

# INTERIM REPORT APRIL 27

## FIRST QUARTER 2015



# SUMMARY Q1 2015

## EARNINGS GROWTH AND MARGIN EXPANSION

- Adjusted EBIT 2,934 MSEK, 12.6%
- Currency effect +770 MSEK

## RECORD Q1 CASH FLOW

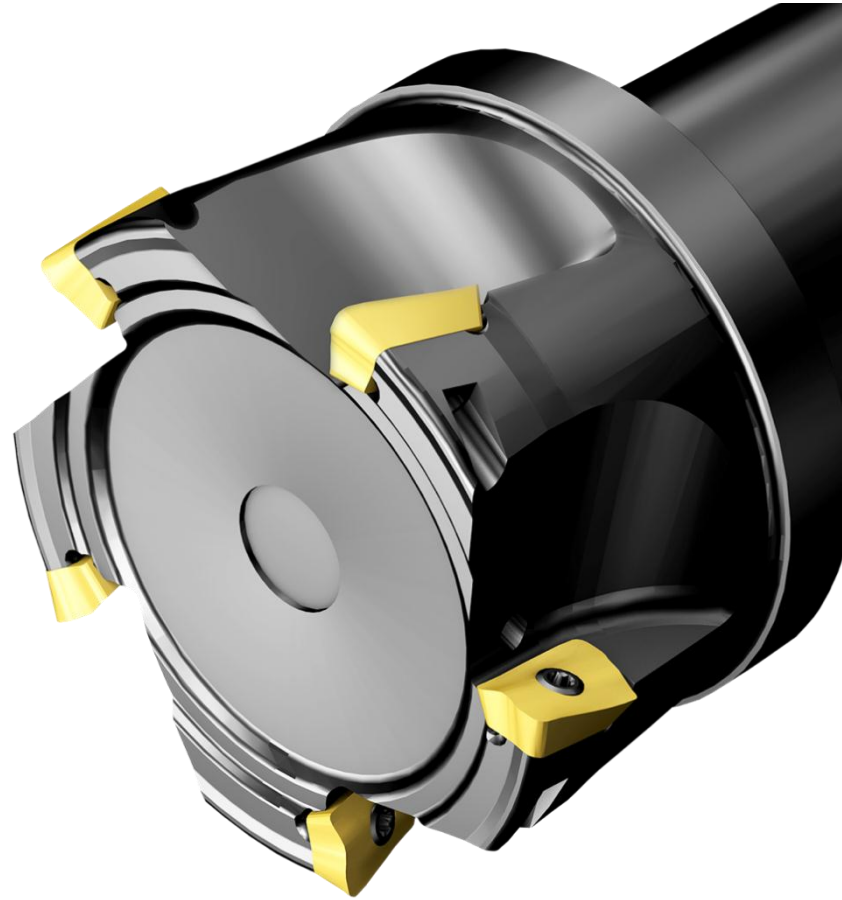
- Continued inventory reductions

## STABLE DEMAND

- Overall stable demand in Europe and Asia
- Demand remained on a high level in North America
- However with a sharp downturn in on-shore oil and gas drilling activity

## PROGRESS ON SUPPLY CHAIN OPTIMIZATION PROGRAM

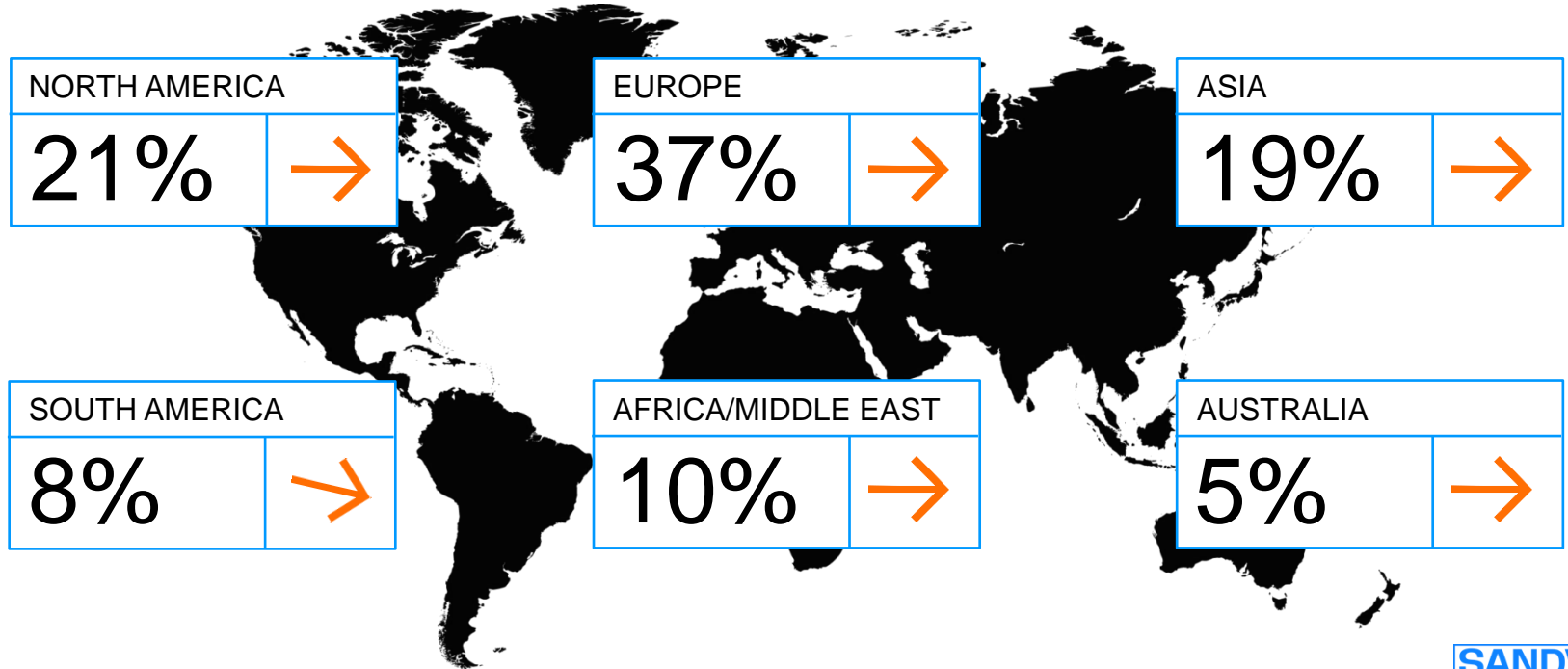
- Two more units closed
- Announcement of second phase



