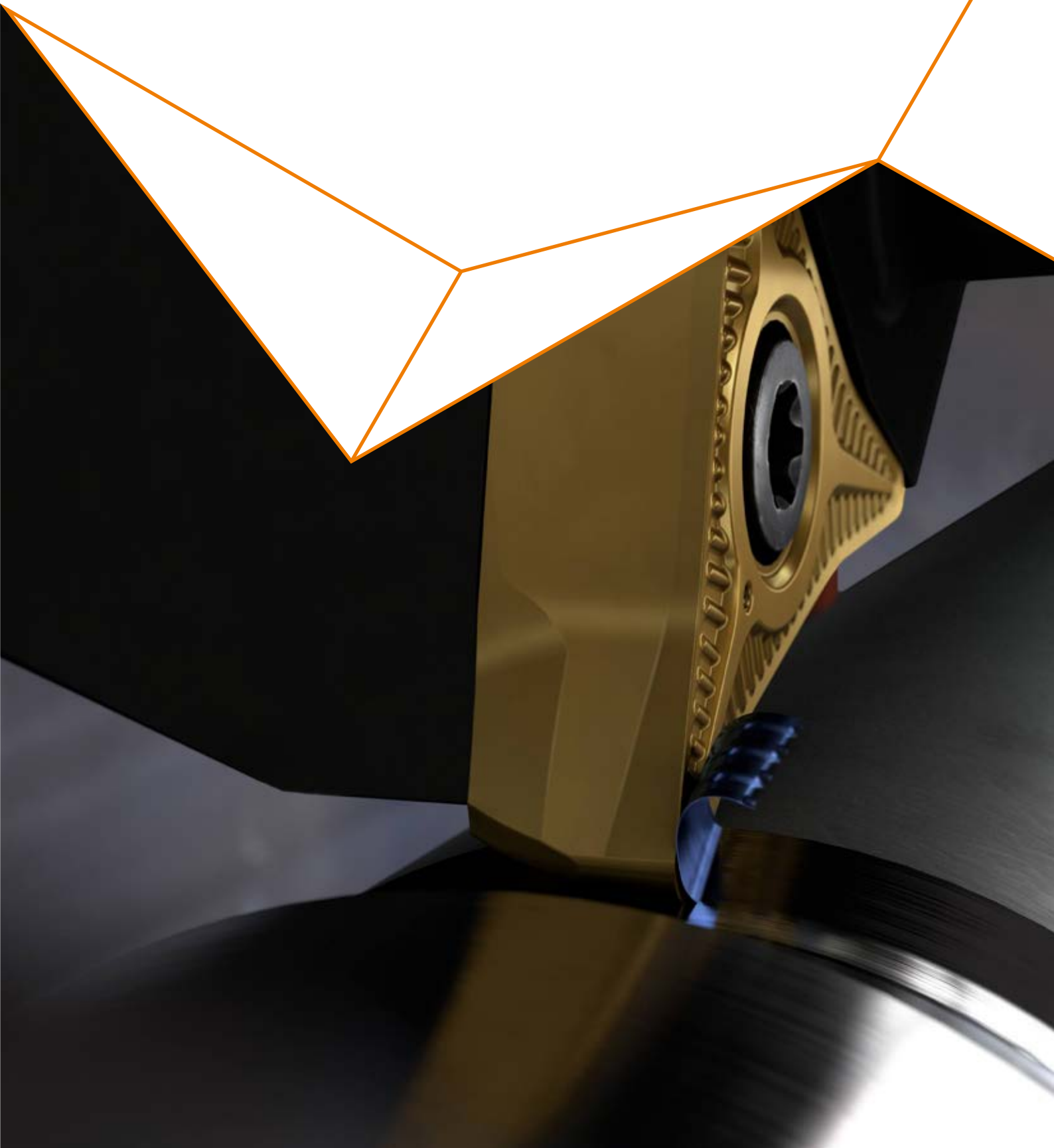




ANNUAL REPORT 2017



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Cover photo: In 2017 Sandvik launched PrimeTurning™, a completely new methodology that enables turning in all directions. Read more on pages 20 and 21.

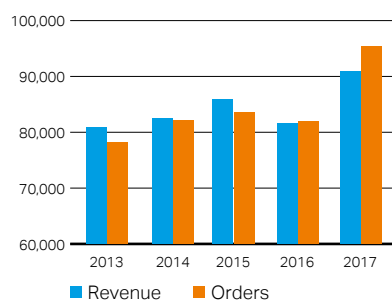
The formal Annual Report comprises pages 46–122. The Statutory Sustainability report and Sustainable Business Report are defined on page 128. Unless otherwise stated, financial data on pages 0–6 and 8–29 and 50–53 refers to continuing operations, i.e. excluding Sandvik Mining Systems.

YEAR IN BRIEF

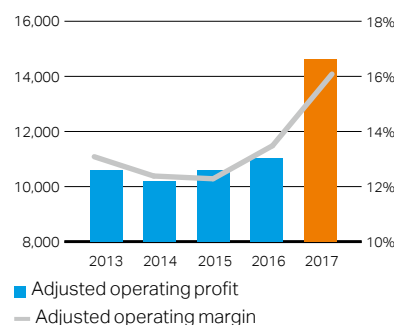
HIGHLIGHTS

- Significant increase in customer demand and growth in all segments and geographies.
- Record-high adjusted operating profit and cash flow.
- Divestments of Sandvik Process Systems and Sandvik Mining Systems.
- Agreements signed to divest the welding wire business and Sandvik Hyperion.
- Strengthened balance sheet allows for future growth.
- Lost Time Injury Frequency Rate at a record-low level, 1.6.
- Inclusion in the 2018 Global 100 Most Sustainable Corporations index and the 2017 Dow Jones Sustainability Index.

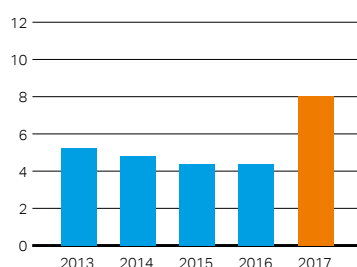
REVENUES AND ORDER INTAKE, MSEK



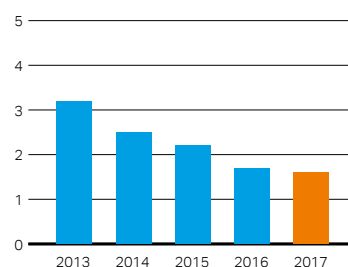
ADJUSTED OPERATING PROFIT, MSEK AND ADJUSTED OPERATING MARGIN, %¹



ADJUSTED EARNINGS PER SHARE, GROUP TOTAL, SEK¹



LOST TIME INJURY FREQUENCY RATE, LTIFR



REVENUES, MSEK

90,905

ADJUSTED OPERATING PROFIT, MSEK¹

14,638

ADJUSTED OPERATING MARGIN, %¹

16.1

ORDER INTAKE, MSEK

95,444

RETURN ON CAPITAL EMPLOYED, %

23.9

ADJUSTED EARNINGS PER SHARE,
GROUP TOTAL, SEK¹

8.01

LOST TIME INJURY FREQUENCY RATE,
LTIFR, GROUP TOTAL

1.6

RECOVERED METALLIC RAW MATERIAL, %

79

SHARE OF WOMEN, GROUP TOTAL, %

19.4

REVENUES BY CUSTOMER SEGMENT

- Mining, 31%
- Engineering, 24%
- Automotive, 13%
- Energy, 11%
- Construction, 11%
- Aerospace, 6%
- Other, 4%



REVENUES BY MARKET AREA

- Europe, 39%
- North America, 21%
- Asia, 20%
- Africa/Middle East, 9%
- Australia, 6%
- South America, 5%



RECOGNITIONS AND MEMBERSHIPS



Sandvik was included in the 2018 Global 100 Most Sustainable Corporations in the World index by Corporate Knights.



Sandvik is a constituent of the prestigious Dow Jones Sustainability Index (DJSI). In 2017, Sandvik performed better than 97 percent of its peer companies in the assessment.



Sandvik was included in RobecoSAM's 2017 Sustainability Yearbook, listing the world's most sustainable companies in each industry.



Sandvik is a member of the FTSE4Good Index Series, which measures the environmental, social and governance performance of companies worldwide.



Sandvik is included in the 2017 Ethibel Excellence Investment Register, an indication that Sandvik performs better than average in our sector when it comes to sustainability.



Sandvik is a signatory to the UN Global Compact (UNGC).

Forbes

Sandvik was included on Forbes 2017 Global Top Multinational Performers 2000 list.

¹⁾ Adjusted for items affecting comparability of -450 million SEK in Q2 2017 and +3,910 million SEK in Q4 2017.

A SUCCESSFUL YEAR

Sandvik can look back on a successful 2017, when we improved our earnings, met our financial targets ahead of schedule and delivered strong cash flow. Combined with successful divestments, we have created a more focused, consolidated company that is prepared for growth. At the same time, the share price rose by 26 percent.

