

# **Interim report**

**Q4 2006**



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**Per Nordberg, CFO**

**1 February, 2007**

# Financial Highlights Q4

- 
- **Organic growth \***
    - ✓ **Order intake** +19 %
    - ✓ **Invoicing** +17 %
  - **Operating profit** +20 %
  - **Earnings Per Share** +28 %
  - **Increased dividend** +20 %
  - **Extra distribution of SEK 3.6 B**

\* Change in fixed currencies for comparable units

# Market Highlights Q4

- **Business environment**

- ✓ Continued strong demand
- ✓ Strong growth in Europe, Asia and South America
- ✓ Solid demand in Nafta, apart from automotive

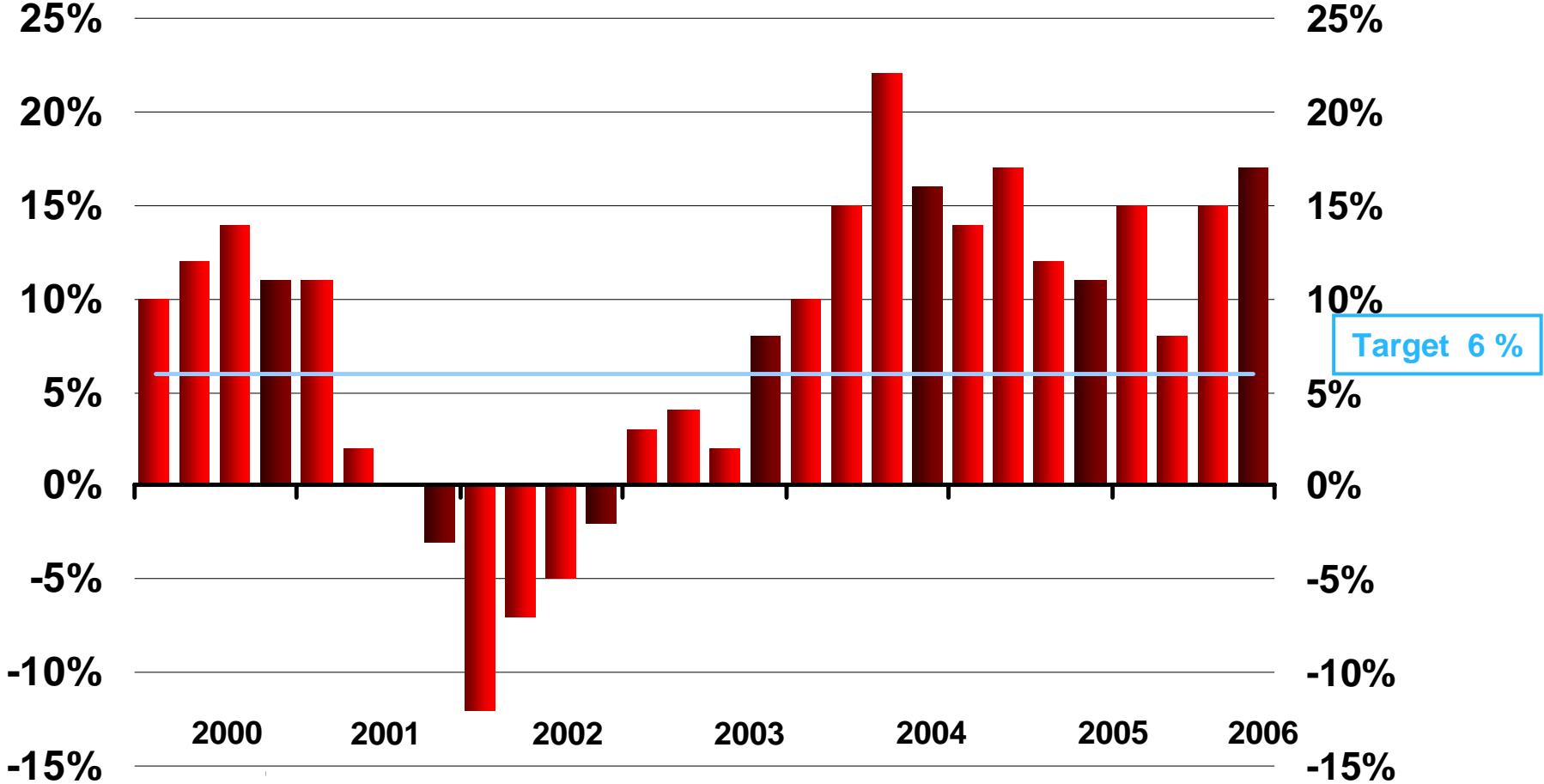
- **Business segments**

- ✓ Strong growth in electronics and aerospace
- ✓ Solid growth in mining, energy and oil & gas

# Operational Highlights Q4

- **Increased market shares**
  - ✓ Successful introductions of new products
  - ✓ Increased production capacity in emerging markets
- **Strategic acquisitions**
  - ✓ Expansion into growth areas
  - ✓ Strengthened market positions in selected segments
- **Continued strong price development**

