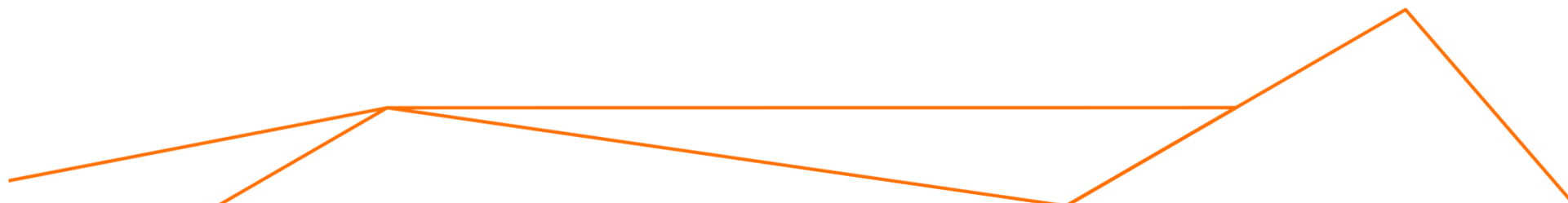


INTERIM REPORT JULY 17  
SECOND QUARTER 2014



# SUMMARY Q2 2014

## DELIVERY ON OUR STRATEGIC AGENDA

- Closure of 4 additional production units initiated
- Varel acquisition finalized

## STABLE MARKET CONDITIONS

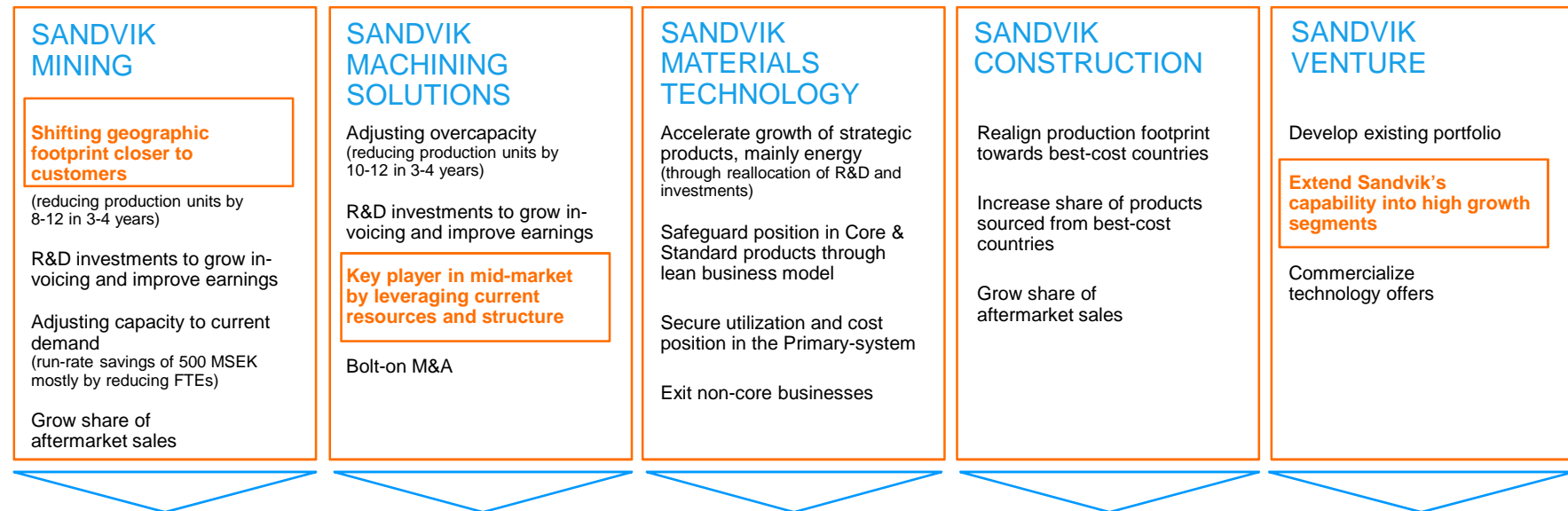
- Overall largely unchanged demand vs end of Q1
- Mining market stable at a low level

## EBIT 2,556 MSEK, 11.6%

- Acquisition related cost -75 MSEK
- Currency effects about -200 MSEK
- Metal price effect 177 MSEK
- ROCE 12.3%



# OUR WAY FORWARD



Develop more towards fast growing markets. Yield higher returns. Reduce earnings volatility.



# GROWTH OPPORTUNITIES WITH VAREL ON BOARD

## STRONG STRATEGIC MATCH

- Solid position in focus sector oil and gas
  - Drilling technologies
  - Completion tools for complex wells
- Sales primarily driven by
  - Number of wells drilled
  - Complexity of wells
  - Footage drilled
- High growth and strong profitability
- Hard and super-hard materials



# GROWTH OPPORTUNITIES WITH VAREL ON BOARD

## FINANCIAL SUMMARY VAREL

Q2 Actual (21 May – 30 June)

- Invoicing 248 MSEK
- Adjusted EBIT 33 MSEK (13.2%)

Estimated first half 2014 (1 Jan – 30 June)

- Invoicing 1,159 MSEK
- Adjusted EBIT 144 MSEK (12.4%)

## SYNERGIES WITH SANDVIK

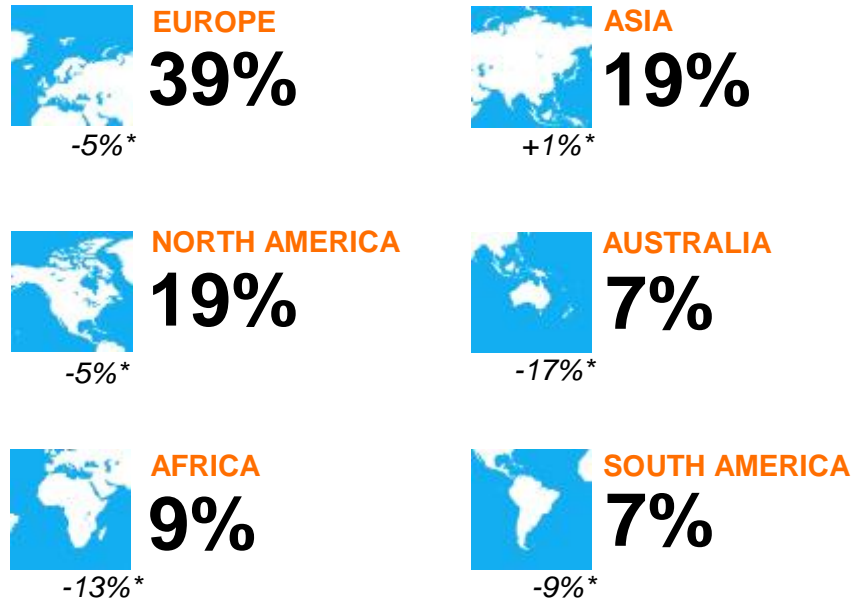
Synergies with Sandvik

- Supply chain cost synergies
- Leverage technical know-how and R&D capabilities
- Utilize global reach



