

Meet Sandvik

DECEMBER 2008

In Japan, only the best is good enough
Nickel – the irreplaceable metal
Trade shows where contacts are made

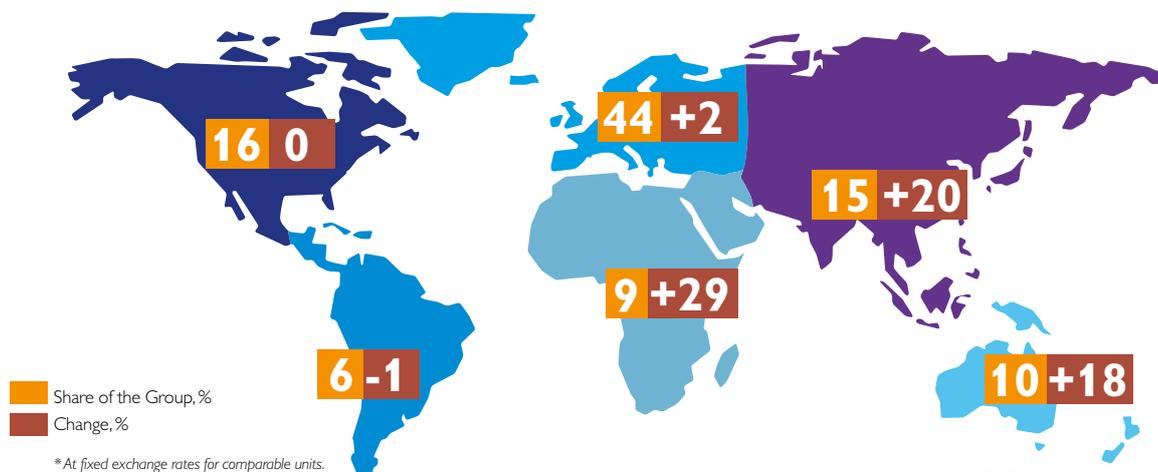
Smart solutions lift
aerospace industry



Third quarter 2008 in figures

INVOICING BY MARKET AREA

Share of Group invoicing and percentage change compared with year-earlier period.*



INVOICING BY BUSINESS AREA

SEK M	Q3 2008	Q3 2007	Change %	% ¹⁾
Sandvik Tooling	6,295	5,982	+5	+6
Sandvik Mining and Construction	9,475	8,424	+12	+15
Sandvik Materials Technology	5,122	5,363	-5	-4
Seco Tools ²⁾	1,576	1,439	+10	+8
Group activities	10	8		
Group total	22,478	21,216	+6	+7

OPERATING PROFIT BY BUSINESS AREA

SEK M	Q3 2008	Q3 2007	Change %
Sandvik Tooling	1,422	1,442	-1
Sandvik Mining and Construction	1,337	1,260	+6
Sandvik Materials Technology	505	621	-19
Seco Tools ²⁾	318	342	-7
Group activities	4	-102	
Group total	3,586	3,563	+1

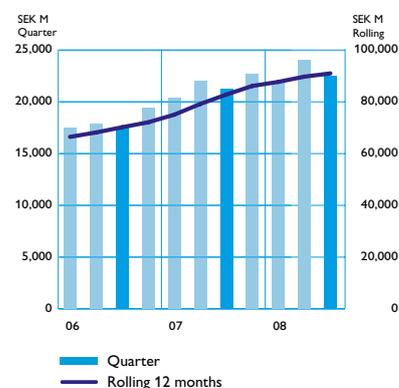
OPERATING MARGIN BY BUSINESS AREA

% of invoicing	Q3 2008	Q3 2007
Sandvik Tooling	22.6	24.1
Sandvik Mining and Construction	14.1	15.0
Sandvik Materials Technology	9.9	11.6
Seco Tools ²⁾	20.2	23.8
Group total	16.0	16.8

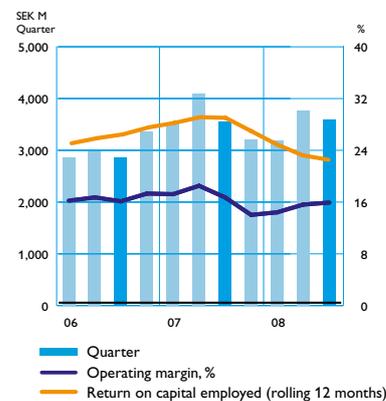
1) Change compared with year earlier at fixed exchange rates for comparable units.