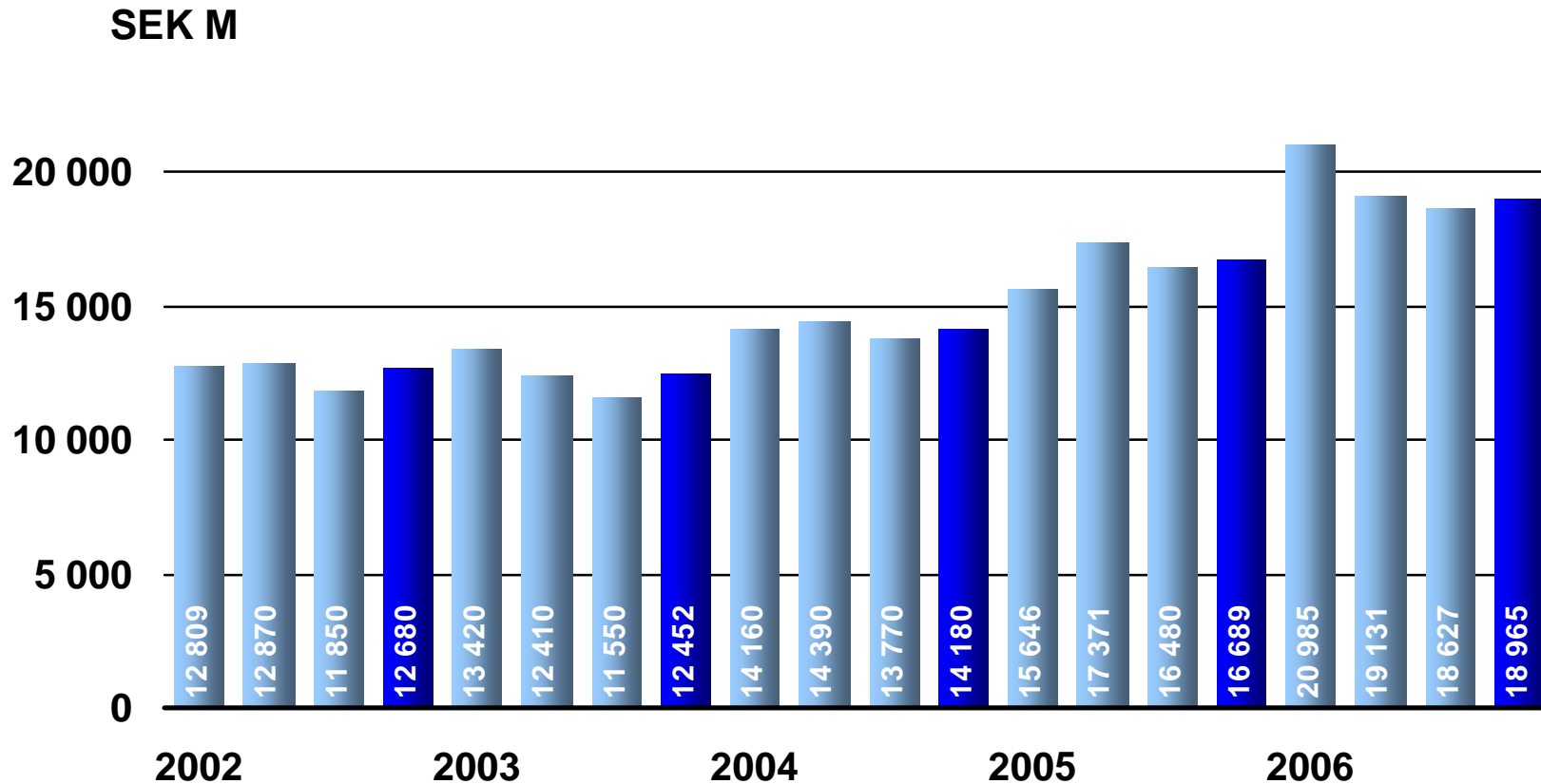
# Organic invoicing: +17 %



Change in invoicing y-o-y, at fixed exchange rates for comparable units



# Order intake: SEK 18,965 M, +14 %



**+19 % organic growth**

# Organic Growth by Region

Quarter, % change <sup>1)</sup>	2005		2006			
	Q4	Q1	Q2	Q3	Q4	Ex proj.
Europe	+ 6	+29	+11	+28	+24	+26
NAFTA	+16	+10	+ 5	+15	- 6	+ 0
South America	- 27	+93	- 18	- 10	+109	+65
Africa/Middle East	+34	+62	+13	- 8	+ 5	+ 5
Asia/Australia	+ 8	+ 4	+ 9	+ 6	+16	+11
<b>GROUP</b>	<b>+ 8</b>	<b>+23</b>	<b>+ 7</b>	<b>+14</b>	<b>+19</b>	<b>+18</b>

<sup>1)</sup> order intake at fixed exchange rates for comparable units

# Order Intake by Business Area

Quarter, % change	2005		2006			
	Q4	Q1	Q2	Q3	Q4	Ex proj.
Svk Tooling <sup>1)</sup>	+ 4	+13	+ 2	+ 7	+11	+11
Svk Mining and Construction <sup>1)</sup>	+ 9	+46	+ 9	+ 3	+32	+16
Svk Materials Technology <sup>1) 2)</sup>	+11	+12	+11	+ 41	+15	+33
<b>GROUP ORGANIC GROWTH <sup>1)</sup></b>	<b>+ 8</b>	<b>+23</b>	<b>+ 7</b>	<b>+14</b>	<b>+19</b>	<b>+18</b>
Currency	+10	+ 8	+ 2	- 3	- 7	- 7
Structure	0	+ 1	+ 1	+ 2	+ 2	+ 2
<b>GROUP TOTAL</b>	<b>+18</b>	<b>+34</b>	<b>+10</b>	<b>+13</b>	<b>+14</b>	<b>+13</b>

