Sandvik

Annual Report 2011

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Report on the third quarter	25 October 2012
Report on the fourth quarter	28 January 2013

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A new strategic direction involving a comprehensive change program and a new Group Executive Management team was presented in the autumn 2011.

Read more on page 4

The new strategy will generate higher growth and profitability. The measures being implemented will ensure a more target-oriented Sandvik and strengthen all business areas.

Read more on page 5

Sandvik's invoiced sales amounted to 94,084 MSEK (82,654) and the Group's result after financial items totaled 8,179 MSEK (9,412).

Read more on page 15

In addition to information in the Annual Report, the Sandvik Group is presented in *The Sandvik World*, a publication distributed to shareholders in April 2012. On top of descriptions of operations, financial key figures, goals, business concept, strategy and more, *The Sandvik World* provides an in-depth look at a number of key areas. More information is provided at www.sandvik.com.

Year in brief

Financial data

- Order intake +12%*, 99,078 MSEK.
- Invoiced sales +20%*, 94,084 MSEK.
- Result after financial items, 8,179 MSEK.
- Earnings per share, 4.63 SEK.
- Proposed dividend, 3.25 SEK.

* At fixed exchange rates for comparable units.

Operational information

- Highest order intake and invoiced sales in the company's history.
- New strategy and organization.
- New President and Group Executive Management team.
- High nonrecurring costs due to restructuring.

Key figures

MSEK	**2011**	2010	2009	2008	2007	Change 2011/2010, %
Order intake	99,078	93,285	71,285	92,610	92,059	+12*
Invoiced sales	94,084	82,654	71,937	92,654	86,338	+20*
Result after financial items	8,179	9,412	–3,472	10,577	12,997	–13
Earnings per share, SEK	4.63	5.59	–2.24	6.30	7.65	–17
Return on capital employed, %	16.0	17.4	–1.3	19.9	27.0	—
Return on shareholders' equity, %	17.3	22.1	–7.9	24.8	34.4	—
Cash flow from operations	7,764	12,149	11,792	9,335	5,076	–36
Number of employees at 31 December	50,030	47,064	44,355	50,028	47,123	+6

* At fixed exchange rates for comparable units.

This is Sandvik

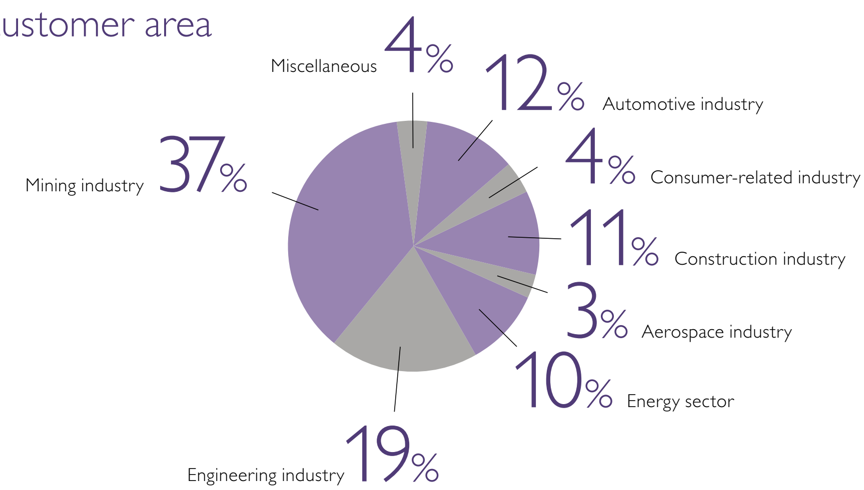
Sandvik is a high-technology engineering Group with advanced products and world-leading positions in selected areas. In 2011, the Group had about 50,000 employees and sales exceeding 94 billion SEK in more than 130 countries.

Sandvik's operations are based on unique expertise in materials technology and extensive insight into customer processes. This combination has provided world-leading positions in the following primary areas:

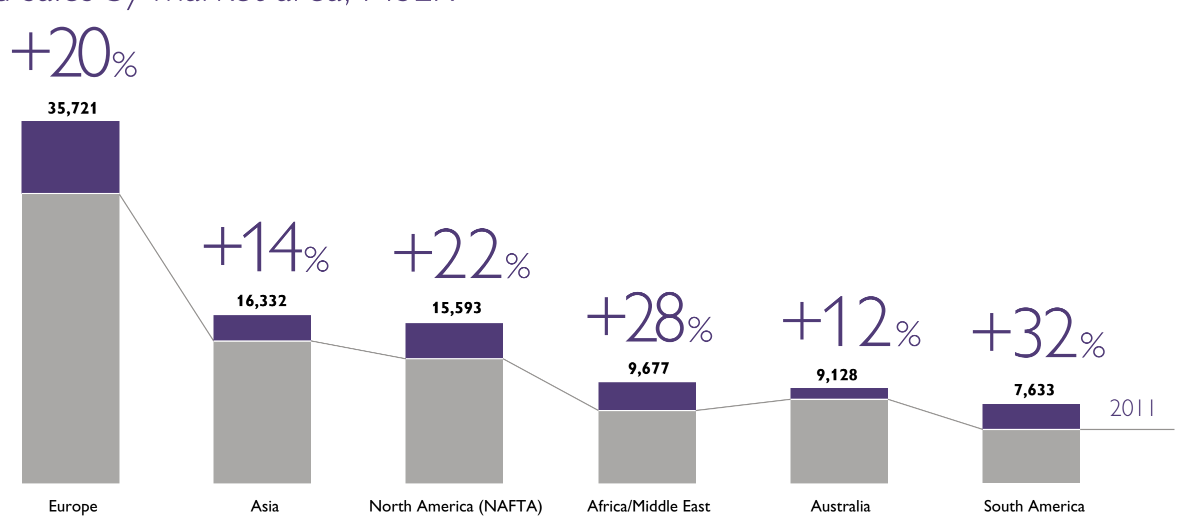
- *Tools for metal cutting in cemented carbide and high-speed steel as well as components in cemented carbide and other hard materials.*
- *Equipment and tools for the mining and construction industries.*
- *High value-added products in advanced stainless steels, special alloys, titanium, metallic and ceramic resistance materials as well as process systems.*

Sandvik is focused on sustained growth and establishing market-leading positions in selected niches. To create the basis for sustainable development, operations are divided into business areas whose responsibilities include research and development, production, marketing and sales of their particular products.

Invoiced sales by customer area



Invoiced sales by market area, MSEK



Change at fixed exchange rates for comparable units 2011/2010, %

Sandvik Tooling

Sandvik Tooling focuses primarily on tools and tooling systems for metal cutting.

Products are sold under a number of international brands, such as Sandvik, Sandvik Coromant, Walter, Safety, Dormer, Diamond Innovations and Wolfram.

Offering

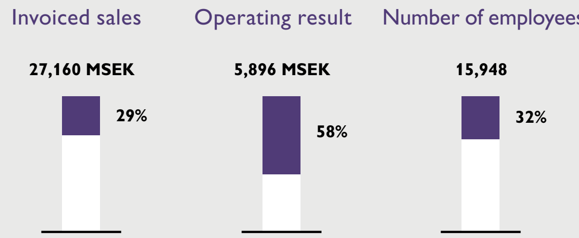
Advanced products manufactured in cemented carbide and other hard materials, such as synthetic diamond, cubic boron nitride, ceramics and high-speed steel. The focus is on increasing customer productivity by providing products, services and applications know-how.

Market

Customers include companies in the general engineering, aerospace and automotive industries, oil and gas extraction sectors, as well as electronics and medical technology industries.

In 2011, the global market for metal-cutting tools as well as wear parts and components in cemented carbide and other hard materials was estimated to total some 165 billion SEK. Given the turbulence in the market in recent years, some increased degree of uncertainty surrounds estimations of the market's size. The average annual long-term growth has been 4–5%.

Share of Group



Sandvik Mining and Construction

Sandvik Mining and Construction is specialized in equipment, tools and service for the mining and construction industries.

The business area is active in three customer segments: Underground Mining, Surface Mining and Construction.

Offering

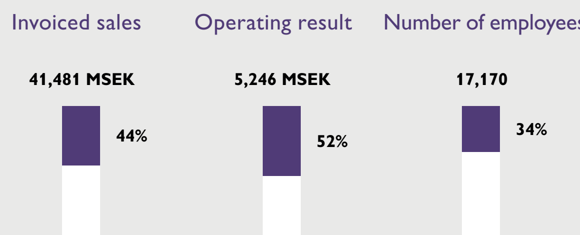
Equipment, tools, service and technical solutions for mineral exploration, mining and processing of rock and minerals in the mining and construction industries.

The business area provides an extensive product program for drilling and mechanical mining, as well as for loading and transport, crushing and sorting, demolition, recycling and handling of rock and minerals.

Market

The products are deployed primarily in mines and in construction operations worldwide. The global market for 2011 was estimated to amount to about 265 billion SEK. Average, long-term annual growth for equipment, tools and spare parts is 4–6%, with a higher growth rate for services.

Share of Group



Sandvik Materials Technology

Sandvik Materials Technology specializes in high value-added products in advanced metallic and ceramic materials for the most demanding industries and fields of applications. Its cutting-edge expertise is based on an integrated production platform and world-leading metallurgy and R&D.

As of 1 january 2012, operations are divided into four product areas: Tube, Strip, Wire and Heating Technology and Primary Products.

Offering

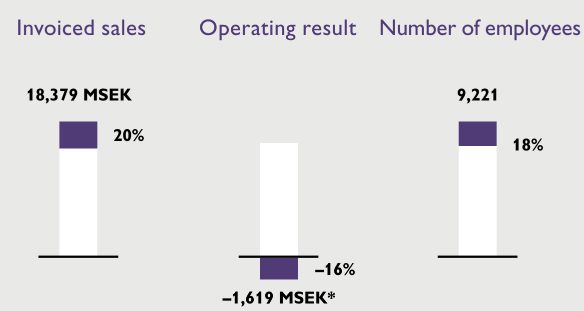
High value-added products based on advanced stainless steels, special alloys and titanium. Furnace products, heating systems and resistance materials.

Market

Customers are active in, for example, the energy, aerospace, automotive and chemical and petrochemical industries – industrial segments in which exacting demands are imposed on safety, productivity, cost efficiency and a long lifecycle.

In 2011, the world market was estimated at more than 150 billion SEK. The underlying average annual growth is 4–6%, while growth is normally higher in such areas as the energy segment.

Share of Group



*Adjusted for restructuring measures and impairment losses, the operating result amounted to about 1,000 MSEK.

Sandvik as of 2012

A new strategic direction involving a comprehensive change program and a new Group Executive Management team was presented in autumn 2011. Three business areas became five with the aim of intensifying the focus on core operations and of establishing an organization with fewer matrixes and simpler control systems. The changes apply as of 2012. The new organization and strategy will have full effect in 2015.

The new strategy is formulated in the following manner:

- Ambition to be world class in every core area.
- Higher speed in all processes.
- Focus on core businesses.
- Global mindset and organization with strong local adaptations.

As a result of the new strategy and organization, Sandvik has reviewed the Group's financial goals. These goals are to be viewed in the context of the aim of enhancing value creation and being a world leader in certain segments, as well as an assessment of global growth and adequate financial security. The updated goals for the Group are as follows:

Updated financial goals	
Average annual growth	8%
Return on capital employed	25%
Net debt/equity ratio	<0.8
Dividend payout percentage	50% of earnings per share

Group Executive Management as of 2012

Olof Faxander, President and Chief Executive Officer.

Ola Salmén, Senior Executive Vice President and Chief Financial Officer.

Tomas Nordahl, Executive Vice President. Head of IT, sourcing and strategy.

Anna Vikström Persson, Executive Vice President. Head of Human Resources.

Bo Severin, Executive Vice President. General Counsel.

Jan Lissåker, Executive Vice President. Head of Group Communications.

Thomas Schulz, President of Sandvik Construction.

Andreas Evertz, President of Sandvik Machining Solutions.

Jonas Gustavsson, President of Sandvik Materials Technology.

Gary Hughes, President of Sandvik Mining.

Anders Thelin, President of Sandvik Venture.

An expanded Group Executive Management has been established that also includes Sandvik's Country Managers for China and India.

Business areas

Sandvik Construction

Sandvik Construction offers high-performance products, solutions and services in selected niches of the global construction industry. Areas include surface drilling and tunneling, mobile or stationary crushers and sorting as well as tools and spare parts.

Invoiced sales: 9,249 MSEK
Operating margin: 4%
Number of employees: 3,900

Sandvik Machining Solutions

Sandvik Machining Solutions is the market leader in advanced, productivity-enhancing products and solutions for cutting primarily in metals. The operation is divided into four product areas and brands: Sandvik Coromant, Seco Tools, Walter and Safety.

Invoiced sales: 28,171 MSEK
Operating margin: 23%
Number of employees: 18,500

Sandvik Materials Technology

Sandvik Materials Technology is specialized in high value-added products in advanced metallic and ceramic materials for demanding industries and fields of applications. Its cutting-edge expertise is based on an integrated production platform and world-leading metallurgy and R&D. Product areas are Tube, Strip, Wire and Heating Technology and Primary Products.

Invoiced sales: 16,339 MSEK
Operating margin: 4%
Number of employees: 8,200

Sandvik Mining

Sandvik Mining specializes in high-performance products, solutions and service for surface and underground mining. The business area offers the market's most comprehensive product program for drilling, mechanical cutting, loading and transport, crushing, screening, tools and spare parts.

Invoiced sales: 32,232 MSEK
Operating margin: 17%
Number of employees: 13,300

Sandvik Venture

Sandvik Venture is a business area that creates opportunities for growth and profitability in small, attractive and fast-growing businesses as well as for smaller operations of major strategic value to other parts of Sandvik. Operations are conducted in the following product areas: Sandvik Hard Materials, Diamond Innovations, Wolfram, Sandvik Process Systems, Dormer and Sandvik MedTech.

Invoiced sales: 8,056 MSEK
Operating margin: 17%
Number of employees: 4,100

The information in these summaries is pro forma for the full-year 2011. Figures for Seco Tools are consolidated in the Sandvik Machining Solutions business area. The operating margin is adjusted for impairments and restructuring measures. Intra-Group invoicing was not taken into account in the accompanying figures.

A strong company will become even stronger

A generally favorable business climate and intensive efforts to introduce a new strategy and shape a new organization; this is how I would summarize 2011 for Sandvik. The Group is well prepared to meet the various scenarios in the world economy that may arise over the coming years.

"An important intermediate goal of the new strategy has been to reduce Sandvik's sensitivity to sudden changes in the economic climate."

In 2011, we experienced several historical events. Japan was hit by an earthquake with tragic consequences for many people. Back in Europe, sovereign debt grew into a crisis in the Euro zone with major political implications that will impact industrial activity for some time to come. A wave of democracy swept through the Arab world, the consequences of which are still unclear.

For Sandvik, it was mainly the events in Japan that were of direct significance in 2011, resulting in a heightened sense of uncertainty as to the future of the nuclear power industry. As yet, we do not know what the long-term effects will be.

In general, the business climate was favorable for Sandvik, with continued strong recovery following the dramatic decline in conjunction with the financial crisis. The order status was healthy in most operations, we completed important acquisitions and establishments in the Chinese mining industry and we are working on the integration of Seco Tools as a wholly owned subsidiary, thereby consolidating our core business in metal cutting and generating valuable synergies.

In 2011, Sandvik's invoiced sales amounted to 94,084 MSEK (82,654) and the result after financial items was 8,179 MSEK (9,412). Earnings were charged with 3.3 billion SEK in restructuring costs.

One Sandvik

When I took over as President in February 2011, I initiated a change process. The ambition is to make Sandvik more fast-paced, international and customer-focused. The strategy emphasizes the importance of cooperation between all parts of the company to enable the Group to achieve its full potential. We must create greater synergies between IT solutions, HR issues, logistics and, perhaps above all, research and development. At the same time, we are making the organization simpler and flatter, ensuring that decisions are made closer to the reality that prevails in the various markets.

In response to global competition and to better reflect the regions in which we are established, the management team has become more international. For the first time in Sandvik's history, the Group now has members in its Group Executive Management from countries other than Sweden.

Growth and profitability

The aim of the new strategy is to generate increased growth and profitability. The actions being implemented will ensure that we are more focused and will strengthen all business areas. Sandvik Mining and Sandvik Machining Solutions are highly profitable areas. By increasing synergies and through greater market adaptation, they can become even stronger. For Sandvik Materials Technology and Sandvik Construction, we have created specific plans detailing how we intend to raise profitability. Sandvik Venture is a business area that gives a number of operations the opportunity to develop into strong units that could play an important role in Sandvik's future.

Challenges and greater adaptability

Sandvik is a strong Group. But while the outlook is ultimately favorable, with continued strong demand for Sandvik's products and services, there are a number of elements of uncertainty and question marks concerning economic development. An important intermediate goal of the new strategy has been to reduce Sandvik's sensitivity to sudden changes in the economic climate. We have therefore prepared contingency plans for a number of different scenarios.

Increased market orientation is another way of addressing economic turbulence. The ability to put your ear to the ground and listen to the different local conditions will be a decisive success factor allowing us to make the right choice at the right time. I am convinced that the companies that are the most adaptable are also the most successful. Sandvik has proven this throughout its history and we intend to continue along this path.

A responsible company

Part of Sandvik's new strategic direction involves building a sustainable business concept, which not only includes financial responsibility, but also environmental and social responsibility. This requires that we integrate sustainable development into our corporate culture. To achieve success with our business concept, we have identified four key areas from a sustainability perspective for which we have particularly high ambitions. For employees, the most important aspect is the creation of a safe and secure work environment. For the environment, the focus is on economizing on resources, minimizing emissions and assisting our customers in their efforts to reduce their environmental impact. For our suppliers, the task is to create solid evaluation processes to ensure compliance with our Code of Conduct, with respect to business ethics, we must do everything in our power to prevent corruption.

An attractive employer

To achieve our goals, it is of vital importance that Sandvik is an attractive employer. We must have the ability to attract the best talent while also offering a safe and healthy workplace for those working in production. We do this by taking these issues very seriously, from goal-oriented employer branding among university students to a number of specific health and safety programs for our 50,000 employees.

It is vital that we, as an employer, focus on talent and ability so that such factors as ethnic background or gender do not influence recruitment.

Sandvik makes a difference

In 2011, I visited many of Sandvik's operations across the globe and met a large number of employees and customers. The feeling that I took away from these visits was that Sandvik really makes a difference. We contribute to developing society and to making companies more profitable. Sandvik plays an important part in the global progression toward a better and more sustainable world.

"The ambition is to make Sandvik more fast-paced, international and customer-focused."

Among the workforce, it is my perception that there is great pride in being a Sandvik employee. I share this pride and would like to take this opportunity to thank all employees for their hard work. 2011 was an intensive year containing both reasons to celebrate and tough challenges as we jointly advanced the positions of one of the world's most reputable companies. We have made considerable progress and it is with great confidence that I look to the future.

The Group's anniversary will be the highlight of 2012. For 150 years, Sandvik has operated and developed successfully by being open to change and seeing new opportunities in trends and new technology. From our strong position as a world-leading engineering Group, we are moving forward with our task of making Sandvik an even more attractive company for customers, employees and shareholders.

Olof Faxander, February 2012
President and CEO

Business concept, goals and strategies

The core of Sandvik's business is to offer products, services and support that improve customer productivity and profitability. The Group takes a global perspective and has an advanced holistic approach encompassing financial, environmental and social responsibility.

Founded in 1862, Sandvik is a world-leading company in the engineering industry. From the very beginning, the company has distinguished itself through high-technology development, with a focus on metallurgy and materials technology. Throughout the years, the direction of the company has varied depending on historical technology shifts and the needs of the industry and society at various junctures.

Sandvik manufactures advanced engineering tools, mining and construction equipment and products in high-alloy materials.

Sandvik holds, or has the potential to establish, world-leading positions in all of the market segments it serves.

Strengthening customer competitiveness

Sandvik's business concept is to develop, manufacture and market high-tech products and services that facilitate higher customer productivity and profitability.

Sandvik's long-term strategy is based on creating interaction between the Group's strengths, such as advanced and broad-based R&D, high value-added products, a high share of in-house manufacturing, efficient logistics systems, financial strength, a well-established approach to sustainability and a strong corporate culture. Assuming an active role in addressing sustainability issues also characterizes cooperation with customers and suppliers.

Core values

- Open Mind
- Fair Play
- Team Spirit

Strategy

Ambition

- Be number one.
- Act to meet targets.

Speed

- Simplified organization.
- Faster decisions.
- Good adaptability.

Focus

- Focus on core business.
- Distinct control in line with earnings capacity.
- Structural evaluation of underperforming operations.

Globalization

- International management, global procedures and methods.
- Local adaptation of business models.

Organization and governance

Group Executive Management and Group functions

- Stronger mandate to pursue Group-wide issues.

Business areas

- More distinct business focus.

Locally

- Stronger mandate to leverage synergies locally, for example, by using Sandvik's brand as an employer and achieving cost advantages.

Acquisitions that both strengthen the Group's principal direction and streamline the existing operations are paths that are reviewed continuously.

Management by objectives

Sandvik has a number of customer-oriented, financial, social and environmental objectives. Management by objectives is pursued in a decentralized manner and contains both short and long-term goals. The objectives are broken down into a number of targets that are adapted to the various levels in the organization. Read more about the objectives of the Group's sustainability work on pages 100–111 or at www.sandvik.com.

Overall financial goals

The overall financial goal is based on the Group's world-leading positions in the various areas of activities. The long-term goal for Sandvik's organic growth is 8%.

The goal for return on capital employed is 25% for the Group as a whole.

One Sandvik to be Number One

To ensure that Sandvik retains its market-leading positions in its product markets, a new strategy and organization has been initiated. The strategy is summarized in the motto "One Sandvik to be Number One." The initial steps were taken in 2011 with the program to yield full effect in 2015.

The strategy is rooted in the Group's corporate culture and clearly specifies the decisive success factors and the various choices relating to how the strategy can be best implemented at all levels, from Group Executive Management to local initiatives.

Long-term approach and shareholder value

The Group's long-term objective is to create value for its shareholders. Sandvik has achieved an average of about 9% annual sales growth over the past 20 years – just over half of which through organic growth and just under half through acquisitions.

Research and development

Comprehensive and goal-oriented research and development is a prerequisite for growth. Each year, Sandvik invests approximately 3 billion SEK in R&D. More than 2,700 employees work in the area and activities are often pursued in close cooperation with customers. The Group has some 5,500 active patents and other intellectual property rights that are owned and managed by a separate company to maximize value creation.

Advanced logistics

Efficient inventory management and advanced logistics enhance the reliability of supplies and ensure first-rate customer service. Sandvik's distribution system is based on a small number of sizable and strategically sited warehouses in the largest market areas. This means that the Group can ensure rapid deliveries and maintain a broad product offering.

Group's financial goals up to and including 2011*

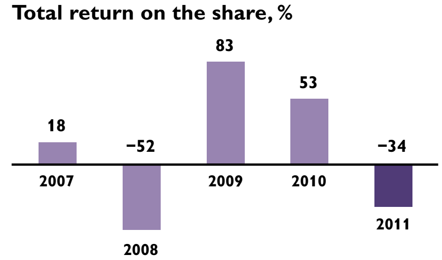
Organic growth	+8% + acquisitions
Return on capital employed	25% for existing operations
Net debt/equity ratio	0.7–1.0
Payout ratio as a percentage of earnings per share	≥50%

*For financial goals as of 2012, refer to page 4.

Business areas	Organic growth	Return on capital employed**
Sandvik Tooling	+7%	30%
Sandvik Mining and Construction	+9%	25%
Sandvik Materials Technology	+8%	20%

** Relates to existing operations.

Total return on the share, %



Equity ratio, %

World-class manufacturing
Sandvik's production organization is integrated with R&D activities and maintains world-class efficiency. This creates favorable potential for the continuous and rapid launch of products, which represents a major competitive advantage for the Group.

Transparent corporate governance
Effective and transparent corporate governance builds trust among Sandvik's various stakeholders and creates a distinct focus on customer and shareholder value. Corporate governance clearly defines the roles and responsibilities of shareholders, the Board of Directors and Group Executive Management. It also encompasses the Group's control and management systems.

Sustainable development
Sustainable development is assigned priority at Sandvik. The Group's focus on enhancing efficiency in customer operations contributes to sustainable development, since it means that a growing number of companies endeavor or are given the opportunity to effectively utilize their resources. Sandvik aims to maintain a high level of business ethics and be a good global corporate citizen.

The Group's Code of Conduct includes guidelines for the environment, health, safety and social responsibility. Management by objectives and preventive programs are important foundation pillars in efforts to achieve continuous improvements. The Code of Conduct applies to all units and employees and includes rules and guidelines for record keeping and accounting, business ethics, working conditions, and environmental and social commitments. The Code of Conduct forms the basis for Sandvik's management system and helps to continuously improve the Group's financial, environmental and social performance. Each manager in the Group is responsible for ensuring compliance with the Code.

At the same time as Sandvik's sustainability work generates positive leverage for customers and the external environment, it is also important that Sandvik's suppliers share its values. Sandvik has thus prepared a Code of Conduct for its suppliers.

Read more about the Group's sustainability work on pages 100–111 or at www.sandvik.com.

The Sandvik share

Sandvik endeavors to generate an attractive return and value growth for investors in the Sandvik share. Communication with players in the financial market in 2011 mostly related to Sandvik's new business strategy and how the general economy is impacting the Group.

Share performance in 2011
Sandvik's share price declined 36%, while the OMXS-index on NASDAQ OMX Stockholm dropped 17%. At year-end 2011, the Sandvik share was quoted at 84.45 SEK.

The Group's market capitalization declined 56 billion SEK during the year to 100 billion SEK (156), ranking Sandvik as the 9th (7) largest company on NASDAQ OMX Stockholm. During 2011, Sandvik shares were traded for a total value of 146 billion SEK (147), making it the 6th (6) most actively traded share.

Total shareholder return and Sandvik's new strategy
The term "total shareholder return" shows the real development of a stock investment and consists of the change in share price, including reinvested dividends. During 2011, the total shareholder return for the Sandvik share was –34%. In the past five-year period, the total shareholder return has averaged –1% annually. This was one of the reasons behind the formulation and launch of the new strategy in September 2011, which aims to enhance value generation through an increased and clearer focus on core operations.

Reliable information to investors, analysts and the media
Sandvik's goal is to ensure that the value of the company's share is always assessed on the basis of relevant, correct and current information. Realization of this goal requires a clear strategy for financial communication, creating confidence in information and regular contacts with the various stakeholders in the financial markets.

Aside from daily communication, focused contacts with the financial markets are carried out in the form of presentations in conjunction with interim reports and meetings with analysts, investors and journalists on capital market days, conferences and seminars, as well as visits to various Sandvik sites. The communication is coordinated by Sandvik's Investor Relations (IR) Group staff function.

The need for financial communication increases in times of particular turbulence in the global economy. While Sandvik's vertically integrated business model has proven highly successful over the years, it has also shown to be vulnerable to financial fluctuations. In such times, IR invests considerable time and effort into explaining Sandvik's business model, strategy and how the company can be affected in the event of various scenarios.

IR focus in 2011
In 2011, a large number of meetings were arranged throughout the world to give Sandvik's various stakeholders in the financial markets the opportunity to have personal contact and to receive responses to questions about the Group's business and future. The most prominent questions related to how the Group's new strategy

Sandvik's positioning

Sandvik is a high-technology and global engineering Group whose offering includes products, services and support that improve customer productivity and profitability. Over the years, the direction of the company has varied depending on historical technology shifts and the needs of the industry and society at various junctures. The Group invests significantly in research and development. Sandvik holds – or has the potential to establish – world-leading positions in all of the market segments in which it operates. A holistic approach and a proactive role in addressing such issues as the environment, health and safety characterizes the Group, as does close cooperation with customers and suppliers.

Comments from Sandvik's stakeholders

Anders Eriksson, capital goods analyst at SEB Enskilda. What is your assessment of the outlook for the markets served by Sandvik?
"We believe that Sandvik has an attractive product portfolio and is well positioned to capitalize on the global growth in the long perspective. Interesting niches where Sandvik is strong include the mining industry, oil/gas/petrochemical and steam generator tubes for nuclear power."

Laurie Fitch, investor from Artisan Partners. What is your opinion of Sandvik's communication with stakeholders in the stock market?
"Communication is frequent, timely and reliable, and management is visible to institutional shareholders. The annual Capital Markets Day offers detailed insight into the divisions as well as the opportunity to interact with the presidents of the business areas. This is especially useful."

and organization are intended to improve Sandvik and thus increase value creation, how the economy affects Sandvik and in what ways the Group is better equipped today to deal with a possible economic decline.

Share trading

Sandvik's share is listed on NASDAQ OMX Stockholm and is one of the stock exchange's oldest companies, with a listing dating back to 1901. The Sandvik share can be traded in the US also in the form of American Depositary Receipts (ADR).

Sandvik's owners

In 2011, the number of shareholders rose to a total of about 113,000 (112,000). Sandvik has shareholders in more than 90 countries.

At 31 December 2011, members of Sandvik's Group Executive Management owned a total of 99,496 shares in Sandvik. Members of the Board of Sandvik owned a total of 6,091,711 shares in Sandvik, corresponding to 0.5% of the capital and voting rights.

Long-term goal and dividend proposal

Sandvik endeavors to generate an attractive return and value growth for investors in the Sandvik share. The goal is that the dividend will amount to 50% of earnings per share.

The Board has decided to propose a dividend of 3.25 SEK (3.00) per share for 2011 to the 2012 Annual General Meeting, corresponding to approximately 4.1 billion SEK and a dividend yield of 3.8% based on the share price at year-end. Over the past five years, Sandvik's dividend has averaged 2.88 SEK per year. During the same period, an average of approximately 66% of earnings per share has been distributed to the shareholders.

Awards and ratings

Sandvik is included in such indexes as the Dow Jones Sustainability World Index (DJSI World) and the Dow Jones Sustainability Europe Index (DJSI Europe). Qualification for DJSI World requires being ranked among the top 10% of companies in terms of three factors: financial success, environmental performance and social responsibility.

Sandvik is also included in FTSE-4Good Series; another international index for global companies that assume social responsibility.

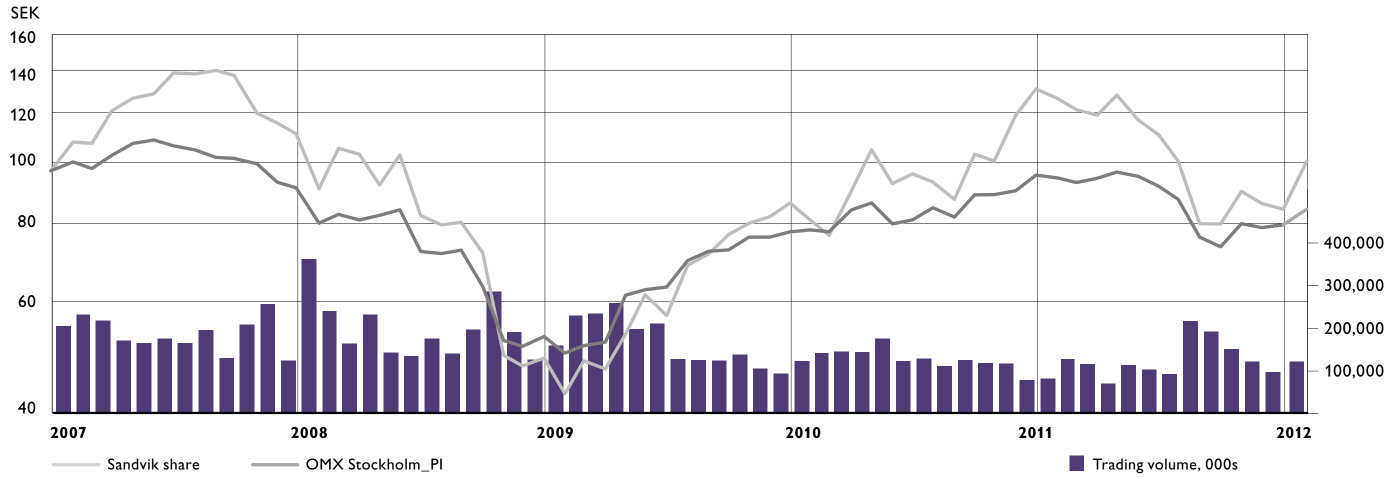
Investor Relations on the Internet

At www.sandvik.com/ir you will find further information about the Sandvik share and IR activities.

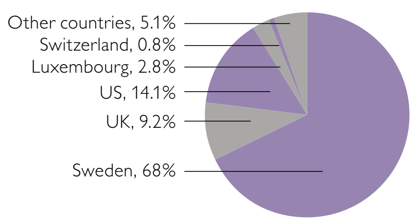
Press releases in 2011 (selection)

2 February	Board of Directors of Sandvik AB propose introduction of long-term incentive program.
2 February	Report on the fourth quarter 2010.
28 February	Sandvik concludes major agreement for delivery of cladding tubes to Westinghouse.
1 March	Sandvik AB Nomination Committee's proposal to the 2011 AGM regarding the composition of the Board.
24 March	Notification of 2011 AGM.
4 April	New President of Sandvik Materials Technology.
5 April	Sandvik AB's 2010 Annual Report.
29 April	Sandvik and Chinese mining equipment supplier form joint venture.
3 May	Sandvik's 2011 Annual General Meeting.
3 May	Report on the first quarter 2011.
3 May	Sandvik Mining and Construction signs project order in Latin America.
19 July	Report on the second quarter 2011.
2 September	New Sandvik Group Executive Management from 2012.
2 September	Sandvik sets a new strategic direction to strengthen market leadership.
12 September	Nomination Committee for Annual General Meeting on 2 May 2012.
13 September	Sandvik Materials Technology launches comprehensive improvement program.
27 September	Sandvik Mining and Construction signs major project order in Australia.
11 October	Sandvik completes acquisition of SHANBAO, Chinese supplier of crushing and screening equipment.
17 October	Sandvik completes establishment of a coal mining equipment joint venture in China.
1 November	Sandvik reduces workforce in Sweden.
1 November	Report on the third quarter 2011.
7 November	Sandvik announces a recommended public offer to the minority shareholders of Seco Tools.
9 November	Extraordinary General Meeting of Sandvik Aktiebolag.
28 November	Sandvik publishes offer document.
30 November	New Vice President Group Communications at Sandvik AB.
12 December	Sandvik holds Extraordinary General Meeting.

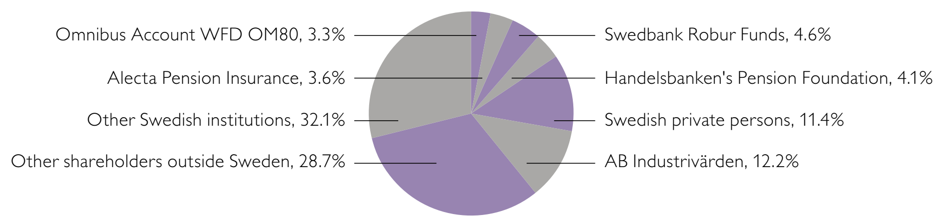
The Sandvik share, five-year trend



Distribution of shareholding by country



Shareholders in Sandvik AB, 31 December 2011

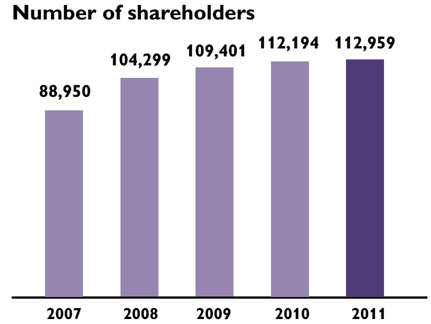


Key figures

	2011	2010	2009	2008	2007
Number of shares at year-end (millions)	1,186	1,186	1,186	1,186	1,186
Market capitalization at year-end (billion SEK)	100	156	102	58	132
Number of shareholders	112,959	112,194	109,401	104,299	88,950
Share price at year-end, SEK	84.45	131.10	86.40	49.00	111.25
Earnings per share, SEK	4.63	5.59	–2.24	6.30	7.65
P/E ratio at year-end	18.2	23.5	—	7.8	14.5
Change in share price during the year, %	–36	+52	+76	–56	+12
Regular dividend, SEK/share	3.25*	3.00	1.00	3.15	4.00
Dividend as a percentage of earnings per share	70	54	—	50	52
Total dividend yield (price increase + dividend), %	–34	+53	+83	–52	+18
Proportion of shares in Sweden, %	68	69	67	65	63
Proportion of shares owned by the ten largest shareholder groups, %	38	36	35	36	38

* Proposed dividend.

Number of shareholders

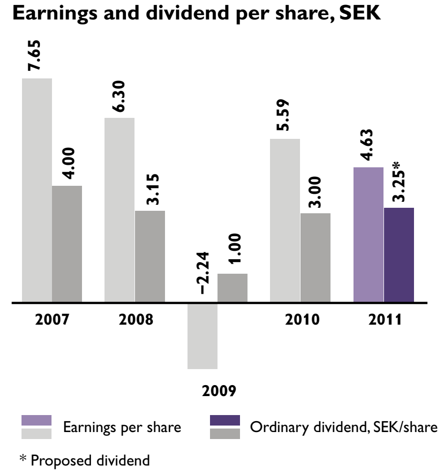


The ten largest shareholder groups, at 31 December 2011, %

	2011	2010	2009	2008	2007
AB Industrivärden	12.2	11.7	11.4	11.5	11.5
Swedbank Robur Funds	4.6	5.0	4.7	3.4	2.3
Handelsbanken's Pension Foundation	4.1	4.0	4.0	4.0	4.0
Alecta Pension Insurance	3.6	3.4	2.5	3.4	3.1
JPM Chase**	3.6	3.6	2.8	10.5	8.7
Omnibus Account W FD OM80	3.3	3.0	2.5	—	—
L E Lundbergföretagen AB	2.3	2.0	1.2	1.2	1.1
Göranssonska Foundations	2.1	2.1	2.1	2.1	2.1
Handelsbanken Funds	1.7	1.7	1.9	1.4	2.1
Folksam	1.6	1.6	1.4	1.1	1.2

** Administrates shares held in trust.

Earnings and dividend per share, SEK



Report of the Directors

The Board of Directors and President of Sandvik AB (publ) hereby submit the report for the Company's and Group's operations in 2011.

Market conditions

For Sandvik, 2011 was characterized by a generally favorable business situation, with the strong recovery continuing following the sharp downturn in conjunction with the financial crisis. The order intake was healthy in most operations. The mining market and particularly the aftermarket continued to display a strong trend featuring high levels of demand and investment activities. Viewed in terms of geographical growth, Australia and North America displayed the strongest performance.

Industrial output in the OECD countries increased 3% compared with 2010. The manufacturing industry in the EU demonstrated a positive trend and rose 5% while the manufacturing industry in Russia rose 7%. In the US, the manufacturing industry continued to display a positive trend rising 5% compared with the preceding year. Brazil's manufacturing industry grew only 0.3%, whereas the increase in Mexico's industrial production was 5%. Growth during the year remained favorable in parts of Asia. Industrial production in China and India rose by 14% and 5%, respectively, while the trend in Japan was negative, down 4% compared with 2010.

Demand from Sandvik's customers

The performance of key customer segments, such as the automotive, engineering and aerospace industries, was stable in North America and Europe during the year. Demand in Asia and South America declined slightly due to weaker trend in the automotive industry and lower investment levels in China.

The mining market and particularly the aftermarket continued to display a strong trend featuring high levels of demand and investment activities, particularly in Asia and emerging markets. A certain degree of elevated hesitation was noted among customers at the end of the year regarding placing large equipment orders when metal prices fell slightly during the fourth quarter.

Demand for niche products from Sandvik Materials Technology continued to perform well, although demand for consumer-related and certain standard products remained weak. Total demand in the oil and gas segment remained robust, despite the global growth in demand for oil showing signs of a slight downturn toward the end of the year. The solar energy segment remained weak. Demand from the nuclear power industry was uncertain following the accident at Fukushima.

Developments in the respective business areas are described in more detail on pages 18–21.

Order intake by market area

MSEK	2011	Share, %	2010	Change, %	Change, %*
Europe	35,953	36	32,916	+9	+15
NAFTA	17,238	17	14,899	+16	+24
South America	8,141	8	8,811	–8	–2
Africa, Middle East	9,379	10	9,446	–1	+8
Asia	17,967	18	18,011	0	+6
Australia	10,400	11	9,202	+13	+12
Group total	**99,078**	**100**	**93,285**	**+6**	**+12**

* Change compared with the preceding year at fixed exchange rates for comparable units.

Invoiced sales by maket area

MSEK	2011	Share, %	2010	Change, %	Change, %*
Europe	35,721	38	31,304	+14	+20
NAFTA	15,593	17	13,741	+13	+22
South America	7,633	8	6,154	+24	+32
Africa, Middle East	9,677	10	8,253	+17	+28
Asia	16,332	17	15,153	+8	+14
Australia	9,128	10	8,049	+13	+12
Group total	**94,084**	**100**	**82,654**	**+14**	**+20**

* Change compared with the preceding year at fixed exchange rates for comparable units.

Group summary review

Order intake amounted to 99,078 MSEK (93,285), up 6% in value and up 12% at fixed exchange rates for comparable units. The Sandvik Group's invoiced sales reached 94,084 MSEK (82,654), up 14% in value and up 20% at fixed exchange rates for comparable units.

Markets outside Sweden accounted for 96% (95) of invoiced sales. The consolidated result after financial income and expenses totaled 8,179 MSEK (9,412). Earnings per share amounted to 4.63 SEK (5.59). Return on capital employed was 16.0% (17.4). The Board of Directors proposes a dividend of 3.25 SEK per share (3.00), corresponding to an increase of 8% from a year earlier.

Future prospects

We experienced several historic events in 2011. Primarily the earthquake and subsequent nuclear accident in Japan was of major direct significance for Sandvik and resulted in heightened uncertainty in the nuclear power industry. The long-term consequences are not yet known. Generally, the business situation was favorable for Sandvik with continued strong recovery following the sharp downturn in connection with the financial crisis, and the order intake was healthy in most operations.

Sandvik is a strong Group and the outlook is positive for 2012 and beyond, with continued high demand for Sandvik's products and services. However, much uncertainty remains regarding the economic climate. A key sub-target of the new strategy is to make Sandvik less sensitive to sudden changes in demand levels, which will prepare us for a series of different turns of events.

Financial goals

Sandvik's financial goals are based on assessments of the company's strength and of how it is positioned for the future. The Group's goals and goal fulfillment are presented in the table below.

Goal fulfillment

The outcome since 2002 corresponds to an average annual organic growth of 6% and a return on capital employed of 18%. In addition, the annual growth from acquisitions, net of divestments, has averaged 2%. The financial crisis in autumn 2008 and the subsequent recession had a significant negative impact on average growth and return. In 2011, organic growth was 20% and the return on capital employed was 16%. At the end of 2011, the net debt/equity ratio was 0.8.

Goals and goal fulfillment

Sandvik Group	Goals up to and including 2011	Outcome 2011	2002–2011
Organic growth, %	8	20	6
Return on capital employed, %	25*	16	18
Net debt/equity ratio, times	0.7–1.0	0.8	—
Payout ratio, % of earnings per share	≥50	70	63
Sandvik Tooling			
Organic growth, %	7	21	5
Return on capital employed, %	30*	28	24
Sandvik Mining and Construction			
Organic growth, %	9	25	11
Return on capital employed, %	25*	27	22
Sandvik Materials Technology			
Organic growth, %	8	9	5
Return on capital employed, %	20*	–10	7

* Relates to existing operations.

Earnings, returns and financial position

Earnings and returns

The operating result for 2011 amounted to 10,148 MSEK (11,029), but compared with 2010 was charged with slightly more than 3,300 MSEK due to restructuring measures and impairments and slightly more than 200 MSEK due to movements in metal prices.

The operating margin was 10.8% (13.3) of invoiced sales. Changes in foreign exchange rates compared with 2010 negatively affected the result by about 1,400 MSEK compared to last year. Net financial items amounted to –1,969 MSEK (–1,617). The weakening in net financial items compared with the preceding year was mainly due to a higher average indebtedness and currency effects. The result after financial income and expenses was 8,179 MSEK (9,412). Income tax had a negative impact of –2,318 MSEK (–2,469) on the result or 28% (26) of the result before taxes. The result for the year attributable to equity holders of the Parent Company was 5,498 MSEK (6,634). Earnings per share amounted to 4.63 SEK (5.59). Return on capital employed was 16.0% (17.4) and return on equity was 17.3% (22.1).

Financial position

Cash flow from operating activities amounted to 7,764 MSEK (12,149). Cash flow after investments, acquisitions and divestments was 2,584 MSEK (7,769). At the end of the year, cash and cash equivalents amounted to 5,592 MSEK (4,783). Interest-bearing liabilities, including net provisions for pensions, less cash and cash equivalents yielded a net debt of 25,908 MSEK (23,200). Sandvik had a credit facility of 500 MEUR expiring in 2012 and another facility of 1,000 MEUR expiring in 2013. These facilities, which were the Group's primary liquidity reserve, were unutilized at the end of the year. At the beginning of 2012, these were replaced by two new facilities of 650 MEUR and 5,000 MSEK, respectively, which were also unutilized. Under the Swedish bond program of 15,000 MSEK, bonds corresponding to the nominal amount of 10,115 MSEK were outstanding at year-end. Under the European bond program of 3,000 MEUR, the nominal amount of 590 MEUR was utilized. In addition, there were bonds issued in the US for a nominal amount of 740 MUSD. The remaining maturity of bonds averaged 4.8 years for Swedish bonds, 2.2 years for European bonds and 8.0 years for US bonds. At year-end, the international credit-rating agency Standard & Poor's had a rating of BBB+ for Sandvik's long-term borrowings, and A-2 for short-term borrowings.

Working capital

Working capital at the end of the year amounted to 25,626 MSEK (21,139). Relative working capital during the fourth quarter of 2011 was 26% (22) of invoiced sales. The carrying amount of inventories at the end of the year was 26,077 MSEK (21,420). Capital tied up in inventory was 26% (23) of invoiced sales. At year-end, trade receivables totaled 14,563 MSEK (12,738), which was 14% (13) of invoiced sales.

Equity

Equity at year-end amounted to 33,891 MSEK (33,813), or 27.40 SEK (27.50) per share. The equity ratio was 34% (38).

Capital expenditure

The purchase consideration for company acquisitions during the year (less acquired

Capital expenditure	2011	2010
Investments in property, plant and equipment, MSEK	4,994	3,378
as a % of invoiced sales	5.3	4.1

Results and returns	2011	2010
Operating result, MSEK	10,148	11,029
as a % of invoiced sales	10.8	13.3
Result after financial income and expenses, MSEK	8,179	9,412
as a % of invoiced sales	8.7	11.4
Return on capital employed, %	16.0	17.4
Return on equity, %	17.3	22.1
Basic earnings per share, SEK	4.63	5.59
Diluted earnings per share, SEK	4.63	5.59

Definitions, page 67.

cash) was 338 MSEK (1,216). Proceeds from the sale of companies and shares amounted to 0 MSEK (0). Investments in internally generated intangible assets amounted to 457 MSEK (397). Investments in property, plant and equipment amounted to 4,994 MSEK (3,378).

Acquisition of Seco Tools

On 7 November 2011, Sandvik AB announced a recommended public offer to acquire all remaining shares in its subsidiary Seco Tools AB, one of the world's largest manufacturers of innovative metal-cutting tools. For each class B share in Seco Tools, Sandvik offered 1.2 shares in Sandvik. The offer was part of Sandvik's strategy to continue to strengthen its world-leading position within the new business area Sandvik Machining Solutions. The Extraordinary General Meeting held on 12 December 2011 authorized the Board of Directors to issue new shares in Sandvik AB as consideration to the shareholders in Seco Tools who accepted the offer. With the support of this mandate, Sandvik's Board decided, on two occasions in January 2012, to issue a total of 68,098,748 new shares corresponding to a market value of approximately 7 billion SEK.

Following expiry of the final acceptance period, Sandvik with subsidiaries held 99.4% of the shares and 99.8% of the votes in Seco Tools. Sandvik initiated a compulsory acquisition procedure to acquire all of the outstanding shares in Seco Tools.

Sandvik is the Parent Company of Seco Tools and thus already consolidates the company in its consolidated accounts. Consequently, the impact of the offer on Sandvik's earnings and financial position is primarily limited to the share of the result for the period and equity attributable to non-controlling interests being eliminated and replaced by equity attributable to equity holders of the Parent. Furthermore, Sandvik will have access to 100% of Seco Tool's cash flow.

Parent Company and subsidiaries operating on commission for Sandvik AB

The Parent Company's invoicing for 2011 amounted to 17,460 MSEK (17,668) and the operating result was –2,754 MSEK (107). During the year, the operating result was impacted by impaired property, plant and machinery, negative effects of metal prices and nonrecurring items.

Income from shares in Group companies consists primarily of dividends and Group contributions from these and amounted to 2,815 MSEK (5,336). Interest-bearing liabilities, less cash and cash equivalents and interest-bearing assets, amounted to 16,990 MSEK (10,554). The Parent Company's indebtedness and equity were impacted in the amount of approximately 1.4 billion SEK during the year from signing share swap agreements for safeguarding the decided share-based incentive program. The liability will be reserved in conjunction with the redemption of future share options.

Investments in property, plant and machinery amounted to 1,421 MSEK (946).

The Parent Company's total assets decreased 1,070 MSEK (from 46,311 MSEK to 45,241 MSEK) partly attributable to repayments of matured loans.

In 2011, the Parent Company received dividends totaling 1,701 MSEK, of which 1,426 MSEK from Sandvik Mining and Construction Logistics Limited.

The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB at 31 December 2011 was 8,514 (8,025).