2) As a result of the majority holding in Seco Tools AB, Sandvik consolidates this company.

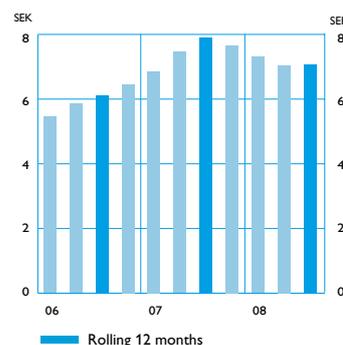
INVOICING



PROFIT, MARGIN AND RETURN



EARNINGS PER SHARE



Meet Sandvik: The Sandvik Group's magazine for shareholders and employees **Editor-in-Chief and responsible under Swedish press law:** Per-Henrik Berge

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Cover: The aviation industry is a key customer segment for Sandvik. Read more about the Group's most recent solutions for manufacturers in the industry on page 4.

Uncertain market outlook – adapting capacity and costs

GLOBAL DEMAND REMAINED favorable in Sandvik's core areas in the third quarter. However, in September, there were clear signals of production cutbacks in several of Sandvik's key customer segments for the remaining part of the year. These signals were further strengthened in October.

In Europe, demand was stable in most markets. However, lower demand was noted from the automotive market at the end of the quarter for such products as cutting tools. Growth in NAFTA remained favorable in several areas, but demand weakened further from the automotive industry and the construction industry. Demand in Asia, Africa, the Middle East and South America remained highly favorable and order intake increased strongly.

Profitability declined in all business areas and in many core segments as a result of rising costs. This development means that measures are now being taken to adapt costs, production capacity and tied-up capital to match the anticipated lower level of demand. Cash flow from operating activities improved, but working capital increased mainly as a result of a rise in the volume of finished inventory.

Growth in all business areas

Sandvik Tooling reported a continued healthy level of activity in most major markets in the third quarter. However, the strong growth observed in Eastern Europe and Asia subsided. Against the background of the increasing uncertainty surrounding market developments, Sandvik Tooling has taken and prepared a number of measures aimed at addressing the issue of lower demand. These include activities to increase market shares, but also to adapt costs, tied-up capital and production capacity.

For Sandvik Mining and Construction, demand remained strong for equipment, tools and service. Order intake was particularly robust for products aimed at the underground equipment segment. However, weaker demand was noted from the construction industry and exploration segment in September. During this period, many of our smaller customers found it increasingly difficult to finance ongoing and planned projects. Measures to counter lower demand and reduce inventories are being taken.

The underlying demand for products from Sandvik Materials Technology was stable during the quarter. In September, a number of customers signaled the deferral of projects, which will affect order intake for the business area. The continued decline in nickel prices also had an adverse impact on earnings in the third quarter. Based on current metal prices and exchange rates, a continued negative

effect totaling about SEK 300 M is anticipated as a result of inventory revaluation in the fourth quarter. Ongoing activities to reduce personnel are being accelerated and expanded.

Strong measures

The financial crisis during the autumn is also affecting Sandvik. Customers impacted by liquidity problems are finding it difficult to secure credit, which impedes their operations, which in turn is affecting Sandvik's order intake adversely.

Sandvik has secure credit possibilities and is not directly affected financially. The Group has guaranteed the availability of financing, despite a resulting increase in the cost of borrowing. However, the need to achieve better results with respect to cash flow and efficient capital utilization will become increasingly important. We ourselves can influence our opportunities to finance continued expansion through investments and company acquisitions.

Sandvik has approved measures that are currently being implemented to ensure improved capital utilization, to reduce inventory volumes and to reduce production capacity. The Group's priorities are as follows:

- Aggressive marketing activities
- Intensified cost control
- Reduced investments
- Reduced working capital – focus on cash flow
- Adaptation of production capacity, including personnel reductions

The measures now being introduced impact all levels and are aimed at continuously raising efficiency in the Group in the face of a situation involving an anticipated lower level of demand. Sandvik is well positioned with a strong customer offering that should also enable us to increase our market shares in a declining market. ■



Lars Pettersson
President and CEO
Sandvik AB

Order intake
SEK 22,106 M, +5%*

Invoicing
SEK 22,478 M, +7%*

Operating profit
SEK 3,586 M, +1%

Profit after financial items
SEK 3,035 M, -2%

Profit for the period
SEK 2,272 M, -1%

Earnings per share
SEK 1.85, +/- 0%

Cash flow
SEK 2,386 M, +13%

* Change compared with the corresponding quarter in the preceding year, at fixed exchange rates for comparable units.





