

# Meet Sandvik

JUNE 2006



Strong  
development  
global expansion

Industrivärden  
in focus

Productivity at top level

Annual General Meeting

News from Sandvik's world

# Sandvik Q1

PRESS RELEASE 2 May 2006

Interim report first quarter 2006

## CONTINUED STRONG GROWTH

- Order intake +23%\*, SEK 20,985 M.
- Invoiced sales +15%\*, SEK 17,481 M.
- Profit after financial items +42%, SEK 2,684 M.
- Profit for the period +42%, SEK 1,939 M.
- Return on capital employed, 25.1% (20.3%).
- Cash flow +91%, SEK 2,379 M.
- Earnings per share +48%, SEK 7.70.



"Sandvik had continued strong growth during the first quarter," says Lars Pettersson, President and CEO.

## INVOICED SALES\*

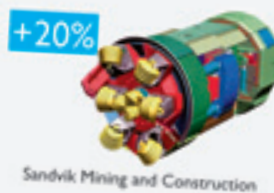


"Demand during the quarter remained strong. The business climate in Europe improved and remained stable at a high level in other markets. Operating profit rose by 40% to SEK 2,853 M and the margin was 16.3%. Invoicing amounted to SEK 17.5 billion and profit after financial items increased by 42% to SEK 2,7 billion. We are continuing to develop our offering with new solutions for increased customer benefit. Combined with a continued global expansion, this increases our competitiveness and ensures growth as well as profitability," says Lars Pettersson, Sandvik's President and CEO.

## KEY FIGURES

SEK M	Q 1/06	Q 1/05	Q 1-4/05
Order intake	20 985	15 646	66 186
Invoiced sales	17 481	14 194	63 370
Operating profit	2 853	2 041	9 532
Earnings per share, SEK	7.70	5.20	24.70

## BUSINESS AREAS – INVOICED SALES\*



\* Change compared to the same quarter the preceding year at fixed exchange rates for comparable units.

For additional information, please call +46 (0) 26-26 10 01 or visit [www.sandvik.com](http://www.sandvik.com)

**SANDVIK**

### Meet Sandvik

The Sandvik Group's magazine for shareholders and employees

Address:  
Sandvik AB,  
Group Staff Communications,  
SE-811 81 Sandviken  
[info.group@sandvik.com](mailto:info.group@sandvik.com)

Editor-in-Chief: Per-Henrik Bergek  
Layout: Ehrenstråhle BBDO  
Print: Sandvikens Tryckeri  
Date of print: June 2006  
No. of copies: 70 000

Published in printed form and on  
[www.sandvik.com](http://www.sandvik.com)

# Strong development – global expansion

Sandvik's strong development continued throughout the first quarter of the year. Invoicing and order intake, profit after net financial items and earnings per share increased sharply compared with the corresponding period in the preceding year. Due to a higher profit margin and higher capital efficiency, capital employed amounted to 25% – the highest level in ten years.

All business areas reported sharp volume growth. The strong demand for base metals, precious metals and coal had a highly favorable impact on order intake and operating profit for Sandvik Mining and Construction. The strong development for Sandvik Tooling continued and the business area is expanding both its production capacity and its sales organization, to meet increased demand in a number of segments. Sandvik Materials Technology benefited from the ongoing expansion in the oil/gas and energy industries.

Growth was strong in essentially all markets. The continued improvement of the business climate in Europe, which currently accounts for nearly half of the Group's sales, is particularly encouraging. The strongest invoicing increase was in Africa/Middle East, followed by North and South America and Asia/Australia. In other words, growth was global.

Sandvik's global expansion was a theme in my address at the Annual General Meeting. Read more on pages 10 and 11. The development in the three regions Eastern Europe, India and China entails great opportunities for Sandvik. Our customers in these rapidly growing regions demand the same high standards from Sandvik as customers in other areas of the world. Our general strategy is to create close relationships with local customers. This means we build a local sales organization, service units and, to a certain extent, local production. Product development, production and distribution are integrated in the Group's global infrastructure. This long-term strategy is highly successful.

