

## SANDVIK AB – Interim Report Nine months ended 30 September 2000

- ÷ *Profit after financial income and expenses SEK 3,725 M, up 41%, excluding items affecting comparability*
- ÷ *Higher profitability in all business areas*
- ÷ *Restructuring program for Sandvik Steel*
- ÷ *Continued favorable demand - order intake up 17%*
- ÷ *New, higher growth objectives*

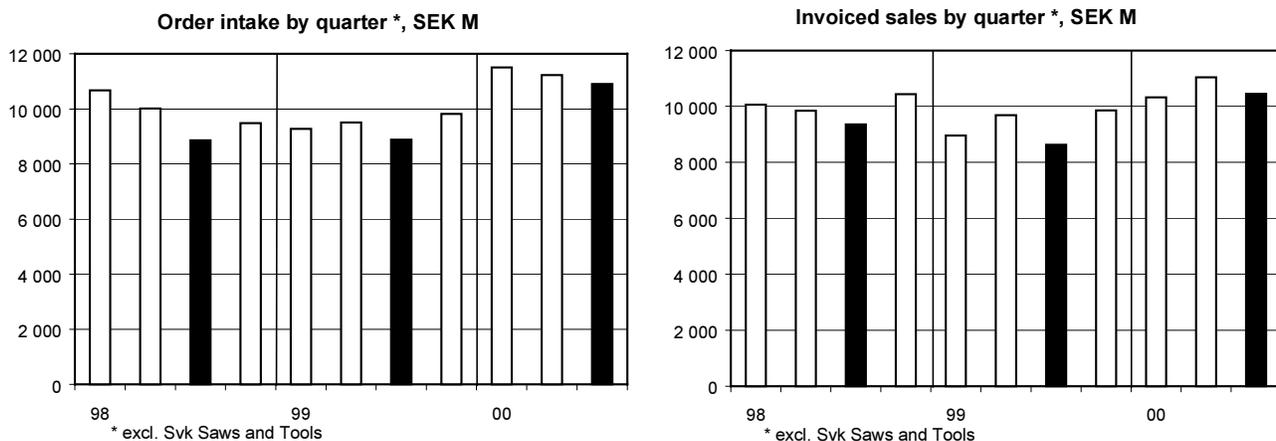
### Market - business climate

Industrial production within the OECD had an annual growth rate of slightly more than 4.5%. The pace in the US was very high, exceeding 5%. Business climate within the EU was favorable as a result of strong exports and rising domestic demand. Industrial production rose sharply in Eastern Europe. Development was favorable in South America, except Argentina. The rate of growth in China, Southeast Asia and South Korea was double digit. The recovery in Japan continued.

Activity in such areas as the automotive industry and residential construction declined from a high level. Demand in investment-related areas increased, particularly in the mining and construction industries. Investment willingness in the oil and gas and process industries was low, but increased toward the end of the period. Consumer-oriented industries, particularly the electronics industry, continued to show high capacity utilization.

The business trend had a favorable effect on Sandvik and demand was strong within most product segments and all market areas.

### Sales (see appendix 2)



Sandvik's order intake during January-September 2000 amounted to SEK 33,630 M (29,700), which at fixed exchange rates for comparable units was 17% higher compared with the corresponding period a year earlier. In the third quarter, order intake was 15% higher than a year earlier.

Order intake increased in all markets. Demand in Europe was strong. Activity in Central and Eastern Europe remained high. Order intake rose in NAFTA and the trend was positive also in the third quarter, despite signs of weakened activity in the automotive and construction industries.

Demand in South America rose, primarily in Brazil. The favorable trend continued in China and Southeast Asia. Order intake was high in Japan, particularly from the electronics industry.

Demand from the engineering, automotive, electronics and consumer-related industries increased sharply during the year and remained high during the third quarter. Order intake from the mining and construction industry was highly favorable during the entire period. Activity in such key customer segments as the oil and gas, chemical and process industries, which was previously weak, increased in the third quarter.

