

# Meet Sandvik

SEPTEMBER 2005



Strong growth

Share redemption

Words from the CFO

Winning team in Brazil

News from Sandvik's world

# Sandvik Q2

PRESS INFORMATION 4 August 2005

Report on the second quarter, 2005

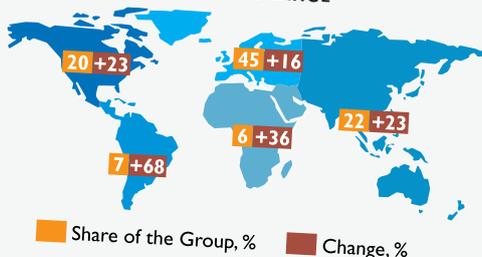
## STRONG GROWTH AND PROFIT INCREASE

- Profit after financial items rose 27% to SEK 2,235 M.
- Order intake increased 22%\* to SEK 17,371 M.
- Invoiced sales rose 17%\* to SEK 16,150 M.
- Net profit for the period increased 21% to SEK 1 608 M.
- Earnings per share rose 23% to SEK 6.10.  
Pro forma after redemption: SEK 6.25, +26%.



"It is very satisfying to present another strong quarter for Sandvik," says Lars Pettersson, President and CEO.

## ORDER INTAKE\* PERCENTAGE SHARE AND CHANGE



"Demand during the quarter remained favorable in all market areas and all business areas reported continued growth. Profit after financial items increased by 27% and the margin amounted to 14%. Earnings per share rose by 23%.

We have now had twelve consecutive quarters with positive growth based on a positive business climate and increased market shares. Our long-term focus on generating customer value through global presence and product development continues to produce results," says Lars Pettersson, President and CEO of Sandvik.

## KEY FIGURES

SEK M	Q2/05	Q2/04	Q1-2/05	Q1-2/04
Order intake	17 371	14 390	33 017	28 550
Invoiced sales	16 150	13 980	30 344	26 660
Operating profit	2 425	1 952	4 466	3 612
Earnings per share, SEK	6.10	4.95	11.30	9.20

## BUSINESS AREAS - ORDER INTAKE\*

+13%



Sandvik Tooling

+33%



Sandvik Mining and Construction

+25%



Sandvik Materials Technology

\* Change compared to the same quarter the preceding year at fixed exchange rates for comparable units. Effective 1 January 2005, Sandvik applies the International Financial Reporting Standards (IFRS). The comparative figures for 2004 have been recalculated to IFRS.



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## Meet Sandvik

The Sandvik Group's magazine for shareholders and employees

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# Continued strong growth

It is highly pleasing that Sandvik showed continued favorable development, with strong growth and increased profit, during the second quarter of 2005.

The Group has now reported positive organic growth for three consecutive years. This is basically due to the positive general business climate. But to a large extent it is also due to our own ability to improve the efficiency of our operations, to convert investments in R&D into new successful products and services and to our continued development of business relations with customers.

All of the business areas reported sharply increased sales, order intake and operating profit during the second quarter. Demand remained favorable in all market areas. Order intake in NAFTA and Asia/Australia was strong, as it was in Europe, where the trend earlier had been weaker. The greatest increase was achieved in South America.

The improvement in operating profit was due to higher volumes and prices, increased capacity utilization and the results of internal efficiency enhancement measures, which offset higher raw materials prices. Profit after financial items rose, as did earnings per share.

An important reason underlying Sandvik's long-term success is our business mission, which is based on productivity and ability to generate value for our customers. In my address to shareholders at recent Annual General Meetings and in other public appearances, I have



consistently stressed this point. A continued focus on research and development makes it possible to offer products and services so that our customers are able to achieve their goals.

Another driving force for the Group's future development is our strong global position. You can read more about how Sandvik creates customer value worldwide in this edition of Meet Sandvik.

Lars Pettersson  
President and CEO

Sandvik's close cooperation with customers focuses entirely on creating increased productivity.

## Successful share redemption program

On 3 May 2005, the Annual General Meeting of Sandvik AB approved the implementation of a share redemption offer, whereby shareholders in Sandvik would be entitled to redeem their shares in the company against a cash payment of SEK 405 per share. The offer was based on the company's strong earnings performance, cash flow and balance sheet. Through the redemption of shares, the efficiency of the Group's capital structure is enhanced at the same time as shareholder value is increased.

During the registration period, 9,787,361 Sandvik shares were tendered corresponding to a value of about SEK 4 billion. Registration for the redemption offer exceeded 99%.

