

MANUFACTURING, PROCUREMENT, AND QUALITY

Goal to reach World Class Standards

Manufacturing

The Andritz Group operates 50 manufacturing and service sites 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 4,800 people in manufacturing worldwide. This highly qualified workforce with long-term experience, as well as state-of-the-art production systems and processes, ensures high product quality and reliable, on-time order execution.

Manufacturing strategy

In order to remain successful and competitive in the global markets, Andritz operates manufacturing sites all over the world and is expanding its presence in the growing markets of China, India, and South America. All process-relevant and complex key components for Andritz plants and machines are manufactured and assembled at Andritz's own workshops. Less critical components are sourced from qualified suppliers, who are subjected to regular quality checks and on-time-performance monitoring.

Capacity and time management

The strongly growing order intake and increasingly difficult situation in the material and semi-finished goods markets present a great challenge to Andritz Manufacturing. Short lead times and on-time production require precise planning procedures as well as committed and flexible employees. Andritz uses flex-time contracts and a temporary workforce to cope with cyclical fluctuations and peaks in workload. In order to make sure that the sourcing needs of Andritz Manufacturing can be covered at all times, the pool of suppliers is constantly enlarged with new, qualified suppliers. Professional project management ensures that contractual milestones are met over the entire process chain, from order intake to start-up.

Global service network

Andritz has established a global network of service points in order to serve customers as best possible after their systems have started up. Equipment of service points is based on the requirements of Andritz's products and regional distribution is guided by customers' requirements.

Major developments in 2006

Despite the heavy workload at all Andritz workshops, on-time production and high product quality were maintained.

All Andritz manufacturing sites are to achieve World Class Standards in productivity, product quality, and lead time. To further improve competitiveness, ambitious projects aimed at increasing performance were carried out. New companies were investigated and selected as Andritz suppliers in order to cover the sourcing needs of Andritz Manufacturing and reduce risks. In view of the reduced offering in the material and semi-finished goods markets, Andritz reinforced its procurement management and increased its stock of semi-finished goods. In addition, investments were made to introduce new manufacturing technologies and further automate production processes.

New sites

Through the acquisition of VA TECH HYDRO, Andritz also acquired and integrated eight manufacturing sites.

A new assembly hall and machining section for large parts was added to the Andritz manufacturing center in Foshan, China. A new stainless steel foundry will start operating in the First Quarter of 2007.

With the acquisition of Küsters, Germany, two manufacturing locations were purchased and are being consolidated into one.

In South America, the manufacturing site in Pomerode, Brazil was extended and another site in Vinhedo, near São Paulo, was purchased through the acquisition of Pilão. The new site in Vinhedo specializes in stock preparation equipment and services.

In 2006, Andritz took over the remaining 49% stake of the joint venture between Andritz Sprout and Chemes Strojarné in Humenné, Slovakia which had been established in 2005.

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 the 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 Andritz's quality standards, and must be available at a specific date. In addition, procurement is to contribute to strengthening Andritz's competitive position through systematic reductions in process and procurement costs.

The most important countries for purchases of the Andritz Group are the member states of the European Union, the USA, Brazil, China, and India. 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.

Quality

The high technical standards of Andritz's products and systems require manufacturing standards of the highest level, a systematic organization, well-defined business processes, and well-trained employees. Andritz Quality Management plays a major role by implementing operating standards on products, processes, and personnel and by providing continuous feedback about the effects and fulfillment of these standards. Resources have been considerably increased to cope with the organic and external growth of the Andritz Group.

A focus of Andritz's quality management activities in 2006 was product quality. The twofold approach included quality assurance in the engineering phase and a thorough quality assurance process in Andritz's own and outsourced manufacturing. Quality assurance in the engineering phase was strengthened by a training program along with additional independent reviews for engineering results.

Large efforts were undertaken to improve the quality level in the supply chain. Andritz invested in state-of-the-art equipment for incoming goods inspection with respect to chemical analysis and dimension control. The new equipment is easy to use and mobile, enabling checks on suppliers' sites. Emphasis was on quality monitoring and systematic re-evaluation of sub-suppliers.

To further improve the safety level of systems and products, a series of safety audits covering all Divisions was started. This program will be finished in 2007. The external safety audits are conducted by leading international experts.

Andritz Technologies China, one of the fastest growing branches of the Andritz Group, was certified to ISO 9001. In China, the emphasis remained on ensuring the quality of products manufactured in Andritz's own workshops and sourced from sub-suppliers.

Newly-acquired VA TECH HYDRO has a global management team for quality, environment, and safety, focusing on fast implementation of improvements and applying best practice across the Group. Integration of the quality management system of VA TECH HYDRO into the Andritz Group is underway and has been progressing as planned. ■