

SANDVIK AB – Interim Report, Six months ended 30 June 1999

- Invoiced sales amounted to about SEK 20,000 M for the first six months. Positive trend noted in second quarter.
- Profit after financial items also improved in the second quarter compared with the first, and amounted to SEK 1,811 M (2,275) for the first six months.
- Sandvik Mining and Construction increased earnings – structural measures are gaining effect.
- Sale of Sandvik Saws and Tools approved by Special General Meeting.

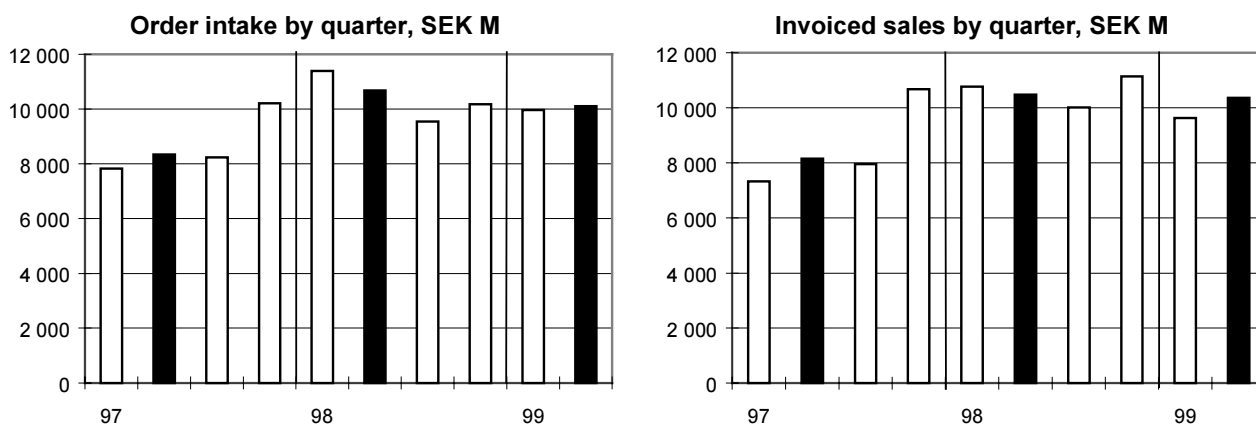
Market

The business climate within the OECD was largely unchanged during the second quarter. Industrial production grew by about 1% on an annual basis. Production declined in the UK and Germany but increased somewhat in the rest of Europe. In the US growth continued for the ninth consecutive year, with a growth rate of about 2.5%. In South America a recovery occurred in Brazil after the devaluation at the beginning of the year. The situation in Southeast Asia and Japan stabilized and industrial production rose sharply in South Korea.

The confidence in an improved business climate increased in the second quarter and the OECD Secretariat increased its forecast for GDP growth in 1999 to 2%.

Activity within certain key customer segments, such as the oil and gas, mining and process industries, was restrained by low investments and depressed raw material prices. However, prices of certain raw materials rose in the quarter, primarily the price of oil. The consumer-based customer segments, including the automotive industry, showed continued favorable activity. Taken as a whole, this means that demand for Sandvik's products has been largely unchanged during the past year.

Sales (see appendix 2)



Order intake amounted to SEK 20,130 M (22,080) in the first six months, corresponding to a decline of 9% compared with the year-earlier period. However, order intake rose 3% from the second half of 1998.

Invoiced sales in the first half of the year totaled SEK 19,990 M (21,250), down 6% compared with the first and second half of 1998. Invoiced sales in the second quarter of 1999 increased compared with the first quarter.

Higher currency exchange rates, including the USD, increased invoiced sales by 3% for the half-year.

