

SANDVIK AB - Report on 1999 operations

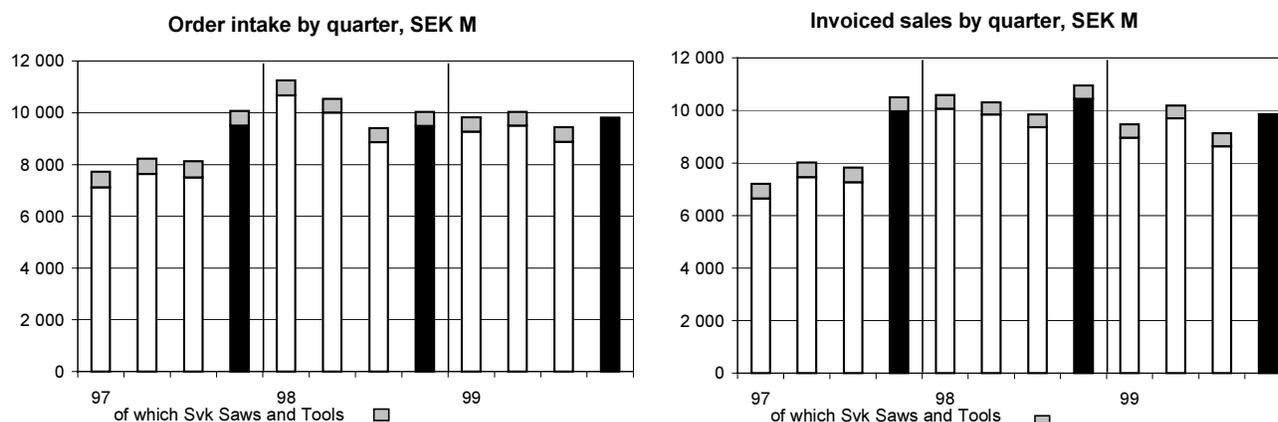
- ÷ *Strong fourth quarter.*
- ÷ *Profit for the year before tax, incl. capital gain, amounted to SEK 5,465 M (3,935).*
- ÷ *Continued improvement in business conditions.*
- ÷ *New Group structure – focusing on core operations.*
- ÷ *Proposal regarding single share class*

Market

The business climate in 1999 improved successively from a weak start. At its lowest, the growth in industrial production within the OECD was about 1%, but rose to 2.5% at year-end. The increase during the autumn was attributable to continued strong economic conditions in the US, improvement within the EU, an upturn in Japan and strong recoveries in Southeast Asia and Korea. The prospects for Russia and South America brightened.

However, development within several industrial sectors of importance to Sandvik was considerably weaker than the average. The prices of oil and base metals rose during the year, which will increase the willingness to make investments in these sectors.

Sales (see appendix 2)



Sandvik's order intake for 1999 amounted to SEK 39,650 M (41,700), which was 5% lower than a year earlier. At fixed exchange rates and for comparable units, order intake declined for the full year by 6%. Order intake rose 5% in the fourth quarter compared with a year earlier and the trend was clearly positive.

Invoiced sales amounted to SEK 39,300 M (42,400), a decline of 7%. At fixed exchange rates and for comparable units, sales declined by 8%. Sales in the fourth quarter were down 3% from the year-earlier period, but rose significantly compared with the preceding quarter. As a consequence of the divestment of Sandvik Saws and Tools fourth quarter sales declined by about SEK 550 M.

Postal address

SANDVIK AB
Group Information
SE-811 81 SANDVIKEN
SWEDEN

Public Company (publ)

Reg.No 556000-3468
VAT No. SE663000060901
www.sandvik.com

Telephone

+46 26 26 10 47

Telefax

+46 26 26 10 43

Order intake in Europe, particularly Germany, rose considerably in the fourth quarter for Sandvik Specialty Steels and the trend was also positive for Sandvik Tooling. Order intake in the NAFTA region turned upward during the autumn also for Sandvik Mining and Construction and Sandvik Specialty Steels, which had experienced a weak start to the year. Sandvik Coromant continued to develop strongly in the NAFTA region and captured market shares. However, Sandvik CTT's order intake in the US was affected adversely also in the fourth quarter due to the continued effects of restructuring and very low demand from the aerospace industry.

The economic crisis in Brazil at the beginning of the year affected demand for Sandvik's products heavily, but recovery has proceeded relatively quickly. Order intake in the Asia/Australia region showed a positive trend and was particularly strong in Southeast Asia and Korea for Sandvik Tooling and Sandvik Specialty Steels. In contrast, demand for Sandvik Mining and Construction was weaker in the region, due to low activity within the coal industry in Australia, among other factors.

