

MeetSandvik

JUNE 2004



In the right direction

Productivity as guiding star

The positive spiral

News from Sandvik's world

Annual General Meeting

Current faces

New head of Sandvik Tamrock product area

Arto Metsänen is President of Sandvik Tamrock, the largest product area within the Sandvik Mining and Construction business area. He assumed this position in the autumn of 2003. Arto Metsänen joined the company in 1982 and has held many various positions since then. Most recently, he served as General Manager of Sandvik Mining and Construction's US and Mexico region. Among other products, Sandvik Tamrock manufactures drill rigs, loaders and hydraulic hammers for surface and underground applications for mining and construction customers worldwide.

Arto Metsänen



Haglund Medalists

Lars-Erik Enquist (left) and Peder Arvidsson, both employed at the Sandvik Coromant product area, were named at the 2004 Annual General Meeting as the year's product developers within the Sandvik Group and received the Wilhelm Haglund Medal. They were recognized for their work with CoroMill® Century, a new series of cutters for high-speed machining of aluminum. The high technical performance of the products and simplicity of use results in significantly higher productivity for customers in the automotive and other industries.

Cover profile

Elisabeth Lindström-Dupuy is responsible for production of special tools as well as technology and business development at the Sandvik Coromant product area in Orléans, France. She leads the process of change in production, in which work heavily involves shortening of lead times and ensuring that the customers receive their quality products at the correct time. In the technology area, one of the tasks is to manage product work and coordinate activities within the various industrial segments. Elisabeth holds a BSc. Eng. in Industrial Design and Economics and has studied industrial economics and product development. She joined Sandvik in 1995.

"It is very interesting and stimulating to work as close to the customer as we do, within production as well as technology and development. I spend my leisure time with my family and very much enjoy traveling to the sea and walking along the beach."



Excellent research

Dr. Håkan Hugosson has been awarded Sandvik Coromant's material grant for 2003. The research that is now being rewarded was carried out during his doctoral studies 1996–2001 at the Ångström Laboratory, Uppsala University, and involved quantum-physicals properties of hard materials used as durable coatings on, for example, cemented-carbide inserts. His advanced methods can be applied to improve existing materials and create new structures, opening exciting possibilities within material development in the future.



Håkan Hugosson



Meet Sandvik

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In the right direction

Sandvik reported a strong first quarter in 2004. Order intake was the highest in history for a specific quarter. Sales and earnings also rose sharply.

The positive development is based both on the fact that the business climate continued to improve during the first quarter and particularly that the measures taken to increase internal efficiency – raising productivity and capacity utilization – are now bearing fruit.

Development was positive for all three business areas. Demand increased in all market areas except the EU, where volumes were unchanged compared with a year earlier. Order intake rose sharply in NAFTA (US, Canada and Mexico) for all business areas. Most segments of industry there currently have high capacity utilization. Demand remained strong for the Group in Asia, Australia, Africa and South America.

It is pleasing to note that earnings improved for the Sandvik Materials Technology business area. Operating profit rose compared with the first quarter and the fourth quarter of 2003. This is a result of increased productivity, higher volumes and improved capital and cost efficiency. It is important that the positive trend within the business area continues during the remainder of the year and that the extensive program of change proceeds as planned.

Sandvik has a very strong position within its areas of operations. This is due to our products and services providing customers with high added value and contributing actively to increasing their productivity and profitability. Therefore, the continuous focus on research and development of new products and technical solutions is decisive for the Group's profitable growth. You can read about the importance of research for Sandvik in an article on pages 6–7.

Another important driving force for our profitable growth is increased capital efficiency and continued streamlining of our own operations and delivery capacity. We are seeing positive effects of the ongoing work and it is continuing with enthusiasm. Combined with improvements in the business climate, this

provides a strong tailwind for the Group and increased global effectiveness.

In summary, I would like to underscore some of the Group's main priorities for 2004:

- Increase market shares
- Develop growth potential in Asia
- Improve earnings in American Valenite and Precision Twist Drill
- Increase profitability in Sandvik Materials Technology
- Continue the focus on capital efficiency

Lars Pettersson
President and CEO

First quarter 2004

ORDER INTAKE:
SEK 14,160 M, up 10%*

INVOICED SALES:
SEK 12,680 M, up 10%*

**PROFIT AFTER
NET FINANCIAL ITEMS:**
SEK 1,430 M, up 12%

EARNINGS PER SHARE:
SEK 11.70 **

OPERATING CASH FLOW:
+ SEK 940 M

**NUMBER OF EMPLOYEES
31 MARCH 2004:**
37,108

* Change in percent compared with year-earlier period at fixed exchange rates for comparable units.