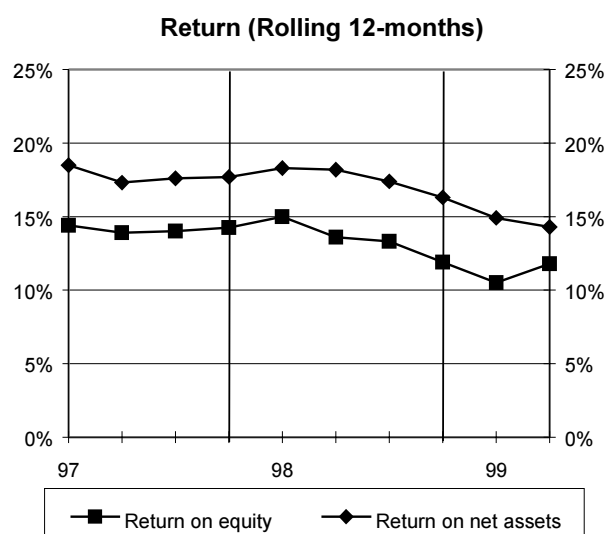
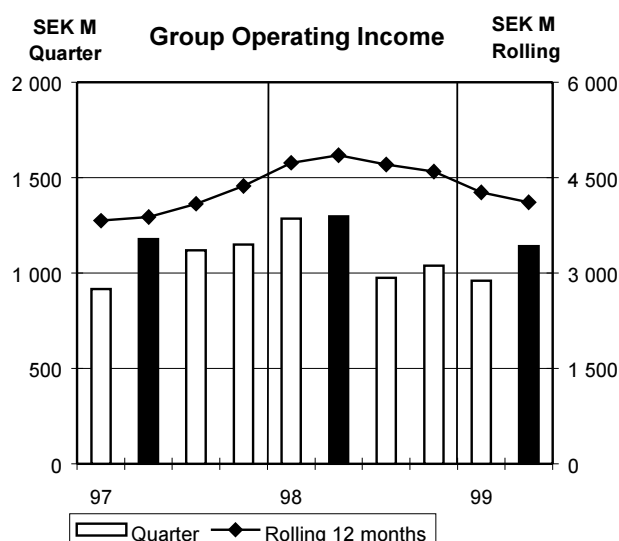
Invoicing in Europe declined 5%, with Sandvik Specialty Steels posting the largest decline. Sales in the NAFTA region were down 8% due to lower demand from the oil and gas, mining and aerospace industries. The decline in South America was 23% despite a strong recovery in Brazil during the quarter. The increase in Asia/Australia was 3% following a sharp rise in the second quarter.

Earnings (see appendix 1)	Q1-2 1998	Q1-2 1999	Change %
Invoiced sales, SEK M	21 250	19 990	-6
Operating profit, SEK M	2 582	2 101	-19
as % of invoiced sales	12	11	
Profit after financial items, SEK M	2 275	1 811	-20
as % of invoiced sales	11	9	
Net profit, SEK M	1 100	1 118	+2
as % of invoiced sales	5	6	

Operating profit in the first six months amounted to SEK 2,101 M (2,582). Earnings were restrained by generally lower volumes and lower selling prices for Sandvik Specialty Steels.

Earnings improved in the second quarter for the large business areas. The reasons included improvements in Asia, higher capacity utilization in Sandvik Mining and Construction, currency effects and reduction of costs.

Profit after financial income and expenses amounted to SEK 1,811 M (2,275). Net profit amounted to SEK 1,118 M (1,100). Earnings per share amounted to SEK 4.30 (4.25). Earnings per share for the most recent 12 months totaled SEK 8.15 (8.10 for full-year 1998). Return on net assets during the most recent 12 months amounted to 14.3% (16.3% for full-year 1998). Return on shareholders' equity was 11.8% (11.9% for full-year 1998). The Parent company reported invoiced sales of SEK 5,209 M (6,677) and operating profit of SEK 390 M (713).



Business areas (see appendix 2)

During 1999, Sandvik changed the organization of its business areas. As of the second quarter, Sandvik Hard Materials is included in Sandvik Tooling with Sandvik Coromant and CTT Tools. Sandvik Specialty Steels includes Sandvik Steel, Kanthal and Sandvik Process Systems.