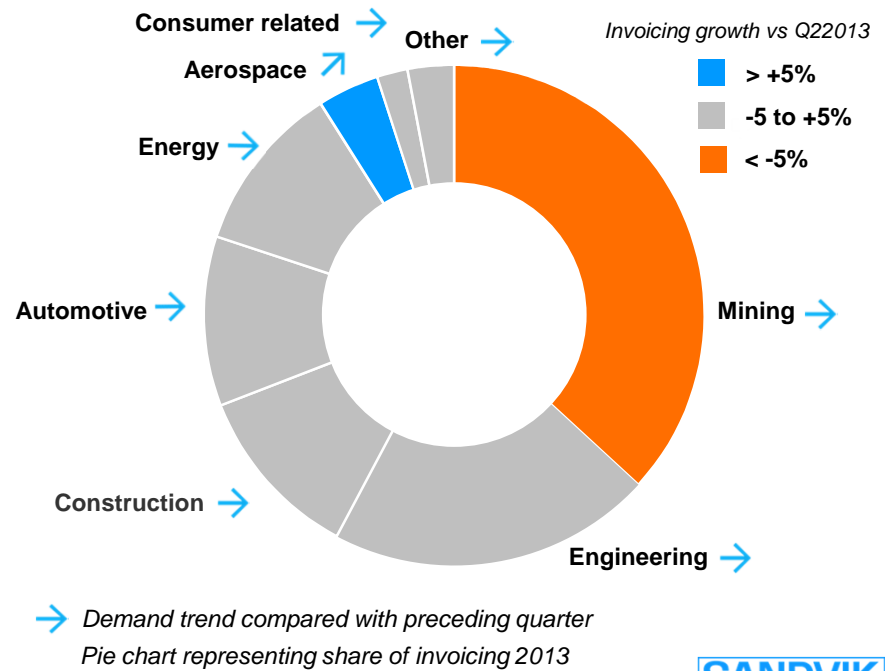
# INVOICING BY MARKETS AND SEGMENTS

## MARKETS, SHARE OF GROUP TOTAL



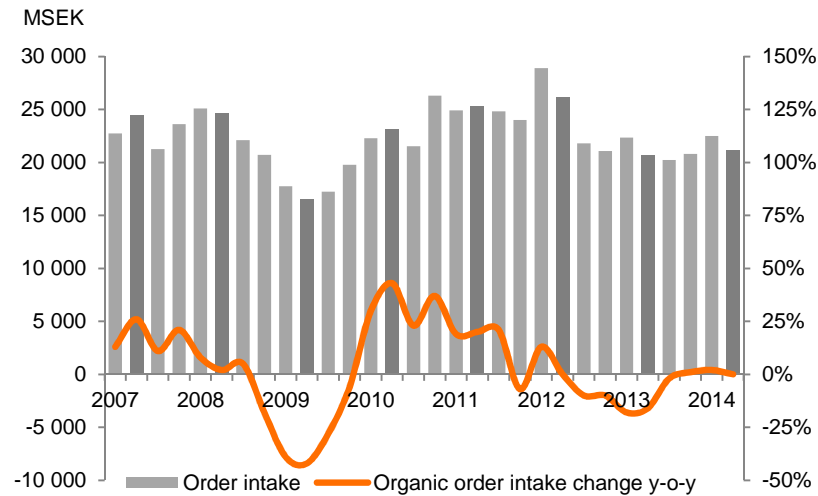
\* Change compared with preceding year, p/v

## CUSTOMER SEGMENTS



# ORDER INTAKE 21,194 MSEK

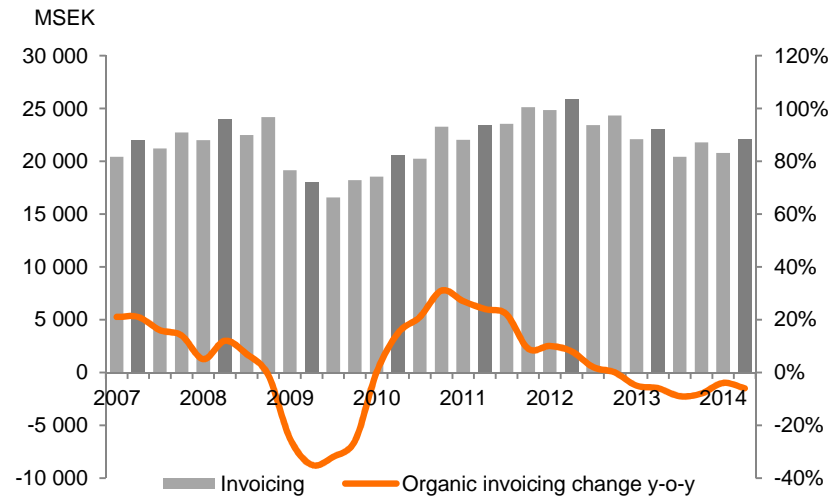
CHANGE P/V +0%



- Change compared with preceding quarter, -8%, p/v
- Book-to-bill 0.96
- Stable order backlog for Sandvik Mining

