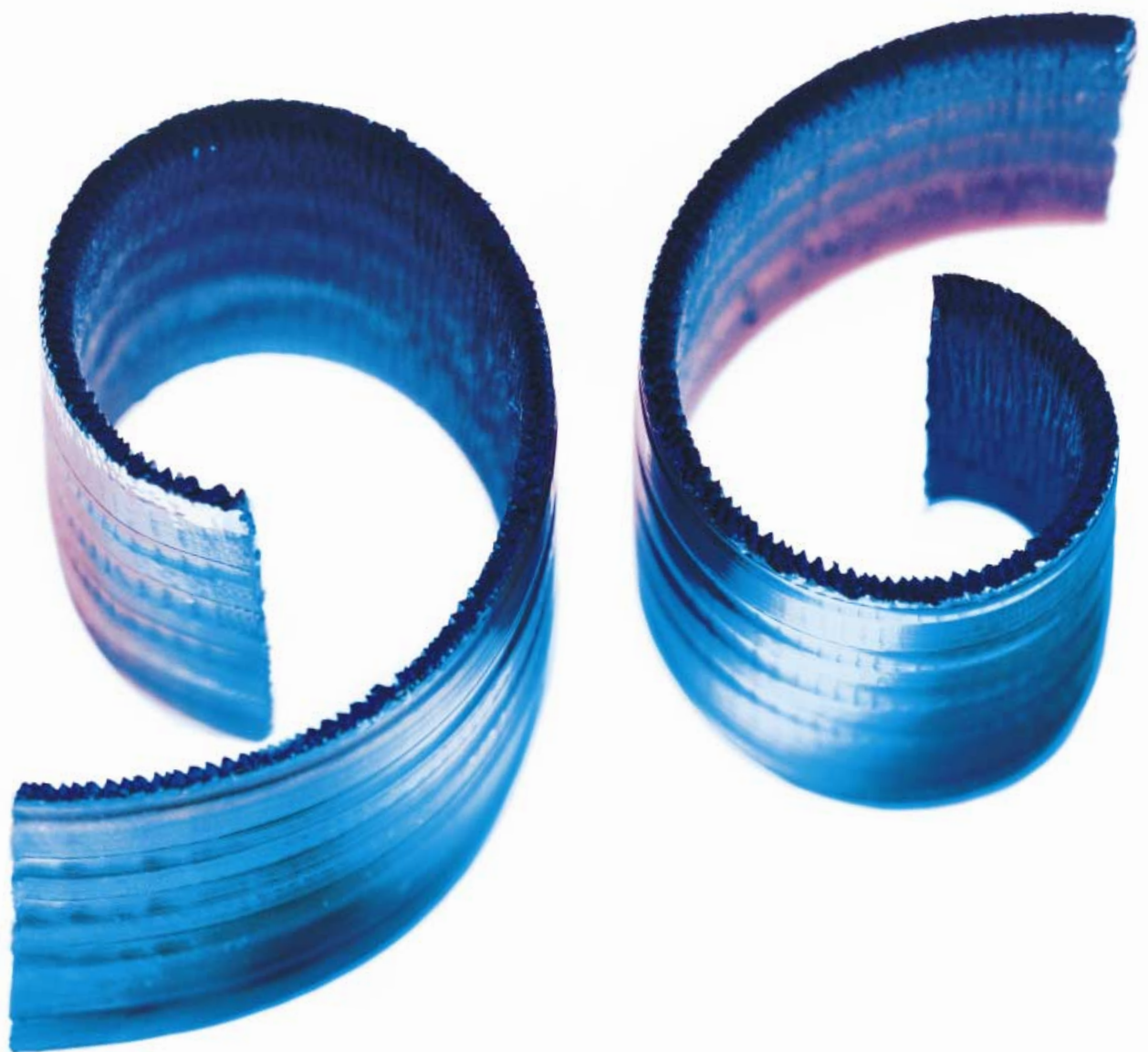


**Sandvik**  
***Annual Report***  
**1996**



# SANDVIK AKTIEBOLAG; (publ) Annual Report 1996

Corporate identity number 556000-3468

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*Cover:*

*Sandvik is the world-leading manufacturer of tools and tooling systems for metalworking, which is represented by these steel chips from turning.*

# Highlights of 1996

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*Second highest earnings in Group history.*

---

*Sales and earnings at high level, despite weak economic conditions in western Europe.*

---

*Negative effect of Swedish krona appreciation.*

---

*Several notable company acquisitions.*

---

*Earnings per share SEK 11.20, down 16% compared with the peak in 1995.*

---

*Proposed dividend 58% of net profit.*

---

*Redemption of shares considered.*

---

	1996	1995
Order intake, SEK M	27 543	29 892
Invoiced sales, SEK M	28 265	29 700
of which, outside Sweden, %	93	92
Profit after financial income and expenses, SEK M	4 453	5 620
Return on net assets, %	20.2	28.0
Return on equity capital after tax, %	16.2	21.6
Earnings per share, SEK	11.20	13.40
Dividend per share, SEK	6.50 *	6.00
Number of employees, 31 Dec.	30 362	29 946

\* Proposed

# Sandvik today

## SANDVIK AT A GLANCE

The Sandvik Group, with headquarters in Sandviken, is one of Sweden's largest export companies, with worldwide business activities conducted through 200 companies and representation in 130 countries. The Group has 30,000 employees and annual sales of about SEK 28 billion. More than 90% of sales are to customers outside Sweden.

Since it was founded in 1862, Sandvik has developed from a provincial Swedish steelworks into an international, materials technology engineering enterprise. Two factors that have contributed greatly to Sandvik's development are the Group's determined marketing efforts conducted in close cooperation with customers throughout the world and continuous product renewal, with particularly strong focus on advanced technology. The Group invests approximately SEK 1 billion annually in research and development on new products and production methods.

Sandvik's operations comprise six separate business areas: Sandvik Tooling (Sandvik Coromant, CTT Tools and Sandvik Automation), Sandvik Rock Tools, Sandvik Hard Materials, Sandvik Steel, Sandvik Saws and Tools and Sandvik Process Systems. The Group also includes Seco Tools, an autonomous group of companies,

whose shares are listed on the Stockholm Stock Exchange.

Sandvik is the world's largest manufacturer of cemented-carbide products, comprising three main product segments: tools for chip-forming metalworking, rock-drilling tools and cemented-carbide blanks.

Sandvik is also a leading manufacturer of tube, strip, wire and bar made of stainless and high-alloy special steels and special metals, high-speed steel tools, saws and other hand tools as well as conveyor and process systems.

## ORGANIZATION

Sandvik's organization is based on six separate business areas responsible for development, production and sales of Group products. Each business area has subsidiaries or divisions within joint Sandvik companies, in all major markets.

Outside the Group's main markets, Sandvik's products are marketed by three regional companies that operate through local subsidiaries, sales offices and agents.

Two other Group companies provide general services; their principal customers are Sandvik units in Sweden, but they also sell services to Sandvik subsidiaries outside Sweden and to external customers.

Sandvik's organization also includes a number of associated

companies whose operations generally pertain to one of the business areas. "Other Group Companies," a separate organizational unit, includes companies or groups of companies whose marketing strategies differ from those of Sandvik's six business areas.

Sandvik's Board of Directors, Group Executive Management, Group Staff Managers and Service Company Presidents are presented on pages 51-53.

## BUSINESS CONCEPT AND STRATEGY

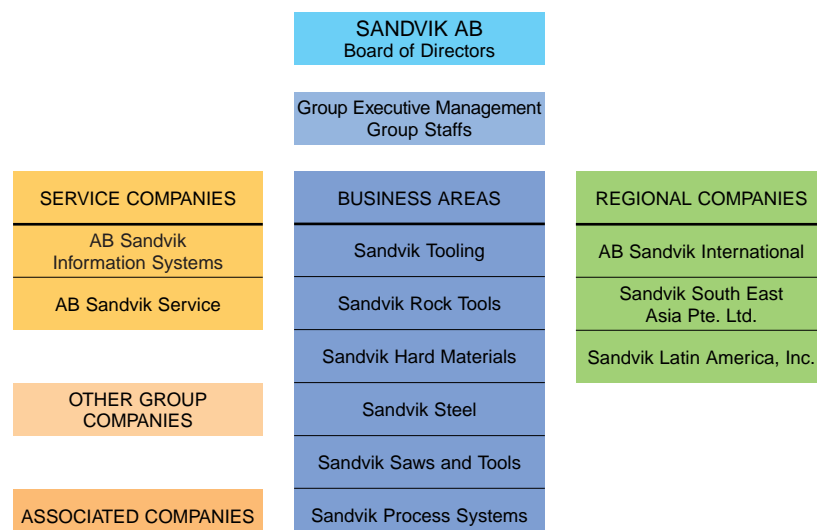
### Core areas

Sandvik's business concept is based on supplying the market with sophisticated products and services in four clearly defined core areas:

- Tools and tool systems for chip-forming machining of metals and composite materials, as well as for drilling in and working of rock and minerals.
- Components and materials that meet high demands in terms of wear-resistance, resistance to corrosion, high-temperature performance, fatigue characteristics and purity.
- Hand tools for professional users.
- Process systems and automatic sorting systems.

### Business concept

Within its core areas, Sandvik shall





*Sandvik's head office and largest plants are located in Sandviken, Sweden.*

develop, manufacture and market highly processed products, made primarily of cemented carbide and other hard materials, as well as stainless steel and special alloys.

Operations shall be concentrated primarily in product niches where Sandvik already is – or has the potential to become – a world leader.

Sandvik shall contribute actively to improving the productivity and profitability of its customers. Products and services offered by the Group shall provide customers with maximum value in terms of performance, quality, speed, safety, flexibility and total economy. Sandvik shall be the obvious first choice for customers.

### **Strategy**

Sandvik shall conduct sophisticated and comprehensive research and development activities designed to improve productivity and quality, create time savings and reduce costs, for customers and in the Group's own operations, in the following four areas:

- Materials and surface-coating technology.
- Product and application solutions.
- Production and process technology.
- Information, communications and logistics systems.

To ensure the best products and

support for Sandvik customers, marketing operations shall be conducted primarily by Sandvik Group employees, but also in cooperation with a number of selected industrial distributors.

Direct contact with the market is also essential to adapt R&D programs to customer needs.

Sandvik products shall be produced mainly in the Group's own production plants. This will ensure the highest quality, availability and cost efficiency and also contributes to Sandvik's determined efforts to create a favorable environment.

Standardized production technologies and, in some cases, own production of strategically important manufacturing equipment, guarantees uniform high quality wherever products are manufactured in the world.

Sandvik shall capitalize on inherent synergy effects in R&D, production, marketing and administration in the Group's various business areas and markets.

Sandvik shall also strive to create working conditions that stimulate employees to perform effectively, assume responsibility and continue to develop in their personal and professional pursuits. The Group shall also promote equality, regardless of gender, race, color, religion, nationality or ethnic origin.

In its dealings with customers,

suppliers, employees and other interests, Sandvik shall act in a highly ethical manner, and as a good citizen in all countries where the company operates.

### **Future growth**

One of Sandvik's most important objectives – and the fundamental principle for achievement of its financial goals – is strong and continued business growth.

Concurrently, the Group's operations should be developed and adapted continuously to changes in the business environment.

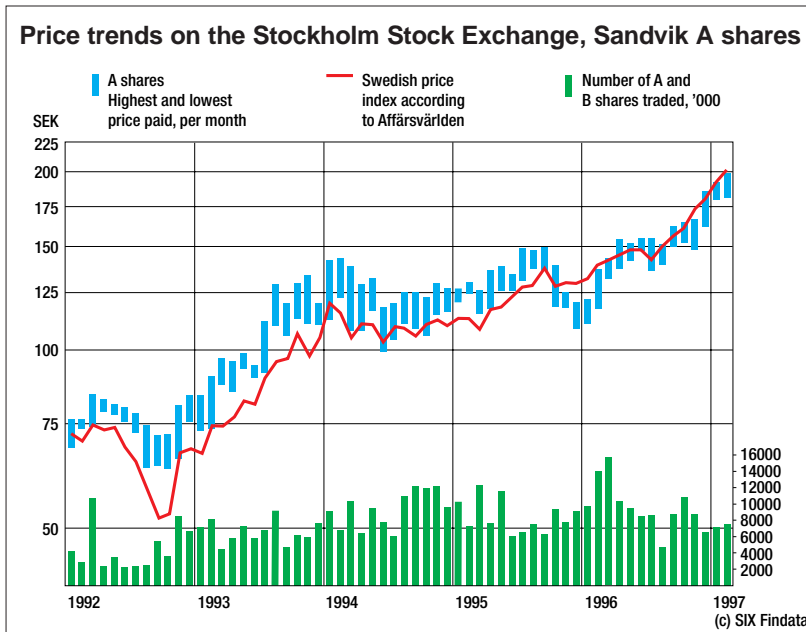
The Group's strong financial position provides scope for increased R&D programs and investments in production and marketing as a means of achieving a higher rate of growth.

Intensified efforts will be made in geographical market regions where the Group has small market shares and where the opportunities for growth appear especially attractive.

Growth will be achieved mainly through a combination of internally generated expansion, acquisitions and establishing joint ventures in existing areas of operation. In addition, if appropriate opportunities arise, Sandvik is also planning to acquire companies with operations outside its present areas of activity but within the framework of its business concept.



# The Sandvik share



The price of Sandvik's A share rose 59% during 1996, compared with an average increase of 44% for engineering industry shares and 38% for the general index.

The Sandvik share ranked 11th most actively traded on the Stockholm Stock Exchange in 1996. A total of 116 million

Sandvik shares were traded during 1996, of which 42 million A shares. The turnover rate for Sandvik shares was 42% (36), compared with 66% (61) for the entire Stockholm Stock Exchange.

Sandvik's market capitalization at year-end 1996 was SEK

51 billion (32), and Sandvik ranked as the sixth largest company on the Stockholm Stock Exchange.

## Distribution of shares and voting rights

Share series	No. of shares	% of shares	% of votes
Series A	209 225 815	75	97
Series B	69 250 565	25	3
Total	278 476 380	100	100

## Dividend policy

The principal financial goal for the Sandvik Group is to create an attractive return and value growth for those who invest in the Sandvik share.

The goal is that the dividend and value growth shall exceed the average for the engineering industry and be clearly higher than risk-free, long-term financial investments and that the shareholders shall receive a dividend of at least 50% of net profit after tax - calculated over a business cycle.

Per-share data, SEK	1996	1995	1994	1993	1992
Earnings <sup>1)</sup>	11.20	13.40	8.75	3.85	4.05
Equity capital	72.00	66.40	57.50	51.60	49.50
Dividend (1996: proposed)	6.50	6.00	3.75	2.25	1.90
Direct return <sup>2)</sup> , %	3.5	5.2	3.1	1.9	2.3
Payout percentage <sup>3)</sup> , %	58	45	35	58	47
Quoted prices, A, highest	186	148	143	134	84
lowest	111	108	100	73	63
year-end	184	116	119	116	82
Quoted prices, B, highest	187	148	142	134	84
lowest	111	109	99	73	62
year-end	185	116	119	115	83
P/E ratio <sup>4)</sup>	16.4	8.7	13.6	30.1	20.2
Quoted price, % of equity capital <sup>5)</sup>	262	175	207	225	166
Average number of shares traded daily on the Stockholm Stock Exchange					
A	166 337	136 425	177 768	93 381	85 820
B	295 718	251 004	248 539	180 667	98 770
London Stock Exchange					
A	77 550	50 774	41 878	92 229	-
B	215 816	178 555	164 235	208 346	178 970

Data for 1992 has been adjusted as if the share split 5:1, which was effected in 1993, had already occurred. Adjustments have also been made in the figures for the years 1992-1994 to reflect new definitions introduced in 1995.

1) Consolidated net profit per share.  
2) Dividend divided by quoted price for A shares at year-end.  
3) Dividend divided by earnings per share.  
4) Market price of A shares at year-end in relation to earnings per share.  
5) Market price of A shares at year-end as percentage of reported equity capital per share.

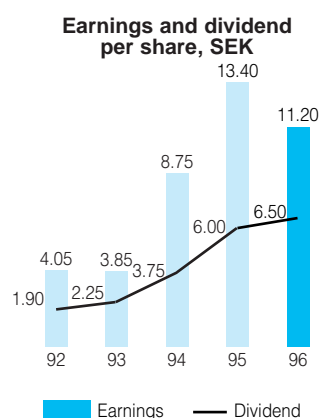
Additional definitions are presented on page 39.

With the proposed dividend in 1996 (SEK 6.50 per share), the increase in dividends has been slightly more than 40% annually since 1993. The dividend comprises 58% of net profit in 1996. Average dividend payout during the period 1993-1996 amounted to about 50%.

During recent years, Sandvik has made determined efforts to increase significantly the flow of information to financial market interests, and established a special function for investor relations.

### Shareholders

The number of shareholders is about 44,000. The ten largest shareholders in Sandvik hold 54% of all shares and 66% of voting rights. In total, publicly listed corporations, insurance



companies, funds and foundations hold 74% (76) of all Sandvik shares. Shares owned by foreign investors amount to 18% (14) of all shares and 6% of voting rights.

### Options

Standardized options on Sandvik B shares were introduced for trading in May 1993.

### Analyses

The following companies prepared analyses of Sandvik during 1996:

ABN AMRO Bank (Netherlands)  
 Alfred Berg Fondkommission  
 Aros Securities  
 Barclays de Zoete Wedd (UK)  
 Carnegie Fondkommission  
 CS First Boston (UK)  
 Den Danske Bank (Denmark)  
 Den norske Bank  
 Deutsche Morgan Grenfell  
 Enskilda Securities  
 Erik Penser Fondkommission  
 FIBA Nordic Securities  
 Fischer Partners  
 Fondkommission  
 Föreningsbanken  
 Fondkommission  
 Goldman, Sachs International (UK)  
 Gudme Raaschou Securities A/S (Denmark)  
 Hagströmer & Qviberg  
 Fondkommission  
 Handelsbanken Markets  
 James Capel & Co. (UK)  
 Jyske Bank (Denmark)  
 Kleinwort Benson Securities (UK)  
 Lehman Brothers (UK)  
 Matteus Fondkommission AB  
 Merrill Lynch (UK)  
 Morgan Stanley (UK)  
 Myrberg & Wiklund  
 Nomura (UK)  
 Nordbanken Trading  
 Nordiska Fondkommission  
 Paribas Capital Markets (UK)  
 Prudential Securities (U.S.A.)  
 Skandiabanken  
 Société Générale Equities & Derivatives (France)  
 Swedbank Markets  
 UBS Global Research (UK)  
 Unibank Securities (Denmark)  
 Öhman J:or Fondkommission

### Largest shareholders in Sandvik AB (December 1996)

	Percentage of voting rights	Percentage of shares
Skanska AB	25.9	20.1
Investment Funds of Swedish Savings Banks	10.8	10.1
National Swedish Pension Insurance Fund, Fourth Fund Board	7.9	6.2
Svenska Handelsbanken's Pension Foundation	5.0	3.9
The Swedish Staff Pension Society (SPP)	4.2	3.7
Folksam including AMF-s	2.7	2.2
Labor Market Insurance AB (AMF-p)	2.7	2.5
National Swedish Pension Insurance Fund, Fifth Fund Board	2.3	1.8
Skandinaviska Enskilda Banken Investment Funds	2.1	1.6
Skandia	2.0	1.5
Trygg-Hansa	2.0	1.8
Svenska Handelsbanken's Investment Funds	1.7	1.4

### Distribution of Sandvik AB share ownership (December 1996)

Holding	Number of shareholders	As % of all shareholders	Total number of shares	% of share capital	Average number of shares per holder
Maximum 500 shares	32 610	74	5 739 801	2	176
501-1 000	5 084	12	4 090 431	1	805
1 001-10 000	5 532	13	15 507 857	6	2 803
10 001-100 000	564	1	16 307 633	6	28 914
More than 100 000	171	0	236 830 658	85	1 384 975
	43 961	100	278 476 380	100	6 335

# Letter from the President and CEO

## Capacity for increased growth

*The year 1996 was the next best in the history of Sandvik. Sales and earnings reached high levels despite weak economic conditions in western Europe and negative effects of currency exchange rates. The year was also eventful, marked by several notable acquisitions that are a natural part of our expansion strategy. In 1997, we anticipate a nearly unchanged level of earnings, compared with 1996.*



The decline in market demand first noted toward year-end 1995 continued through 1996. Industrial production in OECD countries increased an average of about 2%. Among EU nations, economic conditions were weak, mainly in Germany and France. Overall industrial production in the US rose about 3%. Development in Asia remained favorable, but growth was down slightly compared with preceding years.

Sandvik's sales in current prices declined in 1996, but increased at fixed exchange rates. Sales reflected the variations in economic conditions between different markets. More than half of Sandvik Group sales are booked in EU countries and consequently were affected by the generally weak conditions in the region. However, this was offset by the sales trend in the NAFTA region and other world markets where demand was higher.

Consolidated net profit declined 16%, due mainly to the stronger Swedish krona (SEK), gradually falling steel prices and losses incurred by Sandvik Process Systems. Exports from Sweden, which account for about 60% of Group production, yielded lower earnings because of the stronger SEK, and the

earnings of subsidiaries outside Sweden were lower after translation to SEK. In total, currency movements affected earnings negatively by about SEK 600 M.

### Improved market positions

Group business areas that incur most operating expenses in Sweden were affected more than others by the stronger SEK. Most were able to maintain high levels of profitability despite currency effects, however, and strengthen their positions of leadership in the world market.

*Sandvik Tooling* again reported high profitability. Sandvik Coromant, the largest sector of Sandvik Tooling, solidified its unique position in the area of cemented-carbide tools for chip-forming metalworking applications. The profitability of CTT Tools could be sustained unchanged, despite lower sales. CTT Tools is the world's largest manufacturer of high-speed steel tools and is now expanding operations in the field of solid cemented-carbide tools.

*Sandvik Rock Tools* defended its position as one of the world's leading manufacturers of rock-drilling products. Earnings were at a favorable level for the second consecutive year. Through Sandvik's increased involvement in Tamrock, the Finnish manufacturer of rock-excavation machinery, it should be possible to further increase competitiveness.

*Sandvik Hard Materials* has been the world's largest manufacturer of cemented-carbide products for the highly expansive electronics industry and other industrial sectors for the past few years. Strong earnings reported in 1994 and 1995 could not be repeated last year, however, mainly because of the strong Swedish and British currencies. A new structural program combined with higher sales of prioritized products is expected to

strengthen the business area's earning power.

*Sandvik Steel* manufactures highly refined products and maintains a leading role in niche sectors of the world market. Despite a decline in earnings, due mainly to the stronger Swedish krona and declining prices, profitability was very satisfactory compared with steel industry standards.

*Sandvik Saws and Tools* reported weak profitability due to lower sales volumes, the stronger SEK and structural costs incurred during the year. The operating margin was unchanged and the business area failed to reach the Sandvik Group's target level for profitability. Efforts to improve operating efficiency were continued. The number of production units will be reduced further.

