

# Interim report

**Q3 2008**



**Lars Pettersson, CEO**

**Per Nordberg, CFO**

**30 October, 2008**

# Market highlights Q3

## ● Business environment

- ✓ Stable demand in NAFTA and Europe
- ✓ Strong demand in Asia and Africa
- ✓ Weakness in some business sectors towards end of quarter

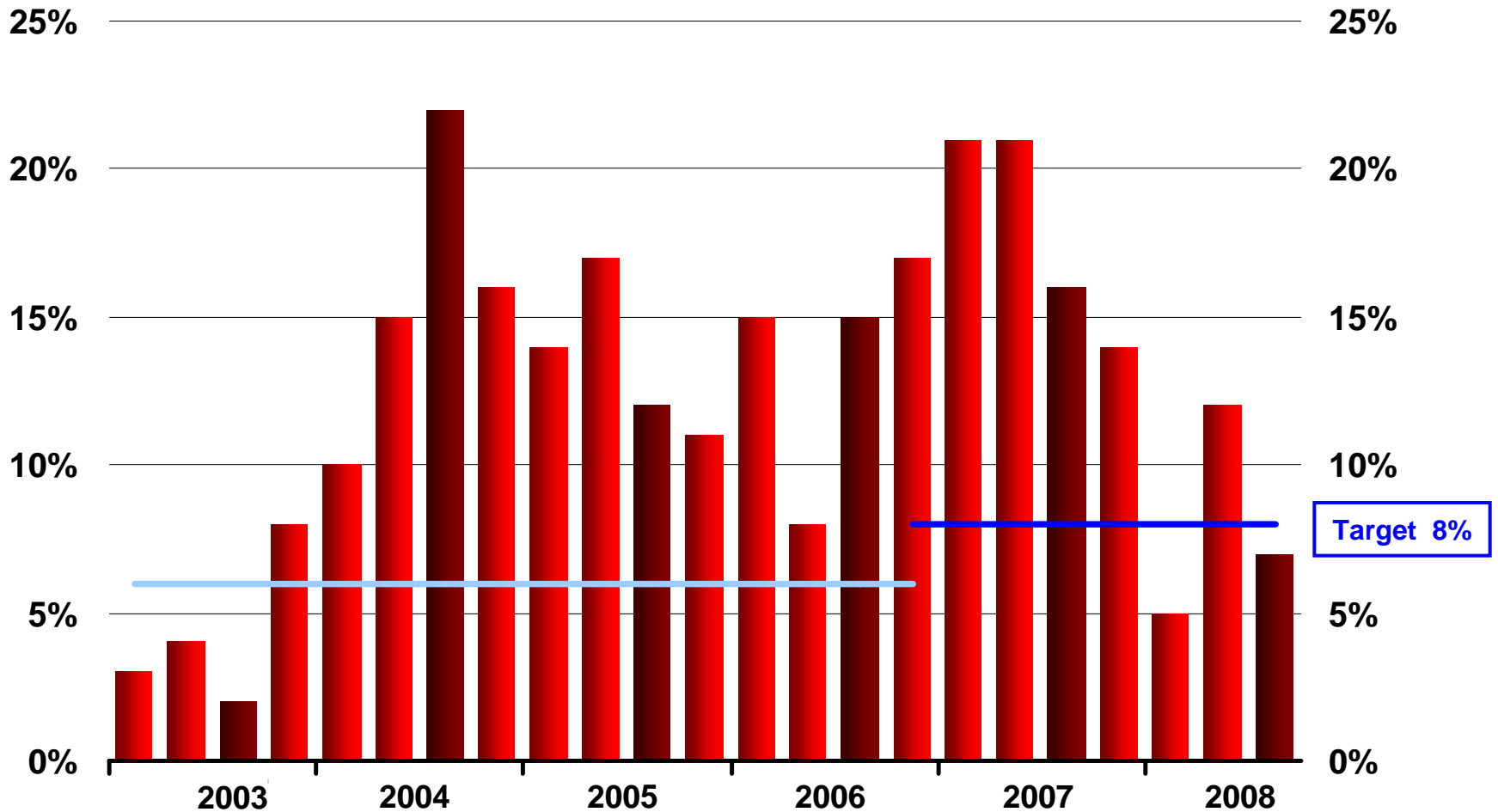
## ● Business segments

- ✓ Growth in Mining and Energy
- ✓ Automotive and Construction weakening in US and Europe
- ✓ Exploration softening

# Operational highlights Q3

- **Underlying growth for all Business Areas**
- **Currency effect on EBIT of SEK +225 M**
- **Metal price effects SEK -114 M in Sandvik Materials Technology**
- **Improved cash flow SEK 2,386 M, +13%**
- **Customer behaviour affected by the financial turbulence**