# INVOICING BY MARKETS

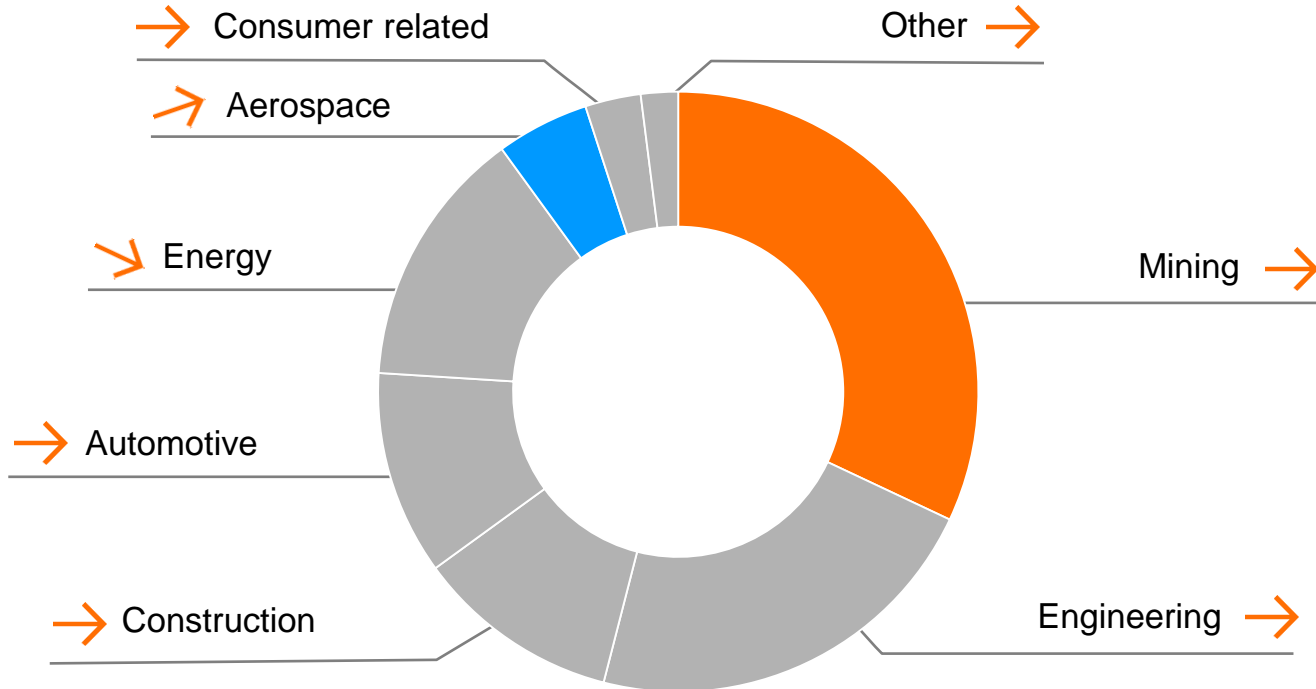
## SALES Q1 2015 SHARE OF GROUP TOTAL

→ Demand trend compared with preceding quarter.



# INVOICING BY SEGMENTS

## CUSTOMER SEGMENTS



**INVOICING GROWTH VS Q4 2013**

- > +5%
- 5 to +5%
- < -5%

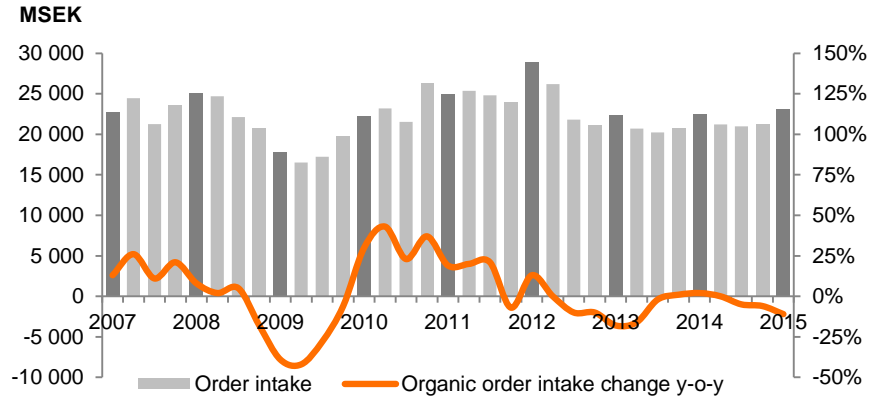
→ Demand trend compared with preceding quarter



# ORDER INTAKE

## 23,167 MSEK

CHANGE P/V -11%

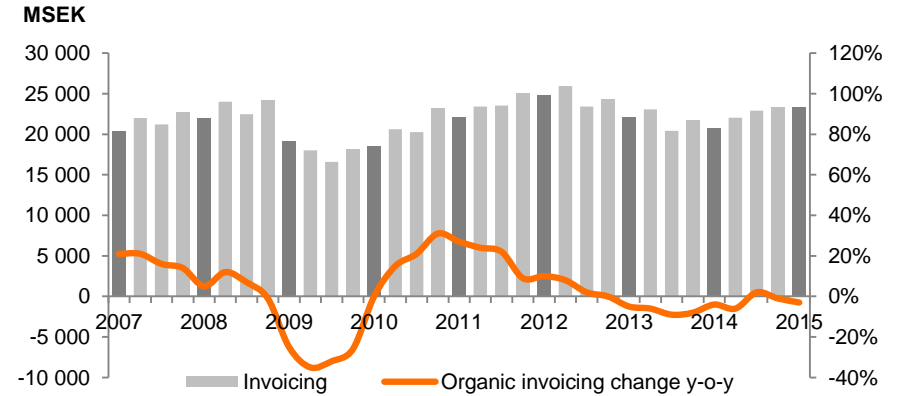


- Low order intake for Mining Systems and sharp decline in NA O&G on-shore drilling activity
- Three large energy orders more than off-set order cancellation
- P/V excluding major orders -3% year-on-year

# INVOICING

## 23,334 MSEK

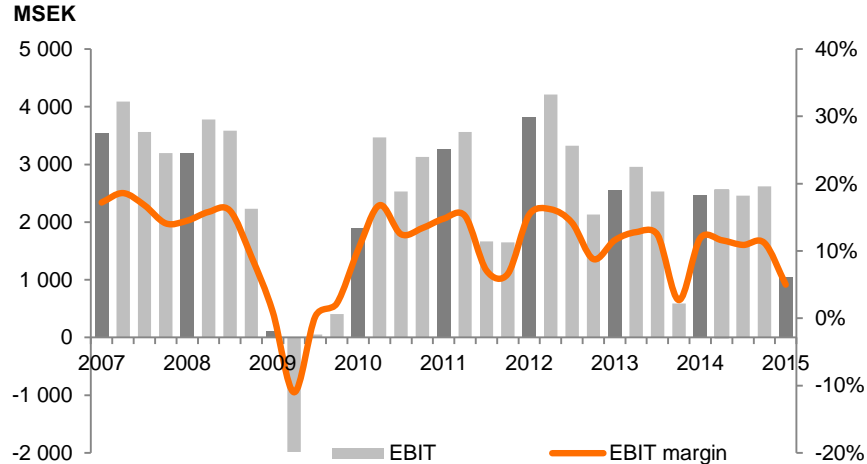
CHANGE P/V -3%



- Record high invoicing in Sandvik Machining Solutions
- Invoicing for Mining Systems decreasing hampered by a shrinking order back log.

