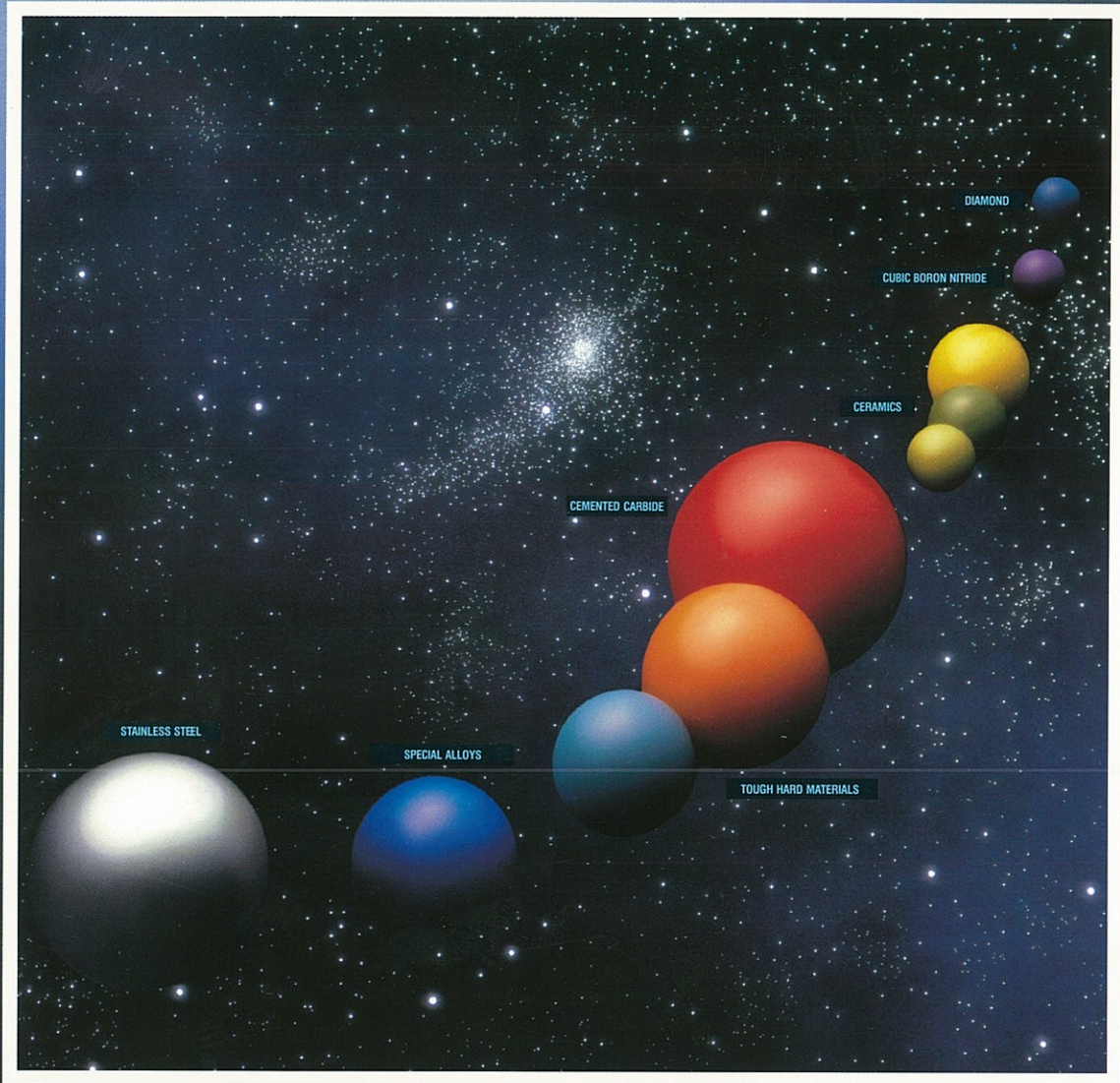


Annual Report 1988



SANDVIK



SANDVIK HARD MATERIALS

The basic idea of Sandvik Hard Materials is to exploit, in various applications, the unique properties of hardness, toughness and wear resistance exhibited by cemented carbide.

Cemented-carbide blanks in large volumes for standardized cemented-carbide tools is one important area. Engineering components and forming tools is another. The company is also an important producer of cemented-carbide rolls for the hot-rolling of wire, bars and tubes.

Sandvik Hard Materials is a large producer of powder for the manufacturing of cemented carbide, both for its own use and for sales to other customers.

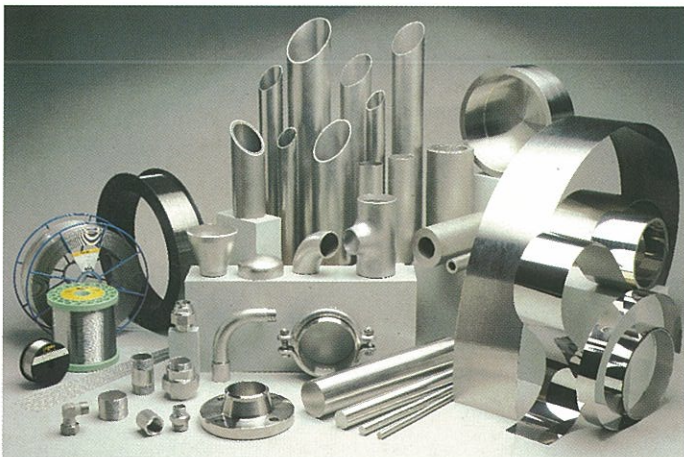
The activities also comprise products in new hard and superhard materials such as engineering ceramics and polycrystalline diamonds.



SANDVIK SAWS AND TOOLS

Sandvik Saws and Tools is today one of the world's leading producers in its field of activities, turning out about 500,000 saws and other tools per day.

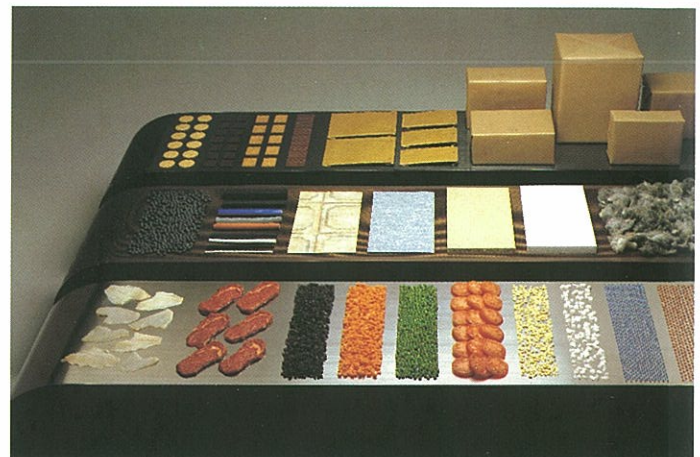
For the occasional handyman as well as for the full-time craftsman, Saws and Tools has a wide range of quality tools such as saws, chisels, hammers, drills, hatchets and gardening implements. Various kinds of metalcutting saws, hole saws, files and so on are used primarily in the engineering industry. The company is also a major supplier of power-saw guide bars, handtools and protective equipment to the forestry industry.



SANDVIK STEEL

Sandvik Steel has more than a century of tradition and experience as a producer of high-duty steels. The largest product group is tubes, mainly intended for those industries that make high demands on reliability in operation, corrosion resistance and mechanical properties. Some examples are the chemical and petrochemical industries, the power industry and oil-and-gas exploration. Other Sandvik Steel specialities are alloys of nickel, titanium and zirconium for advanced purposes such as tubes for the nuclear power and aerospace industries.

Sandvik Steel's strip and wire products in high-alloy steel grades can be found in various fields of application, worldwide. Saws, razorblades and various types of stainless spring are well-known examples of this. The company is also a major producer of strip and wire for precision parts used in such diverse industrial fields as road vehicles, electronics, communications and power, and for medical purposes.

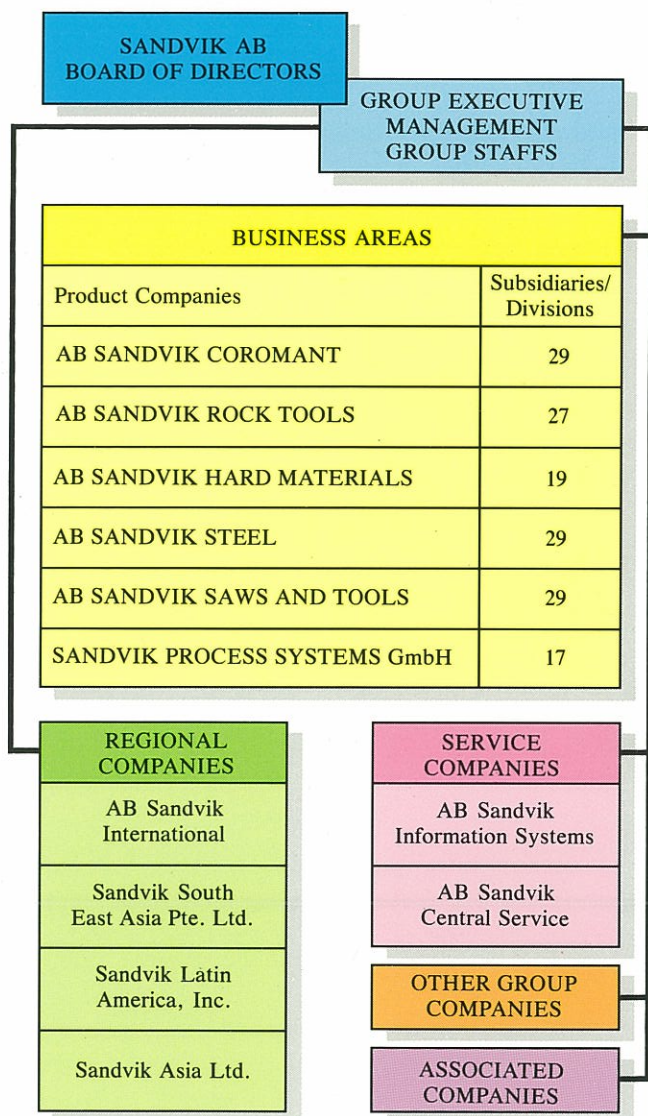


SANDVIK PROCESS SYSTEMS

At the beginning of the century, steel conveyor belts were already part of the Sandvik Group's production programme. Since then, this field of activities has undergone a rapid development.

Sandvik Process Systems designs and markets process plants for various categories of industry along with installations for the automatic handling and sorting of goods. Most of these facilities incorporate steel conveyor or process belts, the most important component in this business area.

Organization



BUSINESS AREAS

The basis of the Sandvik organization is provided by six separate business areas that answer for the development, production and sale of the Group's products. Each business area is handled by a product company. In each major market the product company maintains a subsidiary of its own or has a division of a conjoint Sandvik company.

REGIONAL COMPANIES

Outside the main markets, Sandvik's products are marketed by four regional companies:

AB Sandvik International, headquartered in Sandviken, is responsible for marketing in the Soviet Union, Eastern Europe, the People's Republic of China, the Middle East, Africa apart from South Africa, and some other territories. It is also in charge of the selling and erection of construction projects, meaning turnkey factories and so on, mainly in the state-trading countries.

Sandvik Latin America, Inc., located in Miami, U.S.A., is responsible for our marketing in Latin America other than Mexico, Argentina and Brazil. Operations within this region are conducted to a large extent through local subsidiary companies.

Sandvik South East Asia Pte. Ltd., which has its head office in Singapore, sees to the marketing of the Group's products in South East Asia through local subsidiary companies and agents.

Sandvik Asia Ltd., Poona, India, develops, produces and markets cemented-carbide products in India, Sri Lanka, Bhutan and Nepal through its own sales offices and agents.

SERVICE COMPANIES

There are two special companies, each responsible for its own profits, that provide the Group with conjoint services. Their biggest customers are the Sandvik units within Sweden, but they also sell their services to subsidiary companies outside Sweden and to external customers.

AB Sandvik Central Service is mainly active in the areas of logistics, personnel, accounting, real-estate management, and information and advertising.

AB Sandvik Information Systems provides services in the areas of systems development, computer technology, data processing, telecommunications and data communications, and computer training.

OTHER UNITS

Sandvik's organization also embraces a number of associated companies whose activities for the most part pertain to one of the business areas.

The term "Other Group Companies" covers companies or groups of companies which are under the direction of the Group Executive Management and have market strategies distinct from those of the six business areas.

Sandvik's Board of Directors, Group Executive Management and Group Staff Managers are presented on page 32.

Contents

1988 in brief	1
The President's letter	2
Cemented Carbide	4
Sandvik Hard Materials	4
Sandvik Coromant	5
Sandvik Rock Tools	6
Sandvik Steel	7
Sandvik Saws and Tools	8
Sandvik Process Systems	9
Report of the Directors	10
Consolidated Income Statement	14
Consolidated Funds Statement	15
Consolidated Balance Sheet	16
The Parent Company's Accounts	18
Accounting principles	20
Application of U.S. GAAP	21
Notes to the Accounts	22
Personnel	27
Shareholdings	28
Appropriation of profits	31
Audit Report	31
Directors and auditors	32
Group executive management and staff units	33
Business units	34
The Sandvik share	36
Annual General Meeting. Payment of dividend ..	37
Five years in brief	38

Sandvik in brief

The Sandvik Group is one of Sweden's largest exporting enterprises and is active all over the world through 160 companies in 50 countries. The Group has 26,500 employees and turns over more than SEK 16bn. a year.

Since it was founded in 1862 Sandvik has developed from a provincial Swedish steelworks to a diversified materials technology enterprise with a strongly international structure. Two factors that have done much to promote this development are ceaseless product renewal, featuring ever more advanced technology, and a purposeful commitment to international marketing in close contact with customers throughout the world.

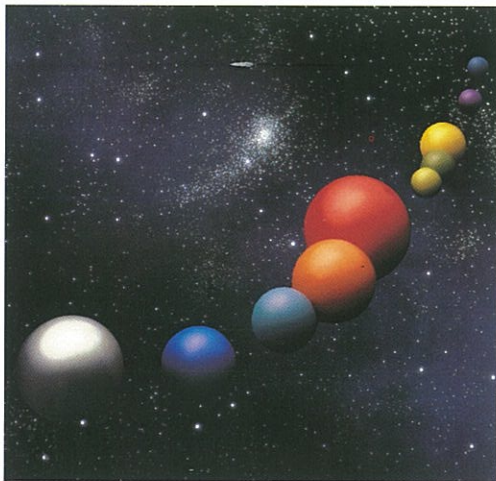
Sandvik is the world's largest producer of cemented-carbide products. Cemented carbide is a powder-metal-lurgical product in which the main components are tungsten carbide and cobalt. It is mostly used in three fields of application: tools for metalcutting, rockdrilling products, and wear parts along with high-quality carbide blanks.

Sandvik is also a leading producer of tubes, strip, wire and bars made of stainless and high-alloy special steels, saws and other tools, and conveyor and process systems.

The Group's operations comprise six separate business areas: Sandvik Coromant, Sandvik Rock Tools, Sandvik Hard Materials, Sandvik Steel, Sandvik Saws and Tools and Sandvik Process Systems.

More than 90% of the sales volume is generated outside Sweden. With local production, warehousing, distribution and technical service and with efficient delivery systems, Sandvik can provide its customers with the on-the-spot service they demand.

Year by year, the Group ploughs not less than 4% of its aggregate turnover into research and the development of new products and production methods.



THE COVER PICTURE

Within Sandvik we are on a voyage of discovery through the universe of materials.

For us it is a never-ending voyage. To develop and market new and existing materials in order to make them suit the customers' increasing demands. And therein we have been successful.

All the time, materials know-how is our guiding light.



SANDVIK COROMANT

Sandvik Coromant is the largest of the Group's cemented-carbide companies. It is the world's leading supplier of cutting tools for turning, milling and drilling in most types of metalworking industry. This area covers not only tools but has of late developed into a wider involvement within metalworking. A continuous expansion and renewal of the product range backed by ever closer co-operation with customers and machine-tool makers worldwide has, among other things, served to concentrate the company's activities increasingly on the development of complete systems and tooling solutions for both manual and automated machining.



SANDVIK ROCK TOOLS

In rockdrilling techniques Sandvik has long been a world leader. Sandvik Rock Tools is the Group company in which the relevant competence and know-how is concentrated.

Its products for percussive drilling include drill steels, drill bits and extension drill-steel equipment for mining and civil engineering.

A speciality in the area of rotary crushing drilling is raiseboring equipment, used in civil engineering as well as in mining.

The product programme also comprises drill bits with diamond cutters, intended for oil drilling. For drilling in soft rock the company has developed a range of mineral and ground engineering tools, used in such operations as coalmining and road planing.

1988 in brief

- 50% increase lifted results to SEK 2,812m. All product areas entering 1989 with plenty of orders in hand.
- In the current state of trade we were able to turn the many company acquisitions of 1987 to good account. The work of rationalization is continuing into 1989. Further acquisitions were made in 1988.
- It is proposed that the dividend for 1988 be raised to SEK 6:- (4:25).
- Plans to introduce Seco Tools onto the Stock Exchange in June 1989. Prior rights for Sandvik's shareholders.
- Adhering to the well-tried Sandvik model, Sandvik Rock Tools is setting up its own global marketing and distributing organization. New technical collaboration commenced with Tamrock of Finland.

	1988	1987
Order intake, SEK m.	17,440	13,425
Invoiced sales, SEK m.	16,413	13,241
whereof outside Sweden, %.....	91	91
Profit after financial earnings and expenses, SEK m.	2,812	1,871
Return on investment, %	25.1	21.3
Return on adjusted equity capital after tax, %	24.7	19.0
Earnings per share, SEK	29:80	19:60
Dividend per share, SEK*	6:00	4:25
Number of employees, 31 Dec.....	26,501	26,256

*1988 as recommended.

1988 – A positive surprise

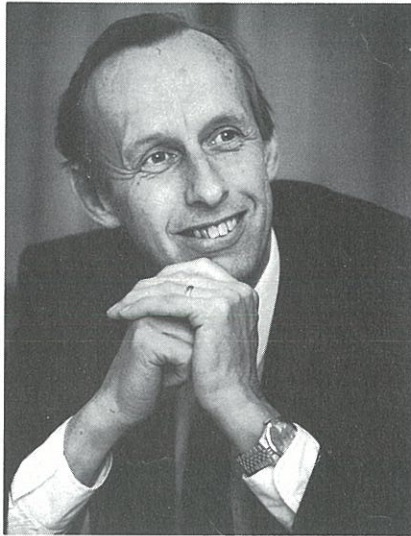


Photo: Krister Nordin

A good many business leaders were surprised by the strong surge in demand during 1988. We were probably influenced by the stock-exchange crash towards the end of 1987, which caused us to underestimate the force of the consumer boom.