Sandvik has a well-developed global position. We have a strong brand name, which is



associated with high quality, good service and products that have the best performance on the market.

I would particularly like to emphasize Sandvik's extensive focus on product development. Our research and development is conducted in selected niches and in close cooperation with customers worldwide. This year's winners of the Wilhelm Haglund medal illustrates our approach to research and development very well.

Our driving force is to create as much value as possible for the customer and thus ensure the Group's long-term leadership and continued profitable growth.

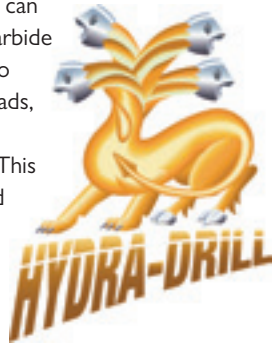
Lars Pettersson  
President and CEO  
Sandvik AB

Helga Holzschuh (left) and Joerg Drobniowski (right) received the Wilhelm Haglund medal at the Annual General Meeting as product developers of the year within the Group from Per-Olof Eriksson (center) of the medal jury.

# Productivity at top level

## *Head argument sells new drill*

US-based Precision within the Sandvik Tooling business area has launched a high performance and highly versatile drill with the imaginative name Hydra Drill™, named after the mythological many-headed beast. One wear-resistant high-speed-steel drill body can accommodate up to five different solid carbide head sizes, and each body allows for up to 50 head changes. By replacing the drill heads, not the entire drill body, customers can substantially reduce costs and inventory. This innovative drill is also easy to operate and provides longer tool life, which improves productivity. By lowering overall costs, the Hydra Drill™ provides the customer the lowest cost per hole produced.



## *Sandvik crushers in China*

The Anshan region of northeastern China contains substantial quantities of iron ore. Anshan Mining Co. is one of Sandvik's large mining customers in the country. The ore in the open-pit mine is extracted and transported out by train. The ore is then crushed into an appropriate size for further transport to the steel mill. This is the point at which Sandvik comes into the picture. The Group has delivered the crushers to the company, which operates one of the country's largest crushing stations. The products meet the customers' stringent requirements regarding stability and operating reliability that are critical to their production economy. ▶



## *Reaching the peak*

Sandvik Nanoflex® has made additional advances. As a result of cooperation with the Italian manufacturer Camp, our well-known material is now used in climbing equipment as well. Sandvik Nanoflex offers the world's lightest crampons for ice climbing to climbers worldwide. They are 20% lighter than comparable products. The points stay sharp longer and snow is less likely to stick to the bottom of the crampon as a result of the stainless steel surfaces – crucial differences compared with earlier models. The new crampons attracted much attention at a recent German sports trade show. The question now is: What will the next step be for Sandvik Nanoflex?



## *Mining off to roaring start*

The ability to quickly and efficiently transport rock and ore in underground mine passages is a key issue. Sandvik has an excellent and long-standing reputation as a supplier of effective solutions in this area. Sales of the advanced underground Toro 60 truck have soared. Many units have already been delivered, in Australia and North America for example. The truck was recently acclaimed in Mining Magazine. With its rigid frame and three axles, it was touted as powerful, smooth and fast. The name derives from its capacity to carry a 60-ton load, although the truck itself weighs only slightly more than 48 tons. Experience has shown that the new truck increases productivity by around 30%. It also offers lower fuel consumption and a cabin with a low-noise level.



### *Solid commitment*

Sandvik Coromant has begun cooperation with Swedish engineering company Novacast and its subsidiary, Camito, which has developed a new technique for manufacturing dies, etc., for the automotive industry. Currently, it takes 10–20 months to manufacture all the tools needed for a



new car model. The new method, which is based on casting iron and tool steel together in a single step, can reduce the time by 30%. Sandvik's metal-cutting know-how combined with Camito's expertise in tool technology helps the automotive industry reduce lead times substantially. The two companies are now coordinating their resources in a common technology center. The market, worth several billions of dollars, has big potential.

