



SANDVIK AB Interim Report, third quarter 2001

- *Profit after financial items SEK 1,297 M*
- *Strong cash flow, SEK 1,819 M before investments*
- *Continued high invoicing, but lower demand*
- *Agreement on purchase of shares in Walter AG*
- *Program of change under way at Sandvik Tooling*

Key figures SEK M	Q3 2001	Q3 2000	Change %	Q1-3 2001	Q1-3 2000	Change %
Order intake	11 000	10 900	+1 ¹⁾	36 550	33 630	+9 ¹⁾
Invoiced sales	11 630	10 450	+11 ²⁾	36 120	31 810	+14 ²⁾
Operating profit excl. items affecting comparability ³⁾	1 425	1 225	+16	4 825	4 115	+17
%	12	12		13	13	
Operating profit	1 425	1 225	+16	4 825	4 775	+1
%	12	12		13	15	
Profit after financial items excl. items affecting comparability ³⁾	1 297	1 075	+21	4 457	3 725	+20
%	11	10		12	12	
Profit after financial items	1 297	1 075	+21	4 457	4 385	+2
%	11	10		12	14	
Net profit	740	626	+18	2 623	2 722	-4
%	6	6		7	9	
Earnings per share ⁴⁾ , SEK	-	-		14.10	11.10	
Return on capital employed ⁴⁾ , %	-	-		18.7	17.8	

1) -10 % and 0 % at fixed exchange rates for comparable units.

2) 0 % and +5 % at fixed exchange rates for comparable units.

3) Items affecting comparability SEK +660 M in 2000, of which SEK 300 M in Q1 and SEK 360 M in Q2.

4) Rolling 12-months, excl. items affecting comparability.

Short term market outlook*

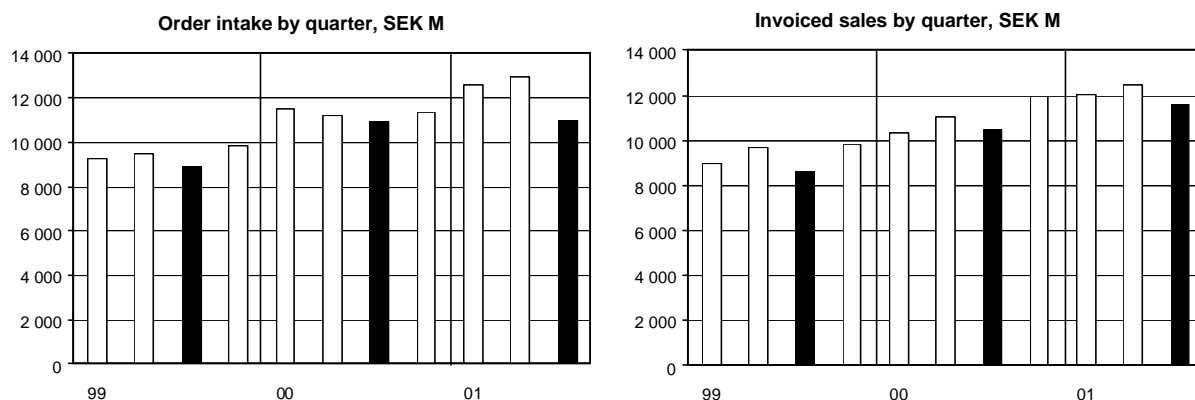
The market trend in NAFTA continues to be negative and a decline is now also being noted in Europe. Demand is expected to remain low in the near future, and now also in the investment-related segments. However, the Group is well-positioned to take additional market shares, at the same time as the program of change aimed at retaining profitability is intensified.

* *Previous short-term market outlook (published 8 August 2001)*

The current economic slowdown is expected to result in a slight continued weakening in demand. However, the trend for Sandvik's different product areas varies. It is anticipated that sales of products to the automotive and consumer-related areas will continue to be low, while demand in investment-related areas is projected to remain relatively favorable.

Third quarter 2001

Sales (see appendix 2)



Order intake in the third quarter amounted to SEK 11,000 M (10,900), an increase of 1%. At fixed exchange rates for comparable units, a decrease of 10% was noted. Order intake remained low in NAFTA and South America and a weakening trend was now noted in Europe.

