

Meet Sandvik

SEPTEMBER 2006

From tool supplier to
total solution provider

Record in the
Sandvik spirit

Fertile soil for
growth in India

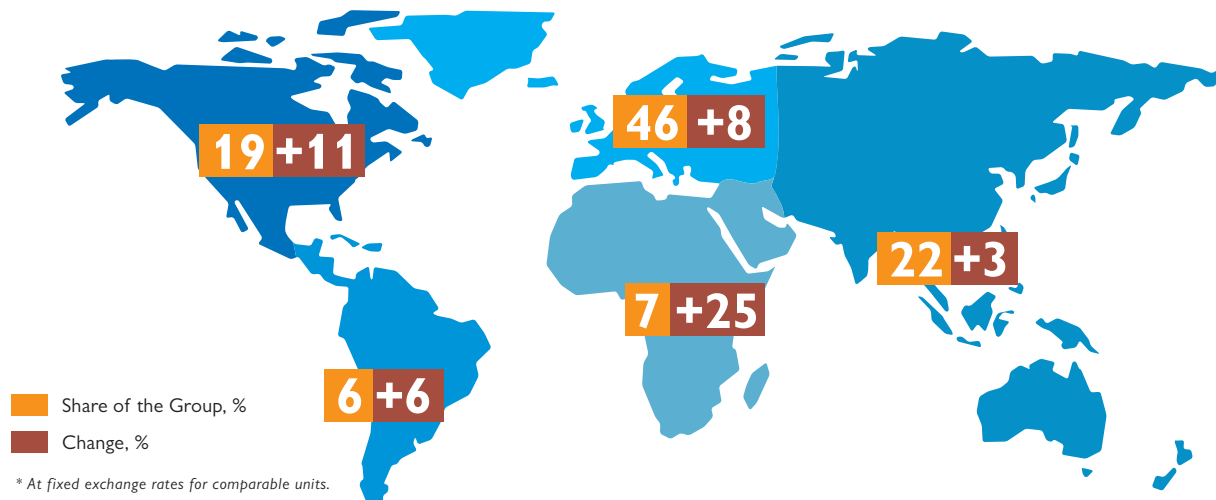
We speak productivity
in all languages



Second quarter 2006 in figures

INVOICING BY MARKET AREA

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



INVOICING BY BUSINESS AREA

SEK M	Q2 2005	Q2 2006	Change %	Q2 % ¹⁾	Q1-2 2006
Sandvik Tooling	5 344	5 662	+6	+5	11 463
Sandvik Mining and Construction	5 241	6 039	+15	+11	11 579
Sandvik Materials Technology	4 313	4 783	+11	+10	9 502
Seco Tools ²⁾	1 247	1 356	+9	+6	2 769
Group activities	5	11			20
Group total	16 150	17 851	+11	+8	35 332

OPERATING PROFIT BY BUSINESS AREA

SEK M	Q2 2005	Q2 2006	Change %	Q1-2 2006
Sandvik Tooling	1 137	1 314	+16	2 608
Sandvik Mining and Construction	660	918	+39	1 718
Sandvik Materials Technology	475	553	+16	1 079
Seco Tools ²⁾	284	286	+1	615
Group activities	-131	-76		-172
Group total	2 425	2 995	+24	5 848

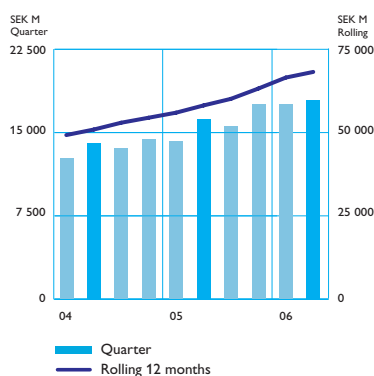
OPERATING MARGIN BY BUSINESS AREA

Share of Group, %	Q2 2005	Q2 2006	Q1-2 2006
Sandvik Tooling	21.3	23.2	22.7
Sandvik Mining and Construction	12.6	15.2	14.8
Sandvik Materials Technology	11.0	11.6	11.4
Seco Tools ²⁾	22.8	21.1	21.2
Group total	15.0	16.8	16.6

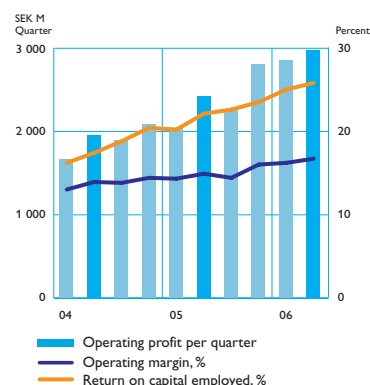
1) Change compared with preceding year at fixed exchange rates for comparable units.