Quarterly trend of invoiced sales and result after financial items

MSEK		Invoiced sales	Result after financial items	Net margin, %
2010	1:st quarter	18,534	1,502	8
	2:nd quarter	20,603	3,037	15
	3:rd quarter	20,241	2,120	10
	4:th quarter	23,276	2,754	12
2011	1:st quarter	22,030	2,855	13
	2:nd quarter	23,421	3,073	13
	3:rd quarter	23,528	1,110	5
	4:th quarter	25,104	1,140	5

Financial position	**2011**	2010
Cash flow from operating activities, MSEK	7,764	12,149
Cash flow after capital expenditures, acquisitions and divestments, MSEK	2,584	7,769
Cash and cash equivalents and short-term investments at 31 December, MSEK	5,592	4,783
Net debt at 31 December, MSEK	25,908	23,200
Net financial items, MSEK	–1,969	–1,617
Equity ratio, %	34	38
Net debt/equity ratio, times	0.8	0.7
Equity at 31 December, MSEK	33,891	33,813
Equity per share at 31 December, SEK	27.40	27.50

Definitions, page 67.

Development in business areas

Sandvik's operations in 2011 comprised three business areas: Sandvik Tooling, Sandvik Mining and Construction and Sandvik Materials Technology. At 31 December 2011, Sandvik also controlled 60% of the shares and 89% of the votes in Seco Tools, which is a global group active in the area of metal cutting. In November, Sandvik announced a public offer to the minority shareholders of Seco Tools to acquire all remaining shares. The offer was recommended by the Board of Seco Tools and major shareholders.

Seco Tools decided to delist the company from the NASDAQ OMX in January 2012 and announced an Extraordinary General Meeting for 17 February to appoint a new Board. Subsequently, Seco Tools will become part of the Sandvik Machining Solutions business area.

Demand status in brief

The global market situation was generally favorable for Sandvik in 2011. Demand was healthy in most operations. The mining market and particularly the aftermarket displayed a strong trend. The performance of key customer segments, such as the automotive, engineering and aerospace industries, remained stable throughout the year. While demand in the oil and gas segment remained strong, demand from the nuclear power industry was uncertain following the earthquake and subsequent nuclear accident in Japan at the start of 2011.

Sandvik Tooling in figures

Sandvik Tooling's order intake totaled 27,918 MSEK (24,342), up 22% on the preceding year at fixed exchange rates for comparable units. Invoiced sales totaled 27,160 MSEK (23,893), an increase of 21% compared with 2010 at fixed exchange rates for comparable units. Movements in exchange rates affected order intake and invoiced sales negatively by 6%. The price trend remained positive.

The operating result totaled 5,896 MSEK (4,296), yielding an operating margin of 22%. The increase derived from growth in demand and production, resulting in a rise in gross profit. The result was negatively impacted by approximately 737 MSEK due to exchange rate movements. The number of employees at 31 December was 15,948 (15,278).

Performance and key events at Sandvik Tooling

The demand trend for Sandvik Tooling was positive in 2011 and, compared with the market situation in 2010, conditions improved significantly in all markets and product areas. The main underlying factor for this was the increase in global activity in many regions, resulting in a rise in industrial production and thus higher demand for Sandvik Tooling's products. The markets that displayed strongest growth were Europe and North America, where order intake rose by more than 20%. The increase in Asia was slightly lower.

Demand from the energy sector remained strong while an overall stable trend was noted in the automotive, aerospace and general engineering industries. Growth in the automotive industry in Asia was somewhat lower following the steep increases noted in 2010. The recov-

Order intake by business area

MSEK	2011	2010	Change, %	Change, %*
Sandvik Tooling	27,918	24,342	15	22
Sandvik Mining and Construction	45,517	42,079	8	15
Sandvik Materials Technology	18,445	20,847	–12	–8
Seco Tools	7,196	6,016	20	21
Group activities	2	1		
Group total	**99,078**	**93,285**	**6**	**12**

* Change compared with the preceding year, at fixed exchange rates for comparable units.

Invoiced sales by business area

MSEK	2011	2010	Change, %	Change, %*
Sandvik Tooling	27,160	23,893	14	21
Sandvik Mining and Construction	41,481	35,182	18	25
Sandvik Materials Technology	18,379	17,703	4	9
Seco Tools	7,026	5,838	20	22
Group activities	38	38	2	2
Group total	**94,084**	**82,654**	**14**	**20**

* Change compared with the preceding year, at fixed exchange rates for comparable units.

ery signifies that demand has now returned to the levels prevailing prior to the financial crisis. Growth was stronger for products in cemented carbide than for super-hard materials and high-speed steel.

A long-term focus on strategic regions boosted Sandvik Tooling's competitiveness thereby increasing its market shares in most markets. This position was further strengthened in the aerospace industry in which several long-term delivery contracts were signed.

Sandvik Mining and Construction in figures

In 2011, Sandvik Mining and Construction's order intake amounted to 45,517 MSEK (42,079), representing an increase of 15% compared with 2010 at fixed exchange rates for comparable units. Invoiced sales amounted to 41,481 MSEK (35,182), up 25% from the preceding year at fixed exchange rates for comparable units. Movements in exchange rates had a negative impact of about 1,994 MSEK on invoiced sales. The price trend remained relatively stable.

The operating result totaled 5,246 MSEK (4,665), yielding an operating margin of 13%. The result was positively impacted by a rise in invoicing and production volumes, increased internal efficiency and a favorable product mix. Exchange rate movements had a negative impact of 518 MSEK on the result. The number of employees at 31 December was 17,170 (15,455).

Performance and key events at Sandvik Mining and Construction

The prioritized areas in 2011 were increased focus on the core businesses, service and speed and flexibility, in line with the change in strategic direction that the Sandvik Group introduced in September 2011. Under the new strategic direction, Sandvik Mining and Construction was divided into two business areas with clear targets and focuses, Sandvik Mining and Sandvik Construction. In conjunction with this change, Lars Josefsson left his position as the President of Sandvik Mining and Construction and Peter Larson was appointed Acting President. Gary Hughes and Thomas Schulz took office as the President of Sandvik Mining and President of Sandvik Construction, respectively, from 1 January 2012. These two new business areas underwent restructuring at the end of the year, which resulted in a structural redundancy corresponding to approximately 400 employees.

In April, Sandvik Mining and Construction signed an agreement with Shandong Energy Machinery Co. in Xintai, Shandong Province, China, to form a

Operating result by business area

MSEK	**2011**	Margin as a % of invoiced sales	2010	Margin as a % of invoiced sales
Sandvik Tooling	5,896	22	4,296	18
Sandvik Mining and Construction	5,246	13	4,665	13
Sandvik Materials Technology	–1,619	–9	1,540	9
Seco Tools	1,408	20	1,098	19
Group activities	–783	—	–570	—
Group total	**10,148**	**11**	**11,029**	**13**

joint venture for the production and sales of coal-mining equipment. The joint venture will primarily focus on assembly, sales and service of roadheaders for continuous mining for the large Chinese coal-mining market. In October, the business area completed the acquisition of Shanghai Jianshe Luqiao Machinery Co. Ltd, the Chinese manufacturer of crushing and screening equipment.

Sandvik Mining and Construction secured a number of major project orders during the year. A large contract was signed in the mining industry for the delivery of materials-handling systems to a major mining company in Latin America, at a total contract value of approximately 1,200 MSEK. In the construction industry, the business area secured a major project contract with Boral Limited, an international building and construction materials supplier in Australia. The order includes the design and construction of a new quarry plant. The value of the contract amounted to almost 500 MSEK and is one of the largest that Sandvik has received in the construction industry.

The new Hunter Valley site, situated north of Newcastle in Australia, where a number of existing service and productions plants were integrated to form a single 16-hectare facility, was completed and opened in November. The facility will serve both the Australian and global market. The business area also established a new subsidiary in Mozambique during the year.

During the year, Sandvik Mining and Construction introduced a series of new products. One example is the new 800-series of stationary mining cone crushers, Sandvik CH890 and CH895, which with their design and 1,000 horsepower, can safely ensure the highest productivity.

Sandvik Materials Technology in figures

Sandvik Materials Technology's order intake totaled 18,445 MSEK (20,847), down 8% from the preceding year at fixed exchange rates for comparable units. Invoiced sales totaled 18,379 MSEK (17,703), an increase of 9% compared with 2010 at fixed exchange rates for comparable units. The effects of movements in metal prices had a marginal impact on order intake and invoiced sales. Exchange rate movements impacted both order intake and invoiced sales negatively by 4%. The price trend was favorable for high value-added niche products, but somewhat more pressured for products exposed to greater competition.

The operating result totaled –1,619 MSEK (1,540), yielding an operating margin of –9%. As a result of the new strategic direction and the improvement program announced in September, earnings for the year were charged with 1.2 billion SEK for a goodwill impairment of the MedTech business and a further approximately 1.4 billion SEK in costs for restructuring and impairments. In addition, changed metal prices had a negative impact of 217 MSEK on the operating result. Compared with the preceding year, movements in exchange rates negatively impacted the operating result positively by 12 MSEK. The number of employees at 31 December totaled 9,221 (9,058).

Performance and key events at Sandvik Materials Technology

Demand for Sandvik Materials Technology improved during the first half of 2011. The order intake for products for the oil, gas and mining industry remained strong throughout the year. However, demand for products for the consumer goods and electronics industries, and more standardized products, declined during the third and fourth quarter. In North America, demand was favorable for most of the year, while the market situation was relatively fragmented in Asia and Europe during the second half of the year due to the financial constraints in China and economic uncertainty in Europe.

In February, Sandvik Materials Technology signed a multi-year supply agreement with Westinghouse for the delivery of cladding tubes for nuclear power plants worldwide at a total value of more than 3 billion SEK. As a result of the agreement, the Sandvik Board approved the expansion of production capacity at the facility in Sandviken, Sweden. In May, a major order for tubes to the oil industry in the US was signed at a value of 325 MSEK.

Activity in the nuclear power industry was low due to the nuclear power plant accident in Japan at the beginning of the year. Security reviews were initiated which resulted in delays to certain existing orders for steam generator tubes from Chinese customers.

On 1 May, Jonas Gustavsson, formerly President of the Wire and Heating Technology product area within Sandvik Materials Technology, was appointed new President of the business area. Jonas Gustavsson succeeded Peter Gossas who retired after nine years as President of the business area according to his contract with Sandvik.

The Sandvik Group's new strategic direction was announced on 2 September. The aim of the new strategy is for Sandvik Materials Technology to achieve significantly higher profitability within two to three years. Alternatives for growth and expansion will subsequently be evaluated.

Accordingly, in mid-September, Sandvik Materials Technology launched a comprehensive improvement program (The

Step Change Program), aimed at increasing the business area's profitability to a significantly higher and sustainable level and to strengthen the leading position in key segments. The cornerstones of the program are the following:

- A step-change within the safety area.
- A simplified and more cost efficient organizational structure.
- Significantly reduced cost structure.
- Improved productivity and increased flexibility.
- A more aggressive approach to shift the product mix towards more advanced and profitable products.
- Selective growth to ensure leadership in profitable key segments.

One of the objectives of the program is to sustainably reduce the overall cost structure by approximately 500 MSEK over a two to three year period, through such measures as reducing costs for staff and administration in addition to cost optimization of the sales organization.

A new and simplified organizational structure started to be implemented from mid-September. As a consequence of the organizational changes, a global structural redundancy corresponding to about 500 salaried employees was identified, of whom about 300 individuals in Sweden. Redundant personnel will leave the company during the first half of 2012. In parallel with the review in Sweden, a comprehensive review of the business area's sales organization was also conducted. Within the framework of this review, redundancy corresponding to more than 200 employees was identified. One of the reasons for the reduction is a new sales model that will be implemented in the first half of 2012. The aim is that the new sales organization will be in place not later than 1 May 2012. In addition, contracts with more than 180 temporary employees at Sandviken, Sweden were concluded.

A decision was made at the end of the year to restructure the wire and strip operations, which will enable a shift in the product mix toward more advanced and profitable products in key segments, such as the energy sector. The decision means that the production of wire and strip in Hallstahammar, Sweden, will be discontinued over the next 18 months, as will two plants for strip production in the UK and China. In conjunction with this, efforts will be intensified to phase out wire and strip products that are not sufficiently profitable or do not form part of the core business. The manufacturing of the remaining part of the wire and strip product program will primarily be transferred from Hallstahammar to Sandviken. As a result of the planned changes, redundancy corresponding to more than 100 employees was identified.

As part of the new strategic direction for the Sandvik Group, the Process Systems product area and parts of MedTech were transferred to the Sandvik Venture business area on 1 January 2012. This means that, effective this date, Sandvik Materials Technology comprises four product areas: Tube, Strip, Wire and Heating Technology, and Primary Products. The intention to divest the instrument and implants section of the MedTech product area was also announced in conjunction with the publication of the new Group strategy.

Seco Tools in figures

Seco Tools' order intake amounted to 7,196 MSEK (6,016), up 21% on the preceding year at fixed exchange rates for comparable units. Invoiced sales totaled 7,026 MSEK (5,838), which corresponded to a year-on-year increase of 22% at fixed exchange rates for comparable units. Changed exchange rates had a negative impact on order intake and invoiced sales of 7%.

Operating profit was 1,408 MSEK (1,098), corresponding to an operating margin of 20% (19). The improvement was primarily the result of higher volumes and a favorable price trend. Changed exchange rates had a negative impact on earnings of 118 MSEK. The number of employees at 31 December was 5,595 (5,306).

Performance and key events at Seco Tools

Demand remained strong during the year. All market regions continued to demonstrate growth during the year compared with 2010. The most positive trend was noted in NAFTA and Europe. The pace of growth in markets in Asia and South America was slightly lower. Seco Tools' long-term programs to increase growth continued during the year through such activities as a historically high number of new product launches and investments in China in a new sales office and distribution centers. In the latter part of the year, the new facility in Fagersta for the production of cemented-carbide powder was completed and is scheduled to go onstream in gradual steps during 2012. The total value of the investment in property and equipment is approximately 140 MSEK over three years. The investment increases Seco Tools production capacity and enables further steps in relation to product quality and efficiency. As of 2012, Seco Tools is consolidated in the Sandvik Machining Solutions business area.

Research and development

The aim of Sandvik's research and development activities is to increase customers' productivity, reduce their impact on the environment and improve the work environment. R&D projects are assigned high priority in the Group and include metallurgic research, metal cutting and development of production technologies, production processes and IT systems.

As a result of Sandvik's new strategy, a R&D Council was founded with the task of capitalizing on synergies, developing methods and processes, and enhancing transparency in the company in a bid to ensure a high level of efficiency and innovation in R&D activities.

Sandvik invests almost 3 billion SEK each year in R&D and more than 2,700 employees are active in this area. The Group has about 5,500 active patents and other intellectual property rights. The R&D strategy includes a focused and continuous effort to seek, protect and monitor patents.

Activities are conducted in a decentralized manner in each of the business areas and in close cooperation with customers. The exchange of knowledge between the business areas is substantial, generating synergies and qualitative accumulation of data upon which decisions can be based.

Sandvik also pursues long-term research efforts within the framework of various national and international research programs thus establishing important contacts between Sandvik and universities and colleges. These partnerships are ongoing in some ten countries worldwide covering such research areas as metallurgy, material physics, metal cutting, rock mechanics, mining processes and production technology.

The Group also participates in the development of university programs to ensure that they are adapted to current and future requirements and supports a number of doctorate programs.

R&D at Sandvik Tooling

- Focus

  Development of new tool materials and products as well as improved production methods and product equipment. Tool performance and quality is enhanced while production efficiency both for customers and the business area itself is streamlined. New methods are developed for the production of cemented carbide, ceramic materials, cubic boron nitride and synthetic diamonds. Development of methods for precision pressing and coating in the production of indexable inserts has a high priority.

- Driving forces

  To increase customer productivity through advanced technology, low environmental impact and favorable total production economy.

- Locations

  R&D activities are carried out in several locations throughout the world. The largest units are located in Sweden, Germany, the US and the UK. Each product area pursues product and application development in close cooperation with customers.

A selection of advances in research and development at Sandvik Tooling in 2011 are listed below:

Cost-efficient holemaking

The Sandvik Coromant product area has developed a range of products for more efficient drilling in different material. For example, a solid carbide drill, the CoroDrill 860, was developed for launch in 2012. The product has a new drill geometry, developed for high feeds and closer tolerances, thus reducing customers' production costs. The drill is made from a new, unique cemented-carbide grade, which when combined with new surface treatment technology, significantly enhances performance. All of this has resulted in the most efficient tool in the market for drilling in steel.

In 2011, a new so-called tipped drill was also developed. Instead of replacing the entire drill, only the tip is changed when it has worn out. This reduces the customer's production costs, for example, by shortening retooling time. This drill, which is designed for somewhat larger holes than the CoroDrill 860, will be launched in 2012 under the CoroDrill 870 name.

More efficient turning

In 2011, the Walter product area launched an entirely new range of cemented-carbide inserts for turning steel. The cemented-carbide inserts are coated with a new aluminum oxide layer, ensuring higher cutting speeds. Combined with a newly developed surface-treatment process, this extends insert life and improves reliability. The new cemented-carbide insert also features a new geometric design enabling more efficient evacuation of the chips that form during machining of the workpiece.

R&D at Sandvik Mining and Construction

- Focus

  Development of innovative solutions for automated mining operations in drilling, crushing and cutting to optimize focus on energy and cost efficiency. Research is based on know-how of how energy is generated and used in connection with crack extension in minerals or rock, thus creating the basis for product development.

  Research and knowledge improve the reliability of customer applications. Development is based on technology platforms that support several project concepts, enabling competitive solutions to be delivered.

- Driving forces

  Cost savings, reduced energy use, enhanced safety and improved environment and health conditions. The availability of equipment is continuously developed to satisfy the rigorous demands of customers for operational reliability in sites with continuous operations.

- Locations

  The largest development units can be found in Finland, Sweden, Austria and the US. In 2010, a product development center was inaugurated in Shanghai, China, to strengthen Sandvik's establishment in the world's most rapidly expanding market. In 2011 the product development facility became a key unit in the business area's operations.

A number of current R&D advances in Sandvik Mining and Construction are listed below:

Focus on energy efficiency and reduced CO_2 emissions
For the past number of years, Sandvik has pursued a comprehensive project focusing on energy efficiency and carbon emissions for sustainable mining operations and rock excavation. During the year, a research partnership was established with the Australian research company CRC Mining, which aims primarily to intensify studies into energy efficiency.

New methods and products
In the crushing area, several new models have been introduced with an emphasis on reliability and high performance, primarily in relation to mining applications. For all mobile equipment, a great deal of work has been done to reduce exhaust emissions. In the drilling area, a number of new drilling rigs were introduced with a higher degree of automation and a focus on reliability.

Growing need for safe mining processes
To take the next step in product safety and reduce the risks in customer operations, deeper cooperation was established with customers in the area of product safety.

R&D at Sandvik Materials Technology

- Focus
  The business area is world-leading in the development of advanced metallic and ceramic materials for demanding industries and fields of application. Examples of technology niches in which the business area has made particularly large investments in recent years include powder and surface technology. Sandvik Materials Technology's position in energy has also been strengthened in recent years through the continuous launch of new materials and products that enable technology shifts in this area.

- Driving forces
  Increase customer productivity, reduce energy use, reduce the environmental footprint and create a safe working environment.

- Locations
  One of Europe's largest R&D centers for advanced metallic materials and special alloys is located in Sandviken, Sweden. The business area also operates an R&D center for ceramic and metallic resistance materials in Hallstahammar, Sweden. A research and modeling center for advanced materials is sited in Pune, India, where activities include simulation of various processes. Other development centers are also located in the US and Scotland.

A number of current R&D projects in Sandvik Materials Technology's are listed below:

Material that can cope with the demands of deep-sea oil extraction
Sandvik is the leading supplier of highly advanced materials for the oil and gas industry, where extremely rigorous demands are placed on material performance. Material for tubes in umbilicals is continuously upgraded to meet the demands of deep-sea oil extraction and extreme temperatures.

Powder material directed at the energy segment
Sandvik Materials Technology has two joint ventures with Carpenter Technology in the field of powder technology. In 2011, a research program was launched between Sandvik and Carpenter Technology aimed at further strengthening the position in powder technology and advanced materials. An important part of the program relates to materials development in the energy segment.

Next-generation nuclear power requires increasingly extreme materials
The next-generation nuclear power plants will take reactor design to an entirely new level. The aim is to make the plants even safer and more efficient and to reduce the volume of waste generated. With unique expertise in materials technology and a very strong position as a material supplier to the nuclear power industry, Sandvik has what it takes to develop material and solutions for the most critical applications. Partnerships with external research groups are also underway in this area.

Materials and systems for heating applications
Sandvik is a world leader in the development of new materials in the heating applications field. New products are developed in ceramic and metallic materials for resistive heating, such as ceramic elements for the glass manufacturing industry and diffusion furnaces for the semiconductor and solar cell industries. Sandvik also develops complete process heaters based on resistive heating.

Material and product development that support sustainable energy extraction
With unique competence in materials technology, Sandvik can play a decisive role in technology development in sustainable energy extraction. Projects are under way to develop material and products that help the Group's customers to extract energy while causing less of an impact on the environment. For example, Sandvik works with materials development to enhance energy efficiency in plants powered by fossil fuels. Development is also under way of components for wind turbines.

Human Resources

The ability to attract, develop and retain employees with the relevant competencies is essential for the Group's success in achieving its objectives.

When Sandvik's new business strategy "One Sandvik to be Number One" was started to be implemented in 2011, it resulted in changes to both the organization and the Group's business approach.

A Group-wide HR strategy was prepared in conjunction with the development of Sandvik's business strategy in 2011 and was rolled out in its entirety on 1 January 2012. Particular focus will directed to the following areas in forthcoming years:

Sandvik People Strategy

- Safety first
  To provide a safe working environment, putting safety first, continues to be the number one priority. In addition to the importance to the Sandvik organization, it is a prerequisite in attracting new people and maintaining customer relationships.

- Innovation
  Sandvik has been created and built on innovation, and innovation will be critical to our future success. The Sandvik culture with the three core values Opend Mind, Fair Play and Team Spirit, supports innovation and entrepreneurial spirit.

- Diversity and Inclusion
  Diversity and inclusion are sources of innovation and will make us more effective as a Group. Consciously building strong diverse teams will be a competitive advantage and help drive the best results for our customers. Diversity also serves as a bridge between the workplace and the marketplace, and therefore Sandvik's workforce needs to better reflect the market.

- Empowered employees
  Our employees, our closest contact to the market and the customer, will be given more responsibility and freedom to act. This will both empower people and increase speed. An annual employee climate survey will be conducted and the result will serve as a base for improving our human capital and driving continuous improvements.

- Talent management
  To become a leader in attracting, developing and retaining the best people, we will have a clear strategy to strengthen the Sandvik brand and become the employer of choice in selected markets. ONE Sandvik and internal mobility will be a key theme and tool to manage the Sandvik brand.

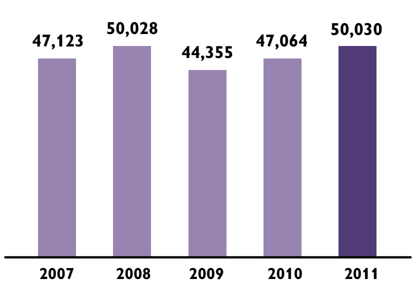
- Performance management
  Performance management with clear objectives throughout the organization will be fundamental in driving and following-up the business and individuals at all levels. All our managers are responsible for conducting annual performance dialogues including individual objectives and development plans.

- Excellent leaders
  Sandvik will have one leadership model, from which we identify, appoint, develop and sometimes even dismiss our leaders. The model will serve as a foundation for leadership development, and leaders will be reviewed based on it on an annual basis.

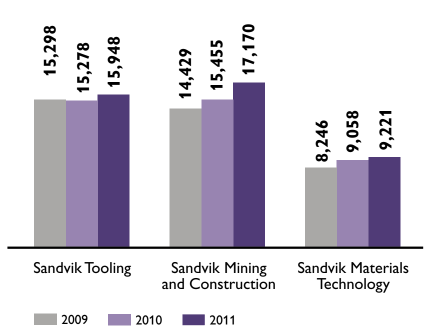
Remuneration and compensation

Sandvik's management by objectives is also reflected in the strategy for remuneration and compensation, which aims to support Sandvik's business objectives and contribute to maintaining Sandvik as an attractive company in which to work and develop. Sandvik's remuneration model comprises fixed salary, performance-based annual variable salary, long-term performance based salary for senior executives and specialists, pensions and other benefits. According to the Group's remuneration policy, fixed salary is based on four cornerstones: the complexity and difficulty of the position, individual performance, the salary situation in the relevant market and stimulation of the individual's professional development. Some of Sandvik's employees are entitled to

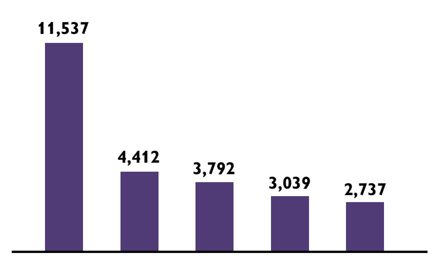
Number of employees



Number of employees by business area



Number of employees by business country



performance-based variable salary. Remuneration of these individuals is always based on predetermined goals. For remuneration of senior executives, see below and Note 3.5.

A flexible organization

Sandvik works continuously to adjust its production capacity and cost levels to prevailing market conditions. In addition to standard rationalization measures, the company seeks to implement measures that create flexibility in the organization as far as possible, for example, solutions in conjunction with an economic downturn could involve employee agreements regulating reducing working hours, temporary dismissal and strategic investments in skills developments.

Number of employees

The number of employees at the end of the year was 50,030 (47,064), an increase for comparable operations of 2,966 persons during the year. The number of employees in Sweden at 31 December 2011 totaled 11,537 (11,050). Data on personnel expenses and the average number of employees is available in Note 3.

Employment conditions

Sandvik's employment conditions are based on the UN's Universal Declaration of Human Rights and the ILO's Declaration on Fundamental Principles and Rights at Work.

Examples of activities carried out during the year to achieve the Group-wide target of improving the balance between men and women are a Diversity Management program held for specific key female employees at the Sandvik Materials Technology business area, workshops with the Sandvik Tooling business area management team and Sandvik Coromant management to enhance expertise in the area of diversity. A number of local and regional initiatives were conducted in this field in the Sandvik Mining and Construction business area. A relevant key figure that is monitored on a quarterly basis is the percentage of women and men in various positions, and here we can see a minor increase in the percentage of women. One of the focus areas of the new employee strategy effective 1 January 2012 is diversity.

Decision on principles for the remuneration of senior executives

The guidelines for the remuneration of the Board and senior executives that were adopted at the Annual General Meeting held on 3 May 2011 are stated in Note 3.5. The company's auditors have examined compliance with the guidelines.

The Board of Sandvik AB proposes that the Annual General Meeting on 2 May 2012 resolve on the continued principles for the remuneration of senior executives in accordance with that stated in Note 3.5. The Board's motion is designed to ensure that Sandvik, from a global perspective, can offer market-based remuneration that will attract and retain qualified members of the Group Executive Management. The remuneration package for Group Executive Management comprises fixed salary, annual variable salary and long-term variable salary and pension. The aim is that the components will form a well-balanced remuneration and benefit package that reflects the individual's performance and responsibility and the Group's earnings trend. The fixed salary, which is individual and differentiated in terms of responsibility and performance, is determined taking into account market conditions and is reviewed each year. The Board may depart from the principles established by the Annual General Meeting if, in isolated cases, there are special reasons for so doing. Those affected by these proposed principles are the President and the other members of the Group Executive Management. For further details on both the adopted principles and the Board's proposed revised principles, refer to Note 3.5.

Distribution of women/men	**2011**	2010
No. of employees 31 December	50,030	47,064
Average number of employees		
Women	8,978	8,189
Men	39,569	37,520
Total	**48,547**	**45,709**

Sustainable development

Sustainable development represents an integral part of the business process, with focus on continual improvement in such areas as environment, health and safety, human rights and business ethics. The Group's Code of Conduct forms the basis for Sandvik's improvement efforts in these areas.

In addition to the financial results of Sandvik's operations, the Group's environmental and social objectives and the outcome of these are presented in the company's Sustainability Report on pages 100–111.

Environment

Activities conducted during the year to fulfill Sandvik's objectives include two ISO 14001 certifications for companies recently acquired, the continued introduction of energy-saving programs, reduction of water consumption and increased recycling of materials. Relevant performance indicators that are followed up on a quarterly basis include use of electricity and fossil fuel, carbon dioxide emissions, water consumption, waste volumes and wastewater from processes.

Licensed operations

Sandvik complies with applicable laws and regulations relating to environmental issues in the countries where the Group operates. However, Sandvik applies even stricter requirements when it is ecologically justified, technically possible and economically viable. Sandvik's Swedish units conduct licensed operations in accordance with environmental legislation at eight plants. Permits for these sites relate to such activities as the manufacturing of various steel alloy, ceramic, cemented-carbide and castings products. All units have the environmental permits that are required for their operations. The main environmental impacts are emissions to air and water, energy use, waste production, older contaminated land areas and noise. Sandvik is highly dependent on the environmental permits granted for these sites.

In Sandviken, the Environmental Court of Appeal announced its decision pertaining to deferred issues regarding mercury emissions to air from the steelworks. The Environmental Court of Appeal extended the probationary period until 2013 and stipulated that by this date the company investigate the possibility to clean its mercury emissions.

No breaches of permissible manufacturing volumes or limit values within the parameters of the terms and conditions of permits occurred during the year. A number of guideline values were exceeded for noise and emissions to air and water at the sites in Västberga, Hallstahammar and Sandviken. Actions are being taken to comply with these target values, often in consultation with the relevant supervisory authority. At the Hallstahammar plant, breaches of guideline values for emissions to water in 2010 led to the plant being instructed to take appropriate action. The supervisory authorities also referred this case to the regional public prosecution office for consideration.

At Sandvik AB's sites in Sandviken, the public prosecution office decided to prosecute the company following a breakdown of the sewage system's main pump station in 2008. This matter will be settled in 2012.

For the units subject to environmental permits, public environmental reports are submitted each year to the supervisory authority.

Within the Sandvik Group, 27 known or presumed land contamination has occurred. Of these, remediation procedures have been ordered at 17 units at an estimated cost of some 150 MSEK. Moreover, voluntary remediation measures at a further nine sites have been agreed.

Following demands from the supervising authority, soil pollution was investigated at the plants in Gimo and Hallstahammar. Trichloroethylene (TCE) was detected in the soil at these plants. Additional investigations will be carried out in 2012.

When manufacturing companies are acquired or divested, the due diligence procedures always include a comprehensive environmental audit to identify any environmental liabilities related to the operation in question.

Emission allowances

The Group's plants in Sandviken and Hallstahammar are covered by the EU trading system in carbon dioxide emission allowances. In 2011, the Group was allocated emission allowances corresponding to 109,727 tons of carbon dioxide. For the period, carbon emissions totaling approximately 113,000 tons will be declared. The deficit will be covered by the purchase of new emissions rights.

The REACH chemical legislation and similar legislation will involve costs for processing of applications and registration of chemical substances. Fulfillment of requirements is also a strength for Sandvik's businesses.

Otherwise, Sandvik is not aware of any changes in environmental requirements raised by laws or otherwise that could have a significant operational or financial impact on business activities.

Health and safety

Regrettably, four work-related fatalities occurred at Sandvik's units in 2011 (see the Sustainability Report, page 105).

Activities pursued during the year to attain Group-wide objectives for health and safety, and employee conditions and development, include two new certifications under the OHSAS 18001 occupational health and safety management system for companies recently acquired, training, risk assessment of the workplace, more focus on reporting of incidents and improving the efficiency of safety committees. Relevant performance indicators that are monitored on a quarterly basis include the number of fatalities, the number of injuries resulting in lost time, the number of reported near misses and the number of lost days due to injuries.

Human rights and business ethics

Sandvik's policies relating to human rights and business ethics are summarized in the Code of Conduct. No incidents relating to violation of human rights in proprietary operations were reported during 2011. Some 100 incidents of harassment, fraud and corruption were identified. Where appropriate, corrective measures were implemented in all of these cases, including the dismissal of personnel.

Risks and risk management

The aim of Sandvik's risk management is to minimize risks within the company and also to ensure that opportunities are leveraged in the best possible manner. The uncertainty in the financial markets and the uneven recovery in the global product market have meant that Sandvik's work on restricting and controlling risk-taking was particularly important once again in 2011. Sandvik has a favorable risk spread with operations in more than 130 countries in about 20 product areas and a number of different industries.

Integrated risk management at Sandvik

The Sandvik Group has applied a comprehensive program for risk management – Enterprise Risk Management (ERM) for several years. The program covers all parts of operations, business areas as well as Group functions. Since ERM is an integral part of the control of Sandvik's operations, the process also assists the company in taking action when dramatic changes occur in the external environment and market conditions.

The main components of risk management are identification, measurement, management, reporting, monitoring and control. An action plan is established for each risk to accept, reduce, eliminate or increase the risk. Formal procedures and processes are established for the reporting, monitoring and control of risks. A full, consolidated ERM Report is submitted to Executive Group Management twice a year and to the Board once a year.

In 2011, Sandvik's markets continued to recover from the sharp economic downturn in demand that dominated 2009. Risk management continued to focus on the Group's business risks in order to efficiently retain and balance capacity and personnel during the period of economic upturn.

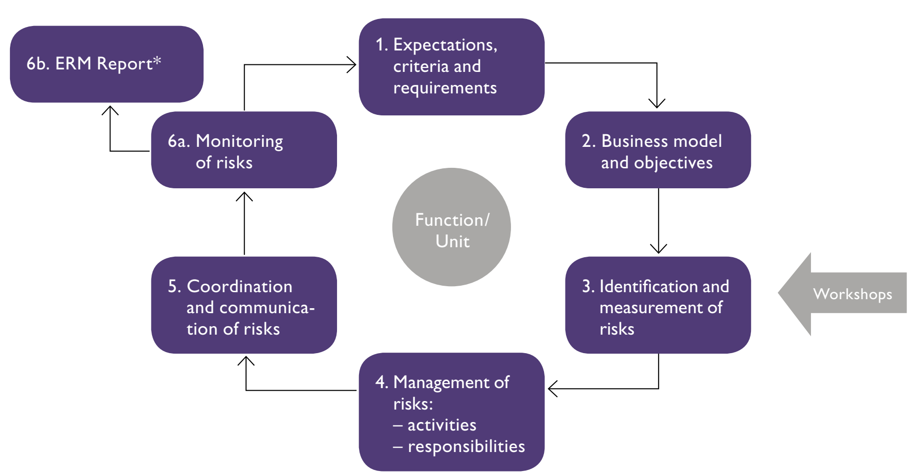
Operational risks

Each manager with operational responsibilities shall ensure that risks associated with the operations are appropriately identified, measured and managed. Operational risks include market and country risks, R&D risks, product risks, production risks, health and safety as well as environmental risks. Each unit's risks are regularly summarized in a report, which also details the actions that are being taken to manage the risks. Each risk is measured and assigned an action plan. All this information is consolidated at Group level.

The purpose of the integrated risk management work

- Create heightened risk awareness in the organization, from operational decision-makers to the Board of Directors. Transparent and consistent reporting of risks shall form a basis for a united approach to what shall be prioritized and managed.
- Support the Board of Directors and executive management in strategic decision-making through continuous identification and evaluation of strategic risks.
- Contribute to improvements in operational decision-making by managers at various levels by ensuring that operational risks are continuously evaluated and managed.
- Improve control of the company's exposure to risk by implementing a Group-wide model and methodology to consolidate risks.

ERM process, Overview



* Reporting twice per year, of which once to the Sandvik Board of Directors.

Sandvik's risk areas

One-off risks	Business	Compliance	Financial reporting
• Acquisitions • Structural changes • Dramatic changes in macroeconomics	• Industry & Market • Commercial • Operational	• Power of Sandvik[1] • Tax legislation • Local laws • Governance [1] Refer to Corporate Governance Report	• Financial closure process • Financial reporting system • Business analysis • Internal control

Compliance risks

Sandvik is globally engaged in many different areas and conducts its business within the framework of rules and regulations that apply in various countries, markets and factual areas. The Group shall comply with laws governing environmental and labor issues, the operation of the business, taxation, terms of employment, marketing regulations, and so forth. In addition, the Group has internally established regulatory systems and instructions as support for management and other employees in the company.

Financial reporting risks

Operating companies within the Sandvik Group present reports on their financial performance and economic status on a regular basis in accordance with internal reporting rules and the accounting policies that Sandvik applies, the International Financial Reporting Standards (IFRS). The Group's controller function validates and analyzes the financial information as a part of the quality control of financial reporting. See also the Corporate Governance Report on pages 36–43.

One-off risks

Through recurring updates conducted as part of the ERM work, specific changes in the business or in factors affecting the business are identified. These may relate to the acquisition of a new company, a major investment, new legislation, sudden changes in market conditions, technical innovation, etc., whose implications must be individually assessed.

Legal risks

Litigation

On occasion, Sandvik is party to litigation and administrative proceedings related to its operations, including responsibility for products, the environment, health and safety. However, Sandvik does not deem that any of these ongoing proceedings and processes will significantly affect the Sandvik Group.

Sandvik's US subsidiary, Sandvik Inc., has been subject to lawsuits in the US in which the plaintiffs have claimed that exposure to welding fumes has caused neurological injury. Sandvik Inc., sells welding electrodes, although its market share in the US is less than 1%. All of the cases against Sandvik also involve other defendants who have sold welding electrodes in the US. In order for a plaintiff to win a judgment against Sandvik, the plaintiff would have to prove that he used Sandvik's welding electrodes and that he has neurological injuries that were caused by such use. Many of the cases against Sandvik have been dismissed because the plaintiffs were unable to prove that they used Sandvik's welding electrodes. Furthermore, Sandvik believes that there is no reliable scientific evidence to support the claims being made in these lawsuits. To date, Sandvik has not lost or settled any of these lawsuits, and the only costs that have arisen are the costs of defending the lawsuits. A significant portion of these defense costs have been covered by Sandvik's insurance policies.

Protection of intellectual property rights

To protect the return on the resources that Sandvik invests in research and development, the Group has a strategy for the active safeguarding of technical achievements against patent infringements and copying. Sandvik protects its intellectual property rights through legal proceedings when necessary.

Tax disputes

During 2007, the Swedish National Tax Board performed tax audits at Sandvik AB and Sandvik Intellectual Property AB (the "IP Company"), and in this connection, reviewed the reorganization of ownership and management of intellectual property rights that took place in 2005.

As a result of the reorganization, Swedish owned patents and trademarks were transferred to the IP Company. The reasons for this reorganization were the need to gather the activities relating to intellectual property rights into one company to visualize the considerable worth of the intellectual rights and to gain operational advantages.

The Tax Board did not approve the tax returns for the 2005 and 2006 fiscal years filed by the IP Company with respect to the claimed deductions for amortization of the transferred intellectual property rights.

The Tax Board approved the tax returns filed by Sandvik AB for the 2005 fiscal year. Subsequently, the Tax Board, through the Public Commissioner, filed an appeal against its own decision relating to the effects of the above-mentioned reorganization. In addition, according to the Commissioner's appeal, the rejection of the IP Company's amortization claims should be removed in the event that the appeal concerning Sandvik AB's tax returns is approved. If the Commissioner's appeals are approved, the resulting additional tax expense of some 5,050 MSEK would not affect Sandvik's earnings since the amount would correspond to the tax value of the raised taxable amortization in the IP Company. However, as a result of a reduction in Swedish income tax from 28% to 26.3% effective from 2009, the tax value of the taxable amortization would be affected negatively by about 200 MSEK.

If the Court accepts Sandvik's position, the Group's tax expense would decline by about 4,850 MSEK, to be recognized as income when such a court order gains legal force.

In January and December of 2008, the IP Company appealed the decision by the Tax Board regarding taxation for 2005, 2006 and 2007. For subsequent years of assessment, both the Tax Board and Sandvik have dealt with tax returns and appeals in the same manner as previously. In June 2010, the Administrative Court in Falun approved the Public Commissioner's appeal pertaining to additional taxation of Sandvik for 2005. Sandvik subsequently appealed the decision and was granted a respite for its tax payments. Pending a conclusion of the legal proceedings, Sandvik has established a provision for the tax effects of implemented amortization in the IP Company and for accrued interest for the tax that the Public Commissioner's appeal against Sandvik AB would entail if approved.

An area that Sandvik periodically discusses with the tax authorities is transfer pricing issues, meaning the prices applied to products distributed from Sandvik's production plant to its sales companies in various countries. Sandvik keeps detailed documentation for this pricing, but if the tax authorities' opinion in a pricing matter differs from Sandvik's standpoint, it may have consequences for Sandvik's revenue recognition between countries.

Insurable risks

Sandvik has the customary insurance programs with respect to the Group's property and liability risks.

As a natural element of the Group's various activities, measures to limit the impact of damages are taken continuously, often in cooperation with Sandvik's external insurance advisors.

In such a context, standards for desired protection levels are established to reduce the probability of significant material damages and to guarantee deliveries to customers.

Sustainability risks

Sustainability risks entail the risk of an adverse impact on the environment, health and safety, human rights and business ethics due to the commercial operations conducted by Sandvik. To minimize these risks, Sandvik conducts comprehensive work at all levels of the company. Fair play and Code of Conduct seminars are held throughout the Group on a regular basis. These aspects also comprise key areas for Sandvik's internal assurance function, Group Assurance. In recent years, Sandvik has also developed a separate Sustainability Report, which requires a systematic analysis of the company's operations in terms of sustainability and enables the identification of risks within this area. For further information, see Sandvik's Sustainability Report on pages 100–111.

Financial risk management

Through its comprehensive and international operations, Sandvik is exposed to financial risks. The Board of Directors is responsible for establishing the Group's finance policy, which comprises the guidelines, objectives and limits for financial management and the managing of financial risks within the Group.

Sandvik Financial Services has been established to act as the functional organization responsible for managing the greater part of the Group's financial risks.

The primary objective of the function is to contribute to the creation of value by managing the financial risks to which the Group is exposed in the ordinary course of business, and to optimize the Group's financial net.

Sandvik Financial Services provides service to Group companies and its task is to support subsidiaries with loans, investment opportunities and foreign exchange deals, and to act as advisors in financial matters. The function conducts internal banking operations and is based at the head office in Sweden and in Singapore. The internal bank also conducts Sandvik's netting system, and is responsible for the Group's cash management.

Sandvik Financial Services also conducts operations for payment advice and trade finance, and issues the Group's global credit policy. This activity is carried out mainly through the head office in Sweden and via finance companies in the US and Chile.

Finally, Sandvik Financial Services also manages the financial risks associated with the company's defined-benefit pension plans.

Only banks with a solid financial position and high credit ratings are accepted as Sandvik's counterparties in financial transactions.

The presentations comply with the reporting requirements stated in accordance with IFRS (IFRS 7 and IAS 39).

Risk	Exposure	Comments

Currency risk

Currency risks refer to the foreign-exchange movements affecting the company's result for the year, other comprehensive income, and the company's competitive situation in various ways:

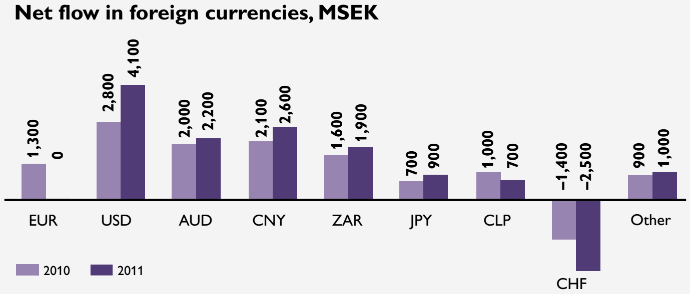
- The result for the year is affected when sales and purchases are made in different currencies **(transaction exposure).**
- The result for the year is affected when assets and liabilities are denominated in different currencies **(translation exposure).**
- The result for the year is affected when the financial results of subsidiaries are translated to SEK **(translation exposure).**
- Other comprehensive income is affected when the net assets of subsidiaries are translated to SEK **(translation exposure).**

Sandvik manages the currency risks that arise in the manner described in the following section. The manner in which the currency risk is managed has not been changed compared with the preceding year.

Transaction exposure

Sandvik's transaction exposure, meaning the Group's net flow of currencies, after full offsetting of the countervalue in the exporting companies' local currencies, amounted to 10,900 MSEK (11,000) in 2011. The most important currencies are shown in the diagram below.

Net flow in foreign currencies, MSEK



Sandvik generally offers customers the possibility to pay in their own currencies through the global sales organization. As a result, the Group is continuously exposed to currency risks in accounts receivables denominated in foreign currency and in future sales to foreign customers. Since a large percentage of production is concentrated to a few countries, while sales occur in many countries, Sandvik is exposed to a large net inflow of foreign currencies. To reduce exposure to foreign currencies, currencies received are used to pay for purchases in the same currency.

A certain portion of the anticipated net flow of sales and purchases is hedged through financial instruments in accordance with guidelines set in the Group's finance policy. In addition, major project orders are currency hedged to safeguard the gross margin. The CFO establishes how much of the Group's transaction exposure needs to be hedged. At year-end, the total hedged amount was 6,337 MSEK (6,458). The average duration for the hedged volume of foreign currency was about 2 years (2). Unrealized gains from outstanding currency contracts for hedging of future net flows amounted to 243 MSEK (489) at year-end. Of these, –80 MSEK relates to contracts maturing in 2012 and 323 MSEK to contracts maturing in 2013 or later. Hedge accounting in line with IAS 39 is applied for the most significant portion of the hedge transactions. For a more detailed breakdown of the quarterly effects on cash flow of the transactions that have been recognized in the hedge reserve, see Note 31.

Risk	Exposure	Comments

Risk

Translation exposure

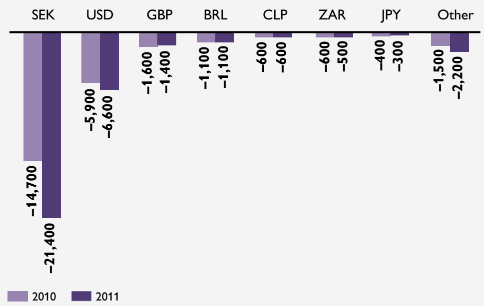
Sandvik's subsidiaries should normally not have any extensive translation risk in their balance sheets since the objective is that a subsidiary's receivables and liabilities in foreign currency shall be balanced (currency hedged).

Profit/loss in a foreign subsidiary is translated to SEK based on the average rate for the period to which the profit/loss relates, which means that the Group's result is exposed to a translation risk.

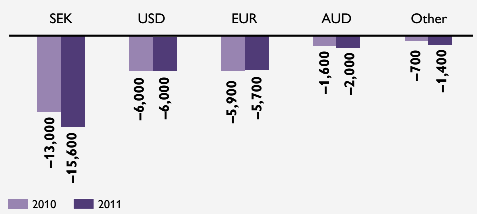
Net assets, meaning the subsidiaries' shareholders equity, are translated into SEK at the rate applying on the balance-sheet date. At 31 December, the Group's net assets in subsidiaries in foreign currency were 33,200 MSEK (34,500).

Exposure

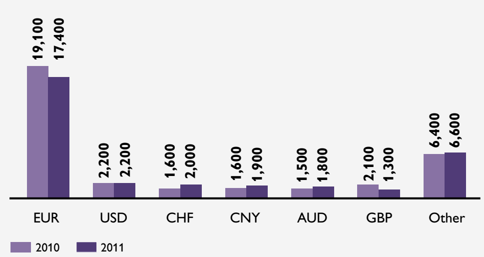
Subsidiary financing by currency (net), MSEK



Group's external borrowing by currency, MSEK



Net assets by foreign currency, MSEK



Comments

To avoid translation risk in the balance sheets of subsidiaries, they are financed through the internal bank. The currencies required by the subsidiaries are shown in the adjacent diagram. External borrowing often takes place in a specific currency, as shown in the following diadram. The currency risk that arises in the internal bank as a result of this is managed using various derivatives, thus minimizing the translation risk.

Sandvik has chosen not to hedge future profits in foreign subsidiaries. Net assets are also not hedged, but the differences that arise due to changes in exchange rates since the preceding year-end are recognized directly in other comprehensive income. The final diagram shows the distribution of net assets between various currencies.

Risk	Exposure	Comments
Exchange-rate sensitivity To gain a comprehensive understanding of how exchange-rate fluctuations impact the Group's operating result, consideration must be given to the transaction exposure, the operating result of the subsidiaries in their respective currencies and implemented hedging activities. The sensitivity of the Group's other comprehensive income to exchange rates depends on the size of net assets. A side from net assets, other comprehensive income is also exposed to exchange-rate risk, since certain derivative contracts are subject to hedge accounting, which means that the change in the market value of these contracts is recognized directly in other comprehensive income instead of in the result for the year.	If the exchange rates for the exposure currencies were to change by 5% in an unfavorable direction for the company, the total operating result over a 12-month period would change by approximately 1,200 MSEK, assuming that the structure is the same as it was at year-end. The net effect on other comprehensive income of a similar change to exchange rates would be approximately 1,900 MSEK. This net effect primarily comprises translation exposure in equity.	
Interest rate risk Interest rate risk is defined as the risk that changes in market interest rates will have an adverse impact on the Group's net interest items. The speed with which a change in interest rate affects net interest items depends on the fixed-interest terms of assets and liabilities. Sandvik measures interest rate risk as the change over the forthcoming 12 months given a 1 percentage point change in interest rates. Interest rate risk arises in two ways: • The company may have invested in interest-bearing assets, the value of which changes when the interest rate changes. • The cost of the company's borrowing fluctuates when the general interest rate situation changes.	If market rates were to rise by 1 percentage point across all terms at 1 January 2012, in relation to loans for which the interest rate will be reset during the coming year, net interest expenses would be impacted by –148 MSEK. An interest rate sensitivity analysis of interest-swap agreements valid at year-end, and to which hedge accounting was applied, shows that other comprehensive income would change by 198 MSEK as a result of a 1 percentage point parallel shift of the interest rate curve.	In the event that Sandvik has surplus liquidity, it is placed in bank deposits or in short-term money-market instruments with durations of less than 90 days, which means that the interest risk (the risk of a change in value) is low. The Group's interest rate risk arises mainly in connection with borrowing. Interest-swap agreements are sometimes used to achieve the desired fixed-interest term. The CFO has a mandate to vary the average fixed-interest term of the Group's debt portfolio, provided that it does not exceed 36 months. The average fixed-interest term on Sandvik's borrowing was 27 months (29) at year-end, with consideration given to derivative agreements entered into. As described in a previous section (translation exposure), internal lending to foreign subsidiaries is often hedged. If market interest rates are higher abroad than in Sweden, the foreign exchange contracts entail an interest expense. The Group´s average interest expense, including other loans and effects of various derivatives, was 5.6% (6.1). Hedge accounting is applied when an effective link exists between hedged loans and interest swaps. Accordingly, changed market interest rates could also impact other comprehensive income, since the Group has interest-swap agreements to which it applies cash-flow hedging. This means that changes in the market values of these swaps are recognized directly in other comprehensive income instead of in the result for the year. A presentation of all interest-swap agreements entered into, and information regarding their duration, can be found in Note 31. Sandvik's loan conditions do not currently entail financial covenants. Only under exceptional circumstances are assets pledged in connection with the raising of loans. Such pledging is disclosed in Note 30.