# INVOICING 22,051 MSEK

CHANGE P/V -6%

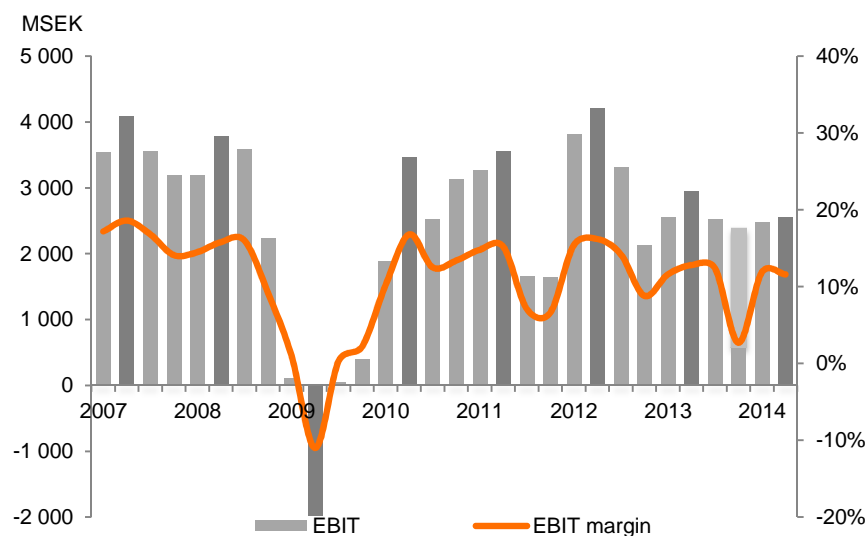


- Change compared with preceding quarter, +3%, p/v
- Normal seasonality in Q2



# EBIT 2,556 MSEK

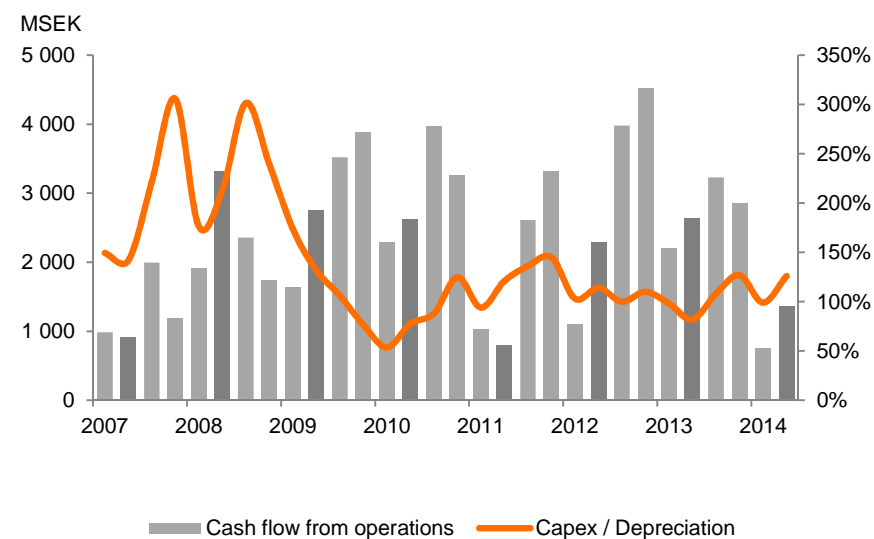
**MARGIN 11.6%**



- Currency effect -200 MSEK (Sandvik Mining, -115 MSEK)
- Metal price effect, +177 MSEK
- Acquisition related cost -75 MSEK

# CASH FLOW

**CASH FLOW FROM OPERATING ACTIVITIES 1 355 MSEK**



- Currency contributed to increased inventory values
- Inventory build-up, mainly in Sandvik Machining Solutions and Sandvik Materials Technology
- Investments 1.1 BSEK