The Extraordinary General Meeting on 28 June resolved to redeem the 9,787,361 shares and to cancel 16,522,000 shares repurchased earlier. The decision was registered in the beginning of July. As a result, share capital has been reduced by SEK 157,856,166

while at the same time about SEK 4 billion was distributed to the Company's shareholders.

After the above was registered and payment was made at the beginning of July, the effect is:

- Sandvik AB's share capital has been reduced by SEK 157,856,166 and amounts to SEK 1,423,544,610. The number of shares outstanding is 237,257,435.
- Sandvik AB's statutory reserve has increased by SEK 157,856,166.
- Sandvik AB's unrestricted shareholders' equity has declined by SEK 3,963,881 and interest-bearing liabilities increased by a corresponding amount.
- The effect of the above is that earnings per share will increase by about SEK 3% as of the third quarter of 2005.

# Productivity as a guiding



## *Underground operations*

Construction of the new city tunnel in Malmö, southern Sweden is currently in full progress. The 17-kilometer-long rail link will extend from Malmö's central rail station, beneath the inner city, and connect with the Öresund rail and road bridge – which today links Sweden permanently with Denmark. Part of the work on this link involves the construction of an underground rail station. This will be achieved using products and technological solutions from Sandvik Mining and Construction. Working from deep shafts, two so-called roadheaders from the Voest Alpine Bergtechnik product area will cut out the space required for the station from the limestone bedrock. The two machines can be described as mobile cutting machines, equipped with rotating carbide-tipped boring heads that “eat” into the bedrock – without any blasting being required.



## *Excellent cooperation*

Maine Drilling & Blasting is one of the largest drilling and blasting contractors in the northeastern US. The company engages in many different assignments, ranging from house foundations and swimming pools to major construction projects. M D & B enjoys close cooperation with MC Tools within Sandvik Mining and Construction and purchases nearly all of its tools from this source. High product quality provides more drilled holes per invested USD and an optimally long operating life.

## *New drill adds to efficiency*

Sandvik Coromant is a leading supplier of cemented-carbide tools for the automotive industry. Customers in this sector appreciate high-quality products and rapid service. Adwest Engineering in the UK is one example. This company manufactures transmission components, among other products, and its customer base includes such names as Bentley and Land Rover. Sandvik Coromant works in close cooperation with Adwest and the UK partner is constantly interested in efficiency improvements based on new solutions and new technology. After having tested Sandvik's CoroDrill® 880, Adwest now uses this indexable-insert drill on a broad front within the company. Processing costs have been reduced significantly through the introduction of the new tool.



## *Thirst-quencher*

Within Sandvik Tooling, Sandvik Hard Materials has further strengthened its position within the area of the cemented-carbide tools used in the production of aluminum cans. Following the acquisition of America's TTI last year, this product area is the market leader in both Europe and the US – and is currently the world leader in this growing customer segment. The efficiency of the service provided to global customers in the sector has continued to be increased in pace with the trend. This is appreciated by industries throughout the world, all of which are thirsting after increased productivity and profitability in order to maintain control over spiraling cost trends.

# star



## Flying business

The aerospace industry is an important sector for Sandvik. The Group delivers cemented-carbide tools to the world's leading aircraft producers and to their specialist suppliers. For example, the Italian high-tech company CoMeAr, which delivers components for the giant new Airbus 380. Sandvik Coromant delivers precision tools for machining of titanium, used by the industry to minimize aircraft weight and achieve high structural strength.

## New compact loader

The focus on smaller, more compact machines for transport operations in mining environments is continuing within Sandvik Mining and Construction. The business area has now developed an extra slim loader, the EJC 90, with a width of less than 1.5 meters. This loader is particularly well suited to work in confined areas and despite its small size offers adequate cabin space with high safety. Today, it is used very successfully in South African goldmines.



## Rotoform increases capacity

Sandvik holds a leading position in equipment for pastille production and granulation – for form or crystallize into grains. Customers are mainly active in various process industries, such as the chemicals industry. Over the years Process Systems, a product area within Sandvik Materials Technology, has delivered over 1,200 plants featuring the steel-belt Rotoform® concept, which is based on the cooling of droplets. Now the product area has developed a new version, Rotoform HS for high-speed and high-capacity production of liquid melts. It was tested at full scale in production at the Italian sulphur producer Econova, with highly favorable results in terms of capacity and quality.



