

FINANCIAL REPORT

2016



ANDRITZ

Key financial figures at a glance

ANDRITZ GROUP	02
Business areas	03

Management report	04
-------------------	----

Consolidated Corporate Governance report	43
---	----

Report of the Supervisory Board	53
---------------------------------	----

Consolidated financial statements 2016 of the ANDRITZ GROUP

Consolidated income statement	55
Consolidated statement of comprehensive income	56
Consolidated statement of financial position	57
Consolidated statement of cash flows	58
Consolidated statement of changes in equity	60
Notes to the consolidated financial statements	61
Statement by the Executive Board, pursuant to section 82 (4) of the (Austrian) Stock Exchange Act	140
Glossary	141
Auditor's report – consolidated financial statements	144

GRI index	150
-----------	-----

CSR data overview	155
-------------------	-----

KEY FINANCIAL FIGURES OF THE ANDRITZ GROUP

	Unit	2016	2015	2014	2013	2012
Order intake	MEUR	5,568.8	6,017.7	6,101.0	5,611.0	4,924.4
Order backlog (as of end of period)	MEUR	6,789.2	7,324.2	7,510.6	7,388.5	6,614.8
Sales	MEUR	6,039.0	6,377.2	5,859.3	5,710.8	5,176.9
Return on sales	%	6.4	5.8	5.0	1.6	6.5
EBITDA	MEUR	542.4	534.7	472.0	255.2	418.6
EBITA ¹⁾	MEUR	442.1	429.0	379.5	164.1	357.8
Earnings Before Interest and Taxes (EBIT)	MEUR	385.8	369.1	295.7	89.8	334.5
Earnings Before Taxes (EBT)	MEUR	398.4	376.4	299.4	80.3	330.4
Net income (including non-controlling interests)	MEUR	274.8	270.4	210.0	53.2	241.3
Net income (without non-controlling interests)	MEUR	274.6	267.7	210.9	66.6	242.7
Cash flow from operating activities	MEUR	366.6	179.4	342.1	93.7	346.5
Capital expenditure	MEUR	119.5	101.4	106.5	111.4	109.1
Free cash flow	MEUR	263.7	85.0	245.8	-11.5	239.7
Free cash flow per share	EUR	2.5	0.8	2.4	-0.1	2.3
Employees (as of end of period; without apprentices)	-	25,162	24,508	24,853	23,713	17,865
Non-current assets	MEUR	1,913.7	1,844.7	2,007.4	1,851.2	1,487.0
Current assets	MEUR	4,284.9	3,933.3	3,987.8	3,720.2	3,674.0
Total shareholders' equity	MEUR	1,344.2	1,215.6	1,038.3	929.5	1,033.8
Provisions	MEUR	1,118.9	1,130.4	1,056.2	993.6	725.4
Liabilities	MEUR	3,735.5	3,432.0	3,900.7	3,648.3	3,401.8
Total assets	MEUR	6,198.6	5,778.0	5,995.2	5,571.4	5,161.0
Equity ratio	%	21.7	21.0	17.3	16.7	20.0
Return on equity	%	29.6	31.0	28.8	8.6	32.0
Return on investment	%	6.2	6.4	4.9	1.6	6.5
Liquid funds	MEUR	1,507.1	1,449.4	1,701.6	1,517.0	2,047.8
Net liquidity	MEUR	945.3	984.0	1,065.1	893.1	1,285.7
Net debt	MEUR	-550.2	-601.6	-659.4	-585.0	-1,053.3
Net working capital	MEUR	-215.8	-182.1	-570.9	-539.4	-631.8
Capital employed	MEUR	772.2	736.7	387.0	443.6	-36.5
Gearing	%	-40.9	-49.5	-63.5	-62.9	-101.9
EBITDA margin	%	9.0	8.4	8.1	4.5	8.1
EBITA margin	%	7.3	6.7	6.5	2.9	6.9
EBIT margin	%	6.4	5.8	5.0	1.6	6.5
Net income/sales	%	4.6	4.2	3.6	0.9	4.7
ROE	%	20.4	22.2	20.2	5.7	23.3
EV/EBITDA	-	7.4	6.9	7.8	15.1	9.0
Depreciation and amortization/sales	%	2.4	2.4	2.9	2.8	1.6

1) Identifiable assets acquired in a business combination and recognized separately from goodwill amount to of 41,913 TEUR (2015: 44,644 TEUR); impairment of goodwill amounts to 14,379 TEUR (2015: 15,273 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. MEUR = million euros, TEUR = thousand euros.

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. No pro forma figures are available for the reference periods of the previous years.

KEY FINANCIAL FIGURES OF THE BUSINESS AREAS

HYDRO

	Unit	2016	2015	2014	2013	2012
Order intake	MEUR	1,500.3	1,718.7	1,816.7	1,865.4	2,008.4
Order backlog (as of end of period)	MEUR	3,269.6	3,640.9	3,708.6	3,722.4	3,842.3
Sales	MEUR	1,752.4	1,834.8	1,752.3	1,804.8	1,836.8
EBITDA	MEUR	167.2	183.6	177.2	176.8	182.4
EBITDA margin	%	9.5	10.0	10.1	9.8	9.9
EBITA	MEUR	127.6	145.3	144.8	146.9	153.2
EBITA margin	%	7.3	7.9	8.3	8.1	8.3
Capital expenditure	MEUR	26.1	27.4	39.4	44.5	56.7
Employees (as of end of period; without apprentices)	-	7,260	8,230	8,339	7,445	7,469

PULP & PAPER

	Unit	2016	2015	2014	2013	2012
Order intake	MEUR	1,919.5	2,263.9	1,995.7	1,907.7	1,962.4
Order backlog (as of end of period)	MEUR	1,803.3	1,998.6	1,875.4	1,885.6	2,018.1
Sales	MEUR	2,094.4	2,196.3	1,969.3	2,005.3	2,282.2
EBITDA	MEUR	207.7	214.8	127.6	-11.5	156.2
EBITDA margin	%	9.9	9.8	6.5	-0.6	6.8
EBITA	MEUR	182.2	190.9	102.9	-35.7	134.6
EBITA margin	%	8.7	8.7	5.2	-1.8	5.9
Capital expenditure	MEUR	34.1	21.1	28.1	26.0	36.4
Employees (as of end of period; without apprentices)	-	7,522	7,324	7,236	7,136	6,774

METALS

	Unit	2016	2015	2014	2013	2012
Order intake	MEUR	1,551.5	1,438.6	1,692.8	1,233.8	324.2
Order backlog (as of end of period)	MEUR	1,369.0	1,332.5	1,566.1	1,427.6	451.4
Sales	MEUR	1,598.4	1,718.1	1,550.4	1,311.0	404.7
EBITDA	MEUR	141.7	104.8	134.0	76.6	28.0
EBITDA margin	%	8.9	6.1	8.6	5.8	6.9
EBITA	MEUR	115.2	70.5	110.2	53.5	25.1
EBITA margin	%	7.2	4.1	7.1	4.1	6.2
Capital expenditure	MEUR	49.1	40.2	27.9	32.7	2.6
Employees (as of end of period; without apprentices)	-	7,608	6,160	6,432	6,300	1,129

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. No pro forma figures are available for the reference periods of the previous years.

SEPARATION

	Unit	2016	2015	2014	2013	2012
Order intake	MEUR	597.5	596.5	595.8	604.1	629.4
Order backlog (as of end of period)	MEUR	347.3	352.2	360.5	352.9	303.0
Sales	MEUR	593.8	628.0	587.3	589.7	653.2
EBITDA	MEUR	25.8	31.5	33.2	13.3	52.0
EBITDA margin	%	4.3	5.0	5.7	2.3	8.0
EBITA	MEUR	17.1	22.3	21.6	-0.6	44.9
EBITA margin	%	2.9	3.6	3.7	-0.1	6.9
Capital expenditure	MEUR	10.2	12.7	11.1	8.2	13.4
Employees (as of end of period; without apprentices)	-	2,772	2,794	2,846	2,832	2,493

MANAGEMENT REPORT

GENERAL ECONOMIC CONDITIONS

The global economy continued to be marked by low growth in the main economic regions in 2016. The main reason for this was weak world trade, which achieved the lowest growth since the financial crisis at just under 2% last year. This was caused primarily by the sharp decline in raw material prices, currency devaluations, and economic weakness in the emerging markets.

In the United States, the solid economic growth of the previous year continued during the reporting period, with growth of 1.6% in GDP. Private consumption, which is the main growth driver in the USA accounting for around 70% of overall economic performance, continued to see positive development. The unemployment rate dropped again slightly, reaching a level of 4.7% at the end of the year, which is virtually full employment. As expected, the US Federal Reserve (FED) increased the key interest rate to a range between 0.5 and 0.75% in mid-December.

Economic performance in the euro zone continued at a moderate level during the reporting period. The unchanged low domestic demand and the UK's vote to leave the European Union have had a negative impact on investment activity in most industries. Exporters suffered due to the economic weakness in China and Brazil. As a result, GDP growth in the euro zone was only 1.7%. The European Central Bank (ECB) announced that it would be leaving the key interest rate in the euro zone unchanged at its record low of 0.0%. In order to stimulate the economy and lift the continuing low rate of inflation closer to the ECB target of just under 2.0%, the ECB will continue to make monthly purchases of government and corporate bonds in the amount of approximately 80 billion euros. The program covering 1.74 trillion euros is to continue at least until the end of 2017.

Growth in the main emerging economies also remained at a moderate level in 2016. Economic growth in China slowed down significantly, only reaching around 6.7% in the past year. Moderate domestic demand combined with fewer exports as a result of the global recession are the main reasons for the weak economic growth in China. In addition, China's transition from an industrial to a service-oriented society, as pushed forward by the Chinese government, had a negative effect on investment activities in most industrial sectors.

Brazil also remained in a deep recession in 2016 – the worst since the 1930s. Although the new government set about making far-reaching economic reforms and has announced a privatization program, this is only likely to have a positive effect on the economy in the medium term. After two years of recession, Russia's economy gradually recovered slightly in 2016, however market experts do not expect to see a sustained recovery in the short term. The low raw material prices and the West's sanctions on Russia are still placing a burden on the country's economic development.

Source: Research reports by various banks, OECD

MARKET DEVELOPMENT

HYDRO

Global investment and project activity for electromechanical equipment for hydropower plants remained unchanged at a subdued level in 2016 – some medium-sized projects were awarded selectively in Europe and Asia. Due to the unchanged, difficult market conditions impacted primarily by low electricity prices, especially in Europe, many modernization and refurbishment projects were postponed until further notice. In the emerging markets, particularly in Africa and South America, some new hydropower projects are in the planning phase; however, these projects are only expected to be awarded in the medium term. Satisfactory project activity was noted for pumps.

PULP & PAPER

The international pulp market saw mixed development in 2016. While the price for NBSK (Northern Bleached Softwood Kraft) long-fiber pulp remained at a stable level of around 810 USD per ton, the price for short-fiber pulp (eucalyptus) declined from around 790 USD per ton at the beginning of the year to just over 650 USD per ton at the end of 2016. Continuing weak demand from China and the expectation of new pulp production capacities coming on stream in the coming quarters were the main reason for the decline in prices in the course of the year. Nevertheless, the market for pulping equipment showed satisfactory project activity overall in this environment, particularly for modernization of existing pulp mills.

METALS

In the metal forming sector for the automotive and automotive supplying industry (market segment of Schuler), 2016 showed satisfactory project and investment activity overall; some medium-sized orders were awarded by international car manufacturers and their suppliers, particularly in the second half of the year. In contrast, project activity for equipment for the production and processing of stainless and carbon steel strips remained at an unchanged low level. Selective projects mainly targeted modernization and improvement of energy efficiency at existing plants, while only a few investments in new plants were realized in view of the continuing low capacity utilization rates.

SEPARATION

The global market for solid/liquid separation equipment continued to show mixed development in the industries served by ANDRITZ during 2016. While demand in the municipal/industrial waste water treatment sectors and in the chemical industry was satisfactory, it remained low in the food and mining industries. In the animal feed industry, project activity for conventional and special feed was solid. Satisfactory project activity was noted in the biomass pelleting sector.

BUSINESS DEVELOPMENT

Notes

- All figures according to IFRS
- Due to the utilization of automatic calculation programs, differences can arise in the addition of rounded totals and percentages.
- MEUR = million euros; TEUR = thousand euros

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

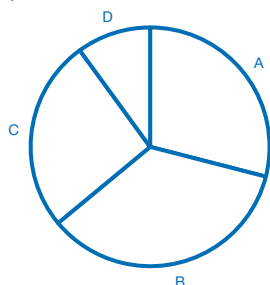
Sales of the ANDRITZ GROUP amounted to 6,039.0 MEUR in the 2016 business year, thus 5.3% below the high reference figure for the previous year (2015: 6,377.2 MEUR). All four business areas noted a project-related decline in sales in the capital segment compared to the previous year. In contrast, sales in the service segment increased in all four business areas compared to 2015 and accounted for 32% of total sales (2015: 30%). The business areas' sales development at a glance:

	Unit	2016	2015	+/-
HYDRO	MEUR	1,752.4	1,834.8	-4.5%
PULP & PAPER	MEUR	2,094.4	2,196.3	-4.6%
METALS	MEUR	1,598.4	1,718.1	-7.0%
SEPARATION	MEUR	593.8	628.0	-5.4%

Sales by business area

2016 in %

(2015)

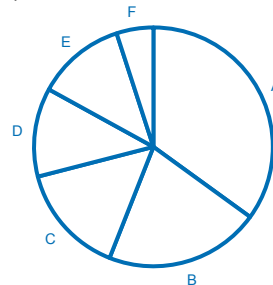


A	29	(29)	HYDRO
B	35	(34)	PULP & PAPER
C	26	(27)	METALS
D	10	(10)	SEPARATION

Sales by region

2016 in %

(2015)



A	35	(38)	Europe
B	21	(19)	North America
C	15	(14)	South America
D	12	(12)	China
E	12	(13)	Asia (without China)
F	5	(4)	Others

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

	2016	2015
ANDRITZ GROUP	32	30
HYDRO	26	25
PULP & PAPER	41	37
METALS	22	20
SEPARATION	46	44

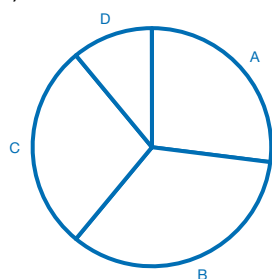
Order intake

In 2016, the order intake of the Group amounted to 5,568.8 MEUR, thus 7.5% below the reference figure for the previous year (2015: 6,017.7 MEUR). The business areas' development in detail:

- **HYDRO:** As expected, order intake at 1,500.3 MEUR was significantly below the figure for the previous year's reference period (-12.7% versus 2015: 1,718.7 MEUR). This decline is due to the unchanged difficult market conditions – impacted by low electricity and energy prices – accompanied by a challenging competitive environment in the market for electromechanical equipment for hydropower plants.
- **PULP & PAPER:** At 1,919.5 MEUR, order intake was significantly below the extraordinary high level for the previous year's reference period (-15.2% versus 2015: 2,263.9 MEUR), which included a large order.
- **METALS:** The order intake reached a favorable level of 1,551.5 MEUR and improved compared to the reference figure for the previous year (+7.8% versus 2015: 1,438.6 MEUR). This increase is particularly due to several medium-sized order awards in the metal forming sector for the automotive and automotive supplying industry (Schuler) as well as to first-time consolidation of Yadon and AWEBBA.
- **SEPARATION:** At 597.5 MEUR, the order intake remained practically at the same level as in the previous year (+0.2% versus 2015: 596.5 MEUR).

Order intake by business area 2016 in %

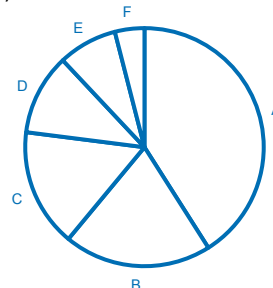
(2015)



A	27 (29)	HYDRO
B	34 (37)	PULP & PAPER
C	28 (24)	METALS
D	11 (10)	SEPARATION

Order intake by region 2016 in %

(2015)



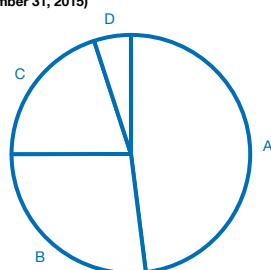
A	41 (36)	Europe
B	20 (20)	North America
C	16 (11)	China
D	11 (13)	Asia (without China)
E	8 (17)	South America
F	4 (3)	Others

Order backlog

As of December 31, 2016, the order backlog of the ANDRITZ GROUP amounted to 6,789.2 MEUR (-7.3% versus December 31, 2015: 7,324.2 MEUR).

Order backlog by business area as of December 31, 2016 in %

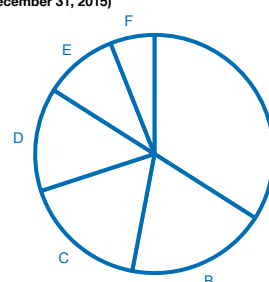
(December 31, 2015)



A	48	(50)	HYDRO
B	27	(27)	PULP & PAPER
C	20	(18)	METALS
D	5	(5)	SEPARATION

Order backlog by region as of December 31, 2016 in %

(December 31, 2015)



A	34	(31)	Europe
B	19	(19)	Asia (without China)
C	17	(18)	North America
D	14	(10)	China
E	10	(16)	South America
F	6	(6)	Others

Earnings

The EBITA of the Group amounted to 442.1 MEUR in the reporting period and increased compared to the reference figure for the previous year (+3.1% versus 2015: 429.0 MEUR) despite the decline in sales. As a result, profitability (EBITA margin) increased to 7.3% (2015: 6.7%).

Profitability of the business areas developed as follows:

- The EBITA margin of the HYDRO business area decreased compared to the previous year to 7.3% (2015: 7.9%), which is primarily due to lower sales.
- In the PULP & PAPER business area, profitability developed very favorably and reached the high level of the previous year of 8.7% (2015: 8.7%), which included positive one-off effects of around 40 MEUR. Service business developed very favorably.
- The EBITA margin in the METALS business area reached 7.2% and was thus well above the low figure for the previous year's reference period (2015: 4.1%), which was negatively impacted by financial provisions of approximately 78 MEUR for optimization of the value chain at Schuler.
- In the SEPARATION business area, the EBITA margin amounted to 2.9%, thus remaining at an unsatisfactory level (2015: 3.6%).

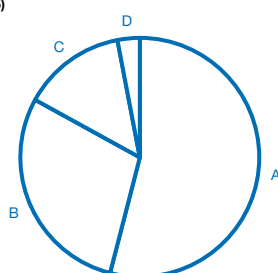
Consolidated income statement

(in MEUR)	2016	2015	+/-
Sales	6,039.0	6,377.2	-5.3%
Changes in inventories of finished goods, work in progress and capitalized cost of self-constructed assets	13.7	-7.7	+277.9%
Other operating income	97.0	87.1	+11.4%
Cost of materials	-3,121.4	-3,377.3	+7.6%
Personnel expenses	-1,656.6	-1,698.6	+2.5%
Other operating expenses	-829.3	-846.0	+2.0%
EBITDA	542.4	534.7	+1.4%
Depreciation, amortization, and impairment of intangible assets and of property, plant, and equipment	-142.2	-150.4	+5.5%
Impairment of goodwill	-14.4	-15.3	+5.9%
EBIT	385.8	369.0	+4.6%
Financial result	12.6	7.3	+72.6%
EBT	398.4	376.3	+5.9%
Income taxes	-123.6	-106.0	-16.6%
NET INCOME	274.8	270.4	+1.6%
Thereof attributable to:			
Shareholders of the parent	274.6	267.7	+2.6%
Non-controlling interests	0.2	2.7	-92.6%
Basic earnings per no-par value share (in EUR)	2.69	2.60	+3.5%

Allocation of expenses in %

Distribution of total expenses
2016 in %

(2015)



A	54	(54)	Cost of materials
B	29	(28)	Personnel expenses
C	14	(15)	Other operating expenses
D	3	(3)	Depreciation

54.3% of total operating expenses were attributable to material expenses in 2016 (2015: 54.2%). The material expenses to sales ratio amounted to 51.7% (2015: 53.0%). The share of personnel expenses, at 28.8% was slightly higher than the figure for the previous year's reference period (2015: 27.8%), the personnel expenses to sales ratio amounted to 27.4% (2015: 26.6%).

Other operating expenses amounted to 829.3 MEUR in the reporting period (2015: 846.0 MEUR) and mainly include sales expenses, travel expenses, rents and lease expenses, as well as repairs and maintenance. Other operating income, at 97.0 MEUR, was slightly higher than for the previous year (2015: 87.1 MEUR) and mainly include government grants, income from release of valuation allowance and receivables, and income from release of other provisions.

The depreciation and amortization of intangible assets and of property, plant, and equipment amounted to 142.2 MEUR in 2016 (2015: 150.4 MEUR). This change is mainly due to impairment gains for property and plant.

In 2016, the Group's goodwill impairment amounted to 14.4 MEUR (2015: 15.3 MEUR), and the impairment charges for intangible and tangible assets were 8.0 MEUR (2015: 12.1 MEUR). The goodwill impairment relates to HYDRO (2.3 MEUR), METALS (3.6 MEUR), and the SEPARATION business areas (8.5 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. Furthermore, impairment gains of 5.7 MEUR were made in 2016 for property and plant.

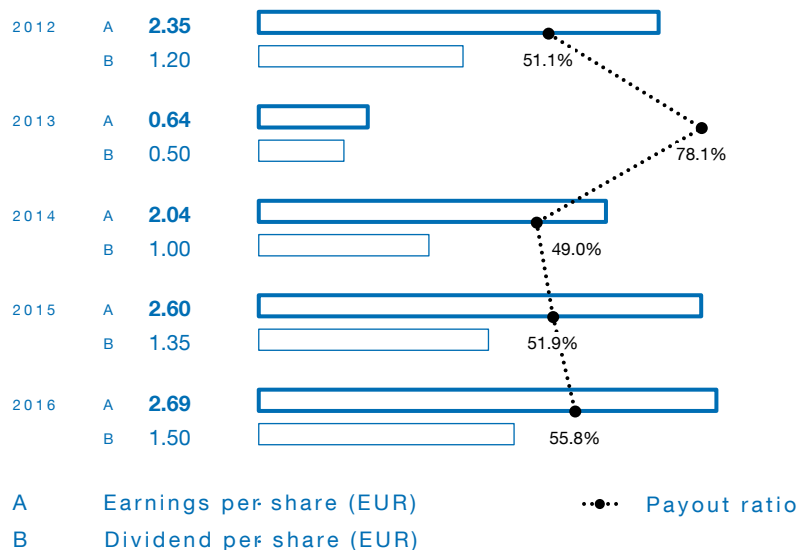
The financial result increased significantly to 12.6 MEUR (2015: 7.3 MEUR). This increase mainly results from a significant improvement in the other financial result, which increased substantially compared to the previous year's reference period as a result of the valuation of intercompany loans and bank balances in foreign currencies (FX) on balance sheet date.

The tax rate increased to 31.0% (2015: 28.2%). This increase is amongst others due to lower tax credits from prior periods (see also notes to the consolidated financial statements, chapter "G) 8. Income taxes".

The net income (including non-controlling interests) amounted to 274.8 MEUR (+1.6% versus 2015: 270.4 MEUR), 274.6 MEUR (2015: 267.7 MEUR) of which are attributable to the shareholders of the parent company and 0.2 MEUR (2015: 2.7 MEUR) to non-controlling interests (see also notes to the consolidated financial statements, chapter "I) 23. Equity".

The earnings per share increased to 2.69 EUR (2015: 2.60 EUR). At the Annual General Meeting on March 28, 2017, the Executive Board will propose an increase of dividend to 1.50 EUR (2015: 1.35 EUR) per share for the 2016 business year. This is equal to a payout ratio of around 55.8% (2015: around 51.9%).

Earnings and dividend per share/payout ratio



Note: Dividend for 2016: Proposal to the Annual General Meeting.

Treasury shares

As of December 31, 2016, the company held 1,939,784 treasury shares, i.e. 1.9% of the share capital, with a market value of 92.5 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, 2016 remained solid. Total assets amounted to 6,198.6 MEUR (December 31, 2015 adjusted: 5,778.0 MEUR). The equity ratio reached 21.7% (December 31, 2015: 21.0%).

Liquid funds amounted to 1,507.1 MEUR (December 31, 2015: 1,449.4 MEUR), net liquidity amounted to 945.3 MEUR (December 31, 2015: 984.0 MEUR).

