separation. The registered office address of the Group’s headquarters is at Stattegger Strasse 18, 8045 Graz, Austria.

The consolidated financial statements are prepared under the responsibility of the Executive Board and are acknowledged by the Supervisory Board and the Annual General Meeting. On February 23, 2018, the Executive Board authorized the consolidated financial statements for the year ending on December 31, 2017.

Various amounts and percentages set out in these consolidated financial statements have been rounded. As a result, totals may differ from the amounts shown. If not stated otherwise, amounts are given in thousands of euros (TEUR).

## B) ACCOUNTING PRINCIPLES

The financial statements were prepared in accordance with all International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) and endorsed by the European Union, whose application is mandatory for 2017. All interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), which also have to be observed for 2017, were applied. The consolidated financial statements meet the requirements of section 245a UGB (Austrian Commercial Code) on exempting consolidated financial statements according to internationally accepted accounting standards.

### a) Standards and interpretations that are applicable for the first time

In 2017, the following new, revised, and supplemented standards by the IASB as well as interpretations of the IFRIC are to be considered mandatory:

Standard/Interpretation	Title	Effective for annual financial statements for periods beginning on or after	Endorsement by EU
IAS 7	Change: Disclosure initiative	January 1, 2017	November 6, 2017
IAS 12	Change: Recognition of deferred tax assets for unrealized losses	January 1, 2017	November 6, 2017
IFRS 12	Annual improvements of IFRS (cycle 2014-2016)	January 1, 2017	February 7, 2018

The amendments to **IAS 12 Recognition of deferred tax assets for unrealized losses** clarify that devaluation of debt instruments (measured at fair value) to a lower fair value arising from the change in the market interest rate, result in deductible temporary differences. It is generally to be assessed for all deductible temporary differences together, if in the future sufficient taxable income can be achieved to be use and recognize, respectively. ANDRITZ applies this change as of January 1, 2017. ANDRITZ has sufficient taxable differences available to cover the resulting deductible temporary differences.

The **IAS 7 Disclosure initiative** requires additional disclosures that enable readers of financial statements to evaluate changes in financial liabilities. ANDRITZ fulfils this requirement by providing a reconciliation of opening and closing balances of the financial liabilities.

As part of the **Annual Improvements of IFRS (cycle 2014-2016)** ANDRITZ applies the clarifications by the IASB to IFRS 12 as of January 1, 2017.

## b) Standards and interpretations, which have been published but are not yet applied

The International Accounting Standards Board (IASB) is working on numerous projects that will only have an effect on the financial years 2018 and onwards. ANDRITZ has not adopted the following accounting pronouncements that have been issued by the IASB, but are not yet effective:

Standard/Interpretation	Title	Effective for annual financial statements for periods beginning on or after	Endorsement by EU
IFRS 9	Financial instruments	January 1, 2018	November 22, 2016
IFRS 15	Revenue from contracts with customers	January 1, 2018	September 22, 2016
IFRS 15	Clarification: Revenue from contracts with customers	January 1, 2018	October 31, 2017
IAS 40	Change: Transfers of investment property	January 1, 2018	planned for Q1 2018
IFRS 1 and IAS 28	Annual improvements of IFRS (cycle 2014-2016)	January 1, 2018	February 7, 2018
IFRS 2	Change: Classification and measurement of share-based payment transactions	January 1, 2018	planned for Q1 2018
IFRS 4	Change: Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts	January 1, 2018	November 3, 2017
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018	planned for Q1 2018
IFRS 16	Leasing	January 1, 2019	October 31, 2017
IFRS 9	Change: Prepayment feature with negative compensation	January 1, 2019	planned for Q1 2018
IAS 28	Change: Long-term interests in associates and joint ventures	January 1, 2019	planned 2018
IAS 23, IFRS 3, IFRS 11	Annual improvements of IFRS (cycle 2015-2017)	January 1, 2019	planned 2018
IAS 19	Change: Plan Amendment, Curtailment or Settlement	January 1, 2019	planned 2018
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019	planned Q3 2018
IFRS 17	Insurance contracts	January 1, 2021	pending
IFRS 10 and IAS 28	Change: Sale or contribution of assets between an investor and its associate or joint venture	date is still to be determined	pending

### IFRS 15 – Revenue from contracts with customers

IFRS 15 sets out a 5-step recognition model for revenue from contracts with customers. According to IFRS 15, revenue recognition must reflect the transfer of goods or services promised to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This standard will replace all the existing regulations on revenue recognition under IFRS. In a Group-wide implementation project, ANDRITZ has subjected the business models of all business areas to an analysis in respect of the new regulations. Compared to IAS 11 and IAS 18, ANDRITZ has made the following changes:

#### Fulfillment of the performance obligations

In accordance with IFRS 15, the revenue attributed to the performance obligations identified is only recognized when the customer has gained control of the underlying product or service. When concluding a contract, it has to be determined according to IFRS 15 whether the income resulting from the contract has to be recognized at a point-in-time or over-time. In most cases, manufacturing contracts that were previously accounted for using the percentage-of-completion method also meet the conditions for the over-time revenue recognition in accordance with IFRS 15. The Group assumes that only a few construction contracts that were previously accounted for using the percentage-of-completion method in accordance with IAS 11, will change to the point-in-time revenue recognition method because the prerequisites for over-time revenue recognition in accordance with IFRS 15 are not met. Over-time revenue recognition in accordance with performance progress is made using input- or output-oriented methods. In individual cases, there will be a change in the method of measuring the performance progress as well as a change between over-time and point-in-time-related revenue recognition.

#### Contract costs

IFRS 15 stipulates the recognition of costs incurred by a company in connection with the initiation and fulfillment of contracts for the supply of goods and services to customers. In future, contract costs that can be directly attributed to the initiation of the contract (at ANDRITZ mainly sales commissions) must be capitalized in accordance with IFRS 15. These capitalized contract costs have to be written off analogously to the transfer of control of the goods and services to the customer. This change will result in a delay in revenue recognition as of January 1, 2018 as well as a capitalization of contract costs of around 15 MEUR.

#### Determination of the transaction price

The basis of the new regulations for determining the transaction price is the consideration expected by the company. This should correspond to the amount to which the company is entitled under the existing contract. When determining the transaction price, fixed and variable components (especially penalties at ANDRITZ in individual cases) must be assessed and estimated in accordance with IFRS 15 at the time of conclusion of the contract. As a result, the over-time realization of revenue leads to a shift in the stage of completion and thus to a shift in revenue recognition. The impact on revenue recognition is expected to be of minor importance.

#### Key financing components

For certain transactions, the timing of the payment and the timing of the transfer of control over goods or services to the customer are not the same. This is the case, if the consideration is paid in advance or after the delivery of the goods or rendering of the service. In individual cases, consideration of significant financing components in the calculation of the transaction price will lead to the compounding or discounting of the consideration promised. The impact on financial position, financial performance, and cash flow of the Group is insignificant.

#### Notes

Due to IFRS 15 requirements, the disclosures in the notes will show a different and more extensive presentation in the financial statements compared to IAS 11. In future, qualitative and quantitative information will be provided in particular on contract assets and liabilities arising from customer contracts.

#### Transition

The Group did not apply IFRS 15 early in the consolidated financial statements as of December 31, 2017. ANDRITZ applies the cumulative method for the transition to IFRS 15. Accordingly, the cumulative effects in the amount of about 5 MEUR from first-time application at the time of initial application, on January 1, 2018, are recognized in equity. As the cumulative transition method was selected, the consolidated statement of financial position and the consolidated income statement for the 2017 financial year were not adjusted. In this period sales were recognized in accordance with IAS 11 and IAS 18, respectively.



### IFRS 9 – Financial Instruments

IFRS 9 sets out the requirements for the recognition and measurement of financial assets, financial liabilities and for some contracts for the purchase or sale of non-financial items. This standard supersedes IAS 39 (Financial Instruments: Recognition and Measurement). The Group did not apply IFRS 9 early in the consolidated financial statements as of December 31, 2017.

#### Classification – financial assets

IFRS 9 includes a new classification and measurement approach for financial assets that reflects the business model in which the assets are held as well as the characteristics of their cash flows. IFRS 9 contains three important classification categories for financial assets: measured at amortized cost, measured at fair value through profit or loss (FVTPL), and measured at fair value through other comprehensive income (FVOCI). The standard eliminates the existing categories of IAS 39: held-to-maturity, loans and receivables, and available-for-sale. According to IFRS 9, derivatives embedded in contracts for which the basis is a financial asset within the scope of the standard are never accounted for separately. Instead, the hybrid financial instrument is assessed as a whole in terms of measurement. ANDRITZ does not believe that the new classification requirements will have a material impact on the accounting of trade receivables, loans and financial assets held as financial assets or equity based on their fair value.

#### Impairment – financial assets and contractual assets

IFRS 9 replaces the incurred losses model of IAS 39 with a forward-looking model of "expected credit losses". This requires considerable judgment on the extent to which expected credit losses are affected by changes in economic factors. The respective estimation is determined on the basis of weighted probabilities.

The new impairment model applies to financial assets that are measured at amortized cost or at FVOCI - with the exception of investment securities held as financial assets – and to contractual assets.

In accordance with IFRS 9, valuation allowances are valued on one of the following bases:

- 12-month credit losses: These are expected credit losses due to possible defaults within 12 months after balance sheet date.
- Lifelong credit losses: These are expected credit losses due to all possible defaults during the expected lifetime of a financial instrument.

The measurement according to the concept of lifelong credit losses is applicable if the credit risk of a financial asset has increased significantly between initial recognition and the reporting date; otherwise, the valuation has to be applied according to the concept of 12-month credit losses. An entity may determine that the credit risk of a financial asset has not increased significantly if the asset has a low credit risk at the reporting date. However, the concept of lifelong credit losses must always be to trade receivables and contractual assets without a significant financing component; ANDRITZ has decided to apply this method to contractual assets with a significant financing component. ANDRITZ believes that asset impairment will change within the scope of the impairment model of IFRS 9 in the following way:

#### **Trade accounts receivable, receivables from cost and earnings of projects under construction in excess of billings, and other receivables**

Estimated expected credit losses were calculated on the basis of experience of actual defaults over the past five years. Credit risk within the Group was segmented using common default risk characteristics such as credit risk assessment. The experience of actual defaults had been adjusted using scaling factors to reflect the differences between the economic conditions at the time the historical data was collected, the current conditions and the Group's view of the economic conditions over the expected life time of the receivables. The scaling factor is

based on forecasts of gross domestic product (GDP) and unemployment rate as well as the industry outlook, and is around 2 percent. The application of the impairment requirements of IFRS 9 as of January 1, 2018, will increase the recognized impairment losses of ANDRITZ by about 10 MEUR compared to the impairments recognized under IAS 39. Thereof, more than half relates to trade receivables.

#### **Cash and cash equivalents and investments**

Cash and cash equivalents and time deposits included in "Investments" deposited at banks or financial institutions are rated as of December 31, 2017 at Aaa to B1 by the rating agency Moody's and at AA+ to BB+ by Standard & Poor's and Fitch. ANDRITZ monitors changes in default risk by observing external credit ratings published. The estimated allowances to cash and cash equivalents and time deposits included in "Investments" were calculated on the basis of expected losses within twelve months and reflect short maturities. ANDRITZ assumes that cash and cash equivalents as well as time deposits included under "Investments" have a low default risk based on the external ratings of banks and financial institutions. Parameters for financial loss ratios reflect an assumed recovery rate of 40 percent. The application of the impairment requirements of IFRS 9 as of January 1, 2018, results in an increase of recognized impairment losses of about 1 MEUR compared to the impairment losses recognized under IAS 39.

#### **Classification – financial debts**

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. In accordance with IAS 39, however, all changes in the fair value of liabilities designated as being at fair value through profit and loss are recognized in profit and loss, whereas these changes in fair value under IFRS 9 are generally recognized as follows:

- The change in fair value attributable to changes in the credit risk of the liability is shown in other comprehensive income.
- The remaining change in fair value is presented in profit and loss.

The assessment showed no significant impact on the classification of financial liabilities as of January 1, 2018. ANDRITZ has not designated any financial liabilities as being at fair value through profit or loss and does not intend to do so at the present time.

#### **Accounting of hedges**

When applying IFRS 9 for the first time, ANDRITZ has the option of continuing to apply the accounting rules of IAS 39 for hedges instead of the requirements of IFRS 9. ANDRITZ has decided not to apply the new requirements of IFRS 9.

#### **Transition**

Changes in accounting policies resulting from the application of IFRS 9 are generally applied retrospectively. ANDRITZ will make use of the exception not to adjust comparative information for previous periods with respect to changes in classification and measurement (including impairment). Differences between the carrying amounts of the financial assets and financial liabilities due to the application of IFRS 9 are generally recognized in the revenue reserves as of January 1, 2018.

The following assessments should be made on the basis of the facts and circumstances existing at the time of initial application:

- Determination of the business model in which a financial asset is held.
- Determination and revocation of previous provisions relating to certain financial assets and financial liabilities that are valued at FVTPL.
- Determination of certain investment securities not held for trading as FVOCI.

#### IFRS 16 – Leases

The central idea of IFRS 16 is for all lessees to include all lease arrangements and the related contractual rights and obligations in the statement of financial position. The lessee recognizes a lease liability for the obligation to make leasing payments in the future for all lease arrangements. At the same time, the lessee capitalizes a right of use for the underlying asset value that is basically equal to the cash value of the future lease payments plus any costs that can be directly assigned. The lessee is thus no longer required to distinguish between finance and operating lease contracts, as required to date according to IAS 17. In contrast, the rules of the new standard for the lessor are similar to the regulations contained so far in IAS 17. ANDRITZ is currently assessing the impact on its consolidated financial statements that will result from applying IFRS 16. The actual impact of the application of IFRS 16 on the consolidated financial statements at the time of first-time application is determined by future economic conditions, such as the interest rate as of January 1, 2019, the composition of the leasing portfolio at that date, ANDRITZ's assessment of the exercise of extension options, and the extent to which derogations and exemptions are used.

So far, following effects have been identified:

- ANDRITZ will recognize new assets and liabilities for operating leases for land and buildings, vehicles and other tangible assets.
- It is currently expected that the new standard will increase the carrying amount of property, plant and equipment by around 250 MEUR.
- Liabilities will increase by a similar amount.
- Application of the new standard means that the nature of the expenses associated with these leases is now changing, as IFRS 16 recognizes the linear expenses for operating leases through the depreciation of a right-of-use assets and interest expenses for debts arising from the lease.
- No material effects on finance leases are expected.

Given the leases affected and the current interest rate environment, ANDRITZ currently does not expect any significant impact on its financial position, financial performance and cash flow. ANDRITZ will implement IFRS 16 as of January 1, 2019 and applies the cumulative method for the conversion. As a result of choosing the cumulative transition method, comparison results from 2018 will not be adjusted.

All other new or changed standards mentioned in the table are not expected to have any or any significant impact on the consolidated financial statements.

## C) CONSOLIDATION SCOPE

The consolidated financial statements include ANDRITZ AG and those companies ANDRITZ controls directly and indirectly, where their influence on assets, liabilities, financial position, and profit or loss of the Group is not of minor importance. The decision on inclusion is made on the basis of quantitative and qualitative considerations. Not fully consolidated were 45 (2016: 48) companies controlled by ANDRITZ; not accounted for at-equity were 6 (2016: 5) associated companies. They are recorded in item "Investments and other financial assets". The entities of the Group are listed in note "R) Group companies".

The consolidation scope changed as follows:

	2017		2016	
	Full consolidation	Equity method	Full consolidation	Equity method
<b>Balance as of January 1</b>	<b>139</b>	<b>4</b>	<b>134</b>	<b>3</b>
Acquisition of companies	4		8	1
Disposal of companies	-1			
New foundations	2			
Additions due to a change in consolidation type	1		1	
Disposals due to a change in consolidation type			-1	
Reorganization	-6		-3	
<b>Balance as of December 31</b>	<b>139</b>	<b>4</b>	<b>139</b>	<b>4</b>
Thereof attributable to:				
Domestic companies	6		6	
Foreign companies	133	4	133	4

The acquisition of companies is explained in subsection "D) Acquisitions". The changes in the consolidation scope disclosed in the respective subsections of the notes to the consolidated statement of financial position are based on acquisitions of companies and changes in the consolidation type of subsidiaries.

## D) ACQUISITIONS

### Paperchine

ANDRITZ GROUP has acquired a 100% stake in Paperchine, Inc., USA and its subsidiaries. The company, owned so far by AstenJohnson Holdings Ltd. based in Charleston, South Carolina, has approximately 180 employees and manufacturing facilities in the USA, Canada, Thailand, and Germany. Paperchine is a global supplier of highly engineered equipment and provider of services to the paper industry's leading manufacturers. For ANDRITZ, the acquisition of Paperchine strengthens its presence in North America and adds new products, such as the horizontal GapFormer, SigmaPro headbox, dewatering elements (former Johnson Foils), moisturizer (former VIB), and related service to its offerings for international clients. This acquisition complements the Pulp & Paper business area's product portfolio. The closing of the transaction took place in the end of June 2017. Due to this acquisition four fully consolidated entities were included in the consolidation scope of ANDRITZ.

Based on the purchase price allocation a negative goodwill ("badwill") resulted in the amount of -1,660 TEUR. After re-examination of the assets acquired and the liabilities assumed, this goodwill was recognized as other operating income. The other operating income partially compensated for the restructuring costs incurred or reimbursed after the acquisition.

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

(in TEUR)	Total
Intangible assets	448
Property, plant, and equipment	5,546
Inventories	9,578
Trade accounts receivable	5,836
Cash and cash equivalents	10
Other assets	4,746
Deferred tax liabilities	61
Advance payments received	-2,947
Trade accounts payable	-1,386
Other liabilities	-6,787
<b>Net assets</b>	<b>15,105</b>
Non-controlling interests	0
Goodwill	-1,660
<b>CONSIDERATION TRANSFERRED</b>	<b>13,444</b>

Transaction costs that are directly connected to a business combination are recognized as an expense as incurred. The acquired receivables do not contain any receivables that are expected to be uncollectible.

Since the first-time consolidation as of June 30, 2017 the acquisition has contributed 18,914 TEUR to the ANDRITZ GROUP's sales and -1,852 TEUR to the ANDRITZ GROUP's EBIT. If the business had been acquired at the beginning of the financial year 2017, it would have contributed sales in the amount of 42,412 TEUR and EBIT in the amount of -759 TEUR.

## Further acquisitions

In April 2017, the ANDRITZ GROUP acquired a 50.1% stake in the laser company Powerlase Holdings Limited, Crawley, United Kingdom, and its subsidiaries. The high-tech company supplies – beside the Metals business area – international customers from the photovoltaic, microelectronics, automotive, and aerospace industries. The acquisition complements the Metals business area's product portfolio. Due to the minor importance for the assets, liabilities, financial position, and profit or loss this company will not be included in the consolidated financial statements.

## E) ACCOUNTING POLICIES

The significant accounting policies adopted in preparing the consolidated financial statements are as follows:

### a) Consolidation principles

The separate financial statements of all fully consolidated companies compiled in accordance with uniform standards throughout the Group and complying with IFRS provisions form the basis of the consolidated financial statements. Intercompany receivables, liabilities, and internal service charges, including interim results within the Group, were eliminated. The consolidated financial statements were compiled on the basis of uniform accounting principles for comparable business transactions.

Business combinations are accounted for by applying the acquisition method, whereby the purchase price is offset against the revalued net assets of the acquired company (capital consolidation). In doing so, the values at the acquisition date, which is the date on which control of the acquiree was obtained, are used as a basis. The acquired identifiable assets, liabilities, and contingent liabilities are generally recognized at their fair values irrespective of the extent attributable to non-controlling interests. Application of the acquisition method requires certain estimates and assumptions to be made, especially concerning the fair values of the intangible assets and property, plant, and equipment acquired, the liabilities assumed at the acquisition date, and the useful lives of the intangible assets and the property, plant, and equipment acquired. Non-controlling interests can be measured either at cost (partial goodwill method) or at fair value (full goodwill method). The choice of method can be made on a case-by-case basis. It is general practice within the ANDRITZ GROUP to use the partial goodwill method. In step acquisitions, where a company is acquired in several stages, the fair values of the acquired entity's assets and liabilities are measured in accordance with IFRS 3 (Business Combinations) at the date on which control is obtained. Any resulting adjustments to the fair value of the existing interest are recognized in profit or loss. The carrying amount of the assets and liabilities already recognized in the statement of financial position is then adjusted accordingly.

### b) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power of disposition over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is obtained until the date on which control is lost. Changes in the Group's share in a subsidiary that do not result in a loss of control are accounted for as equity transactions. When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, any related non-controlling interests, and other components of equity. Any resulting gain or loss is recognized through profit or loss.

### c) Currency translation

The consolidated financial statements are compiled in euros.

#### Foreign currency transactions

Foreign currency transactions are recorded in the functional currency by applying 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 subsidiaries

Foreign consolidated subsidiaries are regarded as foreign operations because they are financially, economically, and organizationally autonomous. Their functional currencies are generally their respective local currencies. Items of the statement of financial position of foreign subsidiaries are translated at year-end rates to the presentation currency (EUR). Expenses and income are translated using the average exchange rates for the year. All resulting translation differences are included in currency translation adjustments in equity.

The major exchange rates used for foreign currency translation are as follows:

In number of units per 1 EUR		Rate at reporting date			Average rate for year
		December 31, 2017	December 31, 2016	2017	2016
BRL	Brazilian real	3.97	3.43	3.61	3.87
CAD	Canadian dollar	1.50	1.42	1.47	1.47
CHF	Swiss franc	1.17	1.07	1.11	1.09
CNY	Chinese renminbi yuan	7.80	7.32	7.63	7.35
DKK	Danish kroner	7.44	7.43	7.44	7.45
GBP	British pound	0.89	0.86	0.88	0.82
INR	Indian rupee	76.61	71.59	73.62	74.46
SEK	Swedish kronor	9.84	9.55	9.64	9.48
USD	US dollar	1.20	1.05	1.13	1.11

#### d) Revenue and income recognition

Revenue covers all income resulting from the ANDRITZ GROUP's typical business activities. 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 the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from construction contracts is recognized according to the percentage of completion using the cost-to-cost method (see note "n"). Interest is recognized pro rata based on the respective interest rate. Dividends from capital investments are recognized when the legal right to receive payment is established.

#### e) Income taxes

Income taxes include current and deferred taxes. Current and deferred taxes are recognized in profit or loss except to the extent that the taxes are linked to a business combination or to items recognized in other comprehensive income. Current taxes are the expected tax due (or tax receivable) on the taxable income (or the tax loss) for the financial year based on the applicable income tax rates and all adjustments to the tax debt in respect of previous years. Actual tax liabilities also contain all tax debts arising as a result of dividends being declared. Current tax receivables and liabilities are offset if a legal right exists towards a tax authority to settle on a net basis. In the case of values determined in tax statements that cannot be realized the expected effects of these uncertain tax positions are considered.

Deferred taxes are recognized in respect of temporary differences between the net book value of assets and liabilities in the IFRS consolidated financial statements and their tax bases at the level of the subsidiaries. Deferred taxes are not recognized for

- taxable temporary differences in the initial recognition of goodwill
- temporary differences in the initial recognition of assets or liabilities in a business transaction which is not a business combination and affects neither the accounting profit nor the taxable profit
- temporary differences in connection with shares in subsidiaries, associated companies, and joint ventures provided that the Group is able to control the timing of the reversal of the temporary difference and it is likely that the temporary difference will not be reversed in the foreseeable future.

Deferred taxes are measured in accordance with the taxation rates (and regulations) applicable on the balance sheet date or which have essentially been passed as law and are expected to be applicable on the date when the deferred tax credits are realized or deferred tax liabilities are settled. A deferred tax asset is recognized for unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which it can be utilized. Deferred tax credits are assessed at every reporting date and reduced to the extent to which it is no longer likely that the related tax advantage will be realized. Provided that the deferred taxes relate to the same taxable entity and the same tax authority and that there is also a legally enforceable right to offset actual tax receivables against actual tax liabilities, deferred tax assets and liabilities are offset.

Within ANDRITZ GROUP, a tax group consists of ANDRITZ AG as head and ANDRITZ HYDRO GmbH as member of the tax group according to section 9 KStG 1988 (Austrian Corporate Tax Act). A tax compensation agreement was concluded. Furthermore, three fiscal unities with profit and loss absorption agreements exist between selected affiliated companies in Germany. In addition, comparable tax groups exist in the USA, the Netherlands, and France.

## f) Intangible assets

Intangible assets are accounted for at cost. After initial recognition, intangible assets are accounted for at cost less accumulated amortization and any accumulated impairment losses. The intangible assets have a finite useful life and are therefore 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 the end of the fiscal year.

Intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the net book value of an asset may be higher than the amount recoverable (the higher amount of fair value less costs-to-sell and value-in-use of an asset or of a cash generating unit). Whenever the net book value of an asset exceeds its recoverable amount, an impairment loss is recognized.

Amortization is calculated on a straight-line basis using the following estimated useful lives:

Concessions, industrial rights, and similar rights	3 - 15 years
Customer relationships	3 - 10 years
Order backlog	1 - 3 years
Technology	3 - 10 years
Brand names	7 - 10 years



Research costs are expensed as incurred. Development costs required under construction contracts are recognized as part of the contract costs.

## g) Goodwill

IFRS 3 is applied for business combinations and any resulting goodwill. According to this standard, goodwill is measured as the residual of the cost of the business combination after recognizing the acquired identifiable assets, liabilities, and contingent liabilities at fair value. Following a review of the amounts stated, the resulting value from the comparison of cost and fair value of the net assets of the acquired negative goodwill is recognized immediately in the income statement.

Goodwill is not amortized, but tested for impairment. This test has to be performed at least annually or more frequently if events or changes in circumstances indicate a need for impairment. ANDRITZ performs the annual goodwill impairment test at December 31 of each business year. In determining whether the recognition of an impairment loss is required, goodwill is allocated to the cash generating units that are expected to benefit from the synergies of the business combination. If the net book value exceeds the value in use which is calculated by using a discounted cash flow (DCF) calculation and the fair value less costs of disposal is not higher, an impairment loss is recognized. An impairment loss recognized for goodwill will not be reversed in a subsequent period.