## Crusher in the US

Sandvik's mobile crushers are operating successfully for American contractor J&D Excavators in Phoenix, Arizona. The company has, after careful consideration, chosen the Crawlmaster TM 1208 with Jawmaster JM 1208 from Sandvik Rock Processing. Only Sandvik's products could measure up to the special requirements in terms of aggregate particle size.



## Growth area

Today, the global urea industry has sales of approximately SEK 200 billion annually. The material Sandvik Safurex® has revolutionized manufacturing in the sector and the potential for continued growth is extremely favorable. In Saudi Arabia, a complete urea plant is being built in Sandvik Safurex for the very first time – including all of the tubes and piping components in the most exposed parts of the process. The tubes are far superior to conventional products as a result of their extremely high corrosion-resistance, strength and durability (doubled lifetime!). And there are even greater pluses in terms of customer value: for example, investment costs are reduced by 15% and safety in the fertilizer production process is drastically improved.



# What does the CFO of a global company do?

Per Nordberg was appointed Executive Vice President and Chief Financial Officer of the Sandvik Group slightly less than one year ago. His experience includes production, marketing and finance operations.

Geographically, his workplaces have spanned three continents, the US, Asia and Europe. He now brings this broad experience to the Sandvik Group Executive Management.

How does he feel about coming to Sandvik? What are his most important tasks? What do all the new accounting principles mean for the Group? What do they mean for creating value and focusing on ordinary shareholders? In this article, Per shares his views on Sandvik and its business with an emphasis on financial matters.

## A quality company

Sandvik is without a doubt considered one of the crown jewels of Swedish industry. Operations are well managed, characterized by decisiveness without wasted effort. We use simple, time-proven methods that result in efficient solutions. We also use a lot of common sense. That can really take you a long way. In terms of profitability, Sandvik competes in the top division. The Group constantly meets targets

that are set high. It is no coincidence that Sandvik is among the most highly valued engineering companies in Europe or that it is so highly ranked by international credit institutes such as Standard & Poors. Sandvik has the same rating as the best US companies.

## Focus on customer value

The foundation for Sandvik's success is without question the decentralized business concept. Because the company works so close to its customers, we always know what they want from us. Basically, customers want to continuously increase productivity and need us to help them

reduce costs. That is also the basic focus for our business, so we can create customer value in a very concrete manner. We seldom become involved in price discussions with customers. Usually they can see that an investment in our products or services will result in a favorable return. Customers get added value from Sandvik.

## Guided by a long-term perspective

Another important reason for Sandvik's strong position is its long-term perspective. Somehow, the Group has always resisted industry trends. Trends come and go, but Sandvik has always set its own course. Above all, that means always having the same focus on productivity in our processes as we have in how we act toward customers. It is a question of creating maximum efficiency in all parts of the company. We practice what we preach, in other words. That is how to build a company that is focused on long-term high profitability. Such a company is also less sensitive to economic cycles.

## Shareholder value

Considering Sandvik's long-term perspective and our focus on customer value, our primary task is to create value for our owners and other stakeholders. Value is created through a long-term focus on increasing profitability in the various business areas with the goal of increasing earnings per share. As proof of our success, earnings per share has increased by about 36% since 2003.

## Annual report for whom?

The new requirements being placed on how a company's operations must be reported are undeniably complex. Sandvik naturally applies the Swedish Code of Corporate Governance. We have adapted reporting to the International Financial Reporting Standard (IFRS). Living up to the formal requirements stipulated in these standards definitely does not create an annual report that is targeted to individual shareholders. This is reflected in the fact that much fewer than 10% of the shareholders requested the most recent annual report. Most shareholders felt that the Sandvik World magazine provided the information they wanted.



### **Better assessment of risks**

One thing that is unquestionably good about the new rules is that there is now a clear method for assessing risks and how the business is focused. Risk management has become an increasingly important area in today's annual reports. This is because many American major owners have been hit hard and want to avoid problems in this area through more comprehensive information. Whether or not the new rules are too complicated and too detailed can always be debated, but it is clear that they help companies in their work. The new rules place more stringent requirements on assessing acquisitions and increase the requirements on returns. In addition, the company must review and update its risk assessment once a year. This benefits

that Sandvik during 2005, including the dividend of SEK 11 per share, paid SEK 6.7 billion to the shareholders. This clearly illustrates that it is no longer possible to assess shares simply by following the share price.

