

# Meet Sandvik

JUNE 2007

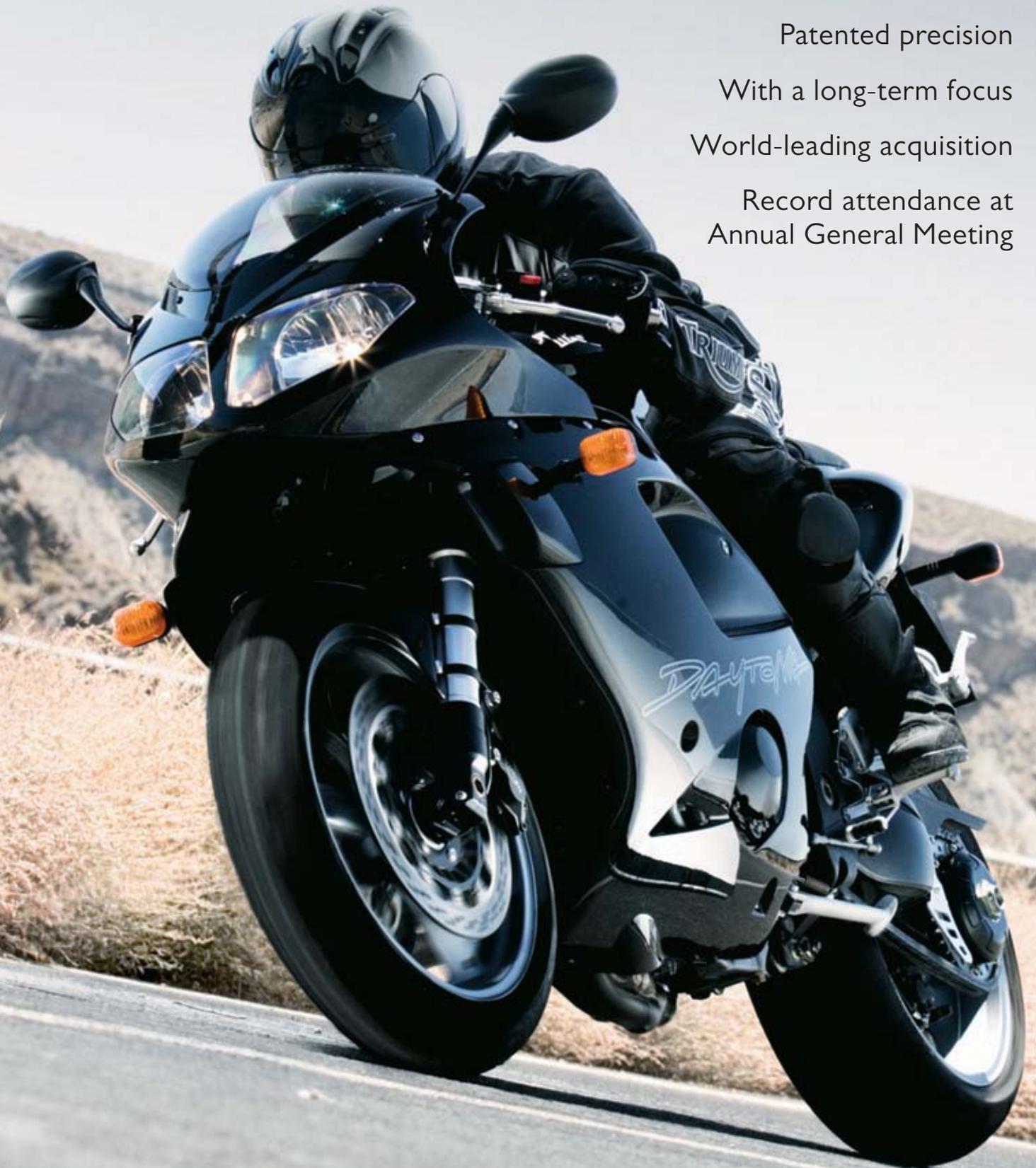
Profitable exploration

Patented precision

With a long-term focus

World-leading acquisition

Record attendance at  
Annual General Meeting



# First quarter 2007 in figures

## INVOICING BY MARKET AREA

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



## INVOICING BY BUSINESS AREA

SEK M	Q1		Change	
	2006	2007	%	% <sup>1)</sup>
Sandvik Tooling	5,801	5,997	+3	+9
Sandvik Mining and Construction	5,539	7,298	+32	+36
Sandvik Materials Technology	4,719	5,604	+19	+24
Seco Tools <sup>2)</sup>	1,413	1,504	+6	+12
Group activities	9	7		
Group total	17,481	20,409	+17	+21