### *New generation of bandsaw steel trims costs*

Bandsaw steel only accounts for nearly 1% of sawmills' costs, but they have a considerable impact on their total profitability. The costs must be held in check. Maximum operating time and minimum maintenance are the ultimate solution for customers. Sandvik meets their high expectations. Our steel has superior flatness, straightness and surface finish, which produces straighter cuts and less wastage compared with traditional bandsaw steel. The fatigue limit is higher. As a result, the risk of unplanned blade replacement and resulting disruptions of operation has declined substantially. The operating time for the most recent generation of bandsaw steel, Sandvik Durashift™, is extremely long – four times longer than for a standard blade.



### *Cooperation rolls on*

As Russia's modernization progresses, tools from Sandvik Coromant are playing an increasingly important role in accelerating work in the factories – for example, at Moscow Bearing, which manufactures bearings for a range of applications and is leading in the Russian market. Much of Sandvik's success in Russia and other markets depends on close (and friction-free) cooperation with the customers.

Anders Nyrén is President of the Industrivärden investment company and a member of the Board of Sandvik since 2002. He is also on the Boards of Svenska Handelsbanken, Ericsson, SCA, Skanska and SSAB, all of which are key holdings for Industrivärden. Anders Nyrén has been referred to in the press as a leading powerbroker in the Swedish business world based on his vast contact network. So the views he expresses on Sandvik in this interview carry a certain weight.

# A heavyweight who loves to develop companies

## **When did Industrivärden buy into Sandvik?**

“We carried out our first Sandvik acquisition in 1997 – that is, less than ten years ago. That is our most recent major transaction to date, which says something about our long-term approach. In that transaction, we purchased 22 million shares from Skanska at SEK 185 per share. Our net investment in Sandvik over the years totals about SEK 5.3 billion. Our current holding of 11% of the capital and the voting rights makes us the company’s largest owner.”

## **Has it been a profitable investment?**

“Without a doubt. Today, we have a return on the investment of slightly more than SEK 6 billion. Moreover, over the period during which we have had this investment, we have received dividends totaling more than SEK 2 billion. The total return on our investment is around 17% a year. This is unquestionably a favorable outcome.”

## **Why is Sandvik so successful?**

“In my view, Sandvik’s success is due to its strong corporate culture. I would say the company has successfully transferred its original, local mill culture to its current workforce of nearly 40,000 employees all over the world. That is impressive. The company is incredibly cost-efficient and result-driven. From my perspective, Sandvik and Handelsbanken are extremely similar in the way they work. Both companies are based on what I would call ‘self-healing’ organizations. They have a built-in instinct to quickly correct mistakes and transform them into something positive.”

## **Industrivärden calls itself an active owner. What does that mean?**

“It means we live in symbiosis with the companies in which we invest. We devote a great deal of effort to understanding their operations, driving forces, business environment and competitors. For us, this is a structured process based on ongoing analyses. Active ownership also implies that I as a Board member contribute actively to the further development of the company. This occurs through Board discussions and discussions with Sandvik management. I am always available by phone. However – and this must be pointed out – it is the President who runs the company. Industrivärden represents an available resource, nothing more.”

## **Companies must meet increasingly stringent formal requirements. How do such requirements affect Board work?**

“There’s no doubt we have entered a period in which formal requirements are very important. Even so, I would say the change is not particularly critical for large companies. Many of the requirements concerning corporate governance, risk management, internal control and codes of behavior have already been on the agenda for companies like Sandvik. They are based on the Swedish Companies Act and are essentially about creating some form of best practice. I believe the temporarily increased workload that these requirements have caused for me in terms of Board work will soon revert to a more normal state of affairs. We are already seeing indications of this.”

**What is your view of venture capital companies?**

“Their business model is different from that of Industrivärden. Their way of working is based on short-term engagements involving a high level of indebtedness and on creating definite added value in the company in a short-term perspective. The reason for their intervention is that they consider the valuation of a company to be incorrect. At Industrivärden, we invest in companies whose business is basically healthy and whose management is competent. We invest heavily in these companies to exercise long-term, stable ownership. We are firm believers in continuity and in the possibility of making something that is already good even better. Of course, Sandvik is a perfect example of this. During the nine years in which we have been partners in the company, its net sales have almost doubled without any appreciable change in the number of employees.