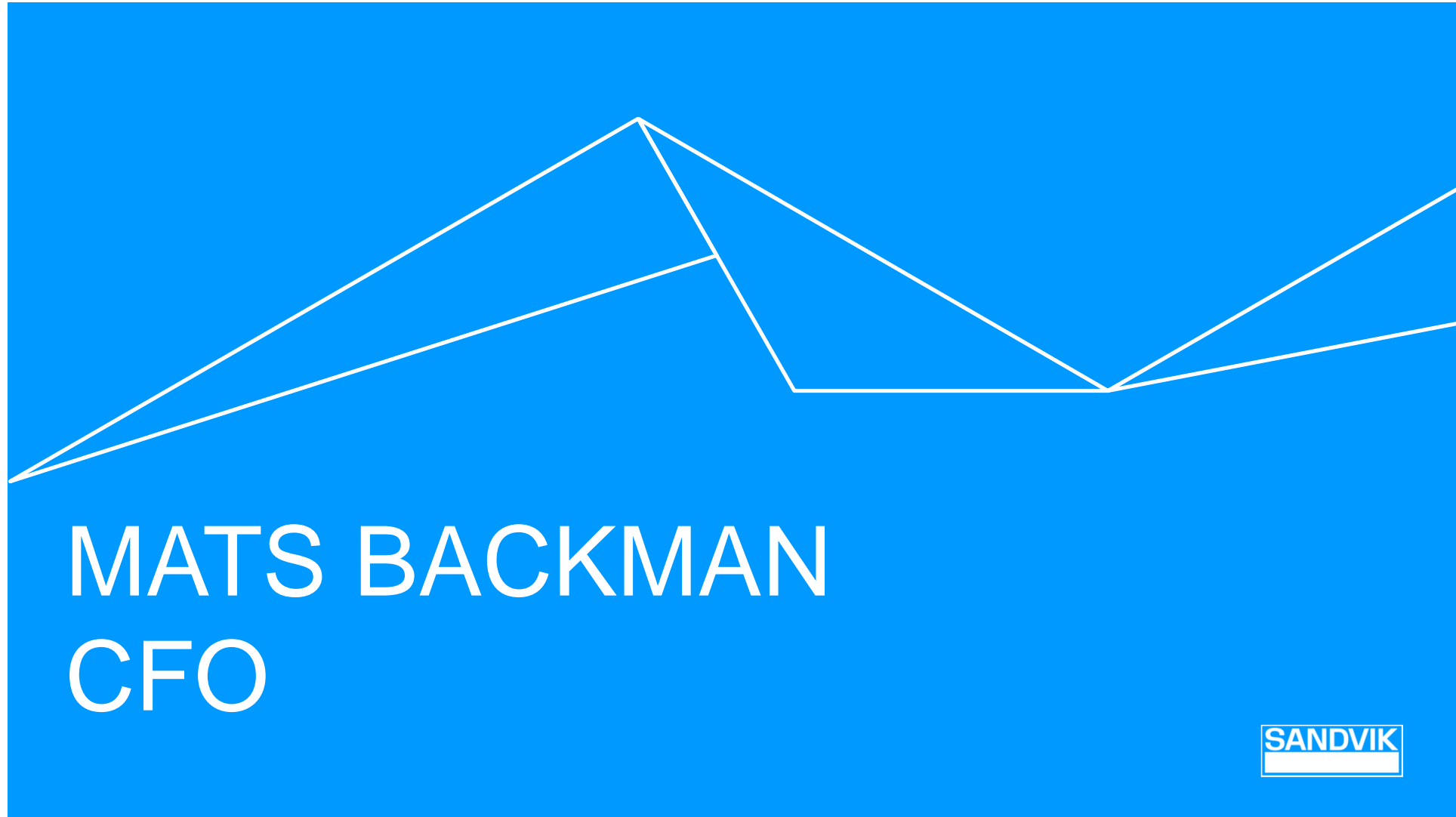


# FINANCIAL TARGETS

	CURRENT	TARGET	MANAGEMENT FOCUS
GROWTH	-4%*	8%	<ul style="list-style-type: none"> <li>Product launches through focused R&amp;D</li> <li>Increase exposure towards high growth markets and segments</li> <li>Adjust geographic footprint</li> </ul>
ROCE	12.3%**	25%	<ul style="list-style-type: none"> <li>Reduce Net Working Capital</li> <li>Selective capital allocation (investments)</li> <li>Restore earnings in Sandvik Mining and Sandvik Construction</li> </ul>
NET DEBT/ EQUITY RATIO	0.96	< 0.80	<ul style="list-style-type: none"> <li>Elevated level in Q2 2014 after dividend and acquisition of Varel.</li> <li>Consistent cash flow generation.</li> </ul>
DIVIDEND	88% for 2013	50% of EPS	<ul style="list-style-type: none"> <li>Uninterrupted dividend since 1870.</li> </ul>

\* Actual reported including structure and currency

\*\* Annualized quarterly 15.5%

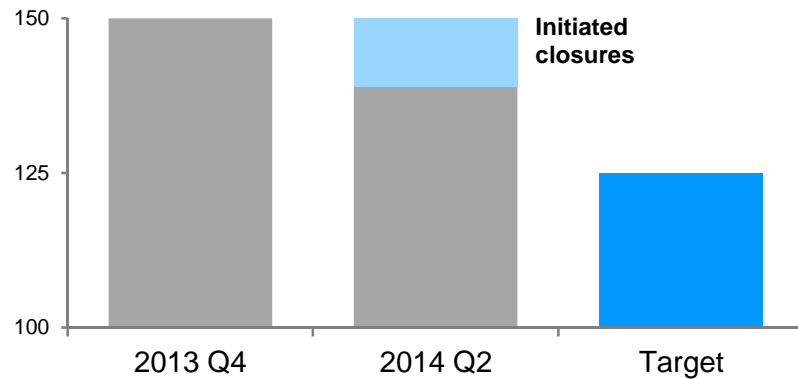


MATS BACKMAN  
CFO



# RESTRUCTURING OUR FOOTPRINT

## PRODUCTION UNITS



**INITIATED CLOSURES**  
Since 2013 Q4

**11**

**UNITS CLOSED**  
Since 2013 Q4

**1**

**Reduce number of production units from 150 to 125 over next three to four years**

### Initial phase launched in Q4 2013

- Closure of ~10 units
- Annual savings of 800 MSEK at end 2015
- Total restructuring cost 900 MSEK (Q4 2013)

### Progression

- 11 closures initiated (of which 4 in Q2)
- Australia (3), Sweden (2), UK (2), Italy, France, South Africa, Germany
- Personnel net, about -750