## OPERATING PROFIT BY BUSINESS AREA

SEK M	Q1		Change %
	2006	2007	
Sandvik Tooling	1,294	1,437	+11
Sandvik Mining and Construction	800	1,102	+38
Sandvik Materials Technology	526	784	+49
Seco Tools <sup>2)</sup>	329	381	+16
Group activities	-96	-166	
Group total	2,853	3,538	+24

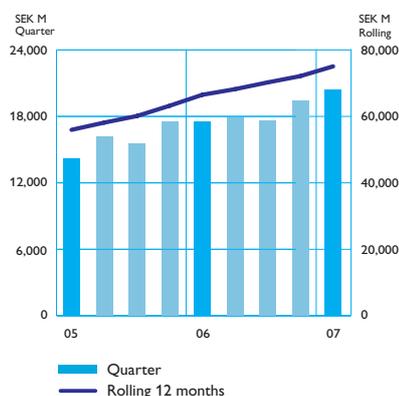
## OPERATING MARGIN BY BUSINESS AREA

% of invoicing	Q1	
	2006	2007
Sandvik Tooling	22.3	24.0
Sandvik Mining and Construction	14.4	15.1
Sandvik Materials Technology	11.1	14.0
Seco Tools <sup>2)</sup>	23.3	25.4
Group total	16.3	17.3

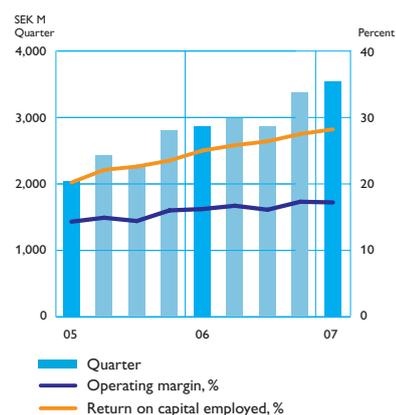
1) Change compared with year earlier at fixed exchange rates for comparable units.

2) As a result of the majority holding in Seco Tools AB, Sandvik consolidates this company.

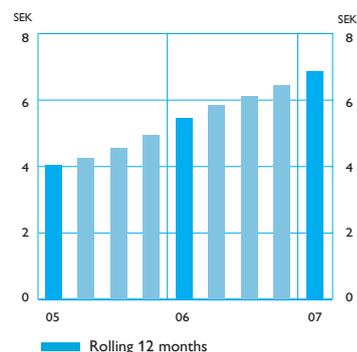
## INVOICING



## PROFIT, MARGIN AND RETURN



## EARNINGS PER SHARE



### Meet Sandvik

The Sandvik Group's magazine for shareholders and employees

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Address: Sandvik AB,  
 Group Staff Communications,  
 SE-811 81 Sandviken, Sweden.  
[info.group@sandvik.com](mailto:info.group@sandvik.com)

Cover: British Triumph Motorcycles  
 increases productivity through  
 cooperation with Sandvik Coromant.  
 Read more on page 5.

# Positioning for the future



Global demand for Sandvik's products continued to develop well during the first quarter of 2007. Increased volume, a favorable product mix, and a high level of internal efficiency contributed to the improved results. Demand continued to be strong through the quarter and all markets and business areas showed highly favorable development both in terms of order intake and invoicing. The Group's invoiced sales, operating profit and operating margin all rose sharply. Sandvik has grown markedly in recent years. Since 2003, sales have increased by nearly 50% at fixed exchange rates.

## Advances for all business areas

Demand for Sandvik Tooling's products increased during the first quarter, partly as a result of a strong market and partly due to successful new product introductions. Sandvik Mining and Construction increased sales within the new mineral exploration customer segment and demand and prices for metals and minerals remained high. Sandvik Materials Technology reported increased demand, especially for highly refined niche products. Capacity utilization within the business area is high and efforts to expand manufacturing capacity were intensified during the quarter.

