

# Meet Sandvik

THE SANDVIK GROUP'S MAGAZINE FOR SHAREHOLDERS AND EMPLOYEES

DECEMBER 2010

## THE MINING INDUSTRY'S FUTURE

Sandvik takes initiative with solutions to cut environmental impact

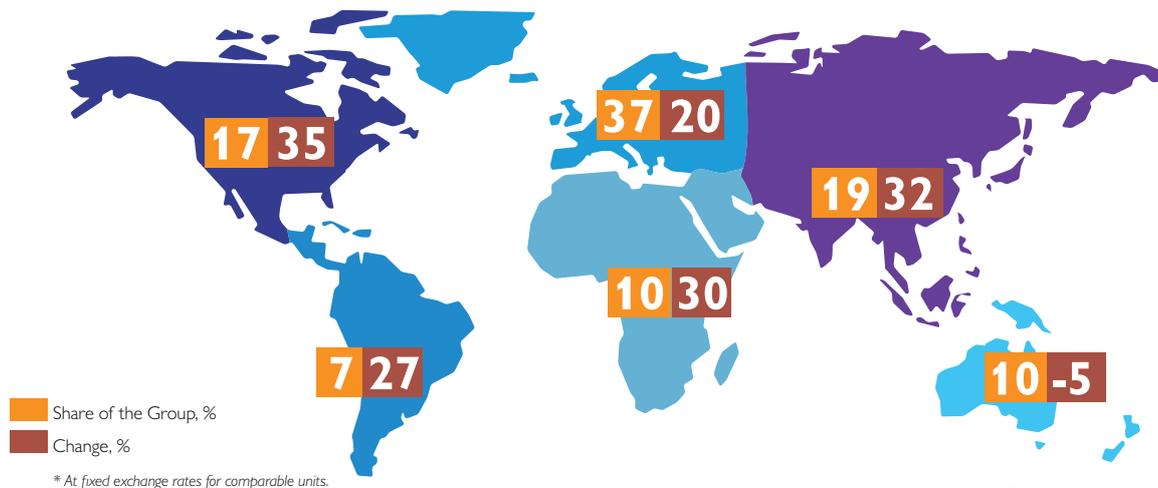
**Brazil – a bright market**

**New material gives a sharper brand**

# THIRD QUARTER 2010 IN FIGURES

## INVOICING BY MARKET AREA

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



## INVOICING BY BUSINESS AREA

SEK M	Q 3 2010	Q 3 2009	Change %	Change % <sup>1)</sup>
Sandvik Tooling	5,966	4,384	36	39
Sandvik Mining and Construction	8,676	7,762	12	8
Sandvik Materials Technology	4,170	3,299	26	25
Seco Tools <sup>2)</sup>	1,420	1,123	27	32
Group activities	9	10		
<b>Group total</b>	<b>20,241</b>	<b>16,578</b>	<b>22</b>	<b>21</b>

## OPERATING PROFIT BY BUSINESS AREA

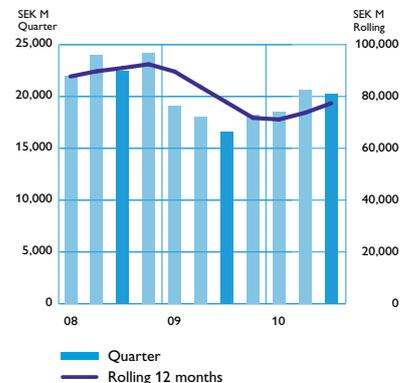
SEK M	Q 3 2010	Q 3 2009
Sandvik Tooling	961	-247
Sandvik Mining and Construction	1,257	332
Sandvik Materials Technology	203	-2
Seco Tools <sup>2)</sup>	245	51
Group activities	-134	-83
<b>Group total<sup>3)</sup></b>	<b>2,532</b>	<b>51</b>

## OPERATING MARGIN BY BUSINESS AREA

% of invoicing	Q 3 2010	Q 3 2009
Sandvik Tooling	16.1	-5.6
Sandvik Mining and Construction	14.5	4.3
Sandvik Materials Technology	4.9	-0.1
Seco Tools <sup>2)</sup>	17.2	4.5
<b>Group total</b>	<b>12.5</b>	<b>0.3</b>

- 1) Change compared with preceding year at fixed exchange rates for comparable units.  
 2) As a result of the majority holding in Seco Tools AB, Sandvik consolidates this company.  
 3) Internal transactions had a negligible impact on earnings for the business areas.

