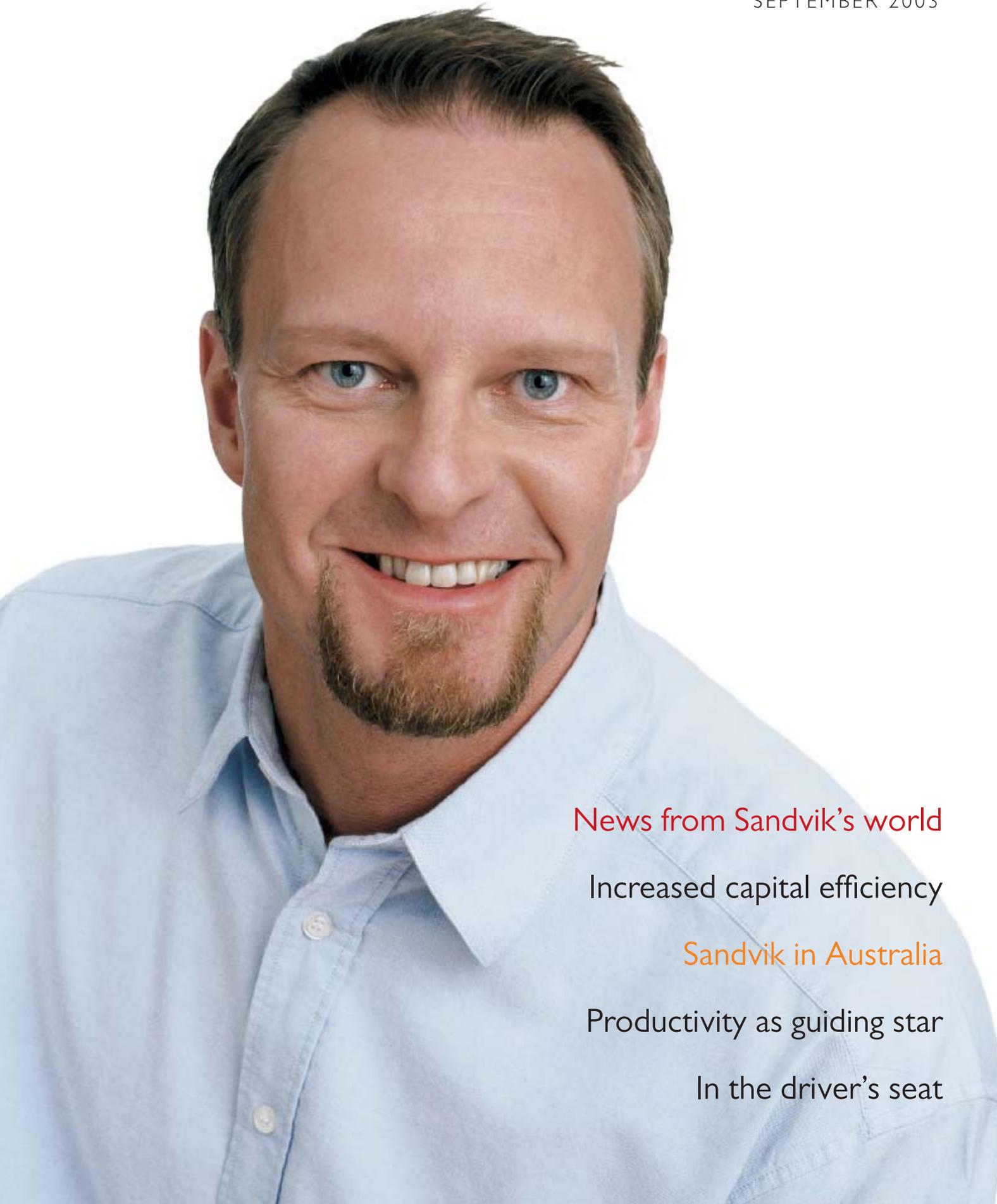


MeetSandvik

SEPTEMBER 2003



News from Sandvik's world

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Sandvik in Australia

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Current faces



New Group Human Resources director

Effective 1 October, Carina Malmgren Heander, 44, is the new Vice President Human Resources and a member of Group Executive Management. Most recently Carina Malmgren Heander, MBA, served as Vice President Human Resources within ABB AB. Carina has extensive experience of various executive positions at ABB. She succeeds Rune Nyberg, who has left the Group.