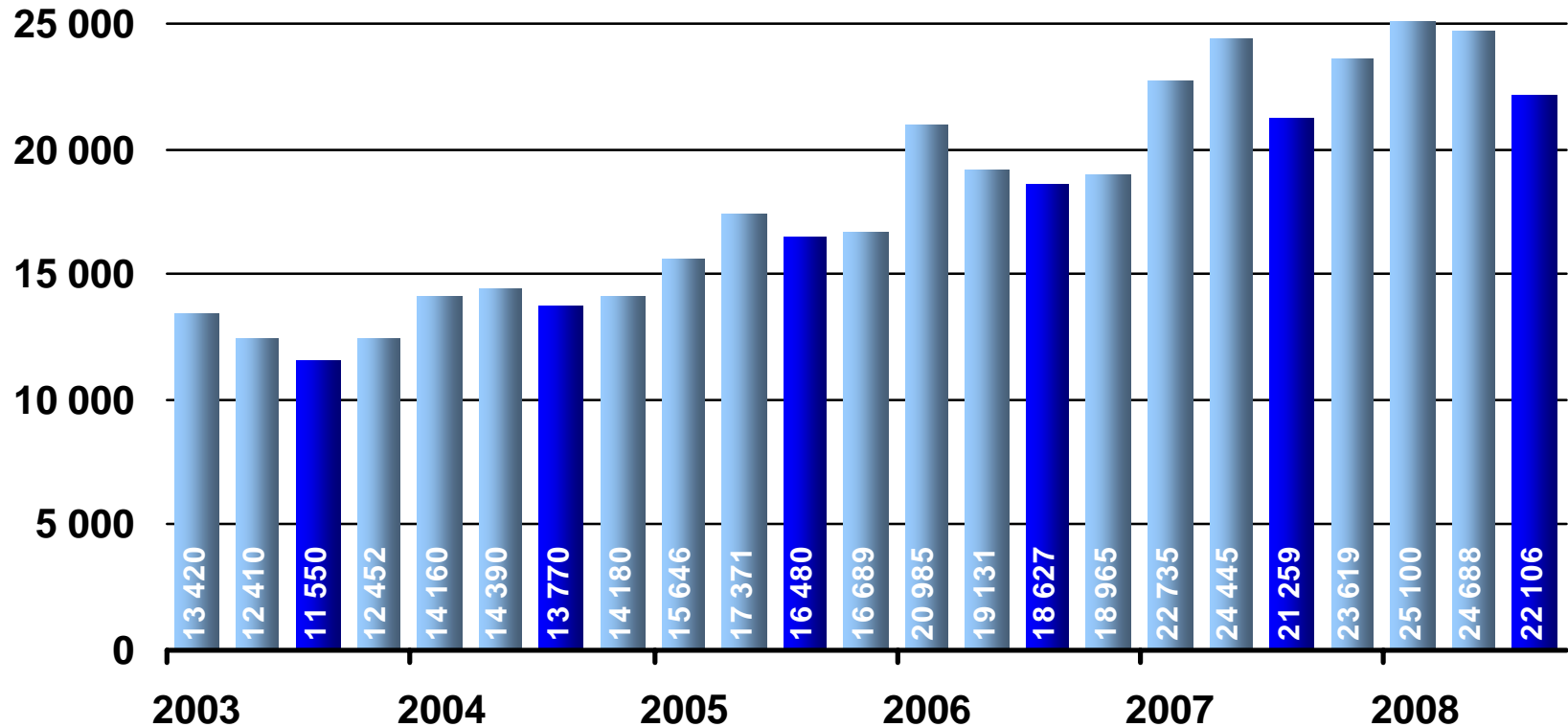
# Organic invoicing: + 7%



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

# Order intake: SEK 22,106 M, +4%

SEK M



# Growth bridge analysis

	Order Intake	Invoicing
<b>Reported growth</b>	<b>+ 4%</b>	<b>+ 6%</b>
Currency	+ 2%	+ 2%
Structure	- 1%	- 1%
<b>Reported organic growth</b>	<b>+ 5%</b>	<b>+ 7%</b>
Working days	-	-
Metal price effects	+ 5%	+ 4%
Project orders	+ 5%	
<b>Underlying growth</b>	<b>~ +15%</b>	<b>~ +11%</b>

# Organic order growth by Region

Quarter, % change <sup>1)</sup>	2007		2008	
	Q3	Ex proj.	Q3	Ex proj.
Europe	+8	+4	- 1	+ 4
Nafta	+20	+20	+/- 0	+/- 0
South America	-2	-2	+ 37	+ 37
Asia	+22	+22	+ 28	+ 28
Australia	+17	-1	- 22	- 9
Africa/Middle East	-4	-4	+ 39	+ 39
<b>GROUP TOTAL</b>	<b>+11</b>	<b>+8</b>	<b>+ 5</b>	<b>+ 10</b>

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

# Order intake by Business area

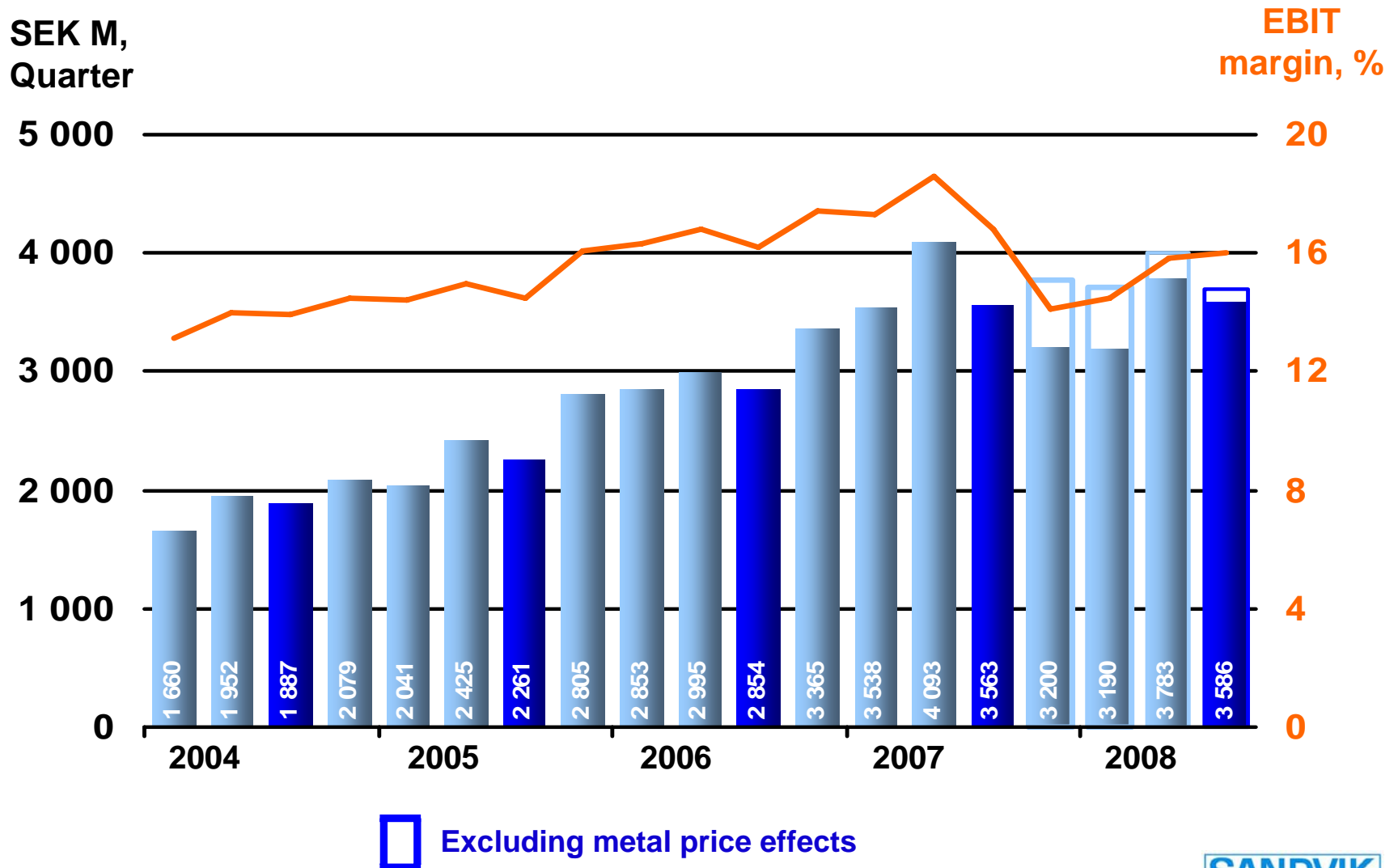
Quarter, % change	2007		2008	
	Q3	Ex proj.	Q3	Ex proj.
Sandvik Tooling <sup>1)</sup>	+10	+10	+ 6	+ 6
Sandvik Mining and Construction <sup>1)</sup>	+ 24	+15	+ 7	+ 17
Sandvik Materials Technology <sup>1) 2)</sup>	-6	-6	+ 2	+ 2
<b>GROUP ORGANIC GROWTH <sup>1)</sup></b>	<b>+11</b>	<b>+8</b>	<b>+ 5</b>	<b>+ 10</b>
Currency	-1	-1	- 2	- 2
Structure	+4	+4	+ 1	+ 1
<b>GROUP TOTAL</b>	<b>+14</b>	<b>+11</b>	<b>+ 4</b>	<b>+ 9</b>