Development of liquid funds and net liquidity

2012	A	2,047.8	
	B	1,285.7	
2013	A	1,517.0	
	B	893.1	
2014	A	1,701.6	
	B	1,065.1	
2015	A	1,449.4	
	B	984.0	
2016	A	1,507.1	
	B	945.3	

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: 275 MEUR, thereof 181 MEUR utilized
- Surety lines: 6,362 MEUR, thereof 3,022 MEUR utilized

Assets

A	B	C
		

A	Long-term assets: 31%	1,913.7 MEUR
B	Short-term assets: 46%	2,877.8 MEUR
C	Cash and cash equivalents and marketable securities: 23%	1,407.1 MEUR

Shareholders' equity and liabilities

A	B	C	D
			

A	Shareholders' equity incl. non-controlling interests: 22%	1,344.2 MEUR
B	Financial liabilities: 9%	576.9 MEUR
C	Other long-term liabilities: 13%	809.4 MEUR
D	Other short-term liabilities: 56%	3,468.1 MEUR

On the asset side, property, plant, and equipment (786.7 MEUR), goodwill (563.4 MEUR), and intangible assets (201.3 MEUR) were the most important items in non-current assets (1,913.7 MEUR). The most important items in the other current assets, amounting to 2,877.8 MEUR, are trade accounts receivable, including cost and earnings

of projects under construction in excess of billings (1,566.4 MEUR) booked according to the percentage-of-completion method, and inventories (736.9 MEUR).

On the liabilities side, the other current liabilities (3,468.1 MEUR) mainly include advance payments received and billings in excess of cost and earnings of projects under construction booked according to the percentage-of-completion method (1,374.7 MEUR), provisions (532.3 MEUR), and trade accounts payable (499.7 MEUR). The most important items in other liabilities (958.1 MEUR) are accruals and outstanding order-related costs (471.6 MEUR), as well as unused vacation and other personnel-related accruals (235.0 MEUR). Non-current liabilities, at 809.4 MEUR, largely contain provisions (586.5 MEUR) and deferred tax liabilities (104.3 MEUR).

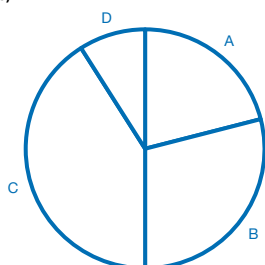
Further information on provisions is shown in the notes to the consolidated financial statements, chapter "I) Notes to the consolidated statement of financial position".

Capital expenditure

Investments in tangible and intangible assets amounted to 119.5 MEUR in 2016 and were thus above the previous year's level (2015: 101.4 MEUR). Investments breakdown by business area as follows:

Capital expenditure by business area
2016 in %

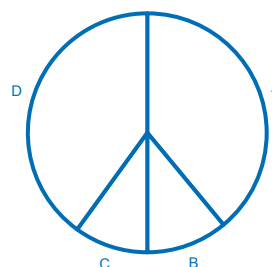
(2015)



A	21	(26)	HYDRO
B	29	(21)	PULP & PAPER
C	41	(40)	METALS
D	9	(13)	SEPARATION

Capital expenditure by category
2016 in %

(2015)



A	39	(59)	Manufacturing
B	11	(16)	IT
C	10	(3)	Research and Development
D	40	(22)	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 Engineering Center and the Hot Stamping Center for Schuler in Göppingen, Germany.

Cash flow

The cash flow from operating activities, at 366.6 MEUR, was significantly higher than the previous year's reference figure (2015: 179.4 MEUR). This substantial increase was mainly due to project-related changes in net working capital.

The cash flow from investing activities amounted to -239.6 MEUR (2015: -57.2 MEUR). The major change mainly resulted from higher company acquisitions and increased investments in securities.

The cash flow from financing activities amounted to -123.2 MEUR (2015: -302.0 MEUR). The change mainly resulted from the redemption of a corporate bond of ANDRITZ AG in February 2015 (nominal value: 150 MEUR) and from a lower buy-back of treasury shares of around 12.5 MEUR (2015: 38.8 MEUR).

Further important key figures at a glance

	Unit	2016	2015	2014	2013	2012
Return on sales	%	6.4	5.8	5.0	1.6	6.5
EBITDA	MEUR	542.4	534.7	472.0	255.2	418.6
Earnings Before Interest and Taxes (EBIT)	MEUR	385.8	369.1	295.7	89.8	334.5
Earnings Before Taxes (EBT)	MEUR	398.4	376.4	299.4	80.3	330.4
Net income (including non-controlling interests)	MEUR	274.8	270.4	210.0	53.2	241.3
Free cash flow	MEUR	263.7	85.0	245.8	-11.5	239.7
Free cash flow per share	EUR	2.5	0.8	2.4	-0.1	2.3
Return on equity	%	29.6	31.0	28.8	8.6	32.0
Return on investment	%	6.2	6.4	4.9	1.6	6.5
Net debt	MEUR	-550.2	-601.6	-659.4	-585.0	-1,053.3
Net working capital	MEUR	-215.8	-182.1	-570.9	-539.4	-631.8
Capital employed	MEUR	772.2	736.7	387.0	443.6	-36.5
Gearing	%	-40.9	-49.5	-63.5	-62.9	-101.9

Important acquisitions

The Schuler Group, a member of the ANDRITZ GROUP, signed a contract for the acquisition of AWEBA Werkzeugbau GmbH Aue, Germany, in April 2016. AWEBA is one of Europe's leading toolmakers, achieving annual sales of approximately 60 MEUR with around 600 employees. The acquisition was subject to approval of the anti-trust authorities. The closing of the transaction was in June 2016.

In 2015, the Schuler Group signed a contract for the acquisition of a 51% stake in the Chinese press and machine tool manufacturer Yangzhou Metal Forming Machine Tool Co., Ltd. (Yadon). Yadon is one of the leading manufacturers of mechanical presses in China and achieves annual sales of approximately 120 MEUR with around 1,000 employees. The acquisition was subject to approval of the anti-trust authorities, and the closing of the transaction was in April 2016.

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 continuing difficult overall economic development (particularly in Europe and individual emerging markets) presents a serious risk to the financial development of the ANDRITZ GROUP. The economic impact of the UK leaving the European Union (EU) cannot be estimated at the moment, but could have a negative effect on economic growth in Europe and worldwide according to market and financial experts. If economic growth in Europe drops significantly as a result of the UK leaving the EU, 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 can be categorized as very small. The continuing weakness of economic development in Brazil, China, and Russia may also have a negative impact in individual business areas and, subsequently, on the Group's business development.

The risks described below are monitored continuously. If any of these risks materializes, the Group is trying to react and counteract.

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 section "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 typically are 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.

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.

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 taxes on income 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 makes efforts to protect its intellectual property, 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 financial development.

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 influence 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 interest, 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 of 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.

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 delivery, 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 quality and on-time delivery checks. The ANDRITZ GROUP tries to balance out fluctuations in capacity utilization as best possible and with maximum flexibility by allocating orders to the various sites around the world and locally by using temporary workforce. 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 also placed on developing and strengthening the necessary staff resources during the reporting period. This includes interesting career opportunities, incentive plans, and focused management training programs. The ANDRITZ GROUP seeks to attract well-trained and highly qualified 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.

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. The expectation that many business opportunities for the ANDRITZ GROUP will also emerge in China in the future was taken into account by focusing on management training in Chinese companies. In developing the programs, care is taken wherever possible to combine these training courses with globally organized personnel development programs. Several so-called "change projects" were conducted to optimize reorganization measures in individual divisions and business areas. However, ANDRITZ cannot guarantee that it will always be able to fill vacant positions immediately with people who meet the requirements and are qualified for the position concerned. Both internal employees within the Group and also external candidates are considered for positions to be filled.

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. The ANDRITZ GROUP 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 (close to 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 indices, for example the ATX, the leading index of the Vienna Stock Exchange, or other indices. 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 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), 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 estimates are made using empirical data and quotes from potential suppliers, these may not always be completely accurate. As a result, the Group has experienced considerable losses on certain past projects. Problems and losses of this kind may also occur in future in a way that would adversely affect the Group's financial development.

In many 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 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 handled by the business areas 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 material adverse effect on the earnings and liquidity position of the Group.

ANDRITZ HYDRO S.A., Brazil, faces tax and labor claims based on allegations of joint and several liability with the Inepar Group arising out of the previous minority holding of Inepar. ANDRITZ is vigorously contesting these labor claims in several labor lawsuits in Brazil. 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.

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, section "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 derivative financial instruments, 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 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.

Devaluation of the euro against many other currencies could also have a positive impact on the shareholders' equity as well as on the sales and earnings development of the ANDRITZ GROUP (translation effect). The impact of the depreciation of the pound sterling against the euro following the Brexit referendum is not considered significant for the ANDRITZ GROUP.

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.

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 would have a substantial adverse effect on the Group's financial condition.

Internal control and risk management system

ANDRITZ has a Group-wide control and steering system (ICS) whose main task is to identify nascent risks at an early stage and – if possible – to take countermeasures. This is an important element of active corporate management.

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, 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 with in 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 2016 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 www.andritz.com.

Significant events after reporting period

In the financial year 2016, the sale of a technology center in the North Chinese city of Tianjin has been initiated with the purchase contract of February 2017 within the METALS business area. The purchase agreement is expected to be closed at the end of March 2017.

Moreover, there were no events of material significance after the balance sheet date.

NON-FINANCIAL PERFORMANCE INDICATORS

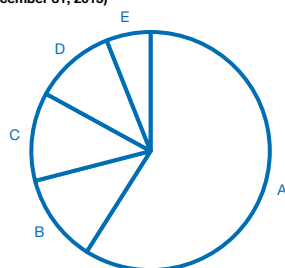
Employees: Key factor for the company's success

Success-oriented and motivated employees are what make ANDRITZ as a company and secure its future as world market leader.

The global presence of the ANDRITZ GROUP is also reflected in the number of countries represented by its employees. At the end of 2016, ANDRITZ had 25,162 employees from more than 32 different countries. This diversified staff structure is part of the corporate culture and is considered an important contribution to the further development and for the success of the Group because positive effects are achieved not only from the exchange of knowledge and practical experience between older and younger employees, but also very much so from the exchange between different cultures.

**Employees by region
as of December 31, 2016 in %**

(December 31, 2015)



A	59 (59)	Europe
B	12 (9)	China
C	12 (15)	South America
D	11 (11)	North America
E	6 (6)	Asia (without China), Australia, Africa

The Group Human Resources department (GHR) is responsible for development and coordination of group-wide human resources work, for planning succession to global key positions, and also for developing and promoting talented employees and candidates from within the Group. As part of this work, global, group-wide programs and projects are being developed constantly.

A central element of profession development tools is mentoring, which was launched as a pilot project in the autumn of 2015. It forms the link between the program to promote the development of young talents (ANDRITZ Global Talent Program), which has been running for many years now, and the leadership development program for holders of key positions, which has also been used successfully for an equally long time. The participants comprise leading managers in key positions (mentors) and global talents (mentees) and are selected in pairs by GHR. A preparatory phase is followed by regular, private discussions held over a period of approximately eight months during which each pair covers jointly defined topics, passes on their experience, and reflects upon the results. The process is supported by GHR. In the autumn of 2016, another module (Acceleration) was developed for the Global Talent Program. This module overlaps for one day with the Global Leadership Program and is

geared to the topic of mentoring. With this chronological overlap of the two global programs, the mentors and mentees can get to know one another and discuss the goals of mentoring more easily.

In addition to the global development programs, there are local training programs at many ANDRITZ locations that are implemented by the local human resources organizations. These local programs are being designed increasingly for a global target group. The basis for developing target group-based training programs is usually the appraisal meetings, which are also supposed to cover goals and improvement measures in addition to the employee's personal job satisfaction. This interview provides an opportunity to provide mutual feedback and make targeted plans for future tasks and further career development within the company. In 2016, 68% of the workforce attended annual appraisal interviews (2015: 68%).

Employee appraisals

	2016	2015
Men	69%	69%
Women	61%	62%
TOTAL*	68%	68%

* Percentage of the total workforce that took part in employee appraisals during the reporting period.

ANDRITZ sees training of young people as a part of its social responsibility, but also as a means of preserving and passing on internal know-how. As of December 31, 2016, there were 877 apprentices (2015: 795 apprentices) group-wide at a total of 41 subsidiaries in the company's own workshops.

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, but 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.

An important foundation for successful further development of the entire ANDRITZ GROUP is constant further development and vocational training for the existing staff. The goal is to use each employee's skills as best possible and develop and promote their potentials. In addition to external vocational training opportunities, there is also a wide range of internal training programs.

Expenditure on education and vocational training

	2016	2015
TOTAL (in TEUR)	10,332	10,484
Average expenditure per employee (in EUR)	411	310
Training hours total*	384,871	304,856

* Increase of training hours total result largely from the improvement in data collection.

Employee retention at ANDRITZ remains consistently at a very high level, amounting to approximately 11.7 years within the Group. The employees in Europe remain with the Group for the longest, averaging 14.3 years, followed by North America (10.3 years on average). The fluctuation rate amounted to 14.0% or 3,499 employees in 2016 (2015: 16.1% or 4,006 employees) and thus corresponds to the European average for industrial companies. 4,150 employees were given new employment contracts in the past year (2015: 5,958 employees), 15% of whom were over 50 years old.

Fluctuation by gender and age group

	Contracts terminated 2016	Contracts terminated 2015	Fluctuation rate 2016*	Fluctuation rate 2015*
Men	3,043	3,241	14.3%	15.5%
Women	456	765	12.0%	19.9%
< 30 years old	954	1,108	23.7%	26.7%
30-50 years	1,781	1,945	12.6%	13.9%
> 50 years old	764	953	11.1%	14.3%
TOTAL	3,499	4,006	14.0%	16.1%
without site workers	2,687	2,427	10.7%	9.8%

* 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.

Age distribution in the company is very well balanced in a long-term perspective. More than half of the employees (56%) are between 30 and 50 years old (2015: 57%), while the proportion of under-thirties is 16% (2015: 16%). 28% of the employees are over the age of 50. In order to retain the know-how and experience of long-term employees within the company as well and extensively as possible and be able to pass it on to successors, retirements are prepared for in good time.

The ANDRITZ GROUP places top priority on the good health of its employees. For this reason and in view of the social change taking place and the related higher proportion of older employees, the topic of corporate health care has high priority in human resources management. Various programs are running at the individual Group companies that are adapted to the specific needs of the employees in each case.

ANDRITZ considers it very important for its employees to have 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. At the end of 2016, there were 352 employees on parental leave (197 women and 155 men) (2015: 315 employees, thereof 192 women and 123 men); this corresponds to 5.2% women and 0.7% men (2015: 5.0% women and 0.6% men) based on the total number of employees in the Group. This model is particularly popular in the German-speaking countries. The Group's headquarters in Graz runs a company kindergarten offering flexible child care times and with a technical focus in its activities. ANDRITZ covers a part of the cost for each child care place.

Employee rights/Labor law provisions and equal opportunities

ANDRITZ respects and protects the basic rights of its employees, which are the same for all employees throughout the Group. ANDRITZ naturally supports the co-determination of employees and compliance with the principles and standards of the International Labor Organization (ILO) concerning the freedom of association, abolition of forced labor, child labor, and discrimination, as well as supporting fair pay for its employees. ANDRITZ spent approximately 1,657 MEUR on personnel (2015: 1,699 MEUR) in 2016. Salaries for women averaged approximately 85% of salaries for men during the reporting period. This proportion corresponds to the European average. ANDRITZ makes every effort to increase the number of female employees in the technical and management sectors, for example by offering special career development programs or support during university studies.

ANDRITZ supports the open, regular, and transparent exchange of information between the Executive Board and the representatives of the works council and also lives this principle. Furthermore, 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.

Collaboration between the management, the Human Resources department, and the trade unions must comply with local legal requirements and is based on mutual understanding. The procedure in the event of major organizational changes (closure of company locations, dismissals, etc.) and the involvement of the interest groups concerned are laid down in the guideline applying group-wide for procedures in case of major organizational changes.

It is an important principle at ANDRITZ not to tolerate employee harassment and discrimination by other employees due to gender, origin, age, religion, or nationality and to offer all employees a working environment that is free of intimidating and offensive behavior. This has also been clearly documented in the Code of Business Conduct and Ethics applying group-wide. Similarly, clear procedures have been defined to deal with complaints. Any employee can report possible concerns and violations (also anonymously using the whistleblowing system implemented in 2016) at any time and will receive support in the event of any possible negative incidents.

Compliance and sustainability by suppliers – the ANDRITZ supply chain

In order to improve the understanding of sustainability and compliance in the ANDRITZ supply chain, a separate function was created approximately two years ago for compliance and sustainability by suppliers. The main task is to define guidelines and measures for suppliers and to monitor compliance with these regulations.

In a first step, a supplier code was drawn up in the summer of 2015 to define the requirements for collaboration between business partners and the ANDRITZ GROUP. This code is a part of all contracts between the company and its suppliers.

The code is based on the principles and values laid down in the Code of Business Conduct and Ethics and covers the topics of responsible corporate management and business integrity, human rights and fair working conditions, environmental responsibility, export controls, as well as intellectual property, trade secrets, and data protection. Reporting, monitoring, and sanctions are also dealt within this code.

In addition, the selection procedure for suppliers has been extended since implementation of this code. Suppliers must document their compliance and sustainability measures in the ANDRITZ Supplier Relationship Management System as part of a globally harmonized online registration process. ANDRITZ then assigns a rating to each supplier using a points system. If there are no general grounds not to accept a supplier, but his compliance and sustainability ranking is very low, the Compliance officer at ANDRITZ is informed accordingly. The staff responsible in the purchasing department then reviews together with the compliance officer what corrective measures are required in order to make collaboration possible with this supplier. In addition, all existing supplier relations are reviewed in terms of compliance and sustainability by means of this online questionnaire, and the business partners must confirm their compliance with the supplier code.

The supplier check was conducted on the basis of quality, cost, and on-time delivery up until 2015. Since the beginning of 2016, the compliance and sustainability ratings are also included in this check.

Another step towards a better and more comprehensive assessment of suppliers in terms of sustainability and compliance is the appointment of auditors – two for the time being – who will operate in India and Asia. As from mid-2017, the local supply chain will be reviewed in terms of human rights and fair working conditions, environmental responsibility, business integrity, export controls, and intellectual property rights in coordination with the Quality Group Function in these two regions; event-driven audits are triggered by defined risk parameters.

In order to communicate the content of the ANDRITZ Supplier Code of Conduct more clearly, online training courses are currently being prepared for suppliers in six different languages. This content has already been communicated in a training course forming part of a consolidated Group Procurement training program for employees in the Global Procurement Organizations since the beginning of 2016.

The ANDRITZ supply chain

The Group Procurement Function is responsible for optimization of the supply chain and the respective purchasing processes, as well as for development of the purchasing organization, and is divided into three main sectors: category management, operations development, and logistics.

ANDRITZ works with around 41,000 suppliers from 102 different countries, with some 3,900 suppliers accounting for just under 80% of the external purchasing volume. This huge number of external business partners requires a well networked and well organized central procurement department to control and monitor the basic principles of collaboration.

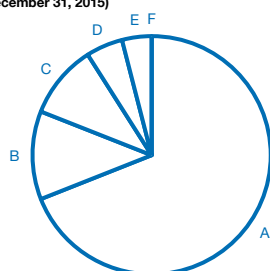
The suppliers are considered important business partners who are met with transparency and fairness. In order to ensure the quality of the final products, ANDRITZ relies on preferred suppliers who are long-term partners. In addition to the checks conducted during the qualification process, quality and progress are also reviewed regularly during execution of an order. In the event of critical components or new suppliers, ANDRITZ often monitors the production process on the spot.

The ANDRITZ GROUP aims to purchase the majority of its raw materials, goods and services in those regions in which it also has manufacturing facilities. In the course of outsourcing production capacities and in order to maintain its ability to compete, ANDRITZ is working increasingly with suppliers in emerging economies.

The share of services and products procured locally in the country of production as a percentage of the total external purchasing volume remained at an unchanged high level of 73% (2015: 73%). In 2016, 79% of the purchasing volume was generated in Europe and North America (2015: 77%), and 21% in the emerging markets (2015: 23%).

Purchasing volume by region as of December 31, 2016 in %

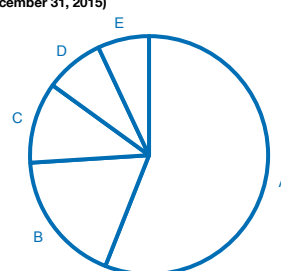
(December 31, 2015)



A	69 (66)	Europe
B	12 (9)	China
C	10 (10)	North America
D	5 (10)	South America
E	4 (4)	Asia (without China)
F	0 (1)	Others

Manufacturing capacity by region as of December 31, 2016 in %

(December 31, 2015)



A	56 (59)	Europe
B	18 (13)	China
C	11 (10)	North America
D	8 (8)	Asia (without China)
E	7 (10)	South America

Material consumption

77% of the material consumed by the Group in 2016 was used in mechanical/electrical components, erection work, installation, infrastructure, and investments (2015: 77%), 9% for purchasing of cast and forged parts, metal sheets, screen baskets, and in the steel fabrication and conveyor technology sectors (2015: 9%), and 15% in logistics, mechanical engineering design, service and consulting, IT, and business travel (2015: 14%).

Logistics

ANDRITZ has many challenges to overcome in the logistics sector. One of these relating to weight and dimensions is transport of oversized and heavy loads and of goods subject to special conditions in the country of destination. This is why a separate function was introduced for logistics in the global procurement organization in 2015 to be involved in customer projects at an early stage and instigate the necessary measures in good time. 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, CO₂ emissions are generated externally to a very large extent, thus this figures cannot be reported in any detail.

Quality and occupational safety – integrated management system

Quality management is viewed holistically in the ANDRITZ GROUP and covers products and applications, business processes, as well as safety and environmental topics. The integrated quality management system at ANDRITZ defines global standards in order to strengthen reliability and trust in customer relationships and within the company. Its aim is to improve the general understanding of processes and functions, as well as enhancing collaboration and clear responsibilities and thus increase transparency, minimize risks, and support employees in their day-to-day work.

Global standards

The quality management system has already been implemented at most of the ANDRITZ locations and ensures uniform product and project execution standards worldwide. Accredited certification partners conduct audits and certify the effective and consistent implementation of the quality standards, e.g. ISO 9001 (product quality), OHSAS 18001 (occupational safety), and ISO 14001 (environmental management system). Furthermore, all ANDRITZ products are certified internally as well as externally if necessary (e.g. 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.

Global safety initiative

Group Quality and Safety Management (GQS) launched a global safety initiative in April 2016 in collaboration with the quality managers and safety experts at the ANDRITZ locations. The goals are to prioritize safety regulations, minimize risks, reduce the number of accidents or avoid accidents entirely, and develop a safety culture based on prevention.

The safety initiative is part of a strategy to establish a sustained safety culture based on prevention and a lasting, high level of safety awareness throughout the company. The goal is to prevent unsafe actions in general and making work places and work processes safe. Safety must be an ever-present part of the daily work routine. “Zero accidents” is the motto – no accidents at all at work.

At each location, the location manager and the management team draw up and implement a plan of action for safety matters to meet the global targets. These require the locations to comply with the local safety regulations and with ANDRITZ standards and to implement these safety regulations in their organizational structure and processes. This includes setting up a local safety committee. The plan of action at each location must be based

on a location-specific risk analysis and self-assessment. GQS offers a guideline in the company intranet to help with this analysis and show to what extent a location meets the ANDRITZ standards and the requirements of OHSAS 18001.

Risk analyses and safety training courses are conducted regularly, and safety activities are integrated continuously into the daily work routine. The number of accidents is to be reduced by 30% in the medium term, although the primary goal is, of course, zero accidents at work. Other global requirements relate to safety reporting and the obligation to prepare certification under OHSAS 18001 if it is not yet available. There are currently 29 locations with OHSAS 18001 certification, and it is planned to have all ANDRITZ manufacturing locations certified according to this standard in the medium term.

Extended reporting

The safety initiative also provides for extended accident reporting and statistics. Now, all accidents are to be documented in a central database, even if there are only minor injuries. Field reports from which employees can learn are published in the Group-wide intranet.

Even if the first measures in this initiative have already taken effect, 362 accidents resulting in more than three days of absence were recorded Group-wide in 2016 (2015: 381). That means an average of seven accidents per week.