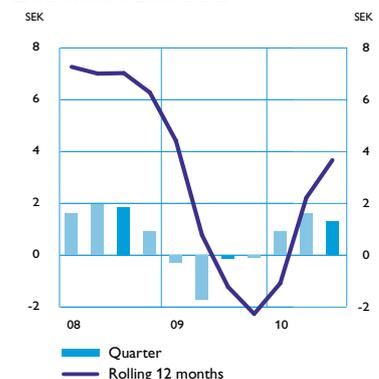
## INVOICING



## PROFIT, MARGIN AND RETURN



## EARNINGS PER SHARE



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**Cover:** Precision drilling during exploration of iron ore in Austria.



# Streamlined processes boost profits

The market situation continued to improve in the third quarter but sales are still about 15% lower than before the recession.

The operating result amounted to SEK 2.5 billion, or almost 13% of invoicing. The improvement is attributable to higher volumes, increased capacity utilization, a lower cost level and a favorable product mix. Cash flow was strong and capital efficiency further improved, nearing the targeted level of 25% of invoicing.

A continued increase in global industrial production entailed a marked increase in demand for Sandvik's products in all markets compared with the third quarter of 2009.

Demand in the energy sector was high while demand increased in the automotive, mining and process industries in particular.

## Distinct improvement in earnings

Earnings and return for the third quarter displayed a significant improvement compared with the corresponding quarter in the preceding year. Earnings were still lower than the preceding quarter because of a normal seasonal weakening combined with negative exchange rate effects and certain costs of a nonrecurring nature. Return on capital employed totaled 12.9% for the most recent 12-month period, substantially lower than the long-term return target of 25%. The improvement programs must therefore continue, particularly in terms of costs and productivity.

## Progress in all business areas

A long-term focus in strategic areas has boosted Sandvik Tooling's competitiveness, and market

shares grew in most markets. In Europe, North America and Asia, order intake and invoicing rose by more than 40%.

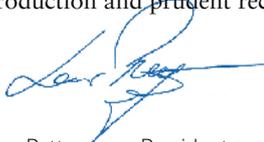
In Sandvik Mining and Construction, the growth in demand was more evident from the mining industry than from the construction industry and the trend was more pronounced for the aftermarket segment than for the equipment segment.

Sandvik Materials Technology took further actions throughout the quarter to strengthen its strategic position. These included the establishment of a strategic partnership with Carpenter Technology Corporation relating to the development and manufacture of products based on powder technology.

Three orders for steam generator tubes to China were registered, valued at almost SEK 700 million. These orders consolidate the Group's firm position as supplier to the international nuclear power industry.

## Improvement programs continue

It is satisfying that improvements in earnings are due in part to better internal efficiency and cost reductions. However, we must continue to implement improvement measures. Internal processes must sustain a high level of efficiency and we must keep a keen eye on costs. Stronger advances in productivity are necessary, which demands better yields in production and prudent recruitment.