2) Through the majority holding in Seco Tools AB, Sandvik consolidates this company.

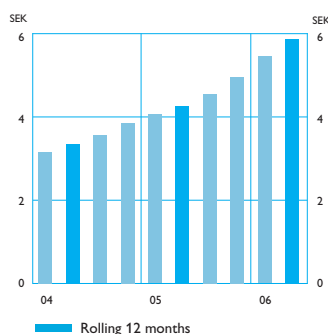
INVOICING



PROFIT, MARGIN AND RETURN



EARNINGS PER SHARE



Meet Sandvik

The Sandvik Group's magazine for shareholders and employees

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Cover: The Sandvik Mining and Construction business area, symbolized here by a drill rig, has grown at a record pace since the start in 1998. See article on pages 8-9.

Strong business climate and improved profitability



The positive development for Sandvik at the beginning of 2006 continued during the second quarter, which was the strongest ever for the Group. Earnings improved through increased capacity utilization and better product mix as well as efficiency enhancements in own organization.

All business areas increased their profit margins. A continued development of customer value created the scope for growth as well as price increases.

Continued improvements in capital efficiency were also noted. Working capital declined as a percentage of invoicing and SEK 5 billion has been released during the past four years. Sandvik continues to focus on reduced lead times in production and other enhancements in internal processes to achieve even further improved capital efficiency and return.

Structurally changed demand

Growth globally remained favorable. Sales among the market areas rose the most in Africa/Middle East and demand in Europe continued to improve. Growth also remained favorable in the US. The industrial business climate was strong, particularly in such investment-related areas as the machinery, mining and construction, oil/gas and process industries. The rising demand in the energy and raw materials area is based on a structural rather than a cyclical change as is attributable mainly to growth in the Asian markets, with China in the lead.

Market development was favorable for Sandvik Tooling. The business area continued its strategic work with developing synergies and capitalizing on economies of scale between product areas. It was decided during the quarter to merge the Walter, Titex and Prototyp product areas. The new combination forms a complete and competitive offering of tools for metal cutting.

Sandvik Mining and Construction posted the strongest increase in invoicing and operating profit. High rates of production and new investments in the mining and construction industries affected the sales of machinery, tools, service and spare parts positively. During the quarter, three strategic company acquisitions were carried out within mineral exploration. As a result,

Sandvik has established a strong market position within this rapidly growing area, with major possibilities for further expansion. Read more about these acquisitions and Sandvik Mining and Construction's development on pages 8-9.

The business climate for Sandvik Materials Technology was favorable overall and the position as leading supplier to the oil/gas and process chemicals industry was strengthened. Production capacity in the area will be increased further through new investments. Earnings and return continued to improve and the business area's efforts to increase efficiency and productivity are proceeding as planned.

Continued focus on customer value

A central task for Sandvik is to focus on continued profitable growth. The ability to create customer value, that is, to develop products and services with even greater value content is the key focus. In a world with increasingly global competition, productivity development is of central importance to our customers. This is our business concept.

As of this issue, *Meet Sandvik* features a partly new form. The greatest change is that we are presenting more key figures from the past quarter.

- Order intake +7%*, SEK 19,131 M
- Invoicing +8%*, SEK 17,851 M
- Operating profit +24%, SEK 2,995 M
- Profit after financial items +21%, SEK 2,695 M
- Profit for the period +24%, SEK 1,987 M
- Earnings per share +33%, SEK 1.60
- Cash flow +67%, SEK 1,477 M

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

Lars Pettersson
President and CEO
Sandvik AB



Håkan Kingstedt, 55, is President of Sandvik Asia Ltd., the Group's subsidiary in India. He has worked for Sandvik since 1997 and joined Sandvik Asia from Sandvik Mining and Construction. Here, we see Håkan in the Eco-park at Sandvik's plant in Pune. This was previously the industrial area's waste disposal dump.

Fertile soil for growth

India has slightly more than 1.1 billion inhabitants, corresponding to nearly one fifth of the world's population. Naturally, this fact leads to both problems and opportunities. India is a veritable melting pot. Meet someone who lives in the midst of this reality and who can tell us more about his personal impressions of this gigantic country: Håkan Kingstedt, President of Sandvik's Indian operations since 2004.

