

CORPORATE GOVERNANCE REPORT

The present report explains the structures, processes, and rules implemented with respect to financial management and towards shareholders, which ANDRITZ obeys 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 corporate bodies, as well as the Austrian Code of Corporate Governance.

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 www.andritz.com as well as on the website of the Austrian Working Group for Corporate Governance at www.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:

Rule 27 and Rule 30 (Disclosure of the basic principles of the remuneration system for the Executive Board): The variable portion is exclusively based 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, this is why it is not possible 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 stock option program.

Composition of the Executive Board

The Executive Board of ANDRITZ AG was composed of five members as of December 31, 2014. The Executive Board mandate of Karl Hornhofer who had been responsible for capital systems in the PULP & PAPER business area and Group-wide for quality and safety management since January 1, 2007, ended on September 30, 2014. Joachim Schönbeck was appointed as a new member of the Executive Board as of October 1, 2014.

Name (date of birth)	Function	Date of first appointment to the 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 (listed until October 30, 2014); Haas Beteiligungs- und Management GmbH; Haas Food Equipment GmbH; Franz Haas Vermögens- und Beteiligungs Aktiengesellschaft; HBB Haas Beratung und Beteiligungen GmbH
Humbert Köfler (January 11, 1961)	Member of the Executive Board	April 1, 2007	March 31, 2020	None
Friedrich Papst (November 6, 1952)	Member of the Executive Board	April 1, 1999	March 31, 2015	Schuler AG (listed until October 30, 2014)
Joachim Schönbeck (January 30, 1964)	Member of the Executive Board	October 1, 2014	September 30, 2017	Westag & Getalit AG
Wolfgang Semper (March 9, 1958)	Member of the Executive Board	April 1, 2011	March 31, 2019	None

Wolfgang Leitner

Areas of responsibility:

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

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) and SEPARATION

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

Friedrich Papst

Areas of responsibility:

HYDRO (Pumps), METALS, SEPARATION (Feed and Biofuel Technologies), as well as Group-wide Manufacturing and Procurement

Professional career:

Vice President of ANDRITZ Sprout-Bauer Inc., Director of Manufacturing at ANDRITZ AG, Director of Production Planning at ANDRITZ AG

Joachim Schönbeck

Areas of responsibility:

PULP & PAPER (Capital systems) 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 (except the Pumps division) 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

Composition of the Supervisory Board

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

In the 2014 business year, long-standing members of the Supervisory Board Hellwig Torggler (on the Supervisory Board since 2000) and Peter Mitterbauer (since 2003) withdrew from the Supervisory Board upon their retirement. Monika Kircher and Ralf Dieter were elected as new members of the Supervisory Board of ANDRITZ AG by the Annual General Meeting of Shareholders in March 2014 for the 5-year maximum period allowed by the Articles of Association.

Name (date of birth)	Function	Date of first appointment to the Supervisory Board	End of current mandate	Supervisory Board mandates in other listed companies in Austria and abroad
Appointed members:				
Christian Nowotny (July 23, 1950)	Chairman of the Supervisory Board	December 29, 1999	Until the Annual General Meeting in 2017	Schuler AG (listed until October 30, 2014)
Klaus Ritter (April 20, 1940)	Deputy-Chairman of the Supervisory Board	March 30, 2004	Until the Annual General Meeting in 2016	None
Ralf Dieter (March 25, 1961)	Member of the Supervisory Board	March 21, 2014	Until the Annual General Meeting in 2019	Homag Group AG (Chairman); Schuler AG (listed until October 30, 2014)
Monika Kircher (July 8, 1957)	Member of the Supervisory Board	March 21, 2014	Until the Annual General Meeting in 2019	None
Fritz Oberlerchner (June 16, 1948)	Member of the Supervisory Board	March 29, 2006	Until the Annual General Meeting in 2015	STRABAG AG, Cologne
Kurt Stiassny (October 6, 1950)	Member of the Supervisory Board	December 29, 1999	Until the Annual General Meeting in 2015	None