**How do you feel about acquisitions?**

“They are a logical and important part of the operations of a company such as Sandvik. Now might be a good moment to mention that during the period in which Industrivärden has been a partner, Sandvik has more or less quietly developed into a world-leading supplier to the mining and construction industry. This focus was launched in 1998. Sandvik was then merely a supplier of tools to these industries. Step by step, Sandvik has acquired companies that now, combined, represent the strongest program in the market in this area. Today, Sandvik Mining and Construction is a business area with annual net sales of more than SEK 22 billion. Now I call that long-term thinking and it gives me more satisfaction than anything else!”

**Dividing up of Sandvik?  
Do you have any comment?**

“It’s a question that arises now and then. Sure, we could do a status quo calculation that would show that the value of today’s Sandvik Group is less than the aggregate value of the three business areas reckoned in terms of their own companies. However, the Board and I myself are absolutely convinced that dividing up the Group would not result in long-term advantages to Sandvik’s various operations. I believe that with its track record, Industrivärden can confirm this position in a convincing manner. Sandvik is one cohesive company and shall continue to operate as such in the long term. Its development to date is a strong indication that this is the correct position.”



**How do you feel about the company’s future development?**

“The current market situation appears highly favorable. You sometimes ask yourself why things are going so well and how long it can be expected to continue. The primary reason is probably that we currently have a number of major growth markets keeping the world economic engine running on high gear. Moreover, society is constantly demanding that we improve productivity. Sandvik is on the right track here, given that the company essentially sells increased productivity to its customers.”

**Finally: What drives you as an individual?**

“That’s an easy one. I love being where the action is, cutting great deals. There is nothing I find more interesting than developing companies. It’s a constant journey, and one on which you’re always experiencing the discovery of new things and creating of new goals. Following Sandvik and contributing to the company’s success is an incredibly stimulating task.”

# News from Sandvik's world

## *Boom in mining and construction industry means large orders*

The high demand for base metals, precious metals and coal continued during the first quarter of the year. The high pace of production in the mining industry implies a continuation of the excellent trend of order intake for advanced machinery, tools and service from Sandvik. Development was strong in the construction industry as well. In materials handling, the Group received several large project orders in the first quarter – for instance, coal-handling systems for power plants in Italy and mining equipment in South Africa and Brazil. The total order value was slightly more than SEK 1.6 billion.



## *New work methods create greater efficiency globally*

Capacity in production bottlenecks has increased by up to 50%. Lead-times have been cut by between 50–60%. These are some of the results of the extensive program of change under way within Sandvik Materials Technology. The program involves that the business areas successively implement new working approaches, in accordance with a new business model, within the areas of manufacturing, marketing and sales, purchasing, new product development and expertise development. The most progress has been made in manufacturing, in which the new work methods have been introduced in about 70% of the business area's units (photo from the tube product unit in Chomutov in the Czech Republic). Sandvik Materials Technology's change model is standardized. Implementation is carried out in one limited section of the operations at a time. A navigator team comprising more than 50 change coordinators is assigned to spread knowledge about the new working approach and train the organization. Among other gains, the result will be increased capacity and an enhanced service level – that is, increased profitability.

## *Cemented-carbide researcher rewarded*

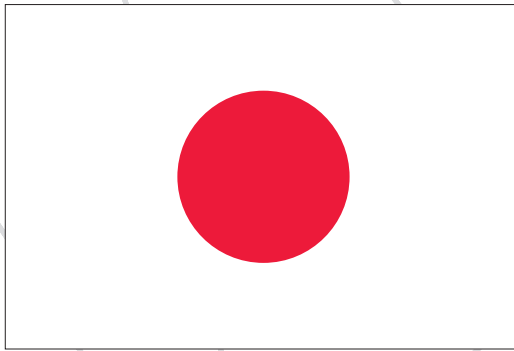
The Sandvik Coromant product area provides a materials scholarship of SEK 35,000, which was awarded this year to Mikael Christensen, PhD Engineering. He defended his doctoral thesis at the Department of Engineering Physics at Chalmers University of Technology in Gothenburg after previously having made pioneering calculations involving density functional theory on intermediate layers in cemented-carbide systems. Shown in the photo are Mikael Christensen (right) with Magnus Ekbäck, Vice President R&D at Sandvik Coromant.





