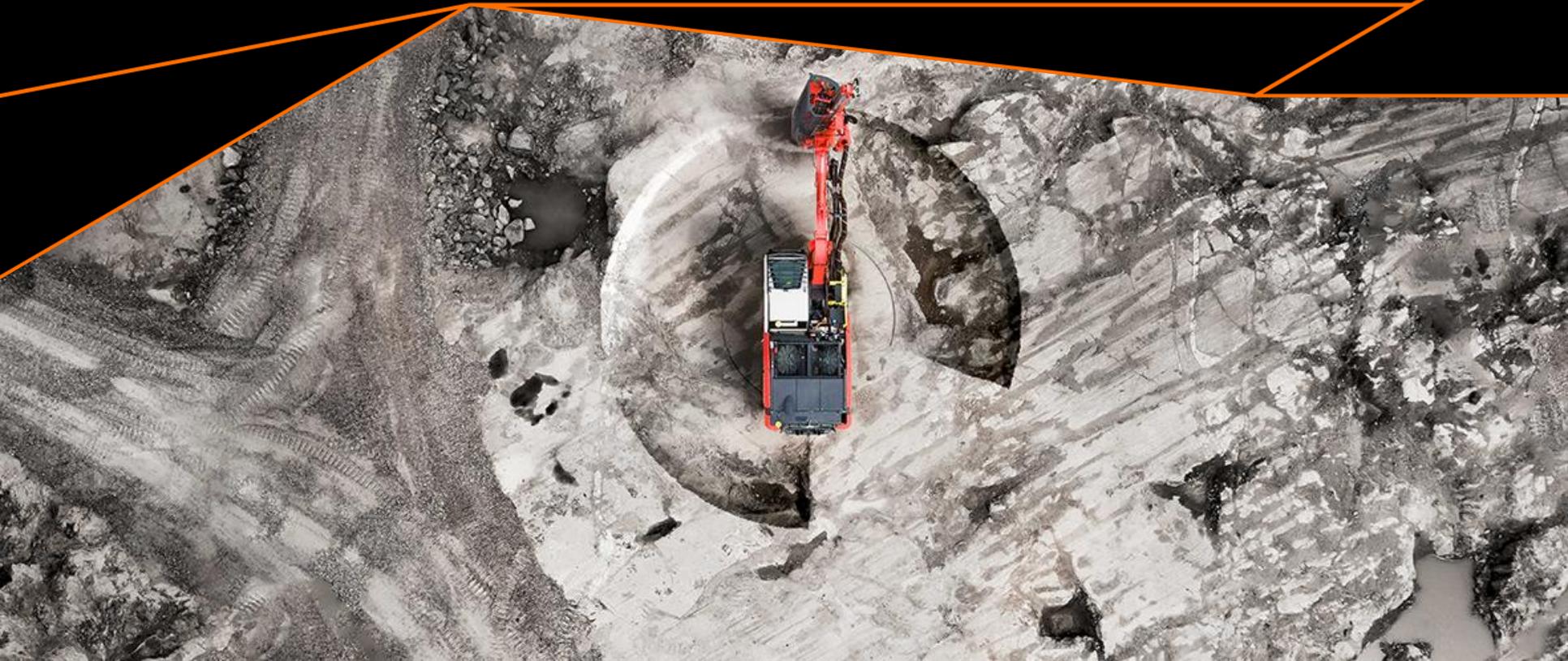


# INTERIM REPORT FOURTH QUARTER 2017



# 2017 – RECORD YEAR IN MANY ASPECTS

## BROAD-BASED MARKET RECOVERY

Orders +15% and revenues +10%

All segments and business areas in growth



## OPERATIONAL AND STRUCTURAL IMPROVEMENTS

Group and SMT decentralization

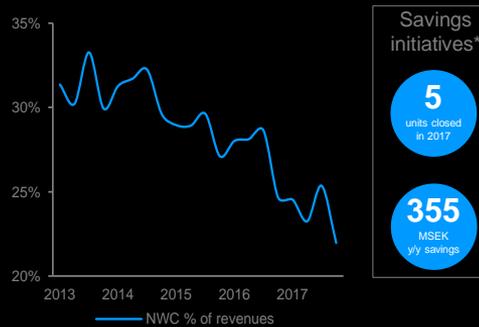
Progress in portfolio consolidation

Footprint program finalized

Deleveraged balance sheet

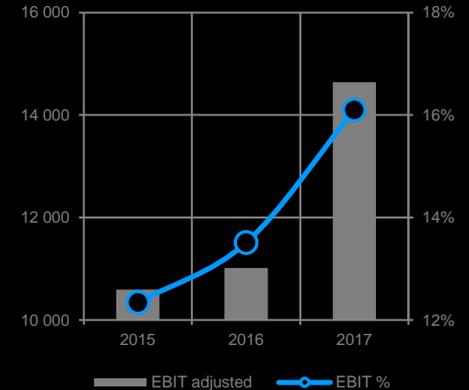
Net working capital record low at 22%

Focused capex spend at historically low <4%



\*Includes only externally announced savings programs

## RECORD HIGH ADJUSTED EARNINGS



# SUMMARY Q4

## ROBUST DEMAND

- ORDER INTAKE +15%
- LARGE ORDER RECEIVED IN SMT
- POSITIVE DEVELOPMENT IN ALL BUSINESS AREAS, REGIONS AND SEGMENTS

---

## STRONG ADJUSTED EARNINGS AND MARGIN

- SUPPORTED PRIMARILY BY STRONG REVENUE GROWTH

---

## ADDITIONAL STRENGTH TO BALANCE SHEET FROM DISPOSAL

- NET GEARING AT LOW LEVEL OF 0.33
- RECORD-HIGH FREE CASH FLOW AT 5.1 BILLION SEK
- DIVESTMENT OF SPS GENERATED 4.7 BILLION SEK IN CASH FLOW

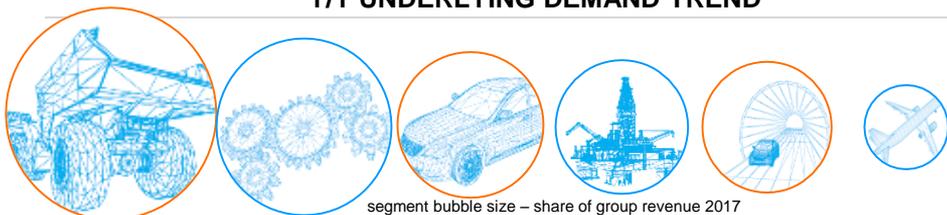
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## DIVIDEND PROPOSAL: 3.5 SEK



