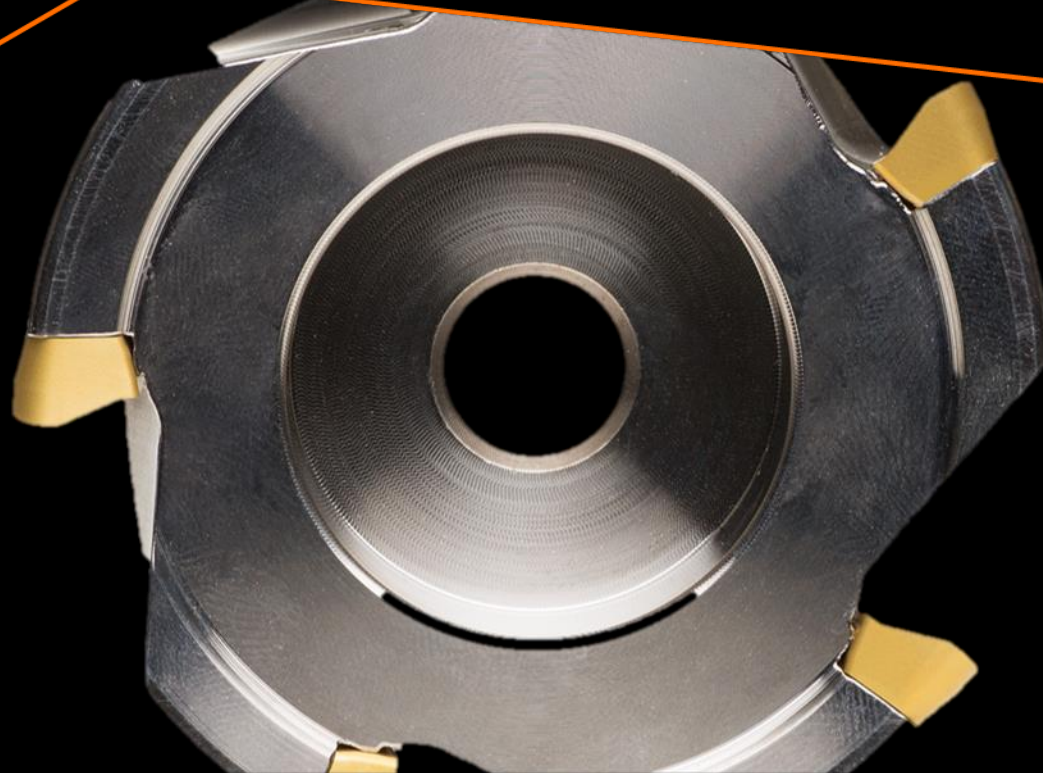


# SANDVIK CAPITAL MARKETS DAY

24 MAY 2016

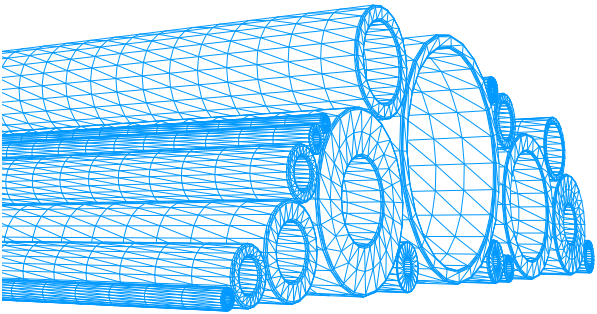


TECHNOLOGICAL LEADER,  
INNOVATIVE AND  
GLOBAL

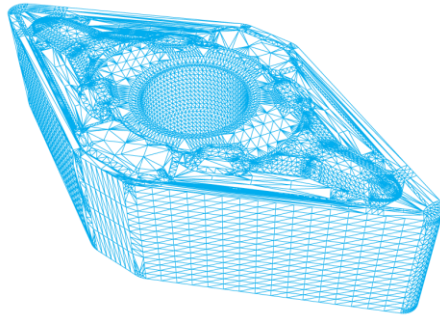
A close-up photograph of a mechanical component, possibly a metal fitting or a small machine part, resting on a dark, textured metal surface. The component is dark in color, possibly black or dark grey, and has a complex, angular shape. It is positioned on the right side of the frame, with its base resting on the metal surface. The background is a dark, textured metal surface with a fine, cross-hatched pattern, suggesting a machined or cast metal part. The lighting is dramatic, highlighting the edges and surfaces of the component against the dark background.

