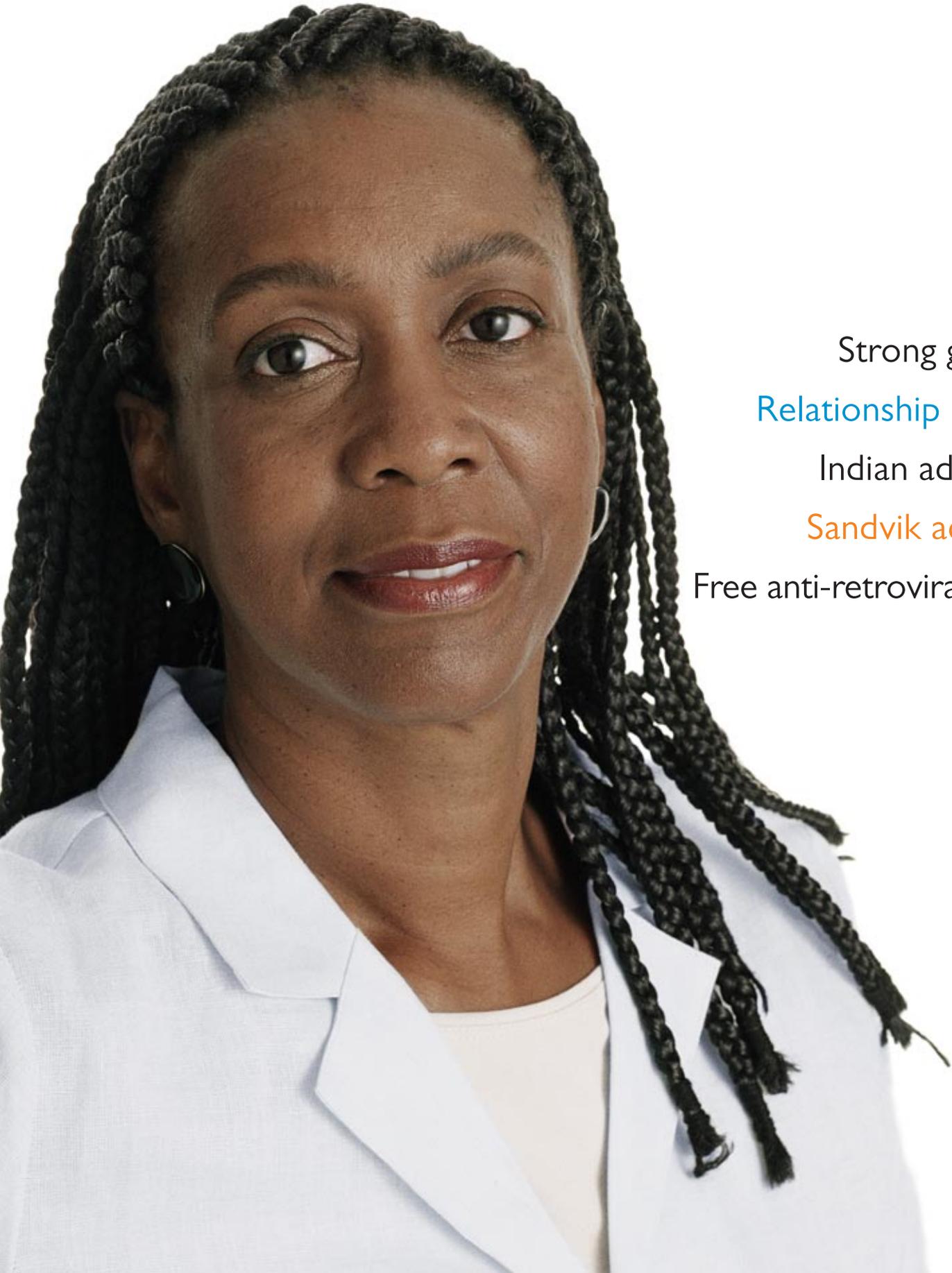


# MeetSandvik

NOVEMBER 2004



Strong growth

Relationship builder

Indian advances

Sandvik acquires

Free anti-retroviral drugs

# Third quarter 2004 in brief

- Order intake SEK 13,770 M, +26% <sup>1)</sup>
- Invoicing, SEK 13,570 M, +22% <sup>2)</sup>
- Operating profit SEK 1,771 M, 13.1% of sales, +36%
- Profit after financial items SEK 1,577 M, +43%
- Earnings per share SEK 4.30, +37%

Order intake in Asia/Australia rose more than 50 percent and the market area accounted for 24 percent of the Group's total order intake during the third quarter of 2004.