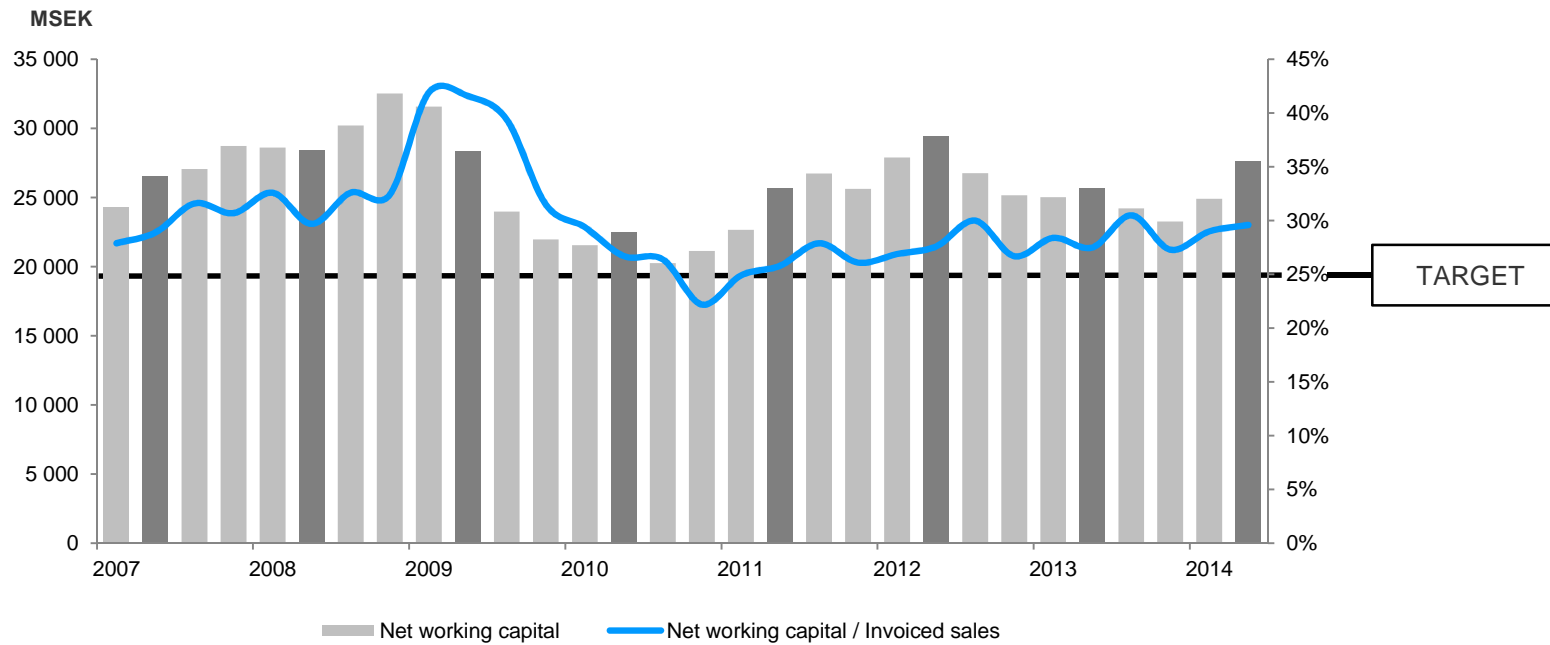


# RESTRUCTURING OUR FOOTPRINT

## FIRST PHASE - PLANNED TIME OF COMPLETION FOR INITIATED CLOSURES

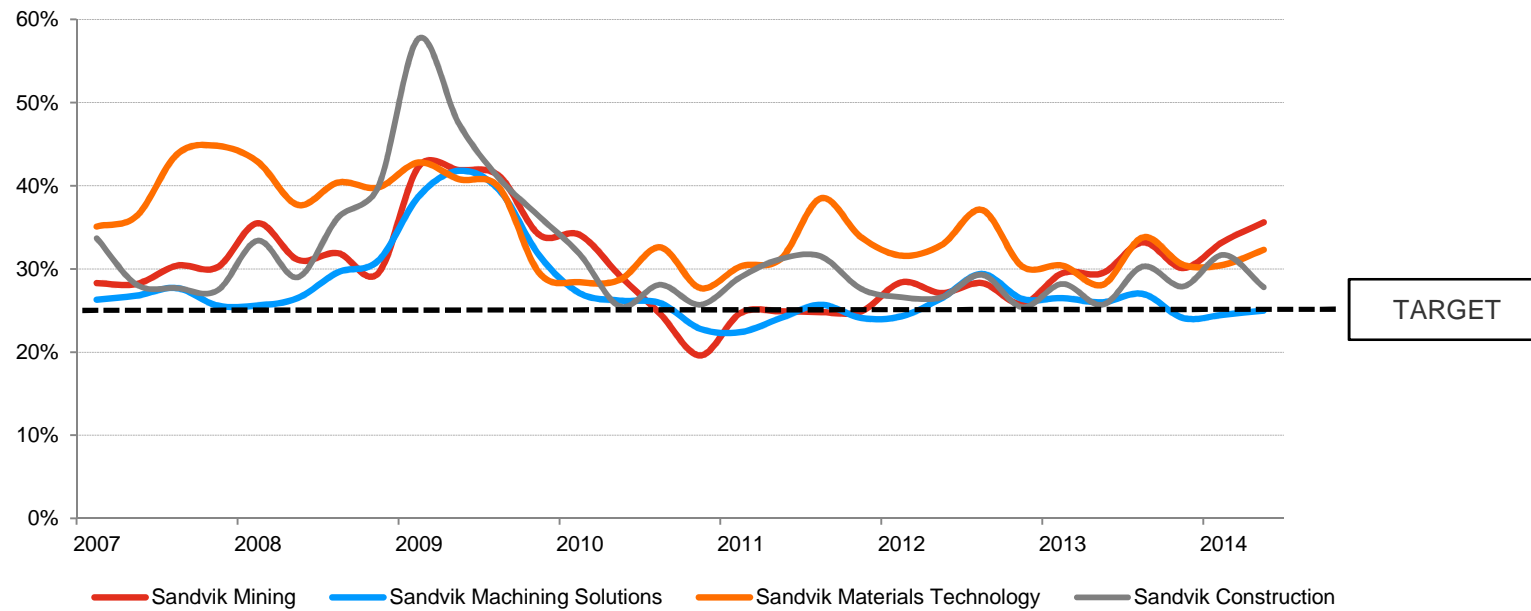
	Q2 2014	H2 2014	2015	TOTAL
SANDVIK MINING	-	2	3	5
SANDVIK MACHINING SOLUTIONS	-	2	2	4
SANDVIK CONSTRUCTION	1	-	1	2
<b>GROUP TOTAL</b>	<b>1</b>	<b>4</b>	<b>6</b>	<b>11</b>

# NET WORKING CAPITAL



# NET WORKING CAPITAL

## % OF INVOICING BY BUSINESS AREA



# TWO SUCCESSFUL BOND ISSUES

## FURTHER IMPROVED MATURITY PROFILE AND ATTRACTIVE RATES

- Swedish Medium Term Note program
  - 4 BSEK
  - Maturity 2020/2021
  - Listed on NASDAQ OMX Stockholm
- Euro Medium Term Note program
  - 350 MEUR
  - 12 years
  - 3% coupon rate



