

# Meet Sandvik

THE SANDVIK GROUP'S MAGAZINE FOR SHAREHOLDERS AND EMPLOYEES

JUNE 2010

## FOCUSED ON GROWTH

Mikael Blazquez optimizes  
Sandvik Materials Technology's offer  
to the growing nuclear industry

**Wind power the Sandvik way**

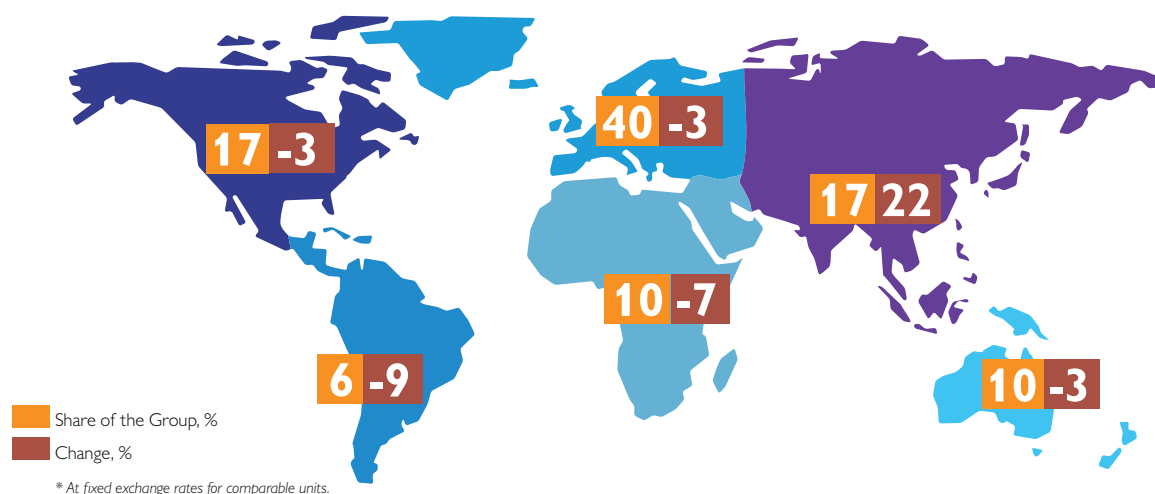
**Hope-infusing Annual General Meeting**

**Success through local presence**

# FIRST 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 1 2010	Q 1 2009	Change %	Change % <sup>1)</sup>
Sandvik Tooling	5,551	5,193	7	11
Sandvik Mining and Construction	7,588	8,330	-9	-8
Sandvik Materials Technology	4,019	4,255	-6	-1
Seco Tools <sup>2)</sup>	1,367	1,347	1	11
Group activities	9	11		
<b>Group total</b>	<b>18,534</b>	<b>19,136</b>	<b>-3</b>	<b>0</b>

## OPERATING PROFIT BY BUSINESS AREA

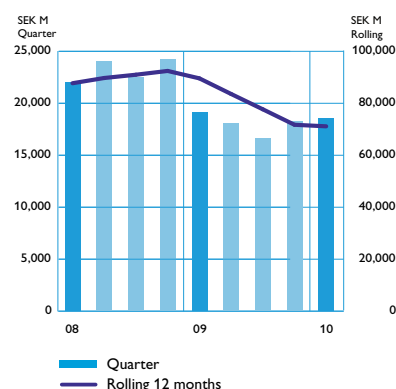
SEK M	Q 1 2010	Q 1 2009	Change %
Sandvik Tooling	834	267	+212
Sandvik Mining and Construction	623	392	+59
Sandvik Materials Technology	312	-521	
Seco Tools <sup>2)</sup>	220	95	+132
Group activities	-92	-118	
<b>Group total<sup>3)</sup></b>	<b>1,897</b>	<b>115</b>	