Name (date of birth)	Function	Date of first appointment to the Supervisory Board	End of current mandate	Supervisory Board mandates in other listed companies in Austria and abroad
Delegated members:				
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

Information relating to the independence of the Supervisory Board

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

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

The remuneration report explains the extent and 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 2014 business year amounted to 8,398,462 EUR (2013: 3,910,238 EUR) and are divided as follows:

<i>(in EUR)</i>	Fixed	Variable	Other remunerations	Total
Wolfgang Leitner (President and CEO)	800,000	1,849,661	9,681	2,659,342
Humbert Köfler	235,000	937,944	9,178	1,182,122
Friedrich Papst	272,907	1,499,283	9,390	1,781,580
Joachim Schönbeck	100,000	205,000	0	305,000
Wolfgang Semper	345,000	934,948	10,959	1,290,907
Karl Hornhofer (retired from the Executive Board as of September 30, 2014)	235,000	937,944	6,567	1,179,511

Basic principles of the remuneration policy

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 remuneration of the Executive Board is composed of a fixed and a variable/success-based portion, which depends on the net income generated. 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 to 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 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 following options were exercised by the Executive Board in the 2014 business year:

<i>(in EUR)</i>	Number of options	Average exercise price per option (in EUR)
Wolfgang Leitner (President and CEO)	none	-
Humbert Köfler	none	-
Friedrich Papst	none	-
Joachim Schönbeck	none	-
Wolfgang Semper	5,000	23.18
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Karl Hornhofer (retired from the Executive Board as of September 30, 2014)	20,000	23.18

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. The pension contracts are based predominantly on a defined contribution system. 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.

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.

ANDRITZ AG took out Directors' and Officers' liability insurance (D&O insurance) for 2014. 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 260,000 EUR (including Schuler).

Supervisory Board remunerations

Subject to approval by the Annual General Meeting, the Supervisory Board remunerations (including attendance fees) for the 2014 business year amount to a total of 295,000 EUR (2013: 297,500 EUR) and are divided between the individual Supervisory Board members as follows:

<i>(in EUR)</i>	Remuneration (including attendance fees)
Christian Nowotny (Chairman of the Supervisory Board)	65,000
Klaus Ritter (Deputy Chairman of the Supervisory Board)	57,500
Ralf Dieter	27,500
Monika Kircher	27,500
Fritz Oberlerchner	42,500
Kurt Stiassny	42,500
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Retired from the Executive Board as of March 21, 2014	
Hellwig Torggler	20,000
Peter Mitterbauer	12,500

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

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 2014.

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 single 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.

Supervisory Board committees

The Supervisory Board of ANDRITZ AG established an audit committee that held two meetings in the 2014 business year to deal with the annual and consolidated financial statements for 2014, prepare the review of the annual and consolidated financial statements for 2014 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.

The Supervisory Board has also established a nomination and remuneration committee that held two meetings in 2014 and whose scope of activities includes the remuneration paid to the Executive Board members and the content of their employment contracts, 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 2014 business year (four regular meetings, one constituent meeting). 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. 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.

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

Auditors

Deloitte Audit Wirtschaftsprüfungs GmbH, Vienna, was selected as independent auditor for the 2014 financial statements and the consolidated financial statements by the 107th Annual General Meeting of ANDRITZ AG, which convened on March 21, 2014.

Measures to promote the appointment of women to the Executive Board, the Supervisory Board, and to management posts

The Executive Board has no female members. The Supervisory Board has two female members, thus the proportion of women is approximately 22%. There are women in management functions in the first and second reporting levels in numerous sectors. The proportion of women in the total workforce was 15.4% (2013: 15.3%) as of December 31, 2014.

The ANDRITZ GROUP supports and encourages the appointment of women, particularly in technical sectors. Here, in many countries ANDRITZ is frequently confronted with the situation that there are still far fewer women than men in technical professions or completing university courses on 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 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. When creating office space as part of new building projects, consideration is always given to the establishment of child care facilities for the children of employees. In addition, considerable attention is paid to maintaining a strict equal opportunities policy in the recruitment process. In its efforts to promote female employees, ANDRITZ will refrain from any measures that would discriminate against male employees.