Lars Pettersson, President and CEO, Sandvik AB

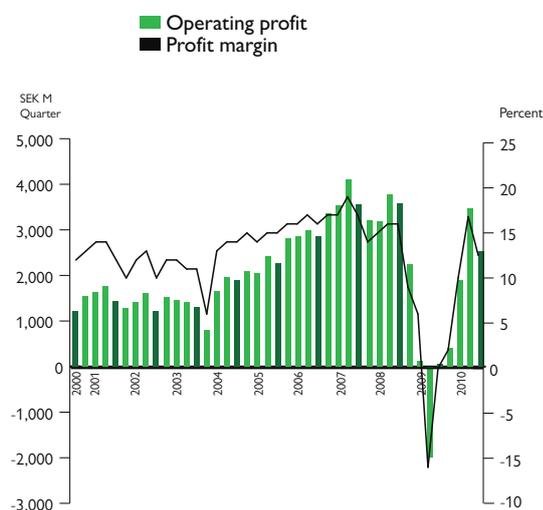
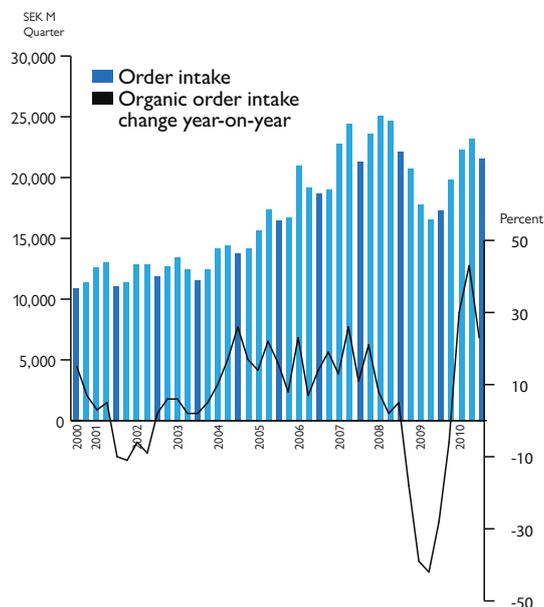


<b>Order intake</b>	SEK 21,523 M, +23%*
<b>Invoicing</b>	SEK 20,241 M, +21%*
<b>Operating result</b>	SEK 2,532 M
<b>Result after financial items</b>	SEK 2,120 M
<b>Result for the period</b>	SEK 1,560 M
<b>Result per share</b>	SEK 1.33 <sup>1)</sup>
<b>Cash flow</b>	SEK +3,978 M, +13%

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

<sup>1)</sup> Calculated on shareholders' participation in earnings for the period. No dilution effects.

## Sandvik Group's financial development Q3 2000 – Q3 2010





## Technology leap for fuel cells

In the rapidly expanding field commonly referred to as cleantech, Sandvik's custom-designed materials offer advantages for fuel cell manufacturers. These cells convert chemical energy into electric energy without any combustion, resulting in high capacity and low emission. There are numerous applications for fuel cells, including back-up power generators for heavy vehicles.

"We enjoy a strong position among R&D companies and we believe that the fuel cell market will take off around 2015," says Mikael Schuisky, division manager for surface-treated strip products at Sandvik Materials Technology.

Inside one fuel cell is a stack of steel plates. This is where Sandvik's materials come into the picture. A thin layer of cobalt prevents the release of chromium from the steel plates at working temperatures of between 800 and 900 degrees, thereby extending the lifecycle of the fuel cell.

"One advantage for Sandvik is that our process enables us to coat any sort of steel with this sort of cobalt layer. The impact on the environment is slighter compared with other more conventional treatment processes," says Schuisky. ■

## Loads of ore

Sandvik is the preferred equipment supplier for iron ore mining in Australia's largest mining project in the Pilbara region. To start, Sandvik will supply nine material handling systems by mid-2013.

The customer, Rio Tinto, is Australia's leading iron ore supplier and has a long relationship with Sandvik. Over the past 15 years, Sandvik has put in order several material handling systems for the company's iron ore mining. ■



## New knife steel sharpens

In collaboration with one of the largest knife manufacturers in the US, Sandvik has developed a new material for handheld knives. This will strengthen Sandvik's brand name in the premium segment for knife steel by offering a material with improved properties.

"The segment is rather conservative, so this is quite a breakthrough for us," says Jari Ponsiluoma, global product manager for knife steel at Sandvik Materials Technology.

The new material will gradually replace Sandvik's former steel qualities for knives, skates and similar applications.

By adding nitrogen to the new alloy, hardness has been increased without impairing its resistance to corrosion. Other important characteristics include edge qualities and punchability, which combined produce an exclusive knife steel in the upper price range.