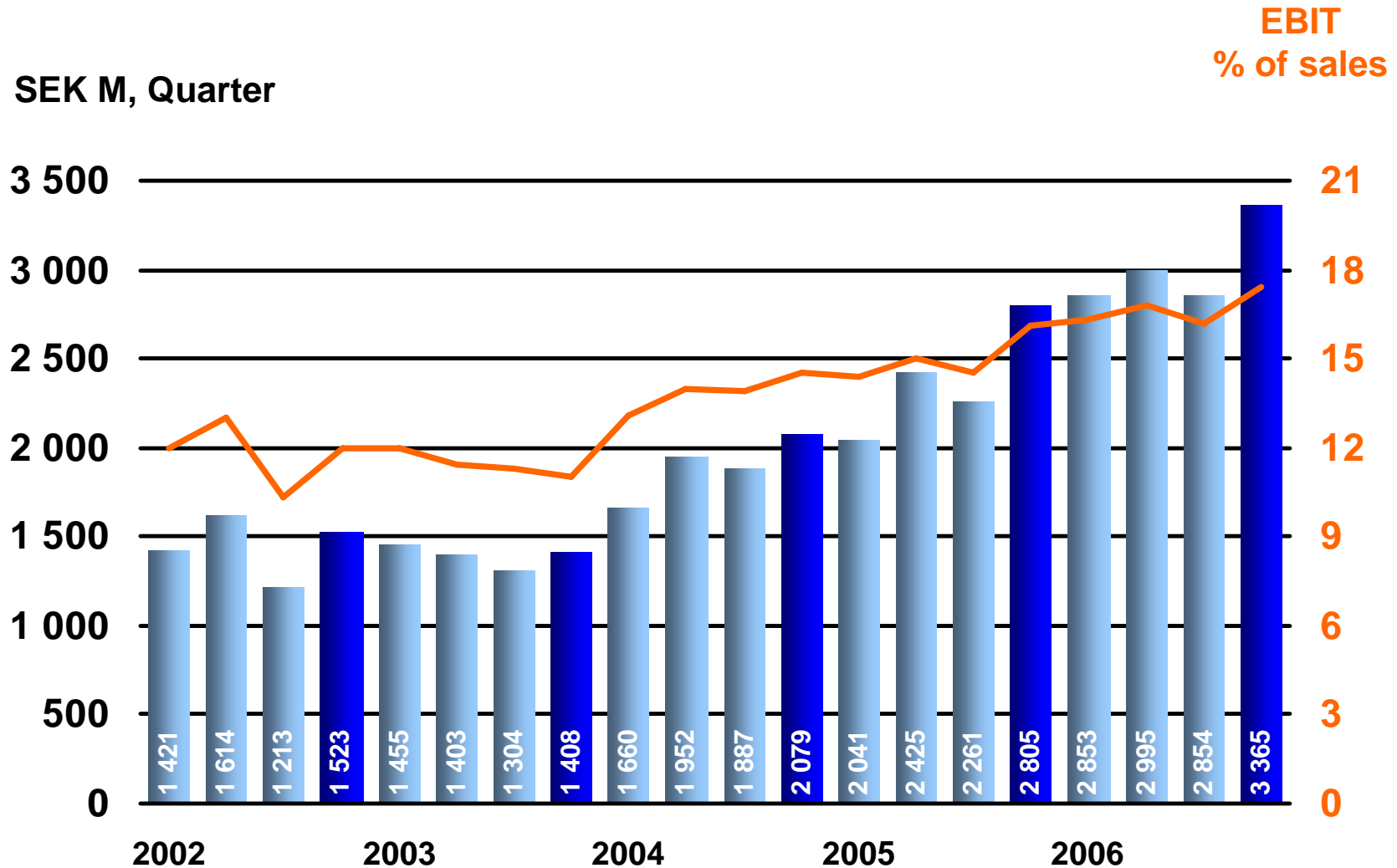
<sup>1)</sup> Fixed exchange rates for comparable units

<sup>2)</sup> +7 %, +5%, +2%, +6% and +6% respectively from increased alloy surcharges





# Operating Profit: SEK 3,365 M, +20 %



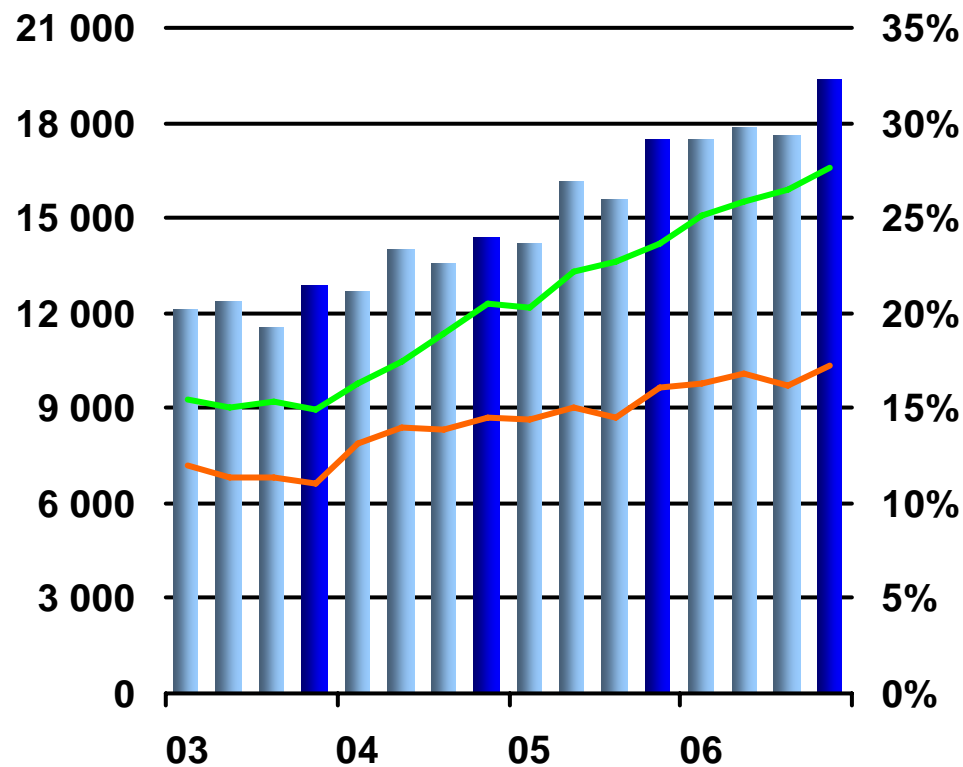
- Excluding goodwill write-down in Q4/2003
- Adjusted to IFRS from Q1/2004 (approx +0,7% per quarter)



# Sandvik Group

Invoiced sales  
SEK M, Quarter

— EBIT- margin\*  
— ROCE 12-months\*



- Strong order intake, +14 %
  - ✓ Organic excl projects +18 %
- Invoiced sales +11 %
  - ✓ Organic growth +17 %
- EBIT +20 %, 17.4 % of sales
  - ✓ SEK 3,365 M
  - ✓ Currency effect SEK -260 M
- ROCE 27.6 % (23.7 %)
- ROE 31.8 % (27.4 %)