Accidents at work

	2016	2015
Accidents at work (with more than three days of absence)	362	381
Accident frequency (accidents with more than three days of absence per 1 million working hours)	7.1	7.8
Fatal accidents at work (in manufacturing and at sites)	1	2
Accident rate (accidents with more than three days of absence per 100 employees)	1.3	1.4
Severity of accidents (absence periods in hours per accident)	132	113

Safety in implementation of projects

Safety and environmental awareness apply not only to the ANDRITZ locations, but are also an important concern for the company on all job sites. That is why global standards have been defined as a basis for planning and implementing adequate safety and environmental standards for each project. The goal here is to prevent accidents and ensure a prompt and appropriate reaction in critical situations.

Corporate Security

In order to make foreign assignments by ANDRITZ employees as safe as possible and avoid any unpleasant incidents, the Corporate Security Group Function continuously monitors the situation in crisis and high-risk countries to which employees are deployed and provides information and advice to the travelers.

A global Travel Risk Management Policy published in the autumn of 2015 defines the key data of this travel safety program. This comprises risk evaluation using political stability, crime rate, terrorism, and health risks as parameters. The higher the risk, the more measures must be taken before traveling to the country in question. A country database on the intranet page that is updated continuously contains information on the country of destination and occurrences there and provides tips on how to behave, often also in collaboration with local ANDRITZ locations. The success of and need for this online database are reflected in the large number of clicks by employees on the respective intranet page.

Two helplines – ANDRITZ Medical and ANDRITZ Security Travel – are available to all employees around the clock and can also be contacted in the preliminary stages of a trip. The helplines' travel medicine specialists and safety

experts can answer general queries on the topics of safety and security when traveling as well as specific questions relating to the destination. In addition, they can recommend medical or meet-and-greet services at the travel destination.

Manufacturing – efficient and careful use of existing resources

ANDRITZ operates around 250 locations worldwide, thereof 110 are manufacturing and 34 are service locations. The manufacturing facilities mainly produce customized key components as well as spare and wear parts for plants and machinery. Each location manufactures project- and order-related components for different business areas in the Group, and sometimes for several business areas.

The individual production processes involve highly complex components and a large number of different manufacturing steps. So it is all the more important not only to plan products and systems for customers as efficiently as possible, but also to use the resources available sparingly in the manufacturing processes as well. The company has developed various control mechanisms to take account of this as best possible.

One of these is APS (ANDRITZ Production System), a group-wide system for continuous improvement of the production processes. In the long term, the goal is to further improve production results and thus make an important contribution towards ANDRITZ's success as a company. The starting points are the divisions' manufacturing strategies, from which the goals for the manufacturing locations are derived.

An important element of APS is the assessment of parameters of a production location, which is performed by so-called APS champions. These can be either specially trained employees of the location concerned, colleagues from the Group Manufacturing Management department, or external consultants. The APS champions develop improvement initiatives from this assessment. In addition, there are so-called benchmarking visits made in order to learn from other good examples within the Group. Investments are then made on the basis of this benchmarking and the assessments.

The success indicators should then be improved by means of APS. In order to measure this improvement, a new monitoring system was introduced at the end of 2015 based on safety, quality, lead time, costs, and motivation as key indicators. Other methods and tools for implementing improvements are available in the intranet for all employees. Communication and training are central aspects in implementing APS. They should be used to transmit basic knowledge, but also drive improvements at the locations as well. Initial projects in China have shown that productivity can be increased by up to 22% in individual sectors and lead time can be shortened by up to 25%.

Environmental indicators

Of course, the highest energy consumption is found in manufacturing. By comparison, energy consumption at the office locations is low. This is why reporting and data collection also continue to focus on the manufacturing sector. The consumption data for the manufacturing locations with more than 50,000 manufacturing hours a year (equal to 94% of the annual capacity) have been recorded on a quarterly basis since 2014.

The Group's total power consumption dropped to 176,417,457 kWh (2015: 197,721,831 kWh) and is thus 12% below the starting figure in 2014.

Total power consumption

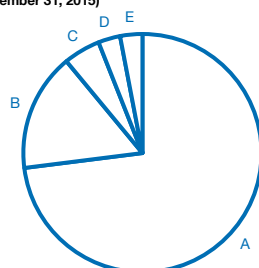
	Unit	2016	2015
TOTAL	kWh	176,417,457	197,721,831
thereof manufacturing	%	86	87
thereof office buildings*	%	14	13

* For 2015 and 2016, only office buildings attached to a manufacturing site were included.

Out of all the manufacturing facilities surveyed, 63% are in Europe, 17% in North America, 8% in South America, 6% each in China and Asia (withouth China) (2015: 62% in Europe, 16% in North America, 8% each in China and South America, 6% in (Asia without China)).

Energy consumption by region as of December 31, 2016 in %

(December 31, 2015)



A	73 (73)	Europe
B	16 (17)	North America
C	5 (6)	China
D	3 (1)	South America
E	3 (3)	Asia (without China)

The cost of heating and air conditioning in buildings varies due to the differences in climate at the ANDRITZ locations worldwide. The long-term goal here is also to reduce costs and switch even more to using more environmentally friendly energy sources. Repairs and refurbishments are important factors in saving energy at existing office buildings.

An example of this is the modernization of the main office building at the Graz location in Austria, which began in 2016 and will provide huge savings in the energy sector. The building, which is over 40 years old and houses around 700 employees, will be modernized extensively up to the middle of 2018. The roof, facade, and the entire heating, ventilation, and air conditioning system will be renewed, as well as the interiors and fire protection equipment. In particular, the new ceiling with cooling, heating, and noise insulation functions will have a positive effect on the room climate in the offices. The improved building insulation is expected to save some 168 tons of CO₂ annually and result in a reduction of the annual heating demand by approximately 500,000 kWh. This would be enough to supply an average Austrian household for over 100 years.

The new “Schuler Innovation Tower” in Göppingen, Germany, which will be completed in 2017, took many ecological criteria into consideration in the planning phase. One of these is the energy supply via a heat exchanger in the sewage system that supplies the building with energy. The waste water in the sewage system also has a temperature of at least 15 degrees Celsius in the winter. The heat exchanger extracts this energy and

passes it on to the building. In the summer, the process is reversed. The heat is extracted from the building and transferred to the sewage system.

Energy and fuel consumption for heating and air conditioning in buildings

	Unit	2016	2015
Heating oil	l	657,163	489,540
Natural gas	Nm ³	13,326,082	14,187,215
District heating	kWh	21,179,294	24,351,968
Other (for example biomass)	t	0	0

In order to be able to compare individual locations more effectively, ANDRITZ young talents analyzed the consumption data in detail last year. The number of manufacturing hours, which are more or less independent of the respective manufacturing process, was used here as the most significant reference quantity. Based on the figures calculated, future savings measures can be developed location by location.

With a good knowledge of the machines and optimization of the upstream and downstream processes, optimum energy consumption can be achieved in production. ANDRITZ strives to minimize energy and fuel consumption in the production process. Annual fluctuations by the consumers are largely due to the varying utilization according to product mix and make comparisons with previous years difficult.

Energy and fuel consumption in manufacturing

	Unit	2016	2015
Heating oil	l	58,866	62,733
Heavy oil*	l	1,847,805	2,103,201
Gasoline	l	134,994	177,356
Diesel	l	629,401	643,912
Natural gas	Nm ³	1,412,276	2,174,685
Liquid (petrol) gas	Nm ³	118,973	119,192
Biofuels	l	0	0
Biomass	t	0	0

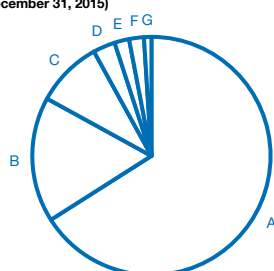
* Heavy oil is used at only one location for one process (pressing plastic filter panels).

Sparing use of materials and recycling in the manufacturing process

Resources are valuable and not unlimited. That is why the ANDRITZ manufacturing processes pay particular attention to conservation and re-use of materials. The important factors here 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. With optimized production processes and re-use of unavoidable residue, a significant contribution can be made towards conserving resources. This is already showing some success in the details: For example, what appear to be small changes to the operating parameters of machines – such as temperature or working pressure – can achieve large savings effects.

**Waste from manufacturing
as of December 31, 2016 in %**

(December 31, 2015)



A	66	(75)	Steel
B	17	(8)	Industrial garbage
C	9	(8)	Wood
D	3	(4)	Hazardous garbage
E	2	(2)	Paper/card board
F	2	(2)	Plastics
G	1	(1)	Copper and aluminum

The United Nations' goals for "sustainable development"

In 2015, the United Nations adopted 17 goals for sustainable development, which entered into force on January 1, 2016. ANDRITZ can contribute to achieve the following goals, in particular with its products and technologies:

Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all:

By training specialists and employing qualified regional skilled workers, the company contributes towards education and lifelong learning. Vocational training is also an important strategic goal with regard to existing employees. Various opportunities are available to all employees, regardless of their location.

Goal 6: Ensure availability and sustainable management of water and sanitation for all: The only way to ensure that an appropriate standard is achieved for as many people as possible is to provide an adequate water supply and water treatment, as well as waste water disposal. ANDRITZ's product portfolio also includes plants for treatment and drying of sewage sludge as well as pumps for extraction, treatment, transport, and distribution of water.

Goal 7: Ensure access to affordable, reliable, sustainable, and modern energy for all: affordable, reliable, sustainable, and modern energy is produced all over the world with products from the ANDRITZ GROUP (for example turbines, generators, recovery boilers, etc.). The plants provide long service life, very good serviceability, and high efficiencies.

Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation: This goal is also essential to the development of new technologies and business segments within the company. ANDRITZ invests each year around 200 MEUR in Research and Development of new products and innovations.

Goal 13: Take urgent action to combat climate change and its impacts: Climate change can be reduced by using renewable energy. The innovative products from ANDRITZ contribute towards reducing climate change.

These trends and goals present a big challenge in politics and in society, but also for companies. ANDRITZ accepts this challenge and takes it into account in order to stay abreast of future developments today, particularly in the research and development sector, which is managed autonomously by each business area.

The company sets important focuses in environmental protection, reducing the input of energy and resources in the production of machinery and plants, and in extending their life cycle. Development work is conducted for many different requirements, for example large greenfield plants, but also for custom-tailored designs and standardized, low-cost solutions.

Research & Development

The ANDRITZ GROUP's expenses for Research and Development (R&D) activities on new processes and products amounted to 87.5 MEUR in the reporting period (2015: 88.5 MEUR). Research and development expenses, including order-related work, amounted to around 3% of sales.

Research and development is an important part of the ANDRITZ corporate strategy and a fundamental pillar on which to create internal growth and maintain the ability to compete in the long term. In total, there are several hundred employees working on research and development worldwide at various locations.

Involving the R&D staff directly in project development, preparation of quotations, and project execution is also an essential factor for economic success. Customers and consulting engineers can access the R&D know-how directly and, at the same time, current market developments flow straight into development projects.

The number of patent applications demonstrates lively development activities: The ANDRITZ GROUP currently has approximately 6,000 patent applications. Two-thirds of them have already been granted, while the remainder is under review. In addition, the Group owns the rights to around 2,000 product brands.

The research and development sector at ANDRITZ is also closely linked to an international network of research partners. Research projects with universities working on the relevant technologies are actively pursued and supported. In many cases, basic research is conducted that cannot always be pursued to an adequate extent in the course of project-related everyday business. Another advantage of these collaborations is the contact to highly qualified graduates who are well prepared to take on future tasks within the company. Many university students sponsored by ANDRITZ decide to take up employment with the company after graduating.

Main R&D projects in the business areas

HYDRO

The HYDRO business area orients its new technological developments towards the various trends and market demands. These extend from climate protection and the related expansion of energy generation from wind power and photovoltaics to digitization of markets and technical processes, to offering economically attractive system solutions for customers.

The HIPASE automation platform is a unique new approach worldwide that was specially developed for use in hydropower plants and launched on the market successfully last year, covering various applications in a single hardware and software system: Protection, excitation, and synchronization systems are programmed in one standardized engineering tool. 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 in power plant operations.

Flexibility in plant operations is the most important requirement for adequate and reliable power generation, particularly against a background of increasing power generation from such volatile energy sources as wind and solar power. Here, hydropower plants make a significant contribution towards balancing out fluctuations in power supply and demand. The resulting demands on Francis turbines, which account for more than two-thirds of the global water turbine market, were handled in the “Francis 0-100%” research project. In this way, Francis turbines were developed that can be operated flexibly from 0 to 100% load without compromising the life cycle or output.

Pumped storage power stations make a particularly important contribution towards stabilizing the power grid. In intensive research and development work, it was possible to achieve a significant increase in the efficiency level in the past few years. This was possible by conducting extensive model tests with the aid of a hydraulic-mechanical optimization process. In addition, hydraulic stability and mechanical safety of the best possible quality are ensured with the aid of new computation methods.

In September 2016, the first of the two motor generators was commissioned for Reisseck II pumped storage power station in Austria. The efficiency guarantee for 99.24% was fulfilled, giving this generator the highest efficiency of a large-scale electrical machine ever measured worldwide. In order to reach this high level, completely new measures in flow mechanics were needed, particularly in the area of the cooling air circuit. The latest numerical tools were used, which were able to simulate both the flow losses and the temperatures of the parts to be cooled. The goal was to minimize ventilation losses and achieve uniform temperature distribution in order to guarantee the highest possible life cycle for the components. The know-how from these developments made it possible to design and manufacture machines with similar challenges.

Last year, the pumps sector pushed further forward in extending its multi-stage pump portfolio. An important milestone was the development of a two-stage, axially split casing pump with axial thrust balance design, which can be used in water supply stations for example

PULP & PAPER

Several current research projects in the PULP & PAPER business area are dealing with the topics sustainability, energy efficiency, and availability/usability of machines and technologies. This includes the improved utilization of raw materials such as fibers, water, and chemicals, as well as waste materials from paper and pulp mills.

Development projects in the stock preparation and waste paper recycling segment dealt primarily with energy efficiency and machinery availability. In the past year, several machines were revised and some of them completely re-designed. In the meantime, all of them are operating successfully at customers' facilities. The new, reinforced TwinFlo refiner was delivered to a customer in China for the first time. The new refiner design makes it possible to increase the motor size while maintaining the same throughput and thus provides a substantial increase in performance. The first flotation plant for a stock preparation line for recycling corrugated paper was also installed for a customer in China. The purpose of the plant is to remove the wax content from the waste paper.

In the mechanical pulping product segment, one of the world's largest plants for production of chemi-mechanical pulp (P-RC APMP) went into operation in China. The heart of the plant is the newly developed MSD 600 Impressafiner. This unit is used for pre-treating the wood chips mechanically and improves subsequent impregnation with chemicals and refining of the chips in the HC refiner. The new MSD 600 processes up to 1,500 tons of eucalyptus chips per day.

The concept of biorefineries was developed further and completed on laboratory scale. In the next step, the process is to be tested with the aid of a mobile test plant directly at the customer's premises. With the new RVB (Recycling of Valuable Bio-Products) process, it is possible to recover valuable substances (lignin components and hemicellulose) from the effluent discharged from mechanical pulping plants. These valuable bioproducts

(biochemicals) are used in the production of pulp and paper, in the packaging, pharmaceuticals and cosmetics, and food industries, as well as in other sectors. Plants can be operated more economically and with greater savings in resources with the help of the RVB process.

In the recycling and shredding machines sector, the development work that began last year in order to reduce costs and improve the machinery and processes was continued. The newly developed sizes of cross-flow shredder were commissioned successfully for the first time at customers' premises. A further focus lay on the development of new wear part concepts for the machines in order to reduce downtimes in plant operation.

The pulp drying plant is one of the main consumers of fresh steam in the pulp mill. Heat can be recovered from flue gases using a fresh steam saving system developed by ANDRITZ. The energy recovered is used to generate low-pressure steam, so the pulp drying plant requires up to 30% less fresh steam from the boiler. And in some other areas of the pulp mill it is possible to use the low-pressure steam generated in place of fresh steam.

The flue gas cleaning segment has developed technology for removing the sulfur from the exhaust gases produced by shipping and which can be installed on all classes of ship. The ANDRITZ SeaSOx technology can clean the waste gases using sea water. This achieves huge savings in fuel consumption, and the new environmental regulations for shipping are also met.

Some 40% of the overall energy costs in spunlace lines are attributed to dewatering and drying the nonwovens web. As a result, the Nonwoven segment has developed the neXecodry system, which can lower the energy consumption significantly. To begin with, the focus lay on mechanical dewatering before drying. The volume of water to be evaporated in the dryer was reduced by 15% by the waste heat from the pumps. The heat exchangers were deployed, re-using 40% of the dryer exhaust air and increasing the dryer capacity by 15%. Development of a new drum design known as the U-Drum made it possible to operate the dryer at a lower temperature and with lower air pressure – very good conditions for top-quality nonwovens in terms of volume and softness. Approximately 30% of the energy for dewatering and drying can be saved by using the neXecodry. In the meantime, the system has been sold as part of 14 new lines and can also be installed in existing spunlace production lines in order to improve cost effectiveness.

In the pulp production sector, developments in the past few years have focused above all on environmental compatibility, efficiency of energy and raw materials, 100% re-use of all by-products of pulp production, and operations without fossil fuels.

Water consumption and waste water volume per ton of pulp and paper produced have been halved over the past 20 years. This is possible by collecting and re-using clean filtrate streams, treating the filtrates from the bleach plant, and by using treated effluent from the bleach plant. Reduced water consumption also means lower energy consumption. The high washing efficiency of the DD washer (drum displacement washer) in pulp bleaching allows a reduction in chemicals consumption and in the effluent load. As a result of the special, gentle process, the fibers are only subjected to very low mechanical forces.

Furthermore, it was possible to reduce the emissions generated per ton of pulp and paper typically by 50-90%. In the past few years, special focus has been on reducing nitrogen oxides. ANDRITZ has developed the latest technology for Selective Catalytic Reduction (SCR) of nitrogen oxides for use in recovery boilers. The first complete installation was started up successfully in the autumn of 2016.

Integrated alignment of the evaporation plant with the other production areas of a pulp mill yields huge energy and water savings. The use of fossil fuels in the lime kiln can be avoided entirely, for example by using biomass by-products from the plant itself, such as bark. In the circulating fluid bed gasifier, bark can be gasified and later used to fire the lime kiln. In some recent installations, the use of fossil fuels could be avoided entirely as a result

of this. ANDRITZ has also developed a new generation of bark press. The five percent increase in the dry content of the bark increases the energy yield by up to 15%. As a result of the higher dry content, there is also a substantial reduction in the odor and mold spores emitted previously.

In the pulp drying sector, the Twin Wire Former provides efficient double-sided dewatering. Dewatering is possible with very low energy input. In addition, the uptime availability and the life cycle of the individual plant components increases.

A-Yield, a concept for pulp production developed by ANDRITZ, makes it possible to obtain more pulp from the same amount of wood. By using A-Yield, 2-4% units higher bleached pulp yield can be achieved if all possibilities are exploited, such as a special pulping process that improves the properties of the pulp as well. In addition, high-grade wood chips can be produced from round wood by means of an HHQ chipper using up to 30% less energy.

The market is constantly on the lookout for new and more sustainable alternatives to cotton and oil-based materials. ANDRITZ has developed a process in which a pulp mill is able to produce not only chemical pulp for the paper industry, but also dissolving pulp mainly for production of viscose in a continuous cooking process.

METALS

The main focuses of development work in the METALS business area are energy efficiency, reduction of waste water and emissions, recycling of scrap, production of lightweight elements for the automotive industry, and IIoT – the use of information and communication technologies in industrial processes.

The new, patented ZEWEP (Zero Waste Electrolytic Pickling) process to continuously reduce effluent and waste in the production of stainless steel was developed in 2016. It is used in the treatment and recycling of sludge occurring in electrolytic pickling of stainless steel (neolyte pickling). Landfill costs are reduced substantially as a result and another environmentally harmful waste sink is eliminated.

With this application, the neolyte recovery process for treatment of used electrolytes from electrolytic pickling, and the PYROMARS technologies for regeneration of used mixed acid as well as ZEMAP for treating waste water, both also developed by ANDRITZ, there are now four recycling processes available for stainless steel annealing and pickling lines that make it possible to close all loops and thus guarantee almost zero effluent and waste.

A large amount of zinc slag is produced as waste in hot-galvanizing plants. ANDRITZ METALS has developed a process to make this waste product useful as a raw material for electrolytic galvanizing plants and substitute it for high-purity zinc. With this method, a separation and cleaning process to avoid contamination follows after the zinc slag has been dissolved in the electrolyte. In this way, ANDRITZ can enable steel producers, who usually have one or two electrolytic galvanizing plants in operation as well as a few hot-galvanizing plants, to achieve significant cost reductions when using or extracting one of their basic resources.

The “iComposite 4.0” research project led by Schuler aims to produce automotive components from fiber-reinforced plastic without any rejects. Economic serial production is possible by using continuous quality control and linking the individual systems to form a self-regulating production plant. An RFID chip integrated into the component stores the manufacturing history. The other partners in addition to Schuler in the project sponsored by the German Ministry of Education and Research are the AZL – Aachener Zentrum für integrativen Leichtbau (Aachen Center for integrative lightweight engineering) of Aachen University (RWTH), the Institut für Kunststoffverarbeitung in Industrie und Handwerk in Aachen (Institute of Plastics Processing in Industry and Crafts), as well as six other companies.

The Schuler LoadMaster loading system for machine tools increases the productivity of turning and milling centers by transporting parts to and away from the machines automatically. With the newly developed LoadMaster Assist, cost-effectiveness is improved further: The robot cell takes on such tasks as clamping the unmachined parts into the jigs or cleaning and deburring the die parts.

With the “Smart Press Shop”, Schuler is moving towards IIoT and showing how networking solutions in metalforming technology not only enhance process reliability, but also improve economic efficiency in production. Many Schuler plants already have the necessary interfaces for comprehensive networking. In addition, plant simulations can be used to optimize the production rates and greatly reduce the start-up time. Furthermore, valuable information can be gained from the data that the sensors supply to the plants. Nowadays, Schuler Remote Service can be used successfully to repair a fault in nine cases out of ten.

SEPARATION

The research and development work in the SEPARATION business area deals primarily with reducing the energy consumption in new plants and thus increasing the economic efficiency. Another focus lies in the service sector, where ANDRITZ has seen an increasing demand for services that prolong the life cycle of existing machinery and plants.

The newly developed E2 decanter series can reduce energy consumption in solid/liquid separation by up to 30%. This is possible with a hydraulic, highly energy-efficient high-pressure design, a drive without gearbox, and the Turbojet, which uses the liquid escaping as an additional driving force. The service costs are also lowered as a result of additional, improved wear protection.

“SmartFix”, a new filter cloth fastening system for filter centrifuges, reduces the time necessary and the costs for maintenance work on filter centrifuges by up to 5%. The filter cloth can be changed very easily without special tools or operating instructions.

CremaViva is the first cold milk separator with discharge pipes that enable milk skimming at temperatures as from five degrees Celsius. The separator guarantees careful treatment of the fat globules, thus producing high-grade cream, all with significant energy savings. The temperature in the cream only increases by one degree Celsius so the final product still remains fresh.

The Feed and Biofuel segment has completed development work on the OptiMix series, a new paddle mixer. The latest model in the series, OptiMix 2000, was sold for the first time in September 2016.

Main R&D projects within group function Automation:

In the IIoT sector, ANDRITZ AUTOMATION has been offering a very successful product for many years now for the pulp and paper industry – the OPP (Optimization of Process Performance) system. OPP collects and analyzes the large data volumes recorded during production and can detect any deviations from the norm at an early stage by means of simulation. As a result, countermeasures can be implemented in good time and any adverse effects on production largely avoided. OPP was also adapted for use in the other business areas during the reporting period. It is now available under the name “OPP.Platform” for other industries as well and is undergoing constant further development.

In the SEPARATION business area, OPP.Platform is used for individual machines, thus proving OPP’s scaling ability. SEPARATION’s complete machine portfolio can thus be covered by OPP. In the HYDRO business area, OPP.Platform will complement and extend two well-integrated tools for monitoring and diagnosis at turbines and generators. In the METALS business area, the data analysis and augmented reality areas of OPP are integrated into the existing software products for process optimization and production logistics. Another focus of development work lies on the simulation of continuous processing lines.

A further important focus in research and development was the use of sensor technologies for plants and machinery. For example, wear can be detected at an earlier stage by means of wireless sensors that are installed in the customers' equipment, creating the basis for predictive maintenance. Augmented reality is another priority that focuses on the use of modern, mobile equipment, such as data glasses, and provides information at any time exactly where it is needed.

ANDRITZ AUTOMATION has developed for the SEPARATION business area a particularly operator-friendly and intuitive design for the user interfaces of automation solutions. The operating concept is self-explanatory at first glance, and the easier operation of individual machines or entire plants increases efficiency during operation. The risk of operator errors is reduced substantially and the operating reliability thus increased.