*Sandvik Process Systems* was adversely affected by continued weak investments in the critical European market, uneven capacity utilization at production units and internal structural problems. A comprehensive program of corrective measures designed to improve earnings was started toward year-end 1996.

### Attractive investment

One of our primary objectives is to make Sandvik shares an attractive investment. Dividend and value growth shall exceed the average in our industry and clearly exceed interest on other risk-free, long-term financial investments. It is our declared objective that shareholders shall be paid dividends averaging a minimum of 50% of net earnings after tax over the course of a complete economic cycle.

The proposed dividend in 1996 corresponds to 58% of net profit. Consequently, average dividend payout during the past four years amounts to about 50%.

Our overall goal for profitability is to maintain a minimum average return on net assets of 20% over the course of a complete economic cycle. In 1995 we reached 28%, and in 1996 20%.

### Successful strategy

In 1994, we established a goal to sharply increase volume growth to an average of 6% annually during



the next 10 years, compared with 4% during the preceding 10-year period. The plan calls for increased markets shares in all market regions. After three years, we have come a fair distance, with average volume growth of 10% annually.

We believe our ambitious plan to increase volume growth can be financed concurrently with complementary acquisitions as in 1996, while also maintaining a sustained and aggressive dividend policy. Eventually, the effects of our strategy on Sandvik's capital structure will be reflected in the conversion of a net cash position to a net liability position, which will increase the return on equity capital.

An important element of our growth strategy is additional investments in the already extensive research and development activities. Every year, Sandvik invests approximately SEK 1 billion in R&D. During the past two years, these investments have increased 20%. A total of about 1,500 persons, corresponding to one of every 20 employees, is directly involved in Sandvik's R&D. Most of them are highly qualified technicians and more than 50 hold Ph.D. degrees.

In parallel with the Group's own development programs, Sandvik has agreed to finance seven Ph.D. studies during the next five years. The studies are concentrated on materials technology projects conducted at the Royal Institute of Technology in Stockholm, Chalmers Institute of Technology in Gothenburg and Uppsala University.

Sandvik is also increasing its already strong and comprehensive global market presence. We now have production plants, sales offices or other forms of representation in about 130 countries, which provides a strong foundation for continued growth. Our planned sales growth will require increased market investments as well as expanded local production, primarily in Asia and eastern Europe.

Continued efforts are also concentrated on expanding Sandvik's marketing organization in China. The Group has about 10 service and sales offices as well as other forms

of business representation in all important Chinese provinces. In 1994, Sandvik opened a factory for production of tool holders in Langfang, just outside Beijing. Last year, construction was started on a new plant in Langfang for production of cemented-carbide inserts.

In Russia, modernization is under way of our company MKTS, the largest manufacturer of cemented-carbide in the country. A new training center was opened during the year in Moscow for customers as well as Sandvik personnel.

In India, Sandvik established a new joint-venture company, Sandvik Choksi Private Ltd. for production of stainless-steel seamless tubes. The investment comprises an important strategic development to expand operations in Asia, and the new plant will supplement Sandvik Steel's tube production facilities in Sweden, England, France, the Czech Republic, the US and Canada.

A major investment was made at the steel mill in Sandviken which, in addition to improving the environment, provides the possibility to increase capacity by 40%. Insert and tool production facilities at Gimo, Sweden, were expanded during the year, and construction was started on a new plant for cemented-carbide powder production.

In addition to our own marketing activities and investments, complementary acquisitions of companies is included in the expansion strategy. During 1996, a number of acquisitions were carried out in our existing business areas. Sandvik acquired 47% of the shares in Kanthal AB, a Swedish materials technology company. Operations have links to Sandvik Steel, and the two companies have cooperated closely in the past. To intensify this cooperation, our intention of increasing ownership in the company in the future remains.

In the area of rock excavation, Sandvik Rock Tools has cooperated closely with Tamrock, a Finnish manufacturer of rock-excitation machinery, since 1989. Last year, the Group acquired 49% of all shares in the Tampella Group, which owns Tamrock. A three-year convertible

loan in Tampella provides the possibility of attaining a majority holding in the company.

### **Sandvik 1997**

Sandvik's production capacity and extensive, global marketing organization characterized by close proximity to customers has been strengthened by the investments and acquisitions in recent years. Expansion in growth markets of Asia and eastern Europe has continued in parallel with growing market opportunities. Substantial investments have also been made in R&D. Rationalization and efficiency enhancement work continues with undiminished intensity. These investments should be viewed in a long-term perspective and combined they form important cornerstones for continued successful development.

The positive development of Sandvik's earnings and the cash flow in recent years has created a certain over-capitalization. In view of this, a new dividend policy now applies, with a significantly increased dividend. At the same time, the goal has been set to increase the Group's rate of expansion. These measures will result in a gradual reduction of the equity ratio.

The Board of Directors has also resolved to examine alternative measures to improve Sandvik's capital structure, including the possibility of reducing equity through redemption of Sandvik shares. The Board has indicated a redemption total of about SEK 4,000 M, and intends to present a detailed proposal for the Annual General Meeting.

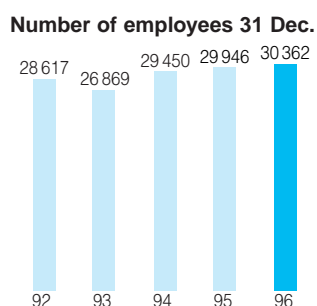
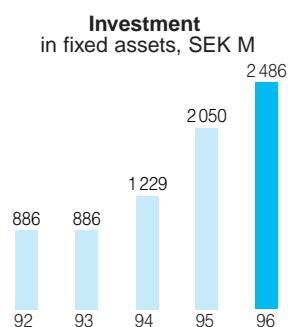
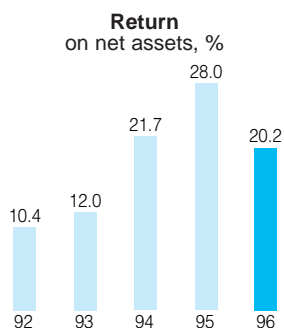
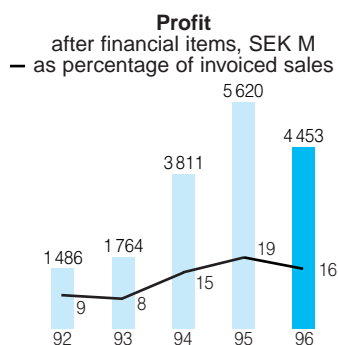
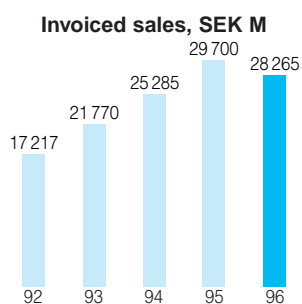
In summary, Sandvik approaches the future from a position of strength. We have good potential to grow more than the market. For the immediate future, the economic outlook is uncertain. We foresee a nearly unchanged earnings level in 1997, compared with 1996.

Sandviken, March 1997

Claes Åke Hedström  
President and CEO

# Report of the Directors

## Group review



Sandvik Group	1996	1995	Change, %
Order intake, SEK M	27 543	29 892	-8
Invoiced sales, SEK M	28 265	29 700	-5
Profit after financial items, SEK M	4 453	5 620	-21

Invoiced sales of the Sandvik Group in 1996 amounted to SEK 28,265 M (29,700), down 5% in value but an increase of 2% at fixed exchange rates. Markets outside Sweden accounted for 93% (92) of sales. The order intake declined during the year from a very high level, totaling SEK 27,543 M (29,892) at year-end, 8% lower in value than in the preceding year and 1% lower at fixed exchange rates.

Profit after financial income and expenses declined 21% to SEK 4,453 M (5,620). The main reason was that the appreciation of the Swedish krona at the end of 1995 gained full impact on Sandvik's earnings in 1996. Return on net assets was 20.2% (28.0). Earnings per share were SEK 11.20 (13.40).

The Board of Directors proposes a dividend of SEK 6.50 (6.00) per share, corresponding to 58% of earnings per share.

### Structural changes

In February 1996, Sandvik Steel took over the operations for the electro-polishing of tubes for the electronics industry from Avesta Calamo AB in Molkom, Sweden.

In February 1996, CML Handling Technology S.p.A. in Italy was acquired. This company manufactures materials handling equipment and systems for the high-speed sorting of goods.

Sandvik Rock Tools became a 30% part-owner in the Swedish G-Drill company.

During the period April to June, Sandvik acquired in several stages a total of 65.2 million shares (48.9%) in the Finnish Tampella Group. The Group comprises mainly the leading rock-excavation equipment manufacturer Tamrock Oy, with which Sandvik Rock Tools has been cooperating since 1989 and in which Sandvik for

several years has held 25% of the shares. The Group also includes Detec (mechanical demolition hammers), Roxon (conveyor equipment for bulk materials handling) and, through acquisition during the autumn of 1996, the Voest-Alpine Bergtechnik group (machinery for coal mining). Sales in 1996 amounted to about SEK 6,500 M.

Following a Special General Meeting on 18 June, Sandvik sold its 25% of the shares in Tamrock to Tampella. The purchase price was FIM 325 M, of which FIM 322 M remains as a convertible debenture loan to Tampella. The term of the loan is three years and is convertible at any time into Tampella shares. After full conversion Sandvik receives 28 million shares and assuming otherwise unchanged conditions, Sandvik will own 57.6% of the total shares in the company. In early 1997, Tampella Corp. will change its name to Tamrock Corp.

The Board of Directors of Sandvik AB decided on 1 April 1996 to tender an offer through the wholly owned subsidiary Sandvik Invest AB to the shareholders in Kanthal AB and to holders of warrants issued by Kanthal AB to transfer their shares and warrants. At the time the offer was announced, Sandvik did not own any shares or warrants in Kanthal.

Sandvik published a prospectus for the offer on 26 April 1996. The acceptance period was from 30 April and, after an extension, to 12 June 1996. The terms for those accepting the offer was receipt of SEK 120 in cash, less the dividend approved for the 1995 fiscal year (SEK 4.50), for each share held in Kanthal.

Through the offer and additional purchases, Sandvik reached a holding of 5,272,877 Series B Kanthal shares, corresponding to

42.8% of the share capital and 22.6% of the voting rights in Kanthal, calculated *after* full exercise of the warrants outstanding. Based on shares outstanding and *before* exercise of the warrants outstanding, the holding represents 47.3% of the share capital and 33.4% of the voting rights.

Kanthal is a leading manufacturer of high-temperature materials in the form of wire, strip and tube and components for electrical heating of household appliances and industrial furnaces. Kanthal's sales in 1996 amounted to about SEK 1,700 M. Kanthal's operations are closely associated with Sandvik Steel's and the companies have cooperated extensively in the area of hot-rolling of strip and wire and the extrusion of tube material. In order to intensify this cooperation, Sandvik's long-term intention to increase its ownership in the company remains.

In May, Sandvik acquired the remaining 50% of the shares in Sandvik-Villares Wire Ltda in Brazil. As a result of the acquisition, Sandvik became the sole owner of the company which is the leading drawing mill in Latin America in the field of stainless-steel wire. The company had sales in 1996 of approximately SEK 110 M, with about 100 employees.

The French company Precitube S.A., which is a leading manufacturer of precision tube in stainless steel and nickel alloys, was acquired in May. Sales in 1996 amounted to about SEK 40 M, with about 70 employees. Precitube, like Sandvik-Villares, is part of the Sandvik Steel Business Area.

In December, Sandvik and the Indian tube manufacturer Choksi Tube Company Ltd. formed a joint-venture company in India in which Sandvik owns 51% of the shares. The new company, Sandvik Choksi Private Ltd., has about 270 employees and produces stainless-steel seamless tube. Capacity will successively be increased to 7,000 tons annually, representing an annual sales value of about SEK 200 M.

Invoiced sales by market area	1996		1995		Change	
	SEK M	%	SEK M	%	%	*
Sweden	2 036	7	2 370	8	-14	-15
EU, excl. Sweden	12 780	45	13 755	46	-7	-2
Rest of Europe	1 485	5	1 419	5	+5	+8
Total, Europe	16 301	57	17 544	59	-7	-2
NAFTA	5 769	21	5 626	19	+3	+8
South America	1 293	5	1 422	5	-9	-3
Africa, Middle East	705	2	763	3	-8	+2
Asia, Australia	4 197	15	4 345	14	-3	+7
Group total	28 265	100	29 700	100	-5	0

\* Change excluding currency effects and company acquisitions.

### Market situation and sales

The business climate in the OECD countries weakened during the autumn of 1995, particularly in the EU area, and the climate remained weak throughout 1996. Growth in industrial production within the OECD was about 2% and nearly 0% within the EU. The US enjoyed stable growth of about 3% for the fifth consecutive year. The business climate improved in Japan during 1996 but expectations of a recovery were not met. Industrial production rose in Australia.

Certain countries in eastern Europe developed highly favorably. The most important countries in South America recovered strongly after a decline in the second half of 1995. Growth continued to be favorable in the developing markets in Asia, but at a lower rate than in the preceding year.

At the end of 1995, the Swedish krona had appreciated strongly and retained its high value against a basket of foreign currencies during 1996. As a result,

Sandvik's invoiced sales were 7% lower in 1996 than what would have been the case at 1995 exchange rates.

The trend of invoiced sales for Sandvik's products by market area is shown in the table above.

Invoiced sales declined in Sweden, due among other reasons to lower deliveries to other steel companies.

Development within the EU, excluding Sweden, reflected the business climate. Sales at fixed exchange rates were somewhat lower than a year earlier in Germany, France and Benelux, while sales increased in England, Italy and Spain. The focus on central and eastern Europe resulted in sharp increases, particularly in Poland, the Czech Republic and Hungary.

As a consequence of a favorable economy and increased market shares, sales in the NAFTA region, primarily in the US, rose sharply. A recovery in invoiced sales occurred in Argentina and Brazil during the second half of the

Invoiced sales in the ten largest markets, SEK M	1996	1995	Change	
			%	*
U.S.A.	4 948	4 863	+2	+8
Germany	3 428	4 016	-15	-5
Italy	2 442	2 193	+11	+11
France	2 231	2 533	-12	-5
Sweden	2 036	2 370	-14	-14
Great Britain	1 832	1 893	-3	+4
Japan	1 296	1 510	-14	+6
Australia	888	817	+9	+10
Brazil	713	831	-14	-8
Canada	608	620	-2	+4

\* Change excluding currency effects

year. Sales in other countries in South America were virtually unchanged.

In the Asia, Australia area, growth was highest in India, Southeast Asia, Australia and New Zealand. There was an improvement in Japan.

Within Sandvik Tooling, Sandvik Coromant continued to increase sales, at fixed exchange rates, particularly in the NAFTA region, while CTT Tools achieved approximately the same sales value as a year earlier.

Sandvik Rock Tools reported higher invoiced sales, reflecting a favorable demand in the mining industry, in South Africa and Australia, among others.

Sandvik Hard Materials continued to increase deliveries of cemented-carbide blanks to the electronics industry, while the demand for woodworking tools was weak.

Invoiced sales of Sandvik Steel declined by 3%, at fixed exchange rates, due mainly to lower prices. Prices fell successively from the peak in the fourth quarter of 1995. The decline in invoicing applied mainly to the EU, while favorable increases were achieved in the US, Japan and Australia.

After a downturn at the beginning of the year, Sandvik Saws and Tools noted increasing sales during the autumn, measured at fixed exchange rates. Invoiced sales rose in 1996 for hardware products, while a decline occurred in industrial consumption.

Sales of Sandvik Process Systems fell 9%, excluding currency effects and acquisitions. Invoicing declined mainly in the EU area. Moreover, the invoiced amount would have been SEK 280 M lower if the accounting principles for project revenue recognition used in prior years had been applied.

Seco Tools is an exchange-listed company and publishes its own annual report with comments regarding the trend of invoiced sales.

Invoiced sales by business area	1996		1995		Change	
	SEK M	%	SEK M	%	%	*
Sandvik Tooling	9 211	33	9 576	32	-4	+2
Sandvik Rock Tools	2 003	7	2 015	7	-1	+6
Sandvik Hard Materials	1 209	4	1 224	4	-1	+9
Sandvik Steel	8 980	32	9 807	33	-8	-3
Sandvik Saws and Tools	2 517	9	2 674	9	-6	0
Sandvik Process Systems	1 836 **	6	1 810	6	+1	-9
Seco Tools	2 475	9	2 555	9	-3	+4
Group activities	34	/	39	/	/	/
Group total	28 265	100	29 700	100	-5	0

\* Change excluding currency effects and company acquisitions.  
\*\* Including change in accounting principle for project revenue recognition.

### Earnings and returns

Income before depreciation amounted to SEK 5,268 M (6,265), or 18.6% (21.1) of sales. The main reason for the decline was that the appreciation of the Swedish krona gained full impact in 1996 and affected profit negatively by approximately SEK 600 M. Other reasons were falling steel prices, high restructuring costs for Sandvik Process Systems and inventory write-down due to lower raw-materials prices. These latter factors became increasingly more significant in the second half-year, especially during the fourth quarter when operating margin became lower than previously during the year.

Increased costs for long-term investments in eastern Europe, China and Southeast Asia also contributed to the lower full-year profit.

Despite the addition of shares in the profits of Tampella Corp. and Kanthal AB during the second half-year, the share of profits in associated companies decreased. This was due to sharply falling

profits in the partly-owned Swedish steel companies.

The allocation to the Sandvik profit-sharing plan for the employees of wholly-owned companies in Sweden was SEK 150 M (150).

The net financial items declined to SEK 344 M (426) due to lower liquid assets and lower interest rates.

Profit after financial income and expenses amounted to SEK 4,453 M (5,620).

Tax expense amounted to SEK 1,204 M (1,691), or 27% (30) of profit before taxes. Consolidated net profit, after tax and minority interests, amounted to SEK 3,114 M (3,727).

Earnings per share were SEK 11.20, compared with SEK 13.40 a year earlier, a decline of 16%.

Return on net assets declined to 20.2% from 28.0% a year earlier.

Return on equity capital was 16.2% (21.6).

Although the operating margin for Sandvik Tooling fell somewhat, it was maintained, despite the currency effect, at a high level. In the short term, the margin is being

Earnings and returns	1996	1995
Operating income before depreciation, SEK M	5 268	6 265
as a percentage of invoiced sales	18.6	21.1
Income after depreciation, SEK M	4 109	5 194
as a percentage of invoiced sales	14.5	17.5
Profit after financial income and expenses, SEK M	4 453	5 620
as a percentage of invoiced sales	15.8	18.9
Return on net assets, %	20.2	28.0
Return on equity capital, %	16.2	21.6
Earnings per share, SEK	11.20	13.40

Definitions, page 39.



affected negatively, in terms of market and product, by major investments in important growth areas, in terms of market and product.

Sandvik Rock Tools maintained the profit level and operating margin reported a year earlier, due mainly to higher productivity.

The profit for Sandvik Hard Materials decreased due to low capacity utilization at two major production units. Profit also decreased somewhat in Sandvik Saws and Tools, compared with the preceding year.

Sandvik Steel was the business area that was affected most by the appreciated Swedish krona. Lower prices, particularly for bar, semi-finished products and wire, also had a considerable negative effect on earnings. Prices fell successively during the year, which was the main reason for the profit decline during the fourth quarter.

The sharply unfavorable profit trend of Sandvik Process Systems could only be partly attributed to the weak investment climate. It also stemmed from structural problems in several areas, involving uneven capacity utilization at many units. A program of restructuring, begun earlier, was intensified at year-end and organizational changes were implemented.

The improvement under Group activities was a result of the Group's share of profit in the associated company Tampella.

### Raw materials

Prices for tungsten for production of cemented-carbide continued to decline in 1996. The price fall was about 20%. The decline for cobalt was in the same range, but it occurred with a steep fall at the beginning of the year.

Raw material prices for steel also declined during the year. The price of nickel fell about 20% and chromium was down even more. The price of molybdenum declined initially, but then rose toward year-end.

Quarterly trends		Invoiced sales SEK M	Profit after financial items SEK M	Net margin %
1995:	1st Quarter	7 496	1 427	19
	2nd Quarter	7 738	1 564	20
	3rd Quarter	6 769	1 315	19
	4th Quarter	7 697	1 314	17
1996:	1st Quarter	7 422	1 325	18
	2nd Quarter	7 167	1 230	17
	3rd Quarter	6 445	985	15
	4th Quarter	7 231	913	13

Income after depreciation by business area	1996		1995	
	SEK M	% of invoicing	SEK M	% of invoicing
Sandvik Tooling	2 031	22	2 436	25
Sandvik Rock Tools	220	11	219	11
Sandvik Hard Materials	133	11	185	15
Sandvik Steel	1 203	13	1 623	17
Sandvik Saws and Tools	161	6	184	7
Sandvik Process Systems	-24	-1	101	6
Seco Tools	402	16	542	21
Group activities	-17	/	-96	/
Group total	4 109	15	5 194	17

### Financial position

Net financing from operations was SEK 2,130 M (2,172), with cash flow amounting to a negative cash flow of SEK 1,682 M (inflow: 164). At the end of the year liquid funds amounted to SEK 5,557 M (6,893). The net of liquid funds less loans declined by SEK 1,842 M. The decline was attributable to the significantly higher dividend, acquisitions and investments in increased growth.

Generally, Sandvik applies a conservative investment policy and during the year invested the centrally pooled cash resources in the Swedish money market, mainly in interest-bearing instruments issued

by the Kingdom of Sweden and other well-established Swedish borrowers. The average remaining maturity was reduced and at year-end was about 85 days (260).

At year-end, Sandvik had hedged the SEK value of its exports from Sweden for 4.5 months (8) by means of forward contract sales of currency. This flow represents the largest transaction exposure in the company. The exchange-rate levels which were secured in this manner were at the same level as the current rate at year-end.

The company's net flows of currencies, based on exports from

Financial position	1996	1995
Cash flow, SEK M	-1 682	164
Liquid assets and short-term investments, 31 Dec., SEK M	5 557	6 893
Loans, 31 Dec., SEK M	1 360	854
Net financial items, SEK M	344	426
Equity ratio, %	64	64
Debt/equity ratio, times	0.2	0.1
Equity capital, SEK M	20 035	18 503
Equity capital per share, SEK	72.00	66.40

Definitions, page 39.

and imports to Sweden, in the most significant foreign currencies, denominated in SEK M were:

	1996	1995
USD and CAD	1 750	1 250
DEM and closely related currencies	1 680	1 700
ITL	970	1 050
FRF	850	900
GBP	740	700
JPY	430	500
Other currencies	1 080	1 200
Total	7 500	7 300

Sandvik also hedged its net investments in all its major subsidiaries during the first three quarters of the year, as the Group has done in prior years. Thereafter, the Group discontinued this type of hedging.

### Inventories

The value of inventories for the Sandvik Group amounted to SEK 7,306 M (7,097) at year-end. The relative capital tied up in inventories increased to 26% (24) of invoiced sales.