It was therefore gratifying to see how Sandvik people all over the world promptly adjusted to a reality that was out of line with the expectations and did their utmost to seize upon the new business opportunities that were presented. In order to get one's priorities right in that kind of situation it is most important to have access to fast and correct information. In this connection Sandvik Coromant's world-embracing order-processing and inventory-control system proved to be an outstanding instrument for regulating the rate of production and keeping inventories under control, thereby maintaining customer service. *It was the combination of competent staffers and sound systems that enabled Sandvik to raise its earnings so much when favourable business conditions came along in 1988.*

ALL BUSINESS AREAS ON A STRATEGICALLY CORRECT COURSE

From the following figures and statements it will be seen that all product areas succeeded in improving their positions during 1988.

They all have a strategic plan to guide them as they move forward towards their goals of making themselves the world leaders within their chosen niches. Some of them have already got there, and from their positions of strength they can now continue to broaden their base, while others are still striving towards the initial goal.

People involved in mature industries are apt to become impatient and to seek rapid advances by way of company acquisitions – something which is not easy to do in good times, when most enterprises are running at a profit and are relatively costly. Pronounced synergistic

effects are called for if a purchase is to yield good profitability over the long term. At such times it is important to press ahead with the methodical work of launching new products and in this way improving one's market shares.

During 1988, then, Sandvik had winners all along the line, even if the definitive success for Sandvik Rock Tools does not materialize until some years have passed.

ROCK TOOLS AND ATLAS COPCO: THE PARTING OF THE WAYS

For more than forty years, Sandvik Rock Tools and Atlas Copco have kept up an exclusive collaboration in the area of percussive drilling. And it has been successful—especially in the initial phase when the "Swedish Method" made its *début* on the world stage. This collaboration carried Sandvik Coromant's rockdrilling products to a position of world leadership, and over the years we were successful in retaining that lead. One thinks twice about changing a winning team, but when Atlas Copco took the step of buying up our biggest competitor it seemed to us that the natural response was to set up our own sales network for these products just as we have for our others. The exclusive collaboration is therefore being phased out during 1989 as the various Sandvik companies round the world feel that they are ready to take over the task of servicing our customers. Direct contact with them will give Sandvik Rock Tools a better idea of their needs and thus enable it to make more effective use of its strong product-development capability. The year 1989 will see, among other things, the introduction of an entirely new programme featuring a revolutionary cemented carbide. Even so, good *technical* collaboration with a drill maker is important to us. In view of the competitive situation we have now chosen to co-operate instead with the Tamrock Group of Finland, which specializes in mining and civil-engineering machines and has a strong standing on the world market.

Our acquisitions of Mission, Seco Tools Australia and Anglo Scandia came very opportunely in this connection, since they bring to Rock Tools new channels of distribution as well as new products to add to its range. In due course, these changes will enable Rock Tools to achieve further gains in profitability by making its marketing more cost-effective. The proof of our success therein will come when our customers rate our service as right up to the mark.

A LISTING FOR SECO TOOLS

A subsidiary group that is taking an important step in 1989 is Seco Tools. The autonomy which was accorded to this group of undertakings when Sandvik became its majority stockholder in 1974 has been a material factor

in its successful development. It is therefore no more than natural for Seco Tools to manifest and formalize this by seeking a Stock Exchange listing. It is proposed that the offer of rights to buy Seco Tools shares be directed to Sandvik shareholders, enabling them to continue following the fortunes of the company. Bearing in mind the important acquisition of the Carboloy Division from General Electric at the end of 1987 it will be quite exciting to see whether Seco Tools can achieve, in the United States, a profitability approaching that which it has so far been able to show in Europe.

SANDVIK AND THE EC

Not until free trade becomes the rule in the world will Sandvik's business philosophy be fully effective. Various obstacles have necessitated the setting up of local production units. In the big trading blocks, such as North America and Japan, we have established one manufacturing unit for each strategically important product area. This has proved to be a wise move, in view of the wide swings we have seen in the exchange rates. As an example, we do 75% of our upgrading for the United States in the United States.

In Europe the situation is still different in character. In many cases, owing to the fragmentation which obtains at present, we maintain one or more satellite units in the major European countries in addition to a large production unit in Sweden. About 50% of our Swedish output is exported to the EC. In this situation we are faced with two important questions:

- Will Sweden remain competitive as an industrial manufacturing country?
- Will Sweden secure full access to the European market?

Only full membership would give a definitive response to the second question, and in some measure it would also provide a positive answer to the first. Membership would force us to harmonize and compete on equal terms, something which has always been found to bring out the best in us.

It follows from this that so long as there is uncertainty over Sweden's membership of the EC, or some other form of affiliation to it, Sandvik will have to hedge its future by carrying on production within the EC. This is to the disadvantage of our large units in Sweden, which otherwise, from straight considerations of scale economy, would most of the time win the tug-of-war over various expansion projects.

SANDVIK AND ITS SHAREHOLDERS

Sandvik has now achieved a degree of financial strength (solidity and liquidity) such that we have all the re-

sources we need for the profitable expansion of all our business areas. Our strategy of securing good profitability by going for market leadership in selected segments has proved to be sound, even though we work to a large extent within relatively mature product areas. Until such time as we have achieved the targeted market positions within all strategically important areas a number of additional company acquisitions will be needed—most of them in the small-to-medium bracket, though one or two will be fairly substantial in size. We think it would be wise to hold financial resources in readiness for these purchases until the time is more suitable for them than it is at present.

Even if we allow for the fact that the wherewithal for the aforementioned acquisitions must be available when required, Sandvik is well placed to generate resources over and above what is needed both to pay for them and to finance the continued growth of its present lines of business.

In principle, then, we can go one of two ways:

1. Resources in excess of our requirements could be distributed to the shareholders.
2. Sandvik could invest a judicious proportion of these resources in activities outside our present business areas. These activities must not be alien to those we pursue at present but must be based on Sandvik's industrial competence insofar as concerns technology and notably as regards logistical development and distribution, which have proved to be vital to successful global marketing.

We are working with the second of these as our main alternative.

1989 AND BEYOND

Industry is the main market for Sandvik's products, and in my judgment the demand will be good throughout much of 1989. There are no signs of any inventory speculation in our product areas, and I therefore have reason to believe that a reduction in the western world's consumption, if it comes about, will not lead, in 1990–91, to any pronounced downturn, such as we have seen in some of the earlier cyclical dips, though markets here and there will doubtless exhibit considerable ups and downs by reason of financial instability. It should therefore be possible for us to base Sandvik's further growth during the 1990s on continued expansion of the underlying market potential at an average rate of 3–5% a year in fixed prices.

Sandviken, March 1989

Per-Olof Eriksson

Group President and Chief Executive Officer

Cemented Carbide

	1988	1987
Invoiced sales, external, SEK m.	8,693	7,109
Result after financial items, SEK m.	1,562	1,311
Balance-sheet total, at 31 Dec., SEK m.	7,725	6,719
Solidity, %	52	49
Capital expenditures, SEK m.	881	1,009
Number of employees, 31 Dec.	14,248	13,839

Sandvik Hard Materials

	1988	1987
Invoiced sales, external, SEK m.	703	512
Balance-sheet total, at 31 Dec., SEK m.	647	668
Solidity, %	43	39
Capital expenditures, SEK m.	34	92
Number of employees, 31 Dec.	1,399	1,683

The transformation of Sandvik Hard Materials (SHM) into what is in all essentials an externally oriented business undertaking was carried forward during 1988 with further company acquisitions in Australia and Taiwan.

The external proportion of the firm's turnover now stands at 82%. Its profitability and productivity are being steadily improved and the return on its capital employed worked out at 15.9% despite certain residual restructuring expenses.

COMPANY DEVELOPMENT AND STRATEGIES

The two companies acquired during 1987, Danit of Denmark and Carboloy of Britain, have now been wholly integrated into SHM. Considerable rationalization gains have been achieved.

During 1988, SHM acquired Seco Tools Pty. Ltd. of Australia, which, after a change of name to Sandvik Hard Materials Pty. Ltd., now forms the main basis of our business in Australia. Co-ordination with earlier operations has resulted in a highly effective unit with a strong market position.

On the same occasion, SHM acquired 50% of the shares in Titan (Taiwan) Pty. Ltd., which will form the basis for our further expansion in South East Asia.

During 1988, with the aim of streamlining its structure, SHM sold off the operation manufacturing tyre studs at Ugicarb Morgon, along with parts of Siametir S.A. The remainder of Siametir has been co-ordinated with Ugicarb Morgon in France.

During the period under review, SHM has achieved a structure that will permit the three main strategies of the company to be further developed in an effective manner.

- Manufacture and marketing of constructional parts and wear-part products in cemented carbide. This is

Sandvik's cemented-carbide operations are organized in three business areas: Sandvik Coromant, which makes cutting tools, Sandvik Rock Tools, specializing in rock-drilling tools, and Sandvik Hard Materials, whose products include constructional parts. Also included is the discrete group of companies known as Seco Tools AB, which issues its own financial statements.



Management team: (l. to r.) Roland Setterberg, Lars Wahlqvist (President), Krister Berinder.

primarily a matter of local business conducted from a large number of production units the world over. A high level of service is necessary, as also is close contact with our customers.

- Manufacture and marketing of product groups such as carbide blanks in large volumes, hot-rolls in carbide, and carbide powder. These products are marketed globally but are manufactured at a small number of specialized units.
- Development, manufacture and marketing within new material areas, such as ceramics for advanced industrial purposes, superhard materials such as PDC (sintered diamond) and cast-in carbide.

In the area of new materials, SHM increased its sales of ceramic products, mainly to the consumer-goods industry. Interesting new development projects for the manufacture of bio-ceramics have been launched.

The year also saw the introduction of hot-rolls in cast-in carbide, which opens up an interesting new market for tube rolling using rolls made of cemented carbide.

PROSPECTS FOR 1989

The downturn that was widely expected during 1988 now looks like setting in for 1989, so that there will be no more than a marginal increase in our total market. The structure and the cost level that SHM achieved during 1988 has resulted in an improved competitive position and should give a further improvement in profitability.

Sandvik Coromant

	1988	1987
Invoiced sales, external, SEK m.	4,692	4,137
Balance-sheet total, at 31 Dec., SEK m.	3,806	3,249
Solidity, %	68	64
Capital expenditures, SEK m.	240	228
Number of employees, 31 Dec.	7,128	6,964

Invoicing increased during 1988 by 13% (4), and the increase in volume terms was almost as large. This means that we have strengthened our market standing still further. Our new products have continued to enjoy a positive reception with big sales successes in consequence. Another factor that contributed powerfully to the good progress we have made is that we were able to maintain a very high level of reliability in deliveries to our customers.

Among our largest markets we were able to record big sales increases in the U.S., Italy, Japan, France, Canada and Brazil. In West Germany, our largest single market, the downward trend that had been going on for two years was turned round into a sales increase during 1988. The drive that had been launched during the previous year in the U.S., with direct cultivation of major customers, developed along favourable lines.

TWO ESTABLISHED PRODUCT AREAS...

Our core business consists today of two well-established product areas:

- Indexable inserts and tools for turning, milling and drilling. Sandvik Coromant has long had a position of world leadership in this area. Large-scale R&D enables us to launch a copious flow of new products—new insert materials, new insert geometries, new tool designs.
- Modular tool systems for lathes and machining centres. Here too Sandvik Coromant has led the way by launching Varilock for machining centres and Block Tools for lathes. Both systems are being further developed and rounded out with other holding systems for tools and workpieces.

...AND A THIRD TAKING SHAPE

Sandvik Coromant has for some years been working intensively on product development for a third area—workshop automation. This activity is centred in our subsidiary company Sandvik Automation GmbH in Viernheim. The basis for its activities is provided by the



Management team: (l. to r.) Sten Jansson, Leif Sunnermalm (Exec. V.P.), Mats Carlerös (Exec. V.P.), Rune Nyberg, Lars-Anders Nordqvist (Exec. V.P.), Clas Åke Hedström (President), Sven Blomberg.

modular tool systems Varilock and Block Tools. These systems are being rounded out with equipment for automatic tool handling and monitoring together with software for production preparation and tool control, adding up to a complete system for tool management. Together with the highly productive cutting tools, these products give the customers better productivity and production economy.

As an element in the build-up of competence and business in the area of workshop automation, Sandvik Coromant has acquired a 20% stake in Prevas AB, of Västerås, Sweden, and the two firms have concluded a collaboration agreement concerning product development and marketing. Prevas's speciality is the development of computer-based systems for workshop automation. Such systems are helping towards the effective integration of Coromant products into an automated machining process.

Our plans include the seeking-out of further products and forms of collaboration in workshop automation—an area characterized by vigorous growth.

IMCD 88

At the beginning of June we put on, for the fourth time, our symposium entitled International Metal Cutting Days. The theme of the year's conference was "Flexible Machining Systems and Automation", which attracted 130 high-grade participants from 24 nations.

RESULTS AND PROSPECTS

Thanks to our good sales trend, high capacity utilization and good productivity the results showed a further improvement during 1988. Our return on capital employed exceeded the Group target of 20% by a wide margin. Our forecast is that 1989 will be a relatively good year and that we shall be able to maintain our results at a virtually unchanged level.

Sandvik Rock Tools

	1988	1987
Invoiced sales, external, SEK m.	1,292	1,093
Balance-sheet total, at 31 Dec., SEK m.	1,276	900
Solidity, %	29	40
Capital expenditures, SEK m.	366	166
Number of employees, 31 Dec.	2,104	1,657

Both the mining industry and civil engineering had a good year in 1988. A number of company acquisitions as well as the build-up of a new marketing organization has led to higher costs in advance of expected earnings. Nonetheless, the return on capital employed reached 18.7%.

STRATEGY

The broad product programme of Sandvik Rock Tools comprises tools for the mining industry, civil engineering, water drilling, asphalt milling and oildrilling. The reasons for this are that we are endeavouring to broaden our business in the overall sense and that we are contributing on the technical plane to the development of all methods of working hard and soft rocks.

PERCUSSION DRILLING

Atlas Copco's acquisition of our competitor Secoroc has made continued collaboration impossible. Sandvik Rock Tools therefore intends to build up its own global sales network, based on the Sandvik Group's well-established array of sales companies.

The company's tools have been developed to suit all types of drill of any make. There is, however, one exception: bits for down-the-hole percussion drills. The bit and the hammer form one assembly, the parts of which remain together as a unit in the drilling of deep holes, e.g. in water drilling or drilling for the blasting of large ore-bodies. Sandvik Rock Tools has now acquired Mission Drilling Products of the U.S., one of the world's two leading enterprises in the field of down-the-hole hammers. Mission hammers are sold globally through a well-developed network of distributors and are known for their good performance and high quality, meaning that they will fit smoothly into our product range.

Our technical development work is now making it possible to take a new step towards dominance for the whole drill-bit programme. One means to this end is the introduction of the newly developed and patented multi-layer cemented carbide DP, standing for "dual property", over the whole range. During 1989 we shall be



Management team: (standing, l. to r.) Anders Asplund, Lars Liljebblad, Hans Mårtensson. (Seated, l. to r.) Göran Wijk, Sven-Olov Björkorp, Lars Östholm (President).

establishing our own organization to sell our products, at the same time strengthening our image as the leader in the area of product performance.

ROTARY CRUSHING DRILLING

Raiseboring by the rotary crushing technique has become the leading method for drilling vertical or oblique communicating shafts in mines and hydro-electric installations. Sandvik Rock Tools has recorded significant successes during 1988 and has consolidated its standing as the technological leader in this area.

Up to now, tunnel-driving machines have been effectively employed only in the softer rocks, with steel discs being used to crush the rock. We have demonstrated that carbide-equipped cutters enable these machines to do effective full-face tunnelling in the harder rocks as well. This opens up a whole new segment of the market.

SOFT-ROCK TOOLS

The company today named Sandvik Rock Tools, Inc., of the U.S., was acquired towards the end of 1987 in order to enhance our position in the area of soft-rock tools. The said company's sales and profitability developed well during 1988. It has been incorporated as a discrete part of the business and is currently being co-ordinated with the corresponding activities in Europe and Australia.

OILDRILLING TOOLS

1988 was the first trading year of the newly formed company Diamant Boart Stratabit, DBS, in which Sandvik Rock Tools and the Belgian company Diamant Boart S.A. each hold 50%. DBS emerged during the year as a leader in all forms of drilling with diamond-equipped bits, both in exploitation and in production. Its invoicing and profitability have developed well.

Sandvik Steel

	1988	1987
Invoiced sales, external, SEK m.	5,337	4,066
Result after financial items, SEK m.	677	280
Balance-sheet total, at 31 Dec., SEK m.	4,358	3,606
Solidity, %	36	35
Capital expenditures, SEK m.	164 ¹	179 ²
Number of employees, 31 Dec.	6,543 ³	6,365

¹ Whereof for company acquisitions SEK 19m.

² Whereof for company acquisitions about SEK 30m.

³ Whereof about 600 at acquired companies

THE MARKET

1988 saw a continuation of the vigorous upturn in demand for Sandvik Steel's products that began during the autumn of 1987. The year-on-year increase in the order intake was 52%. The most notable expansion was in orders for investment goods from the process industry in all parts of the world.

Invoiced sales increased by no less than 31%. The volume increase worked out at 17%, of which 6% was attributable to company acquisitions.

Higher prices for input stocks were offset by alloy surcharges on stainless-steel products. The average buying price of the most important alloying element, nickel, rose by something over 150% from the 1987 average. For this and other reasons there were price gains on the opening inventory in the region of SEK 250m., and these are included in the reported result. By the end of the year the price of nickel had gone still higher, standing 70–80% above book values.

In the autumn, Sandvik Steel received an order from Korea for steam-generator tubes worth just over SEK 100m. The demand for composite tubes from the pulp industry broke new records. A number of large oil-and-gas orders were obtained during the year. The output of titanium tubes doubled at Sandvik Special Metals. Golf-club shafts made of titanium scored their commercial breakthrough.

PRODUCTION—CAPITAL EXPENDITURES

The strong demand made it possible for all facilities, both in Sandviken and at the production units in other countries, to operate very close to capacity.

A long list of rationalization investments, together with projects to increase capacity at bottlenecks, were sanctioned during the year. Investments in facilities amounted during 1988 to SEK 145m. Capital spending will be substantially higher during 1989. In September 1988, Sandvik acquired Gunnebo's welding-wire operation by buying 50% of the shares in Munkfors Tråd AB, a company with about 90 employees.



Management team: (standing, l. to r.) Sten Hedmark, Åke Forsman, Bo Jonsson, Henrik Widmark, Åke Axelson, Anders Vrethem, Karl-Evert Messler, Kenneth Josefsson. (Seated, l. to r.) Gunnar Grünbaum, Gunnar Folke (Exec. V.P.), Gunnar Björklund (President), Björn Sköld.

Operations at the steel undertakings of which Sandvik is a part-owner also felt the benefit of the cyclical upturn. Their invoiced sales increased by 23% to SEK 2,100m. and the results almost doubled.