Internal auditing

The Internal Auditing Group function, which reports directly to the President & CEO of the ANDRITZ GROUP, conducts comprehensive audits on companies on the basis of a comprehensive risk analysis and the requirements of the Executive Board. The aim of these audits is to ensure compliance with Group guidelines and sound economic principles and to highlight potential for improvement in the work processes. A two-year plan for routine audits is prepared every year; in suspicious circumstances, audits are in certain cases also conducted without warning. The goal is to evaluate risk management, internal controls, and business management processes in order to ensure as far as possible that business risks are identified adequately and dealt with in an appropriate manner. In the 2014 business year, Internal Auditing conducted 40 audits worldwide (2013: 38 audits), the results of which were presented to the ANDRITZ Executive Board in the form of audit reports. The audit reports also contain specific recommendations for action to be taken.

Compliance

ANDRITZ has a Group-wide compliance committee comprising five members from the Legal, Human Resources, Controlling, and Investor Relations departments and which reports directly to the President & CEO as an independent Group function. In addition, eight regional compliance officers and one compliance manager assist the committee in its work. The compliance committee reports in detail twice a year to the Executive Board on important events and measures.

The goal of compliance activities is to update the existing rules within the company on the topics of anti-corruption, anti-trust laws, anti-discrimination, bans on insider trading, export controls, and data protection, as well as monitoring this compliance and providing training on these topics. In addition, current topics and trends in the compliance sector should be taken up promptly and implemented in suitable actions and/or new rules. All compliance documents are summarized in the Corporate Manual, which is available to all employees in the ANDRITZ Intranet for reference purposes on all important information relating to basic business principles and processes and is applicable Group-wide. The regional compliance officers are available to employees on the spot as direct contacts and training instructors.

ANDRITZ employees are requested to report any suspected violations of compliance regulations immediately. An electronic mailbox for compliance matters has been set up for this purpose and is reviewed by the members of the committee under strictest confidentiality. Furthermore, a whistle-blowing hotline is available to employees in the USA so that they can report information on potential violations immediately and anonymously.

ANDRITZ Code of Business Conduct and Ethics

The ANDRITZ GROUP is committed to integrity, respect, reliability, and sustainability. In view of the Group's growth in the past few years and in order to ensure that the common values, requirements, and guidelines are understood and obeyed by all employees, all other persons who represent ANDRITZ, but also by business partners such as customers and suppliers, ANDRITZ uses a Group-wide applicable Code of Business Conduct and Ethics. The code summarizes the basic business principles and the rules of conduct of the ANDRITZ GROUP in areas of activity with five important stakeholder groups: employees, customers and competitors, business partners and shareholders, local authorities, and governments and legislators.

All employees, including temporary staff, must obey this code. We also expect contractors, suppliers, consultants, representatives, agents, and others who may be temporarily assigned to work for ANDRITZ to comply with this Code in connection with any work or services performed on our behalf. A common understanding of correct business conduct is considered an important foundation for further corporate development, as well as in developing solutions for our customers, providing profitable growth to our shareholders or creating and maintaining a rewarding work environment for employees. The code is also an essential element in subcontracting work to suppliers and in daily collaboration with suppliers.

Compliance with the guide is reviewed primarily by the Compliance Group function, which reports to the Executive Board. Non-compliance with the code by employees can have serious consequences and lead to disciplinary measures up to and including termination of employment and even to criminal prosecution in certain instances. The consequences of non-compliance with the code on the part of suppliers, consultants or other service providers vary according to the extent and seriousness of the violation.

External evaluation of the corporate governance report

ANDRITZ AG has not yet had an external evaluation conducted on compliance with the provisions of the Austrian Code of Corporate Governance. However, there are plans to arrange for such an external evaluation in the next few years in accordance with the provisions of the Austrian Code of Corporate Governance.

Graz, February 2015

The Executive Board of ANDRITZ AG

Wolfgang Leitner m.p.
(President and CEO)

Humbert Köfler m.p.

Friedrich Papst m.p.

Joachim Schönbeck m.p.

Wolfgang Semper m.p.