Invoiced sales amounted to SEK 11,630 M (10,450), a total increase of 11%. At fixed exchange rates for comparable units, invoicing was unchanged compared with a year earlier. Higher exchange rates affected invoicing favorably during the quarter by 10%.

Development by market area, third quarter 2001

Market area	Invoiced sales		Change*
	SEK M	Share %	
EU	4 326	37	-3
Rest of Europe	902	8	+31
Europe total	5 228	45	+2
NAFTA	2 855	25	-10
South America	475	4	-16
Africa/Middle East	603	5	+3
Asia/Australia	2 469	21	+16
Total	11 630	100	±0

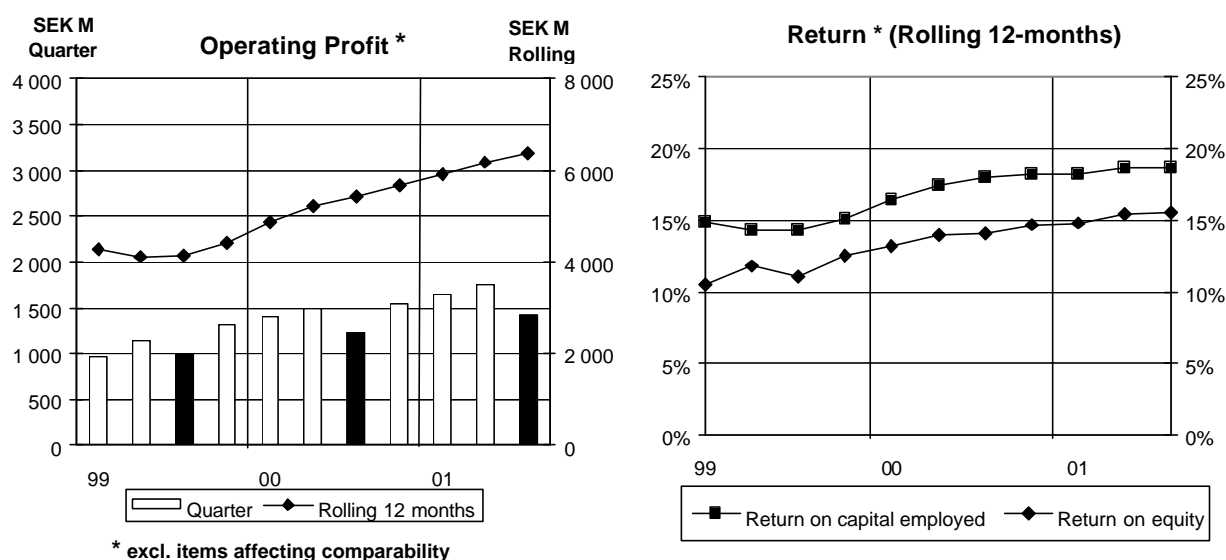
* change from the third quarter 2000 at fixed exchange rates for comparable units.

The rate of change in invoiced sales varied sharply among the market areas. Invoicing declined within the EU, which was attributable to lower demand in the Sandvik Specialty Steels business area. In contrast, the increase in Rest of Europe was strong, particularly in Eastern Europe. Sandvik Tooling continued to post a favorable trend in Europe.

Invoicing fell sharply in NAFTA and South America, mainly within Sandvik Specialty Steels, but also for Sandvik Tooling. The trend was positive in Africa/Middle East and Asia/Australia, particularly in China, India and Australia.

Invoicing to the general engineering industry was favorable as well as to the oil/gas industry for investment-related products. Demand from the automotive industry was satisfactory in Europe but weak in NAFTA. Sales to the electronics industry fell sharply and a weakening was noted to the aerospace industry. Activity in the mining industry was high, but with large differences geographically. Invoicing to the construction industry was favorable in Asia/Australia, but declined in NAFTA.

Earnings and cash flow in the third quarter (see appendix 1)



Operating profit in the third quarter amounted to SEK 1,425 M (1,225). Compared with the year-earlier period, earnings increased by 16%, but was largely unchanged taking into account that the third quarter a year earlier included restructuring costs of SEK 210 M. Operating margin was 12% and was affected adversely by lower capacity utilization. Changes in currency exchange rates had a positive affect of approximately SEK 170 M on earnings (520 from beginning of the year). The Sandvik Mining and Construction business area posted a continued strong earnings improvement.