The planning is done at the level of the cash generating units for the next three years. Future payment surpluses are based on internal forecasts, which are prepared in detail for the next financial year and with simplifications for the subsequent two years, reflecting the historical performance and best estimates on future developments. After this detailed planning horizon a normalized development is assumed.

The discount rate used for the DCF calculation is based on an interest rate representing the actual assessment of possible changes in exchange rates as well as specific risks of an asset. In consideration of the applicable currency and the corresponding risk profile, a discount rate before tax was applied.

In case the compositions of the original cash generating units change in the course of time due to reorganizations and changes in the reporting structure, the goodwill is reallocated accordingly.

## h) Property, plant, and equipment

Property, plant, and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. When assets are sold or retired, their costs and accumulated depreciation are removed from the accounts and any resulting gain or loss is included as other operating income or as other operating expenses in the income statement. The cost of property, plant, and equipment comprises its purchase price including import duties and non-refundable purchase taxes as well as any directly attributable costs of bringing it to the appropriate location for its intended use and putting the asset into working condition. The production costs of self-constructed assets contain direct material and production costs as well as adequate indirect material and production costs. Expenditure incurred after the fixed assets have been put into operation, such as maintenance and repair, is charged to the income statement in the period in which the costs are incurred.

Assets under construction are considered as plant and properties under construction and are stated at cost.

Depreciation is calculated on a straight-line basis using the following estimated useful lives:

Buildings	20 - 50 years
Technical equipment and machinery	4 - 10 years
Tools, office equipment, and vehicles	3 - 10 years

The useful lives and the depreciation method 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.

Property, plant, and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the net book value of an asset may be higher than the amount recoverable (the higher amount of fair value less costs-to-sell and value-in-use of an asset or of a cash generating unit). Whenever the net book value of an asset exceeds its recoverable amount, an impairment loss is recognized. Recoverable amounts are estimated for individual assets or, if this is not possible, for the cash generating unit.

#### **Government grants**

Government grants related to assets are deducted from the cost of the asset. Grants related to income are recorded as other operating income in the income statement.

#### **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset are generally capitalized as part of the cost of the asset. All other costs of borrowing are expensed in the period in which they are incurred.

### **i) Leases**

A lease is an agreement whereby the lessor assigns the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. Leases are classified as either finance or operating leases. Leasing transactions that transfer substantially all risks and rewards incidental to ownership of the leased asset to the lessee are classified as finance leases. All other leasing agreements are classified as operating leases. Where ANDRITZ is the lessee in a finance lease, the leased asset is capitalized at the lower of the fair value or present value of the minimum lease payments at the beginning of the lease term and recognized simultaneously as financial liabilities. The leased asset is depreciated by the straight-line method over the expected useful life or, if shorter, over the term of the relevant lease according to IAS 17. When the Group is the lessee in an operating lease, the lease payments are generally expensed on a straight-line basis over the term of the leasing agreement. The leased asset remains on the statement of financial position of the lessor as property, plant, and equipment.

### **j) Shares in associated companies**

Associated companies are those entities which the Group has significant influence on, but not control or joint control over the financial and operating policies. Associated companies are accounted for at equity and are initially recorded at cost.

## k) Investments and other financial assets

These non-current assets consist primarily of non-current securities, Schuldscheindarlehen, shares in non-consolidated companies, and other shares. Non-current securities and Schuldscheindarlehen are initially recognized at cost including transaction costs and are classified as available for sale investments. In subsequent periods they are measured at fair value. Changes in these fair values are recognized as other comprehensive income, net of income tax until the security is disposed of or an impairment loss is recognized. In this case, the cumulative change previously recognized in equity is included in the income statement of the period. Interest income is recognized directly in the income statement in the period in which it is incurred. 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 less impairment losses, if applicable. This relates to other shares and shares in non-consolidated companies. Financial assets classified as loans and receivables are measured at amortized costs using the effective interest method less any impairment losses.

The current investments consist of government bonds, bonds of top-rated banks, money market funds, and bond funds. They are held for the purpose of investing liquid funds and are not generally intended to be retained on a long-term basis. Current investments are initially recognized at fair value plus transaction costs and are classified as available for sale investments. In subsequent periods marketable securities are measured at fair value. Changes in these fair values are recognized as other comprehensive income for the year, net of income tax until the security is disposed of or an impairment loss is recognized. In case of a significant and prolonged decline in fair value, impairment losses are recognized in the income statement for the period concerned

## l) Trade accounts receivable

Receivables are initially recognized at fair value and subsequently at amortized cost after valuation allowances for doubtful accounts. Already during the bidding phase the creditworthiness of customers is evaluated and corresponding credit limits are set. In order to minimize the risk associated with bad debts, payment securities are agreed upon with the customer and the credit risk will largely be covered by public or private insurance companies, respectively. In determining the recoverability of a trade receivable, the Group considers any change in creditworthiness from the date on which the credit was initially granted up to the reporting date.

## m) Inventories

Inventories, including work in progress and unfinished services, are valued at the lower of purchase or production cost and net realizable value after valuation allowances 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 is fully written-off. Contracts other than construction contracts are valued at production cost. For these contracts, sales are recognized when the risk of ownership of the goods is transferred ("completed contract method"). Changes in inventories of finished goods and work in progress serve to neutralize expenses for inventories still in stock on the balance sheet date.

## n) Construction contracts

Receivables from construction contracts and the related sales are accounted for using the percentage of completion method. Projects are characterized by fixed prices agreed upon on the basis of individual contract

terms. The extent of completion ("stage of completion") is established by the cost-to-cost method. Reliable estimates of the total costs, sales prices, and the actual figures for the accumulated costs are available on a monthly basis. Estimated contract profits are recorded in earnings in proportion to recorded sales. In applying the cost-to-cost method, sales and profits are recorded in consideration of the ratio of accumulated costs to the estimated total costs to complete. Changes to total estimated contract costs and losses, if any, are recognized in the income statement for the period in which they are determined. An individually assessed amount is included in the estimated contract costs for each contract for technological and financial risks that might occur during the remaining construction period. Impending losses out of the valuation of construction contracts are recognized when it is probable that the total contract costs will exceed the contract sales. For possible costs of rectification and guarantee work, including expected warranty costs, provisions are accounted for according to the profit realization. Upon completion of a contract, the remaining warranty risk is reassessed.

If the contract margin cannot be estimated reliably, revenue is recognized only in the amount of the contract cost incurred ("zero profit method"). A profit is only recognized once the contract margin can be estimated reliably.

Change orders and claims are included in the contract revenue insofar as these will probably result in revenue that is capable to being estimated reliably.

## **o) Cash and cash equivalents**

Cash includes cash in hand and cash at banks. Cash equivalents comprise short-term investments that have original maturities of three months or less and are subject to an insignificant risk of changes in value.

## **p) Share capital**

Only ordinary shares exist and all shares have been issued and have the same rights. The share capital of ANDRITZ AG amounts to 104,000 TEUR, divided into 104 million shares of no-par value.

## **q) Capital reserves**

Capital reserves consist of share premium amounts.

## **r) Retained earnings**

Retained earnings predominantly include retained income, IAS 39 reserve, actuarial gains and losses, and currency translation adjustments.

## **s) Provisions**

A provision is recognized when the enterprise has a current obligation (legal or constructive) as a result of a past event and it is probable 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 measured at the expected settlement amount. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. When the effect of the time value of money is significant, a non-current provision is recorded at the present value of the expenditure expected to be required to settle the obligation.

## t) Employee benefits

Some Group companies provide defined benefit pension plans for particular employees. Provisions for pension obligations are established for benefits payable in the form of retirement, disability, and surviving dependents' pensions. The benefits offered vary according to the legal, fiscal, and economic conditions in each country. Benefits are dependent on years of service and, in some cases, on the respective employee's compensation.

In some countries there is a legal obligation to make severance payments in certain cases of termination of employment. No severance payments are made in the event of a voluntary resignation of the employee. Appropriate provisions are made for severance payment obligations.

The obligations are valued every year by professionally qualified and independent actuaries by using the projected unit credit method, different discount rates for different countries, and different average terms, respectively. This 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. The plan assets are deducted at fair value from the gross obligation. This results in the net debt and the net asset value, respectively, to be reported. Due to the net interest approach, the Group determines the net interest cost (net interest income) by multiplying the net debt (net asset value) at the beginning of the period by the interest rate based on the discounting of the performance-related gross obligation at the beginning of the period. The net interest component resulting from obligations and plan assets is recognized as interest expenses in the consolidated income statement. All remeasurement effects are shown in other comprehensive income for the year. The remeasurement components include the actuarial gains and losses from measurement of the performance-related gross obligation on the one hand and the difference between actually realized return on plan assets and the typically assumed return at the beginning of the period on the other hand. In the event that the plan has been overfunded, the remeasurement component also contains the change in net asset value from applying the asset ceiling if this has not been considered in the net interest component. If the present value of a defined benefit obligation changes as a result of plan amendments or curtailments, ANDRITZ shows the resulting effects in profit or loss for the period. Past service costs are generally recognized at the time the plan amendment occurs.

Some Group companies provide defined contribution plans for certain employees. The related costs are expensed as they occur.

## u) Management share option programs

### Share Option Program 2014

Due to the non-achievement of the performance conditions for the exercise of the options the fair value of the options was entirely released to profit and loss in 2017. Hence, a one-off effect on earnings was caused in the amount of 7.505 TEUR.

### Share Option Program 2016

The 109<sup>th</sup> Annual General Meeting, held on March 30, 2016, adopted another share option program for managers and members of the Executive Board. The number of options granted to the different managers can be up to 20,000, depending on the respective area of responsibility, and up to 37,500 for the members of the Executive Board. 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 have been in active employment with ANDRITZ AG or one of its affiliates as from May 1, 2016, until the date of exercise of an option. Another requirement is that managers must have invested at least 20,000 EUR in ANDRITZ shares from their own resources, and members of the Executive Board at least 40,000 EUR.

The exercise price of the option is the unweighted average closing price of ANDRITZ shares in the four calendar weeks following the 109<sup>th</sup> Annual General Meeting, held on March 30, 2016.

The options can be exercised between May 1, 2019, and April 30, 2021 (i.e. period of exercise), provided that the average unweighted closing price of the ANDRITZ share over 20 consecutive trading days within the period from May 1, 2018 to April 30, 2019 is at least 15% above the exercise price and the earnings per share in the 2017 financial year (based on the total number of shares listed); or the earnings per share in the 2018 financial year (based on the total number of shares listed) are at least 15% above the earnings per share in the 2015 financial year (based on the total number of shares listed); or the average unweighted closing price of the ANDRITZ share over 20 consecutive trading days within the period from May 1, 2019 to April 30, 2020 is at least 20% above the exercise price and the earnings per share in the 2018 financial year (based on the total number of shares listed); or the earnings per share in the 2019 financial year (based on the total number of shares listed) are at least 20% above the earnings per share in the 2015 financial year (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 2016 totaled 926,500. The fair value of the options at the time of granting amounts to 6,286 TEUR; thereof 2,095 TEUR were reported as proportionate expense in 2017 (2016: 1,222 TEUR). The calculation of fair value was based on an option pricing model; a Monte Carlo simulation was applied. The share price at the time of granting the options was the closing price of the ANDRITZ share on June 1, 2016, and amounts to 45.29 EUR. The exercise price of 47.80 EUR was calculated in accordance with the rules of the share option program. The expected volatility and the expected dividend were calculated on the basis of historical data of ANDRITZ.

Due to the fact that the management share option programs do not include cash settlements, corresponding expenses are recorded directly in equity, according to the International Financial Reporting Standards.

## v) Financial instruments

A financial instrument is a contract between two entities that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The accounting for financial instruments is recognized on the trade date.

### Classification as debt or equity

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual share 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.

### Categories of financial instruments

The valuation of financial instruments is based on their classification into below mentioned and explained categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale (AFS) financial assets

- Held-to-maturity investments
- Financial liabilities at fair value through profit or loss
- Other financial liabilities

**“Financial assets at fair value through profit or loss”** are assets which are either “held for trading” by the Group or which are designated “at fair value through profit or loss”. Assets classified as held for trading are assets acquired or held for the purpose of selling or repurchasing in the short term or which are derivatives (except those that are designated as an effective hedging instrument). Designated financial assets at fair value through profit or loss essentially include any financial assets that are designated irrevocably on initial recognition as one to be measured at fair value with fair value changes in profit or loss, regardless of the intention of trade (fair value option). The fair value option for a financial instrument is not exercised within the Group. Financial assets generating profits from short-term fluctuations in the market price or dealer’s margin are also not kept. The Group uses derivatives to manage its exposure to interest rates, foreign exchange rates, and commodity price risks. In the Group those derivatives that do not meet the criteria of a hedge according to IAS 39 (Hedge Accounting) are assigned to this category. Derivatives are initially recognized at fair value at the date on which the company enters into a derivative contract and are subsequently reassessed to their fair value at each balance sheet date. Any change in value resulting from changes in fair value is recognized in the income statement. Depending on the fair value of the derivative it is either recognized as other receivables or other liabilities.

The Group classifies trade receivables, loans, and other receivables with 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 losses.

**“Available-for-sale (AFS) financial assets”** are non-derivative financial assets that are designated as “available for sale” or are not classified as financial assets “at fair value through profit or loss”, or “loans and receivables”. Equity securities (e.g. shares), debt securities (e.g. bonds), and other investments (e.g. fund shares) held by the Group are designated as AFS financial assets. AFS financial assets are stated at fair value. Changes in value resulting 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. Those are recognized directly through profit or loss. When the financial instrument is disposed of or is determined to be impaired, the cumulative changes previously recognized in the financial investments reserve is reclassified to the profit or loss of the period. 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. Dividends on AFS equity instruments are recognized in profit or loss when the Group’s right to receive payments is established.

The **“held-to-maturity”** category will not be further elaborated because the Group does not have a held-to-maturity portfolio.

The Group classifies its **“financial liabilities at fair value through profit or loss”** if the financial liability is held for trading or if it is a derivative that is not designated or effective as a hedging instrument. The fair value option for a financial instrument is not exercised within the Group. The Group uses derivatives to manage its exposure to interest and foreign exchange rate risk as well as to commodity price risk. In the Group those derivatives that do not meet the criteria of a hedge according to IAS 39 (Hedge Accounting) are assigned to this category. Derivatives are initially recognized at fair value at the date of entering into a derivative contract. Any change in value resulting from changes in fair value is recognized in the income statement. Depending on the fair value of the derivative it is either recognized as other receivables or other liabilities. The Group does not keep any financial liabilities that generate profits from short-term fluctuations in the market price or dealer’s margin.

“**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 cost recognized on an effective yield basis.

#### Recognition and derecognition

If the Group qualifies as a party to the contract concerning the contract regulations, financial assets and financial liabilities are recognized in the consolidated statement of financial position in accordance with the substance of the contractual arrangement. Financial assets and liabilities listed in the statement of financial position include cash, marketable securities, trade and some other accounts receivable and payable, non-current receivables, interest-bearing borrowings, issued bonds, and investment securities. Financial instruments are recognized and derecognized on the trade date. This is the day of purchase or sale of a financial asset on which the contract terms require delivery of the financial asset within the time frame established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets classified at fair value through profit or loss. These 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.

#### Impairment

Financial assets other than those at fair value through profit or loss are assessed for indicators of impairment at each closing date. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the investment have been negatively impacted as a result of one or more events that occurred after the initial recognition of the financial asset. For financial assets carried at amortized costs, the amount of the impairment is the difference between the asset's net book value and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable becomes doubtful, it is written off against the allowance account. Changes in the carrying value of the allowance account are recognized through profit or loss. The impairment loss previously recognized 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. The reversal must not result in a carrying value of the financial asset that exceeds what the amortized cost would have been if the impairment had not been recognized at the date the impairment is reversed. The exceptions are available-for-sale equity instruments, for which any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income for the year. No reversal through profit or loss is made if the reasons for impairment of equity instruments, which are measured at cost, no longer apply.

#### Fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Measurement of financial instruments at fair value follows a three-level hierarchy and is oriented according to the proximity of the applied measurement factors to an active market.

- **Level 1:** Financial instruments are valued according to level 1 if they have a quoted price in an active market for an identical asset or liability accessible for an entity. Quoted prices represent the fair value.
- **Level 2:** If the valuation according to level 1 is not accomplishable, level 2 valuation uses directly or indirectly observable inputs for determining the fair value.
- **Level 3:** If inputs are not observable, level 3 valuation uses unobservable inputs for determining the fair value.



### Hedge Accounting

Applying the rules of hedge accounting in connection with **fair value hedging**, the change in the fair value as hedging instrument is recognized through profit or loss. The gain or loss on the hedged item attributable to the changes of the hedged risk results in an adjustment of the net book value 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 qualified for hedge accounting. The adjustment to the net book value of the hedged item arising from the hedged risk is released to profit or loss from that date. ANDRITZ designated the bond issued and the corresponding interest rate swaps as being a hedging relationship accounted for as a fair value hedge according to IAS 39. At the inception of the hedge relationship, the ANDRITZ GROUP documented the relationship between the hedging instrument and hedged item, together with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, the Group has been documenting that the swaps are highly effective in offsetting changes in fair values or cash flows of the hedged item at the inception of the hedge and on an ongoing basis.

According to the rules of hedge accounting in connection with **cash flow hedging**, the changes in fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized directly in the IAS 39 reserve in shareholders' equity to a small and further decreasing extent. Otherwise, gains and losses initially recognized in equity for all other cash flow hedges are transferred from IAS 39 reserve to net profit or loss in the same period or periods during which the hedged firm commitment or forecast transaction affects the income statement.

### Embedded derivatives

IAS 39 outlines the accounting of derivatives that are embedded in non-derivative financial instruments (embedded derivatives). Some hybrid contracts contain both a derivative and non-derivative component. In these cases, the derivative component is regarded as an embedded derivative and the non-derivative component represents the host contract. If the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract and the contract is not rated at fair value, the embedded derivative is separated from the host contract and carried at fair value. The host contract will continue to be measured in accordance with the relevant accounting standard. Changing values of the fair valued embedded derivatives in the Group's consolidated financial statements are shown as "held for trading" in the financial assets at fair value through profit or loss. The net book value of the embedded derivative is recognized as other receivables or as other liabilities in the statement of financial position.

## w) Contingent assets and liabilities

A contingent asset is not recognized in the financial statements, but is disclosed if an inflow of economic benefit is probable. Contingent liabilities are not recognized in the financial statements. They are only disclosed if the possibility of an outflow of resources embodying economic benefit is probable.

## F) USE OF DISCRETIONARY JUDGMENTS AND ESTIMATES

Preparation of the consolidated financial statements requires the management to make discretionary judgments, estimates, and assumptions that can affect the applied accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and discretionary judgments are reviewed regularly. Revisions of estimates are recognized prospectively. The Group has made key assumptions concerning the future and has identified material sources of estimation uncertainties.

## **a) Construction contracts**

Customized construction contracts are essential for the business of ANDRITZ GROUP. The accounting for construction contracts is based on estimations for contract costs, recoverable contract revenue as well as contract risks, including technical, political, and financial risks. These estimations are verified and adjusted regularly. Although these estimations are based on all information available on the balance sheet date, substantial changes after the balance sheet date are possible.

## **b) Employee benefits**

For the valuation of pension plan and other employee benefits, parameters such as the expected discount rate, increases of salary and pension payments as well as the return on plan assets are used. If the relevant parameters develop significantly different than expected, this could have a material impact on the Group's defined benefit obligation and, subsequently, on related expenses.

## **c) Provisions**

Provisions are recognized and measured based on estimates of the extent and probability of future events as well as estimates of the discount rate. As far as possible, these are based on past experience.

## **d) Goodwill, other intangible assets, and tangible assets**

The impairment analysis for goodwill, other intangible assets, and tangible assets is primarily based on discounted estimated future cash flows from the continued use and disposal of an asset at the end of its useful life. Factors such as lower than anticipated sales and resulting decreases of net cash flows and changes in the discount rates used could lead to impairment.

## **e) Management share option programs**

The share option plans are measured based on the fair value of the options on the grant date. The fair value of the options is based on parameters such as volatility, interest rate, share price, duration of the options, and expected dividend. The interpretation of market information necessary for the estimation of fair values also requires a certain degree of subjective judgment. This can result in a difference between the amounts recorded and values subsequently realized in the market.

## **f) Income taxes**

Estimates of the future realization of deferred tax assets are decisive in assessing the recoverability of deferred tax assets. This realization is dependent on the generation of future taxable profits during the periods in which temporary differences reverse and tax loss carryforwards can be utilized. This assessment takes account of the probability of the deferred tax liabilities being reversed as well as the future taxable profits. It could have adverse effects on assets, financial, and earnings situation, if the actual results deviate from these estimates or if these estimates need to be adjusted in future periods. Effects of uncertain tax positions include the best estimation of the expected tax payment. In the future, new information could be available causing the management to change the assumptions.

## g) Trade accounts receivable

The allowance for doubtful accounts includes significant estimates and judgments of individual receivables, based on the creditworthiness of the respective customer, current economic developments, and the analysis of historical bad debts.

## h) Assets held for sale

In accordance with IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", assets held for sale are measured at the lower of fair value less costs to sell and carrying amount. The determination of fair value less costs to sell includes management estimates and assumptions that are subject to a degree of uncertainty. Actual sales may differ from the assumptions made.

## i) Leasing

The application of the appropriate accounting policies for the classification of leases leads to discretionary decisions by the management.

## G) NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 1. Sales

(in TEUR)	2017	2016
Contract revenue recognized as projects under construction	3,731,259	4,008,427
Others	2,157,788	2,030,547
	<b>5,889,047</b>	<b>6,038,974</b>

Sales associated with construction contracts are recognized according to the percentage of completion method and are reported as "Contract revenue recognized as sales of ongoing projects". "Others" contain orders recognized according to the completed contract method.

In the segment information (see note "H) Segment reporting"), Group sales are shown according to business areas and regions.

## 2. Other operating income

(in TEUR)	2017	2016
Profit on disposal of intangible assets and property, plant, and equipment	59,797	7,700
Insurance income	24,652	4,704
Government grants	22,749	18,447
Exchange rate gains	21,254	7,298
Rental income	8,140	7,003
Income from scrap material	6,829	4,509
Miscellaneous	44,973	27,860
	<b>188,394</b>	<b>77,521</b>

Gains from disposal of intangible assets and property, plant, and equipment mainly include the sale of the Schuler Technology Center in Tianjin, China, and the sales properties in Germany and Switzerland. Miscellaneous other operating income includes, but is not limited to, compensation payments for the premature termination of a rental agreement.

## 3. Cost of materials

(in TEUR)	2017	2016
Expenses for raw materials, supplies and goods purchased	2,310,800	2,384,541
Expenses for services purchased	718,022	736,843
	<b>3,028,822</b>	<b>3,121,384</b>

## 4. Personnel expenses

(in TEUR)	2017	2016
Wages and salaries	1,388,246	1,341,528
Expenses for social security contributions as required by law as well as salary-based charges and compulsory contributions	219,914	219,613
Other social expenses and termination expenses	54,695	50,589
Pension expenses	49,526	39,248
Severance expenses	5,449	5,650
	<b>1,717,830</b>	<b>1,656,628</b>

The number of employees within ANDRITZ GROUP comprises as follows:

(headcount)	2017	2016
As of December 31, 2017	25,566	25,162
Average	25,404	25,056

## 5. Other operating expenses

(in TEUR)	2017	2016
Sales expenses	195,192	190,998
Travel expenses	173,309	166,674
Repairs and maintenance	78,446	72,227
Rents and lease expenses	75,700	73,985
Legal, consulting, and audit expenses	72,617	62,414
Administrative expenses	52,714	53,738
Insurance premiums and charges	37,052	35,545
Expenses for energy and water	30,400	27,072
Bank charges, guarantees, and similar expenses	26,310	21,579
Other taxes and charges	11,831	21,687
Further training expenses to employees	11,726	10,334
Expenses for industrial patents, rights, licenses	10,188	10,994
Expenses for valuation allowance and bad debt losses for receivables	6,715	13,633
Miscellaneous	45,507	48,951
	<b>827,707</b>	<b>809,831</b>

Miscellaneous other operating expenses include, but are not limited to, charges to public institutions and losses from the disposal of intangible assets and property, plant, and equipment.

## 6. Depreciation, amortization, and impairment of intangible assets and property, plant, and equipment

(in TEUR)	2017	2016
<b>Intangible assets</b>		
Depreciation and amortization	42,829	48,719
Impairment losses	2,030	345
<b>Property, plant, and equipment</b>		
Depreciation and amortization	86,719	91,243
Impairment losses	4,392	7,646
Reversal of impairment losses	0	-5,726
	<b>135,970</b>	<b>142,227</b>

In the 2017 financial year impairment losses on technology-related intangible assets were made for intangible assets, as the business did not develop as expected. These impairment losses relate to the Hydro business area. In addition, impairments were mainly made on a property in China, a production facility in Austria and a test facility in Switzerland. These impairment losses relate to the Hydro business area in the amount of 3,088 TEUR and the Metals business area in the amount of 1,304 TEUR.

## 7. Financial result

(in TEUR)	2017	2016
Result from associated companies	16	20
Interest income	33,521	42,486
Interest expenses	-44,047	-37,651
Other financial result	11,851	7,795
	<b>1,341</b>	<b>12,650</b>

Interest expenses contain 4,171 TEUR (2016: 8,461 TEUR) for interest cost on obligations for pensions, severance payments, and jubilee payments as well as on expected return on plan assets. The item "Other financial result" consists of gains from disposal of securities of 6,349 TEUR (2016: 0 TEUR), exchange rate gains and losses on loans and cash accounts in the amount of 4,478 TEUR (2016: 5,494 TEUR) as well as dividend income from investments of 3,603 TEUR (2016: 2,919 TEUR).