The future of aerospace

In pace with growing prosperity, the need for business and leisure travel also increases. According to a forecast from the US aircraft manufacturer Boeing, passenger traffic will grow at an annual rate of 5% and air-cargo traffic by 6% over the next 20-year period.

Meanwhile, the aerospace industry is struggling with an increased downward pressure on prices and stricter environmental requirements. This pushes development towards ever-lighter manufacturing materials. For manufacturers in the aerospace industry, these

developments also mean that they must enhance productivity by continuously developing new, better machining methods. ■

New approach for titanium

Projects are continuously being conducted within Sandvik to boost the productivity of customers. One example is Sandvik Coromant's efforts to develop a method to machine pockets in titanium components. Titanium is a light material that helps reduce the total weight of the aircraft, thus making it more fuel efficient. However, the material is difficult to machine and usually requires the division of production into separate stages. The manufacture of an entire component in one production step saves time and increases productivity.

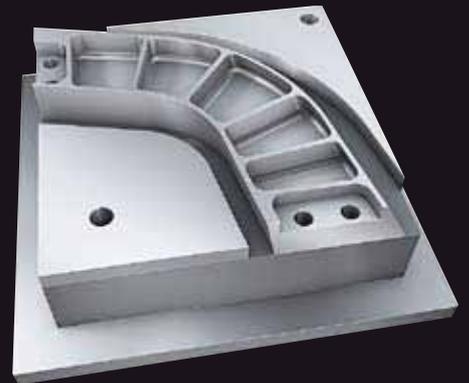
As part of the collaboration between Sandvik and Japanese machine manufacturer Mori Seiki, the pocket-milling method for airframe components is used in one of Mori Seiki's machines. The method was demonstrated by Sandvik at the International Manufacturing Technology Show (IMTS) in Chicago, in September.

"Since then, we have been Mori Seiki's tool partner of choice for this type of project," says Bruce Carter, Aerospace Projects Manager at Sandvik Coromant in the US. "The complex shape of the components creates special challenges in machining."

Carter points out that cooperation with major machine manufacturers is particularly important in the aerospace industry. It is crucial that a partnership is established with the aim of developing the machining solutions of the future.

"If it is not done right from the start, it is easy to miss the opportunity to reduce production times for customers and suppliers," says Carter.

Safety regulations are so strict that by the time a solution reaches production, and is approved by the manufacturer's client, it is too complicated to go through the approval process again, regardless of whether it may entail significant savings. ■



Sandvik has developed a pocket-milling method for titanium components.

Smart partnership



The landing gear of an aircraft is exposed to extreme loads on landing. It must therefore be manufactured from a tough material.

For some time, Canadian company Héroux-Devtek had cost-efficiency problems with the manufacture of a certain type of landing gear.

Consequently, Sandvik Coromant in Canada was commissioned to review and streamline production where possible.

According to Marc-André Boivin, Production Methods Manager at Héroux-Devtek, the results surpassed expectations.

Sandvik's solution comprised ten special tools, which meant that 85% of the work could be performed by one machine, instead of the seven different machines used previously. Combined with a range of other adjustments, this resulted in a reduction in the manufacturing time from 60 to 18 hours. This accounted for the single largest cost saving for any of Héroux-Devtek's units that year. The company is now set to introduce this way of working in the manufacturing process of other landing gear.

Sandvik often works in partnership with its customers. This is especially important in the aerospace industry, where strict safety regulations are combined with increasingly intense competition and demands to reduce the environmental impact. ■

Bring mining into the new millennium

Sandvik's AutoMine™ is an automated solution aimed at improving safety and efficiency of underground mining operations. By remotely controlling loaders in underground mines, they can be managed more productively, for longer periods and with reduced wear, which reduces per-ton costs.

"Sandvik is rapidly becoming the world's leading supplier of automated systems for mining operations," says Taina Heimonen, Global Product Line Manager for Mine Operations at Sandvik Mining and Construction

The Group has developed automation technology since 1990. The AutoMine system is currently used in several of the world's largest mines. One of the first installations was at the Chilean copper mine El Teniente, owned by Codelco. During the autumn, the scope of the agreement was expanded to cover two semi-automatic 17-ton underground loaders and an extensive AutoMine system at the mine's draw point. ■

New loader reaps success

Sandvik's new underground loader for mining operations is robust and productive. It has been designed for long operational hours and exceptional operator comfort in the most demanding conditions.