# EBIT 1,052 MSEK

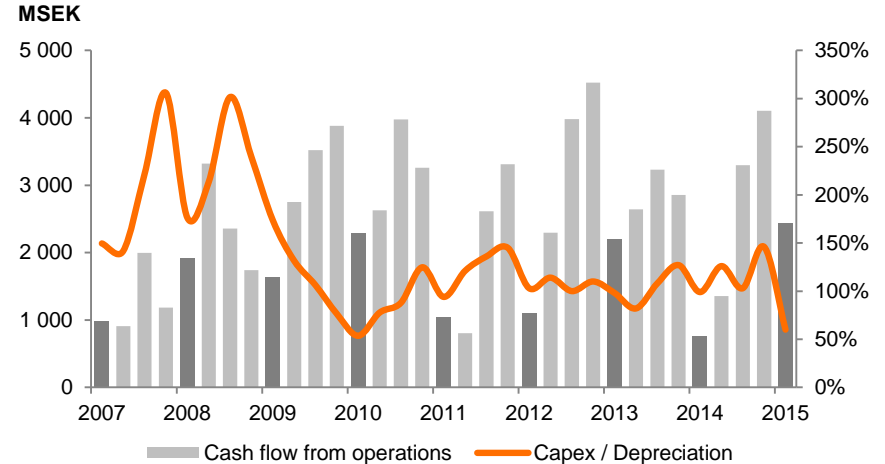
ADJUSTED EBIT 2,934 MSEK, 12.6%



- Year-on-year adjusted earnings growth supported by currency and effects from savings initiatives
- Nonrecurring items affecting EBIT -1.9 BSEK
- Personnel reduction of -461 FTE from previous quarter

# CASH FLOW

CASH FLOW FROM OPERATIONS 2,431 MSEK



- Record first quarter cash flow
- Inventory reductions most notably in Mining
- Investments 0.8 BSEK in Q1

# FINANCIAL TARGETS

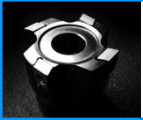




|                       | CURRENT               | TARGET            | MANAGEMENT FOCUS  |
|-----------------------|-----------------------|-------------------|---|
| GROWTH                | <b>12%</b>            | <b>8%*</b>        | <ul style="list-style-type: none"> <li>• Product launches through focused R&amp;D</li> <li>• Increase exposure towards high growth markets and segments</li> <li>• Adjust geographic footprint</li> </ul> |
| ROCE                  | <b>11.5%</b>          | <b>25%</b>        | <ul style="list-style-type: none"> <li>• Reduce Net Working Capital</li> <li>• Strict capital allocation (investments)</li> <li>• Restore earnings in Sandvik Mining and Sandvik Construction</li> </ul>  |
| NET DEBT/EQUITY RATIO | <b>0.72</b>           | <b>&lt; 0.8</b>   | <ul style="list-style-type: none"> <li>• Continued reductions in Q1</li> <li>• Strong cash flow generation</li> </ul>   |
| DIVIDEND              | <b>73%</b> for 2014** | <b>50%</b> of EPS | <ul style="list-style-type: none"> <li>• Proposed dividend maintained at 3.50 SEK per share (3.50)</li> <li>• Uninterrupted dividend since 1870</li> </ul>  |

\*\*Proposed dividend

\* Over a business cycle including M&A

# OUR WAY FORWARD

## KEY PRIORITIES BY BUSINESS AREA

|  <b>SANDVIK MACHINING SOLUTIONS</b>   |  <b>SANDVIK MINING</b>   |  <b>SANDVIK MATERIALS TECHNOLOGY</b>  |  <b>SANDVIK CONSTRUCTION</b>  |  <b>SANDVIK VENTURE</b>  |
|---|---|--|--|---|
| <ul style="list-style-type: none"><li>• Leverage from Multi-brand model, with backend synergies</li><li>• <b>Increase pace of core product launches and digital offering</b></li><li>• Invest in growth pockets and mid-market</li><li>• Conduct bolt-on M&amp;A:s</li><li>• Continue site-restructuring and productivity improvements</li><li>• Further develop Supply Chain to optimize NWC</li></ul> | <ul style="list-style-type: none"><li>• <b>Consolidate footprint: Manufacturing</b></li><li>• Cost efficiency: Sourcing and A&amp;S</li><li>• <b>Grow share of aftermarket</b></li><li>• New offering including mid-market</li><li>• Sales excellence</li></ul> | <ul style="list-style-type: none"><li>• Accelerate growth of strategic products, mainly in energy and energy efficiency</li><li>• Safeguard position in core and standard products through lean business model</li><li>• Secure utilization and cost position in the Primary-system</li><li>• <b>Improve capital efficiency</b></li><li>• Exit non-core businesses</li></ul> | <ul style="list-style-type: none"><li>• Sales efficiency and commercial excellence</li><li>• <b>Supply chain and footprint optimization</b></li><li>• Aftermarket development</li><li>• Focused growth areas</li><li>• Mid-market strategy</li><li>• Structured transformation program</li></ul> | <ul style="list-style-type: none"><li>• Accelerate growth of businesses</li><li>• New products</li><li>• Continued globalization</li><li>• Complimentary acquisitions</li></ul> |