** Most recent 12 months



News from Sandvik's world

Increased efficiency in Coventry

The effort to reduce working capital in the Group worldwide continues. The goal is to reduce the amount of capital tied up in inventory and accounts receivable less accounts payable by more than 20% by the end of 2005. Business processes will be accelerated to achieve greater capital efficiency. A company-wide group known as Time Is Capital (TIC) has been working for the past year on interactive training and coordinating with management groups within the various companies. One way to achieve greater efficiency is to make comparisons with others in regards to the number of credit days from suppliers or to customers, the number of days in inventory and the percentage of products with lower turnover. Another method is to carefully review activities and identify the underlying causes for why things appear the way they do. Within Sandvik Tooling,



at the Sandvik Hard Materials product area's production facility for cemented-carbide powder in Coventry, UK, an in-depth analysis was carried out in cooperation with TIC in autumn 2003. The goal is to reduce the amount of tied-up capital to one-fifth by the end of 2005. Significant results are already appearing. By moving decisions closer to those executing them, inventories have been significantly reduced and the amount of scrapped material has been reduced by 50%. At the same time, delivery accuracy has improved significantly. Sandvik continues to increase its efficiency by working more intelligently. Developments in Coventry are a good example of this.

Japanese cooperation with driving force

Sandvik Mining and Construction and Japan's Komatsu have been cooperating for a long time. The combination of Tamrock's advanced rock drilling technology and Komatsu's high-quality components for chassis and motors makes for interesting possibilities within the construction industry and open-pit mining. One example of what the collaboration has been able to accomplish is a new drill rig for the Ranger series. It is highly mobile and therefore especially suited for difficult ground conditions in open-pit mining and construction work. The customer offering naturally includes service, spare parts and technical expertise.



Well-oiled collaboration

Recently, Sandvik's sales of seamless stainless production tubes for the oil and gas industries have expanded multifold. This is due largely to a successful partnership established with Tenaris S.A. The company is a leading global distributor of pipe products for the extraction and transport of oil and gas, with operations around the world. The potential is very large and additional products for collaboration will now be identified – cooperation that runs deep.



Quality award in Canada

High-quality products are a Sandvik Coromant hallmark appreciated by customers the world over. The well-known Canadian aircraft engine manufacturer Pratt & Whitney Canada presented an award to Sandvik Coromant for having fulfilled the company's highly demanding quality requirements during 2003 – less than 1% rejection rate on standard products.



Acquisition in Brazil

Sandvik Materials Handling, a product area within Sandvik Mining and Construction, has acquired 51% of the shares in the Brazilian company Manuseio de Granéis Sólidos S.A. (MGS), based in São Paulo. MGS is the leading producer of long overland conveyors in Brazil. Customers are major Brazilian mining companies, ports and other bulk materials handling companies. MGS reported annual sales in 2003 of USD 32 M, with 65 employees. The acquisition strengthens contacts with the expanding Brazilian mining sector.

New Europe warehouse in the Netherlands

Sandvik Materials Technology has a new distribution center in Venlo in southeastern Netherlands, near the German border. The facility offers a large assortment of the business area's standard products, as well as certain specialty items. Through this investment, the business area's customers in the Benelux countries and Germany will experience significantly faster and more efficient service. The relevant product can be delivered to customers within 24–48 hours if needed. Direct delivery to customers is a key competitive factor.



Clean-shaven customer success

Philips is a world-leading producer of electrical shavers. The Philishave product line has been a major market success over the years, based on process and material development and an extensive cooperation between Sandvik and Philips. The new shavers provide the possibility of wet shaving, use of shaving cream and rinsing in running water. This has been made possible through advanced research and development. The cutting heads in the shavers are produced from unique Sandvik Nanoflex® strip steel. The rotary knives are also produced from the same material. Its special properties are highly applicable in this context. The material is strong, gives a good razor edge and is corrosion-resistant. The continued cooperation for the next generation of shavers means that the path to success is paved. This is cutting-edge technology at its smoothest.



Sandvik is a company that invests heavily in research and development – on average 4% of sales, corresponding to approximately SEK 2 billion annually, which is significantly more than that invested by our competitors.