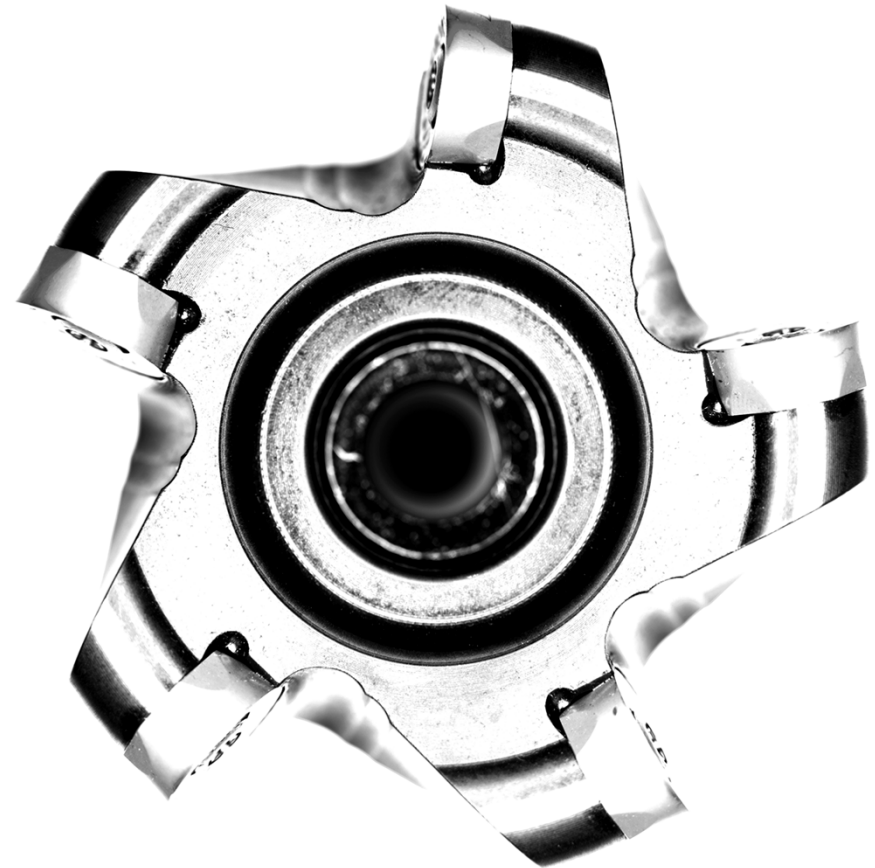
# SUMMARY

**DELIVERY ON STRATEGY**

**SUPPLY CHAIN OPTIMIZATION PROGRAM FIRST  
PHASE FULLY INITIATED**

**POTENTIAL TO IMPROVE CAPITAL EFFICIENCY**

**STABLE DEMAND**







# BACK-UP SLIDES

# ACQUISITION OF VAREL

## ACQUISITION PRICE AND GOODWILL

Purchase price 5.1 BSEK

- Consideration for shares 2.8 BSEK
- Loan settlement 2.3 BSEK

Goodwill 2.5 BSEK

- Growth and profitability
- Strong market position in the oil and gas sector

## PURCHASE PRICE ALLOCATION

Assigned to tangible and intangible assets 1.6 BSEK

- Amortized over 10 years
- ~40 MSEK per quarter

Assigned to inventories 170 MSEK

- Amortized over 3-9 months
  - ~ 35 MSEK Q2 2014
  - ~ 80 MSEK Q3 2014
  - ~ 35 MSEK Q4 2014
  - ~ 20 MSEK Q1 2015

# SANDVIK MINING Q2 2014

## STABILIZED DEMAND

- No signs of recovery nor further deterioration

## EBIT452 MSEK, 7.1%

- Currency effects -115 MSEK
- Low sales and production rates

## SUPPLY CHAIN OPTIMIZATION

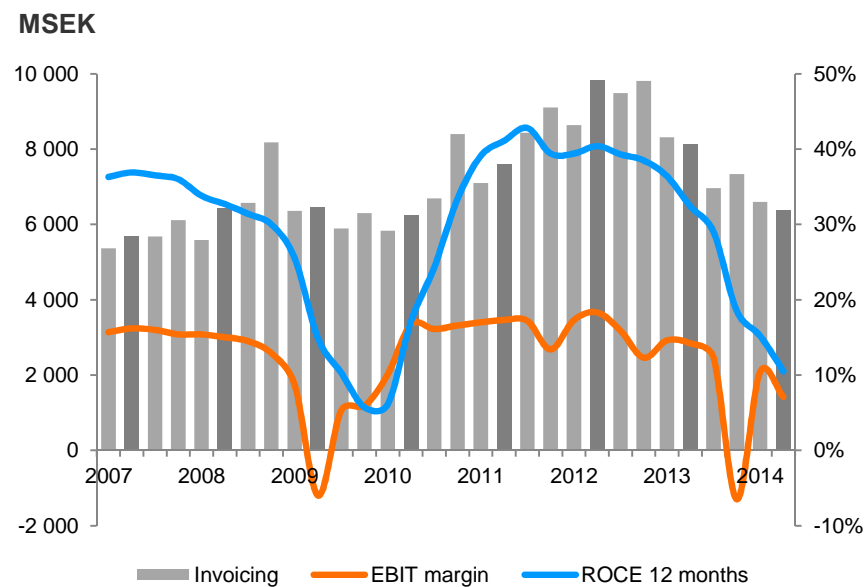
- Closure of an additional 4 units initiated in Australia (3) and Germany



# SANDVIK MINING

## Q2 2014

Order intake	6,217 MSEK
Invoicing	6,385 MSEK
EBIT	452 MSEK
ROCE	10.5%



# SANDVIK MACHINING SOLUTIONS

## Q2 2014

### STABLE BUSINESS CONDITIONS

- Strong development in the aerospace industry
- Europe on par with the preceding quarter
- Positive development in Asia

### EBIT 1,561 MSEK, 20.3%

- Currency effects -30 MSEK

### DELIVERY ON OUR STRATEGIC AGENDA

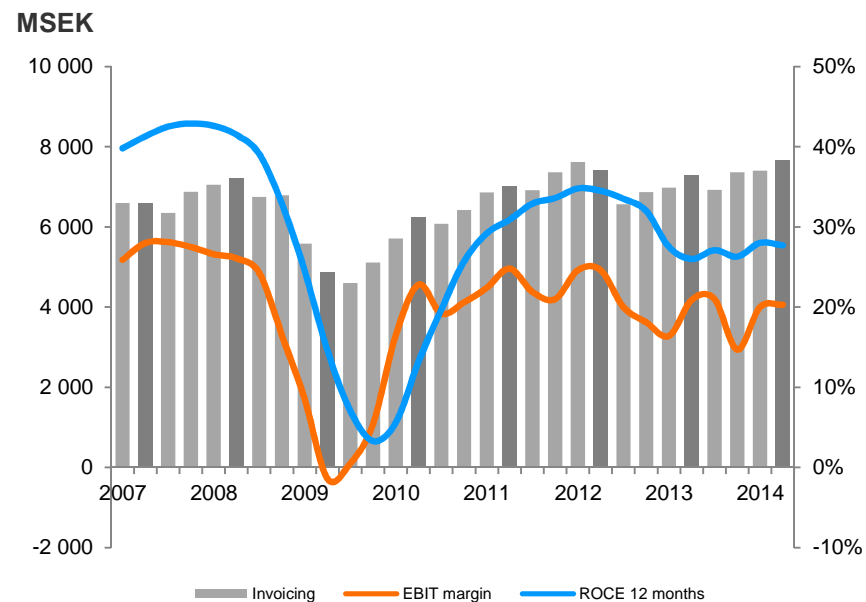
- Investments in sales and R&D
- Letter of intent with Zhuzhou group



# SANDVIK MACHINING SOLUTIONS

## Q2 2014

Order intake	7,768 MSEK
Invoicing	7,676 MSEK
EBIT	1,561 MSEK
ROCE	27.7%



# SANDVIK MATERIALS TECHNOLOGY Q2 2014

## STABLE DEMAND AND PROFITABILITY

- Operating margin, 12.2% adjusted for metal price effects
- Currency effects 50 MSEK