## Acquisition of Swedish-Japanese company

Sandvik has reached an understanding with Asahi Industrial Diamond Co Ltd, Japan, to acquire Hagby-Asahi AB, including its subsidiaries in Finland, US and Canada. Hagby-Asahi is one of the market's leading manufacturers and suppliers of diamond tools and equipment for the mining, construction and metalworking industries as well as a supplier of diamond drill rigs for mineral exploration. The acquisition is expected to be completed by 1 July 2006. Hagby-Asahi AB reported sales in 2005 of about SEK 160 M, with about 100 employees. The company will be included in Sandvik Mining and Construction but will also supply the Sandvik Tooling business area with products and services within diamond tools. As a result of the acquisition, Sandvik becomes even stronger in diamond drill technology and mineral exploration.



## Fair Play worldwide

During the past two years, Sandvik has implemented an extensive, worldwide communications campaign – probably the Group's largest ever such activity. It involves the concept of "Fair Play" and Sandvik's code of conduct that is incorporated in the platform known as "The Power of Sandvik". A large number of seminars have been held, in which all management personnel in all markets and business areas have discussed Sandvik's business ethics and fundamental values. Afterwards, further discussions have been held on the local level with management as inspirational discussion leaders. There have been 24 seminars, total, on the management level, drawing about 450 participants. The seminars have been held at 14 locations around the world. At present, slightly more than 80% of the Group's employees have gone through the program locally – that is, more than 30,000 people.

## Efficiency-enhancement within Sandvik

*The consolidation of production is ongoing within the Group throughout the world.*

The product unit in Cinisello, Italy, in the Kanthal product area, is being phased out as a consequence of the ongoing review of the wire-drawing plants within Sandvik Materials Technology. This action is part of the business area's efforts to improve cost-efficiency and increase profitability.

Manufacturing of cemented-carbide inserts at the Sandvik unit in Fair Lawn, New Jersey, northwest of New York City in the US, is being phased out. The reason for the closure is to take advantage of economies of scale within Sandvik Tooling's global production. Other operations in Fair Lawn – sales and marketing – will not be affected.

Sandvik Materials Technology is selling its production unit for wood bandsaw blades in Vanda, Finland. The divestment should be viewed against the background that the business area is phasing out operations outside its non-core competence areas.

A total of slightly more than 200 people will be affected by the changes in the three countries.

The Walter product area in Germany has increased production volume sharply in recent years. In order to expand further, enhance the efficiency of its operations and to meet the increasing demand, manufacturing of cemented-carbide inserts is now being transferred to Münsingen. Current production of tool holders in Tübingen is expanding.



1



2



3



4



# Annual General Meeting marked

At the Annual General Meeting in Sandviken on 2 May CEO Lars Pettersson reported on the record year in 2005 and on the ongoing strong development for the Group during the first quarter of this year. In 2005, sales rose 16% and exceeded SEK 63 billion – up nearly SEK 9 billion. During the first quarter of 2006, the increase was 15% compared with the corresponding quarter in the preceding year, in fixed currency for comparable units.

Global growth was both the keyword during the program before the Annual General Meeting and during the CEO's address. Sandvik's rapid development in China, India and Eastern Europe

was illustrated with three films. To respond to this strong growth, Lars Pettersson stressed the need for matching competence resourcing. The recruitment issue was also dealt with during the seminar on Sandvik's global expansion, with which the day began. Sandvik is well positioned for ongoing profitable growth, particularly through the Group's strong presence in the rapidly growing markets, said Lars Pettersson in his address.

Helga Holzschuh and Joerg Drobniowski from the German Walter product area in Sandvik Tooling were named this year's Wilhelm Haglund medalists and product developers for the Group.