A roundtable discussion about R&D

The positive spiral

Three key persons from Sandvik's research and development operations were assembled to discuss R&D: Göran Berter from Sandvik Coromant within the Sandvik Tooling business area (left), Tomas Thorvaldsson of Sandvik Materials Technology (center) and Anders Isaksson of Sandvik Tamrock within the Sandvik Mining and Construction business area (right).

How much is "R" and how much is "D" at Sandvik's R&D?

GB: It's impossible to provide a general answer to that. It involves a balance between what is referred to as basic research and development work, which is dictated by the type of project. I feel that at Sandvik we are good at creating that balance.

TT: We have an extensive network where we collaborate with many universities and colleges both inside and outside Sweden. Over the years, we have developed a good understanding of how the academic research world operates. This means we have an easy time establishing good, outcome-oriented relationships.

AI: Our success is based on the fact that we have a number of core competences within our Group. This must be combined in a creative manner with outside expertise in new areas. And we're good at rapidly commercializing those results we come up with.

How are customers involved in the R&D process?

AI: Usually, right from the D stage. This is because most R&D projects are actually initiated by our customers. They have a problem that they want us to solve for them. We don't just want to sell a product, but rather a solution

that increases customer productivity. One consequence of this is that for certain customers we already have contracts that provide payment based on how much they in turn produce.

TT: We have a number of key strategic customers in all of our business areas. Our R&D efforts are based primarily on close relationships with those customers. They are frequently at the forefront of development within their fields. Collaboration with them provides us with definite cutting-edge expertise. We learn from them, they learn from us. It is a continually ongoing process.

GB: The biggest portion of our R&D efforts is based on having solid skills in a number of different applications. The more we learn about how our customers operate using their processes, the better we're able to assist in transferring new skills to our customers and to increase the content value of what we deliver. That is what our R&D aims to do: offer our customers solutions with more and more added value. Everything comes back to the idea that Sandvik's founder, Göransson, once had: to achieve a balance in everything we do, from the salesperson to the researcher. Everything within that supply chain shall work hand in hand towards one common goal: achieving solutions that customers want.

Name a few good examples of R&D at Sandvik!

AI: I'd like to highlight a current new product: the Hydrocone H7800 crusher for mining that we developed in record time. The project only took about a year and a half from start to finish. Through an intensive research effort together with universities and other institutions, we were able to develop a new design with significantly



Göran Berter

Tomas Thorvaldsson

Anders Isaksson

improved performance. The new crusher has a much higher capacity compared to its size. For our customers, this means less downtime and improved economy.

TT: I immediately think about our tubes that are used for umbilicals in the offshore industry. Umbilicals are perhaps best described as a feeder line. These lines can be over ten kilometers long and rest on the sea floor. This alone suggests that there are significant demands placed on the tube used in an umbilical. And those demands are only increasing as those lines are finding their way into deeper and more challenging areas. For us, this involves extremely close and ongoing R&D collaboration with the oil companies in order to assist them in finding solutions to their problems. This is a never-ending R&D project.

GB: Our new Century milling cutter fits in well there. It resulted from our concentrating on the field of processing aluminum and bimetals. One important application of that is for vehicle engine blocks. Our solution was a comprehensive concept that stretched from the customer machine to the cutter. The key here is greater precision and a corresponding increase in processing speeds for the customer. The product has quickly become a success and we anticipate that within two years it will be one of our bestsellers.

What are the strengths of Sandvik's R&D?

GB: Customers view us as problem solvers and turn to us for advice, suggestions and solutions. We assist the customer, the customer is satisfied and gains confidence in us and returns with new problems to solve. That frequently results in closer cooperation. And closer collaboration means greater opportunities to create good solutions that, in turn, result in greater revenue for the company and ultimately more money for R&D. A lot of it has to do with creating a positive spiral.

TT: Customers know that there is considerable expertise available at Sandvik. We have the critical mass necessary to provide valuable

assistance. We have a tradition and customers also perceive the strength in the give and take that cooperation with us involves. It's not an adversarial relationship since we're sitting on the same side of the table.

AI: What speaks in our favor is, of course, that while many – including our customers – break down their expertise into various areas, at Sandvik we maintain an untiring focus. If you turn to us, you will always receive expert assistance, no matter how complex the problem is.

What challenges do you foresee in the future?

AI: A century ago, you could drill 0.3 meters of rock per man and hour. Today, the speed is 1,000 times faster. The challenge for us is being able to maintain this pace of development for another 100 years. This is a tough ambition, but I see no reason why we will not succeed.

