

# Meet Sandvik

NOVEMBER 2005



Continued  
growth  
– increased profit

Focus on  
customer value

Productivity as a  
guiding star

Sandvik in China

Oil/gas industry

# Sandvik Q3

PRESS RELEASE 3 November 2005

Interim report third quarter 2005

## CONTINUED GROWTH AND INCREASED PROFIT

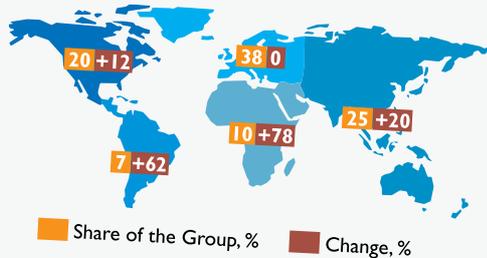
- Profit after financial items rose 26% to SEK 2,126 M, 38% adjusted for nonrecurring items 2004 (SEK 153 M).
- Order intake increased 16%\* to SEK 16,480 M.
- Invoiced sales rose 12%\* to SEK 15,554 M.
- Net profit for the period increased 23% to SEK 1,529 M.
- Earnings per share rose 28% to SEK 6.00, +40% adjusted for nonrecurring items 2004.
- Cash flow rose 80% to SEK 2,932 M.



President and CEO Lars Pettersson comments on yet another strong quarter.

"Demand during the quarter remained strong in all market areas except the EU. Profit after financial items increased by 26% and the margin amounted to 14.5%. Organic growth was 16% and benefited primarily from the strong demand in the oil/gas, process and mining industries. Activity in the general engineering industry was high and increased strongly within the aerospace industry. The Group was awarded a number of major orders during the quarter within prioritized areas, confirming that our comprehensive and long-term investments to generate customer value through global presence and product development yield results," says Lars Pettersson, President and CEO of Sandvik.

## ORDER INTAKE\*



## KEY FIGURES

SEK M	Q3/05	Q3/04	Q1-3/05	Q1-3/04
Order intake	16 480	13 770	49 497	42 320
Invoiced sales	15 554	13 570	45 897	40 230
Operating profit	2 261	1 887	6 727	5 499
Earnings per share, SEK	6.00	4.70	17.30	13.90

The third quarter of 2004 includes a gain on the divestment of the Walter machine division, SEK 153 M.

## BUSINESS AREAS - ORDER INTAKE \*

+7%



Sandvik Tooling

+38%



Sandvik Mining and Construction

+4%



Sandvik Materials Technology

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



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## Meet Sandvik

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# Focus on customer value produces results

The continued strong development during the third quarter, with organic growth, increased profit and a strong improvement in cash flow, confirms that Sandvik's long-term focus on increased customer value through global presence and extensive product development is producing results.

Order intake rose and demand was strong in all market areas except the EU. The increase was particularly large in Africa and South America. As a result of strong growth in Asia/Australia, this market area increased to a quarter of the Group's total sales. NAFTA remains at the same level as previously, one fifth. Despite continued declining share in relation to other markets, Europe is still the largest market area.

The development in such heavy industrial sectors as the oil/gas, process and mining industries affected demand positively. Activity in the general engineering industry was high, particularly in aerospace. Many very large orders in key customer segments were reported during the quarter in the Sandvik Mining and Construction and Sandvik Materials Technology business areas.

Sandvik Tooling developed highly favorably and reported solid growth. Demand rose significantly for Sandvik Mining and Construction, which is now the largest business area in terms of sales. Order intake was also favorable for Sandvik Materials Technology, but it was affected by lower demand for standard products.

In a longer perspective, Sandvik's successes are based on the insight that it is the customers who ultimately create value for our owners and employees. Our focus on productivity, our own and that of our customers, is deeply rooted within the Group. The other success factor is our long-term view combined at the same time with our flexible attitude and willingness to change – not just for the sake of change but because it is necessary to achieve a positive development.

The Group is delivering in accordance with established goals. Looking back three years illustrates this clearly. Organic growth has exceeded the goal of 6% annually. We see favorable results from our R&D: products that are less than five years old generate more than 40% of sales. Establishment of production and market organizations in growth markets is successful



– a growing share of sales is from these areas. The companies that were acquired have been integrated within the Group and broaden our expertise and markets. We have reduced working capital by SEK 4 billion. We are continuing to work with capital rationalization, which fundamentally involves working smarter.