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

<sup>2)</sup> Approximately -10% in Q3 2007 and +20% in Q3 2008 respectively after changes in metal prices



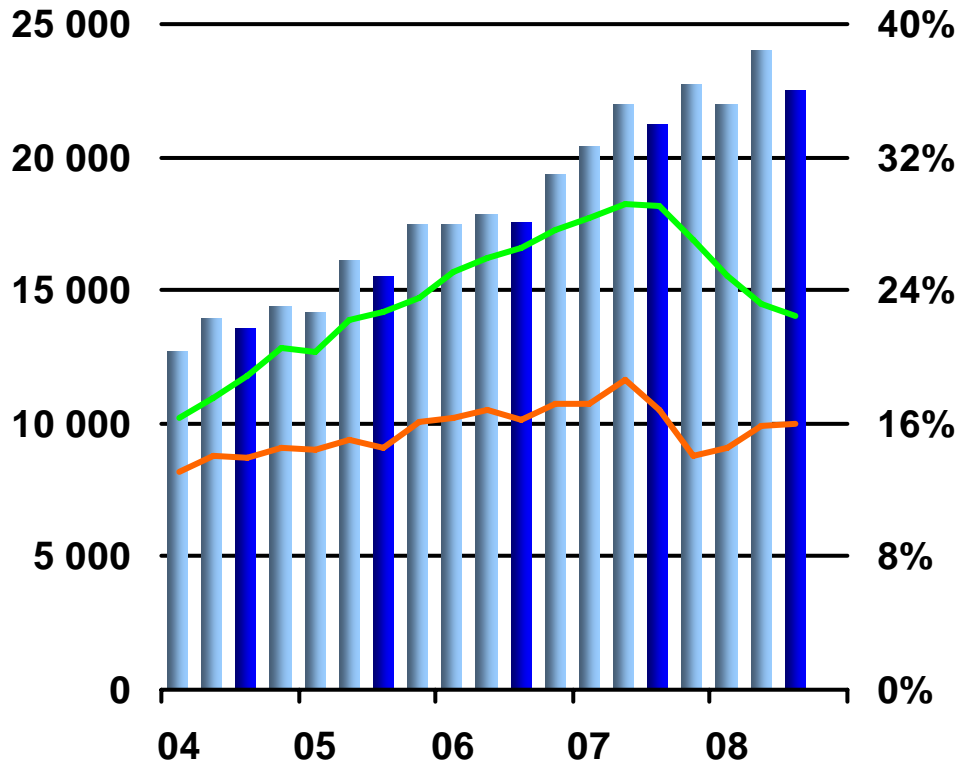
# EBIT: SEK 3,586 M, +1%



# Sandvik Group

Invoiced sales  
SEK M, Quarter

— EBIT- margin  
— ROCE 12-months

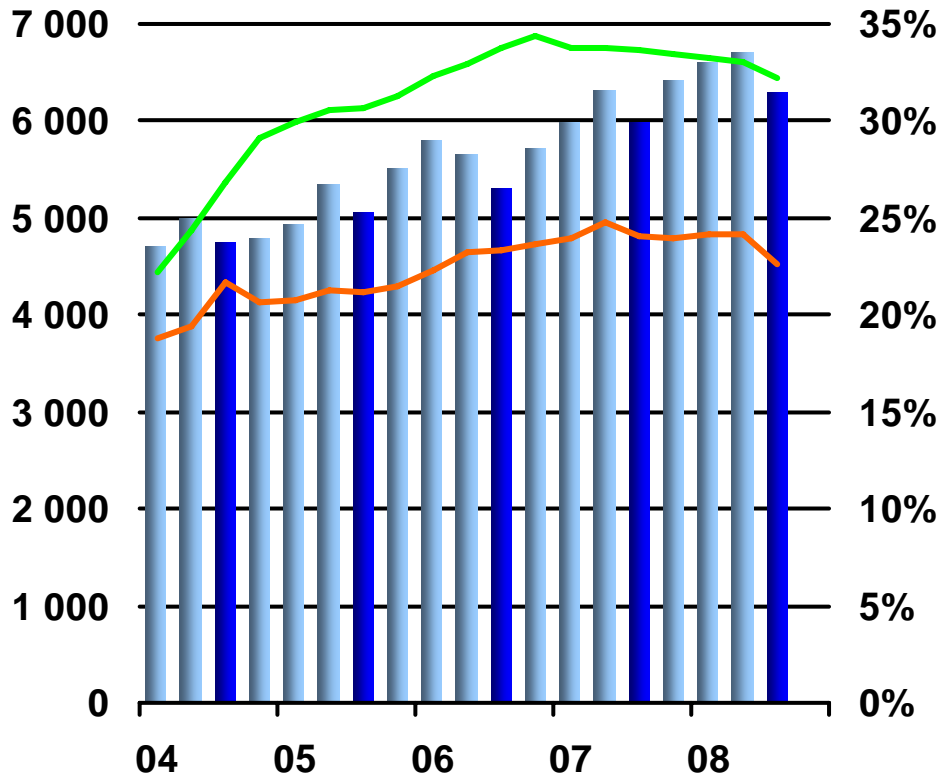


- Order intake +5% (P/V)
- Invoiced sales +7% (P/V)
- EBIT 16.0% of sales
  - ✓ SEK 3,586 M, +1%
  - ✓ Currency effect SEK +225 M
  - ✓ Metal price effects SEK -114 M
- ROCE 22.5% (29.1)
- EPS SEK 1.85 (1.85)

