

SANDVIK ENTERPRISE RISK MANAGEMENT

Stockholm, October 15, 2014

Sandvik Enterprise Risk Management

Agenda

Sandvik enterprise risk management – introduction & background

Sandvik enterprise risk management – why, what, how?

Sharing Sandvik learning's and take way's

Wrap up



What we do

We manufacture advanced special alloys and ceramic materials, industrial tools and mining equipment. We work in close cooperation with our customers and we invest heavily in research and development.



What we are

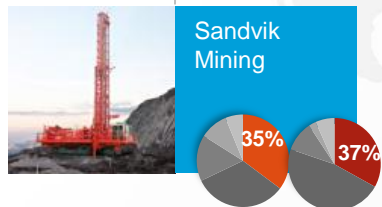
We are a world-leading high-technology engineering group.



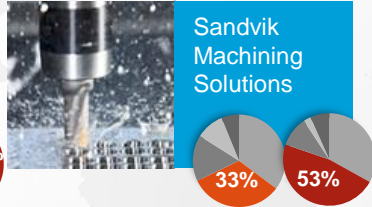
Who we are

Our corporate culture is characterized by our pursuit to bring the best and most innovative solutions to our customers.

Business Areas



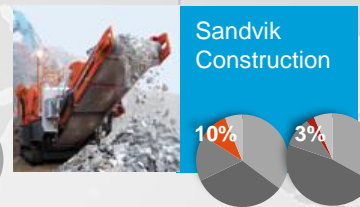
Equipment, tools, service and technical solutions for exploration, excavation and processing of rock and minerals in the mining industry.



Holds a clear global leadership by offering productivity enhancing products and solutions for advanced industrial metal cutting.



Industry-leading provider of high value-added products in advanced metallic materials for selected niches in the most demanding industries.



The world's widest range of rock drilling, rock excavation, rock processing, demolition and bulk-materials handling equipment, tools, services and technical solutions for the construction industry.



Unique customer offering within selected areas.

Share of Sandvik Group's total invoicing 2013.
 Share of Sandvik Group's operating profit 2013 adjusted for nonrecurring charges.
 Group activities account for -12%

Enterprise Risk Management

A part of the strategic work

Sandvik's growth opportunities include many risks. Achieving and maintaining the position as a world leading engineering Group, requires an organization with the ability to capitalize on opportunities and manage risks better than the competition.



Scope of improving ERM - from 2013

Improving the enterprise risk management process is a board directive and expected benefits are;

- Stronger link to Group strategy to enable better business results
- Enable the management of critical and aggregated risks
- Improved execution of business area plans
- Quantification of Sandvik's risk tolerance boundary
- Strengthen decision making and monitoring capabilities



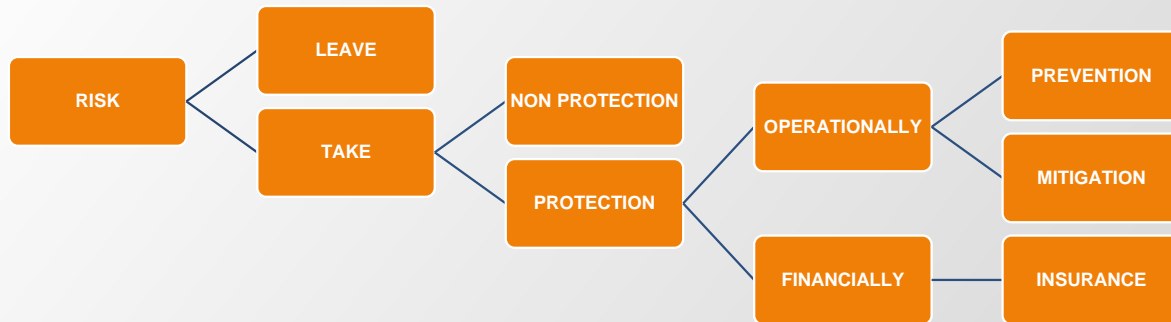
Closing the GAP

- Review and GAP analysis
- Prioritize improvements
- Define and decide on GAP closing activities
 - Focus on the risk assessment methodology
 - Revise and update the methodology
 - Implementation of changes and communication of revised methodology
 - Ensure consistent structure and best practice
- Sandvik ERM roadmap 2014-2016