### Trade accounts receivable

Trade accounts receivable at year-end were SEK 5,872 M (5,867). In relation to invoiced sales in the fourth quarter, receivables were 20% (19) on an annual basis.

### Equity capital

Equity capital amounted at year-end to SEK 20,035 M (18,503), or SEK 72.00 per share (66.40). The equity ratio was 64% (64).

### Capital expenditures

	1996	1995
Investments in plants, property, and equipment, SEK M	2 486	2 050
as a percentage of invoiced sales	8.8	6.9

Investments in plants, property and equipment rose by 21% to SEK 2,486 M, of which SEK 1,271 M (1,061) in Sweden. Major investments included the following:

Sandvik Coromant completed the expansion of tool production in

Sweden and England and began construction of a new plant for production of cemented-carbide powder at the facilities in Gimo, Sweden. The first phase of the extensive investment program at Sandvik's Russian cemented-carbide company, MKTS, was completed.

Sandvik Hard Materials increased capacity at the production unit in Conventry, England.

Sandvik Steel installed a modern flue-gas filter at the steel mill in Sandviken, which makes it possible to increase capacity from 200,000 tons annually to 280,000 tons through successive investments.

The amount paid for company acquisitions during the year was SEK 1,928 M (42), of which the clearly dominant portion was for shares in Kanthal AB and Tampella Corp.

### Research, development and quality assurance

The Group invested SEK 1,182 M (1,089), in research and development and quality assurance. This corresponds to an increase of 9% compared with 1995. Examples of product development activities which resulted in new products during the year are: a new tool program for turning of stainless and high-alloy steels, a new rock-drill tool system for high-efficiency drifting and tunneling, a new duplex stainless steel for use in the fertilizer industry, new titanium and zirconium alloys for heat-exchanger tubes and tubes used in the chemical process industry.

### Personnel

	1996	1995
Number of employees, 31 Dec.*	30 362	29 946
Average number of employees		
Women	5 736	5 781
Men	24 513	24 081
Total	30 249	29 862

\* Part-time employees adjusted to reflect an equivalent number of full-time employees.

The number of employees at

year-end was 30,362 (29,946). For comparable units, the number of employees declined by 242 (1995: an increase of 452).

At 31 December 1996 the number of persons employed by the Group in Sweden was 10,305 (10,372).

Details regarding personnel costs and the average number of employees in Sweden and abroad are provided on page 49.

### Employee profit sharing and bonus program

Sandvik adopted a profit-sharing plan for employees at the Parent Company and wholly owned subsidiaries in Sweden in 1986. Under the rules for this plan, a minimum return requirement must be met before an allocation is made from profits. This allocation is also restricted to a maximum of SEK 150 M. The Sandvik Group return in 1996 means that maximum requirement was achieved and that SEK 150 M was allocated.

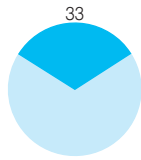
The possibility of a long-term bonus has been provided to Group executive management and about 250 senior executives in Sweden and abroad which is based on the price trend of the Sandvik Series B shares during the five years from 1995 to 1999 and is to be paid in the year 2000. The terms are described in the Personnel section on page 49. In order to provide for the accrued portion of this bonus, which would fall due if the share price at year-end 1996 would apply at the end of 1999, SEK 35 M was allocated in the 1996 accounts.

### Parent Company

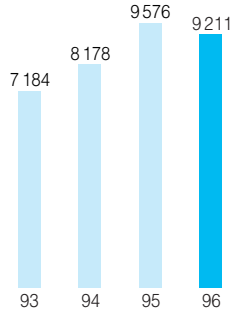
The Parent Company's invoiced sales increased by 2% to SEK 12,047 M (11,761 for comparable units). Income after depreciation amounted to SEK 1,427 M (1,958 for comparable units). Investments in property, plant and equipment amounted to SEK 998 M (710). The number of employees in the Parent Company and subsidiaries at 31 December 1996 was 8,076 (8,095 for comparable units at 31 December 1995).

# Business Areas Sandvik Tooling

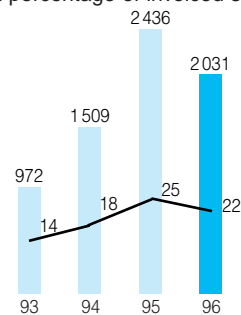
Share of total sales, %



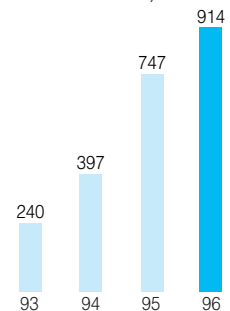
Invoiced sales, SEK M



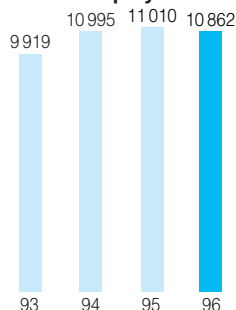
Profit before financial items, SEK M  
— as a percentage of invoiced sales



Investments in fixed assets, SEK M



Number of employees 31 Dec.



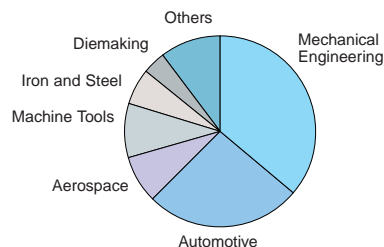
The Group's metalworking operations are organized in the Sandvik Tooling Business Area. Constituent business sectors comprise Sandvik Coromant, CTT Tools and Sandvik Automation.



AutoTAS from Sandvik Automation is a new computer program for tool administration.

The market for cutting tools used in metalworking applications generally follows business trends for the international engineering industry. The world market for metalcutting tools amounts to approximately SEK 70 billion per year.

Demand for Sandvik Tooling products in 1996 was fragmented. Sandvik Coromant reported higher sales, but a decline was noted in sales invoiced by CTT Tools. Sales growth was particularly strong in the NAFTA region, which offset lower growth in Europe, where anticipated market recovery in Germany failed to materialize.



The world market for cutting tools amounts to SEK 70 billion annually.

Business trends in eastern Europe, however, were highly favorable, and Sandvik Tooling continued efforts to strengthen its

marketing organization in the region. Continued favorable business development was also noted in Asia, although at a lower rate.

Several cooperation projects conducted by Sandvik Tooling started to yield favorable effects during the year, generating synergy gains in product and process development as well as warehousing, distribution and data communications. Parts of CTT Tools began to use Sandvik Coromant's central warehouse facilities in the Netherlands during the year.

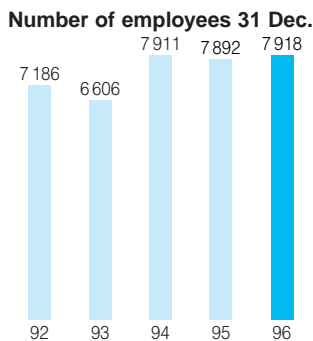
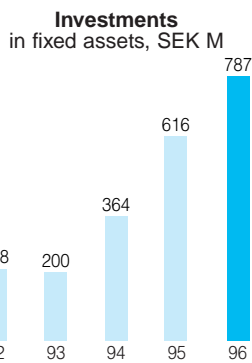
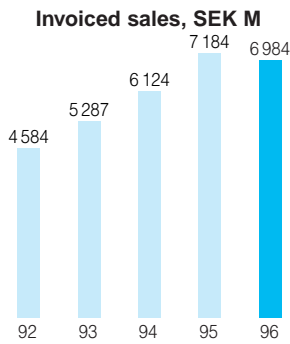
Sandvik Automation launched AutoTAS in 1996, a new system for more efficient tooling administration. A strategically important cooperation agreement was signed with Pathtrace Ltd. of England, market leader in the field of NC-programming.

Sandvik Tooling reported continued strong earnings, and return on net assets exceeded the Group's minimum requirement of 20% by a broad margin.

Sandvik Tooling's management team comprises Clas Åke Hedström, Leif Sunnermalm, Lars Pettersson and Holger Wiklund.



# Sandvik Coromant



*Sandvik Coromant, which specializes in cemented-carbide tools and tooling systems for metalworking, is the world leader in its field.*



*Sandvik Coromant's management team, from left: Anders Wallin (Exec. VP), Göran Berter, Lars Pettersson (Pres.), Holger Wiklund, Anders Karlsson and Anders Thelin (Exec. VP).*

About ten large competing companies combined control slightly more than half of the world market for cemented-carbide tools and tooling systems. A large number of local or highly specialized companies account for remaining market shares. Kennametal and Valenite are Sandvik Coromant's largest competitors in the North American market.

Sandvik Coromant is the leader in European markets. The largest suppliers in Asia are Toshiba, Mitsubishi and Sumitomo, all Japanese companies. Sandvik Coromant is the most solidly established non-Japanese company in Asian markets and the only non-

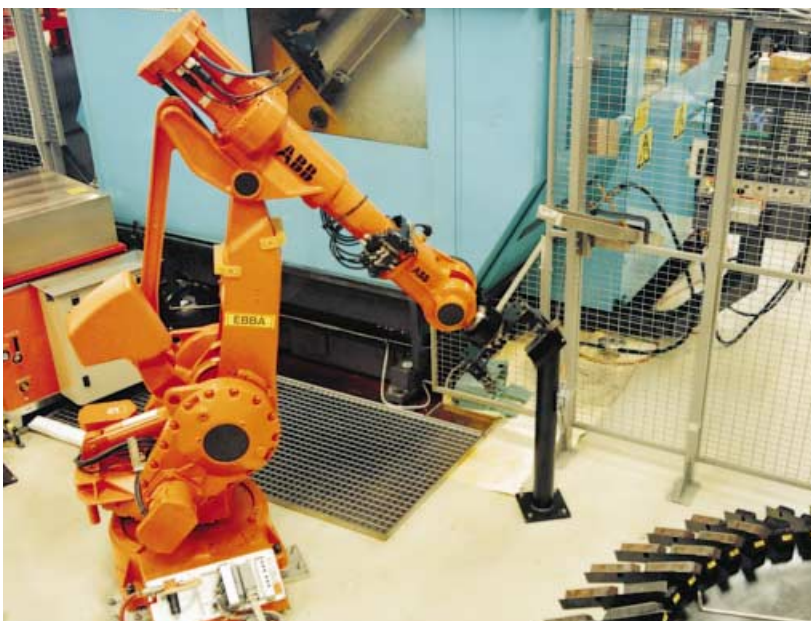
Japanese company with cemented-carbide production facilities in Japan.

Sales denominated in Swedish kronor (SEK) declined in 1996. At fixed exchange rates, however, sales increased 5% compared with 1995. Business trends were particularly strong in the NAFTA region and eastern Europe, where Poland, the Czech Republic and Hungary showed strong growth. Continued favorable business development was also noted in Asia.

## Investments

Substantial investments were made during 1996 in new machinery and equipment for most Sandvik Coromant production units throughout the world. All units are equipped to make rapid adjustments to market demand in an optimum fashion. Overall production strategy is focused mainly on supplying customers in various market regions with products manufactured locally. All production units comply with identical quality standards and the same high level of production technology.

Sandvik Coromant's large, modern production plants are supplemented by efficient local production of special tools. Within the



*Major equipment investments were made at the Gimo plant to increase productivity and capacity.*





*High-tech equipment was airfreighted during the autumn to the new cemented-carbide plant in China.*

framework of efforts to reduce lead-times at all levels of production, the time required to develop new products has been cut in half.

Production facilities for cemented carbide and tools at the main plant in Gimo, Sweden, were expanded during 1996. Construction was also started on a new plant for production of cemented-carbide powder. Expansion of the production plant for special inserts in Featherstone, England, was completed during the year.

At MKTS, the Russian cemented-carbide company acquired by Sandvik in 1994, the first phase of a comprehensive investment program to improve production efficiency and resources was completed. A new training center to strengthen marketing efforts in Russia was opened in Moscow during the autumn. The new unit is



*A quality-assurance program was successfully initiated at the part-owned Sandvik Baildonit cemented-carbide plant in Poland.*

Sandvik Coromant's 15th training center, and will be used to train customers and Sandvik's own growing sales organization in Russia.

Sandvik Coromant has conducted production operations in Pune, situated near Bombay in India, since the early 1960s. Sandvik is currently the leading manufacturer of tools in the rapidly expanding Indian market. The modern plant in Pune also manufactures various products for Sandvik's global central warehouses.

In 1994, Sandvik Coromant established production facilities in Langfang City, near Beijing, to supply tool holders sold in the Chinese market. The facilities are now being supplemented by construction of a new plant for production of cemented-carbide inserts. The expansion project is part of ongoing efforts to increase local capacity in China, a market characterized by strong economic growth. When the new plant is placed on-line during the second half of 1997, it will be equipped with the same sophisticated technology as all other Sandvik Coromant production plants throughout the world.

Efforts to expand sales organizations in Asia and eastern Europe continued during 1996. Training programs for new sales personnel and customer technicians are being

conducted in a growing number of markets, which will create greater potential for accelerated future growth and higher productivity for customers.

Sandvik Coromant's well-developed distribution system, combined with local production facilities, provides customers with fast and reliable deliveries, regardless of where production takes place. The strong increase in demand from several markets in Asia and other regions has been



*Swedish Prime Minister Göran Persson and CEO Clas Åke Hedström jointly inaugurated Sandvik Coromant's new training center in Moscow.*

fully met by Sandvik's global supply network.

Sandvik Coromant's full-service concept, whereby customers are offered complete solutions comprising tools, tooling systems and expertise for all types of metal processing applications, has attracted growing market interest.

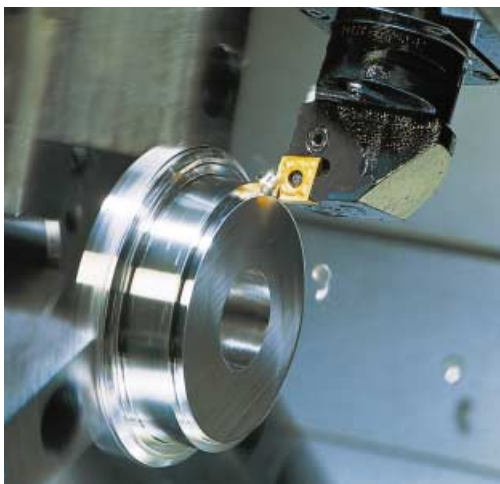
### **New products**

The high rate of new products introduced on the market continued during 1996, including a new range of stainless steel turning products. Consumption of high-alloy materials is increasing in various processing industries in all parts of the world. Stainless and high-alloy steel with higher corrosion resistance and high-temperature strength are generally difficult to process. Sandvik Coromant now offers a new and highly effective range of tools with much higher performance standards for these types of materials.

Cooperation with Sandvik Steel and recently developed steel grades in the SANMAC program is one example of synergies in the Sandvik Group. Manufacturers of advanced stainless-steel components are now able to purchase matching materials and tools developed for machining from a single supplier, thereby achieving significant production economy advantages.

For general steel turning applications, which comprise the largest individual operation in chip-forming machining, Sandvik Coromant has introduced a range of products under its CoroKey concept that simplifies choices of tools by customers.

In the field of milling products, expansion was continued on the



*A new tool program for turning stainless steel was introduced.*

family of products that has noted significant marketing success during recent years. The latest addition is CoroMill 245, a face mill that provides customers with high productivity, simplified handling and high-quality surface finish for manufactured components.

Several products developed during recent years have recorded resounding sales success on the market, particularly the U-drill with indexable-inserts, which has captured substantial market shares. Applications of the indexable-insert technique for drilling small-



*Sandvik Coromant is conducting an extensive training program for personnel from customer companies and dealers in India.*

diameter holes also provide significant productivity gains for customers.

Continued strong sales growth was also noted in 1996 for the Coromant Capto modular tool system. The system's superior features in terms of flexibility, stability and precision have contributed strongly to its market success. Modern metalworking machines can be used today to produce short series of high-quality components with great flexibility, since tools can be changed without time-consuming adjustments. Coromant Capto can be used for turning, drilling and milling applications in one machine and the same machine tool and workpiece set-up. The advantages of Coromant Capto are well-suited to industrial needs for new solutions that offer higher productivity and better machine utilization.

The Coromant Capto range also includes products that enable customers to improve operating efficiency of conventional, numerically controlled machines and achieve substantial time savings through more rapid changes of tools.

#### **Continued development**

Sandvik Coromant invests substantial resources in research and development. A considerable portion of resources is allocated for long-term projects focused on new and more effective cutting materials and improved production processes.

Comprehensive investments were also made in machinery and equipment during 1996, partly because of increasingly complicated compositions of various new cemented-carbide grades. Sandvik Coromant works with the latest and most sophisticated analytical methods. The new electron microscope used in the Stockholm facility can examine the interface between the coating and the cemented-carbide substrate down to the atomic level.

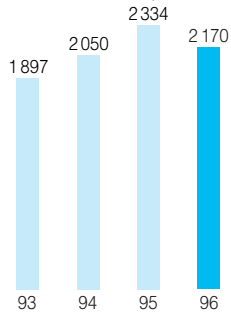
Programs of cooperation with universities and institutes of technology were intensified last year. Sandvik entered into new research cooperation agreements with the Royal Institute of Technology in Stockholm, Chalmers Institute of Technology in Gothenburg and the Uppsala University through financial sponsorship of seven Ph.D. candidate positions. In Sandvik Coromant's sphere of operations, the university projects deal primarily with studies of microstructures and phase transformations of cemented carbide. Increased knowledge of material properties are critical to future product development programs.

#### **Outlook for 1997**

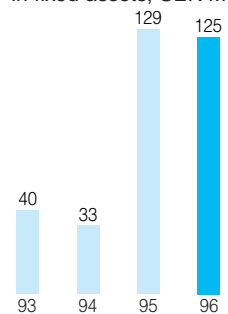
Sandvik Coromant is optimistic in its view of business development in 1997, and anticipates continued growth with particular emphasis on eastern Europe and Asia.

## CTT Tools

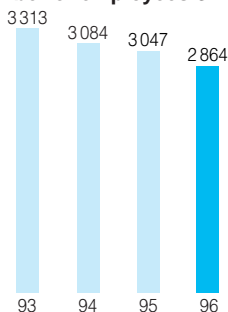
Invoiced sales, SEK M



Investments in fixed assets, SEK M



Number of employees 31 Dec.



*CTT Tools is the world's largest manufacturer of high-speed steel tools and is now also expanding operations in solid cemented-carbide tools, a relatively new sector characterized by rapid growth.*

Demand for high-speed steel metalworking tools is declining because of longer product life, improved cutting geometry and surface coatings. A growing shift has also been noted toward other types of materials, such as cemented carbide. The world market for high-speed steel tools, accordingly, has shrunk to about SEK 30 billion. The lower market potential will lead to structural changes among the approximately 1,000 manufacturers on the market today. CTT is playing an active role in the process of structural change with a view toward increasing its market shares.

There are many competitors in the solid cemented-carbide tools segment and no clear market leader. Through increased investments in research and development in cooperation with other Sandvik companies, CTT Tools' vision is to also acquire a leading position in this segment.

### Investments

Investments in production units for high-speed steel tools has created scope for higher volumes at lower costs. New machines, many of which were designed in-house, have increased flexibility and facilitated the manufacture of short series with unchanged production economy.

Substantial investments were made in the solid cemented-carbide tools segment during 1996 to create cost-efficient production which also resulted in a strong increase in sales for these products.

A decision was made during the year to establish a central warehouse for most of the CTT brands. In Europe, CTT Tools now uses Sandvik Coromant's central



Anders Ilstam, President of CTT Tools.

warehouse in Schiedam, the Netherlands.

Systems were developed to make it easier for customers to order from, and communicate with, the various CTT companies. Modern computer systems for order processing and invoicing were also set up for communications between CTT Tools and major customers. Tool catalogues were published for several CTT trademarks and tool recommendations were made available on CD-ROM and via the Internet.

### Markets

CTT Tools consists primarily of five trademarks: Dormer, Titex, Prototyp, Union Butterfield and Master. Increased efforts were focused during 1996 on projecting a more clearly defined image and prioritizing certain markets to broaden CTT's customer base and create better potential for higher sales.

After a year characterized by declining sales, CTT anticipates improved business trends in 1997. The increase will be based on improved economic conditions and more intensive marketing. Volume growth anticipated in 1997 should lead to further improvements in profitability.



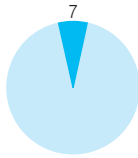
CTT Tools' largest trademarks.



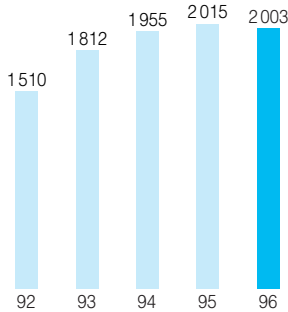
# Business Areas

## Sandvik Rock Tools

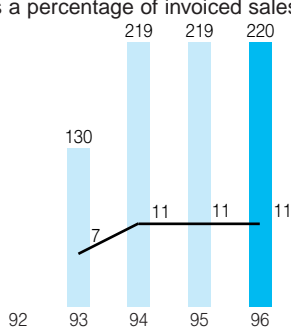
Share of total sales, %



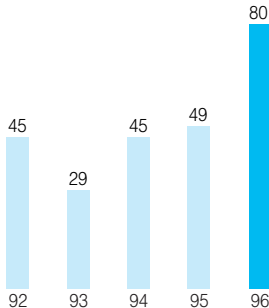
Invoiced sales, SEK M



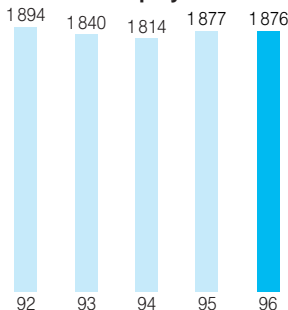
Profit before financial items, SEK M  
— as a percentage of invoiced sales



Investments in fixed assets, SEK M



Number of employees 31 Dec.



*Sandvik Rock Tools is one of the world's leading suppliers of cemented-carbide-tipped rock-drilling tools used in mining, civil engineering and water-well drilling. The product range includes tools and tool systems for working of all types of rock and all common drilling techniques. Operations are conducted through four product divisions specializing in different methods of rock excavation.*

The world market for rock-drilling products is divided fairly evenly between mining and civil engineering applications. Mining industry demand for rock-drilling tools is related largely to market demand for minerals, while civil engineering industry demand is controlled primarily by the number of construction, road and hydro-power projects.

The greatest market potential is in products for top-hammer drilling which is also the largest division of Sandvik Rock Tools. Three companies dominate this market segment: Sandvik Rock Tools, Atlas Copco (Sweden) and Boart (South Africa), accounting for more than two-thirds of the total market. About 10 local companies with limited product ranges account for the remaining one-third.

The major competitors in the field of mineral and ground engineering, defined as working of softer rocks and minerals, are the US companies Kennametal and

American Mine Tool. In down-the-hole drilling operations, major competitors include Atlas Copco (Sweden), Ingersoll Rand (US) and a large number of local suppliers. Several American manufacturers are the largest competitors for the Rotary Products Division.

