

Meet Sandvik

DECEMBER 2006

IT under one umbrella

New hub in Singapore with
focus on energy and environment

Modern industrial design

Olympics getting
closer in China



Third 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	Q3 2005	Q3 2006	Change %	Q3 % ¹⁾	Q1-3 2006
Sandvik Tooling	5 066	5 298	+5	+8	16 760
Sandvik Mining and Construction	5 409	6 518	+21	+18	18 097
Sandvik Materials Technology	3 890	4 501	+16	+20	14 003
Seco Tools ²⁾	1 181	1 259	+7	+10	4 028
Group activities	8	11			31
Group total	15 554	17 587	+13	+15	52 919

OPERATING PROFIT BY BUSINESS AREA

SEK M	Q3 2005	Q3 2006	Change %	Q1-3 2006
Sandvik Tooling	1 074	1 235	+15	3 843
Sandvik Mining and Construction	730	952	+30	2 670
Sandvik Materials Technology	292	473	+62	1 552
Seco Tools ²⁾	246	298	+21	913
Group activities	-81	-104		-275
Group total	2 261	2 854	+26	8 703

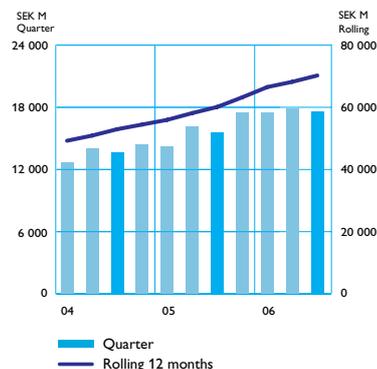
OPERATING MARGIN BY BUSINESS AREA

% of invoicing	Q3 2005	Q3 2006	Q1-3 2006
Sandvik Tooling	21,2	23,3	22,9
Sandvik Mining and Construction	13,5	14,6	14,8
Sandvik Materials Technology	7,5	10,5	11,1
Seco Tools ²⁾	20,8	23,7	22,7
Group total	14,5	16,2	16,4

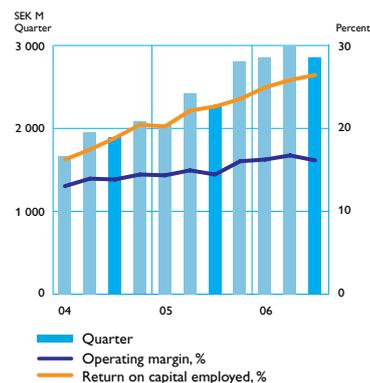
1) Change compared with preceding year at fixed exchange rates for comparable units.

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

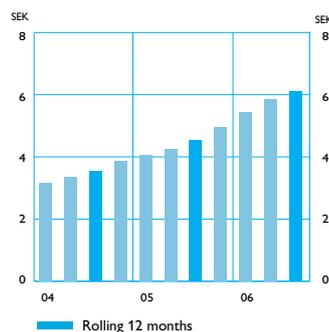
INVOICING



PROFIT, MARGIN AND RETURN



EARNINGS PER SHARE



Meet Sandvik

The Sandvik Group's magazine for shareholders and employees

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Cover: Sandvik gives soccer a kick.
 Read more on page 6!

Continued strong demand and increased profit

The strong global demand for Sandvik's products continued during the third quarter. In Europe, growth increased further. Higher invoicing, improved product mix and high internal efficiency contributed to the sharply improved earnings.

All business areas posted increases in operating profit as well as operating margin. The earnings increase was the result of higher sales volumes and positive price developments as well as improved internal efficiency, successful product introductions and a more favorable product mix.

The global industrial economy remained strong in most segments, particularly in investment-related areas, such as machinery, mining and construction industries, as well as the oil/gas and process industries. Demand from the general engineering industry continued at a high level. Activity in the global automotive industry remained favorable and demand from the heavy vehicle industry was stronger than from the passenger car industry. Activity was high in the aerospace industry and demand increased primarily in NAFTA.

Capital efficiency improved and working capital is now 29% of invoicing. Work in this prioritized area continues, with the aim of achieving the goal of 25% working capital.