## 8. Income taxes

(in TEUR)	2017	2016
Current taxes	-120,378	-176,899
Deferred taxes	-14,602	53,271
	<b>-134,980</b>	<b>-123,628</b>

The reconciliation of the calculated income tax expense to the effective tax expense is defined below. The calculated tax expense in the amount of 100,151 TEUR is determined by multiplying the Earnings Before Taxes in the amount of 400,603 TEUR by the applicable tax rate for ANDRITZ AG of 25%:

(in TEUR)	2017	2016
Earnings Before Taxes (EBT)	400,603	398,444
Calculated tax expense (25% in 2017 and 25% in 2016)	-100,151	-99,611
Increase (-)/Decrease (+) of tax expense by:		
Non-tax-deductible expenses	-11,454	-13,422
Tax allowances and tax-exempted income	5,284	6,284
Foreign tax rate differential arising from foreign fiscal jurisdictions	4,931	-9,753
Effects of changes in tax rates	-8,115	-533
Taxes for prior years	-5,145	1,226
Change in valuation allowance; non-recognition of deferred tax assets	-14,411	5,179
Non-deductible impairment of goodwill	-1,996	-4,602
Non-allowable withholding taxes; Foreign operating site taxes	-13,526	-12,094
Tax-exempted income from business disposals	4,470	0
Others	5,133	3,698
<b>Effective tax expense</b>	<b>-134,980</b>	<b>-123,628</b>
in % of EBT	-33.7%	-31.0%

The nominal income tax rates applicable for subsidiaries abroad were between 9.0% and 38.4% (2016: 10.0% and 42.7%) in the financial year.

The changes in deferred taxes in the statement of financial position are as follows:

(in TEUR)	2017	2016
Deferred tax assets	187,528	183,284
Deferred tax liabilities	-104,300	-159,168
<b>Balance as of January 1</b>	<b>83,228</b>	<b>24,116</b>
Deferred taxes recognized in income statement	-14,602	53,271
Deferred taxes recognized in other comprehensive income	2,268	4,165
Reclassification as held for sale	2,475	-291
Changes in consolidation scope, currency translation adjustments	-8,614	1,967
<b>Balance as of December 31</b>	<b>64,755</b>	<b>83,228</b>
Thereof:		
Deferred tax assets	152,647	187,528
Deferred tax liabilities	-87,892	-104,300

Deferred tax assets and liabilities as of December 31, 2017 and 2016 are the result of the following temporary valuation differences between the book values of the statement of financial position according to IFRS and the relevant tax bases:

(in TEUR)	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	6,072	-34,401	3,836	-53,051
Property, plant, and equipment	10,706	-28,640	10,821	-36,664
Financial assets	8,113	-28,312	6,575	-25,542
Inventories	257,367	-4,823	358,427	-7,672
Receivables and other assets	156,728	-242,996	45,650	-162,654
	<b>438,987</b>	<b>-339,172</b>	<b>425,309</b>	<b>-285,583</b>
Provisions	127,060	-22,031	133,240	-30,224
Liabilities	101,698	-257,297	146,622	-335,652
	<b>228,758</b>	<b>-279,328</b>	<b>279,862</b>	<b>-365,876</b>
Tax loss carryforwards	100,710	0	111,846	0
<b>Deferred taxes before non-recognition and netting</b>	<b>768,455</b>	<b>-618,500</b>	<b>817,017</b>	<b>-651,459</b>
Non-recognized deferred tax assets	-87,675	0	-82,039	0
Reclassification as held for sale	0	2,475	-333	42
Netting	-528,133	528,133	-547,117	547,117
<b>Net deferred tax assets and liabilities</b>	<b>152,647</b>	<b>-87,892</b>	<b>187,528</b>	<b>-104,300</b>

On the balance sheet date, the Group has operating loss carry forwards (gross values) amounting to 500,756 TEUR (2016: 558,904 TEUR). Thereof, corporate tax loss carry forwards of 134,551 TEUR (2016: 163,924 TEUR), trade tax loss carry forwards of 132,861 TEUR (2016: 180,292 TEUR), and interest carry forwards of 0 TEUR (2016: 7,827 TEUR) concerning the fiscal unities in Germany.

Non-recognition of deferred tax assets apply to the following (gross values):

(in TEUR)	2017	2016
Deductible temporary differences	75,596	81,578
Tax loss carryforwards	228,663	214,641

The unrecognized tax loss carry forwards (gross values) include an amount of 37,408 TEUR, which are subject to expiration within the next five years. German fiscal unities contain frozen corporate tax loss carry forwards of 10,437 TEUR as well as frozen trade tax loss carry forwards of 7,860 TEUR.

The deductible temporary partial write-downs (amounts for outstanding sevenths from tax write-downs on investments) calculated in accordance with Austrian tax law amounted to 15,725 TEUR (2016: 21,925 TEUR). Deferred tax assets were recognized in the amount of 3,931 TEUR (2016: 5,481 TEUR).

Regarding investments in subsidiaries, branches, and associated companies as well as in interests in joint arrangements no deferred tax liabilities were recognized for temporary differences in the amount of 198,135 TEUR (2016: 236,528 TEUR).

## 9. Earnings per share

Basic earnings per share (as stated subsequently in the consolidated income statement) were calculated by dividing the net income for the period attributable to shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share were calculated by dividing the net income for the period attributable to shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period with consideration of share options.

(in TEUR)	2017	2016
Net income attributable to shareholders of the parent	262,967	274,646
Weighted average number of no-par value shares	101,850,822	102,106,518
Effect of potential dilution of share options	0	9,460
Weighted average number of no-par value shares and share options	101,850,822	102,115,978
Basic earnings per no-par value share (in EUR)	2.58	2.69
Diluted earnings per no-par value share (in EUR)	2.58	2.69



## H) SEGMENT REPORTING

### a) Business areas

For management purposes, the Group is divided into four business areas on a worldwide basis:

#### ANDRITZ Hydro (HY)

ANDRITZ Hydro is one of the leading global suppliers of electromechanical equipment for hydropower plants. With over 175 years of accumulated experience and more than 31,000 turbines supplied, totaling approximately 430,000 megawatts output, the business area provides the complete range of products, including turbines, generators, and additional equipment of all types and sizes – “from water to wire” for small hydro applications to large hydropower plants with outputs of more than 800 megawatts per turbine unit. ANDRITZ Hydro is well positioned in the growing modernization, refurbishment, and upgrade market for existing hydropower plants. Pumps (for water transport, irrigation of agricultural land, and applications in various industries) and turbogenerators for thermal power plants are also assigned to the business area.

#### ANDRITZ Pulp & Paper (PP)

ANDRITZ Pulp & Paper is a leading global supplier of complete plants, systems, equipment, and comprehensive services for the production and processing of all types of pulp, paper, board, and tissue. The technologies cover the processing of logs, annual fibers, and waste paper; the production of chemical pulp, mechanical pulp, and recycled fibers; the recovery and reuse of chemicals; the preparation of paper machine furnish; the production of paper, board, and tissue; the sizing, calendering and coating of paper as well as the treatment of reject materials and sludge. The service offering includes system and machine modernization, rebuilds, spare and wear parts, on-site and workshop services, optimization of process performance, maintenance and automation solutions as well as machine relocation and second-hand equipment. Biomass, steam and recovery boilers for power generation, gasification plants, flue gas cleaning plants, systems and plants for the production of nonwovens, dissolving pulp, and panelboard (MDF) as well as recycling and shredding solutions for various waste materials also form a part of this business area.

#### ANDRITZ Metals (ME)

ANDRITZ Metals is the technology and global market leader in forming equipment through the Schuler Group, in which ANDRITZ has a stake of more than 95 percent. Schuler offers presses, automation solutions, dies, process know-how, and services for the entire metal forming industry. Its customers include car manufacturers and their suppliers as well as companies in the forging, household appliance, packaging, energy, and electrical industries. Schuler is also the market leader in coin minting technology and offers system solutions for the aerospace industry, rail transport, and manufacture of large pipes. In addition, ANDRITZ Metals is one of the leading global suppliers of complete lines for the production and processing of cold-rolled strip made of carbon steel, stainless steel, aluminum, and other non-ferrous metals. The lines comprise equipment for pickling, cold rolling, annealing and heat treatment, surface finishing, strip coating and finishing, punching and deep drawing, and the regeneration of pickling acids. The business area also supplies turnkey furnace systems for the steel, copper, and aluminum industries, burners and refractory products as well as welding systems for the metal working industry.

#### ANDRITZ Separation (SE)

ANDRITZ Separation is one of the leading separation technology specialists with the broadest technology portfolio in solid/liquid separation. The industries served include sectors ranging from environment to food, chemicals, and mining and minerals. The comprehensive product portfolio for solid/liquid separation includes mechanical technologies such as centrifuges, filters, screens, thickeners, or separators, and thermal technologies such as dryers or coolers. The service sector focuses on customer support through local presence, prompt delivery of spare and wear parts, process monitoring and optimization as well as operator training. In addition,

the Separation business area offers technologies and services for the production of animal feed and biomass pellets.

These strategic business areas form the basis of the internal reporting structure to the Executive Board as the key decision maker. The accounting and valuation principles of the individual segments are the same as those of the Group (see note "E) Accounting Policies"). The segment Separation also contains the Feed & Biofuel Technologies business area for which the Executive Board obtains a separate reporting. As the thresholds of the Feed & Biofuel Technologies business area are below the limits, both business areas are condensed to one reportable segment. According to the internal reporting structure, all sales and all direct and indirect expenses (including overhead and administrative costs) are allocated to business areas and reflect the management structure of the organization and the predominant sources of risks and opportunities. The key measure of operating performance for the Group is Earnings Before Interest, Taxes, and Amortization (EBITA). There are no substantial inter-segmental transactions. All consolidation effects related to the income statement are included in the relevant business area.

## b) Geographical segmentation

The Group's activities are mainly conducted in Europe, North America, South America, China, and Asia (without China). External sales allocated by geographical segments are based on the location of the customers. There are no sales from transactions with a single external customer that amount to 10% or more of the Group's sales.

## 2017

### Business area information

(in TEUR)	HY	PP	ME	SE	Total
Sales	1,583,073	2,059,678	1,643,535	602,761	5,889,047
EBITDA	154,005	221,540	129,724	36,391	541,660
EBITA	122,993	194,863	98,591	27,543	443,990
Capital expenditure	36,285	42,127	29,673	8,674	116,759
Depreciation, amortization, and impairment of intangible assets and of property, plant, and equipment	34,047	28,977	61,322	11,624	135,970
Result from associated companies	0	16	0	0	16
Shares in associated companies	0	0	6,407	0	6,407

### Information according to geographical segments

(in TEUR)	Europe	North America	South America	China	Asia (without China)	Rest of the world and consolidation	Total
External sales	2,192,225	1,223,914	566,671	882,008	779,983	244,246	5,889,047
Non-current assets	709,945	141,695	25,087	111,259	33,976	509,357	1,531,319
Capital expenditure	86,890	12,691	5,547	5,979	5,557	95	116,759

External sales in Europe include an amount of 151,117 TEUR recognized in Austria. Non-current assets of 298,347 TEUR are located in Austria. Non-current assets consist of property, plant, and equipment, goodwill, intangible assets, non-current trade accounts receivable as well as other non-current receivables and other assets.

## 2016

### Business area information

(in TEUR)	HY	PP	ME	SE	Total
Sales	1,752,458	2,094,371	1,598,393	593,752	6,038,974
EBITDA	167,159	207,745	141,697	25,799	542,400
EBITA	127,513	182,210	115,213	17,150	442,086
Capital expenditure	26,130	34,050	49,102	10,218	119,500
Depreciation, amortization, and impairment of intangible assets and of property, plant, and equipment	41,437	31,172	58,159	11,459	142,227
Result from associated companies	0	20	0	0	20
Shares in associated companies	0	0	6,830	0	6,830

### Information according to geographical segments

(in TEUR)	Europe	North America	South America	China	Asia (without China)	Rest of the world and consolidation	Total
External sales	2,158,134	1,258,942	918,700	717,137	708,274	277,787	6,038,974
Non-current assets	1,005,123	137,119	22,547	59,435	30,266	364,232	1,618,722
Capital expenditure	90,163	9,418	4,921	11,325	3,543	130	119,500

External sales in Europe include an amount of 167,273 TEUR recognized in Austria. Non-current assets of 278,535 TEUR are located in Austria. Non-current assets consist of property, plant, and equipment, goodwill, intangible assets, non-current trade accounts receivable as well as other non-current receivables and other assets.

## I) NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 10. Intangible assets

(in TEUR)	Intangible assets related to customers and technologies	Other intangible assets	Total
<b>COST</b>			
<b>Balance as of December 31, 2015</b>	<b>310,489</b>	<b>77,331</b>	<b>387,820</b>
Additions	0	5,756	5,756
Disposals	-31,439	-5,569	-37,008
Transfers	0	43	43
Currency translation adjustments	-786	808	22
Changes in consolidation scope	40,712	918	41,630
Reclassification as held for sale	0	-14	-14
<b>Balance as of December 31, 2016</b>	<b>318,976</b>	<b>79,273</b>	<b>398,249</b>
Additions	0	6,199	6,199
Disposals	-49,825	-2,189	-52,014
Transfers	0	546	546
Currency translation adjustments	-4,534	-1,106	-5,640
Changes in consolidation scope	438	70	508
<b>Balance as of December 31, 2017</b>	<b>265,055</b>	<b>82,793</b>	<b>347,848</b>
<b>ACCUMULATED DEPRECIATION</b>			
<b>Balance as of December 31, 2015</b>	<b>-127,597</b>	<b>-56,826</b>	<b>-184,423</b>
Depreciation and amortization	-41,913	-6,806	-48,719
Impairment losses	0	-345	-345
Disposals	31,439	5,399	36,838
Transfers	0	28	28
Currency translation adjustments	299	-679	-380
Reclassification as held for sale	0	5	5
<b>Balance as of December 31, 2016</b>	<b>-137,772</b>	<b>-59,224</b>	<b>-196,996</b>
Depreciation and amortization	-36,271	-6,558	-42,829
Impairment losses	-2,029	0	-2,029
Disposals	49,825	2,036	51,861
Transfers	0	-377	-377
Currency translation adjustments	2,373	850	3,223
<b>Balance as of December 31, 2017</b>	<b>-123,874</b>	<b>-63,273</b>	<b>-187,147</b>
<b>NET BOOK VALUE</b>			
Balance as of December 31, 2016	181,204	20,049	201,253
Balance as of December 31, 2017	141,181	19,520	160,701

#### Research and development costs

Expenditure for research and non-capitalized development costs was considered in the amount of 95,295 TEUR in 2017 and of 87,474 TEUR in 2016. Development costs were not capitalized in the 2017 financial year because the criteria for capitalization according to IAS 38 were not met.

Additionally, the Group conducts a part of its development work as customer-related and large-scale projects. The related expenses do not constitute as development costs to be capitalized as defined in the IFRS standards and are therefore recognized as project costs.

#### Collateral securities

There is no carrying amount of intangible assets whose title is restricted and pledged as security for liabilities (2016: 4,019 TEUR).

## 11. Goodwill

(in TEUR)	2017	2016
<b>COST</b>		
<b>Balance as of January 1</b>	<b>801,223</b>	<b>747,711</b>
Changes in consolidation scope	0	47,002
Remeasurement (IFRS 3)	-162	262
Currency translation adjustments	-24,705	6,248
<b>Balance as of December 31</b>	<b>776,356</b>	<b>801,223</b>
<b>ACCUMULATED IMPAIRMENT</b>		
<b>Balance as of January 1</b>	<b>-237,796</b>	<b>-219,196</b>
Impairment loss	-6,428	-14,379
Currency translation adjustments	15,505	-4,221
<b>Balance as of December 31</b>	<b>-228,719</b>	<b>-237,796</b>
<b>NET BOOK VALUE</b>		
Balance as of January 1	563,427	528,515
Balance as of December 31	547,637	563,427

These are divided between the business areas as follows:

(in TEUR)	2017	2016
Hydro	108,910	115,072
Pulp & Paper	121,946	127,252
Metals	287,052	290,829
Separation	29,729	30,274
	<b>547,637</b>	<b>563,427</b>

#### Impairment loss

In the 2017 financial year an impairment of goodwill was recorded in the amount of 6,428 TEUR, because business did not develop as expected. The impairment relates to cash generating units for product lines and technologies, which were acquired in Germany and France. The impairment is assigned to the Hydro business area in the amount of 5,906 TEUR and to the Separation business area in the amount of 522 TEUR. The recoverable amounts of these cash generating units (CGU) correspond to their values in use. In 2016, impairment losses of 14,379 TEUR were recorded in the Metals (3.629 TEUR), Hydro (2.291 TEUR), and Separation (8.459 TEUR) business areas.

### Cash generating units (CGU)

The following tables show the significant cash generating units and groups of cash generating units, respectively:

#### 2017

CGU or group of CGU	Year of purchase	Business area	Goodwill (in TEUR)	Discount rate before tax (in %)	Non-current growth rate (in %)	Description
Schuler	2013	ME	215,061	9.32	2.57	Presses, automation, dies, process know-how and services in the forming equipment field
VA TECH HYDRO*	2006	HY	97,775	12.73	2.41	Electromechanical systems and services for hydropower plants
ANDRITZ AG*	1999	All	60,136	10.33 - 11.49	2.41 - 2.93	Essentially equipment for pulp and paper, environment and process technologies, rolling mills and strip processing, and feed technology
Yadon	2016	ME	27,961	9.60	4.67	Presses in the forming equipment field
Ahlstrom	2000	PP	20,208	10.43	2.88	Chemical pulping equipment, pulping and screening systems of the recycled fiber production process, and equipment for the stock preparation of paper and board in the paper-making process
AWEBA	2016	ME	16,012	8.60	2.57	Tool construction in the forming equipment field
Iggesund	2011	PP	11,673	8.56	2.88	Knife systems for woodyard chippers

\* Group of cash generating units

#### 2016

CGU or group of CGU	Year of purchase	Business area	Goodwill (in TEUR)	Discount rate before tax (in %)	Non-current growth rate (in %)	Description
Schuler	2013	ME	215,061	10.42	3.16	Presses, automation, dies, process know-how and services in the forming equipment field
VA TECH HYDRO*	2006	HY	97,775	12.96	3.13	Electromechanical systems and services for hydropower plants
ANDRITZ AG*	1999	All	60,136	10.93 - 14.39	3.13 - 4.84	Essentially equipment for pulp and paper, environment and process technologies, rolling mills and strip processing, and feed technology
Yadon	2016	ME	29,811	10.62	3.16	Presses in the forming equipment field
Ahlstrom	2000	PP	21,775	14.33	3.34	Chemical pulping equipment, pulping and screening systems of the recycled fiber production process, and equipment for the stock preparation of paper and board in the paper-making process
AWEBA	2016	ME	16,174	9.49	3.16	Tool construction in the forming equipment field
Iggesund	2011	PP	12,029	11.35	3.34	Knife systems for woodyard chippers

\* Group of cash generating units

### Sensitivity analysis

In order to validate the values in use determined as of December 31, 2017, other scenarios were conducted with respect to the calculation parameters described above. The management considered the following scenarios possible:

- A change of +/-0.5 percentage points in the discount rate
- A change of +/-10 percentage points in the planned cash flows
- A change of +/-0.5 percentage points in the planned growth rates

The change would have resulted in the following effects on goodwill impairment, provided all other parameters remained the same:

(in TEUR)		2017	2016
Discount rate	+0.5%	0	-1,613
	-0.5%	523	532
Planned cash flows	+10%	523	2,444
	-10%	0	-5,145
Planned growth rates	+0.5%	523	2,598
	-0.5%	0	-13,446

The present sensitivity analysis may not be fully representative for the actual development, because it is considered unlikely that deviations from the assumptions made occur in isolation, due to the fact that some of the assumptions are related to others.

## 12. Property, plant, and equipment

(in TEUR)	Land and buildings	Technical equipment and machinery	Other equipment, factory and office equipment	Assets under construction and advance payments	Total
<b>COST</b>					
<b>Balance as of December 31, 2015</b>	<b>536,430</b>	<b>593,043</b>	<b>182,298</b>	<b>39,274</b>	<b>1,351,045</b>
Additions	6,132	28,173	18,886	60,553	113,744
Disposals	-2,263	-25,995	-18,907	-348	-47,513
Transfers	26,346	300	1,247	-27,936	-43
Currency translation adjustments	362	7,525	3,058	-39	10,906
Changes in consolidation scope	25,350	48,123	3,345	721	77,539
Reclassification as held for sale	-17,474	-8,083	-506	-7	-26,070
<b>Balance as of December 31, 2016</b>	<b>574,883</b>	<b>643,086</b>	<b>189,421</b>	<b>72,218</b>	<b>1,479,608</b>
Additions	5,330	32,116	19,714	53,403	110,563
Disposals	-7,092	-23,682	-11,473	-1,196	-43,443
Transfers	4,972	12,837	3,376	-21,731	-546
Currency translation adjustments	-16,793	-24,206	-7,554	-1,093	-49,646
Changes in consolidation scope	1,928	4,047	224	95	6,294
Reclassification as held for sale	-14,023	0	0	0	-14,023
<b>Balance as of December 31, 2017</b>	<b>549,205</b>	<b>644,198</b>	<b>193,708</b>	<b>101,696</b>	<b>1,488,807</b>
<b>ACCUMULATED DEPRECIATION</b>					
<b>Balance as of December 31, 2015</b>	<b>-167,634</b>	<b>-352,160</b>	<b>-115,857</b>	<b>0</b>	<b>-635,651</b>
Depreciation and amortization	-21,354	-48,278	-21,611	0	-91,243
Impairment losses	-4,149	-784	-2,713	0	-7,646
Reversal of impairment losses	5,726	0	0	0	5,726
Disposals	0	20,331	17,034	0	37,365
Transfers	-157	-117	246	0	-28
Currency translation adjustments	-654	-4,459	-2,109	0	-7,222
Reclassification as held for sale	5,008	674	97	0	5,779
<b>Balance as of December 31, 2016</b>	<b>-183,214</b>	<b>-384,793</b>	<b>-124,913</b>	<b>0</b>	<b>-692,920</b>
Depreciation and amortization	-17,801	-48,135	-20,783	0	-86,719
Impairment losses	-1,748	-1,107	-579	-958	-4,392
Disposals	2,095	17,536	10,733	958	31,322
Transfers	2,129	-1,394	-358	0	377
Currency translation adjustments	979	14,783	5,226	0	20,988
Reclassification as held for sale	4,804	0	0	0	4,804
<b>Balance as of December 31, 2017</b>	<b>-192,756</b>	<b>-403,110</b>	<b>-130,674</b>	<b>0</b>	<b>-726,540</b>
<b>NET BOOK VALUE</b>					
Balance as of December 31, 2016	391,669	258,293	64,508	72,218	786,688
Balance as of December 31, 2017	356,449	241,088	63,034	101,696	762,267

### Collateral securities

As of December 31, 2017, property, plant, and equipment amounting to 5,775 TEUR (as of December 31, 2016: 21,859 TEUR) have been pledged as collateral security.



### Commitments

The commitments arising from contracts for expenditure on property, plant, and equipment are only within the ordinary scope of business. As of December 31, 2017, these commitments amounted to 16,663 TEUR (as of December 31, 2016: 26,631 TEUR).

### Borrowing costs

No borrowing costs relating to qualifying assets were capitalized in the financial years 2017 and 2016 as the amounts were immaterial.

### Government grants

In the 2017 financial year, government grants amounting to 630 TEUR (2016: 842 TEUR) were paid for capital expenditure on buildings, plant, and machinery and offset against costs. Other grants in the amount of 22,749 TEUR (2016: 18,447 TEUR) were recognized directly as other operating income.

### Finance leases

Details regarding finance lease are shown in note "M) b) Leases".

## 13. Associated companies

Company	Main office	Business area	2017	2016
Beijing Andritz Sintai Engineering Technology Co., Ltd.	Beijing, China	ME	40.00%	40.00%
Enmas ANDRITZ Pvt. Ltd.	Chennai, India	PP	40.00%	40.00%
Viafin Brazil Oy	Teuva, Finland	PP	40.00%	40.00%
A&V Montagens INDUSTRIAIS Ltda.	Lapa, Brazil	PP	40.00%	40.00%

The summarized financial information for associated companies is shown in an aggregated form because the individual companies can be considered of minor importance. The following overview shows the items of the statement of financial position and the income statement for companies accounted for using the equity method:

(in TEUR)	2017	2016
<b>DISCLOSURES OF FINANCIAL POSITION</b>		
Assets	15,018	21,047
Liabilities	58	5,092
<b>DISCLOSURES OF THE INCOME STATEMENT</b>		
Sales	3,181	1,332
Result for the year	46	-121

ANDRITZ has the following share in the income of associated companies:

(in TEUR)	2017	2016
Share of net income	18	-48
Share of other comprehensive income	-426	28
<b>Share of total comprehensive income</b>	<b>-408</b>	<b>-20</b>
<b>Aggregate carrying amount of the shares in associates</b>	<b>6,407</b>	<b>6,830</b>

The result from associated companies amounted to 16 TEUR (2016: 20 TEUR) in the consolidated income statement. Non-recognized losses of associated companies amount to 0 TEUR (2016: -68 TEUR). The cumulative unrecognized losses amount to -996 TEUR (2016: -996 TEUR). They belong entirely to Enmas ANDRITZ Pvt. Ltd.

## 14. Investments and other financial assets

(in TEUR)	2017	2016
Schuldscheindarlehen	80,000	20,000
Investment securities	70,830	61,571
Shares in non-consolidated companies	11,892	11,052
Other shares	604	619
Others	7,145	7,410
	<b>170,471</b>	<b>100,652</b>

In the 2017 financial year, an impairment for shares in non-consolidated companies was recognized in the amount of 838 TEUR (2016: 1,550 TEUR). The shares in non-consolidated companies neither included restricted right of use in 2017, nor in 2016.