STRATEGY—R&D

Sandvik Steel intends to continue its commitment to the manufacture of highly upgraded products in stainless steel and other alloys. Most of the capital spending is going into the upgrading stage of production. Company purchases are providing a broader base for research and development over the whole field of metals. During 1988 they included a small enterprise in the U.K., concerned with medical products made of stainless steel, and an undertaking in the U.S. which works up products in rhenium and rhenium alloys, turning over SEK 20m. a year. Rhenium is an exclusive metal that is used among other things in the composition of high-temperature alloys. During 1988 the price per kg stood at around SEK 9,000.

RESULTS

The results after depreciation and interest showed a very strong improvement to SEK 677m. Inventory gains on the order of SEK 250m., attributable to rising prices for input stocks, are included in the results. The return on capital employed was well above the Group target of 20%. In this calculation, the inventories were valued at their average historical cost. By the end of the year, prices were not inconsiderably above this level.

The order intake continued excellent as 1988 ended. Sandvik Steel entered 1989 with a bigger backlog than it did in 1988. Even if the price gains on inventories are not repeated during 1989 there are bright prospects of a good result in 1989 as well.

Sandvik Saws and Tools

	1988	1987
Invoiced sales, external, SEK m.	1,458	1,375
Result after financial items, SEK m.	123	102
Balance-sheet total, at 31 Dec., SEK m.	882	872
Solidity, %	49	41
Capital expenditures, SEK m.	37	34
Number of employees, 31 Dec.	1,991	2,241

MARKETS

The major part of Sandvik Saws and Tools' sales, SEK 1,000m., was generated in Western Europe. This has made us one of the three largest European manufacturers of handtools.

Our return on investment exceeds the Group target of 20%.

The European market for handtools is a very large one, estimated at about 20 billion kronor. It is expected to undergo sweeping structural changes during the 1990s, owing in part to the EC's decision to set up a new internal market by 1992. This gives us plenty of scope for growth, since by comparison with our competitors we have a well-developed distribution apparatus in Western Europe.

BUSINESS PHILOSOPHY

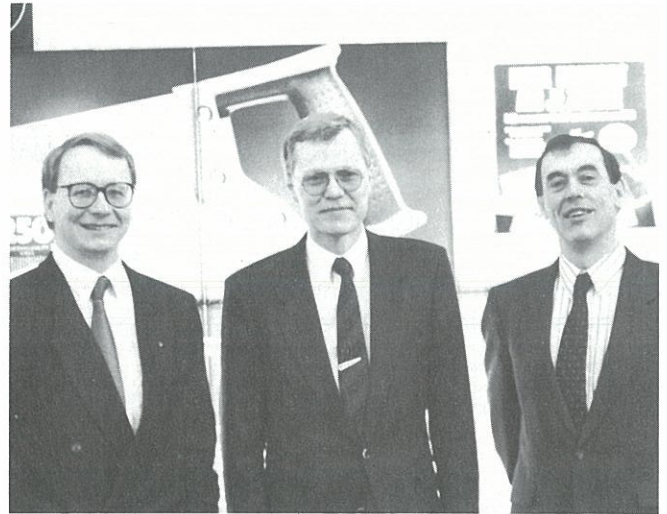
Saws and Tools enjoys a worldwide reputation for high-quality products and for providing its distributors with effective back-up, e.g. when it comes to co-ordinated planning and point-of-sale exposure. The cost advantages that will flow from the broadening and deepening of the tool programme will permit the further upgrading of our service to distributors in Western Europe.

We intend to grow by our own efforts and at the expense of the numerous one-product firms that there are in the market. The next recession will also bring us opportunities to increase our market shares by company acquisitions.

CHANGES DURING THE YEAR

During 1988 we recorded good growth for several basic products, such as handsaws, metalcutting saws and files—areas in which we have a highly rationalized production apparatus.

The progress made in these heavy product categories was one reason why our profit rose by 21% even though the increase in our invoiced sales was no more than 6%.



Management team: (standing, l. to r.) Nils Engström, Göran Gezelius (President), Peter Renwick.

In the course of the year we sold Broussaud, the French manufacturer of pattern-cutting tools, with an annual turnover of SEK 85m., to its management. This marked the withdrawal of Saws and Tools from the pattern-cutting sector.

OUTLOOK

In the run-up to the 1990s our efforts are being concentrated in the following areas:

Handtools for woodworking (carpenter's tools), which are sold primarily through the hardware trade.

Garden tools, chiefly pruning tools, which are sold in hardware stores though they also have outlets through special gardening centres and suppliers serving vintners and fruit-growers. A line of new products is being launched in the 1988/89 season, among them secateurs and hedge shears, and the introductory campaign will continue during 1989.

Metalcutting saws and files, sold mainly to industrial distributors for use in manufacturing plants, in workshops and on building sites. Several years of increasing volumes have made us the European leaders in the areas of machine sawblades and hacksaw blades along with hand files.

Forestry tools, in which area the acquisition of the North American firm Windsor and the co-ordination of the product programme has enabled Saws and Tools to put out a complete range of tools for forestry "from the sapling to the stump". The emphasis is on cutting equipment—saw chains and guide bars—for power saws and forest processors.

Thanks to its far-reaching decentralization, Sandvik Saws and Tools has many qualified specialists working for it, all poised to seize upon the interesting opportunities that are opening up.

Sandvik Process Systems



Management team: (l. to r.) Herbert Würmseher, Erhard Milewski, Håkan Olofsson (President), Rolf Hemlin.

	1988	1987
Invoiced sales, external, SEK m.	769	638
Result after financial items, SEK m.	162	132
Balance-sheet total, at 31 Dec., SEK m.	621	524
Solidity, %	47	43
Capital expenditures, SEK m.	15	16
Number of employees, 31 Dec.	543	521

The year 1988 was one of very strong growth, with the order intake increasing by 25% and the invoiced sales by 21%. These increases came from all three product areas, each of which contributed about a third of the total sales figure.

The European markets continued to dominate sales, taking about 60% of the total turnover. Japan and North America showed good volume growth. The chemical and foodstuffs industries, together with goods-sorting facilities, remained the predominant applications.

STEEL BELTS AND STANDARDIZED CONVEYORS

With order intake running at a high level, we made good use of our production capacity throughout 1988. A substantial number of new employees were taken on. Technical service and other back-up activities were intensified for the better accommodation of customer requirements.

The efforts that were made to expand the market for steel belts in continuous double-belt presses resulted in strong growth with excellent future potential. Following a prolonged trial period, the first major facility for pelletizing iron ore on a steel belt was sold.

AUTOMATED SORTING SYSTEMS

The business situation was very favourable throughout the year. We were able to maintain our strong standing in the Japanese market, with a clear trend towards bigger and more sophisticated systems. In Europe, the internal market planned for 1992 led to the postponement of several projects, although this should have a beneficial effect during 1989.

We continued our intensive contacts with the major freight organizations in North America, and a strong increase in order intake is expected during the coming year. The general tendency towards the introduction of automated systems should guarantee good growth in the future.

PROCESS INSTALLATIONS FOR INDUSTRY

Our concentration on solidification processes, particularly pastillizing, resulted in a further improvement in growth within this area. The introduction of micro-pastillizing aroused great customer interest, especially for the production of paints and pharmaceuticals.

A major order for vegetable dryers from the Soviet Union gave us our breakthrough in that market, which holds outstandingly good potential. After some years of low business volume in the U.S. there was a change for the better during 1988. The high capacity utilization in our test centres necessitated increased investments.

OUTLOOK

The market position of Process Systems has been bolstered by concentration and specialization on a small number of product areas. There will be further expansion from this base. The unusually large order book with which we enter 1989 will probably make it a new record year, as regards both turnover and earnings.

Report of the Directors

MARKET SITUATION AND SALES

	1988	1987	Change %
Order intake, SEK m.	17,440	13,425	+30
Invoiced sales, SEK m.	16,413	13,241	+24

The state of business was strong throughout 1988. Economic growth in the OECD area as a whole ran at about 4%. Capacity utilization in industry was very high and unemployment declined in several countries. The rate of inflation in the OECD area remained substantially unchanged at about 3.5%.

Sandvik encountered strong demand on most major markets. Exceptions from this were some Latin American markets together with Norway and the markets of the Eastern bloc.

1988 was another year marked by considerable shifts in exchange rates, but the average U.S. dollar rate went down by only 4%. (The dollar nevertheless stood 5% higher at the end of the year than it had at the beginning.) By and large, however, the net effect of the changes in the exchange rates was neutral as far as the Group's invoicing was concerned.

Invoiced sales per market area	1988		1987		Change %
	SEK m.	Percent- age	SEK m.	Percent- age	
Sweden	1,423	9	1,130	9	+26
EC	6,869	42	5,726	43	+20
Rest of Europe	1,359	8	1,257	9	+8
Totals, all Europe	9,651	59	8,113	61	+19
North America	2,988	18	1,994	15	+50
Latin America	1,033	6	913	7	+13
Africa, Asia and Australia	2,741	17	2,221	17	+23
Group totals	16,413	100	13,241	100	+24

Invoiced sales per product area	1988		1987		Change %
	SEK m.	Percent- age	SEK m.	Percent- age	
Cemented Carbide	8,693	53	7,109	54	+22
Steel	5,337	32	4,066	31	+31
Saws and Tools	1,458	9	1,375	10	+6
Process Systems	769	5	638	5	+21
Other	156	1	53	-	/
Group totals	16,413	100	13,241	100	+24

Business conditions and the trend of sales are dealt with in more detail in the reviews of the individual business areas beginning on page 4.

The year-on-year developments tabulated above include the effects of structural changes. After allowing

for businesses acquired and sold off, invoicing showed an increase of 16% on the 1987 figure, while the order intake was up by 22%.

Invoiced sales in the ten largest markets:

Invoiced sales per market SEK m.	1988		1987		Change %
	1988	1987	1988	1987	
U.S.A.	2,624	1,694	2,624	1,694	+55
West Germany	1,928	1,640	1,928	1,640	+18
France	1,525	1,350	1,525	1,350	+13
Sweden	1,423	1,130	1,423	1,130	+26
Great Britain	1,199	850	1,199	850	+41
Italy	1,064	893	1,064	893	+19
Japan	884	700	884	700	+26
Brazil	606	548	606	548	+11
Australia	523	392	523	392	+33
Spain	370	307	370	307	+21

COMPANY ACQUISITIONS, STRUCTURAL CHANGES AND CO-OPERATION AGREEMENTS
Sandvik Rock Tools decided that the firm's products for percussive and rotary crushing rockdrilling would in future be marketed through the Group's own worldwide network of subsidiary companies. Notice was given to terminate the exclusive agreements with Atlas Copco AB and its subsidiaries, which up to then had handled the distribution of these products, and the said agreements will lapse successively during the first half of 1989.

In January 1989, Sandvik Rock Tools and the Finnish company Oy Tampella Ab Tamrock entered into an agreement providing for far-reaching technical collaboration and exchange of information. The intention is that between them they will develop hard-hitting combinations of drills, rigs and tools.

The following were the more important acquisitions and divestments during the year:

On 14 October, Sandvik Rock Tools acquired the TRW Mission Drilling Products Division from the American industrial group TRW. TRW Mission is one of the world's leading manufacturers of down-the-hole drills and bits, though it also makes other products, such as pumps. Its annual turnover is about SEK 300m. and it employs about 400 people. Besides its main facility in Houston, Texas, the Division has units in Britain, Singapore and Australia. The acquisition gives Sandvik Rock Tools access to a valuable new channel of distribution while at the same time rounding out its rockdrilling programme.

On 10 November, Sandvik Hard Materials reached an agreement with Seco Tools AB of Sweden and Broken Hill Proprietary of Australia whereby it is to acquire all

the shares of Seco Tools (Australia) Pty. Ltd. This company has a 50% equity stake in Titan (Taiwan) Pty. Ltd.

Seco Tools (Australia) Pty. Ltd. turns over about SEK 150m. a year and employs some 200 people in three product areas: cemented carbide for cutting tools, rock-drilling tools, and wear parts.

The cutting-tool division is being transferred to Carboloy Australia Pty. Ltd., the name of which is being changed to Seco Tools (Australia) Pty. Ltd. The rock-drilling division is to be co-ordinated with Sandvik Rock Tools. The rest of the business, concerned with wear parts, meshes well into Sandvik Hard Materials' strategy of establishing a large number of local product centres all round the world in order to be able to give its customers a high standard of close-at-hand service as regards top-quality carbide products. The acquisition further enhances the strong standing that Sandvik Hard Materials already enjoys in Australia.

Titan (Taiwan) Pty. Ltd. turns over about SEK 40m. a year and employs some 120 people. Its product programme falls entirely within the area in which Sandvik Hard Materials is active. The acquisition takes Sandvik Hard Materials into a market where it did not previously have a presence and provides an interesting platform for further development in that part of the world.

On 28 December, Sandvik Steel acquired the assets of Rhenium Alloys, Inc., and Rhenium Real Estate, Inc., Ohio, U.S.A. The business turns over about SEK 20m. a year and has some 25 employees. It is a leading manufacturer of products based on rhenium, an exclusive metal possessing unique high-temperature properties. Sandvik Steel moreover acquired 25% of Metinox Steel Ltd., of Great Britain, an enterprise concerned with medical products made of stainless steel. The agreement also gives Sandvik a three-year option on the remaining 75%.

On 13 December, Sandvik Saws and Tools sold its French subsidiary Sandvik Broussaud S.A. to the local company management. Broussaud was the only member of the Group that made and sold pattern-cutting tools. The sale was a step in the concentration of activities on saws and other tools for the working of wood and metal, for forestry and for gardening. Broussaud had an annual turnover of about SEK 85m. and employed some 250 people.

On 1 September, Sandvik AB acquired one million "A" shares in AB Programator, representing about 26% of the voting strength and 7.6% of the share capital. The agreement also gives Sandvik an option to buy, within a period of four years, sufficient additional "A" shares to ensure a controlling interest. Sandvik will be able to support Programator in its internationalization drive and at the same time keep itself abreast of the rapid advances going on in the computer field.

During 1988 the Group also put through a restructuring of its ownership arrangements, following which the subsidiary companies outside Sweden are to a large

extent owned by Sandvik Finance B.V. This made the ownership structure less complicated, improved the finance company's chances of securing expected advantages in its day-to-day operations by adding the ownership role to the straightforward finance-company role, and will have the effect from now on of reducing coupon taxes on such intra-Group dividends as are subject thereto. The sale, which was effected at the prices which Sandvik AB itself had paid for the individual shares, entailed a book capital loss of SEK 141m. for Sandvik AB.

RESULTS AND RETURNS

	1988	1987
Operating profit		
after depreciation, SEK m.	2,708	1,970
and as a percentage of invoiced sales	16.5	14.9
Profit after financial earnings and expenses, SEK m.	2,812	1,871
and as a percentage of invoiced sales	17.1	14.1
Return on investment, %	25.1	21.3
Return on adjusted equity capital after tax, %	24.7	19.0
Earnings per share, SEK	29:80	19:60

For definitions, see p. 21.

The operating margin (operating profit after depreciation as a percentage of invoiced sales) increased by 1.6 percentage points.

A change was made in the form of accounting for the bonus payable to employees in Sweden, which from now on is a charge on the operating profit. The comparative figures for 1987 have been recalculated accordingly. The bonus amounted to SEK 66m. (24).

Exclusive of the bonus, the operating profit rose by 1.8 percentage points.

The work of integrating the big company acquisitions of 1987 was commenced according to plan. The results of the businesses that were included in the acquisition of Carboloy Systems Product Operation were below the Group average.

Quarterly changes in invoiced sales, in profit after financial earnings and expenses and in net margin (profit after financial earnings and expenses as a percentage of invoiced sales) were as shown in the following table:

	Invoiced sales SEK m.	Profit SEK m.	Net margin %
1987: 1st quarter	3,070	432	14
2nd quarter	3,228	469	15
3rd quarter	3,034	443	15
4th quarter	3,909	527	13
1988: 1st quarter	3,852	600	16
2nd quarter	4,031	635	16
3rd quarter	3,925	652	17
4th quarter	4,605	925	20

The figures in the interim reports are based in part on

preliminary reservations and valuations. Owing to discrepancies between preliminary and definitive reservations and valuations, the results for the fourth quarters contain special items.

The non-recurring earnings and expenses amounted to a net deficit of SEK 57m. (+22). This figure includes a writedown of SEK 68m. (10) on participations in limited partnerships. The writedown concerns Sandvik's interest in the results of the said partnerships before appropriations. The negative results of the partnerships were due to once-for-all costs involved in the setting-up of projects and to periodization differences between depreciation charges and revenues under the rental contracts between the partnerships and the renters. The partly owned limited partnerships own, manage and rent out ships and aircraft.

The profit before appropriations and taxes came to SEK 2,755m. (1,893).

The 1988 earnings per share after estimated full tax came to SEK 29:80 (19:60). The earnings per share after estimated full tax including shares in associated companies and after full conversion of outstanding convertible loans would work out at SEK 29:85 (19:10). The earnings per share after tax payable came to SEK 40:80 (25:90). ("Tax payable" means the tax liability accruing during the income year.)

Accrued taxes amounted to SEK 631m. (508), which was equivalent to 23 % (27) of the profit before appropriations. The figure includes profit-sharing tax at SEK 53m., whereof SEK 37m. pertains to the Parent Company. (No profit-sharing tax was paid in 1987.) Estimated future taxes amounted to SEK 369m. (65). This figure represents the tax that is deferred to a future date in consequence of participation in the deficits of partly owned corporate partnerships. The total of accrued taxes and estimated future taxes amounted to 36 % (30) of the profit before appropriations.

Estimated future taxes are entered among other long-term liabilities, and amounted to SEK 464m. (95).

Per product area, profits after financial earnings and expenses came to:

Profit after financial earnings and expenses per product area	1988 SEK m.	1987 SEK m.	Change SEK m.
Cemented Carbide	1,562	1,311	+251
Steel	677	280	+397
Saws and Tools	123	102	+21
Process Systems	162	132	+30
Other activities	288	46	+242
	2,812	1,871	+941

"Other activities" comprise regional companies and other minor units that are not included in the above product areas, and also Group functions, including the central finance business. The aggregate results of the regional companies and other minor companies de-

veloped well, rising from SEK 70m. to 109m. The central finance business includes the return earned on the liquidity that does not fall within the activities of the product areas and the regions.

Supplementary key ratios and comments upon the course of development are given in the reviews per business area beginning on p. 4.

FINANCE

	1988	1987
Cash flow, SEK m.	-686	553
Liquid assets, 31 Dec., SEK m.	4,767	4,245
Loans, 31 Dec., SEK m.	4,959	3,871
Net interest, SEK m.	32	-106
Net financial items including exchange differences, SEK m.	104	-99
Interest, times covered	7.5	5.1
Solidity, %	36	36
Venture-capital percentage	45	46
Debt/equity ratio	0.8	0.8
Adjusted equity capital, SEK m.	7,018	5,809
Adjusted equity capital per share, SEK	130:95	110:60

For definitions, see p. 21.

