

Meet Sandvik

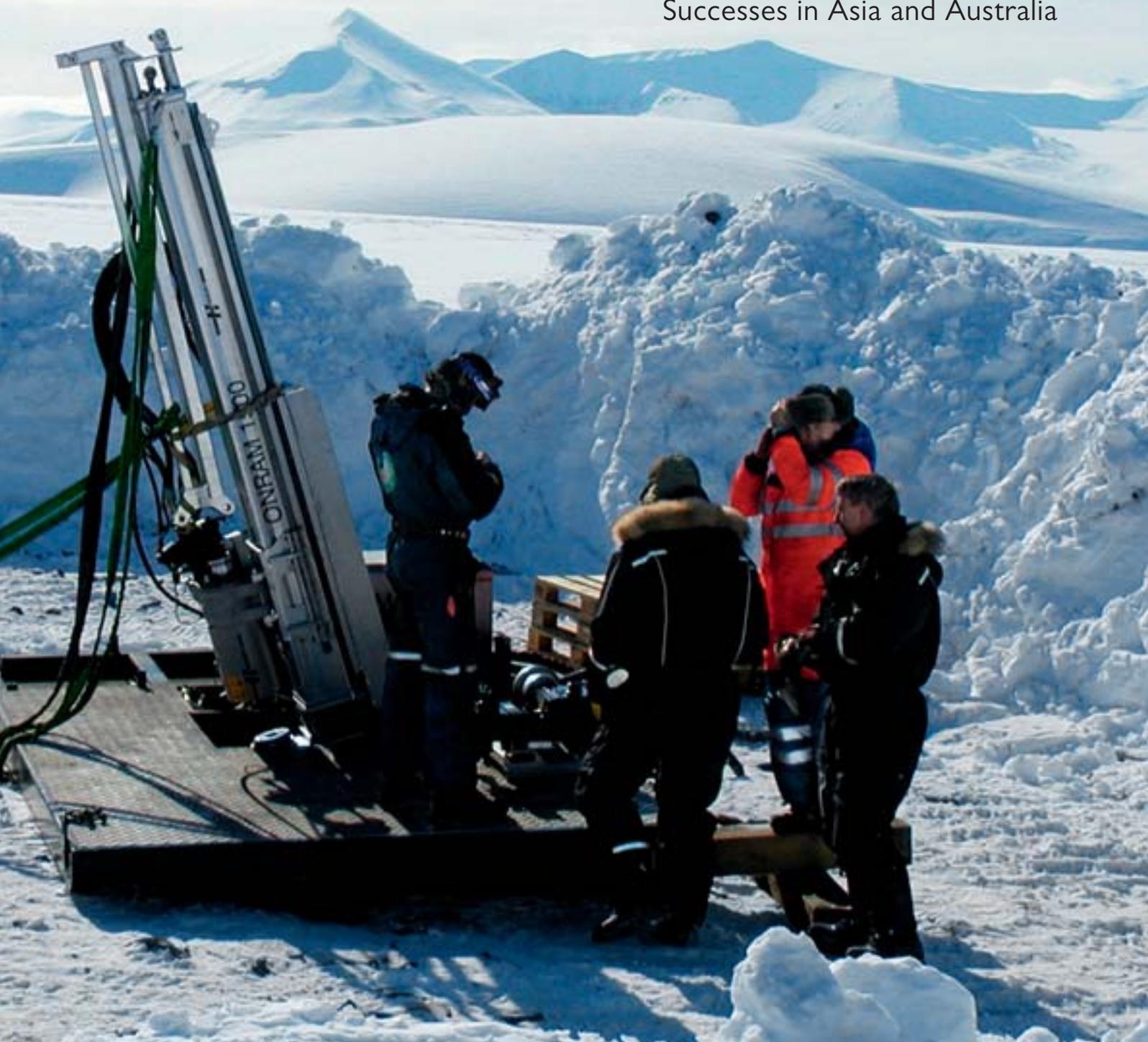
SEPTEMBER 2008

Exploration on Svalbard

Focus on environment, health and safety

Waste – material with potential

Successes in Asia and Australia



Second quarter 2008 in figures

INVOICING BY MARKET AREA

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



INVOICING BY BUSINESS AREA

SEK M	Q2		Change	
	2008	2007	%	% ¹⁾
Sandvik Tooling	6,721	6,324	+6	+12
Sandvik Mining and Construction	9,786	8,186	+20	+19
Sandvik Materials Technology	5,810	5,982	-3	+1
Seco Tools ²⁾	1,691	1,502	+13	+14
Group activities	8	8		
Group total	24,016	22,002	+9	+12

