

Corporate risks

The ANDRITZ GROUP is a globally-operating company serving a variety of industrial markets and customers. As such, the Group is subject to certain general and industry-specific risks. ANDRITZ has a Group-wide control and steering system whose main task is to identify nascent risks at an early stage and – if possible – to take countermeasures.

The risks for the ANDRITZ GROUP include, but are not limited to, the following:

Risks in connection with the general economic development

Effects of the financial and economic crisis

The global economic development constitutes a considerable risk for the future financial development of the ANDRITZ GROUP and could lead to delays in the execution of existing orders and to postponement or termination of current projects. This may entail a decline in the Group's order intake. Possible cancellations of existing orders could have a negative impact on the ANDRITZ GROUP's order backlog. Both factors may have an adverse effect on the future sales and earnings developments of the Group and also on the Group's order backlog.

Turbulent conditions on the international financial markets and the resulting negative and volatile development of securities, capital, and currency markets also constitute a considerable financial risk for the ANDRITZ GROUP. The Group avoids dependence on one single or only a few banks by defining limits for certain relevant financial positions (cash and cash equivalents, financial liabilities, financial assets, guarantees, and derivatives). Cash is largely invested in traditionally low-risk financial assets, such as government bonds, government-guaranteed bonds, investment funds to cover pension obligations, or term deposits. There is, however, no way of excluding the possibility of a bank with which the ANDRITZ GROUP does business encountering financial difficulties, which could have a negative impact on the volume placed with this bank or result in ANDRITZ not having immediate or only partial access to these investments. In addition, adverse development of financial markets may lead to unfavorable price developments or illiquidity of various securities (investment funds, bonds, etc.) in which the Group has invested, which could adversely affect the ANDRITZ GROUP's financial result or shareholders' equity due to necessary depreciations of the value of such securities.

A negative economic development could create the need for complete or partial impairment of some goodwill created in the course of acquisitions if business goals cannot be reached. This might significantly influence the earnings development.

Risks related to the industries in which the Group operates

Volatility of incoming orders

Some customers and industries served by the ANDRITZ GROUP are directly dependent on general economic development 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 can be affected. The prices for products in these segments are, in part, directly dependent on the prevailing relationship between supply and demand for the goods produced by such products. Possible price fluctuations are, therefore, apt to have a direct influence on each customer's capital investment decisions, with subsequent influence on the Group's order intake. This may lead to some volatility in the development of the Group's order intake.

Customer concentration

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

Uncertainty of future contracts

Among other things, the Group's future performance depends on its 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 matching the Group's fixed costs and predicted order volume.

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.

In addition, most of the Group's systems involve technologies that pose the risk of serious or fatal injury, or property damage. Several systems involve the use of dangerous and hazardous chemicals and materials. Products of ANDRITZ are also used in primary 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, including but not limited to a spill of hazardous materials, a fire or an explosion, the Group could be held liable for extensive property damage, personal or fatal injury, and environmental remediation. While the Group maintains insurance policies for some of these risks, there is no assurance that such insurance will be sufficient or cover the risks.

Insurance matters

While the ANDRITZ GROUP maintains insurance programs to cover typical insurable risks related to its business, there can be no assurance that the amount of the Group's insurance will be adequate. Moreover, the Group is involved in certain industries (e.g. space and nuclear industries) for which such risks are typically uninsurable. Any material liability not covered by insurance would have a material adverse effect on the Group's financial condition.

Risks related to the Group's business

Currencies

The Group has operations and subsidiaries in a large number of countries outside Euroland, and a significant portion of its sales and costs are denominated in non-Euro currencies, mainly in US dollars and pounds sterling. The currencies in these countries are subject to fluctuations in exchange rates. Currency and interest rate risks are minimized by derivative financial instruments, in particular forward exchange contracts and swaps.

Although the Group attempts to hedge the net currency exposure of those orders not invoiced in Euros by arranging 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 translation effects on the Group's sales and earnings whose values are converted into Euros. In addition, shifts in exchange rates may affect ANDRITZ's position relative to its competitors, although most of the main competitors of ANDRITZ are also based in Euroland. As some of ANDRITZ's major customers are based outside Euroland, changes in exchange rates could lead to 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.

Cash flow risks are monitored via monthly cash flow reports.