# LEADING POSITIONS

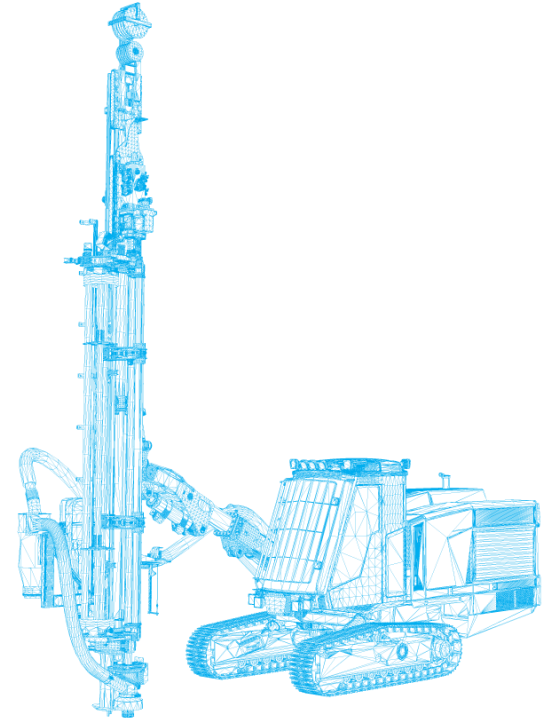
DRIVE PROFITABILITY AND GROWTH



ADVANCED MATERIAL KNOWLEDGE



METAL CUTTING



MINING AND ROCK TECHNOLOGY

# SIMPLIFYING THE STRUCTURE...

## SANDVIK MACHINING SOLUTIONS

38% 57%



## SANDVIK VENTURE

10% 5%



Share of revenues 2015



Share of adjusted operating profit 2015



## SANDVIK MINING

26% 28%



## SANDVIK MATERIALS TECHNOLOGY

16% 7%



## SANDVIK CONSTRUCTION

10% 3%



# ...CONSOLIDATING TO THREE BUSINESS AREAS

## SANDVIK MACHINING SOLUTIONS

42%

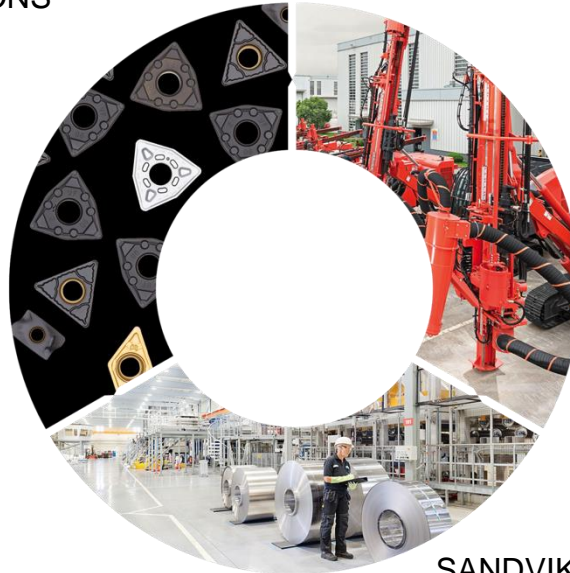
61%



## SANDVIK MINING AND ROCK TECHNOLOGY

41%

32%



Share of revenues 2015\*



Share of adjusted operating profit 2015\*



\*excluding other operations and group common

## SANDVIK MATERIALS TECHNOLOGY

17%

7%

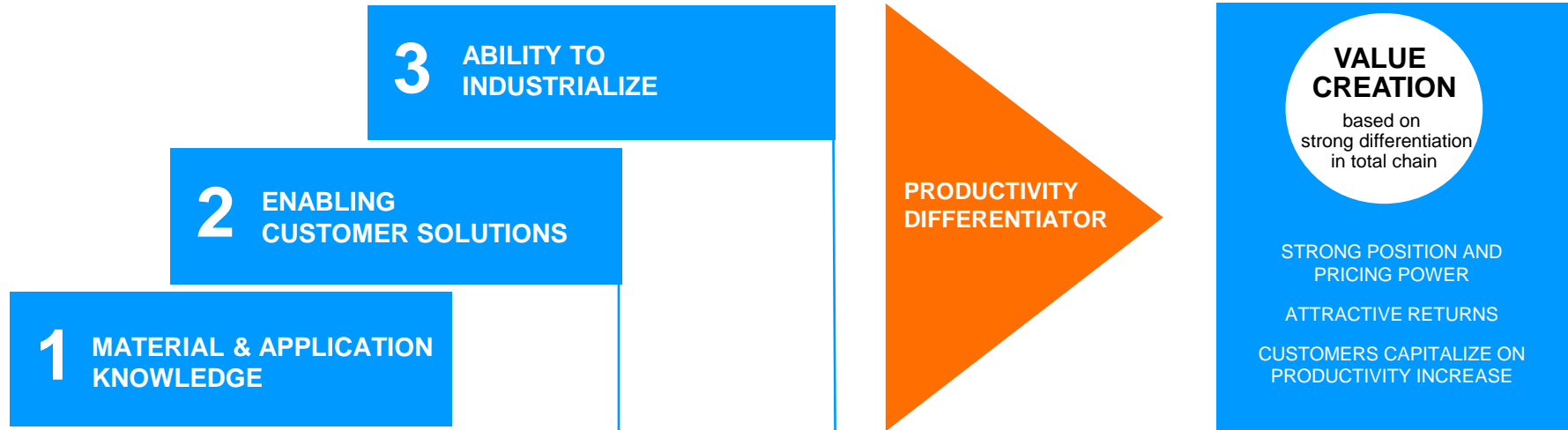


CAPITAL MARKETS DAY 2016

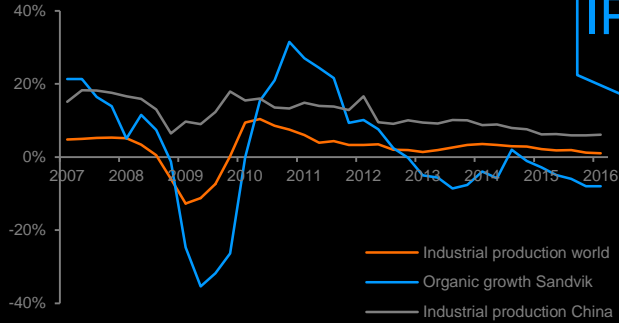


# SANDVIK CORE CAPABILITIES DRIVE VALUE

THE CHAIN IS COMMON, APPLICATION IS DIFFERENT



## GROWTH INDUSTRIAL PRODUCTION INDEX VS. SANDVIK, %



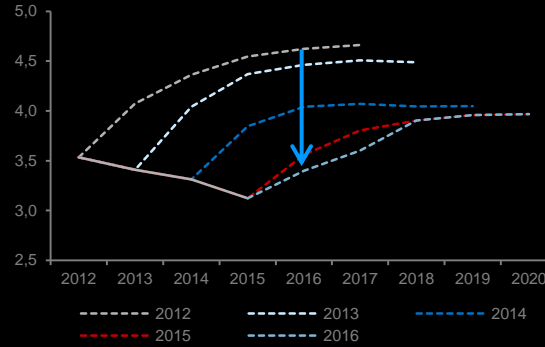
SANDVIK  
GOING FROM

# IPI+ TO IPI-

GROWTH IN RECENT  
YEARS

Source: Macrobond, IP seasonality adjusted and excl. construction

## REAL GDP WORLD FORECAST AND ACTUAL, %



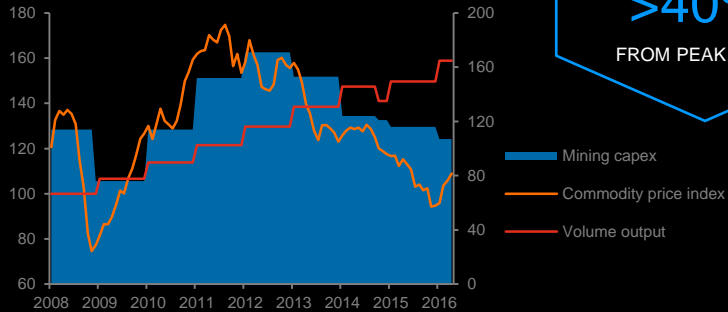
DOWNWARD REVISIONS  
OF GDP BY

# 1.5 PPT

IN THE PAST COUPLE  
OF YEARS

Source: IMF, World Economic Outlook

## MINING CAPEX, PRICES & VOLUMES



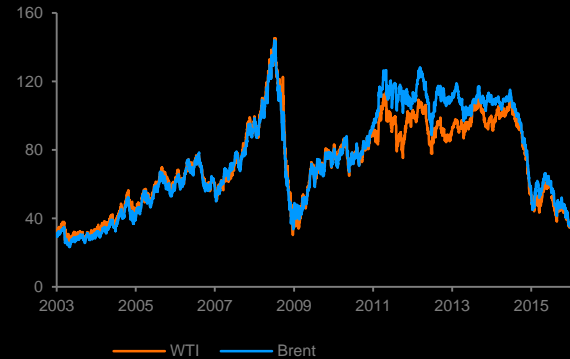
RECORD VOLUMES BUT  
COMMODITY PRICES DOWN

# >40%

FROM PEAK IN 2011

Source: Macrobond, BMI, Price index and Material moved index weighted according to Sandvik w/o Mining Systems commodity exposure

## OIL PRICES, USD/BARREL



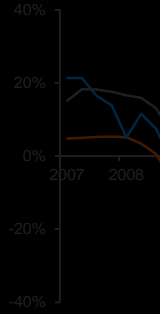
LOWEST LEVEL IN

# 12 YEARS

AND >60% DECREASE  
FROM PEAK IN 2014

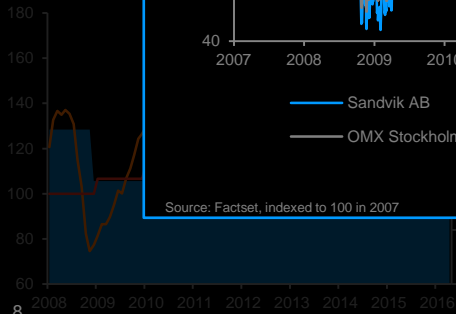
Source: EIA

# GROWTH INDUSTRIAL PRODUCTION INDEX VS. SANDVIK, %



Source: Macrobond, IP seasonally adjusted

# MINING CAPITAL EXPENDITURE



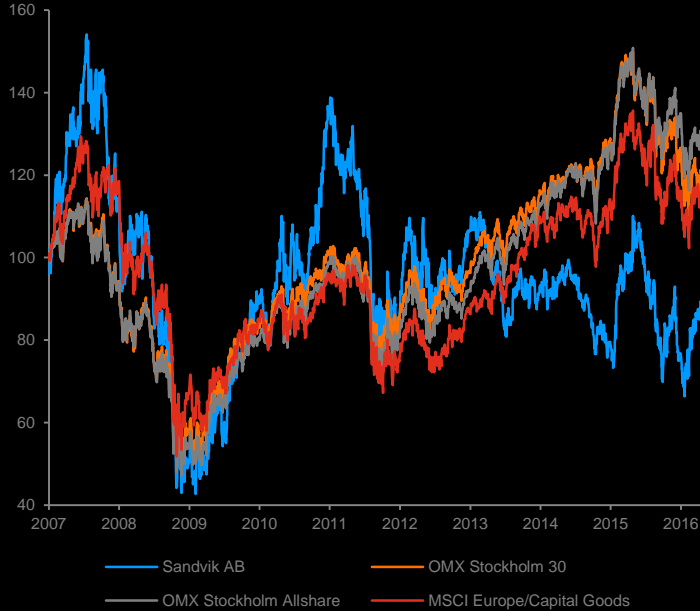
Source: Macrobond, BMI: Price index and Material moved index weighted according to Sandvik w/o Mining Systems commodity exposure