OPERATING PROFIT BY BUSINESS AREA

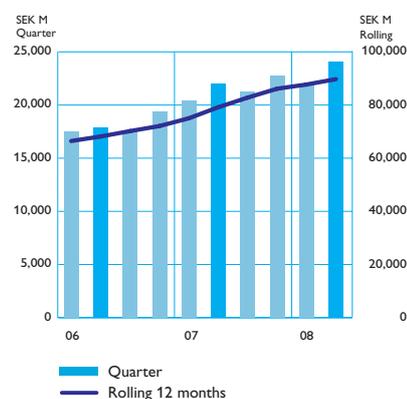
SEK M	Q2		Change %
	2008	2007	
Sandvik Tooling	1,626	1,568	+4
Sandvik Mining and Construction	1,370	1,269	+8
Sandvik Materials Technology	534	943	-43
Seco Tools ²⁾	378	382	-1
Group activities	-125	-69	
Group total	3,783	4,093	-8

OPERATING MARGIN BY BUSINESS AREA

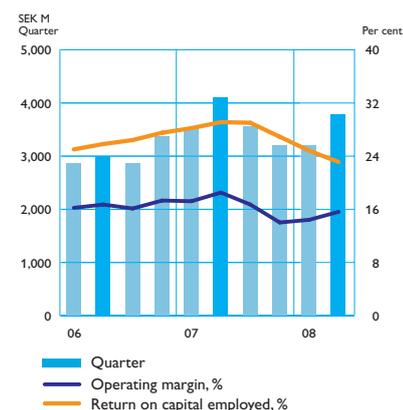
% of invoicing	Q2	
	2008	2007
Sandvik Tooling	24.2	24.8
Sandvik Mining and Construction	14.0	15.5
Sandvik Materials Technology	9.2	15.8
Seco Tools ²⁾	22.3	25.4
Group total	15.8	18.6

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.

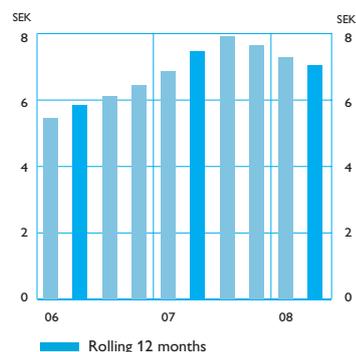
INVOICING



PROFIT, MARGIN AND RETURN



EARNINGS PER SHARE



Meet Sandvik

The Sandvik Group's magazine for shareholders and employees

Editor-in-chief: Per-Henrik Bergek
 Layout: Ehrenstråhle BBDO
 Print: Sandvikens Tryckeri
 Date of print: September 2008
 No. of copies: 105,000
 Published in printed form and on
www.sandvik.com

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

Cover: Sandvik is active in most parts of the world. On Svalbard, the Group's high-performance equipment is used for mineral exploration. Read more on page 4.

Stable demand and strong cash flow

Global demand remained favorable in Sandvik's core areas in the second quarter and invoicing increased. Order intake rose, for example in the oil and gas, nuclear power, aerospace, mining and medical technology industries.

High invoicing and favorable price trend offset increased costs. Operating profit was affected adversely by changes in currency rates and declining metal prices. Cash flow improved significantly through increased invoicing and reduced tied-up capital.

Growth and demand were stable in Europe as well as North and South America. Development in Africa and the Middle East was driven by a continued high pace of investment and production in the mining industry and order intake rose strongly. Demand in Asia, primarily in China and India, remained highly favorable, as well as in Australia.

Increased profitability for industrial tools and mining equipment

Growth remained favorable for Sandvik Tooling in most large markets and demand, particularly for cemented-carbide and diamond-based tools, increased further. Order intake from the engineering industry, oil and gas, parts of the automotive industry and the aerospace industry remained high. Strategic investments in new production facilities are in progress, for example in China and Japan. Operating profit improved despite the negative effect of changes in currency rates.