Sandvik Rock Tools has an important advantage over its competitors based on the Sandvik Group's collective resources for research, development and production of cemented carbides as well as specialty steels, the two materials used in most rock-drilling tools. This provides a unique position to develop tools with high and uniform quality and excellent performance.

### Market and business trends

Sandvik Rock Tools reported stable business trends during 1996, with strong demand for rock-drilling products. Activities in major mining markets increased, led by particularly strong growth in Australia and South America.



Management team, back row, from left: Olle Bengtsson, Thomas Söderkvist, Lars Liljebblad, Ingvar Svärth, Anders Persson and Olof Lundblad. Front row, from left: Sigvard Björk, Lars-Anders Nordqvist (Pres.) and Ezio Fogliata.





One of the world's largest civil-engineering projects is under way along the Huang Ho River in China. The hydro-power project will involve excavation of 30 million m<sup>3</sup> of rock, mainly with equipment from Tamrock and Sandvik.

Demand from the civil engineering industry was fragmented, however. Construction activities remained low in Europe, but continued to increase in Southeast Asia, where Sandvik Rock Tools further strengthened its marketing organization in 1996.

Invoiced sales declined 1% in 1996; in fixed exchange rates, however, sales rose 7%. Earnings remained at a high level, and return on net assets exceeded the Group's requirement of 20%. Negative effects on earnings caused by the stronger SEK were offset by higher sales volumes, price increases and measures to improve operating efficiency.

Sandvik Rock Tools has had a mutually beneficial program of cooperation with Tamrock, a Finnish manufacturer of rock-excavation machinery, since 1989. During the year, Sandvik acquired 49% of the shares in the Tampella Group, which owns Tamrock. The acquisition has created the foundation for intensified cooperation between the two companies. The change will provide better market coverage, more efficient distribution, faster and more significant technical development and higher profitability.

### Production and marketing organization

Global coordination and structuring of production resources continued in 1996. New administrative computer systems were introduced

for production planning from Sweden for factories in other countries. The production of mineral tools in Great Britain was discontinued and transferred to Viriat, France and Bristol, in the US. Several factories received quality certification in accordance with ISO 9000 in 1996. Comprehensive training programs were also started during the year to develop the international sales and service organization.

### Divisions

The Top-Hammer Division launched initial sales of Formula 1, a new tool system for highly efficient drifting and tunneling. The products offer patented design features that provide faster drilling and greater precision, which translates into higher productivity and lower total costs for customers. Training programs concentrated on computer simulations for optimization of customer drilling systems were conducted in many markets.

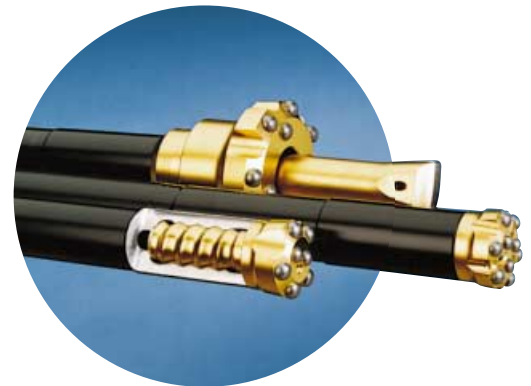
The Mineral Tools Division established a unified product range for the world market in 1996, which will facilitate more active marketing of the Division's products and more efficient utilization of production units.

Cooperation with Voest-Alpine Bergtechnik (VAB) of Austria continued. The partnership is intended to develop new systems for mechanical working of harder rock than today. VAB was acquired by Tamrock in 1996, thereby creating

increased opportunities for successful results.

The Down-The-Hole Products Division reported greater demand for drilling systems to accommodate large drill holes in civil engineering projects, primarily in Southeast Asia. Marketing of the water-powered Wassara down-the-hole hammer was started during the year, primarily for mining industry applications. The product also attracted considerable interest in civil engineering and geothermal drilling operations.

The Rotary Products Division reported a strong increase in sales of its new generation of roller bits



The new Formula 1 rock-drilling tools deliver exceptional precision and, consequently, lower tunneling costs.

and successfully defended its very strong position in raise boring. Investments in new production equipment yielded improved productivity at the Division's factories. The strongest sales increases were noted in Canada, South America and Australia. Significant success was also reported in eastern Europe.

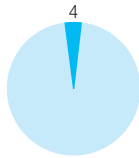
### Outlook for 1997

Continued favorable demand from the mining industry is expected in 1997. A certain increase is foreseen in Europe for construction and contracting activities, attributable to new infrastructure projects. Continued high demand is forecast in Asia.

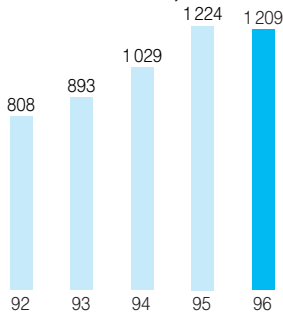
# Business Areas

## Sandvik Hard Materials

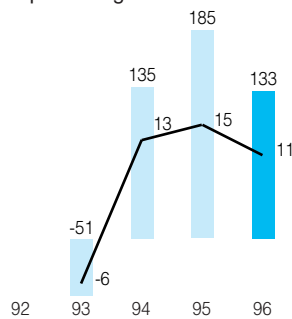
Share of total sales, %



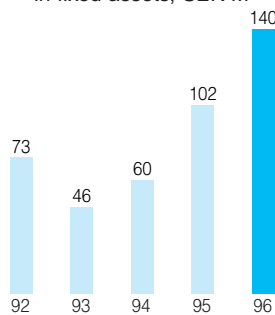
Invoiced sales, SEK M



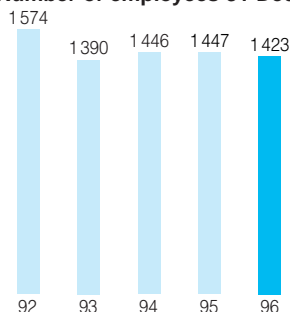
Profit before financial items, SEK M  
— as a percentage of invoiced sales



Investments in fixed assets, SEK M



Number of employees 31 Dec.



*Sandvik Hard Materials is active in the full spectrum of its field, ranging from cemented carbide to diamond, including special ceramics for biotechnical applications. The business area manufactures and markets large volumes of cemented-carbide blanks used by tool manufacturers, as well as wear components for the engineering industry and carbide rolls for the iron and steel industry.*

Sandvik Hard Materials has for some years been the world's largest hard materials company and the only company with complete global coverage. Its main competitors are companies operating in large domestic markets, such as the US or Japan, or companies operating in limited product niches. Competitive conditions are similar in Europe, the NAFTA region and Asia, characterized by only a few large companies and several small, local competitors in each area.

The business area has 12 production units worldwide. Products are marketed through company sales units in more than 50 countries.

### Market and business trends

Industrial economic conditions varied from one market to another in 1996. Strong growth was noted in such market regions as NAFTA, Latin America and Asia, while almost all markets in Europe showed weak growth. Sandvik Hard Materials strengthened its sales organizations in NAFTA and Asia as part of its growth strategy.

Continued strong growth was reported last year for cemented-carbide blanks used by tool manufacturers. Particularly favorable development was noted for all types of blanks used to manufac-

ture solid cemented-carbide drills and end mills, accentuating the trend to replace high-speed steel with cemented carbide. Demand for micro-drills used by the electronics industry declined in mid-1996, however. Strong growth was reported for cast-in-carbide integral rolls, so-called CIC rolls. Demand for products used by the wood processing industry was weak, especially in Europe. Overall, sales declined during the year; mea-



*Cemented-carbide rods with spiral coolant channels for manufacturing of solid drills for metalworking.*

sured at fixed exchange rates, however, invoicing was up 9%.

Available capacity on the market increased during 1996. This affected the competitive situation so that certain product groups were subjected to intensified price competition, resulting in declining profit margins. The decline in earnings was due mainly to the strong Swedish and British currencies, restructuring at certain production units and write-downs of raw material inventories. Return on net assets amounted to 15%.



*Management team, from left: Björn Uhrenius, Krister Berinder, Lars Wahlqvist (Pres.) and Flemming Hviid.*

Sandvik Hard Materials has undergone comprehensive change during recent years as the result of acquisitions and restructuring. During 1995 and 1996, a program was implemented to specialize production units in Europe. Production of cemented-carbide blanks for metalforming tools was concentrated at the unit in Spain.

In England, production capacity for round homogenous cemented-carbide rods was increased sharply. In parallel, production of cemented-carbide blanks for special wear components was discontinued and some production was transferred to Spain. Production of cemented-carbide powder was discontinued in Denmark and transferred to England. At the same time, production capacity was increased for cemented-carbide blanks for the woodworking industry as well as components for engineering industry applications.

Toward year-end 1996, a decision was also made to implement additional measures which, combined with increased sales of priority products, will strengthen earnings.

### New products

For the past few years, Sandvik Hard Materials has conducted business operations through



*Tool blanks in polycrystalline diamond from Sandvik Hard Materials are used for modern woodworking tools.*

Procera-Sandvik AB, a company owned jointly by Sandvik (50%) and Nobel Biocare AB. The company develops and manufactures individually-made all-ceramic dental crowns. The products have been marketed by Nobel Biocare in Scandinavia and Germany for more than a year. Market trends are characterized by strong growth that is expected to be sustained as new markets are cultivated.

An extensive range of polycrystalline diamond (PCD) and polycrystalline boron nitride (PCBN) blanks has been developed and is now sold to tool manufacturers for applications in the woodworking and other industries. The product group has significant growth potential, and sales in the first year were already substantial.

To maintain its leadership position in development of new hard materials, production techniques and processes, the business area

strengthened its R&D resources considerably in 1996. Resources for IT activities were also increased. Of the seven Ph.D. candidate positions financed by Sandvik at various Swedish institutes of technology and universities, Sandvik Hard Materials sponsors one at Uppsala University.

### Investments

Capital expenditures during 1996, expressed in absolute values, were the highest ever by Sandvik Hard Materials, and production capacity was increased sharply. Inadequate delivery capabilities in certain areas were corrected and Sandvik Hard Materials is well-equipped today to meet stronger demand generated by anticipated economic recovery.

### Outlook for 1997

General business conditions that prevailed for Sandvik Hard Materials in 1996 are expected to remain largely unchanged throughout most of 1997, with the possibility of stronger growth toward year-end.

Sales of priority products are expected to develop favorably during the year. Sandvik Hard Materials anticipates particularly strong sales of round homogeneous cemented-carbide rods to the engineering industry and sales of blanks for micro-drills in the electronics industry. Production capacity is considered to be satisfactory.

The strengthening of the British pound toward year-end 1996 will have negative effects on earnings in 1997, since the largest production unit is situated in England. Overall earnings, nevertheless, are expected to improve in 1997.



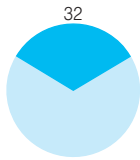
*Cast-in-carbide integral rolls, so-called CIC rolls, are a further development of an older technology and are used with great success in the steel industry, among other application areas.*



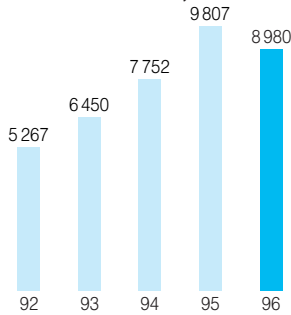
# Business Areas

## Sandvik Steel

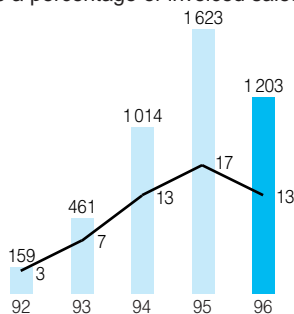
Share of total sales, %



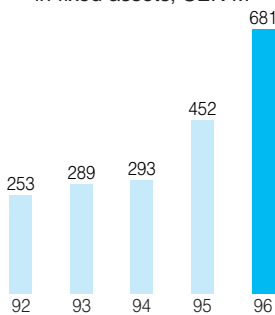
Invoiced sales, SEK M



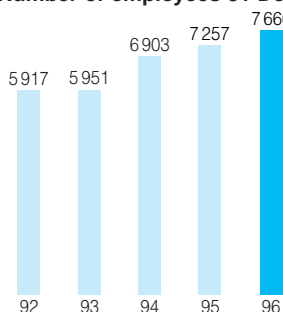
Profit before financial items, SEK M — as a percentage of invoiced sales



Investments in fixed assets, SEK M



Number of employees 31 Dec.



*Sandvik Steel manufactures tube, strip, wire and bar for users with exacting demands on economy and reliability. Operations are focused on product niches in which Sandvik has leading positions in the world market. Products comprise stainless and high-alloy steels as well as titanium, nickel and zirconium alloys. Average value added is high in relation to raw material content.*

Competition varies from one product area to another. Major competitors for seamless tube are Sumitomo Metals, an integrated Japanese steel company, and DMV (Dalmine-Mannesmann-Vallourec), a European steel tube manufacturer.

In the wire and bar product areas, competition comprises fully integrated companies such as Ugine as well as many smaller independent drawing mills. Hitachi Metals, Daido and Böhler-Uddeholm are major competitors for strip steel, as well as several independent cold-rolling mills. Sandvik Steel's competitors individually cover only 5% to a maximum of 25% of Sandvik's product range.

### Market and business trends

Demand for Sandvik Steel products remained weak in Europe during 1996, and invoiced sales in local currencies declined 6%, while business trends developed more favorably in North America and Asia, where sales increased more than 15%. Demand in South America was extremely weak dur-

ing the first half of 1996, followed by some improvement toward year-end.

Following strong business growth in 1994 and 1995, highlighted by sales increases of 20% and 27%, respectively, invoicing was down 8% in 1996. The decline was caused mainly by the appreciation of the Swedish krona and a decline in market prices. Sales volumes were marginally higher, compared with 1995, but prices quoted in local currencies were lower.

The order intake, which peaked toward year-end 1994, stabilized at a lower level during 1996, in parallel with higher volume sales and lower market prices toward year-end. Order stocks declined gradually, reaching normal levels at year-end.

Earnings fell successively during each quarter of the year due to exchange rate effects and falling prices. Return on net assets reached the Sandvik Group's minimum requirement of 20%. Declining costs for raw materials contributed to a negative price effect on inventory.



Management team, back row, from left: Olle Wijk, Jan-Eric Johansson, Uno Blom and Åke Axelson. Front row, from left: Kenneth Josefsson, Per Ericson (Pres.), Gunnar Grünbaum (Exec. VP) and Lennart Ek.



Sales invoiced by the Seamless Tube Division, in SEK, increased despite lower prices and currency effects. Acquired companies contributed new sales of approximately SEK 70 M.

Sales invoiced by the Complementary Products Division declined in 1996 due to sharply falling prices for welded tube and flat products and currency effects. Welded tube products manufactured by Avesta Sandvik Tube (AST), an associated Sandvik Group company (25%), accounted for one-third of the Division's total sales of SEK 1,400 M. Earnings reported by AST fell sharply in 1996 due to lower market prices and price losses on inventories. Sandvik Steel earnings in 1996 include AST in the amount of SEK 4 M.

In Brazil, Sandvik owns 50% of Acesita Sandvik Tubos Inox S.A., a joint-venture company for production of welded tube, established in cooperation with Acesita, a Brazilian steel group. Earnings reported by the company declined sharply in 1996.

Invoiced sales and order intake for the Strip Division improved slowly during 1996, primarily as the result of higher volumes for thin strip products, for example razorblade steel and foil for catalytic converters, while volumes of thicker sawblade and knife steel declined. Capacity utilization was very high at the new cold-rolling mill for thin strip products in Sandviken.

The Wire Division suffered a sharp decline in sales caused by excess inventories amassed by many customers during 1995. Demand showed signs of stabilization toward year-end. Global capacity for stainless wire rod was increased by modernization of production units in Europe and construction of new capacity in Asia.

Fagersta Stainless, a company producing stainless wire rod and drawn wire, owned partly by



*The installed flue-gas filter treats 99% of the air emissions from the steel mill.*

Sandvik, also had a difficult year characterized by a sharp decline in capacity utilization during the first half of 1996. Sales fell from SEK 1,668 M in 1995 to SEK 1,174 M. Sandvik Steel's earnings in 1996 include Fagersta Stainless in the amount of SEK 24 M.

Production within the Metallurgy and Long Products Division of extrusion billets and rock-drill steel increased as well as stainless steel bar, in parallel with lower deliveries of billets for rolling of wire and rod. The rate of production at the steel plant increased. At the same time, capacity was increased, which led to lower capacity utilization. Rolling and finishing units had continued high utilization as a result of reductions in production subcontracted to independent companies.

Sales of the Special Metals Division increased due, among other factors, to increased deliveries of titanium tubes to the aviation and chemical industries. Production was affected, however, by a labor conflict at the plants in the US. Capacity utilization is expected to remain high in 1997.

### **Investments and acquisitions**

Investments were increased sharply during 1996 in an effort to eliminate capacity shortcomings that arose in 1995 and to meet anticipated stronger demand.

A modern flue-gas filter was installed at the steel mill in Sandviken. Through successive investments, the new filter will facilitate an increase in production capacity from 200,000 tons to 280,000 tons annually. A new walking-beam furnace in the blooming mill will increase production capacity, reduce energy costs and improve material yields. A new peeling machine was installed toward year-end for surface finishing of solid bar and extrusion billets.

The Seamless Tube Division installed a variety of new equipment to provide improved capacity and continued production rationalization. Capacity for instrument tubes with diameters in the range of 6-19 mm was increased in Sandviken and at the factory in Arnprior, Canada.

A decision was also made to build a new plant in Sandviken for

production of heat exchanger tubes with diameters of 19-40 mm. The investment will radically reduce production costs and lead-times and contribute to significant improvements in product quality. Capital expenditures for the new plant are estimated at approximately SEK 250 M and capacity can be further increased through implementation of a second phase of machine installations.

Avesta Calamo in Sweden, a company involved in electro-polishing of thin, stainless steel tubes for the electronic industry, was acquired during the year as well as Precitube S.A, a French manufacturer of precision thin tubes. Combined annual sales of the two acquired companies are expected to total SEK 100 M, with about 135 employees.

Investments in Sandvik Chomutov Precision Tubes in the Czech Republic were made to increase production capacity for umbilical tubes. These tubes are used by the oil and natural gas industries in the North Sea for hydraulic remote control of production operations at underwater depths of 300-400 meters. Sandvik booked an order for umbilical tubes in 1996 valued at more than SEK 200 M.

An agreement was reached at year-end 1996 with the Indian steel company Choksi Tube concerning the establishment of a company in which Sandvik owns 51% and Choksi 49%. The new joint-ven-



*Electro-polished tube for the electronics industry is manufactured at Sandvik Calamo. Tube production is carried out at an extremely high level of cleanliness.*

ture company is taking over Choksi Tube's extrusion press in India and will make investments in supplementary equipment to increase product quality and production capacity.

The Strip Division began work on final assembly of another cold-rolling mill in Sandviken. The new production unit will facilitate continued expansion of thin, cold-rolled strip production.

In Brazil, Sandvik acquired the remaining 50% of shares in Sandvik-Villares Wire Ltda. from its Brazilian partner Aços Villares. Earlier in 1996, Sandvik-Villares acquired the wire-drawing facil-

ities of the Electrometal company. Following structural changes during recent years, Sandvik has emerged as South America's leading manufacturer of stainless steel wire. Other capital expenditures by the Wire Division were concentrated on investments to improve productivity and product quality, including the start-up of a new nickel coating plant for stainless spring wire.

The Special Metals Division installed a new press for production of sponge compacts and a pilger mill for rolling titanium and zirconium tubes.

### Kanthal

Through an open bid submitted to the stock market, Sandvik acquired about 47% of all shares in Kanthal AB in 1996. Kanthal is a leading manufacturer of high-temperature materials produced in the form of wire, strip, tubes and components for electric heating of household appliances and industrial furnaces.

Kanthal's invoiced sales in 1996 totaled SEK 1,731 M, with profits after net financial items of SEK 207 M. Sandvik's share of Kanthal profits for two quarters of 1996 amounted to SEK 39 M, which is included in the earnings of Sandvik Steel.

The business operations of Kanthal are related closely to Sandvik Steel's activities, in terms of product value added, niche strategies and positions of global market leadership. The two companies have cooperated closely in the past in areas of hot-rolling of strip and wire as well as extrusion of tube materials. With a view toward intensifying this cooperation, the long-term intention to increase the shareholding in Kanthal remains.

### Product development

A new steel grade developed specially for applications in the ferti-



*A new plant for nickel coating of spring wire was placed in operation at Gusab Stainless in Mjölby, Sweden.*



lizer industry was introduced on the market. The material is a new duplex stainless steel grade called SAFUREX, developed in cooperation with one of the leading licensors in the fertilizer industry. Development efforts spanned a five-year period involving development of a completely new, patent-pending alloy. The utilization of steel as the structural material in fertilizer production plants reduces risks of breakdowns and increases process efficiency.

In the area of bar products, the properties of the austenitic steels in the SANMAC product family were further developed. These grades are used in metalworking within the engineering industry. SANMAC SAF 2205, a new duplex steel grade, was introduced during 1996.



*Annika Roos, Olle Sundqvist (left) and Per-Åke Franklind received the Wilhelm Haglund Medal as the product developers of the year.*

Three employees of Sandvik Steel's R&D Center in Sandviken were honored as "product developers of the year" and received the Sandvik Group's "Wilhelm Haglund Medal" for their contributions in the development of the SANMAC steels.

Development work on the Osprey process for powder-metal-lurgic production of steel billets continued during the year. The method used for production of austenitic and duplex steel for seamless tubing was approved last year in accordance with the specifications of American ASTM standards.

In the field of nuclear fuel clad-

ding tubes, several development projects have been conducted in close cooperation with customers. The properties of titanium and zirconium tubes used by chemical companies were optimized primarily through improvements in the production of semi-finished goods.

To meet growing customer demands, significant improvements were made in the product properties of hardened wood bandsaw steel through applications of statistic process control.

New methods were developed last year for totally automated joint welding of tubing for umbilicals using a computer-controlled welding procedure.

General research was concentrated largely in the area of high temperatures, resulting in improved material properties in steel for catalytic converters. Sandvik's cooperation with institutes of technology and universities was intensified through Group participation in nationwide research projects focused on materials consortiums and expertise centers as well as Ph.D. research studies at the Royal Institute of Technology in Stockholm, the Chalmers Institute of Technology in Gothenburg and Uppsala University financed by Sandvik through special research grants since 1996. Cooperative research efforts were also intensified with the European Coal and Steel Committee (ECSC).

Continuous development focused on upgrading and improving the quality of Sandvik products and services continued during the year, partly through educational and training programs for all employees. A systematic review of internal and external costs for non-conformance resulted in significant reductions in the level of claims.