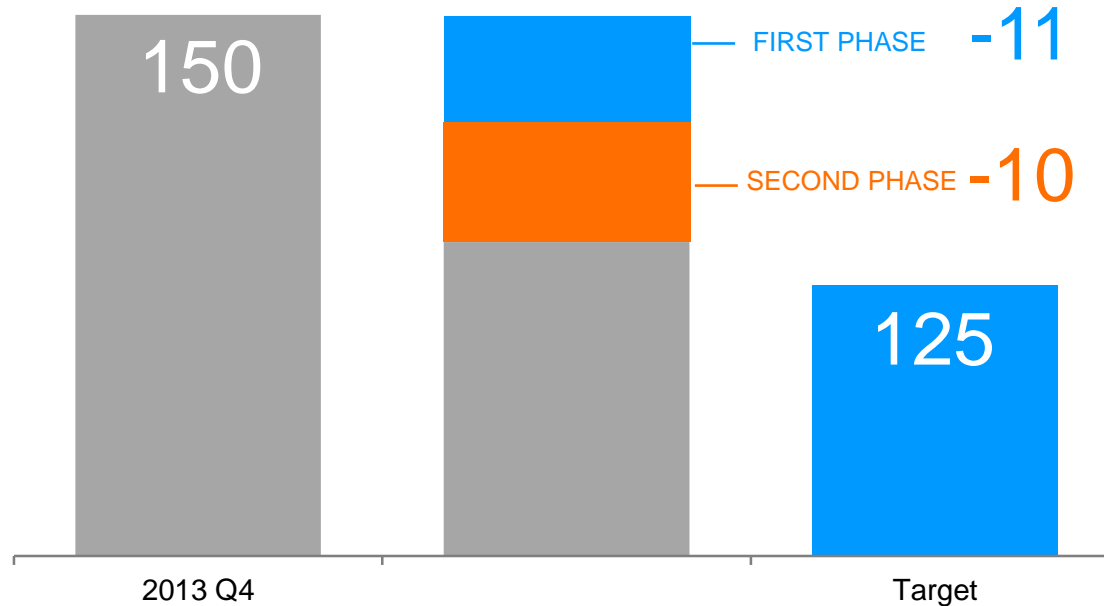
# MATS BACKMAN

## CFO



# RESTRUCTURING OUR FOOTPRINT

## SUPPLY CHAIN OPTIMIZATION PROGRAM



### FIRST PHASE

2 UNITS CLOSED IN Q1 (total 7)

4 UNITS REMAINING in 2015

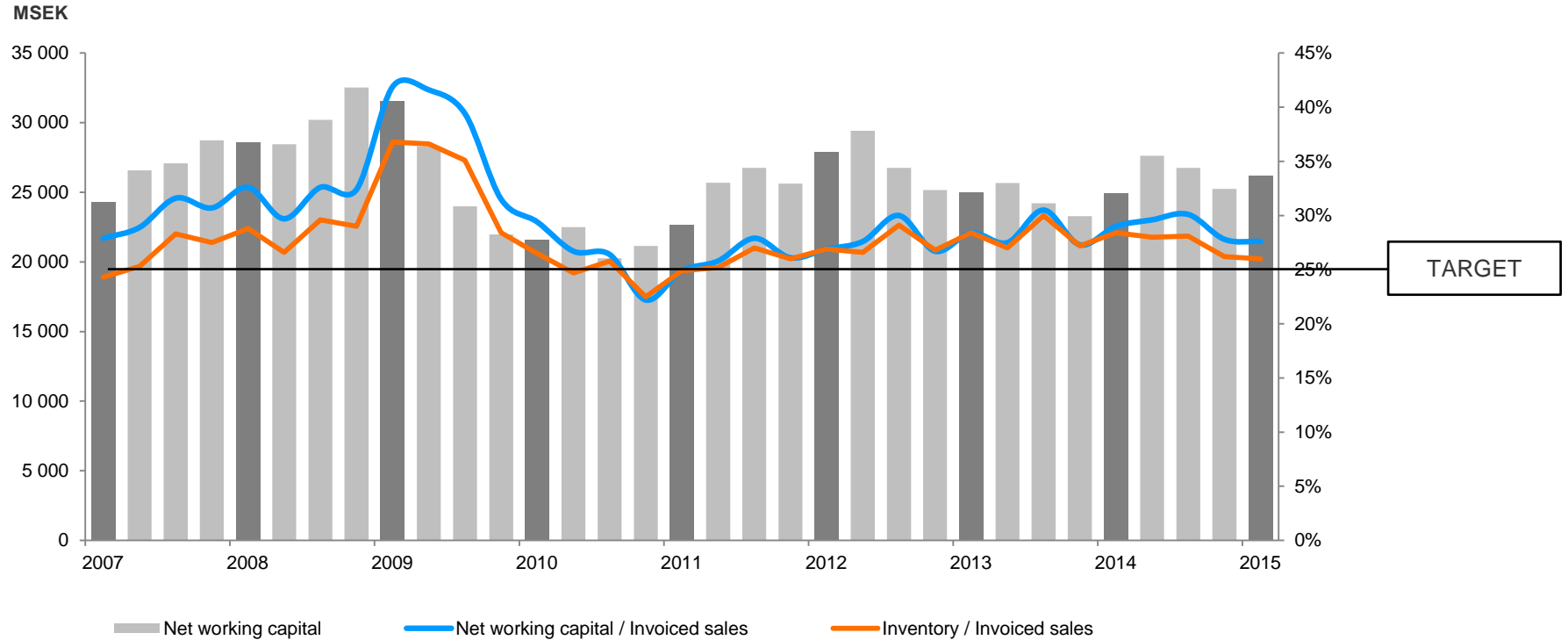
RUNRATE SAVINGS 360 MSEK  
END OF Q1 out of 800 MSEK target  
at year end 2015

### SECOND PHASE

3 UNITS INITIATED (7 Remaining)

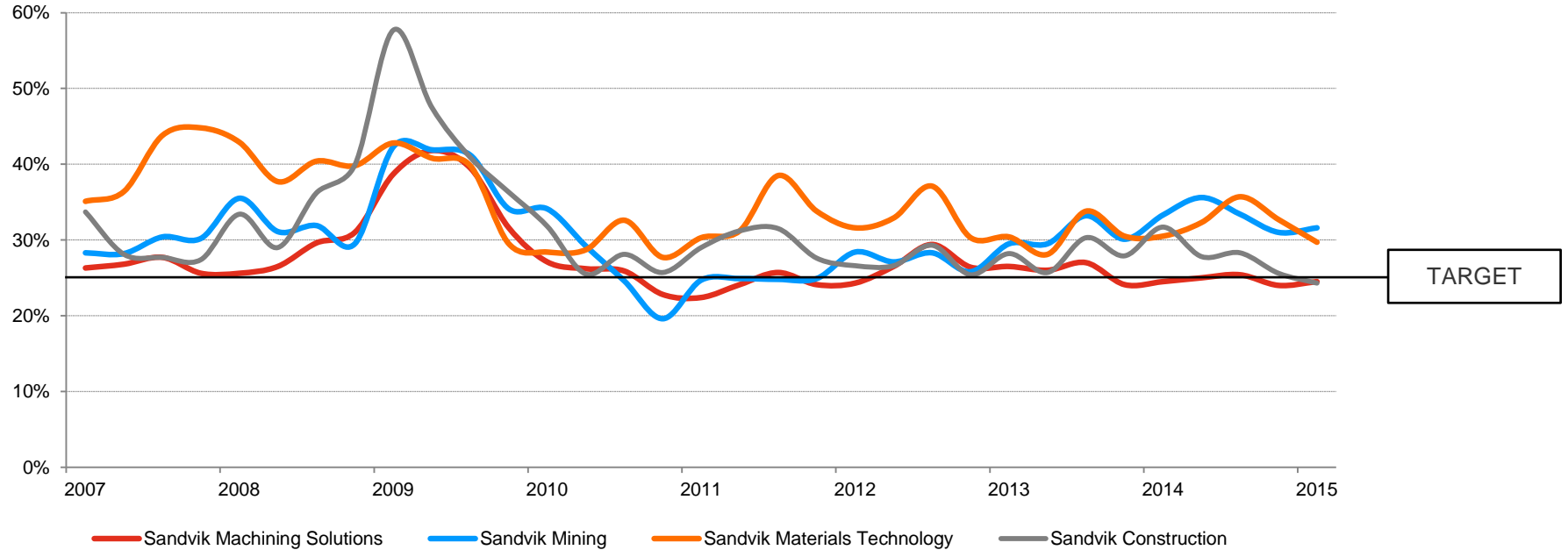
TARGET SAVINGS at year end  
2016 600 MSEK

# NET WORKING CAPITAL



# NET WORKING CAPITAL

## % OF INVOICING BY BUSINESS AREA



# GUIDANCE

## POSITIVE CURRENCY EFFECT OF +770 MSEK IN Q1

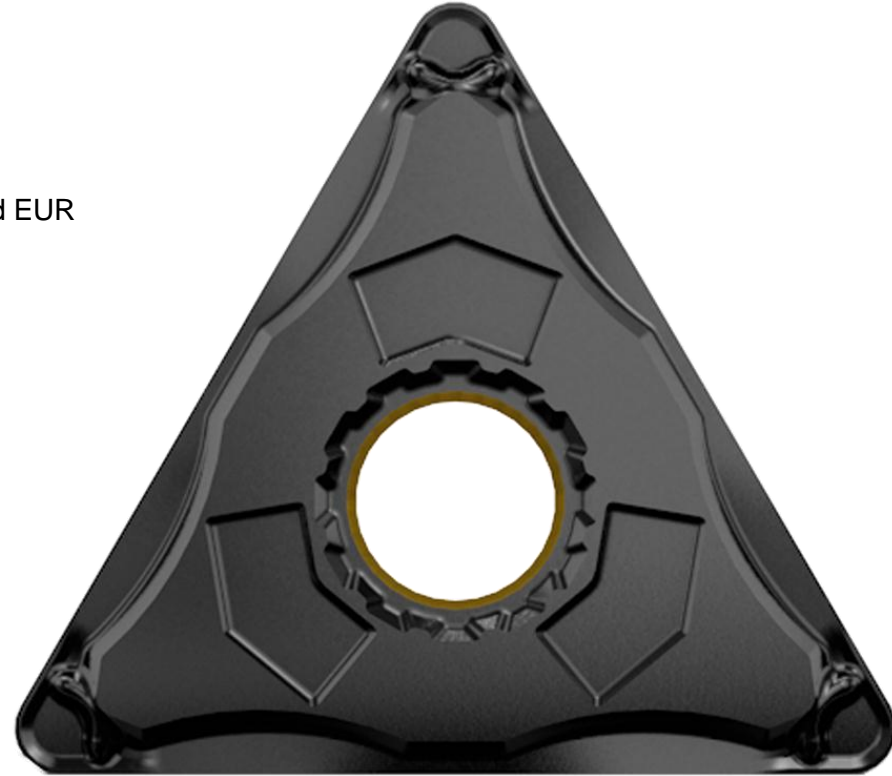
- Guidance +600 MSEK based on currency rates mid-January
- Difference primarily driven by further strengthening of USD, CNY and EUR versus SEK