# MARKET DEVELOPMENT

## Y/Y UNDERLYING DEMAND TREND



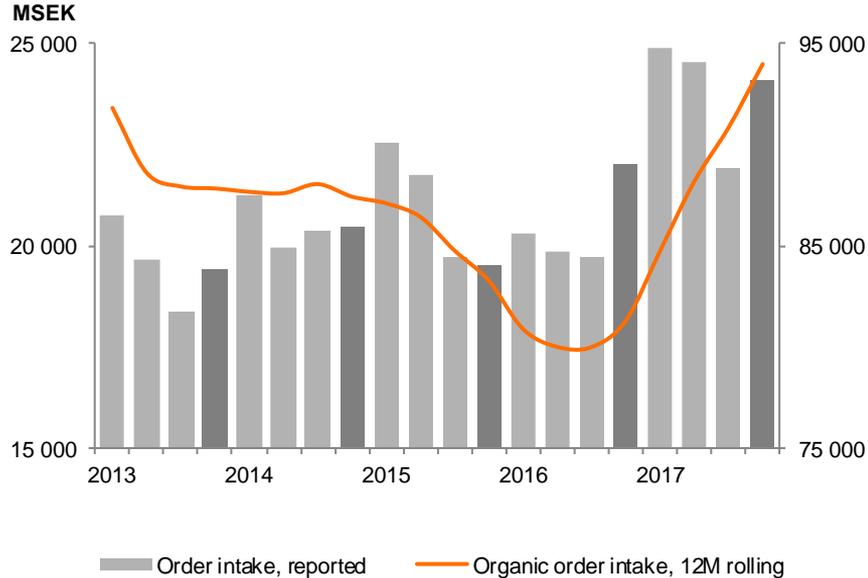
segment bubble size – share of group revenue 2017

	% of group revenue FY17	Y/Y order intake	Y/Y UNDERLYING DEMAND TREND						Sequential underlying demand trend
EUROPE	39%	+16%	↗	↗	↗	↗	↗	↗	↗
NORTH AMERICA	21%	+17%	↗	↗	→	↗	↗	↗	↗
ASIA	20%	+12%	↗	↗	↗	↗	↗	↗	↗
AFRICA/MIDDLE EAST	9%	-2%	↗	↗					↗
SOUTH AMERICA	5%	+19%	↗						↗
AUSTRALIA	6%	+32%	↗						↗

# ORDER INTAKE

ORDER GROWTH IN ALL SEGMENTS AND ACROSS BA:S

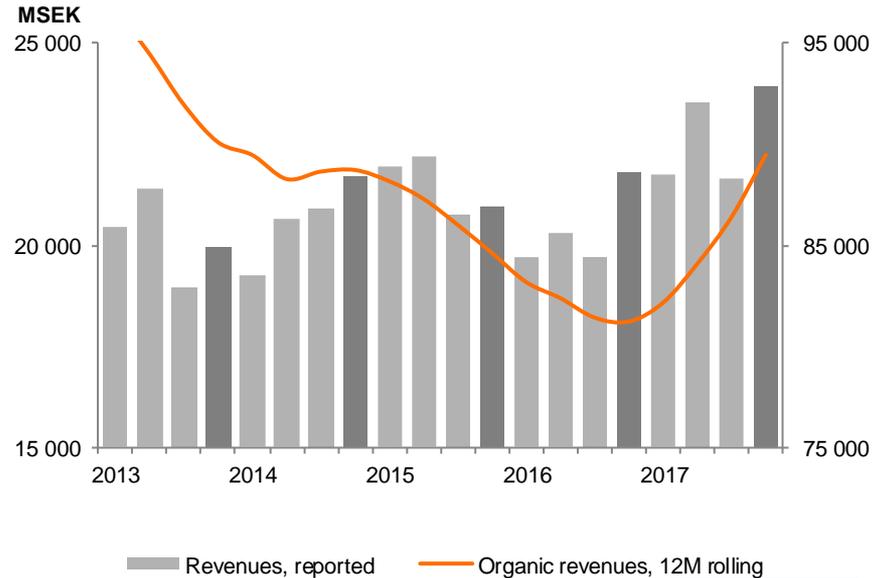
REPORTED P/V  
**24 106** **15%**



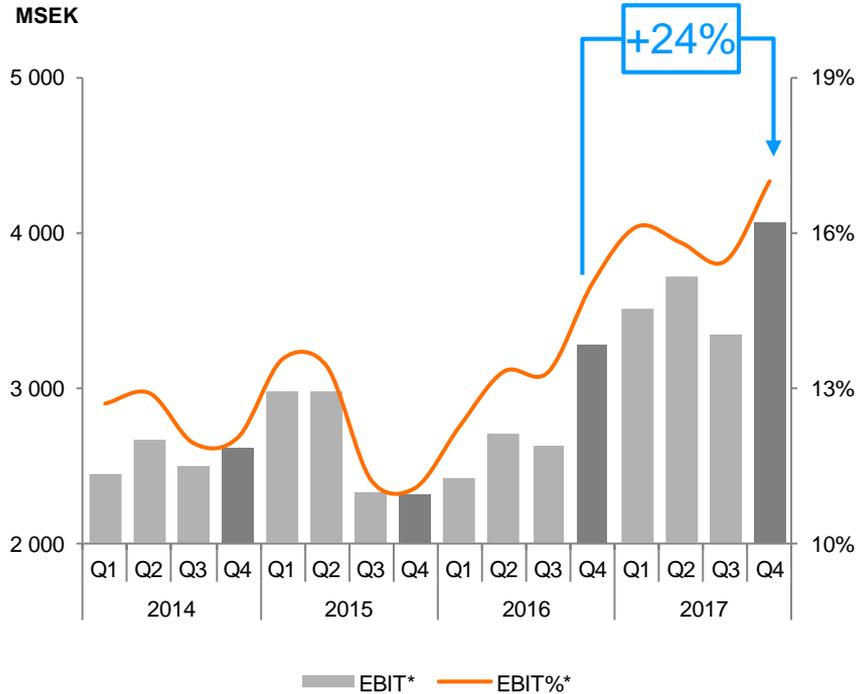
# REVENUES

DOUBLE DIGIT GROWTH IN ALL BA:S

REPORTED P/V  
**23 936** **15%**



# EBIT DEVELOPMENT



EBIT ADJUSTED  
**4 066**  
 MSEK

ADJUSTED EBIT %  
**17.0**

- 36% EBIT GROWTH EXCLUDING FX AND METALS
- SUPPORTED BY STRONG REVENUE GROWTH

\*Adjusted for items affecting comparability





# SANDVIK MACHINING SOLUTIONS

## STRONG UNDERLYING GROWTH

- Negative working day effect of -1.5%
- Large orders PBT +1%
- Positive development in all segments
- Strong development in all regions

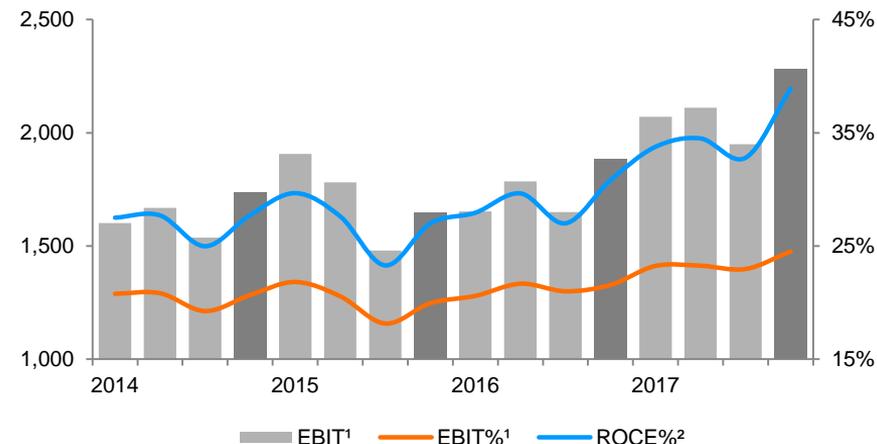
## RECORD-HIGH EARNINGS

- 29% earnings growth excluding negative FX
- Support from revenue growth and structural efficiency measures