"We have a number of interested

## Rigged for gold

The market price for minerals – including gold – is high. This is evident at Sandvik, which manufactures equipment for prospecting drilling.

Prospecting companies are compelled to search deeper and more intensely after new finds when the demand for minerals intensifies.

The Group recently secured an order for eight drill rigs and spare parts from a company in Indonesia that prospects and mines gold.

Sandvik faced stiff competition in vying for the orders, explains Jonas Spalin, site and production manager at Sandvik Nora.

"We have an excellent relationship with the client and we can deliver quickly. That, together with our capacity to supply the customer with spare parts, was decisive in closing the deal!"

The drill rigs will be used in underground mines to extract core samples from the bedrock. The rig can drill down to 2,000 meters and lift more than 15 tonnes, despite its compact design.

"The market has shifted and our products, our capacity to adapt to specific customer specifications, and our excellent service give us a strong position," says Spalin. ■



## market profile

customers. From a global perspective, we are talking about a vast market," says Ponsiluoma.

One major customer advantage is that customers can benefit from Sandvik's R&D resources in regard to material.

"We can provide fast service because we are established all over the world and close to our customers," says Ponsiluoma. ■



# Hello...

**... Göran Westberg, 54, Senior Vice President Human Resources for the Sandvik Group since October 2010, after six months as Executive Vice President at Sandvik Materials Technology. What is your first impression after your tour of the Group companies?**

"I've met a great deal of dedicated and talented people who show a lot of energy and pride. Besides visiting Europe, I also toured our companies in India and China, two countries where we are growing extremely fast. We presently employ about 2,000 people in each country."

**Do you want to prioritize any particular issues at this point?**

"Strategic competence sourcing is one important issue – both in terms of how we ensure a steady influx of expertise, but also our capacity to retain and develop our talented employees. We need to decide where to take action and showcase our brand at, for instance, select universities and colleges in China and India and then initiate strong, intense collaborations with these institutions."

**Is it easy to attract people to Sandvik?**

"We have a strong name, which helps. However, due to the unique nature of our technology, the pool of talent outside Sandvik is not that big. As opposed to other companies with many competitors, customers and contractors from which they can recruit, we have to attract people who we continuously train and develop. It is therefore important to demonstrate that it is possible to climb the career ladder in Sandvik."

**Does this mean that you want to see more mobility between business areas?**

"Absolutely. This is positive from so many perspectives. One is cross-pollination in the organization – employees can learn from each other. Another is the array of options made available to our employees, which helps to keep expertise within the Group."

**What is your opinion on equal opportunities in the company and the lack of women in higher management?**

"This is one aspect of diversity that needs more work. In my opinion, this is



not only a gender issue, but extends to ethnicity, religious affiliation and age. We are active on a global market and deal with many different customer segments. To have the best decision-making platform we must have well-compiled organizations and management teams."

**Can you give us a few examples of the measures that exist to get there?**

"Among other things, everyone must comply with our recruitment policy, which states that we must always have final candidates of both genders for every job opening. We can more frequently send people on short-term assignments to carry out a specific task over a three to six-month period. Not only does this add new expertise, it also improves cultural understanding in the organization."

**How do you want to create a better balance in senior management?**

"We are going to make sure that both women and men attend our leadership management programs. In response to previous imbalance, Sandvik Materials Technology has started a leadership program for women only. The program will run for two years, with 62 participants representing 19 different nationalities."

**What experience do you bring with you from your past as an officer in the army and director in the steel, telecommunication and headhunting industries?**

"In the military, I was involved in training and leadership. Ericsson gave me more international experience. I learned a lot about competence management and working with targets and target follow-ups at employee levels. My latest position as Director in Sweden for two global headhunting agencies taught me how to handle competence sourcing and manager succession." ■

Large infrastructure investments will take place in Brazil over the coming years. Building for the 2014 Soccer World Cup and the 2016 summer Olympics in Rio de Janeiro are among them.



