

SANDVIK AB Interim Report, Second quarter 2001

- ÷ *Continued high order intake and invoicing*
- ÷ *Record earnings: SEK 1,635 M after net financial items, up 18% excluding items affecting comparability*
- ÷ *Improved earnings for all business areas*
- ÷ *Buyback of 2,316,000 shares*

Key figures SEK M	Q2 2001	Q2 2000	Change %	Q1-2 2001	Q1-2 2000	Change %
Order intake	12 980	11 230	+16 ¹⁾	25 550	22 730	+12 ¹⁾
Invoiced sales	12 440	11 040	+13 ²⁾	24 490	21 360	+15 ²⁾
Operating profit excl. items affecting comparability ³⁾	1 760	1 495	+18	3 400	2 890	+18
%	14	14		14	14	
Operating profit	1 760	1 855	-5	3 400	3 550	-4
%	14	17		14	17	
Profit after financial items excl. items affecting comparability ³⁾	1 635	1 390	+18	3 160	2 650	+19
%	13	13		13	12	
Profit after financial items	1 635	1 750	-7	3 160	3 310	-5
%	13	16		13	15	
Net profit	982	1 058	-7	1 883	2 096	-10
%	8	10		8	10	
Earnings per share ⁴⁾ , SEK	-	-		13.50	10.70	
Return on capital employed ⁴⁾ , %	-	-		18.7	17.2	

- 1) 5 % and 3 % at fixed exchange rates for comparable units.
- 2) 2 % and 6 % 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*

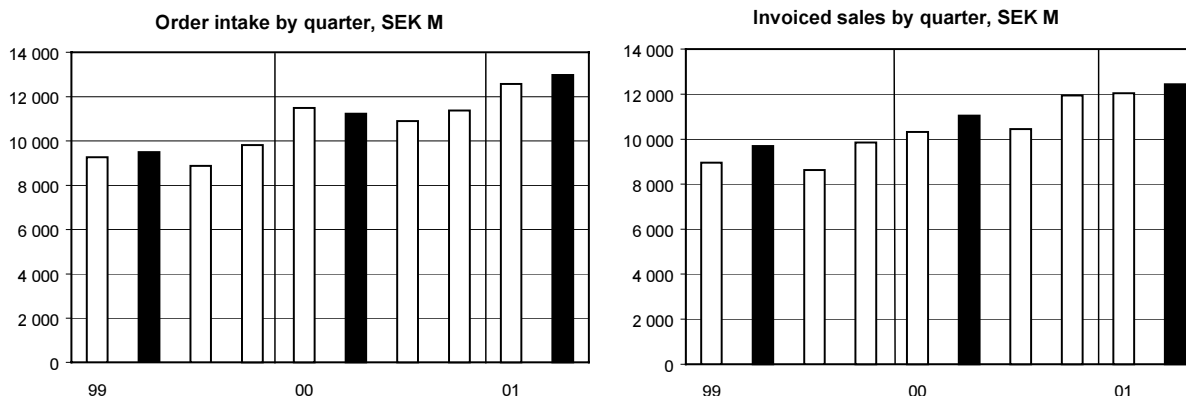
The current economic slowdown is expected to result in a slight continued weakening in demand. However, the trend for Sandvik's different product areas varies. It is anticipated that sales of products to the automotive and consumer-related areas will continue to be low, while demand in investment-related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

* *Previous short-term market outlook (published 7 May 2001)*

The uncertainty over the future business climate has increased successively. The decline within the NAFTA region has not had any noticeable impact on the demand for Sandvik products in the other market areas. However, there may be a weakening of demand over the near term in a number of customer segments that are important for Sandvik.

Second quarter, 2001

Sales (see appendix 2)



Order intake in the second quarter amounted to SEK 12,980 M (11,230), corresponding to a total increase of 16% and of 5% at fixed exchange rates for comparable units. The volume was unchanged from the preceding quarter.

Invoiced sales amounted to SEK 12,440 M (11,040), a total increase of 13% and of 2% at fixed exchange rates for comparable units. Higher exchange rates affected invoicing favorably during the quarter by 11%.