## Strategic acquisitions

The acquisitions during the quarter of the British companies Extec and Fintec, within crushing and screening, strengthens Sandvik's market offerings and capacity with respect to industries characterized by strong growth and high profitability.

I also want to point out some other important, recent company acquisitions. The first of these were accomplished last year within mineral exploration in Australia and Chile. The strong position that Sandvik has attained within this expanding area has meant that we come into contact with mining customers at an early stage, creating opportunities to present the Group's comprehensive product range. The second was the acquisition of the American company Diamond Innovations, which supplements Sandvik Tooling's offerings of cutting tools for metal working of extremely hard materials. The third was Sandvik Materials Technology's acquisition of the Finnish company Metso Powdermet,

which broadens the business area's leading expertise within powder metallurgy. Additional information about these and other acquisitions is available in this issue of Meet Sandvik.

Acquisitions form an important part of the Group's growth strategy. Some 50 acquisitions of companies were carried out in about 20 countries during the 1996–2006 period. Aggregate sales for these companies at time of acquisition were SEK 22 billion and employees totaled 15,000. Nevertheless, organic growth is the basis of future expansion and confidence in the Group's ability to continue growing based on own strength is high. Accordingly, Sandvik's growth target, excluding the effects of acquisitions, has been raised from 6% to 8% per year.

## Sandvik capitalizes on global driving forces

Sandvik's future development will be decided by our ability to capitalize on global driving forces. Our opportunities in this regard are excellent. The company has attained a leading position in various technologies for extracting oil, gas, minerals and metals. We have a strong presence in growth markets such as China, India and Eastern Europe. The fast pace of economic development and the desire for a higher standard of living that characterizes these parts of the world creates long-term demand for the Group's products. Another driving force that benefits Sandvik is increased demand for developing effective, automated and energy-efficient production processes. The Group is a leader in this respect within its operational areas. Last but not least, I want to mention an increased focus on health, safety and the environment. Sandvik's products and product solutions are designed to minimize risks to and the injurious effects upon health and environment. Together with the overall business concept geared to increased customer productivity, this demonstrates our commitment to sustainable solutions and represents a significant competitive advantage and a positive factor for the Group's continued development.

Lars Pettersson  
President and CEO  
Sandvik AB

- Order intake +13%\*, SEK 22,735 M.
- Invoiced sales +21%\*, SEK 20,409 M.
- Profit after financial items +25%, SEK 3,365 M.
- Net profit for the period +26%, SEK 2,450 M.
- Return on capital employed 28.3% (25.1%).
- Cash flow -56%, SEK 1,045 M.
- Earnings per share +26%, SEK 1.95.

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

# Productivity as driving force

## *Doubled capacity and improved environment*

Sandvik has received a major order for a complete in-pit crushing and conveying system to Boliden's Aitik mine in Sweden. The order is valued at about SEK 800 M. The system is scheduled to be placed in operation in 2010 and provides a capacity of 8,000 tons per hour, with ore transport of seven kilometers. This will double the annual ore production capacity. The combined crushing and conveying system minimizes the need for truck transports, provides higher availability and lower operating costs. Last but not least, the environment will be better as a result of reduced noise level and carbon dioxide emissions.



## *Higher efficiency, lower costs*

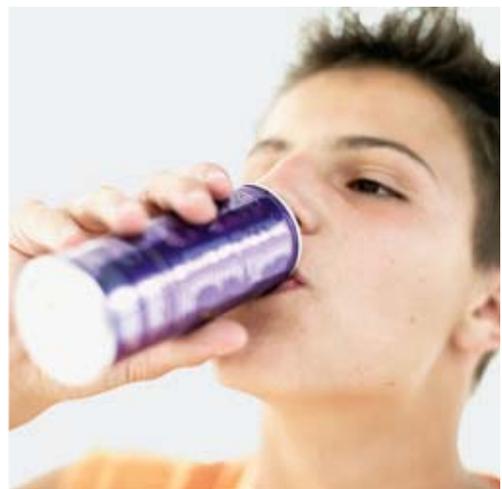
Volvo Construction Equipment is one of the world's leading producers of construction equipment, such as wheel loaders, excavators, haulers, motor graders and compact equip-



ment. Sandvik Coromant is one of the company's selected suppliers of cutting tools for turning of steel, among other tasks. The Group also provides its know-how and a well-developed service. At Volvo's component plant in Eskilstuna, Sweden, production of differential gears and disc casings for construction equipment has increased using Sandvik's cutting tools. Processing time has been halved.