## OPERATING MARGIN BY BUSINESS AREA

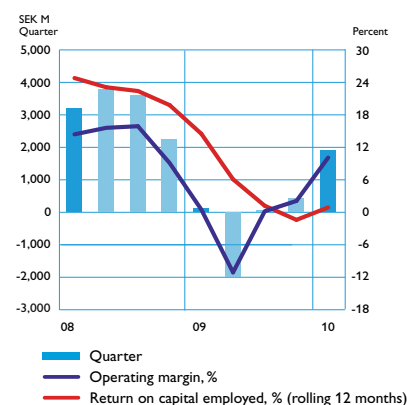
% of invoicing	Q 1 2010	Q 1 2009
Sandvik Tooling	15.0	5.1
Sandvik Mining and Construction	8.2	4.7
Sandvik Materials Technology	7.8	-12.2
Seco Tools <sup>2)</sup>	16.1	7.0
<b>Group total</b>	<b>10.2</b>	<b>0.6</b>

- 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.

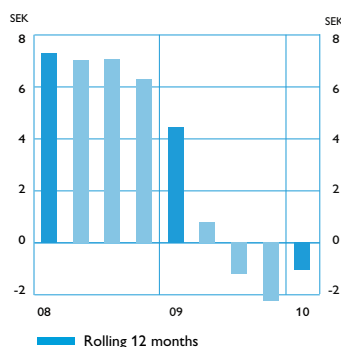
## INVOICING



## PROFIT, MARGIN AND RETURN



## EARNINGS PER SHARE



**Meet Sandvik:** The Sandvik Group's magazine for shareholders and employees **Editor-in-Chief and responsible under Swedish press law:** Per-Henrik Bergeck **Editor:** Åsa Lovell **Production:** Spoon Publishing AB **Print:** Sandvikens Tryckeri **Date of print:** June 2010  
**No. of copies:** 115,000. Published in printed form and on [www.sandvik.com](http://www.sandvik.com).  
**Address:** Sandvik AB, Group Staff Communications, SE-811 81 Sandviken, Sweden, [info.group@sandvik.com](mailto:info.group@sandvik.com)  
**Cover:** Mikael Blazquez, coordinator within Sandvik Materials Technology.



# Market recovery continues

The market's recovery continued during the first quarter of 2010, and all business areas reported better order intake. Growth was strongest in Asia, but demand improved in other markets too.

Order intake rose 30 percent compared with last year's first quarter. Sales were largely unchanged for the Group as a whole, with Sandvik Tooling spearheading the business cycle and showing a tangible improvement.

Operating margin, at 10 percent, was considerably better. Stronger earnings coupled with schemes to boost capital efficiency generated a strong cash flow for the quarter. Improved earnings were backed by the intense streamlining plans implemented last year, together with a favorable product mix and a strong, stable price trend. Production rates were somewhat lower than sales rates, which contributed to some under-absorption of fixed costs but also reduced inventories. Production rates will pick up in the second quarter to ensure continued high service and delivery accuracy.

## Climbing demand

In the first quarter, Sandvik Tooling saw greater demand from the manufacturing industry, especially in Asia and North America. The business area increased its production rates and lowered inventory volumes by about SEK 200 million, and cash flow was strong.

For Sandvik Mining and Construction, activities intensified in several segments. Project order intake was strong from customers in South America, Africa and Australia, with deliveries starting at the beginning of 2011. Invoicing, on the other hand, remained

low. Production rates increased gradually during the quarter, and the aftermarket improved.

In Sandvik Materials Technology, demand was strong from the energy sector, including tubes to the oil industry for delivery in 2010 and steam generator tubes to the Chinese nuclear power industry, scheduled for delivery from 2012 to 2014. The business area also enhanced its production capacity for steam generator tubes in Sweden and the Czech Republic. The product mix showed a positive trend, and product rates rose gradually.