MSEK	Q4 2016	Q4 2017	CHANGE
ORDER INTAKE	8 688	9 424	+12%*
REVENUES	8 734	9 310	+10%*
OPERATING PROFIT	1 883	2 282	+21%
% OF REVENUES	21.6%	24.5%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT





# SANDVIK MINING AND ROCK TECHNOLOGY

## STRONG UNDERLYING MARKET SENTIMENT

- Strong development in replacement equipment, both underground and surface
- Strong growth in aftermarket business
- Signs of improvement in coal

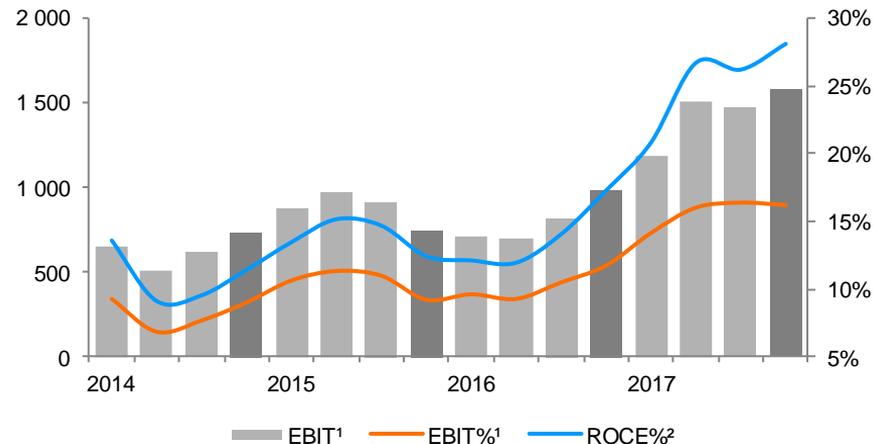
## SIGNIFICANT EARNINGS AND MARGIN GROWTH

- Earnings primarily supported by significant revenue growth and efficiency measures
- Previous year period impacted by some costs related to the merger of Sandvik Mining and Sandvik Construction

MSEK	Q4 2016	Q4 2017	CHANGE
ORDER INTAKE	9 145	9 586	+10%*
REVENUES	8 418	9 732	+21%*
OPERATING PROFIT	986	1 575	+60%
% OF REVENUES	11.7%	16.2%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT





# SANDVIK MATERIALS TECHNOLOGY

## INCREASED ORDERS ALBEIT UNFAVORABLE MIX

- Large order for O&G of 630 MSEK
- Increased demand for short-cycle standard offering

## MIX DETERIORATION IMPACT OPERATING PROFIT

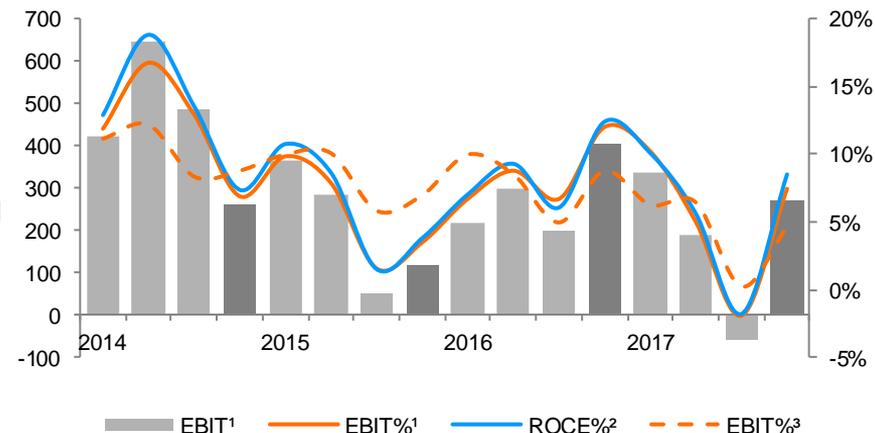
- Unfavorable product mix, less advanced (high value) products
- Unfavorable mix in core- and standard tubular offering
- Provision for staff reductions, -0.9%-pts. impact on margin

## NEW BUSINESS AREA PRESIDENT

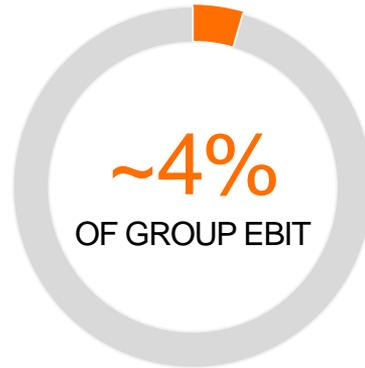
MSEK	Q4 2016	Q4 2017	CHANGE
ORDER INTAKE	2 943	3 964	+38%*
REVENUES	3 366	3 633	+10%*
OPERATING PROFIT	404	270	-33%
% OF REVENUES	12.0%	7.4%	
UNDERLYING MARGIN <sup>3</sup>	8.8%	4.6%	

\*At fixed exchange rates for comparable units

## EBIT & ROCE DEVELOPMENT



# CONSOLIDATION OF BUSINESS PORTFOLIO



MINING SYSTEMS



HYPERION



PROCESS SYSTEMS



WELDING WIRE

TOMAS ELIASSON  
CFO

# FINANCIAL SUMMARY

## GROWTH, %

### ORDER REVENUES INTAKE

ORGANIC:	+15	+15
CURRENCY:	-4	-4
STRUCTURE:	-1	-1
<b>TOTAL</b>	<b>+10</b>	<b>+10</b>

MSEK	Q4 2016	Q4 2017	CHANGE %	FY 2016	FY 2017	CHANGE %
ORDER INTAKE	21 993	24 106	+15 <sup>1</sup>	81 861	95 444	+15 <sup>1</sup>
REVENUES	21 817	23 936	+15 <sup>1</sup>	81 553	90 905	+10 <sup>1</sup>
OPERATING PROFIT	3 277	7 976	n/a	11 018	18 098	+64
<i>% OF REVENUES</i>	15.0	33.3		13.5	19.9	
ADJ. OPERATING PROFIT <sup>2</sup>	3 277	4 066	+24	11 018	14 638	+33
<i>% OF REVENUES</i>	15.0	17.0		13.5	16.1	
NWC % <sup>3</sup>	24.7	22.0		27.1	23.6	
CASH FLOW <sup>4</sup>	4 100	5 085	+24	12 409	15 095	+22
ROCE % <sup>3</sup>	17.1	22.4		14.7	19.4	
EPS ADJ. CONT. OPS., SEK	1.68	2.35	+40	5.48	8.05	+47
EPS ADJ. GROUP TOTAL, SEK	1.48	2.27	+53	4.39	8.01	+82

12 <sup>1</sup> At fixed exchange rates for comparable units  
<sup>2</sup> Profit adjusted for items affecting comparability of -450 million SEK in Q2 2017 and +3 910 million SEK in Q4 2017  
<sup>3</sup> Quarterly calculation i.e. annualized adj. EBIT or revenues and 1Q average CE or NWC  
<sup>4</sup> Cash flow before acquisitions and disposals, financial items and taxes

# BRIDGE ANALYSIS

## SANDVIK GROUP

MSEK	Q4 2016	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE ONE-OFFS*	Q4 2017
REVENUES	21 817	3 197	-896	-182	23 936
ADJUSTED EBIT	3 277	1 231	-375	-67	4 066
ADJUSTED EBIT MARGIN	15.0%	39%	-	-	17.0%
MARGIN ACCRETION / DILUTION		+3.0%	-0.8%	-0.2%	

- Includes metal price effects within Sandvik Materials Technology of +57 MSEK in alloy surcharges on revenues and -8 MSEK in metal price effect on EBIT (+109 Q4 2016 vs. +101 Q4 2017). Structure -224 MSEK topline for SPS and -60MSEK on EBIT, Structure SMT -15MSEK on topline and +1MSEK on EBIT.