## 15. Trade accounts receivable

(in TEUR)	2017	2016
Trade accounts receivable - current	891,980	840,138
Trade accounts receivable - non-current	19,370	14,431
	<b>911,350</b>	<b>854,569</b>
thereof neither past due nor impaired	604,345	547,059
thereof past due but not impaired	298,214	296,443
thereof impaired	52,176	59,706
Valuation allowance	-43,385	-48,639

The valuation allowance for trade accounts receivable changed as follows:

(in TEUR)	2017	2016
<b>Balance as of January 1</b>	<b>-48,639</b>	<b>-52,717</b>
Charged to expenses	-15,315	-14,400
Usage	6,021	7,114
Release	15,331	11,238
Currency translation adjustments	-783	124
Reclassification as held for sale	0	2
<b>Balance as of December 31</b>	<b>-43,385</b>	<b>-48,639</b>

On the balance sheet date, the Group has the following accounts receivable, which are past due but not impaired:

(in TEUR)	2017	2016
Up to 60 days past due	155,742	183,586
61 to 120 days past due	38,548	39,233
More than 120 days past due	103,924	73,624
	<b>298,214</b>	<b>296,443</b>

Included in the Group's trade receivables balance are debts with a carrying value of 298,214 TEUR (2016: 296,443 TEUR) which are past due at the reporting date, but for which the Group has not recognized any valuation allowance as there has not been a significant change in creditworthiness and the amounts are still considered recoverable.

The disposal limitations arising due to the granting of collateral securities amount to 13,421 TEUR (2016: 11,398 TEUR). The parties receiving collateral security have no rights allowing them to sell or repledge the collateral securities provided.

## 16. Other receivables and assets

(in TEUR)	2017	2016
Receivables from value-added tax and from other taxes and changes	134,583	139,982
Derivatives	77,204	106,923
Bills of exchange receivable	44,468	27,331
Prepayments and deferred charges	27,480	26,520
Schuldscheindarlehen	20,000	80,000
Loans from associated and not-consolidated companies	13,336	12,866
Receivables from non-current taxes	1,664	1,251
Miscellaneous	63,792	62,451
	<b>382,527</b>	<b>457,324</b>
thereof other current receivables	341,183	404,402
thereof other non-current receivables	41,344	52,922

Miscellaneous other receivables and assets include, but are not limited to, claims against insurance companies, deposits and debit creditors. The carrying amount of other receivables pledged as collateral for liabilities amounts to 164 TEUR (2016: 0 TEUR).

The valuation allowances on other receivables changed as follows:

(in TEUR)	2017	2016
<b>Balance as of January 1</b>	<b>-7,592</b>	<b>-4,827</b>
Charged to expenses	-48	-3,322
Usage	78	366
Release	3,564	179
Currency translation adjustments	-3	12
<b>Balance as of December 31</b>	<b>-4,001</b>	<b>-7,592</b>

## 17. Inventories

(in TEUR)	2017	2016
Materials and supplies	255,243	262,775
Work in progress	401,545	374,437
Finished goods	104,225	99,677
	<b>761,013</b>	<b>736,889</b>

The valuation allowances on inventories were recognized in the income statement in the amount of -444 TEUR (2016: -7,745 TEUR). In the financial year, no substantial reversal of impairment was captured as a reduction of cost of materials. The book value of inventories recognized at net realizable value amounts to 200,529 TEUR (2016: 199,725 TEUR). The disposal limitations arising due to the granting of collateral securities amount to 20,860 TEUR (2016: 19,549 TEUR).

## 18. Advance payments made

The advance payments made and presented in the statement of financial position relate to orders for ongoing contracts.

## 19. Construction contracts

(in TEUR)	2017	2016
Contract revenue recognized as projects under construction	3,731,259	4,008,427
Contract costs incurred and recognized profits (less recognized losses) to date	9,206,368	10,555,348
Advance payments received and progress billings	9,659,389	10,947,004
Amount of retentions	30,725	26,563

The net amounts of the construction contracts comprise the following:

(in TEUR)	2017	2016
Contract costs incurred and recognized profits (less recognized losses) to date	9,206,368	10,555,348
Less advance payments received and progress billings	-9,659,389	-10,947,004
	<b>-453,021</b>	<b>-391,656</b>
<b>RECOGNIZED IN THE FINANCIAL STATEMENTS AS RECEIVABLES AND PAYABLES:</b>		
Cost and earnings of projects under construction in excess of billings	599,550	726,307
Billings in excess of cost and earnings of projects under construction	-1,052,571	-1,117,963
	<b>-453,021</b>	<b>-391,656</b>

There are no disposal limitations arising due to the granting of collateral securities (2016: 0 TEUR).

## 20. Investments

(in TEUR)	2017	2016
Time deposits	460,860	0
Funds	56,763	63,313
Bank bonds	48,157	47,483
	<b>565,780</b>	<b>110,796</b>

## 21. Cash and cash equivalents

(in TEUR)	2017	2016
Cash in banks	631,792	575,946
Time deposits	439,686	720,390
	<b>1,071,478</b>	<b>1,296,336</b>

The cash and cash equivalents in the consolidated statement of financial position correspond to cash and cash equivalents in the consolidated statement of cash flows.

In various countries exchange restrictions and other legal restrictions exist. As a result, the availability of these funds of cash and cash equivalents to ANDRITZ AG as the parent company might be restricted.

## 22. Assets held for sale

### As of December 31, 2017

In the financial year 2017, the sale of a company in Shanghai, China, has been initiated within the Metals business area. It is expected that the sale will be completed in the first half of 2018.

### Classification to assets held for sale

As of balance sheet date December 31, 2017, the requirements of IFRS 5 as classification as held for sale were met: Assets held for sale are assets that are available for immediate sale, the sale is highly probable, and the sale is expected to be completed within one year from the classification as held for sale. Assets held for sale contain a disposal group that comprises a subsidiary of the Metals business area.

### Measurement

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset was measured in accordance with IFRS 5, resulting in a write-off in the amount of 1,304 TEUR. After the classification as held for sale, the assets are measured at the lower amount of carrying amount and fair value less costs to sell.

As of December 31, 2017, the individual assets and liabilities reclassified as held for sale are as follows:

(in TEUR)	2017
Property, plant, and equipment	9,219
Other receivables and assets	50
Cash and cash equivalents	10,246
<b>ASSETS HELD FOR SALE</b>	<b>19,515</b>
Deferred tax liabilities	2,475
Provisions	129
Other liabilities	7
<b>LIABILITIES RELATING TO ASSETS HELD FOR SALE</b>	<b>2,611</b>

#### As of December 31, 2016

In the financial year 2016, the sale of a technology center in the North Chinese city of Tianjin had been initiated with the purchase contract of February 2017 within the Metals business area. The final execution of the purchase agreement (Closing) was in April 2017. The sale resulted in a gain of 17,935 TEUR, which was recognized as other operating income.

Furthermore, the sale of large parts of an operating site in Germany was agreed within the Metals business area. The sale took place in May 2017. The sale resulted in a gain of 4,864 TEUR, which was recognized as other operating income.

## 23. Equity

(in TEUR)	2017	2016
Share capital	104,000	104,000
Capital reserves	36,476	36,476
Other retained earnings	1,387,743	1,287,232
IAS 39 reserve	28,252	47,685
Actuarial gains/losses	-75,980	-82,133
Currency translation adjustments	-52,397	14,416
Treasury shares	-127,284	-80,173
<b>Total</b>	<b>1,300,810</b>	<b>1,327,503</b>
Non-controlling interests	24,600	16,728
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,325,410</b>	<b>1,344,231</b>

### IAS 39 reserve

(in TEUR)	from hedging activities (cash flow hedge)	from securities	Total
<b>Balance as of December 31, 2015</b>	<b>-3,545</b>	<b>52,477</b>	<b>48,932</b>
Gains and losses from changes in fair values	2,588	-4,439	-1,851
Related deferred taxes	-864	657	-207
Transfers to income statement	1,158	0	1,158
Related deferred taxes	-347	0	-347
<b>Balance as of December 31, 2016</b>	<b>-1,010</b>	<b>48,695</b>	<b>47,685</b>
Gains and losses from changes in fair values	358	-17,719	-17,361
Related deferred taxes	-126	3,638	3,512
Transfers to income statement	715	-6,362	-5,647
Related deferred taxes	63	0	63
<b>Balance as of December 31, 2017</b>	<b>0</b>	<b>28,252</b>	<b>28,252</b>

### Dividends

For 2017, a dividend of 1.55 EUR per outstanding share is proposed by the Executive Board. The dividend of 153,090 TEUR for 2016, which is equal to 1.50 EUR per share, was proposed by the Executive Board and approved by the 110<sup>th</sup> Annual General Meeting on March 28, 2017. The dividend was paid to the shareholders on April 3, 2017.

### Treasury shares

Based on authorizations of the Annual General Meeting and with approval from the Supervisory Board, the Executive Board adopted share buy-back and share resale programs for buying up to 10,400,000 no-par value shares between April 14, 2016 and September 30, 2018. Furthermore, a share buy-back program which enables the acquisition of 2,000,000 no-par value shares between November 11, 2016 and September 30, 2018 was concluded. In 2017, 1,030,000 shares were bought back at an average price of 46.90 EUR per share. No shares were sold to eligible executives under the management share option plan. 28,914 no-par value shares were transferred to employees of ANDRITZ in the course of employee participation programs. As of December 31, 2017, the company held 2,940,870 treasury shares at a market value of 138,486 TEUR. It is planned to use these shares for the management share option plan and the employee participation programs.

The following table shows the changes in the number of shares outstanding:

	Shares outstanding	Treasury shares	Total
<b>Balance as of December 31, 2015</b>	<b>102,324,301</b>	<b>1,675,699</b>	<b>104,000,000</b>
Purchase of treasury shares	-287,000	287,000	0
Used to cover share options and employee participation programs	22,915	-22,915	0
<b>Balance as of December 31, 2016</b>	<b>102,060,216</b>	<b>1,939,784</b>	<b>104,000,000</b>
Purchase of treasury shares	-1,030,000	1,030,000	0
Used to cover share options and employee participation programs	28,914	-28,914	0
<b>Balance as of December 31, 2017</b>	<b>101,059,130</b>	<b>2,940,870</b>	<b>104,000,000</b>

### Management share option programs

Due to the fact that the management share option plans do not allow cash settlement, the corresponding expenses are recorded directly as equity according to the International Financial Reporting Standards.

1,012,500 options were granted in 2014. The fair value of the options at the time of granting amounted to 8,159 TEUR. Due to the non-achievement of the performance conditions for the exercise of the options the fair value of the options was entirely released to profit or loss in 2017. Hence, an effect on earnings was caused in

the amount of 7,505 TEUR. Furthermore, 926,500 options were granted in 2016. The fair value of the options at the time of granting amounts to 6,286 TEUR; thereof 2,095 TEUR were recognized as proportionate expense in 2017.

Movements in options under the share option plans for the 2017 and 2016 financial years were as follows:

	2017		2016	
	Number of options	Average exercise price per option (in EUR)	Number of options	Average exercise price per option (in EUR)
<b>Balance as of January 1</b>	<b>1,894,000</b>	<b>46.07</b>	<b>982,500</b>	<b>44.42</b>
Options granted	0		926,500	47.80
Options exercised	0		0	
Options expired and forfeited	-1,019,500	44.59	-15,000	44.42
<b>Balance as of December 31</b>	<b>874,500</b>	<b>47.80</b>	<b>1,894,000</b>	<b>46.07</b>
Exercisable at year-end	0		0	

#### Non-controlling interests

The following overview discloses information on ANDRITZ subsidiaries having non-controlling interests:

(in TEUR)	Main office	Proportion of ownership interests and voting rights held by non-controlling interests		Net income allocated to non-controlling interests		Non-controlling interests	
		2017	2016	2017	2016	2017	2016
PT. ANDRITZ HYDRO	Jakarta, Indonesia	49.00%	49.00%	567	409	1,307	1,263
ANDRITZ HYDRO Hammerfest AS	Hammerfest, Norway	0.00%	40.12%	0	109	0	8,516
ANDRITZ HYDRO Hammerfest (UK) Limited	Glasgow, United Kingdom	0.00%	40.12%	0	-2,651	0	-14,865
Schuler Aktiengesellschaft (subgroup)	Göppingen, Germany	3.38%	3.38%	2,089	2,303	23,293	21,814
BAA Cyber Innovations Ltd.	Tel Aviv, Israel	49.99%	0.00%	0	0	0	0
<b>Total</b>				<b>2,656</b>	<b>170</b>	<b>24,600</b>	<b>16,728</b>

The share attributable to non-controlling interests is shown separately in equity of the consolidated statement of financial position, in the consolidated income statement, and in the consolidated statement of other comprehensive income. The purchase method was applied for all companies acquired. Companies purchased or sold during the year were included in the consolidated financial statements as from the date of their purchase or up to the date of their sale.

During the business year, ANDRITZ acquired a stake of 40.12% in ANDRITZ HYDRO Hammerfest AS and thus, the remaining non-controlling interests in ANDRITZ HYDRO Hammerfest AS and in ANDRITZ HYDRO Hammerfest (UK) Limited. The ANDRITZ GROUP recognized this change in interest rate as an equity transaction.



The summarized financial information on subsidiaries with significant non-controlling interests is as follows:

2017

(in TEUR)	Schuler Aktien- gesellschaft (subgroup)
Current assets	852,941
Non-current assets	544,693
Current liabilities	-521,599
Non-current liabilities	-310,580
Non-controlling interests of subgroup	-7,107
<b>Net assets</b>	<b>558,348</b>
<b>Proportion of ownership interests and voting rights held by non-controlling interests</b>	<b>3.38%</b>
<b>Net book value of non-controlling interests</b>	<b>18,872</b>
<b>Sales</b>	<b>1,233,104</b>
Result for the year	72,078
Other comprehensive income	-15,342
<b>Total comprehensive income</b>	<b>56,736</b>
Thereof attributable to:	
Shareholders of the parent	54,818
Non-controlling shareholders	1,918
<b>Dividends paid to non-controlling interest holders</b>	<b>-4</b>
Cash flow from operating activities	12,730
Cash flow from investing activities	18,315
Cash flow from financing activities	-89,280
<b>Total</b>	<b>-58,235</b>

## 2016

(in TEUR)	ANDRITZ HYDRO Hammerfest AS	ANDRITZ HYDRO Hammerfest (UK) Limited	Schuler Aktien- gesellschaft (subgroup)
Current assets	7,247	2,767	883,975
Non-current assets	30,172	5	553,391
Current liabilities	-15,013	-11,295	-539,701
Non-current liabilities	0	-58	-437,282
Non-controlling interests of subgroup			-6,220
<b>Net assets</b>	<b>22,406</b>	<b>-8,581</b>	<b>454,163</b>
<b>Proportion of ownership interests and voting rights held by non-controlling interests</b>	<b>40.12%</b>	<b>40.12%</b>	<b>3.38%</b>
<b>Net book value of non-controlling interests</b>	<b>8,989</b>	<b>-3,443</b>	<b>15,351</b>
<b>Sales</b>	<b>0</b>	<b>6,620</b>	<b>1,174,222</b>
Result for the year	273	-5,569	64,416
Other comprehensive income	1,197	-1,321	-5,434
<b>Total comprehensive income</b>	<b>1,470</b>	<b>-6,890</b>	<b>58,982</b>
Thereof attributable to:			
Shareholders of the parent	880	-4,126	56,988
Non-controlling shareholders	590	-2,764	1,994
<b>Dividends paid to non-controlling interest holders</b>	<b>0</b>	<b>0</b>	<b>-111</b>
Cash flow from operating activities	-880	-1,430	14,306
Cash flow from investing activities	0	0	-130,340
Cash flow from financing activities	0	-2	23,276
<b>Total</b>	<b>-880</b>	<b>-1,432</b>	<b>-92,758</b>

### Additional capital disclosures

ANDRITZ is committed to maintain a strong financial profile, characterized by a conservative capital structure that provides financial flexibility. As of December 31, 2017 equity and total assets amounted to the following:

(in TEUR)	2017	2016
Total shareholders' equity	1,325,410	1,344,231
Total assets	6,265,348	6,198,588
Equity ratio	21.2%	21.7%

ANDRITZ is not subject to any statutory capital requirements. Commitments exist to sell shares in connection with established share-based payment plans. In recent years, commitments from share-based payments have primarily been satisfied through buy-back of the company's shares.

The goal in capital management is to ensure that entities in the Group will be able to continue as going concern while improving the return to shareholders through the optimization of the debt and equity balance. In the past bonds and in 2017 a Schuldscheindarlehen were issued to safeguard the financial stability and to provide the basis for further growth of the ANDRITZ GROUP. The capital structure of the Group consists of debt, cash, and equity attributable to shareholders of the parent, comprising share capital, capital reserves, and retained earnings.

The capital structure is reviewed on an ongoing basis. The cost of capital and the risks associated with each class of capital are considered apart from this review. Based on this, the Group is committed to optimize its overall capital structure through the payment of dividends, issue of new shares, 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 2016.

## 24. Provisions

### Non-current provisions

(in TEUR)	Pensions	Severance payments	Anniversary bonuses	Order-related	Others	Total
<b>Balance as of January 1, 2017</b>	<b>250,993</b>	<b>100,009</b>	<b>26,715</b>	<b>183,691</b>	<b>25,126</b>	<b>586,534</b>
Additions	2,288	7,566	260	53,021	44,906	108,041
Unwinding of discount effect	3,379	953	-133	0	0	4,199
Usage	-8,523	-7,886	-723	-4,095	-388	-21,615
Release	-5,184	-332	-217	-39,008	-6,832	-51,573
Reclassification	0	0	-278	-31,355	-87	-31,720
Currency translation adjustments	-2,600	-75	-127	-4,775	-4,231	-11,808
<b>Balance as of December 31, 2017</b>	<b>240,353</b>	<b>100,235</b>	<b>25,497</b>	<b>157,479</b>	<b>58,494</b>	<b>582,058</b>

### Current provisions

(in TEUR)	Order-related	Others	Total
<b>Balance as of January 1, 2017</b>	<b>432,147</b>	<b>100,170</b>	<b>532,317</b>
Additions	168,959	24,126	193,085
Unwinding of discount effect	0	-28	-28
Usage	-89,668	-39,641	-129,309
Release	-105,594	-23,808	-129,402
Reclassification	31,355	365	31,720
Currency translation adjustments	-11,130	-3,495	-14,625
Changes in consolidation scope	223	227	450
Reclassification as held for sale	0	-129	-129
<b>Balance as of December 31, 2017</b>	<b>426,292</b>	<b>57,787</b>	<b>484,079</b>

Order-related provisions include provisions for warranties, impending losses, and other order-related risks. The warranty provisions recorded are based on past experience and individual assessments; they represent the legal and contractual warranty obligations as well as voluntary commitments to customers. Order-related imminent losses are provided for customer projects not yet completed. ANDRITZ expects the order-related non-current provisions generally to result in cash outflows during the next three years. Order-related current provisions are expected to result in cash outflows within the next fiscal year.

The other non-current and other current provisions contain restructurings and adjustments of personnel costs in the amount of 28,942 TEUR (2016: 46,802 TEUR). In the prior year they related primarily to the financial provisions to optimize the value chain at the Schuler subgroup.

## 25. Employee benefits

The post-employment benefits are divided into defined contribution and defined benefit plans.

### Pensions

The pension costs comprise:

(in TEUR)	2017	2016
<b>EXPENSES FROM DEFINED BENEFIT PLANS</b>		
Current service cost	9,645	10,037
Past service cost	1,723	-6,794
Effects of plan curtailments and settlements	-238	25
<b>EXPENSES FROM DEFINED CONTRIBUTION PLANS</b>		
Payments to defined contribution plans	38,396	35,980
	<b>49,526</b>	<b>39,248</b>

According to IAS 19, the defined benefit plans for pensions are itemized according to the different geographic locations. The pension plans largely relate to Germany, Austria, and Switzerland. The "Other" category primarily relates to Canada and USA.

Basic actuarial assumptions for calculation of pension obligations as of December 31, 2017 and 2016 are as follows:

#### 2017

		Germany and Austria	Switzerland	Others
Discount rate	in %	1.06 - 2.17	0.54 - 0.82	0.37 - 7.50
Wage and salary increases	in %	0.00 - 2.50	0.50 - 1.00	0.00 - 6.33
Retirement benefit increases	in %	2.00	0.00	0.00 - 2.00
Average term of the benefit obligation	in years	7.72 - 17.62	9.30 - 19.10	8.57 - 19.60

#### 2016

		Germany and Austria	Switzerland	Others
Discount rate	in %	1.20 - 1.87	0.60 - 0.93	0.32 - 6.75
Wage and salary increases	in %	0.00 - 2.00	0.50 - 1.00	0.00 - 5.83
Retirement benefit increases	in %	1.75	0.00	0.00 - 1.75
Average term of the benefit obligation	in years	8.20 - 18.92	14.71 - 19.85	8.72 - 19.09

The following mortality tables were primarily used:

	2017	2016
Austria	AVÖ 2008-P Pagler & Pagler	AVÖ 2008-P Pagler & Pagler
Germany	Heubeck "Richttafeln 2005 G"	Heubeck "Richttafeln 2005 G"
Switzerland	BVG 2015 Generationentafel	BVG 2015 Generationentafel

The following tables show the changes in pension benefit obligation from January 1 to December 31:

### 2017

(in TEUR)	Germany and Austria	Switzerland	Others	Total
<b>Defined benefit obligation as of January 1</b>	<b>258,406</b>	<b>220,988</b>	<b>81,413</b>	<b>560,807</b>
Current service cost	4,168	5,094	383	9,645
Past service cost	0	1,663	60	1,723
Effects of plan curtailments and settlements	-448	129	0	-319
Interest expenses	3,384	1,457	2,591	7,432
Actuarial gains (-) and losses (+) from change in demographic assumptions	0	1,240	34	1,274
Actuarial gains (-) and losses (+) from change in financial assumptions	-3,135	2,595	2,737	2,197
Actuarial gains (-) and losses (+) from change in experience adjustments	-386	-2,648	-1,912	-4,946
Benefits paid	-10,410	-1,678	-4,208	-16,296
Contributions by the plan participants	3,454	2,936	0	6,390
Currency translation adjustments	0	-18,079	-4,979	-23,058
Other changes	-485	0	485	0
<b>Defined benefit obligation as of December 31</b>	<b>254,548</b>	<b>213,697</b>	<b>76,604</b>	<b>544,849</b>
Fair value of plan assets	-46,149	-197,843	-61,495	-305,487
Reduction of assets	0	0	991	991
<b>Defined benefit liability as of December 31</b>	<b>208,399</b>	<b>15,854</b>	<b>16,100</b>	<b>240,353</b>

### 2016

(in TEUR)	Germany and Austria	Switzerland	Others	Total
<b>Defined benefit obligation as of January 1</b>	<b>247,510</b>	<b>217,348</b>	<b>76,098</b>	<b>540,956</b>
Current service cost	3,098	6,500	439	10,037
Past service cost	0	-6,770	-24	-6,794
Effects of plan curtailments and settlements	-47	0	72	25
Interest expenses	5,316	1,733	2,743	9,792
Actuarial gains (-) and losses (+) from change in demographic assumptions	0	1,909	-16	1,893
Actuarial gains (-) and losses (+) from change in financial assumptions	18,616	411	1,930	20,957
Actuarial gains (-) and losses (+) from change in experience adjustments	-4,409	1,595	-1,064	-3,878
Benefits paid	-10,101	-11,822	-3,222	-25,145
Contributions by the plan participants	3,344	3,337	0	6,681
Currency translation adjustments	0	1,939	3,446	5,385
Changes in consolidation scope	898	0	0	898
Other changes	-5,819	4,808	1,011	0
<b>Defined benefit obligation as of December 31</b>	<b>258,406</b>	<b>220,988</b>	<b>81,413</b>	<b>560,807</b>
Fair value of plan assets	-47,078	-198,585	-64,264	-309,927
Reduction of assets	113	0	0	113
<b>Defined benefit liability as of December 31</b>	<b>211,441</b>	<b>22,403</b>	<b>17,149</b>	<b>250,993</b>

Out of the total pension benefit obligation in the amount of 544,849 TEUR (2016: 560,807 TEUR), 328,548 TEUR (2016: 314,073 TEUR) are covered entirely or partly by investments in funds.

The following tables reconcile the fair value of the plan assets:

#### 2017

(in TEUR)	Germany and Austria	Switzerland	Others	Total
<b>Fair value of plan assets as of January 1</b>	<b>47,078</b>	<b>198,585</b>	<b>64,264</b>	<b>309,927</b>
Interest income	691	1,301	2,061	4,053
Return on plan assets (excl. interest income)	451	9,379	1,680	11,510
Effects of plan curtailments and settlements	-193	112	0	-81
Benefits paid	-2,025	-1,744	-4,004	-7,773
Contributions by the employer	147	3,916	1,310	5,373
Contributions by the plan participants	0	2,936	0	2,936
Currency translation adjustments	0	-16,642	-3,816	-20,458
<b>Fair value of plan assets as of December 31</b>	<b>46,149</b>	<b>197,843</b>	<b>61,495</b>	<b>305,487</b>

#### 2016

(in TEUR)	Germany and Austria	Switzerland	Others	Total
<b>Fair value of plan assets as of January 1</b>	<b>48,388</b>	<b>188,351</b>	<b>60,705</b>	<b>297,444</b>
Interest income	1,079	1,509	2,216	4,804
Return on plan assets (excl. interest income)	-36	7,439	761	8,164
Benefits paid	-1,782	-11,826	-3,070	-16,678
Contributions by the employer	2,368	4,663	842	7,873
Contributions by the plan participants	88	3,337	0	3,425
Currency translation adjustments	0	1,791	2,810	4,601
Changes in consolidation scope	294	0	0	294
Other changes	-3,321	3,321	0	0
<b>Fair value of plan assets as of December 31</b>	<b>47,078</b>	<b>198,585</b>	<b>64,264</b>	<b>309,927</b>

The plan assets are invested as follows:

#### 2017

(in TEUR)	Germany and Austria	Switzerland	Others	Total
<b>Equity instruments</b>	<b>10,682</b>	<b>40,183</b>	<b>21,499</b>	<b>72,364</b>
thereof listed on an active market	6,867	40,183	21,499	68,549
<b>Debt instruments</b>	<b>9,658</b>	<b>61,081</b>	<b>31,633</b>	<b>102,372</b>
thereof listed on an active market	9,569	61,081	31,633	102,283
<b>Property, plant, and equipment</b>	<b>842</b>	<b>44,947</b>	<b>0</b>	<b>45,789</b>
thereof listed on an active market	135	3,658	0	3,793
<b>Other assets</b>	<b>24,967</b>	<b>51,632</b>	<b>8,363</b>	<b>84,962</b>
thereof listed on an active market	23,774	24,794	1,857	50,425
	<b>46,149</b>	<b>197,843</b>	<b>61,495</b>	<b>305,487</b>

## 2016

(in TEUR)	Germany and Austria	Switzerland	Others	Total
<b>Equity instruments</b>	<b>10,308</b>	<b>40,359</b>	<b>19,226</b>	<b>69,893</b>
thereof listed on an active market	6,347	40,359	19,225	65,931
<b>Debt instruments</b>	<b>8,254</b>	<b>66,049</b>	<b>31,702</b>	<b>106,005</b>
thereof listed on an active market	7,734	66,049	31,702	105,485
<b>Property, plant, and equipment</b>	<b>716</b>	<b>42,983</b>	<b>0</b>	<b>43,699</b>
thereof listed on an active market	0	3,473	0	3,473
<b>Other assets</b>	<b>27,800</b>	<b>49,194</b>	<b>13,336</b>	<b>90,330</b>
thereof listed on an active market	25,488	26,398	5,960	57,846
	<b>47,078</b>	<b>198,585</b>	<b>64,264</b>	<b>309,927</b>

In 2017, the actual investment result from plan assets amounted to 4.41% (2016: 4.17%).