# Sandvik Tooling

Invoiced sales  
SEK M, Quarter

— EBIT- margin  
— ROCE 12-months

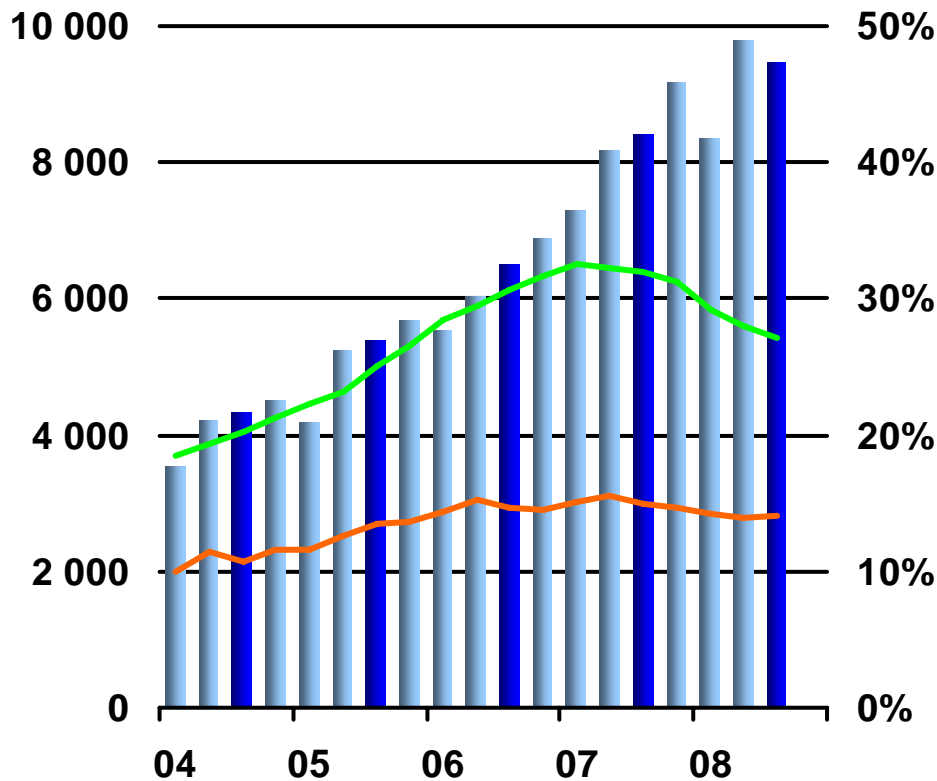


- Order intake +6% (P/V)
  - ✓ Increased market shares
  - ✓ Gradual decline in September
- Invoiced sales +6% (P/V)
- EBIT 22.6% of sales
  - ✓ SEK 1,422 M, -1%
- ROCE 32.2% (33.7)

# Sandvik Mining and Construction

Invoiced sales  
SEK M, Quarter

— EBIT- margin  
— ROCE 12-months

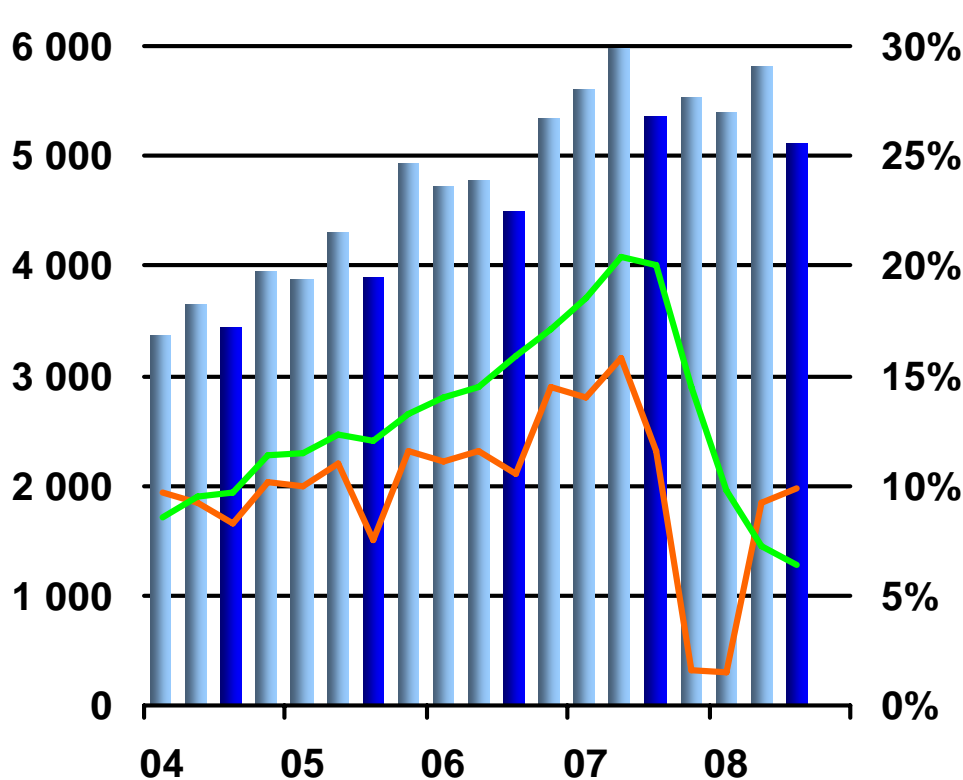


- Order intake +7% (P/V)
  - ✓ Excl major orders, +17%
- Invoiced sales +15% (P/V)
- EBIT 14.1% of sales
  - ✓ SEK 1,337 M, + 6%
  - ✓ R&D expansion
  - ✓ Integration costs
  - ✓ Currency effect SEK -75 M
- ROCE 27.1% (31.9)

# Sandvik Materials Technology

Invoiced sales  
SEK M, Quarter

— EBIT- margin  
— ROCE 12-months



- Order intake +2% (P/V)
  - ✓ Excl metal price effects +20%
- Invoiced sales -4% (P/V)
  - ✓ Excl metal price effects +14%
- EBIT 9.9% of sales
  - ✓ SEK 505 M, -19%
  - ✓ Excl metal price effects 12.1%
  - ✓ Currency effect SEK +120 M
- ROCE 6.4% (20.0)
  - ✓ Excl metal price effects 14.1%

# Sandvik Materials Technology

## Metal price impact

- Nickel inventory level 10,000 ton (10,000 in Q2)
- Nickel inventory average price 23,500 USD per ton (27,000 in Q2)
- Inventory revaluation effects:
  - ✓ Q1            SEK -517 M
  - ✓ Q2            SEK -176 M
  - ✓ Q3            SEK -114 M
  - ✓ Q4            SEK -300 M estimated at prices at quarter end

