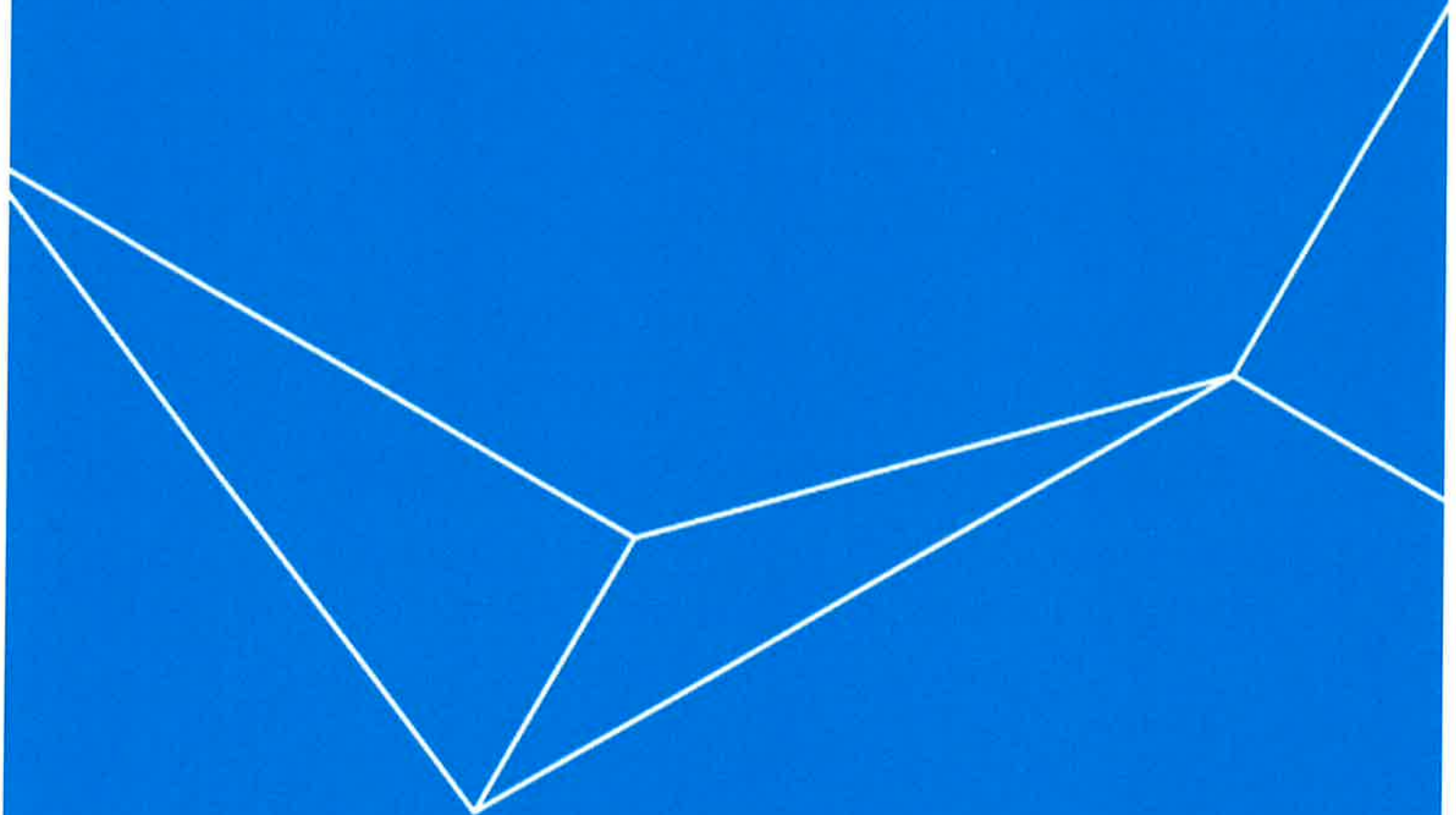




SANDVIK AUSTRALIA GROUP

2017 TAX REPORT

YEAR ENDED 31 DECEMBER 2017



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INTRODUCTION

The Sandvik Australia Group is a high-tech engineering group, with operations in Australia dating back to 1961. The Sandvik Australia Group is committed to open and honest communication on regulatory and financial disclosures and supports the introduction of the Board of Taxation's Voluntary Tax Transparency Code.

As part of the Sandvik Australia Group's commitment to transparent relations with its stakeholders, the Sandvik Australia Group is pleased to publish its second Tax Report, for the year ended 31 December 2017. This report has been prepared in accordance with the Board of Taxation's Voluntary Tax Transparency code.