Successful product introductions

Many successful product introductions were carried out in Sandvik Tooling. The Sandvik Coromant product area introduced a new insert generation for turning and milling in steel and cast iron that further strengthens competitiveness in the application area that corresponds to the greatest market potential. The Walter product area launched indexable inserts with new coatings based on an entirely new technology that further improves the combination of strength and durability in difficult-to-machine materials. These two introductions create substantial productivity gains for customers. Work is continuing within Sandvik Tooling to develop synergies and capitalize on cost benefits between product areas and production is being further consolidated.

Within Sandvik Mining and Construction, additional company acquisitions are being made in the area of mineral exploration. The Chilean company Implemin complements previous acquisitions and as a result Sandvik can now deliver

fully integrated solutions for rotary drilling. In addition, the acquisition also strengthens Sandvik's capacity in the aftermarket.

A new, attractive product that was launched is a rig for tunnel drilling that combines greater precision and more power with a new, ergonomically designed workplace for the operator.

At Sandvik Materials Technology, demand for tube products to the oil/gas, fertilizer and nuclear power industries developed highly positively during the quarter and a number of large orders were secured. A new product program in surface technology, Sandvik Santronic™, is now being introduced on the market for electronics products. The production technology opens new, patented possibilities to provide precision strip with a combination of properties.

The launch of Sandvik Decorex™, precision strip coated with a colored, decorative surface is also under way. The products are intended for design applications in the consumer goods market.

Increased internal efficiency and continued development of the customer offering

We are now focusing on continuously implementing structural improvements and efficiency enhancements to further strengthen the company's long-term competitiveness and secure future earnings improvements. Similarly, work is proceeding with developing and launching of new products at an undiminished pace. This effort is based on ensuring that Sandvik's customers offering fully meets, or exceeds, customer expectations for value-added products and services.

- Order intake +14%*, SEK 18,627 M
- Invoicing +15%*, SEK 17,587 M
- Operating profit +26%, SEK 2,854 M
- Profit after financial items +21%, SEK 2,583 M
- Profit for the period +19%, SEK 1,826 M
- Earnings per share +21%, SEK 1.45
- Cash flow -5%, SEK 2,788 M

* Change compared with the corresponding quarter in the preceding year excluding currency effects for comparable units.



Lars Pettersson
President and CEO
Sandvik AB



Under one umbrella

“At Sandvik, we regard IT as a highly practical and pragmatic tool. It is a tool for creating specific solutions that provide us with distinct competitive advantages. By using IT, we enhance the efficiency of internal processes, improve customer contacts and support business development.”

With these three sentences, Peter Larson summarizes the direct philosophy that is the foundation of IT operations within the Sandvik Group. He explains more about his role as ultimately responsible for Sandvik's IT operations.

A coach

“Basically, I am not a computer expert. More directly, my role is to contribute to creating a productive cooperation between Sandvik's business areas in terms of IT. You could say that I am a type of coach. We should not develop the same solution in two places, instead we should benefit from our joint resources. Centrally, we shall primarily represent support in business development of the business areas. Our role is to ensure that the Group receives a distinct game plan and an attuned game system within the IT area. Everything should be working under one umbrella.

“There are namely major similarities in processes within our different business areas. This is why it is quite simple to have a joint infrastructure and joint tools. In this way, all parts of Sandvik will be connected as a communications vessel. There are major cost benefits in this.”

In good time

“Sandvik is among the forerunners in industrial companies with regard to the efficient utilization of IT. IT has always been, and to the highest extent still is today, an important part of Sandvik's business strategy and competitor factor. We have been dealing with IT in the 1960s before it was known as IT. The area was then so new that we had to develop our systems on our own in order to achieve our goals. It was about creating better opportunities for planning and distribution in Sandvik's decentralized structure. This has been satisfactory but the trend is probably moving towards fewer proprietary developed systems and investing more in standard systems.

“Currently, more than 1,000 persons work with IT in the Group. This work is carried out in Sandvik Systems Development, our IT and process development company, and Sandvik Information Technology, which has global responsibility for computer operations, IT infrastructure and related areas. Added to this, is the work carried out in the operations worldwide. We have so many personnel in the area because we have chosen to manage IT operation in-house. We will continue to work in this manner, but we are now doing it in a strongly consolidated form. A few years ago, we had 130 different operating locations within the Group, spread around the world. Today, we have three operating centers, one in each time zone for practical reasons – in Sandviken, Sweden, the US and Australia – plus 20 regional support centers worldwide.