Earnings (see appendix 1)

	Q1-4 1998	Q1-4 1999	Change %
Invoiced sales, SEK M	42 400	39 300	-7
Operating profit before capital gain, SEK M	4 595	4 425	-4
as % of invoiced sales	11	11	
Capital gain on sale of Sandvik Saws and Tools		1 625	
Operating profit, SEK M	4 595	6 050	32
as % of invoiced sales	11	15	
Profit after financial items, SEK M	3 935	5 465	39
as % of invoiced sales	9	14	
Net profit, SEK M	2 095	3 620	73
as % of invoiced sales	5	9	

Operating profit for 1999 amounted to SEK 6,050 M (4,595). This included a capital gain of SEK 1,625 M from the sale of Sandvik Saws and Tools. Excluding the capital gain, operating profit was SEK 4,425 M (4,595).

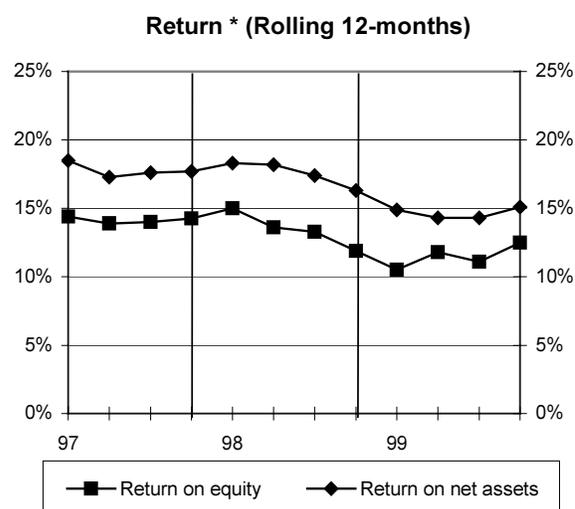
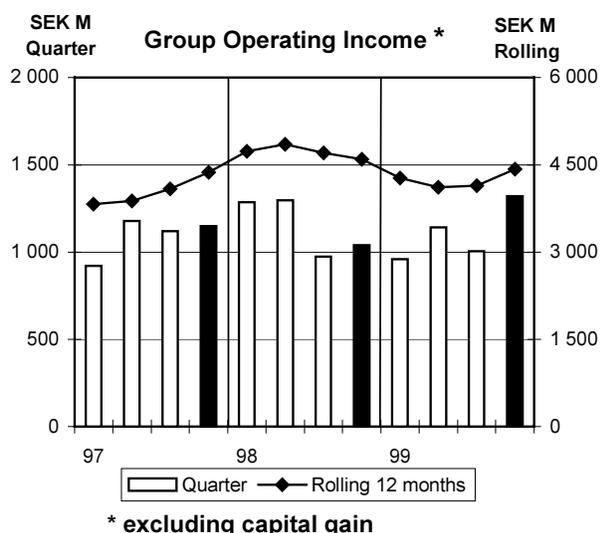
Operating profit improved successively during the year and, as in 1998, was 11% of invoiced sales. Lower volumes in all business areas resulted in low capacity utilization during most of the year, which to a large extent was offset by rationalization measures and cost reductions. Lower prices for Sandvik Specialty Steels had a negative effect on earnings of SEK 500 M. Positive currency effects improved earnings by about SEK 300 M.

Operating profit in the fourth quarter of SEK 1,320 M (1,039) was improved through higher volumes than earlier in the year, better productivity and higher raw material prices in inventory valuation.

Operating margin for Sandvik Tooling remained at slightly more than 20% in the fourth quarter. Sandvik Mining and Construction as well as Sandvik Specialty Steels improved their margins in the fourth quarter.

Net financial expense for the full year was SEK 585 M (660). Interest expenses declined significantly in the fourth quarter, due partly to receipt of the payment for Sandvik Saws and Tools.

Profit after net financial items was SEK 5,465 M (3,935).



Net profit amounted to SEK 3,620 M (2,095). Earnings per share were SEK 14.00 (8.10). Excluding capital gain, net profit amounted to SEK 2,340 M (2,095) and earnings per share were SEK 9.00.

Excluding capital gain, return on net assets was 15.1% (16.3) and return on shareholders' equity 12.4% (11.9).