Among other areas, the development in China was highly satisfactory. Shown is Sandvik Coromant's plant for production of cemented-carbide tools in Langfang, outside Beijing.



## KEY FIGURES

SEK M	Q3 2004	Q3 2003	Change %	Q1-3 2004	Q1-3 2003	Change %
Order intake	13 770	11 550	+19 <sup>1)</sup>	42 320	37 380	+13 <sup>1)</sup>
Invoiced sales	13 570	11 520	+18 <sup>2)</sup>	40 230	35 930	+12 <sup>2)</sup>
Operating profit	1 771	1 304	+36	5 201	4 162	+25
%	13.1	11.3		12.9	11.6	
Profit after financial items	1 577	1 103	+43	4 671	3 575	+31
%	11.6	9.6		11.6	10.0	
Net profit	1 073	788	+36	3 216	2 530	+27
%	7.9	6.8		8.0	7.0	
Earnings per share, SEK	4.30	3.15	+37	13.80 <sup>3)</sup>	13.90 <sup>3)</sup>	-1

1) +26% and +17% respectively, at fixed exchange rates for comparable units.

2) +22% and +15% respectively, at fixed exchange rates for comparable units.

3) Most recent 12 months.

## Meet Sandvik

The Sandvik Group's magazine for shareholders and employees

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# Strong growth and increased profitability

The third quarter was characterized by a highly favorable business trend. Profit after financial items improved sharply, by more than 40 percent. The Group's order intake and invoiced sales increased significantly and its market shares rose. Organic growth was slightly more than 25 percent.

Demand rose considerably within all business areas and all major markets. The order intake in Asia/Australia rose by more than 50 percent, which means that this market area was now larger than NAFTA – the US, Canada and Mexico – despite the fact that the increase in NAFTA was very strong during the quarter. The favorable trend in Europe, which started during the second quarter of this year, continued during the third quarter.

Within Sandvik Tooling, demand continued to be particularly favorable for cemented-carbide products. Operating profit rose by a full 40 percent compared with the year-earlier period, which meant the operating margin was more than 20 percent of invoicing. It is also pleasing to note that Valenite in the US broke even during the quarter.

Sandvik Mining and Construction noted strong demand, driven by a favorable investment climate within the mining and construction industry. The sales increase was due to such factors as a rise in project sales. The business area's market positions improved, which provides a favorable basis for a continued positive development.

Sandvik Materials Technology also experienced strong demand and substantial sales growth during the quarter. Operating profit doubled. The business area's priorities are to continue with its process of change, continue to capture market shares and further increase profitability.

Capital efficiency improved compared with a year earlier and work is proceeding with the goal that net working capital in the Group at the end of 2005 shall be reduced to 25 percent of sales. This contributes to further enhanced competitiveness and is an important growth factor.

In the favorable demand situation now prevailing, it is important to prioritize growth areas that contribute to increased profitability for the Group. At the same time, the internal focus on high product quality, high delivery reliability, professional service and increased productivity continues.

*Lars Pettersson*  
President and CEO



# Productivity as guiding

## Product focus

The International Manufacturing Technology Show (IMTS), the largest international trade fair within metal cutting, is held in Chicago, in the US, every two years. This year's fair attracted approximately 85,000 visitors. Sandvik Coromant exhibited several new products and highlighted a product innovation scheduled to be introduced on the market in early 2005.