#### **Outlook for 1997**

After a period of expansion and strong volume growth, 1996 was an off-year, which follows the nor-



*A major order was received during the year for umbilical tubes used in undersea oil and gas production.*

mal economic pattern for Sandvik Steel.

During 1997, demand from the markets is expected to increase for durable consumer goods, which are highly important to sales of strip and wire products. Investment trends, however, which were very strong in 1995-1996, will enter a more moderate phase, resulting in lower demand for heavy tube products.

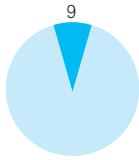
Profitability may come under continued pressure if falling prices for stainless steel products are not reversed in the near future.

Opportunities to increase productivity and thereby reduce costs will improve as the result of completed and ongoing investments. The conditions for achieving the long-term growth and profitability objectives for Sandvik Steel are considered favorable.

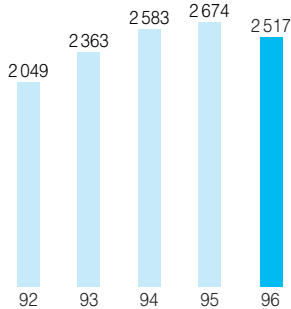
# Business Areas

## Sandvik Saws and Tools

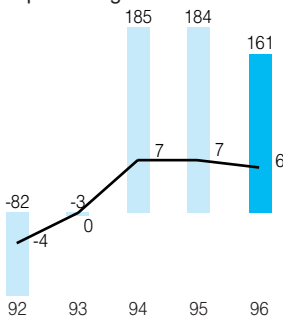
Share of total sales, %



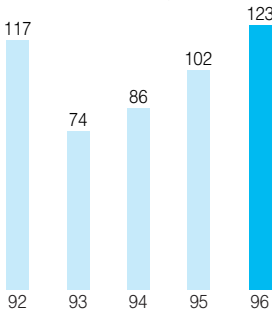
Invoiced sales, SEK M



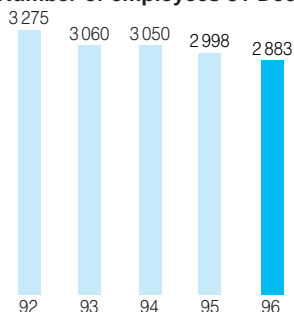
Profit before financial items, SEK M – as a percentage of invoiced sales



Investments in fixed assets, SEK M



Number of employees 31 Dec.



*Sandvik Saws and Tools, one of the world's largest manufacturers of handsaws and sawblades, also offers a wide range of tools for engineering, construction, metal cut-off, forestry and horticulture applications. In addition to saws, other products include wrenches, spanners, pliers, files, pruning tools and guide bars and saw chains for logging machines and chain saws.*

Total market potential for Sandvik Saws and Tools amounts to approximately SEK 100 billion annually. The market's structure varies in different parts of the world. In the NAFTA region, five major companies have a combined market share of more than 50%. In Europe, Sandvik Saws and Tools and two other tool companies account for about 15% of the market. Forty medium-sized manufacturers and several hundred small companies cover the remaining European market.

Rationalization measures that have characterized the tool industry during the 1990s continued. Concentration of resources in the distribution sector is reflected in the growing number of acquisitions, mergers and cooperation agreements between purchasing groups. The growing trend of consolidation favors Sandvik Saws and Tools, since its operations are focused on large distributors, many of which conduct activities in several countries.

### Market and business trends

Demand was weak in the beginning of 1996, but stabilized toward the latter part of the year. Sales volume declined somewhat during the year. Including the effects of exchange differences, sales were down 6%.

Large variations were noted in sales trends of different markets. Increased sales were reported in Norway, Finland, England, Portugal and Spain, but demand was weak in other western European markets, very weak in some countries. Favorable growth

was noted in eastern Europe, including Russia, and Southeast Asia. Argentina showed strong recovery after the very sharp economic decline in 1995.

Sales volumes varied from one product group to another. Higher sales were reported for hand tools used in the building industry. Strong sales were noted for electronic pliers in the US. Forestry



Management team, from left: Anders Ågren (Exec. VP), Per Ove Ehrling and Göran Gezelius (Pres.).

products, however, showed a sharp decline, due primarily to low capacity utilization in the forest products industry. A marginal decline was reported in sales of products for metal cut-off tools and industrial hand tools.

Earnings were down compared with 1995, and return on net assets amounted to 10% and, consequently, did not meet the Group objective. The decline in earnings in 1996 was due to several factors, including lower sales and production volumes, the stronger Swedish krona and structural costs.

Programs to rationalize the operations of Sandvik Saws and Tools are being continued. The number of production units in the business area, which totaled 17 in the beginning of 1996 have been





*Major investments for increased production of socket wrenches were made at the factory in Argentina.*

reduced and will be 12 by mid-1997. Two small plants in Finland and Sweden were closed in 1996, and production was transferred to larger plants in the US and Portugal. Structural changes now in progress in Germany and Argentina will be completed in 1997. Productivity is being enhanced through concentration of production. The efficiency enhancement program will reduce the total number of employees by about 100 persons.

Inventories were reduced during 1996 without causing any effect on delivery reliability. The availability of products, comprising 7,000 items, remained high.

### **New products**

Continued development of ergonomic hand tools by Sandvik Saws and Tools has attracted growing market interest. One of the new products from Sandvik Bahco, the RX electronics pliers, met strong demand in the US. This success has strengthened Sandvik's already strong position in the world's most demanding market for electronics pliers. The product was also launched in Europe during 1996, and recorded very favorable results.

The launch of several additional products characterized by ergo-

nomie design features and high performance standards is now being planned. A special marketing program focused on ergonomic advantages of the business area's tools has been formulated, with particular emphasis on professional users.

A new cemented-carbide-tipped bandsaw blade has been developed and patented by Sandvik Saws and Tools in the US. The blade was introduced during 1996 with great success. Its product properties make the new blade especially well-suited for cutting difficult materials such as stainless steel.

The business area's highly successful and efficient distribution system in Europe was also introduced in the US during 1996. Efforts to obtain ISO 9000 certification were continued. All production units, distribution centers and most sales companies now comply with ISO requirements. Certification is an important part of the business area's quality control program and its strategy to supply high-quality products free of defects and on-time service to professional users.

Meeting the needs and demands of professional users will continue to be the main objective of product development and sales efforts by Sandvik Saws and Tools. This

important customer group is placing greater demands on product properties, ergonomic features and quality. Sales to professional users account for more than 75% of the business area's total revenues.

### **Outlook for 1997**

Weak growth is anticipated during 1997 in several customer groups served by Sandvik Saws and Tools. Signs of improvement have been noted in some South American and Asian markets. Continued favorable development is expected in the growth markets of eastern Europe.

Earnings in 1997 are expected to be higher than in 1996, due to decided and implemented rationalization measures in production.

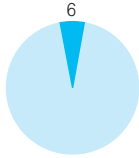


*The new ergonomic RX pliers scored a great success in the electronics industry.*

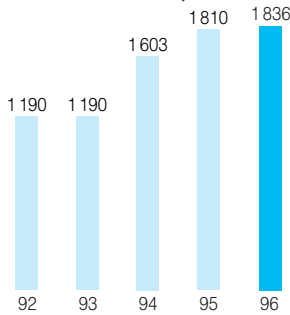
# Business Areas

## Sandvik Process Systems

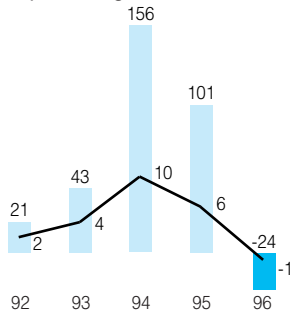
Share of total sales, %



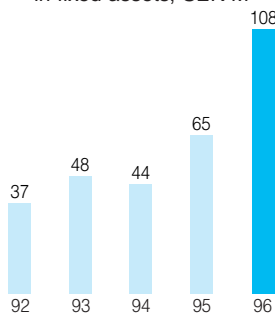
Invoiced sales, SEK M



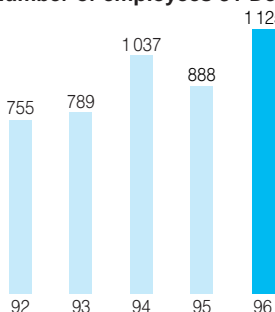
Profit before financial items, SEK M – as a percentage of invoiced sales



Investments in fixed assets, SEK M



Number of employees 31 Dec.



*Sandvik Process Systems manufactures and markets complete systems for automatic goods sorting and process plants for chemical and food processing industries. These plants are generally based on steel conveyor belts, which are also sold separately.*

Sandvik Process Systems is the world market leader in its product niches. In the area of steel conveyor belts, competition is limited to a small number of manufacturers. For process plants, the business area competes with many companies and processes based on other materials and methods.

Overall demand declined in 1996, but business development varied between different market regions. In the important European market, sales declined due to generally weak investments. In North America, however, a strong improvement was noted in market demand. Operations in Japan represented the only sign of business growth in Asian markets. The business area's high expectations on markets in Southeast Asia and China failed to materialize.

In view of overall weak business trends, Sandvik Process Systems accelerated its ongoing program of structural change during the fourth quarter of 1996. A new management was appointed, and the head office was moved from Germany to Sweden. Rationalization measures concentrated on operations in Europe resulted in a reduction in personnel. The former Food Processing and Chemicals Divisions were merged at year-end 1996 and now comprise a new Industrial Processing product center. Additional measures will be implemented in 1997 to further consolidate and focus operations in Sandvik Process Systems.

Reduced sales, increased price competition caused by weak market demand and uneven utilization of production capacity led to lower

operating margins. Combined with substantial restructuring costs, the overall negative trend resulted in a sharp decline in earnings. Return on net assets was negative.

Starting in 1996, a new method for project revenue recognition was introduced. The method yielded an increase in sales of SEK 280 M and slightly higher earnings, compared with the former method.

### Steel belts

Demand for steel belts used to press wood-based panels remained strong. Steel belts used in production of OSB (Oriented Strand Board) building panels, a further development of layered veneer board, were introduced on the market. They are considered to have very promising sales potential. To meet growing demand for special steel belts, a decision was made in 1996 to invest in a second production line for steel belt presses in Sandviken. It will be placed in operation during the spring of 1997.

To broaden its range of sophisticated steel belts, Sandvik Process Systems has signed an agreement with a Japanese company for the manufacture of highly polished steel belts, which are used increas-



Management team, from left: Johann Taps, Svante Lindholm (Pres.), Giancarlo Tazzioli (Exec. VP), Rolf Hemlin and Ulf Åhman.



ingly today to produce photographic film. A decline was noted in the market for standard steel belts used in continuous baking and in freezing and drying installations.

### Sorting systems

Demand for sorting systems varied a great deal in different parts of the world. The market in Europe remained weak, which had a strong negative effect on capacity utilization and accentuated the need for structural changes. An improvement is expected in 1997. Several orders were booked in the US by an important American customer, the US Postal Service, which plans to install steel belt-based sorting equipment at several distribution centers to further increase its degree of automation.

Demand for goods sorting installations in Japan has been weak for the past few years due to general economic conditions. Significant sales success has been achieved in the Japanese market, however, through supplementary deliveries for previously sold systems. Sandvik Process Systems booked its first order for steel belt-based sorting systems in Korea last year. In China, a contract was signed for the first order booked by the Chinese postal service for equipment from CML Handling Technology, an Italian company acquired recently by Sandvik. The order represents an important reference installation in an area with strong potential.

CML manufactures materials handling systems for high-speed goods sorting applications based on technologies unrelated to steel belt systems. The acquisition will broaden the market and increase Sandvik's know-how and expertise in goods sorting applications. Installation was started in 1996 of a comprehensive baggage handling system at Rome International Airport. A new system was also



*CML's SBIR sorting system for newspaper distribution is used by La Stampa, one of Italy's largest dailies.*

developed recently for internal mail distribution designed for banks. In the autumn of 1996, CML was assigned responsibility for all European operations focused on automatic sorting systems.

### Industrial Processing

Increased business activity in Asia and favorable development in North America were not enough to offset continued weak demand in Europe, caused primarily by a general decline in the business activities of chemical and food processing industries. A number of new projects were started in Asia during 1996, and intensified sales efforts were made in several markets.

The oil and gas industry, with its considerable need for environmentally compatible processing and handling systems, offers significant potential for Sandvik Process Systems. The business area's know-how and ability to offer various specially adapted solutions represents an important competitive advantage. The patented Rotoform system plays an important part in the refinement of chemicals, for example, resins, wax and paraffin. Tests and practical results from applications of various processes demonstrate that

they are rendered much more economically through the use of Sandvik's Rotoform Plus.

In Switzerland and China, double-belt presses were installed last year for production of plastic components used by the automotive industry. A new demonstration center will be opened in 1997 at the business area's plant in Fellbach, Germany.

Two new product concepts launched in the food processing industry have attracted widespread market interest: a system for effective steam boiling used in the production of pet food and a multi-stage dryer.

### Outlook for 1997

The overall objective for Sandvik Process Systems is to achieve a notable increase in earnings. Measures initiated during 1996 will lead to continued rationalization and higher productivity that should have favorable effects on profitability. The changes should also coincide with stronger demand projected in several markets. Accordingly, the business area anticipates a sharp improvement in earnings during 1997.

# Sandvik and the environment

*Sandvik's environmental philosophy is a natural part of the Group's overall approach to its business operations. Environmental issues are becoming more topical in all areas of operations, from raw materials purchases and production to marketing and sales. Environmental issues are always taken into consideration in evaluations of investments and acquisitions, changes in processes and manufacturing procedures, new product development and selections of packaging materials and transport systems.*

The information below comprises examples from various business areas that illustrate the scope of Sandvik's measures in a step-by-step development of methods and products that benefit customers, employees and the shared environment.

## **The world's cleanest steel mill?**

The steel mill in Sandviken has become one of the cleanest of its type in the world as a result of comprehensive investments in flue-gas cleaning during 1996. All exhaust air now passes through purification filters before emission

into the atmosphere. The new filters have reduced already low levels of particle emissions by 50% and raised the flue-gas cleaning level to more than 99%. The purification process is also environmentally compatible in other respects. Metals contained in effluents, for example, are now trapped in the filter, recovered and recycled in Sandvik's steel production process.

## **Steel cycle**

Sandvik's steel production process has become increasingly environmentally sound. In addition, steel in itself is an excellent example of the type of materials that can be

recovered and recycled. The steel cycle in Sandviken ends, or starts if you will, in the electro-steel mill, in which the melt largely comprises recycled material, including stainless steel from households and industry as well as spill from Sandvik's and customers' further processing of steel.

## **Recycling cemented carbide**

Cemented carbide can also be recycled. Sandvik Coromant has made significant progress in satisfying interest in, and demands on, recovery and recycling. Sandvik

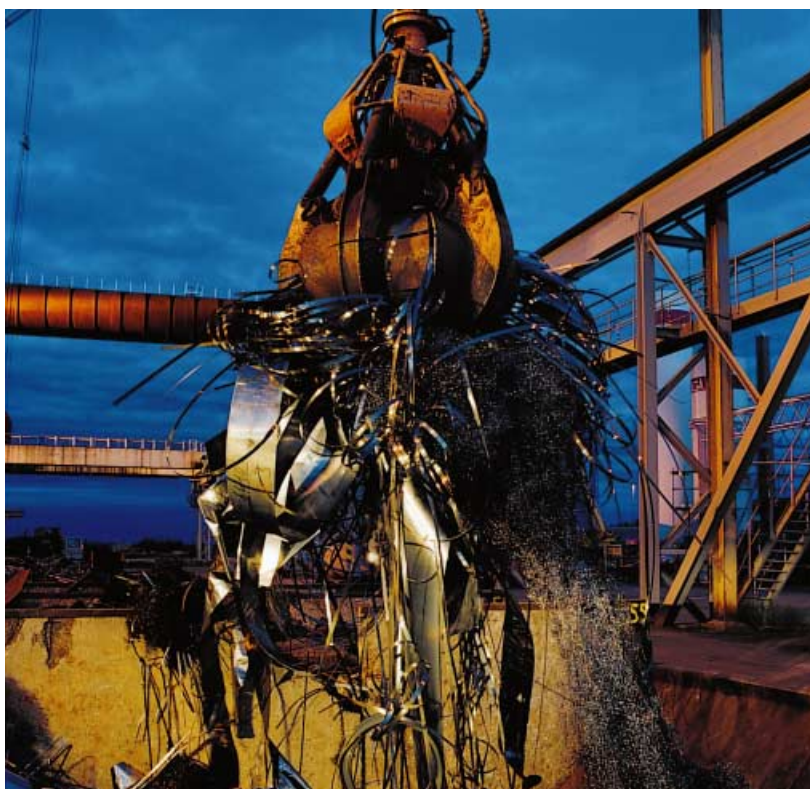


*Sandvik Coromant has introduced recycling of cemented carbide.*

offers to take care of spent inserts and organize the collection of recyclable materials from customers in Italy, Germany, Brazil and other countries. By utilizing modern, sophisticated methods and processes, cemented-carbide can be broken down into its constituent parts and recycled. The greatest success in cemented carbide recycling has been achieved in Germany, a country characterized by widespread environmental awareness. The recycling system is now being introduced gradually on new markets in all parts of the world. Recycling of cemented-carbide is increasingly gaining greater importance for customers, for Sandvik and, particularly, for our environment.

## **Environmentally friendlier packaging for drill bits**

Drill bits from Sandvik Rock Tools are sold to thousands of customers







*Long-distance and heavy shipments from Sandvik Steel are increasingly being sent by rail.*

in all parts of the world. In the past, they were always delivered in waxed, corrugated cardboard packages to protect the products from moisture. The packaging materials used, however, were not recyclable. Today, an increasing percentage of drill bits is delivered in corrugated cardboard packaging treated with a water-based lacquer that makes the packaging material recyclable.

#### **More railway transports**

The railroad is making inroads at Sandvik. Most heavy transports from Sandvik Steel in Sandviken to customers in central and western Europe are now shipped via so-called transmodal transports, in which the longest distances are covered by rail. In the autumn of 1996, another railroad line was started in coordination with ferry transports to Travemünde, Germany. The new mode of trans-

portation has shortened delivery times to Group units and customers.

#### **Milder heat treatment for tools**

Tool production operations of Sandvik Saws and Tools have become more environmentally friendly. At the factory in Portugal, which produces files, lead-bath hardening, for example, has been replaced to a large extent by induction hardening, which is much more environmentally friendly, eliminating effluent emissions and residual products. The technique also consumes lower amounts of energy and provides notable improvements in the work environment. The same method is used for hardening of chisels at the plant in Enköping, Sweden. Vacuum hardening has replaced salt-bath hardening in production of hacksaw blades and machine blades in

Lidköping, Sweden, which has produced significant environmental gains.

#### **Environmental certification a competitive weapon**

According to available information, the CTT Tools factory in Frankfurt, Germany, which manufactures Titex products, is the first plant in the tool industry to be certified in accordance with ISO 14001. Several important measures have been implemented in the production process to reduce consumption of electricity, water and gas. In parallel, waste products have been reduced and a large part of residual products is now recycled. In addition, Titex products are now packaged in recyclable materials. Environmental awareness has become a competitive weapon in a market where growing numbers of customers place demands on such environmental measures.

#### **Environmentally-sound powder production**

The exterior environment and indoor work environment have been improved very significantly at Sandvik Hard Materials' plant for production of cemented-carbide powder in Grenoble, France. The particle content in the atmosphere was recently reduced to one four-hundredth of previous levels. Other measures were implemented to make radical reductions in noise levels.

*Matters pertaining to the exterior environment and the work environment are an integral part of Sandvik's total operations. Decisions related to operations that affect the environment should be guided by considerations of what is ecologically justified, technically possible and economically feasible.*

*Sandvik shall strive continuously to improve the exterior environment and work environment. Our aim is to minimize the consumption of energy and scarce resources and the use of materials that are harmful to man and the environment.*

*A minimum requirement is that the Company shall conduct its operations in a manner that does not harm the employees or impair their health or*

*the health of others. Sandvik shall comply with applicable laws and agreements with respect to the exterior environment and the work environment, and follow good industrial practice in the countries where it operates.*

*Suppliers shall be encouraged, in their dealings with Sandvik, to adopt principles that are compatible with the Company's environmental policy. Sandvik believes that common environmental requirements and standards should be established internationally and will work with others to develop such requirements and standards.*

*The Company will support the employees in implementing the environmental policy.*

# Consolidated income statement

Amounts in SEK M		1996	1995
Invoiced sales	Note 2	28 265	29 700
Costs of goods sold, selling, general and administrative expenses	Note 3	-23 169	-23 631
Share of profits in associated companies	Note 6	172	196
<b>Operating income before depreciation</b>	Note 8	5 268	6 265
Scheduled depreciation	Note 4	-1 159	-1 071
<b>Operating income after depreciation</b>		4 109	5 194
Dividends received		14	1
Interest income	Note 5	586	691
Interest expenses	Note 5	-256	-266
<b>Profit after financial income and expenses</b>		4 453	5 620
Taxes	Note 21	-1 204	-1 691
<b>Profit after taxes</b>		3 249	3 929
Minority interest	Note 7	-135	-202
<b>Net profit</b>		3 114	3 727

# Consolidated balance sheet

Amounts in SEK M		1996	1995
<b>ASSETS</b>			
<b>Current assets</b>			
Liquid assets and short-term investments	Note 9	5 557	6 893
Bills receivable		742	736
Trade accounts receivable		5 130	5 131
Prepaid expenses and accrued income		446	249
Other current receivables		899	1 206
Inventories		7 306	7 097
		<u>20 080</u>	<u>21 312</u>
<b>Fixed assets</b>			
Shares and participations	Note 10	55	53
Equity interest in associated companies		2 102	825
Long-term receivables	Note 11	667	186
Goodwill and other intangible assets	Note 12	322	278
Construction in progress		895	465
Machinery and equipment	Note 13	5 730	4 771
Land and buildings	Note 13	2 923	2 672
		<u>12 694</u>	<u>9 250</u>
<b>Total assets</b>		<b>32 774</b>	<b>30 562</b>
Assets pledged	Note 14	485	466
<b>LIABILITIES AND EQUITY CAPITAL</b>			
<b>Current liabilities</b>			
Bills payable		129	174
Trade accounts payable		1 600	1 936
Taxes payable	Note 21	546	908
Accrued expenses and deferred income		2 519	2 171
Short-term loans	Note 16	1 048	699
Other current liabilities	Note 15	1 094	1 019
		<u>6 936</u>	<u>6 907</u>
<b>Long-term liabilities</b>			
Long-term loans	Note 16	312	155
Provision for pensions	Note 17	1 970	1 899
Deferred tax liability	Note 20	2 216	2 025
Other long-term liabilities		229	163
		<u>4 727</u>	<u>4 242</u>
<b>Minority interest in equity capital</b>		1 076	910
<b>Equity capital</b>			
Note 22			
Restricted equity capital:			
Share capital	Note 23	1 392	1 392
Restricted reserves		7 047	6 281
		<u>8 439</u>	<u>7 673</u>
Unrestricted equity capital:			
Unrestricted reserves		8 441	7 215
Translation difference		41	-112
Net profit		3 114	3 727
		<u>11 596</u>	<u>10 830</u>
Total equity capital		20 035	18 503
<b>Total liabilities and equity capital</b>		<b>32 774</b>	<b>30 562</b>
Contingent liabilities	Note 24	353	292