The Tax Report supplements information already available to stakeholders and the broader community, providing an overview of the Sandvik Australia Group's tax profile, tax contribution and tax strategy and governance. For the year ended 31 December 2017 total taxes paid, collected and remitted by the Sandvik Australia Group to the Australian tax authorities was \$138M.

The tax contribution made by the Sandvik Australia Group is but one of many meaningful contributions made by the Group. We actively contribute to the Australian economy and the communities we work in through providing employment, purchasing local goods and services, and supporting community programs.

We welcome feedback on this report and look forward to making future contributions to the Australian community and economy.



CHRISTOPHER PARHAM

General Manager - Finance and Business Control – Sandvik Australia Group

SANDVIK AUSTRALIA GROUP OVERVIEW

The Sandvik Australia Group (as referred to in this document) is the group of Australian entities, which are members of the Sandvik Australia Holdings Pty Ltd multiple entry consolidated group, a group formed for Australian income tax purposes (refer to the “tax structure” section for further detail).

The group of Australian entities forming the Sandvik Australia Group are controlled indirectly by Sandvik AB, the listed Swedish parent of the global Sandvik Group. The global Sandvik Group is headquartered in Stockholm, Sweden and has sales in more than 150 countries.

The Sandvik Group is organised into three business areas:

SANDVIK MACHINING SOLUTIONS

A market-leading manufacturer and supplier of tools and tooling systems for advanced metal cutting.

SANDVIK MINING AND ROCK TECHNOLOGY

A leading supplier in equipment and tools, service and technical solutions for the mining industry and rock excavation within the construction industry.

SANDVIK MATERIALS TECHNOLOGY

A leading developer, manufacturer and supplier of advanced stainless steels and special alloys for the most demanding industries.



Sandvik Machining Solutions



Sandvik Mining and Rock
Technology



Sandvik Materials
Technology

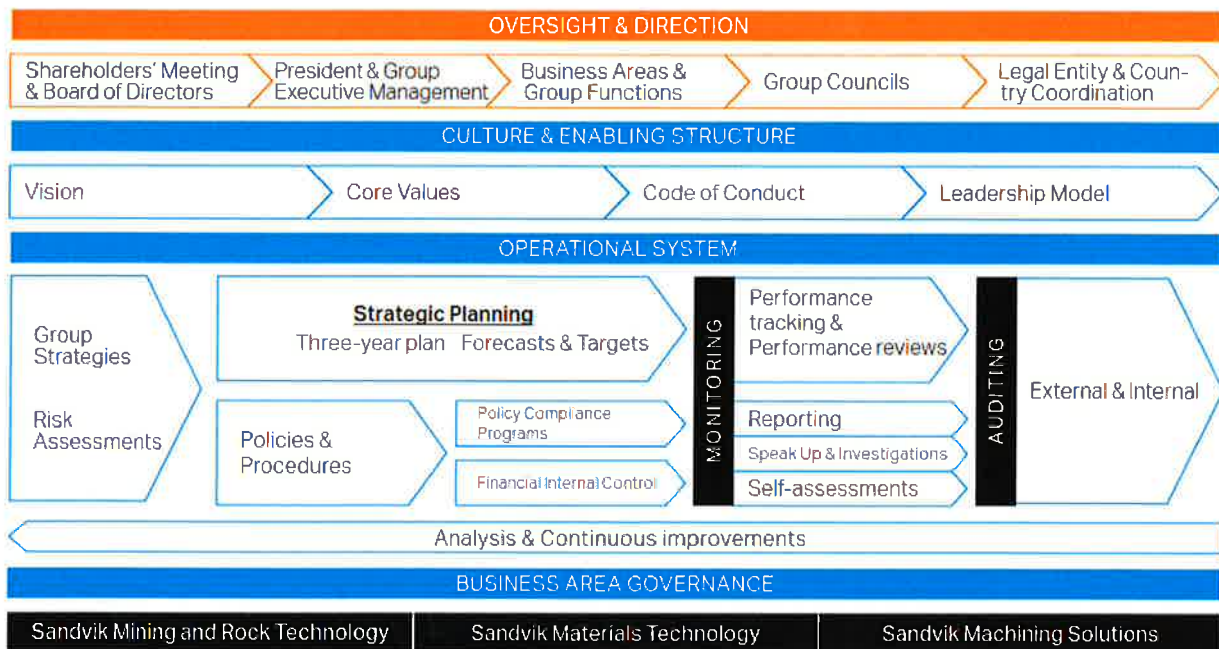
The Sandvik Australia Group is a major supplier of mining equipment and service support to the resource sectors throughout the region. Our products and services are used in surface and underground mining, bulk materials handling and transportation, as well as exploration. We are one of the largest suppliers of mining equipment.