Net financial expense was SEK 128 M (expense: 150). Profit after net financial items rose 21% to SEK 1,297 M, 11% of invoiced sales. Net profit was SEK 740 M (626). Earnings per share, excluding items affecting comparability, were SEK 2.90 (2.40) and SEK 14.10 for the past 12 months (12.20 for full-year 2000).

Cash flow from operating activities amounted to SEK 1,819 M. Working capital declined, attributable mainly to lower accounts receivable. The higher inventory volume was related entirely to raw materials within Sandvik Tooling. Investments in property, plant and equipment in the quarter amounted to SEK 646 M and acquisitions to SEK 45 M.

Interest-bearing liabilities and provisions reduced by liquid assets produced a net debt of SEK 9,237 M (9,552 at 30 June 2001). During the quarter, SEK 1,070 M was transferred from the Swedish Sandvik companies to a newly formed pension fund in Sweden independent of the Group. The amount represented the pension liability of the companies to salaried employees, which thereby is no longer included in the consolidated balance sheet. Liquid assets amounted to SEK 2,796 M (1,916) and loans amounted to SEK 9,770 M (8,183).

The return on capital employed excluding items affecting comparability during the past 12 months amounted to 18.7% (18.2% for full-year 2000) and the return on equity amounted to 15.5% (14.7%). The number of shares outstanding was 252,849,000 after a buyback of 3,531,000 shares during the third quarter. Equity per share was SEK 94.00 (89.00), and the equity ratio was 50% (55). The net debt/equity ratio was 0.4 (0.3).

The number of employees was 34,570 at the end of the period, a decline of 397 persons for comparable units during the quarter.

Business areas (see appendix 2) – Third quarter 2001

Sandvik's operations consist of three business areas: Sandvik Tooling, Sandvik Mining and Construction, and Sandvik Specialty Steels, areas in which the technology content is considerable and the Group occupies leading global positions.

Sandvik Tooling (Sandvik Coromant, Sandvik CTT and Sandvik Hard Materials)

SEK M	Q3 2001	Q3 2000	Change %	Q1-3 2001	Q1-3 2000	Change %
Order intake	3 789	3 643	-5 *	12 467	11 595	±0 *
Invoiced sales	3 954	3 653	-1 *	12 508	11 303	+3 *
Operating profit	735	735	±0	2 505	2 305	+9
%	18.6	20.1		20.0	20.4	

* at fixed exchange rates for comparable units

Sandvik Tooling's order intake amounted to SEK 3,789 M (3,643), which was a decline at fixed exchange rates for comparable units of 5% compared with a year earlier. Order intake continued to rise for metalworking tools in cemented carbide, but declined sharply for tools in high-speed steel and for cemented-carbide blanks. Activity remained favorable in the EU, Eastern Europe and Asia/Australia particularly in China. Demand in the automotive industry in NAFTA remained weak and declined sharply from the electronics industry.

Invoicing declined 1% at fixed exchange rates for comparable units, amounting to SEK 3,954 M (3,653). Development in the EU and Eastern Europe remained favorable as well as parts of Asia/Australia. Invoicing in NAFTA fell in most areas but particularly for tools in high-speed steel and for cemented-carbide blanks.

Operating profit was unchanged compared with a year earlier and amounted in the quarter to SEK 735 M (735) or 19% of invoiced sales. Profit fell sharply, among other areas, for the high-speed steel operations in NAFTA due to lower volumes.

The accelerating weakening of the business climate is increasingly impacting demand. In addition, profitability is not satisfactory for parts of Sandvik Tooling's operations. Measures, which otherwise would have been taken gradually, will therefore be moved forward with the aim of increasing efficiency and reducing the cost level. The objective is to cut annual costs by approximately SEK 500 M. This is being accomplished through such measures as a concentration of the number of production and logistics units. It is estimated that this will result in a reduction of the number of employees by 1,000. The costs for the action program are estimated at SEK 400-500 M and will be charged against earnings in the fourth quarter.