New head of Sandvik Mining and Construction

Lars Josefsson has been appointed President of the Sandvik Mining and Construction business area and a member of Group Executive Management, effective 1 January 2004. Lars Josefsson, 50, with a M.Sc. Eng. degree, is currently President of the power generation company ALSTOM Sweden, with 3,000 employees and annual sales of SEK 7,000 M. He succeeds Anders Ilstam, who has been appointed Executive Vice President in Sandvik AB, as of 1 January 2004.

Cover profile:

Jonas Renström, Sandvik Materials Technology, Sandviken, Sweden. Jonas, 37, has worked at Sandvik nearly half of his life! Eighteen years after starting in Sandviken, he is now a coach and personnel manager for some 30 employees within the Tube product area in Sandviken, where he served previously as production manager. A key element in his work as coach is to contribute to strengthening employee commitment and to increase their possibilities to affect their work assignments. "I believe strongly in this new work method. There are many good ideas and smart viewpoints that I want to bring to the forefront. The potential for improvement is great," says Jonas. Travel is a leading leisure interest. One of the favorite destinations is Asia, where he has visited a large number of countries.



With the world as a workplace

Nine so-called cosmopolitans, with solid university education and good language qualifications, are soon ready to be sent abroad to assume exciting duties within Sandvik around the world. In cooperation with the subsidiaries, the assignment is to enhance the efficiency of operations through IT-support. The chain, from order to delivery, within the Sandvik Tooling business area is in particular focus. The cosmopolitans will work for three to six months per assignment, but may have several projects under way at the same time. After a period of training and foreign service orientation during the autumn, they will be ready for departure on their great adventure in the beginning of 2004. The interest in the jobs was record high. One thousand applications were submitted for the nine positions.



Meet Sandvik

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Address: Sandvik AB,
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info.group@sandvik.com

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Continued profitable growth

Combined, the weak business climate and the appreciation of the Swedish krona resulted in a strain on Sandvik's margins. At the same time, however, the Group was largely able to maintain earnings levels through rationalization measures, cost savings and increased market shares. It is also pleasing that all business areas, despite the market situation, reported organic growth in recent quarters.

Bearing in mind the continued weak business climate, the development for Sandvik during the second quarter of 2003 was satisfactory. However, the overall business climate is still uncertain and we must continue our internal improvement measures to increase productivity and reduce costs.

Operating profit declined compared with the year-earlier period due to both currency effects and to lower volumes and capacity utilization within parts of the Group, among other factors.

It is now necessary that we move forward with our efforts. We need to continue to increase our market shares by creating value for our customers based on competitive solutions in the form of products and services. This has been and remains a successful concept for Sandvik ever since its founding more than 140 years ago.

The following are some of the Group's most important strength factors for increased growth:

- Global and local presence
- Broad customer base
- Strong product portfolio
- Substantial R&D resources
- Acquisition opportunities

Opportunities for a continued increased profitability are based on:

- Increased productivity
- Reduced capital employed
- Developed synergies within the Group
- Simplified infrastructure
- Developed governance of the global organization
- Increased market shares

This combination of internal improvement measures and aggressive market activities means that Sandvik has all the prerequisites to further increase its competitiveness. It is of major importance that, as a first step, we complete all current and planned activities during the second half of 2003 in order to prepare the ground for a continued positive development.

Our focus on increased capital efficiency is a relatively new goal in itself and an important factor to achieve our return objectives. Work has been initiated positively and the process is continuing within all the business areas in all companies. Increased capital efficiency strengthens Sandvik's cash flow, supports our growth through shorter lead times and results in sustained cost reductions.

Sandvik's sales have doubled during the past ten years through organic growth as well as acquisitions. Our collective strength factors provide the conditions necessary for continued rapid growth. My optimism is founded particularly on the abilities, motivation and initiative of all our skilled employees.