The Sandvik Australia Group also services the construction sector, supplying a wide range of quarrying products, including drill rigs, breakers, crushers, screens, conveyors, drill consumables and turnkey plants, and hydraulic breakers and other attachments, as well as mobile crushing equipment, construction drills and tunnelling equipment.

OUR APPROACH TO TAX STRATEGY AND GOVERNANCE

The way Sandvik operates and does business is steered by Sandvik's governance framework, "The Sandvik Way" (depicted below). The Sandvik Way therefore transcends Sandvik's tax policy, tax strategy and approach to governance.

THE SANDVIK WAY



The Sandvik Group is a global business that needs to run its day to day operations in a consistent manner with a clear focus on proper governance of the business. The Sandvik Way describes the principle of how common ways of working are implemented throughout the entire organisation, starting with the Annual General Meeting (AGM) and Board of Directors and through to all Sandvik entities (including the Sandvik Australia Group) and employees.

THE SANDVIK WAY - OUR GOVERNANCE FRAMEWORK

Our operations are underpinned by the ambitions and requirements of Sandvik's vision, core values, Code of Conduct and leadership principles.

The philosophy is shared across the organisation and adopted through the direction set by the shareholders and cascaded through the Board of Directors and the senior executives.





Sandvik's business philosophy is shaped by our Vision to excel; guided by the Core Values to which we aspire that are Customer Focus, Innovation, Fair Play and Passion to Win; translated into the behaviours we outline in our Code of Conduct and motivated through the qualities outlined in Sandvik's Leadership Model.

VISION

Sandvik's vision, "We set the industry standard" means that we set the benchmark for others to follow. We will achieve this not only through technologies and expertise, but equally and importantly through our people, and the relationships we build with our customers and stakeholders. It requires a high level of innovative thinking throughout the company, across all processes, and within our operations in our day-to-day business.

Our vision supports the importance of constantly striving to be the leader in the industry and in our chosen segments.

CORE VALUES

			
CUSTOMER FOCUS	INNOVATION	FAIR PLAY	PASSION TO WIN
<p>We constantly strive to exceed our customers' expectations and enable them to excel in their business.</p> <ul style="list-style-type: none">- I ensure that my daily work adds value for our customers.- I am proactive and always have the expectations of our customers in mind.- I seek and respond to the true needs of our customers.	<p>We shape the future by creating pioneering solutions throughout our operations.</p> <ul style="list-style-type: none">- I have the courage to think in completely new ways and I embrace new perspectives.- I proactively share knowledge and experience.- I constantly seek to improve our ways of working.	<p>We conduct business in a sustainable and responsible manner.</p> <ul style="list-style-type: none">- I always act in line with our high ethical standards and put safety first.- I always show consideration for the environment and the communities in which we operate.- I care about others and build relationships based on honesty, respect and trust.	<p>We are passionate about making our company number one.</p> <ul style="list-style-type: none">- I am courageous and enjoy taking the lead.- I set ambitious targets and deliver on my promises.- I am determined to walk the extra mile.

CODE OF CONDUCT

We want to be a fair, respectful and trusted employer, partner and a good corporate citizen wherever in the world we do business. This approach has played a significant role in the success of our company globally.

Our Code of Conduct sets the principles for how we turn our vision and values into everyday behaviour to support the long-term goals of our business. It sets a high standard for business conduct, applicable to all of us, from our Board of Directors to all colleagues worldwide.

With the Code as the backbone of our operations, we can secure that we are taking the correct decisions and the right actions both as individuals and as a company.

Our ethical and responsible business practices bring several advantages. It creates solid and strong relationships with our customers built on trust and confidence. We create a sound and performance-oriented culture in our company. Taking care of our people, our business partners as well as the communities we operate in will enable us to be the industry leader.

LEADERSHIP MODEL

Leaders drive the organisation and develop teams to reach Sandvik's business objectives. The Leadership Model sets clear expectations on our leaders and acknowledges that excellent leaders are key to Sandvik's success. It rests on set capabilities that capture behaviours and driving forces necessary to secure successful leadership.