TT: Purely technically, the vision is to be able to develop totally customized material for each specific application. This requires new modeling tools for the various phases of the development chain. In turn, this requires more skilled, flexible, innovative and creative employees as well as new work methods.

GB: We must continually work consistently toward creating increased value content in our offering. The base for this is that we become even better at understanding each customer's specific needs. As a consequence, we are moving toward offering more complete and total solutions instead of individual products.

What is the significance of the Haglund award and the Sandvik Innovation Prize for R&D within the Group?

Everyone (in unison): A great deal ... stimulating ... creates an internal competition that is very healthy ... sets the bar at a high level for all of our creative employees. Receiving one of these is a great achievement for anyone working in R&D at Sandvik.

Productivity as guiding

High tech in China

Sandvik was selected by China's aerospace industry as a supplier in conjunction with the country's first manned journey into space. This involved steel press plates from the Group being used for production of the circuit boards for the electronic equipment onboard the spacecraft. Through applying this Sandvik technology, a number of benefits are gained. Production becomes more cost-efficient and the service interval is longer. Product quality and lifetime are also increased. In extension, there is of course a boost in safety. This is good news for the customer, Chengdu Yuhang, a subsidiary of China Aerospace Science and Industry Corporation. Sandvik is the first in China to offer locally manufactured press plates and service. The products were delivered from the Group's new plant in Shanghai. Additional evidence that Sandvik is aiming high in the exciting Chinese market.



Good connections provide business opportunities

The multi-million metropolis of Hong Kong is continuing to expand its infrastructure to serve the continually expanding population. Large tunnels provide passage through the mountain ridges and under the straights in the area. Sandvik Mining and Construction has been delivering equipment and tools to the various highway tunnel projects for many years. Recently, a contract was signed with the Leighton-Kumagai Joint Venture covering delivery of five large computerized underground drilling rigs in Tamrock's Axera series. The work involves two parallel, three-lane highway tunnels, each slightly more than two kilometers in length. Yet another driving project for Sandvik.

Harvest time

US-based John Deere is a leading world supplier of agricultural machinery. Its largest plant is located in Waterloo, Iowa. Having converted to the use of cemented-carbide tools from Sandvik Coromant in their machinery manufacturing, such as the CoroMill 390, they are now reaping the benefits of the cooperation. Productivity has increased significantly. The customer's processing times have been reduced by no less than one-third using these new tools.



g star



Keystrokes that count

Springwire from Sandvik is used by computer manufacturers worldwide for the springs beneath the keys. This applies to all types of computers – both stationary and portable. The properties of the material are such that the springs have extreme durability without showing any signs of fatigue. On the subject of lasting impressions, signs of fatigue are more common in the users than in the equipment!



Mine contract in Australia

Australia is one of the world's largest underground mining markets and plays an important role for the Group. For example, Sandvik Mining and Construction recently received a large order from the two copper mines at Mount Isa in Queensland. The two-year contract is for drilling tools, service and technical support. A longstanding, successful collaboration with the customer lies behind this order, and the business area has previously delivered machinery and tools to these mines.

Largest in the world

Bauma, held in Munich, Germany, every three years, is the world's largest construction trade show. In 2004, it attracted more than 400,000 visitors and nearly 3,000 exhibitors from 48 countries. This year the mining industry was also represented for the first time. Sandvik Mining and Construction participated with a large display profiling its role as a productivity partner and leading supplier within the mining and construction industries.





Some 1,000 persons listened to CEO Lars Pettersson's address in the Jernvallen ice-arena, transformed for the day into an auditorium.

Sandvik Annual General Meeting

Interest in Sandvik AB's Annual General Meeting in Sandviken on 6 May was record high. More than 800 shareholders and some 100 guests participated. This was the second year in which the Meeting was held in late afternoon to provide an opportunity for shareholders among the employees to attend.

The program was extensive and prior to the proceedings the participants were treated to some musical entertainment. A new film showing how some of Sandvik's products are used by customers around the world was also premiered.

In his address, Sandvik CEO Lars Pettersson commented on the 2003 fiscal year and developments during the first quarter this year, in which record figures were reported for order intake.

He also presented the Group's business concept, which is to increase the customers' productivity and profitability. According to the CEO, one of the most important driving forces for Sandvik's growth and profitability are extensive efforts in research and development. He also noted that the Group's financial goals are ambitious and during the spring a review of the goal for the Group's capital structure was carried out. The goal has been revised and the net debt/equity ratio shall amount to 0.6, with the interval 0.5–0.7. The previous goal was 0.6–0.8.