Sandvik Mining and Construction

SEK M	Q3 2001	Q3 2000	Change %	Q1-3 2001	Q1-3 2000	Change %
Order intake	3 040	2 795	-5 *	10 134	8 147	+12 *
Invoiced sales	3 398	2 602	+17 *	9 652	7 516	+15 *
Operating profit	336	286	+17	1 002	782	+28
%	9.9	11.0		10.4	10.4	

* at fixed exchange rates for comparable units

Sandvik Mining and Construction's order intake amounted to SEK 3,040 M (2,795), a decrease of 5% at fixed exchange rates for comparable units. The comparison is against a strong third quarter in 2000. Demand remained favorable in the mining industry engaged in excavation of precious metals. It was also high from various activities in the energy field, including mining of coal and expansion of hydropower. During the quarter a gradually lower order intake was noted for machinery and project-related business, while demand for tools, service and spare parts remained high. A number of major orders were received, including drilling rigs and loaders for underground mines in Chile and Kazakhstan for mining of copper.

Invoiced sales rose 17% at fixed exchange rates for comparable units, amounting to SEK 3,398 M (2,602). The increase was attributable largely to all market areas except South America.

Operating profit amounted to SEK 336 M (286), or 10% of invoiced sales – an increase of 17%. The improvement in earnings was primarily due to a strong volume trend and high capacity utilization. Much of the production of heavy machinery is outsourced to subcontractors, which limits the adverse effect in the event of a volume decline. At the same time, capacity and manning is continually reviewed to align cost levels.

During the quarter, an agreement was reached with the American company Smith International on establishing of a jointly owned company, Sandvik Smith AB (50/50). Sandvik Tamrock's business unit for production of roller cone bits in Köping, Sweden and Smith International's Smith Bits Mining and Industrial Tools division are being transferred to the new venture. The company has about 200 employees, sales of about SEK 360 M and its head office is in Köping. Operations in the jointly owned company began on 1 October this year and are consolidated within Sandvik Mining and Construction.

The acquisition of Svedala Industri's units for crushing and screening in Sweden and France, with sales of about SEK 1,400 M and 900 employees, was also completed during the quarter. The purchase price for the operations amounts to approximately SEK 550 M, including a consignment stock valued at about SEK 300 M which is being made available to Sandvik. It is assessed that the acquisition will provide a positive contribution to Group earnings as of 2002. The acquired operations form a new business sector, Sandvik Rock Processing, as of 1 October 2001.

Sandvik Specialty Steels (Sandvik Steel, Kanthal and Sandvik Process Systems)

SEK M	Q 3 2001	Q3 2000	Change %		Q1-3 2001	Q1-3 2000	Change %
Order intake	3 154	3 528	-20 *		10 692	11 039	-11 *
Invoiced sales	3 258	3 286	-10 *		10 711	10 188	-3 *
Operating profit	295	86	+243		953	674	+41
%	9.1	2.6			8.9	6.6	

* at fixed exchange rates for comparable units

Sandvik Specialty Steels' order intake amounted to SEK 3,154 M (3,528), a decline of 20% compared with a year earlier, at fixed exchange rates for comparable units. Demand in Europe and parts of Asia/Australia fell. Order intake in NAFTA and South America declined from an earlier low level. Activity weakened further within the consumer-related customer segment and fell sharply within the electronics industry. Demand from the oil/gas- and energy industry was relatively favorable. A number of major orders were received during the quarter in strategic growth areas: tubes to the fertilizer industry in China and India and tubes to the nuclear power industry in the US.

Invoiced sales amounted to SEK 3,258 M (3,286), a decline of 10% at fixed exchange rates for comparable units.

Operating profit amounted to SEK 295 M (86), or 9% of invoiced sales. The increase was sharp compared with the year-earlier earnings, which were charged with restructuring expenses of SEK 210 M. Within Sandvik Steel, an improved product mix, including a higher portion of seamless tubes, had a positive effect during the quarter. Concurrently, Kanthal's earnings were affected adversely by sharply falling demand in the electronics industry. Lower prices for nickel in inventory impacted operating profit negatively by SEK 40 M, compared with a positive effect of SEK 100 M in the third quarter of the preceding year.