Net finance generated by operations amounted to SEK 1,892m. (1,798). Owing to the high level of capital expenditure, including investments in limited partnerships and leasing activities, the cash flow went negative at SEK 686m. (+553).

The promissory note for SEK 547m. that was received when the Company sold its shares in Krångede AB in 1983 falls due for payment on 29 Dec. 1989 and is therefore entered as a current receivable in the Balance Sheet of 31 Dec. 1988. The effects of this re-posting from long-term to current receivables have been disregarded in the Funds Statement.

The Group's liquid assets increased by SEK 522m. to SEK 4,767m. (1987: increase by 469 to 4,245).

The inpayments to the Riksbank pursuant to the Deposits on Liquidity Account Act of 1988 amounted in the course of 1988 to SEK 56m. A further SEK 6m. was paid in during January 1989.

The Group's loans, excluding convertible loans, increased according to the Balance Sheet by SEK 1,088m. (1987: decrease by 8). The increase in loans was ascribable to the newly started operations of Sandvik Leasing AB, which involved the borrowing of SEK 1,104m.

Reported exchange differences on loans amounted to SEK 65m. net (3), of which a gain of SEK 29m. (49) was realized in connection with amortizations, while a gain of SEK 36m. (-46) was unrealized. Unrealized exchange gains are reported only insofar as the exchange rate is not below what it was at the time when the loan was taken up. If the rate declines below this level, these effects are not recognized in the books until the loan is amortized. On 31 Dec. 1988, unrealized and unbooked exchange gains of this kind stood at SEK 165m. (188).

The final conversion of the 1977 convertible loan in March and certain conversions of the 1985 convertible loan addressed to employees increased the number of shares outstanding by 1,073,806, bringing the total to 53,592,184 on 31 Dec. 1988. The conversions increased the equity capital by SEK 50m., of which SEK 27m. was share capital and SEK 23m. was in the statutory capital reserve.

Following approval at Sandvik AB's Annual General Meeting in May, Seco Tools AB issued a convertible debenture loan addressed to the employees of the Seco Tools Group's companies in Sweden. Each rights holder was entitled to subscribe debentures up to a maximum of SEK 28,000. Of all those who were eligible, 94% joined the scheme. In the event, the total debenture loan amounted to SEK 31m., carrying interest at 9.25%. Full conversion of the loan would increase the number of shares in Seco Tools AB by 1.5%. Further to this, Sandvik AB made options on Seco Tools shares available to 23 people occupying leading positions within the Seco Tools Group.

In March 1989, the Board of Sandvik AB decided to put before the Annual General Meeting of 11 May 1989 a motion to offer Sandvik's shareholders rights to buy one Seco Tools share of Series "B" at a price of SEK 60 for every five Sandvik shares that they hold. The shares in Seco Tools are held by Sandvik's subsidiary company Sandvik Invest AB. The decision means that just short of 40% of all Seco Tools shares will be disseminated. An application for inclusion on the A1 list of the Stockholm Stock Exchange will be filed in August 1989.

CAPITAL EXPENDITURES

	1988	1987
Investments in facilities, SEK m.	775	675
and as a percentage of invoiced sales	4.7	5.1
Company acquisitions, SEK m.	517	655
Investments in limited partnerships and leasing activities, SEK m.	1,450	92
Total capital expenditures, SEK m.	2,742	1,422
and as a percentage of invoiced sales	16.7	10.7

Capital expenditures within Sweden came to SEK 823m. (512), of which SEK 431m. (428) was spent at the Parent Company, including its subordinate companies.

The breakdown by product areas was as follows:

	1988 SEK m.	1987 SEK m.
Cemented Carbide	881	1,009
Steel	164	179
Saws and Tools	37	34
Process Systems	15	16
Regional companies, service companies, leasing companies and collective functions	1,645	184
Group totals	2,742	1,422

RESEARCH, DEVELOPMENT AND QUALITY ASSURANCE

Ever since the founding of the business, the Sandvik Group has based its commercial development very much on its own products and has therefore, in bad times just as in good, allocated large resources to R&D activities. This applies to the entire R&D field, from fundamental research in our material areas through product and process development to quality control, in order to be sure that the products we supply will perform as promised. (Sandvik holds certificates as an approved supplier from all the important inspection agencies such as the ASME, the TÜV and the BSI.)

Each business area has its own development units, which are thus able to draw on strong feedback from their own global marketing organization. Besides applying for a large number of patents every year, Sandvik constantly renews its product programmes. To mention one example, Sandvik Coromant brings out more than a thousand new product variants every year.

The Group's outlays on research, development and quality assurance in 1988 totalled SEK 711m. (608), which works out at 4.3% (4.6) of the invoiced sales and 8.4% (8.8) of the added value. See also Note 3, p 22.

PERSONNEL

	1988	1987
Number of employees on 31 Dec.	26,501	26,256
Average number of employees	26,180	24,380

The net effect of the year's acquisitions and sales of companies was an increase of 349 employees. On the basis of comparable activities the number of people employed declined by 104 (1987: a decrease of 419).

The number of people employed by the Parent Company and its subordinate companies as of 31 Dec. 1988 was 9,223 (9,159). Group employees in Sweden as of 31 Dec. 1988 numbered 10,402 (10,276).

The number of employees per business area will be found in the reviews of the individual business areas beginning on page 4.

Data on the personnel costs and on the average number of employees in Sweden and abroad will be found on page 27.

Consolidated Income Statement

	1988	1987
Amounts in SEK million		
Invoiced sales Note 2	16,413	13,241
Costs of production, selling and administration Note 3	-13,065	-10,733
Provision for employee bonus	-66	-24
OPERATING PROFIT BEFORE DEPRECIATION	3,282	2,484
Scheduled depreciation Note 4	-574	-514
OPERATING PROFIT AFTER DEPRECIATION	2,708	1,970
Financial items:		
Dividends received	7	4
Interest received Note 5	527	356
Interest paid Note 5	-495	-462
Exchange differences on loans Note 6	65	3
PROFIT AFTER FINANCIAL EARNINGS AND EXPENSES Note 7	2,812	1,871
Non-recurring earnings Note 8	16	55
Non-recurring expenses Note 8	-73	-33
PROFIT BEFORE APPROPRIATIONS AND TAXES	2,755	1,893
Appropriations:		
Difference between book and scheduled depreciation Notes 4, 19	-537	-158
Change in inventory reserves Note 20	-233	54
Change in investment reserves and development reserves Note 21	344	-452
Other appropriations Note 22	-36	-2
PROFIT BEFORE TAXES	2,293	1,335
Accrued taxes	-631	-508
Estimated future taxes	-369	-65
PROFIT AFTER TAXES	1,293	762
Minority interest in profit	-6	-6
CONSOLIDATED NET PROFIT	1,287	756

Consolidated Funds Statement

	1988	1987
Amounts in SEK million		
INTERNAL FINANCING		
Profit before appropriations and taxes	2,755	1,893
Re-posting of depreciation	574	514
Re-posting of unrealized exchange differences on loans ..	-36	46
Re-posting of capital gain/loss on shares and facilities sold	55	-79
Change on blocked accounts for fund allocations and liquidity account with Riksbank.....	-53	267
Accrued taxes	-631	-508
Dividends	-226	-185
Total internal financing	<u>2,438</u>	<u>1,948</u>
CHANGE IN WORKING CAPITAL		
Change in inventories	-704	94
Change in current receivables	-454	-243
Change in non-interest-bearing operating liabilities	612	-1
Total change in working capital	<u>-546</u>	<u>-150</u>
Net financing from operations	1,892	1,798
NET INVESTMENTS		
Acquisition of companies	-688	-747
Acquisition of fixed assets	-2,054	-675
Sale of companies.....	39	118
Sale of fixed assets.....	125	59
Net investments	<u>-2,578</u>	<u>-1,245</u>
FINANCIAL SURPLUS (CASH FLOW).....	-686	553
EXTERNAL FINANCING		
Equity capital:		
Change by conversion of loan	50	15
Loans:		
Change in short-term loans.....	148	30
Change in long-term loans.....	961	-300
Change in convertible loan	-27	-15
Total loans	<u>1,082</u>	<u>-285</u>
Other financing, net:		
Change in long-term receivables	-13	125
Change in pension liability	109	74
Change in other long-term liabilities	49	-45
Total other financing, net	<u>145</u>	<u>154</u>
NET EXTERNAL FINANCING	1,277	-116
Translation differences, etc.	-69	32
INCREASE IN LIQUID ASSETS	<u>522</u>	<u>469</u>

Consolidated Balance Sheet

ASSETS	1988	1987
Amounts in SEK million		
CURRENT ASSETS		
Cash and bank balances	1,538	860
Bonds and other short-term placements..... Note 9	3,229	3,385
Bills receivable from customers.....	423	394
Other customer receivables	3,035	2,531
Prepaid expenses and accrued income	244	186
Other current receivables	824	361
Inventories	4,838	4,008
	14,131	11,725
BLOCKED ACCOUNTS		
FOR FUND ALLOCATIONS..... Note 10	15	19
FIXED ASSETS		
Shares and participations	707	490
Long-term receivables..... Note 12	280	733
Goodwill and other intangible assets..... Note 13	161	123
Construction in progress	236	141
Machinery and equipment	3,684	2,229
Land and buildings..... Note 14	1,435	1,431
	6,503	5,147
TOTAL ASSETS	20,649	16,891
Assets pledged..... Note 15	1,294	1,484

LIABILITIES AND EQUITY CAPITAL	1988	1987
Amounts in SEK million		
CURRENT LIABILITIES		
Bills payable	133	444
Owed to suppliers.....	1,236	571
Tax debts	508	386
Accrued expenses and prepaid income.....	1,319	1,137
Short-term loans..... Note 17	2,878	2,731
Other current liabilities	920	932
	<u>6,994</u>	<u>6,201</u>
LONG-TERM LIABILITIES		
Long-term loans	2,081	1,140
Provision for pensions..... Note 18	1,140	1,029
Other long-term liabilities	754	346
	<u>3,975</u>	<u>2,515</u>
CONVERTIBLE BOND LOANS	115	142
UNTAXED RESERVES		
Accumulated depreciation above schedule	1,938	1,407
Inventory reserve..... Note 20	1,308	1,082
Investment and development reserves	959	1,304
Other untaxed reserves	153	120
	<u>4,358</u>	<u>3,913</u>
MINORITY INTEREST IN EQUITY CAPITAL..... Note 24	39	36
EQUITY CAPITAL..... Note 25		
Restricted equity capital:		
Share capital	1,340	1,313
Statutory capital reserves	959	783
	<u>2,299</u>	<u>2,096</u>
Unrestricted equity capital:		
Unrestricted reserves.....	1,589	1,228
Translation difference	-7	4
Consolidated net profit	1,287	756
	<u>2,869</u>	<u>1,988</u>
Total equity capital.....	<u>5,168</u>	<u>4,084</u>
TOTAL LIABILITIES AND EQUITY CAPITAL	20,649	16,891
Contingent liabilities	330	396

The Parent Company's Accounts

Amounts in SEK million

Income Statement			Funds Statement		
	1988	1987		1988	1987
Invoiced sales Note 2	6,836	5,899	INTERNAL FINANCING		
Costs of production, selling and administration Note 3	-5,476	-4,904	Profit before appropriations and taxes	1,290	1,292
Provision for employee bonus	-66	-24	Re-posting of depreciation	220	219
OPERATING PROFIT BEFORE DEPRECIATION	1,294	971	Re-posting of unrealized exchange differences on loans	-46	46
Scheduled depreciation Note 4	-220	-219	Re-posting of capital gain/loss on shares and facilities sold	65	-40
OPERATING PROFIT AFTER DEPRECIATION	1,074	752	Change on blocked accounts for fund allocations and liquidity account with Riksbank	-20	86
Financial items:			Accrued taxes	-80	-222
Dividends received from subsidiaries	227	531	Dividends	-224	-183
Dividends received from other companies	4	1	Group contributions	-863	253
Interest received from subsidiaries	26	12	Total internal financing	342	1,451
Other interest received	357	288	CHANGE IN WORKING CAPITAL		
Interest paid to subsidiaries	-32	-13	Change in inventories	-318	111
Other interest paid Note 5	-297	-321	Change in current receivables	-136	-479
Exchange differences on loans . . . Note 6	75	3	Change in non-interest-bearing operating liabilities	982	-61
PROFIT AFTER FINANCIAL EARNINGS AND EXPENSES	1,434	1,253	Total change in working capital	528	-429
Non-recurring earnings Note 8	1	49	Net financing from operations	870	1,022
Non-recurring expenses Note 8	-145	-10	NET INVESTMENTS		
PROFIT BEFORE APPROPRIATIONS AND TAXES	1,290	1,292	Acquisition of companies	-116	-210
Appropriations:			Acquisition of fixed assets	-315	-324
Difference between book and scheduled depreciation Notes 4, 19	-82	-71	Change in Parent Company's long-term commitments to subsidiary companies	-505	-214
Change in inventory reserve Note 20	-217	69	Sale of companies	2	8
Change in investment reserve Note 21	227	-544	Sale of fixed assets	14	126
Change in development reserve Note 21	14	32	Net investments	-920	-614
Group contributions	-863	253	FINANCIAL SURPLUS (CASH FLOW)	-50	408
Change in internal-profit reserve	23	4	FUNDS USED/GENERATED EXTERNALLY		
Other appropriations Note 22	5	3	Equity capital:		
PROFIT BEFORE TAXES	397	1,038	Change by conversion of loan	50	15
Accrued taxes	-80	-222	Loans:		
Estimated future taxes	-113	-65	Change in short-term loans	-609	108
NET PROFIT	204	751	Change in long-term loans	-2	-166
			Change in convertible loan	-58	-15
			Total loans	-669	-73
			Other financing, net:		
			Change in long-term receivables	576	101
			Change in pension liability	84	63
			Change in long-term liabilities	52	-1
			Total other financing, net	712	163
			TOTAL FUNDS GENERATED EXTERNALLY	93	105
			INCREASE IN LIQUID ASSETS	43	513

Balance Sheet		1988	1987			1988	1987
ASSETS				LIABILITIES AND EQUITY CAPITAL			
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and bank balances		28	79	Bills payable		—	—
Bonds and other short-term placements	Note 9	2,821	2,727	Owed to suppliers		479	321
Bills receivable from customers		—	6	Tax debts		138	225
Bills receivable from subsidiaries		57	330	Accrued expenses and prepaid income		536	470
Other receivables from subsidiaries		759	860	Short-term loans	Note 17	1,385	1,994
Other customer receivables		516	468	Other current liabilities to subsidiaries		945	82
Prepaid expenses and accrued income		141	101	Other current liabilities to others	Note 16	403	421
Other current receivables		648	220			<u>3,886</u>	<u>3,513</u>
Inventories		2,204	1,886				
		<u>7,174</u>	<u>6,677</u>				
BLOCKED ACCOUNTS FOR FUND ALLOCATIONS				LONG-TERM LIABILITIES			
	Note 10	—	6	Long-term loans	Note 17	619	667
				Provision for pensions	Note 18	902	818
				Liabilities to subsidiaries		9	9
				Other long-term liabilities		303	138
						<u>1,833</u>	<u>1,632</u>
FIXED ASSETS				CONVERTIBLE BOND LOAN			
Shares and participations in subsidiaries	Note 11	2,128	1,892		Note 26	84	142
Shares and participations in other companies	Note 11	432	370				
Receivables from subsidiaries		386	117				
Other long-term receivables	Note 12	75	625				
Intangible assets	Note 13	—	1				
Construction in progress		127	74				
Machinery and equipment	Note 14	1,164	1,142				
Land and buildings	Note 14	640	649				
		<u>4,952</u>	<u>4,870</u>				
TOTAL ASSETS		12,126	11,553				
Assets pledged	Note 15	1,056	1,054				
						<u>3,530</u>	<u>3,503</u>
				EQUITY CAPITAL	Note 25		
				Restricted equity capital:			
				Share capital (53,592,184 shares of SEK 25 nominal)	Note 26	1,340	1,313
				Statutory capital reserve		154	56
						<u>1,494</u>	<u>1,369</u>
				Unrestricted equity capital:			
				Retained earnings		1,095	643
				Net profit		204	751
						<u>1,299</u>	<u>1,394</u>
				Total equity capital		2,793	2,763
				TOTAL LIABILITIES AND EQUITY CAPITAL		12,126	11,553
				Contingent liabilities	Note 27	281	388

Accounting principles

GENERAL

In these financial statements, Sandvik follows in all essentials the guidelines promulgated by the IASC and, for internationally active enterprises, by the OECD.

REVISED ACCOUNTING PRINCIPLES

In the main, the accounting principles are unchanged from the previous year, but they have been revised in the following respects:

- The employee bonus (including social-welfare costs) for employees in Sweden, which used to be entered below the profit after financial earnings and expenses but above the profit before appropriations, is now entered among operating costs.
- The classification of the equity capital of the Group as restricted or unrestricted has been changed, one result of this being that payment restrictions and the net effect of any coupon taxes are recognized and operate as limitations on the unrestricted capital.
- The monetary/non-monetary method has been introduced for the majority of the smaller foreign companies of the Group that operate in high-inflation countries. Their accounts used to be translated into Swedish kronor by the current-rate method based on local inflation-adjusted accounting. The monetary/non-monetary method was already in use for the larger foreign countries operating in high-inflation countries.

The figures for 1987 and earlier years and the quarterly figures given in the Report of the Directors have been recalculated insofar as concerns the treatment of employee bonus. The effects on equity capital stemming from the altered classification as regards restricted and unrestricted equity capital and from the extended use of the monetary/non-monetary method are recognized in the form of a once-for-all adjustment on 1 Jan. 1988 and are specified in Note 25, Change in equity capital, Group, on p. 26.

CONSOLIDATED ACCOUNTING

The Accounts cover the Parent Company and those companies in which the Parent Company has more than half the votes or otherwise exercises a controlling influence.

The Accounts are made up by the purchase method, which implies that the profits of subsidiaries are included in the Group's equity capital only insofar as they have accrued subsequent to the acquisition of the said subsidiaries by the Group.

The premium on the shares of acquired subsidiaries (the difference that arises because the price paid for them is greater than the acquired company's equity capital including a due proportion of untaxed reserves) is apportioned between fixed assets and goodwill. The premium on fixed assets is written off as described below under the heading "Fixed Assets". Goodwill is written off at the rate of at least 10% a year.

A discount on the shares of acquired companies (the difference that arises because the price paid for them is less than the acquired company's equity capital including a due proportion of untaxed reserves), so-called badwill, is carried on the Balance Sheet as a liability and is extinguished according to a plan drawn up in each specific case.

The balance sheets and income statements of the foreign subsidiary companies were translated into Swedish kronor in accordance with IAS 21 (International Accounting Standard 21, Accounting for the Effects of Changes in Foreign Exchange Rates) and FAS 52 (Financial Accounting Standard No. 52, Foreign Currency Translation).