## SEK 100 billion in the pot

Although cutting tools account for only about 3 to 4 percent of a product's total manufacturing cost, metal cutting in particular is decisive to companies' productivity and profitability. Take the US, for example. Estimates indicate that the manufacturing industry in the country can save up to SEK 100 billion (yes, you read it right!) by using optimal tools in the machine park right from the outset. Naturally, everyone wants a piece of the pie. What an opportunity for the Sandvik Tooling business area, the global leader within metal-cutting tools and tooling systems!



## Indian advances

Sandvik Materials Technology's tube mill in Mehsana, India, has developed very strongly in recent years. Thanks to a goal-oriented improvement program, capacity has almost quadrupled and productivity, measured as the volume produced per employee, has risen sevenfold. The plant in Mehsana has also been supplemented with two pilger mills, enabling production of hydraulic and instrumentation tubes – products with growing demand in Asia. This will further strengthen Sandvik's competitiveness in the world's second largest country, with a population of slightly more than one billion.

## Improved finish

Hindrichs-Auffermann in Ennepetal, east of Düsseldorf, Germany, is a product unit within Sandvik Materials Technology. The company is a leading manufacturer of smooth and textured steel press plates and endless press belts. The products are used in the manufacture of laminates and for laminating wood-based board for flooring, furniture, wall and tabletop panels, etc. The challenge in the laminates industry today is to produce textures that exactly match the printed pattern of the décor paper. This is a major advancement whereby customers can see as well as feel that the laminated surface is as lifelike as real wood or stone.



# g star

## *Productivity leads to gold*

The Cresson/Cripple Creek Mine is located at 3,000 meters above sea level in the Rocky Mountains, near the town of Colorado Springs, Colorado, in the US. The climate is harsh and the air thin. Often under extreme conditions, one of the country's leading gold producers mines millions of tons of rock annually. Only 1 (one) gram of gold is extracted from each ton of ore. This means that only the most efficient products can generate the desired profitability. Sandvik Mining and Construction contribute to profitability through effective drill rigs from Driltech and advanced tools from Mission. A cooperation that is a bonanza for both the customer and Sandvik.



## *Special tools of highest standard*

Sandvik Coromant's plant in Schmal-kalden in the German federal state of Thüringen has assumed an increasingly important role as a special tools supplier. New investments have been made in the plant and the range of products and services for the automotive and engineering industries has been complemented considerably in recent years. The investment in advanced tools that are specially adapted to the customer's requirements is an important competitive advantage for Sandvik. New cemented-carbide tools are being developed in accordance with Sandvik's well-known concept: in close cooperation with the customer.

## *R&D cooperation with Renault*

In addition to products, Sandvik also sells solutions that enhance customers' competitiveness. The joint project between Sandvik Coromant and the French car manufacturer Renault is a good example. Renault was looking to improve its milling process for cylinder blocks. The partnership with Sandvik resulted in the development of a new, specially designed milling tool that meets the customer's requirements. The overall result is that tool life doubled and costs were halved. At the same time, the quality is now higher, with improved surface finish and a substantial reduction in machining noise. Gains that can generate a resounding echo in the automotive industry.



# The Relationship Builder

Carina Malmgren Heander is Group Vice President Human Resources at Sandvik. This is an important role. She is responsible for providing managers and supervisors within the Sandvik Group with the necessary support to ensure that the company has the right people in the right jobs. It is also her task to ensure that each individual perceives his/her job as meaningful and with ample opportunity for personal development.

Carina Malmgren Heander joined Sandvik in the autumn of 2003. Her position within the Group is accentuated by the fact that she is also the first female member of Group Executive Management.

#### **What was your first impression of Sandvik?**

“My first spontaneous reaction was that the organization is highly transparent. This feeling has stayed with me. I experience Sandvik as being very open to new and interesting ideas. Despite the Group having 37,000 employees in 130 countries, I must say that there is a strong and homogenous corporate culture. As Head of Human Resources, I am grateful for this since it creates a strong and stable base on which to build.”

#### **What exactly is Human Resources?**

“Human Resources, or HR as we call it, covers everything relating to how the company ‘nurtures’ its employees. Our role is to provide them with greater knowledge and ensure that they develop their ability in the best manner possible. And we aim to support them in their endeavors to live up to the corporate culture and values.