SANDVIK

# REAL GDP WORLD FORECAST

DOWNWARD REVISIONS OF GDP BY

## TARGETING IMPROVED PERFORMANCE



Source: Factset, indexed to 100 in 2007

CREATE VALUE AND IMPROVE PERFORMANCE DESPITE SLOW GROWTH

QUICKER ADJUSTMENT TO CHANGED MARKET CONDITIONS

PPT

LAST COUPLE YEARS

LEVEL SEEN 2016 IN

YEARS

% DECREASE FROM PEAK IN 2014



Source: EIA



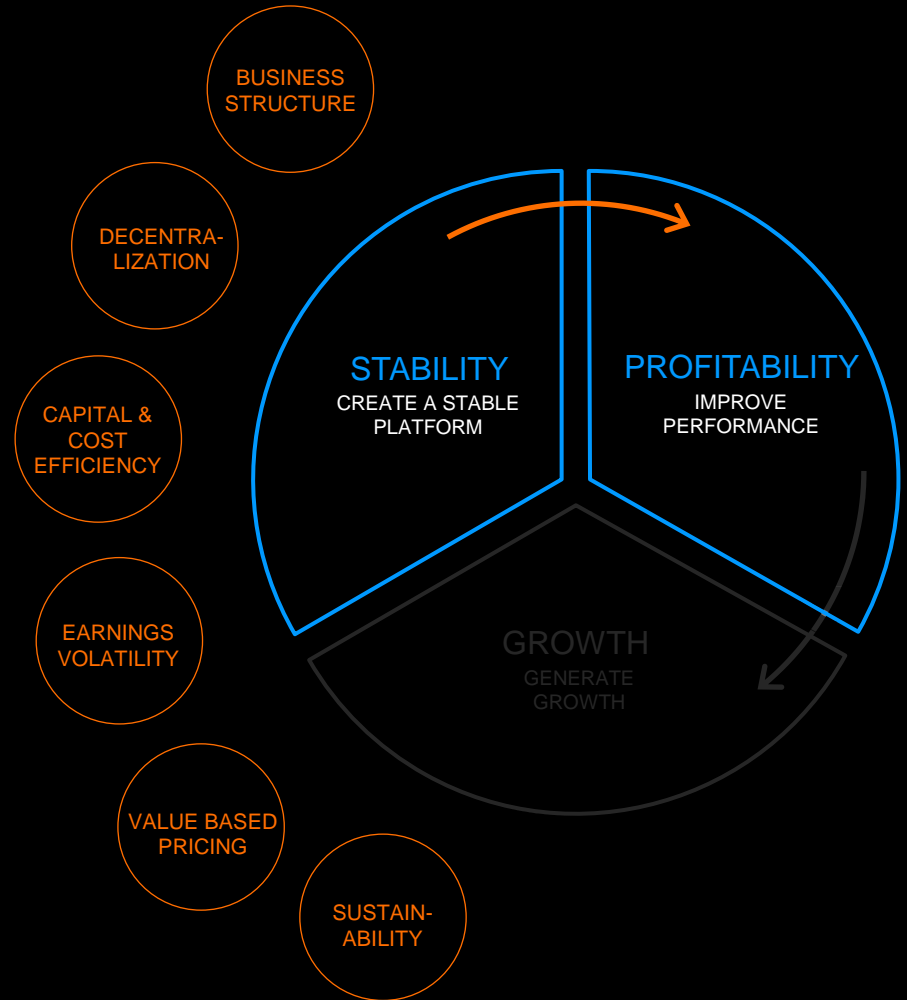
# STRATEGIC AGENDA



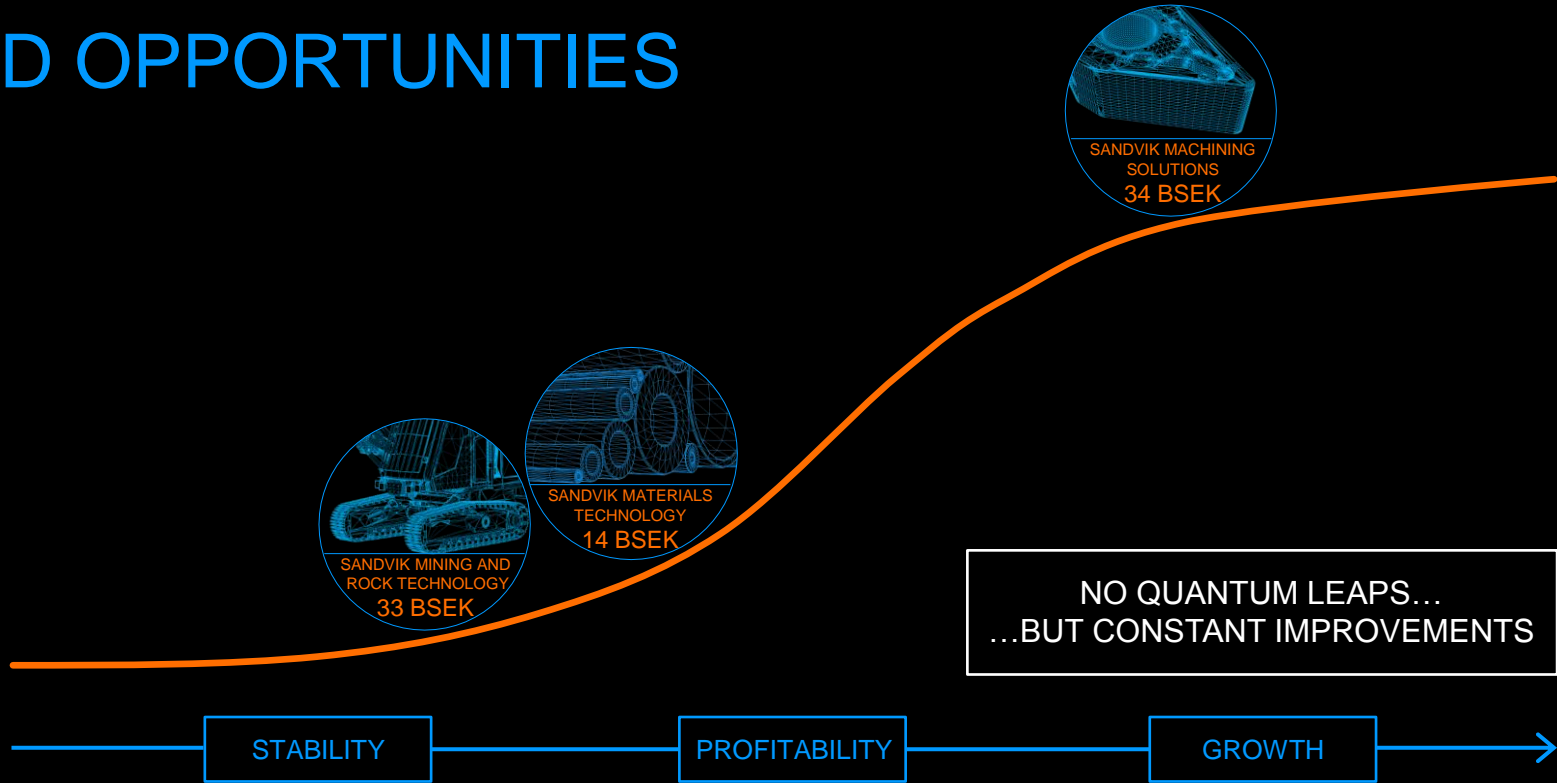
CAPITAL MARKETS DAY 2016



# STABILITY & PROFITABILITY



# DIFFERENT CHALLENGES AND OPPORTUNITIES



# WE SHALL BE NO.1 OR 2

ON TOP OF  
CUSTOMERS' MIND  
LONG-TERM RELATIONS

---

SCALE  
EFFICIENCY GAINS

MARKET SHARE  
KEY FOR PROFITABILITY

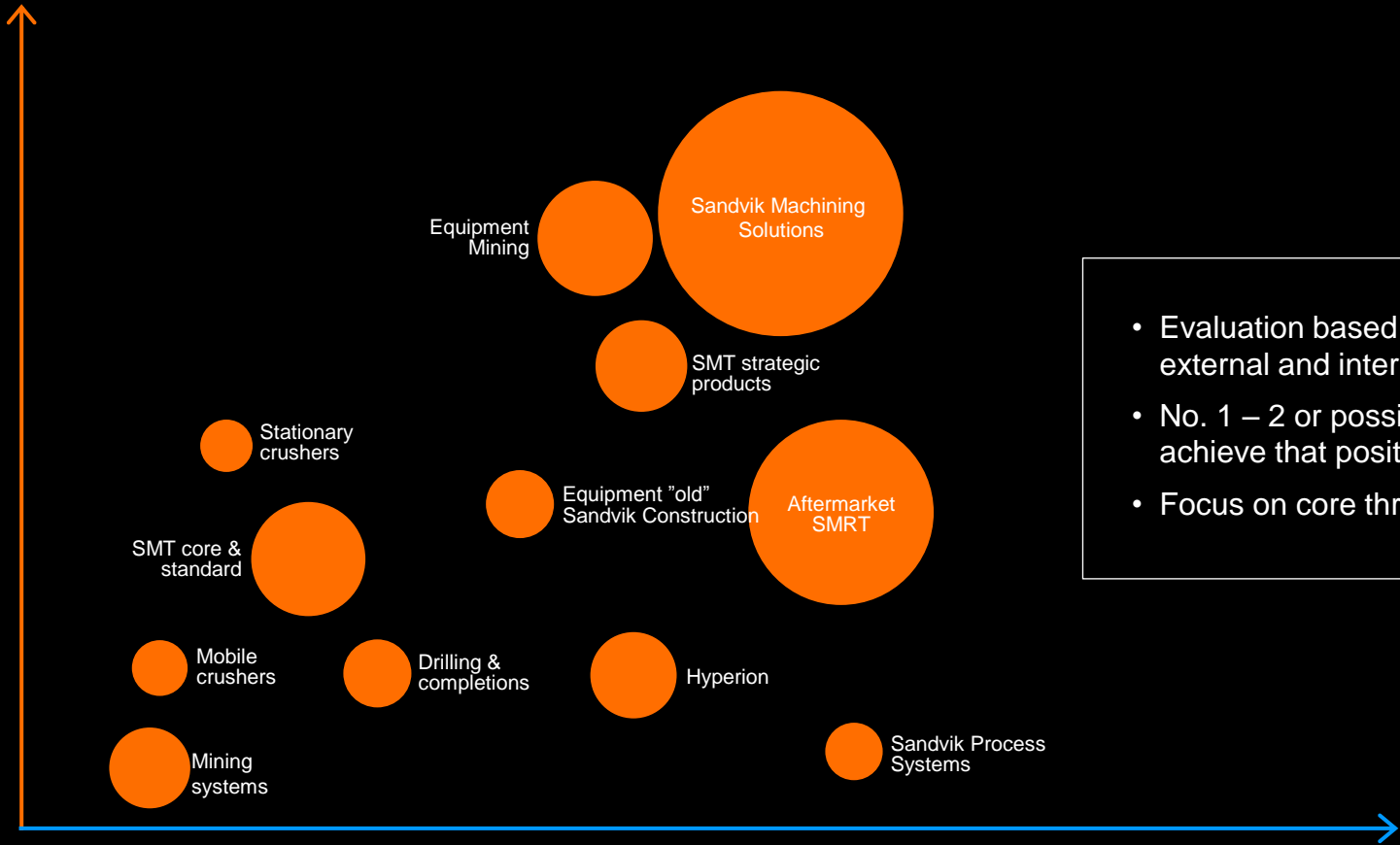


PRICING POWER  
VALUE BASED OFFERING

---

CAPACITY REINVESTMENTS  
TO STAY IN THE FOREFRONT

**SANDVIK CAPABILITIES**  
(CORE, OPERATIONAL CAPABILITY)

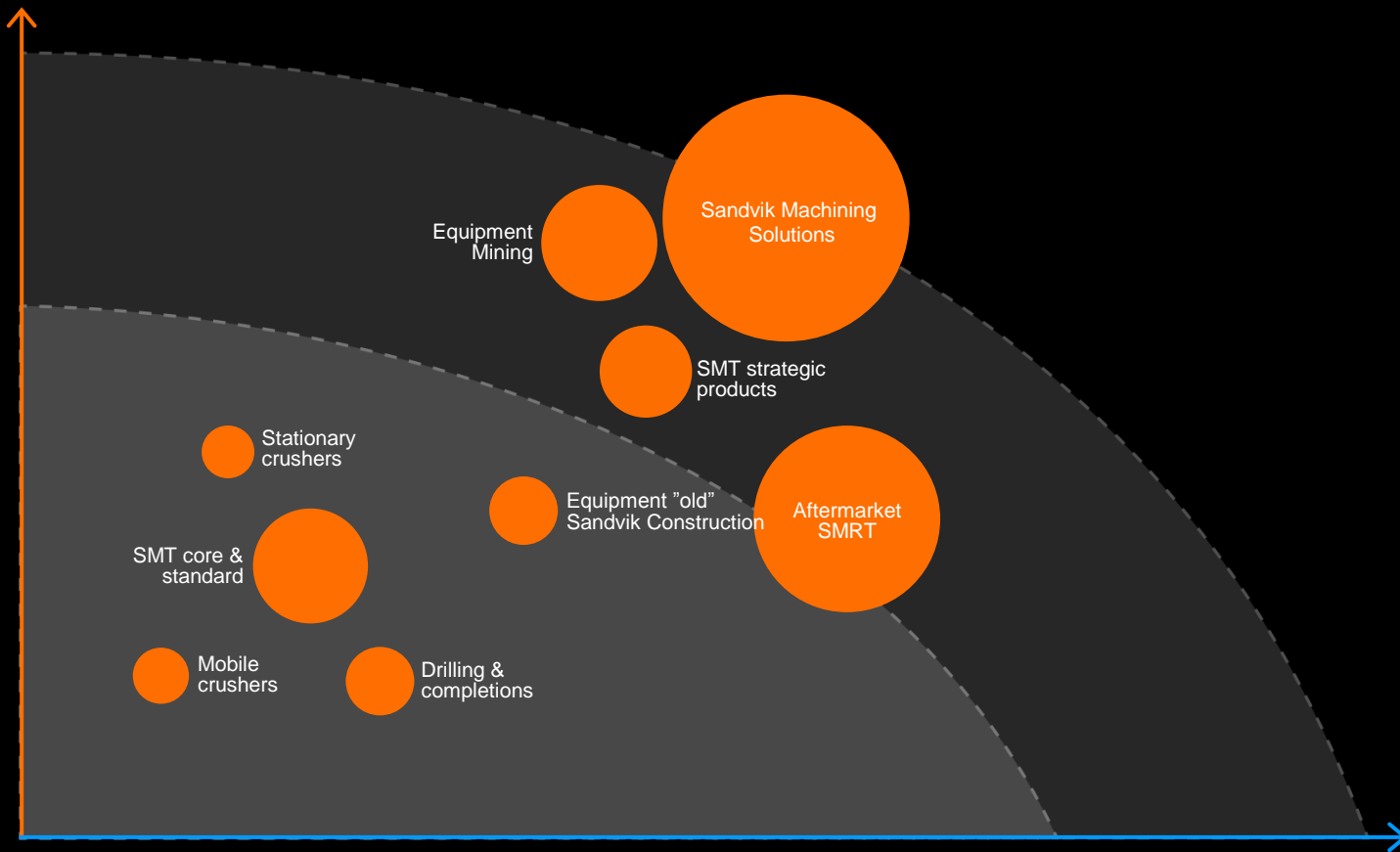


- Evaluation based on both external and internal factors
- No. 1 – 2 or possibility to achieve that position
- Focus on core three segments