Structural changes

On 30 September, Sandvik concluded the sale of Sandvik Saws and Tools business area to the American company Snap-on Incorporated. The transaction was first announced in April 1999. The invoiced sales of the business area amounted to about SEK 2,700 M annually. The selling price for the operations, cash and debt free, was about SEK 3,300 M.

As a result of the divestment, Sandvik's operations are concentrated on its three core businesses of Sandvik Tooling, Sandvik Mining and Construction and Sandvik Specialty Steels, areas in which the technology content is considerable and the Group holds leading global positions in its selected niches. Sandvik Tooling includes Sandvik Coromant, Sandvik CTT and Sandvik Hard Materials. Sandvik Specialty Steels comprises Sandvik Steel, Kanthal and Sandvik Process Systems.

As part of the increased focus on core operations and as an important element of the new Group structure, Group Executive Management is being supplemented as of 1 May 2000 with the presidents of the three business areas.

Business areas (see appendix 2)

Sandvik Tooling's invoiced sales declined 3% to SEK 13,177 M (13,576). Volumes to the engineering industry, with the exception of the automotive sector, declined due to the weak business climate. Order intake was SEK 13,155 M, 2% lower than in the preceding year. The positive trend from the third quarter continued into the fourth and order intake rose, primarily in NAFTA and Asia.

Operating profit amounted to SEK 2,597 M (2,724), corresponding to 20% of invoiced sales as in the preceding year. Sandvik Coromant successively increased its margin during the year mainly as a result of cost reductions. Sandvik CTT's quarterly result was somewhat higher than in the prior quarters despite low demand, particularly for Precision Twist Drill in the US.

Sandvik Coromant introduced a large number of new products during 1999 and initiated sales via the Internet. Sandvik Hard Materials' focus on growth areas resulted in increased volumes during the year. Procera Sandvik AB (Sandvik 50%, Nobel Biocare 50%) posted a highly satisfactory sales trend.

Sandvik Mining and Construction's invoiced sales amounted to SEK 8,808 M (9,379), down 6%. The order intake was SEK 9,039 M, 1% lower than a year earlier. The rise in metals prices meant that demand for machinery to the mining industry increased somewhat at the end of the year. The mining industry's recovery of metals was largely constant during the year, which resulted in favorable demand for tools and spare parts. The construction industry showed high activity while the business climate for coal mines remained weak. Order intake rose 7% in the fourth quarter compared with a year earlier.

Operating profit amounted to SEK 674 M (340), corresponding to 8% of invoiced sales. The significant improvement during the year was attributable to a higher portion of profitable products, effects of the implemented restructuring program and rising capacity utilization at the business area's main units.

In September, Sandvik Tamrock Oy acquired Norwegian Brøyt's business involving hydraulic loaders, with sales of about SEK 50 M annually. Operations were moved to Finland.

Sandvik Specialty Steel's invoiced sales amounted to SEK 11,971 M (13,579). The decline was 12% and pertained mainly to investment-related tube products for the oil/gas, chemical and petrochemical industries. Sales were considerably better for consumer-oriented steel products. Order intake was SEK 12,084 M, or 8% lower than a year earlier. The positive trend in the third quarter continued through the fourth, with order intake 7% higher than in the comparable quarter 1998. The increase, primarily in Germany, the NAFTA region and Asia, was attributable mainly to project orders for seamless tubes as well as stock sales to distributors. Kanthal's sales to the electronics industry rose sharply. Prices declined for Sandvik Steel an average of 7% during the year, but are now rising again at the same time as capacity utilization is increasing.

Operating profit improved in the fourth quarter due, among other factors, to a higher inventory valuation by about SEK 150 M. For the full year, operating profit was SEK 633 M (902), 5% of invoiced sales. The lower sales volume and low prices were the main reasons for the decline in profit for the year. The program to reduce expenses and align operations to volumes had positive effects during 1999, and will be intensified in 2000.

In January 1999 Kanthal acquired the American company MRL Industries Inc., the world's largest manufacturer of furnace cassettes for the electronics industry, with annual sales of about SEK 180 M.

Sandvik Saws and Tools' invoiced sales of SEK 2,153 M and operating profit of SEK 153 M included operations through the divestment date as well as Sandvik's remaining distribution operations for Saws and Tools products on certain markets. Sandvik will continue with these operations during a transition period. Sales are forecast to be about SEK 500 M annually and, as of 2000, will be included in the Sandvik Tooling business area.

Capital expenditures

Group investments in property, plant and equipment amounted to SEK 1,875 M (2,811). Company acquisitions amounted to SEK 358 M.