Lars Pettersson
President and CEO

Second quarter 2003

ORDER INTAKE:

SEK 12,410 M + 2% *

INVOICING:

SEK 12,330 M + 4% *

PROFIT AFTER

NET FINANCIAL ITEMS:

SEK 1,191 M - 18%

NO. OF EMPLOYEES,

30 JUNE 2003:

37,305

** Change in percent compared with corresponding quarter in 2002 at fixed exchange rates for comparable units.*



News from Sandvik's world

Underground mining in South Africa reaches new heights

The mining of platinum and palladium is increasing in South Africa. These precious metals are utilized in such products as catalytic converters for automobiles and in jewelry, and demand is rising sharply. Sandvik Mining and Construction offers a winning combination of products in this noble competition: Tamrock's Axera drilling rigs and the Toro and EJC loaders – all in low-profile models and tailor made for the tight spaces and low mining shafts. Another trump card for Sandvik is, of course, its focus on service, tools and spare parts, which has resulted in a five-year maintenance contract.



New plant in India

In June, Sandvik Mining and Construction inaugurated a new plant for the assembly of crushers, feeders and screens in India. The facility, which is located in Sandvik's industrial area in Pune, improves the Group's service to its customers in the Indian mining and civil-engineering industries. There are favorable opportunities for expansion here, not only for the long term but also for the immediate future.



Huge highway project in Brazil

An impressive highway is being built around the Brazilian city of São Paulo, a metropolis with some 18 million inhabitants. The project involves the construction of a 170-kilometer expressway around the city. The hope is that the new road will improve the traffic situation and the environment. And the need is enormous. Traffic can only be described as chaotic. Each day, 100,000 trucks travel in and out of the city. In addition there are five million registered automobiles in São Paulo, which create air pollution and traffic jams. The highway construction project also includes tunnels, work involving Sandvik Mining and Construction. The advanced Tamrock rigs are efficiently drilling their way through the Brazilian bedrock, meter by meter.

Productivity in focus

Another Productivity Center has been inaugurated within Sandvik Coromant – in Düsseldorf, Germany, to be precise. This is the 20th facility worldwide for customer and personnel training in tooling and systems solutions for increased productivity.



Increased capital efficiency in practice

The theme of Sandvik's capital markets day in Sandviken on 14 August was "Increased Capital Efficiency." The more than 70 participants from the international financial market and media were first given a general review of the current situation and priorities of both the Group as a whole and the three business areas. This was followed by progress reports from ongoing efficiency enhancement projects, for example reductions in production lead times and in the number of items held in inventory.

The results of the work are not only being felt internally, in the form of more rational production, less administration and more effective purchasing, but also in improved delivery times and precision, which means that customer service is increasing. As a result, increased capital efficiency – normally a somewhat theoretical concept – was shown to be one of the driving forces behind Sandvik's continued profitable growth.

One example of what increased capital efficiency means in practice was presented by the Sandvik Mining and Construction business area and related to the down-the-hole drill bits production line within Sandvik Tamrock in Sandviken. The cemented-carbide-tipped rock-drilling tools manufactured there are used for example in water and oil drilling operations. As a result of investing in the latest production technology, it has been possible to cut production lead times, or throughput times, from 20 to five days. Today, fewer employees are producing considerably more than before. And not only that, they enjoy significantly more attractive and qualified duties than previously, and their work environment has improved.

Reduced lead times is also a prioritized work in the Sandvik Materials Technology business area. For example, in the preparation of billets in the Tube product area in Sandviken, production

lead times have been radically reduced thanks to a new work method. The solution resulted from identifying production bottlenecks and optimizing capacity utilization in those areas. The result: production lead times have been cut from 20 to 11 days. And that's not the end of it. The goal for year-end 2003 is to be down to eight days, and by the end of 2005 five days. And all of this, it should be remembered, is being achieved without any new investments.

These examples illustrate very clearly what can be accomplished. Increased capital efficiency has thus been given a new face: Sandvik has to work even smarter! A major driving force among employees, and one that creates the conditions for achieving continued successes in the future. Throughout the Group. And all over the world.