“This is an operation that is constantly changing, but at the same time we cannot move forward too rapidly. We always strive to balance tradition and renewal, old and new. There is major potential to increase efficiency in our old systems. At the same time, we must constantly replace old solutions with new. But this should occur at a rate that does not cause disruptions.”

Security a key issue

“Accessibility and intrusion prevention are two important parameters for us. Within Sandvik, at an early stage we invested in standard PCs and today 95% of our 25,000 computers that are used in the Group have the same standard. This facilitates central handling of security issues. In practice, we have had very few disruptions over the years in the form of virus attacks.

“This feels secure. But, we continue to invest in increased security within the IT area for our employees. In many respects, it's about educating them to utilize computer power in the right manner. No unnecessary e-mails and filters that remove irrelevant information. Everyone should have access to relevant information but not be over informed.”

IT = business benefits

“We must constantly be able to measure the benefits of IT. And we do that. Allow me to provide a few examples of ways in which IT can



Peter Larson

Executive Vice President and CIO

Area of responsibility: Business Development and IT

Age: 57

Education: MBA, Stockholm School of Economics

Career: Worked within Sandvik 1981 – 1984

Returned to the Group in 1997, when Sandvik

acquired Kanthal where Peter Larson worked

Member of Sandvik's Group Executive Management since 2000

be transformed directly into business benefits. At Sandvik Tooling, at an early stage, IT was a way of achieving competitive advantages. They were pioneers with regard to investing in one major central warehouse instead of several small locations. This concept was based completely on a perfect IT support. It provided unique flow control and increased delivery security. Delivery within 24 hours to customers could be promised and fulfilled. Today, Sandvik Tooling is among the absolute world-class in terms of IT solutions that create direct contacts with customers.

“Within Sandvik Materials Technology, we currently have IT solutions that allow us to control the mix of orders in an optimal manner. We have taken advantage of these solutions for production planning that already existed within Sandvik Tooling. This type of order control can directly be translated into dollars and cents in the income statement. We continually manufacture the right product for the right customer with the right profitability.

“Sandvik Mining and Construction has begun utilizing IT as an integrated component in the machines that are delivered. This means that a machine that is used in a remote location,

for example, Africa, is equipped with a sensor. This communicates with our central databases and Sandvik's specialists and our customers can thereby monitor the machine's production and performance. This means that service and maintenance can be optimized in a way that will benefit the customer. We sell productivity.”

Mobility is key

“The future within IT will be about increasing mobility. It is especially important to us as a global company. We work closely with customers and are often on location with customers. This is why Sandvik's employees must constantly be in contact with their network, internally and externally. The demand for accessibility, speed and flexibility will be considerable, also in 'shaded' areas. This accessibility shall be ensured at a reasonable cost.

“I regard this as the next major step in our IT development. I scarcely need to point out that our aim is also to be among the leaders in this area.”

Productivity that creates winners

Soccer gold puts feather in Sandvik's hat

Sandvik was in the game this summer when Italy captured the world championship in soccer. Several Italian players used shoes with a spring from Sandvik Nanoflex® in the outer soles. The Sandvik material is very strong and durable, which gives high acceleration ability, increased lateral elasticity and improved support and stability for the soles of the feet and heels. In brief, the material is perfectly suited to these extreme conditions. The Italian manufacturer Diadora will now also be launching the new technology in tennis and running shoes.





Modern industrial design demands optimal tools

Today's and tomorrow's everyday electronic products are not possible to create without advanced tools. Manufacturers are demanding high quality to ensure that the end products have the right feel and while fashion places demands for the rapid launch of new models. This is sweet music for Sandvik Coromant. Sandvik makes it possible to manufacture digital music players even more rapidly by supplying advanced tools that enhance the efficiency of die and mold manufacturing and by having excellent knowledge of tool customers' processes.

Eco-friendlier fuel production

Products from Sandvik are used in dealing with the sulphur that is present in varying quantities in crude oil and which for environmental reasons must be removed in the refining process to produce gasoline, among other products. The liquid sulphur is formed into pastilles that are chilled on a steel belt in a Rotoform® plant. This process makes the subsequent handling of the sulphur significantly simpler and environmentally sound. In the photo below, visitors at the ACHEMA Fair in Germany study a model of Sandvik's Rotoform 3000.



Highway tunnel in Korea

As a result of the use of highly efficient equipment from Sandvik, a new highway tunnel in Korea has been completed very quickly, despite challenging ground conditions. The Group delivered Tamrock rigs and tools from the Sandvik Alpha 330 series to drill the blasting holes. The tools, which were originally developed for use in mine operations, had more than 30% longer life than the original rock drills.