Adjusted to IFRS from 2004

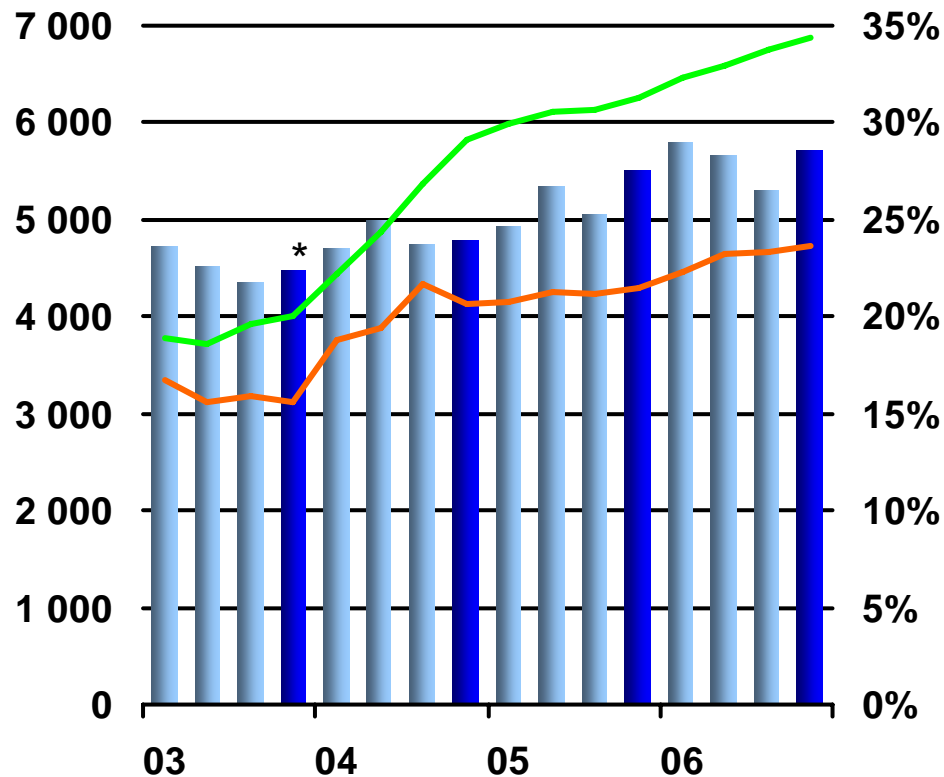
\* excluding one-offs in PTD in Q4 2003



# Sandvik Tooling

Invoiced sales  
SEK M, Quarter

— EBIT- margin\*  
— ROCE 12-months\*



- Continued strong growth
  - ✓ Europe & Asia
- Invoiced sales +4 %
  - ✓ Organic growth +11 %
- EBIT +14 %, 23.6 % of sales
  - ✓ SEK 1,347 M
  - ✓ Currency effect SEK -90 M
- ROCE 34.4 % (31.3 %)

Adjusted to IFRS from 2004

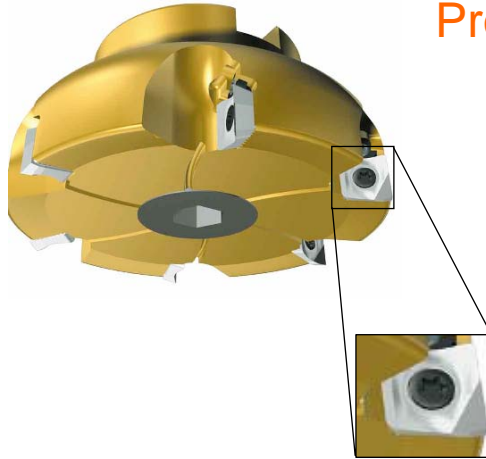
\* excluding one-offs in PTD in Q4 2003



# Strategic Tooling acquisition

## – Diamond Innovations Inc.

### Products

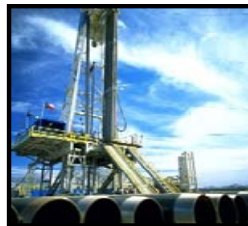


- Sales > SEK 1,000 M
  - ✓ Market SEK 10,000 M
- 600 employees
- Headquarter and production in Worthington, Ohio, US.
- Products in synthetic diamond (PCD) and Cubic Boron Nitride (CBN)

### End markets



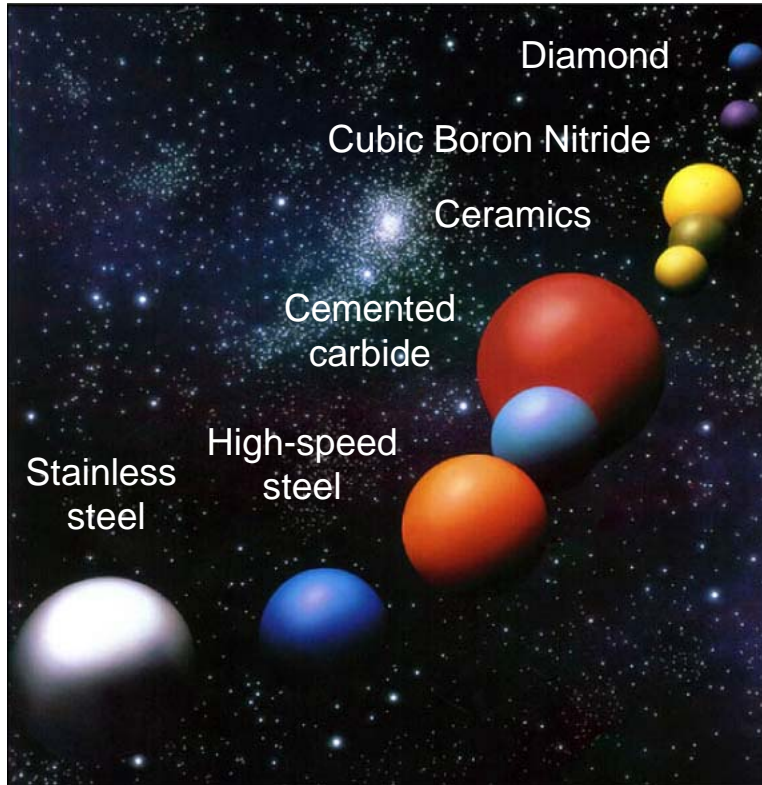
**Advanced Materials**  
*Machining Alloys; Grinding  
and Shaping Composites*