## STRATEGIC ALLIANCE WITH TENARIS FOR OIL AND GAS PRODUCTS

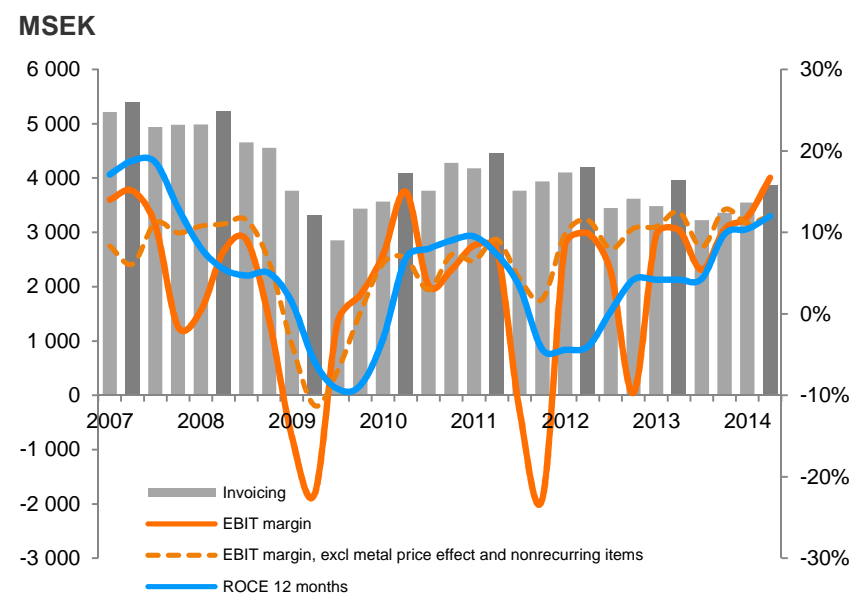
## INVENTORY BUILD-UP

- Increased stock availability in preparation for maintenance stops during in Q3.



# SANDVIK MATERIALS TECHNOLOGY Q2 2014

Order intake	3,449 MSEK
Invoicing	3,866 MSEK
EBIT	647 MSEK Adjusted for metal price effects, 470 MSEK, 12.2 % of invoicing
ROCE	12.0%





# SANDVIK CONSTRUCTION Q2 2014

## CONTINUED CHALLENGING MARKET CONDITIONS

- Slightly improved activity in South America

## EBIT 51 MSEK, 2.3%

- Low sales and production rates
- Currency effect -40 MSEK

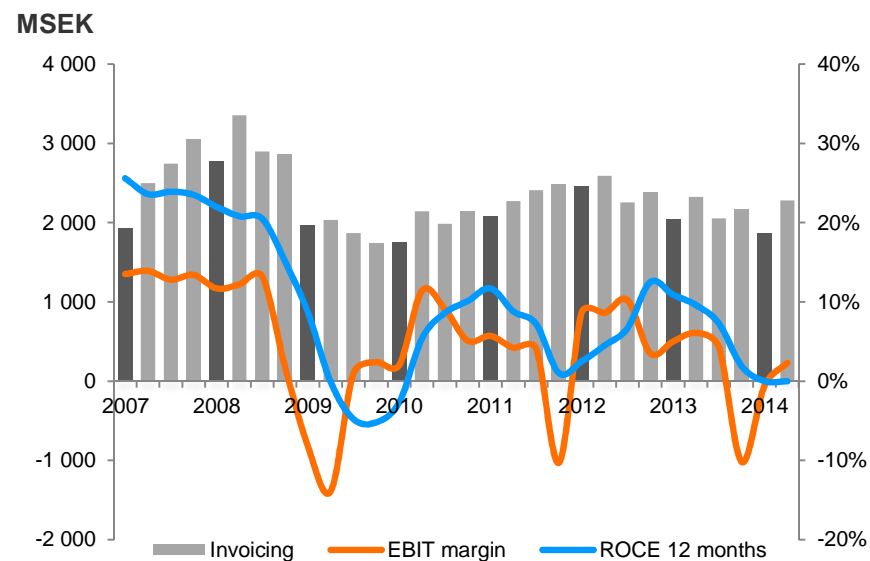
## CLOSURE OF PRODUCTION UNIT IN CHAUNY, FRANCE COMPLETED



# SANDVIK CONSTRUCTION

## Q2 2014

Order intake	2,013 MSEK
Invoicing	2,281 MSEK
EBIT	51 MSEK
ROCE	-1.6%



# SANDVIK VENTURE Q2 2014

## UNCHANGED MARKET CONDITIONS

## ADJUSTED EBIT 262 MSEK (14.2%)

- EBIT 187 MSEK (10.2%)
- Acquisition related cost 75 MSEK

## VAREL ACQUISITION FINALIZED

- Consolidated as from 21 May



# SANDVIK VENTURE

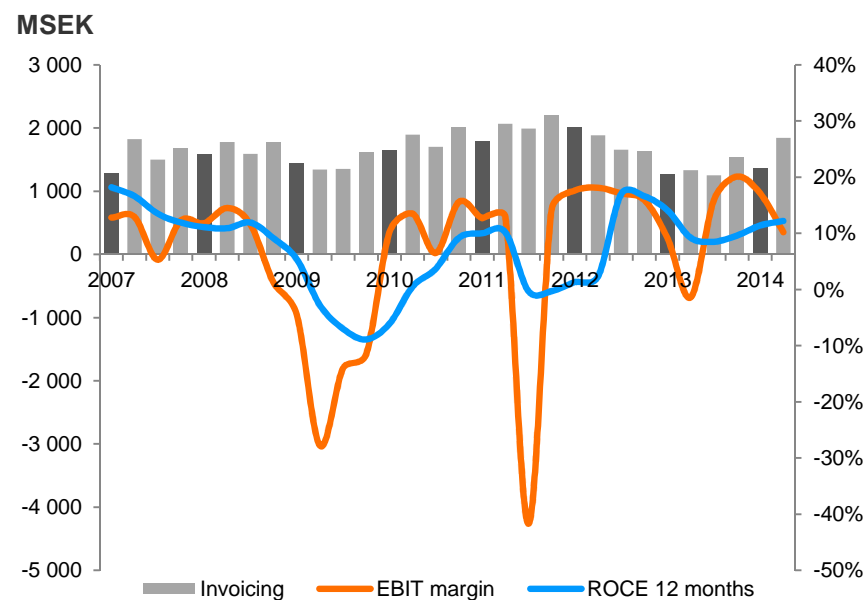
## Q2 2014

Order intake 1,741 MSEK

Invoicing 1,841 MSEK

EBIT 187 MSEK

ROCE 15.8%



# BRIDGE ANALYSIS SANDVIK GROUP

<b>MSEK</b>	<b>Q2 2013</b>	<b>PRICE/ VOLUME/ PRODUCTIVITY</b>	<b>CURRENCY</b>	<b>STRUCTURE ONE-OFFS*</b>	<b>Q2 2014</b>
Invoicing	23,043	-1,400	-30	390	22,051
EBIT	2,961	-600	-200	385	2,556
EBIT margin	12.8%	-43%	-	-	11.6%