Fast-growing India

"For the past couple of years, India has experienced a period of explosive expansion. Annual economic growth currently amounts to 8.5%. The production index is approaching 10% and it still seems like we are at the beginning of the upswing. Ahead of us lie planned and necessary investments in the infrastructure, power, automotive and manufacturing sectors – the engines that will drive continued development. The presence of foreign investors is also rising rapidly. The country is riding a wave of success."

Positive India

"The favorable business climate is also reflected in Sandvik's operations. For a number of years, we have noted annual growth of approximately 25% in India. Last year, India was Sandvik's fastest-growing market, with annual sales growth of 41%. During 2006, we expect annual sales to reach approximately SEK 1.5 billion. I sincerely hope that we will double this figure by 2010. Sandvik is currently investing record

amounts in all business areas in India. The investments are being made at all levels – development, design, production, logistics and human resources. Our confidence in the future is great."

Quality-oriented India

"Since, in relative terms, India is a low-cost country, many people equate the country with low quality. Forget that! For us at Sandvik in India, quality is a key concept. Our customers in India demand high quality. Our quality management system is ISO 9000 certified and we work continuously on quality-control methods that will assure consistent high quality and the best possible service for our customers. Moreover, our products are delivered throughout the world and must therefore uphold the 'Sandvik standard.' Sandvik has an internal system for the continuous assessment of product quality at the Group's plants in various parts of the world. Based on this, we know that our Indian operations are highly advanced in terms of quality."

Well-educated India

"India has a substantial supply of well-educated, English-speaking and ambitious young people. The country is probably best known for its expertise in the IT area and in biotechnology. A trend we can currently note is that highly skilled young people are beginning to turn to the manufacturing industry. We are benefiting from this. Generally speaking, we have a high level of

expertise in our company at present. We have programs for recruiting young employees with technical education, which will further enhance the level. Our employees work hard, are committed, and have a strong drive. I know it sounds like a cliché, but our employees are our principal asset. We invest considerable resources in their further education and in motivating them to achieve aggressive new goals. We are one of the few companies in India to have established a Training Academy to satisfy these needs.”

Multifaceted India

“India is a country in which the contrasts are considerable; where the deepest traditions go hand in hand with the latest developments. The gulf between cities and the countryside is gigantic, as is that between rich and poor. Traveling by car through India is like a journey that alternately passes through yesterday and tomorrow. One moment you may try to inch ahead on a little gravel road filled with potholes, while the next you may be speeding along the expressway. It’s easy to be enchanted by the country’s diversity. Here you will meet an abundance of cultures. And Indian cuisine is multifaceted, to say the least. Moreover, there are as many ways to do business here as there are businessmen.”

Women’s India

“By tradition, the women of India mainly work in the agricultural sector. A gradual change is under way, but it is truly moving at a snail’s pace. Naturally, female employees in the technical area is a rare sight. At Sandvik we are endeavoring to do our share, and we have a stated ambition of recruiting more women. A number of female engineers already work for us, but our sights are set much higher. Recently, we employed our first female manager.”

Societal India

“Within Sandvik, we try to live as good social citizens in those parts of the country where we are active. In Pune, we make contributions to various organizations that support the sick. We also support a number of children who live in SOS Children’s Villages. In addition, we engage in various activities in so-called family circles, consisting of the wives of employees. The purpose is to strengthen their self-esteem and make them more independent, to enable them to contribute to the family’s income.

“In this way, we ensure that the relatives also feel an affinity to the ‘Sandvik family,’ an effort that has received a favorable response from employees. Another of our initiatives is to award scholarships to talented children of our employees, who want to obtain further education. Obvi-

ously, our efforts must be viewed as a drop in the ocean in this gigantic country, but we continuously endeavor to take even greater social responsibility.”

Chaotic India

“India’s road network is longer than China’s and is also largely in very poor condition. The country has the world’s third largest railway network. Airports and harbors are being expanded. But it’s not enough. Transportation is a problem. In addition, power production is sluggish. Power outages are commonplace. Bureaucracy is widespread. Virtually the entire country comes to a halt when major cricket matches are played. Cricket is a passion that goes before all else for many Indians. Furthermore, the country is regularly affected by monsoons. Given all this, it’s easy to understand why punctuality is poor in most areas. However, Indians have a rare ability to adjust to all this chaos.”