Since the launch of Sandvik's new strategy in 2015, we have been working intensively to achieve the targets defined. In the first year, we focused on establishing the new decentralized structure and created a clear governance framework, the Sandvik Way. We moved decision-making closer to customers, meaning to the product areas. They now have the character of independent companies with full accountability for their own performance and a focus on continuous improvements. During the year, we began to see the result of our efforts, with improved profitability, reduced working capital, strong cash flow and a reduction in the debt/equity ratio.

Employees have supported the new strategy and have worked hard to implement it, even if it has included organizational changes. This has yielded results. We have also been helped by a favorable market and strong demand.

FOCUS ON CORE OPERATIONS

During the year, we successfully divested Sandvik Mining Systems and Sandvik Process Systems and also signed an agreement for the divestment of the welding wire operations at Sandvik Materials Technology and for Sandvik Hyperion. The aim is to also divest the stainless wire business. Our strategy states that we are to be number one or two in

the markets in which we operate and after completion of these divestments we have largely achieved this. Overall, we have divested approximately 10 percent of the Group, which has resulted in a more focused, stronger company.

STABILITY AND PROFITABILITY BEFORE GROWTH

The stable foundation we have built offers us scope to focus on growth. I see three ways to grow. First, through organic growth, where Sandvik can create customer value through its strong innovation and the launch of thousands of new products each year. Digitalization is a strong industrial trend where we invest and mobilize



expertise to be competitive and where we can see substantial growth opportunities. We digitalize and automate our own products, processes and manufacturing and strengthen our offering to our customers through digitalization, which not only makes our customers more efficient but also more sustainable. There are excellent growth opportunities in mining operations with automated solutions, and in metal cutting where digitalized tools and processes can enhance customer productivity. Growth is also possible through acquisitions, which is primarily a consideration for Sandvik Machining Solutions in the fields of round tools, additive manufacturing (3D printing), software solutions and metrology (measurement technology).

SANDVIK MACHINING SOLUTIONS

The Sandvik Machining Solutions business area is the star of our portfolio and continues to deliver strong results. Earnings increased from an already high level, all product areas improved and cash flow was very strong. The business area successfully launched a range of innovations, including the revolutionary PrimeTurning™ technology, which enables turning in all directions in a far more efficient and productive manner than conventional turning. Klas Forsström was appointed new business area president in April 2017.

SANDVIK MINING AND ROCK TECHNOLOGY

The Sandvik Mining and Rock Technology business area noted a significant improvement in earnings, driven by strong demand early in the year, though from low levels. This strong demand meant it was sometimes difficult to keep up with deliveries, but the situation stabilized during the second half of the year. We can see great opportunities in automation, where we are market leaders, and in our aftermarket business.

SANDVIK MATERIALS TECHNOLOGY

The Sandvik Materials Technology business area has failed to reverse the negative trend that has prevailed since 2014, resulting from low oil

prices and fierce competition from low-cost players. During the year, we carried out a number of measures, including comprehensive cost mitigation programs and staff reductions. We will continue working for improved profitability under the leadership of the new business area president as of 1 November 2017, Göran Björkman. Order intake and volume improved during the second half of the year.

ACCOUNTABILITY AND DECISIONS CLOSE TO CUSTOMERS

Decentralized decision-making close to customers is key to the success of our company. However, coordination is necessary in some areas and I often say that clever managers cooperate. In a decentralized world, we need clear and precise rules and we have created a shared framework that we call the Sandvik Way. This includes our Code of Conduct, our whistleblower system Speak Up, our performance management system and our joint leadership model, as well as policies and procedures in key areas.

SUSTAINABLE BUSINESS

We view sustainability from two perspectives – how we can make our customers more productive and sustainable, and how we can become more sustainable in our own operations. We are ambitious and can, as a leading company, drive progress by producing more effective and more sustainable solutions for our customers, such as products that are more energy efficient, safer or that are made from recycled materials. Examples include battery-powered mining equipment and components for solar panels and fuel cells. If we are to remain at the forefront, we must understand global market trends and requirements on issues such as energy supply and safe and sustainable solutions. We must also understand the challenges that we, our customers and our customers' customers have, such as the implications of a transition to a reduction in the use of fossil fuels or the risks associated with operating in less developed countries.

In our own operations, we must ensure that we work systematically

to reduce environmental impact and carbon emissions. However, anti-corruption, diversity and inclusion, supplier controls and regulatory compliance are equally important components. Occupational safety is a top priority, and it is gratifying that our lost time injury frequency rate in 2017 was the lowest in the company's history.

Sustainability has also become an increasingly important component when young people decide on an employer and may be crucial in attracting top talent. Our commitment is manifested in our support for, and our intention to continue supporting, the principles of the United Nations' Global Compact. I am convinced that our solutions will contribute toward fulfilling the UN's Sustainable Development Goals. It is encouraging that we have once again qualified for the prestigious Dow Jones Sustainability Index and also for the 2018 Global 100 Most Sustainable Corporations in the World index. During the year, we began an exciting collaboration with Engineers Without Borders, from which I expect great things.

EXCEPTIONAL PEOPLE

When I travel around the company, I meet incredibly positive, committed employees who love Sandvik and what we do. Without our employees we would not have achieved the earnings improvements nor the structural changes we have implemented in recent years. I would like to convey my sincere thanks to everyone who has contributed. We have laid a solid foundation for a stable company that is capable of delivering results, even when market conditions are difficult. This means I feel great confidence moving forward and that Sandvik will continue to be successful.

Stockholm, February 2018



Björn Rosengren
President and CEO

OUR VISION AND STRATEGY

Sandvik is creating value for its customers, shareholders, employees and other stakeholders based on its vision, strategy and core capabilities. Our core values – Customer Focus, Innovation, Fair Play and Passion to Win – form the base for our corporate culture and ways of working.

VISION – WE SET THE INDUSTRY STANDARD

Our ambition is to set the benchmark for others to follow by continuously improving our offering, market presence and level of service. We strive to be number one or two in the eyes of our customers, within our chosen markets and segments.

CORE VALUES

Customer Focus, Innovation, Fair Play, Passion to Win

BUSINESS IDEA

Sandvik's business idea is to develop, manufacture and market highly processed products and services based on our core capabilities that enhance customer productivity, profitability and sustainability. Our operations are primarily concentrated in areas where Sandvik is, or has the potential to become, a world leader.

STRATEGIC AGENDA

- Focus on core operations and be no 1 or 2 in chosen markets and segments
- Technology leadership and innovation
- Accountability and decisions close to customers
- Stability and profitability before growth
- Efficiency and continuous improvements
- Culture of doing things right
- Exceptional people



SHAREHOLDER
VALUE



CUSTOMER
VALUE



EMPLOYEE
VALUE

OUR OFFERINGS

We make our customers more sustainable by developing solutions that improve their efficiency and competitiveness, and reduce their costs. Our customers also reduce their environmental impact and improve their employees' health and safety.



Innovation and
productivity



Health and
safety



Environmental
impact



Use, reuse and
recycle



Governance



Partners



Environmental
footprint



People

OUR OPERATIONS

We promote sustainability in our own operations by continuously improving our processes, such as supply chain management, energy usage, emissions, anti-corruption and human rights.

TARGETS AND TARGET FULFILLMENT

Sandvik’s financial targets in the period 2016–2018 stipulate improved operating profit, higher returns and a strengthening of the balance sheet, while maintaining a generous dividend policy.

FINANCIAL TARGETS¹

EBIT GROWTH (CAGR)

≥7%

ROCE IMPROVEMENT

≥3% PTS

NET DEBT/EQUITY RATIO

<0.8

DIVIDEND PAYOUT RATIO

50%

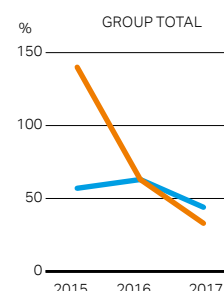
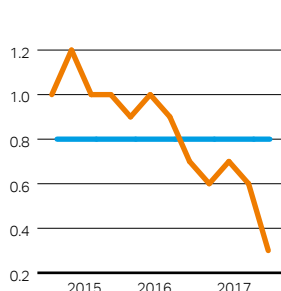
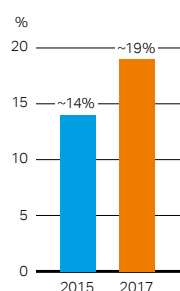
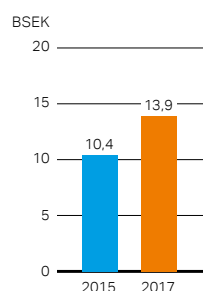
OUTCOME AT END OF 2017

+16%

+4.6% PTS

<0.3

44%²



In May 2016, Sandvik announced financial targets for the three-year period of 2016–2018. In 2017, a strong increase in demand and executed internal efficiency measures supported a significant improvement in adjusted operating profit and return on capital employed. Year-end 2017, the growth rate (CAGR) in adjusted EBIT amounted to 16 percent and return on capital employed had improved by 4.6 percentage points to 19 percent. The targets for net debt/equity and

dividend payout are annual and the net debt/equity ratio target was achieved in 2017. The proposed dividend payout ratio for 2017 was slightly below the target level of 50 percent. Our operating decisions are based on the priorities of stability and profitability before growth. Given our improved operational performance and operating profit, the next phase of our journey will include a higher focus on growth, in particular for business area Sandvik Machining Solutions.