# BRIDGE ANALYSIS

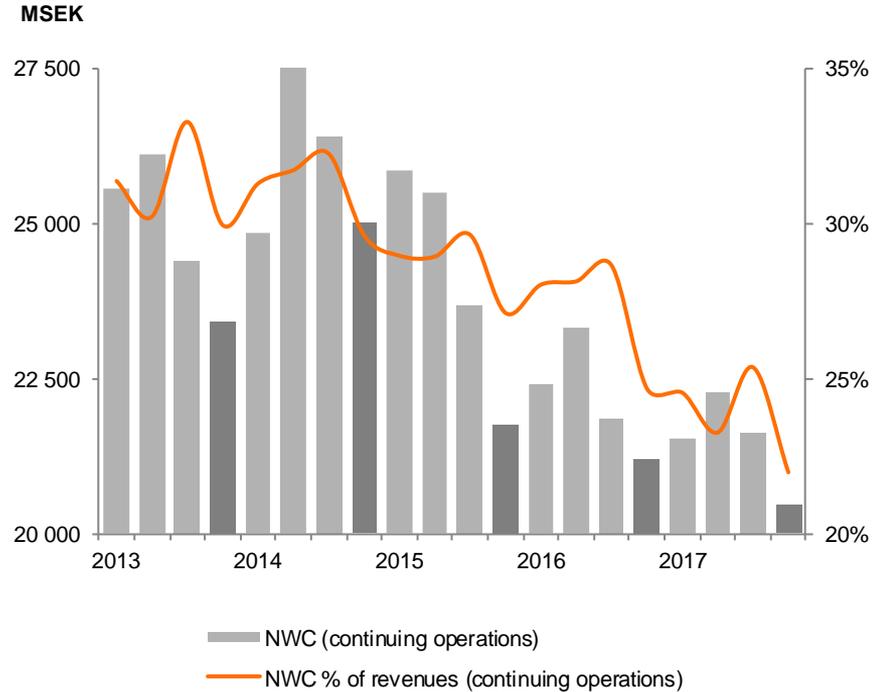
## SANDVIK GROUP FULL YEAR

MSEK	2016	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE ONE-OFFS*	2017
REVENUES	81 553	8 059	+1 065	+228	90 905
ADJUSTED EBIT	11 018	3 585	+45	-10	14 638
ADJUSTED EBIT MARGIN	13.5%	44%	-	-	16.1%
MARGIN ACCRETION / DILUTION		+2.8%	-0.15%	-0.05%	

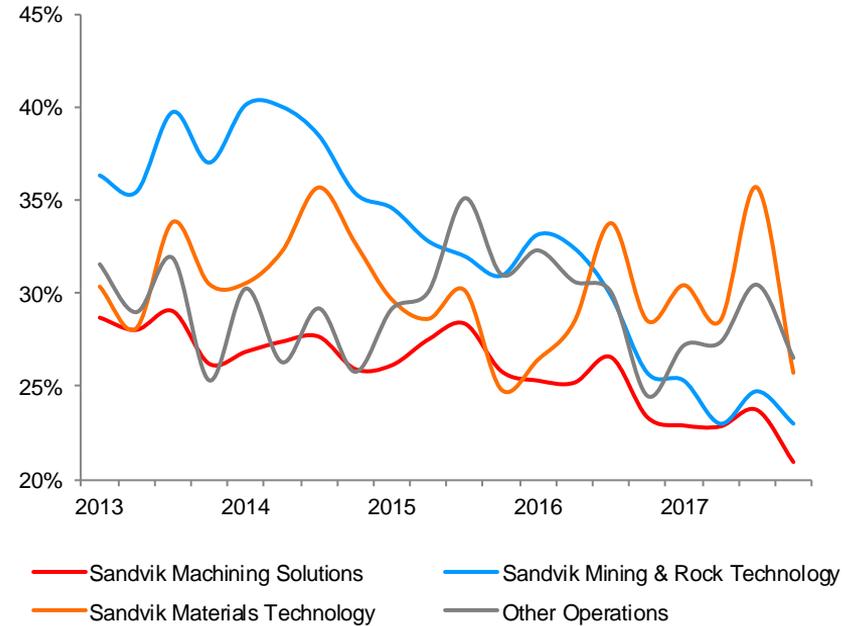
- Includes metal price effects within Sandvik Materials Technology of +447 MSEK in alloy surcharges on revenues and +49 MSEK in metal price effect on EBIT (+64 2016 vs. +113 2017). Structure -224 MSEK topline for SPS and -60MSEK on EBIT, Structure SMT -15MSEK on topline and +1MSEK on EBIT and for SMS 20MSEK on topline and 0on EBIT.

