Sandvik Capital Markets Day 2011

New strategy and organization

Olof Faxander, CEO

Ola Salmén, CFO
First impression

Great company with great strengths:
• Very strong technical competence
• Commercializing technical achievements
• Innovation and world leading
• Strong corporate culture

Europe and Sweden bias:
• Sales
• Employees
• Production footprint
• Management

High earnings volatility

Materials Technology underperforming
Launched strategy work with these intentions

Leverage on strengths

Address emerging markets challenge/opportunity

Address underperformers

..in order to create world-class performance in operations as well as shareholder value creation
Key findings

We can leverage on existing strategies…

- Proven track record in premium segments
- Technology leadership in key niches
- High entry barriers
- Value selling
Key findings

..but also

- Capital allocation not optimal
- Footprint not aligned with sales and macro trends
- Gaps with regards to delivery on targets and promises

Sandvik Capital Markets Day September 2011
New strategy

- Stronger corporate control in certain areas
- Business areas to focus on business operations only
- Improved usage of common functions
New strategy

Four key themes

Ambition
Speed
Focus
Globalize / Localize
New strategy

Ambition

• Aspire to be world-class
  • Customers
  • Shareholders
  • Employees

• Group’s financial targets will be reviewed
New strategy

Speed

- Decision making
- Empowerment and true decentralization
- Faster innovation and time-to-market
- Sense of urgency to deliver "best" performance
New strategy

Focus

- Focus on core business and growth areas
- Operative structure with market oriented business areas
- Enforce performance management
- Allocate capital based on expected returns
New strategy

Globalize / Localize

• International management

• Exploit and develop potential leadership and talent in growing markets

• Innovation, product development and engineering closer to market

• Complement current premium offering with strong mid-market offering

• Develop supply chains in growth markets
Volatile times – here to stay?

Monthly order intake at annual running rate with fixed currency rates, dampend

<table>
<thead>
<tr>
<th>BSEK</th>
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<tbody>
<tr>
<td>100</td>
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<tr>
<td>90</td>
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Year:
- 1980
- 1985
- 1990
- 1995
- 2000
- 2005
- 2010
Thoughts on vertical integration

Advantages

• Unique products
• Good pricing power
• Should lead to superior margins over a business cycle
• Strong customer relations
• Strong market position
• High entry barriers for competitors

Disadvantages

• High share of fixed costs leading to sensitivity to volume drops
• Scalability in demand spikes
• High capex demands

We have to balance advantages with cost flexibility
Managing volatile demand

- Optimized inventory levels
- Short lead-times and predictable deliveries
- Flexible work-hour schemes
- Increased temporary workforce
- Faster decision-making process and accelerated execution
- Reduced relative cost base
- Shared services
- Outsourcing
## Operational structure

<table>
<thead>
<tr>
<th>Group and Support Functions</th>
<th>Group Executive Management</th>
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<tbody>
<tr>
<td>Finance, Indirect Sourcing, HR, IT, Communication</td>
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<tr>
<th>Sandvik Mining</th>
<th>Sandvik Machining Solutions</th>
<th>Sandvik Materials Technology</th>
<th>Sandvik Construction</th>
<th>Sandvik Venture</th>
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<tr>
<td>Underground Mining</td>
<td>Sandvik Coromant Walter Safety</td>
<td>Tube Strip</td>
<td>Construction</td>
<td>Process Systems Parts of Med Tech*</td>
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<td>Wire and Heating Technology Primary</td>
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* To be divested
## Operational focus

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<td>Finance, Indirect Sourcing, HR, IT, Communication</td>
<td>Turnaround the business to reach significantly higher profitability in two-three years</td>
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<td>Sandvik Mining</td>
<td>Accelerate growth and improve profitability</td>
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<td>Turnaround the business to reach significantly higher profitability in two-three years</td>
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<td>Optimize approach based on maximizing long term group value</td>
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Turnaround the business to reach significantly higher profitability in two-three years.
Sandvik Group Executive Management team

Olof Faxander
President and CEO
Employed and member since: 2011

Ola Salmén
Executive Vice President and CFO
Employed and member since: 2009

Gary Hughes
President of Sandvik Mining
Employed since: 1997 New member in the team

Bo Severin
General Counsel
Employed since: 1988 Member since: 2010

Tomas Nordahl
Executive Vice President
Responsibility for IT, sourcing and strategy
New in Sandvik and in the team as of 1 October

Jonas Gustavsson
President of Sandvik Materials Technology
Employed since: 2008 Member since: 2011

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President of Sandvik Machining Solutions
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President of Sandvik Construction
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Executive Vice President and head of Human Resources
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Success factors

- Performance management and accountability culture
- Capital allocation
- Leadership and talent in growing markets
- Innovation, product development and engineering closer to market
- Maintained technology leadership
- Raised entry barriers
- Closing cost disadvantage
The changes

- Increased speed, agility and decisiveness
- International group executive management team
- Emphasis on the most profitable areas
- Permanent underperformers will be divested
- Reaping synergies
- One Sandvik
Q2 2011 Recap

- Good order intake and invoicing
- Improved EBIT and ROCE
- Increased uncertainty for the coming quarters
Net working capital

% of quarterly sales*4

Target
New organization

Pro forma Q2 2011

EBIT-margin

30%

20%

10%

0%

Construction

Materials Technology

Venture

Machining Solutions

Mining

ROCE
Guidance update

Restructuring costs
Restructuring charges for Sandvik Materials Technology are estimated to approximately 0.8-0.9 BSEK for the second half of 2011. This is in addition to the earlier communicated write-down of goodwill for Sandvik MedTech by an estimated 1.2 BSEK for Q3.

As a consequence of the new strategy, further restructuring charges in other parts of Sandvik are likely.

<table>
<thead>
<tr>
<th>Metal price effects</th>
<th>Currency effects</th>
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<tr>
<td>Given currency rates, stock levels and metal prices at beginning of September an EBIT effect of approximately -150 MSEK is expected for Q3.</td>
<td>Given currency rates at beginning of September the effect on EBIT would be marginal for Q3.</td>
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“Some statements herein are forward-looking and the actual outcome could be materially different. In addition to the factors explicitly commented upon, the actual outcome could be materially effected by other factors like for example, the effect of economic conditions, exchange-rate and interest-rate movements, political risks, impact of competing products and their pricing, product development, commercialisation and technological difficulties, supply disturbances, and the major customer credit losses.”