**MARKET ATTRACTIVENESS**  
(GROWTH, RETURNS, COMPETITIVE LANDSCAPE)



**SANDVIK CAPABILITIES**  
(CORE, OPERATIONAL CAPABILITY)



**MARKET ATTRACTIVENESS**  
(GROWTH, RETURNS, COMPETITIVE LANDSCAPE)



# BACK TO THE FUTURE

BEFORE 2011

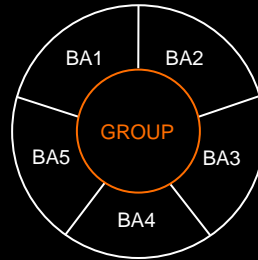
2011–2015

2016–

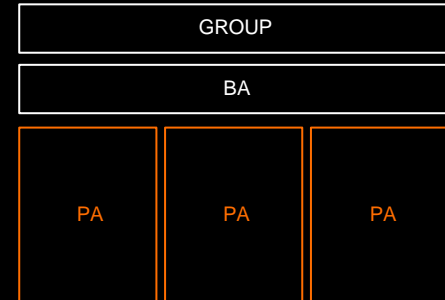
CONGLOMERATE WITH  
AUTONOMOUS BA:S



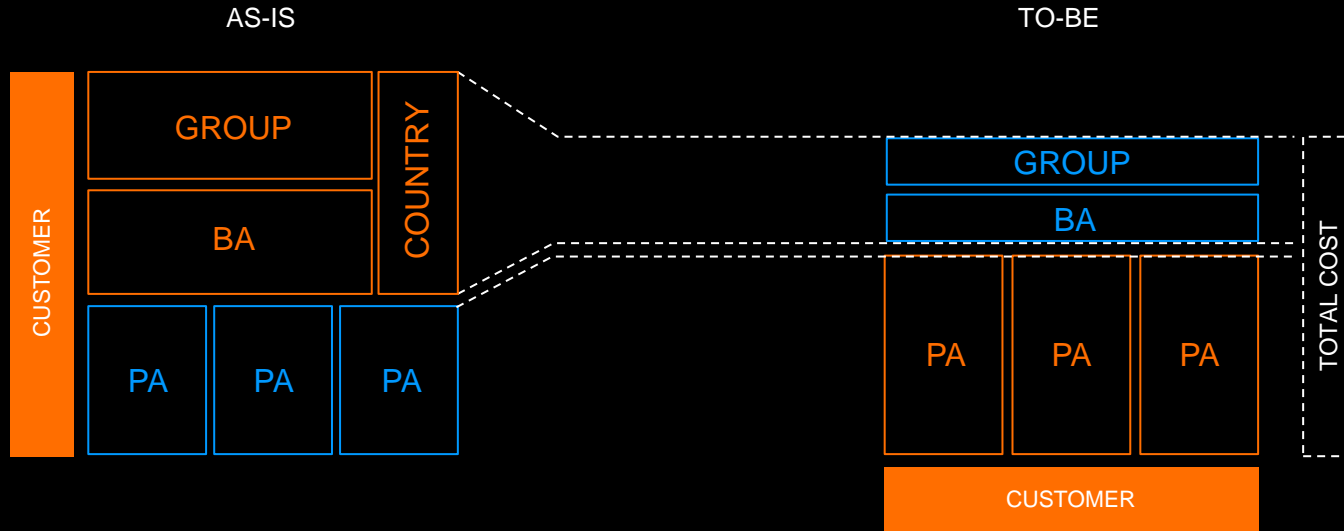
CENTRALIZED



DECENTRALIZED WITH  
FULL OWNERSHIP IN PA:S



# DECENTRALIZED BUSINESS MODEL

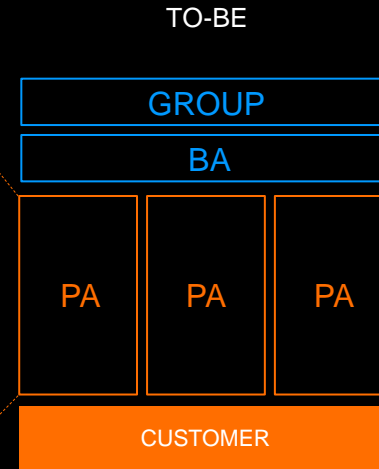




# IMPLICATIONS FOR PRODUCT AREAS

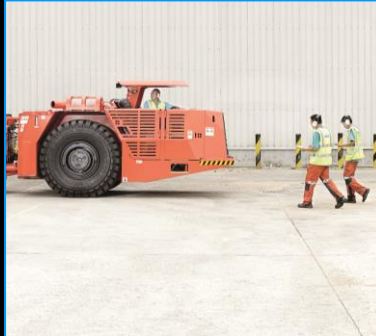
## PRODUCT AREA – HIGHEST OPERATIONAL LEVEL

- Full responsibility for P&L and balance sheet
- Transparency and accountability in cost and performance
- High speed in decision making
- Strategy owned by Product Area
- Develop strong leaders





**SANDVIK MACHINING  
SOLUTIONS**



**SANDVIK MINING AND  
ROCK TECHNOLOGY**



**SANDVIK MATERIALS  
TECHNOLOGY**

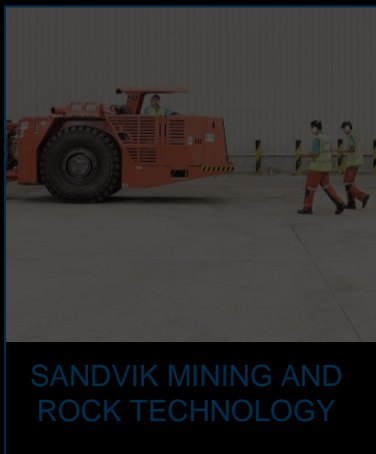
**CHALLENGES ARE DIFFERENT**

**PA BASED EVALUATION**

## SANDVIK MACHINING SOLUTIONS

PA PA PA PA PA

- Consumables and solutions
- Highly vertically integrated
- Value selling → High A&S
- High leverage
- Good ROCE
- Strong cash flow
- Operational excellence
- Growth in focus



CHALLENGES ARE DIFFERENT

PA BASED EVALUATION

## SANDVIK MACHINING SOLUTIONS

PA PA PA PA PA

- Consumables and solutions
- Highly vertically integrated
- Value selling → High A&S
- High leverage
- Good ROCE
- Strong cash flow
- Operational excellence
- Growth in focus

## SANDVIK MINING AND ROCK TECHNOLOGY

PA PA PA PA PA

PA PA PA

BU BU BU BU BU BU BU

- New equipment and parts & service
- Assembly business
- Lower leverage
- Significant aftermarket
- Weak ROCE
- Focus on improving NWC and profitability



CHALLENGES ARE DIFFERENT

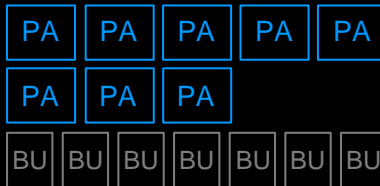
PA BASED EVALUATION

## SANDVIK MACHINING SOLUTIONS



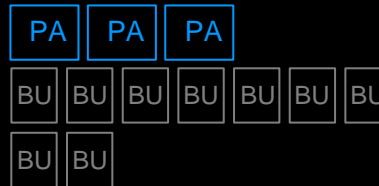
- Consumables and solutions
- Highly vertically integrated
- Value selling → High A&S
- High leverage
- Good ROCE
- Strong cash flow
- Operational excellence
- Growth in focus

## SANDVIK MINING AND ROCK TECHNOLOGY



- New equipment and parts & service
- Assembly business
- Lower leverage
- Significant aftermarket
- Weak ROCE
- Focus on improving NWC and profitability

## SANDVIK MATERIALS TECHNOLOGY



- Advanced stainless steels and special alloys
- Highly vertically integrated
- High leverage
- Limited aftermarket
- Focus on improving profitability and ROCE

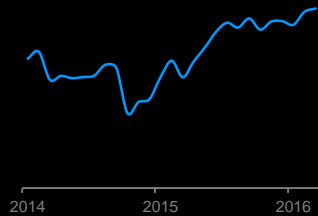
CHALLENGES ARE DIFFERENT

PA BASED EVALUATION

# WE DRIVE PROFITABILITY BY CONSTANT IMPROVEMENTS WITHIN PA:S

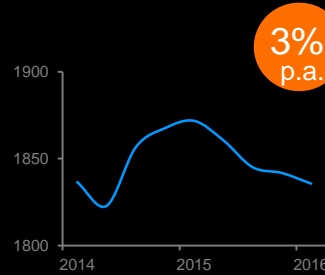
INCREASE CUSTOMER PRODUCTIVITY  
NO.1 OR 2