THE SANDVIK WAY - OUR FINANCE FRAMEWORK

The global Sandvik Group Finance Function is governed under a common vision and mission:

VISION

The Sandvik Global Finance Organisation protects and enhances shareholder value by acting as an expert function and by ensuring better decision making.

MISSION

By understanding the operations and business drivers, we take an active part in achieving the business objectives:

- Develop a clear vision of the future - generate energy and excitement in driving towards a common goal
- Strive to streamline, simplify and standardize the way we do business
- Effective performance management and excellent communication
- Lead and manage continuous improvement and effective change management.

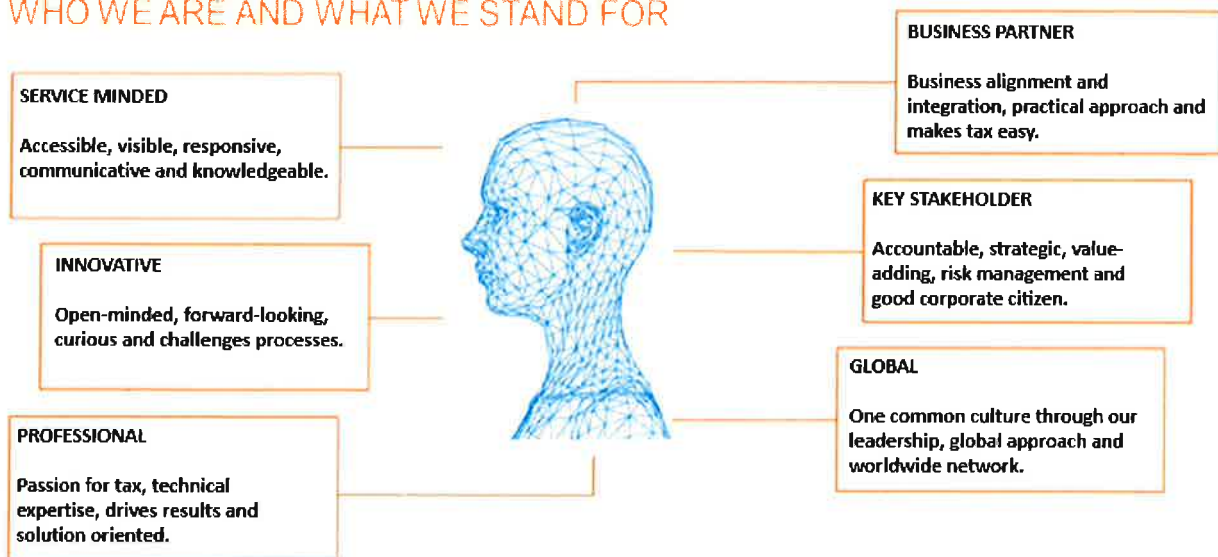
We ensure quality in reporting as well as in all other products owned and delivered by Finance.

We work to ensure that Sandvik is compliant with all relevant internal and external rules and regulations, both locally as well as on a consolidated level.

Our work is performed by highly competent staff in a diverse and dynamic work environment.

THE SANDVIK WAY - OUR TAX FRAMEWORK

WHO WE ARE AND WHAT WE STAND FOR



OUR TAX PRINCIPLES

In accordance with Sandvik's Code of Conduct, efficient and accurate tax management means that we conduct our business and supporting tax processes with demonstrable integrity in a manner that produces correct tax outcomes at accurate cost.

We are committed to our social and legal obligation to pay the correct tax in each jurisdiction, as required by country legislation.

We are also committed to the obligation to our shareholders to administer supporting tax processes as efficiently as possible and to produce efficient and correct tax outcomes.

We believe in open and transparent dialogue related to tax issues.

TAX RISK MANAGEMENT AND GOVERNANCE

The global Sandvik Group has a tax policy which has been endorsed by Sandvik AB's Board of Directors. The purpose of this policy is to ensure that the global Sandvik Group has a clear governance framework around taxes. The Tax Policy is part of The Sandvik Way and applies to all Sandvik entities (including the Sandvik Australia Group) and employees.

The key principles established by the global Sandvik Group tax policy are summarised below:

TAX PLANNING

Short term gains through aggressive planning in the area of tax may, and likely will, have long term negative consequences for Sandvik's brand, reputation and customer relationships, and should therefore be avoided. Where possible, those responsible for tax should take appropriate action to optimise the after-tax result of Sandvik's transactions by using existing incentives and reliefs.