# NET WORKING CAPITAL

## RECORD-LOW

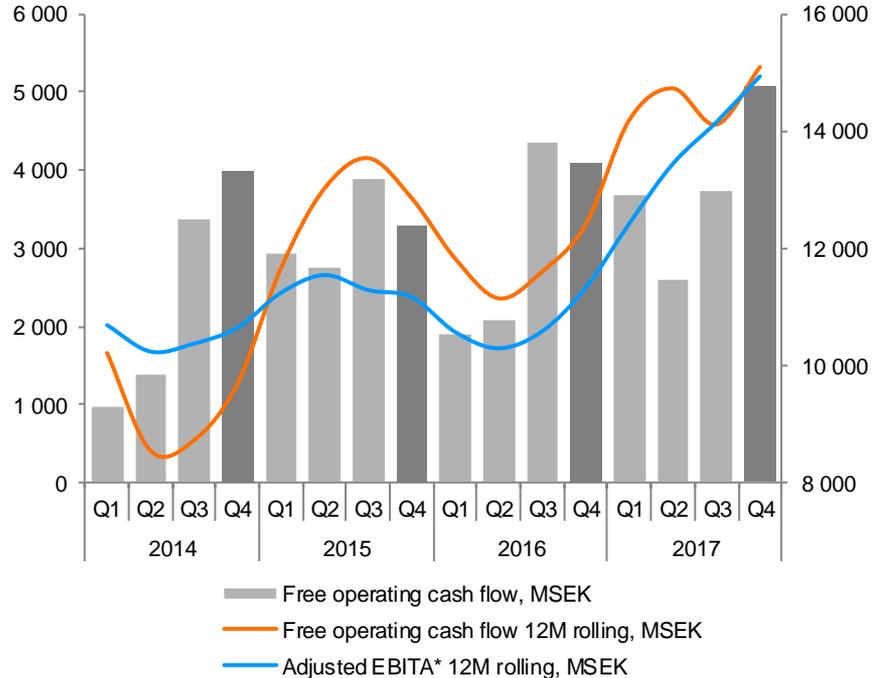


# RELATIVE NWC BY BA



# FREE OPERATING CASH FLOW

MSEK



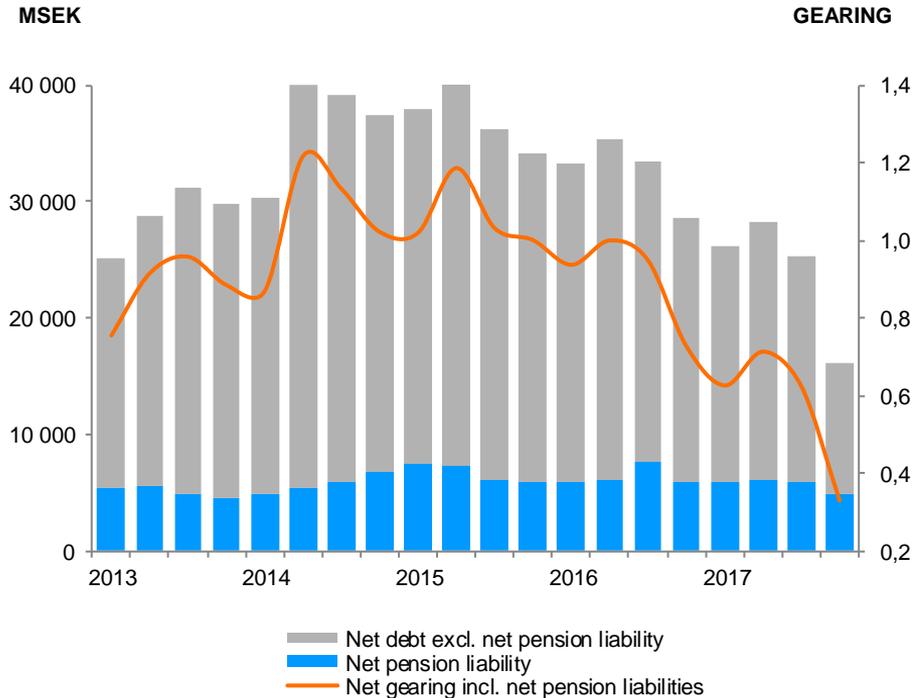
MSEK

MSEK	Q4 2016	Q4 2017	Δ
EBITDA + non cash	4 386	5 227	+841
NWC change	968	1 212	+244
Capex*	-1 254	-1 354	-100
FOCF**	4 100	5 085	+985

\*Including investments and disposals in rental, tangible and intangible assets

\*\*Cash flow before acquisitions and disposals, financial items and taxes

# NET DEBT



- **S&P CREDIT RATING UPGRADE**
  - FROM BBB TO BBB+
- **NET GEARING 0.33**
  - SUPPORTED BY SPS DIVESTMENT

# REPORTED AND UNDERLYING TAX RATE

Q4 2017      Q1-4 2017

REPORTED	16.7	22.3
EXCL. CAPITAL GAIN SPS	22.3	25.5
EXCL. SPS AND US TAX REFORM	27.3	27.0

TAX RATE 26-28% STILL VALID FOR 2018

# OUTCOME AND GUIDANCE

## Q4 2017

Underlying currency effect (MSEK):	-403	(-450)
Total currency effect (MSEK):	-375	
Metal price effect in quarter (MSEK):	+101	(~0)

## Q1 2018

Underlying currency effect (MSEK):	-250*	
Metal price effect in quarter (MSEK):	+100**	

## FULL YEAR 2018

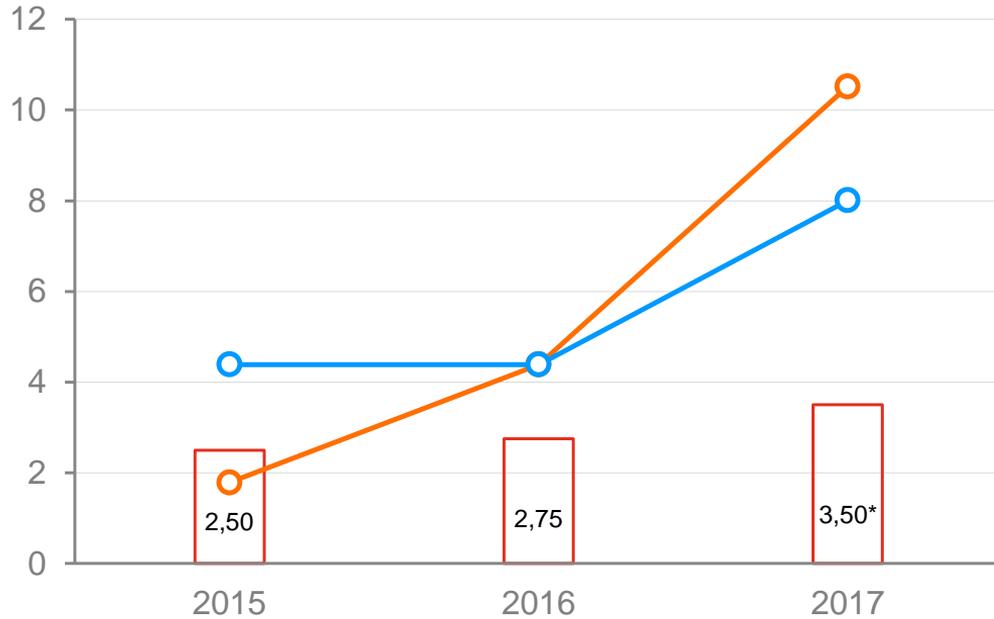
Capex (BSEK):	~4	(FY17: 3.6)
Net financial items (BSEK):	~1	(FY17: 1.1)
Tax rate (%):	26-28	(FY17: 27 underlying)

\*Based on currency rates end of January 2018

\*\*Based on currency rates, stock levels and metal prices at the end of January 2018



# DIVIDEND PROPOSAL



\*Proposed dividend

Dividend
 —○ EPS Reported
 —○ EPS adjusted

## Payout ratio %



# LOOKING FORWARD

---

## FOCUS ON GROWTH – ORGANIC AND M&A

M&A MOST LIKELY IN SMS

## GRADUAL SMT IMPROVEMENT

IMPLEMENTATION OF TURNAROUND ACTIONS

## CONTINUOUS EFFICIENCY IMPROVEMENTS

## NEW PRODUCTS

PERFOMAX® DRILL SECO TOOLS

RANGER DXI SURFACE TOP HAMMER DRILL

TITANIUM POWDER DEVELOPMENT

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# BACK-UP SLIDES

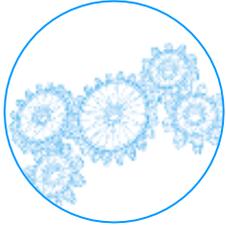




**MINING**  
(31%)



**ENERGY**  
(11%)



**GENERAL  
ENGINEERING**  
(24%)



**CONSTRUCTION**  
(11%)



**AUTOMOTIVE**  
(13%)



**AEROSPACE**  
(6%)

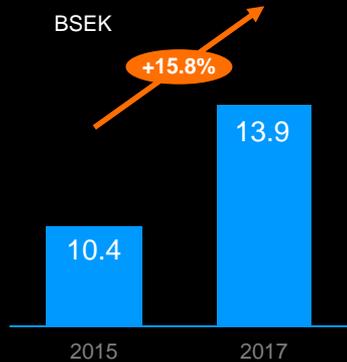
## END-CUSTOMER SEGMENTS

*(% of group revenues 2017 excl. Mining systems; Other e.g. consumer goods, electronics, chemical and miscellaneous was 4%)*