Holistic view on risk

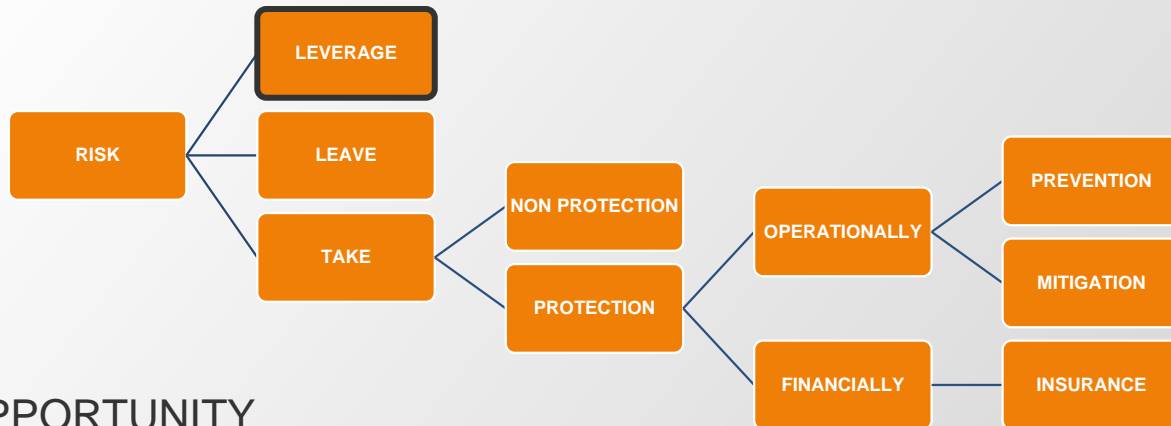
In theory there is no significant difference between Enterprise risk management and traditional Risk management/Insurance management. **ERM more focused to balance opportunities.**



RISK < OPPORTUNITY

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RISK < OPPORTUNITY

Enterprise Risk Management

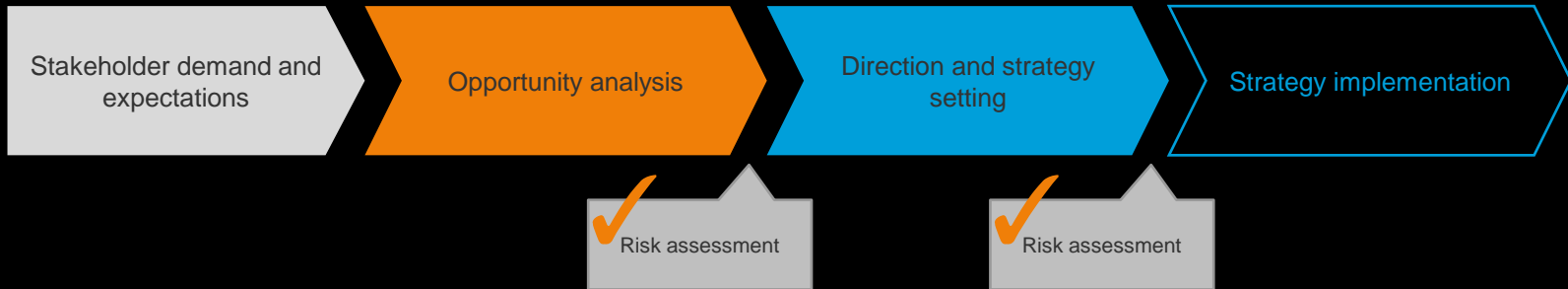
Key objective

To provide a common approach to identify and analyze risk scenarios and opportunities in order to mitigate risks and leverage opportunities relevant to achieving Sandvik's business objectives.