NEW SALES RATIO



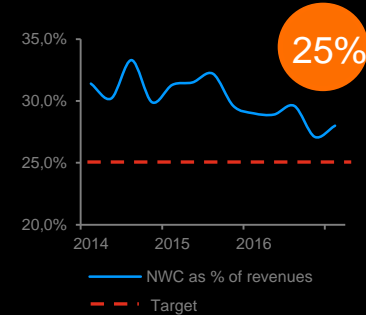
LEANER AND QUICKER ADJUSTMENT  
TO DEMAND CHANGES

ORGANIC REVENUES PER FTE

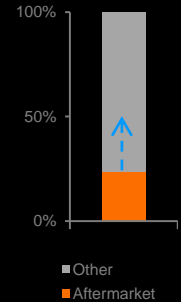


EARNINGS VOLATILITY  
PROFITABILITY

NWC % OF REVENUES



AFTERMARKET SHARE



ENSURING SUSTAINABILITY IN EVERYTHING WE DO

INNOVATION &  
PRODUCTIVITY



HEALTH &  
SAFETY



ENVIRONMENTAL  
IMPACT



USE, REUSE &  
RECYCLE



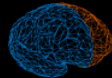
# THE SANDVIK WAY

## COMMON GROUND

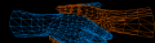
- Core capabilities
- Clear authority and accountability
- Strong performance management
- Common governance and selected common policies and processes
- Common risk management, internal control & compliance systems
- Common Core Values and Code of Conduct



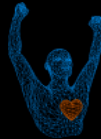
CUSTOMER  
FOCUS



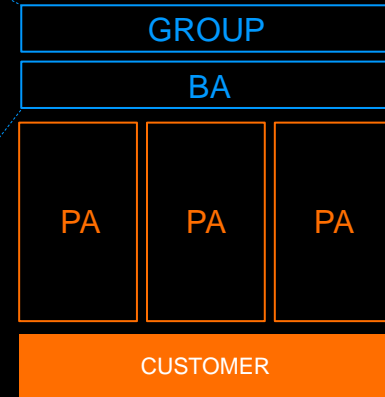
INNOVATION



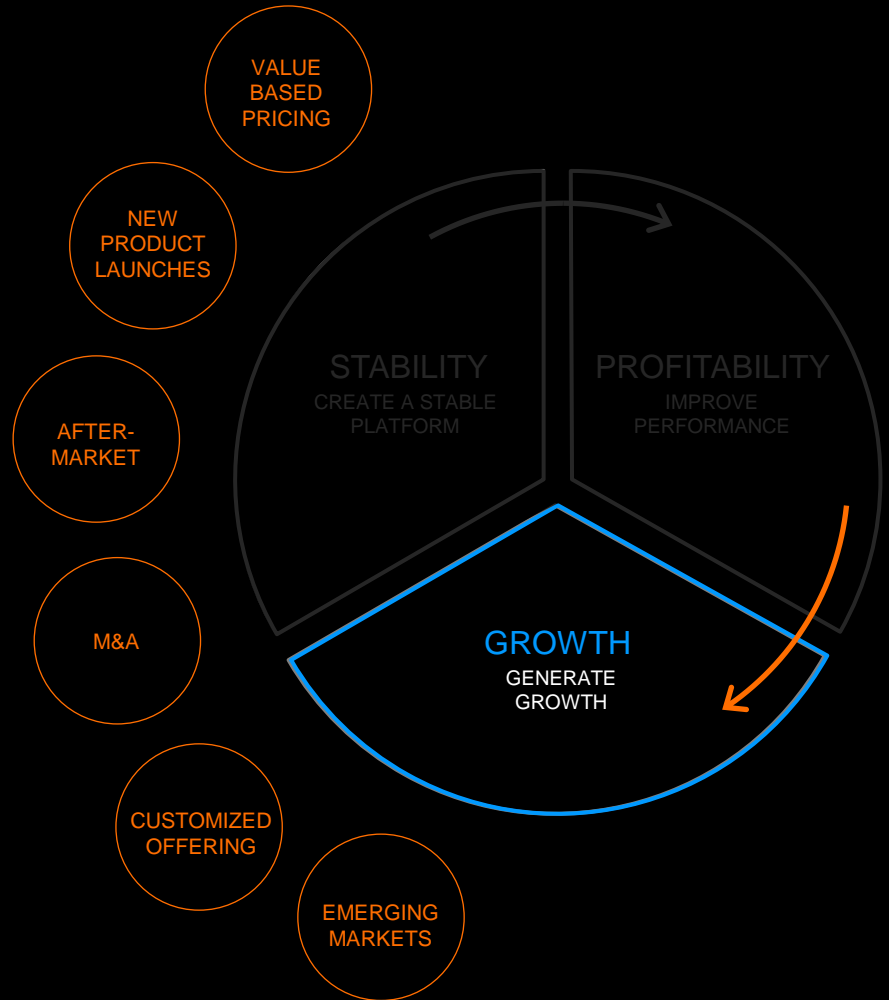
FAIR  
PLAY



PASSION  
TO WIN



# GROWTH OPPORTUNITIES







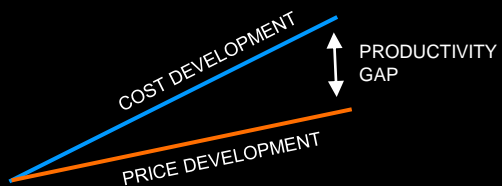
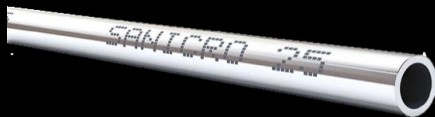
### DIGITALIZATION

- Intelligent tools
- Remote monitoring
- Automine
- Machine performance



# 11,000

new products from Sandvik Machining Solutions in 2016



VALUE  
BASED  
PRICING

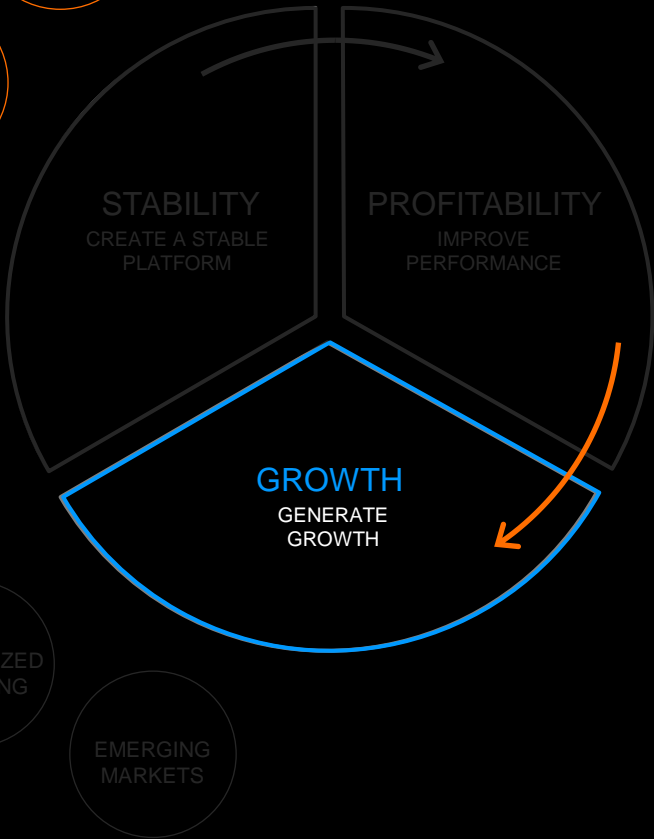
NEW  
PRODUCT  
LAUNCHES

AFTER-  
MARKET

M&A

CUSTOMIZED  
OFFERING

EMERGING  
MARKETS



## FUNDAMENTALS – SETTING THE SCENE

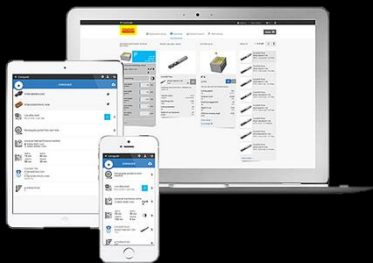
- Mapping and tracking of installed base
- Focused product area for aftermarket
- Increased transparency to grow combined equipment and aftermarket sales
- Incentives

## OFFERING

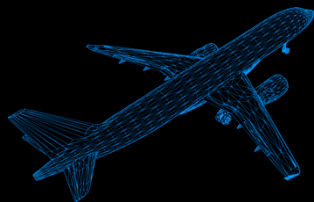
- Improved offering
  - Climb the service ladder
  - Service & repair kits
- Presence through customer service centers
- Advanced data analytics