The so-called LHD has now been improved in a number of areas to further boost productivity and reliability.

A standard underground loader has more than 800 electrical connections, but this has been reduced to 150 on the new loader, which reduces the breakdown risk. Furthermore, the cooling system has been made more accessible for service, and faults in the

new hydraulic system can be traced from the comfort of the operator's chair, without the need to open any cable boxes.

The loader was tested over a five-month period last year in a copper and magnetite mine in South Africa and its performance was assessed in terms of accessibility, service and running costs.

The customer was so impressed by the new loader that the test model was purchased and an order for a new machine was placed. The success of the new loader has continued and deliveries have been made to other mines in South Africa and Canada. ■

New alloy enables eco-friendly fine mechanics

Sandvik has developed an eco-friendly equivalent to lead-alloyed carbon steel.

Using the new alloy, it will be possible to eliminate the controversial metal from such items as watches, since the new alloy has the same benefits of the lead constituent in so far as it is easy to cut and turn.

"It has taken four years to achieve a satisfactory result and the response from demanding watch manufacturers in Switzerland has been positive," says Andreas Furucrona, Product Manager for Fine Mechanical at Sandvik Materials Technology. The business area aims to commence delivery of the wire in question to watchmakers in Switzerland – famous for their exclusive fine mechanics – during the first quarter of 2009. Furucrona also sees other possible applications in such areas as the automotive and mobile telephone industries. ■

Powerful crushers

In cooperation with the Japanese company Earth Technica, Sandvik has launched two new highly-efficient rock crushers for the mining industry.

The trend in the mining industry is progressing toward fewer but larger and more efficient machines. The crushers now being launched are available in two sizes: one with a 1,100-hp engine and a performance that is 10% better than existing machines, the second boasts 1,400 hp and a performance enhancement of 30-40%. The cooperation with Earth Technica, owned by Kawasaki Heavy Industries, has resulted in a significantly reduced interval between development and finished product.

"Time-to-market was one of the most important criteria ahead of the development of these crushers and the collaboration with Earth Technica resulted in the launch in record time," says Per Wennberg, Global Product Line Manager Mine Crushing and Screening at Sandvik Mining and Construction. ■

Rapid, safe and strong. Sandvik's new underground loader is impressing the customers.



Kindred spirits

The Japanese philosophy kaizen is based on continuous improvement. “Accordingly, Sandvik’s production concept fits in perfectly in Japan,” says Hiroyuki Fujii, President of Sandvik Japan.

SANDVIK’S PRODUCTS HAVE been available in Japan for more than 100 years.

“The company’s long tradition and well-established brand are advantages for us,” says Hiroyuki Fujii, President of Sandvik Japan.

Today, the country is the world’s second largest economy and the fourth largest export country. Toyota recently drew ahead of General Motors as the world’s largest auto manufacturer. With an aging population and mature industry, however, Japan has recently suffered prolonged periods of virtually non-existent growth.

Fujii notes that the economy improved around 2003, which was reflected in rapidly increasing sales for Sandvik in Japan.

“Sandvik’s market share has increased strongly over the past five years. Customers appreciate what we do, our products and our solutions,” says Fujii.

The Group’s research and development work is an important success factor.

“We invest major resources in research and development, and Sandvik’s more than 5,000 patents send a powerful message to the market that our products are unique,” explains Fujii.

Kaizen shows the way

Sandvik’s customers operate in such areas as the auto and heavy industries, which have been under severe pressure lately, in part due to the nascent global recession, but also as a result of increasing low-budget production in Asia.

Sandvik recently relocated its productivity center to Nagoya, which is an excellent location for both the auto and aerospace industries. In Japan, interest is great for production economy and tools that increase productivity, and quite naturally, kaizen, the philosophy based on continuous improvement, was born here.

“Kaizen is a constantly moving target focused on improving productivity, and Sandvik’s products help customers in their efforts to work according to kaizen,” says Fujii.

The auto industry, which is a key segment for Sandvik in Japan, consists of a large number of sub-suppliers of varying size and focus. According to Fujii, the industry’s structure will soon change radically, with greater focus on productivity as a result.