Invoiced sales amounted to SEK 31,810 M (29,270), an increase of 12%, at fixed exchange rates for comparable units. In the third quarter, sales were 14% higher than in the preceding year.

### Earnings (see appendix 1)

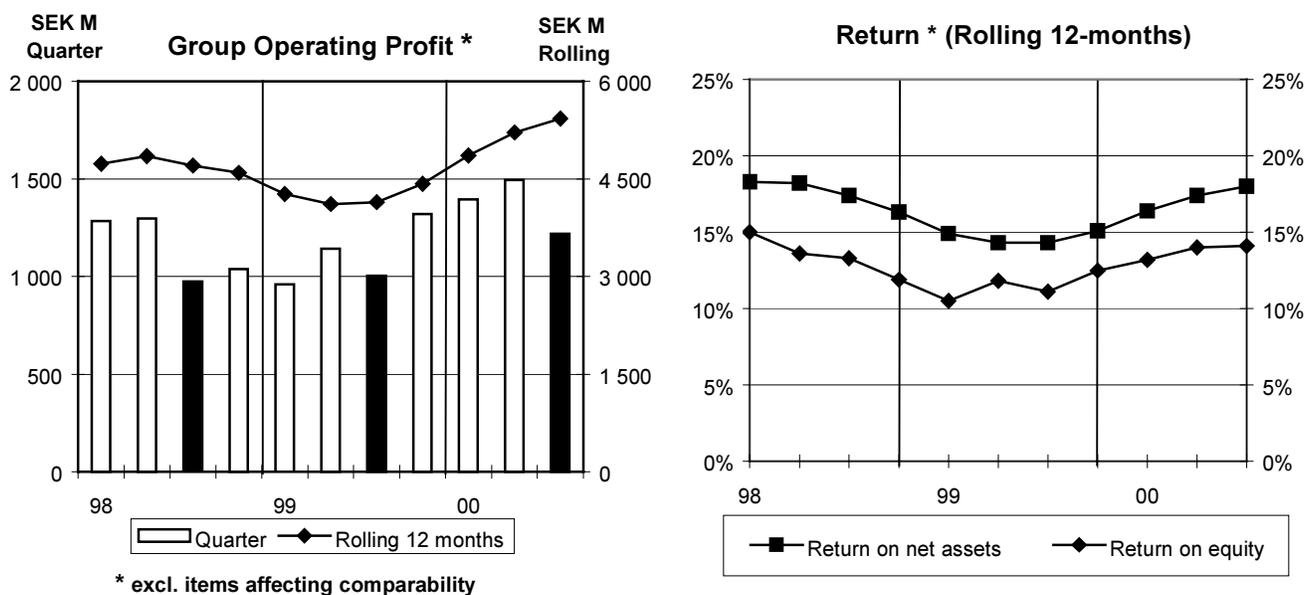
	1-3 1999	1-3 2000	Change %
Invoiced sales, SEK M	29 270	31 810	9
Operating profit SEK M	4 705	4 775	1
as % of invoiced sales	16	15	
Op. profit excl. items aff. comparability, SEK M	3 105	4 115	33
as % of invoiced sales	11	13	
Profit after financial items, SEK M	4 235	4 385	4
as % of invoiced sales	14	14	
Profit after financial items excl. items aff. comp., SEK M	2 635	3 725	41
as % of invoiced sales	9	12	
Net profit, SEK M	2 920	2 722	-7
as % of invoiced sales	10	9	

Operating profit for the period January-September 2000 amounted to SEK 4,775 M (4,705). Positive items affecting comparability amounted to SEK 660 M (SEK 1,600 M from divestment of Sandvik Saws and Tools), of which SEK 360 M in SPP funds and SEK 300 M in capital gains.