### **A more open Sandvik**

Although the new rules themselves increase the complexity in accounting and make it more difficult for the average person to penetrate and understand the business from a purely financial standpoint, the result over time will be that Sandvik will become more transparent. Those of us who are in the middle of this flow of information and figures will have access to better and more detailed information. My hope is that we will succeed in interpreting all these



shareholders by ensuring that companies are more soundly focused and correctly valued.

### **See me as an interpreter**

All these new rules and the increasingly complex reality in which Sandvik operates mean that the CFO's role is much different today than it was just a few years ago. You might say that we have gone from a reporting function to being more analytical and focused on creating value. I have to interpret all the signals that our financial reports send. Is our capital structure correct? Do we have too much cash? How should we finance acquisitions? How do we create maximum value for the shareholders?

### **Successful redemption of shares**

A clear example of how we strive to maximize value for our shareholders is the redemption program that we have recently implemented. Simply put, we had too much cash and decided to let our shareholders have an extra dividend. The method we used was based on freedom of choice. Shareholders were able to choose between redeeming their shares for a cash payment or selling the redemption rights. More than 99% chose the first alternative. This meant

figures and translating them into easily understandable information. We are currently building a new information structure to accomplish this. An important result of this effort is that Sandvik will provide financial information more rapidly.

### **Strong position**

The Group's strong growth over many consecutive years is the result of several factors. One important factor is the long-term approach and the well-defined strategy and business concept. Shareholder and customer value are our primary focus. A look back in time shows that we have been able to deliver both customer value and shareholder value. And the trend continues. Sandvik is constantly developing new products and services for its customers. The Group is continuously finding new applications for these products. Being able to deliver what we promise is the motto by which we will continue to grow.

# News from Sandvik's world



## *Prestigious success in materials handling*

Voest Alpine Materials Handling within the Sandvik Mining and Construction business area has achieved considerable market successes in India. The company has secured a large order valued at about SEK 350 M from the Indian mining and power company NLC, located near the city of Chennai in southern India. The order comprises a turnkey facility for materials handling. The high-efficiency equipment is required when the customer increases the extraction of lignite metal ore by 50% from one of the mines, which is one of the world's largest open-pit mines.

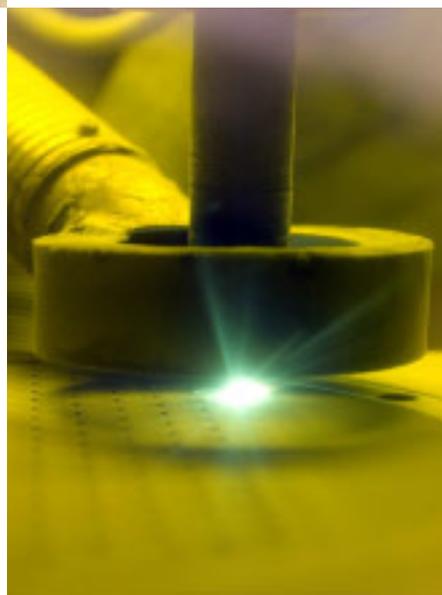


## *Recycling in India*

The Sandvik Asia subsidiary in India will build a new facility for recycling of cemented carbide in Chiplun, south of Mumbai. The new unit is being established adjacent to the existing plant for recycling of cobalt. Used cemented-carbide inserts and solid-carbide products will be shipped for recycling from various markets around the world. The facility is scheduled to be completed in mid-2006 and will supply the whole business area with recycled powder. As a result of the investment, about one fourth of the raw material can be saved.

## *Excellent expertise*

Competence development is a key issue for Sandvik's future. Supporting and encouraging employee development in various ways is fully in line with the Group's fundamental leadership concept: to recruit, develop and retain employees who will focus on a long-term involvement in the Group. A specific example is *Essero Baraka*, newly appointed finance manager at Sandvik Mining and Construction in Tanzania. *Essero*, who holds an advanced degree in accounting from the university in Dar es Salaam, was recently awarded an MSc degree with a major in finance from the University of Strathclyde in Glasgow, Scotland, which cooperates with its Tanzanian counterpart in a joint program for post-graduate study. The continuing studies were facilitated through financial support from Sandvik.



## *Laser cuts costs*

The use of lasers to cut blanks into ceramic inserts increases efficiency and reduces costs. The method is currently being tested at business area Sandvik Tooling in Stockholm. Round, cemented-carbide blanks are laser cut in a sort of honeycomb pattern and by cutting with smaller diameters at the edges, material yield increases by 20%. Laser cutting also opens new possibilities for ceramic inserts in new shapes.