## Improved business climate, but still a way to go

In summary, the business climate now is better than it has been in the past year, but we are still far from the levels we had prior to the financial crisis and the recession. It is therefore imperative that we proceed with streamlining initiatives that lead to lower costs and higher productivity, and that we continuously improve our capital efficiency. We must make the most of every business opportunity, and continued sales growth is a critical target.

The new cost and capital structures that we have achieved, and the major investments made in future areas, put Sandvik in a position to improve sales, productivity and profitability. ■



Lars Pettersson  
President and CEO, Sandvik AB

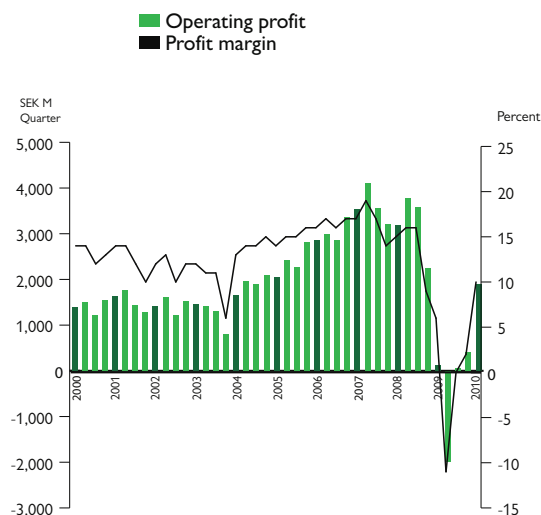
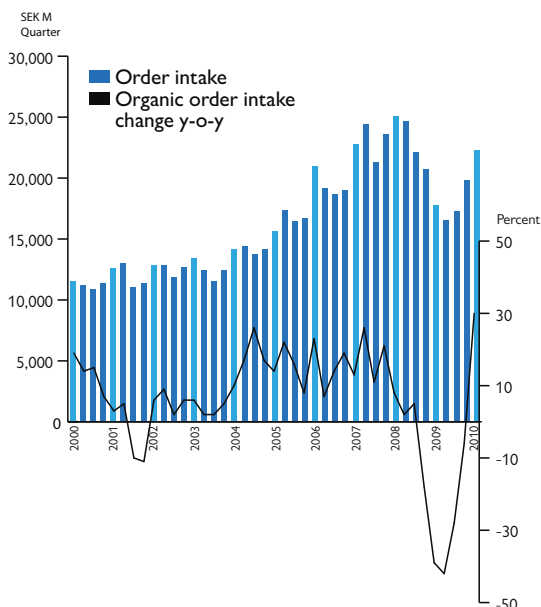


<b>Order intake</b>	SEK 22,270 M, +30 %*
<b>Invoicing</b>	SEK 18,534 M, 0 %*
<b>Operating result</b>	SEK 1,897 M
<b>Result after financial items</b>	SEK 1,502 M
<b>Result for the period</b>	SEK 1,122 M
<b>Result per share</b>	SEK 0.90 <sup>1)</sup>
<b>Cash flow</b>	SEK +2,287 M, +40 %

\* 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 Q1 2000 – Q1 2010





Production of rock-drilling tools at Sandvik Mining and Construction's plant in Wuxi.



One of Sandvik Tooling's plants in Wuxi for production of cemented-carbide products.



In Zhenjiang, Sandvik Materials Technology produces high-alloy hydraulic and instrument tubes, among other things.

# Local presence for better growth

**Global presence is a critical part of Sandvik's long-term growth strategy. China is an excellent example of how the Group has advanced its position.**

Asia is a region that has become increasingly important to Sandvik's growth. The company has strengthened its position in China and expects to be able to grow at least on par with the country's economic growth.

"We see great growth opportunities, especially within certain segments," says Svante Lindholm, head of Sandvik in China. "An important driving force is the ongoing modernization of China's industry. This pertains to both the manufacturing industry and the mining industry."