Excluding items affecting comparability, operating profit amounted to SEK 4,115 M (3,105), or 13% (11) of invoicing. The increase compared with January-September 1999 was 33%. All business areas reported a highly favorable development, with sharply increased volumes and productivity. Earnings were affected by positive currency effects amounting to about SEK 60 M for the first three quarters. Operating profit was charged with SEK 435 M (157) in restructuring costs, of which SEK 260 M in the third quarter. Most is related to provisions for restructuring measures within Sandvik Steel.

Net financial expense was SEK 390 M (expense: 470). Interest expenses were lower than in the corresponding period of the preceding year, as a result of lower average interest rates and net debt.

Profit after net financial income and expenses was SEK 4,385 M (4,235). Excluding restructuring costs as well as items affecting comparability, profit rose 49% compared with a year earlier.



Net profit amounted to SEK 2,722 M (2,920). Earnings per share were SEK 10.50 (11.30). Earnings per share during the most recent 12 months amounted to SEK 13.20 (14.00 for full-year 1999). Excluding items affecting comparability, net profit amounted to SEK 2,163 M (1,635) and earnings per share during the most recent 12 months to SEK 11.10 (9.00 for full-year 1999).

Return on net assets, excluding items affecting comparability, was for the most recent 12 months, 18.0% (15.1% for full-year 1999) and return on shareholders' equity 14.1% (12.4% for full-year 1999).

### Structural changes

In the beginning of the year, Sandvik CTT acquired a former agent in the US, Titex Tools Inc., for the purpose of intensifying marketing of Titex's application tools to advanced US industries.

Sandvik Mining and Construction concluded its acquisition of the production of drilling rigs from two Austrian companies that were part of the Neuson Group. Annual sales are estimated at about SEK 120 M, with 30 employees.

In August, Sandvik Coromant acquired the French company ARAF SA, which is a leading niche company in the production of cemented-carbide tools for the die and mould industry. Annual sales amount to about SEK 30 M, with 30 employees.

At the beginning of October, Sandvik Process Systems acquired the German company Hindrichs-Auffermann Metallverarbeitungs GmbH. The company produces textured pressing plates and press belts of steel that are used in the production of laminate and in laminating of wood-based panels. Annual sales amount to about SEK 120 M, with 70 employees.

Since March, Sandvik has been a joint-owner of a new venture-capital company, b-business partners, together with principal stakeholders ABB and Investor and a number of large Swedish industrial companies. b-business partners invests in and develops European companies focusing on e-commerce.

The sale of the Group's captive insurance company was concluded during the first quarter.

## **Business areas (see appendix 2)**

Sandvik's operations are concentrated around its three core business areas: Sandvik Tooling, Sandvik Mining and Construction, and Sandvik Specialty Steels, areas in which the technology content is considerable and where the Group occupies leading global positions in its selected niches. Sandvik Tooling includes Sandvik Coromant, Sandvik CTT and Sandvik Hard Materials and a small remaining distribution operation for Saws and Tools' products in certain markets. Sandvik Specialty Steels comprises Sandvik Steel, Kanthal and Sandvik Process Systems.

**Sandvik Tooling's** invoiced sales amounted to SEK 11,303 M (9,784), an increase of 9% compared with a year earlier at fixed exchange rates for comparable units. Invoicing was high to the engineering and automotive industries and very high in such areas as medical technology, die and mould and electronics. Development was favorable in all markets and Sandvik Coromant's sales in the NAFTA region continued to increase. Order intake was SEK 11,595 M, 11% higher compared with a year earlier at fixed exchange rates for comparable units.

Order intake included SEK 520 M and sales included SEK 504 M from the remaining activities in Saws and Tools.