Interest rates and fixed-interest terms on outstanding loans

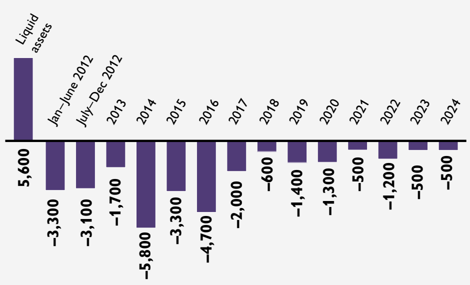
	Including effects of interest-rate derivatives		
MSEK	Effective rate of interest, %	Fixed-interest term, months	Recognized liability, MSEK
Bond loans, Swedish MTN	4.4	29	10,027
Bond loans, European MTN	6.5	16	5,323
Private placement	3.7	77	5,947
Commercial papers	2.9	2	197
Other loans from banks	4.4	1	9,220
Total	**4.7**	**27**	**30,714**
Interest effect of currency derivatives	0.9		
Total incl. currency derivatives	**5.6**		

Risk	Exposure	Comments

Liquidity and refinancing risk

Liquidity and refinancing risk is defined as the risk that financing possibilities will be limited when loans must be refinanced, and that payment commitments cannot be met as a result of insufficient liquidity.

Maturity profile for borrowing and liquid assets
Nominal amount, MSEK



Borrowing, size of programs and remaining credit periods

	Currency	Recognized liability, MSEK	Size of programs, MSEK	Average remaining credit period (years)
Bond loans, Swedish MTN	SEK	10,027	15,000	4.8
Bond loans, European MTN	EUR	5,323	26,808	2.2
Private placement	USD	5,947	—	8.0
Commercial papers	SEK	197	16,702	0.1
Other loans from banks	Diverse	9,220	—	1.5
Total borrowing		**30,714**	**58,510**	**3.9**

According to the finance policy, the Group's capital employed excluding cash and cash equivalents should be financed on a long-term basis and the short-term liquidity reserve should correspond to at least two weeks' operating expenses. At year-end, the Group's capital employed, excluding cash and cash equivalents, was 64,000 MSEK and long-term financing, including share capital, pension liabilities, long-term tax liabilities, long-term provisions and long-term guaranteed credit facilities, amounted to approximately 70,000 MSEK. The short-term liquidity reserve amounted to about 12,500 MSEK, comprising credit facilities and the Parent Company´s cash and cash equivalents less loans that mature for payment over the next six months. This amount should be compared with two weeks' estimated operating expenses of nearly 3,000 MSEK.

Sandvik has credit facilities totaling 1,500 MEUR, of which 500 MEUR will mature in 2012 and 1,000 MEUR in 2013. The facilities, which are the Group's primary liquidity reserve, were unutilized at year-end. These were replaced with two new facilities at the start of 2012, one amounting to 650 MEUR and the other to 5,000 MSEK.

The aim of Sandvik's financing strategy is to maintain a well-balanced maturity profile for liabilities to reduce refinancing risk. The share of long-term loans in relation to total borrowing was 81% at year-end 2011 compared with 87% one year earlier. The maturity structure for the Group´s financial liabilities and derivatives is presented in Note 31.

At year-end, Standard & Poor's, the international credit rating agency, had assigned a BBB+ credit rating to Sandvik's long-term borrowing and A-2 for its short-term borrowing. For a continuous update on Sandvik's credit rating, refer to www.sandvik.com.

Credit risk

The Group's commercial and financial transactions give rise to credit risk in relation to Sandvik's counterparties. Credit risk or counterparty risk is defined as the risk for losses if the counterparty does not fulfill its commitments.

The credit risk to which Sandvik is exposed can be divided into three categories:

- Financial credit risk
- Credit risk in trade receivables
- Credit risk in customer financing

Total credit risk – Financial instruments

MSEK	**2011**	2010
Trade receivables	14,563	12,738
Cash and cash equivalents	5,592	4,783
Unrealized gains on derivatives	983	1,189
Other receivables	753	764
Total	**21,891**	**19,474**

Sandvik has entered into agreements with the banks that are most important to the company covering such matters as the right to offset receivables and liabilities that arise from financial derivative transactions, so-called ISDA agreements. This means that the company's counterparty exposure to the financial sector is limited to the unrealized positive results that arise in derivate agreements, and investments and bank balances. At 31 December 2011, the value of these amounted to 6,575 MSEK (5,972).

The Sandvik companies are exposed to credit risk in outstanding trade receivables from ongoing sales. The use of payment terms and risk management are regulated in Sandvik's Group-wide credit policy. Credit risk is diversified over a large number of customers in all business areas and satisfactorily reflects the spread of sales. The credit quality of the trade receivables that have not fallen due for payment is good. Sandvik's credit losses amounted to –37 MSEK (–88), which is less than 0.1% of sales. The total gross value of outstanding trade receivables was 15,240 MSEK (13,399) at 31 December. Total impairment of these was –667 MSEK (–661). Ageing analyses of trade receivables at 31 December are presented in Note 20.

Sandvik offers short and long-term customer financing through its own financing companies and in partnership with financial institutions and banks. Customer financing usually takes place in conjunction with the sale of products from Sandvik Mining and Construction, with the aim of supporting and promoting sales and enhancing competitiveness in the market. Customer financing at Sandvik is being developed by expanding the partnership with the Swedish National Export Credits Guarantee Board (EKN) and other financial institutions. At year-end, the value of outstanding credits in financing companies was 640 MSEK (523), of which 13 MSEK was reserved for doubtful receivables.

Sandvik regularly provides buyback guarantees, that is, a promise to repurchase a machine at a price established in advance. At year-end, the outstanding buyback guarantees amounted to 354 MSEK (382).

In addition to the traditional financing of equipment that the customer buys, Sandvik also offers rental machines to customers that only require the use of a machine for a shorter period. At year-end, the net carrying amount of these machines was 427 MSEK (562).

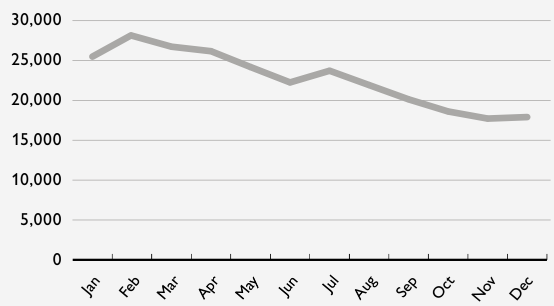
Risk	Exposure	Comments

Raw materials price exposure

Sandvik's financial risks related to raw materials are primarily concentrated to nickel, molybdenum and electricity. The price risk involved in these is partially hedged through the signing of financial contracts. Other risks that raw materials may give rise to are managed as described in the Risk and risk management section.

The price of nickel varied significantly during the year, as shown in the diagram on the right.

Monthly average price of nickel during 2011, USD



Net total consumption of nickel amounted to about 15,300 metric tons during the year. When Sandvik Materials Technology obtains a significant customer order with a fixed price for nickel and molybdenum, the price of these materials is hedged by signing financial contracts.

The Group pursues an offset hedging strategy to eliminate the metal price risk in connection with transactions conducted at a variable metal price. The measurement of inventory is not affected by offset hedging.

At year-end, the volume of hedged nickel inventory was 3,324 metric tons (3,413). The market value of commodity derivatives entered into was 47 MSEK (146).

For Sandvik's large production units in Sweden, the electricity price is continuously hedged through derivatives. The total electricity consumption at these units normally amounts to some 900 GWh. The hedging horizon at year-end was about 19 months' (19) expected consumption. The market value of electricity derivatives was 567 MSEK (830) at year-end. Losses from these derivative contracts amounted to –101 MSEK (gain: 173). A change in the electricity price of SEK 0.10 per kWh is estimated to impact Sandvik's operating result and other comprehensive income by plus or minus 90 MSEK on an annual basis, based on the prevailing conditions at year-end 2011.

Hedge accounting in accordance with IAS 39 is applied to the majority of the raw materials and electricity derivatives. To view when recognized hedging transactions will impact the result for the year, see Note 31.

Pension commitments

Sandvik has comprehensive pension obligations for its employees in the countries in which it operates. The pension solutions vary depending on legislation and local agreements. The most comprehensive agreements are found in Sweden, Finland, Germany, the UK and the US.

The average interest rate duration for the Group's interest-bearing assets in the pension portfolio is 5.8 years, and 16.6 years for the pension commitment. Since the durations of the assets and liabilities differ, a change in interest rates of 1 percentage point would have a net impact of approximately 1,400 MSEK. A 20% fall in the stock market would lead to a decline in assets of about 900 MSEK. If the life assumptions, so-called longevity, are changed by one year, the pension liability would change by about 4%, which corresponds to about 600 MSEK. The risk, measured as Value at Risk (VaR) with a 95% confidence interval and a one-year holding period, is approximately 1,800 MSEK.

Trend of pension liability and managed capital

To ensure the efficient administration of the substantial pension plans and efficient management of funds reserved for pension plans, Sandvik has established a separate entity for this purpose, the Sandvik Pensions Supervisory Board. In addition, local pension boards are established in each country that are responsible for compliance with legislation and local agreements.

The defined-benefit pension plans are described in Note 23.

In 2011, managed capital totaled 12,800 MSEK and the corresponding pension commitments amounted to 15,300 MSEK, which is equal to a consolidation level of 84% (92). The return on Sandvik's Group pension assets was 2.5% (8.7).

Corporate Governance Report

Corporate governance within Sandvik is based on applicable legislation, the rules and regulations of the Stock Exchange, the Swedish Code of Corporate Governance (the "Code"), and internal guidelines and regulations. The aim is to ensure efficient and value-creating decision-making by clearly specifying the division of roles and responsibilities among shareholders, the Board and executive management.

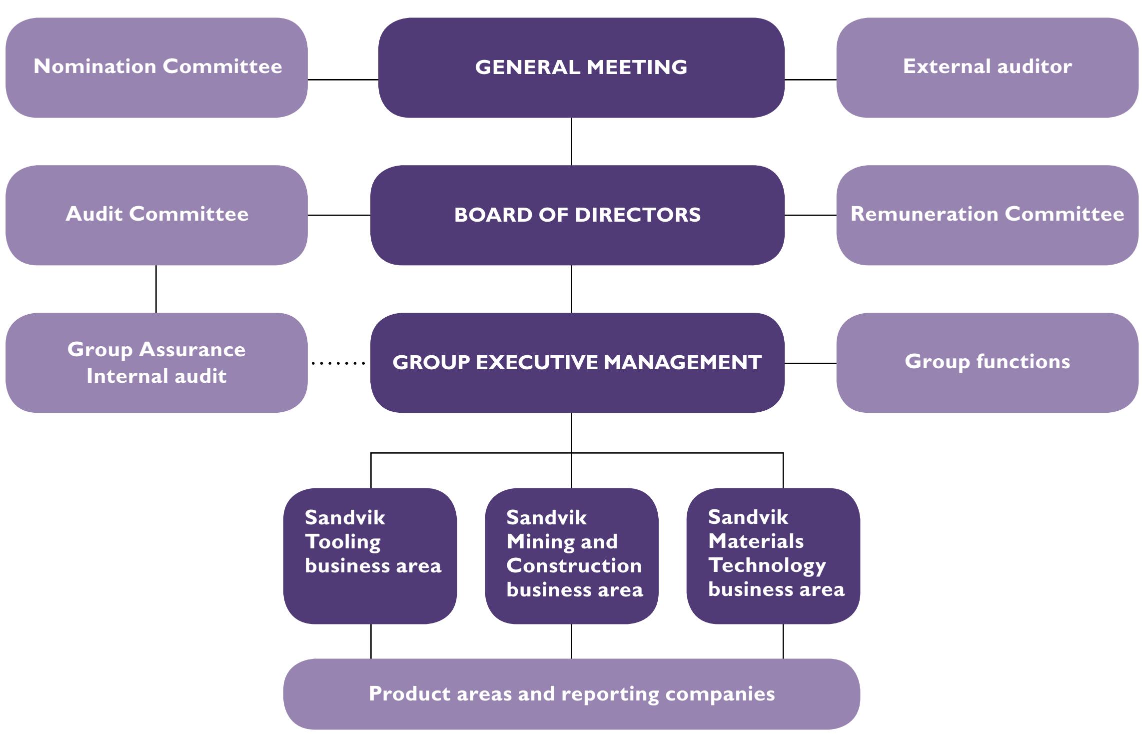
Corporate governance comprises the Group's control and management systems. Another important corporate governance ingredient is the link to Sandvik's risk management, in accordance with the ERM model, and to the approved model for remuneration of senior executives. The Code is available from www.corporategovernanceboard.se. Sandvik applied the Code in 2011 without deviating from any of the Code's regulations.

Sandvik AB is the Parent Company of the Sandvik Group, with subsidiaries in about 60 countries. Its operations

Significant events

- Olof Faxander took office as President and CEO on 1 February 2011.
- Jonas Gustavsson, Anna Vikström Persson and Tomas Nordahl became members of Group Executive Management.
- Olof Faxander and Johan Karlström were elected new Board members.
- A new strategic direction was adopted.
- A new organization was introduced and new Group Executive Management team was appointed, effective 1 January 2012.
- Sandvik made a take over offer to the minority shareholders of the subsidiary Seco Tools AB in November 2011.
- An Extraordinary General Meeting, held in December 2011, resolved to change the place of the registered office of the Board from Sandviken to Stockholm.

Organizational model[*)]



As a component in the governance of Sandvik, Group-wide cooperation and task forces have been established comprising representatives from all business areas and the Group. Examples of such groups include the Finance Management Team, IT Management Team, R&D Council and Cross Communication Team.

*) For the period until 31 December 2011.

are global with sales in more than 130 countries, and the Sandvik Group has approximately 50,000 employees. Sandvik AB is a public company listed on NASDAQ OMX Stockholm (the “Stock Exchange”).

Ownership structure

At 31 December 2011, Sandvik’s share capital amounted to 1,423,544,610 SEK represented by 1,186,287,175 shares. Following the issues of new shares in Sandvik in January 2012 as part of Sandvik’s acquisition of Seco Tools AB, Sandvik’s share capital amounts to 1,505,263,107.60 SEK and the number of shares to 1,254,385,923. Each share carries one vote at meetings of shareholders. According to the owner register, Sandvik had about 113,000 shareholders at 31 December 2011. AB Industrivärden is the largest owner with about 12.2% of the share capital. Of the total share capital at year-end, approximately 32% was owned by foreign investors.

General meetings

Pursuant to the Swedish Companies Act, the General Meeting of shareholders is the highest decision-making forum, at which the shareholders exercise their voting rights. At the Annual General Meeting, resolutions are made relating to the Annual Report, dividends, election of Board members and, where applicable, appointment of auditors, and other matters stipulated in the Companies Act and the Articles of Association.

Sandvik’s Articles of Association do not contain any limitations on the number of votes that a shareholder may cast at a Meeting. In addition, the Articles of Association do not contain any specific provisions regarding the appointment or discharge of Board members or regarding amendments to the Articles.

All shareholders who have been entered in the Share Register and have informed the company of their attendance within the correct time limit stated in the notice are entitled to participate at Sandvik’s General Meetings and vote according to the number of shares held. Shareholders are also entitled to be represented by a proxy at the Meeting. Notice of the General Meeting is published in Post- och Inrikes Tidningar and on the company’s website. Confirmation of the publication of the notice is published in Svenska Dagbladet and in a daily newspaper published in Sandviken or Gävle.

2011 Annual General Meeting

Shareholders representing 50.71% of the votes and share capital attended the Annual General Meeting held on 3 May 2011 in Sandviken. Sven Unger, attorney-at-law, was elected to chair the meeting. The meeting resolved to pay a dividend of 3.00 SEK per share.

The ten largest shareholder groups at 31 December 2011, %

	2011
AB Industrivärden	12.2
Swedbank Robur Funds	4.6
Handelsbanken's Pension Foundation	4.1
Alecta Pension Insurance	3.6
JPM Chase*	3.6
Omnibus Account W FD OM80	3.3
L E Lundbergföretagen AB	2.3
Göranssonska Foundations	2.1
Handelsbanken Funds	1.7
Folksam	1.6

* Administrates shares held in trust.

Johan Karlström and Olof Faxander were elected new members of the Board, and Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, Simon Thompson and Lars Westerberg were re-elected members of the Board. Anders Nyrén was re-elected Chairman of the Board. KPMG AB was re-elected as the company’s auditor through the 2015 Annual General Meeting. The Meeting resolved on a procedure for the composition of the Nomination Committee, and approved the Board’s proposal regarding guidelines for remuneration of senior executives and amendments to the Articles of Association, to adapt the Articles to the revisions in the Companies Act, among other items. Furthermore, the Meeting resolved to implement a long-term share-based incentive program for about 400 senior executives and key employees in the Group. Additional information about the Annual General Meeting, including the minutes, is available from the company’s website www.sandvik.com.

2011 Extraordinary General Meeting

An Extraordinary General Meeting held on 12 December 2011 resolved to authorize the Board of Directors, until 31 March 2012, on one or more occasions, to resolve to issue no more than 69,195,888 new shares as consideration for the acquisition of shares in Seco Tools AB. In addition, the Meeting resolved to amend the Articles of Association to the effect that the place of the registered office of the Board was changed from Sandviken to Stockholm.

2012 Annual General Meeting

Sandvik’s 2012 Annual General Meeting will be held on 2 May in Sandviken. Shareholders who wish to have a matter addressed by the Annual General Meeting must submit a written request to the Board in sufficient time prior to the Meeting. More information is available from Sandvik’s website, www.sandvik.com.

Nomination Committee's tasks ahead of the 2012 Annual General Meeting

- Submit proposal concerning the Chairman of the Meeting.
- Proposal concerning the number of Board members.
- Proposal concerning remuneration of each Board member.
- Proposal concerning Board members and Chairman of the Board.
- Proposal concerning the method of appointment of the Nomination Committee for the forthcoming Annual General Meeting and its assignments.

Nomination Committee

The 2011 Annual General Meeting resolved that the Nomination Committee for the 2012 Annual General Meeting should comprise representatives of the four largest shareholders, in terms of the number of votes, on the final business day in August 2011 and the Board Chairman (convener).

Nomination Committee for 2012 AGM

For the Annual General Meeting to be held on 2 May 2012, the Nomination Committee consists of Carl-Olof By, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken's Pension Foundations), Staffan Grefbäck (Alecta), Marianne Nilsson (Swedbank Robur Funds), and Anders Nyrén (Sandvik's Chairman of the Board). Up to 15 February 2012, the Nomination Committee had met on three occasions. Through Sandvik's Board Chairman, the Nomination Committee received information concerning the Board's own evaluation and the company's operations, stage of development and overall status. The Nomination Committee discussed the general criteria that Board members should fulfill, including independence issues. The issue of more even gender distribution was addressed by the Committee. The Nomination Committee also had access to an external consultant as part of its work to identify and evaluate potential new Board members.

The Board of Directors

The Board of Directors is responsible for the company's organization and the management of the company's business. The Board shall continuously monitor the company's and the Group's financial position.

The Board shall ensure that the company's organization is designed in a way that ensures that the accounts, the management of assets and the company's financial condition in general are controlled in a satisfactory manner.

The CEO is responsible for the daily operations pursuant to guidelines and instructions issued by the Board. The distribution of responsibilities between the Board and the CEO is laid down in written terms of reference.

The Board's Procedural Guidelines and instruction for work delegation between the Board and the CEO, as well as financial reporting, are updated and approved each year. The update is based on such aspects

Composition of the Board since 2011 Annual General Meeting

Name	Function	Independent in acc. with the Code	Shareholding, number[3] 31 Dec 2011	Elected	Audit Committee	Remuneration Committee
Alicia Espinosa	Deputy*		7,137	2010		
Olof Faxander	Member	No[2]	9,639	2011		
Johan Karlström	Member	Yes	5,000	2011		
Jan Kjellgren	Member*		570	2008		
Tomas Kärnström	Member*		2,865	2006		
Fredrik Lundberg	Member	No[1]	6,040,000[4]	2006		
Hanne de Mora	Member	Yes	0	2006	Chairman	
Egil Myklebust	Member	Yes	10,000	2003		Member
Anders Nyrén	Chairman	No[1]	4,500	2002	Member	Chairman
Simon Thompson	Member	Yes	0	2008	Member	
Lars Westerberg	Member	Yes	12,000	2010		Member
Bo Westin	Deputy*		0	1999		

* Employee representatives (both members and deputy members partake in Board meetings). Jan Kjellgren (member) and Alicia Espinosa (deputy) represent Unionen/Ledarna/ Swedish Association of Graduate Engineers. Tomas Kärnström (member) and Bo Westin (deputy) represent IF Metall.
1) Not independent in relation to major shareholders in the company.
2) Not independent in relation to the company and Group Executive Management.
3) Pertains to own and closely related persons shareholdings.
4) Shareholding in Sandvik in addition to shareholding via L E Lundbergföretagen AB totals 27,500,000, and shareholding via AB Industrivärden totals 144,577,252.

as the Board's evaluation of the individual and collective work that the Board performs.

In addition to financial reporting and the monitoring and follow-up of daily operations and profit trend, Board meetings address the goals and strategies for the operations, acquisitions and major investments, as well as matters relating to the financial structure. Senior executives report business plans and strategic issues to the Board on an ongoing basis. The respective committees prepare remuneration and audit matters.

Evaluation of the work of the Board

To ensure that the Board of Directors meets with required standards, a systematic and structured process has been developed to evaluate the work that the Board and its members perform. The evaluation of the work of the Board and its need for experience and expertise covers each individual member. The Board discusses the evaluations in a plenary meeting. The Chairman of the Board presents the results of the evaluation at a meeting with the Nomination Committee.

The principal tasks of the Board are to

- establish the overall objectives and strategy for the operations,
- appoint, evaluate and, if necessary, discharge the CEO and otherwise ensure that the company's executive management functions efficiently and is suitably remunerated,
- ensure that the provision of information by the company is open, correct, relevant and reliable,
- ensure that there are effective systems for the monitoring and control of the company's operations,
- monitor and evaluate the company's development and advise and support the CEO in taking necessary measures,
- ensure that there is adequate control of compliance with laws and regulations governing the company's operations,
- ensure that necessary ethical guidelines are established for the company's conduct,
- decide on acquisitions, divestments and investments,
- propose the dividend to the Annual General Meeting.

Attendance at Board and Committee meetings in 2011

Member	Board	Audit Committee	Remuneration Committee
Number of meetings	12	5	4
Georg Ehrnrooth[1]	3		2
Alicia Espinosa	10		
Olof Faxander[2]	9		
Johan Karlström[2]	9		
Jan Kjellgren	12		
Tomas Kärnström	12		
Fredrik Lundberg	12		
Hanne de Mora	10	5	
Egil Myklebust	12		4
Anders Nyrén	12	5	4
Lars Pettersson[1]	1		
Simon Thompson	12	5	
Lars Westerberg	12		2
Bo Westin	10		

1) Left the Board in conjunction with the Annual General Meeting on 3 May 2011.
2) Elected as Board member at the Annual General Meeting on 3 May 2011.

Composition of the Board of Directors

Sandvik's Board of Directors, to the extent elected at the Annual General Meeting, has eight members. Pursuant to Swedish legislation, union organizations are entitled to representation on the Board and they have appointed two additional members and two deputies.

In accordance with the Nomination Committee's proposal, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, Simon Thompson and Lars Westerberg were re-elected at the Annual General Meeting in 2011. Johan Karlström and Olof Faxander were elected new members of the Board. Anders Nyrén was re-elected Board Chairman. The trade unions appointed Tomas Kärnström and Jan Kjellgren as Board members and Alicia Espinosa and Bo Westin as deputies. Sandvik's General Counsel Bo Severin served as secretary of the Board, the Remuneration and Audit Committees as well as the Nomination Committee. The Board members are presented in more detail on pages 112–113.

Independence

Anders Nyrén and Fredrik Lundberg are not independent in relation to major shareholders in the company and Olof Faxander is not independent in relation to the company and Group Executive Management. The other five members elected by the General Meeting are all independent in relation to Sandvik and major shareholders. Accordingly, the composition of the Board complies with the requirements in the Code that the majority of the members elected by the General Meeting be independent in relation to the company and Group Executive Management and that a minimum of two of those members that are independent in relation to the company and its management shall also be independent in relation to major shareholders.

Board proceedings during 2011

During the year, the Board held 12 meetings. The Board addressed the strategic direction. The executive managements of all three business areas presented their goals and strategies. The Board also addressed matters related to personnel, such as succession planning and remuneration terms, and matters relating to investments, acquisitions and divestments, including the public offer to acquire the minority shares of the subsidiary Seco Tools AB.

Remuneration of the Board members

As resolved at the 2011 Annual General Meeting, the Chairman's fee is 1,500,000 SEK and the fee to each of the external members elected at the Annual General Meeting is 500,000 SEK.

In addition, 175,000 SEK was paid to the Chairman and 150,000 SEK to each member of the Audit Committee, in total 475,000 SEK. The Chairman of the Remuneration Committee was paid 125,000 SEK and each Committee member 100,000 SEK, or a total of 325,000 SEK. For additional information on remuneration of the Board members, see pages 70–73.

Board Committees

The tasks of the Committees and their work procedures are stipulated in written instructions issued by the Board. The Committees' primary task is to draft issues and present them to the entire Board for resolution.

Remuneration Committee

According to the Board's Procedural Guidelines, the Remuneration Committee shall undertake the tasks prescribed by the Code, which includes preparing proposals to the Board of Directors regarding proposed guidelines for remuneration of senior executives that the Annual General Meeting is to resolve on by law. Since the 2011 Annual General Meeting, the members of the Remuneration Committee have been the Board's Chairman Anders Nyrén (also Chairman of the Remuneration Committee), Egil Myklebust and Lars Westerberg.

The Remuneration Committee's recommendations to the Board cover:

- principles for remuneration
- the distribution between fixed and variable salary
- pension and severance pay
- other benefits to senior executive management

Based on the recommendations of the Remuneration Committee, the Board decides the remuneration of the President and CEO. The President decides on the remuneration to be paid to the other senior executives following consultation with the Remuneration Committee. For additional information, see pages 70–73.

During 2011, the Remuneration Committee met on four occasions.

Audit Committee

Since the 2011 Annual General Meeting, the members of the Audit Committee have been Hanne de Mora (Chairman), Anders Nyrén and Simon Thompson. In 2011, the Committee held five meetings at which the company's external auditor and representatives of the company's management were present. Areas addressed by the Audit Committee mainly related to:

- Financial reporting.
- Planning, scope and follow-up of the internal and external audit for the year.
- The Group's implementation of systematic processes for risk management, including legal disputes, accounting procedures, taxation, finance operations and pension issues.

External auditor

At the 2011 Annual General Meeting, the audit firm KPMG AB was re-elected auditor for the four-year period until the 2015 Annual General Meeting, with George Pettersson as the auditor in charge.

The progress of the audit is reported regularly during the year to the managements of individual companies and the business areas, to Group Executive Management, the Audit Committee and to the Board of Sandvik AB. The auditor meets with the company's Board at least once a year without the CEO or any other member of Group Executive Management attending.

The independence of the external auditor is governed by a special instruction prepared by the Audit Committee setting out which non-audit services the external auditors may provide to Sandvik.

Audit fees are paid continuously over the mandate period on an approved current account basis. For information on fees paid to auditors, see page 73.

Operational management

Information relating to the Group's operational organization and business activities is available on the company's website, www.sandvik.com.

The three business areas Sandvik Tooling, Sandvik Mining and Construction and Sandvik Materials Technology, comprised Sandvik's operational structure in 2011. The presidents of the business areas report directly to the CEO of Sandvik AB and are responsible for the business activities of their respective areas. In turn, the business areas are organized into various product areas or customer segments. Internal Board meetings are held at the business area level. Sandvik AB's CEO chairs these meetings. In addition to the president and the financial manager of the business area, Sandvik AB's Senior Executive Vice Presidents and the General Counsel attended these meetings. Senior Executive Vice President Peter Larson is a Board member of Seco Tools AB and thus does not participate in Sandvik Tooling's Board meetings.

CEO and Group Executive Management

From 1 February 2011, Group Executive Management comprised Olof Faxander, President and CEO, Anders Thelin, Sandvik Tooling, Lars Josefsson (until 5 September 2011), Sandvik Mining and Construction, Peter Gossas (until April 2011), Sandvik Materials Technology, Jonas Gustavsson (from 1 May 2011), Sandvik Materials Technology, Peter Larson, Senior Executive Vice President, Ola Salmén, Senior Executive Vice President and CFO, Bo Severin, Executive Vice President and General Counsel, Anna Vikström Persson (from 1 March 2011), Executive Vice President and Head of Human Resources, and Tomas Nordahl (from 1 October 2011) Executive Vice President and Head of IT, sourcing and strategy. Peter Larson served as the Acting President of Sandvik Mining and Construction Business Area from 5 September 2011. A new Group Executive Management team will come into effect in 2012, for more details refer to page 4.

Group Executive Management is convened each month and deals with the Group's financial development, Group-wide development projects, leadership and competence sourcing, and other strategic issues. The Sandvik Group has established Group functions responsible for such Group-wide activities as financial reporting, business analysis, treasury, IT, communications, internal control, legal affairs, HR, taxes, investor relations, intellectual property rights, and patents and trademarks. Intellectual property rights and patents and trademarks are managed by a separate, wholly owned Group entity. In addition to Group Executive Management, business areas and Group functions, a number of councils are commissioned to coordinate Group-wide strategic areas, such as environment, health and safety, research and development, purchasing, IT, finance and HR.

The CEO and other members of Group Executive Management are presented on page 114.

For each country in which Sandvik has a subsidiary, there is a Country Manager whose task includes representing Sandvik in relation to public authorities in the country, assuming responsibility for Group-wide issues, coordinating Group-wide processes, and ensuring compliance with Group-wide guidelines.

For each country, a member of Group Executive Management, or another individual appointed by Group Executive Management, has been given the overriding responsibility for the business (Group Management Representative). In most cases, this individual serves as Chairman on local Boards and is responsible, through the Country Manager, for ensuring compliance with Group-wide guidelines.

Remuneration of senior executives

For principles, remuneration and other benefits payable to Group Executive Management, refer to pages 70–73.

Internal control and risk management

The Board has the overall responsibility to ensure that the Group's system for management and internal control is effective.

The guidelines for Sandvik's operations are assembled in The Power of Sandvik, the contents of which include:

- The Group's business concept, strategies, objectives and core values.
- Organizational structure and job descriptions.
- Sandvik's Code of Conduct, including business ethics, human rights, equal opportunity, health and safety, external environment and community involvement.
- Administrative procedures, guidelines and instructions.

The Group's risk management complies with the ERM model and is integrated with the daily planning, monitoring and control within the framework of strategic and operational management. Effective risk management unites operational business development with demands from shareholders and other stakeholders for control and sustainable value creation. Risk management also aims to minimize risks while ensuring that opportunities are leveraged in the best possible way.

Internal control of financial reporting

The financial statements are established in accordance with prevailing legislation, International Financial Reporting Standards (IFRS) and the listing agreement with the NASDAQ OMX Stockholm. This description of internal control over financial reporting is prepared in accordance with the Annual Accounts Act and constitutes an integral part of the Corporate Governance Report.

Sandvik's finance organization manages a well-established financial reporting process aimed at ensuring a high level of internal control. The internal control system applied complies with the conceptual framework of COSO, which is based on five key components comprising good internal control in large companies. The five components are Control Environment, Risk Assessment, Control Activities, Information and Communication and, finally, Monitoring and follow up.

The internal control procedures cover all stages of the financial reporting process, from the initial recording of transactions in each subsidiary and reporting entity, to the validation and analysis of each business area and further to the consolidation, quality assurance, analysis and reporting at Group level. The way Sandvik applies the COSO framework is described below.

Control Environment

As described earlier in the Annual Report, The Power of Sandvik (PoS) is the primary source for the guidelines governing management and staff, internal control and conduct at Sandvik. The PoS contains the Sandvik Code of Conduct, delegation instruments, including signatory and authorization principles for decision-making and cost approvals, request and approval procedures regarding investments and acquisitions, among other items.

In the area of financial reporting, the Sandvik Financial Reporting Procedures have been implemented. This document contains detailed instructions regarding accounting policies and financial reporting procedures to be applied by all Sandvik reporting entities. In the 20 major countries where Sandvik operates, Country Financial Managers are appointed to support the local management and finance organizations and to provide a link between reporting entities and Group finance. At Group level, Group Financial Control manages the reporting process to ensure the completeness and correctness of financial reporting and its compliance with IFRS requirements. Group Business Control performs the business analysis and compiles the report on operational performance. Both statutory and management reporting is performed in close cooperation with business areas and specialist functions such as tax, legal and financial services to ensure the correct reporting of the income statement, balance sheet, equity and cash flow.

Risk assessment and risk management

The ERM work at Sandvik described earlier in the Annual Report also includes the area of financial reporting. This means that risk management is a natural element of the daily work on and responsibility for financial reporting. Specific activities have been established with the purpose of identifying risks, weaknesses and any changes needed to the financial reporting process to minimize risks. The combination of roles and responsibilities, work descriptions, IT systems, skills and expertise creates an environment that is monitored continuously to identify and manage potential risks.

Control activities

Control activities have been implemented in all areas that affect financial reporting. The internal control activities follow the logic of the reporting process and the finance organization. In each reporting entity, the finance staff is responsible for the correct accounting and closing of books. The finance staff adheres to the Sandvik Financial Reporting Procedures and validates and reconciles local accounts before submitting them to business area management and Group finance for consolidation.

Controllers in the product and business areas perform analytical reviews and investigations, conduct business trend analyses and update forecasts and budgets. They investigate certain issues related to the financial information when needed. All business areas present their financial performance in written reports on a monthly and quarterly basis.

Group Financial Control, Group Business Control and Group Assurance all have key responsibilities for control activities regarding financial reporting.

Information and communication

Financial reports setting out the Group's financial position and the earnings trend of operations are regularly submitted to the Board. The Board deals with all quarterly interim reports as well as the Annual Report prior to publishing and monitors the audit of internal control and financial statements conducted by Group Assurance and external auditors.

The business areas and major countries also have a system of internal Board meetings with a formal agenda, including financial information, monitoring and decisions related to financial and accounting matters.

Steering documents, such as policies and instructions, are updated regularly on the company's intranet and are available to Sandvik's employees. Reporting requirements are also updated on the company's intranet and are communicated through formal and informal channels, as well as at regular meetings and conferences.

Information to external parties is communicated regularly on Sandvik's website, which contains news and press releases. Quarterly interim reports are published externally and are supplemented by investor meetings attended by Group Executive Management. In addition, there is an established agenda for communicating information on shareholder meetings and other information to owners. The Annual Report is made available to shareholders and the general public, both as a printed version and on Sandvik's website.

Monitoring and follow-up

Order status, sales statistics and cash flow are reported and monitored on a monthly basis while a comprehensive and complete closing of books, together with a full reporting package provided to the Group Executive Management and the Board, is performed quarterly and for the full fiscal year.

Each business entity manager and finance organization is ultimately responsible for continuously monitoring the financial information of the various entities. In addition, the information is monitored at a business area level, by Group staff functions, Group Executive Management and by the Board. The Audit Committee at Sandvik is a key body in the monitoring of financial reporting and different aspects thereof.

The quality of the financial reporting process and internal controls are assessed by Group Finance every month as part of the quality assurance of reporting. The Sandvik internal audit function Group Assurance independently monitors the internal control system of financial reporting as part of its audit plan.

The external auditors continuously examine the level of internal control over financial reporting. They review the third-quarter interim report and study the financial reports prepared for the other quarters. In conjunction with the close of the third quarter, the external auditors perform a more detailed examination of the operations, known as a hard close audit, which includes the Parent Company's reporting and internal control, the business areas, subsidiaries and Group functions. Finally, the external auditors perform a standard examination of the annual accounts and Annual Report.

Group Assurance

The Group Assurance staff function ensures that the Group has effective corporate governance, internal control and risk management procedures.

Group Assurance is subordinated to the Board's Audit Committee and the head of the unit reports to the Audit Committee. In functional terms, the head of Group Assurance reports to Sandvik's CFO.

The internal audits are based on the Group's guidelines and policies for corporate governance, risk management and internal control with regard to such aspects as financial reporting, compliance with the Code of Conduct and IT. The examination results in actions and programs for improvement. Findings are reported to Group Executive Management and business area management and to the Board's Audit Committee.

Consolidated financial statement

Consolidated income statement

MSEK	Note	2011	2010
Revenue	1, 2	94,084	82,654
Cost of sales and services		–61,704	–53,131
Gross profit		**32,380**	**29,523**
Selling expenses		–13,095	–10,848
Administrative expenses		–6,416	–5,295
Research and development costs	4	–2,421	–2,106
Share of results of associated companies		7	38
Other operating income	5	347	142
Other operating expenses	6	–654	–425
Operating profit	1, 3, 7, 8	**10,148**	**11,029**
Financial income		265	377
Financial expenses		–2,234	–1,994
Net financing cost	9	**–1,969**	**–1,617**
Profit after financial items		**8,179**	**9,412**
Income tax	11	–2,318	–2,469
Profit for the year		**5,861**	**6,943**
Other comprehensive income			
Translation differences during the year		–270	–2,386
Fair-value changes in cash-flow hedges		–451	566
Fair-value changes in cash-flow hedges transferred to profit/loss for the year		–171	49
Tax related to fair-value changes in cash-flow hedges	11	164	–162
Other total comprehensive loss for the year, net after tax		**–728**	**–1,933**
Total comprehensive income for the year		**5,133**	**5,010**
Profit for the year attributable to:			
Equity holders of the Parent		5,498	6,634
Non-controlling interests		363	309
Total comprehensive income for the year attributable to:			
Equity holders of the Parent		4,773	4,769
Non-controlling interests		360	241
Basic earnings per share, SEK	12	4.63	5.59
Diluted earnings per share, SEK	12	4.63	5.59

Consolidated balance sheet

MSEK	Note	2011	2010
ASSETS			
Non-current assets			
Intangible assets			
Patents and other intangible assets	13	2,773	2,859
Goodwill	13	9,034	10,334
Total		**11,807**	**13,193**
Property, plant and equipment			
Land and buildings	13	8,349	7,811
Plant and machinery	13	12,613	13,430
Equipment, tools, fixtures and fittings	13	1,555	1,544
Construction in progress and advance payments	13	3,185	2,467
Total		**25,702**	**25,252**
Financial assets			
Investments in associated companies	1, 16	456	467
Financial assets	17	80	78
Deferred tax assets	11	3,070	2,056
Non-current receivables	18	3,229	3,422
Total		**6,835**	**6,023**
Total non-current assets		**44,344**	**44,468**
Current assets			
Inventories	19	26,077	21,420
Current receivables			
Trade receivables	20	14,563	12,738
Due from associated companies		141	274
Income tax receivables	11	772	765
Other receivables	18	5,310	4,676
Prepaid expenses and accrued income		1,193	875
Total		**21,979**	**19,328**
Cash and cash equivalents		5,592	4,783
Assets held for sale	29	747	—
Total current assets		**54,395**	**45,531**
TOTAL ASSETS	1	**98,739**	**89,999**

MSEK	Note	2011	2010
EQUITY AND LIABILITIES			
Equity			
Share capital		1,424	1,424
Other paid-in capital		1,057	1,057
Reserves		1,849	2,574
Retained earnings including profit/loss for the year		28,160	27,525
Equity attributable to equity holders of the Parent		**32,490**	**32,580**
Non-controlling interests		**1,401**	**1,233**
Total equity	21	**33,891**	**33,813**
Non-current liabilities			
Interest-bearing liabilities			
Provisions for pensions	23	2,358	2,264
Loans from financial institutions		4,485	3,142
Other liabilities	26	20,282	20,278
Total		**27,125**	**25,684**
Noninterest-bearing liabilities			
Deferred tax liabilities	11	956	1,038
Provisions for taxes	11	3,941	3,650
Other provisions	24	1,381	895
Other non-current liabilities	27	209	286
Total		**6,487**	**5,869**
Total non-current liabilities		**33,612**	**31,553**
Current liabilities			
Interest-bearing liabilities			
Loans from financial institutions		4,095	3,109
Other liabilities	26	1,853	674
Total		**5,948**	**3,783**
Noninterest-bearing liabilities			
Advance payments from customers		2,751	2,153
Accounts payable		8,133	6,889
Due to associated companies		63	47
Income tax liabilities	11	1,505	1,208
Other liabilities	27	4,322	3,760
Provisions	24	1,720	879
Accrued expenses and deferred income		6,686	5,914
Total		**25,180**	**20,850**
Liabilities directly attributed to assets held for sale	29	**108**	—
Total current liabilities		**31,236**	**24,633**
TOTAL LIABILITIES	1	**64,848**	**56,186**
TOTAL EQUITY AND LIABILITIES		**98,739**	**89,999**

For information on contingent liabilities and pledged assets, refer to Note 30.

Consolidated changes in equity

	Equity attributable to equity holders of the Parent Company						
MSEK	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit/ loss for the year	Total	Non-controlling interests	Total equity
Equity at 1 January 2010	**1,424**	**1,057**	**4,439**	**22,067**	**28,987**	**970**	**29,957**
Profit for the year	—	—	—	6,634	6,634	309	6,943
Other comprehensive income/loss	—	—	–1,865	—	–1,865	–68	–1,933
Total comprehensive income/loss for the year	**—**	**—**	**–1,865**	**6,634**	**4,769**	**241**	**5,010**
Acquisition of non-controlling interests	—	—	—	10	10	–17	–7
Divestment of non-controlling interests	—	—	—	—	—	41	41
Dividends	—	—	—	–1,186	–1,186	–2	–1,188
Equity at 31 December 2010	**1,424**	**1,057**	**2,574**	**27,525**	**32,580**	**1,233**	**33,813**
Equity at 1 January 2011	**1,424**	**1,057**	**2,574**	**27,525**	**32,580**	**1,233**	**33,813**
Profit for the year	—	—	—	5,498	5,498	363	5,861
Other comprehensive income/loss	—	—	–725	—	–725	–3	–728
Total comprehensive income/loss for the year	**—**	**—**	**–725**	**5,498**	**4,773**	**360**	**5,133**
Acquisition of non-controlling interests, controlling interest previously	—	—	—	–18	–18	–5	–23
Acquisition of non-controlling interests, no controlling interest previously	—	—	—	—	—	61	61
Share-based payment regulated by equity instruments	—	—	—	67	67	—	67
Hedging of options program through equity swaps	—	—	—	–1,353	–1,353	—	–1,353
Dividends	—	—	—	–3,559	–3,559	–248	–3,807
Equity at 31 December 2011	**1,424**	**1,057**	**1,849**	**28,160**	**32,490**	**1,401**	**33,891**

Consolidated cash-flow statement

MSEK	2011	2010
Cash flow from operating activities		
Income after financial income and expenses	8,179	9,412
Adjustment for depreciation, amortization and impairment losses	5,823	4,038
Adjustment for non-cash items, etc.	1,359	–130
Income tax paid	–2,587	–1,056
Cash flow from operating activities before changes in working capital	**12,774**	**12,264**
Changes in working capital		
Change in inventories	–4,699	–2,161
Change in operating receivables	–2,598	–2,832
Change in operating liabilities	2,567	5,041
Cash flow from changes in working capital	**–4,730**	**48**
Investments in rental equipment	–440	–369
Divestments of rental equipment	160	206
Cash flow from operating activities	**7,764**	**12,149**
Cash flow from investing activities		
Acquisition of companies and shares, net of cash acquired	–338	–1,216
Acquisition of property, plant and equipment	–4,994	–3,378
Proceeds from sale of property, plant and equipment	152	214
Net cash used in investing activities	**–5,180**	**–4,380**
Net cash flow after investing activities	**2,584**	**7,769**
Cash flow from financing activities		
Proceeds from borrowings	3,576	1,044
Repayment of borrowings	–1,423	–10,301
Acquisition of non-controlling interests	–23	–7
Divestment of non-controlling interests	—	41
Dividends paid	–3,807	–1,188
Cash flow from financing activities	**–1,677**	**–10,411**
Cash flow for the year	907	–2,642
Cash and cash equivalents at beginning of year	4,783	7,506
Foreign exchange differences on cash and cash equivalents	–98	–81
Cash and cash equivalents at end of year	**5,592**	**4,783**

Supplementary information, Note 33.

Parent Company financial statement

Parent Company income statement

MSEK	Note	2011	2010
Revenue	2	17,460	17,668
Cost of sales and services		–15,207	–13,348
Gross profit		**2,253**	**4,320**
Selling expenses		–748	–631
Administrative expenses		–3,725	–2,820
Research and development costs	4	–1,150	–932
Other operating income	5	1,415	911
Other operating expenses	6	–799	–741
Operating profit/loss	3, 8	**–2,754**	**107**
Income from shares in Group companies	9	2,815	5,336
Income from shares in associated companies	9	10	5
Interest income and similar items	9	611	665
Interest expenses and similar items	9	–1,679	–1,376
Profit/loss after financial items		**–997**	**4,737**
Appropriations	10	–8	2
Income tax	11	625	–420
Profit/loss for the year		**–380**	**4,319**

Profit/loss for the year corresponds to total comprehensive income for the year

Parent Company balance sheet

MSEK	Note	**2011**	2010	1/1-2010
ASSETS				
Non-current assets				
Intangible assets				
Patents and other intangible assets	14	17	25	17
Total		**17**	**25**	**17**
Property, plant and equipment				
Land and buildings	14	750	675	638
Plant and machinery	14	4,110	4,443	4,275
Equipment, tools, fixtures and fittings	14	353	374	376
Construction in progress and advance payments	14	1,779	1,276	1,333
Total		**6,992**	**6,768**	**6,622**
Financial assets				
Shares in Group companies	15	15,937	15,037	14,366
Due from Group companies		1,336	148	152
Investments in associated companies	16	66	66	4
Other investments		1	1	1
Non-current receivables	18	27	61	101
Deferred tax assets	11	1,135	518	865
Total		**18,502**	**15,831**	**15,489**
Total non-current assets		**25,511**	**22,624**	**22,128**
Current assets				
Inventories	19	4,023	3,675	3,310
Current receivables				
Trade receivables		631	804	569
Due from Group companies		13,122	17,748	20,691
Due from associated companies		129	263	117
Income tax receivables	11	239	203	165
Other receivables	18	368	521	338
Prepaid expenses and accrued income		1,210	461	389
Total		**15,699**	**20,000**	**22,269**
Cash and cash equivalents		8	12	9
Total current assets		**19,730**	**23,687**	**25,588**
TOTAL ASSETS		**45,241**	**46,311**	**47,716**

MSEK	Note	2011	2010	1/1-2010
EQUITY AND LIABILITIES				
Equity				
Non-distributable equity				
Share capital		1,424,	1,424	1,424
Statutory reserve		1,611	1,611	1,611
Total		**3,035**	**3,035**	**3,035**
Distributable equity				
Profit brought forward		9,861	10,386	7,317
Profit/loss for the year		–380	4,319	4,255
Total		**9,481**	**14,705**	**11,572**
Total equity	21	**12,516**	**17,740**	**14,607**
Untaxed reserves				
Other untaxed reserves	22	10	2	4
Total		**10**	**2**	**4**
Provisions				
Provisions for pensions	23	368	99	128
Other provisions	24	329	182	87
Total		**697**	**281**	**215**
Non-current interest-bearing liabilities				
Loans from Financial institutions	25	1,816	463	1,894
Loans from Group companies	25	301	43	40
Other liabilities	25	13,955	14,086	17,145
Total		**16,072**	**14,592**	**19,079**
Non-current noninterest-bearing liabilities				
Other liabilities		33	—	22
Total		**33**	**—**	**22**
Current interest-bearing liabilities				
Loans from Financial institutions		1,910	1,539	—
Loans from Group companies		5,727	6,399	6,526
Other liabilities		1,395	374	3,160
Total		**9,032**	**8,312**	**9,686**
Current noninterest-bearing liabilities				
Advance payments from customers		577	599	429
Accounts payable		2,032	1,595	1,147
Due to group companies		702	281	270
Due to associated companies		1	1	—
Other liabilities		453	225	202
Accrued expenses and deferred income	28	3,116	2,683	2,055
Total		**6,881**	**5,384**	**4,103**
TOTAL EQUITY AND LIABILITIES		**45,241**	**46,311**	**47,716**
Pledged assets	30	—	—	—
Contingent liabilities	30	12,006	11,228	17,778

Parent Company statement of changes in equity

MSEK	Share capital	Statutory reserve	Distributable equity	Total equity
Equity at 1 January 2010	**1,424**	**1,611**	**11,572**	**14,607**
Profit for the year	—	—	4,319	4,319
Dividend	—	—	–1,186	–1,186
Equity at 31 December 2010	**1,424**	**1,611**	**14,705**	**17,740**
Loss for the year	—	—	–380	–380
Dividend	—	—	–3,559	–3,559
Share-based payment regulated by equity instruments	—	—	67	67
Hedging of options program through equity swaps	—	—	–1,352	–1,352
Equity at 31 December 2011	**1,424**	**1,611**	**9,481**	**12,516**

Profit/loss for the year corresponds to total comprehensive income for the year.

