Sandvik Materials Technology in continuous development

Peter Gossas
President

Capital Markets Day
September 4, 2008
Agenda

- Metal prices – impact on earnings and cash flow
- Financial development and objectives
- The ongoing transformation of Sandvik Materials Technology
  - Way of working (efficiency)
  - Product program
  - Growth initiatives
- Growth initiative example:
  - Sandvik as a unique and strategic partner within medical devices
Metal prices – impact on earnings and cash flow

Jan Öhman
CFO
Sandvik Materials Technology

Capital Markets Day
September 4, 2008
Nickel price trend 2000 - 2008

Commodity prices Nickel LME (USD), daily

Source: Reuters EcoWin
Sales situations – price models

SMT’s business is based on two types of contracts:

- **Fixed price:**
  - The price of the product is fixed at the date of signing the contract

- **Alloy surcharge:**
  - The price of one or more metals included in the product is set, based on the prevailing market price at the date of delivery or a number of months prior to delivery

- For major projects, customers usually prefer a fixed price to assure the cost of purchase.

- Many customers with continuous production opt for alloy surcharge to ensure that they have the most up-to-date raw material price in the product cost as possible.

- On occasion, customers also choose between fixed price and alloy surcharge, depending on the forecast price trend for the raw material in question.
Metal price risk

Changes in metal prices impact SMT by:

- **Time difference between pricing of the product and purchase of the raw material**
  - Changes in metal prices will impact the margin and cash flow in a transaction.
  - Impact can be reduced by using e.g. offset hedging.

- **Reevaluation of inventory, including work in progress**
  - Changes in metal prices will not impact cash flow, however the reported result will be affected.
  - The impact of changes in metal prices will continue in the future and therefore we need to communicate these effects.
  - Impact can be reduced by lowered inventory volumes
Risk minimization:
Hedging of margins in transactions

- Coordinate the point in time for pricing of raw material purchases and product sales

- Offset hedging

- Metals that cannot be hedged using financial instruments
  - For metals included as alloy elements, like iron and chrome, but not traded in any market, such as the LME or OTC, the hedging opportunity is limited.
  - One possibility of “natural hedging” is by managing the common price-settlement periods (Quoted Price) for the purchase of raw materials and sales of products.
  - Another hedging possibility is to reach an agreement with a supplier regarding a fixed price for a certain volume delivered at a set point in time. This price is subsequently linked to the customer who requires a fixed price for the purchased product.
Summary

- SMT is exposed to fluctuations in metal prices. These fluctuations can impact both profitability and cash flow.
  - Time difference between pricing of the product and purchase of the raw material
  - Revaluation of inventory

- Hedging of margins in transactions
  - Coordinate the point in time for pricing of raw material purchases and product sales
  - Offset hedging

- Inventory revaluation impacts reported EBIT

- The revaluation of inventory does not affect cash flow
Agenda

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- Growth initiative example:
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Sandvik Materials Technology

- A leading developer of advanced alloys and ceramics, serving a broad range of industries with innovative products and system solutions

- Six product areas: Tube, Strip, Wire, Kanthal, Process Systems and MedTech

- Sales 2007 SEK 22 500 M
- EBIT SEK 2 435 M, 10,8%
- ROCE 14,5%
- 9 100 employees
# Financial objectives

<table>
<thead>
<tr>
<th></th>
<th>Sandvik Tooling</th>
<th>Sandvik Mining and Construction</th>
<th>Sandvik Materials Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>7%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>ROCE</td>
<td>30%</td>
<td>25%</td>
<td>20%</td>
</tr>
</tbody>
</table>

*Sandvik Tooling, Sandvik Mining and Construction, Sandvik Materials Technology*
Financial development