### Investments in Australia

The head office of Sandvik's subsidiary in Australia, Sandvik Australia, is located in Smithfield, outside Sydney. Sandvik has now invested in a new ultra-modern facility, housing offices as well as production and a well-equipped warehouse for Sandvik Materials Technology's customers in Australia. This investment further strengthens the Group's position in the country. Australia is one of Sandvik's most important markets – the third largest, with sales amounting to more than SEK 4 billion.

### Largest tube order for umbilicals to date

Sandvik Materials Technology recently received a major order for so-called umbilicals to a gas field in the Gulf of Mexico. This is the largest single order for umbilicals to date within the business area and amounts to about SEK 300 M. Deliveries will be ongoing through February 2006 from Sandvik's plant in Chomutov, the Czech Republic. The special-alloyed seamless tubes feature extremely high fatigue and corrosion resistance. Top performance is required for the exceptional conditions encountered at the bottom of the ocean.



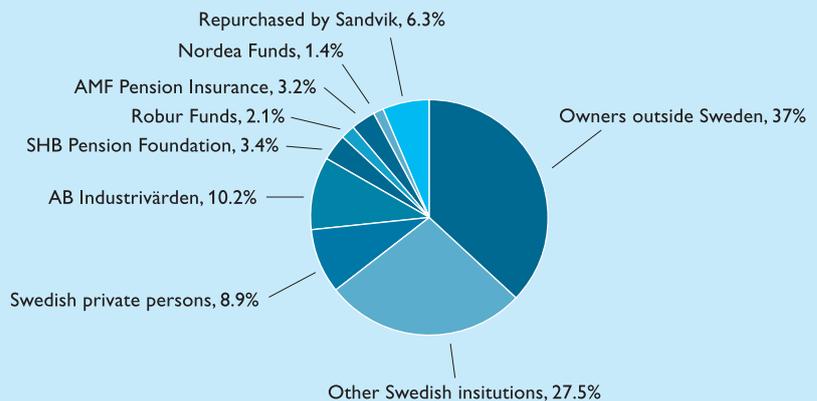
### New R&D center in France

Sandvik invests heavily in research and development, mainly internally, but also in cooperation with various research institutes. Within Sandvik Tooling, for example, the business area's Safety brand cooperates with the university in Tours, France. A new research center, Ceroc, has been established adjacent to the nearby production unit. The research is in the area of metal cutting and the combined experiences from industrial operations and science create a special dynamism. The advanced facilities at the center include equipment within nano-technology. The result of the cooperation is enhanced competitiveness for Safety. It also provides effects in attracting young engineers and technicians to work in the Group in the future.



### Sandvik's owners

The ten largest owners of Sandvik account for nearly 43% of the total number of shares. At mid-year 2005, ownership outside Sweden amounted to 37%. This is nearly the same as in the preceding year, but a triple the figure reported in 1996.



# Winning team in Brazil

Brazil is the largest country in South America and covers almost half of the continent's land mass. With its 180 million inhabitants, the country ranks fifth in the world in population. Sandvik has been in this market since 1949, that is, ever since industrialization began in earnest.

The market successes for Sandvik have been highly substantial. In 2004, for example, Brazil posted the most rapid sales growth of all the major Group markets, an impressive 39%. Sales exceeded SEK 1.5 billion last year, ranking it tenth in the Group based on invoicing. And the potential for continued growth is very favorable.

From the beginning, mainly steel products and rock-drilling tools were sold to the growing domestic market. Nowadays, operations are conducted in all three business areas. The Sandvik do Brazil subsidiary is based in São Paulo, one of the world's largest cities with more than 18 million inhabitants, but operations are conducted in a number of locations in the country.

The largest of the business areas is Sandvik Tooling. Operations within the business area include production of cemented-carbide tools and tooling systems as well as drills in solid carbide and high-speed steel. Customers are found in the die and mold industry, aerospace, electronics and engineering industries. Sandvik Tooling is also a leading supplier of products to a large number of local customers who represent the world's largest manufacturers of cars and trucks.

Another important customer segment is the mining industry. Sandvik has long been a significant supplier of rock-drilling tools and currently markets and sells products and technical solutions from all of Sandvik Mining and Construction's brands. Last year, Brazilian MGS, which is active in materials handling, was acquired. Among other operations, the company is an important supplier of conveyor systems in the mining and construction industry.

Sandvik Materials Technology's largest unit is the wire plant in Mogi Guaçu, outside São Paulo. In addition to precision wire, the main products for the business area are tube, strip and conveyor belts. Customers are in the engineering, oil/gas, pulp and paper, automotive and aerospace industries.