Financing and liquidity

Interest-bearing liabilities and provisions less liquid funds yielded net debt of SEK 6,014 M (8,412 at 31 December 1998). Liquid funds amounted to SEK 2,369 M (1,800) and loans totaled SEK 5,611 M (7,529). Cash flow from ongoing operations amounted to SEK 3,394 M (3,919). After capital expenditures, acquisitions and divestment, cash flow was SEK 4,710 M (963).

A restructuring of the Group's reinsurance operations has started. Measures include divestment of the Group's to date captive company. The earnings effect before tax is estimated at about SEK 300 M and will be reported in the first quarter of 2000.

The number of shares at year-end was 258,696,000. Shareholders' equity per share was SEK 77.70 (72.00 at 31 December 1998) and the equity/assets ratio 52% (47).

Personnel

The number of employees in the Group at year-end was 33,870 (37,520 at 31 December 1998) after company acquisitions and the sale of Sandvik Saws and Tools as well as after a sharp reduction in comparable units. This decline was about 2,230 persons, due mainly to rationalization and restructuring in Sweden, Finland, England, Russia, the US, South America, India and other areas.

Profit-sharing, convertibles and options

Since 1986, Sandvik has a profit-sharing system for all employees in wholly owned companies in Sweden. The Sandvik Group return during 1999 meant that the maximum amount of SEK 150 M was allocated to the profit-sharing fund.

In accordance with the decision at the Annual General Meeting, all employees in Sweden were offered to subscribe for convertible debentures in Sandvik AB during the year. About 70% of the employees subscribed for convertibles for a total of SEK 955 M. Employees outside Sweden were issued 560,900 warrants which can be exercised for an equal number of shares. Full conversion and exercise of the warrants would result in an additional 4,921,050 shares, resulting in a dilution of 1.9%.

Sandvik's Board of Directors decided in 1999 to establish a stock option plan for about 300 senior executives in Sweden and abroad, which replaces a five-year incentive program concluded during the year. The option plan provides the possibility of an annual allocation of so-called personnel options on Sandvik shares with a lifetime of 5 years and the right to exercise after 3 years, conditional upon continued employment. The allocation, which is consideration-free, is based on Sandvik's return on net assets in the preceding year.

The program is based on existing shares. Accordingly there is no dilution effect for the current shareholders. The option plan is secured financially so that future increases in the price of the Sandvik share will not affect the company's costs. The Board has decided to allocate 1.4 million options to 300 senior executives in the Group, of which 42,000 options to the President. The option has an exercise price of SEK 289.

Parent Company

Parent Company invoiced sales reached SEK 10,457 M (12,491) and operating profit was SEK 935 M (1,182). Capital expenditures in property, plant and equipment amounted to SEK 498 M and the number of employees at year-end was 7,361.

Market outlook

The improvement in the business climate that began at the end of 1999 is expected to continue during 2000.

Transition to single share

In the opinion of the Board of Directors a transition from the current A and B shares to a single class of share would benefit both the liquidity and the value of the Sandvik share. Consequently, the Board will propose that the Annual General Meeting resolve to change the Articles of Association so that the company will have only one share class.

Proposed dividend

The Board is in favor of using the opportunities provided in the planned law on redemption of own shares. However, a proposal regarding redemption will not be made to this year's Annual General Meeting since available unrestricted equity in the parent company does not permit redemption this year. During the year, the Board will discuss a new dividend policy, involving a combination of redemption and dividend, to become effective as of 2001.

The Board of Directors proposes a dividend of SEK 8.00 per share (7.00) or SEK 2,070 M (1,811). The proposed record date is 9 May 2000.

The Annual General Meeting will be held in Sandviken on 4 May 2000, at 3:00 p.m. The annual report will be distributed to the shareholders approximately two weeks prior to the Meeting.

Sandviken, 18 February 2000

SANDVIK AB; (publ)
Board of Directors

Appendices:

1. Group summary
2. Invoicing and operating profit

Sandvik Group's result for the first quarter of 2000 will be published in connection with the Company's Annual General Meeting on 4 May 2000.