## *New technology saves money*

Sandvik has strengthened its role as leading global supplier of tools and tooling solutions in cemented carbide for production of beverage cans. Operations have developed strongly during the past decade, through own strategic efforts as well as acquisitions. The latest example is acquisition of the beverage can business in Rexam's North American production unit in Chicago. Sandvik now has high production capacity and can supply global beverage makers with a wide range of tools for all components of the can – from the bottom to the opener. The Group has also introduced a new technology that reliably increases efficiency in tool recycling, providing cost savings up to 40%.



### Profitable exploration

The need for metals is growing continuously and the search for new deposits is under way worldwide. Olympic Dam, a semi-desert 600 kilometers northwest of Adelaide on the south coast of Australia, is one of the world's largest mining areas, with extensive deposits of copper and uranium, as well as silver and gold. Extensive exploration drilling is carried out in the area, among other things with a method featuring diamond drills to bore down into the rock. Core samples of rock material are taken from the surface down to 1,100 meters deep and sent for analysis. Exploration drilling is decisive in being able to localize new workable deposits and Sandvik's drill rigs and tools meet the customer's very high demands.



Ken Macleay, Mosslake Drilling (left) selects diamond drilling tools with Cameron Westwood from Sandvik Mining and Construction.

### Patented precision

CoroTurn TR® is a new family of patented turning tools from Sandvik Coromant that further improves productivity for customers. The system offers an entirely new clamping of the cemented-carbide cutting insert in the tool holder which is done through a T-rail in the insert and comparable rails in the insert seat on the holder. As a result of the stable clamping, high precision is achieved in turning, particularly in hard materials. The tolerances are extreme – down to a few hundredths of a millimeter.

This means that operators do not have to compromise with lower feeding speeds. There are also fewer stops for adjustments, while at the same time it is easier to change inserts.



### Top gear in the factory

The British company Triumph Motorcycles has an international reputation for the performance and quality of its motorcycles. Sandvik Coromant delivers tools and tooling systems for production of crankshafts, among other parts. In recent years, Sandvik has focused on developing Triumph's turning and milling processes, with the aim to increase productivity to meet the growing demand for motorcycles. Tests have been carried out at the customer and changes proposed with regard to metal cutting operations. The result is improved performance in production of the various engine components, which has resulted in substantial savings in production time. As an example: production of crankshafts per cutting edge has more than doubled within the same time through the use of Sandvik's tools. And this cooperation is rolling on.



### Cold facts speak for Sandvik

Korean manufacturer LG Electronics has developed a new generation of even more effective compressors for its refrigeration products. This provides environmental benefits, particularly with regard to lower energy consumption. One of the explanations is Sandvik's stainless alloy material used in the flapper valves in the new products. It features significantly better properties than conventional strip steel: fatigue strength is increased by 25% and it can withstand higher temperatures and greater pressures. Another result is that the size of the compressors has been reduced.



# With a long-term focus

Fredrik Lundberg is a heavyweight in the Swedish business community. He is Board Chairman of Cardo, Holmen and Hufvudstaden, as well as a Board member of Svenska Handelsbanken, Industrivärden, Lundbergs (of which he is also President), NCC and Sandvik. In the following article, this major shareholder in Sandvik provides his views on the company in a number of dimensions.

## **Sandvik's corporate culture**

"I have always had great respect for Sandvik, from long before I acquired a financial interest in the company. I see myself as a long-term industrialist, and Sandvik fits in well with my world view. It is a company that it is easy to grow to like, as well as bearing many similarities to one of my pet projects – Holmen. Both companies have a distinct soul. They are technically oriented, operate long-term and have a tangible culture that extends from management down to the shop floor. I believe that this is largely attributable to the advantages created by the industrial environment. Those who work for the company share a common sense of responsibility born of loyalty and a clear identification. It's not for nothing that Sandvik has its head office in Sandviken – there is a certain symbolism in the fact. But constant vigilance is needed to ensure that the industrial spirit does not become rigidly conventional. There is little risk of that, however, given the global environment in which Sandvik and its employees operate."