## GUIDANCE Q2 2015

|                     |           |
|---------------------|-----------|
| CURRENCY EFFECT:    | +900 MSEK |
| METAL PRICE EFFECT: | -150 MSEK |

## FULL YEAR GUIDANCE 2015

|                      |                      |
|----------------------|----------------------|
| CAPEX:               | Below 5bn. SEK       |
| NET FINANCIAL ITEMS: | -1.8 to -2.0 bn. SEK |
| TAX RATE:            | 26-28% for 2015      |



# LOOKING FORWARD



>15,000 NEW PRODUCT  
LAUNCHES

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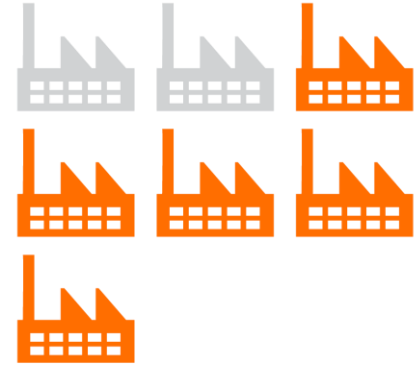
Sandvik Machining Solutions



GROW THE AFTERMARKET  
BUSINESS

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Sandvik Mining  
Sandvik Construction



CREATING A LEANER  
COMPANY

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Supply Chain Optimization

# SUMMARY Q1 2015

EARNINGS GROWTH

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RECORD Q1 CASH FLOW

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GOOD PROGRESS ON SUPPLY CHAIN  
OPTIMIZATION PROGRAM

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OVERALL STABLE DEMAND



# BACK-UP SLIDES





# BRIDGE ANALYSIS

## SANDVIK GROUP

| MSEK        | Q1 2014 | PRICE/ VOLUME/<br>PRODUCTIVITY | CURRENCY | STRUCTURE<br>ONE-OFFS* | Q1 2015 |
|-------------|---------|--------------------------------|----------|------------------------|---------|
| INVOICING   | 20,783  | -750                           | 2,830    | 470                    | 23,334  |
| EBIT        | 2,478   | -230                           | 770      | -1,970                 | 1,052   |
| EBIT MARGIN | 12%     | -31%                           | -        | -                      | 5%      |

\* Includes metal price effects

# BRIDGE ANALYSIS

| MSEK                        | Q1 2014 | PRICE/ VOLUME/<br>PRODUCTIVITY | CURRENCY | STRUCTURE<br>ONE-OFFS* | Q1 2015 |
|-----------------------------|---------|--------------------------------|----------|------------------------|---------|
| <b>MACHINING SOLUTIONS</b>  |         |                                |          |                        |         |
| INVOICING                   | 7,400   | -                              | 1,040    | -                      | 8,438   |
| EBIT                        | 1,480   | -80                            | 410      | -680                   | 1,129   |
| EBIT MARGIN                 | 20%     | N/A                            | -        | -                      | 13%     |
| <b>MINING</b>               |         |                                |          |                        |         |
| INVOICING                   | 6,601   | -570                           | 830      | -                      | 6,863   |
| EBIT                        | 688     | -130                           | 240      | -730                   | 68      |
| EBIT MARGIN                 | 10%     | -23%                           | -        | -                      | 1%      |
| <b>MATERIALS TECHNOLOGY</b> |         |                                |          |                        |         |
| INVOICING                   | 3,547   | -80                            | 350      | -110                   | 3,712   |
| EBIT                        | 421     | -80                            | 70       | -310                   | 100     |
| EBIT MARGIN                 | 12%     | -100%                          | -        | -                      | 3%      |

\* Includes metal price effects

# BRIDGE ANALYSIS

| MSEK                | Q1 2014 | PRICE/ VOLUME/<br>PRODUCTIVITY | CURRENCY | STRUCTURE<br>ONE-OFFS | Q1 2015 |
|---------------------|---------|--------------------------------|----------|-----------------------|---------|
| <b>CONSTRUCTION</b> |         |                                |          |                       |         |
| INVOICING           | 1,871   | -20                            | 290      | -                     | 2,144   |
| EBIT                | -11     | 10                             | 70       | -160                  | -95     |
| EBIT MARGIN         | -1%     | N/A                            | -        | -                     | -4%     |
| <b>VENTURE</b>      |         |                                |          |                       |         |
| INVOICING           | 1,362   | -90                            | 320      | 580                   | 2,172   |
| EBIT                | 233     | -30                            | 25       | -40                   | 192     |
| EBIT MARGIN         | 17%     | -29%                           | -        | -                     | 9%      |

\* Includes metal price effects

# SANDVIK MACHINING SOLUTIONS – Q1 2015

RECORD HIGH INVOICING 8,438 MSEK

## STABLE MARKET CONDITIONS

- Stable at a high level in North America
- Asia and Europe stable sequentially

## MARGIN EXPANSION

- Adjusted EBIT 1,809 MSEK, 21.4 %
- Nonrecurring cost -680 MSEK
- Currency effects +410 MSEK
- Strong cash flow