Naturally, everything we do must be based on Sandvik’s overall strategies and business goals. HR is by no means an isolated activity and is highly intertwined with day-to-day operations. It is an internal resource that actively contributes to enhancing value for customers.”

#### **So it’s about the employees being the company’s most important asset?**

“It may sound a bit of a cliché, but yes, this is true. Previously, customers most often bought a single product. Everything was straightforward – you simply made a rational choice. Gradually, however, the buying and selling process has developed into a close interplay in which the relationship between the seller’s personnel and those at the buyer has become increasingly decisive. Today, there are a multitude of companies offering high-quality products. Accordingly, the main battle today is among those that can offer the most added value. A good, close relationship with the customer allows us to deliver a solution that meets their expectations and requirements.

“This means that, as a company, we must devote much effort and resources into developing our employees so that they can make Sandvik a winner.”

#### **But isn’t HR also about recruitment?**

“Of course, Sandvik – just like any other company – must also recruit new employees. Both fresh graduates and people with professional experience. However, our ambition is that to a very high degree we should be self-sufficient in recruitment. This means that we encourage employees to move around within the company, between different business areas and types of positions. A manager should stay in one position for a limited period. In this way, we broaden

knowledge within the company and constantly bring new ideas to all positions since no one gets stuck in their role.

“We want competent employees to stay at Sandvik. Our goal is to encourage this by urging and enabling employees to change their work duties and work environment at regular intervals. This benefits the individual, the company and, ultimately, the customer.”

#### **How does Sandvik operate in practice?**

“As an example, there are two projects currently in progress. One concerns implementing Sandvik’s business concept, The Power of Sandvik, throughout the entire Group. Sandvik has three core values: Open Mind, Fair Play and Team Spirit. We have initially focused on Fair Play, which is the most multi-faceted of the core values. Extensive efforts are being conducted worldwide to illustrate what the Fair Play concept actually involves. This process has become highly appreciated internally and the level of commitment is high. Everyone in the Group has a responsibility to live up to Sandvik’s basic values.

“The second major activity is the Connect project, which aims to create the same opportunities and HR support for all employees, irrespective of where in the world they are located. We are developing a self-service system for employees, covering all practical work-related matters, such as job vacancies, parental leave, training, contacts and so on. We are also setting up HR service centers in various locations worldwide, to which employees and managers can turn in conjunction with recruitment or for other support. HR managers will be appointed at the operational level. In cooperation with management, these will work with strategic issues such as skills provision, managerial development and replacement planning. This new way of working will be introduced gradually in Sandvik’s nine largest markets in 2005. In this respect, the Group will be a forerunner in terms of forward-looking HR work.”

#### **What is on the agenda for the future?**

“Many employees born in the 1940s in the Group will be retiring in the next few years. We will need to recruit competent replacements, both internally and externally. It’s a matter of quality-assuring Sandvik’s future, and this process is in full swing. There are many highly talented individuals who will carry on the Sandvik culture and strengthen it.

“A more comprehensive problem for industry is the waning interest in sciences and technology among young people today. We must learn to communicate with the target groups in new and exciting ways. Sandvik has already taken a number of steps in this area, including the foreign trainee programs that give young people a practical opportunity to experience what it is like to work in a global Group. However, we need to find even more ways to reach new employees.

“We must also become better at encouraging employees to be more geographically mobile. The entire world lies at our feet. In reality, however, not everyone is bold enough to seize the opportunity to experience this and learn about new cultures. This presents us with a major challenge to be tackled. Sandvik can offer a global arena for personal development. We hope this will be an effective magnet that will help to strengthen our employees and also attract new, talented individuals.”



# News from Sandvik's world

## *Close-up on the US*

Each year, Sandvik's Board of Directors travels to subsidiaries outside Sweden. The objective is to obtain better knowledge of the various operating units and to become acquainted with their management. This year's trip was to the US, where Board members visited several Sandvik units in the various business areas, including Sandvik Coromant's production plant in Fair Lawn, New Jersey, outside New York City.