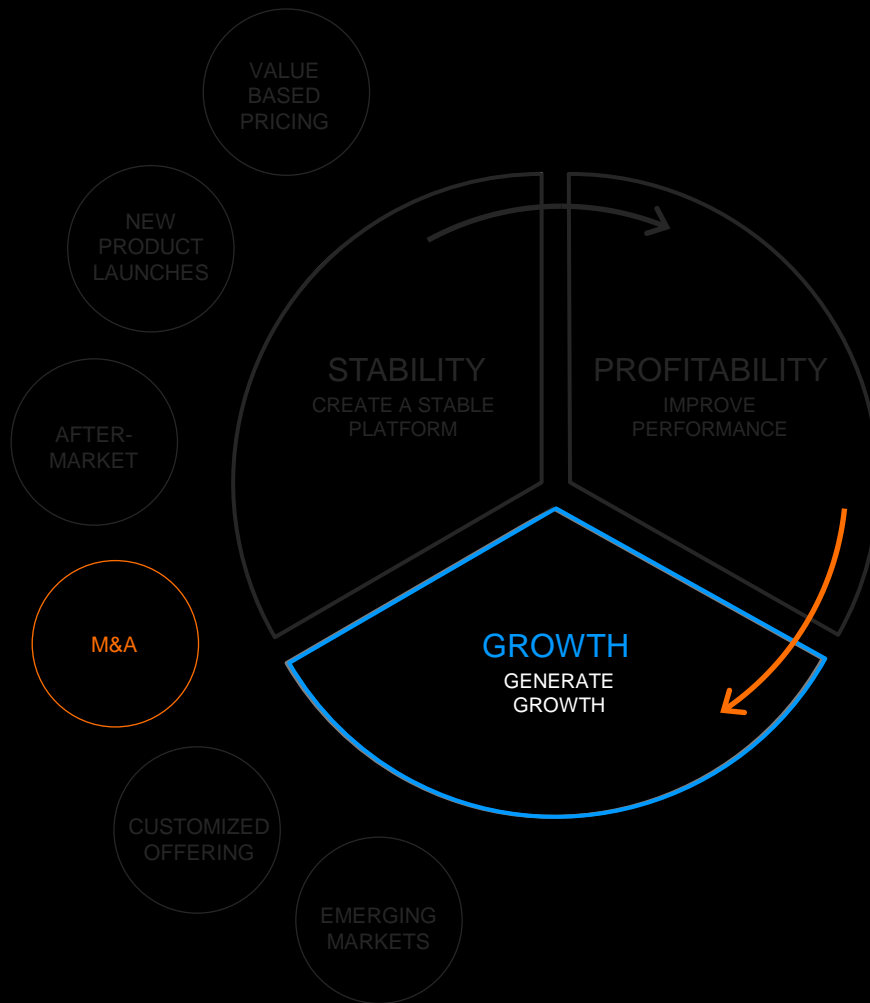
## DIGITALIZATION



## APPLICATIONS & NICHE



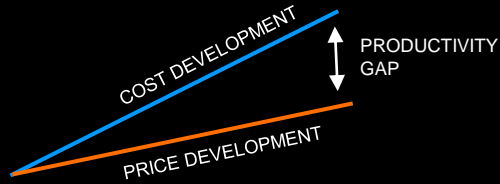
## GROW IN CORE



MULTI-BRAND STRATEGY



PRODUCTIVITY IN FOCUS

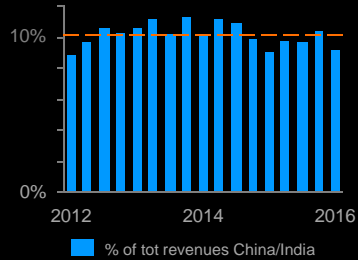


LOCALIZED OFFERING



DORMER PRAMET

GROWTH STRATEGY FOR EMERGING MARKETS

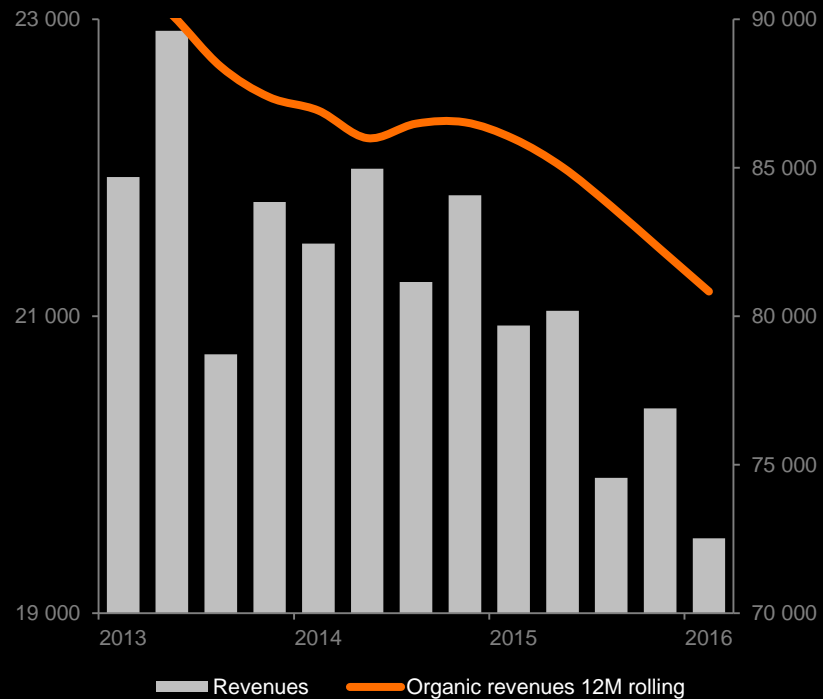


# FINANCIALS

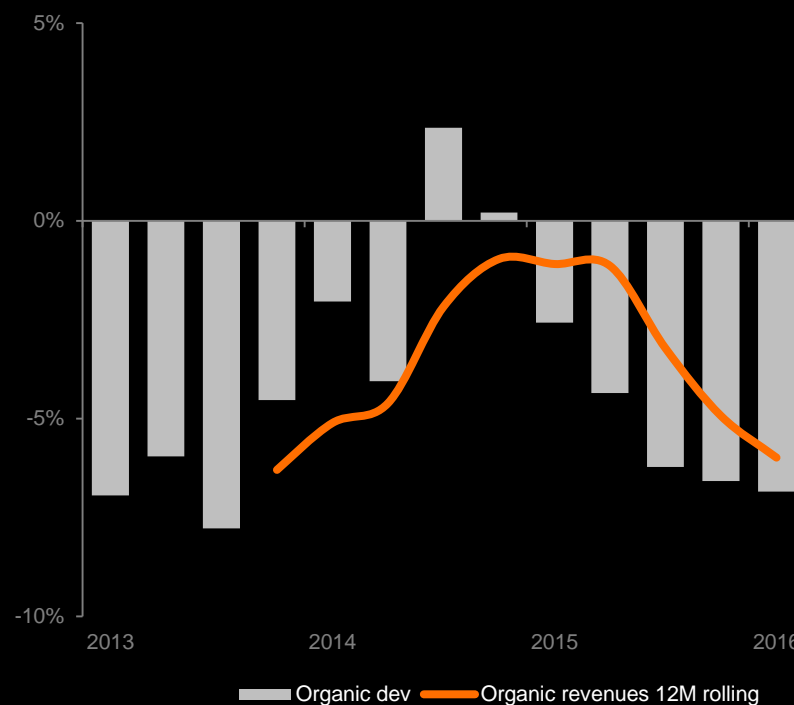


# TOUGHER MARKET CONDITIONS...

## REVENUES DEVELOPMENT

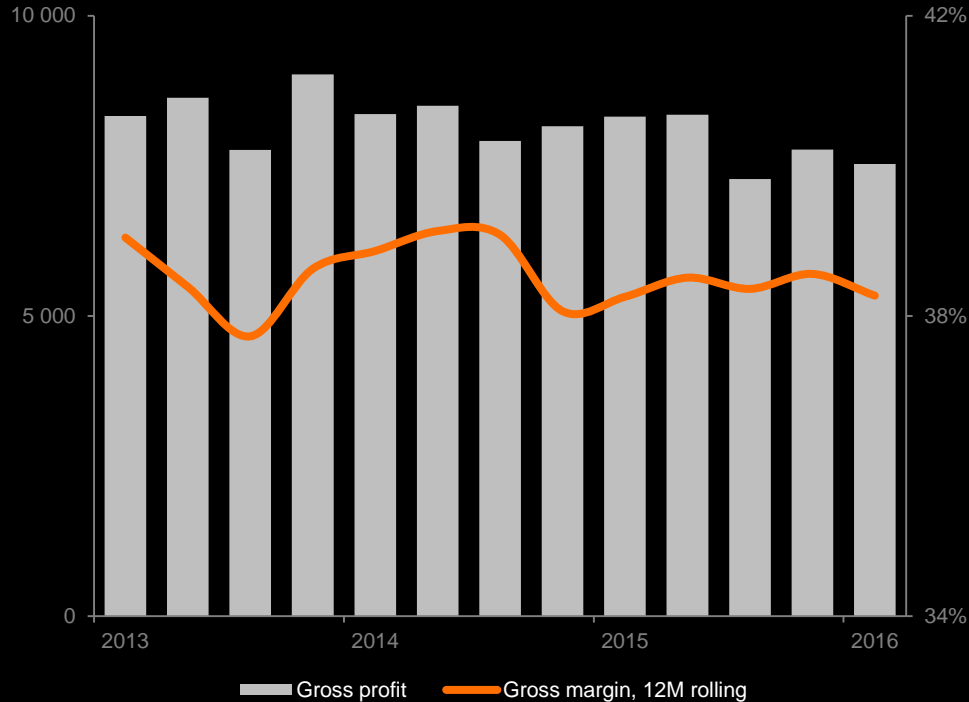


## ORGANIC GROWTH



# ...BUT HIGH GROSS MARGIN MAINTAINED

## GROSS PROFIT & GROSS MARGIN

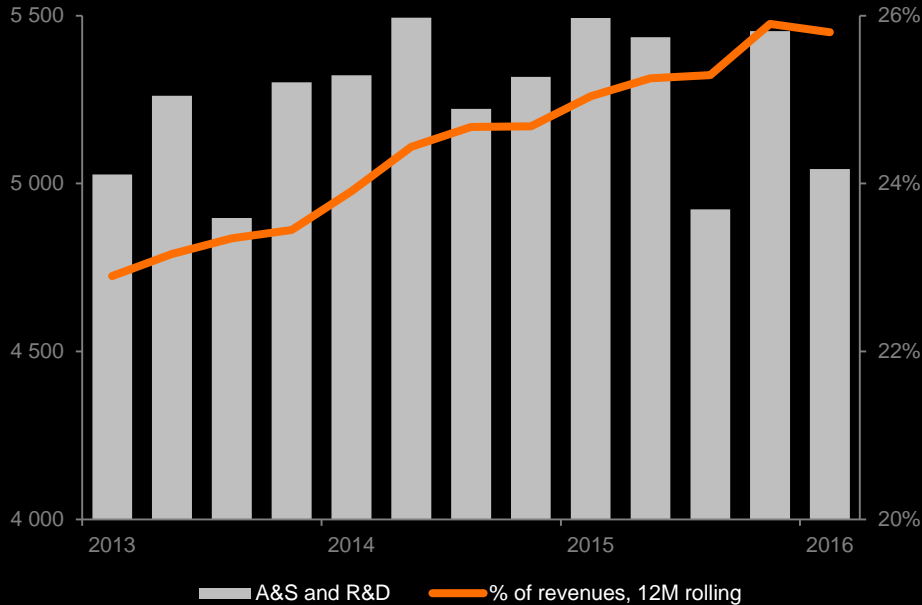


- Supply chain optimization
- Productivity increases

# IMPROVEMENT POTENTIAL IN A&S COSTS

## IMPROVED PACE IN ADJUSTMENT TO CHANGED DEMAND

### A&S AND R&D COSTS



On-going structural programs

ADDITIONALLY

Business area consolidation synergies

Decentralization of country & group functions

High focus in business areas



# BECOMING MORE AGILE AND EFFICIENT

## SAVINGS MEASURES STARTING TO BITE

**>1,300 MSEK**

ACHIEVED TO DATE IN 2,100 MSEK  
SAVINGS PROGRAMS

### STRUCTURAL SAVINGS

No. of sites  
closed to date

**15**

SALES&ADMIN SANDVIK MACHINING  
SOLUTIONS

ALL GROUP FUNCTIONS (15%  
REDUCTION)

