CAPITAL MARKETS DAY
2009

Managing the downturn
Sandvik Materials Technology

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President    CFO
Safety first!

Lost time injury frequency

Number of accidents per one million working hours

![Bar chart showing the number of accidents per one million working hours from 2006 to 2009. The chart shows a decrease in the number of accidents over the years.]
Agenda

Financial development and market situation

- CONTINGENCY ACTIVITIES
  - Cash flow
  - Net Working Capital
  - Investments

- DEVELOPMENT AREAS
  - Structural development
  - Energy
  - Medical
  - Emerging markets
## Financial objectives

<table>
<thead>
<tr>
<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>
</tr>
<tr>
<td>ROCE</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
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</tr>
</tbody>
</table>

- **Growth**: 7% for Sandvik Tooling, 9% for Sandvik Mining and Construction, 8% for Sandvik Materials Technology.
- **ROCE**: 30% for Sandvik Tooling, 25% for Sandvik Mining and Construction, 20% for Sandvik Materials Technology.
Sandvik Materials Technology

- High value-added products in advanced stainless materials, special alloys, metallic and ceramic resistance materials, as well as process systems
- Five product areas: Tube, Strip, Kanthal, Process Systems and MedTech
- Sales 2008 SEK 21,480 M
- EBIT SEK 1,187 M (5.5%)
- ROCE 6.3%
- 9,281 employees
Order intake -34% (P/V)
- Sharp decline except for energy

Invoiced sales -43% (P/V)

EBIT -19.7% of sales
- SEK -750 M
- One off items SEK -300 M
- Metal price effects SEK -360 M
- Currency effect SEK +90 M

ROCE -3.9% (7.2)
Market situation Q2 2009

Volume change in order intake (within brackets)
Q2, 2009 compared to Q2, 2008

- Aerospace (-35%)
- General engineering (-45%)
- Mining (-40%)
- Construction (-45%)
- Consumer & electronics (-30%)
- Chemical (-35%)
- Energy (Nuclear +30%, Oil&Gas +5%, Other energy -5%)
- Automotive & transportation (-50%)
- Medical (0%)

Actual scenario: ~30% drop

SMT sales by segment 2008
Agenda

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**DEVELOPMENT AREAS**
- Structural development
- Energy
- Medical
- Emerging markets
Overview of cash flow-initiatives

- **Time to release/Ease of implementation**: High, Medium, Low
- **Strategic risk**: High, Medium, Low
- **Net Working Capital**: Top-line initiatives, Manning incl. work-time reduction, Cost excl. Manning
- **Investments**: Size indicates estimated cash impact

**Top-line initiatives**
- Short-to-medium-term (2009)
- Long-term (2010)
Top-line initiatives

- Price management
- Limited reduction in the sales organization
- Navigator resources dedicated to contingency initiatives, e.g. hunting teams
- Increased speed in emerging markets
  - Strengthening of management resources and the sales organization
Price models and metal price impact

Two types of contracts:
- Fixed price
  - Price of the product is fixed at the date of signing the contract
- Alloy surcharge
  - 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 month prior)

Impact by changes in metal prices:
- Time difference between pricing of the product and purchase of the raw material
- Inventory valuation, including work in progress
### Metal price exposure

**Margin- and cash flow protection**

<table>
<thead>
<tr>
<th></th>
<th>Alternative 1</th>
<th>Alternative 2</th>
<th>Alternative 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No margin and no</strong></td>
<td><strong>No margin and no</strong></td>
<td><strong>Margin but no</strong></td>
<td><strong>Margin and inventory valuation protection</strong></td>
</tr>
<tr>
<td><strong>inventory valuation protection</strong></td>
<td><strong>inventory valuation protection</strong></td>
<td><strong>inventory valuation protection</strong></td>
<td><strong>inventory valuation protection</strong></td>
</tr>
<tr>
<td><strong>EBIT margin</strong></td>
<td><strong>No protection</strong></td>
<td><strong>Protection</strong></td>
<td><strong>Protection</strong></td>
</tr>
<tr>
<td><strong>in sales agreements</strong></td>
<td><strong>No protection</strong></td>
<td><strong>Protection</strong></td>
<td><strong>Protection</strong></td>
</tr>
<tr>
<td><strong>Cash flow</strong></td>
<td><strong>No protection</strong></td>
<td><strong>Protection</strong></td>
<td><strong>Protection</strong></td>
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<tr>
<td><strong>in sales agreements</strong></td>
<td><strong>No protection</strong></td>
<td><strong>Protection</strong></td>
<td><strong>Protection</strong></td>
</tr>
<tr>
<td><strong>EBIT impact</strong></td>
<td><strong>No protection</strong></td>
<td><strong>No Protection</strong></td>
<td><strong>Protection</strong></td>
</tr>
<tr>
<td><strong>from inventory valuation</strong></td>
<td><strong>No protection</strong></td>
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<td><strong>Protection</strong></td>
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<tr>
<td><strong>Cash flow impact</strong></td>
<td><strong>Protection</strong></td>
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<td><strong>Protection</strong></td>
<td><strong>Protection</strong></td>
<td><strong>No Protection</strong></td>
</tr>
</tbody>
</table>