# SANDVIK MACHINING SOLUTIONS – Q1 2015

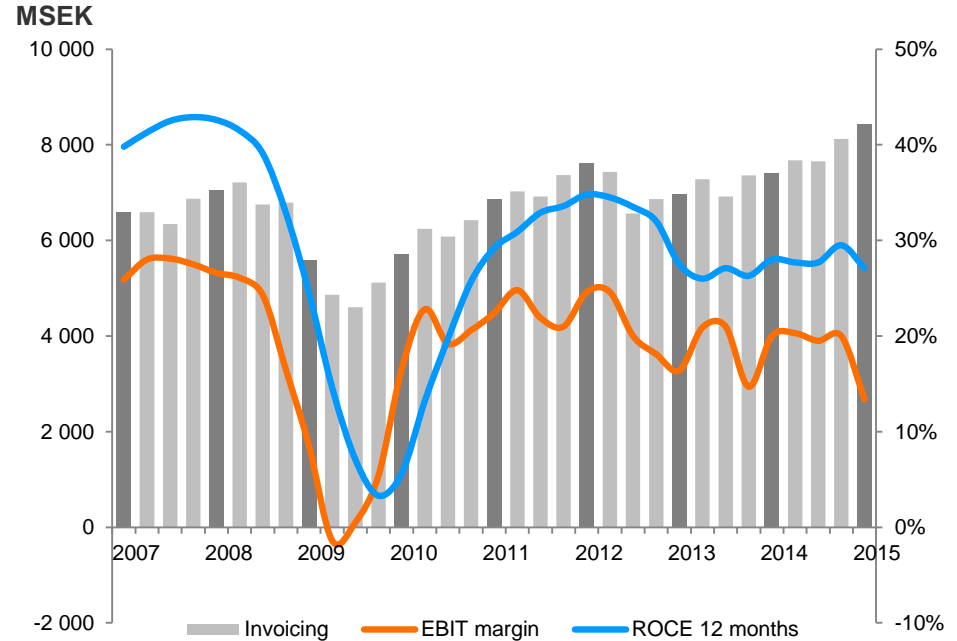
ORDER INTAKE  
**8,596**  
MSEK

INVOICING  
**8,438**  
MSEK

EBIT  
**1,129**  
MSEK

Adjusted for nonrecurring items,  
1,809 MSEK, 21.4 %

ROCE  
**27.1%**



# SANDVIK MINING – Q1 2015

## STABLE MARKET ACTIVITY

- Stable demand for Equipment and Aftermarket
- Continued low order intake for Mining Systems

## ADJUSTED EBIT 798 MSEK, 11.6%

- Nonrecurring cost -730 MSEK
- Currency effects +240 MSEK
- Continued inventory reductions

## SUPPLY CHAIN OPTIMIZATION

- Closure of one unit finalized in Hunter Valley, Australia



# SANDVIK MINING – Q1 2015

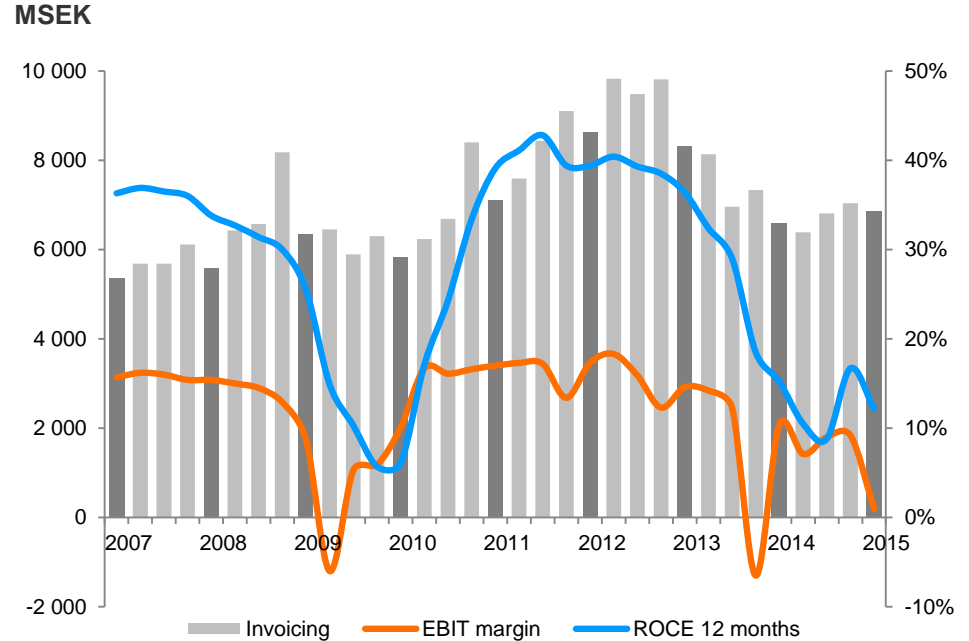
ORDER INTAKE  
**6,203**  
 MSEK

INVOICING  
**6,863**  
 MSEK

EBIT  
**68**  
 MSEK

ROCE  
**12.2**

Adjusted for nonrecurring items, 798  
 MSEK, 11.6 %



# SANDVIK MATERIALS TECHNOLOGY – Q1 2015

## THREE LARGE ENERGY ORDERS MORE THAN OFF-SET CANCELLATION

- Stable market conditions
- Continued uncertainty in oil and gas

## ADJUSTED EBIT 365 MSEK, 9.8%

- Nonrecurring cost -265 MSEK
- Currency effects +70 MSEK
- Metalprice effect -5 MSEK

## INVENTORY REDUCTION SUPPORT STRONG CASH FLOW





# SANDVIK MATERIALS TECHNOLOGY – Q1 2015

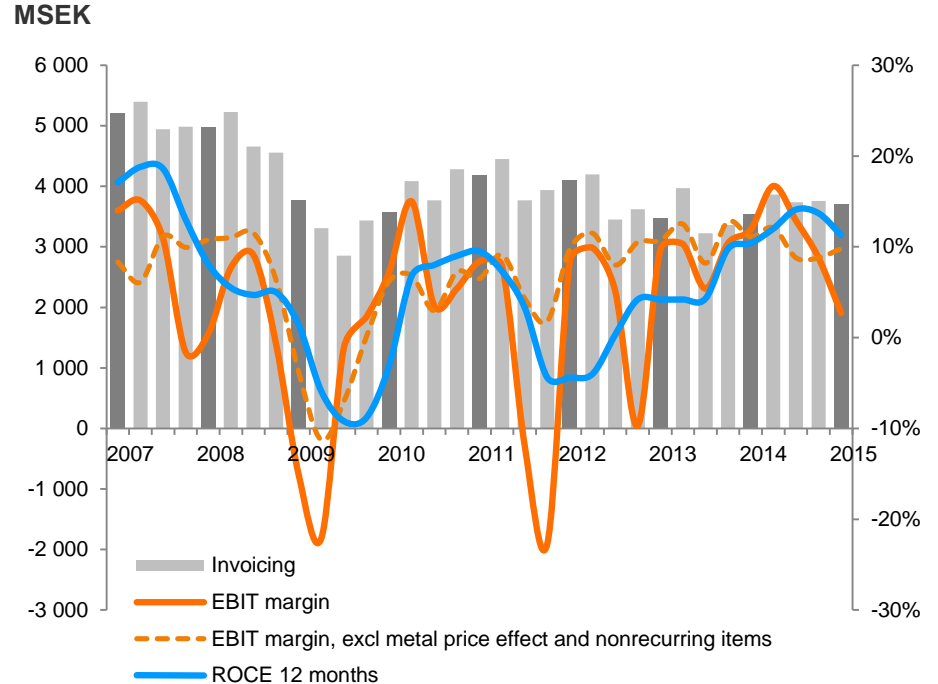
ORDER INTAKE  
**3,725**  
 MSEK

INVOICING  
**3,712**  
 MSEK

EBIT  
**100**  
 MSEK

ROCE  
**11.3%**

Excluding metal price effects and nonrecurring items, 370 MSEK, 10.0 %



# SANDVIK CONSTRUCTION – Q1 2015

## POSITIVE BOOK-TO-BILL

- Slightly higher activity in North America

## ADJUSTED EBIT 65 MSEK, 3.0%

- Nonrecurring cost -160 MSEK
- Currency effect +70 MSEK
- Efficiency measures ongoing