### OTHER SAVINGS

No. of  
temps reduced

**>1,300**

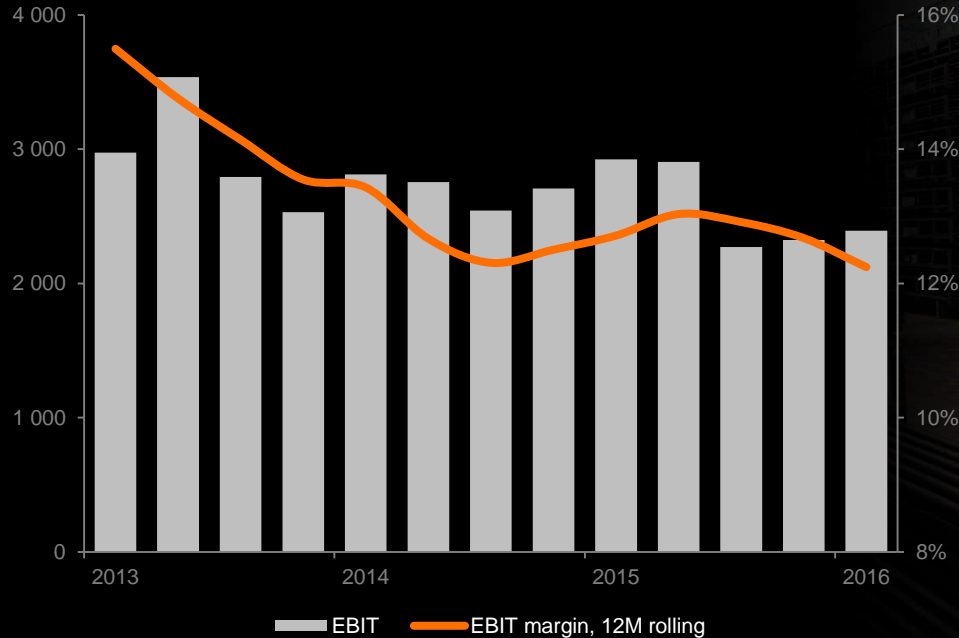
**COST  
EFFICIENCY**

HEADCOUNT REDUCTION\* FROM END 2013 TO Q1 2016

**~7% or ~3,500 FTE:s**

# EBIT MARGIN STABILIZED LAST TWO YEARS

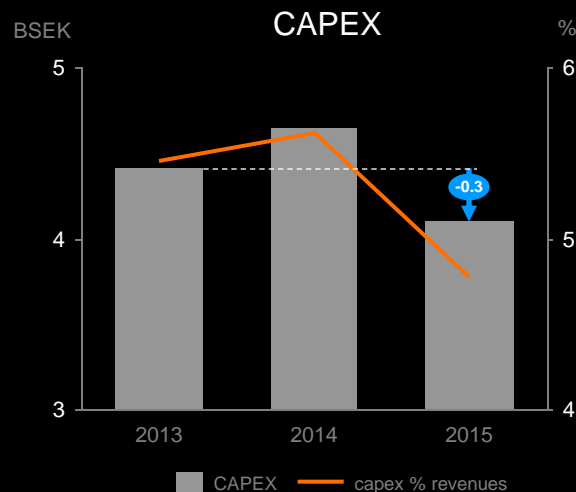
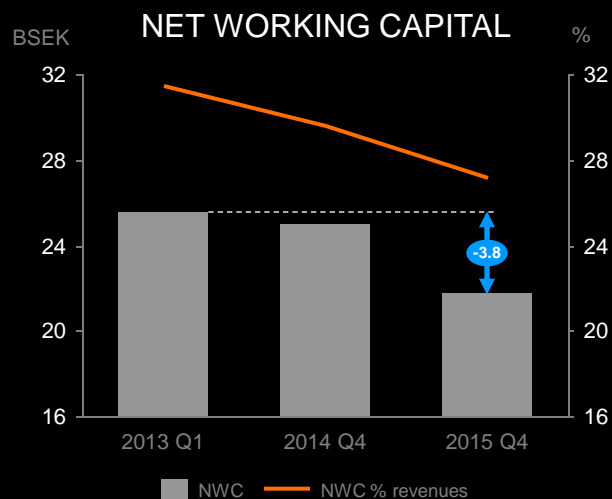
EBIT & EBIT MARGIN



- SIGNIFICANT DECLINE IN TOPLINE
- MAINTAINED GROSS MARGIN
- UNDERABSORPTION IN A&S

# ADDRESSING THE CAPITAL

**>4,000 MSEK** IN RELEASED CAPITAL



CAPITAL EFFICIENCY

**25%** TARGET LEVEL

**<4.1** BSEK IN 2016

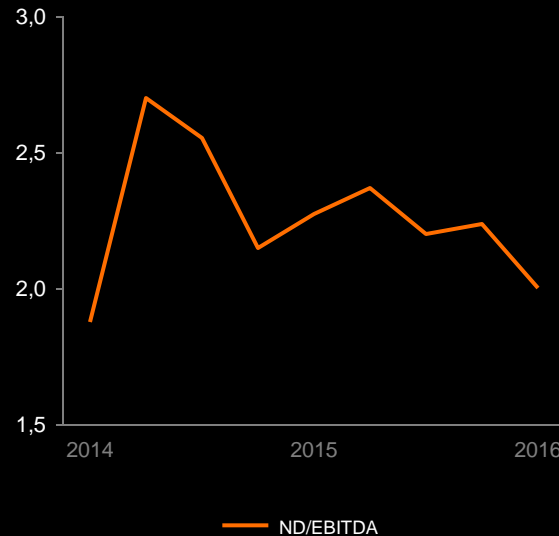
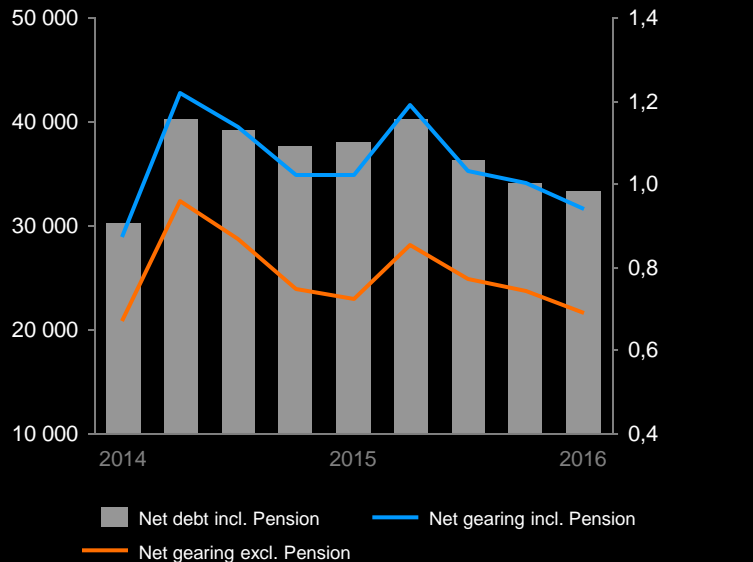
**~5%** OF REVENUES LONG-TERM