**The situation until year 2004/2005**

**Gradually developed to current status**
Protection from changes in metal prices

SMT has been exposed to fluctuations in metal prices, affecting both cash flow and margins.

- Tools implemented to ensure that margins in sales agreements are not affected by changes in metal prices
  - Metal price changes affecting inventory valuation is not influencing cash flow (at no changes in stock volume)
  - To safeguard cash flow, metals in inventories are not hedged
Manning related cost savings

- **Manning reduction:**
  - > 1,300 employees*
    - 960 in Sweden
    - 400 in Rest of the World
- **80% work time for ~35% of the workforce in Q3-Q4 2009**
- **Value stream mapping**

* Baseline: Q3 – 2008
* Excluding temporary employees

**Number of employees**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2008</th>
<th>2009</th>
<th>* Forecast 2009</th>
</tr>
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<tr>
<td>Q3</td>
<td>10,000</td>
<td>5,000</td>
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</tr>
<tr>
<td>Q4</td>
<td>10,000</td>
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</tr>
<tr>
<td>Q1</td>
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<tr>
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<tr>
<td>Q3*</td>
<td>5,000</td>
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</tr>
<tr>
<td>Q4*</td>
<td>5,000</td>
<td>5,000</td>
<td></td>
</tr>
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*) Forecast 2009
Cost reduction

Example of cost reduction categories

Purchase spend

- Manning: Q1-Q2, 2009: 110, Annual rate Q1, 2010: > 1 000
- Purchasing: Q1-Q2, 2009: 100, Annual rate Q1, 2010: 300
- Maintenance: Q1-Q2, 2009: 70, Annual rate Q1, 2010: 150
- IT and Other: Q1-Q2, 2009: 70, Annual rate Q1, 2010: > 200

Diagram showing purchase spend for Q1 to Q2 of 2007, 2008, and 2009.
Inventory reduction

- Centralized sales and capacity planning process
- Further tuning of supply lines
- Net Working Capital task force

Inventory development (SEK)

- 40%
Cash flow from operating activities

SEK M

2003 2004 2005 2006 2007 2008 2009
Investments

Prioritization of investments

- Environment-, Health- and Safety-related investments
- Strong growth areas with a positive cash flow short-term
Summary
Contingency activities

- Cash flow
- Net Working Capital
- Investments
- Preparation for volume increase according to different scenarios
- Ensure long term profitability

Cash is king
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Core business definition

Delivering superior value to customers through
- own development and manufacturing of advanced metallic and ceramic materials
- innovative solutions and long term customer relationships

Global leadership in selected niches
- innovation leader
- number one in market position
- cost leadership
Capacity utilization in the value chain

Metallurgy
Sandviken
Hallstahammar

Hot processing

Other
MedTech
Kanthal
Strip
Tube
Process Systems
Structural development

- Consolidation and restructuring of product areas
  Wire and Kanthal

- Consolidation of production units within MedTech

- Consolidation of back-offices

- Exit non-core business

- Introduce new products in strategic growth areas
Trends

Nuclear power

- Rapid growth in the nuclear segment
- Capacity restrictions as a result of the rapid growth
- Steam generator tubing is one of the major bottlenecks

Number of nuclear power plants globally

<table>
<thead>
<tr>
<th>Year</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>440</td>
</tr>
<tr>
<td>2015</td>
<td>&gt;500</td>
</tr>
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</table>

Global market outlook for steam generator tubing 2009 - 2015

Km

<table>
<thead>
<tr>
<th>Year</th>
<th>Km</th>
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<tbody>
<tr>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
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<tr>
<td>2011</td>
<td></td>
</tr>
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<tr>
<td>2013</td>
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<tr>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
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</table>
Nuclear power initiatives