The user-friendly concept takes account of all user groups, regardless of their know-how and experience. As a result, there is no need for costly and time-consuming staff training. The increased use of symbols makes international deployment easy and significantly reduces the translation volume needed. The system is controlled and maintained remotely via mobile devices, which are also used to query the current status of the process at any time. The results are high process outputs and low error susceptibility.

OUTLOOK

For 2017, economic experts do not expect any significant changes in the general economic environment compared to the preceding year. The global economy is expected to grow by around 3.3% which is only a bit more than in 2016 (approximately 2.9%). In the United States, economic development will depend substantially on the new administration. However, economists estimate that the economy will develop well, similar to 2016, and that the economy will grow by around 2.3%. For the euro zone, economic growth is forecast to remain subdued at approximately 1.6%. The British vote to leave the EU has led many economic experts to revise economic forecasts for the euro zone downwards. Stable economic growth of around 6.4% is forecast for China.

The prospects for the ANDRITZ business areas are largely unchanged compared to the preceding year. A continuing difficult environment is expected in the HYDRO business area. Many modernization projects, particularly in Europe, are still postponed or stopped temporarily. Some larger, new hydropower projects, particularly in Southeast Asia and Africa, are currently being planned, but award of these projects is expected only in the medium to long term. In the PULP & PAPER business area, good project activity is expected to continue at the level of the previous year. While project activity in the metalforming sector (Schuler) is expected to rise slightly compared to 2016, project and investment activity for steel/carbon steel strip production plants is expected to remain at unchanged low level. A continuation of the moderate market development is also expected in the SEPARATION business area.

Internally, ANDRITZ will focus on creating internal growth in 2017 by launching new products, particularly in the Service and Industry 4.0 / IIoT sectors, and on optimizing organizational and cost structures in order to increase profitability on a sustainable level. At the same time, other possible company acquisitions will be reviewed that complement the product portfolio in the four business areas.

In view of the largely unchanged overall economic environment and the project and investment activity expected in the business areas, the ANDRITZ GROUP expects to see satisfactory business development in the 2017 business year with at least stable sales and profitability compared to the previous year.

However, if – contrary to general expectations – the global economy suffers setbacks in 2017, this could have a negative impact on ANDRITZ's business development. This may lead to organizational and capacity adjustments and, as a result, to financial provisions that could have a negative effect on the ANDRITZ GROUP's earnings.

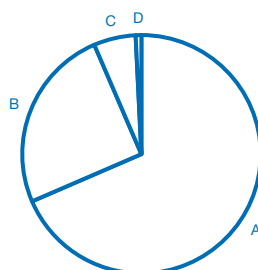
SHARES AND SHAREHOLDER STRUCTURE

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

The capital stock of ANDRITZ AG as of December 31, 2016 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 5.721%. 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 5.01%, The Capital Group Companies, Inc. (an investment firm founded in 1931 with headquarters in Los Angeles, California) with 3.96%, and BlackRock, Inc. (a United States investment firm founded in 1988 with headquarters in New York City, New York) holding 3.90%. The majority of institutional investors come from the UK, USA, Austria, and Germany, while most private investors are from Austria and Germany.

Shareholder structure
as of December 31, 2016 in %



A	68.51	Free float
B	25.00*	Custos
C	5.72	Certus
D	0.77	Cerberus

* 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 2,000,000 no-par value shares between November 11, 2016 and September 30, 2018 was concluded. 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.

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 17, 2017

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

Disclaimer:

Certain statements contained in the annual financial report 2016 and in the annual report 2016 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 2016 and the annual report 2016 contain assumptions and forecasts which were based on the information available up to the copy deadline on February 17, 2017. 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 2016 do arise, actual results may vary from the forecasts made in the annual financial report 2016 and the annual report 2016. 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 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 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 four members as of December 31, 2016.

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; Haas Beteiligungs- und Management GmbH; Haas Food Equipment GmbH; Franz Haas Vermögens- und Beteiligungs Aktiengesellschaft; HBB Haas Beratung und Beteiligungen GmbH 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, 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, 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

Composition of the Supervisory Board

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

The following changes were made to the Supervisory Board: Klaus Ritter and Ralf Dieter stepped down at the end of the Annual General Meeting on March 30, 2016. Jürgen Hermann Fechter and Alexander Isola were elected as members of the Supervisory Board of ANDRITZ AG by the Annual General Meeting of Shareholders in March 2016 for the five-year maximum period allowed by the Articles of Association.

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
APPOINTED MEMBERS				
Christian Nowotny (July 23, 1950)	Chairman of the Supervisory Board	December 29, 1999	Until the Annual General Meeting in 2017	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
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 Martinier (November 11, 1964)	Member of the Supervisory Board	February 14, 2001		None

Diversity

The main criteria in selecting the members of the Supervisory Board are professional qualifications and personal skills. 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 42 and 68, and one member is not an Austrian citizen and has knowledge and experience 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 2016 business year amounted to 8,823,096 EUR (2015: 9,625,399 EUR) and are divided as follows:

(in EUR)	Fixed	Variable	Other remunerations	Total
Wolfgang Leitner (President and CEO)	838,000	2,703,710	12,715	3,554,425
Humbert Köfler	380,000	1,349,440	11,667	1,741,107
Joachim Schönbeck	404,286	1,366,484	12,837	1,783,607
Wolfgang Semper	379,286	1,351,407	13,264	1,743,957
	2,001,572	6,771,041	50,483	8,823,096

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 2016 business year.

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

The Austrian Financial Market Authority www.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 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 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 2016. 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.

Supervisory Board remunerations

Subject to approval by the Annual General Meeting, the Supervisory Board remunerations (including attendance fees) for the 2016 business year amount to a total of 292,500 EUR (2015: 285,000 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)	53,750
Jürgen Hermann Fechter	30,000
Alexander Isola	30,000
Monika Kircher	40,000
Kurt Stiassny	42,500
Retired from the Supervisory Board as of March 30, 2016	
Ralf Dieter	7,500
Klaus Ritter (Deputy Chairman of the Supervisory Board)	16,250
	292,500

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 2016 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 2016 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 2016, prepare the review of the annual and consolidated

financial statements for 2016 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 one meeting in 2016 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 2016 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">▪ Christian Nowotny (Chairman)▪ Fritz Oberlerchner (Deputy-Chairman)▪ Monika Kircher▪ Andreas Martiner
Nomination and remuneration committee	<ul style="list-style-type: none">▪ Christian Nowotny (Chairman)▪ Fritz Oberlerchner (Deputy-Chairman)▪ Monika Kircher

Auditors

KPMG Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, was selected as independent auditor for the 2016 financial statements and the consolidated financial statements by the 109th Annual General Meeting of ANDRITZ AG, which was held on March 30, 2016.

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. 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 15.1% as of December 31, 2016 (2015: 15.8%).

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 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, 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 does not tolerate any form of corruption, cartel agreements, discrimination, or other violations of legal requirements and has confirmed this in a series of policies and guidelines.

Organization

The Corporate Compliance Group Function is a part of the Legal Department and is headed by the Group Corporate Compliance Officer. Compliance with the guidelines in accordance with the legislation and international regulations applying in each case has top priority and is monitored by the Group-wide compliance committee. The committee is made up of a network of legal experts who work together in an international body. Local experts provide support to this network in the regions in which ANDRITZ conducts its business activities. The organization builds upon on a Compliance Management System (CMS), which is based on three pillars: "Awareness and Prevention", "Detection" and "Response".

Clear rules

A common understanding of the conduct expected from all employees forms an important foundation for the ongoing development of the ANDRITZ GROUP. This understanding is also expected from all business partners. This is why the ANDRITZ Code of Business Conduct and Ethics and also a separate Supplier Code of Conduct have been compiled. The two codes define ANDRITZ's moral and ethical principles. In particular, the Supplier Code of Conduct stipulates the minimum requirements for collaboration between business partners and the ANDRITZ GROUP and is an integral part of contracts with companies that want to do business with ANDRITZ (see chapter on suppliers in the Management Report).

Training

After starting to work for ANDRITZ, all employees must complete online training on the Code of Business Conduct and Ethics, which is available in 13 languages and is updated at regular intervals. Classroom training sessions are available for employees without access to a PC, particularly at manufacturing locations. 77% of the employees have completed the training in 2016 (status on December 31, 2016).

In September 2016, an anti-corruption training session was rolled out. Some 5,100 employees (senior management, all sales and marketing staff, and all employees in the purchasing and finance departments) must complete this training. The Anti-Corruption Policy was updated in December 2016. This defines the basic conditions for fair, transparent, and honest business relations that depend on quality and performance only. Agreements with competitors on price fixing or allocation of customers or markets are strictly forbidden, as are all gifts and money as bribery, and improper payments. Another training session is being planned globally on the

topic of compliance with global competition/anti-trust regulations that will be completed by the same group of employees.

The training on insider trading compiled initially in 2012 by the Compliance Officer for Insider Trading was updated in 2016 on the basis of the updated Insider Trading Policy. The training targets those employees listed in the Insider Register, including the Executive Board; in addition, new employees, management staff, and employees at the Austrian locations with regular or ad hoc access to insider information must complete this training.

Questions and information – whistleblowing system

Employees and external business partners are requested to report violations of the ANDRITZ corporate values, but also to question or express any doubts as to whether a certain process complies with the corporate values or strict rules laid down by the company.

For this purpose, an online-based whistleblowing system was implemented in the spring of 2016. This is a platform for reporting suspected irregularities by anyone who has an interest in ANDRITZ. Possible topics to be reported are those defined in the Code of Conduct, such as insider trading, bribery, corruption, and so on. The data base is encrypted, and input and content cannot be read by third parties or by the operators of the computer center without the correct key. Only the Compliance Group Function can assign authorization to access the content.

Financial compliance

Due to the increasing number of incidents in the world of business, ANDRITZ also addresses 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. As an initial measure, the instructions for secure payment transactions were tightened up.

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, with whom it also establishes the audit schedule for the coming two years. The audit reports are also presented to the Executive Board and in summarized form to the members of the Supervisory Board. In the 2016 business year, 40 audits were conducted (2015: 45 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. ANDRITZ AG commissioned BDO Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, Vienna, to conduct this evaluation for the 2016 business year. This evaluation is based on the official questionnaire issued by the Austrian Working Group for Corporate Governance. The result of the evaluation was not available at the

time of publication of this annual financial report. The report on external evaluation is expected at the beginning of the second quarter of 2017 and will be published on the ANDRITZ website www.andritz.com immediately after presentation.

Graz, February 2017

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.

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 other measures. 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 May 31, 2016. In addition, an external evaluation was commissioned, the results of which are expected in 2017. Further to the recommendation by the nominations committee, drawing on the expertise of an external consultant, the Supervisory Board resolved unanimously at its meeting on December 7, 2016, to appoint Mark von Laer to the Executive Board as Chief Financial Officer (CFO) for the period March 1, 2017 to February 29, 2020.

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 one meeting with matters relating to the Executive Board. All members participated in more than half of the meetings.

The audit committee dealt in two meetings 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, 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 were discussed and reported to the Supervisory Board. The Executive Board reported to the Audit Committee on the – not event-driven – audit conducted by the Austrian Financial Reporting Enforcement Panel (Österreichische Prüfstelle für Rechnungslegung), which was concluded without any misstatements being found. All members of the audit committee attended the committee meetings at all times.

With regard to the financial statements for 2015, the audit committee called in the annual auditor to attend its meeting on March 3, 2016 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 for the financial statements and consolidated financial statements for the 2016 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 change of auditor was proposed to take account of the European Union's directive on statutory audits of annual accounts and consolidated accounts. 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 7, 2016, the members – with the auditor also present – discussed the organization, scheduling and auditing of the 2016 financial statements and consolidated financial statements as well as a report by the Executive Board on the internal control system and internal auditing, and decided to give limited permission to provide non-audit services up to completion of the audit for the 2016 financial year.

Ralf Dieter stepped down as member of the Supervisory Board at the end of the Annual General Meeting on March 30, 2016 due to the burden of his professional workload. Klaus Ritter retired from the Supervisory Board as his term of office had come to an end. Special thanks goes to him for his many years spent on the Supervisory Board and the experience and expertise he contributed. The Annual General Meeting approved the proposal

made by the Supervisory Board and elected Jürgen Hermann Fechter and Alexander Isola as members until the end of the Annual General Meeting in 2021. At the Supervisory Board meeting on March 30, 2016 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 2016 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 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 2017

Christian Nowotny m.p.
Chairman of the Supervisory Board

Consolidated financial statements 2016 of the ANDRITZ GROUP

Consolidated income statement	55
Consolidated statement of comprehensive income	56
Consolidated statement of financial position	57
Consolidated statement of cash flows	58
Consolidated statement of changes in equity	60
Notes to the consolidated financial statements	61
Statement by the Executive Board, pursuant to section 82 (4) of the (Austrian) Stock Exchange Act	140
Glossary	141
Auditor's report - consolidated financial statements	144

GRI index	150
------------------	------------

CSR data overview	155
--------------------------	------------

CONSOLIDATED INCOME STATEMENT

For the 2016 financial year

(in TEUR)	Note	2016	2015
Sales	1.	6,038,974	6,377,220
Changes in inventories of finished goods and work in progress		8,606	-12,936
Capitalized cost of self-constructed assets		5,142	5,241
		6,052,722	6,369,525
Other operating income	2.	96,972	87,097
Cost of materials	3.	-3,121,384	-3,377,301
Personnel expenses	4.	-1,656,628	-1,698,601
Other operating expenses	5.	-829,282	-845,995
Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)		542,400	534,725
Depreciation, amortization, and impairment of intangible assets and of property, plant, and equipment	6.	-142,227	-150,375
Impairment of goodwill	11.	-14,379	-15,273
Earnings Before Interest and Taxes (EBIT)		385,794	369,077
Result from associated companies	13.	20	-95
Interest income		42,486	41,824
Interest expenses		-37,651	-32,478
Other financial result		7,795	-1,968
Financial result	7.	12,650	7,283
Earnings Before Taxes (EBT)		398,444	376,360
Income taxes	8.	-123,628	-105,989
NET INCOME		274,816	270,371
Thereof attributable to:			
Shareholders of the parent		274,646	267,688
Non-controlling interests	23.	170	2,683
Weighted average number of no-par value shares		102,106,518	102,977,789
Basic earnings per no-par value share (in EUR)	9.	2.69	2.60
Effect of potential dilution of share options		9,460	120,426
Weighted average number of no-par value shares and share options		102,115,978	103,098,215
Diluted earnings per no-par value share (in EUR)	9.	2.69	2.60
Proposed or paid dividend per no-par value share (in EUR)	23.	1.50	1.35

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 2016 financial year

(in TEUR)	Note	2016	2015
NET INCOME		274,816	270,371
Items that may be reclassified to profit or loss:			
Currency translation adjustments of foreign operations		11,481	16,648
Reclassification to profit or loss		0	0
Currency translation adjustments of foreign operations		11,481	16,648
Result from available-for-sale financial assets		-4,439	36,264
Reclassification to profit or loss		0	-291
Related income taxes		657	-5,360
Result from available-for-sale financial assets, net of tax	K)	-3,782	30,613
Result from cash flow hedges		2,678	865
Reclassification to profit or loss		1,198	0
Related income taxes		-1,253	-497
Result from cash flow hedges, net of tax	K)	2,623	368
Items that will not be reclassified to profit or loss:			
Actuarial gains/losses		-15,160	17,101
Related income taxes		4,761	-4,415
Actuarial gains/losses, net of tax	25.	-10,399	12,686
OTHER COMPREHENSIVE INCOME		-77	60,315
TOTAL COMPREHENSIVE INCOME		274,739	330,686
Thereof attributable to:			
Shareholders of the parent		274,953	328,341
Non-controlling interests		-214	2,345

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2016

(in TEUR)	Note	2016	2015
ASSETS			
Intangible assets	10.	201,253	203,397
Goodwill	11.	563,427	528,515
Property, plant, and equipment	12.	786,688	715,394
Shares in associated companies	13.	6,830	0
Other investments	14.	100,652	140,585
Trade accounts receivable	15.	14,431	11,450
Other receivables and assets	16.	52,922	62,105
Deferred tax assets	8.	187,528	183,284
Non-current assets		1,913,731	1,844,730
Inventories	17.	736,889	665,419
Advance payments made	18.	105,709	126,664
Trade accounts receivable	15.	840,138	735,375
Cost and earnings of projects under construction in excess of billings	19.	726,307	711,062
Other receivables and assets	16.	404,402	304,298
Receivables from current taxes		35,557	31,117
Marketable securities	20.	110,796	103,618
Cash and cash equivalents	21.	1,296,336	1,255,746
Assets held for sale	22.	28,723	0
Current assets		4,284,857	3,933,299
TOTAL ASSETS		6,198,588	5,778,029
SHAREHOLDERS' EQUITY AND LIABILITIES			
Share capital		104,000	104,000
Capital reserves		36,476	36,476
Retained earnings		1,187,027	1,057,557
Equity attributable to shareholders of the parent		1,327,503	1,198,033
Non-controlling interests		16,728	17,543
Total shareholders' equity	23.	1,344,231	1,215,576
Bonds	K) c)	359,325	364,984
Bank loans and other financial liabilities		118,433	74,785
Obligations under finance leases	M) b)	18,880	15,018
Provisions	24./25.	586,534	606,262
Other liabilities	26.	118,595	62,414
Deferred tax liabilities	8.	104,300	159,168
Non-current liabilities		1,306,067	1,282,631
Bank loans and other financial liabilities		78,922	27,633
Obligations under finance leases	M) b)	1,384	868
Trade accounts payable		499,737	478,464
Billings in excess of cost and earnings of projects under construction	19.	1,117,963	1,044,976
Advance payments received	27.	256,690	268,756
Provisions	24.	532,317	524,134
Liabilities for current taxes		101,056	24,926
Other liabilities	26.	958,072	910,065
Liabilities relating to assets held for sale	22.	2,149	0
Current liabilities		3,548,290	3,279,822
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		6,198,588	5,778,029

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 2016 financial year

(in TEUR)	Note	2016	2015
Earnings Before Taxes (EBT)		398,444	376,360
Interest result	7.	-4,835	-9,346
Depreciation, impairment losses, and reversals of impairment losses of fixed and financial assets		156,606	165,648
Result from associated companies	7.	-20	95
Changes in provisions		-41,620	81,286
Gains/losses from the disposal of fixed and financial assets		-6,489	206
Other non-cash income/expenses		5,822	-4,660
Gross cash flow		507,908	609,589
Changes in inventories		-8,733	38,431
Changes in advance payments made		24,444	21,115
Changes in receivables		-68,004	81,821
Changes in cost and earnings of projects under construction in excess of billings		10,481	-206,948
Changes in advance payments received		-50,470	15,700
Changes in liabilities		-8,528	-156,665
Changes in billings in excess of cost and earnings of projects under construction		54,855	-143,234
Change in net working capital		-45,955	-349,780
Interest received		41,903	38,439
Interest paid		-24,659	-22,635
Dividends received		2,576	0
Taxes paid		-115,137	-96,175
CASH FLOW FROM OPERATING ACTIVITIES		366,636	179,438
Payments received for asset disposals (including financial assets)		19,402	11,054
Payments made for intangible assets and for property, plant, and equipment		-122,086	-96,222
Payments made for non-current financial assets		-34,800	-30,604
Net cash flow from company acquisitions	J)	-104,059	-10,141
Payments received for securities and other current financial assets		138,543	158,002
Payments made for securities and other current financial assets		-136,632	-89,320
CASH FLOW FROM INVESTING ACTIVITIES		-239,632	-57,231
Payments made for the redemption of bonds		0	-150,000
Repurchase of own corporate bonds		-2,947	-3,406
Cash receipts from other financial liabilities		75,626	48,978
Repayments of other financial liabilities		-40,774	-52,976
Dividends paid by ANDRITZ AG	23.	-137,802	-103,240
Purchase of non-controlling interests and payments to former shareholders		-2,380	-3,023
Dividends paid to non-controlling and former interest holders		-2,391	-1,057
Proceeds from re-issuance of treasury shares		0	1,530
Purchase of treasury shares	23.	-12,544	-38,801
CASH FLOW FROM FINANCING ACTIVITIES		-123,212	-301,995

ANDRITZ financial report 2016
Consolidated statement of cash flows

(in TEUR)	Note	2016	2015
CHANGES IN CASH AND CASH EQUIVALENTS		3,792	-179,788
Changes in cash and cash equivalents resulting from exchange rate fluctuation		36,635	-21,801
Effect of changes in consolidated group on cash and cash equivalents		998	0
Cash and cash equivalents of assets classified as held for sale		-835	0
Cash and cash equivalents at the beginning of the period	21.	1,255,746	1,457,335
Cash and cash equivalents at the end of the period	21.	1,296,336	1,255,746

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 2016 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		
STATUS AS OF JANUARY 1, 2015		104,000	36,476	992,482	17,964	-83,001	-13,419	-32,947	1,021,555	16,721	1,038,276
Net income				267,688					267,688	2,683	270,371
Other comprehensive income					30,968	12,467	17,218		60,653	-338	60,315
Total comprehensive income				267,688	30,968	12,467	17,218		328,341	2,345	330,686
Dividends	23.			-103,240					-103,240	-1,057	-104,297
Changes in treasury shares	23.			-1,040				-35,626	-36,666		-36,666
Changes concerning share option programs	23.			-9,222					-9,222		-9,222
Transactions with non-controlling interests				-1,609			-947		-2,556	-467	-3,023
Changes in consolidation type				44					44	1	45
Other changes				-223					-223		-223
STATUS AS OF DECEMBER 31, 2015		104,000	36,476	1,144,880	48,932	-70,534	2,852	-68,573	1,198,033	17,543	1,215,576
STATUS AS OF JANUARY 1, 2016		104,000	36,476	1,144,880	48,932	-70,534	2,852	-68,573	1,198,033	17,543	1,215,576
Net income				274,646					274,646	170	274,816
Other comprehensive income					-1,247	-10,010	11,564		307	-384	-77
Total comprehensive income				274,646	-1,247	-10,010	11,564		274,953	-214	274,739
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					
STATUS AS OF DECEMBER 31, 2016		104,000	36,476	1,287,232	47,685	-82,133	14,416	-80,173	1,327,503	16,728	1,344,231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016

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 average number of employees in the Group amounted to 25,056 in 2016 and 24,825 in 2015. 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 17, 2017, the Executive Board authorized the consolidated financial statements according to IFRS for the year ending on December 31, 2016.

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 2016. All interpretations published by the International Financial Reporting Interpretations Committee (IFRIC), which must also be observed for 2016, have been 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 2016, the following new, revised, and supplemented standards of 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 19	Change: Defined benefit plans: employee contributions	February 1, 2015	December 17, 2014
IFRS 10, IFRS 12, and IAS 28	Change: Investment entities - exception from consolidation	January 1, 2016	September 22, 2016
IFRS 11	Change: Accounting of interests in joint operations	January 1, 2016	November 24, 2015
IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	January 1, 2016	December 2, 2015
IAS 16 and IAS 41	Change: Agriculture	January 1, 2016	November 23, 2015
IAS 27	Change: Separate financial statements (equity-method)	January 1, 2016	December 18, 2015
IAS 1	Change: Disclosure initiative	January 1, 2016	December 18, 2015
IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, and IAS 38	Annual improvements of IFRS (cycle 2010-2012)	February 1, 2015	December 17, 2014
IFRS 5, IFRS 7, IAS 19, and IAS 34	Annual improvements of IFRS (cycle 2012-2014)	January 1, 2016	December 15, 2015

The **annual improvements made to the IFRS (cycle 2010-2012)** concern ANDRITZ essentially due to changes and clarifications to IFRS 2 (Share-based payment), IFRS 3 (Business Combinations), IFRS 8 (Operating Segments), and IFRS 13 (Fair Value Measurement). The application of these updated standards did not have any material impact on the financial statements.

b) Standards and interpretations that have been published but not yet applied

The International Accounting Standards Board (IASB) is working on numerous projects that will only have an effect on the financial years 2017 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
IAS 7	Change: Disclosure initiative	January 1, 2017	planned for Q2 2017
IAS 12	Change: Recognition of deferred tax assets for unrealized losses	January 1, 2017	planned for Q2 2017
IAS 40	Change: Transfers of investment property	January 1, 2018	planned for H2 2017
IFRS 15	Revenue from contracts with customers	January 1, 2018	September 22, 2016
IFRS 15	Clarification: Revenue from contracts with customers	January 1, 2018	planned for Q2 2017
IFRS 9	Financial instruments	January 1, 2018	November 22, 2016
IFRS 2	Change: Classification and measurement of share-based payment transactions	January 1, 2018	planned for H2 2017
IFRS 4	Change: Applying IFRS 9 with IFRS 4	January 1, 2018	planned for 2017
IFRS 16	Leasing	January 1, 2019	planned for H2 2017
IFRS 1, IFRS 12, IAS 28	Annual improvements of IFRS (cycle 2014-2016)	January 1, 2017/ January 1, 2018	planned for H2 2017
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
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018	planned for H2 2017

IFRS 15 (Revenue from contracts with customers) sets out a 5-step recognition model for revenue from contracts with customers. According to IFRS 15, revenue recognition must depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard will replace all the existing regulations on revenue recognition under IFRS. The focus of the implementation is on the topics relevant for the supply of plants, equipment, and services. Based on the contractual provisions and the respective legal circumstances applicable for the projects, it has to be analyzed if revenue recognition over time is still appropriate, similarly to the percentage of completion method. In individual cases revenues may be deferred because of revenue recognition required to be realized at a point in time. Based on analyses performed, the vast majority of construction contracts currently accounted for according to the percentage of completion method is expected to fulfill the requirements for revenue recognition over time. Contract modifications will demand a more in-depth analysis of its economic substance. The revenue and stage of completion will require a cumulative catch-up adjustment though, as current provisions call for. Warranties need to be examined, whether they represent a separate performance obligation or not. In most cases, warranties will only represent the promise that the entity's past performance was as specified as in the contract, leading to the fact that no separate performance obligation will exist. The implementation of IFRS 15 will lead to adjustments of the IT-systems. There will be changes in the statement of financial position (line items for contract assets and contract liabilities); also disclosures will be more comprehensive. ANDRITZ will adopt the standard for the fiscal year beginning as of January 1, 2018. All in all, ANDRITZ does not expect significant impacts on its consolidated financial statements.