Competitive position

The ANDRITZ GROUP does business in highly competitive markets. Some of the markets in which the Group competes are highly fragmented, with a few large, international manufacturers competing against each other and against a large number of smaller, local companies. In some cases, this has had an adverse impact on sales margins realized by certain of the Group's business transactions. The ANDRITZ GROUP has invested approximately 3% of total sales in research and development and has so far been able to offer its customers the latest technological developments. There is, however, no assurance that the Group can maintain and defend this position in the future.

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

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.

There is, however, 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 successful in integrating newly acquired companies, but 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 may not be exposed to new or legacy risks that have not been properly managed or identified.

Legal proceedings

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

ANDRITZ Inc., a subsidiary of the ANDRITZ GROUP, is one of many defendants in 39 asbestos cases (status as of December 31, 2010) in the USA. In aggregate, the cases involve 424 plaintiffs. All of the cases involve claims against multiple defendants. ANDRITZ Inc. does not believe it should be found liable in connection with any of these claims and intends to defend each claim vigorously.

Compliance

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 created a Compliance Committee to oversee its compliance efforts and has adopted a number of compliance policies, including compliance policies prohibiting the violation of applicable anti-trust laws and anti-bribery laws, as well as a Global Code of Conduct. While the Group attempts to make sure that such policies are observed, there can be no assurance that no violations occur. Any such violation could have a lasting adverse impact on the financial position and reputation of the Group.

Risks related to major orders and other contracts

Payment risks from customers

Much of the ANDRITZ GROUP's business involves handling major projects with a large contract value. If a customer fails to meet its payment obligations for one of these projects, this may have a negative effect on the net worth and liquidity position of the Group. The ANDRITZ GROUP tries to limit these risks by securing payment guarantees from banks and export credit insurance agencies. Even in projects covered by export credit insurance, typically only up to 85% of the sales price is secured through such insurance. Moreover, much of the Group's business for aftermarket sales and services is not secured by bank guarantees. Worsening economic conditions could adversely affect the ability of certain customers to meet their payment obligations to ANDRITZ.

In addition, there is always some risk that partial or full provisions will have to be made for some trade accounts receivable.

Performance risk of projects

In conjunction with the performance of plants supplied by ANDRITZ, in many cases the Group is under contractual obligation to provide performance guarantees and to meet certain deadlines. If the performance data stated are not achieved or if deadlines are exceeded, the Group may have to perform remedial work at its own expense or pay damages. If a guaranteed performance level or deadline is missed by a wide margin, the customer may have the right to terminate the agreement and return the delivered system to the Group for a full refund and/or recover damages. Such action could have an adverse effect on the Group's financial development.

Cost overruns

A substantial majority of the Group'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, and productivity over the term of the contract, especially on projects that include engineering and/or construction of complete plants.

In addition, since 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 exactly how much the purchased parts will cost. While estimates are made using empirical data and quotes from potential suppliers, these may not always be completely accurate. The Group has experienced significant losses on certain past and pending projects in this regard, and similar difficulties and losses may occur in the future in a way that would adversely affect the Group's financial condition.

EPC/turnkey contract risks

In a growing number of the Group's projects, ANDRITZ has responsibility for plant-wide engineering and/or construction in addition to the supply of ANDRITZ equipment. These turnkey or EPC 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 construction and installation risks. Additionally, the Group is exposed to the risks inherent in managing the third parties providing construction, installation, and engineering services on these projects. The Group has put risk management procedures in place, including insurance programs, contract policies, and project management discipline, to reduce these EPC-related risks. Nevertheless, there is no guarantee that these procedures are sufficient to prevent negative financial consequences.

Consortium risks

In many EPC projects and certain other projects, the ANDRITZ GROUP participates with third parties with whom it shares joint and several liabilities. While the Group attempts to make sure that risks in such projects are properly allocated, there can be no assurance it will 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 impact on the financial results 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 significant amount of the HYDRO business relates to projects with 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.

Risks related to the capital markets

Dependence on the development of international financial markets

Apart from company-related occurrences, development of the ANDRITZ share price is also dependent on fluctuations in prices on the international financial markets. Major price fluctuations and high volatility on major stock markets may have an adverse effect on the ANDRITZ share price.

Recommendations by analysts

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. The ANDRITZ GROUP has consistently followed a policy of open and transparent information exchange with shareholders and the financial community to minimize unfounded price fluctuations of its shares.

Active trading of ANDRITZ shares

The high level (approximately 71%) of public free float of ANDRITZ's total outstanding shares and the 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 indices, for example the ATX, the leading index of the Vienna Stock Exchange, or other national and international indices. This could result in major changes in the price of the ANDRITZ share.