## *Las Vegas investment paid off!*

The MinExpo International trade fair in Las Vegas turned out to be a success for Sandvik Mining and Construction. This was the first time that the business area adopted a uniform approach and exhibited all product areas in the same stand, under the theme of "Productivity in Action." It was also the first time ever that the physical products were not demonstrated on site. Instead, the presentations were made using several computer stations and in a theater in which a 3D film with sound and shaking effects was shown. In the film, customers related how the machines, tools and total solutions from Sandvik improved productivity. The Sandvik subsidiary Voest-Alpine Bergtechnik was awarded a prize at the trade fair by Mining Magazine for its new machine, the ARM 1100, used for extracting platinum ore in mines with low working heights.



## *Stable performance*

Today's multi-task machines place great demands on cutting tools. CoroTurn® RC Twin Tool is a new tool holder from Sandvik Coromant that meets today's tough requirements. Actually, it is two tool holders in one product. The tool's advantages include increasing stability in metal cutting and shortening the time required for tool changes. As we all know, time is money. Customers can increase productivity and thus benefit.





### *Acquisition in Germany*

Sandvik has acquired the German engineering company DEPO. The company provides complete solutions for production of dies and molds for cars, electronics, white goods and consumables of all kinds, such as packaging products and plastic bottles. The market for these applications is considered to be one of the fastest growing within the engineering industry. DEPO's sales in 2003 amounted to SEK 270 M. The company is the market leader in Germany. DEPO is based in Marienfeld, Nordrhein-Westfalen, and has some 80 employees. The acquisition is subject to approval of the anti-trust authorities.



### *Increased efficiency in India*

Sandvik Coromant in India has reduced accounts receivable by about 30 percent by reviewing internal routines, prioritizing and increasing awareness of the importance of capital efficiency for its own operations. Further improvements are also within reach thanks to strong commitment on the part of employees. This is an inspiration for the entire Indian subsidiary, Sandvik Asia, as well as for other units around the world, and yet another successful example of TIC – Time is Capital.



### *40 years in Poland*

Sandvik is celebrating its 40th anniversary in Poland during 2004. Growth in the country has been strong, and the positive trend continues. As one of the ten new EU member states, as well as the largest with its population of 39 million, Poland is increasingly attractive for business development. Domestic demand is increasing, and industry is expanding. This means excellent growth opportunities for Sandvik. This applies to Sandvik Coromant, for example, which has its plant Sandvik Baildonit in Katowice, in the southern part of the country. The plant is Poland's largest manufacturer of cemented-carbide tools for metal cutting.

### *In-depth know-how*

Sandvik Materials Technology has launched a unique connector used in extraction of oil and gas. At sea, the connector is used, for example, in a so-called riser-connector system, which is the link between the surface and the ocean bottom – from the platform to the equipment at sea bottom. The patented product results in shorter assembly time and, consequently, major time-savings, enhanced safety and it also provides the possibility of remote control. A new company, Sandvik Gram AS, based in Norway, has been formed to develop, market and sell the product range. The interest on the market is high. This is a product linked to its need.



# Free anti-retroviral drugs

## Sandvik joins the fight against HIV/AIDS in Zambia

HIV/AIDS has a major impact on working life in many parts of the world since it is primarily people of working age that are affected. In some countries in Africa, for example, employers are experiencing severe problems meeting the need for personnel.

In Zambia, it is estimated that one in five inhabitants carries the HIV virus. The average life-time is 32 years and many people feel that education is meaningless.

“This is a problem that affects us on a daily basis, and if nothing is done about it, Zambia will lose 20 percent of its workforce by 2020,” says Ruth Mubita, Head of Human Resources at Sandvik Mining and Construction in Zambia.

However, Sandvik is doing something about the situation. For the past two years, the company has conducted a program that is unique in its scope. The program’s most important activities are providing advice, testing, distributing condoms and, most importantly, providing free anti-retroviral drugs (anti-HIV medicine) for employees and their families.

“I devote about a quarter of my working hours to the HIV/AIDS situation,” explains Ruth Mubita, who visited Sweden for the first time in October 2004.

She was invited to speak about Sandvik’s health program in Zambia at the AIDS conference in Stockholm organized by SIDA, the Swedish International Development Cooperation Agency. In conjunction with this, she took the opportunity to visit Sandviken.