- Extensive investments to increase capacity for steam generator tubing
- Long-term agreements have been signed:
  - SENPEC: > SEK 1 Billion*
  - AREVA: > SEK 2 Billions*
  - Others: > SEK 2 Billions

* Deliveries will start during 2013
Sandvik product program to the nuclear industry

• Zircalloy fuel cladding: Zircalloy tubes
• Fuel components: Tube, Wire, Strip, Bars
• Instrumentation: Tubes
• Control systems: Tubes, Wire, Strip
• Overlay welding and normal welding: Strip, Wire
• Reactor vessel internals: Tubes, Bars, Plate
• Reactor vessel outlets/inlets: Tubes, Bars, Plate
• Valves/Pumps: Pipe, Bars, Plate

• Steamgenerators: Tubes, Plates, Bars
• Heat exchangers: Tubes, Plates, Bars
• Condensers and coolers: Tubes, Plates, Bars
• Instrumentation: Tubes
• Tube and Pipelines
• Welding products

• Heat exchanger tubing
• Tubing and Piping systems
• Welding products
• Solid- and hollow bars for components
• Instrumentation tubing
Trends
Oil and gas

- Oil/gas remains the most important energy source
- More demanding environments require more advanced materials and new technologies

Source: European Photovoltaic Industry Association (EPIA)

Source: DWL Production forecast, June 2009

Million barrels of oil per day

Offshore Deep

Oil and gas initiatives

- Market introduction of new materials for umbilical tubing and wirelines
- Near-net-shape products/solutions based on powder technology
- Increased R&D-resources for powder technology
- Brazil
Growing population and improved welfare in developing countries

Higher demands on materials and technology to increase implant lifetime, reduce procedure costs and decrease recovery time

Number of procedures
joint replacement surgeries

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Procedures (x1000)</th>
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<tbody>
<tr>
<td>2008</td>
<td>1,000</td>
</tr>
<tr>
<td>2010</td>
<td>2,000</td>
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<tr>
<td>2012</td>
<td>3,000</td>
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<tr>
<td>2014</td>
<td>4,000</td>
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<tr>
<td>2016</td>
<td>5,000</td>
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<tr>
<td>2018</td>
<td>6,000</td>
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</table>
Medical initiatives

- Consolidation of production units
- Establishment of "Sandvik Center of Excellence"
- Investments in R&D
- Development of near-net-shape capabilities
- Increased production capacity for titanium and high purity stainless steels
New Sales Ratio development

% of sales

* Annual rate after Q2
The ongoing development is driving a demand for more advanced materials.

### GDP 2007 and expected GDP in 2050

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (millions of USD)</th>
<th>Rank</th>
<th>Country</th>
<th>Expected GDP (millions of USD)</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>13,807,660</td>
<td>1</td>
<td>China</td>
<td>70,710,000</td>
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<tr>
<td>2</td>
<td>Japan</td>
<td>4,381,576</td>
<td>2</td>
<td>United States</td>
<td>38,614,000</td>
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<tr>
<td>3</td>
<td>Germany</td>
<td>3,320,313</td>
<td>3</td>
<td>India</td>
<td>37,666,000</td>
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<tr>
<td>4</td>
<td>China</td>
<td>3,280,224</td>
<td>4</td>
<td>Brazil</td>
<td>11,366,000</td>
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<tr>
<td>5</td>
<td>United Kingdom</td>
<td>2,804,427</td>
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<td>Mexico</td>
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<td>6</td>
<td>France</td>
<td>2,589,779</td>
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<td>Russia</td>
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<td>7</td>
<td>Italy</td>
<td>2,104,566</td>
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<td>Indonesia</td>
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<td>8</td>
<td>Spain</td>
<td>1,439,363</td>
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<td>9</td>
<td>Canada</td>
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<td>United Kingdom</td>
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<td>10</td>
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<td>11</td>
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<td>Nigeria</td>
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<td>12</td>
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<td>1,100,896</td>
<td>12</td>
<td>France</td>
<td>4,592,000</td>
</tr>
</tbody>
</table>

Source: CIA
China and India initiatives

- Strengthening of management resources and local sales organizations
- New R&D Centre established in Pune, India
- Investment in a new production unit for seamless stainless tubes in China
Summary

In the current market situation priority one is to secure cash flow and profitability – and to prepare for a volume increase.

Sandvik Materials Technology is uniquely positioned within advanced materials, surface and powder technology, and can therefore:

- Continue to take position in the energy- and medical segments
- Play an important role in the development in emerging markets