Last but not least, we have carried out a training program for our employees in the Group's core values – open mind, fair play and team spirit. Some 80% of the employees have participated in "fair play" training. I am convinced that this focus on long-term sustainable development will also continue to contribute to increased business opportunities and customer value.

Sandvik is stronger than ever and the Group is well positioned for continued profitable growth. In summary, I would like to underline the following strength factors:

- Strong product portfolio
- Focused R&D resources
- Broad customer base
- Established global sales organization
- Acquisition capacity

A handwritten signature in blue ink, reading "Lars Pettersson". The signature is fluid and cursive, written over a light blue background.

Lars Pettersson  
President and CEO

The Sandvik Mining and Construction business area posted continued highly favorable demand for machines, tools and service during the third quarter.

# Productivity as a guiding

## *Sandvik in the forefront*

Few metal components are so carefully controlled at such short time intervals as the mountings for helicopter rotorblades. First-class material is therefore paramount and this matches Sandvik Materials Technology perfectly. The business area has developed new types of tubes for these applications that comprise a three-edged profile by the rotor blade. Following extensive tests at a customer's facility, the first order has been delivered. The advantage of the new material is that it cuts through the air and provides the rotorblade with an exceptionally hard leading edge.



## *Prototyp as a model*

The Prototyp brand within the Sandvik Tooling business area is a successful manufacturer of tools made from high-speed steel and solid carbide for such segments as the aerospace industry. The Italian company Piaggio Aero is one of Prototyp's customers that manufacture various components for aircraft such as engines, wings and interior components. By using Prototyp's efficient milling tools in solid carbide, Piaggio Aero has been able to reduce the machining time by 50% per component.

## *Enhanced customer satisfaction with IT*

The way Sandvik creates value for the customer takes many forms. Within the Sandvik Mining and Construction business area, a new system is being used that provides the customer and its own service organization with information such as the geographical position of drilling rigs, the machine's production data, when it is time for a service and at what point in time spare parts are required. A computer in the customer's machine sends data to a central database by mobile telephone or satellite. The information is then distributed through the Internet to the users. An excellent example of how IT is used to improve service and enhance customer satisfaction.

## *Wire that saves lives*

Sandvik Materials Technology manufactures wire that is used in springs in syringes for the healthcare sector. The spring mechanism works by automatically drawing back the needle into the syringe as soon as the injection is completed. In this way the medical staff avoids injury and exposing themselves to such risks as HIV. Sandvik's material is extremely clean, has a high surface finish and conforms to the strict requirements within the healthcare sector.



# star



### *New applications*

New applications are being found for the Group's patented material Sandvik Nanoflex® that was originally developed for advanced needles used in eye surgery. One of the most recent examples comes from the food processing industry – a sector that is comparatively prone to injuries such as puncture wounds and so forth. Sandvik Materials Technology now supplies precision wire from Sandvik Nanoflex that is used in protective gloves and aprons for butchers. This enables enhanced mobility especially in the fingers, which improves the working conditions and reduces the risk of injury. The material properties fit the food processing industry like a glove: lightweight, durable, causes no allergic reaction, wear-resistant and highly protective against sharp objects.



### *Safer mining operations*

The Sandvik Mining and Construction business area and the South African mining company Lonmin have signed an agreement regarding a long-term cooperation for the mechanized mining of platinum. The customer's aim is to eliminate work-related injuries and minimize the number of work elements involving risk while also increasing productivity and reducing costs. By 2010, the goal is to mechanize 50% of mining production underground. Sandvik's mining equipment and service allows the customer to reach this ambitious goal.

### *Five tools in one*

Coroplex MT is one of many combination tools that were successfully launched by Sandvik Coromant. Coroplex MT is a combination of a turning and a milling tool and can replace up to five other tools. Several features of the tool provide the customer with benefits – principally the time used changing tools is reduced and more components per unit of time can be produced.



### *Selling shape*

How does the design and shape of consumer products generate business for Sandvik Tooling's brand? Most products require a casing, a packaging of some kind. During the manufacturing, a mold is required to achieve the finished appearance of the product. The mold, which most often is made from metal, must be manufactured and Sandvik has the milling tools required for rapid and effective metal cutting. Take for example a perfume bottle, it is usually made of glass and the design itself is used as sales stimulus. The quality of the surface is entirely dependent on how effective the tool is. This is a clear advantage for Sandvik.