**Energy Exploration**  
*Oil & Gas Drilling With  
Polycrystalline Cutters*

# Diamond Innovations Inc.

## – Business logics



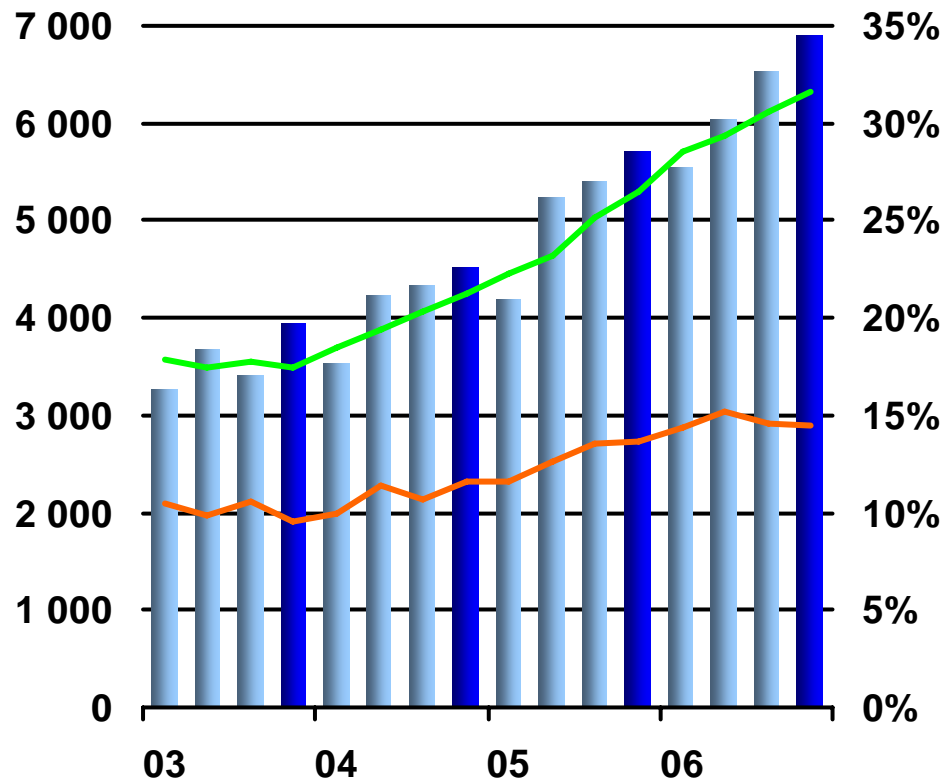
- Global presence
- Strategic product portfolio
  - ✓ Complementing existing Tooling portfolio
  - ✓ Enabling synergies
  - ✓ Strengthening R&D
- High-growth applications and end-markets



# Sandvik Mining and Construction

Invoiced sales  
SEK M, Quarter

— EBIT- margin  
— ROCE 12-months



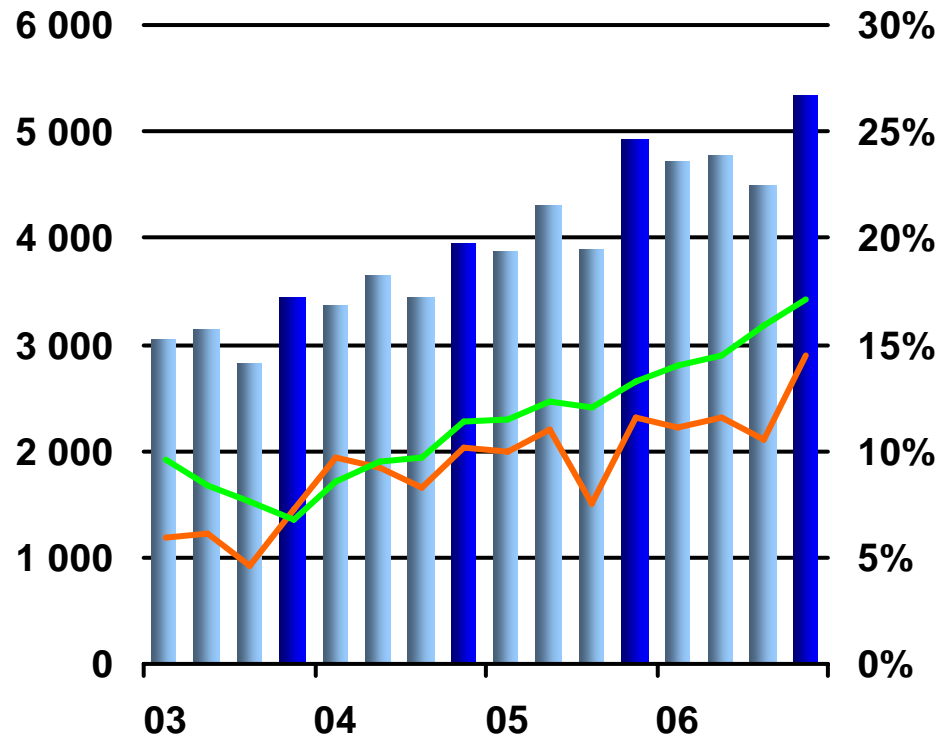
Adjusted to IFRS from 2004

- Order intake +29 %
  - ✓ Organic excl projects +16 %
- Invoiced sales +21 %
- EBIT +29 %, 14.5 % of sales
  - ✓ SEK 1,002 M
  - ✓ Product mix
  - ✓ Currency effect SEK –70 M
- ROCE 31.6 % (26.4 %)

# Sandvik Materials Technology

Invoiced sales  
SEK M, Quarter

— EBIT- margin  
— ROCE 12-months



Adjusted to IFRS from 2004

- Order intake +9 %
  - ✓ Organic excl project +33 %
- Invoiced sales +8 %
  - ✓ Organic growth +16 %
- Alloy surcharges +6 %
- EBIT +35 %, 14.5 % of sales
  - ✓ SEK 772 M
  - ✓ Currency effect SEK –30 M
- ROCE 17.1 % (13.2 %)