### Emphasis on

- safeguarding margin and cash flow
- inventory reduction

# CEO summary Q3 2008

- 
- **Global growth in core businesses**
  - **Improved cash flow**
  - **Focus on efficiency and integration**
  - **Increased market uncertainty**

# Priorities in a weaker market

- **Aggressive market penetration**
- **Intensified cost control**
- **Reduced Capex**
- **Working capital reduction – focus on cash flow**
- **Adjustment of manufacturing capacity in selected areas**



# Financial highlights Q3



● Order intake	SEK M	
	22,106	+ 5%*
● Invoicing	22,478	+ 7%*
● Operating profit (EBIT)	3,586	+ 1%
● Operating cash flow	2,386	+ 13%
● Earnings per share	SEK 1.85	+/- 0%

\*Fixed exchange rates for comparable units

# **Volatile** financial markets

- **Direct effects – funding risk**
  - ✓ **Funding obtained, despite sluggish financial markets**
  - ✓ **Increased interest cost**
- **Indirect effects – customer behaviour**
  - ✓ **Customers reviewing project timing and announcing production cuts**
  - ✓ **Smaller customers facing funding difficulties**
  - ✓ **Increased uncertainty**

# P&L summary

MSEK	Q3/2008		Q3/2007		Change %
	Actual	%	Actual	%	
Invoiced sales	22,478		21,216		+6
Cost of goods sold	-14,634	65.1	-13,860	65.3	+6
<b>Gross profit</b>	<b>7,844</b>	<b>34.9</b>	<b>7,356</b>	<b>34.7</b>	<b>+7</b>
Admin, Sales and R&D costs	-4,568	-20.3	-3,915	-18.5	+17
Other op income and exp.	+310	1.4	+122	0.6	+154
<b>Operating profit</b>	<b>3,586</b>	<b>16.0</b>	<b>3,563</b>	<b>16.8</b>	<b>+1</b>
Net financial items	-551	-2.5	-459	-2.2	+20
<b>Profit after Financial items</b>	<b>3,035</b>	<b>13.5</b>	<b>3,104</b>	<b>14.6</b>	<b>-2</b>
<b>Profit for the period</b>	<b>2,272</b>	<b>10.1</b>	<b>2,299</b>	<b>10.8</b>	<b>-1</b>

# P&L – Gap analysis

## Key drivers

SEK M	Q3/2008	Price/ Volume	Acq. & Curr. One-offs*		Q3/2007
<b>Sandvik Group</b>					
Invoicing	22,478	+2,506	-426	-818	21,216
EBIT	3,586	+491	+225	-693	3,563
%	16.0	19.6	-	-	16.8

\*Includes metal price effects

# P&L – Gap analysis

## by Business Area

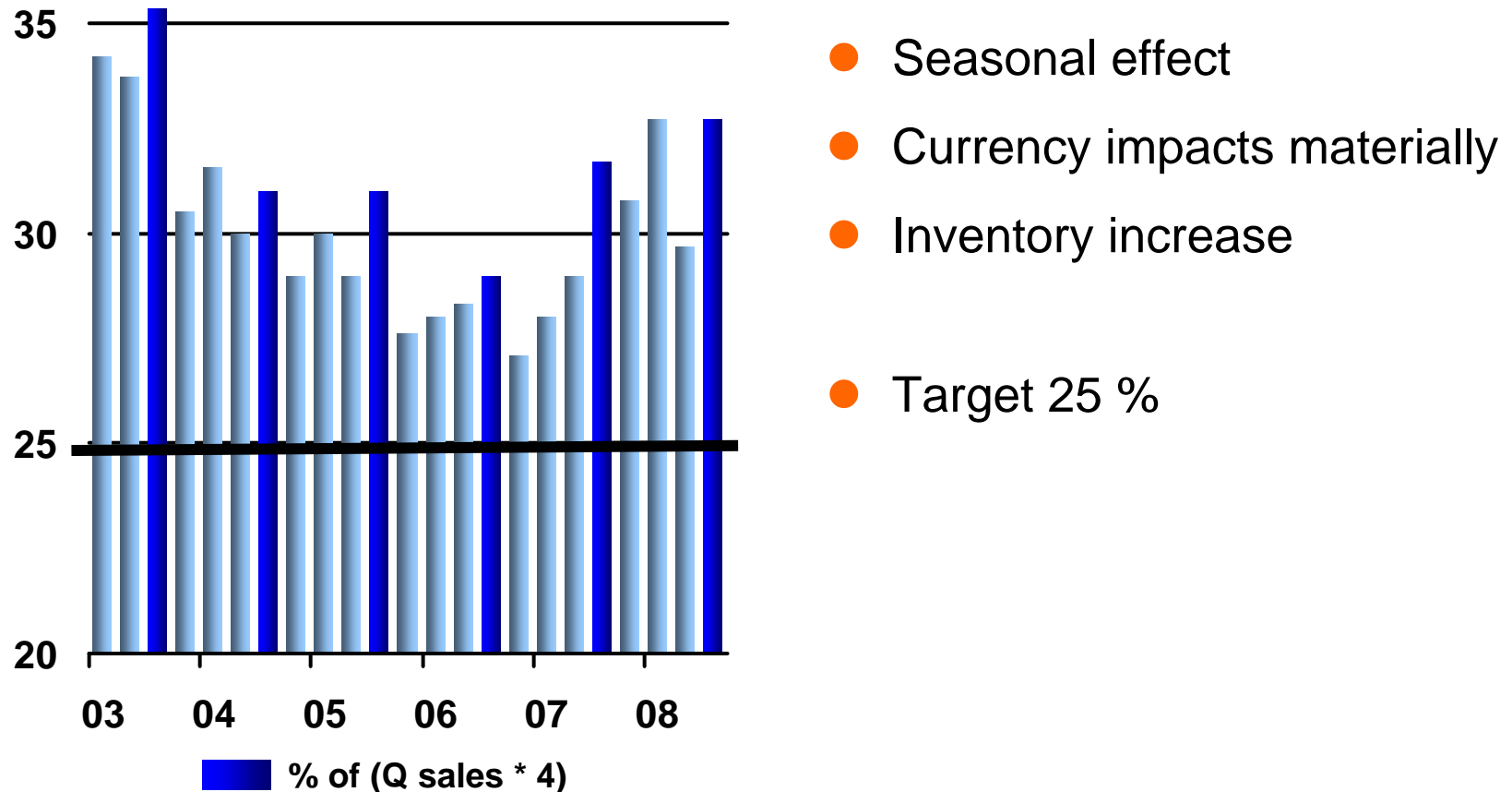
SEK M	Q3/2008	Price/ Volume	Curr.	Acq. & One-offs*	Q3/2007
Sandvik Tooling					
Invoicing	6,295	+376	-49	-15	5,982
EBIT	1,422	+50	+5	-75	1,442
%	22.6	13.3	-	-	24.1
Sandvik Mining and Construction					
Invoicing	9,475	+1,248	-268	+71	8,424
EBIT	1,337	+302	-75	-150	1,260
%	14.1	24.2	-	-	15.0
Sandvik Materials Technology					
Invoicing	5,122	+764	-109	-896	5,363
EBIT	505	+74	+120	-310	621
%	9.9	9.7	-	-	11.6