For the majority of the foreign subsidiaries the local currency is the natural currency for their cash flows, and it is therefore treated as their "functional" currency. The balance sheets of these companies are translated at the rate ruling on the date when the accounts were closed, and the income statements at the year's average rate. The difference thereby arising between the year's profit in the balance sheet and the year's profit in the income statement is shown as a separate item under equity capital. The changes in the Group's untaxed reserves and equity capital that arise from variations in the rates ruling on the balance-sheet dates as compared with those of a year earlier have been posted directly to the relevant item in the balance sheet. The year's changes are specified in the pertinent note on the Group's Balance Sheet.

For the majority of the foreign companies operating in high-inflation countries a translation into Swedish kronor was carried out by a method that measures the results largely in the same way as if the said businesses had been carried on in Sweden. This means, in essentials, that these enterprises report their operations in Swedish kronor translated by the so-called monetary/non-monetary method. The translation differences thereby arising were carried in their entirety on the Income Statement. The financially related translation differences are included in financial earnings and expenses. The trading-related translation differences are included in the costs of production, selling and administration.

In the classification of the equity capital of the Group as unrestricted or restricted, unrestricted capital has been taken to be the capital that is available for distribution as dividend by the individual company, provided that the company's equity capital in the Group is positive. The amount classified as unrestricted capital is never more than the company's equity capital in the Group. In assessing distributability, payment restrictions have been taken into account and a deduction has been made for the net effect of any coupon taxes. The remaining equity capital constitutes restricted capital.

Companies that were acquired in the course of the year are recognized in the Income Statement only for the period subsequent to the date of acquisition. Companies that were sold off during the year are recognized in the Income Statement up to the date of sale. The realization effect of such sales on the Group, which is shown as a non-recurring item, is adjusted to take account of the net profit up to the date of sale.

FUNDS STATEMENT,

REPORTING ACQUISITION AND SALE OF SUBSIDIARIES

The amounts paid for the shares of acquired and sold companies are shown in the Funds Statement under the headings "Acquisition of companies" and "Sale of companies" respectively. 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 change in working capital, net investments and funds used/generated externally.

VALUATION PRINCIPLES

Receivables and liabilities in foreign currencies at Swedish and foreign Group companies

Current receivables and liabilities in foreign currencies that are directly linked to trading are translated at the individual companies using the rates of exchange ruling on the date of the Balance Sheet. In cases where currency hedges were employed, the forward rate of exchange is used. Resulting exchange gains are offset against exchange losses regardless of currency, after which any remaining exchange loss is charged to the trading profit. Should a net exchange gain arise, it is not recognized in the Accounts until it has been realized.

Long-term receivables and liabilities, and loans which in formal terms constitute short-term borrowing but in intent and effect are long-term, are entered respectively at the lower and the higher of the rates ruling on the original date of purchase and the date of the Balance Sheet. Any exchange differences arising thereupon are entered in the Income Statement under the heading "Exchange differences on loans".

Inventory

The inventory was valued at historical cost under the first-in/first-out principle, or at replacement cost, or at market value—whichever produced the lowest figure. Deductions for obsolescence were applied as appropriate.

Fixed assets

Fixed assets are shown in the Accounts after the deduction of accumulated scheduled depreciation. Scheduled depreciation charged in the industrial operations is based on the historical cost of the assets and their estimated economic lives; for machinery and equipment this means normally between five and fifteen years, for buildings between ten and fifty years, and for site improvements twenty years. Scheduled depreciation charged on the leasing business by our subsidiary company Sandvik Leasing AB is based on the commercial construction of the relevant leasing contract, which means progressive depreciation on the annuity model. The difference between book and scheduled accumulated depreciation is shown as an untaxed reserve.

Depreciation on the undepreciated part of accumulated write-ups on buildings is charged at 2% of the original write-up.

Revenue accounting and entry of profits

Sales revenues are reported at the time of delivery, less deductions for value-added tax, discounts and returns. Invoiced sales and profit arising upon long-term contracts are entered when final invoicing has been effected.

Appropriations and untaxed reserves

Tax legislation in Sweden and in some other countries allows for consolidation by allocations to untaxed reserves. Within certain limits, this enables undertakings to fund reported profits so that the latter remain in the business without being at once subject to taxation.

Of the untaxed reserves, a part may be regarded as deferred tax and a part as equity capital. If untaxed reserves are re-activated, the amount thereby returned to surplus becomes subject to income taxation.

Taxes

The various companies belonging to the Group calculate their income tax in accordance with the taxation rules applying in the countries where the profit arose. These taxes are normally based on the locally reported pre-tax profit, calculated according to accounting principles that may differ from those applied by the Group. Since these differences are allowed for in drawing up the Group Accounts, deferred taxes—so-called latent taxes—are not included in the Group's tax charge. Included in the year's taxes are foreign coupon taxes paid on share dividends received by the Parent Company or other Group companies. Deferred tax pertaining to the untaxed reserves in acquired companies is reported among long-term liabilities.

That part of the tax that is deferred in consequence of participation in net losses of partly owned limited partnerships is reserved as a tax expense and carried among long-term liabilities. Thus the deferred tax will be included in the taxes shown in the Income Statement under the heading "Estimated future taxes" but is excluded from the tax payments and the change in the interest-free long-term liabilities in the Funds Statement.

DEFINITIONS

Earnings per share

Profit after financial earnings and expenses, after deduction for estimated tax and minority interest, divided by the average number of shares outstanding for the year in question after adjustment for the 1986 bonus issue and stock split. In calculating the tax charge, the current tax rates were implemented for the various Group companies. In these calculations, due allowance was made for known tax-free revenues and tax reliefs, as also for periodization differences between the accounts of individual companies and the Group Statements. The average tax rate applying to the Group for 1988, calculated from theoretical premisses, thereupon works out at 43% (1987: 45%).

Earnings per share including holdings in associated companies

Profit after financial earnings and expenses, after deduction for estimated tax and minority interest and after an addition to allow for interest in the undistributed profits of associated companies less estimated tax, divided by the average number of shares outstanding for the year in question. See also the above definition of earnings per share.

Earnings per share after full conversion

Profit after financial earnings and expenses after re-posting interest expenses on convertible loans, after deduction for estimated tax and minority interest and after an addition to allow for interest in the undistributed profits of associated companies less estimated tax, divided by the average number of shares that would theoretically be outstanding for the year in question assuming full conversion. See also the above definition of earnings per share.

Earnings per share after payment of tax

Profit after financial earnings and expenses, after deduction for minority interest according to the Income Statement and for accrued taxes according to the Funds Statement, divided by the average number of shares outstanding for the year in question.

Adjusted equity capital

Reported equity capital plus 50% of untaxed reserves, after deduction for the minority interest therein, minus recommended dividends.

Solidity

Reported equity capital plus 50% of untaxed reserves in relation to total capital.

Venture-capital ratio

Equity capital less recommended dividend plus untaxed reserves and minority interests in relation to total capital.

Debt/equity ratio

Interest-bearing current and long-term liabilities (including pension liability) divided by reported equity capital with the addition of minority interest and 50% of untaxed reserves.

Interest coverage

Profit after financial earnings and expenses, plus interest paid and exchange differences on loans, divided by the sum of interest paid and exchange differences on loans.

Rate of capital turnover

Invoiced sales in relation to average total capital.

Return on adjusted equity capital, after taxes

Profit after financial earnings and expenses less estimated tax and minority interest as a percentage of the average equity capital including 50% of untaxed reserves after deduction for the minority interest therein, less recommended dividends.

To arrive at an approximate figure for the real return on equity capital the above-defined nominal return is reduced by the year's inflation, expressed as the change in the Swedish Consumer Price Index from the December of one year to the December of the next.

Return on investment

Profit after financial earnings and expenses plus outgoing interest and exchange differences on loans as a percentage of average total capital with short-term interest-free trading debts and 50% of untaxed reserves deducted.

Application of U.S. GAAP (AMERICAN ACCOUNTING PRINCIPLES)

The Financial Statements of the Sandvik Group have been drawn up on Swedish accounting principles. The latter differ from American accounting principles in the following—to the Sandvik Group—important respects:

Untaxed reserves

Fiscal legislation in Sweden and certain other countries permits allocations to untaxed reserves. Such allocations are not permitted under American accounting principles.

Deferred tax

According to Swedish accounting practice, no provisions are made for deferred taxes. American principles require that taxes be charged in the year to which they refer. In the following reconciliation the deferred taxes have been calculated according to the "liability method" that is currently being introduced into American accounting practice.

Writing up assets

In certain situations, Swedish accounting principles permit fixed assets to be written up to values in excess of their historical costs. This in turn affects the depreciation that is charged on the said fixed assets. Such write-ups are not permitted under American accounting principles.

Capitalization of interest expenses

American accounting principles require that interest expenses arising in connection with the financing of newly erected fixed assets be capitalized, i.e. posted to the balance sheet as an asset, and depreciated according to a schedule, whereas interest expenses incurred in financing the manufacture of products for sale must not be included in the inventory value.

Shares and participations in associated companies

In Swedish accounting practice, shares and participations are entered at their historical cost, and dividends are included in the results for the year in which they were received. In American accounting practice, shares and participations in other companies that carry voting strength in the 20–50% bracket are reported by the equity method.

Pension costs, etc.

New rules for the reporting of pension costs were introduced in the U.S. during 1986. In a comparison with Swedish practice for the reporting of Pension Registration Institute pension costs the main differences are in the choice of discounting interest and in the circumstance that the calculation of capital value is based on calculated pay at the time of retirement. Generally speaking, it is a fair surmise that the annual pension cost calculated under the American rules would be substantially less than the annual cost of the PRI plan according to Swedish practice. However, it has not proved possible to quantify the difference, and it is not included in the following reconciliation.

Entitlements that concern benefits other than pensions and that come into force at the time of retirement have so far, in line with American practice, not been carried as liabilities. It has not proved possible to quantify these entitlements and they have not been carried as liabilities in the Group's accounts either.

Various

Other areas in which the application of American accounting principles to the Sandvik Group would entail not insignificant differences are the treatment of unrealized exchange gains on loans, long-term receivables and liabilities with a return that is not in line with the market, general reservations, and minority interests.

The application of American accounting principles would entail the following approximate changes as regards the Sandvik Group's reported net profit, earnings per share and equity capital.

Amounts in SEK million, except where otherwise stated.

	1988	1987
Profit for the year according to Consolidated Income Statement.....	1,287	756
Increase/decrease in		
appropriations	462	558
deferred tax	-215	-264
write-ups	23	31
capitalization of interest expenses	14	44
interest in results of associated companies	49	9
other adjustments	12	135
Net profit as calculated on American accounting principles	1,632	1,269
Earnings per share as calculated on American accounting principles, SEK	30:65	24:30
Corresponding figure after full conversion of outstanding convertible loan, SEK	29:95	23:35
Equity capital according to Consolidated Balance Sheet	5,168	4,084
Increase/decrease in		
untaxed reserves	4,358	3,913
deferred tax	-2,116	-1,901
write-ups	-275	-293
capitalization of interest expenses	47	33
interest in results of associated companies	103	60
other adjustments	273	261
Equity capital as calculated on American accounting principles	7,558	6,157
Equity capital per share as calculated on American accounting principles, SEK	141:05	117:25

Notes to the Group's and Parent Company's Accounts

Amounts in SEK million, except where otherwise stated

NOTE 1. Subordinate companies and Parent Company

The Parent Company's business operations in Sweden are conducted largely through subordinate companies. During 1987 the companies listed below did business under their own names, but solely for the account of the Parent Company. In its Annual Accounts, the Parent Company reports all assets and liabilities and all revenues and outgoings pertaining to the subordinate operations.

Companies whose business is conducted for the account of the Parent Company: AB Bushman, Edsbyns Industri AB,

Guldsmedshytte Bruks AB, AB Sandvik Belts, AB Sandvik Central Service, AB Sandvik Coromant, AB Sandvik Hand Tools, AB Sandvik Hard Materials, AB Sandvik Information Systems, AB Sandvik International, AB Sandvik Metal Saws, AB Sandvik Rock Tools, AB Sandvik Saws and Tools, AB Sandvik Steel, AB Sandvik Öberg, AB Swedish Metal Saws, Sandvik Coromant Skandinavien AB, Sandvik Hard Materials Norden AB, Sandvik Stål Försäljnings AB, Sandvik Sågar och Verktyg Skandinavien AB.

NOTE 2. Invoiced sales and Parent Company's purchases

The amounts shown for invoiced sales include "other operating revenues" as follows:

	Group		Parent Company	
	1988	1987	1988	1987
Other operating revenues	87	28	154	108

Of the Parent Company's invoiced sales, SEK 4,396m. (3,803), i.e. 64% (64) went to Group companies. The export share was 82% (83). Of the Parent Company's purchasing, SEK 163m. (189), i.e. 6% (9), came from Group companies.

NOTE 3. Research, development and quality assurance

	Group		Parent Company	
	1988	1987	1988	1987
Costs of research and development	530	453	374	321
quality assurance	181	155	86	78
Totals	711	608	460	399

All outlays for research and development and for quality assurance are reported as costs at the time when they arise.

NOTE 4. Depreciation

GROUP	Goodwill and other intangible assets		Machinery and equipment		Industrial and residential buildings		Site improvements		Total	
	1988	1987	1988	1987	1988	1987	1988	1987	1988	1987
Scheduled depreciation	-26	-22	-488	-427	-59	-64	-1	-1	-574	-514
Depreciation above schedule	-	-	-515	-180	-23	-31	-1	1	-539	-210
Book depreciation	-26	-22	-1,003	-607	-82	-95	-2	-	-1,113	-724
whereof against reserves	-	-	-315	-294	-33	-36	-1	-	-349	-330

The difference between book and scheduled depreciation according to the 1988 Income Statement, SEK -537m., consists of depreciation above schedule SEK -539m., and re-posted overdepreciation upon disposal, SEK 2m.

PARENT COMPANY	Machinery and equipment		Industrial and residential buildings		Site improvements		Total	
	1988	1987	1988	1987	1988	1987	1988	1987
Scheduled depreciation	-199	-189	-20	-29	-1	-1	-220	-219
Depreciation above schedule	-78	-107	-4	-11	-	1	-82	-117
Book depreciation	-277	-296	-24	-40	-1	-	-302	-336
whereof against reserves	-235	-225	-14	-29	-1	-	-250	-254

NOTE 5. Interest received and paid

	Group		Parent Company	
	1988	1987	1988	1987
Interest received, gross	666	474	357	288
Correction due to translation differences	-139	-118	-	-
Interest received	527	356	357	288
Interest paid on pension liability	-101	-97	-82	-82
Other interest paid, gross	-404	-412	-215	-239
Correction due to translation differences	+10	+47	-	-
Interest paid	-495	-462	-297	-321

Correction due to translation differences refers to the elimination of inflation losses on interest-generating monetary assets and inflation gains on interest-bearing monetary debts in countries with high inflation.

NOTE 6. Exchange differences on loans

Reported under this heading are exchange differences on long-term loans and loans which in formal terms constitute short-term borrowing but in intent and effect are long-term. Other exchange differences are included in "Costs of production, selling and administration".

	Group		Parent Company	
	1988	1987	1988	1987
Change in unrealized exchange differences on loans	36	-46	46	-46
Exchange differences on loans, realized in connection with amortizations	29	49	29	49
	65	3	75	3

NOTE 7. Result excluding minority interest but including interest in profits of associated companies

This calculation includes the following associated companies: AN-SAB AB (50%), Avesta Sandvik Tube AB (25%), Balzers Sandvik Coating AB (49%), Devillé S.A. (35%), Diamant Boart Stratabit S.A. (50%), Eurotungstène Poudre S.A. (49%), Fagersta-Seco AB (50%), Fagersta Stainless AB (50%), Munkfors Tråd AB (50%), Rolltech International AB (50%), Titan (Taiwan) Pty. Ltd. (50%), Uddeholm Strip Steel AB (50%).

	Group	
	1988	1987
Profit after financial earnings and expenses	2,812	1,871
Minority interest therein	-13	-9
Re-posting of dividend from associated companies	-4	-1
Interest in profits of associated companies	97	23
	2,892	1,884

NOTE 8. Non-recurring earnings and expenses

	Group		Parent Company	
	1988	1987	1988	1987
Non-recurring earnings				
Capital gain on sale of companies	8	7	-	8
Capital gain on sale of real estate	8	41	-	41
Sundry items	-	7	1	-
	16	55	1	49

	Group		Parent Company	
	1988	1987	1988	1987
Non-recurring expenses				
Writedown on shares and other participations	-68	-10	-52	-10
Capital loss on sale of shares	-	-	-92	-
Capital loss on sale of real estate	-5	-	-1	-
Sundry items	-	-23	-	-
	-73	-33	-145	-10

NOTE 9. Bonds and other short-term placements

	Group		Parent Company	
	1988	1987	1988	1987
Bonds and other securities	914	1,177	861	1,054
Short-term placements	2,315	2,208	1,960	1,673
Totals	3,229	3,385	2,821	2,727

At the end of 1988 Sandvik AB had interest-arbitrage deals outstanding to the value of SEK 328m. (559). Of this amount, SEK 292m. (486) pertained to the Parent Company. These items have been reported net.

NOTE 10. Blocked accounts for fund allocations

	Group		Parent Company	
	1988	1987	1988	1987
Blocked accounts with the Riksbank for special investment reserves	11	3	-	-
for development reserves	2	14	-	6
Other blocked accounts	2	2	-	-
Totals	15	19	-	6

NOTE 11. Shares and other participations

The Group's and the Parent Company's holdings of shares and other interest at the end of 1988 are set forth in the specification on p. 28-30.

NOTE 12. Other long-term receivables

	Group		Parent Company	
	1988	1987	1988	1987
Advances to suppliers	3	4	2	3
Liquidity account with the Riksbank ..	56	-	26	-
Promissory note pertaining to 1983 sale of Krångede shares	-	547	-	547
Other receivables	221	182	47	75
Totals	280	733	75	625

The promissory note pertaining to the 1983 sale of the shares in Krångede AB falls due on 29 Dec. 1989, for which reason it was reclassified as a current receivable on 31 Dec. 1988.

NOTE 13. Goodwill and other intangible assets

	Group		Parent Company	
	1988	1987	1988	1987
Patents and other intangible assets	45	29	-	1
Goodwill	116	94	-	-
Totals	161	123	-	1

NOTE 14. Fixed assets

Machinery, equipment, buildings, land, site improvements and agricultural and forest properties are entered at their net value after scheduled depreciation and after accumulated write-ups not yet written off. The accumulated excess depreciation is entered among the untaxed reserves under the heading "Accumulated depreciation above schedule".