# Strategic summary

- **Well positioned in growth areas**
- **Strong sales efficiency**
- **Profitable growth**
- **New financial targets**



# Financial targets over a business cycle



	Target	2006	Ave. 2-years	Ave. 5-years
Organic growth	+6 %	+14 %	+15 %	+8 %
ROCE	20 %	27.6 %	25 %	20 %
Net Working capital	25 %	27 %	27 %	29 %
Payout ratio	> 50 %	50 %	53 %	66 %
Net debt / equity	< 0.7	0.6	0.7	0.6

# New Financial targets

- defined 2007



	New	Old
<b>Organic growth</b>	<b>+8 % + acq.</b>	<b>(+6 % + acq.)</b>
<b>ROCE</b>	<b>25 %</b>	<b>(20 %)</b>
<b>Dividend</b>	<b>≥ 50 % of EPS</b>	<b>(≥ 50 % of EPS)</b>
<b>Net debt / equity</b>	<b>0.7 - 1.0</b>	<b>(&lt; 0.7)</b>
<b>(Shareholder value</b>		<b>&gt; industry)</b>

# New Financial targets

**Organic growth 6 % → 8 %**

## Historical organic growth:

- Last 4 years +12 %
- Last 5 years +8 %
- 2000-2004 +6 %
- 1996-2000 +2 %

## Potential:

- Emerging markets
- New application areas
- Structural changes
- Business area mix

# New Financial targets

**Return On Capital Employed 20 % → 25 %**  
On current operation

## Historical ROCE:

- 2006 28 %
- Last 2 years 26 %
- Last 5 years 20 %
- Last 10 years 19 %

## Potential:

- Increase Capital turnover
- Asset Management
- Product mix
- Organisational setup

# New Financial targets

**Net debt / equity < 0.7 → 0.7 - 1.0**

## Present situation:

- High rating
- Increasing cash flow
- Limited risk in operation
- Controlled fluctuation in net debt / equity

## Potential:

- Increase gearing
- Reduce WACC
- Focus on growth
- Increase shareholder value

# Financial performance

- 
- **Organic order growth** **+19 %**
  - **Pre-tax profit** **+23 %**
  - **EPS growth** **+28 %**
  
  - **Total distribution of SEK 7.5 B** **+110 %**
    - ✓ **Increased dividend to SEK 3.25 (2.70)**
    - ✓ **Extra distribution of SEK 3.00 per share**

# P&L summary

MSEK	Q4/2006		Q4/2005		Change %
	Actual	%	Actual	%	
Invoiced sales	19,370		17,473		+11
Cost of goods sold	-12,609		-11,398		+11
<b>Gross profit</b>	<b>6,761</b>	<b>34.9</b>	<b>6,075</b>	<b>34.8</b>	<b>+11</b>
Admin, Sales and R&D costs	-3,493	-18.0	-3,309	-18.9	+ 6
Other op income and exp.	+97	0.5	+39	0.2	+149
<b>Operating profit</b>	<b>3,365</b>	<b>17.4</b>	<b>2,805</b>	<b>16.1</b>	<b>+20</b>
Net financial items	-214	-1.1	-239	-1.4	-10
<b>Profit after Financial items</b>	<b>3,151</b>	<b>16.3</b>	<b>2,566</b>	<b>14.7</b>	<b>+23</b>
<b>Profit for the period</b>	<b>2,354</b>	<b>12.2</b>	<b>1,892</b>	<b>10.8</b>	<b>+24</b>



# P&L – Bridge analysis Q4

## Key drivers

SEK M	Q4/2005	Price/ Volume	Curr.	Acq.	Q4/2006
Invoicing	17,473	+2,845	-1,231	+283	19,370
Operating profit	2,805	+804	-260	+16	3,365
%	16.1	28.2	-	5.7	17.4
Profit after financials	2,566	+740	-	-	3,151
Profit for the period	1,892	+492	-	-	2,354
EPS	1.45	+0.44	-	-	1.85