### *New Productivity Center in South Africa*

Sandvik Coromant continues to establish new Productivity Centers around the world. In South Africa a new unit has been opened adjacent to Sandvik's existing plant in Johannesburg. The center is an important part of the training of both the customer's and Sandvik Coromant's own employees in the use of various tools and solutions that enable increased productivity.



# Sales doubled in two years – Sandvik grows rapidly in China

During 2003, Sandvik reached annual sales of SEK 1 billion in China. This year sales are estimated to exceed SEK 2 billion. How has this rapid growth been possible? Can it continue? These are a few of the questions Svante Lindholm answers in this interview.

Svante Lindholm became President of Sandvik's operations in China at year-end 2004. He has a long career behind him in Sandvik. In a position he held previously, he was among those who made the decision to construct the existing plant for the manufacture of cemented-carbide tools in Langfang, south of Beijing. It began operations about ten years ago and was in many ways the launch of the explosive growth of the Group in China.

#### **How do you generally perceive the possibilities in China?**

“Fundamentally the Chinese economy is highly dynamic. GDP is increasing by nearly 10% annually and inflation is under 3%. Certainly, this creates great possibilities for continuing growth for Sandvik. So far, we have grown significantly faster than the Chinese economy. If you look behind the figures, you will discover

enormous activity in China. It is incredibly vibrant here. To secure our continued success it is necessary for us to be a fully integrated element of this pulsating economy. We must maintain a strong local presence. For this reason, we are consciously focusing on expanding our resources, both manufacturing plants and employees. This year and in the years immediately ahead, we will be carrying out extensive investments to increase production capacity. Within a few years, China will become one of Sandvik's largest markets.”

#### **How is it to have manufacturing in China?**

“It is not because China is a low-cost country from a production standpoint that we have our plants here. Our presence with own production is simply necessary if we are to be recognized as a serious supplier in the Chinese market. We are here in order to be close to the customer. The aim is to provide the best service possible. This is the core of all Sandvik's operations. For example, by having production locally we can quickly and efficiently produce a special tool that many Chinese customers require. And their requirements are high; you have to be aware that the demands of a car manufacturer in

China are at least as high as those of a German car manufacturer.”

**What is the difference between doing business in China and in western countries?**

“In China business is done between people in a more typical fashion than in most other countries. This means that much more time must be given to building personal relationships with the people who make decisions. You have to be able to understand their personal driving force and interpret the signs conveyed by them in different ways.

Each Chinese person has an individual goal concerning his or her career ambitions. Furthermore, the Chinese are tremendously bound by tradition and nationalistic in the way they wish to serve their country. They are ambitious and industrious. When a bond is established, the relations are very pleasant and sometimes, even easy going. The Chinese are extremely interested in international contacts and learning about everything in the world around them.”



**How does Sandvik find the right personnel?**

“Today, Sandvik in China employs approximately 850 people. Only a few of these come from other countries. I am one of the 15. Almost all of our employees have a university degree, so the competence level here is extremely high. The average age is low, about 33. Most come to us directly after completion of their studies. We provide them with extensive training on products and in subjects such as English. My estimation is that it takes roughly one and a half years to make a real ‘Sandvikare’ out of them. During the job interview it is important to inform them of Sandvik’s code of conduct and how we work with ethical and environmental issues. These are high on the agenda of the Chinese. They are eager to work in a company that places these issues in the forefront. Sandvik has a good reputation in that respect, and this is

verified by our many loyal employees who have been with us since the very beginning here in China.”

**Is the rapid growth in China problem free?**

“Naturally, it cannot be ignored that this massive country also has huge challenges to overcome. There is an enormous gap between the rich and the poor. The disparity between the cities and the countryside is vast. The coverage of the power supply is far from satisfactory and efforts to address environmental issues have scarcely begun. Some 1,000 cars a day are added to the traffic in Beijing! The Chinese are naturally aware of this and are making huge efforts to bring about improvements. The Chinese symbol for ‘crisis’ also means ‘possibility.’ However, you have to bear in mind that it takes time to achieve results in a nation of this size with so many inhabitants. It is like changing the direction of a supertanker. But I am strongly convinced that it will happen, slowly but surely.”