Sandvik Tooling's invoiced sales declined 3% to SEK 6,709 M (6,934). Order intake was SEK 6,787 M, 4% lower than in the first half of 1998 but 6% higher than in the second half. The trend was weakly negative in Europe but positive in Asia. Invoicing in the US was at a lower level than in the beginning of 1998 and was unchanged between quarters.

Sales of solid cemented-carbide drills and end mills continued to increase sharply.

The operating margin increased somewhat in the second quarter and operating profit amounted to SEK 1,279 M (1,457), in the first six months, corresponding to 19% of invoiced sales. The decline compared with the year-earlier period is due mainly to lower volumes.

Sandvik Hard Materials is included in Sandvik Tooling's values for the first half of 1999 in the amount of SEK 744 M (717) in invoiced sales and SEK 114 M (99) in operating profit.

Sandvik Mining and Construction's invoiced sales amounted to SEK 4,336 M (4,576), down 5%. Order intake was SEK 4,455 M, 7% lower than in the first half of 1998 but 1% higher than in the second half. Demand from the mining industry remained low, particularly for machines. The focus on the aftermarket was successful and many new service contracts were signed during the first half of the year. The sales of service, spare parts and tools currently account for more than half of total sales. The reduction of personnel due to restructuring proceeded as planned and the number of employees declined during the first half of the year by nearly 600.

Operating profit amounted to SEK 293 M (242), corresponding to 7% of invoiced sales. Operating profit improved compared with the first quarter as a result of cost reductions and higher capacity utilization.

Sandvik Specialty Steel's invoiced sales amounted to SEK 6,011 M (6,772), down 11%. Order intake was SEK 5,922 M, or 18% lower than in the first half a year earlier and unchanged compared with the second half. Demand in Asia continued to improve during the quarter.

The decline in sales pertained primarily to project-related products to the oil & gas and petrochemical segments. The development for consumer-oriented products was favorable. This affected Kanthal in particular, resulting in better performance than for Sandvik Steel.

Operating profit declined to SEK 288 M (568) due to lower sales volume and primarily to continuing lower prices. The measures initiated to reduce expenses continued. Nickel prices rose during the quarter, with a marginal positive impact on inventory valuation.

Sandvik Process Systems was included in the values reported for Sandvik Specialty Steels with invoiced sales of SEK 629 M and operating profit of SEK 14 M. (SEK 135 M of invoiced sales were attributable to Sorting Systems in the first quarter of 1999, which was reported first in the second quarter. The corresponding order intake was SEK 96 M).

Sandvik Saws and Tool's invoiced sales of SEK 1,335 M (1,341) and operating profit of SEK 102 M (101) were unchanged compared with a year earlier. A recovery in Asia occurred during the quarter.

Capital expenditures

Group investments in property, plant and equipment amounted to SEK 897 M (1,328). Company acquisitions were made amounting to SEK 193 M.

Sandvik's Board of Directors today decided to invest a total of SEK 265 M, of which SEK 210 M will be used to increase and modernize the production of cemented-carbide powder. Most of this investment will be made in Sandvik Coromant's plant in Gimo, Sweden.

Structural changes

In January 1999 Sandvik's business sector Kanthal acquired the American company MRL Industries Inc., one of the world's largest manufacturers of furnace cassettes for the electronics industry. MRL reported sales of SEK 87 M for the first half of 1998.

On 22 April, Sandvik reached an agreement with the American company Snap-on Incorporated covering the sale of the Sandvik Saws and Tools business area. The selling price for the operations, debt free, is about SEK 3,300 M. The capital gain is estimated at about SEK 1,600 M. The Board of directors' proposal to sell was approved by a Special General Meeting of Sandvik's shareholders in June. Transfer is planned for 30 September and results will be reported in the third quarter of the year.