Street scene in Mumbai, India’s largest city.

The India of opportunities

“When all is said and done and despite all the contradictions, India is truly a country of opportunities. Here, you will find business opportunities of the type that rarely exist in other parts of the world. Here, you will find competencies in the form of skilled people. Here, you will find Sandvik, in the midst of this reality.”



Sandvik in India

Established: the subsidiary Sandvik Asia Ltd. was formed in 1960.

Sales: SEK 1.1 billion in 2005 – exports accounted for one third.

Number of employees: about 1,400.

Production at five locations.

Pune: production of cemented carbide and high-speed steel tools, rock-drilling tools, assembly of crushers, mobile plants, etc.

Mehsana: stainless steel tubing.

Hosur: resistance materials, furnace products.

Patancheru: roller bits, etc.

Chiplun: powder production, recycling of cemented carbide.

Design and development of material-handling systems:

Gurgaon, Bangalore, Kolkatta and Pune.

Sandvik Asia came third in Citibank’s 2005/2006 ranking of the 500 best-performing TME’s (Transitioning Medium Enterprises) in India.

We speak productivity in all languages

Japanese partnership

Sandvik Coromant cooperates with Japanese Citizen Machinery, which manufactures NC automatic sliding head machines and other automation products for factories specializing in precision machining. A result of this cooperation includes an entirely new solution, QS™ holding systems (Quick Start), which has been introduced to the customer. It shortens the machining process from five to two steps, which reduces downtime and increases productivity. This is highly important in production of large series. Cooperation is now being extended. Sandvik Coromant will conduct training sessions and carry out joint research and development with the customer.



Well-developed strip product

In a very short time, a new strip product has become a major success for Sandvik. The product in question is the so-called crêpe blade, which is used in the paper industry to crease tissue that subsequently becomes paper towels and toilet paper. The material, designated Sandvik Sancrepe™, meets high standards of straightness and edge quality. It also tolerates the high temperature of the process very well. All of this means fewer blade changes, which significantly increases productivity. The market is growing and Sandvik's expansion opportunities are favorable – world consumption of tissue is rising by around 8% annually in pace with rising standards of living.



Fast. Reliable. User-friendly

These opinions apply to the new generation of Sandvik's drilling rigs, Tamrock T9i, for tunnel drilling. The versatile and robust rigs work fast and efficiently, regardless of the rock conditions. The operator receives all necessary information through extensive computer support and the cemented-carbide Sandvik drill bits do their job at the rate of three to five meters per minute – two kilometers of drill holes a day.



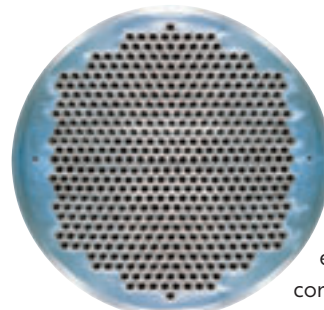
Higher efficiency in Malaysia

Crushers from Sandvik are used worldwide. Customers appreciate the efficiency and reliability. An example is Hanson in Malaysia, which is a leading producer of gravel, sand, asphalt and similar products to the Malaysian construction industry. The company is part of the UK-based Hanson Group and operates twenty quarries and crushing stations throughout Malaysia. Many well-known buildings in Malaysia were built using materials from Hanson, such as the Petronas Twin Towers in Kuala Lumpur – one of the world's highest buildings.



Relax at the dentist

For most of us, a visit to the dentist is necessary but often not particularly welcome. A-dec in the US is trying to make visits more positive by developing solutions that maximize comfort for dentists and patients. The company is the largest supplier of dental products in North America with a focus on ergonomics. Efficiency in the production of patient chairs has been enhanced sharply with support from Sandvik Coromant and its Coromant Capto tool holding system, which is now being used in processing of components for the chairs. This results in a major reduction in machining time and subsequent cost savings as well as significantly increased production. Again, in-depth knowledge of the customer's processes proved to be beneficial.



Materials development

Sandvik has developed a stainless-steel material for heat exchangers that survives the highly corrosive environment in plants producing phosphoric acid. Sandvik's material lasts much longer than the graphite tubes that customers used earlier.



Sandvik Mining and Construction was the Group's largest business area in terms of invoicing and order intake during the first half of the year. Development has proceeded at a record pace. The business area was established as late as 1998.

After several strategic acquisitions and substantial organic growth during the years, Sandvik Mining and Construction has a strong position in the Group with sales of more than SEK 20 billion.