Effect of change of accounting policy
The result of 2,850 MSEK for 2010 was adjusted in the amount of 1,469 MSEK to 4,319 MSEK, with a corresponding adjustment of retained earnings. The adjustment is attributable to changed accounting policies pertaining to Group contributions, for more information refer to the Parent Company's accounting policies.

Parent Company cash-flow statement

MSEK	2011	2010
Cash flow from operating activities		
Profit/loss before tax	–1,004	4,739
Adjustment for depreciation, amortization and impairment losses	1,164	851
Adjustment for non-cash items, etc.	700	–1,328
Income tax paid	–29	–111
Cash flow from operating activities before changes in working capital	**831**	**4,151**
Changes in working capital		
Changes in inventories	–348	–364
Changes in operating receivables	–604	–2,344
Changes in operating liabilities	1,098	1,218
Cash flow from operating activities	**977**	**2,661**
Cash flow from investing activities		
Acquisition of companies and shares, net of cash acquired	–887	–783
Acquisition of property, plant and equipment	–1,421	–946
Proceeds from sale of companies and shares, net of cash disposed of	2	41
Proceeds from sale of property, plant and equipment	6	13
Net cash used in investing activities	**–2,300**	**–1,675**
Net cash flow after investing activities	**–1,323**	**986**
Cash flow from financing activities		
Changes in advances/loans to/from Group companies, net	3,609	5,229
Proceeds from external borrowings	1,651	798
Repayment of external borrowings	–382	–5,824
Dividend paid	–3,559	–1,186
Net cash used in financing activities	**1,319**	**–983**
Cash flow for the year	–4	3
Cash and cash equivalents at beginning of year	12	9
Cash and cash equivalents at end of year	**8**	**12**

Supplementary information, Note 33.

Significant accounting policies

and assessments and assumptions for accounting purposes

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as endorsed by the EU. In addition, the recommendation RFR 1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied.

The Parent Company has applied the same accounting policies as those applied in the consolidated financial statements except as set out below in the section "Parent Company's accounting policies."

The financial statements are presented on pages 14–97 in the printed Annual Report. The Parent Company's annual report and the consolidated financial statements were approved for issuance by the Board of Directors on 15 February 2012. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on 2 May 2012.

Basis of measurement in preparation of the Parent Company and Group financial statements

Assets and liabilities are stated on a historical cost basis except for certain financial assets and liabilities, which are stated at their fair value. Financial assets and liabilities measured at fair value comprise derivative instruments and financial assets held for sale.

Receivables and liabilities and items of income and expense are offset only when required or expressly permitted in an accounting standard.

The Parent Company's functional currency is Swedish kronor (SEK), which is also the reporting currency of the Parent Company and the Group. Accordingly, the financial statements are presented in SEK. All amounts are in MSEK unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires management to make assessments, estimates and assumptions that affect the application of accounting policies and recognized amounts of assets and liabilities, income and expenses. Actual results may differ from these assessments.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are further discussed below.

Events after the balance sheet date refer to both favorable and unfavorable events that have occurred after the balance sheet date but before the date the financial statements were authorized for issue by the Board of Directors. Significant non-adjusting events, that is, events indicative of conditions that arose after the balance sheet date, are disclosed in the financial statements. Only adjusting events, that is, those that provide evidence of conditions that existed at the balance sheet date, have been considered in the final establishment of the financial statements.

The most significant accounting policies for the Group, as set out below, have been applied consistently to all periods presented in these consolidated financial statements except as specifically described. Moreover, the Group's accounting policies have been consistently applied in the statements of all members of the Group and also in the statements of associated companies, where necessary, by adaptation to Group policies.

Changes in accounting policies

The changed accounting policies applied by the Group effective 1 January 2011 are described below. Other revisions to IFRS that came into effect in 2011 did not have any significant impact on the Group's reporting.

Presentation of Financial Statements

The IASB's annual improvements process published in May 2010 changed the requirements contained in IAS 1 Presentation of Financial Statements regarding the presentation of the statement of changes in equity. According to these changes, the reconciliations in the statement of changes in equity of changes in each component of equity for the year, and the reserves for accumulated other comprehensive income, do not need to specify each individual item in other comprehensive income. The company has, as permitted under this change, chosen to provide disclosure in the form of a detailed reconciliation of the reserves and other components of equity in a note instead of in the statement of changes in equity. Following the wording of revised IAS 1, the former line of "Comprehensive income for the year" in the statement of changes in equity has been divided up with a separate specification of "Profit for the year" and "Other comprehensive income for the year". The changed presentation format is applied to the current year and the comparative year. The change did not result in any adjustments to amounts in the financial statements.

New or revised IFRSs and interpretations that will be applied in future periods

A number of new or revised standards and interpretations will not become effective until future financial years and were not applied in advance in the preparation of these financial statements. New items or revisions that become effective in the years ahead are not planned to be applied in advance.

IFRS 9 *Financial Instruments* is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* not later than 2015. The IASB has published the first two of at least three components that will combine to form IFRS 9. This first component addresses the classification and measurement of financial assets. The categories for financial assets that exist in IAS 39 are replaced by two categories, in which measurement is conducted at fair value or amortized cost. Amortized cost is applied to instruments that are held in a business model with the aim of obtaining the contractual cash flows that comprise payment of principals and interest on principals on a specified date. Other financial assets are recognized at fair value and the possibility to apply the fair value option, as stipulated in IAS 39, is retained. Changes in fair value are to be recognized in earnings, with the exception of value changes of equity instruments held for trading and for which an initial choice is made to recognize value changes in other comprehensive income. Changes in value of derivatives in hedge accounting are not affected by this part of IFRS 9, but will be recognized in line with IAS 39 until further notice. In October 2010, IASB also published the parts of IFRS 9 regarding the classification and measurement of financial liabilities. Much is the same as the previous IAS 39 rules, except regarding financial liabilities that are voluntarily measured at fair value under the Fair Value Option. The changes in value for these liabilities are to be divided into changes attributable to the company's own credit rating and changes in the benchmark interest rate.

The company has not made a decision as to whether the new policies will be applied in advance or from 2015.

The revised version of IAS 19 is to be applied to fiscal years beginning 1 January 2013 or later. The standard is expected to be approved by the EU in early 2012, and Sandvik has decided to apply it from 1 January 2013.

The revision involves significant changes primarily to the recognition of defined-benefit pension plans:

– Elimination of the option of deferring the recognition of actuarial gains and losses under the "corridor" approach.
– Immediate recognition of all changes in obligations and plan assets.
– New presentation of changes in obligations and assets that derive from defined-benefit plans. The item entitled "remeasurement," meaning actuarial items and differences between actual returns and returns according to the discount rate of plan assets, is to be recognized in other comprehensive income, while pension benefits vested during the year and net interest items will be recognized in profit or loss.
– Interest expense for commitments and expected return on plan assets is to be replaced by net interest based on the discount rate and the net of commitments and plan assets.
– Additional disclosure requirements regarding defined-benefit plans, focusing on the risks that the company is exposed to by participating in these plans.

The standard is expected to have a significant impact on the consolidated financial statements. Related taxes could generate a non-recurring effect that cannot be estimated at the current time. For 2011, the changes would have increased the pension liability by 3,400 MSEK and reduced equity by about 2,400 MSEK (less deductions for deferred tax assets).

The following amendments to accounting policies with prospective application have not been deemed to have any impact on the Group's financial statements:

– Amendments to IAS 1 *Presentation of Financial Statements* – Changes to IAS 12 *Income Taxes regarding the valuation for taxes for investment properties* – Changes to IFRS 7 *Financial Instruments: Disclosures regarding new disclosure requirements for transfers of financial assets* – IFRS 10 *Consolidated Financial Statements* – IFRS 11 *Joint Arrangements* – IFRS 12 *Disclosure of Interest in Other Entities* – Revised IAS 27 *Consolidated and Separate Financial Statements* – Revised IAS 28 *Investments in Associates* – IFRS 13 *Fair Value Measurement*

A summary of the implications of the revised accounting policies with prospective application as detailed above is presented below.

Revised IAS 1 *Presentation of Financial Statements* (presentation of other comprehensive income). This change refers to how items in other comprehensive income are to be presented. The items are to be divided into two categories: items that will be reclassified to profit for the year and items that will not be reclassified. Examples of items to be reclassified are translation differences and gains/losses on cash-flow hedges. Examples of items not to be reclassified are actuarial gains and losses, and remeasurements according to the revaluation model for intangible assets and property, plant and equipment. The amendment must be applied retroactively from fiscal years beginning 1 January 2012. The EU is expected to approve the amendment during the first quarter of 2012.

Amendments to IAS 12 *Income Taxes regarding the valuation of tax for investment properties*. The change involves a presumption that investment properties measured at fair value will be realized through sale. According to this approach, deferred tax is normally to be measured based on the tax rate applying at the time of the sale of the property. The amendment must be applied from fiscal years beginning 1 January 2012. The EU is expected to approve the amendment during the second quarter of 2012.

Amendments to IFRS 7 *Financial Instruments: Disclosures* with respect to new disclosure requirements on the transfer of financial assets. The amendment must be applied to fiscal years beginning 1 July 2011 or later.

IFRS 10 *Consolidated Financial Statements*. A new standard for consolidated accounts. The standard must be applied retroactively to fiscal years beginning 1 January 2013 or later. The EU is expected to approve the standard during the third quarter of 2012.

IFRS 11 *Joint Arrangements*. A new standard for recognizing joint ventures and joint operations. The standard must be applied to fiscal years beginning 1 January 2013 or later. The EU is expected to approve the standard during the third quarter of 2012.

IFRS 12 *Disclosure of Interests in Other Entities*. A new standard for disclosing investments in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard must be applied retroactively to fiscal years beginning 1 January 2013 or later. The EU is expected to approve the amendment during the third quarter of 2012.

Revised IAS 27 *Consolidated and Separate Financial Statements*. The revised standard includes only regulations for legal entities. There are primarily no changes regarding recognition and disclosures for separate financial statements. Recognition and disclosures of associates and joint ventures have been included in IAS 27. The standard must be applied to fiscal years beginning 1 January 2013 or later. The EU is expected to approve the amendment during the third quarter of 2012.

Revised IAS 28 *Investments in Associates*. The revised standard is generally the same as the previous IAS 28. The amendments pertain to the recognition of changes in holdings and the loss of significant influence or joint control. The amendments must be applied to fiscal years beginning 1 January 2013 or later. The EU is expected to approve the amendment during the third quarter of 2012.

IFRS 13 *Fair Value Measurement*. A new uniform standard for measuring fair value, as well as improved disclosure requirements. The standard must be applied prospectively to fiscal years beginning 1 January 2013 or later. The EU is expected to approve the standard during the third quarter of 2012.

Classification

Non-current assets and liabilities essentially consist of amounts expected to be recovered or settled after more than 12 months from the balance sheet date. Current assets and current liabilities essentially consist of amounts expected to be recovered or settled within 12 months from the balance sheet date. The Group's operating cycle is considered to be less than one year.

Reporting of operating segments

An operating segment is a part of the Group that pursues operations from which it can generate revenues and incur costs for which separate financial information is available. The result of an operating segment is subsequently monitored by the Group's chief operating decision maker to evaluate the outcome and to be able to allocate resources to the operating segment.

The Group's business is divided into operations based on the parts of the business monitored by the Group's chief operating decision maker. This is known as a management approach.

Sandvik's business is organized in a manner that allows the Group's chief operating decision maker, meaning the CEO, to monitor results, return and cash flow generated by the various products and services in the Group. Each operating segment has a president that is responsible for day-to-day activities and who regularly reports to the CEO regarding the results of the operating segment's work and the need for resources. Since the CEO monitors the business's result and decides on the distribution of resources based on the products the Group manufactures and sells and the services it provides, these constitute the Group's operating segments.

The Group's operations are organized in a number of business areas based on products and services. The market organization also reflects this structure. In accordance with IFRS 8, segment information is presented only on the basis of the consolidated financial statements.

Segment results, assets and liabilities include only those items that are directly attributable to the segment and the relevant portions of items that can be allocated on a reasonable basis to the segments. Unallocated items comprise interest and dividend income, gains on disposal of financial investments, interest expense, losses on the disposal of financial investments, income tax expense and certain administrative expenses. Unallocated assets and liabilities include income tax receivables and payables, financial investments and financial liabilities.

Basis of consolidation

Subsidiaries

Subsidiaries are entities over which the Parent Company has a controlling influence. Controlling interest exists when the Parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. In assessing controlling interest, potential voting rights that currently are exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that the controlling influence commences until the date that control ceases.

For cases in which the subsidiary's accounting policies do not coincide with the Group's accounting policies, adjustments were made to the Group's accounting policies.

Acquisitions on 1 January 2010 or later

Acquisitions of subsidiaries are recognized in accordance with the purchase method. Under such a method, the acquisition is regarded as a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities. The acquisition analysis determines the acquisition-date fair value of acquired identifiable assets, assumed liabilities and any non-controlling interests. Transaction costs, except for transaction costs attributable to the issue of equity instruments or debt instruments, that arise are recognized directly in profit or loss for the year.

For business combinations in which the consideration transferred, any non-controlling interests and the fair value of previously held equity interests (for step acquisitions) exceeds the fair value of separately recognized acquired assets and assumed liabilities, the difference is recognized as goodwill. When the difference is negative, known as a bargain purchase, it is directly recognized in profit or loss for the year.

Consideration transferred in conjunction with the acquisition does not include payments pertaining to the settlement of previous business connections, which is instead recognized in profit or loss.

Contingent considerations are recognized at fair value on the acquisition date. Contingent consideration classified as an equity instrument is not remeasured and its settlement takes place within shareholders' equity. Other types of contingent considerations are remeasured at each reporting period with any change recognized in profit or loss for the year.

Non-controlling interests arise for acquisitions not involving 100 % ownership of the subsidiary. Two options are available for recognizing non-controlling interests: recognizing the non-controlling interest's proportionate share of net assets of the acquiree or recognizing the non-controlling interest at fair value, meaning that the non-controlling interest has a share of goodwill. The options for recognizing non-controlling interests can be made on an acquisition-by-acquisition basis.

For business combinations achieved in stages (step acquisitions), goodwill is determined on the date on which the controlling interest arises. Former interests are measured at fair value and the change in value recognized in profit or loss for the year.

In conjunction with divestments resulting in the loss of a non-controlling interest but where a residual interest exists, this holding is measured at fair value and the change in value recognized in profit or loss for the year.

Acquisitions made between 1 January 2004 and 31 December 2009

Acquisitions made between 1 January 2004 and 31 December 2009 where the cost exceeds the fair value of the separately recognized acquired assets and assumed liabilities and contingent liabilities, the difference is recognized as goodwill. If the difference is negative, it is recognized in profit or loss for the year.

Transaction costs, except for transaction costs attributable to the issue of equity instruments or debt instruments, that arise are included in the cost.

Acquisitions made prior to 1 January 2004 (IFRS transition date)

For acquisitions made prior to 1 January 2004, impaired goodwill is recognized at cost corresponding to the carrying amount in accordance with previously applied accounting policies. The classification and accounting procedures applied to business combinations occurring prior to 1 January 2004 were not retested under IFRS 3 in the preparation of the Group's opening balance sheet in accordance with IFRS on 1 January 2004.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are recognized as a transaction within shareholders' equity, meaning between the Parent Company's owners (under retained earnings) and non-controlling interests. Accordingly, goodwill does not arise in conjunction with such transactions. The change in non-controlling interests is based on their proportionate share of net assets.

Sales to non-controlling interests

Sales to non-controlling interests, entailing a residual controlling interest, are recognized as a transaction within shareholders' equity, meaning between the Parent Company's owners and non-controlling interests. The difference between the consideration received and the non-controlling interest's proportionate share of acquired net assets is recognized under retained earnings.

Associated companies

Associated companies are those entities over which the Group commands a significant influence, but not control, over the financial and operating policies, normally a shareholding of not less than 20 % and not more than 50 %. Interests in associated companies are, as from the date significant influence commences, recognized in accordance with the equity method in the consolidated financial statements. Under the equity method, the carrying amounts of interests in associated companies correspond to the recognized equity of associated companies, any goodwill and any other remaining fair value adjustments recognized at acquisition date. The consolidated profit or loss for the year includes as "Share of profit or loss of associated companies" the Group's share of the associate's income attributable to the owners of the Parent Company adjusted for dissolution of acquired surplus or deficit values. These shares in profits, less dividends received from associates, constitute the main change in the carrying amount of participations in associated companies. The Group's share of other comprehensive income of associated companies is recognized on a separate line in the Group's other comprehensive income.

Any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with the same principles as those applied to the acquisition of subsidiaries.

Transaction costs, except for transaction costs attributable to the issue of equity instruments or debt instruments, that arise are included in cost.

When the Group's share of recognized losses in associated companies exceeds the value of shares in the Group, the value of the shares is reduced to zero. Losses are also deducted from non-current financial transactions without collateral, which in its financial meaning comprise a part of the owner company's net investment in the associated company. Continued losses are not recognized unless the Group has provided guarantees to cover losses arising in the associated company. The application of the equity method is discontinued on the date that significant influence ceases.

Transactions eliminated on consolidation

Intra-Group balances, income and expenses and any unrealized gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains from transactions with associated companies and jointly controlled entities are eliminated to the extent that they correspond to the Group's interest in the entity. Unrealized losses are similarly eliminated, but only insofar as there is no impairment requirement.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at the foreign exchange rate prevailing at the date of the transaction. The functional currency is the currency of the primary economic environment in which the Group entities operate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to functional currency at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognized in profit or loss for the year. Non- monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are retranslated to the functional currency at the exchange rate prevailing at the date that the fair value was determined.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the foreign operation's functional currency to the Group's reporting currency, SEK, at foreign exchange rates prevailing at the balance sheet date. Revenues and expenses of foreign operations are translated to SEK at average rates that approximate the foreign exchange rates prevailing at each of the transaction dates. Translation differences arising from the translation of the net investment in foreign operations are recognized in other comprehensive income and are accumulated in a separate component of equity, a translation reserve. When the foreign operation is divested, the accumulated translation differences attributable to the divested foreign operation are reclassified from equity to profit or loss for the year as a reclassification adjustment at the date on which the profit or loss on the divestment is recognized. For cases in which divestments made include a residual controlling influence, the proportionate share of accumulated translation differences from other comprehensive income is transferred to non-controlling interests.

Since 1 January 2004, meaning the date of transition to IFRS, translation differences have been recognized in the translation reserve.

Net investments in foreign operations

Monetary non-current receivables or monetary non-current liabilities to a foreign operation for which no settlement is planned or is not likely to take place in the foreseeable future are, in practice, part of the company's net investment in foreign operations. A foreign exchange difference arising on the monetary non-current receivable or monetary non-current liability is recognized in other comprehensive income and accumulated in a separate component of shareholders' equity, entitled translation reserve. When a foreign operation is divested, the accumulated foreign exchange differences attributable to monetary non-current receivables or monetary non-current liabilities are included in the accumulated translation differences reclassified from the translation reserve in equity to profit or loss for the year.

Revenue

Revenue from sales and services

Revenue from the sale of goods is recognized in profit or loss for the year when the significant risks and rewards of ownership have been transferred to the buyer, that is, normally in connection with delivery. If the product requires installation at the buyer, and installation is a significant part of the contract, revenue is recognized when the installation is completed. Buy-back commitments may entail that sales revenue cannot be recognized if the agreement with the customer in reality implies that the customer has only rented the product for a certain period of time.

Revenue from service assignments is normally recognized in connection with the rendering of the service. Revenue from service and maintenance contracts is recognized in accordance with the percentage of-completion method. The stage of completion is normally determined based on the proportion of costs incurred on the balance sheet date in relation to the estimated total costs of the assignment. Only expenditures relating to work carried out or to be carried out are included in calculating the total costs.

Construction contracts

Construction contracts exist to some extent, mainly in the Sandvik Mining and Construction business area and the Sandvik Materials Technology's Process Systems product area. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognized in profit or loss for the year in proportion to the stage of completion of the contract. The stage of completion is determined based on the proportion that contract costs incurred to date bear to the estimated total contract costs. Expected losses are immediately recognized as an expense in consolidated profit or loss for the year.

Other revenue
Revenue in the form of royalty is recognized on the basis of the financial implications of the agreement.

Government grants
Government grants are recognized as deferred income in the balance sheet when there is reasonable assurance that the grant will be received and that the entity will comply with the conditions attaching to them. Grants are recognized in profit or loss for the year in the same way and over the same periods as the related costs that they are intended to compensate, on a systematic basis. Grants related to assets are presented by deducting the grant from the carrying amount of the asset.

Operating expenses and financial income and expenses
Operating lease agreements
Costs for operating leases are recognized in profit or loss for the year on a straight-line basis over the term of the lease. Lease incentives received are recognized in profit or loss for the year as an integral part of the total lease expense. Variable fees are expensed in the period in which they were incurred.

Finance lease agreements
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Variable fees are expensed in the period in which they were incurred.

Financial income and expenses
Financial income comprises interest income on funds invested (including financial assets available-for-sale), dividend income, gains on the disposal of financial assets available-for-sale, and gains on hedging instruments recognized in profit or loss for the year.

Interest income from financial instruments is recognized using the effective interest method (see below). Dividend income is recognized when the Group's right to receive payment is established. Income from the sale of a financial instrument is recognized when the risks and benefits associated with ownership are transferred to the buyer and the Group no longer has control over the instrument.

Financial expenses comprise interest expense on borrowings, unwinding of the discount effect on provisions, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit for the year. Borrowing costs are recognized in profit or loss using the effective interest method, except for the portion that is directly attributable to the purchase, construction or production of assets that take a considerable amount of time to complete for their intended use or sale. In such a case, they are included in the asset's cost.

Foreign currency gains and losses are recognized net
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between contractual parties that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Income tax
Income tax comprises current and deferred tax. Income tax is recognized in profit or loss for the year except when the underlying transaction is recognized in other comprehensive income, in which case the associated tax effects are recognized in other comprehensive income or in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet liability method, based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill, or for temporary difference arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. Additionally, deferred tax is not recognized on temporary differences relating to investments in subsidiaries and associated companies to the extent that they will probably not be reversed in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the underlying assets and liabilities, using tax rates and fiscal regulations enacted or substantively enacted at the balance sheet date.

Deferred tax assets relating to deductible temporary differences and tax loss carry-forwards are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The value of deferred tax assets is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Any additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Financial instruments
Financial instruments recognized in the balance sheet include assets, such as cash and cash equivalents, loan and trade account receivables, financial investments and derivatives, and liabilities such as loan liabilities, accounts payable and derivatives.

Recognition and derecognition
A financial asset or a financial liability is recognized on the balance sheet when the entity becomes a party to the contractual provisions of the instrument. Trade receivables are recognized upon issuance of the invoice. A liability is recognized when the counterparty has performed under the agreement and the company is contractually obliged to settle the obligation, even if no invoice has been received.

A financial asset is derecognized when the rights under the agreement are realized or have expired, or when control of the contractual rights is lost. The same applies to a portion of a financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged or otherwise expires. The same applies to a portion of a financial liability.

A financial asset and a financial liability are offset and presented in a net amount in the balance sheet only if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A regular purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting. Trade date is the date at which an entity commits itself to purchase or sell an asset.

Classification and measurement

A non-derivative financial instrument is initially recognized at transaction price equivalent to the fair value of the instrument. The Group classifies its financial instruments based on the purpose for its acquisition. Management decides its classification on initial recognition. The classification of a financial asset determines how it is measured after initial recognition. Sandvik's holdings of financial instruments are classified as follows:

Cash and cash equivalents comprise cash balances and call deposits with banks and equivalent financial institutions, and short-term investments that have a maturity of no more than three months from the date of acquisition, and are exposed only to an insignificant risk of changes in value.

Financial assets and liabilities are classified as follows:

a) Financial assets and financial liabilities measured at fair value in profit or loss consist of two subgroups:

i) Financial assets and financial liabilities held for trading, which comprise all derivatives held by Sandvik. Derivatives trading is pursued mainly to hedge the Group's foreign exchange and interest rate risks. Derivatives with positive fair values are recognized as other current or non-current receivables (unrealized profits), while derivatives with negative fair values are recognized as other current or non-current liabilities (unrealized losses).

ii) Financial assets and liabilities which are initially classified as belonging to this category (fair value option). Sandvik holds no financial instruments classified in this subgroup.

b) Loans and trade receivables

Non-current receivables and among non-current assets and current trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After the initial recognition, these assets are measured at amortized cost using the effective interest method, less any reserve for value depletion.

c) Financial liabilities

Financial liabilities, that is, Sandvik's borrowings, are initially measured at fair value net of transaction costs. Borrowings are subsequently measured at amortized cost and any difference between the loan amount (net of transaction costs) and the repayable amount is allocated to profit or loss for the year over the term of the loan using the effective interest method. Borrowings are classified as current unless the company has an unconditional right to postpone payment for at least 12 months after the balance sheet date.

d) Financial assets available for sale

Investments in shares and participations reflect holdings that are not traded on an active market and are classified as financial assets available-for-sale. Such assets are, after initial recognition, principally measured at their fair values with gains or losses arising from a change in the fair value recognized directly in equity. However, if there is objective evidence that the asset is impaired, the cumulative loss recognized directly in equity is removed from equity and recognized in profit for the year. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are, however, measured at cost, possibly adjusted to recognize an impairment loss.

The policies set out above are those that Sandvik mainly apply when accounting for financial assets and financial liabilities. The exceptions from the above mentioned principles apply to financial instruments that form part of hedging relations.

Derivatives and hedge accounting

The Group's derivative instruments are acquired to hedge interest rates and foreign exchange risks to which the Group is exposed as well as the risk for changes in the fair value of certain assets, liabilities and contracted transactions. Derivatives are initially recognized at fair value. Transaction costs are recognized in profit or loss for the year. After initial recognition, derivatives are measured at fair value and the change in value is recognized in the manner described below.

To meet the criteria for hedge accounting, there must be a clear-cut relation to the hedged item and the hedge must be expected to be highly effective and it must be possible to measure such effectiveness reliably. Moreover, the hedge must be formally designated and documented. Gains and losses on hedges are recognized in profit or loss for the year at the same time that the gains and losses are recognized for the hedged items.

Sandvik does not apply hedge accounting to all hedging transactions. When hedge accounting is not applied, the different handling of derivatives, which are measured at market value, and liabilities, measured at amortized cost, result in volatility in the financial net in the terms of accounting.

In financial terms, Sandvik believes that its hedging activities are appropriate and that its risk management complies with the finance policy approved by the Board.

Receivables and liabilities denominated in foreign currencies

Sandvik uses foreign exchange contracts to hedge the foreign exchange risk inherent in these assets and liabilities. Hedge accounting is not applied to derivatives that economically hedge such monetary assets and liabilities denominated in foreign currencies. Rather, both the underlying receivable or liability and the hedging instrument are measured at the exchange rate ruling on the balance sheet date and exchange-rate fluctuations are recognized in profit or loss for the year.

Cash-flow hedges

Sandvik uses foreign exchange contracts and foreign currency options to hedge future cash flows and forecast transactions denominated in foreign currencies, including intra-Group transactions as defined in the amendment to IAS 39 issued by the IASB in April 2005. These derivative instruments are included in the balance sheet at fair value. The effective portion of the change in fair value for the year is recognized in other comprehensive income and the accumulated changes in a separate component of shareholders' equity (the hedging reserve) until the hedged flow impacts profit or loss for the year, at which point the accumulated changes in value of the hedging instrument are reclassified to profit or loss for the year in conjunction with the hedged item impacting profit or loss for the year. The ineffective portion of a gain or loss is immediately recognized in profit or loss for the year. To a lesser extent, Sandvik has entered into foreign exchange contracts that are not designated as hedging instruments. The changes in fair value of these contracts are directly recognized in profit or loss for the year.

The accumulated gain or loss recognized in equity is reclassified into profit or loss for the year in the periods during which the hedged item affects profit or loss (for instance when the forecast sales that are hedged take place). If the hedged forecast transaction subsequently results in the recognition of a non-financial asset (for instance, inventories or an item of property, plant and equipment), or a non-financial liability, the hedging reserve is dissolved and the gain or loss is included in the initial cost or other carrying amount of the asset or liability.

Interest-rate swaps are used to hedge the risk in future interest rate flows of loans with floating interest rates. The swaps are measured at fair value in the balance sheet. The interest coupon on swaps is recognized as interest income or interest expense in profit or loss for the year. The remaining change in fair value is recognized directly in the hedging reserve in equity until the hedged item is recognized in profit for the year, and as long as the criteria for hedge accounting and hedge effectiveness are met. Some of Sandvik's interest rate swaps do not meet the criteria for hedge accounting and the changes in fair value of these instruments are therefore recognized in profit or loss for the year.

Fair-value hedges

When a hedging instrument is used to hedge the exposure to changes in fair value, changes in the fair value of the instrument are recognized in profit or loss for the year. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in profit or loss.

Fair value hedges are used to hedge the fair value of assets and liabilities recognized in the balance sheet, provided that the hedged item is otherwise recognized at purchase value, and by contracted flows. The derivative instruments used include commodity and electricity derivatives used to hedge delivery contracts entered into with suppliers.

Hedging of net investments

Sandvik has no derivates that are used to hedge net investments in foreign operations.

Intangible assets

Goodwill

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. Goodwill arising on the acquisition of an associated company is included in the carrying amount of participations in associates.

On transition to IFRS, the company has not applied IFRS retrospectively to business combinations effected before 1 January 2004. Instead, the carrying amount of goodwill at that date henceforth constitutes its deemed cost, adjusted only for any impairment losses.

If in a business combination the fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is immediately recognized in profit or loss for the year.

Research and development

Expenditure on research activities related to the obtaining of new scientific or technical knowledge is expensed as incurred. Expenditure on development activities, whereby the research results or other knowledge is applied to accomplish new or improved products or processes, is recognized as an intangible asset in the balance sheet, provided the product or process is technically and commercially feasible and the company has sufficient resources to complete development, and is subsequently able to use or sell the intangible asset. The carrying amount includes the directly attributable expenditure, such as the cost of materials and services, costs of employee benefits, fees to register intellectual property rights and amortization of patents and licenses. Other expenses for development are expensed as incurred. In the balance sheet, capitalized development expenditure is stated at cost less accumulated amortization and any impairment losses.

Other intangible assets

Other intangible assets acquired by the company are recognized at cost less accumulated amortization and any impairment losses. Capitalized expenditure for the development and purchase of software for the Group's IT operations are included here. Expenditure for internally generated goodwill and trademarks is expensed as incurred.

Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits. All other expenditure is expensed as incurred.

Borrowing costs

Borrowing cost attributable to the construction of qualifying assets are capitalized as a portion of the qualifying asset's cost. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. Firstly, borrowing costs that arise on loans that are specific to the qualifying asset are capitalized. Secondly, borrowing costs are capitalized that arise on general loans that are not specific to any other qualifying asset. For the Group, the capitalization of borrowing costs is mainly relevant for capitalized expenditure for the development of new data systems.

Amortization of intangible assets

Amortization is charged to profit or loss for the year on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment annually or as soon as there is an indication that the asset may be impaired. Intangible assets with a finite useful life are amortized as from the date the asset is available for use.

The estimated useful lives are as follows: Patents and trademarks 10–20 years. Capitalized development costs 3–7 years. Software for IT operations 3 years.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are recognized at cost less accumulated depreciation and any impairment losses.

Leased assets

In the consolidated financial statements, leases are classified as either finance leases or operating leases. A finance lease substantially transfers the economic risks and rewards of ownership to the lessee. If that is not the case, the lease is classified as an operating lease.

Assets leased under finance leases are recognized as assets in the consolidated balance sheet and are initially measured at the lower of the fair value of the leased property and the present value of the minimum lease payments at inception of the lease. The obligation to pay future leasing fees is recognized as interest-bearing non-current and current liabilities. The leased assets are systematically depreciated and the leasing fees are apportioned between interest expense and the reduction of the outstanding liabilities.

Assets leased under operating leases are not recognized as an asset in the consolidated balance sheet. Nor do operating leases give rise to any liabilities.

In cases in which Sandvik is the lessor under a financial lease, the assets held under such leases are not presented as property, plant and equipment since the risks of ownership have been transferred to the lessee. Instead, the future minimum lease payments are recognized as financial receivables.

Subsequent expenditure

Subsequent expenditure is added to the cost if the expenditure pertains to the replacement of identified components or parts of such components. The expenditure is also added to the cost when a new component is created. Any non-depreciated carrying amounts for replaced components, or parts of components, are eliminated and expensed in conjunction with the replacement. Repairs are expensed continuously.

Borrowing costs

Borrowing costs attributable to the construction of qualifying assets are capitalized as a portion of the qualifying asset's cost. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. Firstly, borrowing costs that arise on loans that are specific to the qualifying asset are capitalized. Secondly, borrowing costs are capitalized that arise on general loans that are not specific to any other qualifying asset. For the Group, the capitalization of borrowing costs is mainly relevant in connection with the construction of production buildings on a proprietary basis.

Depreciation of tangible assets

Depreciation is based on cost less estimated residual value. The assets are depreciated over the estimated useful lives. Plant and machinery is generally depreciated on a straight-line basis over 5–10 years, rental assets over three years, buildings over 10–50 years, and site improvements over 20 years. Land is not depreciated. Computer equipment is depreciated over 3–5 years using the reducing balance method.

If an item of property, plant and equipment comprises components with different useful lives, each such significant component is depreciated separately.

Depreciation methods and estimated residual values and useful lives are reviewed at each year-end.

Impairment and reversals of impairment

Assets with an indefinite useful life are not amortized but tested for impairment annually. Assets that are amortized or depreciated are tested for impairment whenever events or changed circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which thecarrying amount of an asset exceeds its recoverable amount, which is the greater of the net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognized in respect of a cash-generating unit (or group of units) are allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of items of property, plant and equipment and intangible fixed assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

Impairment – and any reversal of impairment – of certain other assets, such as financial assets under the scope of IAS 39, inventories, plan assets held by a post- employment, benefit fund and deferred tax assets, is tested in accordance with the respective standard.

Inventories

Inventories are stated at the lower of cost and net realizable value, with due consideration of obsolescence. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost is based on the first-in/first-out (FIFO) principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Assets held for sale

Assets are classified as held for sale if their value, within one year, will be recovered through a sale and not through continued use in the operations. On the reclassification date, assets and liabilities are measured at the lower of fair value less selling expenses and the carrying amount. Following reclassification, the assets are no longer depreciated/amortized.

Equity

When share capital is repurchased, the amount of the consideration paid is recognized as a change in equity. If the repurchased shares are cancelled, the quotient value of such shares reduces the share capital. If repurchased shares are re-issued or sold, the consideration directly increases shareholders' equity.

Dividends are recognized as a liability in the period in which they are resolved at a shareholders' meeting.

Earnings per share

The calculation of basic earnings per share is based on the profit or loss attributable to ordinary equity holders of the Parent Company and the weighted average number of ordinary shares outstanding during the year. When calculating diluted earnings per share, the weighted average number of shares outstanding is adjusted for the effects of all dilutive potential ordinary shares, which during reported periods relates to options issued to employees. The options are dilutive if the exercise price is less than the quoted stock price and increases with the size of the difference.

Employee benefits

The Group's pension plans

The Group sponsors a number of defined contribution and defined-benefit pension plans, some of which with plan assets held by separate foundations or equivalent.

A number of Group entities also provide post-employment medical benefits. Whenever possible, Sandvik nowadays seeks defined-contribution pension solutions and in recent years defined-benefit plans have as far as possible been closed for new entrants in connection with negotiations about defined-contribution pension arrangements. The Group's Swedish companies offer newly hired white-collar staff, regardless of age, the defined-contribution pension solution (ITP 1) resulting from the renegotiation of the ITP Plan between the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector.

Defined-contribution plans

A defined-contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The size of the pension that the employee will ultimately receive in such case depends on the size of the contributions that the entity pays to the plan or an insurance company and the return that the contributions yield. Obligations for contributions to defined-contribution pension plans are recognized as an employee benefit expense in profit or loss for the year as the employee renders services to the entity and the contribution payable in exchange for that service becomes due.

Defined-benefit plans

The Group's net obligation in respect of defined-benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have vested in return for their service in the current and prior periods. This benefit is discounted to its present value. The discount rate is the yield on high-quality corporate bonds (AA credit rated bonds), mortgage bonds – or if there is no deep market for such bonds, government bonds – that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by a qualified actuary. In addition, the fair value of any plan assets as at the balance sheet date is assessed. Sandvik applies such an accounting policy to the Group's most significant defined-benefit plans. A number of plans, which neither individually nor in the aggregate are significant in relation to the Group's total pension obligations, are still recognized in accordance with local regulations.

In measuring the present value of pension obligations and the fair value of plan assets, actuarial gains and losses may accrue either because the actual outcome differs from earlier assumptions (so-called experience adjustments) or the assumptions are changed. The corridor rule is applied, which means that only the portion of the aggregate gains and losses that exceed the greater of 10% of the present value of the obligations or 10% of the fair value of plan assets are recognized in profit or loss over the remaining expected average service period of the plan participants. Actuarial gains and losses are otherwise not recognized.

When the benefits under a plan are improved, the portion of the increased benefits that relate to past service by employees is recognized in profit or loss for the year on a straight-line basis over the average period until all of the benefits become vested. To the extent that the benefits become fully vested, the expense is recognized immediately in profit or loss for the year.

The amount of obligations recognized in the balance sheet for pensions and similar obligations reflects the present value of the obligations at balance sheet date, less the fair value of any plan assets and any unrecognized gains or losses as well as any unrecognized past service costs.

If the net amount so determined results in an asset, the recognized value of the asset is limited to the total of any cumulative unrecognized net actuarial losses and past service cost, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

When there is a difference between the pension cost recognized in the separate financial statements of an entity and in the consolidated financial statements, a provision or a refundable claim for payroll tax on pension costs calculated on such difference is recognized. Such calculation is not discounted to present value.

Termination benefits

When employment is terminated, a provision is recognized only when the entity is demonstrably committed either to terminate the employment of an employee or a group of employees before the normal retirement age or provide termination benefits as a result of an offer made to encourage voluntary redundancy. In the latter case, a liability and an expense are recognized if it is probable that the offer will be accepted and the number of employees that will accept the offer can be reliably estimated.

Share-based payments

A share option program allows employees to acquire shares in the company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value as measured at the grant date is spread over the vesting period. The fair value of the options is measured using the Black & Scholes formula, taking into account the terms and conditions upon which the options were granted. Sandvik's option programs contain no other vesting conditions than that the employee shall remain in the entity's employ at the end of the three-year vesting period. The amount recognized as an expense is adjusted to reflect the actual number of share options vested.

Cash-settled options result in a commitment to employees, which is measured at fair value and recognized as an expense, with a corresponding increase of liabilities. The fair value is initially measured at the allotment date and is allocated over the vesting period. The fair value of the cash-settled options is calculated in accordance with the Black & Scholes formula, taking into account the terms and conditions of the rights. The fair value of the liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized as an employee expense in profit or loss for the year.

In order to meet its commitments under the option program, Sandvik has entered into an equity swap agreement with a financial institution. Under the agreement, the financial institution acquired Sandvik shares at the start of the program. Sandvik has a subsequent commitment to purchase these shares from the financial institution for allotment to the program's participants following the vesting period. The fair value of the Sandvik share when the swap agreement was signed is recognized as a financial liability and as a reduction of equity in accordance with IAS 32.

Social costs relating to share-based payments to employees are expensed over the accounting periods during which the services are provided. The charge is based on the fair value of the options at the reporting date. The fair value is calculated using the same formula as that used when the options were granted.

Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes with their associated probabilities.

Restructuring
A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. No provision is posted for future operating costs.

Site restoration
In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognized when land has become contaminated.

Onerous contracts
A provision for onerous contracts is recognized when the expected benefits to be derived by the Group are lower than the unavoidable cost of meeting its obligations under the contract.

Contingent liabilities
A contingent liability is recognized when there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or when there is a present obligation that cannot be recognized as a liability because it is not probable that an outflow of resources will be required, alternatively because the amount of the obligation cannot be measured with sufficient reliability.

Cash-flow statement
Payments and receipts have been divided into the following categories: operating activities, investing activities, and financing activities. Cash flows from operating activities are recognized using the indirect method.

Changes during the year in operating assets and liabilities are adjusted for the effects of exchange rate movements. Acquisitions and divestments are recognized within investing activities. The assets and liabilities held by acquired or divested entities at the transfer date are not included in the analysis of changes in working capital, nor in changes in balance sheet items recognized within investing and financing activities.

In addition to cash and bank balances, cash and cash equivalents include short-term investments, the conversion of which to bank funds can be accomplished at an amount that is largely known in advance. Cash and cash equivalents thus include short-term investments with a maturity of less than three months.

Parent Company's accounting policies
The Parent Company has prepared its Annual Report in accordance with the Annual Accounts Act (1995:1554) and the standard, RFR 2 Reporting by a legal entity, issued by the Swedish Financial Reporting Board. Also the interpretations issued by the Financial Reporting Board valid for listed companies have been applied. Under RFR 2, the Parent Company in its Annual Report shall apply all the IFRS and IFRIC interpretations approved by the EU to the extent possible within the framework of the Annual Accounts Act, the Act on Income Security, and taking into account the close tie between financial reporting and taxation. The standard specifies what exceptions from or additions to the IFRS shall be made. Taken together, this results in differences between the accounting policies applied in the consolidated financial statements and those applied by the Parent Company is specified below.

Changed accounting policies
Unless otherwise stated below, the Parent Company's accounting policies in 2011 changed in accordance with the amendments described above for the Group's accounting policies.

From 2011, Group contributions received are recognized as dividends and Group contributions paid are recognized as investments in shares and subsidiaries. Comparative figures for 2010 have been amended in accordance with the new principles. Group contributions were previously recognized directly in equity in accordance with UFR 2 Group Contributions and Shareholders' Contributions.

Classification and presentation
The Parent Company's income statement and balance sheet adhere to the presentation included in the Annual Accounts Act. The differences compared to IAS 1 Presentation of Financial Statements applied when presenting the consolidated financial statements mainly pertain to the presentation of finance income and expenses, noncurrent assets, equity and the presentation of provisions as a separate heading in the balance sheet.

Shares in Group companies and associated companies
The Parent Company recognizes shares in Group companies and associated companies in accordance with the cost model, meaning that transaction costs are included in the carrying amount of holdings in subsidiaries and associated companies. Transaction costs related to shares in Group companies are recognized directly in profit or loss in the consolidated financial statements when they arise.

Contingent consideration is valued based on the probability that the consideration will be paid. Any changes in the provision/receivable are added to/deducted from the cost. Contingent consideration is measured at fair value in the consolidated financial statements with changes in value recognized in profit or loss.

Dividends from subsidiaries are recognized in full as income in profit or loss for the year.

Property, plant and equipment
The Parent Company recognizes items of property, plant and equipment at cost less accumulated depreciation and any impairment losses, that is as in the consolidated financial statements, but increased by any revaluation.

Leased assets
The Parent Company recognizes all lease contracts as operating leases.

Intangible assets
The Parent Company recognizes all expenditure for research and development conducted on a proprietary basis as an expense in profit or loss.

Borrowing costs
In the Parent Company, borrowing costs are expensed in the periods to which they relate. Borrowing costs for assets are not capitalized.

Employee benefits
The Parent Company calculates expenses for defined-benefit pension plans differently from the manner prescribed in IAS 19. The Parent Company applies the Act on Income Security and regulations issued by the Swedish Financial Supervisory Authority, which is a prerequisite for income tax purposes. Compared to IAS 19, the most significant differences relate to the determination of the discount rate, the fact that the obligation is calculated based on the current salary level disregarding assumptions about future levels, and the immediate recognition of actuarial gains and losses in profit or loss.

Income tax
The Parent Company recognizes untaxed reserves including the deferred tax component. In the consolidated financial statements, untaxed reserves are recognized in their equity and deferred tax components. Correspondingly, portions of appropria-

tions are not allocated to deferred tax expenses in the Parent Company's income statement.

Group contributions and shareholders' contributions in legal entity accounts

Group contributions that a Parent Company receives from a subsidiary are recognized in the Parent Company in accordance with the same policies as normal dividends from subsidiaries. Group contributions paid by a Parent Company to subsidiaries are recognized as investments in shares in the subsidiaries.

Anticipated dividends

Anticipated dividends from subsidiaries are recognized in cases where the Parent Company unilaterally may determine the size of the dividend and provided that the Parent Company has made such a decision before it published its financial statements.

Financial instruments

The Parent Company does not apply hedge accounting in accordance with IAS 39 due to the close tie between financial reporting and taxation.

Financial guarantees

The Parent Company applies a relaxation rule permitted by the Swedish Financial Reporting Board to the reporting of financial guarantees as opposed to the rules stipulated by IAS 39. This relaxation rule pertains to financial guarantee agreements issued for the benefit of subsidiaries, associated companies and joint ventures. The Parent Company recognizes financial guarantees as a provision in the balance sheet when the company has an obligation for which payment is probably necessary to settle the commitment.

Critical accounting estimates and judgments

Key sources of estimation uncertainty

In order to prepare the financial statements, management and the Board make various judgments and estimates that can affect the amounts recognized in the financial statements for assets, liabilities, revenues and expenses as well as information in general, including issues with regard to contingent liabilities. The judgments and estimates discussed in this section are those deemed to be most important for an understanding of the financial statements, considering the level of significant estimations and uncertainty. The conditions under which Sandvik operates are gradually changing meaning that the judgments also change.

Impairment tests of goodwill

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired, for example due to a changed business climate or a decision taken either to sell or close down certain operations. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. This is further described in Note 13. As can be deduced from this description, changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Impairment tests of other fixed assets

Sandvik's property, plant and equipment and intangible assets – excluding goodwill – are stated at cost less accumulated depreciation/amortization and any impairment losses. Other than goodwill, Sandvik has not identified any intangible assets with indefinite useful lives. The assets are depreciated/amortized over their estimated useful lives to their estimated residual values. Both the estimated useful life and the residual value are reviewed at least at each financial year-end.

The carrying amount of the Group's non-current assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount will not be recovered. The carrying amount of intangible assets not yet available for use is tested annually. If such analysis indicates an excessive carrying amount, the recoverable amount of the asset is estimated. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use. Value in use is measured as the discounted future cash flows of the asset, alternatively the cash-generating unit to which the asset belongs. The rental fleet of Sandvik Mining and Construction is particularly examined considering its dependence on the business climate in the mining industry and the risk that rental agreements may be cancelled. The carrying amount of the rental fleet at the end of 2011 was 427 MSEK (562).

A call for an impairment test arises also when a non-current asset is classified as being held for sale, at which time it must be remeasured at the lower of its carrying amount and fair value less cost to sell.

Pension assumptions

Actuarial assumptions are important ingredients in the actuarial methods used to measure pension obligations and they can significantly affect the recognized net liability and the annual pension cost. Two critical assumptions – the discount rate and expected return on plan assets – are essential for the measurement of both the expense of the current year and the present value of the defined-benefit obligations. These assumptions are reviewed annually for each pension plan in each country. Other assumptions, which may relate to demographic factors such as pension age, mortality rates and employee turnover, are reviewed less frequently. The actual outcome often differs from the actuarial assumptions for economic or other reasons.

The discount rate is used to measure the present value of future cash flows at the measurement date. This rate shall be determined by reference to market yields at the balance sheet date on high-quality corporate bonds or, if there is no deep market for such bonds, the market yields on government bonds. A lower discount rate increases the present value of the pension obligation and the annual pension cost.

In order to determine the expected rate of return on plan assets, the Company considers the current and anticipated categories of plan assets as well as historical and expected returns on the various categories.

Compared with the preceding year, the average discount rate changed from 5.1% to 4.6%. The expected weighted average return on plan assets in 2011 was 6.1% (6.1).

Income tax

Significant estimates are made to determine both current and deferred tax liabilities/assets, not least the value of deferred tax assets. The company must then determine the possibility that deferred tax assets will be utilized and offset against future taxable profits. The actual results may differ from these estimates, for instance due to changes in the business climate, changed tax legislation, or the outcome of the final review by tax authorities and tax courts of tax returns. At year-end 2011, Sandvik recognized deferred tax assets of 3,070 MSEK (2,056). Furthermore, the Group had additional tax loss carryforwards of about 588 MSEK (355) at year-end for which no deferred tax assets are recognized since utilization of these losses is not deemed probable. A change in the estimate of the possibility for utilization thus can affect results both positively and negatively. The expenditure recognized as a provision for ongoing tax litigations based on management's best estimate of the outcome, and amounted to 3,941 MSEK (3,650) at the end of 2011.

Disputes

Sandvik is besides the tax litigation cases set out above – party to a number of disputes and legal proceedings in the ordinary course of business. Management consults with legal experts on issues related to legal disputes and with other experts internal or external to the Company on issues related to the ordinary course of business. It is management's best estimate that neither the Parent Company, nor any subsidiary, is involved in legal proceedings or arbitration that may be deemed to have a materially negative effect on the business, the financial position or results of operations.

For additional information on risks related to disputes, refer to the Risks and Risk Management section.

Key assessments in applying the Group's accounting policies

The company refers to its description above of the accounting policies that the company has chosen to apply, especially when those policies are selected from permissible alternatives. Management would in particular draw attention to the following:

Inventory accounting

Sandvik applies IAS 2 in accounting for its inventories. Inventories are recognized at the lower of cost and net realizable value. A consequence of the IAS 2 rules is that if the market value of materials and components included in Sandvik's finished goods drops, the value of the materials and components must not be reduced as long as the selling price of the finished product less selling costs still exceeds the cost of the finished product. Instead, the lesser market value of the materials and components shows itself in the form of a lower margin in future periods to the extent that Sandvik must adapt its selling price due to the changes in market values. In periods of significant price volatility, this state of affairs should be taken into consideration when future results are being appraised.