In February 1999, Sandvik reached agreement with the American investment company Advent International, covering the sale of operations within Sorting Systems. The divestment would have had a marginal effect on earnings for Sandvik. Despite a binding agreement between the parties, it was apparent in June that the investment company was not going to complete the transaction. Accordingly, Sandvik has sued the company in the US. Consequently, Sorting Systems is again included in Sandvik's accounting.

Financing and liquidity

Interest-bearing liabilities less liquid funds yielded net debt of SEK 10,826 M (8,412 at 31 December 1998). Liquid funds amounted to SEK 1,807 M (1,800) and loans totaled SEK 10,144 M (7,529). Cash flow from ongoing operations amounted to SEK 744 M and SEK 20 M net.

The number of shares at 30 June 1999 was 258,696,000. Shareholders' equity per share was SEK 68.20 (72.00 at 31 December 1998) and the equity/assets ratio 44% (47).

Personnel

The number of employees at 30 June 1999 was 36,368 (37,520 at 31 December 1998), corresponding to a decline for comparable units of about 1,300.

Convertibles and options

The special issue of convertible debentures to personnel in Sweden attracted great interest and was oversubscribed. About 70% of the employees applied for an allotment. The total amount of the convertible loan was SEK 955 M, corresponding to 4,360,150 shares at full conversion. A total of 560,900 options were issued to employees outside Sweden. At exercise, the options generate the same number of shares. At full conversion and exercise of options, a total of 4,921,050 shares are created, yielding a dilution of 1.9%.

Options for senior executives

Sandvik's Board of directors has decided to implement an options plan from and including 1999 for about 300 senior executives in Sweden and abroad which replaces the current long-term incentive program concluded during the year. The options plan provides a possibility of an annual allotment of so-called personnel options in Sandvik shares with a lifetime of five years and right to exercise after three years. The options plan will be based on existing shares and, accordingly, does not result in any dilution for current shareholders. The first allotment will be made in March 2000.

The total value of the annual allotment is based on the Group's return on net assets and can amount to a maximum of SEK 50 M with the addition of social security expenses. The options plan is secured financially so that future increases in the price of the Sandvik share do not affect the company's expenses.

Market outlook

There are several indications that an improvement in the business climate is under way.

Sandviken, 11 August 1999

SANDVIK AB; (publ)

Clas Åke Hedström
President and CEO

Appendices:

1. Group summary
2. Invoicing and operating profit

This six-month interim report is unaudited. The next interim report, covering the first nine months of 1999, will be released on 3 November 1999.

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

Group summary, SEK M

	Q1-2 1998	Full-year 1998	Q1-2 1999
Income statement			
Invoiced sales	21 250	42 400	19 990
Cost of goods sold	-13 939	-28 813	-13 601
Gross profit	7 311	13 587	6 389
Selling, general and administrative expenses	-4 669	-8 755	-4 255
Share of profits in associated companies	20	-4	7
Other operating income and expenses	-80	-233	-40
Operating income	2 582	4 595	2 101
Financial income and expenses, net	-307	-660	-290
Profit after financial income and expenses	2 275	3 935	1 811
Taxes	-1 060	-1 675	-614
Minority interest	-115	-165	-79
Net profit	1 100	2 095	1 118
Consolidated balance sheet			
Fixed assets	18 078	19 461	19 353
Inventories	10 522	10 350	10 433
Current receivables	10 581	9 995	10 520
Liquid assets	1 805	1 800	1 807
Total assets	40 986	41 606	42 113
Shareholders' equity capital	16 621	18 621	17 632
Minority interests	845	872	821
Interest-bearing provisions and liabilities	11 084	10 212	12 633
Non-interest-bearing provisions and liabilities	12 436	11 901	11 027
Total provisions, liabilities and shareholders' equity	40 986	41 606	42 113
Summary cash-flow statement**			
Profit after financial items	2 275	3 935	1 811
Depreciation added back	982	2 099	1 069
Taxes paid	-486	-759	-1 210
Change in working capital	-1 382	-1 356	-926
Cash flow from operations	1 389	3 919	744
Net investments	-1 424	-2 956	-1 079
Cash used in financing, activities, change of loans, dividends	-653	-1 754	355
Cash flow	-688	-791	20
Key figures			
Order intake, SEK M	22 080	41 700	20 130
Earnings per share*	9.35	8.10	8.15
Return on net assets*	18.2%	16.3%	14.3%
Return on shareholders' equity*	13.5%	11.9%	11.8%

* Rolling 12 months.