Key products for heat exchangers

HEA-KNM, with operations in Indonesia among other markets, is a well-known manufacturer of heat exchangers and process equipment for customers within the oil/gas, petrochemical and power industries in Australia and Southeast Asia. The company is a long-standing Sandvik customer and cooperation is extensive. The Group supplies seamless stainless-steel tubes that play a decisive role in heat exchangers.

Well-turned implants

The Group has a large offering of products and solutions for the medical-technology industry. Sandvik Coromant's new round cemented-carbide inserts for turning hip-joint implants is one example. The new tool is well suited for its task and optimizes the machining process. Speed can be increased, which means that production will increase. When the tool is used for internal machining of hip joints, the processing cost is reduced by one third and productivity doubles.



Increased belt width thanks to Sandvik

Process Systems, a product area within Sandvik Materials Technology, can develop even wider belts than previously – up to eight meters. It is a new exciting application that increases customers' efficiency within the paper industry. This is because the product area was active in developments within the paper manufacturing process. This new technology will be used in the final stages of paper glazing. Broad steel belts with excellent surface coating and extremely high demands on tolerances in belt thickness – one hundredth of a millimeter, are required. Manufacturers of the equipment for the paper industry are now cooperating with Sandvik to gain access to the new technology.





1.



2.

Nigel Haworth, head of the regional company Sandvik South East Asia, welcomes guests to the opening ceremony. (1)

Sweden's Ambassador in Singapore, Pär Ahlberger (left) with S. Iswaran, Singapore's Minister of State for Trade and Industry and Peter Gossas from Sandvik Materials Technology participated in the ceremony. (2)

Sandvik Tooling's new distribution center in Singapore has now been opened. The location could not have been better: inside the logistic park of the Singapore Changi Airport, which is a free-trade zone. The airport is regarded as one of the best in the world and a hub in the Asia/Pacific region. Eighty airlines fly to more than 180 cities in over 50 countries.

New hub in Singa with



Rapid shipment to customers is crucial for Sandvik.

An efficient logistic system is vital for Sandvik. For example, air transport is the most natural mode for our cemented-carbide products, so a location inside the airport area is optimal and a strong competitive advantage.

The predecessor of the distribution center was started only six years ago, but already needed replacement. The new unit has greater capacity to cope with a continued increase in shipments. Another benefit is that the Group's various operations in Singapore are now under one roof.

For Sandvik, this new location means shorter lead-times in the entire distribution chain, quicker internal flows, better storage possibilities, sharply simplified administrative procedures, lower costs



The new distribution center in Singapore has an optimal location inside the airport area.

pore

focus on energy and environment

compared with locations we have had to date. For customers, it means increased security and punctual deliveries. As a rule, Sandvik's cemented-carbide customers receive their order of standard products within 24 hours.

An important part of the investment is improved working environment through air conditioning and investments in enhancing the efficiency of energy management. A well-conceived building construction makes it possible to radically reduce energy consumption and costs for plant cooling. The distribution center in Singapore is a long-term investment with an extensive investment focus on environmental and energy technology.

Via Singapore, all of Asia is provided with products from various brands within Sandvik Tooling. Sandvik Mining and Construction also manages its regional distribution from the new unit.

Moreover, the new building accommodates Sandvik's regional company Sandvik South East Asia, which comprises the Group's marketing and sales operations for the entire Southeast Asia region – from Thailand in the west to the Philippines in the east, with Indonesia as the most southern point. The company was established in 1969 and development has been strong since then. The new center shows confidence in continued favorable development in the future.

News from Sandvik's World



Main arena for the Olympic Games in Beijing under construction.

Olympics getting closer in China

Sandvik is expanding in China. Increased local presence is an important condition for continued business development. The Group now has five manufacturing units in the country and growth is strong. Last year, the sales increase was 36%. Sandvik's Board of Directors recently visited China to personally experience Sandvik's successful efforts and to become more closely acquainted with how the group capitalizes on growth possibilities. The Summer Olympic Games in 2008 in Beijing is a strong driving force for development. Construction in the Chinese capital has never been this intensive. Sandvik supplies, for example, products that are used in construction work for the Olympics.