Demand for mining equipment, tools and service remained strong for Sandvik Mining and Construction, particularly in Asia, Africa and Australia. Demand in the construction industry was favorable, except for North America. The delivery situation improved compared with the preceding year and several projects are in progress to further increase delivery capacity. Operating profit increased in the second quarter compared with the first quarter of the year, despite the negative impact of currency fluctuations.

Metal prices and currency changes affected Sandvik Materials Technology

The underlying demand for products from Sandvik Materials Technology was favorable.

Invoicing of high value-added niche products remained strong, primarily for customers in such sectors as energy, oil and gas, aerospace, medical technology and process industries. Declining nickel prices also affected profits negatively in the second quarter and are expected to do so also in the second half of the year, based on current metal prices and exchange rates. The business area did not achieve targeted profitability during the second quarter.

With the aim of increasing competitiveness and improving profitability, the work to enhance efficiency is now being intensified within Sandvik Materials Technology. Part of this action is to downsize staff within the business area by about 10%, mainly through natural attrition. The actions are projected to affect about 900 persons, mostly in Sweden.

Increased efficiency in focus

The focus of the Group in future on continuing efficiency enhancement of operations, increased delivery capability and to reduce tied-up capital is significant. The measures for increased capital efficiency release resources for investments in research and development, which provides the conditions to further increase market shares and secure long-term profitable growth.

Environment, health and safety

This issue of Meet Sandvik presents a number of specific examples of the Group's work with the environment, health and safety. Work in these areas is highly important for the Group's continued business development. Issues regarding sustainable development and more efficient utilization of resources are significant principles for Sandvik's operations as well as in its offering to customers.



Lars Pettersson
President and CEO
Sandvik AB



- Order intake
SEK 24,688 M, +2%*
- Invoicing
SEK 24,016 M, +12%*
- Metal price effects
SEK -176 M
- Currency effects
SEK -340 M
- Operating profit
SEK 3,783 M, -8%
- Profit after financial items
SEK 3,302 M, -13%
- Profit for the period
SEK 2,410 M, -13%
- Earnings per share
SEK 1.94, -12%
- Cash flow
SEK 3,364 M, +222%

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



Exploration in the north

Demand from industries for minerals and metals is rising strongly. Extraction from existing mines is no longer sufficient. Extensive exploration is being conducted worldwide to locate new deposits, both in close proximity to and remote from the mines that are already in operation. This sometimes involves ore prospecting in more distant locations, for example, under the ice at Svalbard in the Arctic Ocean. Sandvik is on location here and in many other places. In a short time, the Group has established itself as a complete supplier of both equipment and services for exploration companies: equipment and accessories for drilling holes, analysis equipment and expertise for handling samples. A competitive offering in an increasingly important area.

Productivity as driving force



Lift for aerospace industry

Jointly with the Volvo spin-off, Lamera, Sandvik has created a new and color-coated lightweight material. The product is an ultra-light sandwich sheet material that can replace aluminum in a number of applications within the aerospace industry. The material is based on two thin stainless steel sheets with a filling of air and steel fibers thinner than a strand of hair. The technology yields a material that is near the weight of aluminum, but retains most of the stiffness and strength of steel. Another major advantage with the material is that it is formable without any adverse effect on the color coating. The color-coated surface is manufactured in a patented process that was developed by Sandvik. The process is very environmentally friendly, with no emissions to air or water. Compared with alternative materials, the surface is highly wear-resistant and also protects against staining, for example, from fingerprints.

Key to success

A complete plant for handling sulphur has been delivered to a refinery in Bahrain. The production at the company is 360,000 barrels of oil per day. A by-product is large quantities of sulphur, since the end product is fuel with extremely low sulphur content. The recovered sulphur is produced in liquid form and for practical reasons must be converted to pastilles for later sold. This occurs in high-speed, highly efficient Rotoform lines from Sandvik. The Group has also delivered all the necessary equipment for the complicated handling of the sulphur pastilles. In addition, Sandvik, in cooperation with a few other companies, has assumed total responsibility for the construction of the entire plant, including energy supply, road construction, fire protection, lighting and all other details.



In-depth knowledge

Oil extraction is carried out at increasingly greater depths. The greater the depth, the greater the demands on the equipment used to cope with higher pressure and other stress. For a long time, Sandvik has been the leading supplier of tubes for umbilicals, the tube strings that connect various production units on the ocean floor. The Group recently launched a new material called Sandvik SAF 3207 HD®. This facilitates the manufacture of lighter tubes with thinner walls that still have higher tensile strength, better corrosion properties and highly favorable fatigue strength, despite the fact they are used at greater depths than was previously possible.