Order intake -5% (p/v)
- Excl metal price effects + 9%

Invoiced sales +1% (p/v)
- Excl metal price effects + 14%

EBIT 9.2% of sales
- SEK 534 M, -43%
- Excl metal price effects 12%

ROCE 7.2% (20.4)
The ongoing transformation of Sandvik Materials Technology

- Way of working (efficiency)
- Product program
- Growth initiatives
Way of working (efficiency)

- **Lean manufacturing**
  - 59 transformations (~50 % of all units)
  - Training of >700 people in key positions
  - 22 trained navigators transferred into key positions
  - Investments to optimize production flows

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**Example: Volume development for umbilical tubing 2003 - 2007**

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tonnes</td>
<td>0</td>
<td>536</td>
<td>1806</td>
<td>2026</td>
<td>2360</td>
</tr>
</tbody>
</table>

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**Leadtimes in Tube Mill 98 (fertilizer and heat exchanger tubing) 2003 - 2007**

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>
Way of working (efficiency)

- **Marketing and Sales**
  - >50 transformations (~65% of all units)
  - Training of >400 people in key positions
  - 18 trained navigators transferred into key positions

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Example: Tube product mix development 2003 - 2007

Example: EBIT-margin development Industrial Processing, Process Systems
Way of working (efficiency)

- **New product development**
  - >200 engineers trained and certified in lean product development
  - Reduced leadtimes from 6-10 years to 1-3 years
Way of working (efficiency)

- New and more efficient ways of working within:
  - Manufacturing
  - Marketing & Sales
  - New Product Development

Resulting in a possible manning reduction of > 10%
The ongoing transformation of Sandvik Materials Technology

- Way of working (efficiency)
- Product program
- Growth initiatives
Core business definition

Global leadership in selected niches
- innovation leader
- number one in market position
- cost leadership

High alloy/advanced materials

Lower alloy materials

Materials  Semifinished products  Applications  Integrated solutions

Sandvik Materials Technology
Transformation of the product program
2003 - 2008

High alloy/advanced materials

Lower alloy materials

Materials
Semifinished products
Applications
Integrated solutions

Silicon carbide production
Kanthal, Cinisello
Gusab wire
Wood band-saw production
Surface technology
Powder technology
Sorting Systems
Four medical acquisitions

= Closures
= Divestments
= Acquisitions / New technologies
Growth 2003 - 2007

22,5 BSEK

- Powder technology, growth rate: >20%
- MedTech, growth rate: >35%

12,5 BSEK

- Medtech
- Other
- Process Systems
- Kanthal
- Wire
- Precision strip
- Tube

Growth mainly in:
- Energy
- Fertilizer

*) Annual rate Q2 - 2008
Product mix development
Example: Product area Tube

- **A-products** = Extreme niche with unique position
- **B-products** = Niche products
- **C-products** = Filler products

<table>
<thead>
<tr>
<th>Year</th>
<th>A-products</th>
<th>B-products</th>
<th>C-products</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>35%</td>
<td>28%</td>
<td>37%</td>
</tr>
<tr>
<td>2007</td>
<td>27%</td>
<td>29%</td>
<td>29%</td>
</tr>
</tbody>
</table>

A-products increased from 35% to 44% between 2003 and 2007.
Sales by segment

- Automotive
- Construction
- Consumer & Electronics
- Energy
- General engineering
- Medical *
- Mining
- Chemical
- Aerospace

*) Annual rate Q2 - 2008
# SMT growth areas 2003 - 2007 and expected annual growth

## SMT Growth areas 2003 - 2007

<table>
<thead>
<tr>
<th>Area</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical</td>
<td>+450%*</td>
</tr>
<tr>
<td>Mining</td>
<td>+200%</td>
</tr>
<tr>
<td>Energy</td>
<td>+130%</td>
</tr>
<tr>
<td>- Oil &amp; Gas</td>
<td>+160%</td>
</tr>
<tr>
<td>SMT average</td>
<td>+100%</td>
</tr>
<tr>
<td>Electronics</td>
<td>+80%</td>
</tr>
<tr>
<td>Automotive</td>
<td>+60%</td>
</tr>
<tr>
<td>Consumer</td>
<td>+30%</td>
</tr>
<tr>
<td>Chemical</td>
<td>+20%</td>
</tr>
</tbody>
</table>