“Today, there are some 50,000 companies in the metalworking industry in Japan. This number will be reduced dramatically within ten years, although total production capacity will not decline nearly as much,” predicts Fujii.

“The resulting disparity will result in higher demands on productivity. Production economics will become an important tool, which means excellent business opportunities for us.”

Business culture in transition

A key success factor in Japanese business is being a member of a business association. The largest and most important is Nippon Keidanren. As one of the first foreign companies in the country, Sandvik was offered membership 20 years ago.

Nippon Keidanren still has slightly less than 200 foreign companies as members, but this is changing.

“Japan’s business culture is changing and becoming more international as a new generation takes over,” says Fujii.

Nonetheless, he is convinced that there are a number of national characteristics that must be respected, if a company wants to do business in Japan.

“Japan is a traditional culture in which high quality permeates a product’s soul

and spirit, and we believe that everything has a spirit, not just human beings. When we buy something, we want to keep it as long as possible. It is a partner, not just an object, and that is why quality means so much in Japan.”

Good ideas rewarded

Just-in-time, quality and kaizen-inspired continuous improvements are the concepts that Fujii has successfully fine-tuned at Sandvik since joining the company eight years ago. At the plant in Semine, which manufactures cemented-carbide tools, he initiated a process that has since reduced lead time from order to delivery by two weeks, from 21 days to seven.

His recipe for success is based on a new attitude among employees and understanding of the importance of a clean work environment.

“A disorderly plant creates confusion.”

To take greater advantage of employees’ creativity in the kaizen process, Fujii began asking for their own ideas. Today, management receives more than 2,000 kaizen proposals each year. The very best are rewarded with a trip to Singapore, where Sandvik’s distribution center for Asia Pacific is located. Other valuable suggestions are also rewarded.

Fujii relates that this initiative has contributed strongly to reducing production costs.

“We were able to save USD 50,000 thanks to just one suggestion. Everyone is very committed,” concludes Fujii. ■

Sandvik Japan

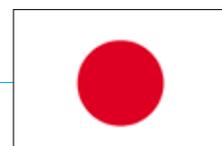
Established: Sandvik opened its first office in Japan in 1961 and its subsidiary Sandvik KK was formed in 1976.

Sales: SEK 2.1 billion (2007)

Number of employees: 554

Production locations:

Semine: cemented-carbide cutting tools
Iwadeyama: special tools in cemented carbide
Sakura: heating elements
Kobe: processing equipment



A man in a dark grey pinstriped suit, white shirt, and patterned tie stands on a balcony at night. He is wearing glasses and has his left hand in his pocket and his right hand resting on a metal railing. The background features a dark building with horizontal lines and a glass railing with lights.

Hiroyuki “Roy” Fujii is President of Sandvik Japan

He was recruited to Sandvik in 2000 and initially worked as head of Sandvik Coromant within the Sandvik Tooling business area. In 2007, Hiroyuki Fujii was appointed head of Japanese operations.

Fujii has extensive experience from positions in the machine-tool industry and has worked in both Japan and the US.

Ice sculptures were one of the attractions at Sandvik Coromant's stand at IMTS in Chicago in September this year.



Trade shows strength

During a few short, intensive days, trade shows offer an opportunity to meet customers and make new contacts. Products are launched and contracts signed. For Sandvik, trade shows play an important role in work to strengthen the brand and increase market shares.

WHEN Sandvik Mining and Construction last year consolidated all products under the Sandvik brand, the intention was to present a uniform profile. The first time the profile was displayed was at Bauma, one of the world's largest exhibitions for the construction industry, which is held every third year in Germany.

"This was a strategically important decision," says Jeanette Svensson, Market-



Lars-Petter Bergmark

ing Communication Manager for Sandvik Mining and Construction. "Bauma is one of the largest global exhibitions for the construction industry, with more than

500,000 visitors. Everyone is there, and it was a perfect occasion for displaying our new profile."

Trade shows naturally involve more than visibility. This is where companies profile themselves and their new products. However, they also offer opportunities to meet customers, make contacts and get an update on what others in the industry are doing.

"Participating in trade shows provides an excellent opportunity to meet others in our industry, get new ideas and discuss common challenges and opportunities," says Yvonne Strandberg, Marketing Communications Manager at Sandvik Coromant. "Trade shows are an important marketing channel and give us an opportunity to present our entire company and the Sandvik brand promise."

Participating in trade shows is impor-

tant for all of Sandvik's business areas, but objectives may vary, depending on markets and segments.