Development by market area, second quarter, 2001

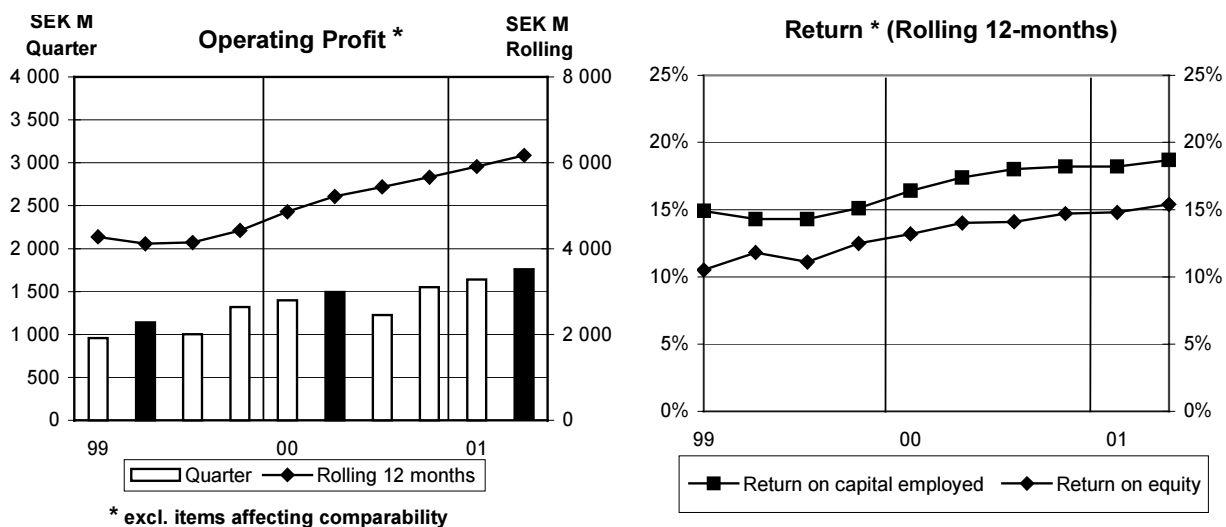
Market area	Invoiced sales SEK M	Share %	Change* %
EU	5 047	41	+3
Rest of Europe	899	7	+29
Europe total	5 946	48	+5
NAFTA	2 969	24	-8
South America	526	4	-5
Africa/Middle East	616	5	+38
Asia/Australia	2 383	19	+4
Total	12 440	100	+2

* at fixed exchange rates for comparable units.

Invoiced sales remained high, varying among market areas, however. Sales increased in Europe, up 5%, which accounts for nearly 50% of the Group's total invoicing, as well as in Africa/Middle East and Asia/Australia. Invoiced sales in the NAFTA region fell 8% compared with the year-earlier period.

The trend of demand in the various customer segments was largely the same as in the preceding quarter. Demand in the general engineering industry continued to be relatively good, and the trend for investment-related products to e.g. the oil and gas industry remained favorable. Among other segments, sales to the automotive and electronics industries weakened further. Activity in the mining industry continued to be high despite lower metal prices, while demand from the construction industry was lower.

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



Operating profit in the second quarter reached the highest value ever, excluding items affecting comparability, amounting to SEK 1,760 M (1,495), 14% of invoiced sales. Compared with the year-earlier period, the increase in earnings was 18% and was favorably affected by higher sales volumes and good capacity utilization. In addition, changes in currency exchange rates had a positive affect of approximately SEK 200 M on earnings. All business areas posted improved earnings.

Net financial expense was SEK 125 M (expense: 105). Profit after net financial items rose 18% to SEK 1,635 M, 13% of invoiced sales. Net profit was SEK 982 M (1,058). Earnings per share, excluding items affecting comparability, were SEK 3.80 in the quarter (3.00) and SEK 13.50 for the past 12 months.