Customers' quality demands are climbing with the upgrade of China's industry. This is good for Sandvik, and it coincides well with the Group's strategy to improve productivity in customers' processes by using Sandvik's advanced products and solutions. One example of recognition for the excellent product quality is the extremely large tube orders from China's nuclear power industry.

Local market presence is a major factor for success in China. It improves service, deliveries are faster and cheaper, and customers have quicker access to spare parts. Customer ties are made stronger, and opportunities for joint product development with local companies increase.

"We used to import most of what Sandvik sold in China," Lindholm says. "In the past two years we have invested in five new production plants, which will lower the share of imported products."

Sandvik's local presence in China is reinforced by about 25 branch offices and sales staff in about 80 cities. Market penetration is gradually swelling via distributors, mainly to smaller customers. The Group will continuously increase the number of service units for business area Sandvik Mining and Construction. ■

## New production plants in China strengthen Sandvik's presence in the country.

**WUXI** (three units): Manufacturing of cemented-carbide products and rock drilling tools.

**ZHENJIANG:** Production of high-alloy hydraulic and instrument tubes as well as a service centre for precision strip.

**JIADING:** Production of machinery for the mining and construction industries (see picture, right).





Demand for composites is great within the aerospace industry.

### Sandvik showcased in Asia

The Sandvik in Asian Construction 2010 event attracted more than 280 visitors within the mining and construction industry in the Asia Pacific region to Kuala Lumpur, Malaysia.

Sandvik Mining and Construction has a strong presence in the region and organized the two-day event to demonstrate a selection of drills, breakers, crushers and screeners in action in a rock quarry. ■



### Unique design wins award

Gunnar Jansson (right) and Claes Andersson from Sandvik Coromant were named Group product developers of the year. They were recognized with the Wilhelm Haglund Medal in conjunction with Sandvik's Annual General Meeting.

The two product developers have invented a unique design for cutting inserts and holders for thread turning that improves stability and thus the ability to increase cutting speeds. The solution is protected by two patents.

Threading is one of the most complex applications in turning. Sandvik Coromant foresees excellent opportunities to substantially increase its market share with good profitability. ■

## When two become one

The use of composite materials is growing fast, particularly in the aerospace industry, and research in the field is intensive. Composites combine two or more materials that have different properties to create a specific new property.

Machining of composites is considerably different from the machining of metals, and this presents a challenge for the manufacturing

industry. In fact, different methods and dedicated tools are needed for practically every type of composite to be machined. And new composite materials are constantly emerging.

Sandvik Coromant is in the vanguard of the development of cutting tools that meet current and future demands of composite material milling and drilling. ■

## Rekindled interest in nuclear power



Nuclear power is experiencing a renaissance. Because of growing concern about climate change, global demand for nuclear power is expected to grow more than 40 percent by 2030 (read more about the nuclear industry on pages 6-7).

Nuclear power industry suppliers have no margin for error – absolutely nothing can put safety in nuclear power plants at risk. Sandvik Coromant provides reliable tooling solutions for a long series of applications. Examples include the adapter system CoroTurn® SL, the end mill CoroMill® 316, CoroBore® for boring and Coromant Capto® holding tools. ■





**NAME:** Mikael Blazquez

**AGE:** 37

**POSITION:** Global product manager and segment coordinator for Sandvik Materials Technology's offer to the nuclear power industry.

**EDUCATION:** Computer science and economics at the University of Gävle in Sweden.

**FORMER POSITIONS:** Various jobs in logistics and marketing in the telecommunications sector, and navigator in marketing and sales at Sandvik Materials Technology.

## Sandvik in the nuclear power industry:

# Steaming market calls for firm action

The world is investing heavily in nuclear power. As a supplier to the nuclear power industry, Sandvik Materials Technology is diligently working to meet the needs imposed by this extensive expansion and further develop its offer. Coordinator Mikael Blazquez is at the centre of events.

