

# MANUFACTURING AND PROCUREMENT

## State-of-the-art manufacturing standards and global procurement

### Manufacturing

The Andritz Group operates approximately 30 manufacturing and service plants in Europe, North America, South America, and Asia. These sites produce and assemble the key components for Andritz equipment and systems. In total, Andritz employs approximately 2,500 employees in manufacturing worldwide. This highly qualified workforce with long-term experience and state-of-the-art production systems ensure high product quality and reliable, on-schedule order execution.

#### Manufacturing strategy

In order to remain successful and competitive on the global markets, Andritz operates manufacturing sites all over the world. All process-relevant and complex key components for Andritz plants and machines are manufactured and assembled at Andritz's own workshops in Europe and North America. Simple components are sourced from qualified suppliers, who are subjected to regular quality checks and on-time-performance monitoring.

#### Capacity management and on-time delivery

Optimal capacity utilization is an essential success criterion in industrial plant engineering. Outsourcing of simple machine parts is one tool Andritz uses to manage workload, as is flexibility of working times and utilization of a temporary workforce. At construction sites in foreign countries, Andritz calls on the services of local qualified erection companies, which work under close direction of Andritz's own personnel.

Short lead times and over 95% on-time production are both critical to Andritz's success. With professional project management, achievement of contractual milestones is ensured over the entire process chain.

#### Global Service Network

Andritz installed a global network of service points in order to serve the customers as best possible after their systems have gone online. This includes twelve specialized service sites and a number of others that are integrated in Andritz production sites.

#### Major developments in 2005

Despite the heavy workload in all of Andritz's manufacturing locations, on-time performance of deliveries and high quality of manufactured products was secured.

The workshop at Andritz Technologies China, which was set up at the beginning of 2004, was able to double the output of the previous year and thereby exceeded the planned volume substantially. Plans are underway to further increase capacities in China.

To further strengthen the competitiveness of the workshops in Europe and North America, several pilot projects were started that aim at achieving top-of-the-class manufacturing excellence. First results show improved work-flow and working conditions, lower inventory levels, shorter lead times, improved on-time performance and efficiency.

In Brazil, a workshop mainly for products of the Separation Technologies Division (Environment and Process Business Area) was set up to produce and supply equipment for the South American market. Andritz affiliate Sprout-Matador, Denmark, entered into a 60:40 joint venture with a manufacturing company in Eastern Slovakia.

### Procurement

The fast growth of the Andritz Group over the last few years has brought a lot of challenges for the Andritz procurement departments. The procurement policy of Andritz focuses on markets, suppliers, procurement processes, and resources. It aims to achieve optimum synergies within the Group's different locations and to improve efficiency in the procurement supply-chain.

The procurement function of the Andritz Group is decentralized and performed individually by different project, manufacturing and service locations. The coordination and cooperation activities within this decentralized structure are ensured by the global procurement organization. The goal is to achieve substantial cost savings by pooling of demand, benchmarking, and negotiation of group-wide contracts. For specific regions (e.g., China), the regional sourcing/subcontracting activities are coordinated and supported by special, regional purchasing organizations.

The main purpose of the procurement organization is to secure the supply of all goods and services required for running the business processes. These goods and services are to be purchased at the most favorable terms and conditions, are to meet our quality standards and have to be available at a specific date. In addition, procurement is to contribute to strengthening Andritz's competitive position through systematic cost reductions (process costs and procurement costs).

The most important countries for purchases of the Andritz Group are Finland, Austria, Germany, USA, Brazil, and China. The biggest production sites of Andritz are also located in these countries.

The importance of countries for procurement varies very quickly due to required local contents especially for EPC contracts. This fact challenges all procurement organizations in analyzing new procurement markets and in handling new suppliers and the local supply.