Cash flow from operating activities amounted to SEK 726 M, a decline of SEK 23 M compared with a year earlier. Working capital increased, attributable mainly to higher inventories in areas with favorable order intake and capacity utilization, while inventory volumes declined within Sandvik Specialty Steels. Investments in property, plant and equipment in the quarter amounted to SEK 622 M and acquisitions to SEK 62 M.

Interest-bearing liabilities and provisions reduced by liquid assets produced a net debt of SEK 9,552 M (6,500 at 31 March 2001). The change from the preceding quarter was due mainly to dividends paid and the repurchase of shares. Liquid assets amounted to SEK 1,916 M (1,946) and loans amounted to SEK 8,183 M (5,356).

The return on capital employed excluding items affecting comparability during the past 12 months amounted to 18.7% (18.2% for the entire 2000) and the return on equity amounted to 15.4% (14.7). The number of shares outstanding was 256,380,000 after the buyback of 2,316,000 shares during the second quarter. Equity per share was SEK 91.30 (89.00), and the equity ratio was 50% (55). The net debt/equity ratio was 0.4 (0.3).

The number of employees was 34,869 at the end of the period, a decline of 96 persons for comparable units during the quarter. Within Sandvik Tooling and Sandvik Mining and Construction the number of employees in the sales organization increased, while the number of employees at Sandvik Specialty Steels declined.

Key figures	Q1-2 2001	Q1-2 2000
No. of shares at end of period (000s)	256 380	258 696
Earnings per share before items affecting comparability, SEK*	13.50	10.70
after full dilution **	13.30	10.50
Earnings per share after items affecting comparability, SEK*	13.50	17.80
after full dilution **	13.30	17.40
Return on capital employed before items affecting comparability *	18.7	17.2
Return on shareholders' equity before items affecting comparability *	15.4	13.9
Net debt/equity ratio	0.4	0.3

* Most recent 12 months divided by average number of outstanding shares, 258,233,000, as per 30 June 2001.

** Average no. of shares after full dilution of outstanding convertible and warrants programs amounts to 263,154,000, as per 30 June 2001.

Business areas (see appendix 2) – Second quarter, 2001

Sandvik's operations consist of three core businesses: 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 in its selected areas.

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

SEK M	Q2 2001	Q2 2000	Change %		Q1-2 2001	Q1-2 2000	Change %	
Order intake	4 253	3 895	±0	*	8 678	7 952	+2	*
Invoiced sales	4 296	3 832	+3	*	8 554	7 650	+6	*
Operating profit	892	770	+16		1 770	1 570	+13	
%	21	20			21	21		

* at fixed exchange rates for comparable units.

Sandvik Tooling's order intake amounted to SEK 4,253 M (3,895), which was an unchanged high level compared with a year earlier. Order intake rose for metalworking tools in cemented carbide, but declined for tools in high-speed steel and for cemented-carbide blanks. Activity remained favorable in the EU, Eastern Europe and in Asia, particularly China. Demand from the automotive industry was weak, while sales continued to be high to the engineering, aerospace, oil and gas, and die and mould industries.

Invoicing rose 3%, amounting to SEK 4,296 M (3,832). Development in the EU, Eastern Europe and in Asia/Australia remained favorable. Active investments in the market and sales organization and in new products and service concept have contributed strongly to the favorable trend. However, invoicing in NAFTA has declined due to the generally weakened business climate.

Operating profit rose 16% and amounted in the quarter to SEK 892 M (770) or 21% of invoiced sales. Good volume and productivity contributed together with a favorable currency to the positive earnings trend, offsetting higher costs for raw materials and for expansions in the marketing organization. The profitability of the high-speed steel operations in the US was unsatisfactory.

During the quarter, the majority interest in the production and sales of solid-carbide tools of the Brazilian company Hurth-Infer SA was acquired. The acquisition strengthens Sandvik Tooling's position in the rapidly growing solid-carbide tools segment and increases competitiveness within special tools, a segment in which the potential is particularly substantial.

Sandvik Mining and Construction

SEK M	Q2 2001	Q2 2000	Change %		Q1-2 2001	Q1-2 2000	Change %
Order intake	3 923	2 630	+35 *		7 094	5 352	+21 *
Invoiced sales	3 270	2 666	+8 *		6 254	4 914	+15 *
Operating profit	351	287	+22		666	496	+34
%	11	11			11	10	

* at fixed exchange rates for comparable units.