# Consolidated funds statement

Amounts in SEK M	1996	1995
<b>Internal financing</b>		
Profit after financial income and expenses	4 453	5 620
Profits retained in associated companies	-137	-176
Depreciation	1 159	1 071
Capital gain/loss on shares and facilities sold	4	10
Accrued taxes	-799	-1 287
Dividends paid	-1 736	-1 083
Total internal financing	2 944	4 155
<b>Change in working capital</b>		
Change in inventories	-138	-936
Change in current receivables	-84	-648
Change in non-interest-bearing operating liabilities	-592	-399
Total change in working capital	-814	-1 983
<b>Net financing from operations</b>	2 130	2 172
<b>Net investments</b>		
Acquisition of companies and shares	-1 928	-60
Less acquired liquid assets	74	8
Investment in fixed assets	-2 486	-2 050
Sale of companies and shares	478	1
Settlement of balances with divested Group companies	-	15
Sale of fixed assets	50	78
Net investments	-3 812	-2 008
<b>Cash flow</b>	-1 682	164
<b>External financing</b>		
Loans:		
Change in short-term loans	161	-296
Change in long-term loans	127	-80
Change in convertible loan	-	-16
Total loans	288	-392
Other financing, net:		
Change in long-term receivables	-24	306
Change in pension liability	71	77
Change in other long-term liabilities	46	-26
Change of minority interest in equity capital	-	16
Total other financing, net	93	373
<b>Net external financing</b>	381	-19
Translation differences, including the effect of hedging the Group's net investments in foreign subsidiaries	-35	157
<b>Change in liquid assets and short-term investments</b>	-1 336	302



# Parent Company income statement

(Note 1)

Amounts in SEK M		1996	1995
Invoiced sales	Note 2	12 047	12 609
Costs of goods sold, selling, general and administrative expenses	Note 3	-10 149	-10 096
Allocation to employee profit-sharing fund		-131	-139
<b>Operating income before depreciation</b>	Note 8	1 767	2 374
Scheduled depreciation	Note 4	-340	-322
<b>Operating income after depreciation</b>		1 427	2 052
Financial items:			
Dividends received, subsidiaries		403	180
Dividends received, other companies		117	5
Interest income, subsidiaries		90	84
Interest income, other	Note 5	85	132
Interest expenses, subsidiaries		-193	-162
Interest expenses, other	Note 5	-71	-84
<b>Profit after financial income and expenses</b>		1 858	2 207
Appropriations:			
Difference between book and scheduled depreciation	Note 18	-90	-48
Change in tax equalization reserve	Note 19	53	53
Change in tax allocation reserve	Note 19	-160	-425
Change in currency reserve	Note 19	-24	-
Other appropriations	Note 19	-13	4
Group contributions		-459	-110
<b>Profit before taxes</b>		1 165	1 681
Taxes	Note 21	-170	-427
<b>Net profit</b>		995	1 254

# Parent Company balance sheet

(Note 1)

Amounts in SEK M		1996	1995
<b>ASSETS</b>			
<b>Current assets</b>			
Liquid assets and short-term investments	Note 9	667	1 145
Receivables from subsidiaries		1 777	2 236
Trade accounts receivable		563	782
Prepaid expenses and accrued income		218	105
Other current receivables		203	304
Inventories		2 310	2 534
		5 738	7 106
<b>Fixed assets</b>			
Shares and participations in subsidiaries	Note 10	5 830	5 792
Shares and participations in other companies	Note 10	55	437
Receivables from subsidiaries		343	274
Other long-term receivables	Note 11	567	72
Construction in progress		515	216
Machinery and equipment	Note 13	2 152	1 973
Land and buildings	Note 13	361	299
		9 823	9 063
<b>Total assets</b>		15 561	16 169
Assets pledged	Note 14	101	101
<b>LIABILITIES AND EQUITY CAPITAL</b>			
<b>Current liabilities</b>			
Trade accounts payable		546	775
Taxes payable	Note 21	203	350
Accrued expenses and deferred income		632	749
Short-term loans	Note 16	43	149
Other current liabilities to subsidiaries		1 152	1 268
Other current liabilities	Note 15	622	270
		3 198	3 561
<b>Long-term liabilities</b>			
Long-term loans	Note 16	138	3
Provision for pensions	Note 17	885	854
Deferred tax liability	Note 20	0	0
Other long-term liabilities		9	9
		1 032	866
<b>Untaxed reserves</b>			
Accumulated depreciation above schedule	Note 18	1 239	1 149
Tax equalization reserve	Note 19	214	267
Tax allocation reserve	Note 19	1 475	1 315
Currency reserve	Note 19	24	-
Other untaxed reserves	Note 19	39	26
		2 991	2 757
<b>Equity capital</b>			
Restricted equity capital: Note 22			
Share capital	Note 23	1 392	1 392
Statutory capital reserve		291	291
		1 683	1 683
Unrestricted equity capital:			
Retained earnings		5 662	6 048
Net profit		995	1 254
		6 657	7 302
Total equity capital		8 340	8 985
<b>Total liabilities and equity capital</b>		15 561	16 169
Contingent liabilities	Note 24	660	630

# Parent Company funds statement

Amounts in SEK M	1996	1995
<b>Internal financing</b>		
Profit after financial income and expenses	1 858	2 207
Depreciation	340	322
Capital gain/loss on shares and facilities sold	-50	23
Accrued taxes	-170	-427
Dividends paid	-1 640	-1 025
Group contributions	-459	-110
Total internal financing	-121	990
<b>Change in working capital</b>		
Change in inventories	224	-407
Change in current receivables	666	-315
Change in non-interest-bearing operating liabilities	-257	-309
Total change in working capital	633	-1 031
<b>Net financing from operations</b>	512	-41
<b>Net investments</b>		
Acquisition of companies and shares	-80	-33
Investment in fixed assets	-998	-710
Change in Parent Company's long-term advances to subsidiaries	-139	-107
Sale of companies	555	1
Sale of fixed assets	107	54
Net investments	-555	-795
<b>Cash flow</b>	-43	-836
<b>External financing</b>		
Loans:		
Change in short-term loans	-106	37
Change in long-term loans	135	-2
Total loans	29	35
Other financing, net:		
Change in long-term receivables	-495	-52
Change in pension liability	31	12
Change in long-term liabilities	0	9
Total other financing, net	-464	-31
<b>Net external financing</b>	-435	4
<b>Change in liquid assets and short-term investments</b>	-478	-832



# Accounting principles

The same principles were applied in 1996 as in 1995, except for income recognition on plant contracts covering a period longer than one year. As of 1996, the Group applies the percentage of completion method. Since the cumulative effect of the change is marginal, no restatement of the initial balance of equity capital has been made.

## Consolidation principles

The consolidated accounts cover the Parent Company, all subsidiaries and associated companies. Subsidiaries are defined as companies in which the Parent Company directly or indirectly holds more than half the votes. Associated companies are companies which are linked to the Group's operations and in which the Parent Company has a direct or indirect long-term shareholding amounting to not less than 20% and not more than 50% of the voting rights.

The consolidated accounts are prepared in accordance with the principles stated in the Swedish Financial Accounting Standards Council's recommendation.

All acquisitions of companies are reported in accordance with the purchase method. After 1991, goodwill is determined at acquisition in the local currency. While goodwill is normally amortized linearly over a maximum of ten years, an amortization period of up to 20 years may be decided in the case of important strategic acquisitions. If goodwill is determined to have declined permanently in value, extra amortization is applied. Negative goodwill is reported as a long-term liability and is recognized as income in accordance with a plan established in each specific case. Internal transactions have been eliminated. When internal profit arises from a transaction involving a company in which there is a minority interest, the portion of such profit accruing to the Group is eliminated.

Companies that have been sold are included in the consolidated accounts until the time of the sale. Companies acquired during the current year are consolidated from the time of the purchase.

The consolidated balance sheet and income statement are presented without untaxed reserves and appropriations. Untaxed reserves reported by the individual companies within the Group have been apportioned such that the deferred tax is reported under long-term liabilities, while the remainder is included in the Group's equity capital. Deferred tax, generally at the tax rate for the next fiscal year, has been calculated separately for each company. The tax attributable to changes in the untaxed reserves of individual Group companies is included in the Group's tax expense as estimated future taxes. The remaining portion is included in the Group's net earnings. In the event of a change in the tax rate, the change in tax liability is included in the tax expense for the year.

In classifying the equity capital of the Group as unrestricted or restricted, the method proposed in the Swedish Financial Accounting Standards Council's recommendation is followed, with the net effect of any applicable withholding taxes also being taken into account.

Associated companies are reported in accordance with the equity method. For practical reasons, the share of profits in Kanthal is included in Sandvik's annual report with a time-lag of one quarter.

## Foreign currency

In preparing the consolidated financial statements, the accounts of foreign subsidiaries are translated in accordance with the draft recommendation of the Swedish Institute of Authorized Public Accountants.

Since the local currency is the

"functional currency" for the majority of foreign subsidiaries, the current-rate method is used. The changes in Group equity arising from variations in the rates prevailing on the balance sheet date compared with the rates at the preceding year-end have a direct effect on Group equity. The financial statements of companies operating in high-inflation countries are initially translated into US dollars in accordance with the monetary/non-monetary method. The translation differences that arise have an effect on the income statement for the year. In a second stage, the balance sheets and income statements of these companies are translated from US dollars to SEK using the current-rate method.

Receivables and liabilities in foreign currencies are valued at the rate applicable on the balance sheet date. In cases where forward exchange contracts have been entered into, however, the forward rate of exchange is used in the valuation of underlying receivables or liabilities.

Exchange rate differences relating to loans and other financial instruments in foreign currencies that provide a currency hedge for the net investment in foreign subsidiaries and associated companies are posted directly to equity capital, after taking tax effects into account, if such differences are less than or equal to the translation difference (in accordance with the current-rate method) arising from the translation of the balance sheets of the subsidiaries or associated companies.

Outstanding forward exchange contracts relating to the sale of currencies are not assigned a value if the currency flow resulting from the sale of goods is expected to cover the forward contracts.

## Short-term investments

Bonds and other short-term investments are valued at their historical

cost or at their market value on the balance sheet date, whichever is the lower. In the process of valuation, this principle is applied to the portfolio as a whole, meaning that unrealized losses have been offset against unrealized gains. Any remaining loss is deducted from interest income, whereas a gain is not recognized.

### **Inventories**

Inventories are valued at the lower of historical cost in accordance with the first-in/first-out method or their actual value, taken as the replacement cost in the case of semifinished goods or raw materials.

### **Depreciation of tangible fixed assets**

Scheduled depreciation charged in the industrial operations is based on the historical cost of the assets and their estimated economic lives. Straight-line depreciation is normally applied, over a period of 5-10 years for machinery and equipment, 10-50 years for buildings, and 20 years for site improvements. Declining balance depreciation over a period of 3-5 years is applied to computer equipment. The difference between scheduled depreciation and depreciation for tax purposes is shown by the individual companies as accumulated

excess depreciation under untaxed reserves.

### **Profit recognition**

Sales are recognized at the time of delivery and are equal to the sales price less value-added tax, discounts and returns. Income from contracts extending for more than one year is reported in accordance with the percentage of completion method. If the costs for completing such projects are estimated to exceed the remaining revenues, a provision is made for the calculated losses.

Estimated costs of product guarantees are charged to income at the time of sale.

### **Research and development costs**

Research and development costs are expensed as incurred.

### **Taxes**

Tax expense for the year includes accrued (paid) taxes, future (deferred) taxes and the share of the taxes of associated companies. Accrued taxes also include foreign withholding taxes paid in respect of dividends. Deferred tax includes those tax effects that are to be taken into account in the consolidated accounts according to the Swedish Financial Accounting

Standards Council's recommendation. This includes deferred tax in the untaxed reserves of individual Group companies, deferred tax arising when applying different valuation principles are assigned at Group and company level, including unrealized internal profits, as well as tax effects on purchase-accounting fair-value adjustments, including those attributable to acquired tax-loss carryforwards. Sandvik also includes under deferred tax any tax that is deferred in consequence of participation in net losses of partly owned limited partnerships.

### **Funds statement**

The amounts paid or received for the shares of companies acquired or sold are shown in the funds statement. The assets and liabilities that these companies had at the time when they changed hands are not included in the sections of the funds statement dealing with changes in working capital, net investments and funds generated/used externally. Amounts shown in the funds statement are generally exclusive of unrealized exchange differences. Estimated future taxes and changes in deferred tax liability are not included.

## **DEFINITIONS**

### **Earnings per share**

Consolidated net profit divided by the average number of shares outstanding during the year.

### **Equity ratio**

Equity capital and minority interests in relation to total capital.

### **Debt-equity ratio**

Interest-bearing current and long-term debts (including pension liability) divided by the total of equity capital plus minority interest.

### **Rate of capital turnover**

Invoiced sales in relation to average total capital.

### **Return on equity capital**

Consolidated net profit for the year as a percentage of average equity capital during the year.

### **Return on net assets**

Profit after financial income and expenses adjusted for interest expense and exchange differences on loans, as a percentage of average total capital, less non-interest-bearing debts.

# Application of US GAAP

(Generally accepted accounting principles in the US)

The Financial Statements of the Sandvik Group have been drawn up in accordance with aforementioned Swedish accounting principles. The significant differences between these principles and generally accepted accounting principles in the US (US GAAP) as applicable to the Sandvik Group are described below.

## Deferred tax

Sandvik reports deferred taxes to the extent promulgated by the recommendation of the Swedish Financial Accounting Standards Council regarding group accounts. Accordingly, reported deferred taxes include primarily deferred tax liabilities relating to untaxed reserves. Deferred tax assets are recognized only to the extent relating to unrealized profits and the application of different valuation principles in the Group accounts and individual company accounts. The effects of tax-loss carryforwards are reported mainly as a reduced tax expense at the time of utilization. Under US GAAP, the deferred tax effects on all differences between book values and tax values of assets and liabilities, including operating loss carryforwards, are taken into account. The value of deferred tax assets, however, are subjected to a recoverability test. Overall, the value of certain tax-loss carryforwards is recognized earlier under US GAAP than under Swedish principles.

Additionally, tax effects arise from other differences between Swedish and US GAAP, as shown in the reconciliation below.

## Acquisitions

Swedish rules for valuation of own shares issued in conjunction with an acquisition are less prescriptive than the corresponding US rules. Because of such differences, the acquisition value of the CTT group is reported at a somewhat higher amount under US GAAP.

## Revaluation of assets

As permitted under Swedish GAAP, certain fixed assets have been reported at values in excess of acquisition cost. Such revaluation of assets is not permitted under US GAAP.

## Capitalization of interest

In accordance with Swedish GAAP, the interest expenses incurred for the financing of new buildings, machinery and equipment is charged against

income. US GAAP requires that such interest expense be capitalized and depreciated with other acquisition costs over the lifetime of the asset.

## Foreign exchange

Under Swedish GAAP, unrealized gains and losses on forward exchange contracts entered into to hedge anticipated future transactions are normally deferred and reported with the underlying transaction when it occurs. US GAAP allows such reporting only for specifically identified firm orders. In other cases, forward exchange contracts are marked to market and unrealized gains and losses are included in income.

## Pensions

The main differences between Swedish and US GAAP in pension accounting relate to the choice of discount rate

and the US practice of basing the calculation of capital value on projected salary at the time of retirement rather than actual salary at the time of calculation. However, these differences have not been quantified, and are not included in the following reconciliation.

## General

Other areas in which the application of US GAAP to the Sandvik Group would entail not insignificant differences include accruals for contingencies.

Application of FAS 115 also results in adjustments of the valuation and reporting of short-term investments. Such investments under Swedish GAAP are valued at the lower of cost or market. Under US GAAP, after-tax value adjustments of securities classified as available for sale would be transferred directly to equity.

The application of US GAAP would have the following approximate effect on the Sandvik Group's reported net profit, earnings per share and equity capital:

Amounts in SEK M, unless otherwise stated	1996	1995
Net profit according to the consolidated income statement	3 114	3 727
Increase/decrease for		
Deferred taxation	-66	-359
Acquisitions	-4	-4
Revaluation of assets	6	21
Capitalization of interest	19	9
Foreign exchange	-245	218
Other adjustments	-10	69
Tax effects of US GAAP adjustments	7	-36
Net profit based on US GAAP	2 821	3 645
Earnings per share, based on US GAAP, SEK	10.10	13.10
Equity capital according to the consolidated balance sheet	20 035	18 503
Increase/decrease for		
Deferred taxation	335	400
Acquisitions	65	69
Revaluation of assets	-307	-293
Capitalization of interest	153	134
Foreign exchange	-15	230
Unrealized gains/losses on securities available for sale	33	86
Other adjustments	171	181
Tax effects of US GAAP adjustments	-64	-71
Equity capital based on US GAAP	20 406	19 239
Equity capital per share, based on US GAAP, SEK	73.30	69.10



# Notes to the accounts

Notes to the Consolidated and Parent Company accounts  
(Amounts in SEK million, unless otherwise stated)

## Note 1. Parent Company

The Parent Company's business operations in Sweden are conducted largely through subsidiaries whose operations are carried out on a commission basis. During 1996 the companies listed below conducted business under their own names, but solely on behalf of the Parent Company. In its year-end financial statements, the Parent Company reports - with the exception of some buildings - all assets and liabilities and all revenues and expenses pertaining to operations of these subsidiaries.

The following subsidiaries conducted business in 1996

on behalf of the Parent Company: Guldsmedshytte Bruks AB, AB Sandvik Automation, Sandvik Automation Norden AB, AB Sandvik Belts, AB Sandvik Coromant, Sandvik Coromant Norden AB, AB Sandvik Hand Tools, AB Sandvik Hard Materials, Sandvik Hard Materials Norden AB, AB Sandvik Information Systems, AB Sandvik International, AB Sandvik Rock Tools, Sandvik Rock Tools Svenska Försäljnings AB, AB Sandvik Saws and Tools, AB Sandvik Service, AB Sandvik Steel, Sandvik Stål Försäljnings AB and AB Sandvik Västberga Service.

## Note 2. Invoiced sales and Parent Company purchases

The amounts shown for invoiced sales include "Other operating income" as follows:

	Group		Parent Company	
	1996	1995	1996	1995
Other operating income	34	39	263	266

SEK 8,439 M (8,284), or 70% (66), of the Parent Company's invoiced sales were to Group companies. The export share was 83% (82). SEK 679 M (851), or 13% (17), of the Parent Company's purchases, came from Group companies.

## Note 3. Research, development and quality assurance

	Group		Parent Company	
	1996	1995	1996	1995
Costs of				
Research and development	849	769	528	451
Quality assurance	333	320	133	121
Total	1 182	1 089	661	572

All research, development and quality assurance costs are expensed as incurred.

## Note 4. Depreciation/amortization

Group	Goodwill and other intangible-assets		Machinery and equipment		Industrial and residential buildings		Site improvements		Total	
	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995
	Scheduled depreciation	-45	-37	-987	-913	-124	-118	-3	-3	-1 159

Parent Company	Machinery and equipment		Industrial and residential buildings		Site improvements		Total	
	1996	1995	1996	1995	1996	1995	1996	1995
	Scheduled depreciation	-325	-308	-14	-13	-1	-1	-340
Difference between book and scheduled depreciation	-70	-46	-20	-2	-	-	-90	-48
Book depreciation	-395	-354	-34	-15	-1	-1	-430	-370

## Note 5. Interest income and expenses

	Group		Parent Company	
	1996	1995	1996	1995
Gross interest income from investments	486	579	85	132
Other interest income	100	112	-	-
Total	586	691	85	132
Interest expenses, pension liability	-111	-112	-50	-50
Other interest expense, gross	-145	-154	-21	-34
Total	-256	-266	-71	-84

Other interest income includes the recognition of premium over the life of a forward exchange contract that serves to hedge a net investment in a foreign subsidiary.

## Note 6. Share in profits of associated companies

The Group classifies the following as associated companies: Avesta Sandvik Tube AB (25%), Balzers Sandvik Coating AB (49%), Devillé S.A. (35%), Eurotungstène Poudre S.A. (49%), Fagersta-Seco AB (31%), Fagersta Stainless AB (50%), Fastrack Sweden Uthyrnings AB (49%), G-Drill AB (30%), Kanthal AB (47% of the number of shares, 33% of voting rights), Procera-Sandvik AB (50%), QR Uthyrnings AB (49%), Sandvik Baildonit S.A. (37%), and Tampella Corp. (49%), Tamrock Oy (25%, part of year), Uirlis Torc Teoranta Ltd. (49%) and Oy Winrock Technology Ltd. (20%).

## Note 7. Minority interests

There are significant minority interests in the following companies: Acesita Sandvik Tubos Inox S.A. (minority 50%), Bodås Svamp AB (37%), Cermep S.A. (49%), MKTS (2%), MKTS Joint Venture (2%), Quingdao Sandvik Die Cutting Systems Co. Ltd. (40%), Pennsylvania Extruded Tube Company (30%), RGB Stainless Ltd. (45%), Sandvik Choksi Ltd. (49%), Sandvik Asia Ltd. (45%) and Seco Tools AB (39%).

## Note 8. Operating income before depreciation

Operating income before depreciation includes the following items:

	Group		Parent Company	
	1996	1995	1996	1995
Income				
Recovery of deposited funds pertaining to dumping case	16	67	-	-
Capital gain on sale of shares and companies	19	13	73	-
Total	35	80	73	-
Expenses				
Write-downs of shares and participations	-	-	-12	-
Capital contributions to subsidiaries	-	-	-49	-33
Kobe earthquake	-	-2	-	-
Total	-	-2	-61	-33

## Note 9. Liquid assets and short-term investments

	Group		Parent Company	
	1996	1995	1996	1995
Cash and bank balances	1 121	1 489	51	17
Short-term investments	4 279	3 676	459	768
Publicly traded shares	-	203	-	203
Bonds with longer maturities than one year	157	1 525	157	157
Total	5 557	6 893	667	1 145

## Note 10. Shares and other participations

The Group's and the Parent Company's holdings of shares and other participations at the end of 1996 are set forth in the specification on pages 46-48.

## Note 11. Other long-term receivables

	Group		Parent Company	
	1996	1995	1996	1995
Advances to suppliers	21	30	11	30
Other receivables	646	156	556	42
Total	667	186	567	72

## Note 12. Goodwill and other intangible assets

	Group	
	1996	1995
Patents and other intangible assets	35	19
Goodwill	287	259
Total	322	278

## Note 13. Fixed assets

Machinery, equipment, buildings, land, site improvements and agricultural and forest properties are reported at their net value after scheduled depreciation as adjusted for remaining revaluations. Accumulated excess depreciation is reported by the individual companies among untaxed reserves under the heading "Accumulated depreciation above schedule."