# Brazilian boom

**Massive oil and gas finds, rich mines, a flourishing automotive industry, and extensive infrastructure investment needs – Sandvik in Brazil has a lot going for it.**

**B**razil mastered the economic crisis with little more than a hiccup on a growth curve that points steadily upward. Predictions for this year indicate growth in the region of seven percent and Sandvik's country manager is optimistic about the future.

"The financial recession was less severe here than in the rest of the world, and the current atmosphere in terms of growth and economic activity is extremely positive," says Luiz Manetti who was appointed country manager in 2008.

With the exception of 2009, Sandvik has grown by about 30 percent annually for several years and Manetti adds that Brazil is a critical market for all business areas. One key customer segment is oil and gas, in which Petrobras, a semi-state owned energy company and South America's largest company, intends to invest USD 220 billion over a five-year period.

"We expect to get a piece of the cake with the help of a dedicated team of professionals who have sound contacts with the customer and a broad portfolio of products within process systems, tubing and tools for metal working," says Manetti.

**OIL EXTRACTED IN** Brazil normally has a higher sulfur content than oil from the rest of the world. By using the Sandvik Rotoform® system, Petrobras can reduce the sulphur content and meet extremely demanding environmental targets.

"The product area Process Systems has a very privileged position since we can solve the customer's problem with Rotoform®," Manetti explains.

Brazil is the world's largest producer of iron ore and the largest player is Vale, another important Sandvik customer, particularly in materials handling.

**MANETTI POINTS OUT** that the country has extensive infrastructure investment needs in the power sector and explains that the government is focusing heavily in the expansion of hydro power. There are also investments in thermo and nuclear power. At present, USD 3.5 billion is being poured into new hydropower in Belo Monte in northern Brazil and another USD 5 billion in a power station along the Madeira River. The country's third nuclear power plant is being built in the state of Rio.

"Continued growth is contingent to good energy supply. The country had a lack of electric power in 2001, which has curbed growth and alerted the government to the need for new investments in this area. Sandvik is perfectly

positioned in the construction market to benefit from and support these investments," comments Manetti.

**BRAZIL WILL HOST** the 2014 Soccer World Cup and the summer Olympics two years later, making exceptional demands on new investments in terms of railways, roads, ports and airports. This is all good for Sandvik, as is the fact that the country's automotive industry continues to flourish. In 2009, sales of light cars rose by 4.5 percent and forecasts for this year indicate that production of buses and trucks will skyrocket around 50 percent. Some will be exported, mainly to neighboring countries in South America, but the vast majority is manufactured

for the growing domestic market that attracts both foreign investors and export companies from around the globe.

Sandvik has been active in Brazil since 1949 and opened its first factory back in 1957. According to Manetti, the company is viewed as the market leader in most of its business segments and the market is growing rapidly.

"Sandvik definitely benefits from being so long in the market. Our most outstanding factor in terms of success is our professional sales force, which covers most parts of the country and is qualified to sell all the Group's products to a wide range of customers." ■



**Luiz Manetti**, President of Sandvik Brazil

## Sandvik in Brazil

**Start up:** 1949.

**Sales:** SEK 2,345 million in 2009.

Number of employees: About 1,500.

**Key customer segments:** Energy, mining operations, construction industry, engineering industry and automotive industry.

**Production:** At six plants, concentrated in the state of São Paulo and the area around Belo Horizonte in Minas Gerais.





Fully mobile crushers are usually equipped with a double roll crusher or sizer and are therefore suitable for up to medium-hard material.

# A cleaner way of mining

**The mining industry is one of the world’s most energy-intensive sectors. Sandvik is now leading an initiative to find solutions to reduce the industry’s energy consumption and greenhouse gas emissions.**

**M**ining companies over the world all face the same challenges: the rising cost of oil, electricity and a potential new carbon tax. In addition, ore and mineral reserves are increasingly harder to reach, which means it requires more energy to get the same amount of ore and minerals as before.