SUSTAINABILITY GOALS

LOST TIME INJURY FREQUENCY RATE IN 2020

<1

EMPLOYEES TRAINED IN THE CODE OF CONDUCT

100%

ENERGY EFFICIENCY INCREASE IN 2020

20%

MAINTAINED LEVEL OF RECOVERED METAL RAW MATERIAL

≥80%

OUTCOME 2017

1.6

93%

7%

79%

Sustainability targets are set at Group and business area levels to efficiently manage risks and leverage opportunities. The business areas integrate the targets in their businesses. In 2017, Sandvik worked toward achieving a lost time injury frequency rate (LTIFR) target of 1.4. The LTIFR improved by 6 percent to 1.6 at year-end (1.7). Each business area is responsible for ensuring compliance with the Code of Conduct. By the end of 2017, 93 percent of all employees and long

term contractors had completed training in the Code of Conduct. Energy intensity is measured as energy per hours worked. Since 2014, we have reduced hours worked more than the energy reduction during the same period. With 2014 as base year, the energy use decreased by 3 percent in absolute terms, while hours worked decreased by 10 percent. The share of recovered metal raw material was 79 percent. Increased demand for high-alloy products explains why the target was not reached.

1) For further information, see page 151. 2) Proposed adjusted dividend payout ratio.

PROGRESS IN OUR STRATEGIC FOCUS AREAS IN 2017

In its business strategy, Sandvik has defined seven focus areas that have been identified as essential to ensure stability and drive profitable growth.

Focus on core capabilities and to be number one or two in chosen segments and markets

Sandvik divested four businesses that were not core or did not support our goal to be number one or two in chosen segments and markets. The divestments of Sandvik Process Systems and Sandvik Mining Systems were completed and agreements to divest the welding wire business and Sandvik Hyperion were signed. The divestments correspond to 10 percent of Group revenues and will generate an assumed cash flow of about 9 billion SEK. This was part of our continuous efforts to obtain a more consolidated portfolio focused on core.

Technology leadership and innovation

Our research and development investments remained at a high level. We focused on product innovations to improve energy efficiency, increase safety and leverage the opportunities for potential growth through digitalization. These are some examples of the innovations that are making us a technology leader:

- **Sandvik Machining Solutions** launched PrimeTurning™, a completely new methodology that enables turning in all directions and cuts conventional turning time for customers, increasing their productivity. Commercialization of additive manufacturing (3D printing) and establishment of a Digital Center of Excellence are other examples of strategic importance.
- **Sandvik Mining and Rock Technology** launched My Sandvik Digital Service Solutions where data is gathered from the customers' machines, analyzed and made available for improved customer productivity. New, intelligent mining trucks for automated haulage, Sandvik TH551i and Sandvik TH663i, and a totally new generation of Ranger™ surface drill rigs are other examples of product launches during the year.
- **Sandvik Materials Technology** introduced the intelligent tube system Sentusys™. It helps customers control the status of the tubes inside their processes with the help of cloud-based computing. The business area also manufactures a wide range of powders including Osprey® gas atomized metal powders, which are being used in several applications, for example additive manufacturing.

Accountability and decisions close to customers

Sandvik's decentralized structure, initiated in 2016, was in effect in 2017, for more accountability and increased cost control. The new structure ensures that decisions are made closer to customers, greater product area ownership and accountability for performance and results.

- We improved our performance-management follow up and implemented a common scorecard system.
- Support functions, such as the Human Resources and Finance service functions, were decentralized to individual business areas/product areas. Costs relating to almost 700 full-time employees were relocated in 2017.



In April 2017, Björn Rosengren visited Sandvik operations in India, including the Bangalore Design Center and Kanthal's facilities.

Stability and profitability before growth

Sandvik reached its financial targets and had a strong focus on cost efficiency in 2017. Operational results increased significantly with sharp margin improvements in Sandvik Machining Solutions and Sandvik Mining and Rock Technology. While Sandvik had a number

of loss-making product areas in 2016, there were none in 2017. This has created a solid platform for future growth. The business areas performed as follows:

- **Sandvik Machining Solutions** showed record-high margins and improved its operating profit by 21 percent. Round tools, digital solutions, software and metrology are prioritized growth areas.
- **Sandvik Mining and Rock Technology** improved profitability and grew due to a strong market demand. The key priority going forward is to profitably grow the aftermarket and automation business.
- **Sandvik Materials Technology** showed less satisfactory earnings in parts of the business. The key priority is to restore profitability short term through cost actions, and in the mid- to long term by trimming the portfolio while growing sales of high-value products, for example from product areas Kanthal and Powder.

Efficiency and cost reductions

– Sandvik has set up a target to improve productivity by at least 3 percent annually (revenues per employee). In 2017, productivity improved by 8 percent.

– Savings from announced programs, launched in 2013, amounted to 355 million SEK compared with last year.

Additional five units closed during 2017.

- Cash flow from operations increased 19 percent to 14,286 million SEK (12,032).
- ROCE improved to 19.4 percent (14.7), calculated on adjusted EBIT. Reported ROCE was 23.9 percent (14.7).
- Net working capital (12 month average) improved by 3 percentage points to 24 percent.

Culture of doing things right

– Continued roll out of The Sandvik Way, our Group governance system.

– Training on our Code of Conduct reached a record high of 93 percent of employees including long time contractors. About 25 percent of our employees also received more in-depth training on

one or more of our four compliance programs.

– The Sandvik whistleblower system, Speak Up, managed a total of 224 (265) cases with a 55 percent substantiation rate.

– We ramped up the roll-out of the data privacy program to meet the new European GDPR regulations.

– In 2017, the Lost Time Injury Frequency Rate (LTIFR) decreased to 1.6 (1.7), a record-low.

Exceptional people

– We continued programs to promote leadership and develop key competences. About 500 people participated in Sandvik's leadership training programs in 2017.

– During 2017, about 3,800 open positions were filled, of which a majority was

posted on the open internal job market.

– We leveraged on the strength of social media platforms and new functionality made it possible to target potential employees more efficiently. This is vital as new market demands require new competencies.

– We strengthened our focus on diversity and inclusion in the business.

A CHANGING WORLD



Sandvik has defined the external factors and drivers that have the greatest impact on the company and that we, together with our customers and other stakeholders, must respond to in order to generate stable and profitable growth.



MATERIALS DEVELOPMENT

We are currently in the midst of a revolutionary development of new materials. Innovative alloys, nanomaterials and advanced powder technologies are creating new opportunities. Properties in demand include more sustainable and lightweight products, with improved strength and anti-corrosion durability. The new materials often reduce environmental impact since lower weight reduces fuel consumption, for example. Sandvik is investing substantial resources in material development and is global leader in the field.



NEW MANUFACTURING TECHNIQUES

Additive manufacturing, or 3D printing, is one example of a new technology that requires fewer manufacturing steps and reduces impact on the environment by producing lighter products and using less raw material. Another new production method is multi-axe technology, where you can machine a material from several different angles. This improves efficiency and enables completely new types of products. Optimizing manufacturing processes reduces carbon emissions and costs and increases productivity.



DIGITALIZATION AND AUTOMATION

The manufacturing industry is experiencing one of the greatest transformations ever, a transition that is often referred to as Industry 4.0, and involves a shift to digitalization and automation. Access to comprehensive data volumes, sophisticated analytical tools, robotization and artificial intelligence are creating new business opportunities. Sandvik offers digitalized solutions and services to optimize its customers' operations, in terms of costs, productivity and environmental footprint. Automated mines, intelligent tubes and digital tools are some examples of how Sandvik is developing new solutions.



SCARCE RESOURCES AND ENERGY CONVERSION

A growing global population and economy mean more people must share the earth's resources. This will require a transition to more sustainable energy and technologies as well as an increased degree of recycling. One example of this can be seen in the automotive industry, which is experiencing a switch from petrol and diesel cars to electric cars, hybrid cars and hydrogen-powered cars. Sandvik is contributing new solutions, such as electric drill rigs, and is developing materials for solar panels and hydrogen-powered cars. We are also developing new technologies in metal cutting that help to reduce environmental impact and are striving to increase recycling within our operations.



UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS

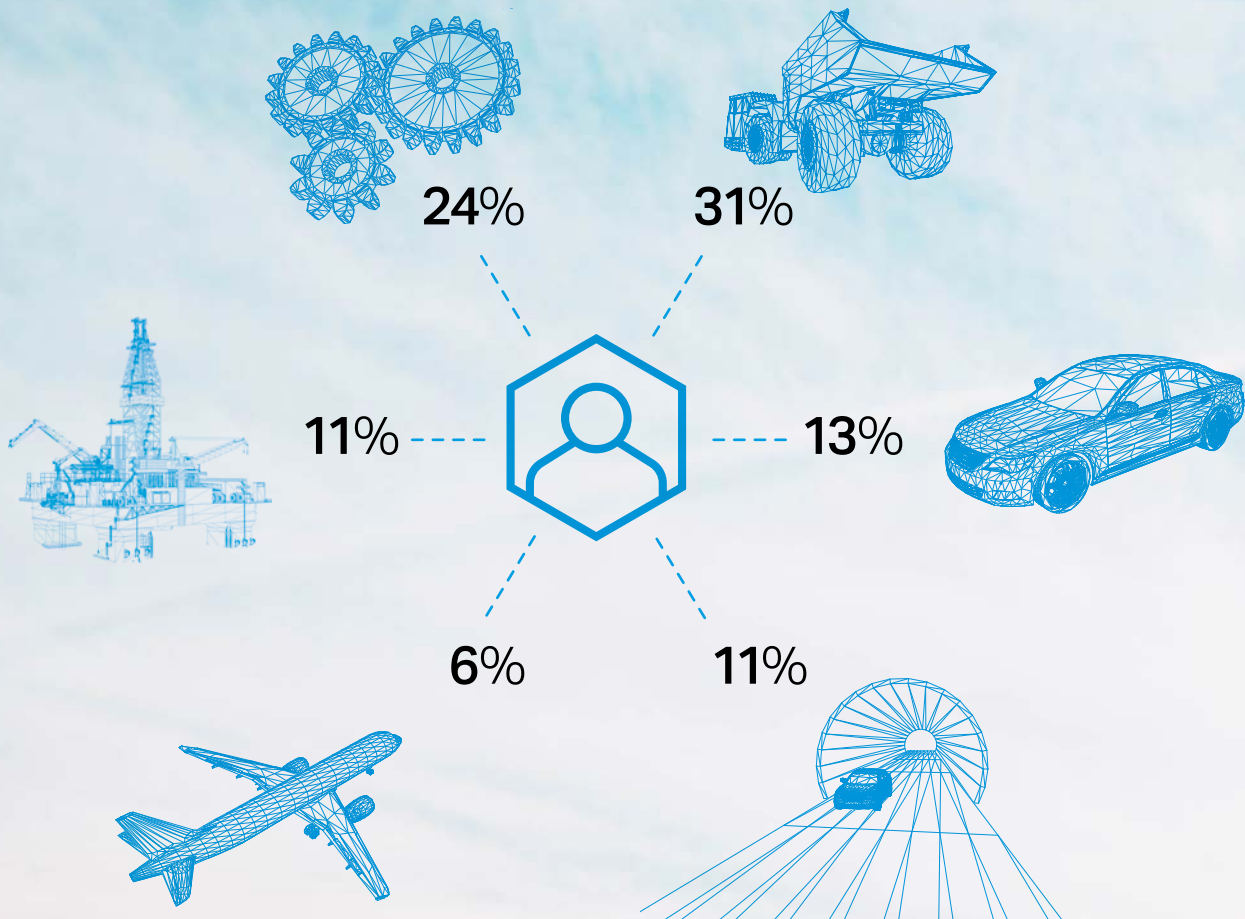
World leaders have committed themselves to 17 Global Goals for Sustainable Development (SDGs). Cross-sector collaboration between civil society, academia and the business community is key if the goals are to be achieved. Sandvik has defined the goals that are most relevant for the company and to which we actively contribute:



More information about Sandvik and the UN SDGs can be found on page 140.

A BROAD CUSTOMER PORTFOLIO

Whether it is below the ground or up in the air, Sandvik's innovative products and solutions enhance customers' productivity, profitability, safety and sustainability. We serve a wide range of customers through our six main customer segments: Mining, Engineering, Automotive, Energy, Construction and Aerospace.



Revenues by customer segments in 2017. The remaining 4 percent includes mainly consumer, electronics and chemicals.

MINING

The mining industry is driven by ore production, commodity prices and CAPEX investments. It has relatively few customers, but they are large and mainly global - for whom availability, productivity, safety and total cost of ownership are key.



LOADING AND HAULING

Our underground loaders and haul trucks are engineered for safety, productivity and reliability in the toughest of applications. Rugged, compact and highly maneuverable, the ergonomic products offer immense capacity for their size at a very low cost per ton.

We deliver drill rigs, rock-drilling tools and systems, mobile and stationary crushers, load and haul machines, tunneling equipment, continuous mining and mechanical cutting equipment, as well as various solutions to increase automation, safety and customer productivity.



AUTOMATION AND MONITORING

Our mine automation systems cover all aspects of automation, from single equipment to full fleet control.

ENGINEERING

With three out of five leading metal-cutting brands, Sandvik is an industry authority on machining operations. Our tools and tooling systems for metal cutting as well as advanced materials and components are used in engineering industries worldwide, improving productivity,



SILENT TOOLS™ PLUS

Silent Tools™ Plus is a connected turning solution that aims to optimize internal machining with long overhang. The solution gives access to information about what's happening inside the machine and component, enabling informed decision making and productive manufacturing.

profitability, quality and safety as well as reducing environmental impact. Sandvik is also a global leader in high-alloy metal powder for several different applications such as additive manufacturing and Metal Injection Molding (MIM).



POWDER

Sandvik has a world-leading position in the production and sale of metal powders for a variety of high value and growth technologies and applications.

ENERGY

A significant share of the consumption of cutting tools and stainless steel and high-alloy products in the energy sector is linked to the oil and gas industry and the number of drill rigs that are in operation.

Sandvik offers solutions for all forms of energy production, including clean and renewable energy.



METAL-CUTTING TOOLS

We offer a wide range of advanced tools for high productivity in metal cutting when for example producing gas turbines.

Our strip steel with functional coating is for instance used for different types of fuel cells. We supply high-alloy products, such as seamless stainless steel tubes for selected niches in the most demanding industries, as well as tools and tooling systems to satisfy the industry's metal-cutting needs.



CONTROL LINES

Control lines are production safety critical when operating an oil well. They operate several different functions and valves down hole through a hydraulic system.

AUTOMOTIVE

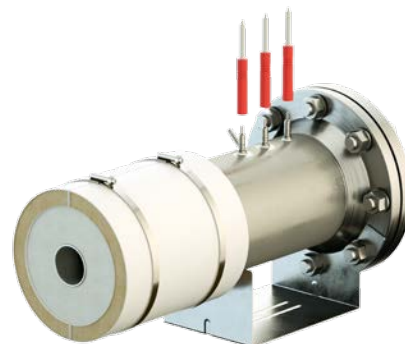
The automotive sector is one of the largest consumers of cutting tools. Our tools and tooling systems for turning, milling and drilling in metals raise productivity when manufacturing, for example, engines and transmissions.



METAL-CUTTING TOOLS

Advanced tools are used for manufacturing transmission and engine components in, for example, steel, stainless steel, aluminum and cast iron.

Our stainless and high-alloy products are found in, for example, safety belts, airbags, brakes, air conditioning and various instruments.



KANTHAL® FLOW HEATER

The electric flow heater from Kanthal enables professionals in the automotive testing industry to increase the temperature of gas flows from the standard 850 °C to 1,100 °C (1,562–2,012 °F) with zero emissions at point of use. The higher temperature facilitates more rigorous testing of new materials used in increasingly compact engine designs.

CONSTRUCTION

Within the construction industry, where we are active in the niche rock excavation areas, customers are mainly small to medium-sized contractors and quarries. This business is very project-driven, with a regional focus, and its agile nature calls for high availability of equipment.



BREAKING

Our hydraulic breakers, booms, tools and accessories enable trouble-free performance in applications such as quarrying.

We offer products and services that increase safety and customer productivity in the breaking, drilling, crushing and screening niches of the construction industry. Application areas include tunneling, quarrying, civil engineering, demolition and recycling.



CRUSHING AND SCREENING

Stationary and mobile crushers, together with a wide range of screens, feeders and service applications increase customer efficiency.

AEROSPACE

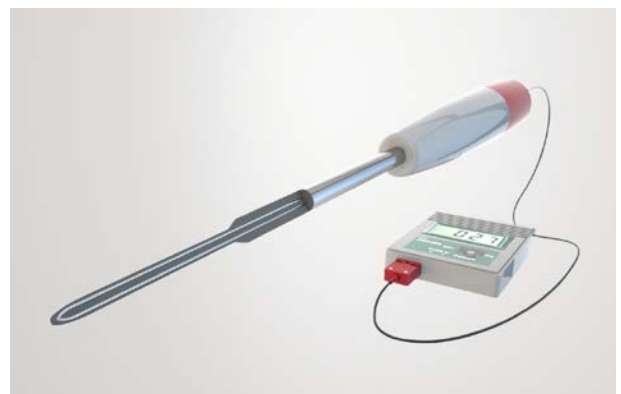
We work closely with the world's aerospace companies. As they apply new materials to manufacture airplanes that are lighter, safer and more fuel efficient, advanced tooling solutions and lightweight materials are critical.



DRILLING TOOLS

There are approximately one million holes in an airplane for rivets, bolts etc. This requires several drilling operations.

Our seamless tubular products in advanced stainless steel, nickel-alloys and titanium open up new possibilities for increased safety, fuel savings and flawless operations under high pressure. The tubes are for example used in fuel and hydraulic lines and instrumentation.



THERMOCOUPLES

Thermocouples are used extensively for applications where precise temperature measurement is critical. Sandvik's product area Kanthal is a leader in the production of a wide range of thermocouple wire and strip materials.