Cooperation on training in Canada

Access to professional operators for turning, milling and drilling is of strategic significance to the engineering industry worldwide. The hunt for increased productivity actually takes place in workshops. Consequently, it is vital that the training of operators is of the highest quality. In line with this, Sandvik Coromant, in cooperation with Northern Alberta Institute of Technology (NAIT), has invested in a training center for operators in Edmonton, Canada. The new center will have the capacity to train nearly 700 apprentices annually. This is to the delight of all companies in Canada seeking skilled employees and they are now receiving tangible support to further improve their productivity and profitability.

Sustainable solution

Titanium has long been in demand in the aerospace industry. It is strong but light at the same time and can thus satisfy the increasingly tough environmental requirements within the industry. The component manufacturers were faced with new challenges in terms of processing the material. Sandvik Coromant's solution is the long-edge cutter, CoroMill® 690, which was specifically designed for processing titanium. Due to the heat resistance of titanium, the milling tool was designed with constant cooling using an individual nozzle for metalworking fluids at each cutting edge, a solution that also ensures optimal removal of chips during all types of milling. Another important feature is the new pyramid-shaped insert holder, which provides higher stability and productivity.



LOTTA LIND:

“We view waste as a material with potential”



The manufacture of tube, strip, wire and bar steel at Sandvik Materials Technology results in various types of waste during all process stages. Lotta Lind has the task of reducing landfilling of waste at all the business area's facilities. Preferring to refer to waste as “residual products,” she has a different perspective on this issue. Her approach focuses on the opportunities and the vast potential of the materials, both financially and, especially, in terms of the environment. This offers definite linkage to the Group's overall environmental goals for materials recycling.

Why use the term “residual products”?

“We have a deeply ingrained view of waste, frequently suggesting that this material is not a part of the logistics involved in production and, thus, should be dumped. This approach simply involves moving the waste to landfill and paying the necessary taxes – then that's the end of the problem. Needless to say, it isn't quite that easy. Waste is not just refuse; it also has an intrinsic value and offers considerable potential. So I believe it's more appropriate to use the term “residual products.” This prompts people to wake up and think again. Actually, we don't only produce steel, we also generate a half-kilo of residual products per kilo of steel, which we can largely recycle or process for sale downstream.”

What's included in these residual products?

“About 50% consists of slag that derives from the steel mill. The remainder is sludge, millscale, grinding fines and cuttings from various stages of the production process. So, as you can understand, the term “residual products” is by no means a uniform concept but is actually made up of a whole series of different components.”

What sort of residual product volumes does Sandvik handle?

“The Sandvik Group pursues steel production only in Sandviken and Hallstahammar, and these mills generate the largest volume of residual products. Here in Sandviken, we handle some 130,000 tons of residual products annually. About two thirds of this volume, nearly 90,000 tons, is currently sent to landfill. Depositing a ton of this costs some SEK 500 in handling costs alone. Moreover, we have to pay landfill taxes for part of the “waste,” which are almost equal to the handling costs per ton. So, we obviously have a definite financial incentive to reduce the volume of residual products destined for landfill. Our goal is set: We plan to reduce landfill-related residual products by 20% by 2010 compared with 2004 – corresponding to 15,000 - 20,000 tons!”



Lotta Lind, Dr
Researcher of by-products from steel industry

SANDVIK MATERIALS TECHNOLOGY
SE-811 81 SANDVIKEN SWEDEN
Tel +46 26 26 00 00 Fax +46 26 26 02 20
lotta.lind@sandvik.com
www.smt.sandvik.com

How can we reduce the volume of residual products?

“Firstly, we can recycle within the framework of our own production. Instead of dumping substances contained in residual products, we can use them as raw materials, thereby saving money. For example, we currently have a promising project in progress designed to test the recovery of metallic lead. I hope and believe that this will be a success and that this investment will cover itself in less than two years. Accordingly, in the long term we will have less waste and a profitable recycling of lead.”

Other methods to reduce residual products?

“Another alternative we’re looking at is to use residual products to create new products that can be sold externally. In other European countries, for example, slag from steel mills is used as aggregates for road construction and for asphalt production. There are differences among the various types of slag but it is viewed as quite natural to use a reliable material, at the same time as it represents a practical approach to reducing landfill deposits. In our industry organization – Jernkontoret (Swedish Steel Producers’ Association) – research is in progress to develop these products from our slag.”