Payments to the pension funds for defined benefit plans are expected in the amount of 13,627 TEUR for 2018.

As of December 31, 2017, there are no extraordinary risks specific to the company or to the plan, or any substantial risk concentrations.

The discretionary assessments and assumptions concerning future developments for the valuation of provisions for pensions are based on relevant actuarial assumptions. A change of +/- 0.5 percentage points in the discount factor, +/- 0.5 percentage points in the salary increase, +/- 0.5 percentage points in pension benefits, and +/- 1 year in life expectancy would have the following effects on the present value of the pension obligation if all other parameters remained unchanged:

## 2017

(in TEUR)		Germany and Austria	Switzerland	Others	Total
Discount rate	+0.5%	-15,513	-14,752	-4,609	-34,874
	-0.5%	19,260	16,852	5,033	41,145
Wage and salary increases	+0.5%	752	1,424	325	2,501
	-0.5%	-695	-1,438	-312	-2,445
Retirement benefit increases	+0.5%	11,501	7,346	623	19,470
	-0.5%	-8,845	-772	-323	-9,940
Life expectancy	+1 year	9,620	5,689	1,911	17,220
	-1 year	-9,550	-5,794	-1,921	-17,265

## 2016

(in TEUR)		Germany and Austria	Switzerland	Others	Total
Discount rate	+0.5%	-18,079	-15,541	-4,706	-38,326
	-0.5%	22,413	17,768	5,550	45,731
Wage and salary increases	+0.5%	1,007	1,659	456	3,122
	-0.5%	-927	-1,627	-424	-2,978
Retirement benefit increases	+0.5%	13,743	13,284	743	27,770
	-0.5%	-10,719	-1,273	-388	-12,380
Life expectancy	+1 year	10,920	5,878	1,955	18,753
	-1 year	-10,839	-6,036	-1,970	-18,845

The sensitivity analysis presented above may not be fully representative regarding the actual changes in the defined benefit obligation, as it is unlikely that the change in assumptions would occur in isolation of one another due to the fact that some of the assumptions may correlate.

### Severances

The expenses for severance payments consist of:

(in TEUR)	2017	2016
<b>EXPENSES FROM DEFINED BENEFIT PLANS</b>		
Current service cost	3,077	2,922
<b>EXPENSES FROM DEFINED CONTRIBUTION PLANS</b>		
Payments to defined contribution plans	2,372	2,728
	<b>5,449</b>	<b>5,650</b>

In the 2017 financial year, contributions to the employees' severance funds in Austria of 1,813 TEUR (2016: 1,785 TEUR) are included in the severance expenses.

A breakdown of severance obligations to the various geographical locations has been omitted because these obligations relate to more than 90% to Austria.

The basic actuarial assumptions used for Austria to determine severance obligations as of December 31, 2017 are as follows:

(in %)		2017	2016
Discount rate	in %	1.64	0.89
Wage and salary increases	in %	2.50	2.00
Average term of the benefit obligation	in years	9.14 - 9.78	9.67 - 10.09

The following table shows the changes in defined benefit obligations from January 1 to December 31:

(in TEUR)	2017	2016
<b>Defined benefit obligation as of January 1</b>	<b>101,756</b>	<b>96,018</b>
Current service cost	3,077	2,922
Interest expenses	1,079	2,034
Actuarial gains (-) and losses (+) from change in demographic assumptions	-338	67
Actuarial gains (-) and losses (+) from change in financial assumptions	3,046	5,636
Actuarial gains (-) and losses (+) from change in experience adjustments	1,678	265
Benefits paid	-7,986	-5,234
Currency translation adjustments	-199	48
<b>Defined benefit obligation as of December 31</b>	<b>102,113</b>	<b>101,756</b>
Fair value of plan assets	-1,878	-1,747
<b>Defined benefit liability as of December 31</b>	<b>100,235</b>	<b>100,009</b>



The following table reconciles the fair value of plan assets:

(in TEUR)	2017	2016
<b>Fair value of plan assets as of January 1</b>	<b>1,747</b>	<b>1,523</b>
Interest income	126	123
Return on plan assets (excl. interest income)	-6	-13
Benefits paid	-100	-85
Contributions by the employer	235	182
Currency translation adjustments	-124	17
<b>Fair value of plan assets as of December 31</b>	<b>1,878</b>	<b>1,747</b>

The plan assets are invested as follows:

(in TEUR)	2017	2016
<b>Debt instruments</b>	<b>1,352</b>	<b>1,308</b>
thereof listed on an active market	0	0
<b>Other assets</b>	<b>526</b>	<b>439</b>
thereof listed on an active market	130	106
	<b>1,878</b>	<b>1,747</b>

The discretionary assessments and assumptions concerning future developments for the valuation of provisions for severances are based on relevant actuarial assumptions. A +/- 0.5 percentage point change in the discount factor and a change of +/- 0.5 percentage points in the salary increase would have the following effects on the present value of the severance obligation if all other parameters remain unchanged:

(in TEUR)		2017	2016
Discount rate	+0.5%	-4,613	-5,058
	-0.5%	5,000	5,500
Wage and salary increases	+0.5%	4,832	5,303
	-0.5%	-4,507	-4,932

The sensitivity analysis presented above may not be fully representative regarding the actual changes in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another due to the fact that some of the assumptions may correlate.

## 26. Financial liabilities

	Bond	Obligations under finance leases	Schuldschein- darlehen	Bank loans and other financial liabilities	Total
<b>Balance as of December 31, 2016</b>	<b>359,325</b>	<b>20,264</b>	<b>0</b>	<b>197,355</b>	<b>576,944</b>
Payments received	0	0	400,033	46,332	446,365
Payments made	-4,019	-2,034	0	-101,569	-107,622
Other non-cash changes	-5,547	113	-963	-12,410	-18,807
Currency translation adjustments	0	-9	0	-12,587	-12,596
Changes in consolidation scope	0	0	0	-10,450	-10,450
<b>Balance as of December 31, 2017</b>	<b>349,759</b>	<b>18,334</b>	<b>399,070</b>	<b>106,671</b>	<b>873,834</b>

In the second quarter of 2017, ANDRITZ AG issued a Schuldscheindarlehen with an issuing volume of 400,000 TEUR in order to provide funds for corporate financing including refinancing and for potential acquisitions. This emission was over-subscribed considerably. It is divided into two tranches with maturities of seven and ten years and fixed interest rates.

## 27. Other liabilities

(in TEUR)	2017	2016
Accruals and outstanding order-related costs	482,035	471,631
Unused vacation and other personnel-related accruals	234,384	234,981
Liabilities from value-added tax and from other taxes and charges	69,662	71,484
Contingent considerations	62,737	62,207
Derivatives	56,979	85,440
Liabilities from social security	18,308	19,476
Prepayments and deferred charges	17,266	14,253
Liabilities due to employees	14,995	14,476
Liabilities from commissions	9,168	10,740
Miscellaneous	81,386	91,979
	<b>1,046,920</b>	<b>1,076,667</b>
thereof other current liabilities	942,979	958,072
thereof other non-current liabilities	103,941	118,595

Miscellaneous other liabilities include, but are not limited to, accrued interest and credit accounts receivable.

## 28. Advance payments received

Advance payments received and presented in the statement of financial position relate to orders for ongoing contracts, which do not represent construction contracts.

## J) NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

In the consolidated statement of cash flows, cash flows are separated into cash inflows and outflows from operating activities, investing activities, and financing activities, irrespective of how the items are classified in the consolidated statement of financial position.

Cash flow from operating activities is derived indirectly based on the Earnings Before Taxes. Earnings Before Taxes are adjusted for non-cash expenses (primarily depreciation and amortization) and income. Cash flow from operating activities is calculated considering the changes in net working capital.

Investing activities mainly comprise payments for intangible assets and property, plant, and equipment as well as financial assets, incoming and outgoing payments for investments in securities and Schuldscheindarlehen, and payments for the acquisition of subsidiaries. The payments for intangible assets as well as property, plant, and equipment include capital expenditures (additions to intangible assets and property, plant, and equipment) for the fiscal year to the extent that they already had an effect on cash.

Financing activities include not only dividend payments, but also cash flows from the redemption or issue of bonds and Schuldscheindarlehen as well as other debts and outgoing payments for buy-back of treasury shares and own corporate bonds.

Non-cash transactions encompass the acquisition of intangible assets and property, plant, and equipment either by assuming directly related liabilities (sale on credit) or by means of a finance lease.

The changes of the items in the consolidated statement of financial position shown in the consolidated statement of cash flows cannot be derived directly as effects of currency conversion, companies not fully consolidated in prior periods due to minor importance as well as assets classified as held for sale do not result in cash outflows and thus have been eliminated.

The net cash flows from company acquisitions are as follows:

(in TEUR)	2017	2016
<b>Net assets</b>	<b>15,105</b>	<b>131,976</b>
Non-controlling interests	0	0
Goodwill	-1,660	47,002
<b>CONSIDERATION TRANSFERRED</b>	<b>13,444</b>	<b>178,978</b>
Cash and cash equivalents acquired	-10	-13,160
Payables from purchase price not yet paid (incl. contingent consideration)	0	-61,759
Fair value of formerly held interests	0	0
<b>NET CASH FLOW FROM COMPANY ACQUISITIONS</b>	<b>13,435</b>	<b>104,059</b>

The cash flows from company acquisitions are valued at the rates applying to the respective transactions.

## K) FINANCIAL INSTRUMENTS

### a) Valuation techniques

Class	Valuation techniques for the determination of fair values
Derivatives, miscellaneous other investments, bank loans and other financial liabilities, obligations under finance leases, and contingent considerations	The valuation model considers the present value of expected cash flows discounted by a risk-adjusted discount rate for the remaining term.
Trade accounts receivable, other receivables and assets, Schuldscheindarlehen, cash and cash equivalents, trade accounts payable, and other liabilities	Due to substantially short remaining terms these classes of financial assets and liabilities are measured at book value which is considered to be an appropriate approximation of the fair value.
Shares in non-consolidated companies and other shares	For these financial instruments the fair value cannot be determined reliably. They are measured at acquisition costs which are considered to be an appropriate approximation of the fair value.

### b) Levels and fair values

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. They do not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value:

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(in TEUR)	Note	Net book value						Fair value				
		Held for trading	Hedge accounting	Loans and receivables	Available for sale	Other financial liabilities	No IAS 39 valuation category	Total	Level 1	Level 2	Level 3	Total
Investments	14./20.				636,610			636,610	636,610			636,610
Derivatives	K) e)	67,686	9,518					77,204		77,204		77,204
<b>Financial assets measured at fair value</b>		<b>67,686</b>	<b>9,518</b>		<b>636,610</b>			<b>713,814</b>				
Shares in non-consolidated companies and other shares	14.				12,496			12,496				
Miscellaneous other financial assets	14.			7,145				7,145	7,415			7,415
Trade accounts receivable	15.			911,350				911,350				
Other receivables and assets	16.			112,964			172,359	285,323				
Schuldscheindarlehen	14./16.			100,000				100,000	99,076			99,076
Cash und cash equivalents	21.			1,071,478				1,071,478				
<b>Financial assets measured at amortized costs</b>				<b>2,202,937</b>	<b>12,496</b>		<b>172,359</b>	<b>2,387,792</b>				
<b>FINANCIAL ASSETS</b>		<b>67,686</b>	<b>9,518</b>	<b>2,202,937</b>	<b>649,106</b>		<b>172,359</b>	<b>3,101,606</b>				
Derivatives	K) e)	56,979						56,979	56,979			56,979
<b>Financial liabilities measured at fair value</b>		<b>56,979</b>						<b>56,979</b>				
Bond	K) c)					349,759		349,759	362,439			362,439
Bank loans and other financial liabilities						106,671		106,671		110,141		110,141
Obligations under finance leases	M) b)					18,334		18,334		18,611		18,611
Trade accounts payable						461,239		461,239				
Contingent considerations						62,737		62,737	67,632			67,632
Schuldscheindarlehen	26.					399,070		399,070	410,145			410,145
Other liabilities	27.					840,276	86,928	927,204				
<b>Financial liabilities measured at amortized costs</b>						<b>2,238,086</b>	<b>86,928</b>	<b>2,325,014</b>				
<b>FINANCIAL LIABILITIES</b>		<b>56,979</b>				<b>2,238,086</b>	<b>86,928</b>	<b>2,381,993</b>				

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As of December 31, 2016

(in TEUR)	Note	Net book value						Fair value				
		Held for trading	Hedge accounting	Loans and receivables	Available for sale	Other financial liabilities	No IAS 39 valuation category	Total	Level 1	Level 2	Level 3	Total
Investments	14./20.				172,367			172,367	172,367			172,367
Derivatives	K) e)	91,790	15,133					106,923		106,923		106,923
<b>Financial assets measured at fair value</b>		<b>91,790</b>	<b>15,133</b>		<b>172,367</b>			<b>279,290</b>				
Shares in non-consolidated companies and other shares	14.				11,671			11,671				
Miscellaneous other financial assets	14.			7,410				7,410	7,917			7,917
Trade accounts receivable	15.			854,569				854,569				
Other receivables and assets	16.			242,630			27,771	270,401				
Schuldscheindarlehen	14./16.			100,000				100,000	99,790			99,790
Cash und cash equivalents	21.			1,296,336				1,296,336				
<b>Financial assets measured at amortized costs</b>				<b>2,500,945</b>	<b>11,671</b>		<b>27,771</b>	<b>2,540,387</b>				
<b>FINANCIAL ASSETS</b>		<b>91,790</b>	<b>15,133</b>	<b>2,500,945</b>	<b>184,038</b>		<b>27,771</b>	<b>2,819,677</b>				
Derivatives	K) e)	85,092	348					85,440	85,440			85,440
<b>Financial liabilities measured at fair value</b>		<b>85,092</b>	<b>348</b>					<b>85,440</b>				
Bond	K) c)					359,325		359,325	371,289			371,289
Bank loans and other financial liabilities						197,355		197,355	201,859			201,859
Obligations under finance leases	M) b)					20,264		20,264	19,034			19,034
Trade accounts payable						499,737		499,737				
Contingent consideration	26.					62,207		62,207	60,281			60,281
Other liabilities	27.					843,283	85,737	929,020				
<b>Financial liabilities measured at amortized costs</b>						<b>1,982,171</b>	<b>85,737</b>	<b>2,067,908</b>				
<b>FINANCIAL LIABILITIES</b>		<b>85,092</b>	<b>348</b>			<b>1,982,171</b>	<b>85,737</b>	<b>2,153,348</b>				

### c) Fair value hedges

The Group uses interest rate swaps to hedge the change in fair value of the issued bond due to interest rate changes. Since the hedge is considered to be effective, the net book value of the bond is adjusted for changes in the fair value attributable to the hedged risk.

The portfolio of the bond (hedged item) changed as follows:

(in TEUR)	2017	2016
<b>Balance as of January 1</b>	<b>359,325</b>	<b>364,984</b>
Gains (-)/losses (+) recognized through profit or loss	-5,816	-2,865
Repurchase of own corporate bonds	-3,750	-2,794
Redemptions	0	0
<b>Balance as of December 31</b>	<b>349,759</b>	<b>359,325</b>

The market values of interest rate swaps (the hedging instrument) changed as follows:

(in TEUR)	2017	2016
Fair value of swaps as of January 1	15,122	17,942
Fair value of swaps as of December 31	9,518	15,122
<b>Gains/losses recognized through profit or loss</b>	<b>-5,604</b>	<b>-2,820</b>

The following table shows the changes from hedged items recognized through profit or loss and changes from hedging instruments in fair value hedging relationships:

(in TEUR)	2017	2016
From hedged items	5,816	2,865
From hedging instruments	-5,604	-2,820
<b>Gains/losses recognized through profit or loss</b>	<b>212</b>	<b>45</b>

### d) Cash flow hedges

The following table shows the reconciliation of the IAS 39 reserve for cash flow hedges in equity:

(in TEUR)	2017	2016
<b>Balance as of January 1</b>	<b>-1,010</b>	<b>-3,545</b>
Gains and losses from changes in fair values	358	2,588
Related deferred taxes	-126	-864
Transfers to income statement	715	1,158
Related deferred taxes	63	-347
<b>Balance as of December 31</b>	<b>0</b>	<b>-1,010</b>

Changes representing the effective portions of the hedging relationship that are recognized in equity in the IAS 39 reserve are shown as the result from cash flow hedges in the consolidated statement of comprehensive income. The cumulative effects in equity are recognized as other operating income or other operating expenses in the income statement when the underlying hedge transaction is realized.

## e) Derivatives

The fair values are determined using forward rates at the balance sheet date. The Group's own credit risk as well as the credit risk of the contracting partner were included in the fair value measurement.

### 2017

(in TEUR)	Remaining terms nominal values					Fair value
	not exceeding 1 year	more than 1 year	Total	positive	negative	Total
Foreign exchange forward contracts	1,744,014	269,405	2,013,419	67,535	56,979	10,556
Interest rate swaps	0	350,000	350,000	9,518	0	9,518
Commodity forward contracts	689	0	689	151	0	151
<b>Total</b>	<b>1,744,703</b>	<b>619,405</b>	<b>2,364,108</b>	<b>77,204</b>	<b>56,979</b>	<b>20,225</b>

### 2016

(in TEUR)	Remaining terms nominal values					Fair value
	not exceeding 1 year	more than 1 year	Total	positive	negative	Total
Foreign exchange forward contracts	1,810,750	470,752	2,281,502	91,442	85,378	6,064
Interest rate swaps	0	352,000	352,000	15,122	54	15,068
Commodity forward contracts	2,323	689	3,012	359	8	351
<b>Total</b>	<b>1,813,073</b>	<b>823,441</b>	<b>2,636,514</b>	<b>106,923</b>	<b>85,440</b>	<b>21,483</b>

The fair values of the foreign exchange forward contracts classified according to transaction currency are as follows:

(in TEUR)	not exceeding 1 year	more than 1 year	Total 2017	Total 2016
US dollar	5,704	952	6,656	13,610
Euro	-114	160	46	-3,911
Canadian dollar	0	778	778	-2,004
Brazilian real	-42	-874	-916	-1,958
Chinese renminbi yuan	236	-40	196	-294
Other currencies	2,548	1,248	3,796	621
	<b>8,332</b>	<b>2,224</b>	<b>10,556</b>	<b>6,064</b>



## f) Offsetting

The Group concludes derivatives in accordance with the Global Netting Agreements (Framework Agreement) of the International Swaps and Derivative Association (ISDA) and similar agreements. These agreements do not meet the criteria for netting in the balance sheet. This is because at present the Group has no legal entitlement to offset the amounts recognized. In the case of a termination of the framework agreement or an early termination of the outstanding contracts, the net amounts of the market values of all contracts to be terminated would be compensated. The following table sets out the book values of the financial instruments that are subject to the arrangements described:

(in TEUR)	2017		2016	
	positive	negative	positive	negative
<b>Gross and net amounts (in the statement of financial position)</b>	<b>77,204</b>	<b>-56,979</b>	<b>106,923</b>	<b>-85,440</b>
Netting (potential effects)	-2,844	2,844	-3,592	3,592
<b>NET AMOUNTS</b>	<b>74,360</b>	<b>-54,135</b>	<b>103,331</b>	<b>-81,848</b>

## g) Net gains and losses

### 2017

(in TEUR)	Held for trading	Hedge accounting	Loans and receivables	Available for sale	Other financial liabilities
Interest result			31,582	1,939	-33,762
Dividends				3,603	
Valuation	26,875	-6,319	-6,699	-2,460	
Gains and losses from sale and disposal				6,243	
<b>Net gains/losses recognized in net income</b>	<b>26,875</b>	<b>-6,319</b>	<b>24,883</b>	<b>9,325</b>	<b>-33,762</b>
Net gains/losses recognized in other comprehensive income		1,073		-24,081	
<b>NET GAINS/LOSSES</b>	<b>26,875</b>	<b>-5,246</b>	<b>24,883</b>	<b>-14,756</b>	<b>-33,762</b>

### 2016

(in TEUR)	Held for trading	Hedge accounting	Loans and receivables	Available for sale	Other financial liabilities
Interest result			41,346	1,140	-26,454
Dividends				2,919	
Valuation	674	-2,820	-13,633	-878	
Gains and losses from sale and disposal				261	
<b>Net gains/losses recognized in net income</b>	<b>674</b>	<b>-2,820</b>	<b>27,713</b>	<b>3,442</b>	<b>-26,454</b>
Net gains/losses recognized in other comprehensive income		3,746		-4,439	
<b>NET GAINS/LOSSES</b>	<b>674</b>	<b>926</b>	<b>27,713</b>	<b>-997</b>	<b>-26,454</b>

## L) RISK MANAGEMENT – RISKS RELATING TO FINANCIAL INSTRUMENTS

As a global company serving a variety of different markets and customers, the Group is subject to risks relating to financial instruments as well as strategic and operational risks. ANDRITZ has implemented a long-established Group-wide control and risk management system whose main task is identifying nascent risks at an early stage and quickly taking countermeasures. This system is an important element in the active risk management system within the Group. Despite having this control and risk management system in place, it cannot be guaranteed that all risks will be identified at an early stage. Consequently, the assets, liabilities, financial position, and profit or loss of the Group could be adversely affected. In order to minimize the financial risks at the best possible rate and to enhance monitoring, control, and assessment of its financial and liquidity position, the ANDRITZ GROUP has implemented a comprehensive policy and a transparent information system. The individual risks relating to financial instruments are described below. A detailed presentation of strategic and operative risks can be found in the Management report in chapter “Risk Management”.

### a) Credit risks

In order to control the credit risks from trade receivables outstanding effectively, the ANDRITZ GROUP has established a uniform risk management process and compiled an appropriate Group-wide policy. In the ANDRITZ subsidiaries, the respective credit risk managers are responsible for conducting regular credit rating analyses on customers and project risk analyses, including the valuation of collateral securities. In particular, collateral securities include credit insurance, advance payments, letters of credit, and guarantees. In order to minimize the credit risks, financial transactions are conducted only within defined limits with banks and partners that have an investment grade rating.

The risk of a possible default (insolvency) by individual or several counterparties is minimized by means of an internal counterparty limit system. In this system, the maximum investment limit for each individual counterparty is determined in view of the respective counterparty's credit rating (by international rating agencies such as Moody's, Standard & Poor's, Fitch) and the credit default swap spreads (CDS spreads – indicator of the probability of the counterparty defaulting). The counterparty limit is adjusted on a monthly basis so that it is possible to react quickly in the event of credit rating changes at short notice. If there are larger, short-term changes in CDS spreads or counterparty ratings, the counterparty exposure is reduced immediately.

ANDRITZ pursues a risk-averse investment strategy. Cash is largely invested in low-risk financial assets, such as government bonds, government-guaranteed bonds, money market funds, investment funds to cover pension obligations, *Schuldscheindarlehen* insured by a certificate of deposit or term deposits. However, turbulences on the international financial markets may lead to unfavorable price developments for various securities or make them non-tradable. This could have an adverse effect on the ANDRITZ GROUP's financial result or shareholders' equity due to necessary impairment or valuation allowances. On a monthly basis the Executive Board is informed about the extent and volume of current risk exposure and the respective counterparty limits in the ANDRITZ GROUP.

Credit risks and the risk of a delay in payment by counterparties are controlled by the application of credit approvals, limits, and monitoring procedures. If appropriate, the Group obtains guarantees from governmental export agencies or similar private institutions to reduce the risk of a counterpart defaulting.

Credit risk associated with cash and cash equivalents as well as investments is low because of a wide distribution with minimum criteria defined at the same time for the creditworthiness of the contractual partners is laid down in the conservative investment strategy.

Valuation allowances are included for all known risks. The possibility of a future shortfall in payment exceeding the recorded valuation allowance cannot be avoided with certainty.

Without considering risk minimization strategies as described above, the carrying values of financial assets recorded in the financial statements represent the Group's maximum exposure to credit risk.

The available for sale category includes a balance of impairment of 947 TEUR as of December 31, 2017 (December 31, 2016: 1,603 TEUR). The loans and receivables category includes a balance of impairment for trade receivables as well as other receivables totaling to 47,386 TEUR as of December 31, 2017 (December 31, 2016: 56,231 TEUR).

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. There is no single external customer contributing more than 10% of the total Group sales. On an overall basis, there is no significant concentration of credit risk.