# REACHING THE TARGETS AHEAD OF PLAN

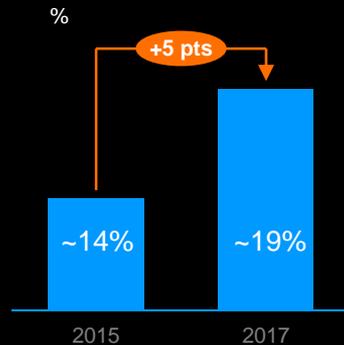
ABSOLUTE  
EBIT GROWTH

≥7% ✓



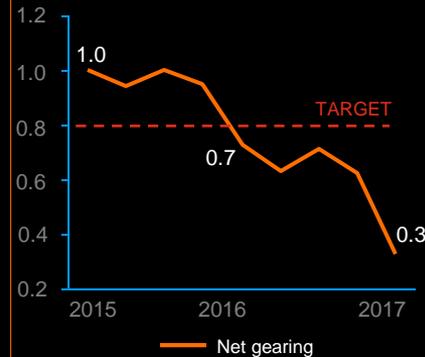
ROCE  
IMPROVEMENT

≥3%PTS ✓



NET DEBT/  
EQUITY RATIO

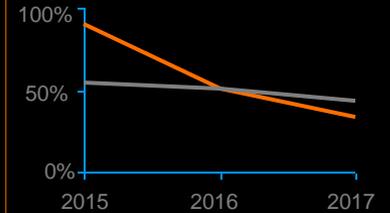
<0.8 ✓



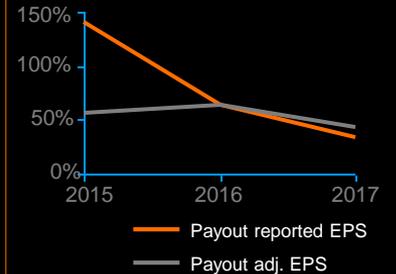
DIVIDEND  
PAYOUT RATIO

50% ✓

CONTINUING OPERATIONS



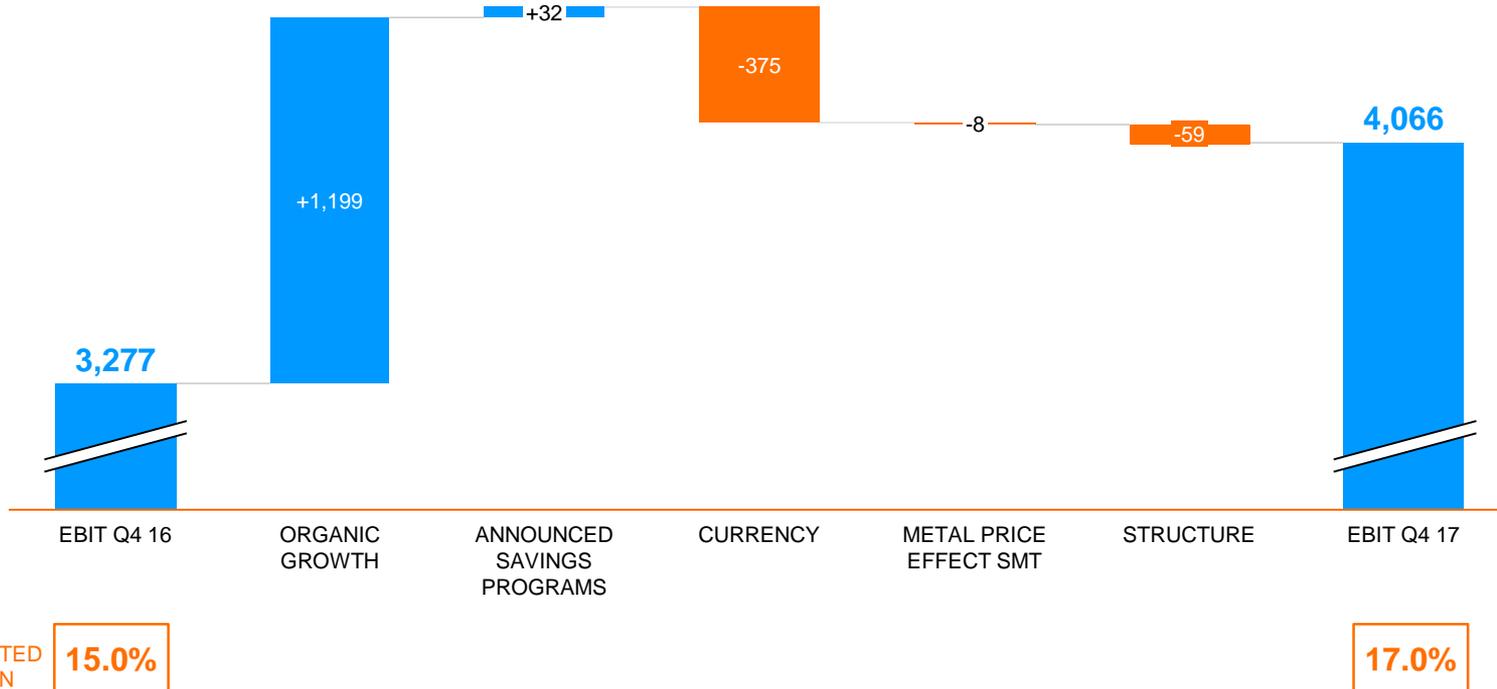
GROUP TOTAL



# PROFITABILITY DEVELOPMENT

GROUP  
LEVERAGE:

**+39%**



# BRIDGE ANALYSIS

MSEK	Q4 2016	PRICE/ VOLUME/ PRODUCTIVITY	CURRENCY	STRUCTURE ONE-OFFS*	Q4 2017
<b>MACHINING SOLUTIONS</b>					
REVENUES	8 734	863	-287	-	9 310
EBIT	1 883	552	-153	-	2 282
EBIT MARGIN	21.6%	+64%	-	-	24.5%
<b>MINING AND ROCK TECHNOLOGY</b>					
REVENUES	8 418	1 801	-487	-	9 732
EBIT	986	785	-196	-	1 575
EBIT MARGIN	11.7%	44%	-	-	16.2%
<b>MATERIALS TECHNOLOGY</b>					
REVENUES	3 366	294	-69	42	3 633
ADJUSTED EBIT	404	-100	-27	-7	270
ADJUSTED EBIT MARGIN	12.0%	n/a	-	-	7.4%

\* Includes metal price effects in SMT, bottom line: +109 in Q4 2016 vs. +101 in Q4 2017, alloy surcharges topline: +57MSEK and structure -15 MSEK topline and +1 bottomline