**What does the Olympics mean to the Chinese?**

“The 2008 Olympics is a national project involving almost all Chinese. To host this event in a successful manner is a matter of prestige at the highest level. The Olympics offers the Chinese an unparalleled opportunity to exhibit their country, their ancient culture and their modern knowledge of the rest of the world. With regard to the Olympics, we can certainly talk about national pride. And they are absolutely sure they will succeed. Just listen to this: The number eight is a lucky figure in China, therefore it has been decided that the Olympics will be opened on the August 8, 2008 at 08:08 that is 0808080808!”



# News from Sandvik's world

## *Strengthened position within mineral prospecting*

Sandvik Mining and Construction and Hagby-Asahi have concluded an agreement which strengthens both companies' position within the area of mineral exploration equipment. The cooperation means that Sandvik will act as a distributor for Hagby-Asahi mineral exploration drilling rigs and for diamond coring drilling equipment in major mining markets such as Latin America, Africa and Australia.



## *Sandvik Smith to be wholly owned by Sandvik*

The Sandvik Mining and Construction business area has reached an agreement with the American company Smith International Inc. Houston, Texas, to acquire Smith International's 50-percent share of Sandvik Smith AB, a company jointly owned by the two since 2001. Operations comprise development, manufacturing, marketing and technical service of roller-cone bits for rotary drilling in the mining and construction industry. The company is registered in Köping, Sweden, where it also has its head office. The sales organization is global and the manufacturing facilities are located in Sweden and India. The company employs 350 people.

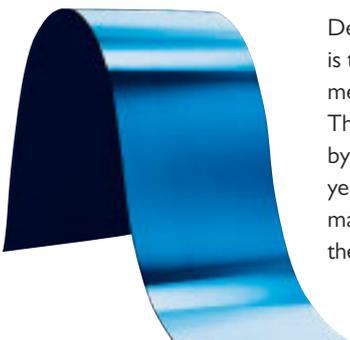


## *New plant in Spain*

Sandvik Hard Materials is currently conducting its single largest investment to date. In Martorelles outside Barcelona, Spain, the product area is constructing a new high-efficiency plant and office premises to which all of the country's existing manufacturing operations will be transferred. Production comprises can tooling, cemented-carbide components for the engineering and automotive industries, metal forming and wire drawing applications, etc. The new plant will improve the production flow and significantly increase productivity. This investment will concentrate all of Sandvik Española's activities in the Barcelona region to one location.

## *Delivery of sorting system to Japan*

Delivery of package sorting equipment to Japan is taking place during the autumn. The equipment is for use in the distribution industry. This follows two large Japanese orders received by Sandvik Materials Technology earlier in the year. The total value of the orders is approximately SEK 175 M. This is again testimony to the Group's position within the sorting segment.



### Substantial orders for material handling systems

Sandvik Mining and Construction has achieved considerable market success in recent times due to substantial orders for advanced systems for materials handling. The combined value of the orders amounts to approximately SEK 1 billion. Delivery will take place during 2006 – 2007. The orders are for customized plants for, among other applications, handling of iron ore in Saudi Arabia and Brazil as well as coal in Australia. The agreement confirms Sandvik's leading position within material handling systems due to high expertise, advanced technology and an extensive service organization.



### Acquisition in China

Sandvik Hard Materials, within the Sandvik Tooling business area, has made an agreement to acquire 10% of the share capital in Gesac – a Chinese manufacturer of metal powder such as tungsten carbide. The company is located in Xiamen, on the coast of the Taiwan Strait. Annual sales total approximately SEK 500 M. Tungsten carbide is an important material in the manufacture of wear-parts components, metal-cutting and mining tools.