To ensure transparency with respect to financial risks on projects and to enable immediate countermeasures a quarterly credit risk reporting to the Executive Board has been implemented. The reporting shows the maximum expected unsecured credit risk for orders with a value of over one million euros as well as customer ratings.

## b) Liquidity risks

In order to minimize the financial risks at the best possible rate and to enhance monitoring, control, and assessment of its financial and liquidity position, the ANDRITZ GROUP has implemented a comprehensive policy and a transparent information system. The Group manages liquidity risks especially by holding adequate financial reserves, by issuing bonds, by requiring substantial customer advances, and by reconciling maturity date profiles of financial assets, receivables, and liabilities. A liquidity forecast with a defined planning horizon, quarterly updates of this rolling forecast, and existing but unused credit facilities ensure the necessary liquidity for the ANDRITZ GROUP.

The Group endeavors to mitigate the risk of payment failure by customers at the best possible rate by means of bank guarantees and export insurance. Further information can be found in the chapter "Credit risks". However, it can not be excluded that there will not be any individual payment default that will have a substantial negative impact on development of earnings and liquidity of the Group in the event of occurrence.

The ANDRITZ GROUP's position in terms of liquidity is very good and it has high liquidity reserves. The Group avoids dependence on a single bank or a few banks. In order to ensure independence, only a certain volume of each major financial product (cash and cash equivalents, financial liabilities, financial assets, guarantees, and derivatives) is handled by only one bank at a time. In the ANDRITZ GROUP, liquidity not only means the ability to meet financial obligations in the narrower sense, but also the availability of sureties. Operative business requires that bid bonds, contract performance guarantees, downpayment guarantees as well as performance and warranty bonds are provided on a continuous basis. As a result, financial flexibility is also determined by sufficient surety lines. With this diversification, ANDRITZ is seeking to minimize the counterparty risk at the best possible rate.

There are no substantial credit delays by the ANDRITZ GROUP; in general all financial liabilities are settled on due date. The following tables show the undiscounted future contractual cash flows from financial liabilities:

## 2017

(in TEUR)	Net book value	Contractual cash flows			Total
		Not exceeding 1 year	1 to 5 years	More than 5 years	
Bonds	349,759	13,563	363,563	0	377,126
Bank loans and other financial liabilities	106,671	84,999	22,310	4,473	111,782
Obligations under finance leases	18,334	1,781	13,705	4,907	20,393
Trade accounts payable	461,239	461,239	0	0	461,239
Contingent considerations	62,737	1,762	67,512	0	69,274
Other liabilities	927,204	902,430	17,860	6,914	927,204
<b>Non-derivative financial liabilities</b>	<b>1,925,944</b>	<b>1,465,774</b>	<b>484,950</b>	<b>16,294</b>	<b>1,967,018</b>
Derivatives	56,979	44,999	11,980	0	56,979
<b>Derivative financial liabilities</b>	<b>56,979</b>	<b>44,999</b>	<b>11,980</b>	<b>0</b>	<b>56,979</b>
<b>TOTAL</b>	<b>1,982,923</b>	<b>1,510,773</b>	<b>496,930</b>	<b>16,294</b>	<b>2,023,997</b>

## 2016

(in TEUR)	Net book value	Contractual cash flows			Total
		Not exceeding 1 year	1 to 5 years	More than 5 years	
Bonds	359,325	13,563	377,125	0	390,688
Bank loans and other financial liabilities	197,355	105,510	109,861	4,379	219,750
Obligations under finance leases	20,264	1,955	12,703	6,270	20,928
Trade accounts payable	499,737	499,737	0	0	499,737
Contingent considerations	62,207	1,942	68,433	0	70,375
Other liabilities	929,020	894,492	20,325	14,203	929,020
<b>Non-derivative financial liabilities</b>	<b>2,067,908</b>	<b>1,517,199</b>	<b>588,447</b>	<b>24,852</b>	<b>2,130,498</b>
Derivatives	85,440	64,306	21,134	0	85,440
<b>Derivative financial liabilities</b>	<b>85,440</b>	<b>64,306</b>	<b>21,134</b>	<b>0</b>	<b>85,440</b>
<b>TOTAL</b>	<b>2,153,348</b>	<b>1,581,505</b>	<b>609,581</b>	<b>24,852</b>	<b>2,215,938</b>

## c) Market risks

The major market risks of the ANDRITZ GROUP contain exchange rate risks, interest rate risks, and raw material price risks.

### Exchange rate risks

The currency risks of the Group occur due to the fact that the Group operates worldwide in different countries that do not have Euro as their local currency. The Group enters into foreign exchange forward contracts and swaps in order to exclude or minimize the foreign exchange risk (hedging) resulting from orders that are not invoiced in Euro. Exchange rate risks resulting from the recognition of equity are not hedged. Foreign exchange forward contracts are concluded exclusively with first-class national or international banks whose credit rating is checked continuously by Group Treasury in order to avoid a "cluster risk". The measures and regulations needed in connection with hedging of orders not invoiced in Euro are stated in the Group-wide treasury policy.

The sensitivity analysis provides an approximate quantification of the risk exposure in the event that certain specified parameters were to be changed under a specific set of assumptions. Exchange rate risks occur

particularly with the US dollar (USD), Chinese renminbi yuan (CNY), Canadian dollar (CAD), Swiss franc (CHF), Swedish krona (SEK), and Indian rupee (INR). The following details describe the sensitivity to a rise or fall in the above noted currencies against the euro (EUR) from the Group's point of view. The change shows the amount applied in internal reporting of foreign currency risk and reflects the Group's assessment of a possible change in foreign exchange rates. Currency risks in the meaning of IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature. Translation differences from converting the financial statements of foreign Group companies into the Group currency are disregarded. The sensitivity analysis includes the material financial instruments of the ANDRITZ GROUP outstanding on the balance sheet date.

The impact on net income and other comprehensive income is as follows:

(in TEUR)		2017		2016	
		Net income	Other comprehensive income	Net income	Other comprehensive income
EUR/USD	+10%	-34,294	0	-47,127	-144
	-10%	34,294	0	47,127	144
EUR/CAD	+10%	-3,789	0	-3,867	0
	-10%	3,789	0	3,867	0
EUR/CNY	+10%	7,716	0	3,727	-638
	-10%	-7,716	0	-3,727	638
EUR/SEK	+10%	1,111	0	3,580	0
	-10%	-1,111	0	-3,580	0
EUR/CHF	+10%	1,146	0	1,451	0
	-10%	-1,146	0	-1,451	0
EUR/INR	+10%	-2,329	0	232	0
	-10%	2,329	0	-232	0

The changes compared to the net income reported are mainly due to the market valuation of foreign exchange forward contracts at new rates, which are used to hedge plan items and are not included in any hedge relationship to IAS 39. These changes in fair values of derivatives are offset by the hedged order backlog.

#### Interest rate risks

In July 2012, ANDRITZ AG issued a bond with a nominal value of 350 MEUR with a tenor of seven years and a nominal interest rate of 3.875% p.a. For this bond, interest rate swaps were concluded to hedge the risk arising from the fixed interest rate of the bond. The interest rate swaps changed the fixed interest rate of the bond to a variable interest rate for the whole period. Therefore, ANDRITZ AG is exposed to 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 is applied.

The basic contractual parameters of the swaps are similar to those of the bond and therefore, the fair value hedge was virtually 100% effective. By applying the rules of hedge accounting, the gain or loss from the change in fair value of the swaps was recognized through profit or loss. The gain or loss attributable to the changes of the hedged interest rate risk led to an adjustment of the net book value of the bond and was also recognized through profit or loss. As a result, the gains and losses resulting from the swaps and the bond almost offset each other.

The ANDRITZ GROUP estimates that the exposure to interest rate risk of financial assets and liabilities is low due to the risk-averse strategy; additional significant derivatives for hedging of interest risks are not used. The interest

rate risks are managed by internal Cash-flow-at-Risk (CfaR) and Value-at-Risk (VaR) calculations as well as by prespecified limits. The limits for CfaR and VaR are set by using a benchmarking approach. Observation of the defined limits is monitored on a quarterly basis.

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

#### 2017

(in %)	EUR	USD	BRL	CNY
<b>FINANCIAL ASSETS</b>				
Cash on current accounts	0.0	0.6	0.3	0.9
Current deposits	0.1	1.2	6.8	2.8
Investments - current	0.3	0.0	0.0	4.1
Investments - non-current	0.3	0.0	0.0	0.0
<b>FINANCIAL LIABILITIES</b>				
Overdrafts on current accounts	0.0	0.5	0.0	0.0
Current loans	0.8	4.2	9.4	0.0
Non-current loans	2.8	0.0	0.0	6.3
Bonds, non-current	2.0	0.0	0.0	0.0
Schuldscheindarlehen - non-current	1.6	0.0	0.0	0.0

#### 2016

(in %)	EUR	USD	BRL	CNY
<b>FINANCIAL ASSETS</b>				
Cash on current accounts	0.0	0.1	1.8	0.6
Current deposits	0.3	0.7	13.4	1.7
Investments - current	0.5	0.0	0.0	2.7
Investments - non-current	0.2	0.0	0.0	0.0
<b>FINANCIAL LIABILITIES</b>				
Overdrafts on current accounts	0.0	0.0	0.0	0.0
Current loans	1.8	4.4	8.1	6.6
Non-current loans	4.1	0.0	10.7	6.6
Bonds, non-current	2.2	0.0	0.0	0.0
Schuldscheindarlehen - non-current	0.0	0.0	0.0	0.0

The interest rates refer to the remaining terms of the respective financial asset or financial liability.

The sensitivity analysis has been determined based on the bond's exposure to interest rates as of balance sheet date. There is no risk of a changing interest rate concerning the cash flows for ANDRITZ AG, as the issuer of the fixed-interest bearing bond. However, a change in the interest rate level would affect the fair value of the bond. Interest swaps were used for the bond to hedge the risk from the change in fair value. Interest rate sensitivity is assumed at 100 basis points in internal reporting on the interest risk. This reflects the Group's estimate with respect to a possible change in the interest rate. If interest rates change by 100 basis points and all other variables are kept constant, this would cause a change in the fair value of the swaps and a countervailing change in the net book value of the bond through profit or loss by virtually the same amount.

(in TEUR)		2017	2016
Changes in market interest rates by +100 bp	Swaps	-3,383	-5,756
	Bonds	3,383	5,756
	<b>Effect on net income</b>	<b>0</b>	<b>0</b>
Changes in market interest rates by -100 bp	Swaps	3,460	5,953
	Bonds	-3,460	-5,953
	<b>Effect on net income</b>	<b>0</b>	<b>0</b>

A rise in the interest level by 100 basis points, while simultaneously keeping all other variables constant, would have led to an increase in the interest result of 9,138 TEUR in the 2017 financial year (2016: increase of 9,644 TEUR). A decline in the interest level would have led to a decrease in the interest result in the same amount.

#### Raw material price risks

Raw materials are exposed to price fluctuation risks due to the volatility of the raw material markets. The Group uses commodity forwards mainly to hedge the price risk for copper, which is used in manufacturing of generators. Contracts are concluded exclusively with first-class banks whose credit rating is checked continuously by Group Treasury.

## M) LEASES

Leasing contains operating leases and finance leases:

### a) Operating leases

The Group has entered into various operating lease agreements for buildings (office and workshop), machinery, vehicles, and other facilities as lessee. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

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

(in TEUR)	2017	2016
Not exceeding 1 year	42,497	43,145
1 to 5 years	84,742	81,755
More than 5 years	39,373	42,973
	<b>166,612</b>	<b>167,873</b>

## b) Finance leases

ANDRITZ leases facilities for its business operations that are classified as finance leases. These largely cover rental of real estate in Raaba, Austria, and Vierkirchen, Germany, as well as rental of machinery in Aue, Germany. The lease contracts mainly comprise terms between 12 and 180 months. Future minimum lease payments under non-cancelable finance leases are as follows:

### 2017

(in TEUR)	Not exceeding 1 year	1 to 5 years	More than 5 years	Total
Total minimum lease payments	1,781	13,705	4,907	20,393
Less amount representing interest	-643	-1,294	-122	-2,059
<b>Present value of leasing payments</b>	<b>1,138</b>	<b>12,411</b>	<b>4,785</b>	<b>18,334</b>

### 2016

(in TEUR)	Not exceeding 1 year	1 to 5 years	More than 5 years	Total
Total minimum lease payments	1,973	14,408	6,279	22,660
Less amount representing interest	-589	-1,612	-195	-2,396
<b>Present value of leasing payments</b>	<b>1,384</b>	<b>12,796</b>	<b>6,084</b>	<b>20,264</b>

The following carrying amounts are included in property, plant, and equipment:

(in TEUR)	2017	2016
Land and buildings	17,457	18,246
Technical equipment and machinery	2,518	88
Other equipment, factory and office equipment	218	48
	<b>20,193</b>	<b>18,382</b>



## N) CONTINGENT LIABILITIES

In the course of its business, the ANDRITZ GROUP is party to numerous legal proceedings before both administrative and judicial courts and bodies as well as before arbitration tribunals. The substantial majority of such proceedings is typical for the Group's industry, including contract and project disputes, product liability claims, and intellectual property litigation. ANDRITZ GROUP records adequate provisions to cover the expected outcome of proceedings to the extent that negative outcomes are likely and reliable estimates can be made. There is no guarantee that these provisions will be sufficient. Given the amounts involved in some of these legal disputes, a negative decision for ANDRITZ in one or several of these disputes may have a material adverse effect on the earnings and liquidity position of the Group. In cases, where a negative outcome is unlikely, though seems possible (and is not totally remote), ANDRITZ GROUP does not record provisions. Such material cases are as follows:

The subject area product liability includes a number of cases alleging injuries and/or death resulting from exposure to asbestos. As of December 31, 2017 certain subsidiaries of the ANDRITZ GROUP are defendants in 29 asbestos cases (29 cases as of December 31, 2016) in the USA. In total, the cases involve 401 plaintiffs (431 plaintiffs as of December 31, 2016). All cases relate to claims against multiple defendants. All subsidiaries intend to defend each claim vigorously.

ANDRITZ HYDRO S.A., Brazil, faces tax claims based on allegations of joint and several liability with the Inepar Group arising out of the previous minority holding of Inepar. The tax claim enforcement actions, which were also contested, are not active as a result of Inepar's participation in the governmental tax amnesty program (REFIS). However, certain appeals by ANDRITZ relating to these claims are still active. If Inepar does not comply with its obligations under the REFIS program or its participation in the REFIS program is not confirmed, the tax proceedings against ANDRITZ HYDRO S.A. may be resumed.

## O) RELATED PARTY TRANSACTIONS

Under IAS 24 (Related Party Disclosures), related party transactions should be disclosed with companies, as far as they are not already included as consolidated companies in the consolidated financial statements of ANDRITZ AG and with individuals or their family members, respectively. Members of the Executive Board and of the Supervisory Board as well as their families have been defined as related parties. The Group's key management personnel compensation includes the remuneration of the Executive Board and the Supervisory Board.

### a) Related party transactions with companies

In addition to the companies included in the consolidated financial statements, the Group has direct or indirect relations in the ordinary course of business with non-consolidated subsidiaries and associated companies that are considered related parties of the Group. As the Group's transfer-pricing policy provides transfer prices at arm's length, no transactions are conducted that do not comply with market standards. The non-inclusion of non-consolidated entities in the consolidated financial statements has no significant impact on the Group's net assets, financial position, and profit or loss.

The extent of business relations with non-consolidated Group companies and associated companies is as follows:

(in TEUR)	2017	2016
<b>SALES AND OTHER OPERATING INCOME</b>	<b>12,427</b>	<b>9,461</b>
with non-consolidated companies	12,144	9,050
with associated companies	283	411
<b>EXPENSES</b>	<b>-18,375</b>	<b>-17,339</b>
with non-consolidated companies	-18,375	-17,327
with associated companies	0	-12
<b>TRADE AND OTHER RECEIVABLES</b>	<b>17,512</b>	<b>21,441</b>
<b>from non-consolidated subsidiaries</b>	<b>17,450</b>	<b>21,246</b>
Gross amount	26,218	27,980
Valuation allowance	-8,768	-6,734
<b>from associated companies</b>	<b>62</b>	<b>195</b>
Gross amount	502	635
Valuation allowance	-440	-440
<b>LIABILITIES</b>	<b>5,293</b>	<b>5,459</b>
to non-consolidated companies	4,964	5,113
to associated companies	329	346

## b) Related party transactions with individuals

### Executive Board

The Executive Board of ANDRITZ AG was composed of five members as of December 31, 2017:

Name	Function	Date of first appointment to Executive Board	End of current mandate
Wolfgang Leitner	President & CEO	October 1, 1987 (CFO) June 29, 1994 (President & CEO)	June 28, 2018
Humbert Köfler	Member of the Executive Board	April 1, 2007	March 31, 2020
Joachim Schönbeck	Member of the Executive Board	October 1, 2014	September 30, 2017
Wolfgang Semper	Member of the Executive Board	April 1, 2011	March 31, 2019
Mark von Laer	Chief Financial Officer	March 1, 2017	February 29, 2020

A company controlled by the President and CEO of ANDRITZ AG has ceded operation of a corporate jet aircraft owned by the company to a professional private aviation firm. The related expenses for business trips by the President and CEO and other members of the Executive Board amounted to 1,058 TEUR in 2017 (2016: 954 TEUR). As of December 31, 2017 a liability to this company amounting 44 TEUR (2016: none) was recognized in this regard. These and other business relations with companies in which members of the Supervisory Board or the Executive Board of ANDRITZ AG are involved are conducted at usual market terms and are of minor importance, both individually and collectively.

Custos Vermögensverwaltungs GmbH owns 25% plus one share, while Cerberus Vermögensverwaltung GmbH holds 0.77%. Some of the shares in these companies are held directly and some indirectly by Custos Privatstiftung and by Wolfgang Leitner, CEO of ANDRITZ AG, respectively. Certus Beteiligungs-GmbH, whose shares are owned indirectly by Manile Privatstiftung, holds 5.72%.

The remuneration of the Executive Board is composed of a fixed and a variable/success-based portion. The amount of the variable portion depends on the net profit. For contracts with members of the Executive Board, the maximum value for the variable annual remuneration was fixed at three times the fixed annual remuneration. Any amounts in excess of this sum will be credited as a variable remuneration for the following years. If the net income of the Group falls short of a defined minimum amount, this results in a "malus" that is also carried forward to the following years and in a reduction in future variable salary components.

In all share option programs for managerial staff and the Executive Board since the Initial Public Offering (IPO), participation was contingent on investing at least 20,000 EUR in ANDRITZ shares for managerial staff and 40,000 EUR for members of the Executive Board no later than the allocation date of the options. This investment must be maintained continuously until exercise of the options by those persons subscribing to the option program, and evidence thereof must be brought when the options are exercised. There is a waiting period of three years before options can be exercised if the contract of employment is still in force (exception: end of employment contract as scheduled according to contract provisions).

The members of the Executive Board are entitled to receive pension scheme benefits. In addition to a retirement pension, these include benefits in the event of occupational disability as well as pension payments for dependents following the death of the beneficiary. The retirement pension is normally paid from a certain age provided that the employment contract has already been terminated by this date. The administration work has been outsourced to pension funds. Pension contracts are either defined contribution oriented or performance oriented. In the event that the employment contract is terminated prematurely, contributions made up to this point shall still be vested. The pension amount to which the beneficiary is entitled is not subject to an escalation

clause before any benefits become payable; after this, annual adjustments can be made to take account of the development in wages and salaries and of ANDRITZ's economic status.

A large section of the Executive Board shall, upon termination of his function and concurrent termination of employment, be entitled to severance payments in the meaning of section 23 of the Austrian Employees Act unless such termination is the result of justified dismissal.

The principles applied in establishing the remuneration of the Executive Board and of senior managers comply almost entirely with the Austrian Code of Corporate Governance.

The following expenses have been recognized for the Executive Board:

(in TEUR)	2017	2016
Short-term benefits	10,018	8,823
Post-employment benefits	427	344
Share-based expenses	-331	621
	<b>10,114</b>	<b>9,788</b>

A provision was recorded for pensions of former members of the Executive Board and their dependents of 5,286 TEUR in 2017 (2016: 6,813 TEUR). Expenses for these pensions amounted to 125 TEUR in 2017 (2016: 218 TEUR).

ANDRITZ AG took out Directors' and Officers' liability insurance (D&O insurance) for 2017. The costs are covered by the company. The D&O insurance covers certain personal liability risks of persons in the ANDRITZ GROUP acting under responsibility. As in the previous year, the annual costs amount to approximately 200 TEUR.

### Supervisory Board

The ANDRITZ AG Supervisory Board consists of six appointed members and three delegated members.

Name	Function	Date of first appointment to Executive Board	End of current mandate
<b>APPOINTED MEMBERS</b>			
Christian Nowotny	Chairman of the Supervisory Board	December 29, 1999	Until the Annual General Meeting in 2022
Fritz Oberlerchner	Deputy-Chairman of the Supervisory Board	March 29, 2006	Until the Annual General Meeting in 2020
Jürgen Hermann Fechter	Member of the Supervisory Board	March 30, 2016	Until the Annual General Meeting in 2021
Alexander Isola	Member of the Supervisory Board	March 30, 2016	Until the Annual General Meeting in 2021
Monika Kircher	Member of the Supervisory Board	March 21, 2014	Until the Annual General Meeting in 2019
Kurt Stiassny	Member of the Supervisory Board	December 29, 1999	Until the Annual General Meeting in 2020
<b>DELEGATED MEMBERS</b>			
Georg Auer	Member of the Supervisory Board	July 1, 2011	
Isolde Findenig	Member of the Supervisory Board	January 1, 2012	
Andreas Martinier	Member of the Supervisory Board	February 14, 2001	

Isolde Findenig stepped down from the Supervisory Board as of December 31, 2017. She is succeeded by Monika Suppan, who was delegated to the Supervisory Board by the Works Council as of January 1, 2018.

The remuneration scheme of the Supervisory Board is composed of a fixed and an attendance-related portion. The fixed portion is a global sum, which is to be distributed such that the chairman of the Supervisory Board receives double the amount and his deputy one-and-a-half-times the amount paid to the other members. The second portion consists of a lump sum fee paid in respect of each meeting that the member attends. Subject to approval by the Annual General Meeting, the Supervisory Board remunerations for the 2017 business year amount to a total of 300 TEUR (2016: 293 TEUR). No Supervisory Board remuneration was paid to the Supervisory Board members delegated by the employee representative organizations.

## P) EXPENSES FOR SERVICES BY THE GROUP AUDITOR

(in TEUR)	2017	2016
Year-end audits	306	120
Other reviews	9	16
Other services	2	42
	<b>317</b>	<b>178</b>

## Q) EVENTS AFTER THE BALANCE SHEET DATE

There were no events of material significance after the balance sheet date.