IFRS 9 (Financial instruments), which was released in July 2014, replaces the existing guidelines of IAS 39 (Financial instruments: recognition and measurement). This standard contains a new regulation for the classification and measurement of financial assets, reflecting the business model they are managed in and their cash flow characteristics. IFRS 9 includes three important classification categories for financial assets: at

amortized cost, at fair value through profit or loss, and at fair value through other comprehensive income. The standard replaces the model of incurred losses of IAS 39 with a new impairment model based on credit losses. This model requires discretionary judgments to assess whether expected credit losses are determined by a change in economic factors. This evaluation is based on weighted probabilities. Regarding the classification of financial liabilities, the existing regulations of IAS 39 are maintained for the most part. According to IAS 39, all changes of the fair value of financial liabilities, which are measured at fair value through profit or loss, are captured in profit or loss. IFRS 9, however, states that these changes must be treated differently depending on their causes. Regarding hedge accounting in IFRS 9, it must be ensured that the accounting is consistent with the aims and the strategy of the Group risk management and that the approach of assessing the effectiveness of the hedging relationship is of a more qualitative nature and on a prospective basis. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. ANDRITZ does not plan to apply this standard at an earlier date. The actual impacts of the application of this standard on the consolidated financial statements in 2018 are not yet known and cannot be assessed reliably because they depend on financial instruments held by the Group and by economic conditions at this point of time. Furthermore, these effects will also be dependent on the accounting principles and discretionary judgments chosen in the future. This new standard requires adjustments of the Group's accounting processes and internal controls relating to the presentation of financial instruments, which are yet to be implemented.

The central idea of the new standard **IFRS 16 (Leases)** 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 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 under IAS 17. In contrast, the rules of the new standard for the lessor are similar to the regulations contained so far in IAS 17. The lease contracts will continue to be classified either as finance or as operating lease arrangements. Lease arrangements in which essentially all risks and rewards of ownership are transferred are classified as finance leasing arrangements, all others as operating leases. The criteria of IAS 17 were also adopted for classification under IFRS 16. ANDRITZ is currently assessing the impact on its consolidated financial statements that will result from applying IFRS 16.

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

c) Disclosure on changes in presentation compared to the previous year

Foreign exchange rate gains and losses are shown offset in the consolidated income statement to improve readability and, concurrently, the relevance of financial statement information disclosed. The previous year was adjusted accordingly and is also shown on a net basis.

C) CONSOLIDATION SCOPE

The consolidated financial statements include ANDRITZ AG and those companies it controls, where their influence on the assets, liabilities, financial position, and profit or loss of the Group is not of minor importance. The entities of the Group are listed in note "R) Group companies".

The consolidation scope changed as follows:

	2016		2015	
	Full consolidation	Equity method	Full consolidation	Equity method
Balance as of January 1	134	3	139	3
Acquisition of companies	8	1	2	
Disposal of companies				
Additions due to a change in consolidation type	1		3	
Disposals due to a change in consolidation type	-1			
Reorganization	-3		-10	
Balance as of December 31	139	4	134	3
Thereof attributable to:				
Domestic companies	6	0	6	0
Foreign companies	133	4	128	3

The acquisition of companies is explained in subsection "D) Acquisitions". The acquisition of companies applying the at-equity method of accounting is described in subsection "I) Notes to the consolidated statement of financial position, 13. Associated companies".

Not fully consolidated were 48 (2015: 48) companies controlled by ANDRITZ; not accounted for at-equity were five (2015: four) associated companies. The influence of the non-consolidated subsidiaries, both individually and overall, on the net assets, financial position, and results of operations of the Group was of minor importance. They are recorded in item "Other investments".

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 scope of subsidiaries.

D) ACQUISITIONS

Yangzhou Metal Forming Machine Tool Co. Ltd.

Yangzhou Metal Forming Machine Tool Co. Ltd. (Yadon), China, is based in Yangzhou, Jiangsu Province, around 300 kilometers north of Shanghai with approximately 1,000 employees at three locations. The main customer segments served by Yadon include the automotive supplying, household appliances, and metal working industries in eastern China. Yadon is one of the leading manufacturers of mechanical presses in China with annual sales of approximately 120 MEUR. The stake in Yadon extends Schuler Aktiengesellschaft's product program in the METALS business area in the middle and lower price ranges and provides access to a customer group not yet served in China, the world's largest market for presses. The acquisition constitutes a business according to IFRS 3. Schuler Aktiengesellschaft's acquisition of a 51% stake took place in June 2015, and was subject to compliance with suspensive conditions. The transaction was closed in April 2016. For the remaining 49% stake in Yadon, a mutual put and call option is available, which was recognized as a liability in the amount of

61,556 TEUR as of December 31, 2016. The option is included in item "Other liabilities" with the amount of the contingent consideration determined by assumptions of future developments. The goodwill as of December 31, 2016 amounting to 29,811 TEUR is based on the company's earnings potential, which cannot be assigned individually to items that can be capitalized according to IFRS.

Further acquisitions

The ANDRITZ GROUP acquired a 100% stake in AWEBA Werkzeugbau GmbH Aue, Germany, and its subsidiaries. AWEBA is based in Aue, Saxony, and generates annual sales of around 60 MEUR with almost 600 employees. The company supplies international customers in the automotive supply and electrical industries, as well as in the mechanical and plant engineering sectors. The product portfolio includes dies for forming, cutting, and die-casting, as well as precision parts and die-related automation equipment. In the METALS business area, AWEBA complements the product portfolio of Schuler Aktiengesellschaft in metalforming and extends the company's existing activities in toolmaking. The acquisition constitutes a business according to IFRS 3. Schuler Aktiengesellschaft made this purchase in April 2016 subject to compliance with suspensive conditions. The transaction was closed in June 2016. The goodwill as of December 31, 2016 amounting to 16,174 TEUR is based on the company's earnings potential, which cannot be assigned individually to items that can be capitalized according to IFRS.

In October 2016, the ANDRITZ GROUP acquired a 100% stake in SHW Casting Technologies, Incorporated, Torrington, USA. The company with about 25 employees and annual sales of about 5 MEUR is engaged in supplying in the paper and nonwoven industry for the eastern American and the southern Canadian area and is assigned to the PULP & PAPER business area. The acquisition constitutes a business according to IFRS 3. The goodwill as of December 31, 2016 amounting to 670 TEUR is based on the company's earnings potential, which cannot be assigned individually to items that can be capitalized according to IFRS.

The ANDRITZ GROUP acquired the business of Anbo Machining (Blenheim) Ltd., Canada, in April 2016 and transferred the acquired assets to the newly established company ANBO Inc. In the SEPARATION business area, this acquisition strengthens the product portfolio in the manufacturing and services sector for wood pelleting equipment in North America. The goodwill as of December 31, 2016 amounting to 391 TEUR is based on the company's earnings potential, which cannot be assigned individually to items that can be capitalized according to IFRS.

In December 2016 the ANDRITZ GROUP acquired the business of AB Franssons Verkstaeder, Sundsvall, Sweden. This acquisition strengthens the recycling business of the PULP & PAPER business area.

Furthermore, the ANDRITZ GROUP acquired a 50% stake and one share in Metalizaciones Industriales Sociedad Comercial e Industrial S.A., Santiago de Chile, Chile, in July 2016. The company with almost 50 employees and annual sales of around 3 MEUR provides services and complements the product portfolio mostly in the HYDRO business area. 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.

Preliminary fair values at the acquisition date

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

(in TEUR)	Yangzhou Metal Forming Machine Tool Co., Ltd.	Others	Total
Intangible assets	21,744	19,831	41,576
Property, plant, and equipment	47,073	30,517	77,589
Inventories	41,323	22,535	63,857
Trade accounts receivable	18,582	9,127	27,709
Cash and cash equivalents	12,041	1,119	13,160
Other assets	37,539	3,497	41,036
Bank loans and other financial liabilities	-13,281	-18,121	-31,402
Deferred tax liabilities	-5,473	-5,536	-11,009
Advance payments received	-28,188	-8,049	-36,237
Trade accounts payable	-26,385	-5,902	-32,287
Other liabilities	-9,843	-12,175	-22,017
Net assets	95,132	36,844	131,976
Non-controlling interests	0	0	0
Goodwill	29,811	17,191	47,002
CONSIDERATION TRANSFERRED	124,943	54,035	178,977

Transaction costs directly related with the business combination are recognized as an expense as incurred. The gross contractual amounts of receivables accounted for at fair value amount to 30,682 TEUR. The acquired receivables do not contain any receivables expected to be uncollectible.

The acquisitions have contributed 117,334 TEUR to the ANDRITZ GROUP's sales and 8,422 TEUR to the ANDRITZ GROUP's EBIT since the acquisition dates. If the businesses had been acquired at the beginning of 2016, the impact on consolidated sales would have been 84,612 TEUR and 7,953 TEUR on the Group's EBIT.

Due to time constraints and the fact that valuations have not been finalized yet, the initial accounting of all assets acquired and liabilities assumed is based on preliminary figures. The final evaluation of the items in the statement of financial position will be carried out according to the regulations of IFRS 3 "Business Combinations".

E) ACCOUNTING POLICIES

The significant accounting policies adopted in preparing the consolidated financial statements of ANDRITZ 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 proportional share in the acquired company's net assets (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 the 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 the 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, 2016	December 31, 2015	2016	2015
BRL	Brazilian real	3.43	4.31	3.87	3.70
CAD	Canadian dollar	1.42	1.51	1.47	1.42
CHF	Swiss franc	1.07	1.08	1.09	1.07
CNY	Chinese renminbi yuan	7.32	7.06	7.35	6.93
DKK	Danish kroner	7.43	7.46	7.45	7.46
GBP	British pound	0.86	0.73	0.82	0.73
INR	Indian rupee	71.59	72.02	74.46	71.30
SEK	Swedish kronor	9.55	9.19	9.48	9.37
USD	US dollar	1.05	1.09	1.11	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 "o"). 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 putting the asset into working condition and bringing it to the appropriate location for its intended use. 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 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 16. 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) Joint arrangements

A joint operation is an arrangement, whereby ANDRITZ and one or more other parties have rights to the assets and obligations for the liabilities. There are no shares in joint operations at December 31, 2016 present.

l) Other investments

These non-current assets consist primarily of non-current securities, loans against borrowers' notes, shares in non-consolidated companies, and other shares.

Non-current securities and loans against borrowers' notes 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 for the year, 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.

m) 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.

n) 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.

o) 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 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.

p) Marketable securities

Marketable securities 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. Marketable securities 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.

q) 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.

r) 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.

s) Capital reserves

Capital reserves consist of share premium amounts.

t) Retained earnings

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

u) 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. Where 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.

v) Employee benefits

Pensions

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.

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. The projected unit credit method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The plan assets are deducted at fair value from the gross pension benefit 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 pension benefit obligation at the beginning of the period. The net interest component resulting from pension benefit 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 pension benefit 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 other Group companies provide defined contribution plans for certain employees. The related costs are expensed as they occur.

Severances

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 by 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 this 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 severance payment 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 revaluation component includes the actuarial gains and losses from measurement of the 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 other Group companies provide defined contribution plans for certain employees. The related costs are expensed as they occur.

w) Management share option programs

Share Option Program 2012

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 2015. Hence, a one-off effect on earnings was caused in the amount of 11,671 TEUR.

Share Option Program 2014

The 107th Annual General Meeting, held on March 21, 2014, 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, 2014, 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 107th Annual General Meeting, held on March 21, 2014.

The options can be exercised between May 1, 2017, and April 30, 2019 (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, 2016 to April 30, 2017 is at least 15% above the exercise price and the earnings per share in the 2015 financial year (based on the total number of shares listed); or the earnings per share in the 2016 financial year (based on the total number of shares listed) are at least 20% above the earnings per share in the 2012 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, 2017 to April 30, 2018 is at least 20% above the

exercise price and the earnings per share in the 2016 financial year (based on the total number of shares listed); or the earnings per share in the 2017 financial year (based on the total number of shares listed) are at least 25% above the earnings per share in the 2013 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 2014 totaled 1,012,500. The fair value of the options at the time of granting amounts to 8,159 TEUR; 2,449 TEUR thereof were reported as proportionate expense in 2016. The calculation of fair value was based on an option pricing model. Regarding the share option program 2014, 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 2, 2014, and amounts to 43.36 EUR. The exercise price of 44.42 EUR was calculated in accordance with the rules of the share option program. The expected dividend yield was fixed at 2.5%. The expected volatility was calculated on the basis of the historical development of the ANDRITZ share.

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

Share Option Program 2016

The 109th 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 109th 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; 1,222 TEUR thereof were reported as proportionate expense in 2016. 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, these corresponding expenses are recorded directly in equity, according to the International Financial Reporting Standards.

x) 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 the categories as specified below and then explained:

- 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 derivative financial instruments 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. These are recognized directly through profit or loss. Where 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 derivative financial instruments to manage its exposure to interest and foreign exchange rate risk and 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

date. Financial assets are impaired where 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 the 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.

y) 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 not disclosed if the possibility of an outflow of resources embodying economic benefit is remote.

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

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). Although these estimations are based on all information available on the balance sheet date, substantial changes after the balance sheet date are possible. These changes may affect assets, liabilities, financial position, and profit or loss.

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 also based on past experience.

d) Impairment

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 management to change the assumptions.

G) NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. Sales

(in TEUR)	2016	2015
Contract revenue recognized as projects under construction	4,008,427	4,439,165
Others	2,030,547	1,938,055
	6,038,974	6,377,220

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)	2016	2015*
Government grants	18,447	16,745
Income from release of valuation allowance on receivables	11,238	11,237
Income from release of other provisions	8,213	14,064
Profit on disposal of intangible assets and property, plant, and equipment	7,700	1,611
Exchange rate gains	7,298	0
Rental income	7,003	6,573
Insurance income	4,704	3,393
Income from scrap material	4,509	4,809
Others	27,860	28,665
	96,972	87,097

* Foreign exchange rate gains and losses are shown offset starting with the fiscal year 2016. Due to this reason, the prior year figure of the item exchange rate gains was adjusted.

3. Cost of materials

(in TEUR)	2016	2015
Expenses for raw materials, supplies and goods purchased	2,384,541	2,576,798
Expenses for services purchased	736,843	800,503
	3,121,384	3,377,301

4. Personnel expenses

(in TEUR)	2016	2015
Wages and salaries	1,341,528	1,315,332
Expenses for social security contributions as required by law as well as salary-based charges and compulsory contributions	219,613	218,033
Other social expenses and termination expenses	50,589	114,811
Pension expenses	39,248	44,885
Severance expenses	5,650	5,540
	1,656,628	1,698,601

5. Other operating expenses

(in TEUR)	2016	2015*
Sales expenses	190,998	198,438
Travel expenses	166,674	170,834
Rents and lease expenses	73,985	74,509
Repairs and maintenance	72,227	69,476
Legal, consulting, and audit expenses	62,414	69,242
Administrative expenses	53,738	56,186
Insurance premiums and charges	35,545	35,067
Expenses for energy and water	27,072	27,714
Other taxes and charges	21,687	19,577
Bank charges, guarantees, and similar expenses	21,579	23,801
Expenses for valuation allowance for receivables	13,384	12,606
Bad debt losses	11,487	5,025
Expenses for industrial patents, rights, licenses	10,994	9,951
Further training expenses to employees	10,334	10,500
Exchange rate losses	0	7,937
Others	57,164	55,132
	829,282	845,995

* Foreign exchange rate gains and losses are shown offset starting with the fiscal year 2016. Due to this reason, the prior year figure of the item exchange rate losses was adjusted.

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

(in TEUR)	2016	2015
Intangible assets		
Depreciation and amortization	48,719	51,793
Impairment losses	345	0
Property, plant, and equipment		
Depreciation and amortization	91,243	86,530
Impairment losses	7,646	12,052
Reversal of impairment losses	-5,726	0
	142,227	150,375

In the 2016 fiscal year, impairment losses for property, plant, and equipment were mainly recorded for buildings in Germany and for technical equipment and machines in Brazil. A reversal of impairment losses was recorded for properties and buildings in Germany. Impairment losses and reversal of impairment losses relate to METALS business area in the amount of -4,682 TEUR, to HYDRO business area in the amount of 6,970 TEUR, and to SEPARATION business area in the amount of -23 TEUR.

7. Financial result

(in TEUR)	2016	2015
Result from associated companies	20	-95
Interest income	42,486	41,824
Interest expenses	-37,651	-32,478
Other financial result	7,795	-1,968
	12,650	7,283

Interest expenses contain 8,461 TEUR (2015: 7,277 TEUR) for interest cost on obligations for pensions, severance payments, and jubilee payments, as well as on expected return on plan assets. Interest income of 2015 contains a one-off effect in connection with a settlement payment received from a customer. The item "Other financial result" mainly consists of exchange rate gains and losses on loans and cash accounts as well as dividend income from investments.

8. Income taxes

Income taxes comprise the following items:

(in TEUR)	2016	2015
Current tax expense	-176,899	-76,800
Deferred tax expense/benefit relating to the origination and reversal of temporary differences	53,271	-29,189
	-123,628	-105,989

The reconciliation of the calculated income tax expense to the effective tax expense is defined below. The calculated tax expense of 99,611 TEUR is determined by multiplying the Earnings Before Taxes (EBT) of 398,444 TEUR by the applicable tax rate for ANDRITZ AG of 25%:

(in TEUR)	2016	2015
Earnings Before Taxes (EBT)	398,444	376,360
Calculated tax expense (25% in 2016 and 25% in 2015)	-99,611	-94,090
Increase (-)/Decrease (+) of tax expense by:		
Non-tax-deductible expenses	-13,422	-10,162
Tax allowances and tax-exempted income	6,284	5,242
Foreign tax rate differential arising from foreign fiscal jurisdictions	-9,753	-1,520
Effects of changes in tax rates	-533	720
Taxes for prior years	1,226	13,294
Change in valuation allowance; non-recognition of deferred tax assets	5,179	-782
Non-deductible impairment of goodwill	-4,602	-3,720
Non-allowable withholding taxes; Foreign operating site taxes	-12,094	-11,783
Others	3,698	-3,188
Effective tax expense	-123,628	-105,989
in % of EBT	-31.0%	-28.2%

The nominal income tax rates applicable for subsidiaries abroad were between 10.0% and 42.7% (2015: 10.0% and 41.3%) in the financial year.

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

(in TEUR)	2016	2015
Deferred tax assets	183,284	212,406
Deferred tax liabilities	-159,168	-141,815
Balance as of January 1	24,116	70,591
Deferred taxes recognized in income statement	53,271	-29,189
Deferred taxes recognized in other comprehensive income	4,165	-10,272
Reclassification as held for sale	-291	0
Changes in consolidation scope, currency translation adjustments	1,967	-7,014
Balance as of December 31	83,228	24,116
Thereof:		
Deferred tax assets	187,528	183,284
Deferred tax liabilities	-104,300	-159,168

Deferred tax assets and liabilities as of December 31, 2016 and 2015 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)	2016		2015	
	Deferred tax		Deferred tax	
	Assets	Liabilities	Assets	Liabilities
Intangible assets	3,836	-53,051	2,837	-53,887
Property, plant, and equipment	10,821	-36,664	10,426	-31,866
Financial assets	6,575	-25,542	5,343	-15,817
Inventories	358,427	-7,672	349,346	-11,582
Receivables and other assets	45,650	-162,654	44,513	-163,827
	425,309	-285,583	412,465	-276,979
Provisions	133,240	-30,224	129,096	-31,624
Liabilities	146,622	-335,652	90,355	-351,150
	279,862	-365,876	219,451	-382,774
Tax loss carryforwards	111,846	0	123,526	0
Deferred taxes before non-recognition and netting	817,017	-651,459	755,442	-659,753
Non-recognized deferred tax assets	-82,039	0	-71,573	0
Reclassification as held for sale	-333	42	0	0
Netting	-547,117	547,117	-500,585	500,585
Net deferred tax assets and liabilities	187,528	-104,300	183,284	-159,168

On the balance sheet date, the Group has operating loss carryforwards (gross values) amounting to 558,904 TEUR (2015: 637,629 TEUR). Thereof, corporate tax loss carry forwards of 163,924 TEUR (2015: 181,514 TEUR), trade tax loss carry forwards of 180,292 TEUR (2015: 195,374 TEUR), and interest carry forwards of 7,827 TEUR (2015: 8,267 TEUR) concerning the fiscal unities in Germany.

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

(in TEUR)	2016	2015
Deductible temporary differences	81,578	38,015
Tax loss carryforwards	214,641	266,153

The unrecognized tax loss carryforwards (gross values) include an amount of 24,112 TEUR, which are subject to expiration within the next five years. German fiscal unities contain frozen corporate tax loss carry forwards of 10,433 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 8,198 TEUR (2015: 10,612 TEUR). Deferred tax assets were recognized in the amount of 2,050 TEUR (2015: 2,653 TEUR).

Regarding investments in subsidiaries, branches, and associates, as well as in interests in joint arrangements no deferred tax liabilities were recognized for temporary differences in the amount of 236,528 TEUR.

9. Earnings per share

Basic earnings per share (as stated subsequently in the consolidated income statement) are 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 are 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)	2016	2015
Net income attributable to shareholders of the parent	274,646	267,688
Weighted average number of no-par value shares	102,106,518	102,977,789
Effect of potential dilution of share options	9,460	120,426
Weighted average number of no-par value shares and share options	102,115,978	103,098,215
Basic earnings per no-par value share (in EUR)	2.69	2.60
Diluted earnings per no-par value share (in EUR)	2.69	2.60

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 installed, 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 turbo generators for thermal power plants are also allocated 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, tissue, and cardboard. 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, tissue, and cardboard; the calendaring 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, as well as gasification plants for power generation, flue gas cleaning plants, plants for the production of nonwovens, dissolving pulp, and panelboard (MDF), as well as recycling plants are also 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 metalforming 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, railway, and large pipe industries. 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 stainless steel, carbon steel, aluminum, and non-ferrous metal. The lines comprise equipment for pickling, cold rolling, 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, as well as welding systems for the metalworking industry.

ANDRITZ SEPARATION (SE)

ANDRITZ SEPARATION is one of the leading separation technology specialists with the broadest technology portfolio in solid/liquid separation. ANDRITZ has been a driving force in the development of technologies and services for solid/liquid separation, as well as for the production of animal feed and biomass pellets for over 150 years. The industries served include sectors ranging from environment to food, chemicals, 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 plant modernization, spare and wear parts, and process optimization.

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”). 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.

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	1,618,721
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.