“Some of the world’s largest copper finds are in the border area between Zambia and Congo, and Sandvik supplies and maintains equipment for several large mining companies,” relates Ruth Mubita. “By African standards, Zambia was a wealthy country twenty years ago but today, it is one of the poorest in the world.

One main reason is that so many people of working age are sick. Malaria and TBC are also widespread in Zambia, so it is difficult to assess the extent of absence from work that is due to HIV/AIDS.”

It was not only humanitarian reasons that caused Sandvik to start its campaign against the epidemic. From a business viewpoint, there are gains to be made from keeping the employees healthy. Sandvik is growing in Zambia – from 128 employees to 435 in two years. The company has become one of the leaders in providing service for mining equipment to the large mining companies. Sandvik is investing considerable effort in the training of service technicians.

Since anti-retroviral medicines are so expensive, they are a major employee benefit, which is why it may seem strange that, initially, employees have been reluctant to join the program. Few have agreed to be tested.

“We have many challenges to overcome,” says Ruth Mubita, “the main one being to get employees to understand that we guarantee confidentiality regarding test results and treatment. Many are afraid of losing their job and being rejected by their colleagues, friends and family if it is revealed that they tested positive. Neither do people realize that they will be able to function normally with the efficient anti-retroviral medicines available today.”

The results of a survey among Sandvik managers and workers two years ago showed a high prevalence of prejudice and lack of knowledge about HIV/AIDS. Consequently, education and advice comprise important aspects of the continued program.

“We held a seminar for senior management, who are also trying to set an example,” explains Ruth Mubita. “I myself agreed to be tested to increase the credibility of our message. To raise knowledge and awareness among the employees, we are focusing on dialog out in the work teams. To date, we have trained 50 of a planned 65 ‘workmate trainers’.”

Things are steadily improving. Today, there are about 20 employees and their families who are receiving anti-retroviral drugs paid for by Sandvik.

“Now we also have one employee who revealed publicly that he is infected with HIV and that he feels much better due to the anti-retroviral drugs. This means a lot for the program’s future success.”

Ruth Mubita speaking about AIDS with third-year students at the Göranssonska upper secondary technical school during her visit in Sandviken. From left, Markus Nilsson and Emelie Karlberg.



# Did you know that...

## 1000°C

...the edge of an indexable insert heats up to temperatures of up to 1,000°C during metal cutting

## 20%

...Sandvik's single largest market is the US, with nearly 20 percent of the Group's invoiced sales

## 3000 m

...the latest loader in the Toro series can load material weighing as much as 50 mid-size cars

## 60 ton

...in a waste incineration plant, up to 3,000 meters of stainless compound tube from Sandvik are required per steam boiler

## 4300

...Sandvik now has about 4,300 currently valid patents

## Sandvik's new material paves way for better environment

An issue close to the heart: The flapper valve in a compressor that converts energy into cooling is popularly known as the "heart valve." The small, thin steel flapper valve plays a key role in ensuring that refrigerators and air-conditioning systems function correctly. The fact is that the flapper valve oscillates as rapidly as the wings of a hummingbird – at an incredible 50 beats per second.

High-pressure development: Intensive new development is currently under way in the compressor area, driven primarily by environmental issues. All forms of freon are in the process of being phased out and replaced in modern compressors by the use of pure carbon dioxide as the medium. This involves a sharp increase in pressure and temperature.

Pulsating Sandvik: Consequently, ever-higher demands are being placed on the steel in the flapper valve. To meet these demands, we developed the unique Sandvik Hiflex® strip steel, which is tailor-made for these new compressors. A flapper valve of this type can last for decades, performing 20 billion or more oscillations during its lifetime. Talk about fatigue strength!

Fertile environment for innovations: Sandvik invests considerably more in research and development than its competitors. Each year, we invest about 4% of our sales in R&D – or about SEK 2 billion. This results in a steady flow of new, patented products and ideas, all designed to help our customers become more competitive. Our innovative products give them extra power to grow.



[www.sandvik.com](http://www.sandvik.com)