Anglo American is one of the world’s largest mining companies, which fight on a daily basis to reduce energy consumption. “Unstable energy costs are affecting us wherever we work. In certain regions there can be carbon taxes and unreliable access to energy to contend with as well,” says Stan Pillay, manager

for climate and energy change at Anglo American.

According to a study carried out by Sandvik Mining and Construction, the total proportion of energy and carbon emission costs in mining operations could rise from a current range of 15–20 percent, to as high as 50 percent in the next 10–15 years.

Ten of the world’s 15 largest mining companies took part in the study, aimed at analyzing work practices and methods in their mines. In addition to the study, a database has been set up to identify ways of saving energy costs, from small actions like switching off conveyors during blasting, to larger changes like in-pit crushing.

An important goal of the study is not

just to give an update on the present situation, but to deliver concrete answers.

“We want to be able to provide our customers with solutions they can take onboard in response to both economic and legislative pressures,” says Andrew Philpott, Director Strategic Relations at Sandvik Mining and Construction.

Findings from the study point already to potential areas for savings. Only 5–10 percent of the energy used in mining is directly linked to the value-adding components of ore mining, transportation and processing. The rest is lost in the value chain, mostly in auxiliary systems or the extraction and processing of worthless rock. A huge amount of energy



An IPCC generally comprises a hydraulic excavator or rope shovel, a fully or semi-mobile crusher and several mobile conveyors.

Fully mobile in-pit conveying instead of dumpers. Separation of ore and waste in order to transport as little waste as possible.

is seeping through the cracks and mining companies need to capture it.

By taking the initiative in the study and maintaining continuous dialogue with the largest players in the mining industry, Sandvik spearheads the future of mining's operating costs and changes that must be carried out in terms of both work methods and equipment.

The energy efficiency that needs reaching will not be brought about by an isolated solution but will need fresh thinking at every stage of mine running and mine planning.

"Products can help, but products alone will not bring about the large changes that will need to deal with the current

energy and climate questions. Much more is required for the overall change we need here," says Philpott.

"The challenge lies in envisioning the mine of the future. It is a tough task, but an important opportunity."

Stan Pillay at Anglo American shares this vision: "When we model a life of mine, the five-year forecast, or set out the mine's monthly section level planning, each should reflect the energy goals for that time. The aim is to integrate energy and carbon emissions into short, medium and long-term planning." Through Sandvik's study and with companies coming together to share their knowledge, this goal may be closer than you think. ■

## The solution – IPCC

IPCC (In-Pit Crushing and Conveying) is a complete crushing and conveying system, which combines several processes like crushing, transportation and mobile equipment, into a single solution. The system is based on hydraulic excavators or rope shovels, along with fully mobile crushers or semi-mobile crushing stations.

The system's advantage is that it enables continuous transporting and crushing operations inside the mine. This saves energy and operational costs partly because it reduces reliance on trucks. Trucks have high operating costs with lifetimes of only six to eight years and they require a lot of maintenance and consume a lot of expensive wear parts. On average, six or seven people are required to run a 24-hour operation of one truck, including maintenance and construction of access roads. The new solution reduces or eliminates these costs. ■

### Energy Efficiency in numbers

## 3–5 years

Within this time period energy consumption can be reduced by 10–15 percent if a mining company employs more energy-efficient methods.

## 20%

If the mining industry converts from diesel engines to those driven by electricity generated by alternatives made from renewable sources, carbon emissions would decrease by 20 percent.

## 50%

If nothing is done, energy will account for half of the mining companies' costs within 10–15 years.



## Talk about metal processing

Spike, the elephant at Canada's Calgary Zoo, has new stainless steel caps on his tusks after breaking both his own. The caps weigh 21 kilograms a piece and were produced using Sandvik Coromant's expertise and high-capacity hard metal tools. ■

## Order-generating method

Growth in the automotive, aviation and railway industries and energy sector in China is rising steadily, instigating robust demand for special tools for metal machining.

Sandvik Tooling makes these tools in Langfang, a city located southeast of Beijing. The company has managed to fulfill demands by cutting delivery times and improving tool quality.