**M**ikael Blazquez works as a coordinator at Sandvik Materials Technology, a position that involves coordinating and developing the business area's complete range of products and services to the nuclear power industry. In July 2009, he was personally involved in signing a multibillion-Swedish-kronor contract with the French nuclear power company Areva on behalf of Sandvik.

"The multiyear supply contract is for steam generator tubes that will be used in nuclear power plants all over the world," Blazquez says as he guides us around the plant that makes this type of tube in Sandviken, Sweden.

Neat rows of shiny, high-alloyed special tubes – 30 metres in length and bent in the middle – line the yellow brick walls in the rectangular premises. Each nuclear power plant requires between 15,000 and 25,000 tubes, which are placed in the plant's steam generator where water is heated to create steam that is sent to a turbine. The turbine is connected to a generator that then transmits electricity to the power network.

**THESE PARTICULAR TUBES** are destined for China, one of the most expansive markets. In 2009, Sandvik signed a supply agreement valued at more than SEK 2.5 billion with two large Chinese customers. In total, Sandvik has signed supply agreements since the beginning of last year valued at SEK 8 billion in this sector. Deliveries are scheduled to start at the beginning of 2012 and stretch over a period of a few years.

"The largest nuclear power countries are still France, the USA, Japan and Korea," Blazquez says. "But the biggest growth will come from countries like China and, eventually, India."

To comply with the nuclear power industry's growing need for steam generator tubes, Sandvik Materials Technology is making considerable adjustments to increase capacity at its units in Sandviken and the Czech Republic.

Demand is driven by a great need for energy combined with pressure from governments and international organizations to reduce carbon dioxide emissions. It is a sensitive political area, and Blazquez adopts a professional attitude to the issue.

"The advantage of nuclear power is that it does not contribute to global warming," he says. "However, the question of waste must be resolved. Next-generation nuclear power plants will operate at higher temperatures. Considerably more energy will be extracted from the uranium, leading to less waste."

**SANDVIK'S OWN R&D** deals foremost with modifying production methods and products to the needs of the new nuclear power plants. Extremely high demands are made on the products, which basically consist of specially designed stainless nickel-chromium alloys that can withstand the extreme pressure and heat of the power plants.

"They have to function for a long time," Blazquez says. "Extensive experience, confidence and control are the keys to success in this industry. Under absolutely no circumstances can quality and safety be compromised."

Sandvik's major competitive advantages include the company's long-standing experience, material expertise and broad product portfolio. For many years, when hardly any new nuclear power plants were being built, a number of players were forced out of the market. Today, only two other actors in the world besides Sandvik make steam generator tubes.

"Business in the past years centred largely on planned maintenance and upgrades of nuclear power plants," Blazquez says. "To some extent, we need a new approach to meet a new market. Earlier, we acted separately for different products, even when dealing with the same customer. Now we focus on coordination and collaboration between units to develop together a complete offer for our customers."

**HE EMPHASIZES THAT** this approach comes in response to a distinct trend. In order to meet the large-scale, planned investments in new nuclear power plants, the industry more and more is requesting complete package solutions.

"You choose your partners over an extended period and strive for a supply chain with fewer preferred players whom you can trust and who can provide more," Blazquez says. "We are often part of the process at an early stage with our steam generator tubes. They are installed in the steam generators several years before the actual plant is completed. This tells us that the customer will eventually need the rest of our nuclear power range, such as other types of special tubing, welding products and precision strip. We should take advantage of the situation, obviously. In addition to our wide range of products for the nuclear power industry, Sandvik has unique material expertise to offer."

Blazquez hopes to be able to apply his experience from the telecommunications industry, where he worked during the era of heavy expansion at the end of the 1990s.

"At that time, the industry and its suppliers underwent major changes in order to manage the enormous expansion," he says. "We're facing a similar situation today in the electric power industry." ■

# Expanding market for climate-smart power

About 23,000 wind turbines were installed in more than 50 countries last year. The market is expected to continue to grow.