\*Includes metal price effects



# Capital efficiency

## Net Working Capital as % of sales



# Balance sheet summary

SEK M	Q3/2008	Q3/2007	Change %
Intangible fixed assets	11,937	11,117	+7
Tangible fixed assets	23,794	19,662	+21
Financial fixed assets	4,088	3,772	+8
Inventories	27,497	24,576	+12
Receivables	24,462	20,898	+17
Cash and cash equivalents	1,560	2,379	-34
<b>Total assets</b>	<b>93,338</b>	<b>82,404</b>	<b>+ 13</b>
Total equity	32,123	26,904	+19
Interest-bearing liabilities	34,528	31,385	+10
Non-interest-bearing liabilities	26,687	24,115	+11
<b>Total equity and liabilities</b>	<b>93,338</b>	<b>82,404</b>	<b>+ 13</b>

# Funding strategy

- **Loan portfolio**
  - ✓ 1/3 short term (maturity less than 1 year)
  - ✓ 2/3 long term (maturity more than 1 year)
- **Matching short term loans with operating cash flow**
- **Short term covered by Revolving Credit Facility**
- **In volatile times, we aim to shift the balance towards more long term loans**

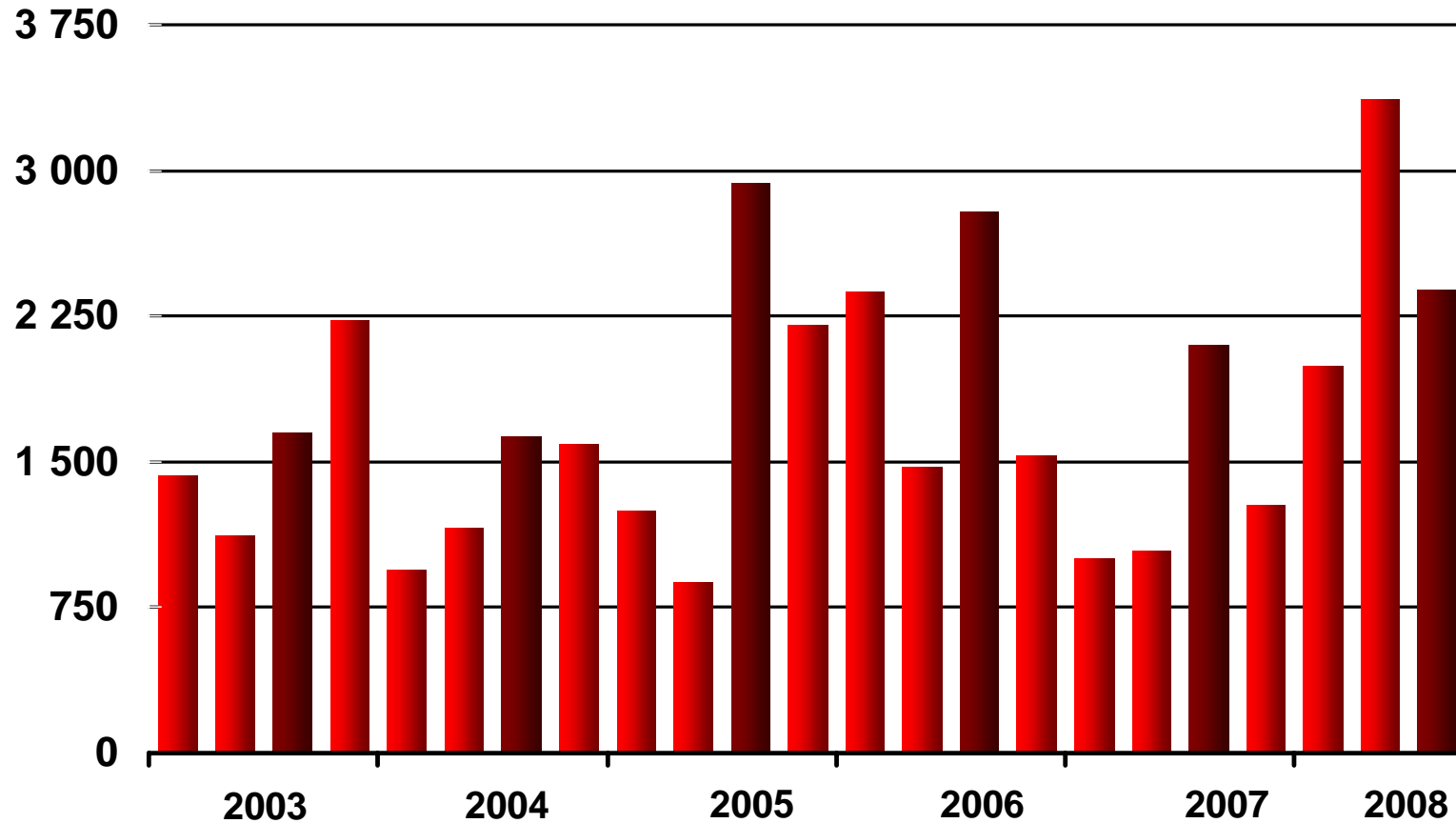


# Loan and duration profile

	Amount SEK M	Average duration
<b>Long term</b>		
US Private Placement	5,000	12 years
Fin institutions, EIB, NIB	3,200	6 years
Swedish MTN	12,700	3 years
Bank loans	1,200	2.5 years
<b>Short term</b>		
Bank loans	4,300	6 months
Commercial paper	5,600	3 months
<b>Total</b>	<b>32,000</b>	<b>4 years</b>
Revolving Credit Facility	14,600	4.5 years