## **Sandvik's strength factors**

"When I study a company to see if it might be an attractive investment, I look at a number of factors. Initially, I want to feel that I have a grasp of the company. Its operations must be readily understandable. It must have a competent management. I look at its historical development. How well has it succeeded? I also try to build a picture of its future prospects. Does it have good growth potential? It is also important for the company to have a strong position. There must be high entry barriers for new com-

petitors seeking to enter the market. The company's products must not be easy to copy. Then it is obviously crucial that the cost structure is sound. The company must be highly competitive purely from a production standpoint. In short, it must have an excellent brand. After all, a highly regarded brand is often in itself a sign that the company performs well in all the areas I have listed. Sandvik excels in all these respects. It is a global industrial company, fully focused on business-to-business. It has three business areas of roughly equal size. Its technical proficiency is high, as is its added value. Customer satisfaction is kept in focus. And the company holds a very large number of patents. I think that sums up the features that make a good company."

## **Sandvik's long-term view**

"Farsightedness is in my genes. I gain personal satisfaction from creating something not just for the time being but for the future. As I see things, it is difficult to build a stable company with highly efficient production in the absence of a long-term perspective. It requires patience. You can't expect total success in a short time. It is essential to be able to withstand temporary setbacks and to follow a predetermined path consistently. It is important not to expect immediate results, particularly in regard to research and development. A perspective that is too short-term can easily prove detrimental. Investments are neglected, the company is bled of financial resources, and competent employees leave it. It becomes a negative spiral. A long-term view creates healthy development. Naturally, I do not invest for the long term simply for the fun of it. It is my rock-solid belief that it guarantees a high return. Sandvik undeniably proves this point. The company has many successful years behind it, which has created added value for all the parties involved – shareholders as well as employees."

## **Sandvik's business areas**

"There are a great number of common denominators between Sandvik's business areas. Cost

structure, IT, cemented-carbide production, coating technologies and rock-drill steel are just a few of the areas in which there are strong synergies. This also applies in general to the focus on materials technology, with a strong emphasis on R&D and highly refined products. Another example is the company's global presence and its aim of always working close to customers. The possibilities for sharing experience between business areas and the large internal recruiting base are vitally important. Neither should one underestimate the advantages in terms of coordinating financing, acquisition know-how and marketing experience that exist within this large group. So I can see many reasons to preserve an integrated group under a strong brand name. It has been successful so far, and I am convinced that it is also a recipe for continued success in the future."

#### **Sandvik's Board work**

"Although I am a shareholder in Sandvik in three different ways – privately, through Lundbergs and through Industrivärden – I have only one thing in mind when I am sitting on the Sandvik Board: I work for Sandvik's best interests. The fact that I invest in Sandvik on several fronts should be seen solely as a token of my strong belief in the company. We work well together on the Board and function as a team. We follow the company through frequent reports on its financial performance and are also in touch from time to time between Board meetings. As a Board member, it is important to remain within your role and be cautious about how you handle your contacts."

#### **Sandvik's future**

"Sandvik's operations are highly attractive today. The company's future will depend largely on continuing to create new and better products that lead to even greater customer satisfaction. It is important to continue developing the company's expertise in materials technology so that it can continue to obtain good prices for its products. Sandvik has a unique global position that it must maintain and exploit to



Fredrik Lundberg's shareholding in Sandvik (own and closely related) amounts to slightly more than 3,000,000 shares. Through Lundbergs, he owns more than 12,000,000 shares and through Industrivärden in excess of 134,000,000. In total, these investments represent a value of about SEK 3.8 billion (3 May 2007).

the full. It is particularly important for the company to keep its culture alive, given all its acquisitions. These must be successfully integrated. While there is a risk of growing pains, I am not unduly concerned on that score considering how well Sandvik has handled its growth so far. The question as to whether Sandvik should establish a fourth operating 'leg' is raised from time to time. I do not regard this as essential. There are so many unutilized business opportunities within the existing business areas that realizing these will be sufficient for some time to come. When I invested in Sandvik, I did so because I saw it as a growth company, and that impression has been strengthened since I became a Board member."