**WIND POWER STILL PROVIDES** a small part of the electricity produced in the world, only 1.6 percent.

“But this share is growing quickly,” says Per Forssell, Program Manager for Sandvik Coromant’s activities in the energy sector. “In recent years, growth in terms of installed capacity has been about 20 percent a year. By 2014, wind power is expected to generate 5 percent of all electricity produced.”

So far, Europe has the largest installed base of wind power in the world, but it is in the US and China that the greatest expansion is taking place. Most wind power plants are on land today, but offshore

activity is growing and over the next few years the expansion at sea will increase.

The driving forces behind the rapid wind power expansion are a greater need for electricity and the fact that governments in many countries are stepping up demands for lower carbon dioxide emissions.

“The technology has been refined and today’s wind power plants are expected to last up to 30 years,” Forssell says. “Another trend is that wind turbines are becoming larger. This means even more drilling, milling and turning of the already machining-intense components. Obviously, this makes the market even more interesting for Sandvik.”

For Sandvik’s customers, the challenge is to increase production rates to meet the strong demand.

“We make sure that they have access to the latest, most effective cutting tools,” Forssell says. “This way, customers can meet their growth targets and become more cost-effective by producing more in the equipment they already have. Our offer also includes support for new machinery investments.”

The market is dominated by about 10 major wind turbine suppliers. Sandvik’s customers include many sub-suppliers of different components to the wind power plants. ■

## How wind power works – with help from Sandvik

### 1. Blades

Fibreglass blades up to 60 metres long catch the wind. One challenge entails drilling up to 90 holes at the end of each blade to attach it to the hub. Sandvik’s wear-resistant cemented-carbide inserts contribute to cost-effective production.

### 2. Hub

The hub, made of nodular cast iron, transfers the rotation to the main shaft. The finished product weighs about 10 tonnes, but performance demands are precise. Sandvik offers optimized solutions for cutting tools and stable holding systems for the vibration-sensitive cutting process.

### 3. Main shaft

The main shaft is made from a 22-tonne steel forging that transfers the rotation to the gearbox. Exact diameter tolerances and extreme surface finishing requirements apply when eight tonnes of material is drilled and turned to produce the final result. Sandvik’s state-of-the-art cemented-carbide inserts help manufacturers live up to both quality and productivity requirements.

### 4. Gearbox

The gearbox increases the rotational speed of the blades to the generator speed. It contains, among other parts, shafts and ring gears that must be turned, drilled, milled and gear-milled with extreme precision. Sandvik offers cutting tool solutions for all parts.



### 5. Main frame

The platform for the entire turbine house is usually made of nodular cast iron. Production requires many hours of milling and drilling. Sandvik’s cutting-tool solutions maximize productivity in the machining process and minimize vibration risks.

### 6. Slewing ring

There are a number of slewing rings, one of which is used to direct the turbine house against the wind. Production requires that the gears are milled on the inside of the rings and productivity demands are high. Sandvik conforms to these needs by

using its modern cemented-carbide inserts even for gear milling.

### 7. Connecting rings

Forged steel rings, up to nine metres in diameter, are used to bolt together the huge tube steel sections that the wind turbine tower is made of. Sandvik’s tool solutions accommodate the speed and precision required when the connecting rings are turned and drilled into the final shape.



## Annual General Meeting:

# Growing need for energy provides opportunities for Sandvik

The future brings good opportunities for both growth and better profitability after what has been a trying year. That was the message conveyed at Sandvik's Annual General Meeting, which attracted about 1,100 shareholders and guests.

**FOR THE MOST PART**, the Annual General Meeting held in Sandviken on 4 May addressed the past year's challenges. Sandvik's President and CEO Lars Pettersson described how the Group puts cash flow before profitability and reduced its indebtedness. He also told how measures such as streamlining projects, personnel cutbacks and closing production units generated annual cost reductions of 8 billion Swedish kronor, among other effects.