Integrated risk management

A key activity in the strategic process

Applicable to all kinds of strategy work e.g. business strategy, change management, project initiatives

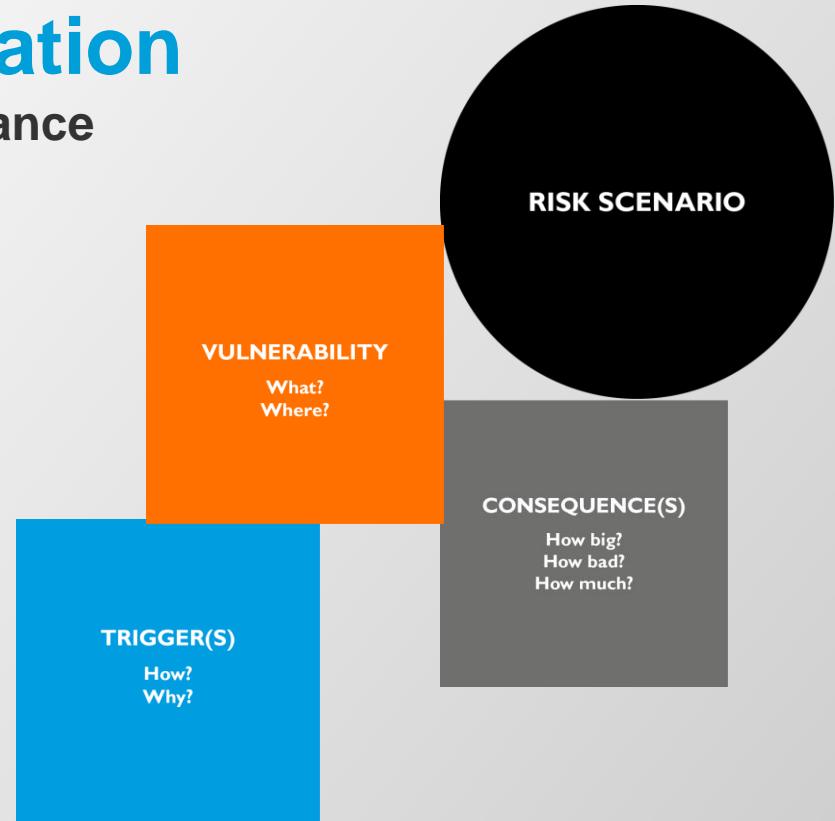


Risk assessments at Sandvik

Identification and evaluation

Risk assesement methodology at a glance

- Workshop format.
- Focus on **risk triggers** to ensure that a risk scenario is managed effectively and on time.
- Quantification of risks due to expected financial gain.
- Risk tolerance boundary to be able to balance risks versus opportunities.
- Useful for a variety of situations; strategic objectives, business operations and processes, manufacturing, safety and security, products and projects.