THREE BUSINESS AREAS WITH DIFFERENT FOCUSES

We began decentralizing our organization and consolidating Sandvik's business portfolio in 2016 to improve our long-term efficiency and customer proximity. Our three business areas – Sandvik Machining Solutions, Sandvik Mining and Rock Technology and Sandvik Materials Technology – are divided into 18 product areas with full operational responsibility.

Each business area has its own set of opportunities and challenges concerning stability, profitability and growth that require different strategies and focus. Decentralization and consolidation of the business portfolio, combined with a stronger market environment, contributed to the Group's improved profitability in 2017.



SANDVIK MACHINING SOLUTIONS

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

Key Priorities

Working to expand the market position through organic growth, innovation and niche acquisitions in the core business. Another part is to expand outside the core machining area, into pre-machining and post-machining and additive manufacturing.

SANDVIK MINING AND ROCK TECHNOLOGY

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

Key Priorities

Improve profitability by growing aftermarket and increase sales of our parts and services on installed base of equipment, as well as add value through automated solutions, aiming to reduce earnings volatility.

SANDVIK MATERIALS TECHNOLOGY

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

Key Priorities

Restore profitability short-term through cost actions, and long term by growing sales of high value products. Increased focus on operational and commercial excellence.



SANDVIK MACHINING SOLUTIONS

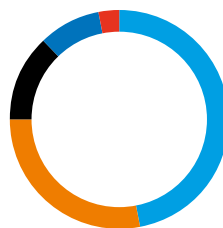
The stars were aligned for global market leader Sandvik Machining Solutions in 2017. Profit increased 21 percent compared to 2016, a number of innovative products were launched, and there was growth in all regions.



2017 IN FIGURES

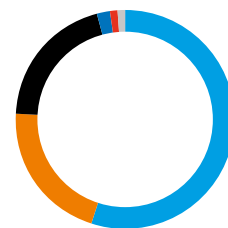
Revenues: 35,778 million SEK (32,852) with 8% organic growth
Operating profit: 8,413 million SEK (6,970)
Operating margin: 23.5% (21.2)
Return on capital employed: 35% (28.9)
Employees: 18,187 (18,043)
Gender balance: Men 80%, Women 20%
President: Klas Forsström, as of 1 April 2017
Lost time injury frequency rate (LTIFR): 1.8
Share of recovered metallic raw material: 52%
Estimated market size: 175 billion SEK

REVENUES BY CUSTOMER SEGMENT



- Engineering, 47%
- Automotive, 28%
- Aerospace, 13%
- Energy, 9%
- Other, 3%

REVENUES BY MARKET AREA



- Europe, 55%
- North America, 21%
- Asia, 20%
- South America, 2%
- Africa/Middle East, 1%
- Australia, 1%

Business area Sandvik Machining Solutions manufactures metal cutting tools and tooling systems for advanced industrial machining operations. Inserts (55%), round tools (18%) and tools (12%) account for the majority of revenues, while a smaller portion comes from tooling systems (7%). Products and solutions are sold under a number of world-leading brands, including Sandvik Coromant, Seco, Walter and Dormer Pramet.

MARKET SITUATION

Our customer segments strengthened in all regions. The customer segment aerospace, for example, continued to grow globally and the automotive sector was particularly strong in Asia. Sandvik Machining Solutions is in a strong position, with hundreds of thousands of customers spread around the world. However, competition and consolidation continue to increase in the global cutting tool industry.

BEING NO 1 OR 2

2017 was a strong year for Sandvik Machining Solutions, with growth in all regions and product areas and we maintained our number one position in the market for machining products and solutions.

FOCUS ON CORE

During the year, we focused on our Value Selling Concept, which continued to support positive price effects. The Value Selling Concept enables us to offer our customers added value, with tools and solutions that improve performance and increase customers' competitiveness.

This meets a growing demand for higher production efficiency in, for example China, where operational efficiency and productivity have become major business drivers.

EFFICIENCY AND CONTINUOUS IMPROVEMENTS

Operational and efficiency improvements, such as lean methodology, benchmarking internal best practices and other efforts, helped lower production costs. Restructuring and factory closures within the business area also contributed to the year's positive results.

SUSTAINABLE BUSINESS

Within our own operations, Sandvik Machining Solutions' energy use increased by 20 GWh in 2017, which was 3 percent higher than the year before. In relation to a 8 percent organic growth, this corresponds to a relative reduction in energy usage. Waste volumes remained unchanged compared to 2016, an improvement in relation to growth. We pay customers for their worn inserts and solid carbide tools through local buy-back programs. The recycled material is subsequently re-used in our production.

In addition to actively working with recycling of inserts and solid carbide products, we successfully help our customers improve their operational efficiency. We also support customers to lower their energy consumption through improvements in tool speed and tool life. Sandvik Machining Solutions advises customers on how to reduce costs and increase efficiency through our productivity improvement programs.

OVERVIEW

Product portfolio	Multi-brand strategy: Sandvik Coromant, Seco, Walter and Dormer Pramet. Metal-cutting tools: majority of revenues are derived through inserts and round tools (consumables). Smaller part from tool holders.
Market characteristics	High barriers of entry due to capital intensive business model and intellectual property throughout the value chain (high degree of vertical integration). Cutting tools represent a small share of total manufacturing cost for the customers, however they are significant for the productivity. Service levels and product solutions are the main differentiator for premium offering. Lower service degree for mid-market which is more price sensitive.
Demand drivers	<ul style="list-style-type: none"> – Global industrial production – Primary metals consumption – Materials evolution: aluminum, titanium, composites – New technologies: additive manufacturing, near-net shaping, 5-axis machining
Competitive landscape/Major competitors	<ul style="list-style-type: none"> – Consolidated in the premium segment: IMC group (Iscar brand), Kennametal (Kennametal brand) – Fragmented in mid-market including global premium players present with their mid-market brands: Mitsubishi, IMC group (Taegutec brand), Kennametal (Widia brand), Zhuzhou
Go-to-market model	Direct sales ~55-60 percent. Distribution sales is predominant in North America whereas direct sales is predominant in Europe. In Asia, mainly distribution sales with limited service offering in the mid-market segment and direct sales, with high service level, in the premium segment.
Growth strategy	Expansion through organic growth, innovation and niche acquisitions in the core (round tools). Complementary expansion into pre-machining, post-machining and additive manufacturing.
Strategic risk management	Various forms of business environment risks with an impact on the metal cutting market in general, mainly changes in customer behavior, increased competition, brand positioning and the development of new products and services.

OPERATIONS

TECHNOLOGY LEADERSHIP AND INNOVATION

Sandvik Machining Solutions has a high ratio of new products and solutions sold to the market. Products that are less than five years old generate 30 percent of our sales. In 2014, that figure was 23 percent, which gives an indication of what we have achieved in a very short time.

We are expanding our capabilities in additive manufacturing through research and development and on January 1, 2017, we started a new product area to define a commercial model for an additive manufacturing offering. We are a leader in driving technological change in our industry and are confident that Sandvik will add value in additive manufacturing, as we do in traditional, subtractive manufacturing.

During the year we released a number of innovative new products and solutions including the ones below.

PROFITABLE GROWTH

We are working to expand our market position through organic growth, innovation and niche acquisitions in the core business. Certain areas, such as round tools, are particularly in focus as the growth potential is interesting. Another part of our strategy is to expand into pre-machining, post-machining and additive manufacturing. These areas have their own growth potential, but are also critical to master as these steps will be integrated more and more in the manufacturing process in the future.

Our overall ambition is profitable growth, driven by step-by-step continuous improvements, while we expand our business through acquisitions and innovation. We want to develop from a world-leading player in the "niche" industry of metal cutting, to a leading solutions provider to the wider manufacturing industry and deliver accelerated growth with maintained high profitability and returns.

2017 PRODUCT HIGHLIGHTS



PRIMETURNING™

PrimeTurning™ is a completely new methodology that enables turning in all directions. It allows customers to double the speed and feed rates, providing faster metal removal, which means more parts per run. The productivity increase is substantial, >50 percent, as compared to conventional turning.



Y-AXIS PARTING

While conventional parting uses feed motion along the X-axis, the Y-axis parting blade CoroCut® QD is designed with the insert pocket rotated 90 degrees, which allows for feeding along the Y-axis. Machining along the Y-axis gives a more beneficial direction of the cutting force and more than six times higher blade stiffness. Customers can run the machine with considerably higher feed rates and longer overhangs without losing stability.



PERFOMAX® INDEXABLE INSERT DRILL

This drill provides more stable, accurate, reliable and durable drilling in all materials, including long chipping materials. The drill body has been optimized to be stronger for even better hole tolerance and has a new flute design including a polished wave pattern for improved chip evacuation. The laser-hardened front of the flute is designed to avoid the common chip erosion of the body, for extra durability.

THERE'S NO TURNING BACK AFTER USING PRIMETURNING™



José Carrizales from Sandvik Coromant explains the advantages with PrimeTurning to customer Adrián Valdez.

New solutions from Sandvik are helping customers improve their efficiency, flexibility and productivity. Sandvik Coromant's new methodology, PrimeTurning™, helped Mexican customer Sisamex increase parts produced per hour by 100 percent.