Pettersson outlined the Group's business model and future trends. Opportunities for profitable growth are linked to the

world's growing need for energy, an area in which Sandvik develops products and services that have high customer value and that are modified for a global clientele. Moreover, he noted that the Group's expanding presence in the growing Chinese market is an important driving force for continued growth within Sandvik.

**THE MEETING VOTED UNANIMOUSLY** to approve a dividend of SEK 1 per share for 2009.

Lars Westerberg was elected new member of the Board, while Georg Ehrnrooth,

Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, Lars Pettersson and Simon Thompson were all re-elected. Anders Nyrén was elected new Chairman. The Meeting thanked Clas Åke Hedström for his 16 years of Board duty, eight of them as chairman.

The employee organizations have appointed Tomas Kärnström and Jan Kjellgren as employee representatives, and Alicia del Carmen Espinosa and Bo Westin as deputy members. ■



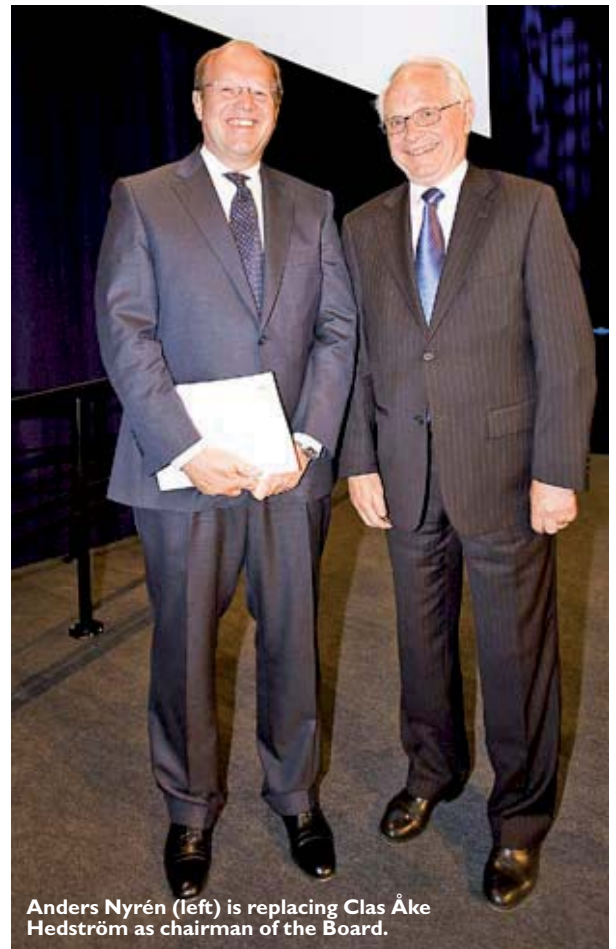
About 1,100 people listened to Lars Pettersson's views of the future.



Board member Hanne de Mora (right) with Christina Hagander.



Lars Westerberg was elected new member of the Board.



Anders Nyrén (left) is replacing Clas Åke Hedström as chairman of the Board.



## Treasure hunting in South America

Gold and silver will be mined in the Andes Mountains for many years to come. Sandvik Mining and Construction supplies the Pascua-Lama project with mining equipment at 5,200 metres above sea level in the rugged landscape between Chile and Argentina. The business area's mining equipment was chosen for its capacity to function in the demanding conditions of high altitude and shifting temperatures.

Mining activities are expected to yield almost 25 tonnes of gold and more than 1,000 tonnes of silver in the first five years. ■

## Advance planning ensures access to tungsten

Sandvik Tooling renewed its contract this spring with China Minmetals, one of the world's largest metal and mineral trading companies. The contract helps to safeguard access to tungsten, a raw material that is an important ingredient in most of the business area's cutting tools.