GROUP	Machinery and equipment		Industrial and residential buildings		Agricultural and forest properties		Land and site improvements	
	1988	1987	1988	1987	1988	1987	1988	1987
	Historical cost	7,412	5,723	1,744	1,751	1	1	194
Accumulated scheduled depreciation	-3,728	-3,494	-737	-744	-	-	-13	-14
Scheduled remaining values	3,684	2,229	1,007	1,007	1	1	181	174
Accumulated write-ups not yet written off	-	-	120	123	10	10	116	116
Remaining values	3,684	2,229	1,127	1,130	11	11	297	290
Accumulated depreciation above schedule	-1,712	-1,199	-208	-191	-	-	-18	-17
Book values	1,972	1,030	919	939	11	11	279	273
Assessed valuations ¹	-	-	1,154	1,340	11	11	184	126

¹ The figures apply to the Swedish part of the Group. The book value of real estate held by foreign subsidiaries amounted to SEK 681m. (663).

PARENT COMPANY

PARENT COMPANY	Machinery and equipment		Industrial and residential buildings		Agricultural and forest properties		Land and site improvements	
	1988	1987	1988	1987	1988	1987	1988	1987
	Historical cost	2,936	2,827	696	683	1	1	39
Accumulated scheduled depreciation	-1,772	-1,685	-332	-313	-	-	-10	-9
Scheduled remaining values	1,164	1,142	364	370	1	1	29	29
Accumulated write-ups not yet written off	-	-	120	123	10	10	116	116
Remaining values	1,164	1,142	484	493	11	11	145	145
Accumulated excess depreciation	-1,099	-1,021	-146	-145	-	-	-17	-17
Book values	65	121	338	348	11	11	128	128
Assessed valuations ²	-	-	811	1,191	11	11	117	106

² Under current regulations the assessed valuation of industrial buildings includes industrial equipment.

NOTE 15. Assets pledged

	Group		Parent Company	
	1988	1987	1988	1987
Real-estate mortgages	714	738	621	622
Chattel mortgages	580	746	435	432
Totals	1,294	1,484	1,056	1,054

Additionally, receivables concerning interest-arbitrage deals have been pledged. See Note 9.

NOTE 16. Other current liabilities

	Group		Parent Company	
	1988	1987	1988	1987
Advances from customers	52	57	2	4
Other current liabilities	868	875	401	417
Totals	920	932	403	421

NOTE 17. Loans

	Group		Parent Company	
	1988	1987	1988	1987
Short-term loans				
Euro Commercial Paper and Euronotes	966	927	543	927
Amortizations due within one year on long-term loans	183	284	85	192
Other short-term loans	1,729	1,520	757	875
Total short-term loans	2,878	2,731	1,385	1,994
Long-term loans				
Bond loans	318	349	301	333
Debenture loans	30	37	10	15
Other loans	1,733	754	308	319
Total long-term loans	2,081	1,140	619	667
Totals, all loans	4,959	3,871	2,004	2,661

The Parent Company's long-term borrowing, including loans which in formal terms constitute short-term borrowing but in intent and effect are long-term, and the 1989 amortizations break down as follows among the major currencies (amounts in millions). The amounts are stated in the currency in which Sandvik runs a potential currency risk.

Currency	1988	1987
Swedish kronor	225	190
U.S. dollars	88	111
West German marks	84	84
British pounds	21	22
French francs	225	215
Swiss francs	59	61
Luxembourg francs	600	525
Loan amortizations		
Loan amortizations by the Parent Company, required to accommodate agreed maturities per loan agreement (incl. renewal of short-term borrowings as they fall due), are tabulated below:		
	1988	1987
Within one year	1,385	1,994
Year 2	269	74
3	26	279
4	186	27
5	90	229
Thereafter	48	58
	2,004	2,661

NOTE 18. Provision for pensions

	Group		Parent Company	
	1988	1987	1988	1987
For Pension Registration				
Institute pensions	919	829	848	764
For other pensions	221	200	54	54
Totals	1,140	1,029	902	818

NOTE 19. Accumulated depreciation above schedule

	GROUP				PARENT COMPANY			
	Machin- ery and equipment	Indust- rial and residential buildings	Site improve- ments	Total	Machin- ery and equipment	Indust- rial and residential buildings	Site improve- ments	Total
Reported at end of 1987	1,199	191	17	1,407	1,021	145	17	1,183
Change due to revised conversion rates 1988	—	-3	—	-3	—	—	—	—
1988 depreciation above schedule	515	23	1	539	78	4	—	82
Depreciation on write-up	—	-3	—	-3	—	-3	—	-3
Re-posted overdepreciation upon disposal	-2	—	—	-2	—	—	—	—
Reported at end of 1988	1,712	208	18	1,938	1,099	146	17	1,262

NOTE 20. Inventory reserve

	Group	Parent Company
Reported at end of 1987	1,082	949
Change due to revised conversion rates 1988	-7	—
Change during 1988	233	217
Reported at end of 1988	1,308	1,166
Inventory reserve as percentage of inventory value at end of 1988	27	53

NOTE 21. Investment and development reserves

	GROUP			PARENT COMPANY		
	General invest- ment reserves	Develop- ment reserves	Total	General invest- ment reserve	Develop- ment reserve	Total
Reported at end of 1987	1,277	27	1,304	1,085	19	1,104
Change due to revised conversion rates 1988	-1	—	-1	—	—	—
Add:						
Appropriations during 1988	20	—	20	18	—	18
Less:						
Applied to investment in						
machinery and equipment	-310	-5	-315	-231	-5	-236
industrial and residential buildings	-33	—	-33	-14	—	-14
site improvements	-1	—	-1	—	—	—
For overheads	-1	-14	-15	—	-9	-9
Net change reported in Income Statement	-325	-19	-344	-227	-14	-241
Reported at end of 1988	951	8	959	858	5	863

NOTE 22. Other untaxed reserves

	Group	Parent Company
Exchange-risk reserve, financial placements:		
Reported at end of 1987	52	52
Dissolution 1988	-14	-14
Reported at end of 1988	38	38
Other untaxed reserves:		
Reported at end of 1987	68	—
Change due to revised conversion rates 1988 ..	-3	—
Allocation 1988	50	9
Reported at end of 1988	115	9

NOTE 23. Internal-profit reserve

PARENT COMPANY

The internal-profit reserve of Sandvik AB constitutes the difference between selling prices and Sandvik AB's aggregate costs for the goods sold pertaining to those products, supplied by Sandvik AB, that on the day of the Balance Sheet are still held in stock by foreign subsidiary companies, after a deduction to allow for inventory writedowns applied by the subsidiary companies to the said products.

NOTE 24. Minority interest in untaxed reserves and capital shares in associated companies

The minority interest in untaxed reserves totals SEK 15m. (16).

The Group's capital shares in associated companies are worth SEK 329m. (277), which exceeds the book value by SEK 103m. (60). For this purpose the capital shares have been valued according to what is known as the equity method, which means that they comprise Sandvik's interest in equity capital and the equity-capital part of untaxed reserves, along with adjustment for remaining goodwill and reservation for unrealized internal profits.

This calculation covers the following associated companies: AN-SAB AB (50%), Avesta Sandvik Tube AB (25%), Balzers Sandvik Coating AB (49%), Devillé S.A. (35%), Diamant Boart Stratabit S.A. (50%), Eurotungstène Poudre S.A. (49%), Fagersta-Seco AB (50%), Fagersta Stainless AB (50%), Munkfors Tråd AB (50%), Rolltech International AB (50%), Titan (Taiwan) Pty. Ltd. (50%), Uddeholm Strip Steel AB (50%).

NOTE 25. Change in equity capital

GROUP	Share capital	Restricted reserves	Unrestricted reserves	Translation difference	Group net profit for the year	Total
Reported at end of 1987	1,313	783	1,228	4	756	4,084
Change due to altered demarcation between unrestricted and restricted capital	—	-135	135	—	—	—
Change due to extension of monetary/non-monetary method to further units in high-inflation countries	—	13	-9	—	—	4
Change due to revised conversion rates 1988	—	-36	1	-2	-15	-52
Carry-over of 1987 surplus and translation difference	—	—	743	-2	-741	—
Re-apportionment between unrestricted and restricted reserves	—	300	-300	—	—	—
New issues due to conversion	27	23	—	—	—	50
Change due to write-up of fixed assets	—	10	—	—	—	10
Change due to acquisition and consolidation of formerly part-owned companies	—	1	15	—	—	16
Dividend	—	—	-224	—	—	-224
Group net profit 1988	—	—	—	-7	1,287	1,280
Reported at end of 1988	1,340	959	1,589	-7	1,287	5,168

Out of the unrestricted equity capital, reported in the Group Balance Sheet at SEK 2,869m., it is recommended by the boards of the companies that a total of SEK 68m. be appropriated to restricted reserves.

Particulars of share capital and conversion loans will be found in Note 26 below.

PARENT COMPANY	Share capital	Statutory capital reserve	Retained earnings	Net profit for the year	Total
Reported at end of 1987	1,313	56	643	751	2,763
Carry-over of 1987 surplus	—	—	751	-751	—
Allocation to statutory capital reserve	—	75	-75	—	—
New issues due to conversion	27	23	—	—	50
Dividend	—	—	-224	—	-224
Net profit for 1988	—	—	—	204	204
Reported at end of 1988	1,340	154	1,095	204	2,793

NOTE 26. Share capital

SHARE CAPITAL AND NUMBER OF SHARES

	1988	1987
"A" Restricted	41,170,069	41,170,069
"A" Unrestricted	675,094	681,508
"B" Unrestricted	11,747,021	10,666,801
	53,592,184	52,518,378

A restricted share may not be acquired by foreign nationals nor by certain legal persons, as specified in the Articles of Association, that are open to foreign influence. An unrestricted share, on the other hand, may be acquired by anybody. The "A" shares each carry one vote, whereas the "B" shares each carry one-tenth of a vote.

The Sandvik share is quoted on the Stockholm and London ("B" unrestricted) Stock Exchanges. It can also be traded in the U.S. by way of American Depositary Receipts (ADR).

At the 1986 A.G.M. it was resolved to invite holders of unrestricted "A" shares to exchange them for unrestricted "B" shares. This offer, which was originally valid until 15 May 1987, was prolonged to 15 May 1988. By that date 974,778 shares had been exchanged (6,414 of them in 1988), which was equivalent to 59% of the original number of outstanding unrestricted "A" shares.

The number of shares entitled to dividend for 1988 works out at 53,599,278. It exceeds the number given above for 31 Dec. in consequence of conversions during the period 1 Jan.—20 Feb. 1989.

CONVERTIBLE LOANS

In 1977 the Company took up a convertible loan of U.S.\$35m. carrying interest at 6 1/4%, which was convertible between 2 January 1978 and 8 March 1988, both dates inclusive. At the current conversion rate, one bond of U.S.\$ 1,000 nominal was exchangeable for 126.6284 Sandvik "B" shares. By the end of the conversion period, bonds to an amount of U.S.\$34,946,000 had been converted. The conversions during 1988 had the effect of increasing the share capital by SEK 21,089,550 and the number of "B" shares outstanding by 843,582.

In 1985 the Company took up a convertible debenture loan of SEK 102.8m. at 12% interest. This loan, which was addressed to all the employees of the Sandvik Group, can be converted between 1 March 1988 and 15 March 1992, both dates inclusive. The convertible bonds have a face value of SEK 425 and integral multiples thereof. The conversion price, following the bonus issue and stock split of 1987, is SEK 79:50, and conversion is effected into "B" shares. Conversions effected during 1988 raised the share capital by SEK 5,755,600 and the number of "B" shares by 230,224. Full conversion of the loan would increase the number of "B" shares by 1,061,931 as compared with the situation on 31 Dec. 1988. The share capital would increase by SEK 26,548,275.

Full conversion of outstanding convertible loans would bring the number of shares to 54,654,115.

See also the section dealing with the Sandvik share on p. 36, which covers price movements, data per share, share ownership, etc.

NOTE 27. Contingent liabilities

	Group		Parent Company	
	1988	1987	1988	1987
Bills discounted	158	133	—	—
Pension commitments over and above those entered under pension liabilities (capitalized value)	4	4	1	1
Other surety undertakings and contingent liabilities	168	259	280	387
Totals	330	396	281	388
whereof for subsidiaries			155	180

Personnel

PERSONNEL COSTS, SEK M.

	Group		Parent Company and subordinate companies	
	1988	1987	1988	1987
Wages, salaries and emoluments:				
Directors				
in Sweden	16	14	13	12
outside Sweden	62	61	-	-
Other employees				
in Sweden	1,493	1,399	1,316	1,246
outside Sweden	2,160	1,742	4	7
Totals	3,731	3,216	1,333	1,265
Other personnel costs	1,343	1,174	675	623
Employee bonus (incl. social welfare expenses)	66	24	66	24
Totals	5,140	4,414	2,074	1,912

AVERAGE NUMBER OF EMPLOYEES

	Group		Parent Company and subordinate companies	
	1988	1987	1988	1987
In Sweden	10,315	10,384	9,119	9,276
Outside Sweden	15,865	13,996	46	47
Totals	26,180	24,380	9,165	9,323

AVERAGE NUMBER OF EMPLOYEES¹ OUTSIDE SWEDEN BROKEN DOWN BY COUNTRIES

	Number of employees		Number of employees	
	1988	1987	1988	1987
The Parent Company and subordinate companies				
Austria	4	5		
China	8	6		
Pakistan	6	5		
Soviet Union	6	6		
U.S.A	1	5		
Other countries ²	20	23		
Outside Sweden totals	45	50		
The Group outside Sweden				
Argentina	145	146		
Australia	428	315		
Austria	115	114		
Belgium	90	96		
Brazil	1,141	1,153		
Canada	402	305		
Chile	39	30		
China	8	6		
Colombia	49	43		
Denmark	341	215		
Finland	104	101		
France	1,676	1,864		
Haiti	59	68		
Hongkong	15	15		
India	1,217	1,232		
Indonesia	11	13		
Ireland	9	9		
Italy	920	855		
Japan	443	487		
Kenya	14	15		
Malaysia	34	35		
Mexico	521	480		
Netherlands	175	169		
New Zealand	33	34		
Norway	46	49		
Pakistan			6	5
Peru			46	46
Philippines			32	34
Poland			6	5
Portugal			225	216
Singapore			67	60
South Afrika			508	538
South Korea			48	42
Soviet Union			6	6
Spain			368	367
Switzerland			142	134
Taiwan			14	13
Thailand			9	8
Turkey			8	6
United Kingdom			2,119	1,791
U.S.A			3,181	2,399
Venezuela			32	32
West Germany			1,086	1,071
Zambia			42	42
Zimbabwe			45	45
Other countries ²			15	14
			16,040	14,723

¹ The average number of employees as given here is the average of the number on 31 Dec. 1988 and the number on 31 Dec. 1987. 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.

² Countries with an average lower than five.

Wages, salaries and emoluments outside Sweden have been converted to Swedish kronor using the mean exchange rate for the year. The statutory specification of the average number of employees per commune in Sweden and wages and salaries per country outside Sweden has been sent to the National Swedish Patent and Registration Office. This specification is available from Sandvik's Head Office in Sandviken.

Shareholdings

SANDVIK AB's HOLDINGS OF SHARES IN SUBSIDIARY COMPANIES		Number of shares	Percentage holding	Nominal value		Book value SEK '000	
According to the Balance Sheet of 31 Dec. 1988				local currency unit '000	Nominal value SEK '000		
SWEDEN	AB Bushman ¹	500	100	SEK	50	50	50
	Danit Hårdmetall AB	500	100	SEK	50	50	441
	AB Dubbman	500	100	SEK	50	50	—
	Edmeston AB	40,000	100	SEK	4,000	4,000	3,000
	Edsbyns Industri AB ¹	50,000	100	SEK	5,000	5,000	8,925
	Fragoso AB	500	100	SEK	50	50	55
	Fagersta Energetics AB	500	100	SEK	50	50	655
	Metals & Powders Trollhättan AB	30,000	100	SEK	3,000	3,000	12,830
	Guldmedshytte Bruks AB ¹	500	100	SEK	50	50	—
	Sandvik Hard Materials Norden AB ¹	500	100	SEK	50	50	—
	Kapman AB	80,000	100	SEK	8,000	8,000	—
	AB Sandvik Belts ¹	500	100	SEK	50	50	50
	AB Sandvik Central Service ¹	500	100	SEK	50	50	—
	AB Sandvik Coromant ¹	500	100	SEK	50	50	—
	Sandvik Coromant Skandinavien AB ¹	50,000	100	SEK	5,000	5,000	5,000
	AB Sandvik Electronics ¹	60	100	SEK	60	60	—
	Sandvik Far East Ltd. AB	10,000	100	SEK	10,000	10,000	10,000
	AB Sandvik Hand Tools ¹	500	100	SEK	50	50	—
	AB Sandvik Hard Materials ¹	500	100	SEK	50	50	—
	AB Sandvik Information Systems ¹	500	100	SEK	50	50	—
	AB Sandvik International ¹	500	100	SEK	50	50	—
	AB Sandvik Metal Saws ¹	500	100	SEK	50	50	—
	AB Sandvik Process Systems	25,000	100	SEK	2,500	2,500	2,500
	AB Sandvik Rock Tools ¹	500	100	SEK	50	50	—
	AB Sandvik Saws and Tools ¹	500	100	SEK	50	50	—
	AB Sandvik Steel ¹	500	100	SEK	50	50	—
	AB Sandvik Öberg ¹	500	100	SEK	50	50	—
	Sandvik Fastighetsförvaltning AB	500	100	SEK	50	50	—
	Sandvik Stål Försäljnings AB ¹	500	100	SEK	50	50	—
	Sandvik Sågar och Verktyg Skandinavien AB ¹	500	100	SEK	50	50	—
	Sandviks Aktiesparfondförvaltning AB	2,500	100	SEK	250	250	250
	Sandvikens Brukspersonals Byggnadsförening upa.	—	100	SEK	2,941	2,941	—
	Seco Tools AB ²	14,200,000	100	SEK	71,000	71,000	403,147
	Steebide International AB	15,000	100	SEK	1,500	1,500	1,000
	AB Swedish Metal Saws ¹	500	100	SEK	50	50	50
	Sandvik Leasing AB	100,000	100	SEK	10,000	10,000	19,950
	Trellbo AB	500	100	SEK	50	50	—
	Dormant companies, wholly owned ³	—	—	SEK	850	850	400
ARGENTINA	Sandvik Argentina S.A.C. e I.	565,614	100	ARA	566	266	5,000
BRAZIL	Sandvik do Brasil S.A.	201,126,367	73.6 ⁴	BRC	1,206,758	10,016	40,712
CANADA	Sandco Ltd.	205	100	CAD	2	10	—
CHILE	Sandvik Chilena Ltda.	—	100	CLP	8,256	1,554	—
COLOMBIA	Sandvik Colombia S.A.	28,733	94 ⁴	COP	28,733	517	—
COSTA RICA	Sandvik Centroamérica S.A.	330	100	CRC	330	25	—
INDIA	Sandvik Asia Ltd.	316,800	55	INR	31,680	12,846	5,500
JAPAN	Sandvik K.K.	2,600,000	100	JPY	2,600,000	127,075	100,000
KENYA	Sandvik Kenya Ltd.	34,999	96	KES	700	231	—
KOREA	Sandvik Manufacturing Co. Ltd.	72,480	100	KRW	724,800	6,453	5,443
MALAYSIA	Sandvik Malaysia Sdn. Bhd.	7,500	100	MYR	750	1,695	1,442
MEXICO	Sandvik Mexicana S.A. de C.V.	130,071,370	100	MXP	13,007,137	32,518	32,996
	H.K. Porter de México C.A.	802,496	100	MXP	802,496	2,006	—
MOROCCO	Sandvik Maroc S.A.	93	100	MAD	9	8	—
NETHERLANDS	Sandvik Nederland B.V.	—	100	NLG	6,000	18,303	10,000
	Sandvik Finance B.V.	—	100	NLG	18,000	55,818	1,313,714
PERU	Sandvik del Perú S.A.	4,223,986	100	PEI	4,224	76	—
	Barrenas Sandvik Andina S.A.	15,980,517	68	PEI	15,981	288	2,200
PHILIPPINES	Sandvik Philippines, Inc.	81,065	100	PHP	8,107	2,310	2,500
PORTUGAL	Sandvik Portuguesa Lda.	—	100	PTE	99,800	4,100	4,461
	Sandvik Obergue-Limas e Mecânica, Lda	—	100	PTE	99,995	4,135	8,770
SPAIN	Minas y Metalurgia Española S.A.	60,000	50 ⁴	ESP	60,000	3,228	3,700
SWITZERLAND	Sanfinanz A.G.	997	100	CHF	200	814	735
THAILAND	Sandvik Thailand Ltd.	744	99	THB	504	123	—
TURKEY	Sandvik Istanbul Tiçaret Ltd. Şti	14,925	100	TRL	14,925	51	—
U.K.	Madison Tools Ltd.	274,999	100	GBP	275	3,036	6,000