Accounting for actuarial gains and losses

According to IAS 19, immediate recognition of actuarial gains and losses related to defined-benefit pension plans is not mandatory. Instead, only that portion of such gains and losses that fall outside of a corridor of plus/minus 10 % of the greater of the present value of the defined-benefit obligation and fair value of the plan assets is recognized. Also any systematic method that results in faster recognition of actuarial gains and losses is possible, including immediate recognition in profit or loss. Sandvik has chosen to apply the corridor approach and to recognize gains or losses outside the corridor over the expected average remaining working lives of the employees participating in the plan. Unrecognized actuarial losses amounted to 1,789 MSEK at year-end 2010 and 3,384 MSEK at year-end 2011.

Definitions

Earnings per share

Profit/loss for the year attributable to equity holders of the Parent Company divided by the average number of shares outstanding during the year.

Equity ratio

Shareholders' equity including non-controlling interests in relation to total capital.

Net debt/equity ratio

Interest-bearing current and non-current debts (including provisions for pensions) less cash and cash equivalents divided by the total of shareholders' equity including non-controlling interests.

Rate of capital turnover

Invoiced sales divided by average total capital.

Relative working capital

Average working capital divided by invoicing in the most recent quarter adjusted to annual rate.

Return on capital employed

Profit/loss after financial income and expenses, plus interest expenses, as a percentage of average total capital, less non-interest-bearing debts.

Return on shareholders' equity

Consolidated net profit/loss for the year as a percentage of average shareholders' equity during the year.

Return on total capital

Profit/loss after financial income and expenses, plus interest expenses, as a percentage of average total capital.

Working capital

Total of inventories, trade receivables, accounts payable and other noninterest-bearing receivables and liabilities, excluding tax assets and liabilities.

Notes

NOTE

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CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS

(Amounts in tables in MSEK, unless otherwise stated)

NOTE 1. SEGMENT INFORMATION

1.1 Information on business segments/business areas

	Sandvik Tooling		Sandvik Mining and Construction		Sandvik Materials Technology		Seco Tools		Corporate		Eliminations		Group total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Revenue														
External revenue	27,160	23,893	41,481	35,182	18,379	17,703	7,026	5,838	38	38			94,084	82,654
Internal revenue	365	160	5	9	391	338	17	20	17	17	–795	–544		
Group total	**27,525**	**24,053**	**41,486**	**35,191**	**18,770**	**18,041**	**7,043**	**5,858**	**55**	**55**	**–795**	**–544**	**94,084**	**82,654**
Share of results of associated companies	**18**	**14**	**5**	**5**	**–22**	**14**	**6**	**5**	**—**	**—**			**7**	**38**
Operating profit/loss by business area	**5,896**	**4,296**	**5,246**	**4,665**	**–1,619**	**1,540**	**1,408**	**1,098**	**–783**	**–570**			**10,148**	**11,029**
Net financing cost													–1,969	–1,617
Income tax expense for the year													–2,318	–2,469
Profit for the year													**5,861**	**6,943**
Other disclosures														
Assets	25,247	23,913	32,454	27,040	18,943	20,586	6,271	5,425	2,732	1,570			85,647	78,534
Investment in associates	141	131	45	48	251	272	19	16	—	—			456	467
Total assets	25,388	24,044	32,499	27,088	19,194	20,858	6,290	5,441	2,732	1,570			86,103	79,001
Unallocated assets													12,636	10,998
Group total													**98,739**	**89,999**
Liabilities	5,501	4,835	12,081	9,817	5,046	4,258	1,314	1,251	3,182	3,467			27,124	23,628
Unallocated liabilities													37,724	32,558
Group total													**64,848**	**56,186**
Capital expenditure	1,292	750	1,163	583	1,711	1,340	617	386	151	215			4,934	3,274
Depreciation/ Amortization	–1,444	–1,576	–995	–1,091	–902	–832	–420	–379	–107	–104			–3,868	–3,982
Impairment losses	–55	33	–206	–27	–1,694	–28	—	—	—	–34			–1,955	–56
Other non-cash expenses	–73	–20	357	–83	878	–59	86	–24	111	56			1,359	–130

All transactions between the business areas are on market terms. For information regarding business combinations, see Note 34.

1.2 Information by country

External income per country

Group	**2011**	2010
USA	11,066	10,032
Australia	8,606	7,564
Germany	7,678	6,571
China	6,561	5,581
South Africa	4,806	4,532
Brazil	4,571	3,613
Sweden	4,233	3,819
Italy	3,355	3,013
France	3,008	3,090
Russia	2,990	2,339
Canada	2,745	2,333
UK	2,567	2,215
Japan	2,277	2,099
India	2,220	2,224
Mexico	1,786	1,379
Other countries	25,615	22,250
Total	**94,084**	**82,654**

Income is specified by country based on where customers are located.

Fixed assets by country

Group	**2011**	2010
Sweden	12,682	12,231
USA	4,317	4,730
Germany	3,216	3,288
Austria	2,416	2,411
China	1,948	1,332
UK	1,917	3,368
Australia	1,768	1,448
Finland	1,501	1,566
India	892	915
France	885	918
Japan	870	860
Brazil	786	886
Czech Republic	777	401
Canada	511	544
Italy	464	511
Other countries	2,559	3,036
Total	**37,509**	**38,445**

Fixed assets are specified by country based on where they are located.

NOTE 2. CATEGORIES OF REVENUE

	Group		Parent Company	
	2011	2010	**2011**	2010
Sale of goods	87,000	75,541	17,427	17,430
Contract revenue	3,342	3,251	3	178
Rendering of services	3,231	3,241	26	52
Rental income	511	621	4	8
Total	**94,084**	**82,654**	**17,460**	**17,668**

NOTE 3. PERSONNEL INFORMATION AND REMUNERATION OF MANAGEMENT AND AUDITORS

3.1 Average number of employees

	Group				Parent Company			
	2011		2010		**2011**		2010	
	Number	Women %	Number	Women %	Number	Women %	Number	Women %
Sweden	11,293	23	10,667	22	8,227	22	7,737	20
Rest of Europe	15,433	19	14,778	19	—	—	—	—
Total Europe	**26,726**	**21**	**25,445**	**20**	**8,227**	**22**	**7,737**	**20**
NAFTA	5,741	17	5,565	19	—	—	—	—
South America	3,169	12	2,846	13	—	—	2	—
Africa, Middle East	3,046	18	2,965	13	—	—	—	—
Asia	7,529	16	6,538	16	—	—	—	—
Australia	2,336	15	2,350	14	—	—	—	—
Total	**48,547**	**18**	**45,709**	**18**	**8,227**	**22**	**7,739**	**20**

3.2 Wages, salaries, other remuneration and social costs

	Group		Parent Company	
	2011	2010	**2011**	2010
Wages, salaries and other remuneration	18,860	17,967	3,896	3,321
Social costs	4,938	4,668	2,142	1,593
Employee profit sharing	216	250	183	212
Total	**24,014**	**22,885**	**6,221**	**5,126**
of which, pension costs recognized in social costs	1,747	1,466	938	538

A total of 57 MSEK (69) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to 184 MSEK (221). Correspondingly, 8 MSEK (32) of the Parent Company's pension costs related to the Board of Directors and presidents. The Parent Company's pension liability relating to these persons amounted to 60 MSEK (61).

Employee profit-sharing program

To promote a performance that is favorable to the Group's long-term development and also to stimulate continued employee loyalty, Sandvik has had a profit-sharing system for all employees in wholly owned companies in Sweden since 1986. The Group's return during 2011 implied an allocation of 216 MSEK (250) to the profit-sharing foundation.

3.3 Wages, salaries and other remuneration by market area

	Group		Parent Company	
	2011	2010	**2011**	2010
Sweden	5,210	4,522	3,896	3,321
Rest of Europe	6,426	6,269	—	—
Total Europe	**11,636**	**10,791**	**3,896**	**3,321**
NAFTA	2,671	2,778	—	—
South America	1,001	791	0	0
Africa, Middle East	824	851	—	—
Asia	1,253	1,268	—	—
Australia	1,475	1,488	—	—
Total	**18,860**	**17,967**	**3,896**	**3,321**
Of which, to Boards of Directors and presidents				
Salaries and other remuneration	447	401	43	32
of which, variable salary	66	55	3	9

3.4 Gender distribution in senior management

	Group		Parent Company	
Proportion of women, %	**2011**	2010	**2011**	2010
Boards and Presidents	11	9	9	9
Senior management	18	17	11	—

3.5 Information on remuneration of the Board of Directors and senior executives

Guidelines

The guidelines for the remuneration of Sandvik's senior executives were adopted at the Annual General Meeting in 2011. They are designed to ensure that Sandvik, from a global perspective, can offer market-based remuneration in order to attract and retain qualified employees.

Components of remuneration

The total remuneration package is distributed between fixed salary, annual variable salary, long-term variable salary (cash and share-based), pension and other benefits, such as company car, free housing, health insurance and severance benefits. It is intended that the components shall jointly form a well-balanced remuneration and benefit program that reflects the individual's performance and responsibility as well as the Group's earnings trend.

Long-term incentive program

In 2006, the Board decided to implement a cash-based program for long-term variable salary (LTI – Long-Term Incentive). Based on a common goal perception for executives, specialists and shareholders, the program was to form a link to future performance goals aimed at the long-term enhancement of the value of the company. This was to be achieved through an overall shared Group and business area focus on and governing towards profitable growth. An additional purpose was to improve the possibilities to recruit and retain key employees in the Group.

A LTI program was decided for each of the years 2008, 2009 and 2010. Some 400 Sandvik employees participated in the programs on a global basis. The programs applied for a three-year period, with any settlement paid after the third year of each program. The 2008 program was concluded in 2010, but resulted in no settlement in 2011. Any settlement for the 2009 program will take place in 2012 and for the 2010 program in 2013.

Under these programs, there is a direct link between performance, added value, and remuneration. There is an annual maximum outcome related to the participant's fixed salary in December of the third year. The outcome of the LTI program is conditional upon meeting measurable goals, established by the Board, for certain key ratios that create shareholder value linked to the company's growth, profitability and capital efficiency over a three-year period. For members of Group Executive Management, the maximum payment from the LTI program is 40–50% of the annual fixed salary.

cont. NOTE 3.5

Amounts attributable to these programs are expensed and reserved continuously, based on assumptions regarding goal achievement. In 2011, no long-term variable salary was paid. The 2008 LTI program covering the years 2008-2010 resulted in no settlement, since the performance targets set by the Board of Directors were not met.

During the year, a provision of 49 MSEK was made for the 2010 long-term variable salary program, of which 2.7 MSEK pertained to Group Executive Management. No provisions were made for the cash-based 2009 LTI program.

The 2011 Annual General Meeting resolved in accordance with the Board's proposal to replace the cash-based LTI program with a new share-based LTI program. The program is aimed at about 400 senior executives and key individuals in the Sandvik Group and encompasses a maximum total of 11,719,690 Sandvik shares. The program participants have the option of receiving an allotment of employee stock options that entitle the employee to acquire Sandvik shares after three years at a set exercise price ("performance shares"), on condition that certain performance targets linked to the Sandvik Group's growth in value – Sandvik Value Added (SVA) – are met. For the President, senior executives and certain top-level executives, a personal investment in Sandvik shares ("saving shares") corresponding to 10% of fixed annual pre-tax salary for 2011 is required in order to receive allotment of employee stock options. Provided that such a personal investment in Sandvik shares is made, these executives will also receive allotment of rights ("matching rights") that entitle the executive to acquire Sandvik shares after three years at a set exercise price ("matching shares").

Employees who were offered and agreed to participate in the program received allotment of employee stock options on 30 June 2011. The total number of employee stock options allotted to about 400 senior executives and key individuals in the Sandvik Group could entitle acquisition of a maximum of 11,647,300 performance shares.

Employee stock options were allotted as follows: the President (category 1) received 145,000 employee stock options, senior executives (category 2) received a maximum of 87,000 employee stock options per person and four other employee groups (categories 3–6) received between 21,750 and 43,500 employee stock options.

The employee stock options are non-transferrable. Each employee stock option entitles the employee to acquire one performance share. The amount of the allotted employee stock options that will eventually provide entitlement to the acquisition of performance shares depends on the trend in Sandvik Value Added (SVA) over the 2011–2013 fiscal years compared with the 2010 fiscal year.

Employee stock options can be utilized to acquire performance shares not earlier than three and not later than five years after the allotment of the options.

The utilization of the employee stock options to acquire performance shares requires continued employment at Sandvik. For those executives investing personally in Sandvik shares, the utilization of employee stock options to acquire performance shares also requires that all acquired saving shares are held for a three-year period after allotment of the employee stock options. The Chairman of the Board is entitled, in specific cases, to grant exemptions from this requirement.

The total number of matching rights allotted to the executives investing personally in Sandvik shares provides entitlement to the acquisition of a maximum of 72,390 matching shares.

The matching rights are non-transferrable. The participant is allotted one matching right for each saving share acquired. Each matching right entitles the holder to acquire a matching share. Matching rights can be utilized to acquire matching shares not earlier than three and not later than five years after the allotment of the matching rights. The utilization of matching rights to acquire matching shares requires continued employment at Sandvik and that all acquired saving shares are held for a three-year period after the allotment of matching rights. The Chairman of the Board is entitled, in specific cases, to grant exemptions from the requirement that saving shares be held for a three-year period.

When employee stock options are utilized to acquire performance shares, the participant is to pay, for each performance share, an amount corresponding to 110% of the average volume-weighted price paid for the Sandvik share on the NASDAQ OMX Stockholm during a period of ten trading days immediately following the 2011 Annual General Meeting. When matching rights are utilized to acquire matching shares, the participant is to pay for each matching share an amount corresponding to 75% of the average volume-weighted price paid for the Sandvik share on the NASDAQ OMX Stockholm during a period of ten trading days immediately following the 2011 Annual General Meeting. The average volume-weighted price paid was determined at 117.20 SEK. A theoretical value of an employee stock option and matching right was calculated based on the Black & Scholes option pricing model. The basis of the calculation included a share price of 117.20 SEK and expected volatility of about 32%. The theoretical value amounts to 17 SEK per employee stock option and 33.10 SEK per matching right.

The Board is entitled to decide to introduce an alternative incentive solution for key individuals in those countries where the allotment of employee stock options or matching rights, or the utilization of employee stock options or matching rights to acquire performance and matching shares, is not suitable.

In accordance with IFRS 2, the total expense for the 2011 LTI program amounted to 201 MSEK excluding social costs, of which 11 MSEK for the President and other senior executives. During the year, a provision of 67 MSEK, excluding social costs, was established for the 2011 LTI program, of which 3.8 MSEK for the President and other senior executives. The employee stock options and matching rights are expensed as an employee expense (excluding social costs) over the vesting period and are recognized directly against equity. The amount recognized is continuously revised throughout the vesting period of the employee stock options and matching rights. Social costs are expensed during the vesting period of the employee stock options and matching rights based on the change in value of the employee stock options and matching rights.

Number and exercise price

Group

Exercise price, SEK	129 1)	87.90 2)
	Number of employee stock options 2011	Number of matching rights 2011
Outstanding at beginning of year	—	—
Allotted during the period	11,647,300	72,390
Forfeited during the period	–406,000	–10,076
Outstanding at year-end	11,241,300	62,314

Parent Company

Exercise price, SEK	129 1)	87.90 2)
	Number of employee stock options 2011	Number of matching rights 2011
Outstanding at beginning of year	—	—
Allotted during the period	1,384,750	27,824
Forfeited during the period	–159,500	–4,440
Outstanding at year-end	1,225,250	23,384

1) Exercise price of the options, performance shares.
2) Exercise price of the options, matching shares

The number of allotted employee stock options and acquired matching rights for the President and other members of the Group Executive Management on 31 December 2011 corresponds to the number of outstanding employee stock options and matching rights at year-end.

Assumptions	Program 2011 (on date of issue)
Share price	117.20 SEK
Exercise price	129/87.90 SEK
Expected volatility	32 %
Expected maturity	3 years
Present value of forecasted future dividends[1]	13.10 SEK
Risk-free interest rate	2.6 %

1) Based on analysts' combined expectations

The expected volatility was determined by analyzing the historical volatility of Sandvik AB and some comparable listed companies. When determining the expected maturity, assumptions were made regarding expected behavior patterns for utilizing the employee stock options and acquired matching rights among the program participants.

Preparation and decision-making process

The Board's Remuneration Committee prepares issues relating to Group Executive Management's remuneration. The Committee met four times during the year. Issues dealt with included the distribution between fixed and variable salary, the magnitude of any pay increases and the long-term variable incentive program. The Board discussed the Remuneration Committee's proposals and made a decision, using the Committee's proposal as guidance.

cont. NOTE 3.5

Based on the Remuneration Committee's proposals, the Board decided on the remuneration of the President for 2011. The President decided on remuneration to other senior executives after consultation with the Remuneration Committee. The Remuneration Committee performed its task supported by expertise on remuneration levels and structures. For information on the composition of the Committee, refer to the Corporate Governance Report.

Remuneration of the Board and senior executives

The Board

Fees to the Chairman and other external Board members are paid in accordance with the resolution at the Annual General Meeting. No Board fees are paid to the President and the employee representatives.

President and other senior executives

The following guidelines approved by the Annual General Meeting for remuneration of senior executives were applied for 2011:

The Board's motion concerning guidelines for remuneration of senior executives is designed to ensure that the Sandvik Group, from a global perspective, can offer remuneration at the market rate and that is competitive to attract and retain skilled personnel to Sandvik's Group Executive Management. Group Executive Management's remuneration comprises fixed salary, annual variable salary and long-term variable salary in the form of a cash salary and/or shares in Sandvik AB. The components are intended to create a well-balanced remuneration and benefit program that reflects the individual's performance and responsibility and the Group's earnings trend. The fixed salary, which is individual and differentiated based on the individual's responsibility and performance, is determined based on market-rate principles and is reviewed annually. Payment of annual variable salary requires fulfillment of annually established goals. The goals are related to the company's earnings and to measurable goals within the individual's area of responsibility. The annual variable salary for Group Executive Management may not exceed 75% of fixed salary. The long-term variable salary requires fulfillment of measurable goals, set by the Board, pertaining to certain key ratios that create shareholder value linked to the company's growth, profitability and capital efficiency over a three-year period. The long-term variable cash salary may not exceed 50% of the fixed annual salary. Long-term variable remuneration may also be paid in the form of shares in Sandvik AB through participation in a share-based incentive program encompassing the offer of acquiring employee stock options and matching rights. The program, which shall have been adopted by the Annual General Meeting, shall contain the principal conditions that certain categories of top-level senior executives are required to have invested personally in the Sandvik share, that the vesting period is three years subject to the requirement that the individual remain an employee for this entire period and that the allotment of shares shall be related to performance criteria linked to the company's growth, profitability and capital efficiency - Sandvik Value Added (SVA). Group Executive Management's other benefits shall correspond to what could be considered reasonable in relation to generally accepted practice in the market. The benefits comprise pension, company car, housing, medical insurance and severance pay. The pension benefits for Group Executive Management are based on fixed salary or gross salary paid in cash and shall be defined-benefit or defined-contribution solutions. Normally, retirement is at age 62. Retirement age for the President is 60. Normally, severance payment is made when employment is terminated by the company. Any other income from employment is deducted from the severance pay, which is between 12 and 18 months for persons under 55 years of age and between 18 to 24 months for persons over 55. No severance amount is paid to employees who resign from the company. The Board shall have the right to deviate from the guidelines resolved by the Annual General Meeting, if, in individual cases, there is a special reason for this. The sphere of senior executives encompassed by the proposed guidelines is the President and other members of Group Executive Management.

The Board's motion for remuneration of senior executives to be applied in 2012

The Board proposes that for 2012, the Annual General Meeting resolve to apply the following revised guidelines for remuneration of senior executives:

The Board's motion concerning guidelines for remuneration of senior executives is designed to ensure that the Sandvik Group, from a global perspective, can offer remuneration at the market rate and that is competitive to attract and retain skilled personnel to Sandvik's Group Executive Management. Group Executive Management's remuneration comprises fixed salary, annual variable salary and long-term variable salary in the form of salary and/or shares in Sandvik AB. The components are intended to create a well-balanced remuneration and benefit program that reflects the individual's performance and responsibility and the Group's earnings trend. The fixed salary, which is individual and differentiated based on the individual's responsibility and performance, is determined based on market-rate principles and is reviewed annually. Payment of annual variable salary requires fulfillment of annually established goals. The goals are mainly related to the company's earnings and to measurable goals within the individual's area of responsibility. The annual variable salary may not exceed 75% of annual fixed salary. The long-term variable cash salary requires fulfillment of measurable goals, set by the Board, pertaining to certain key figures that create shareholder value linked to the company's growth, profitability and capital efficiency – Sandvik Value Added (SVA) – over a three-year period. The maximum payment of long-term variable cash salary is 50% of the annual fixed salary. Long-term variable remuneration may also be provided in the form of shares in Sandvik AB by participating in a share-based incentive program that includes the right to be allotted employee stock options and matching rights. The program, which shall have been adopted by the Annual General Meeting, shall contain the principal conditions that certain categories of top-level senior executives are required to have invested personally in the Sandvik share, that the vesting period is three years subject to the requirement that the individual remain an employee for this entire period and that the allotment of shares shall be related to performance criteria linked to SVA. Group Executive Management's other benefits shall correspond to what could be considered reasonable in relation to generally accepted practice on the market. The benefits comprise pension, company car, housing, medical insurance and severance pay. The pension benefits for Group Executive Management are based on fixed salary or gross salary paid in cash and shall be defined-benefit or defined-contribution solutions. Normally, retirement is at age 62. Retirement age for the President is 60. For other members of Group Executive Management who are not Swedish citizens, the retirement age follows local rules and practice. Normally, severance payment is made when employment is terminated by the company. The President has a notice period of 24 months with no severance pay. For other members of Group Executive Management, a notice period of 12 months generally applies. Severance pay is six months salary for persons under 55 years of age and 12 months for people aged 55 and over for members of Group Executive Management who are Swedish citizens. Other members of Group Executive Management generally receive 12 months salary in severance pay. For all other benefits, local market practice applies in each specific country. Any other income from employment is deducted from the severance pay. No severance amount is paid to employees who resign from the company. The Board shall have the right to deviate from the guidelines resolved by the Annual General Meeting, if, in individual cases, there is a special reason for this. The sphere of senior executives encompassed by the proposal is the President and other members of Group Executive Management.

Remuneration and other benefits pertaining to 2011 expensed during the year

SEK	Fixed salary/ Director's fee	Annual variable salary 1)	Other benefits 2)	Long-term variable salary 3)	Pension-costs
Chairman of the Board Anders Nyrén	1,775,000 4)	—	—	—	—
President and CEO Olof Faxander	9,212,884 5)	1,020,938	274,954	918,434	3,256,109
Former President Lars Pettersson 6)	637,500	—	26,237	51,027	1,038,985
Other senior executives 7) 8)	30,742,418	754,805	1,838,914	5,635,491	27,217,399
Total	**42,367,802**	**1,775,743**	**2,140,105**	**6,604,952**	**31,512,493**

1) Amount pertaining to 2011 and expected to be paid in 2012.
2) Other benefits largely pertain to the fringe-benefit value of housing and company car.
3) The amounts pertain to provisions made for the 2010 and 2011 LTI programs.
4) Expensed during 2011 and will be paid in 2012. The amount includes a Board fee of 1,500,000 SEK, a Remuneration Committee fee of 125,000 SEK and an Audit Committee fee of 150,000 SEK.
5) Olof Faxander's fixed salary as of 1 February 2011 amounted to 9,900,000 SEK, the remaining amount relates to vacation pay, etc. Board fees are not paid to internal Board members.
6) Pertains to January 2011.
7) Pertains to the following persons in 2011: Peter Gossas (Jan-May 2011), Jonas Gustavsson (from May 2011), Lars Josefsson (Jan–Aug 2011), Peter Larson, Tomas Nordahl (from Oct 2011), Ola Salmén, Bo Severin, Anders Thelin, Anna Vikström Persson (from March 2011) and Göran Westberg (Jan–Feb 2011).
8) The amounts also include severance pay for the former President of the Sandvik Mining & Construction business area who left the company during the year.

Remuneration and other benefits during the year
In accordance with the resolution at the Annual General Meeting, the total fee to the external directors elected at the Meeting amounts to 4,500,000 SEK. Of this amount, 1,500,000 SEK (on an annual basis) is payable to the Chairman of the Board (Anders Nyrén) and 500,000 SEK to each of the other external Board members (Johan Karlström, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Simon Thompson and Lars Westerberg).

In addition to these amounts, the Annual General Meeting resolved that an additional fee should be paid for the committee work to committee members elected by the Meeting, in an amount totaling 475,000 SEK to be divided between the members of the Audit Committee (Hanne de Mora 175,000 SEK, Anders Nyrén 150,000 SEK and Simon Thompson 150,000 SEK) and in an amount totaling 325,000 SEK to be divided between the members of the Remuneration Committee elected by the Meeting (Egil Myklebust 100,000 SEK, Anders Nyrén 125,000 SEK and Lars Westerberg 100,000 SEK).

Effective 1 February 2011, Sandvik's CEO and President, Olof Faxander, was paid an annual fixed salary of 9,900,000 SEK and received the fringe-benefit value of housing and car provided by the company. In addition, a variable salary of maximum 75% of the fixed salary is paid. The variable salary for 2011 amounted to 1,020,938 SEK.

Olof Faxander is entitled to retire with pension at age 60. A premium of 35% of his annual fixed salary is reserved annually.

In the event of termination of employment by the company, Olof Faxander has a notice period of 24 months with no severance pay.

For other members of Group Executive Management, pension age is 62. Pension between the age of 62 and 65 will amount to 65% of fixed salary up to 30 price base amounts, 50% of fixed salary between 30–50 price base amounts, and 25% of fixed salary in the interval 50–100 price base amounts (15 years is required for full accrual). No pension insurance policies have been taken out for pensions through age 65 and, at 31 December 2011, the obligation for pensions vested through that date amounted to 24,502,041 SEK.

The pension from age 65 to the other members of Group Executive Management is arranged through the ITP Plan and a supplementary defined-contribution plan under which the company each year contributes 20–30% (depending on age) of fixed salary portions in excess of 20 price base amounts. Alternatively, this group may be encompassed by the ITP Plan 1 and a supplement of a maximum of 5% for salary portions exceeding 7.5 income base amounts if this solution has been chosen in 2008 under the offering to all salaried employees at Sandvik who were covered by the ITP 2 plan and supplementary plan at the time. In such a case, the previous system with the ITP 2 plan and the supplementary plan will not apply. Of the seven remaining members of Group Executive Management employed on 31 December 2011, four people are encompassed by the ITP 1 plan and three people remain in the ITP 2 plan and a supplementary plan. Severance pay is paid in the event that the company terminates employment. The severance pay equals 12–18 months' fixed salary in addition to the six-month notice period. For both the President and other members of Group Executive Management, any earned income is offset against the severance pay.

3.6 Audit fees

Fees and remuneration to the Group's auditors were as follows:

	KPMG		Other		Total	
	2011	2010	**2011**	2010	**2011**	2010
Audit						
Parent Company	10.8	11.7	0.0	0.0	10.8	11.7
Subsidiaries (excl. Seco Tools)	55.5	53.0	3.9	4.3	59.4	57.3
Seco Tools	5.2	0.3	1.4	6.7	6.6	7.0
Group	**71.5**	**65.0**	**5.3**	**11.0**	**76.8**	**76.0**
Tax consultancy services						
Parent Company	0.8	1.0				
Subsidiaries (excl. Seco Tools)	7.9	12.6				
Seco Tools	0.2	0.0				
Group	**8.9**	**13.6**				
Other services						
Parent Company	5.7	2.5				
Subsidiaries (excl. Seco Tools)	5.5	4.8				
Seco Tools	0.9	0.0				
Group	**12.1**	**7.3**				

Audit refers to the statutory audit of the financial statements, the accounting records and the administration of the business by the Board of Directors and the President, and auditing and other review procedures performed in accordance with agreements or contracts. This includes other procedures required to be performed by the company's auditors as well as other services caused by observations during the performance of such examination and other procedures.

Tax consultancy services relate to services in the tax area. Other services essentially comprise advice in areas closely related to the audit, such as advice on accounting issues and due-diligence services in connection with acqusitions.

NOTE 4. RESEARCH, DEVELOPMENT AND QUALITY ASSURANCE

	Group		Parent Company	
	2011	2010	**2011**	2010
Expenditure for				
research and development	2,712	2,309	1,150	932
quality assurance	613	570	309	279
Total	**3,325**	**2,879**	**1,459**	**1,211**
of which expensed, total	3,034	2,675	1 459	1,211
of which expensed relating to research and development	2,421	2,106	1,150	932

Research and quality assurance expenditures are expensed as incurred. Expenditure for development is recognized as an intangible asset if it meets the criteria for recognition as an asset in the balance sheet.

NOTE 5. OTHER OPERATING INCOME

Group	**2011**	2010
Gain on sale of property, plant and equipment	—	43
Gain on sale of businesses and shares	9	6
Insurance compensation	181	—
Other	157	93
Total	**347**	**142**

Parent Company
Other operating income mainly pertains to intra-Group services and insurance compensation.

NOTE 6. OTHER OPERATING EXPENSES

Group	2011	2010
Loss on disposal of non-current assets	–140	—
Loss on sale of operations and shares	–4	–3
Exchange rate losses on operating receivables and payables	–44	–243
Other	–466	–179
Total	**–654**	**–425**

Parent Company
Other operating expenses pertain mainly to royalties between Group companies, exchange rate losses on operating receivables and payables, and losses on sale of property, plant and equipment.

NOTE 7. OPERATING EXPENSES

Group	2011	2010
Employee benefit expense	–24,014	–22,885
Depreciation and amortization	–3,868	–3,982
Impairment losses, inventories	–379	–317
Impairment losses, property, plant and equipment	–1,955	–56
Impairment losses, trade receivables	–37	–89

There were no significant reversals of earlier recognized impairment losses during 2011 or 2010.

NOTE 8. FEES FOR FINANCE AND OPERATING LEASES

FINANCE LEASES

Finance leases with Sandvik as lessee
The Group leases plant and machinery under finance lease agreements. At 31 December 2011, the planned residual value of such leased assets was 155 MSEK (171).

Variable fees recognized as an expense were 0 MSEK (0).

Future minimum lease payments in respect of non-cancellable contracts fall due as follows:

	Nominal fee		Present value	
Group	2011	2010	2011	2010
Within one year	30	30	27	27
Between one and five years	76	89	57	70
Later than five years	59	72	31	39
Total	**165**	**191**	**115**	**136**

Finance leases with Sandvik as lessor
The Group's investments in finance leases at 2011 year-end amounted to 499 MSEK (493). Variable fees recognized in profit/loss, and unguaranteed residual values accruing to the benefit of the lessor, were minor.

The gross investment and the present value of minimum lease payments fall due as follows:

	Nominal fee		Present value	
Group	2011	2010	2011	2010
Within one year	271	241	251	221
Between one and five years	228	252	191	208
Total	**499**	**493**	**442**	**429**

OPERATING LEASES

Operating leases with Sandvik as lessee
Leasing fees for assets under operating leases, such as leased premises, machinery and major items of computer and office equipment, are recognized within operating expenses. In 2011, the Group expensed 696 MSEK (711), including minimum lease payments of SEK 670 MSEK (690), variable fees of 26 MSEK (24), and net of sublease income of 0 MSEK (–3). The Parent Company expensed 169 MSEK (165).

Future minimum lease payments under non-cancellable operating lease contracts fall due as follows:

	Group		Parent Company	
	2011	2010	2011	2010
Within one year	690	642	163	159
Between one and five years	1,458	1,308	477	465
Later than five years	675	703	200	230
Total	**2,823**	**2,653**	**840**	**854**

Future minimum lease payments under non-cancellable lease contracts that pertain to subleased items amounted to 7 MSEK (1).

cont. NOTE 8

Operating leases with Sandvik as lessor
The planned residual value of the Group's rental fleet is 427 MSEK (562). Depreciation for the year amounted to 381 MSEK (504). The future minimum lease payments under non-cancellable leases amount to 245 MSEK (306). Variable fees amounted to 20 MSEK (19).

Future minimum lease payments under non-cancellable operating lease contracts fall due as follows:

	Group		Parent Company	
	2011	2010	2011	2010
Within one year	177	186	9	11
Between one and five years	67	119	5	3
Later than five years	1	1	—	—
Total	**245**	**306**	**14**	**14**

NOTE 9. NET FINANCING COST

Group	2011	2010
Interest income	191	189
Dividend	0	6
Other investments incl. derivatives		
Net gain on remeasurement of financial assets/ liabilities	71	138
Net foreign-exchange gains	—	27
Other financial income	3	17
Financial income	265	377
Interest expense	–1,971	–1,925
Other investments incl. derivatives		
Net loss on remeasurement of financial assets/liabilities	–222	–51
Net foreign-exchange losses	–28	—
Other financial expenses	–13	–18
Financial expenses	–2,234	–1,994
Net financing cost	**–1,969**	**–1,617**

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to –1,562 MSEK (–1,564). Hedging of fair values in 2011 had an effect of –3 MSEK (–5) on the result. No inefficiencies in cash-flow hedges impacted profit for the year (0). For further information regarding valuation policies for financial instruments, refer to Note 31.

	Income from shares in Group companies		Income from shares in associated companies	
Parent Company	2011	2010	2011	2010
Dividend, net of withholding tax	1,701	3,352	10	5
Group contributions paid/ received	1,100	1,993	—	—
Gain on sale of shares and participations	1	–7	—	—
Impairment	–3	–2	—	—
Reversed impairment	16	—	—	—
Total	**2,815**	**5,336**	**10**	**5**

	Interest income and similar items	
Parent Company	2011	2010
Interest income, Group companies	450	259
Other interest income	2	1
Derivatives, Group companies	159	405
Total	**611**	**665**

cont. NOTE 9

Parent Company	Interest expense and similar items 2011	2010
Interest expense, Group companies	–206	–263
Other interest expense	–1,278	–983
Derivatives, Group companies	–183	–8
Other	–12	–122
Total	**–1,679**	**–1,376**

NOTE 10. APPROPRIATIONS

Parent Company	2011	2010
Country risk reserve	–8	2
Total	**–8**	**2**

NOT 11. INCOME TAX

Recognized in profit and loss

	Group		Parent Company	
Income tax expense for the year	2011	2010	2011	2010
Current tax	–3,248	–2,478	12	12
Adjustment of taxes attributable to prior years	75	87	–6	–87
Total current tax expense	**–3,173**	**–2,391**	**6**	**–75**
Deferred taxes relating to temporary differences and tax losses carry forward	855	–78	619	–345
Total tax expense	**–2,318**	**–2,469**	**625**	**–420**

The Group recognized tax expense for the year of 2,318 MSEK or 28.3% of the result after financial items. The Group's tax income for 2010 was 2,469 MSEK or 26.2% of the result after financial items.

Reconciliation of the Group's tax expense
The Group's weighted average tax rate, based on the tax rates in each country, is 26.0% (26.2). The nominal tax rate in Sweden is 26.3% (26.3). Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

	2011		2010	
Group	MSEK	%	MSEK	%
Result after financial items	8,179		9,412	
Weighted average tax based on each country's tax rate	–2,123	–26.0	–2,468	–26.2
Tax effect of				
Non-deductible expenses	–330	–4.0	–258	–2.7
Tax exempt income	131	1.6	232	2.5
Adjustments relating to prior years	75	0.9	87	0.9
Effects of tax losses carry forward, net	20	0.2	23	0.2
Other	–91	–1.0	–85	–0.9
Total recognized tax expense	**–2,318**	**–28.3**	**–2,469**	**–26.2**

Reconciliation of the Parent Company's tax expense
The Parent Company's effective tax rate is less than the nominal tax rate in Sweden, mainly due to tax-exempt dividend income from subsidiaries and associated companies.

Reconciliation of the Parent Company's nominal tax rate and actual tax expense:

	2011		2010	
Parent Company	MSEK	%	MSEK	%
Profit before tax	–1,005		4,739	
Tax based on the nominal tax rate for the Parent Company	264	–26.3	–1,246	–26.3
Tax effects of				
Non-deductible expenses	–104	–10.3	–22	–0.5
Tax-exempt income	471	46.9	899	19.0
Use of previously uncapitalized tax losses carry forward	—	—	36	0.8
Adjustments relating to prior years	–6	–0.6	–87	–1.8
Total recognized tax expense	**625**	**62.2**	**–420**	**–8.9**

Tax item attributable to other comprehensive income

	2011			2010		
Group	Before tax	Tax	After tax	Before tax	Tax	After tax
Translation differences for the year	–270	—	–270	–2 386	—	–2 386
Fair-value changes in cash-flow hedges for the year	–451	119	–332	566	–149	417
Fair-value changes in cash-flow hedges carried forward to profit/loss for the year	–171	45	–126	49	–13	36
Other comprehensive income	**–892**	**164**	**–728**	**–1 771**	**–162**	**–1 933**

Recognized in the balance sheet

Deferred tax assets and liabilities
The deferred tax assets and liabilities recognized in the balance sheet are attributable to the following assets and liabilities (liabilities shown with a minus sign).

	2011			2010		
Group	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	30	–517	–487	52	–620	–568
Property, plant and equipment	107	–1,279	–1,172	96	–1,285	–1,189
Financial non-current assets	176	–4	172	162	–6	156
Inventories	1,236	–72	1,164	1,300	–83	1,217
Receivables	147	–404	–257	156	–425	–269
Interest-bearing liabilities	321	–338	–17	383	–494	–111
Noninterest-bearing liabilities	1,159	–398	761	1,059	–523	536
Other	—	–31	–31	28	–2	26
Tax losses carry forward	1,981	—	1,981	1,220	—	1,220
Total	**5,157**	**–3,043**	**2,114**	**4,456**	**–3,438**	**1,018**
Offsetting within companies	–2,087	2,087	—	–2,400	2,400	—
Total deferred tax assets and liabilities	**3,070**	**–956**	**2,114**	**2,056**	**–1,038**	**1,018**

	2011			2010		
Parent Company	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	—	–33	–33	—	–33	–33
Inventories	3	—	3	1	—	1
Provisions	45	–6	39	42	—	42
Noninterest-bearing liabilities	—	–107	–107	—	–145	–145
Tax losses carry forward	1,233	—	1,233	653	—	653
Total	**1,281**	**–146**	**1,135**	**696**	**–178**	**518**
Offsetting	–146	146	—	–178	178	—
Total deferred tax assets and liabilities	**1,135**	**—**	**1,135**	**518**	**—**	**518**

cont. NOTE 11

Unrecognized deferred tax assets

The Group has additional tax losses carryforward of about 588 MSEK (355).

Related deferred tax assets were not recognized since it was not deemed probable that it would be possible to utilize these deductions in the foreseeable future.

Movements in deferred tax in temporary differences and unused tax losses

	Group		Parent Company	
	2011	2010	**2011**	2010
Balance at beginning of year, net	1,018	1,268	518	865
Recognized in profit and loss	855	–78	617	–347
Acquisitions/disposals of subsidiaries	–12	3	—	—
Reclassification of assets	25	—	—	—
Recognized in other comprehensive income	164	–162	—	—
Government grants	–6	–7	—	—
Translation differences	70	–6	—	—
Balance at end of year, net	**2,114**	**1,018**	**1,135**	**518**

In addition to the deferred tax assets and liabilities, Sandvik reports the following tax liabilities and receivables:

	Group		Parent Company	
	2011	2010	**2011**	2010
Other provisions for taxes	–3,941	–3,650	—	—
Income tax liabilities	–1,505	–1,208	—	—
Income tax receivables	772	765	239	203
Net tax liabilities/receivables	**–733**	**–443**	**239**	**203**

Other provisions for taxes of –3,941 MSEK (–3,650) relate to ongoing disputes and assessed risks. The increase during 2011 (291 MSEK) mainly reflects provisions relating to the tax dispute involving Sandvik Intellectual Property AB and Sandvik AB regarding the reorganization of ownership and managing of patents and trademarks effected in 2005. For additional information, refer to the section Risks and Risk Management.

NOTE 12. EARNINGS PER SHARE

Basic and diluted earnings per share

	Basic		Diluted	
SEK	**2011**	2010	**2011**	2010
Earnings per share	4,63	5,59	4,63	5,59

The calculation of the numerators and denominators used in the above calculations of earnings per share is shown below.

Basic earnings per share

The calculation of earnings share for 2011 is based on the result for the year attributable to the equity holders of the Parent Company of 5,498 MSEK (6,634) and the weighted average number of shares (thousands) during 2011 of 1,186,287 (1,186,287). These two components have been calculated as follows:

Profit for the year attributable to the equity holders of the Parent Company, basic

	2011	2010
Profit for the year attributable to the equity holders of the Parent Company	5,498	6,634

Weighted average number of shares, basic

In thousands of shares	**2011**	2010
Total number of ordinary shares at 1 January	1,186,287	1,186,287
Effects of reacquisitions and redemption	—	—
Weighted average number of shares outstanding during the year, basic	1,186,287	1,186,287

Diluted earnings per share

The calculation of diluted earnings per share for 2011 is based on the result attributable to the equity holders of the Parent Company of 5,498 MSEK (6,634) and the weighted average number of shares (thousands) during 2011, 1,186,287 (1,186,287). The two components have been calculated as follows:

Profit for the year attributable to equity holders of the Parent Company, diluted

	2011	2010
Profit for the year attributable to equity holders of the Parent Company	5,498	6,634

Weighted average number of shares, diluted

In thousands of shares	**2011**	2010
Weighted average number of shares, basic	1,186,287	1,186,287
Effect of share options	—	—
Weighted average number of shares outstanding during the year, diluted	1,186,287	1,186,287

The 2011 Annual General Meeting approved a share-based LTI program. This could entail future dilution effects. For information about the program, refer to note 3.5.

NOTE 13. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, GROUP

Intangible assets

	Internally generated intangible assets					Acquired intangible assets						
Cost	Capitalized R&D expendi-ture	IT software	Patents, licenses, trade-marks, etc.	Other	Subtotal	Capitalized R&D expendi-ture	IT software	Patents, licenses, trade-marks, etc.	Goodwill	Other	Subtotal	Total
At 1 January 2010	1,486	786	237	48	2,557	15	335	808	11,135	1,712	14,005	16,562
Additions	203	176	18	—	397	—	4	7	—	65	76	473
Business combinations	—	—	—	—	—	—	—	8	37	24	69	69
Divestments and disposals	–73	–22	–1	–1	–97	—	–1	–1	—	–69	–71	–168
Reclassifications	—	26	—	8	34	—	7	—	—	29	36	70
Translation differences during the year	–53	–10	–18	4	–77	—	–33	–54	–838	–98	–1,023	–1,100
At 31 December 2010	**1,563**	**956**	**236**	**59**	**2,814**	**15**	**312**	**768**	**10,334**	**1,663**	**13,092**	**15,906**
At 1 January 2011	1,563	956	236	59	2,814	15	312	768	10,334	1,663	13,092	15,906
Additions	291	158	8	—	457	—	10	30	—	22	62	519
Business combinations	—	—	—	—	—	—	—	14	172	136	322	322
Divestments and disposals	–72	–14	—	—	–86	–15	–7	–86	–	–82	–190	–276
Reclassification to assets held for sale	—	—	—	—	—	—	—	–24	–125	–237	–386	–386
Impairment losses	—	—	—	—	—	—	—	—	–1,240	—	–1,240	–1,240
Reclassifications	—	8	–4	6	10	—	17	5	—	2	24	34
Translation differences during the year	–4	–2	–4	–8	–18	—	—	2	–107	–12	–117	–135
At 31 December 2011	**1,778**	**1,106**	**236**	**57**	**3,177**	**0**	**332**	**709**	**9,034**	**1,492**	**11,567**	**14,744**
Accumulated amortization and impairment losses												
At 1 January 2010	555	528	82	39	1,204	15	308	371	—	527	1,221	2,425
Divestments and disposals	–66	—	–1	–1	–68	—	–1	–1	—	–60	–62	–130
Impairment losses	—	—	1	—	1	—	—	—	—	—	—	1
Reclassifications	—	—	—	—	—	—	—	—	—	1	1	1
Amortization for the year	189	114	13	6	322	—	19	57	—	136	212	534
Translation differences for the year	–23	–3	–8	2	–32	—	–35	–12	—	–39	–86	–118
At 31 December 2010	**655**	**639**	**87**	**46**	**1,427**	**15**	**291**	**415**	**—**	**565**	**1,286**	**2,713**
At 1 January 2011	655	639	87	46	1,427	15	291	415	—	565	1,286	2,713
Divestments and disposals	–49	–14	—	—	–63	–15	–4	–87	—	–66	–172	–234
Reclassification to assets held for sale	—	—	—	—	—	—	—	–11	—	–104	–115	–115
Impairment losses	10	1	2	—	13	—	—	—	—	22	22	35
Reclassifications	—	—	–2	–5	–7	—	1	9	—	–4	6	–1
Amortization for the year	196	125	8	15	344	—	12	54	—	128	194	538
Translation differences for the year	–3	–1	–2	1	–5	—	–1	2	—	6	7	2
At 31 December 2011	**809**	**750**	**93**	**57**	**1,709**	**0**	**299**	**382**	**—**	**547**	**1,228**	**2,937**
Net carrying amounts												
1 January 2010	931	258	155	9	1,353	0	27	437	11,135	1,185	12,784	14,137
31 December 2010	908	317	149	13	1,387	0	21	353	10,334	1,098	11,806	13,193
1 January 2011	908	317	149	13	1,387	0	21	353	10,334	1,098	11,806	13,193
31 December 2011	969	356	143	0	1,468	0	33	327	9,034	945	10,339	11,807
Amortization for the year is included in the following lines in the 2010 income statement												
Cost of sales	—	–6	–2	—	–8	—	–7	–37	—	–69	–113	–121
Selling expenses	—	–6	–5	–2	–13	—	–1	–10	—	–64	–75	–88
Administrative expenses	–189	–102	–6	–4	–301	—	–11	–10	—	–3	–24	–325
Total	**–189**	**–114**	**–13**	**–6**	**–322**	**—**	**–19**	**–57**	**—**	**–136**	**–212**	**–534**
Amortization for the year is included in the following lines in the 2011 income statement												
Cost of sales	—	–5	—	–10	–15	—	–3	–2	—	–51	–56	–71
Selling expenses	—	–7	–1	—	–8	—	–1	–51	—	–67	–119	–127
Administrative expenses	–196	–113	–7	–5	–321	—	–8	–1	—	–10	–19	–340
Total	**–196**	**–125**	**–8**	**–15**	**–344**	**—**	**–12**	**–54**	**—**	**–128**	**–194**	**–538**

cont. NOTE 13

Property, plant and equipment

Cost	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
At 1 January 2010	13,131	34,061	5,528	2,732	55,452
Additions	304	943	258	1,666	3,171
Business combinations	21	178	4	—	203
Divestments and disposals	–183	–1,071	–226	–24	–1,504
Reclassifications	200	1,540	101	–1,842	–1
Translation differences for the year	–650	–1,368	–281	–65	–2,364
At 31 December 2010	**12,823**	**34,283**	**5,384**	**2,467**	**54,957**
At 1 January 2011	12,823	34,283	5,384	2,467	54,957
Additions	739	1,289	367	2,460	4,855
Business combinations	192	209	10	3	414
Divestments and disposals	–197	–1,373	–317	–13	–1,900
Reclassification to assets held for sale	–47	–325	–9	–31	–412
Reclassifications	266	1,194	159	–1,569	50
Translation differences for the year	–41	–429	–58	–18	–546
At 31 December 2011	**13,735**	**34,848**	**5,536**	**3,299**	**57,418**
Accumulated depreciation and impairment losses					
At 1 January 2010	4,960	20,166	3,807		28,933
Business combinations	5	29	3		37
Divestments and disposals	–106	–983	–212		–1,301
Reclassifications	–1	8	1		8
Depreciation for the year	416	2,584	448		3,448
Impairment losses	43	1	11		55
Translation differences for the year	–305	–951	–219		–1,475
At 31 December 2010	**5,012**	**20,854**	**3,839**		**29,705**
At 1 January 2011	5,012	20,854	3,839	—	29,705
Business combinations	13	76	4	—	93
Divestments and disposals	–142	–1,043	–272	—	–1,457
Reclassifications	—	–24	21	—	–3
Depreciation for the year	442	2,465	423	—	3,330
Impairment losses	107	449	11	114	681
Reclassification to assets held for sale	–7	–147	–4	—	–158
Translation differences for the year	–39	–394	–41	—	–474
At 31 December 2011	**5,386**	**22,235**	**3,981**	**114**	**31,716**
Net carrying amounts					
1 January 2010	8,171	13,895	1,721	2,732	26,519
31 December 2010	7,811	13,430	1,544	2,467	25,252
1 January 2011	7,811	13,430	1,544	2,467	25,252
31 December 2011	8,349	12,613	1,555	3,185	25,702

Impairment losses/reversals of impairment losses per line in the income statement	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Impairment losses					
Administrative expenses	–4	—	–3	—	–7
Cost of sales	–98	–449	–8	–114	–669
Other operating expenses	–5	—	—	—	–5
Total	**–107**	**–449**	**–11**	**–114**	**–681**

cont. NOTE 13

Additional information

Items of property, plant and equipment for a total of 206 MSEK (207) have been pledged as security for liabilities.

In 2011, contractual commitments for the acquisition of property, plant and equipment amounted to 404 MSEK (242).