# News from Sandvik's world

## *Alternative energy*

Sandvik has an extensive customer offering for most types of energy. Through its Kanthal company MRL Industries in the US, the Group received an order for a large number of furnaces to be used in the solar cell industry from a customer in Asia. The order amounts to SEK 70 M – the largest single order ever in the Kanthal product area.



## *Focus on crushing*

Sandvik has acquired Extec Screens and Crushers Ltd., and Fintec Crushing and Screening Ltd. in the UK. The companies are leading in the development and manufacture of mobile crushing and screening equipment, including consumables and service to the international construction industry. Total sales are nearly SEK 2.5 billion and the number of employees is almost 800. Sandvik's strategy is to be a leading supplier of solutions for mobile crushing and screening. The acquisitions extend the Group's offering through the addition of light and mid-size equipment.



### ◀ Cinematics

Polished steel belt is used, for example, in the manufacture of thin films for photographic film and film for LCD displays. Sandvik's material satisfies the extremely high surface-finish standards that apply to this type of application. The Group has invested in new equipment at its plant in Kobe, Japan (picture) to meet the growing demand for polished and super-polished belts. A global sales and service organization has been established to meet the needs of customers worldwide.



### World-leading position ▲

Sandvik has acquired the American company Diamond Innovations Inc., a world-leading company in development and production of synthetic diamond and cubic boron nitride products for machining, oil and gas drilling, grinding, rock drilling and wire drawing. Annual sales for the company are in excess of SEK 1,000 M, with approximately 600 employees. The head office and largest production unit are in Columbus, Ohio.

The acquisition complements Sandvik's offering of diamond or cubic boron nitride cutting tools for metalworking. These materials are the hardest materials known to man, and are therefore extremely well suited to applications that require exceptionally high durability. After the acquisition, the Group has a world-leading position in this growing segment.

### Two acquisitions down under

Two new acquisitions have been carried out in Australia – Hydramatic Engineering and Shark Abrasion Systems. Hydramatic is market-leading in the design and manufacture of specialized drilling and bolting machines for rock reinforcement in underground mines and tunnels. Its position is strong in the Australian market, as well as in South Africa, the US, Russia, the UK and China. Shark is leading in wear parts for underground loader buckets, and Sandvik was previously a distributor of these products. Total sales for the two companies amount to approximately SEK 400 M, and the number of employees is 300.



Sandvik delivers components used in such applications as marine engines.

### Broadened expertise in powder metallurgy

Sandvik is strengthening its position in the strategically important segments of oil and gas, marine, energy and medical technology. This is being accomplished through acquisition of the Finnish company Metso Powdermet, which is world-leading in powder-metallurgy components manufactured through hot isostatic pressing (HIP technology) to a near net shape. The company develops and delivers customized components in nickel and cobalt alloys, primarily for customers in the offshore and energy sectors. Operations are now conducted under the name of Sandvik Powdermet, within Sandvik Materials Technology. The acquisition broadens the business area's leading-edge expertise in materials technology and production of powder metallurgical components.

### Sandvik divests Sorting Systems

Sandvik has reached an agreement with the French company Cinetic Industries, to divest Sorting Systems, which is part of the Process Systems product area within Sandvik Materials Technology. Sorting Systems has operations in Italy, the US and Japan, and manufactures sorting equipment for postal, parcel and baggage handling. The operations currently have sales of approximately SEK 1,000 M, with 300 employees. All units are being transferred to the buyer in conjunction with the acquisition. The sale is expected to close on 30 June 2007, provided the transaction receives the approval of the relevant antitrust authorities. The sale is part of the strategy of phasing out operations that lie outside Sandvik's core areas.

# Record attendance, strong optimism

Nearly 1,300 shareholders, representatives, assistants and guests were in attendance when Sandvik held its Annual General Meeting. The spirit of optimism was evident. President Lars Pettersson reported on Sandvik's rapid growth trend of the past few years. It is based on a strong business climate and a successful Group strategy. In 2006, sales rose by 14% to more than SEK 72 billion, up SEK 9 billion compared with the preceding year. Demand remained strong in the first quarter this year, and invoicing rose by 21% in price and volume.

In his address, Lars Pettersson drew the attention of the audience to Sandvik's focus on shareholder value. Over the past five years, the average total return on Sandvik shares was 22% per year. The new financial goals and the Group's strong global positioning, as a result of its investments in mineral exploration, super-hard materials and energy, was another central theme of the speech.