2015

Business area information

(in TEUR)	HY	PP	ME	SE	Total
Sales	1,834,817	2,196,325	1,718,089	627,989	6,377,220
EBITDA	183,653	214,831	104,779	31,462	534,725
EBITA	145,379	190,883	70,482	22,250	428,994
Capital expenditure	27,280	21,130	40,241	12,732	101,383
Depreciation, amortization, and impairment of intangible assets and of property, plant, and equipment	42,131	33,217	61,638	13,389	150,375
Result from associated companies	0	-95	0	0	-95
Shares in associated companies	0	0	0	0	0

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	2,472,782	1,186,035	864,587	762,284	805,975	285,557	6,377,220
Non-current assets	873,181	136,843	26,253	61,116	29,090	394,379	1,520,862
Capital expenditure	66,135	8,407	5,792	18,713	2,238	98	101,383

External sales in Europe include an amount of 228,398 TEUR recognized in Austria. Non-current assets of 280,886 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
COST			
Balance as of December 31, 2014	346,472	73,607	420,079
Additions	0	6,577	6,577
Disposals	-43,692	-2,301	-45,993
Transfers	0	378	378
Currency translation adjustments	4,499	-930	3,569
Changes in consolidation scope	3,210	0	3,210
Balance as of December 31, 2015	310,489	77,331	387,820
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
Balance as of December 31, 2016	318,976	79,273	398,249
ACCUMULATED DEPRECIATION			
Balance as of December 31, 2014	-124,827	-52,659	-177,486
Depreciation and amortization	-44,644	-7,149	-51,793
Disposals	43,692	2,193	45,885
Transfers	0	-41	-41
Currency translation adjustments	-1,818	830	-988
Balance as of December 31, 2015	-127,597	-56,826	-184,423
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
Balance as of December 31, 2016	-137,772	-59,224	-196,996
NET BOOK VALUE			
Balance as of December 31, 2015	182,892	20,505	203,397
Balance as of December 31, 2016	181,204	20,049	201,253

Research and development costs

Expenditure for research and non-capitalized development costs was considered in the amount of 87,474 TEUR in 2016 and of 88,514 TEUR in 2015. Development costs were not capitalized in the 2016 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 development costs to be capitalized as defined in the IFRS standards and are recognized accordingly as project costs.

Collateral securities

The carrying amount of intangible assets whose title is restricted and pledged as security for liabilities equals to 4,019 TEUR (2015: 0 TEUR).

11. Goodwill

(in TEUR)	2016	2015
COST		
Balance as of January 1	747,711	731,131
Changes in consolidation scope	47,002	1,492
Remeasurement (IFRS 3)	262	80
Currency translation adjustments	6,248	15,008
Balance as of December 31	801,223	747,711
ACCUMULATED IMPAIRMENT		
Balance as of January 1	-219,196	-192,656
Impairment loss	-14,379	-15,273
Currency translation adjustments	-4,221	-11,267
Balance as of December 31	-237,796	-219,196
NET BOOK VALUE		
Balance as of January 1	528,515	538,475
Balance as of December 31	563,427	528,515

These are divided between the business areas as follows:

(in TEUR)	2016	2015
HYDRO	115,072	117,085
PULP & PAPER	127,252	124,815
METALS	290,829	248,102
SEPARATION	30,274	38,513
	563,427	528,515

Impairment loss

In the 2016 financial year, an impairment of goodwill was recorded in the amount of 14,379 TEUR because business did not develop as expected. The impairment relates to cash generating units for product lines and technologies, which were acquired in the USA, Brazil, South Africa, Germany, and China. The impairment is assigned to the SEPARATION business area in the amount of 8,459 TEUR, to the METALS business area in the amount of 3,629 TEUR, and to the HYDRO business area in the amount of 2,291 TEUR. In 2015, impairment losses of 15,273 TEUR were recorded in the METALS (7,747 TEUR), HYDRO (3,133 TEUR), SEPARATION (2,966 TEUR) and PULP & PAPER (1,427 TEUR) business areas.

Cash generating units (CGU)

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

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

2015

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	10.72	1.30	Presses, automation, dies, process know-how and services in the forming equipment field
VA TECH HYDRO*	2006	HY	97,775	13.05	1.30	Electromechanical systems and services for hydropower plants
ANDRITZ AG*	1999	All	59,596	11.75 - 15.13	1.30	Essentially equipment for pulp and paper, environment and process technologies, rolling mills and strip processing, and feed technology
Ahlstrom	2000	PP	21,364	14.64	1.30	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
Iggesund	2011	PP	12,029	12.11	1.30	Knife systems for woodyard chippers

* Group of cash generating units

Discretionary judgments and forward-looking assumptions

In order to validate the figures in use determined as of December 31, 2016, 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

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

(in TEUR)		2016	2015
Discount rate	+0.5%	-1,613	-318
	-0.5%	532	0
Planned cash flows	+10%	2,444	0
	-10%	-5,145	-2,957

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
COST					
Balance as of December 31, 2014	505,903	555,159	177,778	49,378	1,288,218
Additions	8,765	26,318	20,426	39,297	94,806
Disposals	-4,581	-29,267	-15,276	-172	-49,296
Transfers	13,400	36,470	819	-51,067	-378
Currency translation adjustments	10,251	3,290	-1,473	1,647	13,715
Changes in consolidation scope	2,692	1,073	24	191	3,980
Balance as of December 31, 2015	536,430	593,043	182,298	39,274	1,351,045
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
Balance as of December 31, 2016	574,883	643,086	189,421	72,218	1,479,608
ACCUMULATED DEPRECIATION					
Balance as of December 31, 2014	-140,685	-322,921	-109,357	0	-572,963
Depreciation and amortization	-18,688	-46,261	-21,581	0	-86,530
Impairment losses	-9,977	-1,910	-165	0	-12,052
Disposals	4,228	24,601	13,502	0	42,331
Transfers	725	-2,469	1,785	0	41
Currency translation adjustments	-3,237	-3,200	-41	0	-6,478
Balance as of December 31, 2015	-167,634	-352,160	-115,857	0	-635,651
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
Balance as of December 31, 2016	-183,214	-384,793	-124,913	0	-692,920
NET BOOK VALUE					
Balance as of December 31, 2015	368,796	240,883	66,441	39,274	715,394
Balance as of December 31, 2016	391,669	258,293	64,508	72,218	786,688

Collateral securities

As of December 31, 2016, property, plant, and equipment amounting to 21,859 TEUR (as of December 31, 2015: 11,996 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, 2016, these commitments amounted to 26,631 TEUR (as of December 31, 2015: 38,553 TEUR).

Borrowing costs

No borrowing costs relating to qualifying assets were capitalized in the financial years 2016 and 2015 as the amounts were immaterial.

Government grants

In the 2016 financial year, government grants amounting to 842 TEUR (2015: 323 TEUR) were paid for capital expenditure on buildings, plant, and machinery and offset against costs. Other grants in the amount of 18,447 TEUR (2015: 16,745 TEUR) were recognized directly as other operating income.

Finance leases

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

13. Associated companies

The shares in associated companies are as follows:

Company	Main office	Business area	2016	2015
Beijing Andritz Sintai Engineering Technology Co., Ltd.	Beijing, China	ME	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%

In August 2016, Beijing Andritz Sintai Engineering Technology Co., Ltd. was founded with ANDRITZ holding 40% of shares. This associated company is assigned to the METALS business area.

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)	2016	2015
DISCLOSURES OF FINANCIAL POSITION		
Assets	21,047	4,373
Liabilities	5,092	5,367
DISCLOSURES OF THE INCOME STATEMENT		
Sales	1,332	2,013
Result for the year	-121	36

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

(in TEUR)	2016	2015
Share of net income	-48	14
Share of other comprehensive income	-2	-1
Share of total comprehensive income	-50	13
Aggregate carrying amount of the shares in associates	6,830	0

The result from associated companies amounted to 20 TEUR (2015: -95 TEUR) in the consolidated income statement. Non-recognized losses of associated companies amount to -68 TEUR (2015: 0 TEUR). The cumulative unrecognized losses amount to -966 TEUR (2015: -926 TEUR). They belong entirely to Enmas ANDRITZ Pvt. Ltd.

14. Other investments

(in TEUR)	2016	2015
Investment securities	61,571	73,376
Loans against borrowers' notes	20,000	50,000
Shares in non-consolidated companies	11,052	6,698
Other shares	619	2,401
Others	7,410	8,110
	100,652	140,585

In the 2016 financial year, impairment for shares in non-consolidated companies was recognized in the amount of 150 TEUR (2015: 184 TEUR). The shares in non-consolidated companies neither included restricted right of use in 2016, nor in 2015.

15. Trade accounts receivable

(in TEUR)	2016	2015
Trade accounts receivable - current	840,138	735,375
Trade accounts receivable - non-current	14,431	11,450
	854,569	746,825
thereof neither past due nor impaired	547,059	503,648
thereof past due but not impaired	296,443	237,873
thereof impaired	59,706	58,021
Valuation allowance	-48,639	-52,717

The valuation allowance for trade accounts receivable changed as follows:

(in TEUR)	2016	2015
Balance as of January 1	-52,717	-54,202
Charged to expenses	-14,400	-12,603
Usage	7,114	3,865
Release	11,238	11,026
Currency translation adjustments	124	-803
Reclassification as held for sale	2	0
Balance as of December 31	-48,639	-52,717

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

(in TEUR)	2016	2015
Up to 60 days past due	183,586	145,844
61 to 120 days past due	39,233	34,194
More than 120 days past due	73,624	57,835
	296,443	237,873

Included in the Group's trade receivables balance are debts with a carrying value of 296,443 TEUR (2015: 237,873 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 11,398 TEUR (2015: 16,554 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)	2016	2015
Receivables from value-added tax and from other taxes and changes	139,982	118,996
Foreign exchange forward contracts	91,442	79,589
Loans against borrowers' notes	80,000	40,000
Bills of exchange receivable	27,331	16,055
Prepayments and deferred charges	26,520	24,678
Interest rate swaps	15,122	17,942
Loans to not-consolidated companies	12,866	8,432
Receivables from non-current taxes	1,251	1,932
Others	62,810	58,779
	457,324	366,403
thereof other current receivables	404,402	304,298
thereof other non-current receivables	52,922	62,105

The valuation allowances on other receivables changed as follows:

(in TEUR)	2016	2015
Balance as of January 1	-4,827	-5,988
Charged to expenses	-3,322	-3,228
Usage	366	2,376
Release	179	2,003
Currency translation adjustments	12	10
Balance as of December 31	-7,592	-4,827

17. Inventories

(in TEUR)	2016	2015
Materials and supplies	262,775	207,196
Work in progress	374,437	357,899
Finished goods	99,677	100,324
	736,889	665,419

The valuation allowances on inventories were recognized in the income statement in the amount of -7,745 TEUR (2015: -4,863 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 157,497 TEUR (2015: 184,073 TEUR). The disposal limitations arising due to the granting of collateral securities amount to 19,549 TEUR (2015: 20,206 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)	2016	2015
Contract revenue recognized as projects under construction	4,008,427	4,439,165
Contract costs incurred and recognized profits (less recognized losses) to date	10,555,348	10,130,961
Advance payments received and progress billings	10,947,004	10,464,875
Amount of retentions	26,563	21,915

The net amounts of the construction contracts comprise the following:

(in TEUR)	2016	2015
Contract costs incurred and recognized profits (less recognized losses) to date	10,555,348	10,130,961
Less advance payments received and progress billings	-10,947,004	-10,464,875
	-391,656	-333,914
RECOGNIZED IN THE FINANCIAL STATEMENTS AS RECEIVABLES AND PAYABLES:		
Cost and earnings of projects under construction in excess of billings	726,307	711,062
Billings in excess of cost and earnings of projects under construction	-1,117,963	-1,044,976
	-391,656	-333,914

There are no disposal limitations arising due to the granting of collateral securities (2015: 1,846 TEUR).

20. Marketable securities

(in TEUR)	2016	2015
Funds	63,313	56,078
Bank bonds	47,483	47,540
	110,796	103,618

21. Cash and cash equivalents

(in TEUR)	2016	2015
Time deposits	720,390	777,358
Cash in banks	575,946	478,388
	1,296,336	1,255,746

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

In the financial year 2016, the sale of a technology center in the North Chinese city of Tianjin has been initiated with the purchase contract of February 2017 within the METALS business area. The purchase agreement is expected to be closed at the end of March 2017. Furthermore, the sale of large parts of an operating site in Germany was agreed within the METALS business area.

Classification to assets held for sale

As of balance sheet date December 31, 2016, 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. Furthermore, assets held for sale include land and buildings that are also assigned to 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-back of land and buildings in the amount of 5,726 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, 2016, the individual assets and liabilities reclassified a held for sale are as follows:

(in TEUR)	2016
NON-CURRENT ASSETS	
Intangible assets	9
Property, plant, and equipment	20,291
Other receivables and assets	83
Deferred tax assets	333
CURRENT ASSETS	
Inventories	1,387
Advance payments made	15
Trade accounts receivable	211
Cost and earnings of projects under construction in excess of billings	3,335
Other receivables and assets	2,224
Cash and cash equivalents	835
ASSETS HELD FOR SALE	28,723
NON-CURRENT LIABILITIES	
Bank loans and other financial liabilities	1,366
Deferred tax liabilities	42
CURRENT LIABILITIES	
Bank loans and other financial liabilities	3
Trade accounts payable	495
Provisions	60
Other liabilities	183
LIABILITIES RELATING TO ASSETS HELD FOR SALE	2,149

23. Equity

(in TEUR)	2016	2015
Share capital	104,000	104,000
Capital reserves	36,476	36,476
Other retained earnings	1,287,232	1,144,880
IAS 39 reserve	47,685	48,932
Actuarial gains/losses	-82,133	-70,534
Currency translation adjustments	14,416	2,852
Treasury shares	-80,173	-68,573
Total	1,327,503	1,198,033
Non-controlling interests	16,728	17,543
TOTAL SHAREHOLDERS' EQUITY	1,344,231	1,215,576

IAS 39 reserve

(in TEUR)	from hedging activities (cash flow hedge)	from securities	Total
Balance as of December 31, 2014	-3,900	21,864	17,964
Gains and losses from changes in fair values	835	36,264	37,099
Related deferred income taxes	-480	-5,433	-5,913
Transfers to income statement	0	-291	-291
Related deferred income taxes	0	73	73
Balance as of December 31, 2015	-3,545	52,477	48,932
Gains and losses from changes in fair values	2,588	-4,439	-1,851
Related deferred income taxes	-864	657	-207
Transfers to income statement	1,158	0	1,158
Related deferred income taxes	-347	0	-347
Balance as of December 31, 2016	-1,010	48,695	47,685

Dividends

For 2016, a dividend of 1.50 EUR per outstanding share is proposed by the Executive Board. The dividend of 137,802 TEUR for 2015, which is equal to 1.35 EUR per share, was proposed by the Executive Board and approved by the 109th Annual General Meeting on March 30, 2016. The dividend was paid to the shareholders on April 5, 2016.

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 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 2,000,000 no-par value shares between November 11, 2016 and September 30, 2018 was concluded.

In 2016, 287,000 shares were bought back at an average price of 43.71 EUR per share. No shares were sold to eligible executives under the management share option plan. 22,915 no-par value shares were transferred to employees of ANDRITZ in the course of employee participation programs. As of December 31, 2016, the company held 1,939,784 treasury shares at a market value of 92,518 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
Balance as of December 31, 2014	103,196,893	803,107	104,000,000
Purchase of treasury shares	-950,000	950,000	0
Used to cover share options and employee participation programs	77,408	-77,408	0
Balance as of December 31, 2015	102,324,301	1,675,699	104,000,000
Purchase of treasury shares	-287,000	287,000	0
Used to cover share options and employee participation programs	22,915	-22,915	0
Balance as of December 31, 2016	102,060,216	1,939,784	104,000,000

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.

2,146,000 options were granted in 2012. The fair value of the options at the time of granting amounted to 13,553 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 2015. Hence, an effect on earnings was caused in the amount of 11,671 TEUR. Furthermore, 1,012,500 options were granted in 2014. The fair value of the options at the time of granting amounts to 8,159 TEUR; thereof 2,449 TEUR were recognized as proportionate expense in 2016. In 2016, 926,500 options were granted. The fair value of the options at the time of granting amounts to 6,286 TEUR; thereof 1,222 TEUR were recorded as proportionate expense in 2016.

Movements in options under the share option plans for the 2016 and 2015 financial years were as follows:

	2016		2015	
	Number of options	Average exercise price per option (in EUR)	Number of options	Average exercise price per option (in EUR)
Balance as of January 1	982,500	44.42	3,067,500	39.17
Options granted	926,500	47.80	0	-
Options exercised	0	-	-66,000	23.18
Options expired and forfeited	-15,000	44.42	-2,019,000	37.13
Balance as of December 31	1,894,000	46.07	982,500	44.42
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	
		2016	2015	2016	2015	2016	2015
ANDRITZ-Wolfensberger Special Alloy Foundry Co. Ltd.	Foshan, China	0.00%	0.00%	0	-945	0	0
PT. ANDRITZ HYDRO	Jakarta, Indonesia	49.00%	49.00%	409	743	1,263	1,281
ANDRITZ HYDRO S.A.	Araraquara, Brazil	0.00%	0.00%	0	1,706	0	0
ANDRITZ HYDRO Hammerfest AS	Hammerfest, Norway	40.12%	40.12%	109	278	8,516	7,927
ANDRITZ HYDRO Hammerfest (UK) Limited	Glasgow, United Kingdom	40.12%	40.12%	-2,651	133	-14,865	-11,683
Schuler Aktiengesellschaft (subgroup)	Göppingen, Germany	3.38%	3.38%	2,303	768	21,814	20,018
Total				170	2,683	16,728	17,543

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 date of their sale.

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

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
Net assets	22,406	-8,581	454,163
Proportion of ownership interests and voting rights held by non-controlling interests	40.12%	40.12%	3.38%
Net book value of non-controlling interests	8,989	-3,443	15,351
Sales	0	6,620	1,174,222
Result for the year	273	-5,569	64,416
Other comprehensive income	1,197	-1,321	-5,434
Total comprehensive income	1,470	-6,890	58,982
Thereof attributable to:			
Shareholders of the parent	880	-4,126	56,988
Non-controlling shareholders	590	-2,764	1,994
Dividends paid to non-controlling and former interest holders	0	0	-111
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
Total	-880	-1,432	-92,758

2015

(in TEUR)	ANDRITZ HYDRO Hammerfest AS	ANDRITZ HYDRO Hammerfest (UK) Limited	Schuler Aktien- gesellschaft (subgroup)
Current assets	44	1,435	775,748
Non-current assets	28,550	1,188	396,632
Current liabilities	-7,657	-5,392	-429,717
Non-current liabilities	0	-1,026	-337,973
Non-controlling interests of subgroup			-6,309
Net assets	20,937	-3,795	398,381
Proportion of ownership interests and voting rights held by non-controlling interests	40.12%	40.12%	3.38%
Net book value of non-controlling interests	8,399	-1,523	19,756
Sales	0	7,642	1,200,018
Result for the year	694	1,507	24,835
Other comprehensive income	-1,306	-1,286	11,526
Total comprehensive income	-612	221	36,361
Thereof attributable to:			
Shareholders of the parent	-367	132	35,133
Non-controlling shareholders	-246	89	1,228
Dividends paid to non-controlling and former interest holders	0	0	-329
Cash flow from operating activities	12	31,688	-81,622
Cash flow from investing activities	0	6	-33,985
Cash flow from financing activities	0	-29,250	11,888
Total	12	2,443	-103,719

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, 2016 equity and total assets amounted to the following:

(in TEUR)	2016	2015
Total shareholders' equity	1,344,231	1,215,576
Total assets	6,198,588	5,778,029
Equity ratio	21.7%	21.0%

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 optimizing the return to shareholders through the optimization of the debt and equity balance. Bonds were issued in the past to safeguard the financial stability and to build 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, new share issues, 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 2015.

24. Provisions

Non-current provisions

(in TEUR)	Pensions	Severance payments	Anniversary bonuses	Order-related	Others	Total
Balance as of January 1, 2016	243,622	94,495	23,969	197,230	46,946	606,262
Additions	20,131	8,721	1,970	56,572	2,554	89,948
Unwinding of discount effect	4,988	1,911	1,562	101	-14	8,548
Usage	-8,467	-5,149	-347	-8,432	-244	-22,639
Release	-10,669	0	-114	-32,468	-3,551	-46,802
Reclassification	0	0	-446	-32,770	-22,242	-55,458
Currency translation adjustments	784	31	22	3,458	290	4,585
Changes in consolidation scope	604	0	99	0	1,387	2,090
Balance as of December 31, 2016	250,993	100,009	26,715	183,691	25,126	586,534

Current provisions

(in TEUR)	Order-related	Others	Total
Balance as of January 1, 2016	405,439	118,695	524,134
Additions	205,358	43,226	248,584
Unwinding of discount effect	-41	0	-41
Usage	-71,639	-60,899	-132,538
Release	-142,944	-28,843	-171,787
Reclassification	32,770	22,688	55,458
Currency translation adjustments	2,803	3,446	6,249
Changes in consolidation scope	401	1,917	2,318
Reclassification as held for sale	0	-60	-60
Balance as of December 31, 2016	432,147	100,170	532,317

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. For order-related current provisions, the company expects cash outflows within the next financial year. 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 46,802 TEUR (2015: 110,147 TEUR). They relate primarily to the financial provisions to optimize the value chain at Schuler.

25. Employee benefits

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

Pensions

The pension costs comprise:

(in TEUR)	2016	2015
EXPENSES FROM DEFINED BENEFIT PLANS		
Current service cost	10,037	11,064
Past service cost	-6,794	-515
Effects of plan curtailments and settlements	25	-1,080
EXPENSES FROM DEFINED CONTRIBUTION PLANS		
Payments to defined contribution plans	35,980	35,416
	39,248	44,885

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, 2016 and 2015 are as follows:

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

2015

		Germany and Austria	Switzerland	Others
Discount rate	in %	1.53 - 2.61	0.80	0.63 - 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	7.15 - 17.97	14.81 - 18.60	9.52 - 19.51

The following mortality tables were primarily used:

	2016	2015
Austria	AVÖ 2008-P Pagler & Pagler	AVÖ 2008-P Pagler & Pagler
Germany	Heubeck "Richttafeln 2005G"	Heubeck "Richttafeln 2005G"
Switzerland	BVG 2015 Generationentafel	BVG 2010 Generationentafel

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

2016

(in TEUR)	Germany and Austria	Switzerland	Others	Total
Defined benefit obligation as of January 1	247,510	217,348	76,098	540,956
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
Defined benefit obligation as of December 31	258,406	220,988	81,413	560,807
Fair value of plan assets	-47,078	-198,585	-64,264	-309,927
Reduction of assets	113	0	0	113
Defined benefit liability as of December 31	211,441	22,403	17,149	250,993

2015

(in TEUR)	Germany and Austria	Switzerland	Others	Total
Defined benefit obligation as of January 1	268,603	190,949	84,818	544,370
Current service cost	3,722	6,872	470	11,064
Past service cost	-14	-326	-175	-515
Effects of plan curtailments and settlements	-520	0	-605	-1,125
Interest expenses	5,256	2,408	3,016	10,680
Actuarial gains (-) and losses (+) from change in demographic assumptions	0	-5,471	-172	-5,643
Actuarial gains (-) and losses (+) from change in financial assumptions	-24,049	4,259	-427	-20,217
Actuarial gains (-) and losses (+) from change in experience adjustments	5,648	-1,456	418	4,610
Benefits paid	-15,142	-4,436	-10,911	-30,489
Contributions by the plan participants	3,513	3,669	0	7,182
Currency translation adjustments	493	20,880	-773	20,600
Changes in consolidation scope	0	0	439	439
Defined benefit obligation as of December 31	247,510	217,348	76,098	540,956
Fair value of plan assets	-48,388	-188,350	-60,706	-297,444
Reduction of assets	110	0	0	110
Defined benefit liability as of December 31	199,232	28,998	15,392	243,622

Out of the total pension benefit obligation in the amount of 560,807 TEUR (2015: 540,956 TEUR), 314,073 TEUR (2015: 346,727 TEUR) are covered entirely or partly by investments in funds.