The program of change announced last year within Sandvik Steel includes rationalization of the production structure and of the sales organization in Europe. The program, which is being implemented during a three-year period, will result in a total reduction in the number of employees of 600-700. During the January-September period 2001, the reduction amounted to 400 persons, of which 100 in the third quarter. Two production units were closed in the UK during the third quarter and a decision was taken regarding a new sales organization in Europe. As a result of the weakened business climate for Sandvik Steel as well as Kanthal, the program of change is being intensified, concurrently as actions are taken to align resources and costs with lower demand.

Quarters 1-3, 2001

Order intake during the first three quarters amounted to SEK 36,550 M (33,630), which was a total increase of 9% and an unchanged level at fixed exchange rates for comparable units. Invoiced sales amounted to SEK 36,120 M (31,810), a total increase of 14% and 5% at fixed exchange rates for comparable units. Higher exchange rates affected invoicing favorably by 9%.

Operating profit excluding items affecting comparability for the first nine months amounted to SEK 4,825 M (4,115). This is an increase of SEK 710 M, or 17%. The operating margin amounted to 13% of invoicing. Changes in currency rates affected invoicing favorably by about SEK 520 M.

Net financial expense was SEK 360 M (expense: 390) and profit after net financial items excl. items affecting comparability was SEK 4,457 M (3,725), up 20%. The tax rate was 37% and net profit amounted to SEK 2,623 M (2,722).

Cash flow from operating activities was SEK 3,514 M. Group investments in property, plant and equipment were SEK 1,830 M (1,379). Company acquisitions amounting to SEK 172 M were carried out. After investments, acquisitions and divestments, the cash flow was SEK 1,705 M.

The number of employees amounted to 34,570, a decline of 255 for comparable units since the beginning of the year.

Parent company invoicing was SEK 8,636 M (8,996), operating profit was SEK 1,276 M (1,121) and liquid assets plus interest-bearing assets less interest-bearing liabilities amounted to SEK 809 M (1,785 at 31 December 2000).

Key figures	Q1-3 2001	Q1-3 2000
No. of shares at end of period ('000)	252 849	258 696
Earnings per share before items affecting comparability, SEK*	14.10	11.10
after full dilution**	13.80	10.90
Earnings per share after items affecting comparability, SEK*	14.10	13.20
after full dilution**	13.80	13.00
Return on capital employed before items affecting comparability*	18.7%	17.8%
Return on shareholders' equity before items affecting comparability*	15.5%	13.9%
Net debt/equity ratio	0.4	0.3

* Most recent 12 months divided by average number of outstanding shares, 257,063,000 as per 30 September 2001.

** Average no. of shares after full dilution of outstanding convertible and warrants programs amounts to 261,984,000 as per 30 September 2001.

Accounting principles

This interim report has been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendation RR20 Interim Financial Reporting. At 1 January 2001, an additional number of recommendations from the Swedish Financial Accounting Standards Council became effective. Application from this date of RR9 Income Taxes resulted in a change in accounting principles and the comparable figures for 2000 were adjusted accordingly. The application of other new recommendations have not had any material effect on Sandvik's reporting.

Buyback of shares

At 30 September 2001, Sandvik's holding of own shares (treasury stock) totaled 5,847,000, corresponding to 2.3% of the total number of shares (258,696,000). The purchase amount was SEK 1,257 M. In accordance with the decision at the Annual General Meeting in May 2001, Sandvik is authorized to repurchase a total of 12,934,800 shares, corresponding to 5% of the total number of shares. The authorization is valid for the period up to the date of the next Annual General Meeting.