Sandvik Tooling's strategy is to use several different tungsten suppliers. The partnership with China Minmetals started in 2002 and will run for another three years.

The contract with China Minmetals was signed in connection with an event in Stockholm to promote international trade. Sweden's Vice Prime Minister Maud Olofsson and China's Vice President Xi Jinping were among the guests in attendance. ■

# Rocket science

Sandvik is taking a leap into space with the European space program Ariane 5. Sandvik Coromant helped the French supplier Serre with a solution for manufacturing components in the complex nickel-chromium alloy Inconel 718.

Sandvik Coromant's solution allowed Serre to complete the turning process

five times faster and the milling process three times faster than before. In total, the company was able to improve productivity by 50 percent while simultaneously making the processes more environmentally friendly. ■



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# Sand on par with gold

Sand is becoming a commodity in short supply. Several countries around the world have prohibited natural sand mining, mainly for environmental reasons.

Sand is an essential raw material used in many fields, including road construction and concrete applications. To cover this need, machines are making sand by crushing rock. Sandvik Mining and Construction is a leading manufacturer of a special type of rock crusher, the vertical shaft impactor, or VSI, which makes the same particle shape as in natural sand.

An extra environmental bonus, and a new market possibility, is that waste from quarries can also be used to make sand. ■



## Sandvik extends a helping hand in India



In February this year, the first collection centre for clothes, shoes and toys for the needy living in Pune, India, opened under the name Sandvik Helping Hand.

The initiative is part of Sandvik's comprehensive worldwide environment, health and safety incentive and will extend to all operations in India. Employees are encouraged to volunteer to collect items that can then be distributed through social organizations four times a year.

Parul Sharma, the Group's Corporate Social Responsibility adviser, says humanitarian projects require enormous dedication from many enthusiastic parties, and she is extremely pleased with the level of involvement at the opening of the Pune centre. ■



### Back in time

Antarctica is the world's coldest, windiest continent and is covered almost entirely in ice. But far beneath its deep-frozen surface lies a valuable knowledge treasure.

An international partnership project has planned to drill 7 million years back in time. The objective is to gain information that can help scientists understand today's climate changes.

Sandvik Mining and Construction delivered the drilling equipment for the project's first phase, which entailed drilling 1,284 metres below sea level – a new Antarctic record. ■

### Innovative material attracts customers

A sugar factory in the Dominican Republic was looking for tubes for its heat exchangers that required less maintenance and had a longer service life. The solution was tubing made of Sandvik's hyper-duplex material Sandvik SAF 2707 HD®.

More companies have recognized the opportunities that longer-lasting tubes provide for saving time and money, and Sandvik has received more orders for tubes made of this material.

A large part of the success lies in the material's properties: Sandvik's material has better corrosion resistance than earlier materials, so customers do not need to replace the tubes as often and thus can reduce their total costs. ■



## Record-breaking trade fair

The Bauma Trade Fair in Munich, Germany, held in April had more than 500,000 square metres of exhibition space, making it the largest international machinery trade fair in the world. While the ash cloud from the volcanic eruption in Iceland made travel difficult, a record-breaking number of exhibitors participated in this year's fair – more than 3,150 companies representing 53 countries. They unveiled the latest in construction

and building machinery, as well as new equipment for the mining industry for more than 415,000 visitors from 200 countries.

Sandvik Mining and Construction was represented in a 1,200-square-metre stand that showcased many exciting new products. Business area experts were on hand to demonstrate how the latest products and solutions can help boost customers' productivity. ■



Our solutions are not always visible.

Here, for example!



WE ARE IN PLACES YOU WOULD LEAST EXPECT! Sandvik's know-how contributes in several ways to a new functioning knee. One example is the material used in the manufacture of knee implants. The Group is the world leader in the field of advanced stainless materials and titanium.

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

Visit [www.sandvik.com](http://www.sandvik.com). There you will find more than you could imagine!



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