Borrowing costs 2011	Machinery
Borrowing costs included in the cost of assets during the year	2
Interest rate for determining borrowing costs included in cost	3.84%

Borrowing costs 2010	Machinery
Borrowing costs included in the cost of assets during the year	1
Interest rate for determining borrowing costs included in cost	3.72%

Impairment tests of goodwill

Goodwill was tested for impairment at the balance sheet date of 31 December 2011. As stated below, the carrying amount of goodwill in the consolidated balance sheet is 9,034 MSEK (10,334), essentially related to a number of major business combinations.

	Carrying amount	
Goodwill by cash-generating unit	**2011**	2010
Sandvik Tooling		
Walter Group	992	999
Diamond Innovations	730	718
Wolfram	1,366	1,385
Business area level	940	932
Total	**4,028**	**4,034**
Sandvik Mining and Construction		
Exploration	464	465
Extec/Fintec	1,028	1,015
Shanghai Jianshe Luqiao	95	—
Business area level	1,984	2,086
Total	**3,571**	**3,566**
Sandvik Materials Technology		
MedTech	—	1,298
Business area level	1,152	1,146
Total	**1,152**	**2,444**
Seco Tools and other	283	290
Group total	**9,034**	**10,334**

Consolidated goodwill is allocated to cash-generating units stated above. The recoverable amount of all of the cash-generating units has been assessed based on estimates of value in use with the exception of the MedTech business, which is recognized at fair value minus selling expenses. Calculations of value in use are based on the estimated future cash flows using forecasts covering a five-year period, which are in turn based on the three-year plans prepared annually by each of the business areas. These plans are founded on the business areas' strategies and an analysis of the current and anticipated business climate, and the impact this is expected to have on the market in which the business area operates. A range of economic indicators, which differ for each market, and external and internal studies of these, are used in the analysis of the business situation. Under normal circumstances, a growth rate of 3% was applied for the remainder of the forecast of the five-year period.

The most material assumptions when determining the value in use include anticipated demand, growth rate, operating margin, working capital requirements and the discount rate. The factor used to calculate growth in the terminal period after five years is 3% (3). Need of working capital beyond the five-year period is deemed to remain on the same level as in the fifth year. The discount rate consists of a weighted average cost of capital for borrowed capital and shareholders' equity and was assumed to amount to 10% (10) before tax. These assumptions apply to all cash-generating units.

Production and marketing processes of acquired businesses have, in most cases, been integrated into other Sandvik operations to such an extent that it is no longer possible to identify the cash flows and assets of the originally acquired businesses. For such reason, the impairment tests were largely made at a higher level although in no case above segment level. At present, the activities of Walter, Diamond Innovations, Wolfram, MedTech, Exploration, Extec/Fintec and Shanghai Jianshe Luqiao are also conducted in such a way that it has been possible to separately test goodwill allocated to these acquisitions.

In line with Sandvik's new strategic direction and as a result of the limited strategic connection and weak profitability, Sandvik has initiated a process for the purpose of divesting the operation in MedTech. Accordingly, goodwill attributable to MedTech was impaired and charged to selling expenses in the consolidated income statement in the amount of 1,160 MSEK in 2011. The recoverable amount of this goodwill consists of its fair value less selling expenses and totals 125 MSEK after impairment. The recoverable amount was based on indicative offers received. At 31 December 2011, this value was reclassified to assets held for sale. Goodwill attributable to Shanghai Jianshe Luqiao was impaired and charged to selling costs in the amount of 80 MSEK in 2011. The recoverable amount of the goodwill attributable to the operation in Shanghai Jianshe Luqiao consists of its value in use. Impairment of this goodwill was the result of declining demand in the markets served by the company's customers.

Various tests performed on goodwill values did not indicate any impairment requirement. Sensitivity in the calculations in which no impairment was made implies that no impairment loss would be required even if the discount rate were increased by 1 percentage point or if the long-term growth rate were lowered by 1 percentage point.

Other impairment tests

Capitalized development projects that are not yet available for use were tested and resulted in an impairment loss of 10 MSEK (0).

NOTE 14. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – PARENT COMPANY

Intangible assets	Patents and other intangible assets
Cost	
At 1 January 2010	111
Additions	17
Divestments and disposals	–8
At 31 December 2010	**120**
At 1 January 2011	120
Additions	16
Divestments and disposals	–23
At 31 December 2011	**113**

	Patents and other intangible assets
Accumulated amortization	
At 1 January 2010	94
Amortization for the year	1
At 31 December 2010	**95**
At 1 January 2011	95
Amortization for the year	1
At 31 December 2011	**96**
Net carrying amount at end of year	17

Amortization for the year is included in the following lines in the income statement	2011	2010
Administrative expenses	–1	–1
Total	**–1**	**–1**

Property, plant and equipment	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2010	1,045	10,372	1,052	1,333	13,802
Additions	20	173	34	680	907
Acquired through business combinations	—	22	—	—	22
Divestments and disposals	—	–169	–33	—	–202
Reclassifications	49	636	52	–737	0
At 31 December 2010	**1,114**	**11,034**	**1,105**	**1,276**	**14,529**
At 1 January 2011	1,114	11,034	1,105	1,276	14,529
Additions	43	234	53	1,075	1,405
Divestments and disposals	–4	–152	–60	—	–216
Reclassifications	67	485	20	–572	0
At 31 December 2011	**1,220**	**11,601**	**1,118**	**1,779**	**15,718**
Revaluations					
At 1 January 2010	41	—	—	—	41
At 31 December 2010	**41**	**—**	**—**	**—**	**41**
At 1 January 2011	41	—	—	—	41
At 31 December 2011	**41**	**—**	**—**	**—**	**41**
Accumulated depreciation					
At 1 January 2010	448	6,097	676	—	7,221
Acquired through business combinations	—	11	—	—	11
Divestments and disposals	—	–148	–29	—	–177
Depreciation for the year	32	631	84	—	747
At 31 December 2010	**480**	**6,591**	**731**	**—**	**7,802**
At 1 January 2011	480	6,591	731	—	7,802
Divestments and disposals	–1	–125	–59	—	–185
Depreciation for the year	32	666	82	—	780
Impairment losses		359	11	—	370
At 31 December 2011	**511**	**7,491**	**765**	**—**	**8,767**
Net carrying amounts					
1 January 2010	638	4,275	376	1,333	6,622
31 December 2010	675	4,443	374	1,276	6,768
1 January 2011	675	4,443	374	1,276	6,768
31 December 2011	750	4,110	353	1,779	6,992

NOTE 15. SHARES IN GROUP COMPANIES

Shares in Group Companies	Parent Company 2011	Parent Company 2010
Cost		
At beginning of year	15,428	14,755
Additions	338	231
Capital contributions	500	490
New issues	50	—
Divestments	–1	–48
Total	**16,315**	**15,428**

Shares in Group Companies	Parent Company 2011	Parent Company 2010
Accumulated impairment losses		
At beginning of year	–391	–389
Impairment losses for the year	–3	–2
Total	**–394**	**–391**
Accumulated revaluations		
At beginning of year	—	—
Revaluations for the year	16	—
Total	**16**	**—**
Carrying amount at year-end	**15,937**	**15,037**

Sandvik AB's holdings of shares and participations in subsidiaries

Direct holdings

According to balance sheet at 31 December; company, domicile	Corp. Reg. number	2011 No. of shares	2011 Holding, % [2]	2011 Carrying amount 000s SEK	2010 No. of shares	2010 Holding, % [2]	2010 Carrying amount 000s SEK
SWEDEN							
C.O. Öberg & Co:s AB, Sandviken	556112-1186	2,000	100	0	2,000	100	0
Dropler High Tech AB, Sandviken	556332-0380	1,000	100	119	1,000	100	119
Elasis Svenska AB, Sandviken	556307-8947	100,000	100	110	100,000	100	110
Förvaltningsbolaget Predio 4 KB, Sandviken	916624-2181	—	0 [3]	0	—	0 [3]	0
Gimo Utbildningsaktiebolag, Gimo	556061-4041	1,000	91	2,591	1,000	91	2,591
Gusab Holding AB, Sandviken	556001-9290	1,831,319	100	53,474	1,831,319	100	53,474
Gusab Stainless AB, Mjölby	556012-1138	200,000	100	32,474	200,000	100	32,474
Industri AB Skomab, Sandviken	556008-8345	2,000	100	99,346	2,000	100	99,346
Malcus AB, Sandviken	556350-7903	1,000	100	100	1,000	100	100
Rammer Svenska AB, Sandviken	556249-4004	3,000	100	851	3,000	100	851
Tamrock Svenska AB, Sandviken	556189-1085	100	100	123	100	100	123
AB Sandvik Antenn, Sandviken	556350-7895	1,000	100	100	1,000	100	100
AB Sandvik Automation, Sandviken	556052-4315	1,000	100	50	1,000	100	50
AB Sandvik Belts, Sandviken	556041-9680	25,000	100	2,500	25,000	100	2,500
AB Sandvik Bruket, Sandviken	556028-5784	13,500	100	1,698	13,500	100	1,698
AB Sandvik Communication, Sandviken	556257-5752	1,000	100	120	1,000	100	120
AB Sandvik Construction Segment, Malmö [1]	556659-6952	1,000	100	100	1,000	100	100
AB Sandvik Coromant, Sandviken [1]	556234-6865	1,000	100	50	1,000	100	50
Sandvik Coromant Sverige AB, Stockholm [1]	556350-7846	1,000	100	100	1,000	100	100
Sandvik Export Assistance AB, Sandviken	556061-3746	80,000	100	0	80,000	100	0
AB Sandvik Falken, Sandviken	556330-7791	1,000	100	120	1,000	100	120
Sandvik Far East Ltd. AB, Sandviken	556043-7781	10,000	100	10,000	10,000	100	10,000
Sandvik Försäkrings AB, Sandviken	516401-6742	1,500	100	15,000	1,500	100	15,000
AB Sandvik Hard Materials, Stockholm [1]	556234-6857	1,000	100	50	1,000	100	50
Sandvik Hard Materials Norden AB, Stockholm	556069-1619	1,000	100	50	1,000	100	50
Sandvik Besöksservice AB, Sandviken [1]	556235-3838	1,000	100	50	1,000	100	50
Sandvik Intellectual Property AB, Sandviken	556288-9401	1,000,000	100	3,499,950	1,000,000	100	3,499,950
AB Sandvik International, Sandviken [1]	556147-2977	1,000	100	50	1,000	100	50
AB Sandvik Klangberget, Sandviken	556135-6857	1,000	100	100	1,000	100	100
Sandvik Materials Technology EMEA AB, Stockholm	556734-2026	501,000	100	50,100	501,000	100	50,100
AB Sandvik Materials Technology, Sandviken [1]	556234-6832	1,000	100	50	1,000	100	50
Sandvik Mining and Construction AB, Sandviken [1]	556664-9983	1,000	100	100	1,000	100	100
Sandvik Mining and Construction Sverige AB, Sandviken [1]	556288-9443	1,000	100	50	1,000	100	50
Sandvik Mining and Construction Tools AB, Sandviken [1]	556234-7343	1,000	100	50	1,000	100	50
Sandvik Nora AB, Nora	556075-0506	80,000	100	135,000	80,000	100	135,000
Sandvik Powdermet AB, Surahammar	556032-6760	360	60	71,732	360	60	71,732
AB Sandvik Process Systems, Sandviken [1]	556312-2992	1,000	100	100	1,000	100	100
AB Sandvik Rock Tools, Sandviken	556081-4328	1,000	100	50	1,000	100	50
Sandvik Rotary Tools AB, Köping	556191-8920	101,000	100	150,177	101,000	100	150,177
AB Sandvik Service, Sandviken	556234-8010	1,000	100	50	1,000	100	50
AB Sandvik Skogsfastigheter, Sandviken	556579-5464	1,000	100	51	1,000	100	51
AB Sandvik Steel Investment, Sandviken	556350-7853	1,000	100	100	1,000	100	100
Sandvik Stål Försäljnings AB, Stockholm [1]	556251-5386	1,000	100	50	1,000	100	50
Sandvik Systems Development AB, Sandviken [1]	556407-4184	1,000	100	100	1,000	100	100
Sandvik Tooling AB Sandviken [1]	556692-0038	1,000	100	100	1,000	100	100
Sandvik Tooling Sverige AB Sandviken [1]	556692-0053	1,000	100	100	1,000	100	100
AB Sandvik Tranan, Sandviken	556330-7817	1,000	100	24,610	1,000	100	9,088
Sandvik Utbildnings AB, Sandviken	556304-8791	910	91	91	910	91	91
AB Sandvik Vallhoven, Sandviken	556272-9680	6,840	100	1,800	6,840	100	1,800
Sandvik Västanbyn AB, Sandviken	556590-8075	1,000	100	100	1,000	100	100

cont. **NOTE 15**

Sandvik AB's holdings of shares and participations in subsidiaries

Direct holdings

According to balance sheet at 31 December; company, domicile	Corp. Reg. number	2011 No. of shares	2011 Holding, % 2)	2011 Carrying amount 000s SEK	2010 No. of shares	2010 Holding, % 2)	2010 Carrying amount 000s SEK
AB Sandvik Västberga Service, Stockholm	556356-6933	1,000	100	100	1,000	100	100
Sandvik Örebro AB, Sandviken	556232-7949	10,000	100	167	10,000	100	167
AB Sandvik Örnen, Sandviken	556330-7783	1,000	100	120	1,000	100	120
Sandvikens Brukspersonals Byggnadsförening upa, Sandviken	785500-1686	—	100	0	—	100	0
Scandinavian Handtools AB, Sandviken	556093-5875	1,000	100	50	1,000	100	50
Steebide International AB, Sandviken	556048-3405	15,000	100	1,000	15,000	100	1,000
Dormer Tools AB, Halmstad	556240-8210	80,000	100	25,145	80,000	100	25,145
AB Trellbo, Sandviken	556251-6780	1,000	100	120	1,000	100	120
Walter Norden AB, Halmstad	556752-4698	15,000	100	1,500	15,000	100	1,500
Sandvik Mining and Construction Köping AB 1)	556776-9525	1,000	100	100	1,000	100	100
Wire Sandviken AB 1)	556779-3897	1,000	100	100	1,000	100	100
Sandvik IT Services AB 1)	556788-9059	1,000	100	100	1,000	100	100
AB Ascet, Sandviken	556285-0882	1,000	100	120	1,000	100	120
Sandvik Venture AB 1)	556868-7155	1,000	100	100	—	—	—
Sandvik Credit AB	556843-7296	10,000	100	50,000	—	—	—

Sandvik AB's holdings of shares and participations in subsidiaries

Direct holdings

According to balance sheet at 31 December; company		2011 No. of shares	2011 Holding, % 2)	2011 Carrying amount 000s SEK	2010 No. of shares	2010 Holding, % 2)	2010 Carrying amount 000s SEK
AUSTRALIA	Sandvik Australia Pty. Ltd.	—	18 3,4)	1,539,205	—	6 3,4)	1,202,442
	Sandvik Australian Ltd. Partnership	—	99	—	—	99	–
BRAZIL	Dormer Tools S.A.	2,137,623,140	100	200,000	2,137,623,140	100	200,000
	Sandvik do Brasil S.A.	1,894,797,190	100	577,468	1,894,797,190	100	330,298
	Sandvik Materials Technology do Brasil S.A.	10,877,380	100	31,489	10,877,380	100	31,489
	Sandvik MGS S.A.	14,999,998	100	198,290	14,999,998	100	192,400
	Sandvik Mining and Construction do Brasil S.A.	85,329,996	100	438,649	85,329,996	100	195,225
BULGARIA	Sandvik Bulgaria Ltd.	—	100	0	—	100	0
CHILE	Sandvik Credit Chile S.A.	9,900	99	39,631	9,900	99	39,631
CHINA	Sandvik China Holding Co Ltd.	—	100	668,890	—	100	668,890
	Sandvik Materials Technology (China) Ltd.	—	44 3)	207,854	—	44 3)	207,854
CZECH REPUBLIC	Sandvik CZ s.r.o.	—	100	0	—	100	0
DEMOCRATIC REPUBLIC OF CONGO	Sandvik Mining and Construction DRC S.P.R.L.	9,990	100	—	9,990	100	—
GERMANY	Sandvik Materials Technology GmbH	—	1 3)	1,486	—	1 3)	1,486
	Sandvik Holding GmbH	—	1 3)	367	—	1 3)	367
GREECE	Sandvik A.E. Tools and Materials	5,529	100	1,867	5,529	100	908
HUNGARY	Sandvik Magyarorszag Kft.	—	100	3,258	—	100	3,258
INDIA	Sandvik Asia Ltd.	16,030,246	17 5)	277,028	16,030,246	17 5)	277,028
IRELAND	Sandvik Mining and Construction Logistics Ltd.	100	100	5,508	100	100	5,508
JAPAN	Sandvik K.K.	2,600,000	100	224,701	2,600,000	100	224,701
KENYA	Sandvik Kenya Ltd.	35,000	96	0	35,000	96	0
KOREA	Sandvik Korea Ltd.	752,730	100	46,856	752,730	100	46,856
MALI	Sandvik Mining and Construction Mali	25,000	100	3,462	25,000	100	3,462
MEXICO	Sandvik Méxicana S.A. de C.V.	406,642,873	90 3)	71,000	406,642,873	90 3)	71,000
MONGOLIA	Sandvik Mongolia LLC.	400,000	100	2,682	400,000	100	2,682
NETHERLANDS	Sandvik Finance B.V.	18,786	100	7,017,620	18,786	100	7,017,620
PERU	Sandvik del Perú S.A.	6,562,795	100	26,025	6,562,795	100	26,025
POLAND	Sandvik Polska Sp. z.o.o.	3,211	100	93,197	3,211	100	93,197
SLOVAKIA	Sandvik Slovakia s.r.o.	—	100	1,238	—	100	1,238
SWITZERLAND	Sanfinanz AG	—	—	—	1,000	100	735
TURKEY	Sandvik Endüstriyel Mamüller Sanayi ve Ticaret A.S.	125,154,588	100	3,200	125,154,588	100	3,200
UAE	Sandvik Middle East FZE.	1	100	19,886	1	100	19,886
ZIMBABWE	Sandvik Mining and Construction Zimbabwe (Pty) Ltd.	233,677	100	3,269	233,677	100	3,269
Total				**15,936,685**			**15,037,592**

1) Subsidiaries conducting business on behalf of the Parent Company.
2) Refers to voting rights, which also equals share of capital unless otherwise indicated.
3) Remaining shares are held by other Group companies.
4) Share of capital 94%.
5) Shares up to an ownership interest of 100% are held by other Group companies.

cont. NOTE 15

Sandvik AB's holdings of shares and participations in subsidiaries. Indirect holdings in operating Group companies

Group holding, %		**2011** [1]	2010 [1]
SWEDEN	Sandvik Heating Technology AB	100	100
	Sandvik SRP AB	100	100
	Sandvik Treasury AB	100	100
	Seco Tools AB	60 [2]	60 [2]
ALGERIA	Sandvik Mining and Construction Algerie SpA	100	100
ARGENTINA	Sandvik Argentina S.A.	100	100
	Sandvik Mining and Construction Argentina S.A.	100	100
	Walter Argentina S.A.	100	100
AUSTRALIA	Sandvik Mining and Construction Redhead Pty Ltd	100	100
	Sandvik Australia Pty. Ltd.	100	100
	Sandvik Shark Pty. Ltd.	100	100
	Sandvik Mining and Construction Perth Pty. Ltd.	100	100
	Sandvik Mining and Construction Adelaide Pty. Ltd.	100	100
	Sandvik Mining and Construction Pty. Ltd. Australia	100	100
	Sandvik Mining and Construction Tomago Pty. Ltd.	100	100
	Sandvik RC Tools Australia Pty. Ltd.	100	100
	Walter Australia Pty. Ltd.	100	100
AUSTRIA	Walter Austria GmbH	100	100
	Wolfram Bergbau und Hütten AG	100	100
	Sandvik in Austria Ges.m.b.H.	100	100
	Sandvik Mining and Construction GmbH	100	100
	Sandvik Mining and Construction Materials Handling GmbH & Co. KG	100	100
BELGIUM	Walter Benelux N.V./S.A.	100	100
BRAZIL	Walter do Brasil Ltda.	100	100
CANADA	Sandvik Canada Inc.	100	100
CHILE	Sandvik Chile S.A.	100	100
	Sandvik Mining and Construction Chile S.A.	100	100
CHINA	Sandvik International Trading (Shanghai) Co. Ltd.	100	100
	Sandvik Mining and Construction (China) Co. Ltd.	100	100
	Sandvik Mining and Construction Trading (Shanghai) Co. Ltd.	100	100
	Sandvik Hard Materials (Wuxi) Co. Ltd.	100	100
	Sandvik Process Systems (Shanghai) Co. Ltd.	100	100
	Sandvik Round Tools Production Co. Ltd.	100	100
	Sandvik Tooling Production (Langfang) Co. Ltd.	100	100
	Sandvik Tooling Sales and Trade (Shanghai) Ltd.	100	100
	Sandvik (Qingdao) Ltd.	100	100
	Walter Wuxi Co. Ltd.	100	100
	Shanghai Jianshe Luqiao Machinery Co. Ltd.	80	—
COLOMBIA	Sandvik Colombia S.A.S.	70	70
CROATIA	Sandvik, za trgovinu d.o.o.	100	100
CZECH REPUBLIC	Sandvik Chomutov Precision Tubes s.r.o.	100	100
	Walter CZ s.r.o.	100	100
DENMARK	Sandvik A/S	100	100
FINLAND	Sandvik Mining and Construction Finland Oy	100	100
	Sandvik Mining and Construction Oy	100	100
FRANCE	Safety S.A.S.	100	100
	Sandvik Mining and Construction Chauny S.A.S.	100	100
	Sandvik Hard Materials S.A.S.	100	100
	Sandvik Materials Technology France S.A.S.	100	100
	Sandvik Mining and Construction Lyon S.A.S.	100	100
	Sandvik Mining and Construction France S.A.S.	100	100
	Sandvik Tooling France S.A.S.	100	100
	Gunther Tools S.A.S.	100	100
	Safety Production S.A.S.	100	100
	Walter France S.A.S.	100	100
GERMANY	Sandvik Mining and Construction Crushing Technology GmbH	100	100
	Prototyp-Werke GmbH	100	100
	Sandvik Materials Technology Deutschland GmbH	100	100
	Sandvik Mining and Construction Europe GmbH	100	100
	Sandvik Mining and Construction Supply GmbH	100	100
	Sandvik Tooling Deutschland GmbH	100	100
	TDM Systems GmbH	100	75
	Walter AG	100	100
	Walter Deutschland GmbH	100	100
	Werner Schmitt PKD-Werkzeug GmbH	100	100
GHANA	Sandvik Mining and Construction Ghana Ltd.	100	100
HONG KONG	Sandvik Hong Kong Ltd.	100	100
HUNGARY	Walter Hungaria Kft.	100	100
INDIA	Walter Tools India Pvt. Ltd.	100	100
INDONESIA	PT Sandvik Indonesia	100	100
	PT Sandvik Mining and Construction Indonesia	100	100
	PT Sandvik SMC	100	100
IRELAND	Diamond Innovations International Sales	100	100
ITALY	Sandvik Italia S.p.A.	100	100
	Walter Italia S.R.L.	100	100
JAPAN	Sandvik Mining and Construction Japan K.K.	100	100
	Sandvik Tooling Supply Japan K.K.	100	100
	Walter Tooling Japan K.K.	100	100
KAZAKHSTAN	Sandvik Mining and Construction Kazakhstan	100	100

cont. NOTE 15

Sandvik AB's holdings of shares and participations in subsidiaries. Indirect holdings in operating Group companies

Group holding, %		**2011** [1]	2010 [1]
KOREA	Sandvik SuhJun Ltd.	100	100
	Walter Korea Ltd.	100	100
MALAYSIA	Sandvik Malaysia Sdn. Bhd.	100	100
	Sandvik Mining and Construction (Malaysia) Sdn. Bhd	100	100
	Walter Malaysia Sdn. Bhd.	100	100
MEXICO	Sandvik de México S.A. de C.V.	100	100
	Sandvik Mining and Construction de México S.A. de C.V.	100	100
	Walter Tools S.A. de C.V.	100	100
NETHERLANDS	Sandvik Benelux B.V.	100	100
NEW ZEALAND	Sandvik New Zealand Ltd.	100	100
NIGERIA	Sandvik Mining and Construction Nigeria Ltd.	100	100
NORWAY	Sandvik Norge A/S	100	100
	Sandvik Riser Technology A/S	100	100
	Teeness ASA	100	100
	Sandvik Tamrock A/S	100	100
PERU	Sandvik del Peru S.A.	100	100
PHILIPPINES	Sandvik Philippines Inc.	100	100
	Sandvik Tamrock (Philippines) Inc.	100	100
POLAND	Walter Polska Sp. z.o.o.	100	100
	Sandvik Mining and Construction Sp. z.o.o.	100	100
ROMANIA	Sandvik SRL	100	100
RUSSIA	LLC Sandvik	100	100
	OOO Walter	100	100
	Sandvik Mining and Construction CIS LLC	100	100
	Sandvik-MKTC OAO	100	100
SERBIA	Sandvik Srbija d.o.o.	100	100
SINGAPORE	Kanthal Electroheat (SEA) Pte. Ltd.	100	100
	Sandvik Mining and Construction S.E. Asia Pte. Ltd.	100	100
	Sandvik South East Asia Pte. Ltd.	100	100
	Walter AG Singapore Pte. Ltd.	100	100
SLOVENIA	Sandvik d.o.o.	100	100
SOUTH AFRICA	Sandvik Mining and Construction RSA (Pty) Ltd.	100	100
	Sandvik (Pty) Ltd.	100	100
	Sandvik Mining and Construction Delmas (Pty) Ltd.	100	100
SPAIN	Sandvik Española S.A.	100	100
	Walter Tools Iberica S.A.U.	100	100
SWITZERLAND	Sandvik AG	100	100
	Santrade Ltd.	100	100
	Walter (Schweiz) AG	100	100
TAIWAN	Sandvik Hard Materials Taiwan Pty. Ltd.	100	100
	Sandvik Taiwan Ltd.	100	100
TANZANIA	Sandvik Mining and Construction Tanzania Ltd.	100	100
THAILAND	Sandvik Thailand Ltd.	100	100
	Walter (Thailand) Co. Ltd.	100	100
TURKEY	Walter Cutting Tools Industry and Trade LLC	100	100
UK	Dormer Tools Ltd.	100	100
	SMC Mobile Crushers and Screens Swadlincote	100	100
	Sandvik Materials Technology UK Ltd.	100	100
	Sandvik Ltd.	100	100
	Sandvik Medical Solutions Ltd.	100	100
	Sandvik Mining and Construction Ltd.	100	100
	Sandvik Osprey Ltd.	100	100
	Walter GB Ltd.	100	100
UKRAINE	Sandvik Ukraine	100	100
US	Diamond Innovations Inc.	100	100
	Diamond Innovations International Inc.	100	100
	Sandvik Wire and Heating Technology Corporation	100	100
	Sandvik Thermal Process Inc.	100	100
	Pennsylvania Extruded Tube Co.	70	70
	Precision Dormer LLC	100	100
	Sandvik Customer Finance LLC	100	100
	Sandvik Inc.	100	100
	Sandvik Medical Solutions Tennessee	100	100
	Sandvik Medical Solutions Oregon Inc.	100	100
	Sandvik Mining and Construction USA LLC	100	100
	Sandvik Process Systems LLC	100	100
	Sandvik Special Metals LLC	100	100
	Walter USA LLC	100	100
ZAMBIA	Sandvik Mining and Construction Zambia Ltd.	100	100

1) Refers to share of capital, which also corresponds to voting rights for the total number of shares, unless otherwise stated.
2) Share of votes 89% (89).

NOTE 16. INVESTMENTS IN ASSOCIATED COMPANIES

Group	2011	2010
Accumulated share of equity		
At beginning of year	467	385
Acquisitions	—	62
Share of profits for the year	7	38
Less dividend received	–12	–6
Translation differences during the year	–6	–12
Carrying amount at end of year	**456**	**467**

Summarized financial information of associated companies, and the Group's share

2011	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB							
Oerlikon Balzers Sandvik Coating AB	Sweden	116	25	70	20	50	49.0
Carpenter Powder Products AB	Sweden	230	13	196	35	161	40.0
Owned indirectly by Sandvik AB							
Bellataire LLC	USA	36	0	73	7	66	50.0
Eimco Elecon	India	256	19	184	2	178	25.1
Fagersta Stainless AB	Sweden	1,827	–43	850	473	377	50.0
Precorp Inc.	USA	162	12	174	61	113	49.0
Associates owned by Seco Tools		107	12	65	25	40	

2010	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB							
Oerlikon Balzers Sandvik Coating AB	Sweden	89	10	61	17	44	49.0
Carpenter Powder Products AB	Sweden	168	12	178	29	149	40.0
Owned indirectly by Sandvik AB							
Bellataire LLC	USA	44	–9	79	7	72	50.0
Eimco Elecon	India	246	22	272	80	192	25.1
Fagersta Stainless AB	Sweden	1,715	56	967	431	536	50.0
Precorp Inc.	USA	188	21	154	55	99	49.0
Associates owned by Seco Tools		100	10	59	25	34	

Additional information

The close of the reporting period for the associate Eimco Elecon is 31 March 2011. Dividend paid in 2011 is included in the calculation of the proportion of equity. No financial statements as of a later date have been obtained. Other associates are recognized one month in arrears.

Parent Company's shares in associated companies	2011	2010
Cost		
At beginning of year	66	4
Acquisitions	—	62
Carrying amount at end of year	**66**	**66**

	Corp. Reg. No.	Share of capital and voting rights, %
2011		
Oerlikon Balzer Sandvik Coating AB, Stockholm	556098-1333	49
Carpenter Powder Products AB, Torshälla	556223-2594	40
2010		
Oerlikon Balzer Sandvik Coating AB, Stockholm	556098-1333	49
Carpenter Powder Products AB, Torshälla	556223-2594	40

NOTE 17. OTHER FINANCIAL ASSETS

Group	2011	2010
Non-current financial investments		
Available-for-sale investments		
Shares and participations	80	78
Total	**80**	**78**

Additional information

Since it has not been possible to measure the fair value of these shares and participations reliably, these assets are measured at cost.

NOTE 18. NON-CURRENT RECEIVABLES AND OTHER CURRENT RECEIVABLES

Group	2011	2010
Non-current receivables		
Derivatives designated as hedging instruments	491	700
Funded pension plans	1,573	1,484
Other noninterest-bearing receivables	736	714
Other interest-bearing receivables	429	524
Total	**3,229**	**3,422**
Other current receivables		
Derivatives held as investments	1	3
Derivatives designated as hedging instruments	490	486
Due from customers for contract work	1,261	869
Other noninterest-bearing receivables	2,647	2,485
Other interest-bearing receivables	455	480
Advances to suppliers	456	353
Total	**5,310**	**4,676**

Parent Company	2011	2010
Non-current receivables		
Derivatives	5	41
Other noninterest-bearing receivables	1	20
Other interest-bearing receivables	21	—
Total	**27**	**61**
Other current receivables		
Derivatives	153	196
Other noninterest-bearing receivables	213	325
Other interest-bearing receivables	2	0
Total	**368**	**521**

	Group	
Construction contracts	2011	2010
Contract costs incurred and recognized profits (less recognized losses)	9,958	8,806
Advances received	1,247	1,025
Amounts retained by customers	50	84
Gross amount due from customers	1,261	869
Gross amount due to customers	1,616	1,205

NOTE 19. INVENTORIES

	Group		Parent Company	
	2011	2010	2011	2010
Raw materials and consumables	6,659	4,872	1,587	1,220
Work in progress	5,543	4,948	1,729	1,723
Finished goods	13,875	11,600	707	732
Total	**26,077**	**21,420**	**4,023**	**3,675**

Cost of sales of the Group includes impairment of inventories of 379 MSEK (317) while cost of sales of the Parent Company includes impairment of 181 MSEK (156). There were no significant reversals of impairment losses during 2011 and 2010.

NOTE 20. TRADE RECEIVABLES

Age analysis of trade receivables

	2011			2010		
Group	Gross	Allowance for bad debts	Net carrying amount	Gross	Allowance for bad debts	Net carrying amount
Current receivables	11,679	–102	11,577	10,272	–131	10,141
Past due receivables 0–3 months	2,406	–61	2,345	2,149	–73	2,076
Past due receivables 3–12 months	749	–143	606	455	–139	316
Past due receivables >12 months	406	–371	35	523	–318	205
Total	**15,240**	**–677**	**14,563**	**13,399**	**–661**	**12,738**

NOTE 21. CAPITAL AND RESERVES

Group

Details of reserves	2011	2010
Translation reserve		
At beginning of year	2,099	4,417
Translation differences during the year	–267	–2,318
At end of year	**1,832**	**2,099**
Hedging reserve		
At beginning of year	475	22
Cash-flow hedges recognized in other comprehensive income	–458	453
At end of year	**17**	**475**
Total reserves		
Reserves at beginning of year	2,574	4,439
Changes in reserves:		
Translation reserve	–267	–2,318
Hedging reserve	–458	453
Reserves at end of year	**1,849**	**2,574**

Other paid-in capital

Relates to payments made by owners and includes share premium reserve transferred to the statutory reserve at 31 December 2005. Any share premium as from 1 January 2006 and onwards is also recognized as paid-in capital.

Reserves

Translation reserve

The translation reserve comprises all foreign exchange differences arising on the translation of the financial statements of foreign operations stated in a currency different from the Group's presentation currency. The Parent Company's and the Group's presentation currency is Swedish kronor (SEK).

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow hedging instruments related to hedged transactions that have not yet occurred. The entire change in cash-flow hedges transferred to profit/loss for the year is attributable to operating result for both 2011 and 2010.

cont. NOTE 21

Retained earnings including profit or loss for the year
Retained earnings including profit or loss for the year comprises the earned profit of the Parent Company and its subsidiaries and associated companies.

Management of capital
Sandvik's reviewed long-term financial objectives
As a result of the new strategy and organization, Sandvik has reviewed the Group's financial goals. These goals are to be viewed in the context of the aim of enhancing value creation and being a world leader in certain segments, as well as an assessment of global growth and adequate financial security. The updated objectives for the Group are as follows:

Growth, total	8%	(8% organic)
Return on capital employed	25%	(25%)
Net debt/equity ratio	<0.8	(0.7–1.0)
Dividend payout percentage	50%	(>50%)

Equity
Equity is defined as total shareholders' equity, including non-controlling interests.

Equity	2011	2010
Share capital	1,424	1,424
Other paid-in capital	1,057	1,057
Reserves	1,849	2,574
Retained earnings including profit for the year	28,160	27,525
Equity attributable to equity holders of the Parent	**32,490**	**32,580**
Non-controlling interests	**1,401**	**1,233**
Total equity	**33,891**	**33,813**

The Board of Directors has proposed to the 2012 Annual General Meeting a dividend of 3.25 SEK per share (3.00). The proposal corresponds to 70% of the recognized earnings per share.

No changes were made to the processes for managing capital during the year.

Neither the Parent Company nor any of its subsidiaries have to comply with externally imposed capital requirements.

Parent Company

Share capital
According to the Articles of Association of Sandvik AB, the share capital shall amount to a minimum of 700,000,000 SEK and a maximum of 2,800,000,000 SEK. All issued shares are fully paid, have the same voting rights and are equally entitled to the company's assets.

Share capital has changed as follows over the past two years:

	No. of shares	SEK/share	Share capital SEK
Share capital at 31 December 2009	1,186,287,175	1.20	1,423,544,610
Share capital at 31 December 2010	1,186,287,175	1.20	1,423,544,610
Share capital at 31 December 2011	1,186,287,175	1.20	1,423,544,610

A dividend is proposed by the Board of Directors in accordance with the stipulations in the Swedish Companies' Act, and is approved at the Annual General Meeting. The proposed, not yet resolved, dividend for 2011 is estimated to amount to 4,077 MSEK (3.25 SEK per share). This amount is not recognized as a liability.

No shares have been reserved for transfer under options or other agreements.

The Sandvik share is officially listed only on the NASDAQ OMX Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

In conjunction with the acquisition of all outstanding shares of Seco Tools AB, 1.2 shares in Sandvik AB were offered for each series B share in Seco Tools AB. In the event of full acceptance of the offer, 69,195,888 new shares will be issued and the total number of shares in Sandvik AB will amount to 1,255,483,063.

Undistributable reserves
Undistributable reserves may not be paid to the shareholders in the form of dividends.

Statutory reserve
The purpose of the statutory reserve has been to tie up part of the net profits that is not needed to cover an accumulated deficit. The statutory reserve amount includes amounts that before 1 January 2006 were included in the share premium reserve.

Distributable reserves
Retained earnings
Retained earnings comprise the distributable reserves recognized in the preceding year less any dividend declared. The total of such profits brought forward and the profit for the year constitute the total distributable reserves, that is the maximum amount available for distribution to the shareholders.

NOTE 22. PARENT COMPANY'S OTHER UNTAXED RESERVES

	2011	2010
Country risk reserve	10	2
Total other untaxed reserves	**10**	**2**

NOTE 23. PROVISIONS FOR PENSION AND OTHER NON-CURRENT POST-EMPLOYMENT BENEFITS

Sandvik provides direct pension solutions and otherwise participates in a number of defined-benefit, defined-contribution and other plans for long-term post-employment benefits to employees throughout the Group. The plans are structured in accordance with local regulations and local practice. In recent years, Sandvik has sought to move more pensions toward defined-contribution solutions and to an ever-increasing extent the total pension expense comprises the costs for such plans. In principle, the plans cover all employees. The Group's most significant pension arrangements are described below.

Sweden
Workers are covered by the SAF/LO Plan, which is a multiemployer collectively bargained defined-contribution pension plan common for several industry sectors. Salaried employees are covered by the ITP Plan, which is also a multiemployer collectively bargained pension plan for several industry sectors. The ITP Plan applies to all white-collar employees, of which newly hired are offered the defined contribution solution that the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector have agreed on (ITP 1). Earlier hired employees remain in the old ITP Plan (ITP 2). The old-age pension obligation under the ITP 2 Plan is of the defined-benefit kind and Sandvik mainly provides for this pension under the so-called FPG/PRI system. However, the commitment for family pension, also classified as a defined-benefit plan, is insured with Alecta. Sufficient information to use defined-benefit accounting for this plan was not available but these pension benefits insured with Alecta are accounted for as if the plan were a defined-contribution plan. At the end of 2011, Alecta reports a plan surplus of 113% (146). Such surplus reflects the fair value of Alecta's plan assets as a percentage of plan commitments, measured in accordance with Alecta's actuarial assumptions which are different from those under IAS 19. Alecta's surplus may be distributed to the policyholders and/or to the insurees.

cont. NOTE 23

In addition, the Parent Company has made supplementary defined-benefit pension commitments to a limited number of Executive Group Management members.

At 31 December 2011, the defined-benefit obligation amounted to 2,837 MSEK (2,214). The fair value of the plan assets held by the Sandvik Pension Foundation in Sweden was 1,847 MSEK (1,943).

US

The employees of the Group's US subsidiaries have mainly been entitled to participate in the defined-benefit pension plans sponsored by their respective employer. These plans are closed for new entrants and new employees are instead offered a defined-contribution solution.

In the US part of the Group, there are also commitments for post-retirement medical benefits. At 31 December 2011, the present value of remaining defined-benefit pension obligations was 4,011 MSEK (3,263). The fair value of plan assets was 2,718 MSEK (2,494).

UK

Sandvik guarantees a number of defined-benefit pension plans in the UK. These plans are funded through trusts, which provide pension benefits based on a participant's salary when reaching pension age and length of service. All defined-benefit plans were closed for new entrants in 2006. Subsequent newly hired employees are being offered participation in a defined-contribution plan.

At 31 December 2011, the present value of remaining defined-benefit pension obligations was 4,485 MSEK (4,137) and the fair value of plan assets was 3,863 MSEK (3,441).

Finland

In Finland, Sandvik sponsors a funded defined-benefit pension plan. The benefits offered include an old-age pension and disability pension. In addition to the benefits guaranteed by the Finnish subsidiary, there is also a defined-contribution pension component.

At 31 December 2011, the present value of the defined-benefit pension obligations was 1,978 MSEK (1,994). The fair value of the plan assets held by the related Finnish pension foundation was 2,392 MSEK (2,574).

Germany

In Germany, Sandvik has defined-benefit pension plans. Until 2008, these plans were unfunded. During 2008, Sandvik formed a foundation, a so-called Contractual Trust Agreement (CTA), which covers the current employees within most of Sandvik's German companies. The pension commitments for retirees and paid-up policyholders are still unfunded. The present value of the defined benefit obligations at 31 December 2011 was 1,611 MSEK (1,609). The fair value of the plan assets amounted to 786 MSEK (783).

Other

The present value of defined-benefit pension obligations in other countries was 1,907 MSEK (1,797). The fair value of related plan assets was 1,230 MSEK (1,212).

The total cost for the more significant defined-benefit pension plans is presented below:

Pension cost	2011	2010
Current service cost	–329	–400
Interest expense	–734	–804
Expected return on plan assets	734	722
Amortization of unrecognized gains and losses	–55	–80
Past service cost	–23	–7
Employee contributions	—	44
Gains (losses) on settlements	–10	–13
Total defined-benefit pension cost	**–417**	**–538**

Total pension costs for defined-contribution and defined-benefit plans were as follows:

Defined-contribution and defined-benefit plans	2011	2010
Defined-contribution plans	–1,330	–928
Defined-benefit plans	–417	–538
Total pension cost	**–1,747**	**–1,466**

The cost for defined-contribution plans also includes plans recognized in accordance with local regulations and the cost for the defined-benefit commitments insured with Alecta.

Actual return on plan assets during 2011 was 310 MSEK (1,094).

Pension costs are included in profit and loss on the lines cost of sales, selling expenses, administrative expenses, research and development costs, and financial expense. Financial expense includes a portion, 140 MSEK (185), of the interest expense above that pertains to deficits in pension plans.

If the fair value of plan assets for a certain pension plan exceeds the present value of the obligation, an asset is recognized considering the restrictions described in the "Significant accounting policies" section. The amounts recognized in the balance sheet are allocated between non-current financial receivables and provisions as follows:

Provision for pensions/medical benefits	2011	2010
Funded plans recognized as non-current receivables	1,573	1,484
Pension plans recognized as provisions for pensions	–2,358	–2,264
Provisions for pensions/medical benefits, net	**–785**	**–780**

Actuarial gains and losses for a specific plan are recognized over the expected average remaining working lives of the employees participating in the plan to the extent that the total gain or loss exceeds the greater of 10% of the present value of the obligations or 10% of the fair value of any plan assets.

A summary of the recognized net obligation for the most significant plans for defined-benefit pensions and medical benefits follows:

Net obligation	2011	2010
Wholly or partly funded plans		
Present value of defined-benefit obligations	–15,331	–13,486
Fair value of plan assets	12,836	12,447
Net liability, funded plans	**–2,495**	**–1,039**
Unfunded plans		
Present value of defined-benefit obligations	–1,498	–1,528
Funded and unfunded plans		
Unrecognized past service costs	18	38
Unrecognized actuarial losses (+) and gains (–), net	3,384	1,789
Pension liability for plans recognized in accordance with IAS 19	**–591**	**–740**
Pension liability for plans recognized in accordance with local regulations	–194	–40
Provisions for pensions/medical benefits, net	**–785**	**–780**

The consolidation ratio, that is, the value of plan assets in relation to the present value of comparable obligations, amounted at year-end 2011 to 84% (92).

Composition of plan assets, %	2011	2010
Shares and equity-based securities	35	40
Interest-bearing securities	49	45
Other	16	15
Total	**100**	**100**

The fair value of plan assets at 31 December 2011 (and 31 December 2010) includes loans to Sandvik entities totaling 70 MSEK (47) and the value of properties leased to Sandvik of 206 MSEK (212).

Movements in the recognized obligations for pensions and medical benefits, and in plan assets are set out in the following tables:

Movements in the obligations	2011	2010
Obligations for defined-benefit plans at beginning of year	–15,014	–15,966
Current service cost and interest expense	–1,062	–1,204
Pensions paid	618	634
Effects of business combinations and settlements	–52	217
Actuarial gains (+)/losses (–)	–1,181	136
Foreign exchange differences	–138	1,169
Obligations for defined-benefit plans at end of year	**–16,829**	**–15,014**

cont. NOTE 23

Movements in plan assets	2011	2010
Fair value of plan assets at beginning of year	12,447	12,620
Expected return on plan assets	734	722
Actuarial gains(+)/losses(–)	–424	372
Pensions paid, net	–609	–598
Contributions from employers	558	526
Effects of business combinations and settlements	31	–252
Foreign exchange differences	99	–943
Fair value of plan assets at end of year	**12,836**	**12,447**

Sandvik estimates that about 500 MSEK (400) will be paid in 2012 to existing defined-benefit pension plans.

The movements in the net pension and medical-benefit liability are presented in the following table:

	2011	2010
Net liability at beginning of year	–780	–1,123
New plans, incl. those of newly acquired companies	—	—
Pension cost for the year for defined-benefit plans	–417	–538
Contributions from Group companies	558	544
Movement in the net liability due to foreign exchange differences	8	213
Movement in net liability for defined-benefit plans recognized in accordance with IAS 19	**149**	**219**
Movement in pension plans recognized in accordance with local regulations	–154	124
Provisions for pensions, net	**–785**	**–780**

Key actuarial assumptions (weighted average, %)	2011	2010
Discount rate	4.6	5.1
Expected return on plan assets	6.1	6.1
Expected rate of salary increases	3.1	3.4
Expected inflation	2.4	2.5
Change in medical cost trend	8.5	8.9

Unrecognized actuarial gains (–) and losses (+)	2011	2010	2009	2008	2007
Unrecognized gains and losses at beginning of year	1,789	2,359	2,353	932	856
Changed assumptions relating to obligations	1,082*	–82	882	–746	–137
Experience adjustments arising on plan liabilities	99	–25	73	–30	167
Difference between anticipated and actual return on plan assets	424	–372	–783	2,087	31
Amortization of actuarial gains and losses	–55	–80	–110	–10	–5
Translation difference	45	–11	–56	120	20
Unrecognized gains and losses at end of year	**3,384**	**1,789**	**2,359**	**2,353**	**932**

*The change is mainly due to assumptions regarding a reduction in the discount rate.

Parent Company

The Parent Company's recognized pension provision was 368 MSEK (99). The Parent Company's PRI pensions are secured through Sandvik's own pension foundation, the Sandvik Pension Foundation in Sweden. Sandvik AB and most of its Swedish subsidiaries, including Seco Tools, are members of the foundation. The total fair value of the assets held by the foundation was 1,847 MSEK (1,943), which was 325 MSEK lower than the capital value of the pension obligations, compared with 17 MSEK higher in 2010. The deficit was recognized as a liability in the companies.

The Parent Company's funded obligations mainly comprise ITP Plans.

The trend in the capital value of the company's proprietary obligations:

2011	Funded obligations	Unfunded obligations	Total
Capital value at beginning of year	–1,500	–88	–1,588
Pension cost for the year excl. interest expense	–76	–12	–88
Interest expense	–63	–1	–64
Pensions paid	59	6	65
+/– effects of settlements and business combinations	1	—	1
Other changes	–114	7	–107
Capital value at end of year	**–1,693**	**–88**	**–1,781**
of which insured with FPG/PRI	–1,682	–67	–1,749

2010	Funded obligations	Unfunded obligations	Total
Capital value at beginning of year	–1,423	–116	–1,539
Pension cost for the year excl. interest expense	–59	–29	–88
Interest expense	–66	–1	–67
Pensions paid	54	3	57
+/– effects of settlements and business combinations	1	55	56
Other changes	–7	—	–7
Capital value at end of year	**–1,500**	**–88**	**–1,588**
of which insured with FPG/PRI	–1,489	–60	–1,549

Movement in the assets of the pension foundation	2011	2010
Fair value of assets at beginning of year	1,511	1,474
Actual return on assets	–74	29
Net amount refunded to employers	0	8
Fair value of assets at end of year	**1,437**	**1,511**

Reconciliation of the recognized pension liability	2011	2010
Capital value at end of year	–1,781	–1,588
Fair value of the assets of the foundation at end of year	1,437	1,511
Surplus/deficit value of foundation assets	–24	–22
Recognized net liability	**–368**	**–99**

The recognized pension cost for the year comprises the following items	2011	2010
Current service cost excl. interest expense	–88	–88
Interest expense	–64	–67
Return on separated assets	–74	29
Effects of settlements, etc.	–107	—
Costs for pension under own management	**–333**	**–126**
Defined-contribution plans		
Pension premiums for the year	–522	–430
Subtotal	**–855**	**–556**
Special employer's contribution	–160	–107
Premium for credit insurance policy	0	0
Total pension cost for the year	**–1,015**	**–663**
Change in surplus value of separated assets	65	125
Net pension cost for the year	**–950**	**–538**

Composition of the foundation's assets, %	2011	2010
Shares and equity-based securities	15	27
Interest-bearing securities	64	61
Other	21	12
Total	**100**	**100**

Key actuarial assumptions, %	2011	2010
Discount rate for the ITP Plan	3.84	3.84

NOTE 24. OTHER PROVISIONS

Group	Provisions for warranties	Provisions for restructuring measures and personnel-related provisions	Other provisions	Total
Balance at 31 December 2010	407	723	644	1,774
Provisions made during the year	264	1,049	510	1,823
Provision taken over by acquisition	36	—	14	50
Provisions used during the year	–176	–235	–64	–475
Provisions reversed during the year	–12	–18	–20	–50
Translation differences	–1	–5	–15	–21
Balance at 31 December 2011	518	1,514	1,069	3,101
of which current	274	874	572	1,720
of which non-current	244	640	497	1,381

Parent Company				
Balance at 31 December 2010	21	143	18	182
Provisions made during the year	9	173	2	184
Provisions used during the year	–3	–34	—	–37
Balance at 31 December 2011	27	282	20	329

Provisions for warranties
A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes against their associated probabilities.

Provisions for restructuring
A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Other provisions
Other provisions include provisions for onerous contracts, for lease commitments relating to abandoned premises, and for environmental issues.