TRANSFER PRICING

All cross border related party transactions within Sandvik shall be priced in accordance with the Arm's Length Principle as defined in the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

TAX COMPLIANCE

Sandvik has a commitment to comply with all applicable laws and regulations, including paying all tax that Sandvik is legally obliged to pay as and when it becomes payable, as well as making every effort to consider the "spirit" of these laws.

TAX AUTHORITY RELATIONS

Sandvik actively pursues collaborative relationships with tax authorities and supports initiatives to proactively discuss topics with tax authorities to obtain certainty in Sandvik's tax position. Openness, honesty and transparency are paramount in all dealings with tax authorities and other relevant governmental stakeholders.

TAX RISK MANAGEMENT

Sandvik's approach to tax risk management is to ensure that tax related risks are acceptable relative to the associated value or financial return and that, where available, further risk mitigation measures are taken in relation to significant risks where appropriate.

Consistent with Sandvik's broader risk approach, the tax risk management processes include the proactive identification, evaluation, control and monitoring of tax risks and opportunities.

The Sandvik Group tax policy is operationalised by the Australian management team and Australian tax team in managing the Sandvik Australia Group's tax affairs both at a transaction level and on a day-to-day basis. In this regard:

- The Australian tax team is comprised of qualified professionals.
- The Australian Board of Directors' oversees tax risk, tax compliance and reporting obligations. The Australian Financial Controller and Tax Manager communicates tax matters to the Board of Directors, both formally at meetings and informally.
- External tax advisors are regularly engaged to provide assurance in respect of the Sandvik Australia Group's compliance obligations and transactions.

The Sandvik Australia Group is committed to continually improving tax risk management and governance by reviewing current policies and procedures, and identifying and implementing improvements.

AUSTRALIAN TAX CONTRIBUTION

The Sandvik Australia Group is proud of the economic, fiscal and social contribution it makes within Australia through a range of taxes, duties and levies. A summary of the taxes borne and paid and taxes collected and remitted by the Sandvik Australia Group in the year ended 31 December 2017 to the Australian federal and state tax authorities is outlined in the table below.

Taxes Borne and Paid	31 December 2017 AUD (\$'000)
Income Tax	15,267
Property Taxes	414
Customs Duty	4,578
Employer/Payroll Taxes	21,783
Stamp Duty	647
Other taxes	4
Total Taxes Borne and Paid	42,694
Taxes Collected and Remitted	31 December 2017 AUD (\$'000)
Goods and Services Tax (net of recoveries)	59,427
Employer/Payroll Taxes	35,337
Withholding Taxes	735
Total Taxes Collected and Remitted	95,499
Total¹	138,192

1 Taxes paid, collected and remitted during the year ended 31 December 2017 has been determined on a cash flow basis.

INCOME TAX POSITION

TAX STRUCTURE

For Australian income tax purposes, Sandvik Australia Holdings Pty Ltd is the nominated head company of a multiple entry tax consolidated group (the Sandvik Australia Group), which comprises all the wholly owned Australian subsidiaries of Sandvik AB. The members of the Sandvik Australia Group are treated as a single taxpayer and therefore, lodge a single company tax return for income tax purposes.

INCOME TAX PROFILE

Due to prevailing business conditions within the global economy and a slowdown in the mining sector in previous years, the Sandvik Australia Group had previously recorded losses for both accounting and tax purposes. However, in the year ended 31 December 2017 there was an upturn in the mining sector resulting in profits for both accounting and tax purposes. As a result, the Sandvik Australia Group utilised some of its carry forward tax losses in the year ended 31 December 2017.

The carried forward tax losses of the Sandvik Australia Group at 31 December 2017 are summarised below:

Carried Forward Revenue Losses	31 December 2017 AUD (\$'000)
As at 31 December 2016	(159,729)
Prior Year Amendments	(1,481)
Current Year Utilisation	34,101
As at 31 December 2017	(127,109)

The Sandvik Australia Group continues to invest in research and development activities. Due to the tax loss position of the Sandvik Australia Group, the group has accumulated carried forward non-refundable research and development tax offsets of \$13.92M at 31 December 2017.

The Sandvik Australia Group is restructuring its operations to ensure its business is sustainable in the medium to long term and return the group to a profitable position. This restructure amongst other factors, is anticipated to return the Sandvik Australia Group to a taxable position within 3-5 years.

RECONCILIATION OF ACCOUNTING POSITION TO INCOME TAX POSITION

The accounting position of the Sandvik Australia Group has been determined in accordance with the Australian Accounting Standards, whereas the tax position has been determined in accordance with the Australian income tax legislation.