Any other ideas?

“The third obvious approach to reducing landfill deposits is to cut the amount of residual products by changing our production process. Also in this area, research and pilot projects are in progress in various locations in Sweden and the rest of Europe. One promising project is based on replacing the chemical treatment baths that are part of steel production with blasting processes using dry ice pellets. This cuts both water and energy consumption as well as the volume of waste and, in turn, reduced costs. Of course, all process changes require capital expenditure but – hopefully – they will provide a relatively rapid payback. It’s easy to take comfort in the belief that current processes are optimized in terms of costs, but I’m certain that we will progress further in this area, too.”

How do you view current trends?

“I am convinced that we will be able to reduce gradually the volume of residual products to landfill and attain our goals – through a high recycling rate, combined with the manufacture of new products, plus changes in the manufacturing process. Not only because the authorities are imposing increasingly stringent requirements on us, but also it is economically and environmentally beneficial to do so.”

What are the major challenges?

“As I noted above, what we really need is a change in mindset as regards the problems of waste, and to be receptive to new opportunities. Consequently, it is important to create networks of colleagues and researchers in a bid to exchange information, look for new approaches, gain practical advice and tips and – primarily – to stimulate advancement. On a more personal level, I have been co-opted as Adjunct Professor of Waste Science and Technology at the Luleå University of Technology, which permits me to strengthen my efforts at Sandvik by means of the research at the institute. This can be made more practically oriented, which I feel benefits all parties.”

Finally, what is the most enjoyable aspect of your work?

“Undoubtedly, the extremely good cooperation among colleagues with similar positions at steel mills in Sweden as well as in the rest of Europe, plus the potential to introduce new ideas, approaches and technologies in the particular companies. There are no watertight bulkheads in this respect. There is no competition. Discussions can take place openly, involving minor day-to-day problems as well as major, comprehensive issues. It’s really inspiring and I believe that it will prove highly beneficial in the longer term. The challenge to improve our environment is one that we all readily share!”

EHS – an acronym in focus



Sandvik's tube mill in Chomutov, Czech Republic.

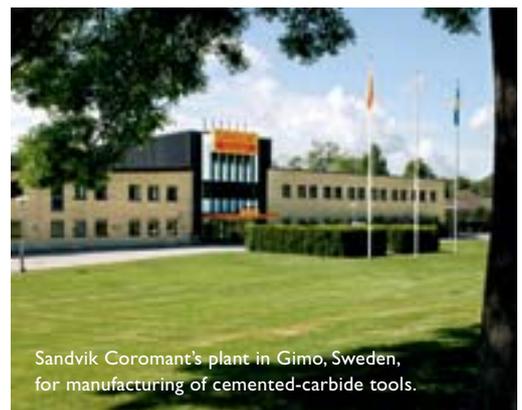
Issues associated with long-term sustainable development have come very much to the fore in recent years. The term EHS – *Environment, Health and Safety* – has become increasingly significant for companies worldwide. At Sandvik, extensive programs dealing with these issues have been in progress for many years. Executive Management and the Board have set overall goals, policies and strategies, while responsibility for implementation has been decentralized to the Group's three business areas. These pages offer some examples of the practical results of our EHS efforts.

Customer environment, health and safety requirements

EHS has also found a place in commercial activities. Customers are increasingly imposing demands to the effect that Sandvik must provide a presentation indicating its status in terms of various EHS issues. Representatives from the oil and gas industry, for example, are frequent visitors to Sandvik's facilities as part of efforts to assess the EHS work, notably in connection with major orders. They request various types of statistical data and scrutinize regulations and directives. In brief, they want to be convinced that the Group's processes and plants meet requirements in respect of environment, health and safety. In addition, customers want to be assured that Sandvik supplies products that can contribute to a better environment and safety. One trend, for example, is towards products with longer service lives, that result in fewer stoppages and contribute to a reduction in accident frequency. Sandvik's offering meets the customers' high demands.