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

2016

(in TEUR)	Germany and Austria	Switzerland	Others	Total
Fair value of plan assets as of January 1	48,388	188,351	60,705	297,444
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
Fair value of plan assets as of December 31	47,078	198,585	64,264	309,927

2015

(in TEUR)	Germany and Austria	Switzerland	Others	Total
Fair value of plan assets as of January 1	48,688	168,482	66,630	283,800
Interest income	1,168	2,121	2,414	5,703
Return on plan assets (excl. interest income)	-238	-5,076	-713	-6,027
Effects of plan curtailments and settlements	0	0	-45	-45
Benefits paid	-1,941	-4,436	-10,881	-17,258
Contributions by the employer	387	5,121	4,450	9,958
Contributions by the plan participants	6	3,669	0	3,675
Currency translation adjustments	318	18,470	-1,150	17,638
Fair value of plan assets as of December 31	48,388	188,351	60,705	297,444

The plan assets are invested as follows:

2016

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

2015

(in TEUR)	Germany and Austria	Switzerland	Others	Total
Equity instruments	4,521	38,616	19,570	62,707
thereof listed on an active market	4,499	38,616	19,570	62,685
Debt instruments	9,200	80,065	28,424	117,689
thereof listed on an active market	8,894	80,065	28,424	117,383
Property, plant, and equipment	736	46,062	0	46,798
thereof listed on an active market	0	8,698	0	8,698
Other assets	33,931	23,608	12,711	70,250
thereof listed on an active market	739	19,314	5,765	25,818
	48,388	188,351	60,705	297,444

In 2016, the actual investment result from plan assets amounted to 4.17% (2015: -0.25%).

Payments to the pension funds for defined benefit plans are expected in the amount of 13,694 TEUR for 2017.

As of December 31, 2016, 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:

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

2015

(in TEUR)		Germany and Austria	Switzerland	Others	Total
Discount rate	+0.5%	-14,805	-15,732	-4,805	-35,342
	-0.5%	17,868	17,987	5,373	41,228
Wage and salary increases	+0.5%	826	1,898	481	3,205
	-0.5%	-769	-1,815	-456	-3,040
Retirement benefit increases	+0.5%	10,330	12,969	614	23,913
	-0.5%	-9,428	-1,263	-343	-11,034
Life expectancy	+1 year	9,117	5,725	1,778	16,620
	-1 year	-7,674	-5,842	-1,784	-15,300

The sensitivity analysis presented above may not be fully representative of 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)	2016	2015
EXPENSES FROM DEFINED BENEFIT PLANS		
Current service cost	2,922	2,991
EXPENSES FROM DEFINED CONTRIBUTION PLANS		
Payments to defined contribution plans	2,728	2,549
	5,650	5,540

In the 2016 financial year, contributions to the employees' severance funds in Austria of 1,685 TEUR (2015: 1,811 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, 2016 are as follows:

(in %)		2016	2015
Discount rate	in %	0.89	2.06
Wage and salary increases	in %	2.00	2.00
Average term of the benefit obligation	in years	9.67 - 10.09	9.44 - 9.76

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

(in TEUR)	2016	2015
Defined benefit obligation as of January 1	96,018	99,678
Current service cost	2,922	2,992
Interest expenses	2,034	2,106
Actuarial gains (-) and losses (+) from change in demographic assumptions	67	26
Actuarial gains (-) and losses (+) from change in financial assumptions	5,636	-3,170
Actuarial gains (-) and losses (+) from change in experience adjustments	265	716
Benefits paid	-5,234	-6,412
Currency translation adjustments	48	82
Defined benefit obligation as of December 31	101,756	96,018
Fair value of plan assets	-1,747	-1,523
Defined benefit liability as of December 31	100,009	94,495

The following table reconciles the fair value of plan assets:

(in TEUR)	2016	2015
Fair value of plan assets as of January 1	1,523	1,296
Interest income	123	116
Return on plan assets (excl. interest income)	-13	6
Benefits paid	-85	-127
Contributions by the employer	182	150
Currency translation adjustments	17	82
Fair value of plan assets as of December 31	1,747	1,523

The plan assets are invested as follows:

(in TEUR)	2016	2015
Debt instruments	1,308	1,144
thereof listed on an active market	0	0
Other assets	439	379
thereof listed on an active market	106	109
	1,747	1,523

The discretionary assessments and assumptions concerning future developments for the valuation of provisions for pensions are based on relevant actuarial assumptions. The valuation of existing severance payment provisions is based on assumptions relating to the discount rate, retirement age, life expectancy, and future salary increases. 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)		2016	2015
Discount rate	+0.5%	-5,058	-4,373
	-0.5%	5,500	4,730
Wage and salary increases	+0.5%	5,303	4,614
	-0.5%	-4,932	-4,310

The sensitivity analysis presented above may not be fully representative of 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. Other liabilities

(in TEUR)	2016	2015
Accruals and outstanding order-related costs	471,631	470,827
Unused vacation and other personnel-related accruals	234,981	220,028
Foreign exchange forward contracts	85,378	88,421
Liabilities from value-added tax and from other taxes and charges	71,484	53,623
Contingent considerations	62,207	2,818
Liabilities from social security	19,476	19,600
Liabilities due to employees	14,476	14,723
Prepayments and deferred charges	14,253	9,688
Liabilities from commissions	10,740	10,312
Others	92,041	82,439
	1,076,667	972,479
thereof other current liabilities	958,072	910,065
thereof other non-current liabilities	118,595	62,414

27. Advance payments received

Advance payments received and presented in the statement of financial position relate to orders for ongoing 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 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 loans against borrowers' notes, and payments for the acquisition of subsidiaries. The payments for intangible assets as well as property, plant, and equipment include the capital expenditures (additions to intangible assets and property, plant, and equipment) for 2016, 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, 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 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)	2016	2015
Net assets	131,976	9,219
Non-controlling interests	0	0
Goodwill	47,002	1,572
CONSIDERATION TRANSFERRED	178,977	10,791
Cash and cash equivalents acquired	-13,160	-650
Payables from purchase price not yet paid (incl. contingent consideration)	-61,759	0
Fair value of formerly held interests	0	0
NET CASH FLOW FROM COMPANY ACQUISITIONS	104,059	10,141

The cash flows from company acquisitions are valued at the rates applying to the respective transactions. The initial accounting for the businesses acquired in 2016 is based on preliminary figures.

K) FINANCIAL INSTRUMENTS

a) Valuation techniques

Class	Valuation technique
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 respective remaining term.
Trade accounts receivable, other receivables and assets, loans against borrowers' notes, cash and cash equivalents, trade accounts payable, and other liabilities	These classes of financial assets and liabilities are measured at their book values because, in most cases, their remaining terms are short. Thus, the book value is considered to be an appropriate approximation of the fair value.
Shares in non-consolidated companies and other shares	Except for listed shares, shares in non-consolidated companies and other shares are measured at acquisition costs because the fair value cannot be determined reliably.

b) Levels and fair values

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their categories and 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:

ANDRITZ–Financial Report 2016
Notes to the consolidated financial statements

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
Investment securities	14.				61,571			61,571	61,571			61,571
Marketable securities	20.				110,796			110,796	110,796			110,796
Derivatives	K) e)	91,790	15,133					106,923		106,923		106,923
Financial assets measured at fair value		91,790	15,133		172,367			279,290				
Shares in non-consolidated companies and other shares	14.				11,671			11,671				
Miscellaneous other investments	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				
Loans against borrowers' notes	14./16.			100,000				100,000		99,790		99,790
Cash und cash equivalents	21.			1,296,336				1,296,336				
Financial assets measured at amortized costs				2,500,945	11,671		27,771	2,540,387				
FINANCIAL ASSETS		91,790	15,133	2,500,945	184,038		27,771	2,819,677				
Derivatives	K) e)	85,092	348					85,440		85,440		85,440
Financial liabilities measured at fair value		85,092	348					85,440				
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 considerations						62,207		62,207		60,281		60,281
Other liabilities	26.					843,283	85,737	929,020				
Financial liabilities measured at amortized costs						1,961,907	106,001	2,067,908				
FINANCIAL LIABILITIES		85,092	348			1,961,907	106,001	2,153,348				

ANDRITZ–Financial Report 2016
Notes to the consolidated financial statements

As of December 31, 2015

(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
Investment securities	14.				73,376			73,376	73,376			73,376
Marketable securities	20.				103,618			103,618	103,618			103,618
Derivatives	K) e)	78,020	19,511					97,531		97,531		97,531
Financial assets measured at fair value		78,020	19,511		176,994			274,525				
Shares in non-consolidated companies and other shares	14.				9,099			9,099				
Miscellaneous other investments	14.			8,110				8,110		8,110		8,110
Trade accounts receivable	15.			746,825				746,825				
Other receivables and assets	16.			212,834			57,727	270,561				
Loans against borrowers' notes	14./16.			90,000				90,000		90,347		90,347
Cash und cash equivalents	21.			1,255,746				1,255,746				
Financial assets measured at amortized costs				2,313,515	9,099		57,727	2,380,341				
FINANCIAL ASSETS		78,020	19,511	2,313,515	186,093		57,727	2,654,866				
Derivatives	K) e)	81,463	7,245					88,708		88,708		88,708
Financial liabilities measured at fair value		81,463	7,245					88,708				
Bond	K) c)					364,984		364,984		364,984		364,984
Bank loans and other financial liabilities						102,418		102,418		102,418		102,418
Obligations under finance leases	M) b)						15,886	15,886		15,886		15,886
Trade accounts payable						478,464		478,464				
Other liabilities	26.					823,555	63,311	886,866				
Financial liabilities measured at amortized costs						1,769,421	79,197	1,848,618				
FINANCIAL LIABILITIES		81,463	7,245			1,769,421	79,197	1,937,326				

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 hedged item 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)	2016	2015
Balance as of January 1	364,984	520,969
Gains (-)/losses (+) recognized through profit or loss	-2,865	-2,724
Repurchase of own corporate bonds	-2,794	-3,261
Redemptions	0	-150,000
Balance as of December 31	359,325	364,984

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

(in TEUR)	2016	2015
Fair value of swaps as of January 1	17,942	20,496
Fair value of swaps as of December 31	15,122	17,942
Gains/loss recognized through profit or loss	-2,820	-2,554

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

(in TEUR)	2016	2015
From hedged items	2,865	2,724
From hedging instruments	-2,820	-2,554
Gains/loss recognized through profit or loss	45	170

d) Cash flow hedges

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

(in TEUR)	2016	2015
Balance as of January 1	-3,900	-3,545
Gains and losses from changes in fair values	835	2,588
Related deferred income taxes	-480	-864
Transfers to income statement	0	1,158
Related deferred income taxes	0	-347
Balance as of December 31	-3,545	-1,010

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

e) Derivative financial transactions

The fair values of foreign exchange forward contracts are determined using forward exchange market 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.

Derivative financial transactions – classified according to the remaining terms – are as follows:

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
Total	1,813,073	823,441	2,636,514	106,923	85,440	21,483

2015

(in TEUR)	Remaining terms nominal values					Fair value
	not exceeding 1 year	more than 1 year	Total	positive	negative	Total
Foreign exchange forward contracts	1,647,604	590,031	2,237,635	79,589	88,421	-8,832
Interest rate swaps	0	354,497	354,497	17,942	34	17,908
Commodity forward contracts	1,869	1,352	3,221	0	253	-253
Total	1,649,473	945,880	2,595,353	97,531	88,708	8,823

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 2016	Total 2015
US dollar	11,746	1,864	13,610	-4,088
Euro	-2,515	-1,396	-3,911	-5,169
Canadian dollar	-1,842	-162	-2,004	1,323
Brazilian real	-1,958	0	-1,958	684
Chinese renminbi yuan	-321	27	-294	-2,657
Other currencies	437	184	621	1,075
	5,547	517	6,064	-8,832

f) Offsetting

The following table shows the amounts that were offset in the statement of financial position according to IAS 32, as well as potential effects of master netting agreements or similar arrangements:

(in TEUR)	2016		2015	
	positive	negative	positive	negative
Derivatives				
Gross amounts (before netting)	106,923	-85,440	97,531	-88,708
Netting (in the statement of financial position)	0	0	0	0
Net amounts (in the statement of financial position)	106,923	-85,440	97,531	-88,708
Netting (potential effects)	-3,592	3,592	-6,233	6,233
NET AMOUNTS	103,331	-81,848	91,298	-82,475

g) Net gains and losses

The overviews provided below reflect the net gains and losses of financial instruments considered in the income statement and in other comprehensive income according to the categories of IAS 39.

2016

(in TEUR)	Held for trading	Hedge accounting	Loans and receivables	Available for sale	Other financial liabilities
Changes in fair value recognized in net income	674	-2,820	-13,633	-878	2,865
Changes in fair values recognized in other comprehensive income		2,588		-4,439	
Reclassification from other comprehensive income		1,158			
Other results recognized in net income			41,346	4,320	-29,319
Net gains/losses	674	926	27,713	-997	-26,454

2015

(in TEUR)	Held for trading	Hedge accounting	Loans and receivables	Available for sale	Other financial liabilities
Changes in fair value recognized in net income	-1,372	-2,554	-1,369	44	2,724
Changes in fair values recognized in other comprehensive income		835		36,264	
Reclassification from other comprehensive income				-291	
Other results recognized in net income			40,281	2,239	-25,036
Net gains/losses	-1,372	-1,719	38,912	38,256	-22,312

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 to identify nascent risks at an early stage and to quickly take 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 as best possible 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, exposure to the counterparty 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, loans against borrowers' notes 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 in which the Group has invested (for example investment funds, bonds), 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. The crisis has also heightened the risk of default by some issuers of securities, as well as by customers. The Executive Board is informed on a monthly basis 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 or default in payment by counterparties are controlled by the application of credit approvals, limits, and monitoring procedures. Where appropriate, the Group obtains guarantees from governmental export agencies or similar private institutions to reduce the risk of a counterpart defaulting.

Credit risk associated with cash and cash equivalents, as well as securities is low because 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 1,603 TEUR as of December 31, 2016 (December 31, 2015: 1,351 TEUR). The loans and receivables category includes a balance of impairment for trade receivables as well as other receivables totaling to 56,231 TEUR as of December 31, 2016 (December 31, 2015: 57,544 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.

Quarterly credit risk reporting to the Executive Board has been implemented in order to ensure transparency with respect to financial risks on projects and to implement immediate countermeasures if necessary. 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 as best possible 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 as best possible by means of bank guarantees and export insurance. Further information can be found in the chapter "Credit risks". However, there is no guarantee 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 if they do occur.

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 or only a few banks. To ensure independence, no bank will receive more than a certain defined amount of the business in any important financial product (cash and cash equivalents, financial liabilities, financial assets, guarantees, and derivatives). 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 defined as having sufficient surety lines. With this diversification, ANDRITZ is seeking to minimize the counterparty risk as best possible.

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

2016

(in TEUR)	Contractual cash flows				
	Net book value	Not exceeding 1 year	1 to 5 years	More than 5 years	Total
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
Non-derivative financial liabilities	2,067,908	1,517,199	588,447	24,852	2,130,498
Derivatives	85,440	64,306	21,134	0	85,440
Derivative financial liabilities	85,440	64,306	21,134	0	85,440
TOTAL	2,153,348	1,581,505	609,581	24,852	2,215,938

2015

(in TEUR)	Contractual cash flows				
	Net book value	Not exceeding 1 year	1 to 5 years	More than 5 years	Total
Bonds	364,984	13,563	390,688	0	404,251
Bank loans and other financial liabilities	102,418	47,617	60,827	2,777	111,221
Obligations under finance leases	15,886	1,266	4,651	12,106	18,023
Trade accounts payable	478,464	478,464	0	0	478,464
Other liabilities	886,866	854,834	16,002	16,030	886,866
Non-derivative financial liabilities	1,848,618	1,395,744	472,168	30,913	1,898,825
Derivatives	88,708	59,527	28,512	669	88,708
Derivative financial liabilities	88,708	59,527	28,512	669	88,708
TOTAL	1,937,326	1,455,271	500,680	31,582	1,987,533

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's operations and production sites are located in different countries worldwide that do not have the euro as their local currency. When it receives orders that are not billed in euros, the Group enters into foreign exchange forward contracts and swaps in order to exclude or minimize the foreign exchange risk (hedging). 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 billed in euros 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 explanations detail the sensitivity to a rise or fall in the US dollar, Swiss franc, etc., 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 as a result of 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)		2016		2015	
		Net income	Other comprehensive income	Net income	Other comprehensive income
EUR/USD	+10%	-47,127	-144	-32,507	-6,000
	-10%	47,127	144	32,507	6,000
EUR/CAD	+10%	-3,867	0	-1,972	0
	-10%	3,867	0	1,972	0
EUR/CNY	+10%	3,727	-638	6,369	-884
	-10%	-3,727	638	-6,369	884
EUR/SEK	+10%	3,580	0	3,892	0
	-10%	-3,580	0	-3,892	0
EUR/CHF	+10%	1,451	0	2,114	0
	-10%	-1,451	0	-2,114	0
EUR/INR	+10%	232	0	-522	0
	-10%	-232	0	522	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 according 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 for 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 have been used 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 for the whole period to a variable interest rate. 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 hedges were virtually 100% effective in hedging the fair value exposure to interest rate movements. 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 caused an adjustment to 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 believes that the exposure to interest rate risk of remaining financial assets and liabilities is low due to the risk-averse strategy; additional significant derivative instruments for hedging these interest risks are not used. The interest rate risks are managed by internal Cash-flow-at-Risk (CfaR) and Value-at-Risk (VaR) calculations and by prespecified limits. The limits are set for CfaR and VaR 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:

2016

(in %)	EUR	USD	BRL	CNY
FINANCIAL ASSETS				
Cash on current accounts	0.0	0.1	1.8	0.6
Current deposits	0.3	0.7	13.4	1.7
Securities - current	0.5			2.7
Securities - non-current	0.2			0.0
FINANCIAL LIABILITIES				
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			

2015

(in %)	EUR	USD	BRL	CNY
FINANCIAL ASSETS				
Cash on current accounts	0.0	0.1	2.7	0.8
Current deposits	0.5	0.4	13.7	2.8
Securities - current	0.5			2.4
Securities - non-current	0.6			0.0
FINANCIAL LIABILITIES				
Overdrafts on current accounts	0.6	0.3	0.0	0.0
Current loans	0.0	3.2	5.8	6.0
Non-current loans	3.8	0.0	9.7	5.7
Bonds - current	1.2			
Bonds - non-current	2.4			

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

The sensitivity analysis has been determined based on the bond's exposure to interest rates. 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, although a change in the interest rate would affect the fair value of the bond. However, 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 higher 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)		2016	2015
Changes in market interest rates by +100 bp	Swaps	-5,756	-8,733
	Bonds	5,756	8,733
	Effect on net income	0	0
Changes in market interest rates by -100 bp	Swaps	5,953	9,114
	Bonds	-5,953	-9,114
	Effect on net income	0	0

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 9,644 TEUR in the 2016 financial year (2015: increase of 10,156 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 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)	2016	2015
Not exceeding 1 year	43,145	41,524
1 to 5 years	81,755	87,282
More than 5 years	42,973	58,632
	167,873	187,438

b) Finance leases

ANDRITZ leases facilities for its business operations that are classified as finance leases and 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 19 and 180 months. Future minimum lease payments under non-cancelable finance leases are as follows:

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
Present value of leasing payments	1,384	12,796	6,084	20,264

2015

(in TEUR)	Not exceeding 1 year	1 to 5 years	More than 5 years	Total
Total minimum lease payments	1,298	4,622	12,106	18,026
Less amount representing interest	-430	-1,540	-170	-2,140
Present value of leasing payments	868	3,082	11,936	15,886

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

(in TEUR)	2016	2015
Land and buildings	18,246	16,459
Technical equipment and machinery	88	0
Other equipment, factory, and office equipment	48	72
	18,382	16,531

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 of a nature considered typical of the Group's business, 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, however, 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 product liability cases include a number of cases alleging injuries and/or death resulting from exposure to asbestos. Certain subsidiaries of the ANDRITZ GROUP are defendants in 29 asbestos cases (status as of December 31, 2016; 53 cases as of December 31, 2015) in the USA. In aggregate, the cases involve 431 plaintiffs (434 plaintiffs as of December 31, 2015). All of the cases relate to claims against multiple defendants. Each subsidiary intends to defend each claim vigorously.

ANDRITZ HYDRO S.A., Brazil, faces tax and labor claims based on allegations of joint and several liability with the Inepar Group arising out of the previous minority holding of Inepar. ANDRITZ is vigorously contesting these labor claims in several labor lawsuits. 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 parties should be disclosed if they are not already included as consolidated companies in the consolidated financial statements of ANDRITZ AG.

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 for transfer pricing 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)	2016	2015
SALES AND OTHER OPERATING INCOME	9,461	11,516
with non-consolidated companies	9,050	10,290
with associated companies	411	1,226
EXPENSES	-17,339	-7,908
with non-consolidated companies	-17,327	-7,898
with associated companies	-12	-10
TRADE AND OTHER RECEIVABLES	21,441	15,601
from non-consolidated subsidiaries	21,246	15,368
Gross amount	27,980	21,472
Valuation allowance	-6,734	-6,104
from associated companies	195	233
Gross amount	635	873
Valuation allowance	-440	-640
LIABILITIES	5,459	4,846
to non-consolidated companies	5,113	4,517
to associated companies	346	329

Under IAS 24, the Group also reports on transactions between itself and its related persons and 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 to be disclosed in accordance with IAS 24 includes the remuneration of the Executive Board and the Supervisory Board.

Executive Board

The Executive Board of ANDRITZ AG was composed of four members as of December 31, 2016:

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

A company attributed to 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 954 TEUR in 2016 (2015: 860 TEUR). As of December 31, 2016 and 2015, no liabilities were 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 5.721%.

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 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; 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 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 with the Austrian Code of Corporate Governance.

The following expenses have been recognized for the Executive Board:

(in TEUR)	2016	2015
Short-term benefits	8,823	9,625
Share-based expenses	621	891
Post-employment benefits	344	434
	9,788	10,950

A provision was recorded for pensions of former members of the Executive Board and their dependents of 6,813 TEUR in 2016 (2015: 5,910 TEUR). Expenses for these pensions amounted to 218 TEUR in 2016 (2015: 234 TEUR).

ANDRITZ AG took out Directors' and Officers' liability insurance (D&O insurance) for 2016. 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
APPOINTED MEMBERS			
Christian Nowotny	Chairman of the Supervisory Board	December 29, 1999	Until the Annual General Meeting in 2017
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
DELEGATED MEMBERS			
Georg Auer	Member of the Supervisory Board	July 1, 2011	
Isolde Findenig	Member of the Supervisory Board	January 1, 2012	
Andreas Martiner	Member of the Supervisory Board	February 14, 2001	

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 2016 business year amount to a total of 293 TEUR (2015: 285 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)	2016	2015
Year-end audits	120	486
Other reviews	16	5
Tax advisory services	0	215
Other services	42	0
	178	706

Q) EVENTS AFTER THE BALANCE SHEET DATE

In the financial year 2016, the sale of a technology center in the North Chinese city of Tianjin has been initiated with the purchase contract of February 2017 within the METALS business area. The purchase agreement is expected to be closed at the end of March 2017.

Moreover, there were no events of material significance after the balance sheet date.