# Cash flow from operations

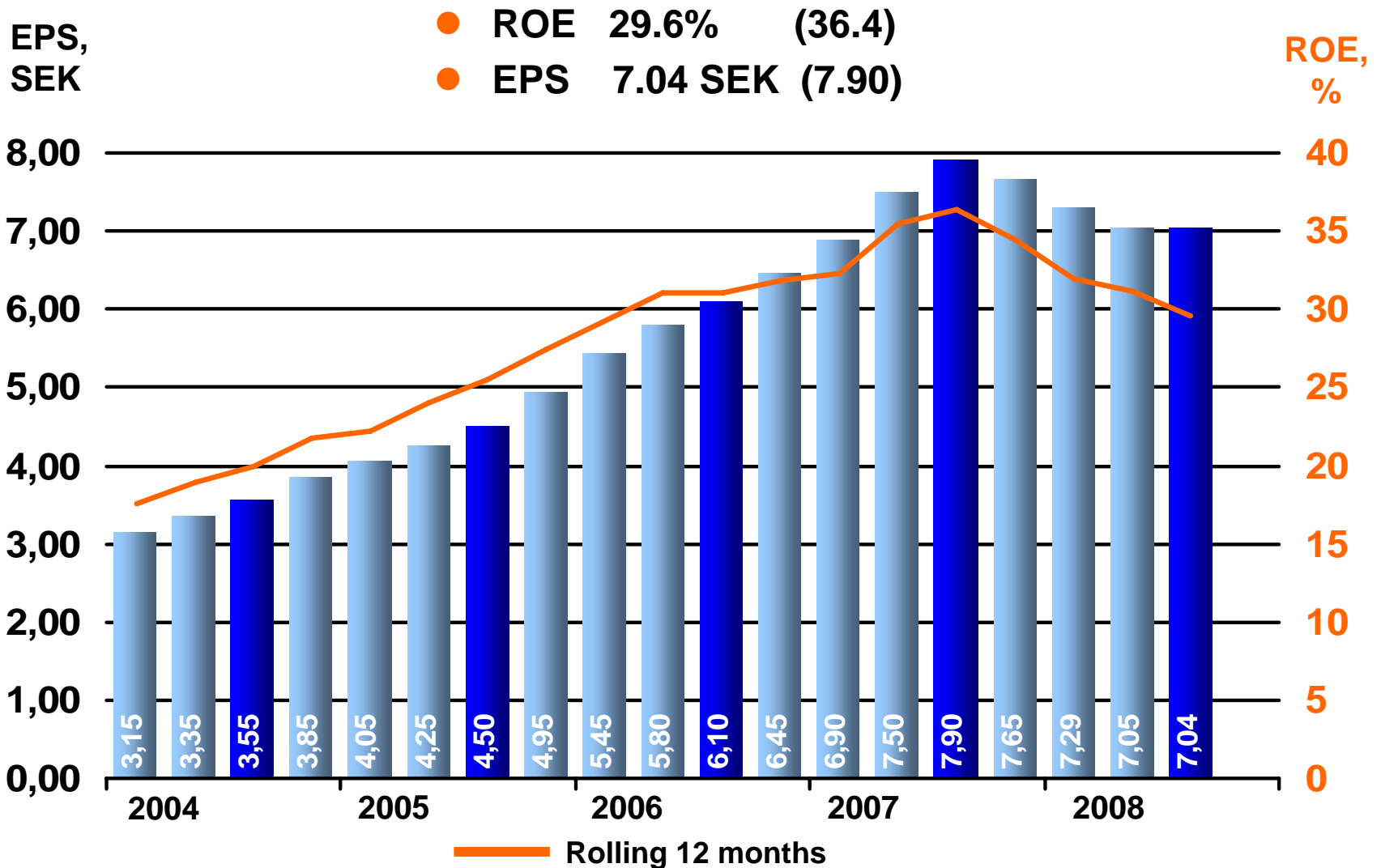
Quarter  
SEK M



# Cash flow summary

SEK M	Q3/2008	Q3/2007
● Cash flow from operations before NWC	+3,125	+3,027
● Change in inventories	-824	-1,442
● Change in current receivables	+720	+310
● Change in current operating liabilities	-635	+208
● Net cash flow from operations	+2,386	+2,103
● Net cash used in investing activities	-1,840	-3,900
● Net cash flow after investing activities	+546	-1,797
● Net cash used in financing activities	-2,388	+2,063
● Dividends paid/Share buy backs	-0	-0
● Cash flow for the quarter	-1,842	+266

# Shareholder value



# CFO summary Q3 2008

- **Strong operating cash flow, but...**
- **Funding obtained**
- **Focus on working capital management**
- **Increased focus on capital management and cost control**