Clas Åke Hedström, Board Chairman, reported in his address on the role of the Board and its work as well as the work and function of the remuneration, audit and nominating committees.

"By establishing these committees, Sandvik is living up to our wishes. As a result, this reduces the risk for missteps and questionable actions in which several major listed company's in Sweden have been

involved," noted one of the attendees, Lars-Erik Forsgårdh, President of the Swedish Shareholders' Association, who was participating in his first Sandvik Annual General Meeting.

"I am usually sent out to represent the Association at the Meeting of problematic companies, so it is pleasant for a change to be able to visit Sandviken and note that Sandvik is a well-managed, profitable company that impresses in many ways."

The Meeting approved an increase in the dividend to SEK 10.50 per share for the 2003 fiscal year.

The Meeting also decided to give the Board continued authority, prior to the next Annual General Meeting, to acquire a maximum number of shares to the extent that the company's holding at any given time does not exceed 10 percent of all shares in the company. The buy-back is to be carried out on Stockholmsbörsen (Stockholm Exchange) and is part of efforts to adjust the company's capital structure in accordance with established financial goals.

Board members Georg Ehrnrooth, Clas Åke Hedström, Sigrun Hjelmquist, Egil Myklebust, Arne Mårtensson, Lars Nyberg, Anders Nyrén and Lars Pettersson were re-elected.

The employee representatives appointed Bo Boström and Göran Lindstedt as Board members and Birgitta Karlsson and Bo Westin as deputy members.

As a result of the four-year mandate period expiring, the auditors were thanked by the Meeting. During the next four years, the auditing undertaking was assigned to the KPMG Bohlins AB registered auditing firm, with Authorized Public Accountant Caj Nackstad as senior auditor.



The youngest attendees at the Meeting were Greta, four months, and Thea, 5.5 months, accompanied by their mothers Marie Giertz (r) and Katarina Giertz. Marie is Chief Economist at Länsförsäkringar AB and represented three million shares. Greta is a seventh-generation Göransson (the family that founded Sandvik).



Lars-Erik Forsgårdh (r), President of the Swedish Shareholders' Association, who visited Sandvik's Annual General Meeting for the first time, chats with CEO Lars Pettersson.



Bo Severin Sven Unger Clas Åke Hedström Lars Pettersson

Attorney Sven Unger was Meeting Chairman and was flanked on the podium by Sandvik's General Counsel Bo Severin, Board Chairman Clas Åke Hedström and CEO Lars Pettersson.



The program prior to the Meeting included a one-hour concert with Pernilla Wahlgren and Sandviken's Symphony Orchestra under the direction of Anders Berglund.



Many of the students from the Göransson School, the technical secondary school operated by Sandvik in cooperation with Sandviken Municipality, attended the Meeting (l to r): Christina Svensson, Christine Enerhall, Emilie Karlberg, Mårten Rosengren-Keijser, Sanna Öberg and Jessica Särkimäki-Eriksson. Christine and Mårten were two of the four students who received awards in the form of intern positions at a Sandvik company of their choice outside Sweden.



Malin Hermansson shows this year's present, a spaghetti measure.

Sandvik shows how little it takes to keep the flame alive

Blood flow deficiency: Clogging of the arteries is the major villain in cardiovascular conditions that can lead to heart failure. The arteries become blocked, become thicker and harden. In the worst case, the flow of blood to the heart is reduced to the extent that the situation becomes life-threatening. A complicated by-pass operation is one possible solution.

Alternative solution: A significantly easier method to solve the problem is to implant a so-called stent. In principle, it is a small tube, laser cut into a fine mesh and is smaller than a matchstick. The stent is inserted into the artery via angioplasty. When in place, it is expanded by a balloon catheter that is then withdrawn. The clogged artery is expanded and regains its original capacity, resulting in improved blood flow and circulation.

The body says "yes": Naturally, this procedure places special demands on the stent. It must be flexible yet strong, with high fatigue resistance. Moreover, it should be biocompatible and must not be rejected by the body. Sandvik has the solution – a customized material designated Sandvik Bioline™ 316LVM. It gives many more people the possibility of enjoying a rewarding and longer life.

A flow of innovations: Sandvik invests much more in R&D than its competitors, in the range of 4% of sales. This corresponds to about SEK 2 billion annually. The result is a continuous flow of new, patented products; materials and ideas that help our customers become more competitive. We understand your body language.



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