## R) GROUP COMPANIES

Company	Main office	2017		2016	
		Share*	Type of consolidation	Share*	Type of consolidation
Anstalt für Strömungsmaschinen GmbH	Graz, Austria	100.00%	NC	100.00%	NC
ANDRITZ Technology and Asset Management GmbH	Graz, Austria	100.00%	FC	100.00%	FC
ANDRITZ Power & Water GmbH	Vienna, Austria	100.00%	FC	100.00%	FC
ANDRITZ Environment s.r.l.	Milan, Italy	100.00%	NC	-	-
ANDRITZ Environmental Engineering (Shanghai) Co., Ltd.	Shanghai, China	100.00%	FC	100.00%	FC
AE Energietechnik GmbH	Raaba, Austria	100.00%	NC	100.00%	NC
ANDRITZ SEPARATION GmbH <sup>2)</sup>	Cologne, Germany	100.00%	FC	100.00%	FC
Lenser Filtration GmbH <sup>2)</sup>	Senden, Germany	100.00%	FC	100.00%	FC
Lenser Asia Sdn. Bhd.	Petaling Jaya, Malaysia	100.00%	FC	100.00%	FC
Modul Systeme Engineering GmbH <sup>2)</sup>	Laufen, Germany	100.00%	FC	100.00%	FC
ANDRITZ KMPT GmbH <sup>2)</sup>	Vierkirchen, Germany	100.00%	FC	100.00%	FC
ANDRITZ KMPT Inc.	Florence / Kentucky, USA	100.00%	FC	100.00%	FC
ANDRITZ FBB GmbH <sup>2)</sup>	Mönchengladbach, Germany	100.00%	FC	100.00%	FC
ANDRITZ Deutschland Beteiligungs GmbH	Krefeld, Germany	100.00%	FC	100.00%	FC
ANDRITZ Ritz Immobilien GmbH	Krefeld, Germany	100.00%	FC	100.00%	FC
TANIAM GmbH & Co. KG	Pullach im Isartal, Germany	100.00%	FC	100.00%	FC
ANDRITZ GmbH	Hemer, Germany	100.00%	FC	100.00%	FC
ANDRITZ Kaiser GmbH	Bretten-Gölshausen, Germany	100.00%	FC	100.00%	FC
ANDRITZ Sundwig GmbH	Hemer, Germany	100.00%	FC	100.00%	FC
ANDRITZ Fiedler GmbH	Regensburg, Germany	100.00%	FC	100.00%	FC
ANDRITZ Fließbett Systeme GmbH	Ravensburg, Germany	100.00%	FC	100.00%	FC
Lenser Verwaltungs GmbH	Senden, Germany	100.00%	FC	100.00%	FC
ANDRITZ S.R.L.	Cisnădie, Romania	100.00%	NC	100.00%	NC
ANDRITZ HYDRO GmbH	Ravensburg, Germany	100.00%	FC	100.00%	FC
ANDRITZ Küsters GmbH	Krefeld, Germany	100.00%	FC	100.00%	FC
ANDRITZ Kufferath GmbH	Düren, Germany	100.00%	FC	100.00%	FC
AKRE Real Estate GmbH	Düren, Germany	100.00%	FC	100.00%	FC
ANDRITZ MAERZ GmbH	Düsseldorf, Germany	100.00%	FC	100.00%	FC
ANDRITZ Ritz GmbH	Schwäbisch Gmünd, Germany	100.00%	FC	100.00%	FC
ANDRITZ Atro GmbH	Nuremberg, Germany	100.00%	FC	100.00%	FC
ANDRITZ Ritz Pte. Ltd.	Singapore, Singapore	100.00%	FC	100.00%	FC
Ritz Pumps South Africa (Pty) Ltd.	Boksburg, South Africa	23.00%	NC	23.00%	NC
Ritz - Verwaltungsgesellschaft mit beschränkter Haftung	Schwäbisch Gmünd, Germany	100.00%	NC	100.00%	NC
ANDRITZ MeWa GmbH	Gechingen, Germany	100.00%	FC	100.00%	FC
ANDRITZ MeWa Kft.	Győr, Hungary	100.00%	NC	100.00%	NC
HGI Holdings Limited	Limassol, Cyprus	100.00%	NC	100.00%	NC
ANDRITZ (Wuxi) Nonwoven Technology Co. Ltd.	Wuxi, China	-	-	100.00%	NC
ANDRITZ SEPARATION AND PUMP TECHNOLOGIES INDIA PRIVATE LIMITED	Chennai, India	100.00%	FC	100.00%	FC
ANDRITZ Slovakia s.r.o.	Humenné, Slovakia	100.00%	FC	100.00%	FC

**ANDRITZ financial report 2017**  
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Company	Main office	2017		2016	
		Share*	Type of consolidation	Share*	Type of consolidation
ANDRITZ HYDRO GmbH	Vienna, Austria	100.00%	FC	100.00%	FC
ANDRITZ HYDRO S.A.S.	Fontaine, France	100.00%	FC	100.00%	FC
ANDRITZ HYDRO Private Limited	Mandideep, India	100.00%	FC	100.00%	FC
ANDRITZ HYDRO Nepal Pvt. Ltd.	Kathmandu, Nepal	100.00%	NC	-	-
ANDRITZ HYDRO S.L.	Algete, Spain	100.00%	FC	100.00%	FC
ANDRITZ HYDRO S.r.l., Unipersonale	Schio, Italia	100.00%	FC	100.00%	FC
ANDRITZ HYDRO AG	Kriens, Switzerland	100.00%	FC	100.00%	FC
ANDRITZ HYDRO S.A. de C.V.	Morelia, Mexico	100.00%	FC	100.00%	FC
ANDRITZ HYDRO AS	Jevnaker, Norway	100.00%	FC	100.00%	FC
ANDRITZ HYDRO S.A. Panama	El Dorado, Panama	100.00%	NC	100.00%	NC
ANDRITZ HYDRO Brasil Ltda.	Barueri, Brazil	-	-	100.00%	FC
ANDRITZ HYDRO Ltd. Sti.	Tekeli, Turkey	100.00%	FC	100.00%	FC
PT. ANDRITZ HYDRO	Jakarta, Indonesia	51.00%	FC	51.00%	FC
ANDRITZ HYDRO S.A.	Lima, Peru	100.00%	NC	100.00%	NC
ANDRITZ HYDRO (Pty) Ltd.	Kyalami, South Africa	100.00%	NC	100.00%	NC
ANDRITZ HYDRO Ltda.	Bogotá, Colombia	100.00%	FC	100.00%	FC
ANDRITZ HYDRO s.r.o.	Prague, Czech Republic	100.00%	NC	100.00%	NC
ANDRITZ India Private Limited	New Delhi, India	100.00%	FC	100.00%	NC
ANDRITZ HYDRO C.A.	Caracas, Venezuela	100.00%	NC	100.00%	NC
ANDRITZ Power Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00%	NC	100.00%	NC
ANDRITZ HYDRO INC.	Makati City, Philippines	100.00%	NC	100.00%	NC
PHP Philippines Hydro Project, Inc.	Makati City, Philippines	24.98%	NC	24.98%	NC
ANDRITZ Ulu Jelai Project Sdn. Bhd.	Kuala Lumpur, Malaysia	100.00%	NC	100.00%	NC
ANDRITZ HYDRO Hammerfest AS	Hammerfest, Norway	100.00%	FC	59.88%	FC
ANDRITZ HYDRO Hammerfest (UK) Limited	Glasgow, United Kingdom	100.00%	FC	100.00%	FC
ANDRITZ HYDRO UNIPESSOAL LDA	Porto, Portugal	100.00%	NC	100.00%	NC
ANDRITZ HYDRO DRC SARL	Kinshasa, Democratic Republic of the Congo	100.00%	NC	100.00%	NC
AH Pumpstorage GmbH	Vienna, Austria	60.00%	NC	60.00%	NC
ANDRITZ HYDRO Beteiligungsholding GmbH	Graz, Austria	100.00%	FC	100.00%	FC
ANDRITZ HYDRO Brasilien Beteiligungsgesellschaft mbH	Graz, Austria	100.00%	FC	100.00%	FC
ANDRITZ HYDRO S.A.	Barueri, Brazil	100.00%	FC	100.00%	FC
ANDRITZ Construcões e Montagens Ltda	Santana do Parnaíba, Brazil	100.00%	FC	100.00%	FC
ANDRITZ HYDRO (SU), LDA.	Luanda, Angola	100.00%	NC	100.00%	NC
ANDRITZ HYDRO VIETNAM COMPANY LIMITED	Hanoi, Vietnam	100.00%	NC	100.00%	NC
ANDRITZ FEED & BIOFUEL A/S	Esbjerg, Denmark	100.00%	FC	100.00%	FC
ANDRITZ FEED & BIOFUEL Brasil Ltda.	Curitiba, Brazil	100.00%	NC	100.00%	NC
ANDRITZ Chile Ltda.	Santiago de Chile, Chile	100.00%	FC	100.00%	FC
Andritz Metaliza S.A.	Santiago de Chile, Chile	50.00%	NC	50.00%	NC
ANDRITZ Powerlase Holdings Limited	West Sussex, United Kingdom	50.10%	NC	-	-

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Company	Main office	2017		2016	
		Share*	Type of consolidation	Share*	Type of consolidation
ANDRITZ Powerlase Limited	West Sussex, United Kingdom	100.00%	NC	-	-
ANDRITZ Powerlase Inc.	Novi / Michigan, USA	100.00%	NC	-	-
ANDRITZ (USA) Inc.	Alpharetta / Georgia, USA	100.00%	FC	100.00%	FC
ANDRITZ Inc.	Alpharetta / Georgia, USA	100.00%	FC	100.00%	FC
ANDRITZ Iggesund Tools Inc.	Oldsmar / Florida, USA	100.00%	FC	100.00%	FC
ANDRITZ SHW Inc.	Torrington / Connecticut, USA	100.00%	FC	100.00%	FC
ANDRITZ SEPARATION Inc.	Arlington / Texas, USA	100.00%	FC	100.00%	FC
ANDRITZ Separation Technologies Inc.	Florence / Kentucky, USA	100.00%	FC	-	-
ANDRITZ HYDRO Corp.	Charlotte / North Carolina, USA	100.00%	FC	100.00%	FC
ANDRITZ Metals Inc.	Canonsburg / Pennsylvania, USA	100.00%	FC	100.00%	FC
Genesis Worldwide II, Inc.	Alpharetta / Georgia, USA	100.00%	FC	100.00%	FC
ANDRITZ Herr-Voss Stamco, Inc.	Callery / Pennsylvania, USA	100.00%	FC	100.00%	FC
Breakaway Services LLC	Alpharetta / Georgia, USA	100.00%	FC	100.00%	FC
ANDRITZ Paperchine, Inc.	Rockton / Delaware, USA	100.00%	FC	-	-
Paperchine Canada Holdings Inc.	Coquitlam / British Columbia, Canada	100.00%	FC	-	-
JohnsonFoil (Thailand) Co Ltd	Chachoengsao, Thailand	100.00%	FC	-	-
Paperchine GmbH	Maintal, Germany	100.00%	FC	-	-
ANDRITZ S.A.S.	Châteaurox, France	100.00%	FC	100.00%	FC
ANDRITZ Selas S.A.S.	Asnières-sur-Seine, France	100.00%	FC	100.00%	FC
AST ANDRITZ Selas	Tianjin, China	40.00%	NC	40.00%	NC
Jaybee Eng. (Holdings) Pty. Ltd.	Carrum Downs / Victoria, Australia	100.00%	FC	100.00%	FC
ANDRITZ Pty. Ltd.	Carrum Downs / Victoria, Australia	100.00%	FC	100.00%	FC
ANDRITZ (NZ) Ltd.	Tauranga, New Zealand	100.00%	FC	100.00%	FC
ANDRITZ Ingeniería S.A.	Madrid, Spain	100.00%	FC	100.00%	FC
ANDRITZ Brasil Ltda.	Curitiba, Brazil	100.00%	FC	100.00%	FC
ANDRITZ SEPARATION Indústria e Comércio de Equipamentos de Filtração Ltda.	Pomerode, Brazil	100.00%	FC	100.00%	FC
Sindus ANDRITZ Ltda.	Porto Alegre, Brazil	100.00%	FC	100.00%	FC
ANDRITZ Pílo Equipamentos Ltda.	Valinhos, Brazil	100.00%	FC	100.00%	FC
ANDRITZ Oy	Helsinki, Finland	100.00%	FC	100.00%	FC
Savonlinna Works Oy	Savonlinna, Finland	100.00%	FC	100.00%	FC
ANDRITZ Hydro Oy	Tampere, Finland	100.00%	FC	100.00%	FC
Warkaus Works Oy	Varkaus, Finland	100.00%	FC	100.00%	FC
Enmas ANDRITZ Pvt. Ltd.	Chennai, India	40.00%	EQ	40.00%	EQ
Viafin Brazil Oy	Teuva, Finland	40.00%	EQ	40.00%	EQ
A&V Montagens INDUSTRIAIS Ltda.	Lapa, Brazil	100.00%	EQ	100.00%	EQ



**ANDRITZ financial report 2017**  
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Company	Main office	2017		2016	
		Share*	Type of consolidation	Share*	Type of consolidation
ANDRITZ HYDRO Canada Inc.	Pointe Claire / Quebec, Canada	100.00%	FC	100.00%	FC
ANDRITZ HYDRO Installations Inc.	Pointe Claire / Quebec, Canada	-	-	100.00%	NC
ANDRITZ Ltd.	Lachine / Quebec, Canada	100.00%	FC	100.00%	FC
ANDRITZ Paper Machinery Ltd.	Lachine / Quebec, Canada	100.00%	FC	100.00%	FC
ANDRITZ Automation Ltd.	Richmond / British Columbia, Canada	100.00%	FC	100.00%	FC
ANDRITZ Iggesund Tools Canada Inc.	Laval / Quebec, Canada	100.00%	FC	100.00%	FC
ANDRITZ HYDRO AFI, Inc.	Paris / Ontario, Canada	-	-	100.00%	FC
ANBO Inc.	Blenheim / Ontario, Canada	100.00%	FC	100.00%	FC
ANDRITZ Asselin-Thibeau S.A.S.	Elbeuf, France	100.00%	FC	100.00%	FC
ANDRITZ Gouda B.V.	Waddinxveen, The Netherlands	100.00%	FC	100.00%	FC
S.A.S.J.E. Duprat & Cie	La Roche Blanche, France	100.00%	NC	100.00%	NC
ANDRITZ AB	Örnsköldsvik / Växjö, Sweden	100.00%	FC	100.00%	FC
ANDRITZ HYDRO AB	Nällden, Sweden	100.00%	FC	100.00%	FC
ANDRITZ Ltd.	Newcastle-under-Lyme, United Kingdom	100.00%	FC	100.00%	FC
ANDRITZ (China) Ltd.	Foshan, China	100.00%	FC	100.00%	FC
Shanghai Shende Machinery Co. Ltd.	Shanghai, China	100.00%	FC	100.00%	FC
Shanghai Shenliang Mechanical Equipment and Erection Co. Ltd.	Shanghai, China	100.00%	FC	100.00%	FC
Beijing Andritz Sintai Engineering Technology Co., Ltd.	Beijing, China	40.00%	EQ	40.00%	EQ
ANDRITZ-Wolfensberger Special Alloy Foundry Co. Ltd.	Foshan, China	100.00%	FC	100.00%	FC
ANDRITZ Technologies H.K. Ltd.	Hong Kong, China	100.00%	FC	100.00%	FC
ANDRITZ Thermtec Holding B.V.	Rotterdam, The Netherlands	100.00%	FC	100.00%	FC
ANDRITZ Thermtec B.V.	Rotterdam, The Netherlands	100.00%	FC	100.00%	FC
ANDRITZ Technologies Pvt. Ltd.	Bangalore, India	100.00%	FC	100.00%	FC
ANDRITZ FEED & BIOFUEL Ltd.	Hull, United Kingdom	100.00%	FC	100.00%	FC
ANDRITZ FEED & BIOFUEL B.V.	Geldrop, The Netherlands	100.00%	FC	100.00%	FC
ANDRITZ B.V.	Den Helder, The Netherlands	100.00%	FC	100.00%	FC
ANDRITZ Singapore Pte. Ltd.	Singapore, Singapore	100.00%	FC	100.00%	FC
ANDRITZ Uruguay S.A.	Fray Bentos, Uruguay	100.00%	FC	100.00%	FC
ANDRITZ Industrias S.A.	Fray Bentos, Uruguay	100.00%	NC	100.00%	NC
ANDRITZ Pulp Technologies Punta Pereira S.A.	Montevideo, Uruguay	100.00%	FC	100.00%	FC
ANDRITZ K.K.	Tokyo, Japan	100.00%	FC	100.00%	FC
ANDRITZ DELKOR (Pty) Ltd.	Kyalami, South Africa	100.00%	FC	100.00%	FC
GKD Delkor (Pty) Ltd.	Kyalami, South Africa	100.00%	NC	100.00%	NC
PT. ANDRITZ	Jakarta, Indonesia	100.00%	FC	100.00%	FC
ANDRITZ Australia Pty. Ltd.	Melbourne / Victoria, Australia	-	-	100.00%	NC

**ANDRITZ financial report 2017**  
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Company	Main office	2017		2016	
		Share*	Type of consolidation	Share*	Type of consolidation
LLC ANDRITZ	St. Petersburg, Russia	100.00%	FC	100.00%	FC
LLC ANDRITZ HYDRO	Moscow, Russia	100.00%	NC	100.00%	NC
ANDRITZ Kufferath s.r.o.	Levice, Slovakia	100.00%	FC	100.00%	FC
ANDRITZ Kft.	Tiszakécske, Hungary	100.00%	FC	100.00%	FC
ANDRITZ Perfojet S.A.S.	Montbonnot Saint-Martin, France	100.00%	FC	100.00%	FC
ANDRITZ Biax S.A.S.	Le Bourget du Lac, France	100.00%	FC	100.00%	FC
ANDRITZ Frautech S.R.L.	Vicenza, Italy	100.00%	FC	100.00%	FC
ProGENF IP GmbH	Wolfsburg, Germany	30.00%	NC	30.00%	NC
ANDRITZ Como S.R.L.	Grandate, Italy	100.00%	NC	100.00%	NC
ANDRITZ Soutec AG	Neftenbach, Switzerland	100.00%	FC	100.00%	FC
Soutec Shanghai Ltd.	Shanghai, China	100.00%	NC	100.00%	NC
EK Finance SAS	Scorbé-Clairvaux, France	100.00%	FC	100.00%	FC
ANDRITZ Euroslot France SAS	Scorbé-Clairvaux, France	100.00%	FC	100.00%	FC
ANDRITZ Euroslot India Private Limited	Mumbai, India	74.00%	NC	74.00%	NC
Euroslot Hong-Kong PTY LTD	Hong Kong, China	-	-	55.00%	NC
Euroslot KDSS (Shanghai) Co. Ltd.	Shanghai, China	-	-	100.00%	NC
ANDRITZ FZCO	Dubai, United Arab Emirates	100.00%	NC	-	-
BAA Cyber Innovations Ltd.	Tel Aviv, Israel	50.01%	FC	-	-
ANDRITZ Iggesund Tools AB	Igesund, Sweden	-	-	100.00%	FC
ANDRITZ Beteiligungsgesellschaft IV GmbH	Krefeld, Germany	100.00%	FC	100.00%	FC
Schuler Aktiengesellschaft	Göppingen, Germany	96.62%	FC	96.62%	FC
Schuler Pressen GmbH	Göppingen, Germany	100.00%	FC	100.00%	FC
Nora Grundstücksvermietungsgesellschaft mbH & Co. Objekt Weingarten KG <sup>1)</sup>	Göppingen, Germany	-	-	100.00%	FC
Schuler Italia S.r.l.	Turin, Italy	90.00%	NC	90.00%	NC
Schuler (Dalian) Forming Technologies Co. Ltd.	Dalian, China	100.00%	FC	100.00%	FC
Schuler (China) Forming Technologies Co. Ltd.	Shanghai, China	100.00%	FC	100.00%	FC
Yangzhou Metal Forming Machine Tool Co., Ltd.	Yangzhou City, China	52.90%	FC	50.57%	FC
Binake (Yangzhou) Machinery Co., Ltd.	Yangzhou City, China	40.00%	NC	40.00%	NC
Beutler Nova AG	Gettnau, Switzerland	100.00%	FC	99.70%	FC
Schuler Presses UK Limited	Walsall, United Kingdom	100.00%	FC	100.00%	FC
BCN Technical Services Inc.	Hastings / Michigan, USA	100.00%	FC	100.00%	FC
Pressensysteme Schuler-México, S.A. de C.V.	Puebla, Mexico	100.00%	FC	100.00%	FC
Rena Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs-KG <sup>1)</sup>	Göppingen, Germany	-	-	100.00%	FC
Tianjin SMG Presses Co. Ltd.	Tianjin, China	-	-	100.00%	NC
Schuler (Tianjin) Metal Forming Technology Center Co. Ltd.	Tianjin, China	-	-	100.00%	FC

**ANDRITZ financial report 2017**  
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Company	Main office	2017		2016	
		Share*	Type of consolidation	Share*	Type of consolidation
Schuler Thailand Co. Ltd.	Banglamung Chonburi, Thailand	100.00%	NC	100.00%	NC
Gräbener Pressensysteme GmbH & Co. KG <sup>1)</sup>	Netphen, Germany	100.00%	FC	100.00%	FC
Schuler Automation GmbH & Co. KG <sup>1)</sup>	Heßdorf, Germany	100.00%	FC	100.00%	FC
Vögtle Service GmbH	Eislingen, Germany	100.00%	FC	100.00%	FC
Schuler France S.A.	Strasbourg, France	100.00%	FC	100.00%	FC
Schuler Inc.	Canton / Michigan, USA	100.00%	FC	100.00%	FC
Prensas Schuler S.A.	São Paulo, Brazil	100.00%	FC	100.00%	FC
Shanghai Schuler Presses Co. Ltd.	Shanghai, China	79.39%	FC	79.39%	FC
Gräbener Pressensysteme-Verwaltungs GmbH	Netphen, Germany	100.00%	NC	100.00%	NC
Gräbener Press Systems Inc.	Warwick / Rhode Island, USA	100.00%	NC	100.00%	NC
Schuler Automation Geschäftsführungs GmbH	Heßdorf, Germany	100.00%	NC	100.00%	NC
Schuler Ibérica S.A.U.	Sant Cugat del Valles, Spain	100.00%	NC	100.00%	NC
Schuler Slovakia Services s.r.o.	Dubnica nad Váhom, Slovakia	100.00%	NC	100.00%	NC
Schuler India Private Limited	Mumbai, India	100.00%	NC	100.00%	NC
Schuler Poland Service Sp. Z.o.o.	Kedzierzyn-Kozle, Poland	100.00%	NC	100.00%	NC
Tianjin GMS Machine Tool Service Co. Ltd.	Tianjin, China	50.00%	NC	50.00%	NC
PRESSE ITALIA - S.p.a.	Naples, Italy	95.00%	NC	95.00%	NC
AWEBA Werkzeugbau GmbH Aue	Aue, Germany	100.00%	FC	100.00%	FC
WM-Werkzeugmanagement GmbH	St. Egidien, Germany	-	-	100.00%	NC
WVL-Werkzeug- und Vorrichtungsbau Lichtenstein GmbH	St. Egidien, Germany	100.00%	FC	100.00%	FC
Dabaki Grundstücksverwaltungs gesellschaft mbH & Co. Vermietungs KG	Mainz, Germany	94.00%	FC	94.00%	FC
AWEBA Tool & Die Corp.	Dublin / Georgia, USA	-	-	100.00%	NC
Molwarga Vermietungsgesellschaft mbH & Co. Objekt Aue KG	Düsseldorf, Germany	-	-	94.90%	FC
ATF Auer Teilefertigung GmbH	Aue, Germany	100.00%	FC	100.00%	FC
LLC Schuler Service Rus	Toljatti, Russia	100.00%	NC	100.00%	NC

\* The share is shown as the share of the immediate parent company. If a subsidiary has more than one immediate parent company within the ANDRITZ GROUP the subsidiary is included with its share of the total ANDRITZ GROUP under the parent company with the majority share.

FC ... Full consolidation

EQ ... Equity valuation

NC ... Non-consolidated due to minor importance

1) The exemption rule according to section 264b HGB (German Commercial Code) is applied.

2) The exemption rule according to section 264 paragraph 3 HGB (German Commercial Code) is applied (loss transfer agreement exists).

Graz, February 23, 2018

Wolfgang Leitner m.p.  
President and CEO

Humbert Köfler m.p.  
Pulp & Paper  
(Service and Units),  
Separation

Joachim Schönbeck m.p.  
Pulp & Paper  
(Capital Systems),  
Metals

Wolfgang Semper m.p.  
Hydro

Mark von Laer m.p.  
Chief Financial Officer

# STATEMENT BY THE EXECUTIVE BOARD

## Statement by the Executive Board of ANDRITZ AG, pursuant to section 82 paragraph 4 of the (Austrian) Stock Exchange Act

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

We confirm to the best of our knowledge that the financial statements of the parent company give a true and fair view of the assets, liabilities, financial position, and profit or loss as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties the company faces.

Graz, February 23, 2018

The Executive Board of ANDRITZ AG



Wolfgang Leitner  
President and CEO



Humbert Köfler  
Pulp & Paper  
(Service & Units),  
Separation



Joachim Schönbeck  
Pulp & Paper  
(Capital Systems),  
Metals



Wolfgang Semper  
Hydro



Mark von Laer  
Chief Financial Officer

# GLOSSARY

## ATX

Austrian Traded Index, the leading stock market index of the Vienna stock exchange.

## ATX-weighting

Weighting of the ANDRITZ share according to the calculation of the Vienna stock exchange. This weighting is based on the market capitalization of public free float.

## Average number of shares traded

Number of shares which is on average traded per day by using the double count method as published by the Vienna Stock Exchange.

## Capital employed

Net working capital plus intangible assets and property, plant, and equipment.

## Capital expenditure

Additions to intangible assets and property, plant, and equipment.

## CGU

Cash generating unit.

## Dividend per share

Part of earnings per share which is distributed to shareholders.

## Earnings per share

Net income (without non-controlling interests)/weighted average number of no-par value shares.

## EBIT

Earnings before interest and taxes.

## EBITA

Earnings before interest, taxes, amortization of identifiable assets acquired in a business combination and recognized separately from goodwill and impairment of goodwill.

## EBITDA

Earnings before interest, taxes, depreciation, and amortization.

## EBT

Earnings before taxes.

## Employees

Number of employees without apprentices.

## Equity attributable to shareholders per share

Equity attributable to shareholders of the parent/weighted average number of no-par value shares.

## Equity ratio

Total shareholders' equity/total assets.

## EV

EV (Enterprise Value): Market capitalization as of end of year minus net liquidity.

## Free cash flow

Cash flow from operating activities minus capital expenditure plus payments from the sale of intangible assets and property, plant and equipment.

## Free cash flow per share

Free cash flow/total number of shares.

## Gearing

Net debt/total shareholders' equity.

## HY

Hydro business area.

## Liquid funds

Cash and cash equivalents plus investments plus Schuldscheindarlehen.

## Market capitalization

Number of shares outstanding multiplied by the closing price.

## ME

Metals business area.

## MEUR

Million euros.

## Net debt

Interest bearing liabilities including provisions for severance payments, pensions, and jubilee payments less liquid funds.

**Net liquidity**

Liquid funds plus fair value of interest rate swaps less financial liabilities.

**Net working capital**

Non-current receivables plus current assets (excluding investments, cash as well as Schuld-scheindarlehen) less other non-current liabilities and current liabilities (excluding financial liabilities and provisions).

**Order backlog**

The order backlog consists of present customer orders at the balance sheet date. Basically, it is calculated by the order backlog at the beginning of the period plus new order intake during the period less sales during the period.

**Order intake**

The order intake is the estimated order sales which have already been put into effect considering changes and corrections of the order value; letter of intents are not part of the order intake.

**Payout ratio**

Part of net income which is distributed to shareholders. It is calculated as dividend per share/earnings per share.

**Performance of the ANDRITZ share**

Relative change of the ANDRITZ share within one year.

**PP**

Pulp & Paper business area.

**Price-earnings-ratio**

Closing share price/earnings per share.

**Return on equity**

Earnings before taxes/total shareholder's equity.

**Return on investment**

Earnings before interest and taxes/total assets.

**Return on sales**

Earnings before interest and taxes/sales.

**ROE**

ROE (Return On Equity): Net income/total shareholder's equity.

**SE**

Separation business area.

**Sureties**

These contain bid bonds, contract performance guarantees, downpayment guarantees as well as performance and warranty bonds at the expense of the ANDRITZ GROUP.

**TEUR**

Thousand euros.

**Total shareholders' equity**

Total shareholders' equity including non-controlling interests.

# AUDITOR'S REPORT

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

### Audit Opinion

We have audited the consolidated financial statements of

Andritz AG,  
Graz

and its subsidiaries (the Group), comprise the consolidated Statement of Financial Position as at 31 December 2017, the consolidated Income Statement, the consolidated Statement of Comprehensive Income, consolidated Statement of Changes in Equity and consolidated Statement of Cash Flows for the year then ended, and the Notes to the consolidated Financial Statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements pursuant to section 245a UGB (Austrian Commercial Code).