Operating profit amounted to SEK 2,305 M (1,913), corresponding to 20% of invoiced sales. The improvement in earnings was due mainly to favorable volume development and productivity increase. Sandvik Tooling has expanded its marketing activities significantly, including a large number of new product launches, expansion of the sales organization and development of e-business. In September, it was announced that Sandvik Coromant is investing about SEK 100 M in expansion of tool production at the plant in Mebane, North Carolina, in the US. This will result in a doubling of capacity and a further strengthened market position. In addition, a decision was made for expansion of the R&D center for material and process development in Stockholm, Sweden.

**Sandvik Mining and Construction's** invoiced sales amounted to SEK 7,516 M (6,565), up 12% at fixed exchange rates for comparable units. Order intake continued to improve sharply compared with a year earlier and amounted to SEK 8,147 M for the period January-September, 18% higher than a year earlier. Order intake from the mining and construction industries remained favorable, particularly in Southern and Eastern Europe, Africa and Australia. In August, three major orders were received for machinery, tools and material handling equipment for mining and construction from customers in Australia and Indonesia. The total order value amounted to about SEK 420 M.

Operating profit amounted to SEK 782 M (461), corresponding to 10% (7) of invoiced sales. Operating profit for the third quarter amounted to SEK 286 M (168) - that is, 11% (8). The sharp improvement was due to high capacity utilization and the effects of the restructuring program implemented last year. According to plan, tools, spare parts and service continue to increase their share of sales.

**Sandvik Specialty Steels'** invoiced sales amounted to SEK 10,188 M (8,629). The increase at fixed exchange rates for comparable units was 16%, of which 8% is attributable to higher alloy surcharges. The positive trend in demand continued and order intake was SEK 11,039 M, or 25% higher than in the preceding year. Sales were strong for consumer-related, service- and maintenance-oriented products, as well as for products to the electronics industry. Demand in such investment-related customer segments as the oil and gas and process industries, which was previously very weak, increased in the third quarter.

Total operating profit amounted to SEK 674 M (393), 7% (5) of invoiced sales. Changes in nickel prices affected inventory valuation favorably, by approximately SEK 100 M. In the third quarter, operating

profit was SEK 86 M (105), which was 3% (4) of invoiced sales. Earnings were charged with nonrecurring expenses amounting to SEK 210 M, which were allocated to provisions for future restructuring measures in Sandvik Steel.

A large program of change is under way to raise the level of earnings and secure a sustainable, satisfactory return. The program includes measures to enhance efficiency and adjust production capacity. This means that shut down of some production and a reduction in personnel will occur. The changes affect operations both within and outside Sweden and will be implemented during the next 12-18 months. The measures will result in a reduction of personnel by about 600-700 and are expected at full implementation to yield an annual earnings improvement in the range of SEK 200 M.

### **Capital expenditures**

Group investments in property, plant and equipment amounted to SEK 1,379 M (1,375). Acquisition of companies amounted to SEK 398 M.

### **Financing and liquidity**

Interest-bearing liabilities and provisions less liquid funds yielded net debt of SEK 6,645 M (6,014 at 31 December 1999). Liquid funds amounted to SEK 2,588 M (2,369) and loans totaled SEK 6,646 M (5,611). Cash flow from operating activities amounted to SEK 3,412 M. After capital expenditures, cash flow was SEK 1,549 M.

The number of shares at 30 September 2000 was 258,696,000. Shareholders' equity per share was SEK 82.60 (77.70 at 31 December 1999) and the equity/assets ratio 51% (52). The net debt/equity ratio was 0.3 (0.3). The Annual General Meeting held on 4 May 2000 voted to change the Articles of Association to permit only one class of share.

### **Personnel**

The number of employees in the Group at 30 September 2000 was 34,090 (33,870 at 31 December 1999), corresponding to a slight decline for comparable units since year-end 1999.

### **New, higher growth objectives**

In August, new, higher growth objectives were presented for the period 2000-2003. Organic sales growth shall amount to 6% annually on average compared with the previous goal of 4%. In addition, there is the volume growth from acquisitions. Prioritized growth markets are Asia, NAFTA and Eastern Europe. Return on net assets shall amount to 20% per year. The goal of a high dividend share of at least 50% of earnings per share is retained and has been complemented with a goal of a net debt/equity ratio that shall increase from 0.3 to the interval 0.6–0.8 not later than year-end 2003. A program covering the buyback of own shares will be proposed to the Annual General Meeting 2001.