"Most of the tool customers are Chinese and a local presence is a prerequisite for success," says Yngve Krantz, site manager at Sandvik in Langfang.

The greatest advances are due to a Japanese method for creating order and structure in the workplace. Developed by Toyota, the method has successfully streamlined many manufacturing industries.

"We've eliminated what we don't use, everything is in its place, and our employees are extremely involved," says Krantz.

"Simply put, we've optimized our processes, both in administration and production. Higher efficiency and shorter delivery times have generated more orders from customers in China." ■



### Did you know that ...

... about 1.2 million holes are drilled when manufacturing a passenger plane? Sandvik Coromant of the Sandvik Tooling business area has an expert team that works solely on developing tools and methods to manufacture almost every single airplane body part. ■

## Pocket consultant

Sandvik Coromant has released an application for the Android and iPhone mobile phones, which can be downloaded free of charge. The app quickly and simply calculates cutting data using the unique parameters of each job. Engineers and operators can use this app to optimize performance of milling, turning and cutting tools from the convenience of their mobile phones. ■



Alberto Meomartini, holding the microphone; Simone Guglielmetto, second from right.

## Alluring careers in Italy

Sandvik in Italy took part in a large, talk show-format seminar for young people in October. The purpose of the event was to generate interest for a future in engineering. Orientagiovani, as the seminar is called, is an annual event that attracts thousands of young people. Simone Guglielmetto, an engineer at Sandvik Coromant, participated this year and shared what attracted him to Sandvik and his career advancement within the company.

As in many other places, Italy considers the pending lack of engineers a threat to growth in the country. By introducing young people to representatives from a few of the foremost, technology-driven enterprises, authorities hope to stimulate

interest in technical education programs. This is the background of the seminar arranged by the organization Assolombarda, a territorial association that has about 6,100 member companies.

Assolombarda's Chairman, Alberto Meomartini, explained that he considers Sandvik's customer focus an example for other companies – and an inspiration for the audience.

"Sandvik realized early the value of enlightening their customers. A well-educated customer is taught how best to use the products, which by extension increases demand for even better products. This is extremely stimulating for continuous innovation in a company." ■



Manuel Rojas is one of Sandvik's exploration drilling experts who advised during the rescue operation, locating the miners at the San José mine.

# Drilling for life

**THE SAN JOSÉ** copper and gold mine in Chile's Atacama Desert collapsed on August 5, 2010. Inside the mine, 688 meters underground, 33 miners were trapped for 69 days. Sandvik Mining and Construction in Chile assisted the government-led operation leading to the successful rescue on October 13.

At an early stage Sandvik recognized that it would take extraordinary measures to locate and rescue the miners and contacted the Chilean government to offer support.

John Wells, President Sandvik Latin America, explains how the company assisted.

"We put together a team of experienced

exploration drilling and tooling experts that were on standby 24 hours a day and provided tools and equipment. The equipment we didn't have, we knew how to obtain through our extensive network of drilling contractors."

In order to give the best opportunity to locate the miners, numerous holes were drilled using ten mineral exploration type drills. These attempts were, however, not enough to guarantee successful interception of the tunnel where the miners were believed to be trapped. High precision drilling was required.



John Wells

"A major challenge when drilling deep is to maintain a straight hole with little or no deviation, so that you hit your target. We provided stabilizer rods in the initial drilling phase. This helped to keep the holes as straight as possible, which was necessary to locate the miners," Wells says.

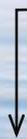
During the rescue operation that ensued after the miners were located on August 22, the Sandvik team continued to offer advice on the appropriate use of tools and drilling methods for one of three simultaneous rescue plans.

"We did everything we could," he says. ■



You think that you are all alone.

But we are only 2.5 kilometers away!



WE ARE IN PLACES YOU WOULD LEAST EXPECT! Sandvik's products are coiled in the deep. The Group is one of the world's leading producers of seamless tube in stainless special alloys used in the oil and gas industry. These tubes must be able to withstand enormous stresses in the form of pressure and corrosion.

You will also find the results of our know-how in mobile phones, in aircraft, 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.

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