PrimeTurning™ enables turning in all directions for much more efficiency and productivity in turning compared to conventional methods. Using the new turning method results in longer lasting inserts, faster metal removal rates, higher machine utilization and less time spent on setup and tool changes. All this makes for a very fast return on investment.

The team responsible for PrimeTurning in Mexico approached Sisamex, a major automotive customer that manufactures transmission parts. The customer doubted that anything could outperform the pinion machining method they had been working with and perfecting over the past 20 years.

TAKING THE CHALLENGE

However, after some persuasion, Sisamex agreed to try the method, provided it could increase the com-

pany's parts produced per hour by 25 percent. If it was capable of increasing their efficiency and productivity so substantially, then the automotive company would use all Sandvik Coromant tools for a new machine they were planning to install.

Tests were conducted at the Sandvik Coromant Center in Mexico, with a pinion sample from the customer that needed to be replicated and the desired increase in produced parts per hour was successfully achieved. Not only that, it was actually increased by 100 percent, from 10 to 20 components per hour.

This was enough to convince Sisamex to switch from pinion machining to PrimeTurning. "From the first presentation, CoroTurn® Prime felt like a good fit to increase our productivity at the pinion production line. After the first results we knew

we had hit a home run with this new project and we clearly saw increased performance of the tools, considerable reduction of cycle time and improved control of the process," says Paul Mata, Manufacturing Manager at Sisamex.

Operators are happy they don't have to change the insert as frequently as in the past, thanks to longer tool life. They are also pleased with the relative ease of changing the cut direction.

The method is such a groundbreaker that it went on to receive the prestigious MaschineMarkt (MM) Innovation award at the 2017 EMO The World of Metalworking exhibition in Hannover, Germany in September.

SANDVIK MINING AND ROCK TECHNOLOGY

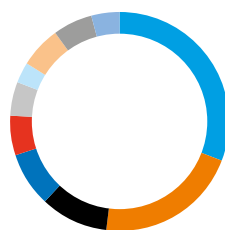
Customer demand rose with commodity prices resulting in a strong 2017 for Sandvik Mining and Rock Technology. The business area continued to develop automated solutions, which are boosting customer productivity, and it focused on aftermarket sales.



2017 IN FIGURES

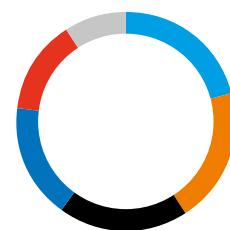
Revenues: 36,547 million SEK (31,093) with 15% organic growth
Operating profit: 5,743 million SEK (3,206)
Operating margin: 15.7% (10.3)
Return on capital employed: 25.4 (13.8)
Employees: 15,041 (14,087)
Gender balance: Men 85%, Women 15%
President: Lars Engström
Lost time injury frequency rate (LTIFR): 1.0
Share of recovered metallic raw material: 91%
Estimated market size: 280 billion SEK

REVENUES BY COMMODITY¹



- Gold, 31%
- Copper, 21%
- Zinc, 10%
- Coal, 8%
- Platinum, 6%
- Iron ore, 5%
- Diamonds, 3%
- Other minerals, 6%
- Other base metals, 6%
- Other metals, 4%

REVENUES BY MARKET AREA



- Africa/Middle East, 21%
- North America, 20%
- Asia, 19%
- Europe, 17%
- Australia, 14%
- South America, 9%

¹) Only for mining-related revenues, i.e. 74 percent of total revenues.

The Sandvik Mining and Rock Technology business area offers equipment, tools, service and technical solutions for the mining and construction industries. Customers are located around the world and work with applications such as rock drilling, rock cutting, crushing and screening, loading and hauling, tunneling, quarrying and breaking and demolition.

About 74 percent of Sandvik Mining and Rock Technology's customers are in mining, 23 percent work in the construction industry and the remaining 3 percent are oil and gas customers.

MARKET SITUATION

Capital expenditures among Sandvik Mining and Rock Technology's customers rose in 2017, prompted by a rise in commodity prices. The upward trend was driven mainly by a rise in gold prices, following by higher prices for copper as well as zinc and nickel. Investments in new equipment picked up, especially in the first six months of the year, following a previous lag in spending. Infrastructure investments, which drive our business in the construction area, were stable during the year and showed encouraging signs of growth in Asia, and particularly in China due to stimulus programs. India continued to invest steadily in necessary infrastructure, while the situation in the Middle East was a bit more subdued during the year.

BEING NO 1 OR 2

Our mining business performed very favorably in 2017, mainly driven by increased investments in new equipment. To meet the demand, we ramped up capacity by more than 100 percent in some product areas. Nonetheless, some of our plants faced challenges meeting the sudden increase in demand.

FOCUS ON CORE

During the year, we continued to focus on the aftermarket and increased our share of parts and services on our installed base of equipment. We also expanded our service offering within the aftermarket, which is an area that remains profitable even in tough economic times.

In line with our strategy to focus on core capabilities, we divested the product area Mining Systems in 2017. The Mining Systems conveyor components business, including the specialist conveyor systems business in Hollola, Finland was divested to NEPEAN. The Mining Systems project business was divested to FLSmidth, with the exception of the project business assets in South Africa, which are awaiting merger control clearance. This is expected to take place in the first quarter of 2018.

SUSTAINABLE BUSINESS

We continued to invest in developing products that make our customers' workplaces healthier and safer, for example by reducing the use of diesel through the electrification of our equipment. We are also using low-emission engines in our truck fleets. This is helping to eliminate harmful exhaust

OVERVIEW

	MINING	CONSTRUCTION
Product portfolio	Equipment for drilling, cutting, breaking, crushing, loading and hauling. Drilling consumables (rock tools), service, spare and wear parts.	
Market characteristics	Consolidated customer base of some 200 global major and junior miners. Remote locations, decreasing ore-grades as well as safety requirements drive volume output and need for semi-to fully automated solutions. Significant aftermarket business.	Sandvik is active in the niche areas of rock excavation and comminution. Customer base is fragmented with more than 25,000 individual customers. Localized offering and local competition.
Demand drivers	<ul style="list-style-type: none"> - GDP growth rate and resource intensive industry development - Metal and mineral prices - Production levels in existing mines and expansion projects (green- and brownfield) - Productivity improvements and new technology, for example automation and electrification - Demand in the areas of environment, health and safety 	<ul style="list-style-type: none"> - GDP growth/Urbanization - Infrastructure investments and spending - Government stimulus programs - Aggregates production - Cement consumption
Competitive landscape/Major competitors	Consolidated in certain segments, i.e. underground hard-rock mining: Atlas Copco, Metso Minerals, Caterpillar and Komatsu Mining.	Some global competitors present in several niches and many local players: Atlas Copco, Terex, Metso, and Furukawa.
Go-to-market model	Direct sales ~95 percent with worldwide service network	Due to a fragmented customer base, 50 percent of sales is via distributors. Global sales and service organization.
Growth strategy	Grow aftermarket business on the installed base. Climb the service ladder by data-driven productivity and advanced services. Mining automation, mid-market and local premium offering. Value-based selling.	
Strategic risk management	Various forms of business environment risks with an impact on the mining and construction market in general, such as increased market competition with new technological developments and the emergence of new competitors, fluctuations in commodity prices and compliance-related risks.	

OPERATIONS

fumes especially in the confined spaces where many of our customers work.

Within our operations, Sandvik Mining and Rock Technology focuses on using materials and resources efficiently and on reducing emissions. Selecting lighter packaging for spare parts and recycling consumables such as drill bits through customer recycling programs, are a couple of examples of our activities.

We carefully select and audit suppliers to ensure they meet the requirements outlined in our Code of Conduct and there is zero tolerance for suppliers who do not live up to our standards.

EFFICIENCY AND CONTINUOUS IMPROVEMENTS

Our operations focus on bringing value to customers through solutions that increase their productivity and efficiency. They also improve safety, with as little impact on the environment as possible.

TECHNOLOGY LEADERSHIP AND INNOVATION

Sandvik's remote monitoring and autonomous solutions for the mining industry, such as AutoMine™, are also making operations safer by releasing miners from areas of high heat, vibration, noise and pollution. Automated systems are also increasing productivity and cost efficiency in mining operations by enabling additional productive hours through remote operation and reducing wear and tear on equipment.

Sandvik Mining and Rock Technology works together with customers, using their insights to develop products and

solutions. By using electric energy from an onboard battery during tramming, the drill rig Sandvik DD422iE produces zero emissions while maneuvering between headings. This improves health and safety for miners working underground. Less diesel usage in the mine can ease ventilation requirements while also reducing associated diesel logistics and maintenance expenses.

In March, we signed an agreement with IBM to jointly develop market leading offerings in Data Driven Productivity and Predictive Maintenance services for the mining and rock excavation industry. During the year we also started a cooperation with Cisco to provide customers with fast and reliable network infrastructure to support Sandvik's digital offering.

PROFITABLE GROWTH

We will continue to grow our market share by focusing on the extremely important and dependable aftermarket for parts and services. We will also invest in upgrading the way we manufacture and develop products such as our rock drills, to help our customers work more efficiently.