## SUPPLY CHAIN OPTIMIZATION PROGRAM COMPLETED

- Finalized closure of mobile crushing unit in Swadlincote, UK



# SANDVIK CONSTRUCTION – Q1 2015

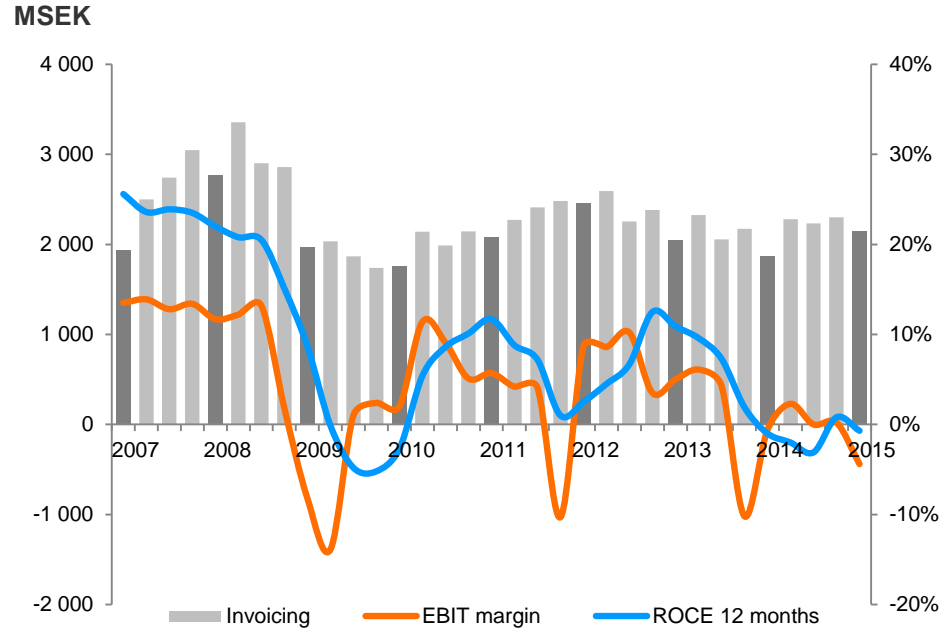
ORDER INTAKE  
**2,376**  
 MSEK

INVOICING  
**2,144**  
 MSEK

EBIT  
**-95**  
 MSEK

ROCE  
**-0.7%**

Adjusted for nonrecurring items, 65  
 MSEK, 3.0 %



# SANDVIK VENTURE – Q1 2015

## OVERALL STABLE MARKET CONDITIONS

## SHARP DECLINE IN NORTH AMERICAN ON SHORE OIL AND GAS DRILLING ACTIVITY

- Additional mitigation actions ongoing

## ADJUSTED EBIT 202 MSEK, 9.3%

- Nonrecurring cost -10 MSEK
- Currency effect +25 MSEK



# SANDVIK VENTURE – Q1 2015

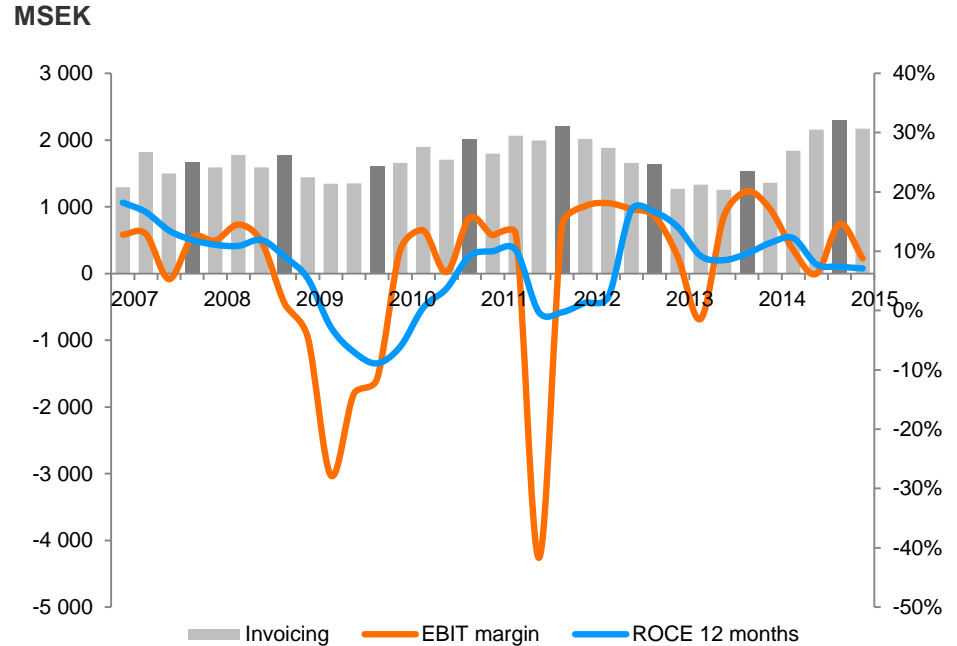
ORDER INTAKE  
**2,263**  
MSEK

INVOICING  
**2,172**  
MSEK

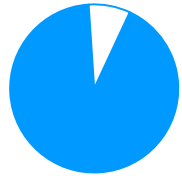
EBIT  
**192**  
MSEK

ROCE  
**7.1%**

Adjusted for nonrecurring items, 202  
MSEK, 9.3 %

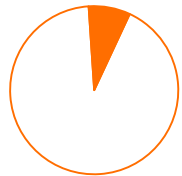


# LOAN AND DURATION PROFILE



LONG TERM  
**92%**

|                            | AMOUNT MSEK | AVERAGE DURATION |
|----------------------------|-------------|------------------|
| US Private Placement       | 6,888       | 5 years          |
| Fin institutions, EIB, NIB | 2,327       | 7 years          |
| Swedish MTN                | 11,046      | 4 years          |
| European MTN               | 10,206      | 11 years         |
| Bank loans                 | 2,840       | 4 years          |
| Share swap                 | 1,503       | 1 years          |



SHORT TERM  
**8%**

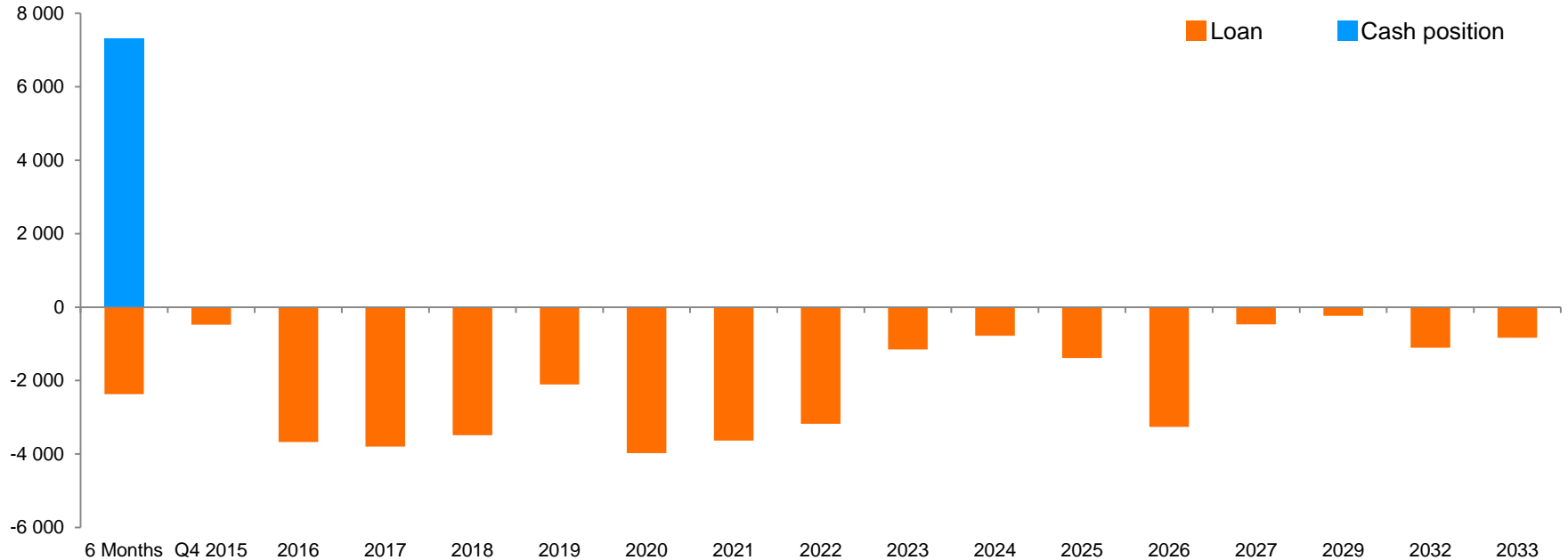
|                            |     |          |
|----------------------------|-----|----------|
| Commercial paper           | 692 | 4 months |
| Fin institutions, EIB, NIB | 463 | 6 months |
| Swedish MTN                | 825 | 7 months |
| Bank loans                 | 764 | 0 months |
| Share swap                 | 154 | 1 months |