* Annual rate Q2 - 2008

## Expected annual market growth

<table>
<thead>
<tr>
<th>Area</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical devices</td>
<td>8 - 15%</td>
</tr>
<tr>
<td>Mining</td>
<td>5 - 6%</td>
</tr>
<tr>
<td>Energy</td>
<td>2%</td>
</tr>
<tr>
<td>- Oil &amp; Gas</td>
<td>1 - 10%</td>
</tr>
<tr>
<td>Electronics</td>
<td>7 - 8%</td>
</tr>
<tr>
<td>Automotive</td>
<td>3 - 4%</td>
</tr>
<tr>
<td>Consumer</td>
<td>3 - 6%</td>
</tr>
<tr>
<td>Chemical</td>
<td>3 - 4%</td>
</tr>
</tbody>
</table>

Growth initiatives

2008 - 2015

Growth mainly in:

- Energy
- Surface technology
- Medical
- Powder technology
- Emerging markets
- Accelerate R&D based growth

2003

2007
Growth initiative example:
Sandvik - a unique and strategic partner within medical devices

Tord Lendau
General Manager
Product area MedTech
Medical technology as a growth area

- Growing population
- Active lifestyles
- Rising obesity
Sandvik business logic – Medical technology

Creating a unique and strategic partner in the medtech area

- Organic expansion (e.g. Ti, CoCr)
- Manufacturing of implants and devices

- High alloy/advanced materials
- Lower alloy materials

- Materials
- Semifinished products
- Applications
- Integrated solutions
Acquisitions 2007 - 2008

- Doncasters Medical Technologies
- JKB Medical Technologies
- Medtronic’s unit in Memphis
- Eurocut Ltd.
Sandvik’s medtech units worldwide

- **Tennessee**
  - Machining & Finishing

- **Oregon**
  - Casting

- **Connecticut**
  - Machining

- **Tennessee**
  - Machining & Finishing

- **Sheffield**
  - Casting, Forging, Machining & Finishing
  - Materials distribution

- **Sandviken**
  - R&D & Melting

- **Mexico**
  - Machining and finishing

- **Alabama**
  - Machining & Finishing

- **Sheffield**
  - Casting, Forging, Machining & Finishing

- **Sheffield**
  - Materials distribution
Sandvik current market share and potential

- Sandvik’s current share of the OEM volume

OEM production value: ~6,5 BUSD

- Symmetry
- Orchid
- Accellent
- Greatbatch

Outsourced today
Step 1: Acquire capabilities, product program and customer relations

Step 2: Integrate and consolidate

Step 3: Research & Development

Step 4: Strategic partner to OEMs
Step 1: Acquire

✓ Capabilities
✓ Product program
✓ Production capacity
✓ Management resources
✓ Market position
✓ Customer relations
Step 2: Integrate and consolidate

- Integrate with:
  - Sandvik material flow
  - Sandvik capabilities
    - Materials technology
    - Surface technology
    - Powder technology
    - Machining

- Consolidate
  - Sales network
  - Operations
Step 3: R&D

- Research & Development
  - Next generation of medical materials
  - Next generation of medical products
  - Development of manufacturing processes
Step 4: Strategic partner

- Global partner to OEMs
  - Leverage Sandvik Intellectual Property and know-how
  - Joint product development
  - Ramp-up capacity to be able to meet the rapid growth
  - Technical differentiation

The value creation partner!
Summary
Sandvik Materials Technology

- Way of working (efficiency)
- Product program
- Growth initiatives

Invoiced sales
SEK M, Quarter

- EBIT-margin
- ROCE 12-months

[Graph showing sales and margin trends from 2004 to 2008]