More efficient use of water

Resource management is a high priority in EHS efforts. Water is one of the key areas. By recycling water in the surface coating operations at Sandvik's Gimo plant in Sweden, annual water consumption has declined a full 40% – from 250,000 m³ to 150,000 m³ – over the past nine years. India provides another example. In this case, the Chiplun recycling facility has installed a treatment plant for wastewater, which is subsequently used for irrigation purposes in the area,

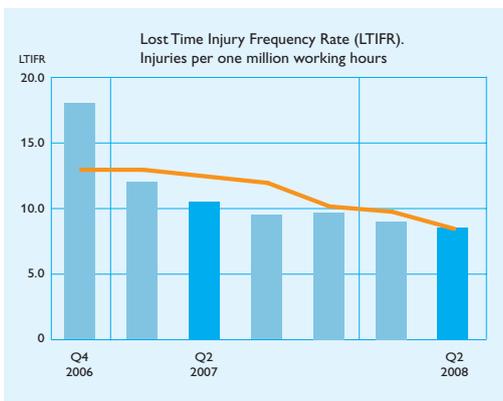


Sandvik Coromant's plant in Gimo, Sweden, for manufacturing of cemented-carbide tools.

supplying some 30,000 liters per month. Other Sandvik units in the country have implemented similar actions.

Reduction in work injuries

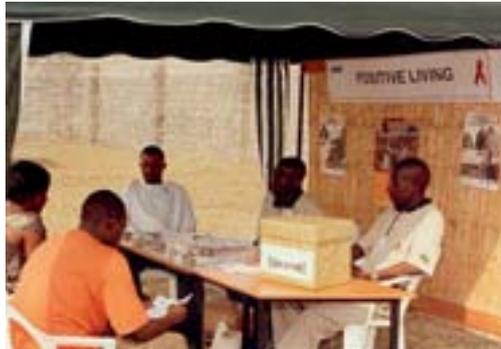
Sandvik has a specific target of a 50% reduction in the number of accidents, accident frequency and the number of working days lost by year-end 2008. The starting point is an LTIFR value (see explanation below) of 16.1 in 2005. Safety programs conducted at the various units are now having an effect. The data for the past 12-month period show a decline in lost time from 12.3 to 8.6, or 30%, putting Sandvik in line to hit its established target. If the positive trend continues at a similar pace to date, the target will be achieved.



The diagram shows the LTIFR trend. The columns depict the quarterly trend, while the yellow line shows the rolling 12-month period.

Active efforts to combat HIV/AIDS

Since 2004, Sandvik has been working actively to combat the spread of HIV/AIDS in African countries in which the Group is active and is giving afflicted employees a possibility to live with the disease. The program is based on the training of counselors and providing assistance in the form of medicines and packages of nutrient-rich food. Over the past four years, 2,500 employees at Sandvik in Africa have received advice and training. The Group's efforts have attracted considerable attention. In Zambia, Sandvik has been awarded for its involvement for women and, for example, the Zambian



All employees in Kenya have been tested for HIV/AIDS. In Zimbabwe and South Africa a mobile test station has visited all Sandvik work sites and in Tanzania the Group's new policy regarding HIV/AIDS is being implemented.

national radio transmits a Sandvik-sponsored program that attracts millions of listeners. Sandvik's 130 counselors, made up mainly of employees trained in-house, are also used by other companies as part of their HIV/AIDS assistance programs.

Subterranean heat reduces power consumption

One of Sandvik's environmental objectives is to achieve a 10% reduction in power consumption in relation to sales volume by 2010. One of the production units at Sandvik Mining and Construction specializing in rock drilling identified the potential to utilize its expertise to contribute to this goal. The use of subterranean water sources for the heating and cooling of offices and production facilities is an environmentally sound and innovative approach to reducing power consumption. This geothermal solution cut electricity consumption for heating or cooling applications three- to four-fold. The pay-back period for the investments is estimated at a maximum of five to six years.



Subterranean heat involves drilling a hole in the bed-rock to extract heat from the groundwater. One of Sandvik's production units was able to reduce electricity consumption substantially using this method.

News from Sandvik's world



Everything revolves around recycling

Sandvik has increased its materials recycling – one of its overall environment goals. The recycling of cemented-carbide inserts and solid-carbide products is just one of the Group's activities. The objective is to recycle about half of all cemented-carbide products sold, and the share achieved to date is already more than 25%. Recycling is now about to be extended to cemented carbide used in drill bits. Accordingly, a purpose-built plant to handle this operation has been added to the recycling facility in Chiplun, India. The cemented carbide is separated from the steel in the worn-out tools. Subsequently, the cemented carbide is cleaned, leaving tungsten and cobalt in powder form. These materials are shipped to Sandvik's plant in Coventry, UK. The powder is later utilized to manufacture new rock-drilling tools. This closing of the cycle benefits the environment and the company's finances.