"It is essential to participate in the major exhibitions, but smaller shows are also important," says Lars-Petter Bergmark, Marketing Manager for Tube at Sandvik Materials Technology. "In growth markets, a trade show often has greater importance for the industry than in mature markets. We will therefore increase our presence at shows in the BRIC countries (Brazil, Russia, India and China), for example."

For Sandvik Mining and Construction, Jeanette Svensson believes that the major exhibitions within mining primarily provide an opportunity to meet with existing customers and demonstrate new products.

"The same is naturally important in the construction segment, but there it is



Important trade shows for Sandvik

Sandvik Tooling

IMTS (International Manufacturing Technology Show) held every second year in Chicago in the US.

EMO (Exposition Mondiale de la Machine Outi), the world's largest show for the manufacturing tools industry, which is held every second year in Hannover, Germany and every second year in Milan, Italy. In 2007, the show attracted 2,100 exhibitors from 42 countries and 166,500 visitors.

JIMTOF (Japan International Machine Tool Fair) is the largest machine tools show in Asia and held every second year.

Sandvik Mining and Construction

BAUMA is held every second year in Munich, Germany.

MINExpo is held every third year in Las Vegas, in the US. Otherwise, Sandvik Mining and Construction participates in some 100 trade shows and exhibitions each year.

Sandvik Materials Technology

International Tube Fair is held every second year in Düsseldorf, Germany, with more than 1,000 exhibitors and floor space of 95,000 square meters.

Stainless Steel World is an annual show held in the Dutch city of Maastricht.

en the brand

also important to identify new customers. Then there are a number of smaller, niche trade shows. The guiding principle, however, is always to increase brand awareness," she says.

IN SEPTEMBER, in conjunction with the International Manufacturing Technology Show (IMTS) in Chicago, Sandvik Coromant launched a new exhibition concept that more clearly than previously profiles Sandvik Coromant as a partner company that focuses on customer success.

"We no longer think about a traditional exhibition stand, but rather a meeting place where people can discuss their own and other companies' business plans," says Strandberg.



Jeanette Svensson

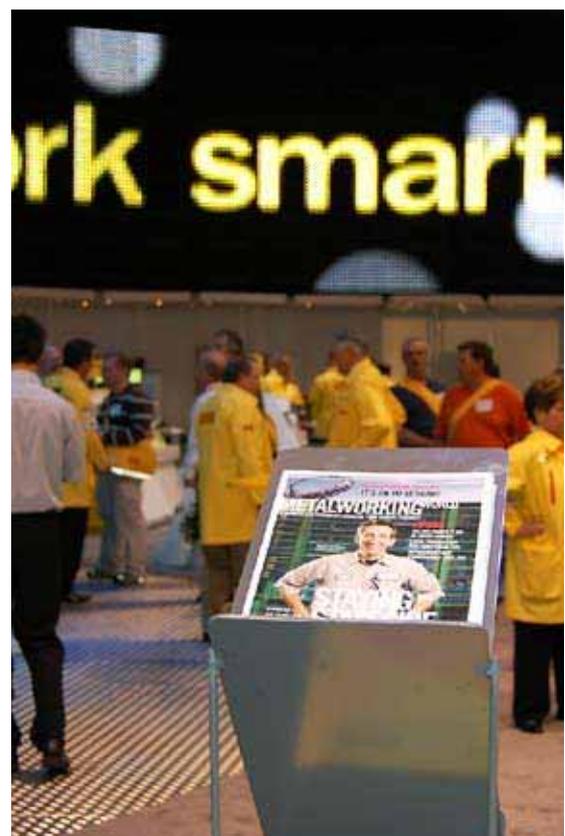
When it comes to show trends, there is a clear trend towards more niche trade shows, while at the same time, the major exhibitions, such as Bauma, IMTS and Minexpo,

are getting even bigger. Many trade show organizers are also expanding to new geographic markets. Messe München, for example, which has organized Bauma since 2002, had also held Bauma exhibitions in China.

"The importance of trade shows is constantly increasing. If you look back to how things were ten years ago, trade shows today are much more serious. It costs a lot to participate, and you want to see results," says Bergmark.

IT CAN BE difficult to measure the return on participation in monetary terms, but the customer contacts that are established and strengthened are invaluable.