	Machinery and equipment		Industrial and residential buildings		Agricultural and forest property		Land and site improvements	
	1996	1995	1996	1995	1996	1995	1996	1995
<b>Group</b>								
Historical cost <sup>1)</sup>	14 109	12 521	3 906	3 579	1	1	530	520
Accumulated scheduled depreciation	-8 383	-7 754	-1 765	-1 683	-	-	-37	-34
Scheduled remaining values	5 726	4 767	2 141	1 896	1	1	493	486
Remaining revaluations	4	4	148	149	10	10	130	130
Residual values	5 730	4 771	2 289	2 045	11	11	623	616
Assessed values <sup>2)</sup>	-	-	1 083	1 056	43	34	137	165
<b>Parent Company</b>								
Historical cost	5 315	5 045	506	431	1	1	26	26
Accumulated scheduled depreciation	-3 163	-3 072	-215	-203	-	-	-7	-6
Scheduled remaining values	2 152	1 973	291	228	1	1	19	20
Remaining revaluations	-	-	-	-	10	10	40	40
Residual values	2 152	1 973	291	228	11	11	59	60
Accumulated depreciation above schedule	-1 205	-1 135	-28	-8	-	-	-6	-6
Net book values	947	838	263	220	11	11	53	54
Assessed values	-	-	283	278	43	34	40	37

<sup>1)</sup> The acquisition value of assets in acquired companies is based on the company's historical cost, regardless of whether the assets were acquired before or after the date when the company became a member of the Group.

<sup>2)</sup> The figures apply to the Swedish part of the Group. The book value of real estate held by foreign subsidiaries amounted to SEK 1,705 M (1,610).

## Note 14. Assets pledged

	Group		Parent Company	
	1996	1995	1996	1995
Real-estate mortgages	242	243	11	11
Chattel mortgages	153	133	-	-
Bonds and other short-term investments	90	90	90	90
Total	485	466	101	101
of which, for subsidiaries			90	90

## Note 15. Other current liabilities

	Group		Parent Company	
	1996	1995	1996	1995
Advances from customers	65	103	18	17
Other current liabilities	1 029	916	604	253
Total	1 094	1 019	622	270

## Note 16. External loans

	Group		Parent Company	
	1996	1995	1996	1995
Installments due within one year on long-term loans	123	44	0	1
Other short-term loans	925	654	43	148
Total short-term loans	1 048	699	43	149
Other loans	312	155	138	3
Total long-term loans	312	155	138	3
Total, loans	1 360	854	181	152



**Note 17. Provision for pensions**

	Group		Parent Company	
	1996	1995	1996	1995
Swedish PRI pension plan	1 046	972	836	803
Other pensions	924	927	49	51
Total	1 970	1 899	885	854

**Note 18. Parent Company accumulated depreciation above schedule**

	Machinery and equipment	Industrial and residential buildings	Site improvements	Total
Reported at the end of 1995	1 135	8	6	1 149
Difference between book and scheduled depreciation for year	70	20	0	90
Reported at the end of 1996	1 205	28	6	1 239

**Note 19. Parent Company other untaxed reserves**

	Tax equalization reserve	Tax allocation reserve	Currency reserve	Other untaxed reserves
Reported at the end of 1995	267	1 315	-	26
Change during the year	-53	160	24	13
Reported at the end of 1996	214	1 475	24	39

**Note 20. Deferred tax liability**

	Group		Parent Company	
	1996	1995	1996	1995
Deferred tax liability in untaxed reserves reported by Group companies	1 965	1 771	-	-
Provision for future tax due to losses reported by partly owned limited partnerships, etc.	304	323	-	-
Deferred tax liabilities and assets in untaxed reserves, purchase-accounting fair-value adjustments, acquired loss carryforwards etc., net, taken into consideration upon acquisition	192	181	-	-
Deferred tax assets relating to unrealized internal profits and other consolidation adjustments	-245	-250	0	0
Total	2 216	2 025	0	0

**Note 21. Taxes**

	Group		Parent Company	
	1996	1995	1996	1995
Accrued taxes	-799	-1 287	-170	-427
Estimated future taxes				
Estimated future taxes attributable to changes in untaxed reserves in Group companies	-191	-264	-	-
Change due to share of earnings in partly owned limited partnership companies and divestment of limited partnership companies	-122	8	-	-
Tax attributable to changes in acquired untaxed reserve, fair-value adjustments and utilization of loss carryforwards, net	2	-33	-	-
Tax attributable to changes in unrealized internal profits and other consolidation adjustments	-7	-26	-	-
Total estimated future taxes	-318	-315	-	-
Share in taxes of associated companies	-87	-89	-	-
Total	-1 204	-1 691	-170	-427

**Ongoing tax proceedings**

The Sandvik, through its Parent Company and Swedish subsidiaries, is a party in a number of proceedings with the tax authorities in Sweden. In the opinion of Sandvik, any additional tax expenses, including supplementary taxes, fees and interest, are covered by existing reserves. Cases involving losses in conjunction with liquidation of foreign subsidiaries have been decided in Sandvik's favor in the County Administrative Courts. Cases involving depreciation deductions in the aircraft leasing operations have been ruled in Sandvik's favor in the County Administrative Courts and the Administrative Court of Appeal.

These rulings have been appealed by the tax authorities to higher courts. Based on the opinion of tax experts and the fact that the cases to date have been decided in favor of Sandvik, Sandvik assesses that the risk of higher taxes is remote. In the event that rulings in the final instance would in any case be in favor of the tax authorities, the resulting tax charges, including fees and interest, would amount to slightly more than SEK 500 M.

With regard to additional cases which as yet have not been decided in the County Administrative Courts, Sandvik, under advisement of tax experts, also assesses that the risk of higher taxes is remote. In the hypothetical case that all disputes would result in higher taxes as claimed by the tax authorities, the resulting tax charges, including supplementary taxes, fees and interest, would be in the range of SEK 700 M.

## Note 22. Change in equity capital

### Group

	Share capital	Restricted reserves	Unrestricted reserves	Translation difference	Consolidated net profit	Total
Reported at the end of 1995	1 392	6 281	7 215	-112	3 727	18 503
Changes in translation rates 1996	-	-	17	-	-	17
Appropriations 1995	-	-	3 615	112	-3 727	-
Transfer of share in profits of associated companies	-	330	-330	-	-	-
Other movements between unrestricted and restricted equity capital	-	436	-436	-	-	-
Dividends paid	-	-	-1 640	-	-	-1 640
Consolidated net profit 1996	-	-	-	41	3 114	3 155
Reported at the end of 1996	1 392	7 047	8 441	41	3 114	20 035

Appropriations to restricted reserves, proposed by subsidiary boards, reduce unrestricted Group equity by SEK 24 M.

### Parent Company

	Share capital	Statutory capital reserve	Retained earnings	Net profit	Total
Reported at the end of 1995	1 392	291	6 048	1 254	8 985
Appropriations 1995	-	-	1 254	-1 254	-
Dividends paid	-	-	-1 640	-	-1 640
Net profit for 1996	-	-	-	995	995
Reported at the end of 1996	1 392	291	5 662	995	8 340

## Note 23. Share capital

### Number of shares

	1996	1995
A shares	209 225 815	209 225 815
B shares	69 250 565	64 038 065
C shares	0	5 212 500
Total number of shares at SEK 5 par value	278 476 380	278 476 380

A shares each carry one vote, whereas B and C shares carry one-tenth of a vote. All shares carry equal rights to participate in the profits and assets of the Company. C shares were converted automatically into B shares on 1 September 1996. The Sandvik share is listed on the Stockholm and London Stock Exchanges. Shares can also be traded in the US as American Depositary Receipts (ADR).

## Note 24. Contingent liabilities

	Group		Parent Company	
	1996	1995	1996	1995
Bills discounted	80	82	-	-
Other surety undertakings and contingent liabilities	273	210	660	630
Total	353	292	660	630
of which, for subsidiaries			512	482

# Shareholdings

## Sandvik AB's holdings of shares and participations in subsidiaries

According to the Balance Sheet of 31 December 1996

		Number of shares	Percentage holding	Nominal value local currency unit '000	Book value SEK '000
SWEDEN	Dormer Tools AB	80 000	100	8 000	35 000
	Ecocat AB	6 840	100	684	1 800
	Edmeston AB	40 000	100	4 000	3 000
	Elasis Svenska AB	50 000	100	50	60
	Fragoso AB	500	100	50	0
	Guldsmedshytte Bruks AB <sup>1)</sup>	500	100	50	0
	Gusab Holding AB	1 831 319	100	45 783	53 474
	Gusab Stainless AB	200 000	100	34 019	34 019
	AB Sandvik Automation <sup>1)</sup>	1 000	100	100	50
	Sandvik Automation Norden AB <sup>1)</sup>	1 000	100	100	100
	AB Sandvik Bahco	200 000	100	20 000	35 000
	Sandvik Bahco Norden AB	50 000	100	5 000	4 950
	AB Sandvik Belts <sup>1)</sup>	500	100	50	50
	AB Sandvik Calamo	50 000	100	5 000	5 000
	Sandvik Communication AB	1 000	100	100	535
	AB Sandvik Coromant <sup>1)</sup>	500	100	50	0
	Sandvik Coromant Norden AB <sup>1)</sup>	500	100	50	50
	AB Sandvik Falken	500	100	50	50
	Sandvik Far East Ltd. AB	10 000	100	10 000	10 000
	AB Sandvik Hand Tools <sup>1)</sup>	500	100	50	0
	AB Sandvik Mard Materials <sup>1)</sup>	500	100	50	0
	Sandvik Hard Materials Norden AB <sup>1)</sup>	500	100	50	0
	AB Sandvik Information Systems <sup>1)</sup>	500	100	50	0
	AB Sandvik International <sup>1)</sup>	500	100	50	0
	Sandvik Invest AB	1 772 068	100	44 302	181 654
	AB Sandvik Luftfartsintressenter	1 000	100	100	100
	AB Sandvik Metal Saws	400 000	100	40 000	74 950
	AB Sandvik Powders	30 000	100	3 000	7 000
	AB Sandvik Process Systems	25 000	100	2 500	2 500
	AB Sandvik Rock Tools <sup>1)</sup>	500	100	50	0
	Sandvik Rock Tools Svenska Försäljnings AB <sup>1)</sup>	1 000	100	100	50
	AB Sandvik Saws and Tools <sup>1)</sup>	500	100	50	0
	AB Sandvik Service <sup>1)</sup>	500	100	50	0
	AB Sandvik Steel <sup>1)</sup>	500	100	50	0
	AB Sandvik Steel Investment	500	100	50	50
	Sandvik Stål Försäljnings AB <sup>1)</sup>	1 000	100	100	50
	AB Sandvik Teknik	30 000	100	3 000	10 000
	AB Sandvik Tranan	500	100	50	50
	Sandvik Windsor AB	150 000	100	15 000	18 900
	AB Sandvik Västberga Service <sup>1)</sup>	500	100	50	50
	Sandvik Örebro AB	50 000	100	5 000	5 000
	AB Sandvik Örnen	500	100	50	50
	Sandvikens Brukspersonals Byggnadsförening upa	-	100	2 941	0
Steebide International AB	15 000	100	1 500	1 000	
Trellbo AB	1 000	100	100	50	
Dormant companies, wholly owned <sup>2)</sup>	-	100	10 800	2 698	
BELARUS	ZP Sandvik	-	100	288 000	129
BRAZIL	Dormer Tools S.A.	2 137 623 140	100	26 500	200 000
	Sandvik do Brasil S.A.	1 894 797 192	100	29 972	46 072
BULGARIA	Sandvik-Bulgaria	-	100	34	0
CZECH REPUBLIC	Sandvik Czechoslovakia s.r.o.	-	100	22 000	0
CHINA	Sandvik China Ltd.	-	100	65 911	0
COLOMBIA	Sandvik Colombia S.A.	129 007	94 <sup>3)</sup>	129 007	0
FINLAND	Oy Bahco Työkalut	60	100	600	2 380
GERMANY	Sandvik GmbH	-	0.9 <sup>3)</sup>	400	1 486
	Sandvik Holding GmbH	-	0.6 <sup>3)</sup>	360	367
HUNGARY	Sandvik KFT	-	100	67 660	3 258
INDIA	Sandvik Asia Ltd.	1 013 760	55	101 376	5 500
	Sandvik Choksi Ltd.	15 810 000	51	158 100	58 844
ITALY	CML Handling Technology S.p.A.	28 571	9.5 <sup>3)</sup>	285 710	13 907
JAPAN	Sandvik K.K.	2 600 000	100	2 600 000	180 000
KENYA	Sandvik Kenya Ltd.	35 000	96	700	0
KOREA	Sandvik Korea Ltd.	752 730	100	7 527 300	46 856

### Sandvik AB's holdings of shares and participations in subsidiaries

According to the Balance Sheet of 31 December 1996

		Number of shares	Percentage holding	Nominal value local currency unit '000	Book value SEK '000
MEXICO	Sandvik Mexicana S.A. de C.V.	406 642 870	90 <sup>3)</sup>	40 664	71 000
MOROCCO	Sandvik Maroc S.A.	940	94	94	0
NETHERLANDS	Cutting Tool Technology B.V.	150 000	100	150 000	0
	Sandvik Benelux B.V.	20 000	100	10 000	27 496
	Sandvik Finance B.V.	18 406	100	18 406	4 661 433
PERU	Barrenas Sandvik Andina S.A.	482 608	100	483	59
	Sandvik del Peru S.A.	697 780	100	698	1 425
POLAND	Sandvik Polska Sp.z o.o.	211	100	21	57
PORTUGAL	Sandvik Portuguesa Lda	-	100	199 600	8 300
SLOVAKIA	Sandvik Slovakia s.r.o.	-	100	100	23
SPAIN	Minas y Metalurgia Española S.A.	59 999	50 <sup>3)</sup>	59 999	3 700
SWITZERLAND	Sanfinanz AG	1 000	100	200	735
TURKEY	Sandvik Ticaret A.S.	-	100	46 242 588	0
UK	Madison Tools Ltd.	274 999	100	275	6 000
ZAMBIA	Sandvik (Zambia) Ltd.	5 000 000	100	10 000	0
ZIMBABWE	Sandvik (Pvt) Ltd.	233 678	100	467	3 269
					5 829 586

<sup>1)</sup> Subsidiaries conducting business on behalf of the Parent Company

<sup>2)</sup> A specification of dormant companies is available from Sandvik's Head Office in Sandviken, Sweden.

<sup>3)</sup> Remaining shares are held by other Group companies.

### Change in book value of shares and participations in subsidiaries, SEK '000

Reported at end of 1995	5 792 391
Acquisitions	75 250
New issues	126 394
Divestments, adjustments	-153 163
Write-downs, net	-11 286
Reported at end of 1996	5 829 586

### Sandvik AB's holdings of shares and participations in subsidiaries

According to the Balance Sheet of 31 December 1996

		Number of shares	Percentage holding	Nominal value local currency unit '000	Book value SEK '000
ASSOCIATED COMPANIES					
SWEDEN	Balzers Sandvik Coating AB	28 420	49	2 842	3 416
	Fasttrack Sweden Uthyrnings AB	940	90.4	94	94
	G-Drill AB	6 000	30	300	4 000
	Procera-Sandvik AB	5 000	50	500	600
	QR Uthyrnings AB	4 700	90.4	470	470
FINLAND	Oy Winrock Technology Ltd.	20	20	25	2 200
FRANCE	Deville S.A.	13 990	35	1 204	7 216
	Eurotungstène Poudre S.A.	112 353	49	11 235	7 737
IRELAND	Uirlis Torc Teoranta Ltd.	8 830	49	9	1 842
POLAND	Sandvik Baildonit S.A.	42 587	37	4 259	15 800
					43 375
OTHER COMPANIES	Corun DD	-	51	-	0
	Fastighetspartner NF AB	400 425	3	6 004	2 923
	Prevas AB	640 000	20	3 200	1 798
	Sandvik-Bisov	-	51	1 771	6 338
	Other companies	-	-	-	260
					11 319
TOTAL					54 694

### Change in book value of shares and participations in associated companies and other companies, SEK '000

Reported at the end of 1995	437 432
Acquisitions	4 146
Divestments	-385 784
Write-downs	-1 100
Reported at the end of 1996	54 694



## Shareholdings

### The Group's shareholdings

According to the Balance Sheet of 31 December 1996		Number of shares	Percentage holding	Nominal value local currency unit '000	Book value SEK '000
<b>ASSOCIATED COMPANIES</b>					
SWEDEN	Avesta Sandvik Tube AB	150 000	25	15 000	30 460
	Fagersta-Seco AB	5 000	31	500	500
	Fagersta Stainless AB	400 000	50	40 000	40 000
	Kanthal AB	5 272 877	47	26 364	618 923
FINLAND	Tampella Corp.	65 212 301	49	326 062	1 028 635
					1 718 518
<b>OTHER COMPANIES</b>					
SWEDEN	Other shares and participations				6 865
OTHER COUNTRIES	Other shares and participations				37 275
					44 140
<b>TOTAL</b>					1 762 658
Sandvik AB holdings					54 694
Group holdings					1 817 352
Less associated companies					-1 761 893
Shares and participations according to Balance Sheet					55 459

### Shares in significant operative Group companies owned indirectly by Sandvik AB at 31 Dec. 1996

		Group holding, %			Group holding, %	
SWEDEN	Bodås Svamp AB	63		Ovako Acciai S.p.A.	100	
	Seco Tools AB	61		Sandvik Italia S.p.A.	100	
ARGENTINA	Sandvik Bahco Argentina S.A.	100		Sandvik Process Systems S.p.A.	100	
AUSTRALIA	Sandvik Australia Pty. Ltd.	100	JAPAN	Dormer Japan Ltd.	100	
AUSTRIA	Sandvik Hard Materials Pty. Ltd.	100	LUXEMBOURG	Sansafe S.A.	100	
	Günther & Co. Ges.m.b.H.	100	MALAYSIA	Sandvik Malaysia Sdn. Bhd.	100	
BELGIUM	Sandvik in Austria Ges.m.b.H.	100	MEXICO	Sandvik de Mexico S.A. de C.V.	100	
	Dormer Tools N.V./S.A.	100	NETHERLANDS	Dormer Tools B.V.	100	
BRAZIL	Sandvik S.A. (Belgium) N.V.	100		Sandvik Process Systems B.V.	100	
	Acesita Sandvik Tubos Inox S.A.	50		Sandvik Saws and Tools Benelux B.V.	100	
CANADA	Sandvik-Villares Wire Indústria e Comércio Ltda	100	NORWAY	Sandvik Norge A/S	100	
	Dormer Tools Inc.	100	NEW ZEALAND	Sandvik New Zealand Ltd.	100	
CHILE	Sandvik Canada Inc.	100	PHILIPPINES	Sandvik Philippines Inc.	100	
	Sandvik Chile S.A.	100	PORTUGAL	Sandvik Obergue-Limas o Mécânica Lda	100	
CHINA	Quingdao Sandvik Die Cutting Systems Co. Ltd.	60	RUSSIA	Moskovskij Kombinat TverdiH Splavov	98	
CZECH REPUBLIC				Moskovskij Kombinat TverdiH Splavov Joint Venture	91	
	Sandvik Chomutov Precision Tubes s.r.o.	100	SINGAPORE	Sandvik A/O	100	
DENMARK	Sandvik A/S	100		Sandvik South East Asia Pte. Ltd.	100	
	Sandvik Bahco Norden A/S	100	SPAIN	Sandvik Treasury (Far East) Pte. Ltd.	100	
FINLAND	Suomen Sandvik Oy	100	SWITZERLAND	Sandvik Española S.A.	100	
	Viialan Viila Oy	100		Sandvik AG	100	
FRANCE	Cermep S.A.	51	UK	Santrade Ltd.	100	
	Dormer Tools S.A.	100		Dormer Tools Ltd.	100	
	Gunther Tools S.A.	100		Dormer Tools (Sheffield) Ltd.	98	
	Precitube S.A.	100		Metinox Steel Ltd.	100	
	Safety S.A.	100		Osprey Metals Ltd.	100	
	Sandvik Aciers S.N.C.	100		RGB Stainless Ltd.	55	
	Sandvik Coromant S.N.C.	100		Sandvik Band Saws Ltd.	100	
	Sandvik Hard Materials S.A.	100		Sandvik Ltd.	100	
	Sandvik Outillage S.N.C.	100		Sandvik Process Systems Ltd.	100	
	Sandvik Process Systems S.A.	100		Sandvik Rock Tools Ltd.	100	
	Sandvik Rock Tools S.A.	100		Sterling Tubes Ltd.	100	
	Sandvik S.A.	100	SOUTH AFRICA	Titex Tools Ltd.	100	
	Sandvik Tobler S.A.	100	TAIWAN	Sandvik (Pty) Ltd.	100	
	GERMANY	Dormer Tools GmbH	100		Sandvik Taiwan Ltd.	100
		Günther & Co. GmbH & Co.	100	THAILAND	Sandvik Titan Pty. Ltd.	100
		Prototyp-Werke GmbH	100	U.S.A.	Sandvik Thailand Ltd	100
	Sandvik Belzer GmbH	100		Dormer Tools Inc.	100	
	Sandvik Belzer Produktion GmbH	100		Lindström America Inc.	100	
	Sandvik GmbH	100		Pennsylvania Extruded Tube Co.	70	
	Sandvik Hard Materials GmbH	100		Sandvik Inc.	100	
	Sandvik Kosta GmbH	100		Sandvik Latin America Inc.	100	
	Sandvik Process Systems GmbH	100		Sandvik Milford Corp.	100	
	TOP Präzisionswerkzeuge GmbH	100		Sandvik Process Systems Inc.	100	
HONG KONG	Sandvik Hongkong Ltd.	100		Sandvik Rock Tools Inc.	100	
IRELAND	Sandvik Ireland Ltd.	100		Sandvik Sorting Systems Inc.	100	
ITALY	CML Handling Technology S.p.A.	100		Sandvik Special Metals Corp.	100	
	Dormer Tools S.p.A.	100		Sandvik Windsor Corp.	100	
	Impero S.p.A.	100	VENEZUELA	Union Butterfield Corporation	100	
	Master Tools S.p.A.	100		Sandvik Venezuela C.A.	100	

## Personnel costs, SEK M

	Group		Parent Company	
	1996	1995	1996	1995
Wages, salaries and remunerations:				
Board of Directors, Presidents				
in Sweden	31	29	25	25
outside Sweden	134	140	-	-
Other employees				
in Sweden	2 533	2 380	1 941	1 942
outside Sweden	4 153	4 401	44	39
Total	6 851	6 950	2 010	2 006
Other personnel costs	2 355	2 328	904	871
Employee profit-sharing fund	150	150	132	139
Total	9 356	9 428	3 046	3 016

## Information on benefits to senior executives in 1996

The Chairman of the Board Percy Barnevik received a fixed fee of SEK 300,000 and had no other benefits. Chief Executive Officer and President Clas Åke Hedström received fixed salary, fees, the value of free residence and company car totaling SEK 2,440,000. Bonus paid was SEK 1,840,000.