# ALL PROGRAMS COMPLETED 93% DELIVERED

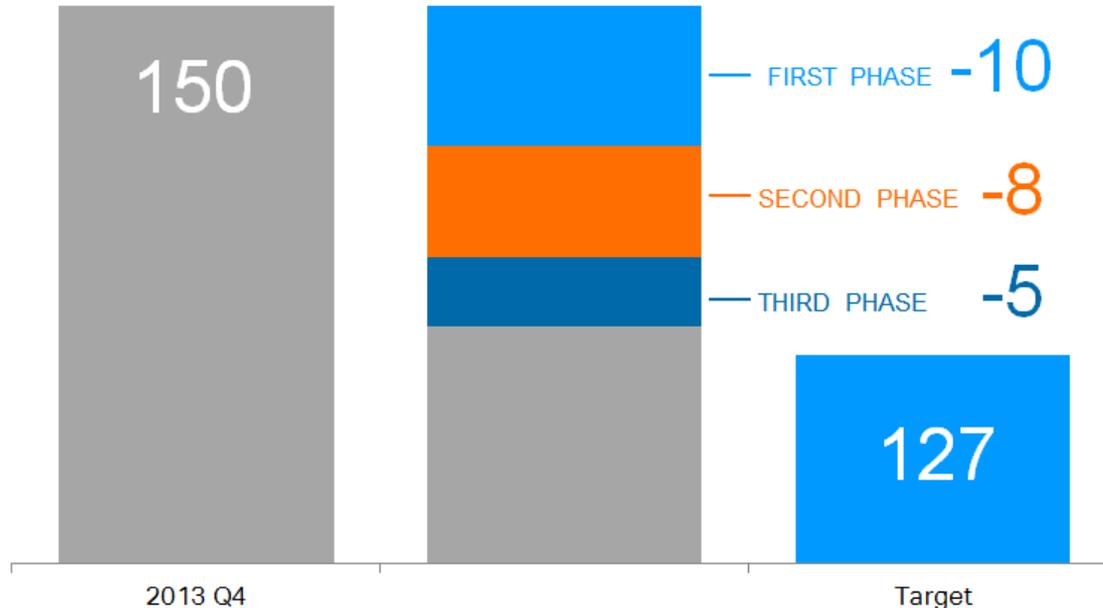
## SAVINGS ANNUAL RUN-RATE (MSEK) VS. LAST YEAR AND TOTAL

	 SANDVIK MACHINING SOLUTIONS	 SANDVIK MINING AND ROCK TECHNOLOGY	 SANDVIK MATERIALS TECHNOLOGY	GROUP ACTIVITIES	TOTAL ANNUAL RUN-RATE VS. LAST YEAR	 TARGET 2.1 BSEK
						SAVINGS ANNUAL RUN-RATE <b>1 180 (1 333)</b>
SUPPLY CHAIN OPTIMIZATION	71	0	4	0	75	
ADJUST OF COST BASE/ RIGHT SIZING	50	0	0	0	50	<b>761 (762)</b>
<b>TOTAL</b>	<b>121</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>125</b>	<b>1 940 (2 095)</b>

\*SMRT supply chain phase I did not deliver according to target (90 MSEK less) and SMT did not deliver according to target in Supply chain phase III (65 MSEK less)

# ALL PROGRAMS FINALIZED – 23 SITES CLOSED

## SUPPLY CHAIN OPTIMIZATION PROGRAM CONTINUING OPERATIONS



### FIRST PHASE (10)

**FINALIZED AT END Q4 2015**  
**RUN-RATE SAVINGS**  
**600 MSEK END OF Q4**  
(out of 690 MSEK target)

### SECOND PHASE (8)

**FINALIZED AT END Q4 2017**  
(LAST UNIT CLOSED Q4 2017)  
**RUN-RATE SAVINGS OF 320 MSEK**  
(320 MSEK target)

### THIRD PHASE (5)

**FINALIZED AT END OF Q4 2017**  
(LAST UNIT CLOSED Q4 2017)  
**RUN-RATE SAVINGS OF 260 MSEK**  
(out of 323 MSEK target)





# OTHER OPERATIONS

## NON-STRATEGIC ASSETS

### CLOSURE OF SPS DIVESTMENT 1 DEC 2017

- Resulted in 3.9 BSEK capital gain

### DISPOSAL OF HYPERION

- Carve-out process progressing according to plan, closure expected during H1 2018

### ADJUSTED EARNINGS IMPACTED BY TRANSACTION RELATED COSTS

- Earnings growth off-set by about -25MSEK in transaction related costs
- Underlying margin at 13.8%





SHARE OF REVENUES 2017

5%

# OTHER OPERATIONS

## NON-STRATEGIC ASSETS

ORDER INTAKE

1 133

MSEK

REVENUES

1 261

MSEK

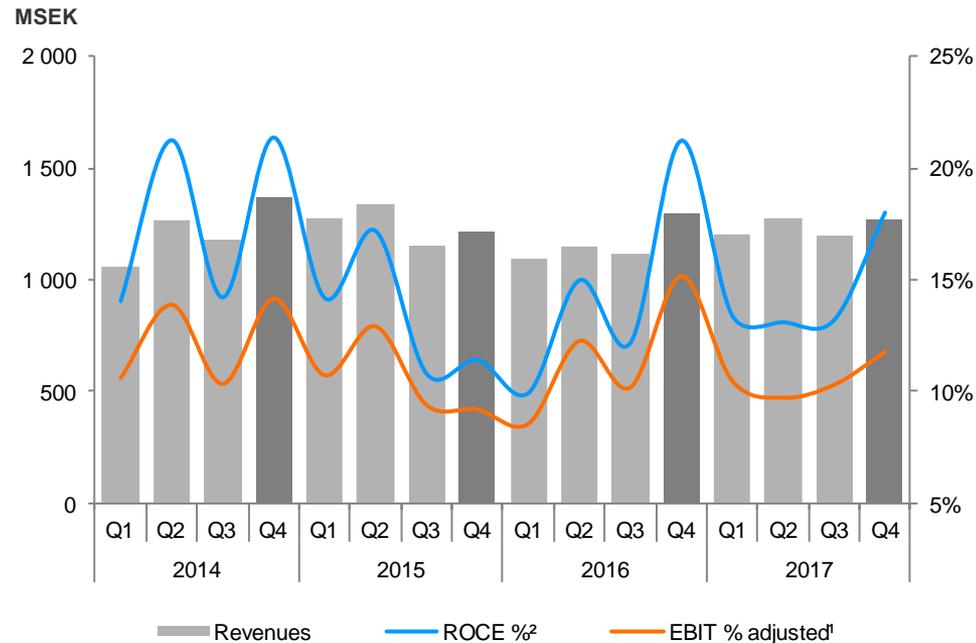
EBIT ADJUSTED

149

MSEK

ROCE

18%



<sup>1</sup>Adjusted for items affecting comparability

<sup>2</sup>ROCE: EBIT adj. annualized, CE 1Q avg.