Sandvik Mining and Rock Technology is the market leader when it comes to running equipment autonomously and this is another important growth area. Our customers are investing in fleet management systems and autonomous equipment to improve their decision-making, maintenance, productivity, sustainability and efficiency. Connected equipment, made possible through the My Sandvik customer portal for fleet access and management, has opened a new era in fleet optimization and performance.

2017 PRODUCT HIGHLIGHTS



MY SANDVIK DIGITAL SERVICE SOLUTIONS

The service solution provides customers with readily analyzed data of their own operations. Data is gathered straight from the loaders, trucks or drills via a secure wireless connection, it is analyzed and made available in an easy-to-view format. Via the My Sandvik customer portal customers can access their own data 24/7 from anywhere in the world, allowing them to monitor and measure their operations as well as base decisions on accurate knowledge for improved productivity.



SANDVIK CS550 CONE CRUSHER

This powerful secondary stage crusher is dimensioned for 700–750 ton applications. In addition to flexibility and sheer tonnage, it offers advanced automation and maintenance features for maximal productivity and uptime.



RANGER™ DXI –NEW SERIES SURFACE DRILL RIGS

The new surface drill rig includes several new high-performing features for an improved drilling process. For example, it has 55 square meter drilling coverage and is equipped with a new powerful rock drill. This, combined with high fuel efficiency, makes it the most powerful and efficient top hammer drill rig in its class. It represents a totally new generation in the Ranger product family.

ON-SITE SERVICE RAISES PRODUCTIVITY



Shugao He, deputy manager of the Qingcaichong mine in China's Guizhou province, is satisfied with the Sandvik 365 service solution.

Along with equipment and tools for mining, Sandvik Mining and Rock Technology is also a leading supplier of mining services. The Sandvik 365 maintenance agreement includes regularly scheduled maintenance checks and repairs to help mining companies improve safety and productivity – and reduce costs.

Thousands of people work at the Guizhou Kailin Group Co. Ltd (Kailin) underground rock phosphate mines in southwest China, where Sandvik has been supplying underground drill equipment for more than 30 years. Due to the hardness of the phosphate ore, a drill-and-blast technique is necessary, and Kailin's employees rely on a fleet of more than 60 Sandvik drill rigs to drill the blast holes.

The mines operate two shifts per day with production blasts on a daily basis. To keep up such high productivity, the Sandvik rock drills mounted on the drill rigs need to be kept in good working order. Today, this is achieved through a maintenance agreement initiated in 2016.

MAINTENANCE ON SITE

The Sandvik 365 maintenance agreement comprises a Sandvik-branded container with maintenance equipment and a workstation that is based permanently at the Kailin service yard near the mines. Sandvik engineers work on site together with the Kailin equipment teams and are on hand to perform regularly scheduled maintenance checks and make quick repairs

should anything go wrong.

At just six meters long, the Sandvik container features a range of tools, a workbench and all necessary technical manuals and documented procedures. The container serves as a base for service operations, and despite its small size, the converted shipping container has made a big impact on Kailin's operations.

"Before we signed the service contract with Sandvik, we had to wait weeks for spare parts," says Shugao He, deputy manager of the remote Qingcaichong mine, one of Kailin's four mines in the area. "Sometimes we would need to dismantle rock drills and ship them elsewhere to be checked. It took a long time and had a major impact on our productivity." The problem wasn't just on the rare occasions the rock drills needed repair. No regular maintenance schedules were adhered to, so the operating efficiency of the rock drills was sub-par. The local team didn't have the equipment or knowledge of what was required to keep the drills running at their optimum levels.

30 SECONDS SAVED

Ouyang Lin is deputy director of the Kailin Mining Company. "Before the

regular maintenance was introduced, drilling a single blast hole could take up to 90 seconds," he says. "Now with the drills properly serviced, the average is down to 60 seconds. The price we pay for this service contract is very small considering the efficiency improvements we are seeing."

The benefits don't stop there. Kailin employees are also enjoying the use of professional tools and training in how to properly maintain and repair the Sandvik rock drills. Their safety is also vital.

"The biggest challenge we face in technology terms is to stay safe when we mine underground. Getting the right equipment and technology and keeping it operational is crucial," says Zhongguo He, the general manager of Guizhou Kailin Mining Company. "In the past, we purchased just the equipment, but increasingly we are focusing on purchasing both equipment and ongoing service and maintenance agreements. Not only does it improve our productivity, it helps our suppliers to better understand our needs, which can only benefit us in the years to come."

SANDVIK MATERIALS TECHNOLOGY

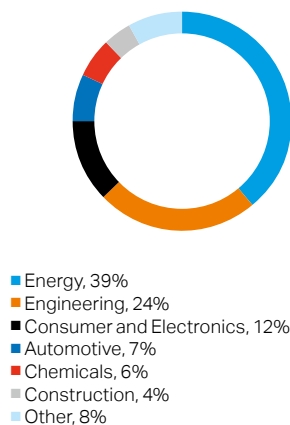
During the year Sandvik Materials Technology showed positive development for some parts of the business, whereas other parts impacted the profitability negatively.



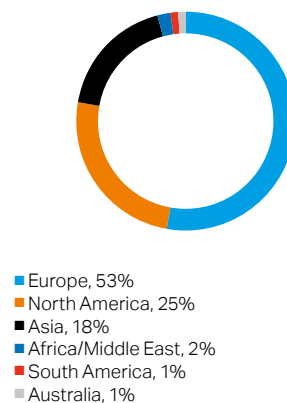
2017 IN FIGURES

Revenues: 13,643 million SEK (12,931) with 5% organic growth
Operating profit: 284 million SEK (1,115)
Operating margin: 2.1% (8.6)
Return on capital employed: 2.2% (8.7)
Employees: 6,483 (6,490)
Gender balance: Men 82%, Women 18%
President: Göran Björkman, as of 1 November 2017
Lost time injury frequency rate (LTIFR): 3.6
Share of recovered raw material: 79%
Estimated market size: 130 billion SEK

REVENUES BY CUSTOMER SEGMENT



REVENUES BY MARKET AREA



Business area Sandvik Materials Technology is a developer and producer of advanced stainless steels, special alloys, titanium and other high-performance materials. It produces tubes, powder, strip and products for industrial heating technology.

MARKET SITUATION

During 2017, there was good development in several of the market segments addressed by Sandvik Materials Technology. However, continued low oil prices and fierce competition from China presented several uncertainties and challenges for the core and standard business within the Tube product area. While being late to react on changed market conditions, mitigation actions have been launched within product area Tube during 2017. It is now on track with a strong focus on cost efficiency improvements and an active portfolio management.

BEING NO 1 OR 2

The wire product portfolio (welding wire and stainless wire), did not meet up to the company's strategy to be number one or two in the market and was announced to be divested. In October 2017 it was announced that the welding wire business will be divested to ESAB, a global leader in the welding industry, while the process to divest the stainless wire business will continue during 2018.

FOCUS ON CORE

There are several specific trends that work in favor of Sandvik Materials Technology's portfolio. With additive manufacturing (3D printing) as well as other powder-based manufacturing methods developing at a fast pace, the powder market for stainless and advanced alloys is growing and the transition from gas-heated industrial furnaces to electrical heating, present new opportunities for the Kanthal product area.

EFFICIENCY AND CONTINUOUS IMPROVEMENTS

Sandvik Materials Technology continued its efficiency program in 2017 with strict cost controls and cost reductions, including layoffs. There was also heavy restructuring in line with the strategic direction to decentralize and allocate resources to the product areas. The goal is to bring business closer to customers for a positive impact on sales, efficiency and product innovation.

The restructuring generated four partly new product areas: Strip, Kanthal, Powder and Tube. This has led to improved accountability and transparency, as well as a more logical organizational structure.

SUSTAINABLE BUSINESS

Sandvik Materials Technology collaborates with customers on ways to help them to work safer and more energy efficiently. One recent example is the development of Safurex®, a patented powder that reduces the risk of explosion during

OVERVIEW

Product portfolio	Tubular products, bars, billets, strip, wire, rock drill steel, heating systems (Kanthal) – as well as metal, powder to for example additive manufacturing as well as powder-based products.
Market characteristics	Selected niches in demanding industries where material requirements, as well as product quality and reliability, are extremely high. High entry barriers.
Demand drivers	<ul style="list-style-type: none"> – Energy demand and oil and gas prices – Industrial production – Environmental demands and legislation e.g. reduced emissions and energy consumption – Materials evolution i.e. advanced material requirements such as additive manufacturing – Increased demand for safety, reliability and more sustainable materials
Competitive landscape/Major competitors	Nippon Steel & Sumitomo Metal (tube), Tubacex (tube), Jiuli (tube) VoestAlpine (strip), Aperam (heating elements and systems), smaller niche players.
Go-to-market model	Direct sales ~80 percent
Growth strategy	Increased focus on products and solutions improving energy efficiency and reducing emissions. Continued material evolution through focused R&D efforts and green technologies such as powder metallurgy.
Strategic risk management	Fluctuating oil and gas prices. Increased competition of high-tech material from China. Local protectionism in the steel industry.

OPERATIONS

production of fertilizers. Umbilical tubes are improving safety in the oil and gas industry, flapper valves are helping to improve energy efficiency, and we offer material technologies that can conduct heat in solar panels or be used in desalination plants.