Provisions classified as current are expected to result in an outflow of resources within twelve months from the balance sheet date.

Provisions carried by newly acquired companies at acquisition date amounted to 50 MSEK (0).

NOTE 25. NON-CURRENT INTEREST-BEARING LIABILITIES

Parent Company
Non-current interest-bearing liabilities fall due as follows:

	2011			2010		
	Within one to five years	Later than five years	Total	Within one to five years	Later than five years	Total
Loans from financial institutions	1,816	—	1,816	463	—	463
Loans from Group companies	150	151	301	42	1	43
Other liabilities	11,100	2,855	13,955	9,191	4,895	14,086
Total	**13,066**	**3,006**	**16,072**	**9,696**	**4,896**	**14,592**

NOTE 26. OTHER INTEREST-BEARING LIABILITIES

Group	**2011**	2010
Non-current liabilities		
Bond issues	19,901	20,033
Other	381	245
Total	**20,282**	**20,278**
Current liabilities		
Bond issues	1,395	375
Other	458	299
Total	**1,853**	**674**

For information on contractual terms, scheduled repayments and the exposure to interest risk and foreign-currency risk, refer to the section "Financial risk management."

NOTE 27. OTHER NONINTEREST-BEARING LIABILITIES

Group	**2011**	2010
Other non-current liabilities		
Derivatives designated as hedging instruments	176	247
Other	33	39
Total	**209**	**286**
Other current liabilities		
Derivatives held for trading	1	3
Derivatives designated as hedging instruments	700	483
Bills payable	123	76
Gross amount due to construction contract customers	1,616	1,205
Other	1,882	1,993
Total	**4,322**	**3,760**

NOTE 28. ACCRUED EXPENSES AND DEFERRED INCOME

Parent Company	2011	2010
Personnel related	1,672	1,467
Expenses related to finance	749	622
Other	695	594
Total	**3,116**	**2,683**

NOTE 29. ASSETS HELD FOR SALE

A decision was made to divest the instrument and implant section of Sandvik MedTech that is part of Sandvik Materials Technology. The sale is expected to take place in the first six months of 2012. On 31 december 2011, the disposal group included assets of 747 MSEK, less liabilities totaling 108 MSEK.

Assets classified as held for sale:	
Intangible assets	272
Property, plant and equipment	260
Inventories	113
Trade receivables and other receivables	102
	747

Liabilities directly attributable to assets classified as held for sale:	
Accounts payable and other liabilities	83
Deferred tax liabilities	25
	108

NOTE 30. CONTINGENT LIABILITIES AND PLEDGED ASSETS

On occasion, Sandvik is party to litigation and administrative proceedings related to its operations, including responsibility for products, the environment, health and safety. However, Sandvik does not deem that any of these ongoing proceedings and processes will significantly affect the Sandvik Group.

In 2005, Sandvik AB implemented a reorganization of ownership and management of intellectual property rights. All Swedish-owned patents and trademarks were transferred to Sandvik Intellectual Property AB (IP Company). As a result of the reorganization, the Swedish National Tax Board did not approve the IP company's tax returns and the Public Commissioner filed an appeal against the Tax Board's decision relating to Sandvik AB.

The Public Commissioner requested that Sandvik AB be taxed in 2005 for a capital gain of 18,097 MSEK, which arose in the Group in conjunction with the reorganization. In June 2010, the Administrative Court approved the Public Commissioner's appeal pertaining to additional taxation of Sandvik AB for 2005. The decision has been appealed to the Administrative Court of Appeal. The decision, if it gains legal force, entails that Sandvik AB will be taxed for additional earnings of 18,097 MSEK for 2005. Because the decision will not impact the Group's earnings, Sandvik has not made any provision, since any additional tax expense of about 5 billion SEK will correspond to the tax value of the increased amortization in the IP Company and this tax value, according to IFRS policies, would then be recognized as income. For further details, refer to the Risk and Risk Management section.

	Group		Parent Company	
Contingent liabilities	2011	2010	2011	2010
Bills discounted	39	24	—	—
Other surety undertakings and contingent liabilities	1,577	1,635	12,006	11,228
Total	**1,616**	**1,659**	**12,006**	**11,228**
of which for subsidiaries			11,526	10,721

The Parent Company's surety undertakings and contingent liabilities amounted to 12,006 MSEK (11,228), of which 7,850 MSEK (7,826) related to the Parent Company's guarantees for Sandvik Treasury AB's financial borrowings. The remainder comprised mainly indemnity bonds for commitments of Group companies to their customers and vendors, and to financial institutions relating to local borrowings, guarantees on advances received and various types of performance bonds.

The Group's surety undertakings and contingent liabilities amounted to 1,616 MSEK (1,659) and comprised mainly guarantees to financial institutions for various types of performance bonds, chiefly relating to construction contracts entered into by Sandvik Mining and Construction.

Pledged assets
Pledged assets for own liabilities and provisions.

Group	2011	2010
Property mortgages	206	207
Chattel mortgages	108	108
Total	**314**	**315**

No assets of the Parent Company had been pledged at 2011 and 2010 year-ends.

NOTE 31. SUPPLEMENTARY INFORMATION – FINANCIAL RISK MANAGEMENT

Disclosure regarding financial instruments measured at fair value in the balance sheet
Under the IFRS 7 disclosure requirements, the method applied to the valuation of financial instruments measured at fair value in the balance sheet is presented below. The valuation is divided into three levels:

Level 1: Fair value is determined according to prices listed on an active market for the same instrument.
Level 2: Fair value is determined based on either directly (as a price) or indirectly (derived from prices) observable market data that is not included in level 1.
Level 3: Fair value is determined based on input data that is not observable in the market.
All of Sandvik's financial instruments are included in Level 2.

Measurements of fair value
The following is a summary of the methods and assumptions primarily applied to determine the fair value of the financial instruments presented in the table below.

The fair value of listed securities is determined based on the listed average price of the asset on the balance sheet date with no supplement for transaction costs on the acquisition date.

The fair value of foreign exchange contracts is determined based on the listed price. The fair value of interest-rate swaps is based on discounting estimated future cash flows under the contractual terms and conditions and maturity dates and based on the market interest rate for similar instruments on the balance sheet date. Where discounted cash flows are used, the future cash flows are calculated on the best assessments of company management. The discount rate applied is the market-based interest rate of similar instruments on the balance sheet date.

All valuation techniques applied are accepted in the market and take into account all parameters that the market would consider in its pricing. These techniques are reviewed regularly so as to ensure their reliability. Applied assumptions are compared against actual outcomes to identify any needs for adjusting the measurement or forecasting tools.

For means of payment, receivables and liabilities with variable interest and current receivables and liabilities (for example, trade receivables and accounts payable), the fair value has been considered to correspond to the carrying amount.

The Group's financial instruments measured at fair value in the balance sheet on 31 December 2011

Financial instruments measured at fair value		2011	2010
Financial assets			
Derivatives	Foreign exchange contracts	749	771
	Foreign currency options	16	16
	Interest-rate swaps	153	60
	Commodity and electricity derivatives	64	325
	Total	**982**	**1 172**
Financial liabilities			
Derivatives	Foreign exchange contracts	560	707
	Foreign currency options	—	—
	Interest-rate swaps	201	15
	Commodity and electricity derivatives	117	—
	Total	**878**	**722**

cont . **NOTE 31**

Financial assets and liabilities and financial derivatives are stated at fair value, except for current and non-current borrowings, which are measured at amortized cost. Calculation at fair value would increase the Group's non-current borrowings by 1,276 MSEK (1,077). When measuring interest-bearing liabilities, the company's Swedish and European bond loans have then been remeasured at listed market prices when available. Other non-current debt has been remeasured in accordance with the principles described above. Current loans, which include outstanding commercial papers with a fixed interest period of less than 12 months, have not been remeasured.

The table below shows the fair value of financial assets and liabilities compared with their carrying amounts. Fair value is the amount at which an asset or liability can be sold between well-informed partners who are independent in relation to each other and who have a vested interest in completing the transaction.

Fair value of financial assets and liabilities by valuation category

Balance-sheet items	Derivatives for hedge accounting[1]		Assets at fair value through profit and loss Derivates held for trading[2]		Available-for-sale financial assets		Loans and receivables		Total carrying amount		Fair value	
Financial assets	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Financial investments	—	—	—	—	80	78	—	—	80	78	80	78
Trade receivables	—	—	—	—	—	—	14,418	12,738	14,418	12,738	14,418	12,738
Other receivables[3]	—	—	—	—	—	—	1,023	1,277	1,023	1,277	1,023	1,277
Derivatives[4]	701	1,043	281	146	—	—	—	—	982	1,189	982	1,189
Cash and cash equivalents							5,591	4,783	5,591	4,783	5,591	4,783
Total financial assets	**701**	**1,043**	**281**	**146**	**80**	**78**	**21,032**	**18,798**	**22,094**	**20,065**	**22,094**	**20,065**

	Derivatives for hedge accounting[1]		Liabilities at fair value through profit and loss Derivates held for trading[2]		Other financial liabilities		Total carrying amount		Fair value	
Financial liabilities	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Borrowings[5]	—	—	—	—	30,715	27,203	30,715	27,203	31,991	28,280
Derivatives[6]	575	352	303	381	—	—	878	733	878	733
Accounts payable	—	—	—	—	8,133	6,889	8,133	6,889	8,133	6,889
Due to associates	—	—	—	—	63	47	63	47	63	47
Other liabilities[7]	—	—	—	—	123	77	123	77	123	77
Total financial liabilities	**575**	**352**	**303**	**381**	**39,034**	**34,216**	**39,912**	**34,949**	**41,188**	**36,026**

1) Of which 23 MSEK (645) pertains to cash-flow hedges recognized in the hedging reserve in equity and 103 MSEK (46) pertains to fair-value hedges recognized in profit or loss.
2) Of which –27 MSEK (–239) pertains to financial hedges; hedge accounting is not applied.
3) Comprises parts of the Group's non-current receivables, accrued income and other receivables recognized in the balance sheet.
4) Derivatives form part of the other receivables recognized in the balance sheet.
5) Recognized in the balance sheet as non-current and current liabilities to financial institutions and other liabilities.
6) Derivatives form part of the other liabilities recognized in the balance sheet.
7) Form part of the Group's non-current liabilities, accrued expenses and other liabilities recognized in the balance sheet.

Net result per valuation category

In addition to fair value adjustment, interest and currency movement effects are included.

	2011	2010
Assets and liabilities at fair value (Derivatives)	–473	205
Loans and accounts receivables	470	–156
Available-for-sale financial assets	0	6
Financial liabilities	–1,870	–1,733

The company's financial liabilities amounted to 39,912 MSEK (34,949) at year-end.

Group's maturity structure of financial liabilities and derivatives – undiscounted cash flows

		2011				2010			
Nominal amounts		<6 months	6–12 months	1–5 years	>5 years	<6 months	6–12 months	1–5 years	>5 years
Bank loans	SEK	–2,495	–2,451	–4,674	—	–3,438	–32	–3,596	—
Commercial papers	SEK	–200	—	—	—	—	—	—	—
MTN	SEK	–831	–923	–7,571	–3,433	–171	–495	–5,074	–5,336
EMTN	EUR	–349	—	–5,968	—	–371	—	–6,418	—
Private placement	USD	–142	–142	–1,140	–5,798	–146	–146	–1,168	–6,195
Derivatives									
– Currency derivatives		–154	52	279	—	–273	11	39	66
– Interest-rate derivatives		118	–58	137	–49	94	–45	172	–128
– Commodity and electricity derivatives		–49	–18	10	—	134	134	46	6
Finance leases		–15	–15	–76	–59	–15	–15	–89	–72
Accounts payable		–8,133	—	—	—	–6,889	—	—	—
Total		**–12,250**	**–3,555**	**–19,004**	**–9,339**	**–11,075**	**–588**	**–16,088**	**–11,659**

The maturity structure of the Group's financial liabilities is also presented in the Report of the Directors in the financial risk section.

cont. **NOTE 31**

Periods when hedged cash flows are expected to occur and affect earnings

	Q 1 2012	Q 2 2012	Q 3 2012	Q 4 2012	Q 1 2013	Q 2 2013	Q 3 2013	Q 4 2013	2014 and later
Currency derivatives	–60	–40	19	16	8	–1	25	42	236
Interest derivatives									–167
Commodity and electricity derivatives	–23	–25	–19	1	1	–7	–4	2	18
Total	**–83**	**–65**	**0**	**17**	**9**	**–8**	**21**	**44**	**87**

NOTE 32. RELATED PARTIES

Related-party transactions

The Group's sales to associated companies amounted to 1,127 MSEK (978). The Group's purchases from associated companies amounted to 496 MSEK (396). Advances have been made to associated companies in the amount of 0 MSEK (0). Interest income on loans to associated companies amounted to 0 MSEK (0). Guarantees have been made for the obligations of associated companies in the amount of 0 MSEK (0). All transactions are carried out on market terms.

Sales to Group companies from the Parent Company amounted to 13,944 MSEK (13,482), or 80% (76) of total sales. The share of exports was 73% (72). The Parent Company's purchases from Group companies amounted to 2,357 MSEK (2,563), or 14% (18) of total purchases. The Parent Company granted no loans to associated companies. Guarantees have been made for obligations of associated companies in the amount of 0 MSEK (0). All transactions are effected on an arm's length basis.

Transactions with key management personnel

Except as indicated in Note 3.5, Information on benefits to the Board of Directors and senior executives, and in the description of the Board of Directors on page 40, no transactions took place with persons closely associated with the company.

NOTE 33. SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT

	2011	2010
Cash and cash equivalents – Group		
Cash and cash equivalents comprise:		
Cash and bank	3,109	3,172
Short-term investments comparable to cash and cash equivalents	2,483	1,611
Total in the balance sheet	5,592	4,783
Total in the cash-flow statement	5,592	4,783
Cash and cash equivalents – Parent Company		
Cash and cash equivalents comprise:		
Cash and bank	8	12
Total in the balance sheet	8	12
Total in the cash-flow statement	8	12

A short-term investment is classified as a cash and cash equivalent if:
- The risk of changes in value is insignificant.
- It is readily convertible into cash.
- It has a maturity of no more than three months from the date of acquisition.

	Group		Parent Company	
	2011	2010	**2011**	2010
Interest and dividend paid				
Dividend received	—	6	1,710	3,357
Interest received	189	48	70	102
Interest paid	–1,837	–1,883	–1,401	–1,189
Total	**–1,648**	**–1,829**	**379**	**2,270**

conts . **NOTE 33. SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT**

	Group		Parent Company	
	2011	2010	**2011**	2010
Adjustment for non-cash items, etc.				
Changes in value of financial instruments	—	—	431	–618
Unappropriated results of associated companies	9	–27	—	—
Gains and losses on disposal of property, plant and equipment	97	–121	9	–85
Provisions for pensions	106	–52	269	–29
Other provisions	1,348	64	163	102
Appropriations	—	—	8	–2
Unrealized foreign exchange differences	—	—	–8	–707
Other	–201	6	–172	11
Total	**1,359**	**–130**	**700**	**–1,328**

	2011	2010
Acquisitions of subsidiaries and other business operations – Group		
Net assets acquired:		
Non-current assets	495	198
Inventories	185	44
Operating receivables	264	38
Cash and cash equivalents	93	3
Total assets	1,037	283
Provisions	–93	—
Operating liabilities	–604	–22
Other liabilities	–257	–2
Total provisions and liabilities	–954	–24
Purchase consideration recognized as a liability	–72	–60
Purchase consideration paid	–431	–1,219
Less cash and cash equivalents of divested operations	93	3
Effect on cash and cash equivalents	–338	–1,216

NOTE 34. BUSINESS COMBINATIONS

The business combinations effected during 2010 and 2011 are set out below. Annual revenue and number of employees reflect the situation at the date of the respective acquisition.

Business area	Company	Acquisition date	Annual revenue	No. of employees
Seco Tools	AOB, France	23 July 2010	40	50
Seco Tools	NCI and DTC, USA	29 December 2010	275	180
Sandvik Mining and Construction	SJL, China	9 October 2011	500	500

On 9 October 2011, shares corresponding to 80% of equity in the Chinese company Shangai Jianshe Luqiao Machinery Co. Ltd (SJL) were acquired. The company's business operations are marketed under the SHANBAO brand, generate sales of 500 MSEK and employee approximately 500 people. The company became part of the Sandvik Mining and Construction business area on the acquisition date and from 2012 will be included in the new Sandvik Construction business area.

Consideration transferred for the acquisition comprised cash and loans from the seller. No equity instruments were issued in connection with the acquisitions. Direct acquisition expenses amounted to 10 MSEK and were charged to administrative expenses in the Group's incomes statement.

SJL is a leader in the development and manufacturing of crushing and sorting equipment, including expendable materials and service, for the Chinese mining and engineering industry. The company also has a considerable presence outside China in terms of its competitive and cost-efficient crushing and sorting solutions.

The fair value of assets and liabilities in acquired companies are presented in the tables below.

Total fair value of assets and liabilities of acquired businesses in 2011

Sandvik Mining and Construction	Fair value recognized in the Group
Intangible assets	150
Property, plant and equipment	322
Financial assets	23
Inventories	185
Current receivables	264
Cash and cash equivalents	93
Interest-bearing liabilities	–264
Noninterest-bearing liabilities	–690
Net identifiable assets and liabilities	83
Non-controlling interests	17
Goodwill	172
Purchase consideration	239
Cash and cash equivalents in acquired businesses	–93
Part of consideration entered as a liability	–73
Net cash outflow	73

The value of acquired assets and assumed liabilities were determined preliminarily pending a final valuation. A fair-value measurement increased net assets by 97 MSEK.

Non-controlling interests
The value of non-controlling interests was calculated as the proportionate share of the company's net assets and amounted to 17 MSEK on the acquisition date.

Goodwill
Goodwill arose as a result of synergy effects in the form of, for example, improved production processes, integration of production capacity, joint R&D activities and sales synergies through additional product programs.

Goodwill is not expected to be tax deductible. For more detailed information about goodwill, refer to Note 13.

Acquired receivables
The fair value of trade receivables amounted to 233 MSEK.

Consideration transferred

Cash and cash equivalents	166
Loan from seller	73
	239

Total fair value of assets and liabilities of acquired businesses in 2010

Seco Tools	Fair value recognized in the Group
Intangible assets	32
Property, plant and equipment	166
Inventories	44
Current receivables	38
Cash and cash equivalents	3
Noninterest–bearing liabilities	–24
Net identifiable assets and liabilities	259
Goodwill	37
Purchase consideration	296
Cash and cash equivalents of acquired businesses	–3
Finalized purchase consideration	–37
Anticipated additional purchase consideration	–23
Net cash outflow	233

cont. **NOTE 34**

Contributions from companies acquired in 2011 by business area

	Sandvik Tooling	Sandvik Mining and Construction	Sandvik Materials Technology	Seco Tools	Total
Contributions as of acquisition date					
Revenue	—	105	—	—	105
Loss for the year	—	–33	—	—	–33
Contributions as though the acquisition date had been 1 January 2011					
Revenue	—	632	—	—	632
Loss for the year	—	–68	—	—	–68

Contributions from companies acquired during 2010 by business area

	Sandvik Tooling	Sandvik Mining and Construction	Sandvik Materials Technology	Seco Tools	Total
Contributions as of acquisition date					
Revenue	—	—	—	19	19
Profit for the year	—	—	—	2	2
Contributions as though the acquisition date had been 1 January 2010					
Revenue	—	—	—	318	318
Profit for the year	—	—	—	11	11

Acquisition of non-controlling interests
On 1 September 2011, the remaining 25% of the shares in TDM System GmbH were acquired for 23 MSEK. The purchase was settled in cash and, consequently, the holdings totaled 100%. The Group recognized a reduction of 5 MSEK in the non-controlling interest and a reduction of 18 MSEK in retained earnings.

NOTE 35. PARENT COMPANY PARTICULARS

Sandvik Aktiebolag, corporate registration number 556000-3468, is a registered Swedish limited liability company, with the address of SE-811 81 Sandviken, Sweden, On 20 December 2011, the company's registered office was changed from Sandviken to Stockholm.

Sandvik's shares are quoted on the NASDAQ OMX Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

The 2011 consolidated financial statements comprise the Parent Company and all its subsidiaries, jointly the Group. The Group also includes the owned share of investments in associated companies.

NOTE 36. INFORMATION ON SHARES, OWNERS AND RIGHTS

The following information is presented in accordance with the provisions of Chapter 6, Section 2.a. of the Swedish Annual Accounts Act.

The Parent Company has issued one series of shares and each share carries one vote. The total number of shares shall be not less than 1,000,000,000 and no more than 4,000,000,000.

At the end of 2011, 1,186,287,175 shares with a quotient value of 1.20 SEK per share had been issued. Shareholders have a preferential right to subscribe to newly issued shares issued for cash or with terms and conditions concerning rights of setoff. All shares are fully negotiable.

Shareholdings that directly and indirectly represent at least 10% of the voting rights are held by AB Industrivärden (12.2%).

Sandvik AB's Articles of Association govern such policies as the direction of the business, domicile and share capital (minimum and maximum capital). The Articles do not stipulate that the members of the Board of Directors shall be elected in any other way than at the Annual General Meeting. However, Board representatives of the employees are appointed by the trade unions under the Private Sector Employees (Board Representation) Act.

Companies in the Group entered into borrowing agreements that include conditions coming into effect should the control of the company change as a result of a public takeover bid.

There are no agreements between the companies in the Group and the Parent Company's directors or employees if those persons give notice of termination, or their services are improperly terminated, or the employment is terminated as a consequence of a public takeover bid.

Board statement on dividend proposal

Board statement in accordance with Chap. 18, Section 4 of the Swedish Companies Act.

The nature and extent of the company's operations are stated in the Articles of Association and issued annual reports.

Such nature and extent do not entail risks over and above those inherent, or reasonably to be expected, in the industry or otherwise inherent in business operations. For information on significant events, we refer to the Report of the Directors.

The company's financial position at 31 December 2011 is apparent from this annual report. The proposed dividend does not infringe on investments deemed to be required. In addition, the company's liquidity reserve at the end of the year is in the form of two unutilized credit facilities amounting to 650 MEUR and 5,000 MSEK, respectively, which means that the Company should reasonably be able to meet unexpected events and temporary fluctuations in cash flows of reasonable proportions. The company's financial position supports the assessment that the company will be able to continue in business and meet its obligations in both the short and long term.

In view of the above and based on what the Board is otherwise aware, the proposed dividend in the Board's opinion is justified considering the requirements which the nature, extent and risks associated with the operations place on the size of the equity of the company, and also taking into consideration the company's need to strengthen its balance sheet, liquidity and financial position in general.

Sandviken, 15 February 2012
Sandvik Aktiebolag (publ)
Board of Directors

Proposed appropriation of profits

The Board of Directors and the President propose that:

the profits brought forward from the preceding year	9,860,986,935
and the profit for the year	–380,492,052
SEK	9,480,494,883

be appropriated as follows:

a dividend of 3.25 SEK per share	4,076,754,250*
profit carried forward	5,403,740,633
SEK	9,480,494,883

*Includes newly issued shares in 2012.

The income statements and the balance sheets of the Group and of the Parent Company are subject to the adoption by the Annual General Meeting on 2 May 2012.

The Board of Directors and the President hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden, and that the consolidated financial statements have been prepared in accordance with the international financial reporting standards referred to in the regulation (EU) no. 1606/2002 of the European Parliament and Council dated 19 July 2002, pertaining to the application of international financial reporting standards, and that such financial reports give a true and fair view of the results of operations and financial position of the Parent Company and of the Group, respectively, and that the Report of the Directors pertaining to the Parent Company and the Group gives a fair view of the development of the company's and the Group's activities, financial position and results of operations, and further presents the significant risks and uncertainties facing the company and the entities that are members of the Group.

Sandviken, 15 February 2012

Anders Nyrén
Chairman

Johan Karlström
Director

Jan Kjellgren
Director

Tomas Kärnström
Director

Fredrik Lundberg
Director

Hanne de Mora
Director

Egil Myklebust
Director

Simon Thompson
Director

Lars Westerberg
Director

Olof Faxander
President and CEO

Our audit report was submitted on 16 February 2012

KPMG AB

George Pettersson
Authorized Public Accountant

Audit Report

TO THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF SANDVIK AB (PUBL)
CORPORATE REGISTRATION NUMBER 556000-3468

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and the consolidated accounts of Sandvik AB (publ) for the year 2011. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 14–97.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts
The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act, and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A Corporate Governance Report has been prepared. The Board of Director's report and the Corporate Governance Report are consistent with the other parts of the annual accounts and the consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Sandvik AB (publ) for the year 2011.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions
We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Sandviken 16 February 2012

KPMG AB

George Pettersson
Authorized Public Accountant

Sustainability is a key part of the company's business activities

Sandvik has been conducting an extensive sustainability program for many years and reports the results of its work in this Sustainability Report. For Sandvik, the concept of sustainable development encompasses responsibility for the environment, health, safety, business ethics and human rights, and is part of systematic risk management activities aimed at creating new business opportunities while retaining a good reputation. A Code of Conduct and environmental, health and safety management systems form the foundation of the Group's sustainability activities. This work is carried out on a decentralized basis within the business areas and is based on policies, objectives, targets and performance indicators established at Group level.

Sandvik's responsibility

Sandvik has an explicit responsibility for the company's impact on society, the economy and the environment. Sandvik complies with the laws and regulations that exist in countries where the company has operations and respects international norms and declarations on human rights and labor legislation adopted by the UN and the ILO. Moreover, Sandvik respects the following four basic environmental principles that are summarized in ISO 26000:

- Environmental responsibility: In excess of what is prescribed in regulations, assume responsibility for the negative impact by actively working to improve the environmental performance of its own operations, and the operations of others, in areas where Sandvik has the opportunity to exert an influence.
- Precautionary approach: Meaning that precautionary measures are taken as soon as there is reason to believe that an action can harm the environment or human health.
- Environmental risk management: Requires the introduction of a program derived from a risk-based and sustainable perspective to reduce or minimize the environmental impact from Sandvik's activities, products and services.
- Polluter Pays Principle: Meaning that the entity that causes the damage to the environment shall pay the social economic cost that arises.

Sandvik has committed to follow the OECD's Guidelines for Multinational Enterprises and the Group's corporate responsibility is summarized in a Code of Conduct that was adopted by the Board in 2004. The Code contains the corporate responsibility in the areas of business ethics, suppliers, employee work conditions and development, human rights, the environment and social commitments. The Code has been translated into 14 languages and is available in English from the Sandvik website (www.sandvik.com).

In 2008, Group Executive Management established a new environment, health and safety policy for all Group units. This policy is available from Sandvik's website, www.sandvik.com.

Significant events during the year

- Four work-related fatalities occurred: two in Sweden, one in Russia and one in India.
- The number of Lost Time Injuries declined 15% and the Lost Time Injury Frequency Rate fell 19% compared with 2010.

Strategy

Sandvik's ambition is to be a strong contributor in creating a sustainable world. This ambition includes actively creating and developing new business opportunities and, in this respect, to not only focus on how we conduct business, but also on how our products contribute to sustainable development. To ensure the success of this, Sandvik has prioritized the following focus areas with aims and objectives:

Focus area	Aim	Objective
Employees	• Promote and protect the safety, health and well-being of individuals.	• Further reduce the frequency of occupational injuries, illnesses and incidents. • Improve health and well-being among employees. • All major production, service, and distribution units shall be certified in accordance with OHSAS 18001 (or an equivalent standard) within two years of acquisition or establishment.
	• Create a flexible and high-performing organization.	• Create the conditions for committed and empowered employees. • Create the conditions for high diversity and inclusive leadership.
Environment		• All major production, service, and distribution units shall be certified in accordance with ISO 14001 within two years of acquisition or establishment.
	• Optimize the use of the Earth's resources: energy, materials and water.	• More efficient use of energy and input materials. • Increased recovery of materials and by-products.
	• Minimize emissions to air, land and water.	• Reduced emissions to air and water. • Reduced environmental impact from the use of hazardous chemicals.
	• Sandvik's products shall help enhance the efficiency of customer processes in their efforts to minimize their environmental impact and create a safer work environment.	• Increased number of products that support sustainability principles.
Suppliers	• Ensure responsible sourcing.	• Introduce robust processes for ensuring supplier compliance with Sandvik's Supplier Code of Conduct.
Business ethics	• Ensure zero tolerance in respect of corruption.	• Introduce robust processes to minimize the risk of bribes in all business processes, thus fulfilling the requirements stipulated in the UK Bribery Act.

- At year-end, the number of production-related units certified in accordance with ISO 14001 and OHSAS 18001 was 161 (97%).
- A project to implement a Group-wide process for evaluating and selecting suppliers from a CSR perspective was initiated.
- For the fourth consecutive year, Sandvik was included in both of the Dow Jones' sustainability indexes: the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index.
- Increase in energy efficiency.
- A new HR strategy was established with intensified focus on safety, diversity and a high-performance organization.
- Efforts to address the issue of corruption continued. Activities commenced on fulfilling the requirements stipulated in the UK Bribery Act.

Sandvik's sustainability activities

Control of sustainability activities

Proceeding from Sandvik's sustainability strategy (see preceding page) and Code of Conduct, risks and opportunities are analyzed. Objectives and targets are set as part of efforts to minimize risks and leverage the possibilities available in an efficient and effective manner. Group Executive Management, supported by the Board, establishes Sandvik's Code of Conduct, goals and performance indicators, and each business area assumes responsibility for ensuring compliance with the Code and that the goals are cascaded down and achieved in the organization. In addition, each business area is responsible for the assessment of sustainability risks (environment, health and safety, business ethics, human rights) in its operations, and there are specific organizations appointed in each business area to coordinate issues and support the local management teams. At Group level, various councils exist for example, for HR, purchasing and EHS (Environment, Health and Safety) to co-ordinate the work among the business areas and to draft common policies, objectives, targets and indicators for Group Executive Management. The diagram below shows the management process for sustainability activities. The various councils have representatives from each business area and the relevant Group staff functions.

Indicators and key figures are reported on a quarterly basis to Group Assurance, which analyzes the results and presents them to the Board, Group Executive Management and the entire organization. Training is another key factor in Sandvik's sustainability strategy. A program is in progress to train all company employees with respect to the implications of environmental and social responsibility and business ethics. Sandvik has an established risk management process for evaluating both financial and non-financial risks. The evaluation process does not only encompass the company's own operations but also risks related to the geographic locations in which it conducts business and the risks associated with its suppliers. The risk management process is described in the section that starts on page 27 of Sandvik's Annual Report. The independent Group Assurance function is also responsible for ensuring the adequate functionality of management systems, internal control and risk management as well as compliance with the Code of Conduct. This unit continuously monitors the Group's operations, mainly by way of internal audits, and reports to the Board's Audit Committee and Group Executive Management on a quarterly basis.

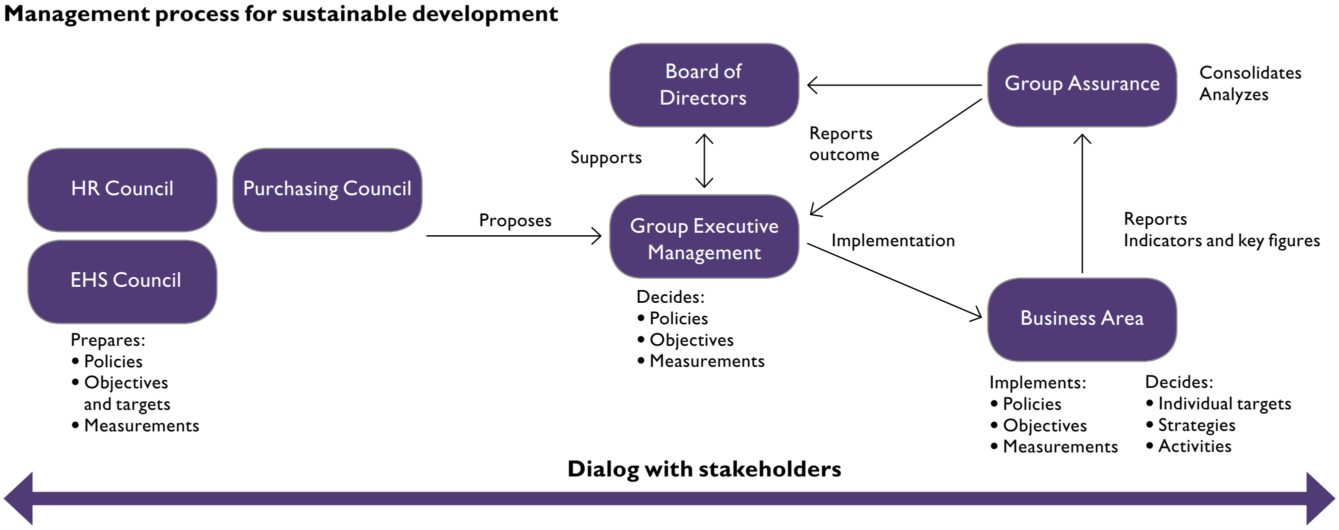
Environment, health and safety management

As part of Sandvik's corporate responsibility in issues relating to environment, health and safety, the Group has an objective that all major production-related units (production, service, machinery rebuilding and distribution/warehouse) units shall be certified in accordance with ISO 14001 and OHSAS 18001, within two years of their acquisition or establishment. The term "major" is defined as sites with 25 employees or more. During the year, two new units were certified in accordance with ISO 14001 and OHSAS 18001. The total number of certified units is presented in the table on page 102. In addition, Sandvik operates about 20 maintenance workshops within customer operations (mainly mines), that have also been certified.

Respect for stakeholders

Sandvik endeavors to engage in an open dialog with all of its key stakeholders regarding how activities are conducted, explaining priorities, how decisions are made and what results are achieved. This is essential to be able to focus on the correct aspects of the

Management process for sustainable development



sustainability program. The Group's operations affect, and are affected by, a number of stakeholders. Sandvik assumes its responsibility in relation to these by openly disclosing information and inviting dialog concerning its sustainability activities. Refer to the diagram on page 101.

Sandvik has identified five stakeholder groups of particular significance for the company: shareholders, employees, customers, suppliers and society.

Key sustainability issues are communicated to stakeholders primarily through the sustainability report. Dialog with stakeholders is in part conducted at Group level but also, to a large degree, at local level in the companies throughout the world. The results of stakeholder dialogs influence how Group Executive Management and the Board determine key sustainability issues.

Shareholders – almost 70% in Sweden

Sandvik endeavors to generate an attractive return and growth in value for investors in the Sandvik share. Nearly 70% of shareholders are found in Sweden. More information about the company's ownership structure is available on Sandvik's website, www.sandvik.com. Dialog with shareholders is primarily conducted via the Board of Directors and at the Annual General Meeting, but also through a well-developed Investor Relations function. During the year, stakeholder-related dialogs took place with a number of Socially Responsible Investment (SRI) analysts and other stakeholder-related dialogs were conducted with the assistance of external parties. Among other aspects, these dialogs revealed that Sandvik works with relevant sustainability aspects in a responsible manner. In addition, it emerged that Sandvik is expected to assess future environmental and social risks connected to, for example, changes in legislation regulating carbon dioxide emissions and risks associated with customers. Stakeholders also expect Sandvik to develop risk management in the supply chain, particularly with respect to human rights issues. Sandvik's financial risks are described on pages 30–35 and Sandvik's financial progress is presented in the Report of the Directors and in the financial statements in the Annual Report. These include a presentation of the Group's financial goals and outcome in relation to these goals. The table below shows how the value created through the Group's operations has been generated and the manner in which it was distributed among the various stakeholders. Apart from allocations of carbon dioxide emission allowances (see page 26), Sandvik received no significant government grants during the year.

Customers place demands on sustainability

Customer contacts are handled locally through Sandvik's worldwide sales organization. Increasing demands imposed by Sandvik's customers on sustainability programs are becoming ever-more evident as a result of customers' growing focus on sustainability issues, which intensifies the focus on supplier audits. Many of these demands relate to workplace safety and the environment. For example, customers more often insist that Sandvik should have systems in place for compiling data on carbon dioxide emissions to enable them to calculate the total carbon dioxide emissions in the entire value chain. Questions related to the new European Community Regulation on chemicals and their safe use (REACH) are also common. Many customers, notably those of Sandvik Mining and Construction, are imposing higher demands on equipment safety. Customers also want to be assured that Sandvik complies with all international conventions on human rights. Sandvik has long had the strategy of offering customers products with extended service life and more effective resource utilization. In addition, these products will have a minimal environmental impact when used in customer processes and be recyclable. Group Executive Management decided in 2009 to introduce a new long-term objective to increase the number of products that support sustainability principles. Implementation of this objective in the organization commenced during the year.

Employees' sustainability demands

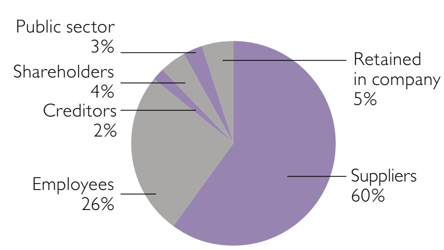
Sandvik's employees are represented on the Parent Company's Board. Dialogs are also held directly with employees at local level, for example, at annual review discussions. The trade union organizations at Sandvik in Europe work together through the European Works Council, which discusses the company's sustainability work. It has emerged from discussions with employees and their trade unions that employees feel that the environment, health and safety, absenteeism and dis-

Economic value generated and distributed [1)]

MSEK	Stakeholder	2011	2010	2009	2008
Sales	Customers	94,084	82,654	71,937	92,654
Economic value generated		94,084	82,654	71,937	92,654
Production costs	Suppliers	56,054	44,758	46,859	53,287
Employee wages and benefits[2)]	Employees	24,014	22,885	22,441	23,129
Payments to providers of capital	Credit providers	1,969	1,617	2,060	2,217
Payments to providers of capital	Shareholders	3,807	1,188	3,926	5,111
Payments to governments	Public sector	3,173	2,391	885	2,876
Economic value distributed		89,017	72,839	76,171	86,620
Retained in company		5,067	9,815	–4,234	6,034

1) The table includes Seco Tools.
2) Employee wages and benefits comprise wages to employees including amounts paid to the public sector (employer's contributions and unemployment benefit funds) on behalf of employees.

Economic value generated and distributed [1)]



Management system

	ISO 14001						OHSAS 18001					
	2011			2010			2011			2010		
	Current number of units	Number of units certified	% certified	Current number of units	Number of units certified	% certified	Current number of units	Number of units certified	% certified	Current number of units	Number of units certified	% certified
Production units	137	132	96	140	133	95	137	132	96	140	132	94
Service, machinery rebuilding units	24	24	100	24	23	96	24	24	100	24	24	100
Distribution units	5	5	100	5	5	100	5	5	100	5	5	100
Total production-related units	166	161	97	169	161	95	166	161	97	169	161	95

crimination are key issues. Competence development and evaluations of work performances are further key areas.

Awards and ratings
Sandvik's sustainability program is evaluated annually by a number of SRI analysts and rating agencies. In 2011, Sandvik has been included in the following indexes:

- *Dow Jones Sustainability World Index* and *Dow Jones Sustainability Europe Index* – the most prestigious indexes that track the financial performance of the leading sustainability-driven companies. To qualify for the DJSIWorld, it is necessary to be among the top 10% of companies ranked in terms of three factors: financial success, environmental performance and social responsibility. The selection is made from among the 2,500 largest companies on the Dow Jones world index.
- FTSE4Good – an internationally recognized market index that measures the results and performance of companies that comply with globally recognized corporate responsibility standards.
- ECPI Ethical Index Euro – the index contains 150 European companies that are eligible investments according to ECPI SRI's screening methodology.
- Ethibel Excellence Investment Register Ethibel assesses companies throughout the world based on financial, social and environmental aspects.

What we have done and what we have achieved

Employees
The average number of employees in the Sandvik Group by geographical area and gender is presented in Note 3. During the year, personnel turnover was 8% (8). Mobility within the company (the proportion of positions filled internally in relation to the total number of positions filled) was 38% (43). Sandvik's new strategy that was presented in September required some structural cutbacks for both Sandvik Materials Technology and Sandvik Mining and Construction. These cutbacks were not volume related, but were a consequence of redefined operations and changed management models. Sandvik handled the redundancies mainly among staff positions, in the most responsible and efficient manner possible. Voluntary redundancies being the method most commonly used.

A new HR strategy was developed during the year and applies from 1 January 2012. The key areas of this strategy are Safety First, Diversity and Inclusion, Empowered Employees, Innovation, Talent Management, Performance Management and Excellent Leaders. More details about the strategy can be found on page 24 of the Report of the Directors. Targets within these areas will be followed up from 1 January 2012.

A high-performing organization
The vast majority of Sandvik's employees work outside Sweden. The employees at subsidiaries in more than 60 countries have a wide variety of nationalities and collectively speak a large number of languages. This diversity in the Group is thus considerable and is also essential for Sandvik to be able to create a high-performing organization and to secure the availability of the right expertise at the right time for the needs that exist within the company. It is also believed that increased diversity makes Sandvik more innovative and efficient as a company. This high level of diversity is secured by offering equal rights and equal opportunities to all employees, but this work also involves creating an inclusive environment and a management approach that nurtures the differences among people.

Sandvik has the objective of creating the conditions for a high level of diversity at the workplace and, as part of this work, Sandvik has aimed to increase the proportion of female employees and to ensure that employees are recruited based on their skills and suitability rather than their gender. At year-end 2011, the proportion of women was 17.9% (17.6) of the total number of employees, 11% (9) of the total number of Board members and Presidents and 14.6% (13.9) of the total number of managers/supervisors, which is a slight increase compared with 2010. Other relevant performance indicators regarding distribution by gender are shown in the diagrams below.

In 2011, a number of activities and programs were pursued to improve the balance between men and women. A few examples include the Diversity Management program for identified key female employees in the Sandvik Materials Technology business

Competence development, days per employee and market area

The diagrams below show the distribution between the number of women and men at year-end, broken down by geographic market.

Number of women, all Group employees

Number of women, managers/supervisors

area and workshops involving the business area management team at Sandvik Tooling and the management team at Sandvik Coromant aimed at raising the level of awareness in the diversity area. A number of local and regional initiatives were conducted in this area in the Sandvik Mining and Construction business area. We are also seeing the results of many years of work in this area at Sandvik Coromant in Sandviken, Sweden, where the share of female managers has grown from 12% to 16% in the past two years. In 2010 and 2011, Sandvik's target was for all units to initiate a program to improve the gender balance. About 60% of units reported at year-end that they had implemented this program. Some examples are described above.

A new target for 2012 was set in the area of Diversity and Inclusion under the new HR strategy to create the conditions for greater diversity and an inclusive environment. The target is "Group Executive Management, business area managers and management groups who report to these teams are to conduct Diversity and Inclusion Workshops by the end of the year." In addition, new targets will be established in 2012 per business area, corporate function and country regarding the percentage of women of the total number of employees and managerial positions based on the data established in 2012.

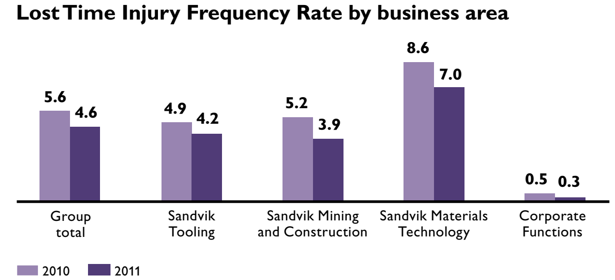
Sandvik's development and competitiveness are closely related to employees' competency development and well-being. In its sustainability work, the Group has decided to focus on creating efficient competency development in the long-term and enhancing employee job satisfaction. As a result, a Group-wide annual employee survey will be introduced in 2012. The target for 2012 is that 100% of employees will be invited to respond to the survey and the percentage of respondents will be more than 75%.

The results from the survey will primarily be used as material for discussions on how work situations can be improved, but will also help identify common development areas for Sandvik as a Group. The survey will also give employees' immediate managers feedback that can be used as a basis of their development plans.

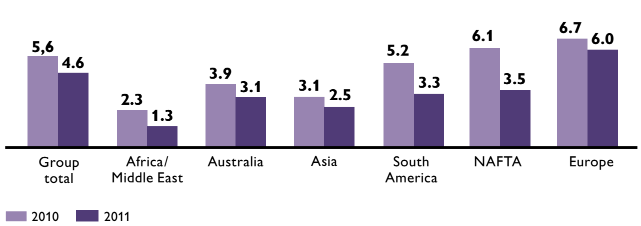
All of the company's employees are entitled to an individual performance dialog that includes setting targets for the year as well as an individual development plan. The performance dialog takes place between employee and manager. In 2011, such dialogs were held with 79% (74) of Sandvik's employees, which was an improvement on the preceding year, but was still quite far away from the target of 100%. For 2012, the target has been adjusted to 95%, which takes into consideration the continuous mobility among employees over a year.

The number of training days per employee and region during the year is described in the diagram on page 103. A key training component is providing education concerning Sandvik's sustainability activities and Code of Conduct. At year-end 2011, 84% (86) of employees had been trained in the Group's sustainability work and Code of Conduct. The lower percentage is due to employee turnover and new employees not having yet been trained.

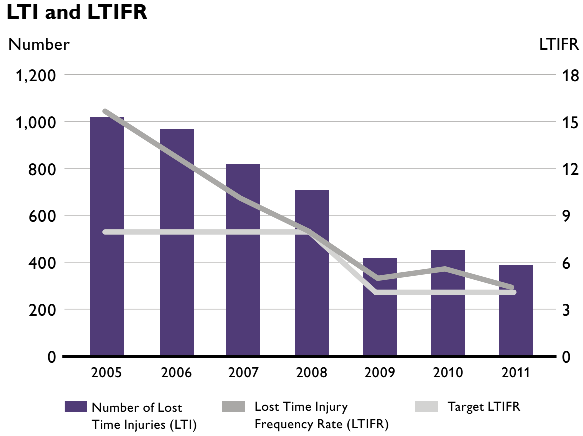
Lost Time Injury Frequency Rate by business area



Lost Time Injury Frequency Rate by market area



LTI and LTIFR



Group health and safety objectives and targets

Objective	Target
Further reduce the frequency of occupational injuries, illnesses and incidents.	• Reduce the Lost Time Injury Frequency Rate by 50% before year-end 2012 (base year: 2008).
Improve health and well-being among employees.	• All units will introduce a health and well-being program before year-end 2012.
All major production, service, and distribution units shall be certified in accordance with OHSAS 18001 (or an equivalent standard) within two years of acquisition or establishment.	

Health and safety

Health and safety	2011	2010	2009	2008	2007
Number of fatalities due to work-related injuries	4	0	0	2	1
Number of Lost Time Injuries[1)]	392	459	425	717	827
Lost Time Injury Frequency Rate[2)]	4.6	5.6	5.0	8.1	10.3
Number of reported Near Misses	15,767	11,649	10,556	6,346	3,179
Number of Near Misses per Lost Time Injury	40	25	25	9	4
Lost days due to Lost Time Injuries	6,524	8,789	8,523	11,286	12,603
Working Days Lost by employee due to Lost Time Injuries	0.15	0.21	0.20	0.25	0.31
Total absence (from scheduled work), %	2.4	2.3	2.3	2.3	2.6

1) Work-related injury (own employees) resulting in minimum one day's absence from work.
2) Lost Time Injury Frequency Rate is defined as the number of Lost Time Injuries per million work hours.
Assumption: Employees are assumed to work 2,000 hours a year.

Health and safety

The Group has a dedicated focus on continuing to reduce the frequency of occupational injuries, illnesses and incidents, and improving health and well-being among employees. The Group's health and safety objectives and targets are described on the preceding page.

Sandvik's various production-related units present potential risks for occupational illnesses and injuries. The risk of injuries is also significant in the sales process, for example, in conjunction with travel to and from customers and while visiting customers' plants or facilities. The table on the preceding page provides an overview of Sandvik's results as regards health and safety. Regrettable, four work-related fatalities occurred during the year. In February, a contracted worker drowned at a water purification plant at Sandvik Mining and Construction's unit in Patancheru, India. In June, two employees died at Sandvik Materials Technology's plant in Sandviken, Sweden. An argon gas leak arose which led to a lack of oxygen and the employees suffocated. In September, an employee, who was servicing a drilling rig at a mining customer in Russia, was badly crushed and later died of his injuries. Every single work-related fatality is unacceptable and Sandvik is continuing to intensify all work to prevent accidents. In light of these fatalities, Sandvik has updated its contingency plans to ensure the best coordination of resources to protect our employees.

Since 2008, the number of Lost Time Injuries and the Lost Time Injury Frequency Rate have declined by 45% and 44%, respectively, illustrated by the figure on the preceding page. The trend in 2011 remained positive. Sandvik's target is to reduce the Lost Time Injury Frequency Rate by 50% from 2008 through 2012. The number of Lost Time Injuries declined by 15% and the Lost Time Injury Frequency Rate fell 19% compared with the preceding year. The number of Lost Days due to Lost Time Injuries decreased 26% during the year. The Lost Time Injury Frequency Rate for Sandvik's business areas and markets are shown in the diagram on the preceding page. The positive trend can be seen in all three business areas. Sandvik continues to encourage reporting of Near Misses, since these provide an early indication of the measures that must be taken to prevent accidents. In 2011, the number of reported Near Misses continued to rise. The ratio between Near Misses and Lost Time Injuries was 40.

The most important activities for preventing accidents are various types of training, risk identification, assurance that the correct protective equipment is used and regular safety meetings at changes of shifts. In certain countries, GPS equipment has been installed on a trial basis on company cars to minimize speeding and excessively long periods of driving.

At year-end, more than 75% of Sandvik's units reported that a health and well-being program had been introduced.