|                             |                    |
|-----------------------------|--------------------|
| Cash position               | <b>7,318 MSEK</b>  |
| Revolving Credit facilities | <b>11,050 MSEK</b> |

|              |               |                |
|--------------|---------------|----------------|
| <b>TOTAL</b> | <b>37,709</b> | <b>6 years</b> |
|--------------|---------------|----------------|

# LOAN MATURITY PROFILE

MSEK



# CREATING A LEANER COMPANY

## SAVINGS PROFILE (MSEK)

|                           | <br>SANDVIK<br>MACHINING SOLUTIONS | <br>SANDVIK<br>MINING | <br>SANDVIK MATERIALS<br>TECHNOLOGY | <br>SANDVIK<br>CONSTRUCTION | SAVINGS PROFILE<br>ANNUAL RUN-RATE |
|---------------------------|---|--|---|--|------------------------------------|
| PHASE I TOTAL<br>YE 2015  | 200   | 500  | -   | 100  | 800*                               |
| PHASE II TOTAL<br>YE 2016 | 130   | 400  | 70  | -  | 600                                |
| ADJ COST BASE<br>YE 2016  | 150   | -  | 95  | 160  | 480**                              |
| <b>TOTAL</b>              | <b>480</b>  | <b>900</b>   | <b>165</b>  | <b>260</b>   | <b>1,880**</b>                     |

\*) Annual run-rate at end Q1 2015 360 MSEK

\*\*\*) Including 25 MSEK for Sandvik Venture and 50 MSEK for Group Activities



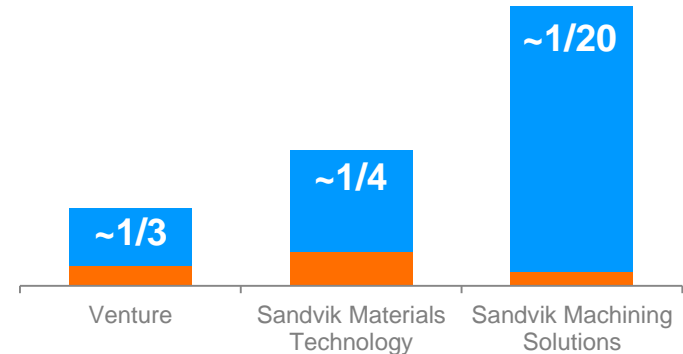
# OIL & GAS EXPOSURE

## REVENUE FROM O&G IN 2014 ~7.5 BN. SEK

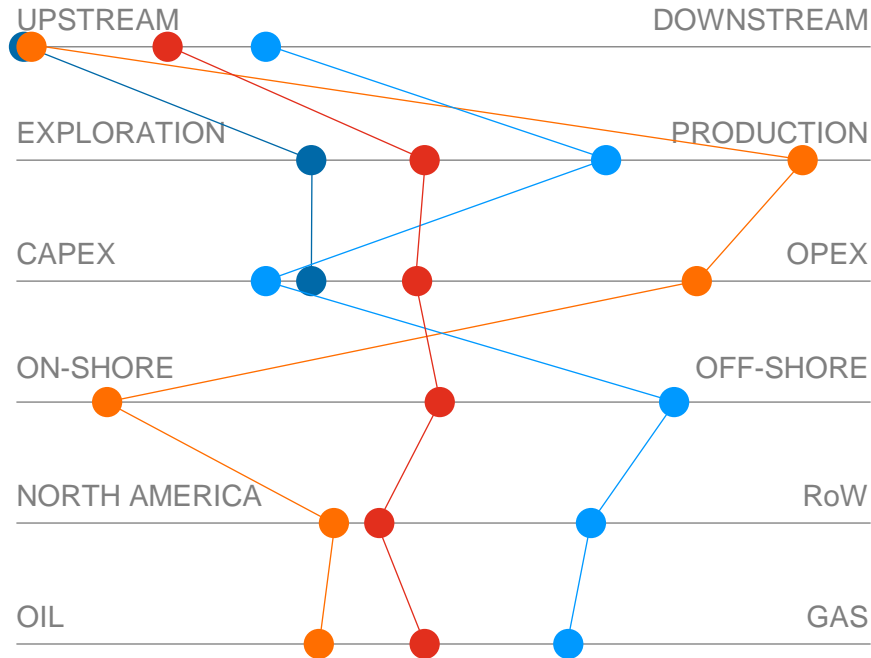
- Limited exposure to O&G sector ~8%
- O&G/Energy is a long-term commitment for Sandvik albeit short/mid-term variances in order intake



- Exposure over 3 business areas
- Highest in Venture with 1/3 towards oil and gas
- Different parts of O&G sector
  - Upstream (mainly production) & downstream
  - Off- and on-shore
  - CAPEX and OPEX driven business
  - Geographical spread: NA and RoW



# DIVERSE EXPOSURE WITHIN OIL AND GAS



- Sandvik Materials Technology**
  - Complex off-shore projects with long planning horizon and long day-off times
  - Investment decisions based on long-term oil price
- Sandvik Venture/Varel**
  - Productivity enhancing products with relatively low cost
  - OPEX-driven decisions
  - Quick reactions in shale exploration (new technology)
- Sandvik Machining Solutions**
  - Downturn in oil and gas off-set by other segments e.g. Aerospace and Automotive
- Group (weighted)**

# 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**

# UPDATED GUIDANCE

## CAPEX

Estimated at below 5bn SEK for 2015.

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## CURRENCY EFFECTS

Given currency rates at end of March the effect on EBIT would be +900 MSEK for Q2 2015.

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## METAL PRICE EFFECTS

Given currency rates, stock levels and metal prices at the end of March, it is estimated that effects on operating profit Q2 2015 will be about -150 MSEK.

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## NET FINANCIAL ITEMS

Net financial items is estimated to be -1.8 to -2.0 bn. SEK for 2015.

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## TAX RATE

The tax rate is estimated to about 26–28% for 2015.

An abstract graphic consisting of several bright blue lines that intersect to form a series of triangles and polygons, set against a black background. The lines are thin and create a sense of depth and movement.

# 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.”