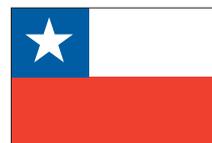


Positive charge

Sandvik Coromant's system for analysis, reports, computer storage and other applications is based on an advanced database server that is in operation around the clock. The new business critical system makes it possible for employees within the product area in approximately 60 countries to produce decision data on the same day, which previously took three weeks to summarize. Talk about efficiency!

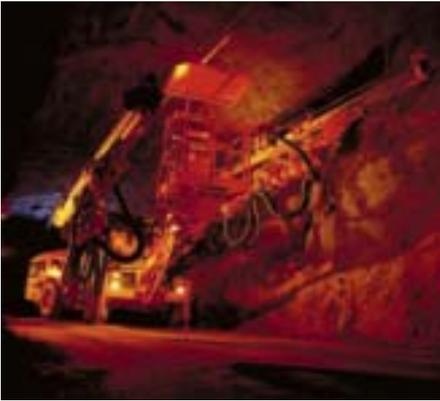
Acquisition of Chilean Implemin

Sandvik acquired the Chilean company Implemin, which is Latin America's leading producer and supplier of consumables for rotary drilling and RC drilling within



mineral exploration. Implemin's sales were approximately SEK 90 M in 2005, with about 90 employees. The acquisition

complements previous acquisitions and means that Sandvik can now deliver fully integrated solutions for rotary drilling to customers worldwide. Implemin will also strengthen Sandvik's offering of surface mineral exploration through its assortment of consumables products and tools.



Major order in Spain

Sandvik Mining and Construction received a major order for surface and underground drill rigs from the Spanish contracting company Grupo Alonso, comprising a total of 20 units, with an option for an additional eight. The customer has the largest fleet of machines in Spain, more than 3,000 units, of which more than 120 from Sandvik.



Success for Sandvik at trade fair in the US

Twenty-four tons of ice caused visitors to thaw thoroughly at Sandvik Coromant's exhibition stand at the IMTS tool trade fair in Chicago, Illinois, in the US. Ice sculptures in the form of tools and ice blocks decorated with brand logotypes formed a four-meter long counter at the booth. The arrangement was the result of a cooperation with ICEHOTEL® in Jukkasjärvi in Lapland, Sweden. The topic was hot: production economy. It is estimated that the US tool industry could save USD 15 billion if it was to fully utilize the possibilities of efficiency enhancement that are available in operations. Sandvik Coromant offers products and technological expertise making it possible to use this potential.

New med-tech company

Sandvik continues to develop its customer offering within the rapidly growing medical-technology area. A new company, Protomedical, was started within Sandvik Tooling in Germany. The new company will focus on contract manufacturing of medical implants and instruments to the medical-technology industry.



Sandvik breaks new ground

Sandvik is a forerunner in development of technology for automated mining. The South African mining company De Beers' Finsch diamond mine applies Sandvik's solutions. They will be first in the world to use the system that is based on automatic remote-controlled underground trucks to load mined material.

Inauguration of new production line in Coventry

In October, Sandvik Hard Materials in Coventry, UK, inaugurated a new production line. The production of printed circuit boards (PCBs) for mobile telephones demands drills that are increasingly smaller – currently, they are thinner than a human hair. Sandvik has developed new grades of cemented carbide that can fulfill these demands. Through consolidating production for PCB blanks in Coventry, Sandvik can meet customer demands highly competitively. The new ultra-modern plant is fully aligned for this type of production. Takao Katayama, President of Union Tool, a major Sandvik customer, present to cut the ribbon together with Anders Thelin, President of the Sandvik Tooling business area.





More water on Manhattan

On Manhattan, people drink more than just Manhattans. New Yorkers also drink a lot of water. The source is an artery that runs 150 meters below the streets of New York. To better quench the thirst of the island's 1.5 million inhabitants, nine vertical supply shafts were recently drilled. This is a complex project in the heart of the city. Raise boring was used to minimize disturbances. This means drilling upward rather than

downward. The drill works its way upwards through a pilot hole that is expanded bit by bit. As a result, disturbances are minimal. Sandvik was called in to tackle this sweaty job. Our raise-boring heads can be expanded to ream out holes that are up to six meters in diameter, eating away at a rate of one meter per hour. You could say that they are playing a leading role on Broadway.

A FLOW OF 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 holds more than 4,400 patents to protect the company's technology innovations. At Sandvik, we facilitate the flow of ideas.



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