Human rights and employee conditions

Sandvik is committed to ensuring that all employees are treated with dignity and that it complies with all recognized human rights and working conditions across the organization and with business partners. This is essential to attract and retain competent personnel and to meet the expectations of all stakeholders. Any violation of Sandvik's policies in respect of human rights and employee conditions could also have a major negative impact on Sandvik's credibility. Regular basic training is held covering the company's core values, policies and risks regarding human rights and labor legislation. In addition, regular internal audits are conducted at units deemed to be particularly exposed to these risks. The results of the audits are presented to local executives, country managers, Group Executive Management and the Board. No incidents involving human rights abuses were reported in 2011. To raise the level of understanding in the organization regarding the risks relating to human rights and labor issues when Sandvik undertakes operations in high-risk countries, analyses have been conducted of a large number of countries in Asia, Africa and South America. These analyses are available on Sandvik's intranet for those active in these countries. Risks of this type arise not only within the Group's own operations in these countries, but also among suppliers and customers.

Environment

Sandvik's operations generate an environmental footprint, particularly in countries in which production takes place. Sandvik's key environmental aspects are summarized below:

- Use/consumption of energy, input materials, fresh water and hazardous chemicals.
- Generation of emissions and waste from production.
- Old industrial sites and waste landfills.
- Environmental liabilities in conjunction with company acquisitions.

Risks associated with emissions primarily relate to the emission of carbon dioxide and acid gases to the atmosphere. These emissions are mainly caused by the company's use of fossil fuels in conjunction with production, heating and transportation, and indirectly from purchases of electricity produced by combustion of fossil fuel. The Report of the Directors (page 26) presents information on licensed operations in Sweden and environmental liabilities. Sandvik's Swedish units conduct licensed operations in accordance with Swedish environmental legislation at the plants in Sandviken, Gimo, Stockholm, Halmstad, Hallstahammar, Surahammar, Svedala and Köping. The environmental permits for these sites relate to such activities as the manufacturing of ingots/CC-blooms/CC-billets, bar, tube, strip and wire products, rock-drilling products and ceramics, metal powder, cemented-carbide products, castings and various equipment and tools.

Use of raw materials and water

Sandvik has the objective of enhancing the efficiency of its use of input materials. The input materials deemed to be most relevant to Sandvik are various types of metallic raw materials and water. Metallic raw materials are primarily used by Sandvik Materials Technology, to a lesser extent by Sandvik Tooling and partially by Sandvik Mining and Construction. Production at Sandvik Mining and Construction is mainly based on purchased components. The table on page 106 presents Sandvik's use of metallic raw materials. Sandvik Materials Technology's sites in Sandviken and Hallstahammar are the major users of raw materials in the Group. The raw materials most important to Sandvik Materials Technology are iron, nickel, chromium, manganese and molybdenum, either in alloys or as part of scrap metal. Of these materials, 80% (81) is derived from recycled scrap. The key raw materials for Sandvik Tooling are tungsten carbide and cobalt, but more unusual elements such as tantalum are also used. Sandvik Mining and Construction uses iron and manganese raw material for the manufacture of castings. Approximately 89% (88) of these materials are derived from scrap. In total for the Group, about 80% (81) of metallic raw materials are derived from scrap. Although the recovery level is already high today, Sandvik continuously endeavors to increase the proportion of recovered raw materials to secure a sustainable utilization of raw materials and to reduce its environmental impact. This is accomplished through buying back used products and the recycling of waste products from the Group's own manufacturing plants. Sandvik Materials Technology is participating in a Swedish research project into developing methods for utilizing other types of waste products, such as slag from the melting process. Sandvik Tooling is continuously increasing recycling materials from cemented-carbide products through buy-backs from customers. This resulted in a reduced need for material purchases from mines. Sandvik Coromant's program for recycling of sold cemented carbide inserts represents an integral part of this sustainability work. Buy-backs of cemented-carbide products from customers have also been introduced in other product areas, which means that the need for primary material is further reduced. During the year, Sandvik Mining and Construction continued to develop recycling of the tungsten material in drill bits. In 2011, some 8% of the annual production of rock-drilling tools was collected, corresponding to approximately 6% of the annual consumption of tungsten carbide for manufacturing new tools.

Water is a valuable resource, with shortages affecting many parts of the world, and therefore its efficient use is crucial. Sandvik endeavors to reduce consumption of fresh water (purchased water). During the year, Sandvik's purchased freshwater consumption was at the same level as in 2010. The table below shows the trend in freshwater consumption at Sandvik since 2007. Groundwater and surface water is harvested at some 30 production units. One country with very limited access to water, and where Sandvik's water consumption is significant, is India. All production sites in India have introduced systems for the treatment of all wastewater, which is subsequently re-used in their operations.

Use of energy

Sandvik's objective is to reduce its energy use. The table below and the diagrams on the next page show the trend in the use of energy at Sandvik as well as the distribution of energy use by the business areas and various markets. During the year, the use of energy in relation to sales volume displayed a positive trend. Sandvik's target for the period 2008 through 2012 is to reduce total energy use (electricity and fossil fuels) by 10% in relation to sales volume. During the year, the total use of energy for comparable units fell 15% in relation to sales volume. The reason for the decrease is that Sandvik had higher sales volumes but maintained approximately the same level of energy use. Energy-enhancement activities have progressed according to plan. An energy-enhancement project has been carried out since 2009 at Sandvik Materials Technology in Sandviken, which accounts for slightly more than 39% of the Group's energy use. The aim of the project is to identify and implement energy-enhancement activities. Effects of measures are verified by performings measurements before and after implementation. Some examples of measures being studied include:

- Replacing furnace linings.
- Changing procedures for turning equipment on and off to avoid idle running.
- Adjusting existing control equipment.
- Reducing air flows in ventilation systems.
- Insulating roofs.
- Rebuilding degreasing plants.
- Installing heat exchangers.

Group environmental objectives and targets

Objective	Target
More efficient use of energy and input materials.	• Reduce the use of energy in relation to sales volume by 10% before year-end 2012 (base year: 2008). • Reduce consumption of fresh water in relation to sales volume by 10% before year-end 2012 (base year: 2008).
Reduced emissions to air and water.	• All major production, service and distribution units shall report waste water discharged from sites before year-end 2012. • Reduce carbon dioxide emissions from internal use of fossil fuels and electricity by 10% in relation to sales volume before year-end 2012 (base year: 2008). • All carbon dioxide emissions from transportation shall be reported before year-end 2012.
Increased recovery of materials and by-products.	
Increased number of products that support sustainability principles.	
Reduced environmental impact from the use of hazardous chemicals.	
All major production, service and distribution units shall be certified in accordance with ISO 14001 within two years of acquisition or establishment.	

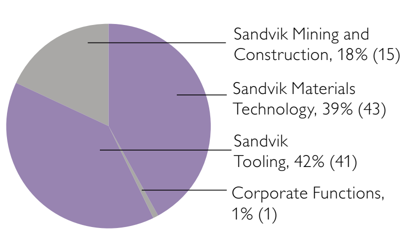
Water consumption	**2011**	2010	2009	2008	2007
Water consumption (thousands m^3)	8,400	8,900	7,100	6,600	6,800
of which purchased freshwater (thousands m^3)	3,400	3,400	3,200	3,600	3,500
of which groundwater (thousands m^3)	600	600	600	500	500
of which harvested surface water (thousands m^3)	4,400	4,900	3,300	2,500	2,800

Energy use	**2011**	2010	2009	2008	2007
Use of energy (TJ)	9,100	9,100	7,500	8,900	8,800
of which fossil fuels (TJ) Direct energy	3,700	3,900	2,900	3,400	3,400
of which electricity (TJ) Indirect energy[1)]	5,400	5,200	4,600	5,500	5,400

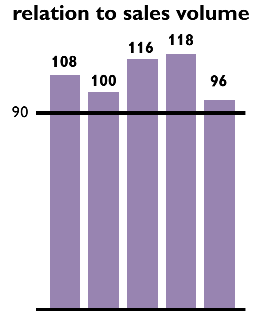
1) Use of energy does not include the energy used by electricity producers to generate the electricity.

Raw materials consumption	**2011**	2010	2009	2008	2007
Consumption of metallic raw materials (thousand metric tons)	352	359	252	350	399
of which recovered (%)	80	81	78	79	78

Carbon dioxide emissions per business area

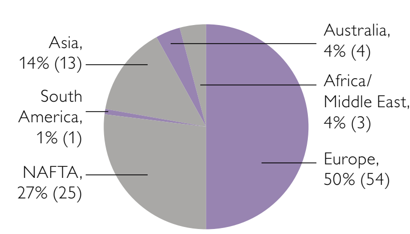


Carbon dioxide emissions in relation to sales volume



Target 2012
Carbon dioxide emissions in relation to volume for comparable units 2007–2011. The diagram shows index compared with 2008. Volume is defined as invoiced sales adjusted for structural, currency and price effects.

Carbon dioxide emissions per market area



The project's target is to reduce energy use by 10%, corresponding to about 230 TJ per year. The measures that have been identified and planned to date correspond to savings of 190 TJ per year. About 37% of the identified savings measures have been implemented. Many other Group entities are working on similar programs, such as Sandvik Mining and Construction's production units in Tampere and Turku in Finland.

In Japan, Sandvik Coromant introduced an electricity saving program that is offered to customers. This program was produced to help in the Japanese government's request to reduce electricity consumption by 15% since several nuclear power plants were rendered non-operational in conjunction with the earthquake at the beginning of 2011. The program has been received with great interest.

Impact on climate change

Sandvik's impact on climate change primarily arises from emissions of carbon dioxide. The combustion of fossil fuels also generates emissions of the greenhouse gases N_2O and CH_4, but Sandvik estimates that this figure represents less than 0.5% of total carbon dioxide emission equivalents. Sandvik's objective is to reduce carbon dioxide emissions from the internal use of fossil fuels and electricity. The table below shows the trend of the Group's carbon dioxide emissions and the diagrams on the preceding page show emissions in relation to sales volume and emissions per business area and market. During the year, Sandvik's carbon dioxide emissions from the use of electricity and combustion of fossil fuels remained unchanged despite higher sales volumes and, thus, lower production volumes. Carbon dioxide emissions for comparable units in relation to sales volume fell 19% compared with 2010. Of total energy, 40% (43) comprised fossil fuels and 60% (57) electricity. In most cases when conducting calculations of carbon dioxide emissions related to the generation of electricity, factors used in the calculation of carbon dioxide emissions were obtained from the suppliers of the electricity used at the plants. Otherwise, factors from the International Energy Agency Data Services were applied. In addition to emissions related to the internal use of fossil fuels and electricity, carbon dioxide emissions are also generated from various forms of transportation, such as the transport of materials and products and passenger transportation. In 2009, Sandvik began reporting carbon dioxide emissions from passenger transports. Since the results showed that the percentage of carbon dioxide emissions from passenger transports was low (<10%) and the uncertainty of the measurements was high, emissions from passenger transports were not reported during the year. Instead, a survey of carbon dioxide emissions from transports of goods was taken. The survey indicated that emissions from goods transports were higher than emissions from electricity consumption and from the combustion of fossil fuels. The survey also revealed that the clearly dominate emissions category was air transportation of goods. More extensive carbon dioxide readings from the transportation of goods will be taken in 2012. In the long term, the company will be able to better monitor the Group's total impact on the environment and present a more comprehensive report in line with the Greenhouse Gas Protocol (www.ghgprotocol.org).

Other emissions and waste

Sandvik's objective is to reduce emissions to air and water. In addition to emissions

Produced waste	2011	2010	2009	2008	2007
Waste (thousand metric tons)[1]	433	417	280	166	171
of which, hazardous waste (thousand metric tons)	36	34	27	32	28
of which, to landfill (thousand metric tons)	366	358	231	109	105

1) Excluding scrap metal that has been internally or externally recycled.

Carbon dioxide emissions	2011	2010	2009	2008	2007
Carbon dioxide emissions (thousand metric tons CO_2)[1]	538	559	479	566	547
of which from combustion of fossil fuels (thousand metric tons CO_2). Direct	242	260	195	224	226
of which use of electrical energy (thousand metric tons CO_2). Indirect[2]	296	299	284	342	321

1) Excluding emissions from the transport of raw materials and finished products as well as travel.
2) Emissions are calculated using factors from electricity suppliers or the International Energy Agency Data Services. Emissions also include emissions from electricity generation.

Emissions of process water	2011	2010	2009
Volume of process water discharged (thousands m^3)	2,300	2,200	1,400

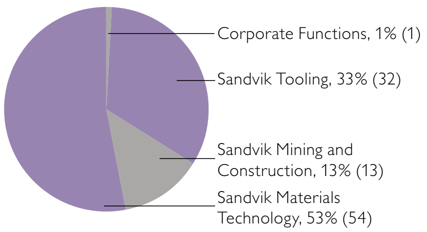
Emissions to water and air

Emissions to water	2011	2010
Nitrogen (kg)	329,000	379,000
Phosphorous (kg)	12,400	1,300
COD (kg)	170,000	201,000
Nickel (kg)	210	180
Chromium (kg)	80	60

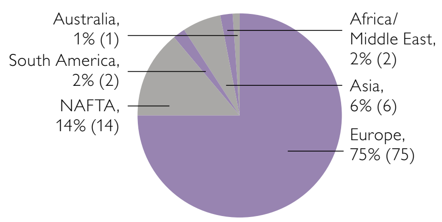
Emissions to air	2011	2010
NMVOC (kg)[1]	61,000	62,000
SO_2 (kg)	71,000	69,000
NOX (kg)	462,000	441,000

1) Non-Methane Volatile Organic Compounds. Only from combustion of fossil fuels.

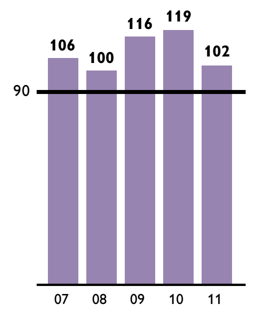
Energy use per business area



Energy use per market area



Energy use in relation to sales volume



Energy use in relation to volume for comparable units, 2007–2011. The diagram shows the index compared with 2008. Volume is defined as invoiced sales adjusted for structural, currency and price effects.

of carbon dioxide to air, Sandvik has significant emissions of such acid gases as sulfur dioxide (SO_2) and various forms of nitrogen oxides (NOX). Sulfur dioxide mainly originates from the combustion of oils and coke. Emissions of NOX are derived from the smelting processes in Sandviken and Hallstahammar, and from pickling plants for the pickling and cleaning of metal surfaces, and the combustion of fossil fuels. The table in page 107 details emissions of SO_2 and NOX in addition to emissions of NMVOCs (Non-Methane Volatile Organic Compounds). SO_2 emissions are calculated from the volume of oil and coke burned, while NMVOC emissions are calculated from the combustion of all fossil fuels. Estimations of emissions of NOX from pickling plants and smelting processes are based on random sampling. Emissions from the combustion of fossil fuels are calculated using factors from the Swedish Environmental Protection Agency.

Emissions to water comprise another environmental effect in the Group, where the objective is to reduce emissions. Emissions mainly consist of fertilizers, such as phosphorous and nitrogen, in addition to metals from pickling plants. The table on page 107 shows emissions to water. To monitor total emissions to water, the volume of process water discharged following treatment is also measured. Refer to the table on page 107. This table also presents the waste volumes produced during 2011. The increase of the past two years is attributable to the acquisition of Wolfram Bergbau, which conducts mining activities in Austria. Waste comprises sludge from dressing plants. No major changes were noted for comparable units compared with earlier years.

Suppliers

Responsibility for supplier chain

Sandvik is becoming increasingly dependent on the performance of its supply chains. A significant portion of the added value of Sandvik's products and services arises from external suppliers. Accordingly, Sandvik needs, and is obliged to, ensure that its supply chain adheres to Sandvik's standards. When it purchases raw materials, components and services, Sandvik is fully aware of and respects stakeholders' concern regarding both the social and environment effects of the company's business operations. While Sandvik endeavors to meet its long-term strategy for profitable growth, the company has also undertaken to contribute to sustainable development by assuming social and environmental responsibility for conducting ethically sound business with its suppliers. This ensures that sustainability, including business ethics, are integrated components of the management of the supply chain.

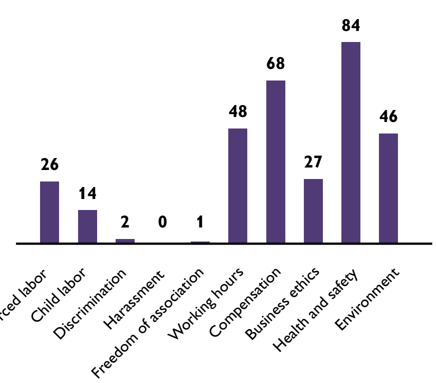
Code of Conduct for suppliers

Sandvik has established a Code of Conduct for suppliers describing the standards for ensuring that working conditions throughout the Sandvik Group's supply chain are protected, that employees are treated with respect and dignity, that manufacturing processes are environmentally friendly and that the operations are conducted ethically. Sandvik expects companies in its supply chain to comply with all applicable laws, rules and ordinances and to strives to exceed good practice standards both internationally and within the industry. The Code of Conduct details the minimum requirements for becoming a Sandvik supplier and the qualification criteria that Sandvik expects its suppliers to continuously improve upon. Sandvik's Code of Conduct for suppliers is available from the Sandvik website (www.sandvik.com).

Supplier evaluations

Sandvik has a Group-wide process for supplier evaluations. The evaluation comprises two components: Supplier Approval and Supplier Qualification. Supplier Approval includes the Group-wide mandatory minimum requirements, including the minimum requirements of the Code of Conduct, that apply to all companies who want to become Sandvik suppliers. Supplier Qualification involves an evaluation of the supplier based on the Code of Conduct's qualification criteria. Suppliers are evaluated using three processes with varying degrees of detail, depending on the risk of non-compliance with the Code. These three levels are: full evaluation – high-risk suppliers, basic evaluation – medium and low-risk suppliers and internal evaluation – minor-risk suppliers. The risk assessment of suppliers is based on three factors: the country in

Deviations identified with suppliers



Examples of supplier evaluations

Supplier	Deviation	Action
Foundry, India May 2009 to June 2011	Child labor	Sandvik demanded that the supplier establish better procedures for checking ages and actions plans for child labor, following Indian law. Sandvik provided advice and assistance in conjunction with implementation. The supplier carried out all of the changes required, which was confirmed by unannounced audits.
Foundry, India June 2011-ongoing	Health and safety in the workplace	Sandvik demanded that the supplier seek advice from external experts regarding health and safety to improve conditions in the foundry. This matter has not yet been completed and the results will be verified in 2012 by performing another audit.
Forge, China June 2011-ongoing	Environment	Sandvik demanded that the supplier introduce an environmental policy and engage the local authorities to implement waste and lubricant management systems. This matter has not yet been completed and the results will be verified in 2012 by performing another audit.
Foundry, Malaysia December 2011	Forced labor	Sandvik demanded that the supplier introduce a system forbidding the confiscation of passport and other identity documents and that the supplier recognize and guarantee full freedom of movement. This matter has not yet been completed and will be followed up in 2012.
Staffing company, China 2011	Minimum wages and social costs	Sandvik demanded that suppliers working inside Sandvik's own plants comply with the supplier code's minimum standards and accordingly introduce a system guaranteeing minimum wages and social costs for workers. To be followed up in 2012.
Staffing company, India 2011	Minimum wages and social costs	Sandvik demanded that suppliers working inside Sandvik's own plants comply with the supplier code's minimum standards and accordingly introduce a system guaranteeing minimum wages and social costs for workers. Such a system was implemented in 2011.

which the company is domiciled, the category of goods or services and Sandvik's knowledge of suppliers. The responsibility for carrying out these supplier evaluations rests with each Sandvik business area.

Key activities in 2011

In 2011, Sandvik's Group Executive Management approved the new supplier evaluation process. A program manager was appointed for implementing the processes throughout the organization. A complete set of instructions, templates and educational materials were developed and published on the Sandvik intranet. More than 200 managers and purchasers were trained during the year in how to implement the new process. Activities were initiated with a coordinated focus on identified high-risk suppliers. Sandvik's processes demand that all high-risk suppliers are examined by qualified auditors. This work first began in 2008 when Sandvik employed its first supplier auditor to focus on high-risk countries. Sandvik currently has five qualified supplier auditors, and plans are in place to train and certify part-time auditors from various Sandvik units, as well as to engage third-party companies in these audits to accelerate the process. A total of 111 high-risk suppliers in India, China, Brazil and Malaysia were audited in 2011. This figure is significantly higher than in 2010 when 49 suppliers were audited in India, China and Thailand.

Summary of supplier evaluations

Sandvik's experience of supplier evaluations is that there are major shortcomings regarding compliance with various types of requirements. A number of deviations from Sandvik's Code of Conduct and/or local legislation were identified, particularly in India and China. A summary of the deviations are presented in the diagram on the preceding page. Certain supplier categories are particularly critical, such as foundries and staffing companies. The deviations mainly relate to basic legal requirements in the respective countries, for example, minimum ages, minimum wages, working hours, environmental issues and employee health and safety. Unfortunately, problems of business ethics, such as bribes, are also a common occurrence in certain countries.When deviations are confirmed, suppliers are encouraged to prepare and implement a plan of corrective measures within a specified timeframe. Examples of measures are provided in the table on the preceding page. Sandvik's highest priority is to develop the supplier in question to meet the minimum requirements of the Code. Sandvik provides support and training for the supplier to assist in planning and carrying out the improvements that may be required. As a final resort, if the supplier is unable or unwilling to improve, the supplier is phased out of Sandvik's supply chain. A very common observation is that many suppliers are not sufficiently aware of even the most basic legal requirements in their own countries. For this reason, Sandvik has established the practice of training suppliers, not only in Sandvik's Code of Conduct for suppliers, but also in national laws, prior to performing a supplier evaluation. A total of more than 500 suppliers have undergone such training, with 142 suppliers being trained in 2011.

Business ethics

Sandvik is responsible for working to combat corruption in all its forms, which means having clear policies, identifying and managing risks, training personnel and implementing robust measures for when violations have been confirmed. Sandvik's risks relating to business ethics are regarded as significant, especially the risk of bribes in connection with marketing and sales, and risks related to purchasing in countries in which corruption is widespread. The use of agents and distributors represents a particularly large risk, since monitoring of these is more difficult than the monitoring of Sandvik's own operations. The development of corruption in various countries in which Sandvik is active is continually monitored via, for example, Transparency International's website (www.transparency.org). The risk of breaches of local antitrust and competition legislation is also high. To minimize these business risks, continual training and internal audits are conducted. In 2011, Group Executive Management decided to intensify its efforts to combat corruption. Sandvik will introduce processes to ensure that the risk of bribery is minimized through the Group, with a particular focus on high-risk countries and processes where the risk of bribery is high. These activities will also enable Sandvik to meet the requirements of the UK Bribery Act, which is a newly adopted law in the UK that will have a variety of effects on Sandvik. A study was conducted to identify any gaps that require attention in order to comply with the new legislation. A new organization is being established to implement the new processes and to ensure going forward that Sandvik is taking all reasonable action to avoid bribery.

Deviations from Code of Conduct

Sandvik's responsibility also includes the implementation of a process for managing the reporting of divergences from the Code. Employees are encouraged to report behavior that departs from the Code to their immediate supervisor in the respective unit or, if there is a feeling that such action will not have any effect, to a more senior manager, the company's human resources department or the Group's General Counsel. Notifications that are received centrally in the Group are investigated by the head of Group Assurance and the Group's General Counsel. Whistleblowers are guaranteed that there will be no reprisals for such notifications or for participation in the company's investigation of a complaint. In 2011, 31 cases of non-compliance with the Code of Conduct were reported centrally. Examples of the cases reported are harassment, discrimination, conflict of interests, bribery, unethical behavior among managers and leaks of sensitive information to competitors. In addition, some 70 cases of corruption were handled in local companies. All these cases have been investigated and corrective measures have been taken, including the dismissal of employees.

Local social responsibility where Sandvik conducts operations

Sandvik conducts proprietary operations in the forms of research and development, manufacturing, sales and distribution in more than 60 countries and has production-related plants in 33 countries. With its global coverage, Sandvik is available to its customers directly or through its distributors and agents in more than 130 countries. Accordingly, Sandvik affects a high number of local communities. The most significant positive impact is the contribution to economic and social development in the form of high-qualified jobs and tax payers. In its role as an employer, Sandvik influences competency development in the countries in which it operates and has an excellent opportunity to positively influence the standard of life for its employees. With its advanced products, Sandvik can also contribute to technological advances and a greater level of safety at various workplaces. Sandvik's policy with respect to social commitment is that each Sandvik company shall strive to gain an understanding of the society in which it operates, make a constructive contribution to local matters and promote development of the region. To act in accordance with this policy, Sandvik encourages its employees to participate in community programs and initiatives that are beneficial for the inhabitants in regions where Sandvik has operations. Sandvik does not pursue any Group-wide projects in this area, but all activities are arranged locally by the various companies. Examples of the Group's commitment include:

- Collaborations with schools and universities for the purpose of offering degree projects and developing educational programs.
- Donations to schools, charity organizations, hospitals, Children's Villages, etc., sometimes in cooperation with Sandvik's customers or local NGOs.
- Sponsorship of sports clubs and local initiatives.
- Assistance to unemployed individuals to find a job or educational program.
- Donations of equipment in connection with severe natural disasters, such as earthquakes.
- Blood donations.
- HIV/AIDS program.

HIV/AIDS

In certain countries, community and working life is marked by the presence of serious transmittable diseases. For example, HIV/AIDS is an extremely serious problem particularly in southern Africa. Sandvik has extensive HIV/AIDS programs in South Africa, Zimbabwe, Tanzania, Zambia, and Malawi and to some extent in Ghana and the Democratic Republic of Congo. A summary of the HIV/AIDS programs in these countries is presented in the table below. Sandvik has implemented programs to educate and counsel employees and their families and, in some cases, the community near to Sandvik's operations, about HIV/AIDS. Training in these matters is provided daily, usually in conjunction with the safety meetings that are held prior to work commencing. Counseling is provided by private organizations with whom Sandvik cooperates and the Group's own counselors. These meetings not only address HIV/AIDS matters, but also identify other factors that may affect an individual, such as stigma. Preventive work and risk controls are conducted in connection with training and counseling. The main focus is placed on changing the attitude to partners and the use of condoms. Measures and support are offered to all employees who test HIV positive. In addition to the opportunity to receive testing and free condoms, antiretroviral drugs are offered to people who are within the scope of the program.

HIV/AIDS Assistance program

Recipients	Education	Counseling	Prevention/ Risk controls	Treatment
Employees	7	7	6	5
Families of employees	6	6	6	5
Other inhabitants	5	5	4	0

The number denotes the number of countries in which Sandvik offers programs for the respective categories.

About the Sustainability report

This is the sixth year that Sandvik has published a Sustainability Report. This report describes the Group's objectives/targets, strategies, controls, responsibilities, risks and opportunities from a sustainability perspective and also presents the Group's results from a financial, environmental and social perspective. The Sustainability Report has been independently reviewed in accordance with Far's standard "RevR 6 Assurance of Sustainability Reporting" and AccountAbility's "AA1000AS (2008)." The latter of these is an internationally accepted standard that provides the requirements for conducting assurance of sustainability reports. It requires that the auditor provide assurance on the nature and extent of adherence to AccountAbility's three principles. Information regarding AccountAbility is available on the organization's website (www. accountability21.net).

The sustainability report comprises information found at the following locations:

- The Report of the Directors (Human Resources and Sustainable development) covering requirements pertaining to nonfinancial performance indicators and environmental information in line with the Swedish Annual Accounts Act.
- The report in this section that summarizes objectives/targets, strategies, controls, responsibilities, risks, opportunities and results from a sustainability perspective.
- The Sandvik World publication that presents a number of examples concerning projects that have been completed to achieve the Group's environmental and social objectives.
- Sandvik's website (www.sandvik.com), which contains further information relating to the sustainability work being conducted in each of the business areas. Sandvik's website also includes complete references to Global Reporting Initiative's (GRI) G3 guidelines, which were applied when preparing this Sustainability Report.

Content, scope and limitations of the report

This Sustainability Report refers to the 2011 fiscal year. Unless otherwise stated, the same accounting policies are applied in the Sustainability Report as in the rest of the Annual Report, and the report covers the entire operations of the Group, but excludes Seco Tools, associated companies and joint ventures. Specific methods of measurement and assumptions are presented in connection with the respective indicators in the report.The Group's results in relation to its objectives are measured using relevant performance indicators and key figures. The figures presented are the accumulated figures for 2011 for all active reporting units (approximately 300), unless otherwise stated.

Application of laws and recommendations

This Sustainability Report is based on the Swedish Annual Accounts Act, the Swedish Society of Financial Analysts' recommendations relating to Corporate Responsibility and the third generation of guidelines (G3) issued by the internationally recognized organization Global Reporting Initiative (GRI). Further information regarding GRI is available on the organization's website www.globalreporting.org. The report corresponds with the GRI level B+, which means that at least 20 indicators are presented and that the report has been subjected to external review. Sandvik has adopted AccountAbility's AA1000APS (2008) principles for accountability. This requires involving stakeholders in identifying and understanding sustainability issues and assuming responsibility for, reporting on and explaining decisions, actions and results.

Auditor's Review Report on Sandvik Sustainability Report 2011

To the readers of Sandvik's Sustainability Report 2011:

We have been engaged by Sandvik's Executive Management to review Sandvik's Sustainability Report 2011. The Sustainability Report is presented on pages 24–26 and 100-111 of Sandvik's 2011 Annual Report and in the documents GRI Index 2011 and AA1000APS 2011 on www.sandvik.com/sustainability. It is Sandvik's Executive Management that is responsible for the ongoing activities regarding sustainable development from the perspectives of financial, environmental and social responsibility, and for the preparation and presentation of the Sustainability Report in accordance with applicable criteria. Our responsibility is to express a conclusion on the Sustainability Report based on our review.

We have performed our review in accordance with RevR 6 Assurance of Sustainability Reports issued by Far (the institute for the accountancy profession in Sweden) as well as AA1000 AS, type 2, issued by AccountAbility. A review consists of making inquiries, primarily of persons responsible for different sustainability matters and for preparing the Sustainability Report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. The procedures performed in the review consequently do not enable us to obtain an assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our assurance does not comprise the assumptions used by Sandvik or whether or not it is possible for Sandvik to reach certain future targets described in the report (e.g. goals, expectations and ambitions).

The criteria on which our review are based on are the parts of the Sustainability Reporting Guidelines G3, published by the Global Reporting Initiative (GRI), which are applicable to the Sustainability Report, as well as the specific measurement and reporting principles, Fair Play reporting, that Sandvik has developed and disclosed on www.sandvik.com/sustainability. We consider these criteria suitable for the preparation of the Sustainability Report.

Far require us to act in accordance with Far Code of Ethics for professional accountants. In accordance with AA1000AS (2008), we confirm that we are independent of Sandvik AB. Our review has been performed by a multidisciplinary team specialized in reviewing economic, environmental and social issues in sustainability reports, and with experience from the industry Sandvik operates within.

Our review has, based on an assessment of materiality and risk, among other things included the following procedures:

- Assessment of suitability and application of criteria in respect to the internal and external stakeholders' need of information.
- Interviews with stakeholders and representatives of the board to secure that Sandvik responds to important stakeholders' concerns in the sustainability report.
- Interviews with responsible management, at group level, division level and business unit level as well as review of internal and external documents with the aim to assess if the qualitative and quantitative information stated in the sustainability report is complete, correct and sufficient.
- Review of underlying documentation, on a test basis, to assess whether the information and data in the sustainability report is based on that documentation.
- Pre-announced visits to Sandvik's facilities located in Australia, India, Canada, Netherlands, Switzerland and Sweden.
- Review of qualitative information and statements, as well as the report on compliance with legislation, permits and conditions related to sustainability.
- Assessment of Sandvik's stated application level according to the GRI guidelines.
- Reconciliation of financial information to Sandvik's 2011 Annual Report.
- Overall impression of the sustainability report, and its format, considering the information's mutual correctness with applicable criteria.

Conclusion

Based on our review procedures, nothing has come to our attention that causes us to believe that Sandvik´s 2011 Sustainability Report has not, in all material respects, been prepared in accordance with the above stated criteria and that Sandvik has not adhered to the AA1000APS principles inclusivity, materiality and responsiveness to the extent reported on www.sandvik.com/sustainability in the document AA1000APS 2011.

Other information

The following is other information that has not affected our conclusion above. The principles inclusivity, materiality and responsiveness apply to the extent reported in the description on www.sandvik.com/sustainability in the document AA1000APS 2011 which includes the following points that requires further attention:

- In relation to inclusivity, focus will continue to be on increasing the local and central awareness on and the systematic of AA1000APS.
- In relation to materiality, activities towards safety, follow-up the suppliers and combating anti-corruption will be developed further.
- In relation to responsiveness processes for internal and external communication on sustainability performance will be developed at all levels.

Sandviken 16 February 2012
KPMG AB

George Pettersson
Authorized Public Accountant

Åse Bäckström
Expert member of Far

Board of Directors and auditors

Members of the Board

Anders Nyrén, b. 1954.
Chairman of the Board since 2010. Director since 2002, Vice Chairman of the Board.
Education and business experience: B.Sc. (Econ.), MBA. President and Chief Executive Officer of AB Industrivärden since 2001, Executive Vice President and CFO of Skanska AB 1997–2001, various executive positions within AB Wilhelm Becker, STC Scandinavian Trading Co AB, STC Venture AB, OM International AB, Securum AB and Nordbanken 1979–1997.
Current Board assignments: Vice Chairman of Svenska Handelsbanken AB, Director of Telefonaktiebolaget LM Ericsson, AB Industrivärden, SCA, SSAB AB, AB Volvo, Ernströmgruppen, Stockholm School of Economics and Stockholm School of Economics Association.
Shareholding in Sandvik (own and closely related persons): 4,500.
Not independent in relation to major shareholders in the company.

Olof Faxander, b. 1970.
Director since 2011.
Education and business experience: M.Sc. (Materials Science) and B.Sc. (Business Administration). President and CEO of SSAB AB 2006-2010, Executive Vice President of Outokumpu Oy.
Current Board assignments: Director of Confederation of Swedish Enterprise and the Steel and Metal Employers Association.
Shareholding in Sandvik (own and closely related persons): 9,639.
Not independent in relation to the company and Group Executive Management.

Johan Karlström, b. 1957.
Director since 2011.
Education and business experience: M.Sc. Eng. CEO and President of Skanska AB since 2008, various senior positions at BPA (currently Bravida) 1995–2000.
Current Board assignments: Director of Skanska AB.
Shareholding in Sandvik (own and closely related persons): 5,000.

Fredrik Lundberg, b. 1951.
Director since 2006.
Education and business experience: M.Sc. Eng., B.Sc. (Econ.), D.Econ Honorary, D.Tech. Honorary. Active in L E Lundbergföretagen AB since 1977 and Chief Executive Officer since 1981.
Current Board assignments: Chairman of the Board of Holmen AB and Hufvudstaden AB, Vice Chairman of Svenska Handelsbanken AB, Director of LE Lundbergföretagen AB, AB Industrivärden and Skanska AB.
Shareholding in Sandvik (own and closely related persons): 6,040,000, via L E Lundbergföretagen AB 27,500,000 and via AB Industrivärden 144,577,252.
Not independent in relation to major shareholders in the company.

Egil Myklebust, b. 1942.
Director since 2003.
Education and business experience: LLB. Chief Executive Officer of Norsk Hydro 1991–2001, President of Confederation of Norwegian Enterprise 1989–1990, President of Norwegian Employers' Confederation 1987–1988, various positions within Norsk Hydro 1971–1987. Consultant to the National Insurance Administration 1968–1971.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 10,000.

Hanne de Mora, b. 1960.
Director since 2006.
Education and business experience: B.Sc. (Econ.), MBA, IESE, Barcelona. One of the founders and owners, also Chairman of the Board of the management company a-connect (group) ag since 2002, partner in McKinsey & Company Inc. 1989–2002, various positions within brand management and controlling within Procter & Gamble 1986–1989.
Current Board assignments: Director of AB Volvo.
Shareholding in Sandvik (own and closely related persons): 0.

Simon Thompson, b. 1959.
Director since 2008.
Education and business experience: M.A. (Geology). Various positions with Anglo American Group 1995–2007 including director of Anglo American plc 2005–2007, Director of AngloGold Ashanti 2004–2008, Chairman of Tarmac 2004–2007, Director of SG Warburg 1994–1995, NM Rothschild & Sons Ltd. 1984–1995.
Current Board assignments: Chairman of Tullow Oil plc., Director of Newmont Mining Corporation and AMEC plc.
Shareholding in Sandvik (own and closely related persons): 0.

Lars Westerberg, b. 1948.
Director since 2010.
Education and business experience: M.Sc. and B.Sc., CEO and President of Autoliv Inc. 1999–2007, Gränges AB 1994–1999 and ESAB 1991–1994. Various positions in ESAB and ASEA from 1972.
Current Board assignments: Chairman of Husqvarna AB, Director of SSAB AB, AB Volvo and Stena AB.
Shareholding in Sandvik (own and closely related persons): 12,000.

Tomas Kärnström, b. 1966.
Director since 2006
(Employee representative).
Education and business experience:
Principal safety representative Sandvik Materials Technology. Various positions within Sandvik since 1986.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 2,865.

Jan Kjellgren, b. 1952.
Director since 2008
(Employee representative).
Education and business experience:
Research engineer, Sandvik Tooling Sverige AB. Various positions within Sandvik since 1981.
Current Board assignments:
Director of AB Sandvik Hard Materials.
Shareholding in Sandvik (own and closely related persons): 570.

Deputy members

Bo Westin, b. 1950.
Director since 1999
(Employee representative).
Education and business experience:
Chairman Union Committee, Metal Workers' Union, Sandvik Mining and Construction Köping AB and various operator positions within Sandvik Mining and Construction since 1973.
Current Board assignments: Director of Sandvik Mining and Construction Köping AB.
Shareholding in Sandvik (own and closely related persons): 0.

Alicia Espinosa, b. 1967.
Director since 2010
(Employee representative).
Education and business experience:
M.Sc. Eng., Flow Manager at Sandvik Materials Technology, various positions within Sandvik since 2000.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 7,137.

Honorary Chairman

Percy Barnevik, b. 1941.
Chairman of the Board of Sandvik AB 1983–2002.

Auditors

KPMG AB
Auditor in charge:
George Pettersson, b. 1964.
Authorized Public Accountant.
Other auditing assignments: Auditor in charge for such companies as Holmen AB, LE Lundbergföretagen AB, Modern Times Group MTG AB and Skanska AB.
Shareholding in Sandvik (own and closely related persons): 0.

Board Secretary

Bo Severin, b. 1955.
Secretary to the Sandvik Board of Directors since 2000.
Education and business experience:
Master of Laws. General Counsel in Sandvik AB.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 15,534.

Information regarding Board assignments and holdings of shares is as of 31 December 2011.

Group Executive Management and Group functions

Olof Faxander, b. 1970.
President and Chief Executive Officer of Sandvik since 2011.
Education and business experience: M.Sc. (Materials Science) and B.Sc. (Business Administration). President and Chief Executive Officer of SSAB AB 2006–2010, Executive Vice President of Outokumpu Oy.
Current Board assignments: Director of the Confederation of Swedish Enterprise and the Steel and Metal Employers Association.
Shareholding in Sandvik (own and closely related persons): 9,639.

Peter Larson, b. 1949.
Senior Executive Vice President of Sandvik AB 2000–2011. Acting President of Sandvik Mining and Construction from 5 September up and including December 2011.
Education and business experience: B.Sc. (Econ.), Executive Vice President and Head of IT, Sandvik AB 2004–2009, Executive Vice President and CFO, Sandvik AB 2000–2004, Executive Vice President of Kanthal 1992–2000, Administration Manager, Uddeholm Tooling 1989–1992, controller positions within Härnösands Grafit AB, Kanthal AB and Asea/ABB 1974–1989.
Current Board assignments: Director of Seco Tools AB.
Shareholding in Sandvik (own and closely related persons): 37,424.

Ola Salmén, b. 1954.
Senior Executive Vice President of Sandvik AB since 2010. CFO of Sandvik AB since 2009.
Education and business experience: B.Sc. (Econ.), CFO Vin & Sprit AB 2002–2009, CFO Adcore AB 2000–2001, Director of Finance Handelsbanken Markets 1997–2000, various financial manager and controller positions at the Swedish Match and STORA Groups between 1984–1996.
Current Board assignments: Director of Svevia AB.
Shareholding in Sandvik (own and closely related persons): 8,316.

Anna Vikström Persson, b. 1970.
Executive Vice President and Head of Human Resources of Sandvik AB since 1 March 2011.
Education and business experience: Master of Laws. Head of Group Human Resources at SSAB AB 2006–2011. Former Head of Human Resources for Ericsson's Swedish operations.
Current Board assignments: Director of Know IT.
Shareholding in Sandvik (own and closely related persons): 2,617.

Tomas Nordahl, b. 1968.
Executive Vice President and Head of IT, sourcing and strategy since October 2011.
Education and business experience: B.Sc. (Econ.). Various positions at The Boston Consulting Group 1994–2011.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 0.

Bo Severin, f 1955.
Executive Vice President. General Counsel of Sandvik AB since 2000.
Education and business experience: Master of Laws. Legal Counsel of Sandvik AB since 1988.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 15,534.

Anders Thelin, b. 1950.
President of Sandvik Tooling business area since 2000.
Education and business experience: M.Sc. Eng. Various positions within research, development and production, and the management group of Sandvik Coromant 1976–2000.
Current Board assignments: Director of Haldex AB.
Shareholding in Sandvik (own and closely related persons): 23,315.

Lars Josefsson, b. 1953.
President of Sandvik Mining and Construction business area from 2003 to 5 September 2011.

Peter Gossas, b. 1949.
President of Sandvik Materials Technology business area from 2002 up to and including April 2011.

Jonas Gustavsson, b. 1967.
President of Sandvik Materials Technology business area since 1 May 2011.
Education and business experience: M.Sc. Eng. Various senior positions at Sandvik.
Current board assignments: Director of the Steel and Metal Employers Association.
Shareholding in Sandvik (own and closely related persons): 2,530.

Group functions

Business Development	Peter Larson
IT	Göran Kördel
Business Control	Fredrik Söderberg
Real Estate	Carl Larsson
Financial Control	Björn Wahlborg
Financial Services	Anders Örbom
Group Assurance	Bernth Nilsson
Intellectual Property	Jacob Eisenberg
Communications	Anders Wallin
Investor Relations	Jan Lissåker
Legal Affairs	Bo Severin
HR	Anna Vikström Persson
Taxes and Financial Projects	Pierre Jansson

Information regarding Board assignments and holdings of shares is valid as of 31 December 2011.

Annual General Meeting, payment of dividend

Annual General Meeting

The Annual General Meeting will be held at the Göransson Arena, Sätragatan 15, Sandviken on Wednesday, 2 May 2012 at 5.00 p.m.

Shareholders wishing to attend the Meeting must notify the company either by letter to Sandvik AB, c/o Computershare AB, Box 610, SE-182 16 Danderyd, Sweden or by telephone +46 26 26 09 40 from 9.00 a.m. to 4.00 p.m. on weekdays, or via the Internet on the Group's website (www.sandvik.com). Such notification must reach Sandvik AB not later than Wednesday, 25 April 2012. Shareholders must also have been entered in the Share Register kept by Euroclear Sweden AB not later than Wednesday, 25 April 2012 to be entitled to attend the Meeting.

Shareholders whose shares are registered in the name of a nominee must have them temporarily re-registered with Euroclear Sweden AB in their own names not later than Wednesday, 25 April 2012 to be entitled to attend the Meeting. Note that this procedure also applies to shareholders using a bank's shareholder deposit account and/or trading via the Internet.

In notification of your intent to attend the Meeting, please state your name, personal or corporate registration number, address and telephone number, and details of any assistants. If you plan to be represented at the Meeting by proxy, such proxy must be sent to Sandvik AB prior to the Meeting.

Payment of dividend

The Board and the President propose that the 2012 Annual General Meeting declare a dividend of 3.25 SEK per share.

The proposed record date is Monday, 7 May 2012. If this motion is adopted by the Meeting, it is expected that dividends will be paid on Thursday, 10 May 2012. Dividends will be sent to those who, on the record date, are entered in the Share Register or on the separate List of Assignees, etc. To facilitate the distribution of dividends, shareholders who have changed address should report their change of address to their bank in sufficient time prior to the record date.

Sandvik's Annual Report

Sandvik's Annual Report for 2011 comprises the formal financial statements, meaning the Report of the Directors, income statements and balance sheets, with accompanying notes, etc., and is printed separately in a reduced number of copies for the shareholders who have ordered the printed reports. In addition to the information in the Annual Report, the Sandvik Group is presented in the The Sandvik World, which is distributed to all shareholders in April 2012.

The formal Annual Report is available on the Group's website (www.sandvik.com) and can be ordered in a printed format.

Financial key figures

Key Figures (From 2004 in accordance with IFRS, earlier years in accordance with previous GAAP.)

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Invoiced sales, MSEK	94,084	82,654	71,937	92,654	86,338	72,289	63,370	54,610	48,810	48,700
change, %	+14	+15	–22	+7	+19	+14	+16	+12	0	0
of which organic, %	+20	+17	–30	+5	+18	+14	+14	+15	+5	–7
of which structural, %	0	+1	0	+2	+3	+1	–1	–1	+2	+10
of which currency, %	–5	–2	+10	0	–2	–1	+3	–2	–7	–3
Operating result, MSEK	10,148	11,029	–1,412	12,794	14,394	12,068	9,532	7,578	4,967	5,771
as % of invoicing	11	13	–2	14	17	17	15	14	10	12
Result after financial items, MSEK	8,179	9,412	–3,472	10,577	12,997	11,113	8,819	6,877	4,187	5,063
as % of invoicing	9	11	–5	11	15	15	14	13	9	10
Consolidated net result for the year, MSEK	5,861	6,943	–2,596	7,836	9,594	8,107	6,392	5,111	2,788	3,436
Shareholders' equity, MSEK	33,891	33,813	29,957	36,725	29,823	27,198	24,507[1]	23,551[1]	21,440	23,205
Equity ratio, %	34	38	33	36	35	41	41	46	46	48
Net debt/equity ratio, multiple	0.8	0.7	1.0	0.9	1.0	0.6	0.7	0.5	0.5	0.5
Rate of capital turnover, %	100	92	73	101	112	115	112	108	98	97
Cash and cash equivalents, MSEK	5,592	4,783	7,506	4,998	2,006	1,745	1,559	1,720	1,972	2,175
Return on shareholders' equity, %	17.3	22.1	–7.9	24.8	34.4	31.8	27.4	21.7	12.8	14.9
Return on capital employed, %	16.0	17.4	–1.3	19.9	27.0	27.6	23.7	20.5	13.4	15.4
Investments in property, plant and equipment[2], MSEK	4,994	3,378	4,006	6,634	4,811	4,175	3,665	2,967	3,153	2,357
Total investments[2], MSEK	5,332	4,493	6,161	7,766	9,480	5,455	3,950	3,278	3,260	5,066
Cash flow from operations[2], MSEK	7,764	12,149	11,792	9,335	5,076	7,741	7,266	5,322	6,421	7,190
Cash flow, MSEK	907	–2,642	2,471	2,764	179	357	–380	–207	–104	48
Number of employees, 31 December	50,030	47,064	44,355	50,028	47,123	41,743	39,613	38,421	36,930	37,388

1) Total equity, including minority interest. 2) As of 2006 excluding rental fleet.

Per-Share Data (From 2004 in accordance with IFRS. Earlier years in accordance with previous GAAP. All historical figures are adjusted taking into account the 5:1 split.)

SEK	**2011**	2010	2009	2008	2007	2006	2005	2004	2003	2002
Basic earnings[1]	4.63	5.59	–2.24	6.30	7.65	6.45	4.95	3.85	2.20	2.70
Diluted earnings[2]	4.63	5.59	–2.24	6.29	7.65	6.45	4.90	3.75	2.15	2.70
Equity	27.4	27.5	24.4	30.00	24.10	22.00	19.80	18.30	17.20	18.60
Dividend (2010 as proposed)	3.25	3.00	1.00	3.15	4.00	3.25	2.70	2.20	2.10	2.00
Direct return[3], %	3.8	2.3	1.2	6.4	3.6	3.3	3.6	4.1	4.2	5.2
Payout percentage[4], %	70	54	—	50	52	50	55	57	94	73
Quoted prices, Sandvik share, highest	135	133	90	108	151	106	79	56	50	52
lowest	73	76	41	42	96	71	54	46	35	38
year-end	84	131	86	49	111	100	74	54	50	39
No. of shares at year-end, million	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,235.2	1,250.1	1,250.1
Average no. of shares, million	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,216.9	1,255.8	1,250.1	1,252.5
P/E ratio[5]	18.2	23.5	—	7.8	14.5	15.4	15.0	13.9	22.1	14.2
Quoted price, % of equity[6]	307	476	352	163	462	452	374	293	288	209

1) Profit/loss for the year per share.
2) Profit/loss for the year per share after dilution of outstanding convertible program.
3) Dividend divided by the quoted price at year-end.
4) Dividend divided by basic earnings per share.
5) Market price of share at year-end in relation to earnings per share.
6) Market price of share at year-end, as a percentage of equity per share.
Supplementary definitions on page 67.

Development by Business Area

	Invoiced sales				Operating result and operating margin							
	2011	2010	2009	2008	**2011**		2010		2009		2008	
	MSEK	MSEK	MSEK	MSEK	MSEK	%	MSEK	%	MSEK	%	MSEK	%
Sandvik Tooling	27,160	23,893	19,078	25,975	5,896	22	4,296	18	–527	–3	5,461	21
Sandvik Mining and Construction	41,481	35,182	32,621	38,651	5,246	13	4,665	13	466	1	4,996	13
Sandvik Materials Technology	18,379	17,703	15,328	21,480	–1,619	–9	1,540	9	–1,137	–7	1,187	6
Seco Tools*	7,026	5,838	4,871	6,513	1,408	20	1,098	19	307	6	1,332	21

* Seco Tools, an independent, exchange-listed group of companies that markets tools for metal cutting, is part of the Sandvik Group.

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