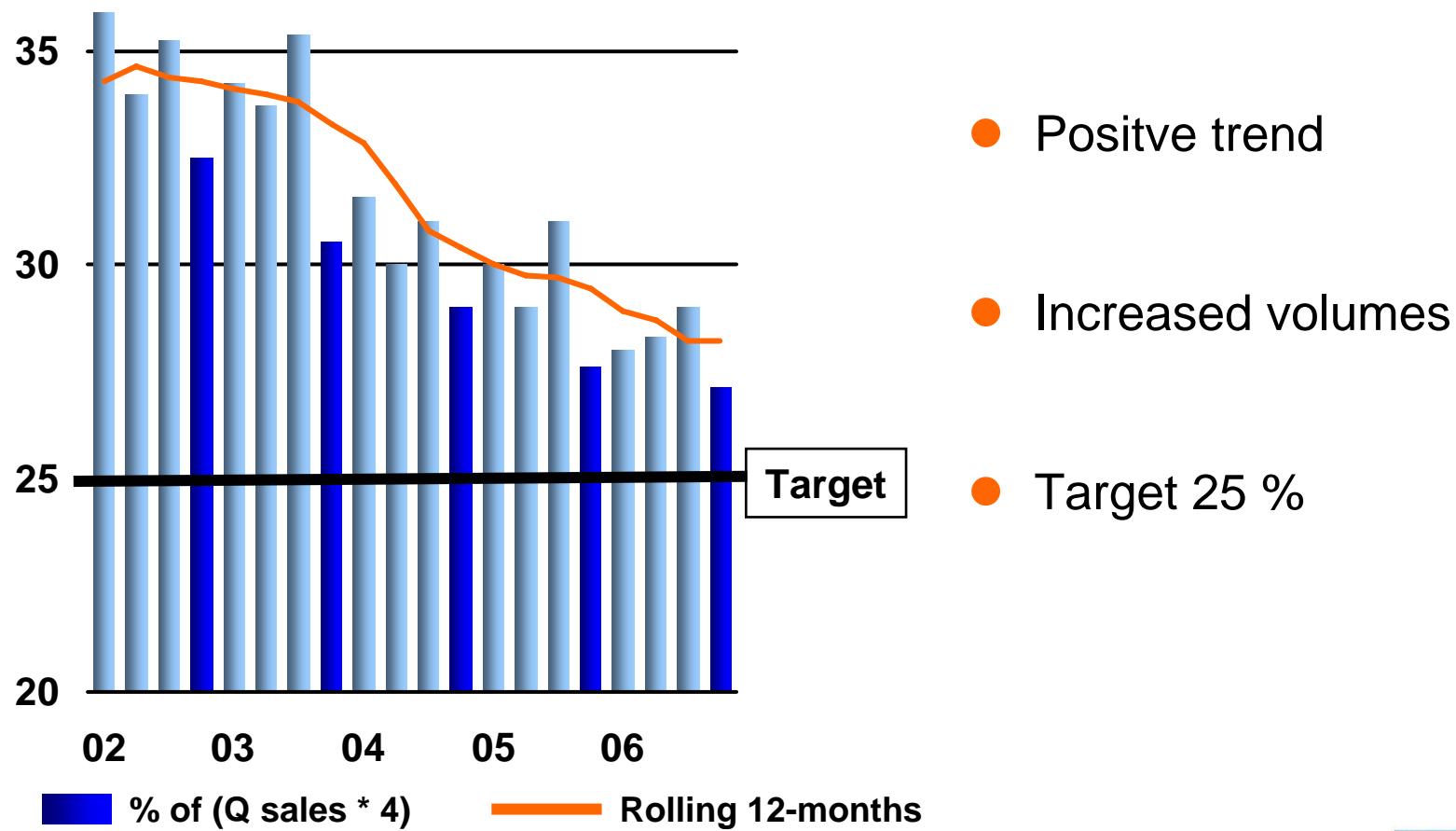
# Balance Sheet Summary

SEK M	Q4/2006	Q4/2005	Change %
Intangible fixed assets	6,251	5,874	+ 6
Tangible fixed assets	17,677	16,687	+ 6
Financial fixed assets	3,653	3,271	+12
Inventories	18,738	16,440	+14
Receivables	17,837	15,731	+13
Cash and cash equivalents	1,745	1,559	+12
<b>Total assets</b>	<b>65,901</b>	<b>59,562</b>	<b>+ 11</b>
Total equity	27,198	24,507	+11
Interest-bearing provisions and liabilities	18,555	18,212	+ 2
Non-interest-bearing prov. and liabilities	20,148	16,843	+20
<b>Total equity and liabilities</b>	<b>65,901</b>	<b>59,562</b>	<b>+ 11</b>