Continued focus on diamond-based tools

Sandvik Tooling has reached an agreement to acquire 49% of the shares in the American company Precorp Inc., based in Spanish Fork, Utah. The company specializes in polycrystalline diamond (PCD) and cemented-carbide tools for machining of advanced composite and other materials. Customers are mainly in the aerospace and automotive industries. Precorp has sales of approximately SEK 140 M, with 140 employees. The acquisition provides Sandvik the possibility to further strengthen its global offering of diamond-based cutting tools, particularly in the rapidly growing aerospace segment.

Full pressure in development work

A new development unit for powder metallurgy will start up this autumn within Sandvik Materials Technology. New products will be developed in the unit that meet increasingly advanced customer requirements. Powder metallurgy is particularly suitable for such growth areas as oil and gas, high-temperature materials and medical applications. These areas often involve alloys in which conventional processes and methods do not function. A product manufactured from compressed powder gains highly homogeneous properties. In addition, less processing is required, which can eliminate several steps in manufacturing. In brief, this means shorter lead times.



Small item, large demands

Continental Inc. in the US manufactures injectors for diesel engines. One of its customers is Cummins, whose operations include delivery of engines to American Chrysler's various car models. Continental has now developed an entirely new type of injector that they foresee will be a major sales success. The new injector includes four cemented-carbide components that must withstand extremely high pressure. To ensure the quality of these key components, Continental selected Sandvik as the supplier. Initially, the contract covers nearly five million components annually through 2014. Sandvik is making new investments in its plant in Spain to meet the demands for secure deliveries.



Capital Markets Day

Sandvik in continuous development was the theme of the Group's Capital Markets Day for the financial market and media at the beginning of September. The event attracted very much attention, particularly from investors and analysts outside Sweden. Participants were updated about the financial development and Group executive management reported on how it views the issue of retaining and strengthening market leadership. The ongoing work with revitalizing internal processes, technologies, products and the organization was also highlighted. Read more about the Capital Markets Day at the Group's website www.sandvik.com.



Sandvik's President and CEO Lars Pettersson, at right, speaks with Michael Grundberg, L E Lundberg Kapitalförvaltning, nearest to the left, and Johan Lindström from Alfred Berg.



We are where you would least expect!

This is the theme of an advertisement campaign Sandvik is launching in Sweden this autumn. A key target group is prospective employees. Many people recognize Sandvik, but far from all know what the Group does and what it is like to work in the company. The ability of the Group to retain and recruit employees with the right skills is totally decisive for continued growth. The Group is now taking a broader approach to be able to reach the new target groups, in media selection as well as content. Sandvik is found close to people, often without them being aware of it. Operations affect a broad spectrum of end-user applications and products. The results of Sandvik's know-how are found in mobile phones, in aircraft, at the depths of the sea and many other unexpected places. The accompanying illustration is part of one of the campaign ads. The advertisement is featured of the back page of this magazine.

Successes in Asia and Australia

Three major contracts were signed recently in Asia and Australia. An agreement was reached in China covering delivery of more than 13,000 tubes for steam generators to a nuclear power plant. This is the first contract for this type of product in China in nearly 15 years and, consequently, it is of major strategic importance. In India, Sandvik secured a contract covering delivery of emission filter wire for flue-gas treatment totaling SEK 80 M. This is the largest order ever for Sandvik for wire within the energy segment. Sandvik Mining and Construction has received an order from Australia for mining equipment and systems for surface mining. The total order value is about SEK 730 M.



You'll find us in places you could hardly imagine.

Here, for example!

WE ARE IN PLACES YOU WOULD LEAST EXPECT. Sandvik's know-how is important to the mobile phone industry in many ways. The Group contributes to the shell of the phone, our materials are also used in the small, highly resilient springs in the keyset and special drilling tools manufactured from Sandvik materials were used to precisely drill the thousands of holes in the circuit card.

You will also find the results of our know-how in mines, in aircraft, in a human knee and in many other places. But even if you are not thinking about where Sandvik can be found, customers are. Because our products enhance their productivity and profitability.



www.sandvik.com