Sandvik is a name to be reckoned with in Brazil. In soccer jargon, it's a winning team on the offense.



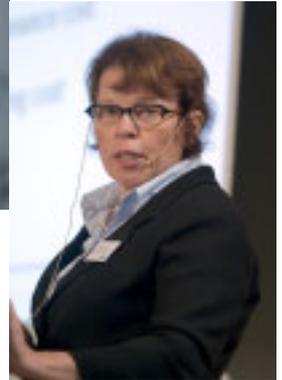
# Focus on customer value

Customer value was the theme of Sandvik's Capital Markets Day in August, to which representatives of the international financial community and the business media were invited.

The Sandvik Group is a global market leader in its selected areas of operations and offers an extensive range of innovative products and services – often developed in close cooperation with customers. Sandvik has a strong local presence in its various markets, and this is an increasingly significant competitive advantage. The Group has production units on all continents, as well as extensive resources for research and



Sandvik Coromant's manager in China, Ee Sian Lee, spoke about cooperation with customers on the Chinese market.



Tuula Puhakka, Senior Advisor, Mining Business Development, from Sandvik Mining and Construction, presented the advantages for customers provided by the business area's patented system for automated mining, AutoMine™.

development, well-developed marketing and sales organizations and a global distribution system.

Productivity is Sandvik's business mission. Increased globalization imposes even greater pressure on all companies to compensate for the intensified competition and the need to keep costs down. This is where Sandvik enters the picture.

Sandvik has the entire world as its market. The most rapid growth during the past ten years has occurred in Eastern Europe, where the company's invoicing has increased five-fold since 1995. The Group has also performed very strongly in Asia/Australia during the past few years. In countries such as India and China, demand for both investment-related products and consumer products is rising sharply, which in turn drives development in many sectors, including the general engineering, medical-technology, chemicals, oil & gas, electronics, automotive, mining and construction industries. These are areas in which Sandvik offers an extensive range of high-tech products and services designed to enhance productivity and profitability – in short, to create customer value.

Sandvik is also expanding in other markets, such as the NAFTA countries (the US, Canada and Mexico), Africa and South America: The recipe for success is the same in all cases: a strong product portfolio, focused R&D resources and a broad customer base. The Group is a global player that also has the capacity to operate at the local level – close to the customers, often through partnerships, no matter which part of the world the customers are in.

During the Capital Markets Day, a number of examples were presented that show how Sandvik generates value for customers worldwide.





## Those who produce in the round must always consider their edge

The world is round: Wheels. Gears. Rings. Ball bearings. Shafts. Nearly everything on our planet that is in motion is based on the round shape. Consequently, the turning of steel is a key operation in many industries. Being able to turn parts and components rapidly and with high precision is a basic condition. At Sandvik, we have elevated this work stage to an art form. We are proud to call ourselves world champions in the field of metal cutting. Spinning faster: Our driving force is to help companies around the world increase their competitiveness. We are their pro-

ductivity partners. Each small increase we can contribute in machining speed means more items produced per unit of time. This in turn means that the costs for the finished product can be reduced to a corresponding degree. And there is big money to earn. Little cause, big effect: The actual cost of the tool is just a few percent of the cost of the finished product. Nonetheless, the tool's significance with regard to the end result is so much greater. If all the industries in the world working with metal cutting were able to increase machining speed by 20%, this would result in an annual savings of hundreds of billions of Swedish kronor! Admittedly, this is a hypothetical calculation, but it is fully within the realm of possibility. New production enhancer: Within the Sandvik Tooling business area, more than 20 new products are developed daily! The aim is that each new product shall result in a significant step forward compared with the preceding generation. A typical example of this is Sandvik Coromant's new cemented-carbide insert for turning of steel. It is designated GC 4225 and is a further development of a successful product already on the market.

A new sharpened generation: GC 4225 is better than its predecessor in all respects – more versatile, more reliable and more efficient. The predecessor has been Sandvik's absolute best-seller, to say the least. Many millions of these inserts have been delivered each year. We believe that GC 4225 will sharpen our sales figures even more. The more our customers use our products, the more they can sharpen their production figures.

Innovation for billions: Sandvik invests considerably more in research and development than its competitors. Each year, we invest about 4% of our annual sales in R&D – or about SEK 2 billion. This results in a steady flow of new, patented products and ideas, all designed to make our customers more competitive. There are billions for them to earn. We make it possible.



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