For additional information, please call +46 (0)26-26 10 01

Consolidated Financial Information, SEK M

	Full-year 1998	Full-year 1999
Income statement		
Invoiced sales	42 400	39 300
Cost of goods sold	-28 817	-26 297
Gross profit	13 583	13 003
Selling, general and administrative expenses	-8 755	-8 485
Other operating income and expenses	-233	-93
Capital gain	0	1 625
Operating income	4 595	6 050
Financial income and expenses, net	-660	-585
Profit after financial items	3 935	5 465
Taxes	-1 675	-1 688
Minority interests	-165	-157
Net profit	2 095	3 620
Balance sheet		
Fixed assets	19 461	18 318
Inventories	10 350	10 040
Current receivables	9 995	9 469
Liquid assets	1 800	2 369
Total assets	41 606	40 196
Shareholders' equity	18 621	20 109
Minority interests	872	888
Interest-bearing provisions and liabilities	10 212	8 382
Non-interest-bearing provisions and liabilities	11 901	10 817
Total provisions, liabilities and shareholders' equity	41 606	40 196
Cash-flow statement		
Profit after financial items	3 935	5 465
Items not affecting cash flow	-73	-1 892
Reversal of depreciation	2 099	2 273
Taxes paid	-759	-1 524
Change in working capital	-1 283	-928
Cash flow from operations	3 919	3 394
Investments, acquisitions and divestments	-2 956	1 316
Cash used in financial activities, changes in loans, dividends	-1 754	-4 133
Net cash flow	-791	577
Key figures		
Order intake, SEK M	41 700	39 650
Earnings per share, SEK*	8.10	14.00
Return on net assets excl. capital gain	16.3 %	15.1 %
Return on shareholders' equity excl. capital gain	11.9 %	12.4 %

* of which, SEK 5.00 in capital gain in 1999.

**Invoiced sales by market area,
SEK M**

	Q4	Full-	Q1	Q2	Q3	Q4	Full-	Change	
	1998	year	1999	1999	1999	1999	year	%	% ¹⁾
	1998	1998	1999	1999	1999	1999	1999		
EU (excl. Sweden)	4 545	16 777	4 078	4 086	3 387	3 720	15 271	-9	-7
Sweden	592	2 375	554	637	461	597	2 249	-5	-3
Rest of Europe	540	2 401	534	613	500	499	2 146	-11	-12
Europe total	5 677	21 553	5 166	5 336	4 348	4 816	19 666	-9	-7
NAFTA	2 569	10 626	2 373	2 645	2 493	2 441	9 952	-6	-9
South America	438	1 978	330	431	421	366	1 548	-22	-21
Africa, Middle East	548	1 916	406	357	406	437	1 606	-16	-11
Asia, Australia	1 898	6 327	1 355	1 591	1 612	1 970	6 528	3	-5
Group total	11 130	42 400	9 630	10 360	9 280	10 030	39 300	-7	-8

¹⁾ Change compared with year earlier excluding currency effects and structural changes.

**Invoiced sales by business area,
SEK M**

Svk Tooling	3 433	13 576	3 326	3 383	3 075	3 393	13 177	-3	-5
Svk Mining and Construction	2 414	9 379	2 101	2 235	2 229	2 243	8 808	-6	-9
Svk Specialty Steels	3 789	13 579	2 733	3 278	2 618	3 342	11 971	-12	-16
Svk Saws and Tools	692	2 694	669	666	647	171	2 153	-20	1
Seco Tools ²⁾	803	3 151	794	791	708	835	3 128	-1	-4
Group activities	-1	21	7	7	3	46	63	/	/
Group total	11 130	42 400	9 630	10 360	9 280	10 030	39 300	-7	-8

**Operating profit by business area,
SEK M**

Svk Tooling	637	2 724	614	665	634	684	2 597
Svk Mining and Construction	64	340	115	178	168	213	674
Svk Specialty Steels	158	902	123	165	105	240	633
Svk Saws and Tools	65	205	64	38	42	9	153
Seco Tools ²⁾	178	677	140	143	94	195	572
Group activities	-63	-253	-97	-47	-39	-21	-204
Op. profit excl. capital gain	1 039	4 595	959	1 142	1 004	1 320	4 425
Capital gain	-	-	-	-	1 600	25	1 625
Op. profit incl. capital gain	1 039	4 595	959	1 142	2 604	1 345	6 050

**Operating profit by business area,
% of invoicing**

Svk Tooling	19	20	18	20	21	20	20
Svk Mining and Construction	3	4	5	8	8	9	8
Svk Specialty Steels	4	7	5	5	4	7	5
Svk Saws and Tools	9	8	10	6	6	5	7
Seco Tools ²⁾	22	21	18	18	13	23	18
Op. profit excl. capital gain	9	11	10	11	11	13	11
Op. profit incl. capital gain	9	11	10	11	28	13	15

²⁾ As a result of the majority holding in Seco Tools, Sandvik consolidates this company. For comments, refer to the company's report on 1999 operations.