# LOAN AND DURATION PROFILE



LONG TERM  
**96%**

	AMOUNT MSEK	AVERAGE DURATION
US Private Placement	4 796	3 years
Fin institutions, EIB, NIB	1 408	6 years
Swedish MTN	5 647	3 years
European MTN	10 821	8 years
Bank loans	169	1 year
Share swap	-	-



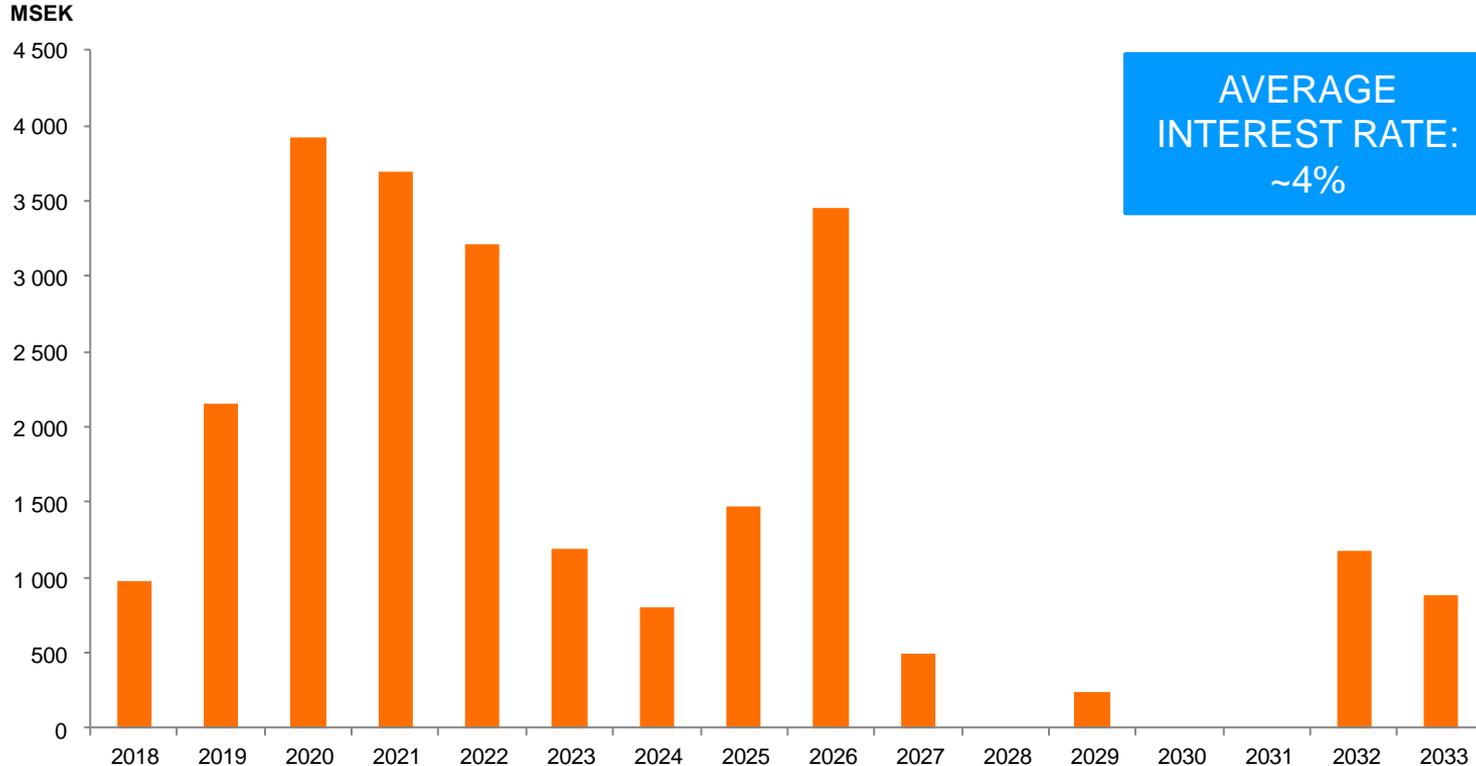
SHORT TERM  
**4%**

US Private Placement	0	0 month
Fin institutions, EIB, NIB	352	10 months
Swedish MTN	576	3 months
Bank loans	55	0 month
Share swap	3	0 month

Cash position **12,724 MSEK**  
Revolving Credit facilities **9,100 MSEK**

<b>TOTAL</b>	<b>23,828</b>	<b>6 years</b>
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# LOAN MATURITY PROFILE



# GUIDANCE

## CAPEX

Estimated at about 4 BSEK for 2018

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## CURRENCY EFFECTS

Given currency rates at end of January 2018 the effect on operating profit from transaction and translation would be -250 MSEK for Q1 2018

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## METAL PRICE EFFECTS

Given currency rates, stock levels and metal prices at the end of January 2018, it is estimated that effect on operating profit in Q1 2018 will be +100 MSEK

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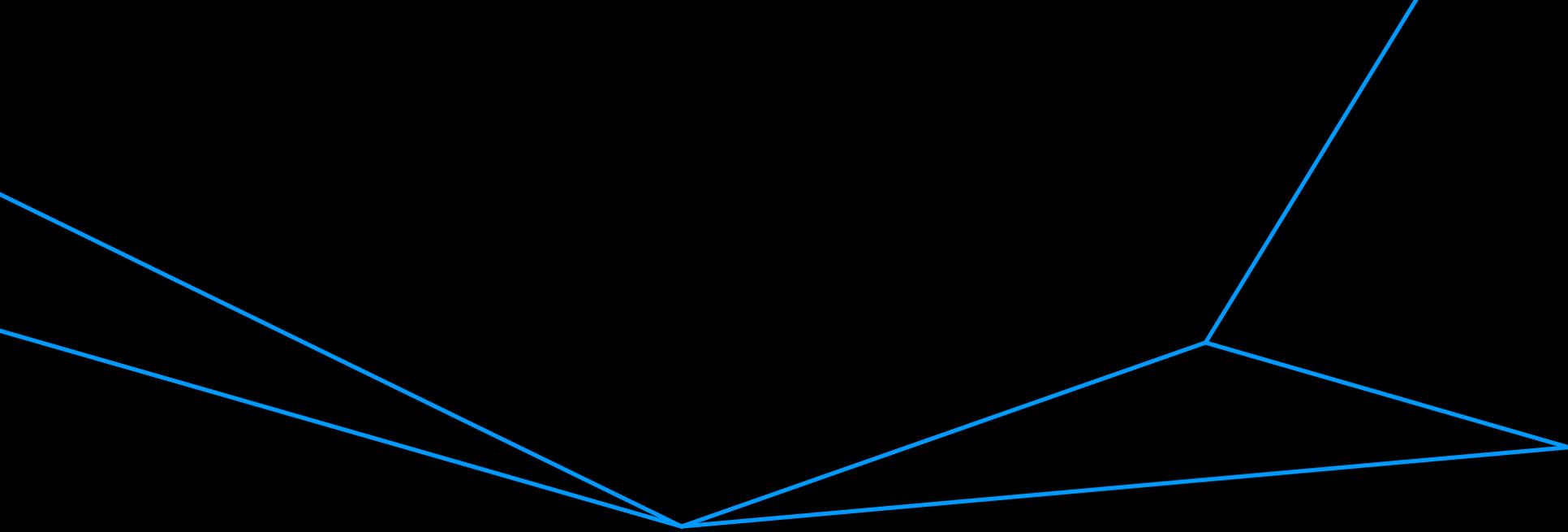
## NET FINANCIAL ITEMS

Net financial items is estimated to be about 1 BSEK for 2018

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## TAX RATE

The tax rate is estimated to about 26–28% for 2018

An abstract graphic consisting of several bright blue lines that intersect to form a series of triangles and polygons, creating a dynamic, geometric pattern against a black background.

# 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.”