Sandvik Mining and Construction's order intake amounted to SEK 3,923 M (2,630), an increase of 35% at fixed exchange rates for comparable units. Order intake during the second quarter was the highest ever since the formation of the business area. Demand remained favorable in the mining industry, for excavation of base metals as well as coal. An order valued at about SEK 430 M was received during the quarter for the installation of a complete materials-handling system in Thailand.

Invoiced sales rose 8% at fixed exchange rates for comparable units, amounting to SEK 3,270 M (2,666). The increase remained strong in Africa and Asia/Australia and was favorable in the EU. The exception was the NAFTA region, where invoiced sales to the construction industry declined compared with a year earlier, although a stabilization was noted during the quarter.

Operating profit amounted to SEK 351 M (287), or 11% of invoiced sales – an increase of 22%. The improvement in earnings was primarily due to a strong volume trend and high capacity utilization.

During the quarter, the Chilean service company Bafco Minería y Servicios S.A. was acquired. The acquisition is in line with the business area's strategy to grow within the service area and it strengthens Sandvik's position as a leading partner to customers in the Chilean mining industry.

An agreement was reached during the quarter with Metso Corporation of Finland covering the acquisition of parts of Svedala Industri AB. Sandvik's takeover is conditional upon the completion of Metso's current offer to acquire Svedala Industri. The agreement covers products for the mining and construction industry – crushers, screens and feeders as well as mobile crushers and screening stations. The acquisition includes Svedala Industri's production units in Svedala and Arbrå, Sweden, and in Chauny, France. The products provide a natural complement to Sandvik Mining and Construction's operations and the acquisition means that customers will be offered a complete range including equipment for drilling, loading and conveying of rock and minerals as well as for crushing, screening and fragmentation.

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

SEK M	Q2 2001	Q2 2000	Change %	Q1-2 2001	Q1-2 2000	Change %
Order intake	3 696	3 737	-11 *	7 538	7 511	-8 *
Invoiced sales	3 763	3 583	-5 *	7 453	6 902	±0 *
Operating profit	341	321	+6	658	588	+12
%	9	9		9	9	

* at fixed exchange rates for comparable units.

Sandvik Specialty Steels' order intake amounted to SEK 3,696 M (3,737), a decline of 11% compared with a year earlier, at fixed exchange rates for comparable units. Demand remained weak in NAFTA and parts of Asia/Australia and declined now also in Europe. Sales to consumer-related customer segments such as the automotive and the electronics industries weakened further, while demand from the oil/gas- and energy industries continued to be favorable.

Invoiced sales amounted to SEK 3,763 M (3,583), a decline of 5% at fixed exchange rates for comparable units. Lower alloy surcharges accounted for about half of the decline. Invoicing was lower in largely all market areas.

Operating profit increased 6% in the quarter compared with a year earlier, amounting to SEK 341 M (321), or 9% of invoiced sales. The earnings improvement was due primarily to a positive currency trend as well as to a better product mix and higher productivity. Lower prices for the nickel content in inventories affected earnings adversely by SEK 60 M.

The program of change announced last year regarding Sandvik Steel includes rationalization of the production structure and sales organization in Europe. The program, which will take place during a three-year period, will result in a total reduction in the number of employees of 600–700. During the first half of 2001, the reduction amounted to 300 persons of which 150 in the second quarter. The entire program is proceeding according to plan.

First six months of 2001

Order intake during the first six months amounted to SEK 25,550 M (22,730), which was a total increase of 12% and 3% at fixed exchange rates for comparable units. Invoiced sales amounted to SEK 24,490 M (21,360), a total increase of 15% and 6% at fixed exchange rates for comparable units. Higher exchange rates affected invoicing favorably by 9%.

Operating profit excluding items affecting comparability for the first six months amounted to SEK 3,400 M (2,890). This is an increase of 18% and in absolute figures SEK 510 M. The operating margin amounted to 14% of invoicing. Changes in exchange rates affected invoicing favorably by about SEK 350 M.