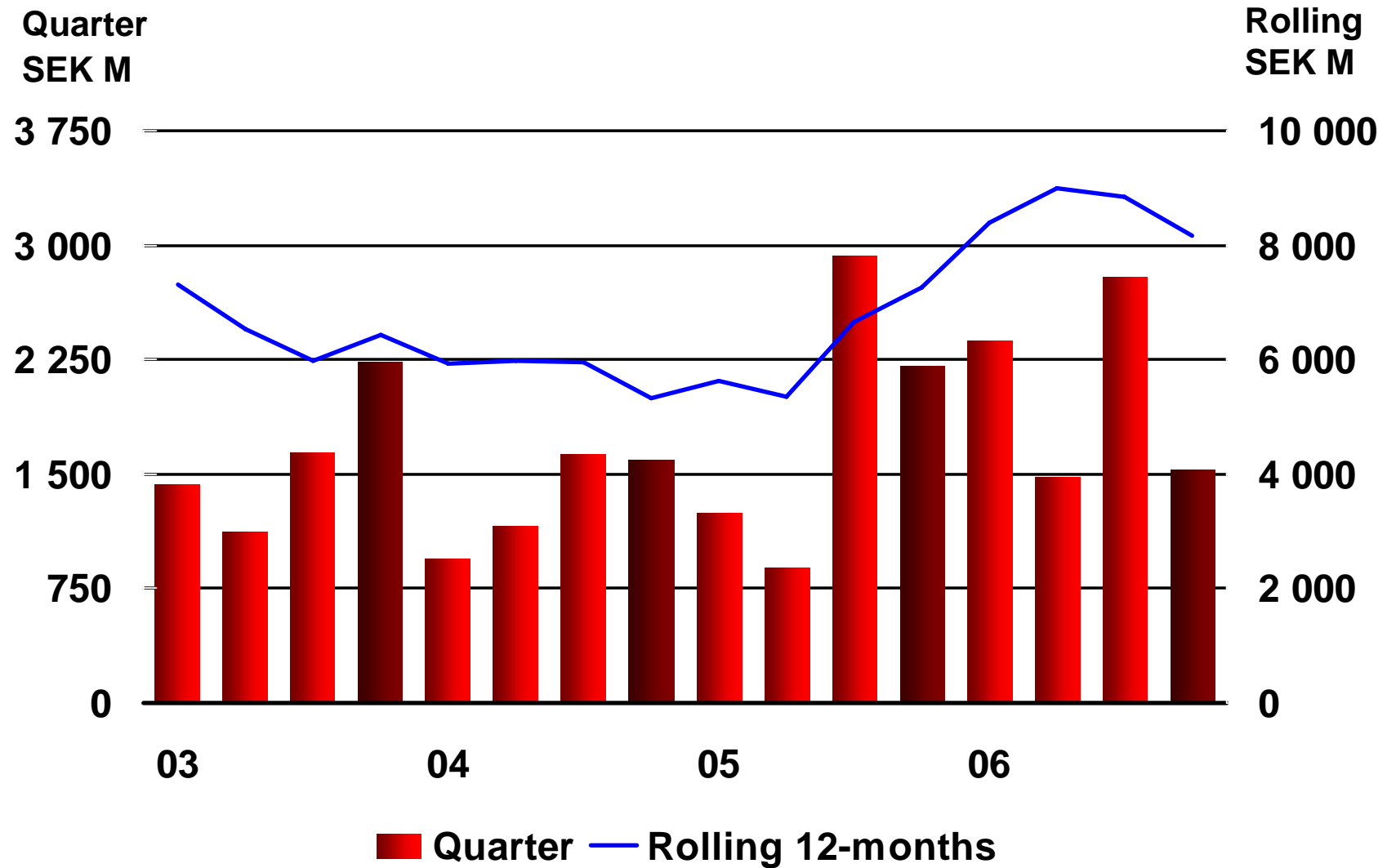


# Capital Efficiency

Net Working Capital as % of sales



# Cash Flow from Operations



# Cash Flow Summary

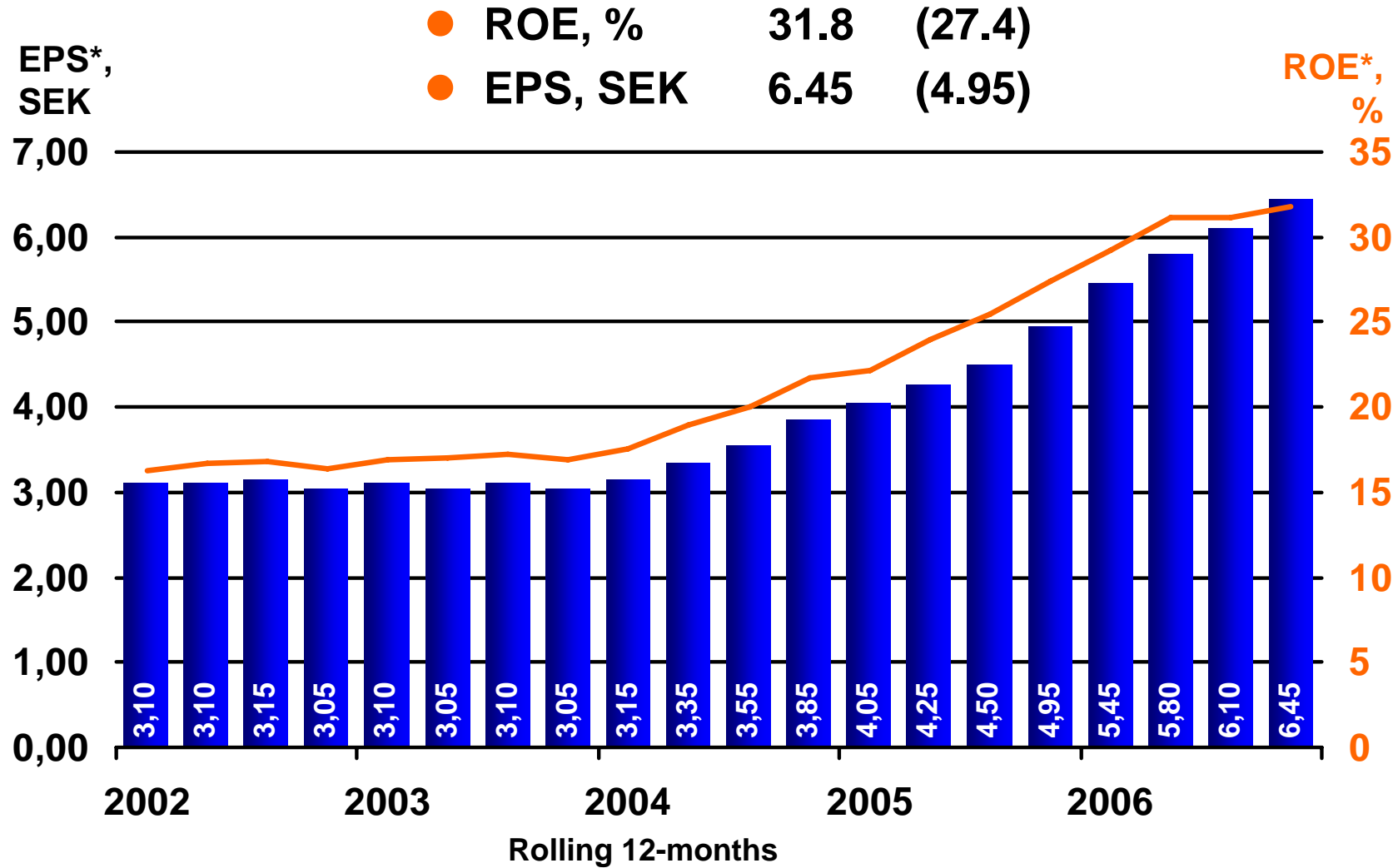
SEK M	Q4/2006	Q4/2005
● Cash flow from operations before NWC	+3,116	+2,938
● Change in inventories	-1,067	+18
● Change in current receivables	-1,180	-530
● Change in current operating liabilities	+657	-220
● Net cash flow from operations	+1,526	+2,206
● Net cash used in investing activities	-1,212	-1,325
● Net cash flow after investing activities	+314	+881
● Net cash used in financing activities	-70	-1,334
● Dividends paid/Share buy backs	0	0
● Cash flow for the quarter	+244	-453

# Bridge analysis

Rolling 12 months

SEK M	2005	Change	2006	Change %
Invoicing	63,370	+8,919	72,289	+14%
Operating profit	9,532	+2,536	12,068	+27%
Operating margin %	15.0	28.4	16.7	
ROCE %	23.7		27.6	
ROE %	27.4		31.8	
EPS	4.95	+1.50	6.45	+30%
Balance sheet	59,562	+6,339	65,901	+11%
NWC	19,623	+1,729	21,352	+9%
Employees	39,613	+2,130	41,743	+5%

# Shareholder Value



\* excluding one-offs in PTD in Q4 2003, adjusted to IFRS from 2004



# Proposal to the AGM

## Strong financial position and focus on shareholder value

- **Total distribution of SEK 7.5 B** **+110 %**
  - ✓ Increased dividend to SEK 3.25 (2.70) **+20 %**
  - ✓ Extra distribution of SEK 3.6 B  
through mandatory redemption



## Q&A session





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# Cautionary Statement

**“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.”**