

Corporate Governance report

ANDRITZ has adopted the rules of conduct laid down in the Austrian Code of Corporate Governance and regards the Code as an essential requirement for implementation of responsible company management and control, which is directed towards creating sustainable added value and 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.

Mandatory information according to Article 243b of the Austrian Business Code (Unternehmensgesetzbuch – UGB)

ANDRITZ has adopted the Austrian Code of Corporate Governance, which is publicly accessible and available on the ANDRITZ web site at www.andritz.com, and at www.corporate-governance.at, the website of the Austrian Working Group for Corporate Governance.

Categories of rules of the Austrian Code of Corporate Governance

The Austrian Corporate Code of Corporate Governance encompasses the following three categories of rules:

- L-Rules** (Legal Requirement): referring to mandatory legal requirements.
- C-Rules** (Comply or Explain): These rules are to be followed or any deviation must be explained and the reasons stated therefor in order to be in compliance with the Code;
- R-Rules** (Recommendation): the nature of this rule is a recommendation; non-compliance with this rule requires neither disclosure nor explanation.

ANDRITZ states as follows regarding the requirements of and the deviations from the Code's C-Rules:

C-Rule 31, C-Rule 51: ANDRITZ AG believes that the publication of the remuneration of single Executive Board members and single Supervisory Board members does not provide the shareholders and other stakeholders with any additional information relevant to the capital market. It would, therefore, not provide them with additional knowledge gain under economic aspects.

Composition of the Executive Board according to Article 243b, para. 2 UGB

The ANDRITZ AG Executive Board consists of five members:

Wolfgang Leitner, born on March 27, 1953

- President and Chief Executive Officer
- Responsibilities on the Board: central Group functions such as Controlling, Finance, Treasury, Legal Matters, Internal Auditing, Information Technology, Investor Relations, Corporate Communications, Human Resources Management, as well as Organization and Business Process Development
- First appointed as President and CEO on June 29, 1994; as CFO on October 1, 1987
- Current mandate ends on June 28, 2013
- Supervisory board mandates in other listed companies in Austria and abroad: none

Franz Hofmann, born on February 16, 1949

- Responsibilities on the Board: METALS and ENVIRONMENT & PROCESS business areas, Group-wide for Automation
- First appointed on June 1, 1999
- Current mandate ends on March 31, 2011
- Supervisory board mandates in other listed companies in Austria and abroad: none

Karl Hornhofer, born on March 9, 1968

- Responsibilities on the Board: Capital Systems segment of the PULP & PAPER business area, Group-wide for Quality Management
- First appointed on January 1, 2007
- Current mandate ends on December 31, 2014
- Supervisory board mandates in other listed companies in Austria and abroad: none

Humbert Köfler, born on January 11, 1961

- Responsibilities on the Board: Service & Units segment of the PULP & PAPER business area, Group-wide for Procurement
- First appointed on April 1, 2007
- Current mandate ends on March 31, 2015
- Supervisory board mandates in other listed companies in Austria and abroad: none

Friedrich Papst, born on November 6, 1952

- Responsibilities on the Board: HYDRO and FEED & BIOFUEL business areas, Group-wide for Manufacturing
- First appointed on April 1, 1999
- Current mandate ends on December 31, 2015 (mandate extended by further five years on December 31, 2010)
- Supervisory board mandates in other listed companies in Austria and abroad: none

Relating to the successor arrangement for Franz Hofmann, who will retire on March 31, 2011, the Supervisory Board of ANDRITZ AG took the following resolutions regarding Executive Board responsibilities, effective as of April 1, 2011: Wolfgang Semper will be appointed as new member of the Executive Board with responsibility for the HYDRO business area together with Friedrich Papst and for Automation on a Group-wide level. Wolfgang Semper has been successfully heading the Large Hydro division of the ANDRITZ HYDRO business area since 2000. In addition to their other duties, Friedrich Papst will assume responsibility for the METALS business area and Humbert Köfler for the ENVIRONMENT & PROCESS business area. The areas of responsibility assigned to Wolfgang Leitner, President and CEO, and to Karl Hornhofer, member of the Executive Board, will remain unchanged.