Sandvik in Australia:

An entire contine

Join us for a whirlwind tour of Australia – the land down under. With its mineral wealth and industrial strength, Australia is one of the Sandvik Group’s most important markets – the fourth largest in terms of sales, which exceed SEK 3 billion annually.

Sandvik has a long tradition in Australia. The first Sandvik products were sold here as early as in the late 1920s, initially through agents but as of 1961, through the subsidiary Sandvik Australia. Over the years, the Group has established a strong position here and today enjoys the best possible conditions for further strengthening its positions in this important market – an entire continent of opportunities.

All three of Sandvik’s business areas are represented in Australia, with technically advanced plants, rational distribution units, wide-reaching market organization and experienced personnel. There are a total of about 1,400 Sandvik employees in the country, close to customers.

Towards the end of the 19th century, the great gold rush reached **Kalgoorlie** in the middle of the western Australian desert and today gold extraction still is making its mark on the town. Current methods are of course entirely different. Today, mining is conducted using advanced machinery and equipment from Sandvik Mining and Construction, both above ground and below. Sandvik maintains a service workshop in Kalgoorlie and a warehouse for drilling steel, tools and spare parts, providing rapid and efficient assistance to mining customers in the area.

In the port city of **Perth**, we find the familiar Sandvik brands Beltreco, Prok and Voest-Alpine, which make components for conveyor facilities in the mining industry.

The area surrounding **Newcastle** is a major center for coal extraction. Coal is an important export product and the port in Newcastle has a large facility to store and handle the coal, which includes an impressive stacker/reclaimer from Sandvik’s Voest-Alpine.

Sandvik maintains several units focused on the coal industry, strategically situated in the Newcastle area. These include a plant for the development, manufacture and servicing of loaders and other machines. In another unit, situated nearby, cemented-carbide tools and components are manufactured for customers including the mining industry.

Sydney, with its famous landmarks, the Harbor Bridge and the Opera House, is the largest city in the country. Sydney is also an important industrial center and Sandvik has its Australian headquarters and a major production unit here in the suburb of Smithfield.

In Smithfield, Sandvik Materials Technology maintains an advanced facility for plasma cutting of stainless steel plate and a well-stocked warehouse for Australian steel customers. These include several of the foremost wine producers. Wines are no longer stored only in oak barrels – today, stainless steel tanks represent an excellent alternative.

Australia is one of the world’s ten largest producers of cars. Ford, GM, Mitsubishi and



1. Machinery and equipment from Sandvik is used in gold mining in Kalgoorlie.
2. Newcastle is an important center for mining of hard coal.
3. Sandvik Material Technology's plant in Smithfield.

nt of opportunities

Toyota all conduct manufacture locally and represent an important customer group for Sandvik Tooling. The dependency is mutual. When developing its latest model, Ford entered a special partnership with Sandvik Coromant.

Sandvik's facilities in **Melbourne** house several different operations. These include Sandvik Coromant's sales office, a development department and a special workshop for the production of metalworking tools that serves the local automotive industry as well as other industries in Australia, New Zealand and Southeast Asia.

At the same premises, Kanthal has a service workshop for the production and maintenance of components used by aluminum smelting plants in the area as well as other customers.

The operations of Sandvik Mining and Construction, which are managed from **Brisbane**, are responsible for 90 percent of Sandvik's invoicing in Australia, one of the business area's largest single markets.



A special workshop for production of metalworking tools is located in Melbourne.

With productivity as



Increased growth thanks to Sandvik

Sandvik Materials Technology has recently received a major order for heat exchangers made of Sandvik Safurex® for the world's largest chemical fertilizer plant in Iran. The production of urea is based on ammonia and carbon dioxide, which under high pressure and heating to 200°C form urea carbamate. This is purified, forming grains that can be used as fertilizer for gardens and in agriculture. Sandvik's materials are far superior to other types of steel in these applications due to such properties as corrosion resistance, durability and safety. They also offer greater strength, meaning that the thickness of the steel required in tubes and vessels is less. This means lighter components, resulting in a total solution for customers that is more productive – or quite simply more fertile.