The Meeting voted to approve the Board's proposal of a dividend increased to SEK 3.25 per share and an automatic redemption procedure. As a result of the redemption procedure, SEK 3 per share – approximately SEK 3.6 billion – will be distributed in addition to the regular cash dividend. This implies that a total of SEK 6.25 per original share will be distributed to the shareholders in Sandvik.

Timo Soikkeli from Sandvik Mining and Construction was appointed Product Developer of the Year and awarded the Wilhelm Haglund

medal for the development of AutoMine®, an automated production system for loading and transport of ore in underground mines. Special mention went to Brett Cook and Riku Pulli for their contribution to this development.

Hanne de Mora, Georg Ehrnrooth, Sigrun Hjelmquist, Fredrik Lundberg, Egil Myklebust, Anders Nyrén, Lars Pettersson and Clas Åke Hedström, Chairman, were re-elected members of the Board of Directors.

The employee organizations appointed Tomas Kärnström and Göran Lindstedt as members, and Mette Ramberg and Bo Westin as deputy members.

1. Attorney Sven Unger served as Chairman of the Meeting. Flanked here on the left by Bo Severin, General Counsel Legal Affairs, and on the right by Clas Åke Hedström, Chairman of the Board, and Lars Pettersson, President.
2. The program held prior to the Annual General Meeting included the seminar "Expansion through company acquisitions," with Tom Erixon from Sandvik Tooling, Gert Sköld, Sandvik Mining and Construction, and Mats Gunnarsson, Sandvik Materials Technology. Anders Wallin from Group Communications served as moderator.
3. Lars Pettersson, President of Sandvik.
4. Executive Vice President Peter Larson distributed scholarships to students from the Göransson's School. From left: Moa Lignell, Elin Rudolfsson, Tommy Andersson and Björn Jansson.
5. Two young visitors to the Annual General Meeting – from left, Hanna Persson and Anna Widing.
6. The youngest visitor was Susanne Fahlén's daughter Elisia, three months old.
7. Some Sandvik Board members – from left: Sigrun Hjelmquist, Hanne de Mora, Fredrik Lundberg and Anders Nyrén.
8. The winner of the Wilhelm Haglund medal, Timo Soikkeli, Sandvik Mining and Construction, gave a presentation of his prize-winning innovation, AutoMine®. His colleague, Riku Pulli, in the background at the left, received a diploma for his efforts in AutoMine (in cooperation with Brett Cook, who was not present). At right, award presenter Per-Olof Eriksson from the medal jury.



1.

2.



3.



4.



5.



6.



8.



7.



“It’s so much more expensive!”  
“But you’ll save 30 million.”



The location is a chemical plant somewhere in the world. A Sandvik sales representative is on site to gather information. There is, however, a special purpose behind her visit:

“How often do you replace your heat exchanger,” she inquires.

“Once a year. That’s how long the tubes last,” responds the plant’s production manager.

“What kind of tubes do you have?”

“The standard 18/8 stainless.”

“How much does it cost you to replace the tubes in a heat exchanger?”

“About SEK 2 million every time, plus costs incurred for lost production.”

“In other words, over a twenty years, you spend more than SEK 40 million maintaining your heat exchanger.”

“That’s correct. But it’s a cost we factor in.”

This is when the Sandvik sales representative moves in to close the deal.

“Have you ever considered choosing zirconium instead of stainless tubes?”

“Yes, we’ve considered it, but isn’t that more expensive?”

“Only at first glance. It’s true that such tubes cost 4–5 times more initially, but on the other hand they will last for 20 years or more. In other words, it is an investment that could, roughly estimated, save you more

than SEK 30 million during that period of time. Plus you avoid costly downtime.”

“That sounds like a good deal to me. But what about you? It means you will sell fewer tubes.”

“Your thoughtfulness is touching.”

#### THE SOUL OF SANDVIK

The driving force behind Sandvik is to help customers increase productivity and profitability as well as improve safety and the environment. It is based on world-class products, manufacturing, logistics and service. Sandvik is there to understand the challenges facing customers and to offer them optimal solutions.

Our success is based on the success of our customers. The more profitable they are, the more profitable we will be.



[www.sandvik.com](http://www.sandvik.com)