



Press Release

Low volumes and nonrecurring costs put pressure on Sandvik earnings

Sandvik's order intake rate gradually declined in April-May to a level, which in terms of volume was 40-50% lower than the year-earlier period. Generally low demand from end customers, combined with continued inventory reductions among most customer segments, leads to invoicing in terms of volume having declined to a level 30-40% lower than the year-earlier period. In order to avoid increased obsolescence this generates a need for Sandvik to further reduce inventories. Accordingly, the production rate has fallen below the rate of order intake by about 10% during the second quarter.

As a result of the dramatic decline in the market situation since October 2008, extensive actions to reduce Sandvik's cost base were initiated early on. To date, the global staff has been reduced by about 6,000 people and agreement to decrease work time by 15-20% with a corresponding cut in salary costs will comprise about 12,000-14,000 people as of June. Additionally, decisions have been taken to permanently close 10 production sites. The action program has steadily increased in scope and implemented and approved actions will have a gradually increasing effect during the year. For the full year, the implemented and planned measures are expected to lead to cost reductions of nearly SEK 6 billion compared with 2008.

Sandvik's business model with far-reaching vertical integration means that low sales and production rates will have a significantly adverse affect on earnings, primarily in the form of a lower gross profit and the under-absorption of fixed costs. During the second quarter, changed metal prices, restructuring costs, impairments and an increased provision for obsolescence are expected to have a significantly negative effect on earnings.

Based on the aforementioned, an operating result of between SEK -2,200 M and SEK -2,500 M is expected to be posted, of which underlying result amounts to about SEK -1,000 M including effects of changed metal prices of about SEK -350 M.

"The current market situation is very weak, which has a substantial effect on a business like Sandvik's. Implemented and approved actions will have a gradual effect, but the weak volume trend in the second quarter and probably also the third quarter will have a significantly negative effect on earnings. At the same time, it is satisfying that the favorable trend in cash flow, inventory reductions and demand in parts of the energy sector that we observed in the first quarter are continuing," says Lars Pettersson, President and CEO of Sandvik.

Sandviken, 17 June 2009

Sandvik Aktiebolag (publ)

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Sandvik is a global industrial group with advanced products and world-leading positions in selected areas – tools for metal cutting, equipment and tools for the mining and construction industries, stainless materials, special alloys, metallic and ceramic resistance materials as well as process systems. The Group had 2008 about 50,000 employees and representation in 130 countries, with annual sales of nearly SEK 93,000 M.

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