Net financial expense was SEK 240 M (expense: 240) and profit after net financial items excl. items affecting comparability was SEK 3,160 M (2,650), up 19%. The tax rate was 36% and net profit amounted to SEK 1,883 M (2,096).

Cash flow from operating activities was SEK 1,695 M. Group investments in property, plant and equipment were SEK 1,184 M (823). Company acquisitions amounting to SEK 127 M were carried out. After investments, acquisitions and divestments, the cash flow was SEK 534 M.

The number of employees amounted to 34,869.

Parent company invoicing was SEK 6,530 M (6,157), operating profit SEK 986 M (711) and liquid assets plus interest-bearing assets less interest-bearing liabilities amounted to SEK 550 M (1,785 at 31 December 2000).

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 June 2001, Sandvik's holding of own shares (treasury stock) totaled 2,316,000, corresponding to 0.9% of the total number of shares (258,696,000). The purchase amount was about SEK 520 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 manufacturing of seamless tubes in the UK. The closing, scheduled for August 2001, will affect a total of approximately 250 employees and is part of a program of change announced earlier within Sandvik Steel.
- ÷ In the middle of January 2001, Sandvik became a joint owner of Endorsia.com International AB, an e-business site for industrial products and services in Europe.
- ÷ A decision was made in February to invest about SEK 40 M in an expansion of Sandvik Hard Materials cemented-carbide plant in Mexico City. The investment will result in increased production capacity in several rapidly growing product areas in the automotive, aerospace and die and mould industries.
- ÷ In February, it was decided to close the unit for down-the-hole drilling tools in Mexico with about 60 employees and transfer operation to Sandvik Tamrock Tool's rock-drilling plant in Sandviken, Sweden, which already produces the corresponding tools.

- ÷ At the end of February, Sandvik CTT entered into an agreement with the British company Angus MacInnes & Co., Glasgow, to take over sales and marketing of Prototyp products in the UK.
- ÷ At the beginning of 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 284,530 shares in Sandvik Asia Ltd at the price of SEK 55 M. The ownership interest thereafter is 89%.
- ÷ In mid-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 the beginning of 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.
- ÷ Sandvik Mining and Construction reached an agreement in June with Metso Corporation of Finland covering acquisition of parts of Svedala Industri AB. For competition reasons, Metso's current purchase offer for Svedala Industri requires that certain segments of the company's operations must be divested. Sandvik's takeover is conditional upon the completion of Metso's offer and approval by the requisite authorities, which is expected in the near future. The operations have annual sales of about SEK 1,400 M, with some 900 employees.

Sandviken, 8 August 2001

SANDVIK AB; (publ)

Clas Åke Hedström
President and CEO

Appendices:

- 1) Group summary
- 1) Invoicing and operating profit

The interim report for the second quarter has not been audited by the Company's auditors. The nine-month interim report will be published on 9 November 2001.

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 8 August at 2:00 p.m. For further information visit www.sandvik.com