Structural changes

- In the beginning of January 2001, Sandvik Steel announced plans to shut down its manufacturing of seamless tubes in the UK. The closing was carried out in August 2001 and affected a total of approximately 250 employees. This was part of a program of change announced earlier within Sandvik Steel.
- In January 2001, Sandvik became a joint owner of Endorsia.com International AB, an e-business site for industrial products and services in Europe.
- In February, it was decided to close the unit for down-the-hole drilling tools in Mexico with about 60 employees and transfer the operations to Sandvik Tamrock Tool's rock-drilling plant in Sandviken, Sweden, which already produces the corresponding tools.
- In February, Sandvik CTT entered into an agreement with the UK based company Angus MacInnes & Co., Glasgow, to take over the sales and marketing of Prototyp products in the UK.
- In March, Sandvik acquired the remaining 49% of the shares in Sandvik Choksi Ltd. from the Indian company Choksi Tube Company Ltd. Sandvik has owned 51% of the shares since the company was founded in 1996.
- Following completion of a public share offer on 10 July 2001, Sandvik purchased an additional 284,530 shares in Sandvik Asia Ltd, India, at the price of SEK 55 M. The ownership interest thereafter is 89%.
- In May, Sandvik Tooling acquired 80% interest in the production and sales of solid-carbide tools of the Brazilian company Hurth Infer SA. Sandvik Hurth Infer has annual sales of SEK 65 M, and 75 employees.
- In June, Sandvik Mining and Construction acquired the Chilean company Bafco Minería y Servicios S.A., a leader in providing service to the mining industry in Chile. Sales amount to about SEK 85 M, with 180 employees.
- In August, Sandvik Mining and Construction reached an agreement with the American company Smith International, Inc., Houston, Texas, to form a jointly owned company (50/50), Sandvik Smith AB. The new company has sales of about SEK 360 M and slightly more than 200 employees. The head office is being based in Köping, Sweden and operations began on 1 October 2001.

- In August, Sandvik's Pension Fund in Sweden was formed. Concurrently, SEK 1,070 M was transferred from the Swedish Sandvik companies to this newly formed pension fund, which is independent of the Group. The amount represented the companies' pension liability to salaried employees which thereby is no longer included in the consolidated balance sheet.
- In September, Sandvik reached an agreement with the main owners of the German company Walter AG covering the acquisition of shares resulting in a controlling interest in the company. The transaction is subject to approval being granted by the competition authorities. Walter's operations include tools for chip-forming metalworking, software systems for tool-management and numerically controlled grinding machines. Sales in 2000 amounted to SEK 2,900 M, with about 2,000 employees.
- In September, Sandvik Mining and Construction concluded the acquisition of parts of Svedala Industri's units for crushing and screening in accordance with an agreement with the Finnish company Metso Corporation. The operations, which generate sales of SEK 1,400 M with about 900 employees, are being consolidated from 1 October.

Sandviken, 9 November 2001

Sandvik AB; (publ)

Clas Åke Hedström
President and CEO

Appendices:

1. Group summary
2. Invoicing and operating profit

The interim report for the third quarter has not been audited by the Company's auditors. The year-end report for 2001 will be published on 14 February 2002.

For additional information, please call +46 (0)26-26 10 01.

A combined presentation and telephone conference will be held at Operaterassen in Stockholm on 9 November at 1.00 p.m. For further information visit www.sandvik.com

Consolidated Financial Information, SEK M

	Q3	Q3	Q1-3	Q1-3
Income statement	2001	2000	2001	2000
Invoiced sales	11 630	10 450	36 120	31 810
Cost of goods sold	-8 175	- 7 231	-24 667	-21 386
Gross profit	3 455	3 219	11 453	10 424
Selling, general and administrative expenses	-2 136	-2 070	-6 721	-6 442
Other operating income and expenses	106	76	93	133
Items affecting comparability				660
Operating profit	1 425	1 225	4 825	4 775
Financial income and expenses, net	-128	-150	-368	-390
Profit after financial items	1 297	1 075	4 457	4 385
Taxes	-513	-405	-1 664	-1 503
Minority interests	-44	-44	-170	-160
Net profit	740	626	2 623	2 722
Cash-flow statement				
Profit after financial items	1 297	1 075	4 457	4 385
Items not affecting cash flow	-79	-263	-620	-735
Reversal of depreciation	627	585	1 819	1 696
Taxes paid	-402	-199	-1 357	-1 204
Change in inventories	-91	-56	-906	-579
Change in current receivables and operating liabilities	467	810	121	-151
Cash flow from operating activities	1 819	1 952	3 514	3 412
Investments, acquisitions and divestments	-648	-495	-1 809	-1 863
Change in short-term and long-term loans	1 625	-787	3 764	874
Buyback of own shares	-847		-1 257	
Payment to newly established pension fund	-1 070		-1 070	
Dividends paid	0	0	-2 554	-2 266
Net cash flow	879	670	588	157
Liquid funds at beginning of period	1 916	1 858	2 097	2 369
Exchange-rate differences in liquid funds	1	60	111	62
Liquid funds at end of period	2 796	2 588	2 796	2 588
Change in shareholders' equity				
Opening equity as shown in approved balance sheet			22 472	20 109
Effect of change in accounting principles			547	516
Opening equity adjusted to new principles			23 019	20 625
Effect of change in exchange rates			1 699	611
Dividend to shareholders			-2 328	-2 070
Buyback of own shares			-1 257	
Result of the period			2 623	2 722
Closing balance			23 756	21 888