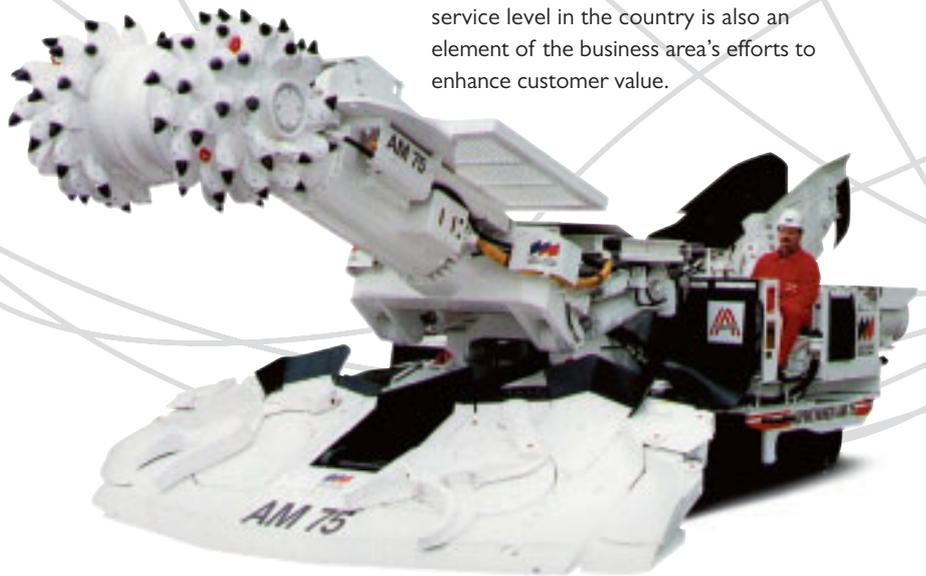


### Increased demand in Poland

Voest-Alpine Bergtechnik, within the Sandvik Mining and Construction business area, has inaugurated a new service unit and assembly plant in Tychy, near Katowice in southern Poland. The investment is being made to meet the increasing demand for mining equipment from the Polish market. The focus on increased presence and service level in the country is also an element of the business area's efforts to enhance customer value.

### Walter receives award at EMO trade fair

Sandvik Tooling's product area Walter received much attention at EMO, the year's largest trade fair for the machine and cutting tool industry in Hannover, Germany. The successful product series Tiger-tec® was promoted at the fair. The series is an important factor behind the strong sales and profitability increase for Walter during the past years. The company also received an award for introducing the world's first inserts with PVD aluminum oxide coating.



# Oil/gas industry – an important area for Sandvik



Fossil fuels – oil, coal and natural gas – account for about 80% of the world's total energy supply. Oil is the most important, primarily because large parts of the transport sector depend on oil-based fuels. Oil consumption is mainly increasing in the new industrial countries such as in Asia. Demand is increasing the most for natural gas. Along with this increased activity, demand for Sandvik's advanced products in the oil/gas sector is also growing.

#### **A wide range of applications**

Development in society is considerably affected by what occurs in the oil market. Oil is tremendously important in our everyday lives, but not solely due to gasoline, diesel oil and aviation fuel for the transport sector and industry as well as oil for residential heating. Oil also plays a major role in the production of a wide range of products – plastics, paints, lacquers, cosmetics, medicines and detergents.

Oil has been used as a fuel for more than 150 years. Of course, nobody knows exactly how long oil deposits will last. New deposits are continually being discovered and with the availability of new techniques, deposits that were previously difficult to reach can now be tapped. The supply of oil in the future depends largely on what investments are made and what technology is used. Another factor is the development of other energy sources. Natural gas, with its high conversion efficiency, is increasing, for example, in importance.

Oil deposits are spread throughout the world. The largest crude oil producers are, in order of size, Saudi Arabia, Russia, the US, Iran, Mexico, China, Venezuela and Norway. The world's largest oil consumer is the US, which accounts for one quarter of the world's consumption. The largest producers of natural gas are Russia, the US, Canada and the UK.

## Increased demand

The increased exploitation and extraction of oil and gas in recent years is a result of combination of a high demand and high price. The high oil and gas prices mean that the oil companies can afford to explore deeper in the ocean and in increasingly corrosive environments. This leads to a growing demand for extremely durable and corrosion-resistant materials and products from Sandvik Materials Technology, which can contend with the harsh demands during extraction. Here are a few examples:

Highly durable **production tubes** from Sandvik are used to pipe oil or gas from the underground deposits to the plants on the ocean floor or on the surface. Recently, a considerable order was received for such tubing for gas extraction in the Middle East. The order is valued at more than SEK 1 billion and, therefore, is the largest order within the business area to date. The order confirms Sandvik's leading position as a producer of seamless tubing manufactured from advanced stainless-steel special alloys for the most demanding applications in the oil/gas industry. The order is also a result of the strategic alliance developed by Sandvik Materials Technology with Tenaris.