Outlined below is a reconciliation of:

- Accounting profit/(loss) before income tax to income tax expense/(benefit)
- Income tax expense/(benefit) to income tax payable/(loss)

Income tax expense/(benefit) is an accounting concept, which is calculated by adjusting the accounting profit/(loss) before income tax at the corporate tax rate, being 30% for the Sandvik Australia Group, by "non-temporary differences". Non-temporary differences arise due to differences between how transactions are recognised for accounting purposes and tax purposes.

Income tax expense/(benefit) does not equate to income tax payable/(loss). For any given income year, temporary differences arise due to differences in the timing of recognition of income and expenses for accounting purposes and tax purposes.

Reconciliation of Accounting Profit to Income Tax Expense	31 December 2017 AUD (\$'000)
Accounting profit/(loss) before tax	25,188
Increase/(decrease) for non-temporary differences	
Losses on divestments	10,547
Non-deductible expenses	213
Other	550
Income tax expense/(benefit)	36,497
Income tax expense/(benefit) at the statutory rate of 30%	10,949

Reconciliation of Income Tax Expense to Taxable Income	31 December 2017 AUD (\$'000)
Income tax expense/(benefit)	36,497
Increase/(decrease) for temporary differences	
Property, plant, equipment and intangibles	7,477
Provisions and accruals	(17,977)
Unrealised foreign exchange (gains)/losses	829
Research and development expenditure	969
Prepayments	239
Carried forward tax losses deducted	(34,101)
Other	6,522
Taxable income/(loss) (A)	456
Income tax payable/(loss) (A * statutory rate 30%)	137

EFFECTIVE TAX RATE

Effective Tax Rate	31 December 2017 AUD (\$'000)
Accounting profit/(loss) before tax (B)	25,188
Income tax expense/(benefit) at the statutory rate of 30% (C)	10,949
Effective tax rate (C/B) ¹	43.47%

1 The deviation of the effective tax rate compared to the statutory tax rate primarily relates to the business divestments during the year ended 31 December 2017.

INTERNATIONAL RELATED PARTY DEALINGS

In order to streamline and optimise Sandvik's global operations, whilst serving the needs of the group as efficiently as possible, some of the functions of Sandvik's global operations are centralised. Accordingly, the Sandvik Australia Group and its international related parties routinely deal with each other.

The international related party dealings of the Sandvik Australia Group, are undertaken on an arm's length basis in accordance with Organisation of Economic Co-operation and Development (OECD) guidelines and local legislation in order to ensure that the correct pricing model is deployed and that a correct amount of tax is paid.

During the year ended 31 December 2017 the Sandvik Australia Group reached an agreement with the Australian Taxation Office (ATO) to adjust its transfer pricing outcomes for the 2009 to 2013 financial years.

Further, given the somewhat subjective nature of transfer pricing, and in keeping with Sandvik's undertaking to proactively and transparently engage with tax authorities, the Sandvik Australia Group has negotiated an Advance Pricing Arrangement (APA) with the ATO. This APA provides certainty of tax outcomes in respect of international related party dealings for all subsequent financial years until 2021. The Sandvik Australia Group will continue to work collaboratively with the ATO to ensure that it is paying its fair share of tax in Australia.

During the year ended 31 December 2017, the material international related party dealings impacting the taxable income of the Sandvik Australia Group are outlined in the following table.

Related party transaction	Why it is in the best interests of the Sandvik Australia Group
<p>Purchase and sale of raw materials, other production inputs and finished products</p>	<p>Raw materials, other production inputs and finished products are acquired and manufactured in various locations globally, including Australia. However, it is inefficient for each country within the global Sandvik Group to acquire inputs and manufacture the same goods. Accordingly, raw materials, other production inputs and finished products are routinely purchased and sold between group members, including the Sandvik Australia Group.</p>

Related party transaction	Why it is in the best interests of the Sandvik Australia Group
<p>Provision and receipt of services including technical services, software and IT services, sales and marketing services and corporate support services</p>	<p>A number of shared services functions are performed centrally by the global Sandvik Group for the benefit of group members. The Sandvik Australia Group is both a provider and recipient of shared services. This is more efficient than if each country performed the same functions globally.</p>

Financing

The Sandvik Australia Group receives debt funding from the global Sandvik Group's financing company located in Sweden. Obtaining debt funding via the global Sandvik Group's financing company allows the Sandvik Australia Group to achieve a lower cost of debt, than would be achievable from an Australian third party lender.