** In accordance with new recommendations from the Swedish Financial Accounting Standards Council 1998.

Invoiced sales by market area, SEK M

	Q2	Q1-2	Q3	Q4	Full-year	Q1	Q2	Q1-2	Change	
	1998	1998	1998	1998	1998	1999	1999	1999	%	% ¹⁾
EU (excl. Sweden)	4 107	8 427	3 806	4 545	16 777	4 078	4 086	8 164	-3	-8
Sweden	701	1 366	417	592	2 375	554	637	1 191	-13	-15
Rest of Europe	634	1 257	604	540	2 401	534	613	1 147	-9	-10
Europe total	5 442	11 050	4 827	5 677	21 553	5 166	5 336	10 502	-5	-9
NAFTA	2 730	5 430	2 627	2 569	10 626	2 373	2 645	5 018	-8	-12
South America	481	985	555	438	1 978	330	431	761	-23	-25
Africa, Middle East	429	915	452	548	1 916	406	357	763	-17	-11
Asia, Australia	1 397	2 869	1 560	1 898	6 327	1 355	1 591	2 946	3	2
Group total	10 480	21 250	10 020	11 130	42 400	9 630	10 360	19 990	-6	-10

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

Invoiced sales by business area, SEK M

Svk Tooling ²⁾	3 406	6 934	3 209	3 433	13 576	3 326	3 383	6 709	-3	-7
Svk Mining and Construction	2 234	4 576	2 389	2 414	9 379	2 101	2 235	4 336	-5	-7
Svk Specialty Steels ³⁾	3 407	6 772	3 018	3 789	13 579	2 733	3 278	6 011	-11	-16
Svk Saws and Tools	632	1 341	661	692	2 694	669	666	1 335	0	-4
Seco Tools ⁴⁾	792	1 611	737	803	3 151	794	791	1 585	-2	-5
Group activities	9	16	6	-1	21	7	7	14	/	/
Group total	10 480	21 250	10 020	11 130	42 400	9 630	10 360	19 990	-6	-10

Operating profit by business area, SEK M

Svk Tooling ²⁾	760	1 457	630	637	2 724	614	665	1 279
Svk Mining and Construction	132	242	34	64	340	115	178	293
Svk Specialty Steels ³⁾	258	568	176	158	902	123	165	288
Svk Saws and Tools	32	101	39	65	205	64	38	102
Seco Tools ⁴⁾	170	364	135	178	677	140	143	283
Group activities	-55	-150	-40	-63	-253	-97	-47	-144
Group total	1 297	2 582	974	1 039	4 595	959	1 142	2 101

Operating profit by business area, % of invoicing

Svk Tooling ²⁾	22	21	20	19	20	18	20	19
Svk Mining and Construction	6	5	1	3	4	5	8	7
Svk Specialty Steels ³⁾	8	8	6	4	7	5	5	5
Svk Saws and Tools	5	8	6	9	8	10	6	8
Seco Tools ⁴⁾	22	23	18	22	22	18	18	18
Group total	12	12	10	9	11	10	11	11

²⁾ Sandvik Hard Materials is included in Sandvik Tooling. Values for prior periods are adjusted for comparison.

³⁾ Sandvik Process Systems is included in Sandvik Specialty Steels. Values for prior periods are adjusted for comparison.

⁴⁾ As a result of the majority holding in Seco Tools, Sandvik consolidates this company. For comments, refer to the company's six-month interim report.