Sandvik is also the leader within the **umbilical** sector. Umbilicals connect various production units on the ocean floor and are used to remotely control oil and natural gas deposits in depths exceeding 2,500 meters, when the units can sometimes be several miles apart. The tubes are



Sandvik's seamless, stainless-steel tubes on coils play a key role in production of umbilicals for the oil/gas industry

delivered on enormous coils and its total length can reach 20,000 meters. In connection with extraction being conducted at greater depths, demand for the tube has increased. The extreme pressure deep down in the ocean, the temperature of the oil or gas and, particularly, the need to protect the environment has required the development of new advanced materials.

Sandvik is also the world's leading supplier of **wirelines** in continuous lengths of up to

10,000 meters. Wirelines are used for such applications as the service and inspection of oil deposits and to sink tools and instruments in wells to perform such tasks as the opening or closing of vents, cleaning and measuring.



Seamless tubes for umbilicals are produced at Sandvik's plant in Chomutov, Czech Republic.

Sandvik Materials Technology commands a strong position on the market due to its wide product range in all sectors within the oil/gas industry. The range also includes such products as **hydraulic** and **instrument tubes**, **heat exchanger tubes** and **equipment for the processing industry** used in oil or gas refining. Consequently, the Group's prospects for continued profitable growth in this customer segment are excellent. In addition, Sandvik will increasingly provide products and technical solutions for growing alternative energy sources.



Wirelines from Sandvik are used in service and control of oil wells.



Sandvik's tubes for the oil/gas industry are produced in advanced, stainless-steel special alloys.



## At times we learn from nature

An underground dilemma: Platinum, silver, copper; lead and chromium. All are important metals. The supply of them is actually fairly good, deep in the bedrock. The problem is that they are often found in thin, horizontal layers, or reefs, which are generally not more than about one meter high. On the other hand, however, these reefs can be innumerable kilometers long. Accordingly, large, conventional mining equipment are definitely not suited for this type of mining.

A natural solution: The ideal solution is a machine that can dig its way along the long tunnels – without drilling and blasting. In principle, the hole should not be larger than the layer of metal being mined. When

we dug into the development of such a machine, our thoughts turned to the mole. Our vision was a low design that could advance forward through the rock while simultaneously pushing the recovered mineral back through the tunnel.

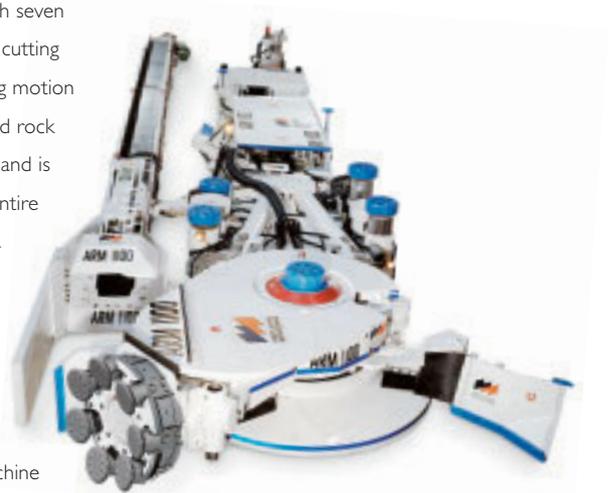
Another type of animal: The result of our product development became a unique design. We call it the ARM (Alpine Reef Miner) 1100. The 1100 refers to the height, just 1.1 meters. This is about the height of the thin layer it will mine. In other words, adapted entirely to the conditions in which it will work. The machine is presented below. Take a close look. It is not often you will see one in the light of day.

Bit for bit: The ARM 1100 is based on a work method known as undercutting. A large rotating disc, equipped with seven rotating, cemented-carbide tipped cutting tools, moves forward in a sweeping motion cutting into the rock. The excavated rock is shoveled aside onto a conveyor and is fed back through the tunnel. The entire process is fully automated. This is a machine of many talents.

An efficient day's work: Due to its unique low profile, the ARM 1100 is also uniquely efficient. There is no need to deal with unnecessary material. And the machine

can be operated by a single person. All maneuvering is directed from a control room, with the operator guiding the machine's movements viewing a display screen. All of these features reduce the total costs of mining the metal compared with traditional methods.

Innovations that refine: 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. We help them transform rock into precious metals.



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