5



7

1. The podium during the business session of the Meeting. From left, Bo Severin, Sandvik's Chief Counsel and Secretary, Sven Unger, attorney, Chairman of the Meeting, Anders Nyrén, Board member who opened the Meeting in Clas Åke Hedström's absence, and the President, Lars Pettersson. At the lectern, Caj Nackstad, Authorized Public Accountant.

2. President and CEO Lars Pettersson recalled 2005 as a record year and reported a strong development during the first quarter of this year. Sandvik's global growth was a theme of his address to the Meeting.

Fredrik Lundberg (3) and Hanne de Mora (4) were elected as new members of the Board of Sandvik.

5. The 2006 Annual General Meeting was well-attended. Over 1,000 people – shareholders, their assistants, proxies and invited guests – had gathered in the Jernvallen ice-hockey arena, transformed for the occasion into a convention hall.

6. Lars Nyberg (sitting, in the middle of the photo) and Arne Mårtensson resigned from the Board, flanked here by Sandvik's Senior Vice President Human Resources, Carina Malmgren Heander, and Executive Vice President, Per Nordberg.

7. The participants enjoyed sampling the treats on the buffet from Sandvik's own executive dining hall.

8. The program prior to the Meeting began with a seminar about Sandvik's global growth. From left, Anders Wallin, Vice President Group Communications at Sandvik and discussion leader, Håkan Kingstedt, President of Sandvik in India, Virve Meesak, Vice President Human Resources within Sandvik Mining and Construction, and Svante Lindholm, President of Sandvik in China.

9. Happy students and teachers from the Göransson's School: scholarship winners, together with awarded teachers and representatives from Teknikföretagen.



8



6



9

## by major market successes

They were rewarded for the development of a new grade of cemented carbide for cast-iron processing, with considerably higher performance that improve customers' productivity.

The Board's proposal of an increased dividend was adopted – SEK 13.50 per share. This corresponds to 55% of the profit. The Meeting also decided to approve a 5:1 share split, whereby each Sandvik share held may be exchanged for five. This will make it easier for shareholders with small holdings to trade in full trading lots.

Two retiring Board members were thanked for their contributions – Arne Mårtensson and Lars Nyberg, both elected in 1999. Two new

members were elected to the Board – Fredrik Lundberg and Hanne de Mora. Georg Ehrnrooth, Clas Åke Hedström, Sigrun Hjelmquist, Egil Myklebust, Anders Nyrén and Lars Pettersson were re-elected as Board members. Clas Åke Hedström was re-elected Chairman of the Board. The employee organizations have appointed Tomas Kärnström and Göran Lindstedt, with Mette Ramberg and Bo Westin as deputies.



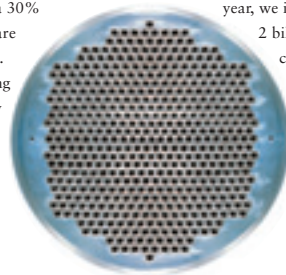
## From CO<sub>2</sub> and NH<sub>3</sub> to fresh-baked bread

Have you ever considered the long chain of events behind fresh-baked bread? We often do at Sandvik, because we are involved to a great extent. This is how: Urea is an important fertilizer in agriculture. It is produced from carbon dioxide and ammonia. Urea provides for better and more bountiful harvests, more grain and more bread. Urea is produced in an advanced process that places high demands on the material used in the equipment. Sandvik has developed a spe-

cial material, Sandvik Safurex®, which is used in the tubes in the heat exchangers that are the heart of the urea plant. Sandvik Sufarex is an innovation that contributes to a 30% increase in productivity. Costs are 15% lower. Lifetime is doubled. So, the next time you are chewing your daily bread, instead of only a thought of thanks to the baker, give one to Sandvik too.

### INNOVATION IS OUR DAILY BREAD

Sandvik invests considerably more in research and development than its competitors. Each year, we invest more than SEK 2 billion in R&D. Sandvik currently holds more than 4,400 patents to protect the company's technology innovations. We are always baking new ideas.



[www.sandvik.com](http://www.sandvik.com)