From tool supplier to total solution provider

Sandvik Mining and Construction holds a world-leading position in the industry. The business area offers a competitive concept with the market's most advanced and complete product program of equipment and total solutions for the mining and construction industry.

Growth is impressive. Sales rose by more than 100% to SEK 20,560 M between 1998 and 2005. During the same period, operating profit rose more than sevenfold to SEK 2,650 M, or 13% of invoicing, and return on capital employed has undergone more than a fivefold increase to more than 26%.

Tamrock acquisition laid the foundation

Sandvik's acquisition of the Finnish company Tamrock in 1997, which had been part-owned since 1990, provided the foundation for the new business area. This resulted in combining Sandvik Rock Tools' advanced materials knowledge in rock drilling with Tamrock's broad range of machinery for drilling, mining, demolition and

the transport of rock and minerals. The Finnish acquisition is Sandvik's largest corporate acquisition to date. Sales for Tamrock when it was acquired were SEK 6.5 billion.

By supplying innovative technology, products and systems, Sandvik Mining and Construction contributes to increasing customers' performance and productivity. What the business area sells, in actual fact, is productivity – which is also the core of the entire Group's business concept. Customers want to see results. They will pay for performance to an ever-increasing extent, for example per meter drilled or number of tons produced. Sandvik has a substantial competitive advantage with its high level of availability and in-depth knowledge of customer processes.

There is considerable focus on research and development in the business area. One example of the significance of product development is that approximately 40% of sales today are products that were launched in the past five years. Sandvik Mining and Construction is at the forefront of

1998

The business area Sandvik Mining and Construction is established, including such brands as Sandvik, Tamrock, Toro, Voest-Alpine Eimco, Roxon, Drilltech Mission and Rammer.

Part-owned joint venture companies are established in China and South Korea.

1999

Acquisition of Norwegian Brøyts hydraulic loaders.

2000

Acquisition of Austrian drilling operations (BPI).
Acquisition of Beltreco conveyor service company in Australia.

2001

Sandvik Rock Processing formed after the acquisition of Svedala Industries crushing and screening operations.

Establishment of the jointly owned company Sandvik Smith.

Acquisition of Chilean mining service company Bafco.

2002

Acquisition of the Japanese brand Toyo for breaking and drilling.

Cooperation initiated with the Japanese Furukawa.

developing new technology for rock excavation, for example automated mining and new methods for mechanical excavation of rock and the development of cemented-carbide tipped rock tools and machinery.

Product development close to customers

The business area has a long tradition of being a renewer and an innovator, particularly with far-reaching customer cooperation as a driving force.

Many development activities take place in direct response to customer needs for new solutions to continue the mechanization of their operations. This could be a new low-profile machine for platinum mining, remote-controlled equipment for loading and transport in underground mines or new solutions for the construction industry for expanding infrastructure, communications and other services. Focus is also directed toward increasing demands for safety, environment, reliability, mobility and return on investments.

Major ventures are being initiated in the global aftermarket. Service is being developed to meet demands for enhanced availability, higher utilization and improved performance. Since the start, the percentage of service, tools and spare parts has increased from 40% to about 50% of the business area's invoicing, and this trend is continuing.

Another important competitive advantage for Sandvik Mining and Construction is the business area's excellent global presence, with large market shares in Australia, Southern Africa and Eastern Europe where industrial activity is high.

Intensive hunt for minerals

The hunt for mineral and energy sources is intense. Gold, silver, copper, zinc, nickel, uranium, iron, coal... everything is in demand. The result is that prices rise and this affects the entire industry. This increased demand coupled with growing interest in making new mineral discoveries is the background to Sandvik also becoming involved within the area.

During the year, the Group conducted several large acquisitions in mineral exploration: the

Japanese-Swedish company Hagby-Asahi and the two Australian companies UDR Group and SDS Corporation. The total sales for these companies are around SEK 1.2 billion and the number of employees is almost 700. With these acquisitions, Sandvik has established itself as a full-service provider in the rapidly expanding market for mineral exploration. With its links to mining operations, this new area for the Group is an interesting supplement to its existing customer offering.

Effective this year, Sandvik Mining and Construction's operations are conducted in an organization divided into five customer segments: Underground Hard Rock Mining, Underground Soft Rock Mining, Surface Mining, Mineral Exploration (from the fourth quarter of 2006) and Construction. This division will provide more opportunities to focus on creating solutions and improvements to customers' entire processes.