Composition of the Supervisory Board according to Article 243b, para. 2 UGB

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

Appointed members:

Hellwig Torggler, born on August 26, 1938

- Chairman of the Supervisory Board
- First delegated on September 6, 2000
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2013
- Supervisory board mandates in other listed companies in Austria and abroad: none

Kurt Stiassny, born on October 6, 1950

- Deputy chairman of the Supervisory Board
- First appointed on December 29, 1999
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2014
- Supervisory board mandates in other listed companies in Austria and abroad: Austria Email AG

Peter Mitterbauer, born on November 14, 1942

- First appointed on April 8, 2003
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2013
- Supervisory board mandates in other listed companies in Austria and abroad: Oberbank AG, Rheinmetall AG

Christian Nowotny, born on July 23, 1950

- First appointed on December 29, 1999
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2012
- Supervisory board mandates in other listed companies in Austria and abroad: none

Fritz Oberlerchner, born on June 16, 1948

- First appointed on March 29, 2006
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2014
- Supervisory board mandates in other listed companies in Austria and abroad: STRABAG AG, Cologne

Klaus Ritter, born on April 20, 1940

- First appointed on March 30, 2004
- Current mandate ends on the date of the Annual General Meeting deciding on the discharge for business year 2011
- Supervisory board mandates in other listed companies in Austria and abroad: none

Delegated members:

Andreas Martiner, born on November 11, 1964

- First delegated on February 14, 2001

Martha Unger, born on May 14, 1951

- First appointed on March 28, 2007

Brigitta Wasserbauer, born on June 14, 1952

- First delegated on September 6, 2000

Regarding the independence criteria, the Supervisory Board of ANDRITZ AG follows the guidelines laid down in the Corporate Governance Code, Annex 1. According to these guidelines, all members of the Supervisory Board of ANDRITZ AG, with the exception of Hellwig Torggler, can be seen as independent. No member of the Supervisory Board of ANDRITZ AG holds more than 10% of the total of shares.

Description of the working procedures of the Executive Board and the Supervisory Board in accordance with Article 243b, para. 2 UGB

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/or single business areas, such as PULP & PAPER and HYDRO. The competencies and responsibilities of the Executive Board members are listed in the notes on the Executive Board members in this Corporate Governance report. The rules of procedure 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.

Supervisory Board committees

The supervisory Board of ANDRITZ AG established an audit committee that held two meetings (March 4, 2010 and December 2, 2010) to deal with the consolidated financial statements for 2009, preparation of the consolidated financial statements for 2010, issues concerning the auditors, and implementation of the internal control and risk management systems in the ANDRITZ GROUP. The members of the audit committee are: Hellwig Torggler (Chairman), Kurt Stiassny (Deputy), Christian Nowotny and Andreas Martiner.

The Supervisory Board has also established a nomination and remuneration committee whose scope of activities includes the remuneration paid to the Executive Board members and the content of their employment contracts, appointments to Executive Board positions that become vacant, and succession planning matters. The nomination and remuneration committee held a meeting on March 26, 2010 and several discussions by phone, as well as taking circular resolutions. The members of the nomination and remuneration committee are: Kurt Stiassny (Chairman) and Hellwig Torggler (Deputy). It is planned to increase the number of members of this committee up to three and to propose to appoint the Chairman of the Supervisory Board as Chairman of this committee.

The ANDRITZ AG Supervisory Board held four regular meetings in 2010. The focal points 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 acquisitions of companies, granting of joint procurations, and other business subject to approval.

Measures to promote the appointment of women to the Executive Board, the Supervisory Board, and to management posts (Article 80, Corporation Act)

For many years now, the ANDRITZ GROUP has pursued a strategy of promoting diversity of its employees in terms of their qualification, experience and age, cultural background, gender, and similar factors.

Considerable attention is paid to maintaining a strict equal opportunities policy in the recruitment process. Recruitment of women graduates is also encouraged for posts in engineering.

Various measures have been implemented and investments made to improve the work-life balance for employees to the extent required by the social structures in the various countries. The company-run nursery school set up beside the headquarters of the ANDRITZ GROUP in Graz and the flexible working hours available to employees with young children are two examples of these measures.

In many areas, women were successful in being appointed to management posts. Only recently, Group-wide managerial posts at first and second reporting level were filled by women. ANDRITZ supports and encourages women in technical study courses.

Disclosure of information on the remunerations of the Executive Board and Supervisory Board (C-Rule 30)

- 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 income, including the consideration of linear goodwill amortization. For new 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 bonus for the following year. If the net income of the Group falls short of a defined amount, this results in a 'malus' that is also carried forward to the following year.
- As in previous share option programs, participation in the 2010 share option program 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 not 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.

- 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 a pension fund. 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, but will be adjusted annually thereafter.
- Each member of the Executive Board shall, upon termination of his/her 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.
- The principles applied in establishing the remuneration of the Executive Board and of senior managers comply with the Austrian Code of Corporate Governance.
- ANDRITZ AG took out Directors' and Officers' liability insurance (D&O insurance) for 2010. The expenses are borne 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.
- 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.
- The remuneration report for the Executive Board and the Supervisory Board of ANDRITZ AG is available in the Notes to the annual financial report 2010.

Graz, March 2011

The Executive Board of ANDRITZ AG

Wolfgang Leitner
President and CEO

Franz Hofmann

Karl Hornhofer

Humbert Köfler

Friedrich Papst