SANDVIK AB's HOLDINGS OF SHARES IN SUBSIDIARY COMPANIES		Number of shares	Percentage holding	Nominal value local currency unit '000	Nominal value SEK '000	Book value SEK '000	
According to the Balance Sheet of 31 Dec. 1988							
VENEZUELA	Sandvik Venezuela C.A.	6,250	100	VEB	6,250	1,031	—
WEST GERMANY	Sandvik Automation GmbH	—	100	DEM	4,000	13,782	10,000
	Sandvik GmbH	—	100	DEM	35,000	120,593	100,000
	Sandvik Process Systems GmbH	—	38 ⁴	DEM	1,558	5,368	3,420
ZAMBIA	Sandvik (Zambia) Ltd.	499,999	100	ZMK	1,000	640	—
ZIMBABWE	Sandvik (Pvt) Ltd.	233,677	100	ZWD	467	1,494	3,269
							2,128,165

¹ Subordinate company

² Seco Tools has subsidiaries in 15 countries

³ A specification of dormant companies is available from Sandvik's Head Office in Sandviken.

⁴ Remaining shares are held by other Group companies

CHANGE IN BOOK VALUE OF SHARES AND PARTICIPATIONS IN SUBSIDIARIES, SEK '000

Reported at end of 1987	1,891,753	
Acquisitions	41,150	
New issues	1,473,275	
Divestitures	-1,277,894	
Writedown of share capital	-119	
Reported at end of 1988	2,128,165	

Certain write-ups and writedowns, which cancel each other out, have been applied within the item "Shares and participations in subsidiaries".

SANDVIK AB's SHARES IN OTHER COMPANIES

According to the Balance Sheet of 31 Dec. 1988

ASSOCIATED COMPANIES

		Number of shares	Percentage holding	Nominal value local currency unit '000	Nominal value SEK '000	Book value SEK '000
SWEDEN	ANSAB AB	5,000	50	SEK	500	500
	Avesta Sandvik Tube AB	150,000	25	SEK	15,000	15,000
	Balzers Sandvik Coating AB	28,420	49	SEK	2,842	2,842
	Fagersta Stainless AB	400,000	50	SEK	40,000	40,000
	Munkfors Tråd AB	7,500	50	SEK	750	750
	Rolltech International AB	250	50	SEK	25	25
	Svenska Charterintressenter AB	330	33	SEK	17	17
	Uddeholm Strip Steel AB	28,409	50	SEK	28,409	28,409
BELGIUM	Diamant Boart Stratabit S.A.	574,575	50	BEC	574,575	100,436
FRANCE	Eurotungstène Poudre S.A.	112,353	49	FRF	11,235	11,859
	Devillé S.A.	14,000	35	FRF	7,000	7,392
YUGOSLAVIA	WO Tools-PP-Corun		30			18,926
						240,060

OTHER COMPANIES

ASEA-Cerama AB	1,585	12	SEK	793	793	2,048
Bruksinvest AB	24,000	15	SEK	2,400	2,400	15,000
Nemo Offshore AB & Co KB ¹					186	186
Nord Bay KB ¹					442	442
Prevas AB	18,000	18	SEK	1,690	1,690	1,690
AB Programator	1,000,000	7.6	SEK	75,750	75,750	75,750
Svenska Charterintressenter KB ¹					34,943	34,943
Stena Danicas Intressenter KB ¹					22,837	22,837
Swedish Aircraft ONE KB ¹					17,657	17,657
Swedish Airlease KB ¹					20,891	20,891
Swedish Liners KB ¹					—	—
Miscellaneous						52
						431,555

¹ Sandvik AB is a limited partner

CHANGE IN BOOK VALUE OF SHARES IN ASSOCIATED AND OTHER COMPANIES, SEK '000

Reported at end of 1987	370,481	
Acquisitions	114,216	
New issues	3,600	
Writedowns	-56,741	
Reported at end of 1988	431,556	

The writedowns were charged against the year's results and are entered under the heading "Non-recurring expenses".

THE GROUP'S SHAREHOLDINGS

		Number	Percentage	Nominal value	Nominal	Book
According to the Balance Sheet of 31 Dec. 1988		of shares	holding	local currency	value	value
				unit '000	SEK '000	SEK '000
ASSOCIATED COMPANIES						
SWEDEN	Property-managing limited partnerships ¹			SEK	120,270	120,270
	Fagersta-Seco AB	5,000	50	SEK	500	500
TAIWAN	Titan (Taiwan) Pty. Ltd.	53,122	50	TWD	21,249	4,568
TURKEY	Seco Kestak A.S.	40,000	49	TRL	40,000	167
U.K.	Metinox Steels Ltd.	2,505	25.1	GBP	3	28
						128,549
OTHER COMPANIES						
SWEDEN	KB Carabela I ¹			SEK	17,446	17,446
	Epsilon Air Services KB ¹			SEK	984	984
	KB Metroflyg ¹			SEK	41,141	41,141
	Mega Carrier KB ¹			SEK	49,675	49,675
	Skandinaviska Luftfartsintressenter Nr 3 KB ¹ ..			SEK	14,774	14,774
BRAZIL	Sociedade Tecnica de Ferramentas Ltda.	320,000	20	BRC	320	3
SPAIN	Industrias Bonastre, S.A.	2,500	10	ESP	5,000	269
U.K.	R.O. Speciality Metals Ltd.	180,000	15	GBP	180	1,987
U.S.A.	Harvest Ventures Limited Partnership		30	USD	1,000	6,120
	Other shares and participations					11,605
						275,163
Sandvik AB's holdings						431,556
The Group's holdings						706,719

¹ The Sandvik companies are involved as limited partners.

SHARES IN SIGNIFICANT OPERATIVE GROUP COMPANIES OWNED INDIRECTLY BY SANDVIK AB AT 31 DEC. 1988

		Group holding, %			Group holding, %
AUSTRALIA	Sandvik Australia Pty. Ltd.	100	SINGAPORE	Mission Valve and Pump Co. Ltd.	100
	Sandvik Hard Materials Pty. Ltd.	100		Sandvik South East Asia Private Ltd. ...	100
AUSTRIA	Sandvik Process Systems Ges.m.b.H. ...	100		Sandvik Trading Singapore Pte. Ltd. ...	100
BELGIUM	Sandvik S.A. (Belgium) N.V.	100	SOUTH AFRICA	Sandvik (Pty) Ltd.	100
CANADA	Sandvik Canada Inc.	100	SOUTH KOREA	Sandvik Korea Co. Ltd.	49
	Sandvik Process Systems Canada Ltd. .	100	SPAIN	Resistel S.A.	100
	Sandvik Tube Inc.	100		Sandvik Española S.A.	100
DENMARK	A/S Sandviken.	100	SWITZERLAND	Sandvik A.G.	100
	Danit A/S	100		Santrade Ltd.	100
FINLAND	Suomen Sandvik Oy.	100	TAIWAN	Sandvik Taiwan Ltd.	100
FRANCE	Frodistri S.A.	100	THAILAND	Svenska Trading Co. Ltd.	49
	Le Burin S.A.	100	U.K.	Anglo Scandia Ltd.	100
	Safety S.A.	100		Carboloy Ltd.	100
	Sandvik Coromant & Cie	100		Osprey Metals Ltd.	100
	Sandvik Hard Materials S.N.C.	100		Sandvik Band Saws Ltd.	100
	Sandvik Process Systems S.A.	100		Sandvik Hard Materials Ltd.	100
	Sandvik S.A.	100		Sandvik Ltd.	100
	Sandvik Saws and Tools & Cie	100		Sandvik Rock Tools Ltd.	100
	Sandvik Steel & Cie	100		Sandvik Process Systems Ltd.	100
	Sandvik Tobler S.A.	100		Sterling Tubes Ltd.	100
	Ugicarb Morgon S.A.	100		Wimet Wear Parts Ltd.	100
HAITI	Windsor Caribe S.A.	100	U.S.A.	Sandvik, Inc.	100
HONGKONG	Sandvik Hongkong Ltd.	100		Sandvik Latin America, Inc.	100
IRELAND	Sandvik Ireland Ltd.	100		Sandvik Process Systems, Inc.	100
ITALY	Sandvik Italia S.p.A.	100		Sandvik Rhenium Alloys, Inc.	100
	Sandvik Process Systems S.p.A.	100		Sandvik Rock Tools, Inc.	100
MEXICO	Sandvik de México S.A. de C.V.	100		Sandvik Special Metals Corp.	100
	Tungstemex S.A. de C.V.	100		The Windsor Corporation of America, Inc.	100
NETHERLANDS	Sandvik Process Systems B.V.	100	WEST GERMANY	Sandvik Hard Materials GmbH	100
NEW ZEALAND	Sandvik New Zealand Ltd.	100		Sandvik Kosta GmbH	100
NORWAY	Sandvik Norge A/S.	100	ZIMBABWE	Sancor (Private) Ltd.	100
	Stavangerbor A/S	95			

Appropriation of Profits

RECOMMENDED APPROPRIATION OF PROFITS

The Board and the President recommend that

the surplus brought forward from the previous year	1,095,248,670
together with the profit for 1988	203,678,215
	<hr/>
	SEK 1,298,926,885

be appropriated as follows:

a dividend of SEK 6:- per share	321,595,668
an appropriation to the statutory capital reserve	20,368,000
carried forward to the next account	956,963,217
	<hr/>
	SEK 1,298,926,885

It should be noted that the Board has resolved to propose to the Annual General Meeting that the shareholders of Sandvik AB be offered rights to buy shares in Seco Tools AB.

Sandviken, 9 March 1989

Percy Barnevik
Chairman

Bo Boström

Birger Löwhagen

Lars Malmros

Hans-Eric Ovin

Thore Svärdström

Sven Ågrup

Per-Olof Eriksson
President

Our Audit Report was submitted on 22 March 1989

Bo Fridman
Authorized Public Accountant

Nils-Axel Frisk

Audit Report

TO THE SHAREHOLDERS OF SANDVIK AKTIEBOLAG

We have examined the Annual Report and the Company's and the Group's statements of account and their bookkeeping documents, and have reviewed the administration of the Company's affairs by the Board and the President during the year 1988. Our examination has been conducted in accordance with recognized auditing practice.

THE PARENT COMPANY

The statements of account have been drawn up in accordance with the Companies Act.

We recommend

that the Income Statement and the Balance Sheet be adopted,
that the surplus be applied as proposed in the Directors' Report, and
that the conduct of the Company's affairs by the Board and the President during the fiscal year be approved.

THE GROUP

The consolidated statements of account have been prepared in conformity with the Companies Act.

We recommend that the Consolidated Income Statement and the Consolidated Balance Sheet be adopted.

Sandviken, 22 March 1989

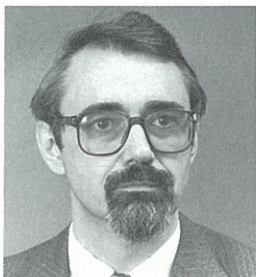
Bo Fridman
Authorized Public Accountant

Nils-Axel Frisk

Directors and auditors

BOARD OF DIRECTORS

Members



Percy Barnevik, Chairman, Zurich, b. 1941.
President and Chief Executive Officer of
ABB Asea Brown Boveri Ltd.
Director of Fläkt AB, Skanska AB and Investment AB
Providentia.
Director of Sandvik AB since 1983.
Sandvik shares: 10,000



Hans-Eric Ovin, Malmö, b. 1928.
Chairman of the Boards of Investment AB Argentus, Bra
Böcker AB, HDF-Bolagen AB, Scan Coin AB, AB Stafsjö
Bruk and Stena AB. Director of AGA AB, Stena Metall AB
and AB Volvo Penta.
Board appointment with Kjell and Märtha Beijer's
Foundation.
Director of Sandvik AB since 1976.



Birger Löwhagen, Malmö, b. 1924.
Senior Vice President of Skanska AB.
Director of Sandvik AB since 1983.
Sandvik shares: 2,034



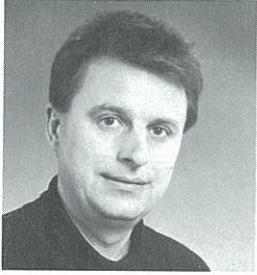
Sven Ågrup, Lidingö, b. 1930.
Chairman of the Board of AGA AB.
Director of AB Volvo, Telefon AB L M Ericsson, Svenska
Handelsbanken, Investment AB Asken, AB Opus and Nobel
Industrier Sverige AB.
Director of Sandvik AB since 1983.
Sandvik shares: 2,000



Lars Malmros, Hon. Doctor of Technology, Deurle,
Belgium, b. 1927.
President of Techman NV, Deurle, Belgium.
Chairman of the Board of the Swedish Institute of
Production Engineering Research. Director of Perstorp AB,
Kalmar Industries AB, VME Group NV, IBEL, Antwerp,
and BBL, Ghent.
Director of Sandvik AB since 1983.



Per-Olof Eriksson, Sandviken, b. 1938.
President and Chief Executive Officer of Sandvik AB.
Director of the Federation of Swedish Industries, Svenska
Handelsbanken, SSAB Swedish Steel Corporation and AB
SKF.
Director of Sandvik AB since 1984.
Sandvik shares: 30,433,
whereof 28,333 in the form of convertible debentures

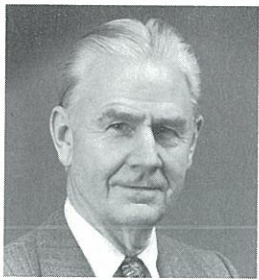


Bo Boström, Åshammar, b. 1949.
President, AB Sandvik Steel Union Committee, Metal Workers' Union.
Director of Sandvik AB since 1988.
(Employee representative)



Thore Svärdröm, Sandviken, b. 1924.
President, Sandvik AB Union Committee, Industrial Salaried Employees' Association.
Director of Sandvik AB since 1986.
(Employee representative)
Sandvik shares: 33

Deputy Members



Lennart Ollén, Sandviken, b. 1921.
Director of Sandvik AB since 1979.



Stig Lennart Nyström, Sandviken, b. 1944.
President, Sandvik AB Union Committee, Foremen's and Supervisors' Association.
Director of Sandvik AB since 1986.
(Employee representative)
Sandvik shares: 449,
whereof 427 in the form of convertible debentures



Eino Honkamäki, Gimo, b. 1943.
Director of Sandvik AB since 1974.
(Employee representative)
Sandvik shares: 664,
whereof 642 in the form of convertible debentures

AUDITORS

Bo Fridman, Stockholm,
Authorized Public Accountant
Nils-Axel Frisk, Stockholm
Magnus Schiller, Stockholm
Bernhard Öhrn, Stockholm,
Authorized Public Accountant

Deputies

GROUP EXECUTIVE MANAGEMENT AND GROUP STAFF UNITS

Per-Olof Eriksson, President and Chief Executive Officer

Ebbe Bengtsson, Executive Vice President

Controller:	Thomas Hjelm
Finance:	Olle Cederlund
Internal Auditing:	Carl Martinsson
Legal Affairs:	Malcolm Falkman
Market and Technology:	Olle Hedebrant
Market Communication:	Björn Jonson
Personnel:	Lennart Höög
Public Affairs:	Carl Lindberg
Research and Development:	Bertil Aronsson
Taxes and Risk Management:	Stig Åhlander

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 concern, is available to customers in fifty countries through one hundred and sixty companies. To ensure that customers will receive fast deliveries of products according to national standard, many of these units have their own production facilities. In some countries, domestic manufacture is a precondition of staying in business. The schedule below lists the more important operating business units.