**Market outlook**

A continued favorable trend is foreseen for Sandvik in the near future based on the Group's global presence and focus on different customer and product areas with varying demand patterns. Through strong investments in the sales and marketing organization, the Group is well-positioned to capture additional market shares.

Sandviken, 2 November 2000

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 of 2000 is unaudited. The next financial report will be released on 16 February 2001 for full-year 2000.

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

A combined presentation and telephone conference will be held at Operaterrassen in Stockholm on 2 November at 10.00 a.m. For additional information, refer to [www.sandvik.com/Investor Relations](http://www.sandvik.com/Investor Relations).

**Consolidated Financial Information, SEK M**

	Q1-3 1999	Full-year 1999	Q1-3 2000
<b>Income statement</b>			
Invoiced sales	29 270	39 300	<b>31 810</b>
Cost of goods sold	-19 870	-26 297	<b>-21 386</b>
Gross profit	9 400	13 003	<b>10 424</b>
Selling and administrative expenses	-6 248	-8 485	<b>-6 442</b>
Other operating income and expenses	-47	-93	<b>133</b>
Items affecting comparability	1 600	1 625	<b>660</b>
Operating income	4 705	6 050	<b>4 775</b>
Financial income and expenses, net	-470	-585	<b>-390</b>
Profit after financial items	4 235	5 465	<b>4 385</b>
Taxes	-1 211	-1 688	<b>-1 503</b>
Minority interests	-104	-157	<b>-160</b>
Net profit	2 920	3 620	<b>2 722</b>
<b>Balance sheet</b>			
Fixed assets	18 231	18 318	<b>18 871</b>
Inventories	9 563	10 040	<b>11 183</b>
Current receivables	9 591	9 469	<b>10 933</b>
Liquid assets	3 698	2 369	<b>2 588</b>
Total assets	41 083	40 196	<b>43 575</b>
Shareholders' equity	19 259	20 109	<b>21 372</b>
Minority interests	829	888	<b>902</b>
Interest-bearing provisions and liabilities	9 866	8 382	<b>9 233</b>
Non-interest-bearing provisions and liabilities	11 129	10 817	<b>12 068</b>
Total provisions, liabilities and shareholders' equity	41 083	40 196	<b>43 575</b>
<b>Cash-flow statement</b>			
Profit after financial items	4 235	5 465	<b>4 385</b>
Items not affecting cash flow	-1 782	-1 892	<b>-735</b>
Reversal of depreciation	1 674	2 273	<b>1 696</b>
Taxes paid	-1 387	-1 524	<b>-1 204</b>
Change in working capital	-470	-928	<b>-730</b>
Cash flow from operating activities	2 270	3 394	<b>3 412</b>
Investments, acquisitions and divestments	1 706	1 316	<b>-1 863</b>
Cash used in financial activities, changes in loans, dividends	-2 048	-4 133	<b>-1 392</b>
Net cash flow	1 928	577	<b>157</b>
<b>Key figures</b>			
Order intake, SEK M	29 700	39 650	<b>33 630</b>
Earnings per share excl. items affecting comparability, SEK*	8.05	9.00	<b>11.10</b>
Earnings per share incl. items affecting comparability, SEK*	13.05	14.00	<b>13.20</b>
Return on net assets excl. items affecting comparability*	14.2%	15.1%	<b>18.0%</b>
Return on shareholders' equity excl. items affecting comp.*	11.3%	12.4%	<b>14.1%</b>
Net debt/equity ratio	0.3	0.3	<b>0.3</b>