Thirsty pipes

Are you among those who like to quench their thirst with a cold beer? In that case, we suggest you spare a thought for Sandvik the next time you order a pint. Why? Well, Sandvik's high-quality tubes are just what the brewery industry demands. The tubes offer characteristics that make them perfect in beer brewing – particularly their high level of cleanliness and extreme reliability. Sandvik's tubes quite simply never lose their thirst for beer.



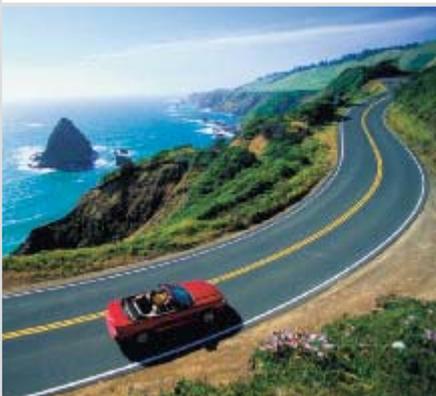
Positive signals for Commando

Tamrock's new small rig for surface drilling, the Commando 120, has enjoyed great success in the market. The four-wheel drive, highly maneuverable and easily transported rig underwent a thorough development process in collaboration with customers. It is perfectly suited to construction work in confined areas.

the guiding star

Wired for information

Within Sandvik product area Kanthal, the electronics industry represents an important customer group. Heat components and system products are used in the manufacture of circuit boards and the chips found in integrated circuits, among other products. In many computers, Kanthal wire is used for the mechanism that records and reads the information on the hard drive – a key function in a highly important circuit.



Development saves time

Sandvik Coromant supplies cemented-carbide tools to US company Caterpillar, a leading manufacturer of gas turbines, engines and vehicles for the civil-engineering industry. At Caterpillar's plant in Belgium, the use of Sandvik Coromant's newly developed milling tools has reduced processing times by 25 percent while considerably increasing process safety. A win-win collaboration between two reliable partners.

Full throttle

In various places around the world, alternatives to gasoline are being offered as fuel for our cars. Natural gas is one example. In pace with the build-out of gas pipelines, filling stations are being established. Safety requirements are rigorous where gas powered vehicles are refueled. There can be no leakage. Consequently, customers appreciate Sandvik's seamless stainless steel instrumentation tubes. These meet the extreme requirements that are established and pass the extensive testing to which each tube is subjected – all with safety in mind.



Sandvik handles the pressure

Strip steel from Sandvik is used for "doctor blades" in printing presses, distributing the printing ink evenly. The demands made on the material include extreme straightness, excellent resistance to wear and perfect burr-free edges – all to avoid inconsistencies in the printed product. The media industry is most appreciative.

In the driver's seat

Anders Ilstam is President of the Sandvik Mining and Construction business area. And everyone who has met him can confirm that he is a manager with a capital M. There is no doubt that he is in the driver's seat of his organization.

Anders Ilstam has now been appointed Executive Vice President of the Sandvik Group as of 1 January 2004 and leaves his position as head of the business area. Prior to this move, we provide a view of his business philosophy, which to such a great extent is the underlying factor in the successful development of Sandvik Mining and Construction.

He joined the Sandvik team in 1993 in conjunction with Sandvik's acquisition of SKF-owned CTT. Anders continued to be responsible for Sandvik CTT and through to 1998, he focused his efforts on structuring these operations.

On 1 August 1998, he was requested by Sandvik's then CEO Clas Åke Hedström to assume responsibility for the newly formed Sandvik Mining and Construction business area. The directive was straightforward: "Create growth and profitability." With the result in hand, it is apparent that Anders Ilstam succeeded well in his mission. Today, Sandvik Mining and Construction accounts for 30 percent of Sandvik's sales – a 70 percent increase since Anders took over. Operating profit has increased to 11 percent of sales and the return on capital employed amounts to 18 percent.

Currently, Sandvik Mining and Construction holds a world-leading position in the mining and construction area – a success story of impressive proportion.