EUROPE

AUSTRIA

Sandvik in Austria Ges.m.b.H., Vienna
Manager: Helmut Stix

Sandvik Process Systems Ges.m.b.H., Vienna
Manager: Otto Weinhold

BELGIUM

Sandvik S.A. (Belgium) N.V., Brussels
Manager: Jean Beitz

Diamant Boart Stratabit S.A., Brussels (50%)
Manager: Staffan Paues

BULGARIA

AB Sandvik International Representative Office, Sofia
Manager: Robert Hartinger

CZECHOSLOVAKIA

AB Sandvik International Representative Office Prague
Manager: Otto Kames

DENMARK

A/S Sandviken, Copenhagen
Manager: Jens Aage Jensen

Danit A/S, Espergaerde
Manager: Roland Setterberg

FEDERAL REPUBLIC OF GERMANY

Sandvik GmbH, Düsseldorf
Manager: Johan Sörensen

Sandvik Coromant, Düsseldorf
Manager: Johan Sörensen

Sandvik Rock Tools, Düsseldorf
Manager: Ulrich Fezer

Sandvik Hard Materials GmbH, Cologne
Manager: Manfred Winterhager

Sandvik Steel, Düsseldorf
Manager: Roland Grosse

Sandvik Saws and Tools, Düsseldorf
Manager: Björn Hedlund

Sandvik Process Systems GmbH, Fellbach

Manager: Håkan Olofsson

Sandvik Automation GmbH, Viernheim
Manager: Arne Cederqvist

Sandvik Kosta GmbH, Renningen
Manager: Johann Taps

FINLAND

Suomen Sandvik Oy, Helsinki
Manager: Erik Nylund

FRANCE

Sandvik S.A., Orléans
Manager: André Baron

Sandvik Coromant & Cie, Orléans
Manager: André Baron

Sandvik Rock Tools, Nanterre
Manager: Jean-Louis Meyer

Sandvik Hard Materials Trading, Nanterre
Manager: Christian Philipson

Sandvik Hard Materials S.A., Epinouze
Manager: Hans Gass

Morgon S.A., Bourg-en-Bresse
Manager: Pascal Destremau

Sandvik Tobler S.A., Paris
Manager: Jacques Garih

Sandvik Aciers, Orléans
Manager: Udo Vogt

Sandvik Outillage, Orléans
Manager: Jean Brisson

Sandvik Process Systems S.A., Paris
Manager: Jean Benko

GERMAN DEMOCRATIC REPUBLIC
AB Sandvik International Representative Office, Berlin, GDR
Manager: Göran Wretås

HUNGARY

AB Sandvik International Representative Office, Budapest
Manager: Johann Sulak

IRELAND

Sandvik Ireland Limited, Dublin
Manager: H. William Beck

ITALY

Sandvik Italia S.p.A., Milan
Manager: Jan Eric Sandgren

Sandvik Process Systems S.p.A., Milan
Manager: Pier Giorgio Bottacin

NETHERLANDS

Sandvik Nederland B.V., Schiedam
Manager: Louis Cuppens

Sandvik Process Systems B.V., Raamsdonksveer
Manager: Antoine Sluysmans

NORWAY

Sandvik Norge A/S, Oslo
Manager: Jon Ambur

POLAND

Sandvik Biuro w Warszawie, Warsaw
Manager: Boguslaw Swiecki

PORTUGAL

Sandvik Portuguesa Lda, Lisbon
Manager: Berndt Wijkander

ROMANIA

AB Sandvik International Representative Office, Bucharest

Manager: Edith Neuhardt

SOVIET UNION

Sandvik Moscow Representative Office, Moscow

Manager: Olof Axell

SPAIN

Sandvik Española S.A., Madrid
Manager: Bo Linell

SWEDEN

Sandvik AB, Sandviken
Group CEO: Per-Olof Eriksson

AB Sandvik Coromant, Sandviken
Manager: Clas Åke Hedström

AB Sandvik Rock Tools, Sandviken
Manager: Lars Östholm

AB Sandvik Hard Materials, Stockholm
Manager: Lars Wahlqvist

AB Sandvik Steel, Sandviken
Manager: Gunnar Björklund

AB Sandvik Saws and Tools, Sandviken
Manager: Göran Gezelius

AB Sandvik International, Sandviken
Manager: Hans Åhman

Sandvik Coromant Skandinavien AB, Spånga
Manager: Sven Flodmark

Sandvik Hard Materials Norden AB, Örebro

Manager: Staffan Frondell

Sandvik Stål Försäljnings AB, Spånga
Manager: Åke Landblom

Sandvik Sågar och Verktyg Skandinavien AB, Spånga

Manager: Thomas Lindstedt

AB Sandvik Belts, Sandviken
Manager: Rolf Hemlin

AB Sandvik Process Systems, Sandviken

Manager: Svante Lindholm

Guldsmedshytte Bruks AB, Storå
Manager: Åke Martinson

Edsbyns Industri AB, Edsbyn
Manager: Sture Lestander

AB Sandvik Hand Tools, Bollnäs
Manager: Åke Sundby

AB Sandvik Metal Saws, Lidköping
Manager: Staffan Larsson

AB Sandvik Öberg, Eskilstuna
Manager: Sven Wigerblad

AB Sandvik Central Service, Sandviken
Manager: Börje Andréasson

AB Sandvik Information Systems, Sandviken

Manager: Peter Lundh

SWITZERLAND

Sandvik AG, Zurich

Manager: Mikael Mott

Santrade Ltd., Lucerne

Manager: Mikael Mott

UNITED KINGDOM
Sandvik Ltd., Birmingham
Manager: David Shail

Sandvik Coromant U.K., Birmingham
Manager: David Shail

Sandvik Rock Tools Ltd., Nuneaton
Manager: Anders Hågglund

Sandvik Hard Materials Ltd., Coventry
Manager: Malcolm Clegg

Sandvik Steel U.K., Birmingham
Manager: Ludvig Åkerhielm

Sterling Tubes Ltd., Walsall
Manager: W.M. Good

Sandvik Saws and Tools U.K., Birmingham
Manager: Dianne Thompson

Sandvik Process Systems Ltd., Birmingham
Manager: Martin Samuelson

YUGOSLAVIA
AB Sandvik International, Beograd
Manager: Nils Östblom

Sandvik Process Systems, Inc., Totowa, NJ
Manager: Edward Scott

Diamant Boart Stratabit, Inc., Houston, TX (50%)
Manager: Ed Williams

Sandvik Latin America, Inc., Coral Gables, FL
Manager: Bertil von Essen

LATIN AMERICA

ARGENTINA
Sandvik Argentina S.A.C. e I., Buenos Aires
Manager: Björn Karlsson

BRAZIL
Sandvik do Brasil S.A., São Paulo
Manager: Giancarlo Tazzioli

CHILE
Sandvik Chilena Ltda, Santiago
Manager: Jorge Durney

COLOMBIA
Sandvik Colombia S.A., Bogotá
Manager: Victor Manuel Angel

CUBA
AB Sandvik International Representative Office, Havana
Manager: Gunnel Källström

MEXICO
Sandvik de México S.A. de C.V., Mexico City
Manager: Björn von Malmborg

Tungstemex S.A. de C.V., Mexico City
Manager: Ruben Hernandez

HK Porter Company de México S.A., Mexico City
Manager: Jorge Rodino

PERU
Sandvik del Perú S.A., Lima
Manager: Hanns Knorr

Barrenas Sandvik Andina S.A., Arequipa
Manager: Hanns Knorr

VENEZUELA
Sandvik Venezuela C.A., Caracas
Manager: Faustino Menendez

NORTH AMERICA

CANADA
Sandvik Canada, Inc., Mississauga, Ont.
Manager: Gunnar Anell

Sandvik Rock Tools North America Co., Montreal, Que.
Manager: Gunnar Anell

Sandvik Process Systems Canada Ltd., Guelph, Ont.
Manager: Colin Crane

Sandvik Tube, Inc., Arnprior, Ont.
Manager: Tom Moylan

UNITED STATES
Sandvik, Inc., Fair Lawn, NJ
Manager: Bert A. Fernaeus
Bengt Nelson (1 October 1989)

Sandvik Coromant Company, Fair Lawn, NJ
Manager: Bert A. Fernaeus
James Baker (15 May 1989)

Sandvik Rock Tools, Inc., Bristol, VA
Manager: Bruce Belden

Sandvik Mission Drilling Products Co., Houston, TX
Manager: A.R. Schultz

Sandvik Steel Company, Scranton, PA
Manager: Bengt Nelson
Edward Nuzzaci (1 October 1989)

Sandvik Special Metals Corp., Kennewick, WA
Manager: Eugene R. Astley

Sandvik Saws and Tools Company, Scranton, PA
Manager: Bill Lavelle

Windsor Corp., Milan, TN
Manager: Jim Puza

AFRICA

ALGERIA
Sandvik S.A. Bureau de Liaison, Algiers
Manager: Michel Brand

KENYA
Sandvik Kenya Ltd., Nairobi
Manager: Jan Nord

SOUTH AFRICA
Sandvik (Pty) Ltd., Benoni
Manager: Tore Lundberg

ZAMBIA
Sandvik (Zambia) Ltd., Ndola
Manager: Hans Lundström

ZIMBABWE
Sandvik (Pvt) Ltd., Harare
Manager: James C. MacGregor-Sim

ASIA

CHINA
AB Sandvik International Representative Office, Beijing
Manager: George Jones

HONGKONG
Sandvik Hongkong Ltd., Hongkong
Manager: Warren Rees

INDIA
Sandvik Asia Ltd., Poona
Manager: Wilhelm Sebardt

JAPAN
Sandvik K.K., Kobe
Manager: Anders Wallin

Steebide International AB, Tokyo
Manager: Isao Yamamoto

KOREA
Sandvik Korea Co. Ltd., Seoul (49%)
Manager: Rolf Palmén

MALAYSIA
Sandvik Malaysia Sdn. Bhd., Kuala Lumpur
Manager: Krister Brobeck

PAKISTAN
AB Sandvik International Liaison Office, Karachi
Manager: Ahmad Shabir

PHILIPPINES
Sandvik Philippines, Inc., Manila
Manager: Tan Kian Hoe

SINGAPORE
Sandvik South East Asia Pte. Ltd., Singapore
Manager: Åke Friberg

Sandvik Trading Singapore Pte. Ltd., Singapore
Manager: Åke Friberg

TAIWAN
Sandvik Taiwan Ltd., Taipei
Manager: Wendell Wang

THAILAND
Sandvik Thailand Ltd., Bangkok
Manager: Anucha Kittanamongkolchai

TURKEY
Sandvik Istanbul Ticaret Ltd., Şti., Istanbul
Manager: Sune Persson

AUSTRALASIA

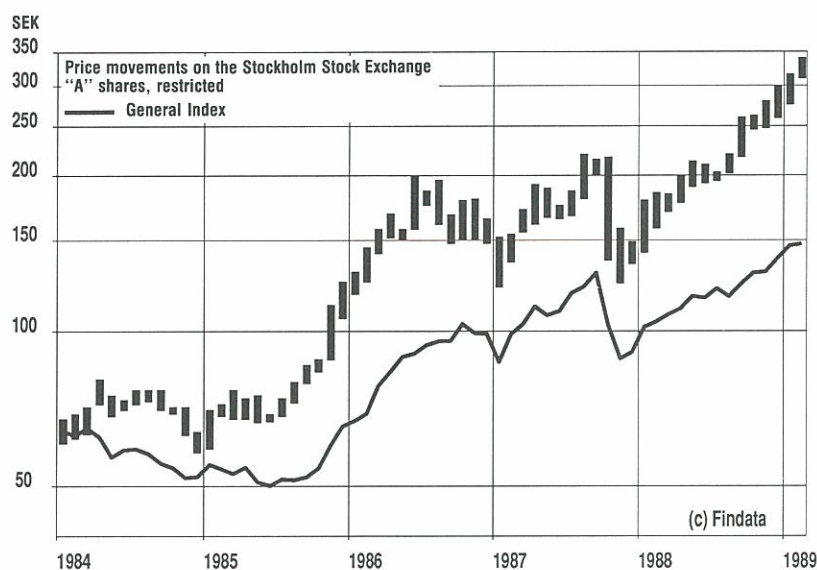
AUSTRALIA
Sandvik Australia Pty. Ltd., Sydney
Manager: Alan S. Bellis

Sandvik Hard Materials Pty. Ltd., Newcastle
Manager: Colin Waugh

NEW ZEALAND
Sandvik New Zealand Ltd., Pakuranga
Manager: Pentti Jähi

These data are valid as of April 1989.

The Sandvik share



PER-SHARE DATA¹, SEK

	1988	1987	1986	1985	1984
Earnings ²	29:80	19:60	16:30	15:40	9:70
Earnings ² incl. shares in associated companies.....	30:55	19:80	16:60	15:60	10:05
Earnings ² after full conversion.....	29:85	19:10	15:85	14:90	9:70
Earnings after payment of tax	40:80	25:90	22:30	23:15	14:10
Adjusted equity capital	130:95	110:60	95:50	82:85	67:45
Adjusted equity capital after full conversion.....	130:50	108:85	93:95	81:20	66:40
Dividend (1988: as recommended).....	6:00	4:25	3:50	2:62	1:88
Direct return ³ , %	2.1	3.0	2.3	2.2	3.1
Payout percentage ⁴	20	22	21	17	19
Quoted prices "A" restricted, year's highest.....	300	220	200	125	81
year's lowest	142	122	118	59	58
at year's end.....	292	140	150	117	60
Quoted prices "B" unrestricted, year's highest.....	299	220	205	133	82
year's lowest	143	119	124	59	58
at year's end	298	140	148	124	60
P/E ratio ⁵	9.8	7.1	9.1	7.6	6.2
Quoted price, % of adjusted equity capital ⁶	223	127	157	141	89
Average number of shares traded per day on the Stockholm Stock Exchange, "A" restricted.....	9,818	12,008	20,627	35,017	15,581
"B" unrestricted	7,455	15,128	10,555	14,166	14,753
London Stock Exchange, "B" unrestricted	14,718 ⁷				

1 The figures for 1984–1985 have been adjusted for the stock split and bonus issue of 1986

2 Earnings after estimated full taxation

3 Dividend divided by price of "A" share at year's end

4 Dividend divided by earnings per share after estimated full tax

5 Price of "A" shares at year's end in relation to earnings per share

6 Price of "A" share at year's end as percentage of adjusted equity capital per share

7 Based on the period October–December

For additional definitions, see p. 21.

THE LARGEST SHAREHOLDERS OF SANDVIK AB (MARCH 1989)

	Percentage of voting strength	Percent- age of shares
Skanska AB.....	25.4	20.8
Investment Funds of the Swedish Saving Banks.....	11.1	12.1
National Swedish Pension Insurance Fund.....	5.6	5.7
Svenska Handelsbanken's Pension Foundation.....	5.0	4.0
Swedish Staff Pension Society.....	4.9	4.3
Skandia.....	3.8	3.7
PKbanken's Investment Funds.....	2.6	2.4
AB Custos.....	2.5	2.4
Labour Market Insurance (AMF) ...	1.9	1.6
Skandinaviska Banken's Pension Foundation.....	1.9	1.5
Trygg-Hansa.....	1.5	2.1
Pension Fund SHB		
Insurance Society.....	1.3	1.0

SANDVIK AB SHARE OWNERSHIP (MARCH 1989)

Holding	Num- ber of share- hold- ers	As % of all share- holders	Total number of shares	% of share capital	Average number of shares per holder
to 500 shares	19,200	84.1	2,054,673	3.8	107
500-1,000	1,798	7.9	1,272,006	2.4	707
1,001-10,000	1,611	7.1	4,013,493	7.5	2,491
10,001-100,000	158	0.7	4,441,145	8.3	28,109
More than 100,000	54	0.2	41,817,961	78.0	774,407
	22,821	100.0	53,599,278	100.0	2,349

CONVERTIBLE LOAN

In 1985 the Company floated a convertible debenture loan of SEK 103m. at 12% interest, addressed to the employees. This loan can be converted between 1 March 1988 and 15 March 1992, both dates inclusive. Full conversion of the loan would increase the number of shares by 1,061,931, or by 2.0%, as compared with the situation on 31 Dec. 1988. The share capital would increase by SEK 27m.

See also Note 26 p. 26.

ANALYSES

The following firms have produced analyses of Sandvik during the past two years:

Aktiv Placering
Aros Fondkommission
Barclays de Zoete Wedd (UK)
Carnegie Fondkommission AB/International Limited (UK)
Enskilda Fondkommission/Securities (UK)
Goldman, Sachs & Co (UK)
James Capel & Co (UK)
Kleinwort Grieveson Securities (UK)
Handelsbanken
Hägglöf & Ponsbach Fondkommission AB
Morgan Grenfell Securities (UK)
Nordberg Capital Inc. (US)
Phillips & Drew (UK)
PKbanken
Robur Capitalförvaltning AB
Swiss Bank Corporation (Savory Milln) (UK)
Warburg Securities (UK)
Öhman Investkonsult

Annual General Meeting

The Annual General Meeting will be held at Folkets Hus in Sandviken on Thursday, 11 May 1989, at 2 p.m.

Shareholders wishing to attend the Meeting must notify the Board thereof either by letter addressed to Sandvik AB, Legal Affairs, S-81181 Sandviken, or by telephone +46 (0) 26-26 1081. Notification must reach Sandvik AB by 3 p.m. on 8 May at the latest. In order to qualify for attendance, shareholders must also have been entered in the Share Register kept by the Securities Register Centre (Värdepapperscentralen VPC AB) not later than 28 April 1989. A shareholder who has had his shares registered as held in trust ("förvaltarregistrering") must have them temporarily re-registered in his own name not later than 28 April 1989 to establish his right to attend the Meeting.

Payment of dividend

The Board and the President recommend that the Meeting declare a dividend of SEK 6:- per share for 1988.

The Board of Directors also recommend that the Meeting pass a resolution to the effect that shares in Seco Tools AB be sold to shareholders of Sandvik AB.

17 May 1989 is proposed as the "record day" ("avstämningsdag"). If this proposal is adopted by the Meeting it is expected that dividends will be ready for remittance by 24 May 1989. Dividends will be sent to those who on the record day are entered in the Share Register or in the separate List of Assignees, etc.

Dividends will be remitted from the Securities Register Centre. To facilitate the distribution, shareholders who have moved should report their change of address to their bank or to Värdepapperscentralen VPC AB, S-171 18 Solna, in good time before the record day.

Five years in brief

	1988	1987	1986	1985	1984
Invoiced sales, SEK m.	16,413	13,241	12,721	12,518	11,299
Result after financial earnings and expenses, SEK m.	2,812	1,871	1,708	1,610	1,013
Result before appropriations and taxes, SEK m.	2,755	1,893	1,678	1,609	940
Earnings per share, SEK	29:80	19:60	16:30	15:40	9:70
Dividend per share (1988: as recommended), SEK	6:00	4:25	3:50	2:62	1:88
Adjusted equity capital, SEK m.	7,018	5,809	4,978	4,248	3,455
Solidity, %	36	36	34	33	28
Venture-capital ratio, %	45	46	44	43	38
Debt/equity ratio	0.8	0.8	1.0	1.1	1.5
Interest coverage	7.5	5.1	4.4	4.6	2.2
Rate of capital turnover, %	87	82	87	93	89
Liquid assets, SEK m.	4,767	4,245	3,776	2,866	2,198
Return on adjusted equity capital after tax, %	24.7	19.0	18.3	20.5	15.4
Return on adjusted equity capital after tax, after inflation, %	17.7	13.1	14.5	14.1	6.6
Return on investment, %	25.1	21.3	21.8	21.3	19.9
Investment:					
– in property, plant and equipment, SEK m.	775	675	669	548	362
– in all, SEK m.	2,742	1,422	1,099	552	419
Cash flow, SEK m.	-686	553	1,099	1,185	1,383
Average number of employees	26,180	24,380	24,033	23,905	23,994

For definitions of the above concepts, see p. 21.

Additional per-share data will be found in the section on the Sandvik share, p. 36.

FINANCIAL INFORMATION

Results Communiqué	March	Financial information can be ordered from Sandvik AB Group Staff Public Affairs S-811 81 Sandviken Tel +46-(0)26-26 10 41
Annual Report	April	
First-Quarter Report	May	
Semi-Annual Report	August	
Third-Quarter Report	November	