Defined Severity and Probability categories

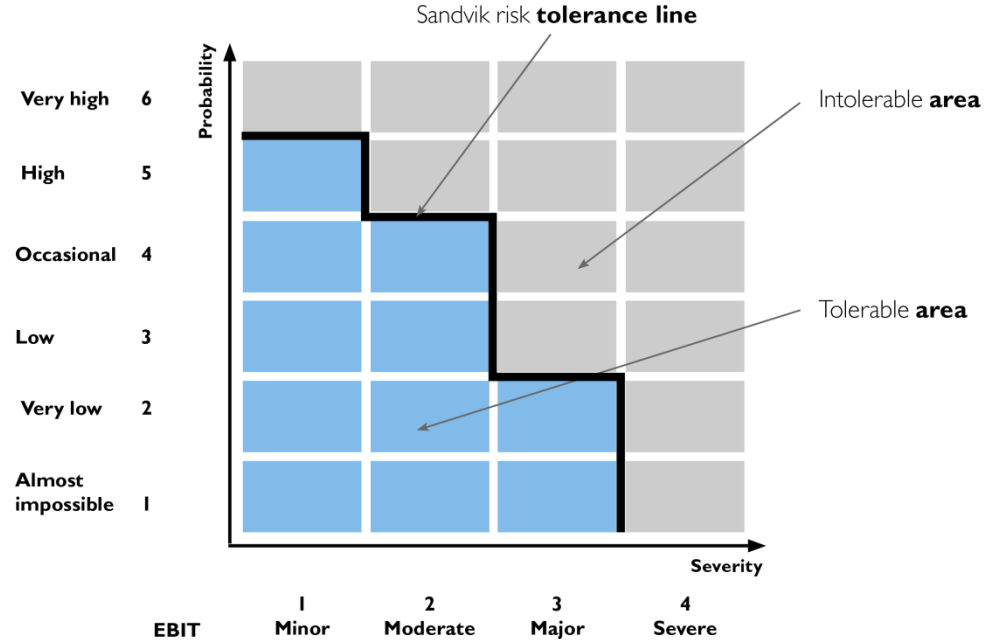
General Impact		EBIT Impact		Percentage ranges of EBIT	
Description		Description		Min	Max
1 Minor		Minor decrease in EBIT			
2 Moderate	1 Almost impossible	Remote possibility	Almost impossible	Every 10-20 years	
	2 Very low	It is not expected but can happen			
3 Major	3 Low	It might happen one day			
4 Severe	4 Occasional	It can happen sooner or later			
	5 High	It will happen sooner or later			
	6 Very high	It will happen soon			

Reputational impact	
Qualitative	
1 Minor	Limited reputational consequences, event could be handled. Event affects the whole economic environment as well as Sandvik and the engineering industry.
2 Moderate	Potentially damaging reputational consequences with critical impact on the business. Event affects Sandvik as well as the engineering industry.
3	Potentially major reputational damage; massive loss of credibility for the Group. Event is concentrated on

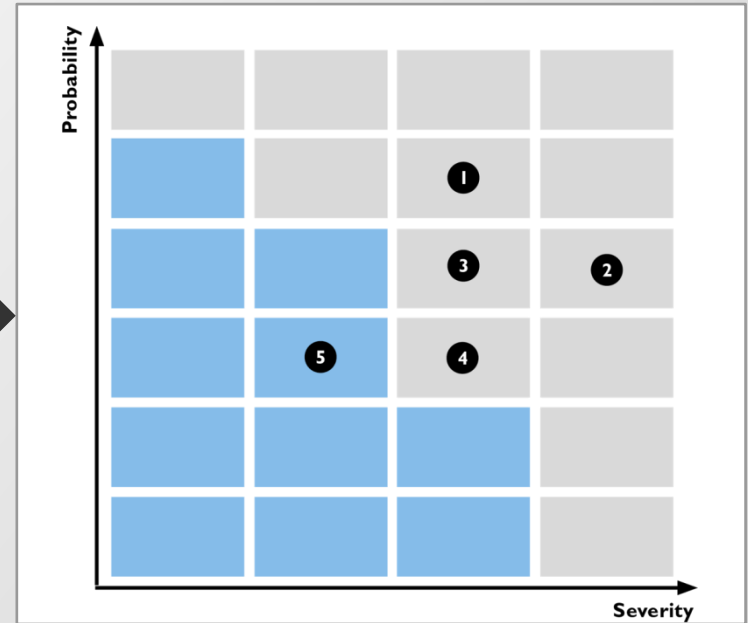
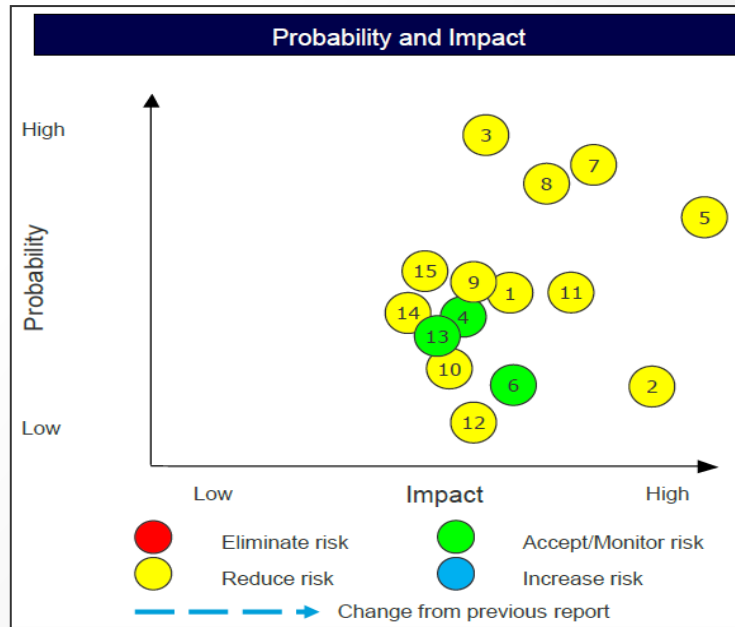
NOTE:

Risk scenarios where the consequences may be serious injuries or death for any person shall never be quantified to a financial value. These risk scenarios will always end up outside the tolerance line in the risk profile.

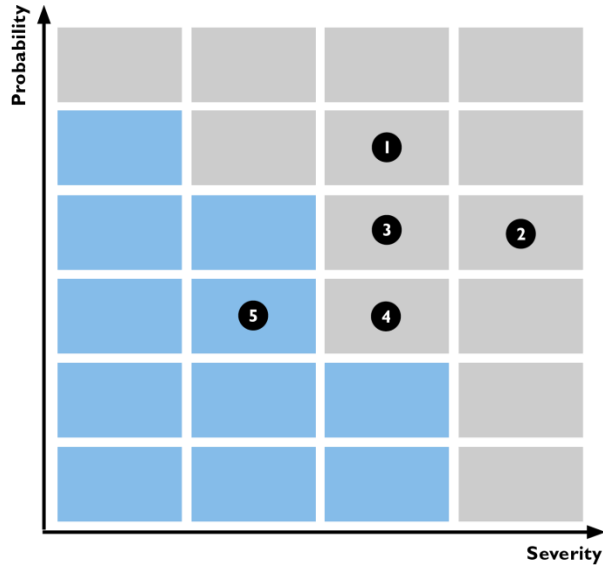
Sandvik Risk Profile



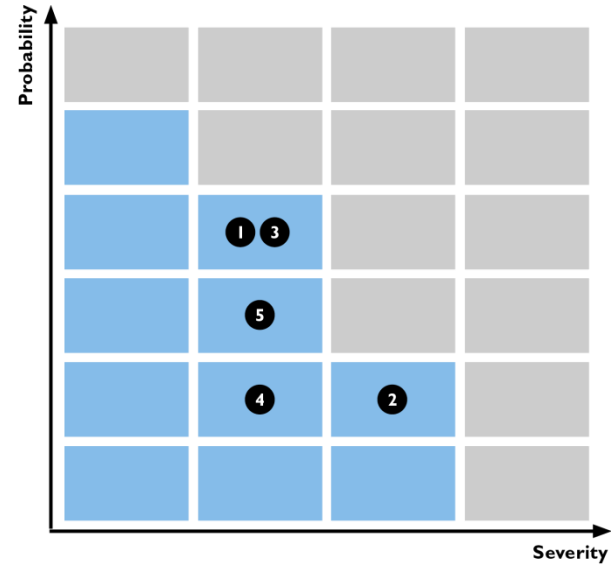
Former versus Developed Risk Profile



Plot target risk profile



Current



Target

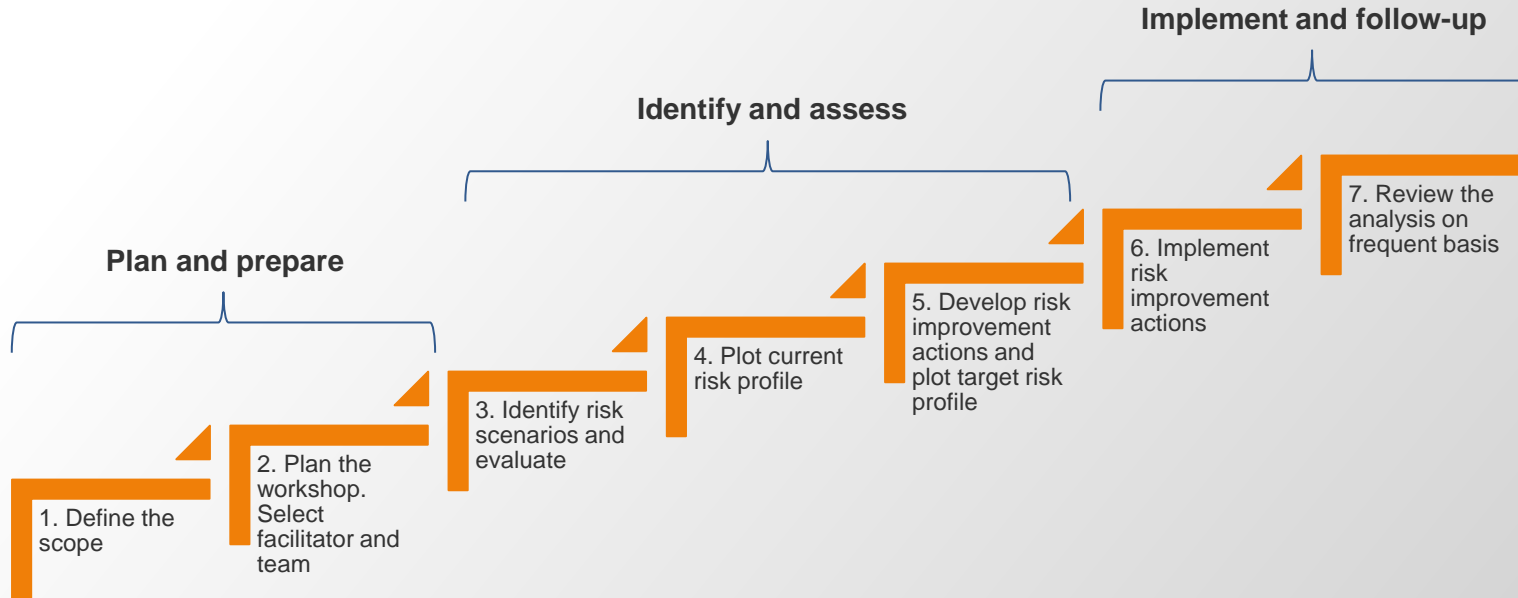
Risk improvement

- Improvement actions:
 1. Eliminate the vulnerability. *If not possible:*
 2. Reduce the frequency and/or severity of the event.
 - Strategic change
 - Operational change
 - Risk transfer
- An **action plan** shall include:
 - Current rating
 - Target rating
 - Responsible
 - Due date
 - Action status



From risk assessment to risk management

7 steps



ERM Workshop toolbox



- ERM risk assessment guideline – pdf
- ERM Risk assessment tool – xls
- Sandvik ERM introduction - ppt
- ERM workshop introduction - ppt
- ERM general risk tickler list - pdf
- Workshop support for risk quantification – pdf
- ERM Risk profile poster – pdf

Film clip on Zurich Total Risk Profiling

Sandvik learning's and take way's

- Efficient, fast and thorough bench mark study
- Regular information and presentation to top management
- Prioritize the improvement actions
- Communication strategy – repeat the focus
- Strive for real integration, think and act 'lean'
- Business partnering: Ensure close and direct contact with the business

Summary

- Mission of ERM:
 - To identify and analyze risks and opportunities in order to mitigate risks and leverage opportunities relevant to achieving Sandvik's business objectives.
- Expected benefits:
 - Enable better business results
 - Strengthen decision making and monitoring capabilities
 - Improved execution of business area plans
- An Enterprise Risk Management approach can be very helpful.