Anders Ilstam on leadership:

"I'm not overly impressed by the complex matrix organizations that many companies work with. In my experience, there should be distinct game rules for all employees about decision paths and authorities. The simpler the organization, the better."

Anders Ilstam on doing business:

"I love doing business. And I believe that it is important that the top executive in an organization displays this clearly. When we secure a contract with major customers, I am often very much involved. Not just in the actual business transaction, but I want to get to know customers and their business operations on site. If we understand the customer better, we can also respond better to the needs that exist."

Anders Ilstam on growth:

"Growth is important for every organization. Growth demonstrates success. It is partly a matter of organic growth and partly of acquiring companies to complement the existing operations. At Sandvik Mining and Construction, we have grown in both ways. During our first year, 1998, we had sales of SEK 8 billion. In 2002, we had sales of SEK 14 billion and our goal is to exceed the 20-billion level in 2005."

Anders Ilstam on service:

"Actually, we don't sell products to our customers, but productivity. This is the core of Sandvik's operations. Consequently, at Sandvik Mining and Construction, we focus strongly on service. Since we were formed, the proportion of service, tools and spare parts has increased from 40 percent to more than 60 percent of our invoicing. Our goal is 75 percent. For several reasons: it gives us more satisfied customers, while also giving us an organization that is less



sensitive to fluctuations in the economy. Service is always needed, when the economy is healthy and during recessions.”

Anders Ilstam on productivity:

“We are no longer a supplier selling machines. We sell results. This means that the customer pays us for the number of tons mined per unit of time. The more efficiently the customer can work, the more we receive in payment. Naturally, the consequence is that we have a major interest in assisting customers in training and providing maximum quality service, so that stoppages are minimized. We become the customer’s productivity partner.”

Anders Ilstam on product development:

“Not many associate us with innovation in the first instance. But the fact is that we invest intensively in product development. Take our cemented-carbide tools for rock excavation. Or the current example of our new low-profile machines used for platinum mining. These were developed in direct response to customers’ needs for specially adapted equipment. Who would have believed just a few years ago that we would be able to produce efficient loaders that are less than a meter high? We have a long tradition as renewer and innovator. Among other factors, this is largely due to the close cooperation we have had over the years with

LKAB and other large customers. They have always placed extremely high demands, which we have been forced to really flex our muscles to fulfill.”

Anders Ilstam on new markets:

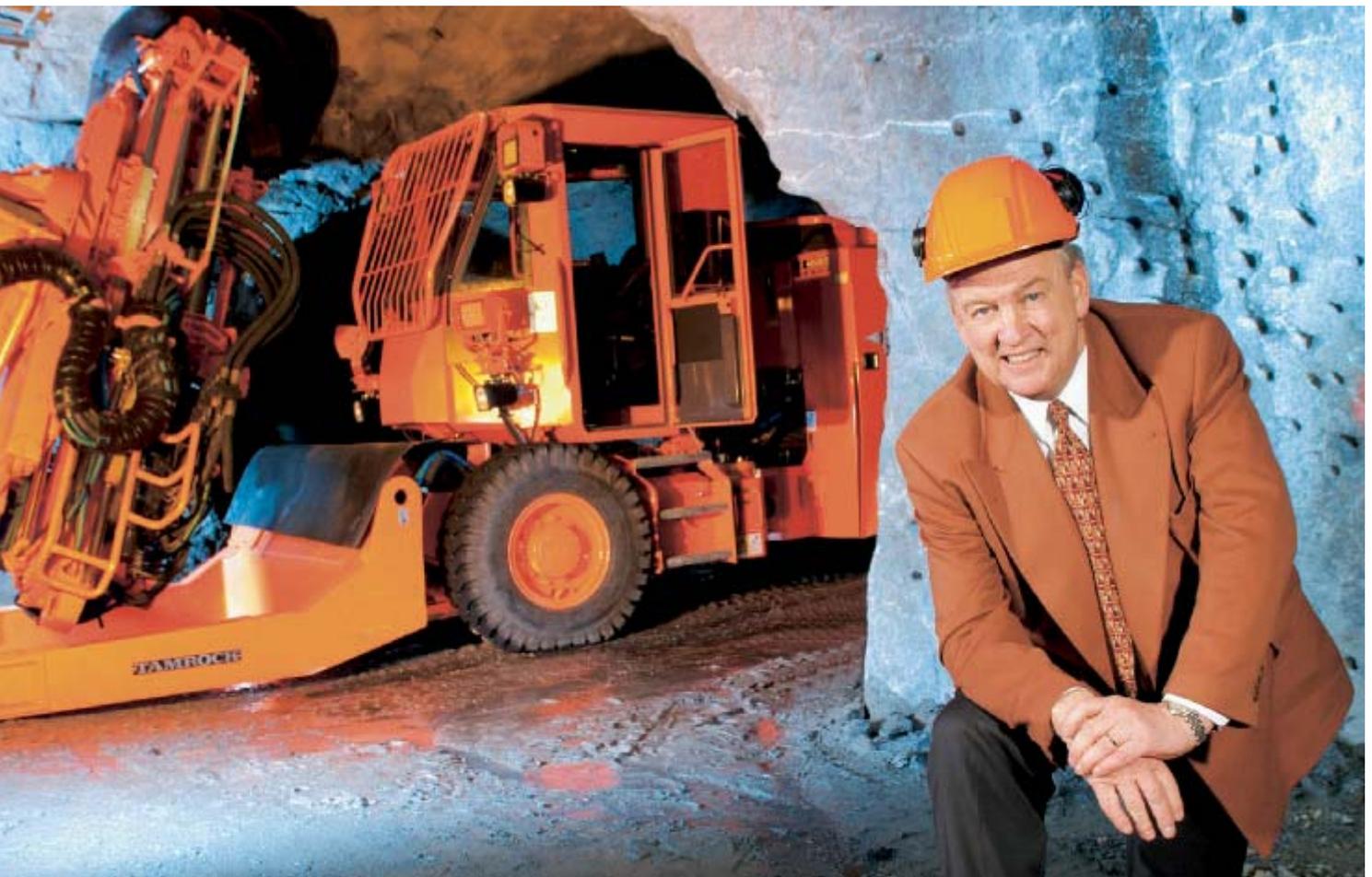
“Everybody’s talking about China as the major growth market. And it is growing, but I am a little more cautious in my assessment of this gigantic country. At Sandvik Mining and Construction, it is Eastern Europe, India and certain countries in Africa that are highly interesting. I believe that we will have major growth there in the next few years.”

Anders Ilstam on goals:

“Goals are important. If there is no goal to work towards, what should you aim at? The goals must also be comprehensible and achievable. Establishing goals and not achieving them is frustrating for an organization.”

Anders Ilstam on being largest:

“It’s not important to be largest in general terms, but it is important to be largest, or endeavor to be largest, in the niches in which the company operates. We will certainly not be a department store that sells everything to everyone. We will be a partner in our selected areas.”



Never has so little achieved so much. Thanks to Sandvik.

Accelerated production: The automotive industry is in the forefront when it comes to optimizing production efficiency. Productivity has increased several times over the past ten years. Naturally there are many factors behind this increase, one of the most important being that the machining of all components is so much faster today.

Constant challenge: For us at Sandvik, this is our home turf. Our business concept is to help customers to become more productive. And we work in close partnership with automotive manufacturers worldwide to find shortcuts. For the most part, it is not a question of major breakthroughs but of constantly improving, changing and renewing.

Revealing figures: Today's cemented-carbide tools from Sandvik Coromant are highly efficient. By now we have reached the point where, on average, only two cemented-carbide inserts are needed for all the metalworking – turning, milling and drilling – that is required to produce a car. But we have by no means reached the end of the road. We are forging ahead resolutely. Before long, it will be possible to machine 100 components in the same time it currently takes to produce 50.

Investment in innovation: Sandvik is investing substantially more in R&D than its competitors. We invest about 4 percent of our sales, corresponding to about SEK 2 billion annually. The result is a constant stream of new products and ideas that help our customers to become more competitive – to both their and our benefit.



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