\* Includes metal price effects

# BRIDGE ANALYSIS

<b>MSEK</b>	<b>Q2 2013</b>	<b>PRICE/ VOLUME/ PRODUCTIVITY</b>	<b>CURRENCY</b>	<b>STRUCTURE ONE-OFFS*</b>	<b>Q2 2014</b>
<b>SANDVIK MINING</b>					
Invoicing	8,136	-1,500	-235	-	6,385
EBIT	1,153	-600	-115	-	452
EBIT margin	14%	-40%	-	-	7%
<b>SANDVIK MACHINING SOLUTIONS</b>					
Invoicing	7,281	200	135	50	7,676
EBIT	1,525	60	-25	-	1,561
EBIT margin	21%	30%	-	-	20%
<b>SANDVIK MATERIALS TECHNOLOGY</b>					
Invoicing	3,967	-140	10	25	3,866
EBIT	409	-50	55	230	647
EBIT margin	10%	-36%		-	17%

\* Includes metal price effects



# BRIDGE ANALYSIS

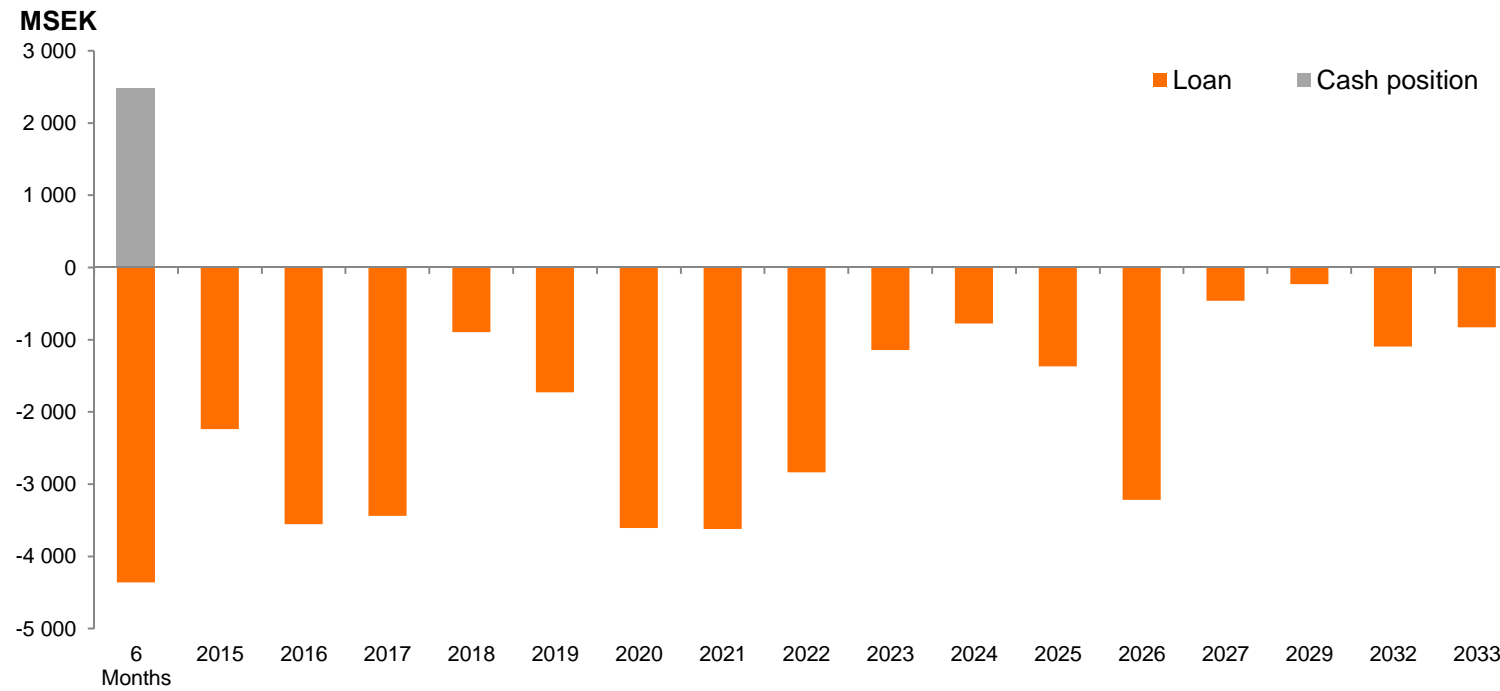
<b>MSEK</b>	<b>Q2 2013</b>	<b>PRICE/ VOLUME/ PRODUCTIVITY</b>	<b>CURRENCY</b>	<b>STRUCTURE ONE-OFFS</b>	<b>Q2 2014</b>
<b>SANDVIK CONSTRUCTION</b>					
Invoicing	2,326	-60	15	-	2,281
EBIT	141	-55	-35	-	51
EBIT margin	6%	-92%	-	-	2%
<b>SANDVIK VENTURE</b>					
Invoicing	1,332	145	50	315	1,841
EBIT	-18	70	10	125	187
EBIT margin	-1%	48%	-	-	10%

# LOAN AND DURATION PROFILE

<b>LONG TERM</b>	<b>84%</b>	AMOUNT MSEK	AVERAGE DURATION
US Private Placement		5,563	5 years
Fin institutions, EIB, NIB		2,299	8 years
Swedish MTN		11,512	5 years
European MTN		10,081	12 years
Bank loans		321	3 years
Share swap		1,657	1 year
<b>SHORT TERM</b>	<b>16%</b>		
Commercial paper		2,452	6 months
Fin institutions, EIB, NIB		463	12 months
Swedish MTN		350	11 months
European MTN		0	0 months
Bank loans		2,601	1 months
<b>TOTAL</b>		<b>37,300</b>	<b>6 years</b>
Cash position		<b>2,490</b>	
Revolving Credit facilities, 10,972 MSEK			



# LOAN MATURITY PROFILE



# GUIDANCE

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<b>CAPEX</b>	Estimated at about 5bn SEK for 2014.
<b>CURRENCY EFFECTS</b>	Given currency rates at quarter end the effect on EBIT would be marginal for Q3 2014.
<b>METAL PRICE EFFECTS</b>	Given currency rates, stock levels and metal prices at the quarter end, it is estimated that EBIT for Q3 2014 will be affected by about +150 MSEK.
<b>NET FINANCIAL ITEMS</b>	Net financial items is estimated to be between 1.8-2.0 bn. SEK for 2014.
<b>TAX RATE</b>	The tax rate is estimated to about 25-27% for 2014.

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An abstract graphic consisting of several bright blue lines that intersect and extend across the top and sides of the page, creating a dynamic, geometric pattern.

# DISCLAIMER 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 affected by other factors 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.”