### Basis for our Opinion

We conducted our audit in accordance with the EU Regulation 537/2014 ("EU Regulation") and Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report. We are independent of the audited Group in accordance with Austrian Generally Accepted Accounting Principles and professional regulations, and we have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, however, we do not provide a separate opinion thereon.

We have identified the following key audit matters:

- Project Accounting
- Valuation of Goodwill
- Valuation and completeness of tax information.

## Project Accounting

Please refer to notes 1, 19 and 24.

### Risk for the Consolidated Financial Statements

A major portion of the revenues and net income contribution results from project business. The project business comprises a large number of projects with individual project revenues of more than 100 MEUR and project terms extending over several years. Revenue is recognized according to the stage of completion of the respective projects, which is measured using the "cost-to-cost method". This method is not applied to projects for which a project loss is expected. Such loss is immediately recognized in the income statement. For completed projects the Group is liable for warranty over a defined period of time. In certain active and completed projects, the Group is involved with customers and/or suppliers with regard to contractual obligations, resulting in potential or active legal proceedings. The Group recognizes provisions for warranty liabilities as well as for potential obligations as a result of legal proceedings. Determination of the stage of completion, the estimate of costs to complete as well as the measurement of project provisions require a substantial number of assumptions and forward looking estimates. Due to the significant volume of project business, this results in a risk of project revenue, net income, and project-related balance sheet captions being materially misstated.

### Our response

When performing our audit, we obtained an understanding of the processes and internal controls relevant to project accounting and we tested the effectiveness of selected internal controls. This relates specifically to internal controls with respect to approval of project cost estimates at contract inception, approval of the ongoing, actual cost-to-budget-analysis, status reports relating to current projects, and estimate of the amount of outstanding or potentially outstanding costs to complete the project. Based on the results of these tests, we have planned additional procedures.

We have applied these procedures to a sample of current projects and we have assessed management's assumptions regarding those projects. The selection was based on risk criteria such as project volume, low or negative project margin or significant margin changes. Audit procedures mainly included: review of underlying contracts and agreements, a plausibility check on current project information, inquiries to individuals responsible for project execution or project controlling as to the reasonableness of estimates and assumptions used, evaluation of the estimation accuracy by comparing actual results with prior period estimates, and reconciliation of the facts used for estimates with contract information and other relevant documents. In addition, we have evaluated the method used to determine the stage of completion and the proper allocation of contract cost to individual contracts. To assess whether the provisions for litigations and claims from costumers are appropriate, we have read the relevant documents, obtained confirmation letters from lawyers and discussed the cases with personnel involved and inspected their documentation.

## Valuation of Goodwill

Please refer to note 11.

### Risk for the Consolidated Financial Statements

Goodwill capitalized in the consolidated statement of financial position as of 31 December 2017 amounts to 547.6 MEUR. Once a year or if a triggering event occurs Andritz AG conducts an impairment test in order to confirm the value of goodwill.



Testing goodwill for impairment requires a considerable number of estimates concerning future development of revenues, earnings, and net cash inflows as well as assumptions on discount rates used, and is therefore exposed to significant uncertainty. For the financial statements, this leads to the risk of goodwill being overstated.

#### **Our response**

We have evaluated the reasonableness of forward looking estimates and significant assumptions as well as the valuation methodologies used, involving our own valuation experts.

We have reconciled the revenue and margin projections used for impairment testing to the Group's current business plan and have tested the underlying assumptions for reasonableness in discussions with the management and reconciliation to information relating to the current and expected development of the respective cash generating units. We also verified the historical accuracy of the business plan by comparing plans for prior periods with the actual results.

With regard to the discount rates used, we have tested the underlying assumptions by comparing them to market- and industry-specific benchmarks and methodologies, and we have reviewed the respective calculation formula, involving our own valuation experts.

## **Valuation and completeness of tax information**

Please refer to notes N and 8.

#### **Risk for the Consolidated Financial Statements**

The Group's business activities are located in a large number of legislations spread over virtually all areas of the world. Consequently, the Group is subject to various different tax jurisdictions and resulting obligations. This includes income taxes as well as transactional taxes. In addition, the relevant financial reporting standards, especially IAS 12 Income Taxes, contain comprehensive rules that require estimates on future developments and involve a high degree of complexity in their application.

This may lead to a situation where current or deferred taxes are not correctly determined, existing tax obligations are not properly recognized and tax risks are not appropriately assessed, or tax receivables and deferred tax assets cannot be used. For the financial statements, there is a risk of tax liabilities or provisions being omitted or understated or of tax receivables or deferred tax assets being overstated.

#### **Our response**

By involving tax specialists, we have tested the recognition and valuation of assets and liabilities relating to income and transactional taxes for completeness and accuracy at Group and at individual subsidiary level. In addition, we have obtained external confirmations about the tax status of Andritz AG and significant subsidiaries from the respective tax representatives or advisors, and we have assessed whether existing facts and circumstances are properly reflected in the financial statements (including notes). We have tested tax receivables for collectability and have verified the tax planning, which is the basis for recognition and valuation of deferred tax assets in accordance with the underlying assumptions and estimates of future developments.

## **Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements**

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

requirements pursuant to section 245a UGB (Austrian Commercial Code) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is also responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement – whether due to fraud or error – and to issue an auditor's report that includes our audit opinion. Reasonable assurance represents a high level of assurance, but provides no guarantee that an audit conducted in accordance with the EU Regulation and Austrian Standards on Auditing (and therefore ISAs), will always detect a material misstatement, if any. Misstatements may result from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation and Austrian Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, we design and perform audit procedures responsive to those risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk of not detecting material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the respective note in the consolidated financial statements. If such disclosures are not appropriate, we will modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of our audit as well as significant findings, including any significant deficiencies in internal control that we identify during our audit.
- We communicate to the audit committee that we have complied with the relevant professional requirements in respect of our independence, that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, the related safeguards.
- From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit i.e. key audit matters. We describe these key audit matters in our auditor's report unless laws or other legal regulations preclude public disclosure about the matter or when in very rare cases, we determine that a matter should not be included in our audit report because the negative consequences of doing so would reasonably be expected to outweigh the public benefits of such communication.

## REPORT ON OTHER LEGAL REQUIREMENTS

### Group Management Report

In accordance with the Austrian Generally Accepted Accounting Principles, the group management report is to be audited as to whether it is consistent with the consolidated financial statements and prepared in accordance with legal requirements. It is our responsibility to determine whether the consolidated non-financial statement has been prepared as part of the group management report, to read and assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact.

Management is responsible for the preparation of the group management report in accordance with the Austrian Generally Accepted Accounting Principles.

We have conducted our audit in accordance with generally accepted standards on the audit of group management reports as applied in Austria.

#### Opinion

In our opinion, the group management report is consistent with the consolidated financial statements and has been prepared in accordance with legal requirements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

#### Statement

Based on our knowledge gained in the course of the audit of the consolidated financial statements and our understanding of the Group and its environment, we did not note any material misstatements in the group management report.

## Other Information

Management is responsible for other information. Other information is all information provided in the annual report, other than the consolidated financial statements, the group management report, and the auditor's report.

Our opinion on the consolidated financial statements does not cover other information and we do not provide any assurance thereon.

In conjunction with our audit, it is our responsibility to read this other information and to assess whether, based on knowledge gained during our audit, it contains any material inconsistencies with the consolidated financial statements or any apparent material misstatement of fact. If we conclude that there is a material misstatement of fact in other information, we must report that fact. We have nothing to report in this regard.

## Additional Information in accordance with Article 10 EU Regulation

At the Annual General Meeting dated 28 March 2017, we were elected as group auditors. We were appointed by the Supervisory Board on 13 October 2017. We have been the Group's auditors from the year ended 31 December 2016 without interruption.

We declare that our opinion expressed in the "Report on the Consolidated Financial Statements" section of our report is consistent with our additional report to the Audit Committee, in accordance with Article 11 EU Regulation.

We declare that we have not provided any prohibited non-audit services (Article 5 Paragraph 1 EU Regulation) and that we have ensured our independence throughout the course of the audit, from the audited Group.

## Engagement Partner

The engagement partner is Mr. Helmut Kerschbaumer.

Vienna, 23. February 2018

KPMG Austria GmbH  
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Signed by:  
Mag. Helmut Kerschbaumer  
Wirtschaftsprüfer  
(Austrian Chartered Accountant)

This report is a translation of the original report in German, which is solely valid.  
The consolidated financial statements together with our auditor's opinion may only be published if the consolidated financial statements and the group management report are identical with the audited version attached to this report. Section 281 Paragraph 2 UGB (Austrian Commercial Code) applies.

# GRI INDEX

## General standard disclosures

	Short description	Page
<b>Organizational profile</b>		
102-1	Name of organization	Cover
102-2	Primary brands, products and services	andritz.com, Financial report p. 88f
102-3	Location of the organization's headquarters	Graz, Austria
102-4	Overview of the organization's locations	andritz.com
102-5	Nature of ownership and legal form	Financial report p. 40
102-6	Markets served	Financial report p. 5
102-7	Scale of organization	Annual report
102-8	Information on employees and other workers (by gender, employment contract, region etc.)	Financial report p. 152
102-9	Description of organization's supply chain	Financial report p. 28
102-10	Significant changes to the organization and its supply chain	Financial report p. 14, p. 67
102-11	Report whether and how the precautionary approach or principle is addressed by the organization	Financial report p. 26
102-12	List externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes	Financial report p. 26
102-13	Memberships of associations	Memberships in associations are held by the respective business areas and are not managed centrally
<b>Strategy</b>		
102-14	Statement from the most senior decision-maker of the organization	Annual report p. 1
<b>Ethics and integrity</b>		
102-16	Values, principles, standards and norms of behaviour	Financial report p. 25, p. 49
<b>Governance</b>		
102-18	Governance structure and its composition	Financial report p. 44
<b>Stakeholder engagement</b>		
102-40	List of stakeholder groups engaged	<a href="https://www.andritz.com/group-en/about-us/gr-sustainability">https://www.andritz.com/group-en/about-us/gr-sustainability</a>
102-41	Percentage of total employees covered by collective bargaining agreements	At the largest locations in Europe and China the figure is 100%; individual regulations for the USA and India; no data for other regions available
102-42	Identification and selection of stakeholders with whom to engage	Stakeholder analysis 2015
102-43	Stakeholder engagement	Financial report p. 24
102-44	Key topics and concerns raised through stakeholder engagement	Financial report p. 24
<b>Reporting practice</b>		
102-45	Entities included in the organization's consolidated financial statements	Financial report p. 133ff
102-46	Defining report content and topic boundaries	Financial report p. 24
102-47	List of material topics	Financial report p. 24
102-48	Restatements of information	Financial report p. 25
102-49	Changes in reporting	No significant changes
102-50	Reporting period	2017
102-51	Date of most recent report	March 2 <sup>nd</sup> , 2018
102-52	Reporting cycle	annual

	Short description	Page
102-53	Contact point for questions regarding the report	csr@andritz.com
102-54	Claims of reporting in accordance with the GRI Standards	Core
102-55	GRI content index	Financial report p. 148
102-56	External assurance	Within the framework of NaDiVeG

## Category: Economic

Material aspects	Topic-specific disclosures	Page	Omissions/ Explanations
<b>GRI 201: Economic performance</b>			
201-2	Direct economic value generated and distributed	Financial report p. 6ff	
201-2	Financial implications and other risks and opportunities due to climate change	Financial report p. 35	
201-3	Defined benefit plan obligations and other retirement plans	Financial report p. 107ff	
201-4	Financial assistance received from government	Financial report p. 83	
<b>GRI 204: Procurement practices</b>			
	Management approach disclosures	Financial report p. 28ff	
204-1	Proportion of spending on local suppliers at significant locations of operations	Financial report p. 29	

## Category: Environmental

Material aspects	Topic-specific disclosures	Page	Omissions/ Explanations
<b>GRI 302: Energy</b>			
	Management approach disclosures	Financial report p. 31	
302-1	Energy consumption within the organization	Financial report p. 156	Reported in Manufacturing, as this is the area with the highest consumption
302-5	Reductions in energy requirement of sold products and services	Financial report p. 35ff	Reported descriptively
<b>GRI 303: Water</b>			
	Management approach disclosures	Financial report p. 34	
303-1	Total water withdrawal by source	Financial report p. 156	Reported in Manufacturing, as this is the area with the highest consumption
<b>GRI 306: Effluents and waste</b>			
	Management approach disclosures	Financial report p. 34	
306-1	Total water discharge	Financial report p. 156	Reported in Manufacturing
306-2	Waste by type and disposal method	Financial report p. 157	Reported in Manufacturing
<b>GRI 307: Environmental compliance</b>			
307-1	Non-compliance with environmental laws and regulations		No complaints have been received on a groupwide level in the reporting period
<b>GRI 308: Supplier environmental assessment</b>			
308-1	New suppliers that were screened using environmental criteria	Financial report p. 29	

## Category: Social

Material aspects	Topic-specific disclosures	Page	Omissions/ Explanations
<b>GRI 401: Employment</b>			
	Management approach disclosures	Financial report p. 25	
401-1	New employee hires and employee turnover	Financial report p. 154	Reported according to gender and age only
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees		Social benefits are available to all employees regardless of their contract of employment and only vary from one country to another as a result of the legal requirements.
401-3	Parental leaves	Financial report p. 26	
<b>GRI 402: Labor/Management relations</b>			
402-1	Minimum notice periods regarding operational changes	Financial report p. 26	Reported descriptively
<b>GRI 403: Occupational health and safety</b>			
	Management approach disclosures	Financial report p. 30	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Financial report p. 31	
<b>GRI 404: Training and education</b>			
	Management approach disclosures	Financial report p. 26f	
404-1	Average hours of training per year per employee	Financial report p. 154	
404-3	Percentage of employees receiving regular performance and career development reviews	Financial report p. 155	
<b>GRI 405: Diversity and equal opportunity</b>			
	Management approach disclosures	Financial report p. 26	
405-2	Ratio of basic salary and remuneration of women to men	Financial report p. 26	
<b>GRI 406: Non-discrimination</b>			
	Management approach disclosures	Financial report p. 26	
406-1	Incidents of discrimination and corrective actions taken		Cases of discrimination are dealt with by the regional compliance officers, sometimes in cooperation with the member of the compliance committee responsible for HR topics. At the moment there are no global records concerning the number of incidents.
<b>GRI 408: Child labor</b>			
	Management approach disclosures	Financial report p. 26	
408-1	Operations and suppliers at significant risk for incidents of child labor		Even if there is a certain risk of child labor in some countries in which ANDRITZ has locations, child labor locations is virtually precluded through strict internal rules and controls.



Material aspects	Topic-specific disclosures	Page	Omissions/ Explanations
<b>GRI 409: Forced or compulsory labor</b>			
	Management approach disclosures	Financial report p. 26	
409-1			Even if there is a certain risk of forced and compulsory labor in some countries in which ANDRITZ has locations, forced and compulsory labor is virtually precluded through strict internal rules and controls.
	Operations and suppliers at significant risk for incidents of forced and compulsory labor		
<b>GRI 412: Human rights assessment</b>			
	Management approach disclosures	Financial report p. 29	
412-2	Employee training on human rights policies or procedures		Shall be implemented mid-term
<b>GRI 414: Supplier social assessment</b>			
	Management approach disclosures	Financial report p. 29f	
414-1	New suppliers that were screened using social criteria	Financial report p. 29f	
414-2	Negative social impacts in the supply chain and actions taken	Financial report p. 29f	
<b>GRI 418: Customer privacy</b>			
	Management approach disclosures		Strict requirements that are checked by the Legal Compliance Group Function
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		No complaints on a groupwider level in the reporting period
<b>GRI 419: Socioeconomic Compliance</b>			
	Management approach disclosures	Financial report p. 49	
419-1	Non-compliance with laws and regulations in the social and economic area		No complaints on a groupwider level in the reporting period

# CSR DATA OVERVIEW

## Employees

### Employees by gender, age group, type of employment and employment contract

	Absolute 2017	Absolute 2016	Percentage 2017	Percentage 2016
Men	21,630	21,362	85%	85%
Women	3,936	3,800	15%	15%
<b>TOTAL</b>	<b>25,566</b>	<b>25,162</b>	<b>100%</b>	<b>100%</b>
< 30 years old	3,860	4,076	15%	16%
30-50 years	14,574	14,129	57%	56%
> 50 years old	7,132	6,957	28%	28%
<b>TOTAL</b>	<b>25,566</b>	<b>25,162</b>	<b>100%</b>	<b>100%</b>
White-collar workers	16,210	15,435	63%	61%
Blue-collar workers	9,356	9,727	37%	39%
<b>TOTAL</b>	<b>25,566</b>	<b>25,162</b>	<b>100%</b>	<b>100%</b>
Full-time	24,705	24,356	97%	97%
thereof male	20,355	n.a.*	82%	n.a.
thereof female	4,350	n.a.	18%	n.a.
Part-time	861	806	3%	3%
thereof male	326	n.a.	38%	n.a.
thereof female	535	n.a.	62%	n.a.
<b>TOTAL</b>	<b>25,566</b>	<b>25,162</b>	<b>100%</b>	<b>100%</b>
Permanent	22,373	21,850	88%	87%
thereof male	17,998	n.a.	80%	n.a.
thereof female	4,375	n.a.	20%	n.a.
Temporary	3,193	3,312	12%	13%
thereof male	2,661	n.a.	83%	n.a.
thereof female	532	n.a.	17%	n.a.
<b>TOTAL</b>	<b>25,566</b>	<b>25,162</b>	<b>100%</b>	<b>100%</b>

\* n.a. = not available

### Employees per region

	Absolute 2017	Absolute 2016	Percentage 2017	Percentage 2016
Europe	14,574	14,787	58%	59%
China	3,155	3,090	12%	12%
South America	2,893	2,901	11%	12%
North America	3,093	2,770	12%	11%
Asia (without China)	1,778	1,537	7%	6%
Rest of the world	73	77	0%	0%
<b>TOTAL</b>	<b>25,566</b>	<b>25,162</b>	<b>100%</b>	<b>100%</b>

## Personnel expenditure

(in MEUR)	2017	2016
<b>TOTAL Expenditure on wages and salaries*</b>	<b>1,717.8</b>	<b>1,656.6</b>

\* Including wages and salaries, social security contributions, pensions, severance payments, and other social expenses.

## Newly hired employees by gender and age group

	Absolute 2017	Absolute 2016	Percentage 2017	Percentage 2016
Men	3,703	3,538	85%	85%
Women	633	612	15%	15%
< 30 years old	1,534	1,412	35%	34%
30-50 years	2,287	2,107	53%	51%
> 50 years old	515	631	12%	15%
<b>TOTAL</b>	<b>4,336</b>	<b>4,150</b>	<b>100%</b>	<b>100%</b>

## Fluctuation by gender and age group

	Contracts terminated 2017	Contracts terminated 2016	Fluctuation rate 2017*	Fluctuation rate 2016*
Men	3,206	3,043	14.8%	14.3%
Women	452	456	11.7%	12.0%
< 30 years old	859	954	22.0%	23.7%
30-50 years	1,874	1,781	13.0%	12.6%
> 50 years old	925	764	13.0%	11.1%
<b>TOTAL</b>	<b>3,658</b>	<b>3,499</b>	<b>14.4%</b>	<b>14.0%</b>
<b>without site workers**</b>	<b>2,968</b>	<b>2,687</b>	<b>11.6%</b>	<b>10.7%</b>

\* Calculation of fluctuation rate: contracts terminated in relation to the average number of employees. Contracts terminated include dismissals by the employer and resignation of employees, including project-related site workers.

\*\* Projection

## Parental leave periods by gender

	Absolute 2017	Absolute 2016	Percentage 2017	Percentage 2016
Men	202	155	0.9%	0.7%
Women	226	197	5.7%	5.2%
<b>TOTAL</b>	<b>428</b>	<b>352</b>		

\* Percentage of the total workforce of the ANDRITZ GROUP

## Expenditure on education and training

	2017	2016
<b>TOTAL (in TEUR)</b>	<b>11,726</b>	<b>10,334</b>
Average expenditure per employee (EUR)	456	411
Total training hours*	388,381	384,871

\* The change results largely from the improvement in data quality.

## Employees appraisals

	2017	2016
Men	71%	69%
Women	64%	61%
<b>TOTAL</b>	<b>70%</b>	<b>68%</b>

\* Percentage of the total workforce that took part in employee appraisals during the reported period

## Average duration of employment by age group and region

(in years)	Europa 2017	Europe 2016	North America 2017	North America 2016	South America 2017	South America 2016	China 2017	China 2016	Asia (excl. China) 2017	Asia (excl. China) 2016
< 30 years old	4.2	4.5	2.5	2.6	2.3	2.1	2.9	3.4	2.8	3.8
30-50 years	10.7	11.1	6.7	7.6	5.7	5.7	8.8	8.6	7.5	8.9
> 50 years old	22.6	23.1	14.8	15.8	10.8	11.0	19.7	18.9	11.6	13.3
<b>TOTAL</b>	<b>13.9</b>	<b>14.3</b>	<b>9.4</b>	<b>10.3</b>	<b>5.9</b>	<b>5.4</b>	<b>8.3</b>	<b>8.1</b>	<b>7.1</b>	<b>8.4</b>

## Accident statistics

	2017	2016
Accidents at work (with more than three days of absence)	304	362
Accident frequency (accidents with more than three days of absence per 1 million working hours)	6.1	7.1
Fatal accidents at work	1	1
Severity of accidents (absence periods in hours per accident)	144	132

## Procurement

### Purchasing volume

(in MEUR)	2017	2016
<b>TOTAL</b>	<b>4,021.5</b>	<b>4,083.9</b>
thereof external suppliers	2,814.8	2,844.1
thereof internal suppliers	1,182.2	1,223.5
thereof consolidated purchasing volume	24.4	16.4
Local percentage of external purchasing volume	71.3%	72.9%

\* Percentage of local purchasing volume that was bought in the respective country

### Purchasing volume by region

(in %)	2017	2016
Europe	70.4	68.5
China	11.5	11.5
North America	9.6	10.0
South America	3.2	5.1
Asia (without China)	4.8	4.3
Other	0.6	0.6

## Environment

### Overall electricity consumption

	Unit	2017	2016
<b>TOTAL</b>	<b>kWh</b>	<b>197,305,539</b>	<b>180,532,508</b>
thereof manufacturing	%	85	86
thereof office buildings	%	15	14

\* For 2017 and 2016, only office buildings attached to a manufacturing site were included.

### Energy consumption within the organization

	Unit	2017	2016
Heating oil (for heating and production processes)	MJ	102,205,463	92,232,031
Natural gas (for heating and production processes)	MJ	536,081,125	531,325,296
District heating	kWh	30,527,041*	20,347,838
Liquid (petrol) gas	MJ	30,589,718	32,516,426
Diesel	MJ	23,062,247	22,203,884
Gasoline	MJ	6,362,964*	3,957,017

\* The increase results mainly from two large manufacturing locations in China and Germany being included in the data collection for the first time.

### Water consumption and disposal of waste water in manufacturing

(in m³)	2017	2016
Surface water	19,420	9,300
Ground water	34,328	10,949
Municipal water supplies	522,887	383,958
Rain water	14,709	11,348
<b>TOTAL</b>	<b>591,344**</b>	<b>415,555</b>
Disposal of waste water*	584,448	410,201

\* As water is reused at some site (mainly in Asia) for watering green spaces, the figures for overall water consumption and disposal of waste water may differ.

\*\* The increase results mainly from two large manufacturing locations in China and Germany being included in the data collection for the first time.

### Waste from manufacturing

(in kg)	2017	2016
<b>Non-hazardous waste recycled</b>	<b>30,492,322</b>	<b>28,516,490</b>
thereof waste metal	29,059,382	27,673,251
thereof waste paper and cardboard	870,930	588,136
thereof plastics	562,010	255,103
<b>Non-hazardous waste incinerated</b>	<b>5,606,045</b>	<b>4,416,316</b>
thereof waste paper and cardboard	31,102	87,937
thereof wood waste	3,292,882	2,748,355
thereof plastics	208,740	110,910
thereof residual waste	1,496,064	1,443,414
thereof other non-hazardous waste	481,320	25,700
thereof bulk waste	42,140	n.a.
thereof polystyrene	1,517	n.a.
thereof washing / cleaning agents residuals	52,280	n.a.
<b>Non-hazardous waste landfill</b>	<b>6,460,007</b>	<b>4,955,508</b>
thereof waste paper and cardboard	29,325	91,159
thereof plastics	7,295	148,175
thereof residual waste	6,423,387	4,716,174
<b>Processing of old electrical appliances and electronic devices</b>	<b>47,982</b>	
E-waste disposal	47,982	n.a.
<b>Hazardous waste processing</b>	<b>218,396</b>	
thereof lamps	218,396	n.a.
<b>Hazardous waste incineration</b>	<b>613,275</b>	<b>146,406</b>
thereof fat remover	241,120	
thereof mix of solvents	372,137	146,406
<b>Hazardous waste landfill</b>	<b>1,693,293</b>	<b>3,039,315</b>
thereof old paints	277,763	381,174
thereof other hazardous waste	1,415,530	2,658,141
<b>TOTAL</b>	<b>45,131,320</b>	<b>41,074,035</b>

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## Disclaimer

Certain statements contained in the 2017 annual report and in the 2017 annual financial report constitute “forward-looking statements.” These statements, which contain the words “believe”, “intend”, “expect”, and words of a similar meaning, reflect the Executive Board’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. The 2017 annual report and the 2017 annual financial report contain assumptions and forecasts based on the information available up to the copy deadline on February 23, 2018. If the premises for these assumptions and forecasts do not occur, or risks indicated in the chapter “Risk Management” and in the management report in the 2017 annual financial report do arise, actual results may vary from the forecasts made in the 2017 annual report and in the 2017 annual financial report. Although the greatest caution was exercised in preparing data, all information related to the future is provided without guarantee.

**ANDRITZ AG**

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