# CREATING BALANCE SHEET FLEXIBILITY

## LOWEST NET GEARING LEVEL IN EIGHT QUARTERS

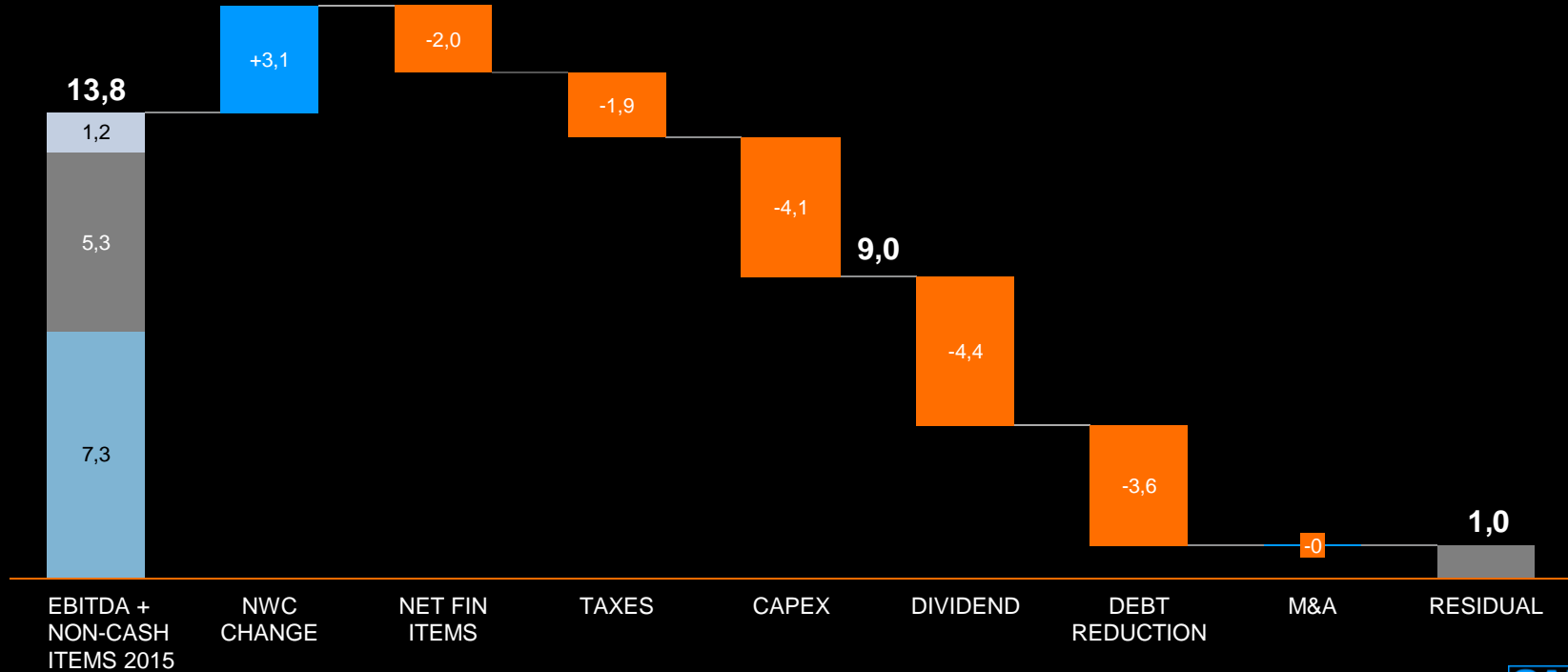
**~7,000 MSEK**

SINCE Q2 2014 IN REDUCED NET DEBT INCL. PENSION

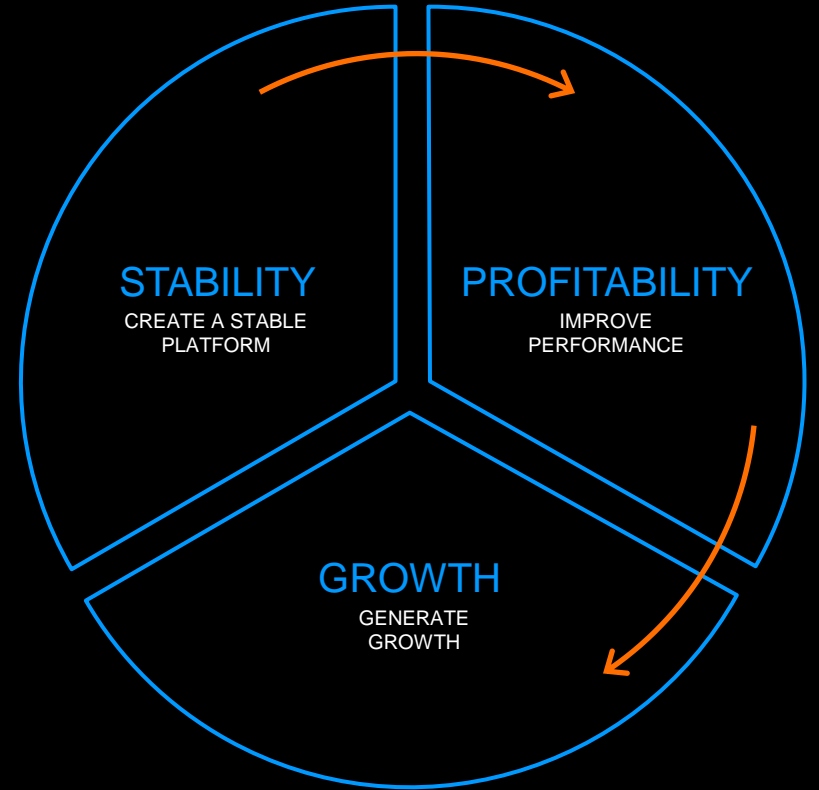


DEBT REDUCTION

# CASH FLOW AND ALLOCATION OF CAPITAL



# WHAT WE WILL ACHIEVE



# CURRENT FINANCIAL TARGETS

OLD

AVERAGE ANNUAL  
GROWTH

8%

INCLUDING M&A

RETURN ON  
CAPITAL EMPLOYED

25%

OVER A BUSINESS CYCLE

NET DEBT/  
EQUITY RATIO

<0.8

EXCLUDING MAJOR ACQUISITIONS

DIVIDEND  
PAYOUT RATIO

50%

OF EARNINGS PER SHARE

# NEW FINANCIAL TARGETS

OLD

AVERAGE ANNUAL  
GROWTH

8%

INCLUDING M&A

RETURN ON  
CAPITAL EMPLOYED

25%

OVER A BUSINESS CYCLE

NET DEBT/  
EQUITY RATIO

<0.8

EXCLUDING MAJOR ACQUISITIONS

DIVIDEND  
PAYOUT RATIO

50%

OF EARNINGS PER SHARE

FROM BUSINESS CYCLE  
TO SHORT-TERM

ANNUAL

NEW - 3Y

ABSOLUTE EBIT  
GROWTH

$\geq 7\%$

2016-18  
CAGR BASELINE 2015 TO 2018

ROCE  
IMPROVEMENT

$\geq 3\%$  PTS

2016 - 2018  
IMPROVEMENT COMPARED WITH  
BASELINE 2015

NET DEBT/  
EQUITY RATIO

<0.8

EXCLUDING MAJOR ACQUISITIONS,  
INCLUDING NET PENSION LIABILITIES

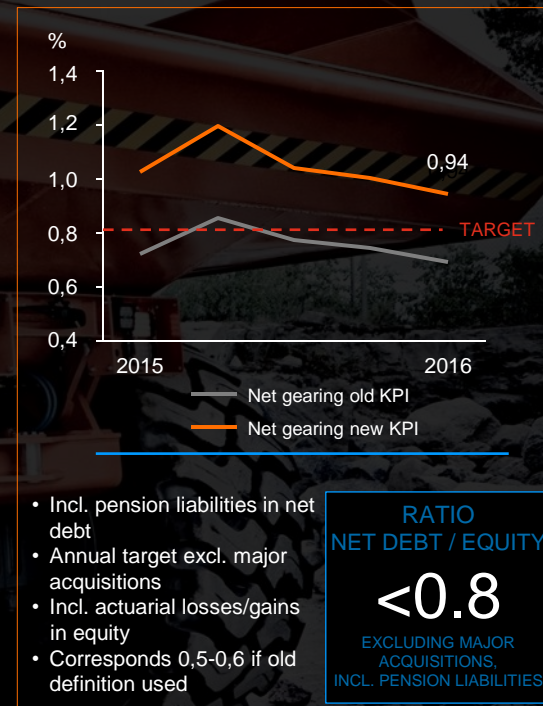
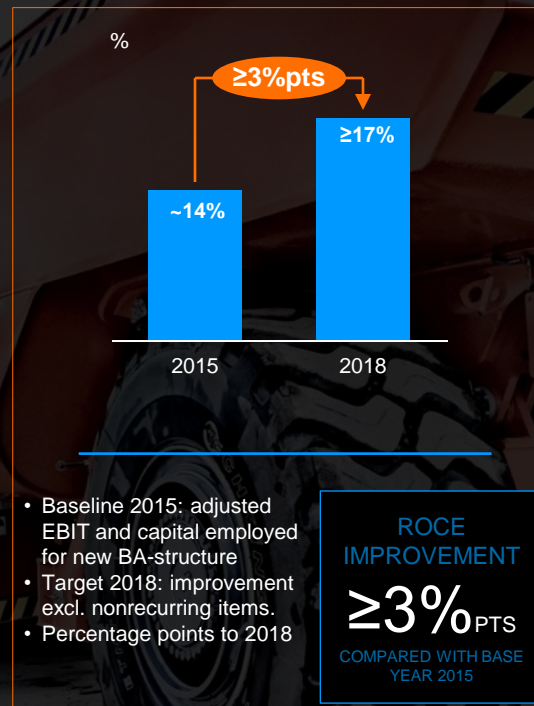
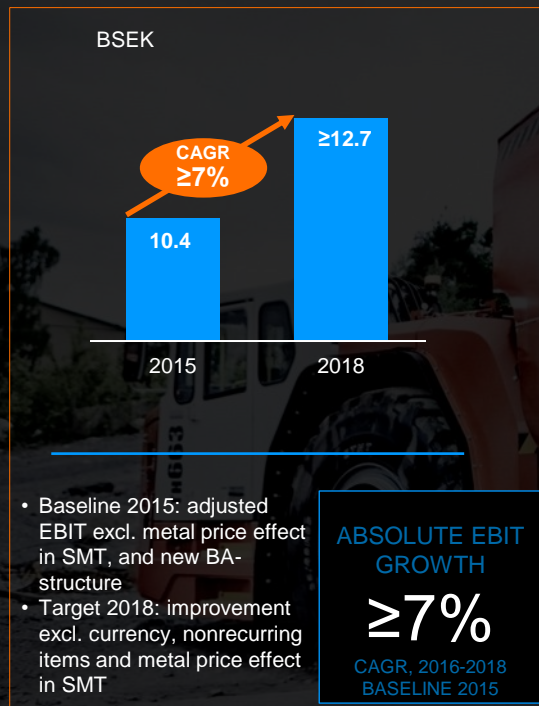
DIVIDEND  
PAYOUT RATIO

50%

OF REPORTED EARNINGS  
PER SHARE



# SETTING THE BASE LINE FOR IMPROVEMENT



# STABILITY, PROFITABILITY, GROWTH

## HOW WE DO IT

NO. 1 OR 2  
FOCUS ON CORE  
DECENTRALIZED  
BUSINESS MODEL  
ENTREPRENEURIAL  
DRIVE  
CONSTANT  
IMPROVEMENTS  
ACCOUNTABILITY,  
TRANSPARENCY  
& SPEED

## STRATEGIC PRIORITIES

PRODUCT LAUNCHES  
PRODUCTIVITY GAINS  
M&A DIGITALIZATION  
BOLT-ON  
COST & CAPITAL  
EFFICIENCY  
GAIN MARKET SHARE  
IN AFTERMARKET

## HOW TO MEASURE

ABSOLUTE EBIT  
GROWTH  
**≥7%**  
CAGR 2015-18

ROCE  
IMPROVEMENT  
**≥3%PTS**  
REPRESENTS COMBINED  
INTEREST YEAR 2015

RATIO  
NET DEBT / EQUITY  
**<0.8**  
EXCLUDING MAJOR ACQUISITIONS  
INCLUDING PERSONAL LIABILITIES

DIVIDEND  
PAYOUT RATIO  
**50%**  
OF REPORTED EARNINGS  
PER SHARE

# KPI

INTERNAL  
INCENTIVES  
(EBIT, NWC, PRODUCTIVITY)

WE SET THE INDUSTRY STANDARD



# 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.”