The customer-oriented organization is a foundation to work from in continued development. The business area is particularly well positioned to continue to grow profitably and to capitalize on a high demand from the mining and construction industry.

Sandvik is a full-service provider in mineral exploration after recently implemented company acquisitions.



2003

Agreement for cooperation in demolition tools in the US.

2004

Acquisition of share majority in Brazilian company MGS that designs and delivers conveyor systems.

2005

New structure with the organization divided into four customer segments. Acquisition of remaining shares in Sandvik Smith.

2006

Consolidation under the Sandvik brand. Acquisition of Hagby-Asahi, UDR Group and SDS Corporation within mineral exploration. A fifth customer segment formed from the fourth quarter of 2006: Mineral Exploration.

News from Sandvik's world

Record in Sandvik spirit

The Sandvik spirit is well known. Employees enjoy their work and many remain a long time in their jobs. This is illustrated by the following fantastic story: Zackarias Eriksson started working at Sandvik in Sandviken in 1862 – the same year the Group was founded. In 1864, his dad Erik began working at the company. Then it was Zackarias' son Herbert, who joined the company at a very early age. Grandson Åke was employed in 1925. Thereafter, it was time for great grandson Börje Eriksson, who started at Sandvik's industrial school in 1957. Börje still works at Sandvik and, when he retires next year, he celebrates a little anniversary – 50 years with the company. If this was not enough, great great grandson Göran Eriksson started work at Sandvik in 1999. Börje and Göran currently work at the Group's IT company Sandvik Information Technology. This is a total of six generations of uninterrupted service and 144 years at the same company. This is what is known as long and faithful service.



Zackarias Eriksson

Environmental investments in Finland

Major environmental investments have been made at Sandvik's plant for production of hydraulic hammers in Lahti, Finland. The plant has been equipped with a fully automated heat-treatment facility that makes production more environmentally sound. Natural gas is used for heating and energy is recovered for heating of the buildings.



Strategic port in Bulgaria

Sandvik Mining and Construction has delivered a complete materials handling system for the port terminal in Burgas, Bulgaria. The port is one of the largest in the country, with a strategically geographical location for shipments from Central and Eastern Europe to the Caucasian region and the Middle East. Sandvik's solutions for the efficiency handling of bulk material are among the most technically advanced in the world.





Brazilian heat

Sandvik is world-leading in the area of stainless high-temperature tubes for the petrochemical industry and the steel industry. For example, a steel mill in Brazil increased the lifetime of the tubes used in pre-heating three-fold, after having switched to Sandvik's material. Fewer operating disruptions resulted in lower manufacturing costs for the customer and ultimately in higher productivity in the rolling plant.

Successes in South Korea

Sandvik's coated strip is scoring major market successes. For example, the leading producer of electronic components in South Korea, DK1, has replaced electroplated strip used earlier to Sandvik Santronic™ in the springs used in the keypads of mobile telephones. The metallic surface coating ensures longer durability and improves conductivity five-fold. Productivity increases by 20% due among other factors to being able to produce the springs considerably thinner with Sandvik Santronic than with competing materials. Quite simply, mobile phones work better and longer with Sandvik's material. The Group's surface technology products have a bright future.



Moving ahead in China

Sandvik's sales are rising sharply in China and the Group must recruit new employees. Among other measures, the subsidiary has conducted activities at the university in Tsinghua, Beijing, to present the opportunities offered by working within the Group. Svante Lindholm, head of operations in China, is shown discussing job opportunities with some students.





On the road **to a better environment**

The pressure to build cars that are more environmentally friendly is accelerating. One way to achieve this is to produce smaller and lighter engines that withstand high compression and can operate at high temperatures. This will reduce emissions. Today, this is possible with regard to diesel engines – for cars as well as trucks. The requirement is to produce engine blocks in a stronger material than conventional cast iron. Compact Graphite Iron (CGI) is a relatively new such material. It makes it

possible to manufacture engines with totally unique performance – well in line with the increasingly stricter environmental demands being placed by, for example, the EU. CGI is a material that requires special expertise and specifically designed tools for turning, drilling and milling. Sandvik is leading this development. The CoroMill 365 milling concept shown here works at top performance. The potential within this area is very high. Half of all cars in Europe are diesel-powered.

PIONEERING INNOVATIONS

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 has more than 4,400 patents to protect the company's technical innovations. And we intend to drive on in high gear.



www.sandvik.com