\* Rolling 12 months

**Invoiced sales by market area,  
SEK M**

	Q3	Q1-3	Q4	Full-year	Q1	Q2	Q3	Q1-3	Change	
	1999	1999	1999	1999	2000	2000	2000	2000	%	% <sup>1)</sup>
EU (excl. Sweden)	3 387	11 551	3 720	15 271	3 825	3 951	3 527	<b>11 303</b>	-2	10
Sweden	461	1 652	597	2 249	623	616	502	<b>1 741</b>	5	17
Rest of Europe	500	1 647	499	2 146	628	639	643	<b>1 910</b>	16	12
Europe total	4 348	14 850	4 816	19 666	5 076	5 206	4 672	<b>14 954</b>	1	11
NAFTA	2 493	7 511	2 441	9 952	2 722	2 817	2 760	<b>8 299</b>	10	7
South America	421	1 182	366	1 548	419	490	491	<b>1 400</b>	18	21
Africa, Middle East	406	1 169	437	1 606	391	420	550	<b>1 361</b>	16	27
Asia, Australia	1 612	4 558	1 970	6 528	1 712	2 107	1 977	<b>5 796</b>	27	20
Group total	9 280	29 270	10 030	39 300	10 320	11 040	10 450	<b>31 810</b>	9	12

**Invoiced sales by business area,  
SEK M**

Svk Tooling	3 075	9 784	3 393	13 177	3 818	3 832	3 653	<b>11 303</b>	16	9
Svk Mining and Construction	2 229	6 565	2 243	8 808	2 248	2 666	2 602	<b>7 516</b>	14	12
Svk Specialty Steels	2 618	8 629	3 342	11 971	3 319	3 583	3 286	<b>10 188</b>	18	16
Svk Saws and Tools	647	1 982	171	2 153	/	/	/	/	/	/
Seco Tools <sup>2)</sup>	708	2 293	835	3 128	916	946	895	<b>2 757</b>	20	11
Group activities	3	17	46	63	19	13	14	<b>46</b>	/	/
Group total	9 280	29 270	10 030	39 300	10 320	11 040	10 450	<b>31 810</b>	9	12

**Operating profit by business area,  
SEK M**

Svk Tooling	634	1 913	684	2 597	800	770	735	<b>2 305</b>
Svk Mining and Construction	168	461	213	674	209	287	286	<b>782</b>
Svk Specialty Steels	105	393	240	633	267	321	86	<b>674</b>
Svk Saws and Tools	42	144	9	153	/	/	/	/
Seco Tools <sup>2)</sup>	94	377	195	572	197	190	156	<b>543</b>
Group activities	-39	-183	-21	-204	-78	-73	-38	<b>-189</b>
Op. profit excl. items affecting comparability	1 004	3 105	1 320	4 425	1 395	1 495	1 225	<b>4 115</b>
Items affecting comparability	1 600	1 600	25	1 625	300	360	0	<b>660</b>
Op. profit incl. items affecting comparability	2 604	4 705	1 345	6 050	1 695	1 855	1 225	<b>4 775</b>

**Operating profit by business area,  
% of invoicing**

Svk Tooling	21	20	20	20	21	20	20	<b>20</b>
Svk Mining and Construction	8	7	9	8	9	11	11	<b>10</b>
Svk Specialty Steels	4	5	7	5	8	9	3	<b>7</b>
Svk Saws and Tools	6	7	5	7	/	/	/	/
Seco Tools <sup>2)</sup>	13	16	23	18	22	20	17	<b>20</b>
Op. profit excl. items affecting comparability	11	11	13	11	14	14	12	<b>13</b>
Op. profit incl. items affecting comparability	28	16	13	15	16	17	12	<b>15</b>

<sup>1)</sup> Change compared with year earlier at fixed exchange rates for comparable units.

<sup>2)</sup> As a result of the majority holding in Seco Tools, Sandvik consolidates this company. For comments, refer to the company's interim report for the nine months ended 30 September 2000.