Balance sheet	30 Sept 2001	31 Dec 2000
Fixed assets	21 809	19 156
Inventories	13 216	11 508
Current receivables	11 878	11 147
Liquid assets	2 796	2 097
Total assets	49 699	43 908
Shareholders' equity	23 756	23 019
Minority interests	949	931
Interest-bearing provisions and liabilities	12 033	8 741
Non-interest-bearing provisions and liabilities	12 961	11 217
Total provisions, liabilities and shareholders' equity	49 699	43 908

Invoiced sales by market area,	Q3	Q1-3	Full-year	Q1	Q2	Q3	Q1-3	Change	
SEK M	2000	2000	2000	2001	2001	2001	2001	%	% ¹⁾
EU (excl. Sweden)	3 527	11 303	15 559	4 551	4 464	3 882	12 897	14	4
Sweden	502	1 741	2 375	586	583	444	1 613	-7	-4
Rest of Europe	643	1 910	2 623	853	899	902	2 654	39	30
Europe total	4 672	14 954	20 557	5 990	5 946	5 228	17 164	15	6
NAFTA	2 760	8 299	11 273	2 960	2 969	2 855	8 784	6	-6
South America	491	1 400	1 888	451	526	475	1 452	4	-7
Africa/Middle East	550	1 361	1 921	611	616	603	1 830	34	30
Asia/Australia	1 977	5 796	8 111	2 038	2 383	2 469	6 890	19	11
Group total	10 450	31 810	43 750	12 050	12 440	11 630	36 120	14	5
Invoiced sales by business area,									
SEK M									
Svk Tooling	3 653	11 303	15 507	4 258	4 296	3 954	12 508	11	3
Svk Mining and Construction	2 602	7 516	10 184	2 984	3 270	3 398	9 652	28	15
Svk Specialty Steels	3 286	10 188	14 209	3 690	3 763	3 258	10 711	5	-3
Seco Tools ²⁾	895	2 757	3 785	1 103	1 092	1 005	3 200	16	5
Group activities	14	46	65	15	19	15	49	/	/
Group total	10 450	31 810	43 750	12 050	12 440	11 630	36 120	14	5
Operating profit by business area,									
SEK M									
Svk Tooling	735	2 305	3 135	878	892	735	2 505		
Svk Mining and Construction	286	782	1 073	315	351	336	1 002		
Svk Specialty Steels	86	674	980	317	341	295	953		
Seco Tools ²⁾	156	543	740	240	220	165	625		
Group activities	-38	-189	-261	-110	-44	-106	-260		
Operating profit excl. items affecting comparability	1 225	4 115	5 667	1 640	1 760	1 425	4 825		
Items affecting comparability	0	660	660	0	0	0	0		
Operating profit incl. items affecting comparability	1 225	4 775	6 327	1 640	1 760	1 425	4 825		
Operating profit by business area,									
% of invoicing									
Svk Tooling	20	20	20	21	21	19	20		
Svk Mining and Construction	11	10	11	11	11	10	10		
Svk Specialty Steels	3	7	7	9	9	9	9		
Seco Tools ²⁾	17	20	20	22	20	16	20		
Operating profit excl. items affecting comparability	12	13	13	14	14	12	13		
Operating profit incl. items affecting comparability	12	15	14	14	14	12	13		

¹⁾ Change compared with year earlier at fixed exchange rates for comparable units.

²⁾ As a result of the majority holding in Seco Tools, Sandvik consolidates this company. For comments refer to the company's interim report.