"Many of our partnerships began with a dialogue at a trade show and include such customers as manufacturing tool manufacturers. It is a question of establishing relationships with existing and potential customers. We constantly evaluate participation in various trade shows within marketing communications, and as long as we see that we are successful in communication that builds relationships, we continue to invest in the shows," concludes Strandberg. ■



Strategically positioned in Singapore

Singapore is the new headquarters of the Construction customer segment in Sandvik Mining and Construction. The business area is increasing its presence in Asia owing to the ever-growing number of projects in the region.

However, part of the head office will remain in Svedala, Sweden, in a division that underlines the commitment to grow in Asia while bearing in mind Europe's importance for the business. There is considerable growth potential for large infrastructure projects in Asia in the years ahead, which is why the location of the head office in Singapore is strategically important. ■

Major Indian order

Sandvik has received an additional order for eight Rotoform HS from the Indian Essar Group.

The Rotoform steel belt-based concept forms sulphur, which is normally found in a liquid state, into pastilles. Through the conversion to a solid form, the sulphur handling and transportation process is simplified.

Essar's production capacity will be considerably boosted as a result of its acquisition of the latest generation of high-speed installations from Sandvik. ■



ROYAL APPROVAL

Victoria, Crown Princess of Sweden, visited Sandvik's new R&D facility in Pune, India, at the end of October. The picture shows the Crown Princess being welcomed by Supriya Sarkar, head of Sandvik Materials Technology's R&D Department in India. Also seen here are Håkan Kingstedt, President of Sandvik in India, and Vaishali Surve, Competence Development Manager, Sandvik Mining and Construction Asia Pacific. ■



Brilliant material

Although diamond is the hardest known material on the face of the earth, its composition is relatively simple – it is composed of the same type of carbon that can be found in such items as the graphite in pencils. It is the actual process involving extremely high levels of volcanic heat and massive pressure that crystallizes carbon into diamond.

Only 20% of the world's diamonds become jewelry. The remaining 80% are used as industrial diamonds to, for example, cut and machine hard materials. However, the volume of natural diamonds is far from sufficient to meet the extensive demand. The majority of industrial diamonds are thus produced in a process

that is similar to that occurring in nature. The artificial production of diamonds requires temperatures that reach 1,400 degrees Celsius and a pressure that is 70,000 times greater than the atmospheric pressure around us. ■

The unknown sides of Sandvik

In a Swedish ad campaign in the autumn, Sandvik featured a number of unexpected areas of use for the Group's products and technical solutions. For example, Sandvik was one of the pioneers in the field of synthetic diamond production in the 1950s and has continued to develop the sophisticated method over the years.

Climbing on the wish list

In recent years, Sandvik has worked hard to attract young engineers to the company. The initiative has yielded clear results and Sandvik climbed 17 places to number 21 in the corporate branding company Universum's annual career barometer of the most desirable employer for engineering graduates.

"We are naturally very proud, but aim to take a place among the top ten," says Anders Wallin, Vice President Group Communications at Sandvik.

The career barometer is a survey taken of Swedish undergraduates studying economics, engineering, computers/IT and law. More than 15,000 students answered questions about careers, working life, their future and which employer they perceived as the most attractive.

"Three years ago, Sandvik was way down the list. We prepared a marketing plan and found out what young people knew about Sandvik. The results showed that they had poor knowledge and an uncertain attitude toward the company," says Wallin.

Sandvik has improved its information intended for universities and institutes of higher education that offer engineering and technology programs.

"We have intensified our marketing activities and we now have better representation, better material and are more active at labor market days. We are more prominent in educational activities and in student magazines. We have also increased the number of summer positions and internships," concludes Wallin. ■

Nickel at any cost

The price of nickel has fluctuated dramatically in recent years. To address this issue, Sandvik has introduced new pricing models and methods aimed at reducing risks and ensuring cash flow and earnings.

NICKEL IS ONE of the main constituents in the manufacture of stainless steel and is thus of critical importance for Sandvik's production. Each month, thousands of transactions are completed in which Sandvik purchases nickel as a raw material and sells products containing the metal.

"The problem is that we purchase at one point in time and sell at another," says Jan Öhman, General Manager Finance at Sandvik Materials Technology. "If the price changes during this period, there is a risk that earnings and cash flow will not correspond to our expectations."

In historical terms, the fluctuations have not been so significant; the price of nickel fluctuated between USD 5,000 and 10,000 per ton five to ten years ago.