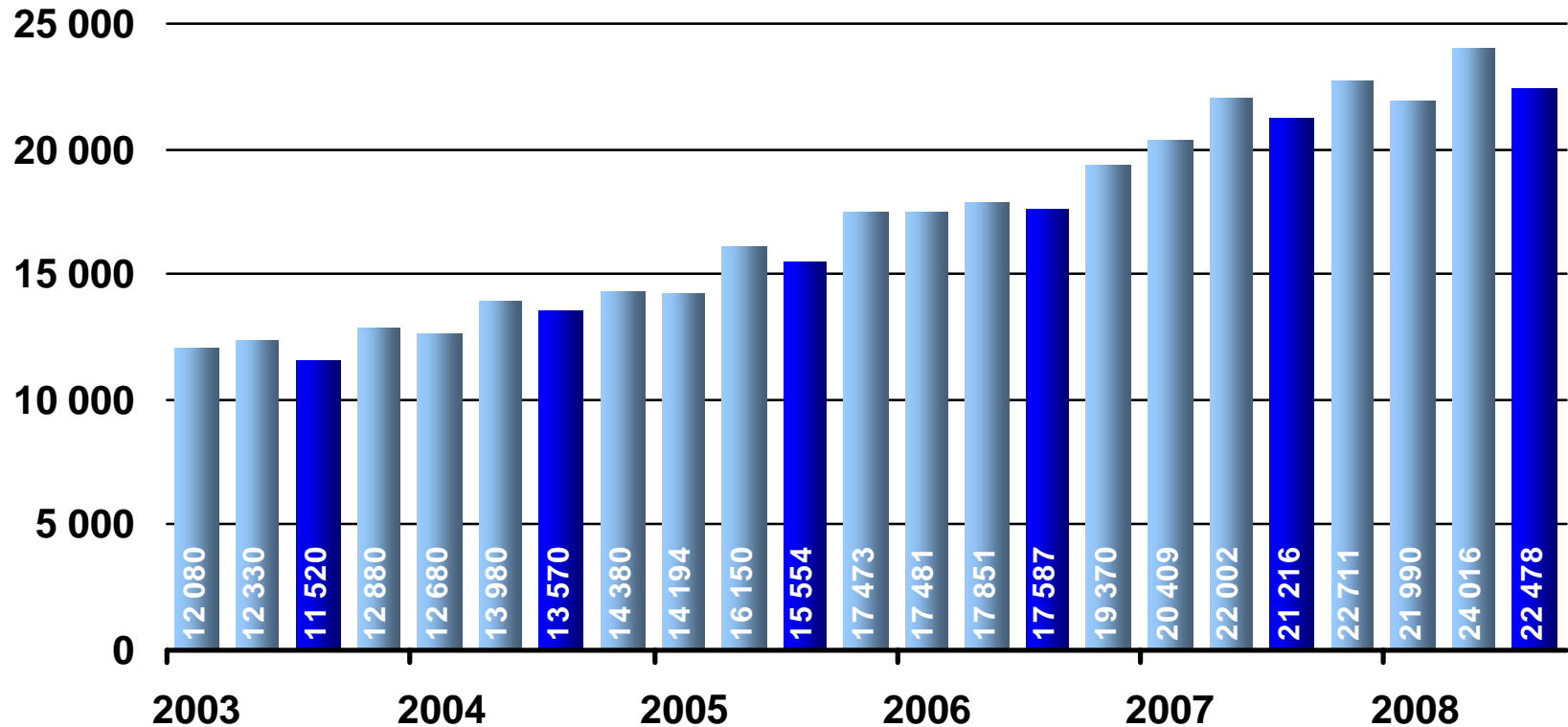
## Q&A session



**Back up slides**

# Invoicing: SEK 22,478 M, +7%

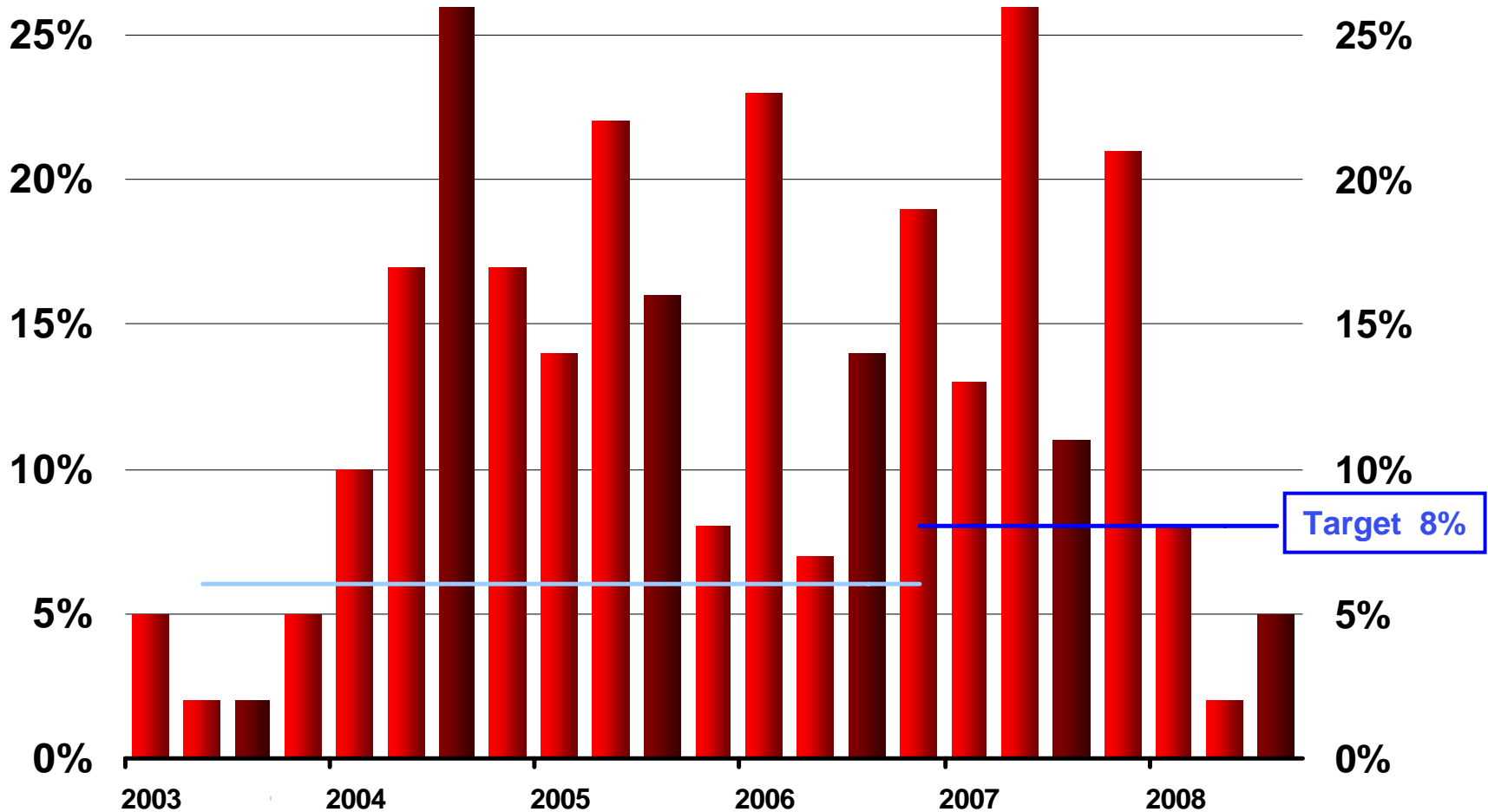
SEK M



~ +11% underlying growth



# Organic order intake: + 5%



Order intake change y-o-y, at fixed exchange rates for comparable units

# Financial key figures

	Q3/07	Q4/07	Q1/08	Q2/08	Q3/08
● Cash Flow from op., SEK M	2,103	1,282	1,996	3,364	2,386
● CAPEX, SEK M	1,250	1,962	1,462	1,630	2,007
● ROCE, % 12 months	29.1%	27.0%	24.9%	23.2%	22.5%
● ROE, % 12 months	36.4%	34.4%	31.9%	31.2%	29.6%
● Net debt/equity ratio	1.1	1.0	0.9	1.1	1.0
● EPS, SEK 12 months	7.90	7.65	7.31	7.05	7.04

# Guidance 2008

## Metal price effects (on inventory revaluation)

Given currency rates, stock levels and metal prices at quarter end, we estimate an effect on EBIT of SEK -300 M for Q4 and a full year effect of about SEK -1,100 M.

## Net financial items

The estimate is SEK -500 M for Q4 and SEK -2,000 M for the full year.

## Currency effects

The full year effect is revised to SEK +125 to +175 M indicating an effect of SEK +150 to +200 M in Q4.

## Capex

We revise our estimate to a Capex close to SEK 7,000 M, driven by investments already approved

## Tax rate

The tax rate is estimated to about 26%.



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

# 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.”**