Board member and former Chief Executive Officer Per-Olof Eriksson holds a contract which was reported in the 1993 Annual Report. His Board fee amounted to SEK 150,000. Salary and the value of free residence and company car was SEK 1,763,700 in 1996.

There is a reciprocal 12-month notice of termination for the President. Should notice be served by the Company, or by the President in the event that significant structural changes have occurred, an annual pension of 75% of the total average remunerations paid during the most recent three years is paid up to age 62 (that is, a maximum of four years). From age 62, pension pursuant to the ITP plan without ceiling, that is, the actual pension-based salary, is paid.

There are agreements on reciprocal rights to request early retirement at age 62 for an additional number of senior executives. The reciprocal notification period for these persons varies between 6 and 12 months. The pension benefit is in the interval between the ITP plan and its extension without ceiling.

There is the possibility of a long-term bonus for Group management and approximately 250 other senior executives in Sweden and abroad based on the price trend of the Sandvik B share during the period 1995-1999, to be paid in 2000. If paid, this bonus will be based on multiplying 10% of one to two month's salary (1994 level) by the difference between the market price of the B share at year-end 1999 (plus addition of approved dividends during 1995-1999) and a base price of SEK 144. To provide for a reserve for the accrued portion of this bonus, which would fall due for payment if the price at year-end 1996 would also apply at year-end 1999, SEK 35 M has been allocated in the 1996 accounts.

## Average number of employees

	Group		Parent Company	
	1996	1995	1996	1995
In Sweden				
Women	2 120	2 142	1 438	1 546
Men	8 261	8 070	6 471	6 698
Total in Sweden	10 381	10 212	7 909	8 244
Outside Sweden				
Women	3 616	3 639	28	23
Men	16 252	16 011	149	132
Total outside Sweden	19 868	19 650	177	155
Total	30 249	29 862	8 086	8 399

## Average number of employees<sup>1)</sup> outside Sweden, by country

	1996			1995		
	Women	Men	Total	Women	Men	Total
Parent Company and subsidiaries outside Sweden						
China	-	-	-	-	2	2
Netherlands	20	111	131	15	98	113
Poland	-	-	-	3	5	8
Romania	2	9	11	2	6	8
Russia	1	8	9	-	5	5
Slovakia	3	4	7	2	3	5
Slovenia	1	6	7	-	5	5
Other countries <sup>2)</sup>	1	11	12	1	8	9
	28	149	177	23	132	155

	1996			1995		
	Women	Men	Total	Women	Men	Total
The Group outside Sweden						
Argentina	17	360	377	11	338	349
Australia	71	381	452	69	356	425
Austria	33	57	90	35	55	90
Bangladesh	1	6	7	1	4	5
Belgium	20	61	81	17	59	76
Brazil	154	1 054	1 208	172	1 146	1 318
Bulgaria	5	7	12	4	6	10
Canada	78	319	397	69	301	370
Chile	13	75	88	14	70	84
China	40	112	152	20	63	83
Colombia	17	34	51	17	37	54
Czech Republic	224	370	594	213	344	557
Denmark	66	221	287	61	216	277
Finland	25	73	98	35	78	113
France	358	1 477	1 835	358	1 415	1 773
Germany	339	1 701	2 040	351	1 705	2 056
Hong Kong	11	14	25	10	14	24
Hungary	12	15	27	10	11	21
India	22	1 186	1 208	20	1 044	1 064
Ireland	3	4	7	3	5	8
Italy	249	947	1 196	229	832	1 061
Japan	69	424	493	62	404	466
Kenya	3	11	14	3	12	15
Korea	19	89	108	19	76	95
Malaysia	25	44	69	19	36	55
Morocco	2	4	6	2	3	5
Mexico	48	229	277	46	220	266
Netherlands	49	308	357	46	274	320
New Zealand	11	39	50	10	37	47
Norway	7	34	41	7	31	38
Peru	5	34	39	5	29	34
Philippines	14	40	54	12	35	47
Poland	12	20	32	10	14	24
Portugal	75	241	316	72	239	311
Romania	2	9	11	2	7	9
Russia	301	394	695	404	534	938
Singapore	41	80	121	39	69	108
Slovakia	3	4	7	2	3	5
Slovenia	1	6	7	1	5	6
South Africa	54	332	386	56	327	383
Spain	49	379	428	50	382	432
Switzerland	48	89	137	47	87	134
Taiwan	61	99	160	61	94	155
Thailand	19	34	53	12	22	34
Turkey	11	38	49	8	31	39
United Kingdom	306	1 848	2 154	303	1 868	2 171
United States	603	2 766	3 369	598	2 739	3 337
Venezuela	6	35	41	5	34	39
Zambia	3	26	29	4	26	30
Zimbabwe	9	49	58	8	47	55
Other countries <sup>2)</sup>	8	58	66	12	44	56
	3 622	16 237	19 859	3 644	15 828	19 472

<sup>1)</sup> The average number of employees as given here is the average of the number on 31 December 1995 and on 31 December 1996.

The average number of employees stated in the foregoing table and in the Report of the Directors is based on counts taken at several points in time during the year.

<sup>2)</sup> Countries with an average lower than five.

Wages, salaries and remunerations outside Sweden have been translated to Swedish kronor using the average exchange rate for the year. The statutory specification of the average number of employees per municipality in Sweden and wages and salaries per country outside Sweden can be obtained from Sandvik's Head Office in Sandviken.

# Proposed appropriation of profits

The Board and the President propose that the surplus brought forward from the preceding year . . .	5 662 033 377
and the profit for the year . . . . .	994 921 900
	<hr/>
	SEK 6 656 955 277

be appropriated as follows:

a dividend of SEK 6.50 per share . . . . .	1 810 096 470
carried forward . . . . .	4 846 858 807
	<hr/>
	SEK 6 656 955 277

Sandviken, 24 February 1997

Percy Barnevik  
Chairman

Rune Andersson

Bo Boström

Per-Olof Eriksson

Lars-Ove Håkansson

Göran Lindstedt

Mauritz Sahlin

Sven Ågrup

Clas Åke Hedström

President

Our Audit Report was submitted on 19 March 1997

Bernhard Öhrn  
Authorized Public Accountant

Lars Svantemark  
Authorized Public Accountant

## Audit report for Sandvik Aktiebolag; (publ)

We have examined the annual report, the consolidated financial statements, the accounting records and the administration by the Board and the President for 1996. The examination was made in accordance with generally accepted auditing standards.

### Parent Company

The annual report has been prepared in accordance with the Swedish Companies Act.

We recommend that the income statement and the balance sheet be adopted, that the unappropriated earnings be dealt with in accordance with the proposal in the report of the directors and that the members of the Board and the President be discharged from liability for the financial year.

### Group

The consolidated financial statements have been prepared in accordance with the Swedish Companies Act.

We recommend that the consolidated income statement and the consolidated balance sheet be adopted.

Sandviken, 19 March 1997

Bernhard Öhrn  
Authorized Public Accountant

Lars Svantemark  
Authorized Public Accountant

# Directors, Auditors and Group Executive Management

## DIRECTORS



Percy Barnevik, Chairman, Zurich, b. 1941.  
Chairman of the Board of ABB Asea Brown Boveri Ltd. and Skanska AB.  
Director of du Pont, U.S.A., Investor AB and General Motors, U.S.A.  
Chairman of the Board of Sandvik AB since 1983.  
Sandvik shares: 100,000 A, 50,000 B



Sven Ågrup, Lidingö, b. 1930.  
Chairman of the Board of AGA AB.  
Director of Telefon AB L M Ericsson, Handelsbanken and Tetra Laval.  
Director of Sandvik AB since 1983.



Per-Olof Eriksson, Sandviken, b. 1938.  
Chairman of the Board of Swedish National Grid. Director of Handelsbanken, Preem Petroleum AB, SSAB Svenskt Stål AB, AB SKF, AB Volvo, AB Custos, Skanska AB, N.V. Koninklijke Sphinx, the Royal Institute of Technology, Assa Abloy AB and the Federation of Swedish Industries.  
Member of the Royal Academy of Engineering Sciences and Chairman of its Industrial Council.  
Director of Sandvik AB since 1984.  
Sandvik shares: 100,000 B.



Lars-Ove Håkansson, Danderyd, b. 1937.  
Chairman of the Board of Newsec AB, Rondeco Scandinavia AB and Chematur Engineering AB.  
Director of Cardo AB, Scancem AB, Svedala Industri AB, Byggelit AB, Postfastigheter AB and SSRS Holding AB.  
Director of Sandvik AB since 1989.



Mauritz Sahlin, Gothenburg, b. 1935.  
Chairman of the Board of Ovako AB, Novare Kapital AB and ELGA AB.  
Director of Scania AB, AB SKF, Investor AB, Statoil (Norway), the Federation of Swedish Industries and the Swedish Employers' Confederation.  
Director of Sandvik AB since 1993.



Rune Andersson, Honorary Doctor of Technology, Trelleborg, b. 1944.  
Chairman of the Board of SSAB Svenskt Stål AB, Svedala Industri AB, AB Trelleborg, Akila AB and Getinge AB.  
Director of Skandinaviska Enskilda Banken.  
Director of Sandvik AB since 1994.





Clas Åke Hedström,  
Sandviken, b. 1939.  
President and Chief Executive Officer of  
Sandvik AB.  
Director of Scania AB, the Federation of  
Swedish Industries and the Association of  
Swedish Engineering Industries.  
Director of Sandvik AB since 1994.  
Sandvik Shares: 119 A, 15,154 B



Bo Boström,  
Åshammar, b. 1949.  
Chairman, AB Sandvik Steel Union  
Committee, Metal Workers' Union,  
Sandviken.  
Director of Sandvik AB since 1988.  
(Employee representative)  
Sandvik shares: 170 B



Göran Lindstedt,  
Sandviken, b. 1942.  
Chairman, Sandvik AB  
Union Committee, Industrial Salaried  
Employees' Association.  
Director of Sandvik AB since 1989.  
(Employee representative)

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## DEPUTY DIRECTORS



Lars Ivar Hising,  
Gävle, b. 1927  
Former County Governor,  
Special Government Expert.  
Chairman of the Board of Nordbanken Gävle,  
Gävle-Sandviken New Enterprise Agency and  
General Defence Association of Sweden.  
Director of FLC Innovation AB.  
Life Member of the Industrial Council  
of the Royal Academy of Engineering  
Sciences.  
Director of Sandvik AB since 1993.  
Sandvik shares: 6,000 B



Per-Åke Franklind,  
Gävle b. 1963.  
Chairman Sandvik AB Union Committee,  
Association of Graduate Engineers.  
Director of Sandvik AB since 1995.  
(Employee representative)  
Sandvik shares: 25 B



Jan Broberg,  
Bollnäs, b. 1963.  
Chairman, AB Sandvik Hand Tools  
Union Committee, Metal Workers' Union,  
Bollnäs.  
Director of Sandvik AB since 1996.  
(Employee representative)



Leif Sunnermalm  
Executive Vice President and  
Chief Financial Officer



Lars Östholm  
Executive Vice President  
(Until 31 January 1997)



Gunnar Björklund  
Executive Vice President  
(From 1 February 1997)

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## AUDITORS

Bernhard Öhrn, Stockholm  
Authorized Public Accountant

Lars Svantemark, Stockholm  
Authorized Public Accountant

Deputies  
Åke Näsman, Stockholm,  
Authorized Public Accountant

Peter Markborn, Stockholm  
Authorized Public Accountant

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## GROUP STAFFS AND SERVICE COMPANIES



Upper row, from left: Peter Lundh, President, Sandvik Information Systems,  
Anders Vrethem, Controller, Thomas B. Hjelm, Taxes and Financial Projects,  
Malcolm Falkman, Legal Affairs.

Middle row, from left: Björn Jonson, Information, Hans Mårtensson, Research and  
Development, Björn Sköld, President, AB Sandvik Service.

Bottom row, from left: Gunnar Båtelsson, Finance, Heléne Gunnarson, Investor Relations,  
Rune Nyberg, Personnel, Stig Åhlander, Taxes and Risk Management (until 30 April 1997).

# Business Units

*Being close to the customer is an important element in Sandvik's philosophy. Local service, backed by the resources and experience of the international enterprise, is offered to customers in 130 countries through 200 subsidiaries, sales offices or other representation. With computerized, efficient logistics systems, Sandvik can guarantee customers fast delivery of products. In some countries, domestic manufacture is a precondition of staying in business. The major operating business units are listed below:*

## Europe

### Austria

Sandvik in Austria Ges.m.b.H., Vienna  
Manager: Helmut Stix  
Tel. 1 277 37

Günther & Co. Ges.m.b.H., Vienna  
Manager: Eckhard Planegger  
Tel. 1 402 72 73

### Belarus

Sandvik Bisov, Minsk  
Manager: Lars Karman  
Tel. 17 236 20 46

### Belgium

Sandvik Benelux, Brussels  
Manager: Georges Verhoeven  
Tel. 02 702 98 00

Dormer Tools N.V./S.A., Mortsel  
Manager: Ben Luyckx  
Tel. 03 440 59 01

### Bulgaria

Sandvik Bulgaria Ltd., Sofia  
Manager: Miroslav Markov  
Tel. 02 958 20 39

### Czech Republic

Sandvik CZ s.r.o., Prague  
Manager: Roger Jansson  
Tel. 02 24 25 33 11

Sandvik Chomutov Precision Tubes s.r.o.,  
Chomutov  
Manager: Lars-Olof Skoog  
Tel. 0396 381 11

### Denmark

Sandvik A/S, Copenhagen  
Manager: Jens Aage Jensen  
Tel. 43 46 51 00

Sandvik Hard Materials, Espergaerde  
Manager: Enrico Galli  
Tel. 49 17 49 00

Sandvik Bahco Norden A/S, Copenhagen  
Manager: Esben Brandstrup  
Tel. 43 63 03 30

### Finland

Suomen Sandvik Oy, Helsinki  
Manager: Kalevi Hellstén  
Tel. 09 87 06 61

### France

Sandvik S.A., Orléans  
Manager: André Baron  
Tel. 02 38 41 41 41

Sandvik Coromant S.N.C., Orléans  
Manager: André Baron  
Tel. 02 38 41 41 41

Dormer Tools S.A., Orléans  
Manager: Eric Leboe  
Tel. 02 38 41 40 15

Gunther S.A., Soultz-sous-Fôrets  
Manager: Claude Leray  
Tel. 03 88 80 20 00

Gunther Tools S.A., Soultz-sous-Fôrets  
Manager: Bernard Finantz  
Tel. 03 88 80 20 05

Sandvik Tobler S.A., Paris  
Manager: Jean-Pierre Colombano  
Tel. 01 34 47 33 00

Sandvik Rock Tools S.A., Viriat  
Manager: Ezio Fogliata  
Tel. 04 74 45 94 60

Sandvik Hard Materials S.A., Epinouze  
Manager: Hans Gass  
Tel. 04 75 31 38 00

Sandvik Aciers S.N.C., Orléans  
Manager: Alain Roussel  
Tel. 02 38 41 41 41

Precitube S.A., Charost  
Manager: Patrick Champion  
Tel. 33 48 26 20 12

Sandvik Outillage S.N.C., Orléans  
Manager: Dominique van Straelen  
Tel. 02 38 41 41 41

Sandvik Process Systems S.A., Paris  
Manager: Svante Lindholm  
Tel. 01 49 56 85 00

### Germany

Sandvik GmbH, Dusseldorf  
Manager: Ulrich Fezer  
Tel. 0211 502 70

Sandvik Coromant, Dusseldorf  
Manager: Mats Carlerös  
Tel. 0211 502 70

CTT Management GmbH,  
Frankfurt/Main  
Manager: Anders Ilstam  
Tel. 069 78 90 23 00

Dormer Tools GmbH, Dusseldorf  
Manager: Dick Geerlings  
Tel. 0211 95 09 00

Günther & Co. GmbH & Co.,  
Frankfurt/Main  
Manager: Klaus Scholl  
Tel. 069 78 90 20

Prototyp-Werke GmbH, Zell-Harmersbach  
Manager: Mats Christenson  
Tel. 07835 770

TOP Präzisionswerkzeuge GmbH,  
Frankfurt/Main  
Manager: Horst Mack  
Tel. 069 78 90 26 17

Sandvik Kosta GmbH, Renningen  
Manager: Johann Taps  
Tel. 07159 160 30

Sandvik Rock Tools, Dusseldorf  
Manager: Ulrich Fezer  
Tel. 0211 502 70

Sandvik Hard Materials, Dusseldorf  
Manager: Wit Horsten  
Tel. 0211 502 75 57

Sandvik Steel, Dusseldorf  
Manager: Udo Vogt  
Tel. 0211 502 70

Sandvik Belzer GmbH, Wuppertal  
Manager: Frank Schweitzer  
Tel. 0202 479 70

Sandvik Belzer Produktion GmbH,  
Wuppertal  
Manager: Åke Sundby  
Tel. 0202 479 70

Sandvik Process Systems GmbH, Fellbach  
Manager: Johann Taps  
Tel. 0711 510 50

### Hungary

Sandvik in Hungary Ltd., Budapest  
Manager: Johann Sulak  
Tel. 1 269 63 91

### Ireland

Sandvik Ireland Ltd., Dublin  
Manager: Mary Healy  
Tel. 01 295 20 52

### Italy

Sandvik Italia S.p.A., Milan  
Manager: Marco Schirinzi  
Tel. 02 30 70 51

Sandvik Coromant, Milan  
Manager: Pietro Calegari  
Tel. 02 30 70 51

Dormer Tools S.p.A., Milan  
Manager: Fabrizio Resmini  
Tel. 02 38 04 51

Master Tools S.p.A., Rovereto  
Manager: Fabrizio Resmini  
Tel. 0464 42 11 47

Sandvik Rock Tools, Milan  
Manager: Ezio Fogliata  
Tel. 02 30 70 51

Sandvik Hard Materials, Milan  
Manager: Giorgio Morani  
Tel. 02 30 70 51

Sandvik Steel, Milan  
Manager: Pier Giorgio Martellozzo  
Tel. 02 30 70 51

Sandvik Saws and Tools, Milan  
Manager: Marco Schirinzi  
Tel. 02 30 70 51

Sandvik Process Systems S.p.A., Milan  
Manager: Roberto Aielli  
Tel. 02 38 01 06 00

CML Handling Technology S.p.A.,  
Lonate Pozzolo  
Manager: Giorgio Saranga  
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# Annual General Meeting

The Annual General Meeting will be held at Jernvallen in Sandviken on Tuesday, 6 May 1997, at 2:00 p.m. Shareholders wishing to attend the Meeting must notify the Board either by letter addressed to Sandvik AB, Legal Affairs, SE-811 81 Sandviken, or by telefax +46 (0)26-26 10 86, or by telephone +46 (0)26-26 10 81. Notification must reach Sandvik AB by 3:00 p.m. on 2 May 1997 at the latest. In order to qualify

for attendance, shareholders must also have been entered in the Share Register maintained by the Securities Register Center (Värdepapperscentralen VPC AB) not later than 25 April 1997. Shareholders whose shares are registered as held in trust must have them temporarily re-registered with the VPC in their own name not later than 25 April 1997 to establish their right to attend the Meeting.

## Payment of dividend

The Board and the President recommend that the Meeting declare a dividend of SEK 6.50 per share for 1996.

The proposed record date is 12 May 1997. If this proposal is adopted by the Meeting it is expected that dividends will be ready for remittance by 20 May 1997. Dividends will be sent to

those who on the record date are entered in the Share Register or on the separate List of Assignees, etc. Dividends will be remitted from the Securities Register Center. To facilitate the distribution, shareholders who have moved should report their change of address to their bank in good time before the record day.

## Financial information

Report on	
1997 Operations	February
Annual Report	April
First-Quarter Report	May
Semi-Annual Report	August
Third-Quarter Report	November

Financial information can be ordered from Sandvik AB Group Staff Information SE-811 81 Sandviken, Sweden  
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Fax. +46 (0)26-26 10 43  
or from  
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Tel. +46 (0)26-26 10 25  
Fax. +46 (0)26-26 10 45  
<http://www.sandvik.com>

# Key figures

	1996	1995	1994	1993	1992	1991	1990
Invoiced sales, SEK M	28 265	29 700	25 285	21 770	17 217	17 558	18 256
Profit after financial income and expenses, SEK M	4 453	5 620	3 811	1 764	1 486	1 776	2 842
as % of invoicing	16	19	15	8	9	10	16
Net profit for the year, SEK M	3 114	3 727	2 436	1 069	1 112	1 248	2 380
Earnings per share, SEK	11.20	13.40	8.75	3.85	4.05	4.55	8.70
Dividend per share (1996: as proposed), SEK	6.50	6.00	3.75	2.25	1.90	1.80	1.70
Pay-out ratio, %	58	45	40	58	47	40	20
Equity capital, SEK M	20 035	18 503	16 013	14 364	13 538	12 693	11 928
Equity ratio, %	64	64	59	60	59	57	54
Debt/equity ratio, times	0.2	0.1	0.2	0.2	0.2	0.3	0.4
Rate of capital turnover, %	86	101	95	89	75	76	80
Liquid assets, SEK M	5 557	6 893	6 591	5 171	4 864	4 814	5 251
Return on equity capital, %	16.2	21.6	16.0	7.7	8.5	10.1	21.8
Return on net assets, %	20.2	28.0	21.7	12.0	10.4	12.9	19.2
Investment in property, plant and equipment, SEK M	2 486	2 050	1 229	886	886	1 021	1 161
Total investments, SEK M	4 414	2 092	1 575	964	1 311	1 761	1 715
Cash flow, SEK M	-1 682	164	1 215	1 142	1 645	882	1 486
Number of employees, 31 Dec.	30 362	29 946	29 450	26 869	28 617	26 237	25 781

Key figures for 1994 and earlier have been adjusted to reflect the revised definitions that have been applied from 1995.

Additional per-share data is presented in the section on the Sandvik share, page 4.

Development by business area	Invoiced sales			Income after depreciation					
	1996	1995	1994	1996	1995	1994	1996	1995	1994
	SEK M	SEK M	SEK M	SEK M	%	SEK M	%	SEK M	%
Sandvik Tooling	9 211	9 576	8 178	2 031	22	2 436	25	1 509	18
Sandvik Rock Tools	2 003	2 015	1 955	220	11	219	11	219	11
Sandvik Hard Materials	1 209	1 224	1 029	133	11	185	15	135	13
Sandvik Steel	8 980	9 807	7 752	1 203	13	1 623	17	1 014	13
Sandvik Saws and Tools	2 517	2 674	2 583	161	6	184	7	185	7
Sandvik Process Systems	1 836	1 810	1 603	-24	-1	101	6	156	10
Seco Tools	2 475	2 555	2 159	402	16	542	21	401	19