"It was in 2003 that the price of all base metals started to rise. In 2006, prices rose dramatically to reach a peak in May 2007 when nickel cost USD 54,000 per ton," explains Öhman and describes a market characterized by turmoil since then.

Two months after the record price in 2007, it had fallen to USD 25,000 per ton, and today it is not uncommon for price fluctuations of more than 5% over the course of a day. The reasons behind the prevailing imbalance in the metal market are complex. The exceptionally high level of demand in China is partly responsible. Another reason is that financial players account for an increasingly large share of the raw materials trade, particularly with regard to metals.

"Only a fraction of current trading on the LME (London Metal Exchange) relates to physical trade. Turbulence in global markets also affects metal prices, making it difficult to make forecasts," according to Öhman.

Regardless of the situation, measures must be taken to reduce risks and Sandvik does this in several ways.

"The best way is to set prices for both sales and purchases at the same point in time, which is sometimes possible through special agreements with customers and suppliers. An alternative we use is financial instruments, primarily forward contracts, which act like an insurance. This allows us to set the price of nickel at a specific point in time several years



in the future," explains Öhman.

Another consequence of the fluctuating prices is that the value of the company's inventory is constantly changing. With 10,000 tons of nickel in inventory, a substantial price change can result in value differences that total hundreds of millions of SEK. However,

Öhman points out that this is an accounting-related issue and has nothing to do with the cash flow in the individual transaction.

"A common misunderstanding is that we lose money when there is a

decline in the value of inventory, but we can only make a gain or a loss when we purchase and sell," says Öhman.

"However, this does impact reported earnings in a manner that we cannot control. The best way to manage this is to reduce inventory levels through a more efficient production process. It is therefore key that we shorten lead times, thereby reducing inventories." ■

Nickel provides benefits

Nickel is a constituent in nearly all alloys produced and is used in everything from circuit boards to the 65,000 fasteners that keep the Statue of Liberty in place. Characteristic traits include strength, hardness and ability to enhance resistance to fatigue and corrosion in steel. This is why nickel is often included in special products and exposed applications in the oil, gas and nuclear power industries.

The largest nickel producers are Russia, Canada, Indonesia and Australia, which combine to represent about 60% of the world's production. Underground mining is the most common method used. Sandvik purchases nickel from mines and recovered nickel from a handful of metal dealers worldwide. The products supplied by Sandvik each year contain about 26,000 tons of nickel.

Sandvik earns award for best risk report

Sandvik is the best company in Sweden at reporting risk, as revealed following an evaluation of Swedish listed companies' annual reports by the auditing firm Ernst & Young. At a ceremony at the beginning of October, Sandvik's Chief Financial Officer, Per Nordberg, accepted the Risk Transparency Award.

It was primarily Sandvik's structured, balanced and informative description of the company's risks, risk exposure and risk management mechanisms that were judged to be particularly exemplary.

"It is becoming increasingly important to communicate the company's risks and risk management in a transparent manner," says Per Nordberg. ■

World-class sustainable development

For the first time, Sandvik has been included in both of the Dow Jones sustainability indices: the Dow Jones Sustainability Index World and the Dow Jones STOXX Sustainability Index. Both indices list the best companies in the world in terms of their work on sustainable development issues.

Qualification requires inclusion among the top 10% of companies based on three perspectives: financial, environmental and social. The selection is made from 2,500 of the largest companies on the Dow Jones World Index.

At the beginning of November, Sandvik's sustainability report was also named as the best in the Listed Companies category by FAR/SRS (The Institute for the Accounting Profession in Sweden).

"Both distinctions have a positive impact on the brand," says Bo Berglund, whose areas of responsibility include the follow-up of sustainability work in Sandvik.

"This clearly shows that Sandvik's stakeholders are aware of its focused efforts with regard to sustainable development and corporate social responsibility." ■



You'll find us in places you could hardly imagine.

Here, for example!

WE ARE IN PLACES YOU WOULD LEAST EXPECT! Only 20% of the world's natural diamonds are made into jewelry. The remaining 80% are used as industrial diamonds. But this is far from sufficient. As a result, most industrial diamonds are produced synthetically and in this area Sandvik's know-how is prominent. The Group also produces advanced diamond-based cutting tools for machining super-hard materials with optimum performance.

You will also find the results of our know-how in mobile phones, on the ocean floor, in a human knee and in many other places. But even if you are not thinking about where Sandvik can be found, customers are. Because our products enhance their productivity and profitability.