R) GROUP COMPANIES

Company	Main office	2016		2015	
		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 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 ²⁾	Cologne, Germany	100.00%	FC	100.00%	FC
Lenser Filtration GmbH ²⁾	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 ²⁾	Laufen, Germany	100.00%	FC	100.00%	FC
ANDRITZ KMPT GmbH ²⁾	Vierkirchen, Germany	100.00%	FC	100.00%	FC
ANDRITZ KMPT Inc.	Florence / Kentucky, USA	100.00%	FC	100.00%	FC
ANDRITZ FBB GmbH ²⁾	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.	Cisnadia, 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
MEWA RECYCLING Keleti Régió Kft.	Győr, Hungary	100.00%	NC	100.00%	NC
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 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 financial report 2016
Notes to the consolidated financial statements

Company	Main office	2016		2015	
		Share*	Type of consolidation	Share*	Type of consolidation
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.	El Dorado, Panama	100.00%	NC	100.00%	NC
ANDRITZ HYDRO Brasil Ltda.	Barueri, Brazil	100.00%	FC	100.00%	FC
ANDRITZ HYDRO Ltd. Sti.	Ankara, 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%	NC	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	59.88%	FC	59.88%	FC
ANDRITZ HYDRO Hammerfest (UK) Limited	Glasgow, United Kingdom	100.00%	FC	100.00%	FC
VA TECH Escher Wyss Peru S.A.C.	Lima, Peru	-	-	100.00%	NC
ANDRITZ HYDRO UNIPESOAL 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 Construcoes 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	-	-
HGI Holdings Limited	Limassol, Cyprus	100.00%	NC	100.00%	NC
ANDRITZ SEPARATION AND PUMP TECHNOLOGIES INDIA PRIVATE LIMITED	Chennai, India	100.00%	FC	100.00%	FC
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 Slovakia s.r.o.	Humenné, Slovakia	100.00%	FC	100.00%	FC
ANDRITZ Chile Ltda.	Santiago de Chile, Chile	100.00%	FC	100.00%	FC
Andritz Metaliza S.A.	Santiago de Chile, Chile	50.00%	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 financial report 2016
Notes to the consolidated financial statements

Company	Main office	2016		2015	
		Share*	Type of consolidation	Share*	Type of consolidation
ANDRITZ SHW Inc.	Torrington / Connecticut, USA	100.00%	FC	-	-
ANDRITZ SEPARATION Inc.	Arlington / Texas, USA	100.00%	FC	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 S.A.S.	Châteauroux, France	100.00%	FC	100.00%	FC
ANDRITZ Selas S.A.S.	Asnières-sur-Seine, France	100.00%	FC	100.00%	FC
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%	NC
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
Sindus ANDRITZ Uruguay S.A.	Río Negro, Uruguay	-	-	100.00%	NC
ANDRITZ Pilão 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 HYDRO Canada Inc.	Pointe Claire / Quebec, Canada	100.00%	FC	100.00%	FC
ANDRITZ HYDRO Installations Inc.	Pointe Claire / Quebec, Canada	100.00%	NC	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
Hemicycle Controls Inc.	Chambly / Quebec, Canada	-	-	100.00%	FC
ANDRITZ HYDRO AFI, Inc.	Paris / Ontario, Canada	100.00%	FC	100.00%	FC
ANBO Inc.	Blenheim / Ontario, Canada	100.00%	FC	-	-

ANDRITZ financial report 2016
Notes to the consolidated financial statements

Company	Main office	2016		2015	
		Share*	Type of consolidation	Share*	Type of consolidation
ANDRITZ AB	Örnsköldsvik / Växjö, Sweden	100.00%	FC	100.00%	FC
ANDRITZ HYDRO AB	Näliden, 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	-	-
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	100.00%	NC
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.	Tiszaújváros, 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 Iggesund Tools AB	Iggesund, Sweden	100.00%	FC	100.00%	FC
ANDRITZ Asselin-Thibeau S.A.S.	Elbeuf, France	100.00%	FC	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

ANDRITZ financial report 2016
Notes to the consolidated financial statements

Company	Main office	2016		2015	
		Share*	Type of consolidation	Share*	Type of consolidation
Schuler Pressen GmbH	Göppingen, Germany	100.00%	FC	100.00%	FC
SUPERA Grundstücksvermietungsgesellschaft mbH & Co. Objekt Weingarten KG	Schönefeld, Germany	-	-	100.00%	FC
Nora Grundstücksvermietungsgesellschaft mbH & Co. Objekt Weingarten KG ¹⁾	Göppingen, Germany	100.00%	FC	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 Sales & Services (Shanghai) Co., Ltd.	Shanghai, China	100.00%	FC	100.00%	FC
Yangzhou Metal Forming Machine Tool Co., Ltd.	Yangzhou City, China	50.57%	FC	-	-
Binake (Yangzhou) Machinery Co., Ltd.	Yangzhou City, China	40.00%	NC	-	-
Beutler Nova AG	Gettnau, Switzerland	99.70%	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 ¹⁾	Göppingen, Germany	100.00%	FC	100.00%	FC
Tianjin SMG Presses Co. Ltd.	Tianjin, China	100.00%	NC	100.00%	NC
Schuler (Tianjin) Metal Forming Technology Center Co. Ltd.	Tianjin, China	100.00%	FC	100.00%	FC
Schuler Thailand Co. Ltd.	Banglamung Chonburi, Thailand	100.00%	NC	100.00%	NC
Gräbener Pressensysteme GmbH & Co. KG ¹⁾	Netphen, Germany	100.00%	FC	100.00%	FC
Schuler Automation GmbH & Co. KG ¹⁾	Heßdorf, Germany	100.00%	FC	100.00%	FC
Schuler Cartec Engineering GmbH & Co. KG	Weingarten, Germany	-	-	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
Graebener 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	-	-
WM-Werkzeugmanagement GmbH	St. Egidien, Germany	100.00%	NC	-	-

ANDRITZ financial report 2016
Notes to the consolidated financial statements

Company	Main office	2016		2015	
		Share*	Type of consolidation	Share*	Type of consolidation
WVL-Werkzeug- und Vorrichtungsbau Lichtenstein GmbH	St. Egidien, Germany	100.00%	FC	-	-
Dabaki Grundstücksverwaltungs gesellschaft mbH & Co. Vermietungs KG	Mainz, Germany	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	-	-
Schuler Service Rus (OOO)	Toljatti, Russia	100.00%	NC	-	-
ANDRITZ (Wuxi) Nonwoven Technology Co. Ltd.	Wuxi, China	100.00%	NC	100.00%	FC
ANDRITZ Soutec AG	Neftenbach, Switzerland	100.00%	FC	100.00%	FC
Soutec Shanghai Ltd.	Shanghai, China	100.00%	NC	100.00%	NC
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
GMF-Gouda China Co Ltd.	Beijing, China	-	-	100.00%	NC
EK Finance	Scorbé-Clairvaux, France	100.00%	FC	100.00%	FC
Euroslot KDSS France SAS	Scorbé-Clairvaux, France	100.00%	FC	100.00%	FC
Euroslot KDSS Deutschland GmbH	Balingen, Germany	-	-	100.00%	NC
ANDRITZ EUROSLOT INDIA PRIVATE LIMITED	Mumbai, India	74.00%	NC	74.00%	NC
Euroslot Hong-Kong PTY LTD	Hong Kong, China	55.00%	NC	55.00%	NC
Euroslot KDSS (Shanghai) Co. Ltd.	Shanghai, China	100.00%	NC	100.00%	NC
Euroslot KDSS South Africa PTY LTD	Johannesburg, South Africa	-	-	50.00%	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 17, 2017

Wolfgang Leitner m.p.
President and CEO

Humbert Köfler m.p.
PULP & PAPER
(Service & Units),
SEPARATION

Joachim Schönbeck m.p.
PULP & PAPER
(Capital Systems),
METALS

Wolfgang Semper m.p.
HYDRO

STATEMENT BY THE EXECUTIVE BOARD

Statement by the Executive Board, 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 17, 2017

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

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

Business area HYDRO.

Liquid funds

Cash and cash equivalents plus marketable securities plus loans against borrowers' notes.

Market capitalization

Number of shares outstanding multiplied by the closing price of the ANDRITZ share.

ME

Business area METALS.

MEUR

Million euros.

Net debt

Interest bearing liabilities including provisions for severance payments, pensions, and jubilee payments less cash and cash equivalents, marketable securities and loans against borrowers' notes.

Net liquidity

Liquid funds plus fair value of interest rate swaps less financial liabilities.

Net working capital

Non-current receivables plus current assets (excluding marketable securities, cash and cash equivalents as well as loans against borrowers' notes) 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

Business area PULP & PAPER.

Price-earnings-ratio

Closing price of the ANDRITZ share/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

Business area SEPARATION.

Sureties

These sureties 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), which comprise the consolidated statement of financial position as at 31 December 2016, and 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 comply with legal requirements and present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, 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 Austrian Standards on Auditing. These standards require the audit to be conducted in accordance with International Standards on Auditing (ISA). Our responsibilities pursuant to these rules and standards are described in the "Auditors' Responsibility" section of our report. We are independent of the audited entity within the meaning of Austrian commercial law and professional regulations, and 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. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole, and we do not express an opinion on these individual matters.

Project Accounting

Please refer to notes G) 1., I) 19. and I) 24.

Risk for the 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

This report is a translation of the original report in German, which is solely valid.

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. The selection was based on risk criteria such as project volume, low or negative project margin or significant margin changes. Audit procedures mainly comprised 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.

Valuation of Goodwill

Please refer to notes G) 6. and I) 11.

Risk for the financial statements

Goodwill capitalized in the consolidated statement of financial position as of December 31, 2016 amounts to 563.4 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 G) 8.

Risk for the 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.

Management's Responsibility and Responsibility of the Audit Committee for the Consolidated Financial Statements

The Company's 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, and, where appropriate, to disclose matters that are relevant to the Group's ability to continue as a going concern and to apply the going concern assumption in its financial reporting, except in circumstances in which liquidation of the Group or closure of operations is planned or cases in which such measures appear unavoidable.

The audit committee is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibility

Our aim is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatements, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance represents a high degree of assurance, but provides no guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, will always detect a material misstatement when it exists. Misstatements may result from fraud or error and are considered material if they could, individually or in the aggregate, 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 Austrian Standards on Auditing, which require the audit to be performed in accordance with ISA, we exercise professional judgment and retain professional skepticism throughout the audit.

Moreover:

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, we plan and perform procedures to address such risks and obtain sufficient and appropriate audit evidence to serve as a basis for our audit opinion. The risk that material misstatements due to fraud remain undetected is higher than that of material misstatements due to error, since fraud may include collusion, forgery, intentional omissions, misleading representation 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 entity's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as related disclosures made by management.
- We conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In case we conclude that there is a material uncertainty about the entity's ability to continue as a going concern, we are required to draw attention to the respective note in the financial statements in our audit report or, in case such disclosures are not appropriate, to modify our audit opinion. We conclude based on the audit evidence obtained until the date of our audit report. Future events or conditions however may result in the Company departing from the going concern assumption.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, 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, among 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 in the course of our audit.

- We report to the audit committee that we have complied with the relevant professional requirements in respect of our independence and that we will report any relationships and other events that could reasonably affect our independence and, where appropriate, related measures taken to ensure our independence.
- From the matters communicated with the audit committee we determine those matters that required significant auditor attention in performing the audit and which are therefore key audit matters. We describe these key audit matters in our audit report except in the circumstances where laws or other legal regulations forbid publication of such matter or in very rare cases, we determine that a matter should not be included in our audit report because the negative effects of such communication are reasonably expected to outweigh its benefits for the public interest.

REPORT ON OTHER LEGAL REQUIREMENTS

Group Management Report

In accordance with the Austrian Commercial Code the group management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether it has been prepared in accordance with legal requirements.

The legal representatives of the Company are responsible for the preparation of the group management report in accordance with 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 has been prepared in accordance with legal requirements and is consistent with the consolidated financial statements. 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 the understanding of the Group and its environment, we did not note any material misstatements in the group management report.

Other Information

The legal representatives of the Company are responsible for other information. Other information comprises all information provided in the Financial Report 2016, with the exception of the consolidated financial statements, the group management report, and the auditor's report thereon.

Our opinion on the consolidated financial statements does not cover other information, and we will not provide any kind of assurance on it.

In conjunction with our audit, it is our responsibility to read this other information as soon as it becomes available, and to assess whether it contains any material inconsistencies with the consolidated financial statements and our knowledge gained during our audit, or any apparent material misstatement of fact. If on the basis of our work

This report is a translation of the original report in German, which is solely valid.

performed, we conclude that there is a material misstatement of fact in the other information, we must report that fact. We have nothing to report with this regard.

Name of the engagement partner

The engagement partner responsible for the audit is Mr Mag. Helmut Kerschbaumer.

Vienna, 20 February 2017

KPMG Austria GmbH
Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Signed by:
Mag. Helmut Kerschbaumer
Wirtschaftsprüfer
(Austrian Chartered Accountant)

GRI INDEX

General standard disclosures

	Short description	Page
Strategy and analysis		
G4-1	Statement from the most senior decision-maker of the organization	Annual report p. 51
Organizational profile		
G4-3	Name of organization	Cover
G4-4	Primary brands, products and services	Inside front cover annual report
G4-5	Location of the organization's headquarters	Inside front cover annual report
G4-6	Overview of the organization's locations	Annual financial report, www.andritz.com
G4-7	Nature of ownership and legal form	Annual report p. 61, Annual financial report p. 41
G4-8	Markets served	Annual financial report 2016
G4-9	Scale of organization	Inside front cover annual report
G4-10	Total number of employees (by gender, employment contract, region etc.)	Annual financial report p. 155
G4-11	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
G4-12	Description of organization's supply chain	Annual financial report p. 17, p. 27
G4-13	Significant changes during the reporting period	Annual financial report p. 65
Commitments to external initiatives		
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization	Annual financial report p. 28, p. 30, p. 32, p. 34
G4-15	List externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes	Annual financial report p. 33
G4-16	Memberships of associations	Annual report p. 65
Identified material aspects and boundaries		
G4-17	Entities included in the organization's consolidated financial statements	Annual financial report p. 134
G4-18	Process for defining the report content and the aspect boundaries	Annual report p. 67
G4-19	Identified material aspects	Annual report p. 67
G4-20	Aspect boundaries within the organization	Annual report p. 67
G4-21	Aspect boundaries outside the organization	Annual report p. 67
G4-22	Any restatements of information provided in previous reports, and the reasons for it	Annual financial report p. 23
G4-23	Significant changes from previous reporting periods	Annual report p. 67
Stakeholder engagement		
G4-24	List of stakeholder groups engaged	Annual report p. 65f
G4-25	Identification and selection of stakeholders with whom to engage	Annual report p. 65f
G4-26	Stakeholder engagement	Annual report p. 65f
G4-27	Key topics and concerns raised through stakeholder engagement	Annual report p. 65f
Report profile		
G4-28	Reporting period	Annual report p. 64
G4-29	Date of most recent previous report	March 30, 2016
G4-30	Reporting cycle	yearly

	Short description	Page
G4-31	Contact point for questions regarding the report or its contents	csr@andritz.com
G4-32	"In accordance" option the organization has chosen	Annual report p. 64
G4-33	External assurance	No external assurance
Governance		
G4-34	Governance structure and its composition	Annual financial report p. 45f
Ethics and integrity		
G4-56	Values, principles, standards and norms of the organization	Annual financial report p. 50, Code of business conduct and ethics
G4-57	Internal and external mechanisms for advice on ethics and lawful behavior	Annual financial report p. 50
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior	Annual financial report p. 50

Category: Economic

Material aspects	DMA and indicators (related to each identified material aspect)	Page	Omissions/ Explanations
Economic performance			
	EC1: Direct economic value generated and distributed	Annual financial report p. 6ff	
	EC2: Financial implications and other risks and opportunities for the organization's activities due to climate change	Annual financial report p. 15ff	
	EC3: Coverage of the organization's defined benefit plan obligations	Annual financial report p. 83	
	EC4: Financial assistance received from government	Annual financial report p. 83	
Market presence			
	EC5: Ratio of standard entry level wage by gender compared to local minimum wage at significant locations of operation		Entry levels are based on qualifications and/or on collective agreements; no distinction has been made between male and female.
	EC6: Proportion of senior management hired from the local community at significant locations of operation		Managerial staff is mainly recruited locally
Indirect economic impact			
	EC8: Development and impact of infrastructure investments and services supported	Annual financial report p. 26f	
Procurement practices			
	G4 DMA: Management approach	Annual financial report p. 27	
	EC9: Proportion of spending on local suppliers at significant locations of operations	Annual financial report p. 27	

Category: Environmental

Material aspects	DMA and indicators (related to each identified material aspect)	Page	Omissions/ Explanations
Materials			
	EN1: Materials in weight and volume (renewable and non-renewable)	Annual financial report p. 28	Percentage of purchasing volume
Energy			
	G4 DMA: Management approach	Annual financial report p. 30	
	EN3: Energy consumption within the organization (electricity, heating, cooling, steam, fuel)	Annual financial report p. 31f	Reported in Manufacturing, as this is the area with the highest consumption
	EN7: Reductions in energy requirement of products and services	Annual financial report p. 33ff	Examples based on newly developed technologies
Water			
	EN8: Total water withdrawal by source	Annual financial report p. 158	Reported in Manufacturing, as this is the area with the highest consumption
Effluent and waste			
	EN 22: Total water discharge by quality and destination	Annual financial report p. 158	Reported in Manufacturing, as this is the area with the highest consumption
	EN23: Total weight of waste by type and disposal method	Annual financial report p. 33	Reported for manufacturing
Compliance			
	EN29: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		No complaints have been received in the reporting period
Supplier environmental assessment			
	EN32: Percentage of new suppliers that were screened using environmental criteria	Annual financial report p. 26f	

Category: Social

Material aspects	DMA and indicators (related to each identified material aspect)	Page	Omissions/ Explanations
Sub-category: Labor practices and decent work			
Employment			
	LA1: Total number and rates of new employee hires and employee turnover by age group, gender and region	Annual financial report p. 156	Reported according to gender and age only
Labor/Management relations			
	LA4: Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Annual financial report p. 62	Reported descriptively
Occupational health and safety			
	DMA: Management approach	Annual financial report p. 28	
	LA6: Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region and by gender	Annual financial report p. 29, p. 157	
Training and education			
	DMA: Management approach	Annual financial report p. 23f	
	LA9: Average hours of training per year per employee by gender, and by category	Annual financial report p. 24	
	LA11: Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Annual financial report p. 24	Reported according to gender only
Diversity and equal opportunity			
	DMA: Management approach	Annual financial report p. 23f	
	LA 12: Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Annual financial report p. 45, p. 155	Reported partly (descriptively)
Sub-category: Human rights			
Non-discrimination			
	DMA: Management approach	Annual financial report p. 25	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.
	HR3: Total numbers of incidents of discrimination and corrective actions taken		
Sub-category: Society			
Anti-corruption			
	DMA: Management approach	Annual financial report p. 50f	

Material aspects	DMA and indicators (related to each identified material aspect)	Page	Omissions/ Explanations
	SO4: Communication and training on anti-corruption policies and procedures	Annual financial report p. 50f	
Anti-competitive behavior			
	SO7: Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes		No legal actions for anti-competitive behavior in the reporting period
Compliance			
	SO8: Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		No significant fines, on-monetary sanctions are not reported groupwide
Supplier assessment for impacts on society			
	SO9: Percentage of new suppliers that were screened using criteria for impacts on society	Annual financial report p. 26	
Sub-category: Product responsibility			
Customer health and safety			
	DMA: Management approach	Annual financial report p. 28	
	PR1: Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Annual financial report p. 28	

CSR DATA OVERVIEW

Employees

Employees by gender, age group, type of employment and employment contract

	Absolute 2016	Absolute 2015	Percentage 2016	Percentage 2014
Men	21,362	20,650	85%	84%
Women	3,800	3,858	15%	16%
TOTAL	25,162	24,508	100%	100%
< 30 years old	4,076	4,008	16%	16%
30-50 years	14,129	13,826	56%	57%
> 50 years old	6,957	6,674	28%	27%
TOTAL	25,162	24,508	100%	100%
White-collar workers	15,435	14,968	61%	61%
Blue-collar workers	9,727	9,540	39%	39%
TOTAL	25,162	24,508	100%	100%
Full-time	24,356	23,737	97%	97%
Part-time	806	771	3%	3%
TOTAL	25,162	24,508	100%	100%
Permanent	21,850	22,165	87%	90%
Temporary	3,312	2,343	13%	10%
TOTAL	25,162	24,508	100%	100%

Employees per region

	Absolute 2016	Absolute 2015	Percentage 2016	Percentage 2015
Europe	14,787	14,396	59%	59%
South America	3,090	3,740	12%	15%
North America	2,901	2,723	12%	11%
China	2,770	2,174	11%	9%
Asia (without China)	1,537	1,395	6%	6%
Rest of the world	77	80	0%	0%
TOTAL	25,162	24,508	100%	100%

Personnel expenditure

(in MEUR)	2016	2015
TOTAL expenditure for personnel*	1,656,6	1,698,6

* Including wages and salaries, social security contributions, pensions, severance payments, and other social expenses. The decrease results from the lower social expenses in 2016.

Newly hired employees by gender and age group

	Absolute 2016	Absolute 2015	Percentage 2016	Percentage 2015
Men	3,538	5,262	85%	88%
Women	612	696	15%	12%
< 30 years old	1,412	2,280	34%	38%
30-50 years	2,107	3,066	51%	52%
> 50 years old	631	612	15%	10%
TOTAL	4,150	5,958	100%	100%

Fluctuation by gender and age group

	Contracts terminated 2016	Contracts terminated 2015	Fluctuation rate 2016*	Fluctuation rate 2015*
Men	3,043	3,241	14.3%	15.5%
Women	456	765	12.0%	19.9%
< 30 years old	954	1,108	23.7%	26.7%
30-50 years	1,781	1,945	12.6%	13.9%
> 50 years old	764	953	11.1%	14.3%
TOTAL	3,499	4,006	14.0%	16.1%
without site workers	2,687	2,427	10.7%	9.8%

* 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.

Parental leave periods by gender

	Absolute 2016	Absolute 2015	Percentage 2016*	Percentage 2015*
Men	155	123	0.7%	0.6%
Women	197	192	5.2%	5.0%
TOTAL	352	315		

* Percentage of the total workforce of the ANRITZ GROUP

Expenditure on education and training

	2016	2015
TOTAL (in TEUR)	10,332	10,484
Average expenditure per employee (in EUR)	411	310
Training hours total*	384,871	304,856

Employees appraisals

	2016	2015
Men	69%	69%
Women	61%	62%
TOTAL*	68%	68%

* 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)	Europe 2016	Europe 2015	North America 2016	North America 2015	South America 2016	South America 2015	China 2016	China 2015	Asia (without China) 2016	Asia (without China) 2015
< 30 years old	4.5	4.3	2.6	2.8	2.1	1.7	3.4	2.5	3.8	3.6
30-50 years	11.1	11.3	7.6	7.6	5.7	4.3	8.6	5.4	8.9	6.2
> 50 years old	23.1	23.1	16.8	16.8	11.0	8.8	18.9	9.0	13.3	10.7
TOTAL	14.3	14.3	10.7	10.7	5.4	4.2	8.1	5.0	8.4	6.1

Accident statistics

	2016	2015
Accidents at work (with more than three days of absence)	362	381
Accident frequency (accidents with more than three days of absence per 1 million working hours)	7.1	7.8
Fatal accidents at work (in manufacturing and at sites)	1	2
Accident rate (accidents with more than three days of absence per 100 employees)	1.3	1.4
Severity of accidents (absence periods in hours per accident)	132	113

Procurement

Purchasing volume

(in MEUR)	2016	2015
TOTAL	4,083.9	4,255.0
thereof external supplier	2,844.1	3,182.6
thereof internal supplier	1,233.5	1,053.2
thereof consolidated purchasing volume	16.4	19.2
Local percentage of external purchasing volume*	73%	73%

* Percentage of local purchasing volume that was bought in the respective country

Purchasing volume by region

(in %)	2016	2015
Europe	68.5	66.2
China	11.5	9.3
North America	10.0	10.4
South America	5.1	9.9
Asia (without China)	4.3	3.5
Other	0.6	0.7

Environment

Overall energy consumption

	Unit	2016	2015
TOTAL	kWh	176,417,457	197,721,831
thereof manufacturing	%	86	87
thereof office buildings*	%	14	13

* For 2015 and 2016, only office buildings attached to a manufacturing site were included.

Energy and fuel consumption in manufacturing

	Unit	2016	2015
Heating oil	l	58,866	62,733
Heavy oil*	l	1,847,805	2,103,201
Gasoline	l	134,994	177,356
Diesel	l	629,401	643,912
Natural gas	Nm ³	1,412,276	2,174,685
Liquid (petrol) gas	Nm ³	118,973	119,192
Biofuels	l	0	0
Biomass	t	0	0

* Heavy oil is used at only one location for one process (pressing plastic filter panels).

Energy and fuel consumption for heating and cooling of buildings

	Unit	2016	2015
Heating oil	l	657,163	489,540
Natural gas	Nm ³	13,326,082	14,187,215
District heating	kWh	21,179,294	24,351,968
Other (for example biomass)	t	0	0

Water consumption and disposal of waste water in manufacturing

(in m ³)	2016	2015
Surface water	9,300	18,008
Ground water	10,679	22,294
Municipal water supplies	397,736	409,131
Recycled waste water	11,348	17,584
TOTAL	429,063	467,017
Disposal of waste water*	410,201	416,609

* 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.

Waste from manufacturing

(in t)	2016	2015
Paper and cardboard	822	914
Plastics	667	753
Steel	27,583	30,214
Copper and aluminum	498	409
Wood	3,582	3,378
Industrial garbage	7,083	3,340
Hazardous waste	1,326	1,484
TOTAL	41,561	40,493

Paint and coating consumption in manufacturing

(in kg)	2016	2015
Paints and coatings	394,353	433,700
Thinning agents	149,635	161,939

ANDRITZ AG

Stattegger Strasse 18
8045 Graz, Austria
investors@andritz.com

Produced in-house using firesys

Disclaimer

Certain statements contained in the 2016 annual report and in the 2016 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 2016 annual report and the 2016 annual financial report contain assumptions and forecasts based on the information available up to the copy deadline on February 17, 2017. 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 2016 annual financial report do arise, actual results may vary from the forecasts made in the 2016 annual report and in the 2016 annual financial report. Although the greatest caution was exercised in preparing data, all information related to the future is provided without guarantee.

A N D R I T Z . C O M



ANDRITZ AG

Stattegger Straße 18, 8045 Graz, Austria