Consolidated Financial Information, SEK M

	Q2	Q2	Q1-2	Q1-2
Income statement	2001	2000	2001	2000
Invoiced sales	12 440	11 040	24 490	21 360
Cost of goods sold	-8 552	-7 441	-16 492	-14 155
Gross profit	3 888	3 599	7 998	7 205
Selling, general and administrative expenses	-2 254	-2 175	- 4 585	-4 372
Other operating income and expenses	+126	71	-13	57
Items affecting comparability	0	360	0	660
Operating profit	1 760	1 855	3 400	3 550
Financial income and expenses, net	-125	-105	-240	-240
Profit after financial items	1 635	1 750	3 160	3 310
Taxes	-593	-632	-1 151	-1 098
Minority interests	-60	-60	-126	-116
Net profit	982	1 058	1 883	2 096
Balance sheet				
Fixed assets			21 604	18 251
Inventories			13 075	10 682
Current receivables			12 385	11 314
Liquid assets			1 916	1 858
Total assets			48 980	42 105
Shareholders' equity			23 402	20 600
Minority interests			883	820
Interest-bearing provisions and liabilities			11 469	10 022
Non-interest-bearing provisions and liabilities			13 226	10 663
Total provisions, liabilities and shareholders' equity			48 980	42 105
Cash-flow statement				
Profit after financial items	1 635	1 750	3 160	3 310
Items not affecting cash flow	-738	-334	-541	-472
Reversal of depreciation	611	555	1 192	1 111
Taxes paid	-421	-478	-955	-1 005
Change in working capital	-361	-744	-1 161	-1 484
Cash flow from operating activities	726	749	1 695	1 460
Investments, acquisitions and divestments	-573	-544	- 1 161	-1 368
Cash used in financial activities, changes in loans, dividends	-230	-564	-825	-605
Net cash flow	-77	-359	-291	-513
Liquid funds at beginning of period	1 946	2 209	2 097	2 369
Exchange-rate differences in liquid funds	47	8	110	2
Liquid funds at end of period	1 916	1 858	1 916	1 858
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			1 348	-51
Dividend to shareholders			-2 328	-2 070
Buyback of own shares			-520	0
Result of the period			1 883	2 096
Closing balance			23 402	20 600

Invoiced sales by market area, SEK M	Q1	Q2	Q3	Q4	Full- year	Q1	Q2	Q1-2	Change	
	2000	2000	2000	2000	2000	2001	2001	2001	%	% ¹⁾
EU (excl. Sweden)	3 825	3 951	3 527	4 256	15 559	4 551	4 464	9 015	16	7
Sweden	623	616	502	634	2 375	586	583	1 169	-6	-2
Rest of Europe	628	639	643	713	2 623	853	899	1 752	38	30
Europe total	5 076	5 206	4 672	5 603	20 557	5 990	5 946	11 936	16	8
NAFTA	2 722	2 817	2 760	2 974	11 273	2 960	2 969	5 929	7	-4
South America	419	490	491	488	1 888	451	526	977	7	-2
Africa/Middle East	391	420	550	560	1 921	611	616	1 227	51	48
Asia/Australia	1 712	2 107	1 977	2 315	8 111	2 038	2 383	4 421	16	8
Group total	10 320	11 040	10 450	11 940	43 750	12 050	12 440	24 490	15	6
Invoiced sales by business area, SEK M										
Svk Tooling	3 818	3 832	3 653	4 204	15 507	4 258	4 296	8 554	12	6
Svk Mining and Construction	2 248	2 666	2 602	2 668	10 184	2 984	3 270	6 254	27	15
Svk Specialty Steels	3 319	3 583	3 286	4 021	14 209	3 690	3 763	7 453	8	0
Seco Tools ²⁾	916	946	895	1 028	3 785	1 103	1 092	2 195	18	7
Group activities	19	13	14	19	65	15	19	34	/	/
Group total	10 320	11 040	10 450	11 940	43 750	12 050	12 440	24 490	15	6
Operating profit by business area, SEK M										
Svk Tooling	800	770	735	830	3 135	878	892	1 770		
Svk Mining and Construction	209	287	286	291	1 073	315	351	666		
Svk Specialty Steels	267	321	86	306	980	317	341	658		
Seco Tools ²⁾	197	190	156	197	740	240	220	460		
Group activities	-78	-73	-38	-72	-261	-110	-44	-154		
Operating profit excl. items affecting comparability	1 395	1 495	1 225	1 552	5 667	1 640	1 760	3 400		
Items affecting comparability	300	360	0	0	660	0	0	0		
Operating profit incl. items affecting comparability	1 695	1 855	1 225	1 552	6 327	1 640	1 760	3 400		
Operating profit by business area, % of invoicing										
Svk Tooling	21	20	20	20	20	21	21	21		
Svk Mining and Construction	9	11	11	11	11	11	11	11		
Svk Specialty Steels	8	9	3	8	7	9	9	9		
Seco Tools ²⁾	22	20	17	19	20	22	20	21		
Operating profit excl. items affecting comparability	14	14	12	13	13	14	14	14		
Operating profit incl. items affecting comparability	16	17	12	13	14	14	14	14		

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.