We continue to optimize our operations through reducing energy, water and waste. During the year, many local initiatives to minimize our environmental footprint were implemented; energy efficiency programs at a majority of the business units, improved monitoring and control of water use, improved treatment of process water and investigation of new solutions to optimize our waste management.

In 2017, energy usage remained unchanged and carbon emissions decreased by 2 percent, despite 5 percent organic growth. Total water usage decreased 140,000 cubic meters (-4%) and waste volumes were reduced by 7,000 metric tons (-8%).

TECHNOLOGY LEADERSHIP AND INNOVATION

Research and development focuses on applications related to energy efficiency and other customer benefits, such as corrosion resistance, high-strength materials and materials that withstand higher temperatures for applications, such as in the solar power industry.

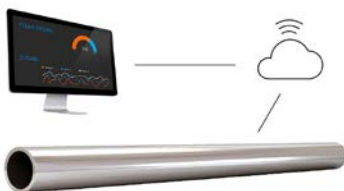
Working with modeling and simulation in materials design and in production processes, has not only optimized production, but also significantly reduced research lead time in materials design before entering product development.

PROFITABLE GROWTH

While there was growth for some of the more specialized tubular products, profitability for the core and standard business within product area Tube remained at a low level. The Powder and Kanthal product areas had good growth development throughout the year, whereas the product area Strip was struggling to reach profitability and efficiency targets.

No competitor today has as many products in the materials technology field as Sandvik. In order for the business area to reach profitability targets, an increased focus on operational and commercial excellence will be important. We will continue to solve the needs of our customers as trends and technologies shift, for example in the areas of digitalization and additive manufacturing. Sandvik's wide range of Osprey® gas atomized metal powders, for example, are being used for, among other applications, additive manufacturing (3D printing). A small but rapidly growing niche of 3D printing customers are using metallic powder from Sandvik Materials Technology. Increased focus on sustainability targets from our customers will continue to influence our product development with more energy-efficient and fossil-free products for customers.

2017 PRODUCT HIGHLIGHTS



SENTUSYS™

The intelligent tube system helps customers control the status of the tubes inside their processes with the help of cloud-based computing. The true innovation lies in the combination of metallurgical knowledge and the sensor technology.



COILED TUBING/EXTREME COILS

Extreme coils is the longest single seamless stainless tube in the world. This is an innovation that fulfills customers' demands in critical applications mainly in the oil and gas industry.



FURNACE ROLLER

Kanthal APMT™ is an iron-chromium-aluminum alloy, ideal for high temperature applications, such as furnace rollers in the steel industry. The rollers remain straight and rigid with excellent resistance to oxidation and hot corrosion, even in extreme temperatures.

INDO-MIM RELIES ON SANDVIK OSPREY® POWDERS



Some complex parts for the industrial segment that Indo-MIM has developed through metal injection molding (MIM).

Sandvik Materials Technology's gas atomized metal powders help facilitate a wide range of customer applications including metal injection molding (MIM) and additive manufacturing (3D printing). Indo-MIM, a supplier of precision-engineered products, has gained a competitive edge with high quality molds manufactured using Sandvik's metal powder Osprey®.

Sandvik's gas atomized metal powders are available in a wide range of particle sizes and alloys, including nickel, stainless steel, cobalt and binary alloys. Customers such as Indo-MIM Pvt. Ltd, have come to rely on Sandvik's gas atomized metal powder Osprey® for their manufacturing processes.

Sandvik has been supplying powders and process equipment to Indo-MIM for more than 15 years. Indo-MIM is a leading global supplier of precision-engineered products manufactured using metal injection molding technology. Its operations are located in Texas, the US and Bangalore, India.

QUALITY AND TRUST

Indo-MIM manufactures molds that are used to make a wide array of components for customers in the automotive, medical, consumer product and industrial sectors in more than 40 countries. Sandvik's Osprey powders are used in the manufacturing of these metal molds. In 2017 alone, Sandvik supplied

the company with 33 different alloy powder products.

"We use Sandvik's powders in most of our major application areas mainly for the stainless steel to make products," says Sachin Malgave, Senior Manager Research & Development, Indo-MIM. "The raw material is very important for our production and we chose Sandvik for its very high quality gas atomized powders. Sandvik also gives us quick and good feedback on material requirements and that helps us to provide our customers with new materials and enter new areas."

3D PRINTING IN THE FORECAST

Indo-MIM recently began using Sandvik Osprey powders to develop 3D-printed metal materials for tooling. This, says Malgave, will help enhance the company's future production capabilities. Using 3D metal printing to produce advanced conformal cooling molds can increase the efficiency of the molding process.

"Sandvik is also helping us to minimize variations and scrap in our production processes for more consistency and better efficiency," says Malgave.

R. Premanand, Assistant Manager, in the Indo-MIM purchasing team, is pleased with the Sandvik efforts. "Sandvik is very flexible and we have a good cooperation with the support team. We like working with them and feel very comfortable," he says.

MIM TECHNOLOGY

Metal injection molding is a net shape technology used to manufacture all kinds of complex components such as medical devices and aerospace and automotive turbochargers. It offers several advantages over other production technologies, such as more cost-efficient manufacturing of high volumes of complex parts, reduced production time compared with casting, less finishing time and minimal waste.

OUR CODE OF CONDUCT

We believe that high ethical standards and strong values create long-term value for our customers, employees and other stakeholders. Through our values, our Code of Conduct and policies, all encompassed within our governance model, The Sandvik Way, we set clear standards for “doing things right”. Our Code of Conduct sets the principles for how we all must act as individuals and as a company; it supports us in making the right decisions.

Our group-wide Code of Conduct, “It’s in our hands”, confirms our strong commitment to ethical and responsible business practices and compliance with relevant laws and regulations in all markets where we operate. The Code of Conduct describes the principles of behavior that our employees should adhere to and provides guidance in our actions and everyday business decisions. It is an important building block of our overall governance structure and it is supported by policies and procedures to further detail our internal requirements and rules.

FOUNDATION OF THE CODE

The Code of Conduct covers areas such as environment, working conditions, human rights and anti-corruption. Its foundation is built on our core values, the International Bill of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention against Corruption as outlined in the ten principles of the United Nations Global Compact, in which we participate. We are also committed to adhering to the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. We believe that by doing so, we provide a solid foundation that supports a more sustainable future for Sandvik and for our stakeholders.

TRAINING

The Code of Conduct applies to all employees globally including the Sandvik Board of Directors. Our employees are provided with regular training to understand the Code of Conduct and the policies related to it. 93 percent of all employees and long time contractors had been trained by the end of 2017.

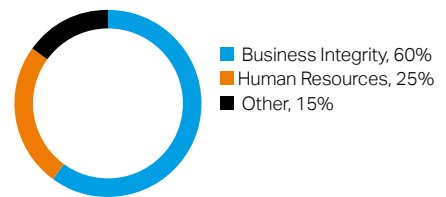
SPEAK UP

A global reporting tool called Speak Up supports the Code of Conduct and the Supplier Code of Conduct (read more on page 39). Employees and external parties who witness a violation of the Codes can report this, anonymously if so desired. Speak Up is available through our intranet or internet portals and through country-specific telephone hotlines 24 hours a day, 7 days a week, in all countries where Sandvik has operations. In addition to reporting incidents, the system can be used to ask questions related to the Codes.

All Speak Up reports are screened automatically to preserve the integrity of the reporter, albeit under oversight by the Group Ethics Office. The case is assigned to the relevant business area or Group Counsel for investigation, with support from the Business Integrity unit specialized in internal investigations and appropriate remediation. Reports, investigations and remediation are recorded, monitored and included in reporting to the Group Audit Committee.



TOTAL AMOUNT OF SPEAK UP REPORTS IN 2017: 224



PERCENTAGE OF EMPLOYEES TRAINED IN SANDVIK'S CODE OF CONDUCT

93%

OUR PEOPLE

Sandvik has a strong culture and solid leadership that encourages local and individual ownership. Our focus on technology and innovation, along with opportunities to develop and build a career, make Sandvik an attractive employer.

Our business philosophy and way of working are guided by our core values: Customer Focus, Innovation, Fair Play and Passion to Win. These are the foundation for our Code of Conduct and Sandvik's Leadership Model, which serve as compasses for required behaviors. In 2017, we established a People Policy. The responsibility for implementing and communicating the policy lies within the business, including securing resource needs and taking appropriate measures when a breach of the policy has been confirmed.

ENGAGED EMPLOYEES

Sandvik encourages everyone to realize their full potential in the belief that a strong employee-employer relationship will benefit the company and customer development.

Annual individual performance dialogs and team dialogs set the foundation for career and team development. All employees should be offered at least one individual

performance dialog annually. In 2017, 81 percent (84) of our employees participated in performance dialogs (target 95 percent).

In team performance dialogs, we set team objectives for the coming year and identify ways to improve and develop our workplace. Input to the dialogs comes from our bi-annual employee engagement survey, customer feedback and business objectives. The most recent employee engagement survey was performed in 2016, and during 2017, each business entity followed up on the conclusions and actions defined after it.

DIVERSITY AND INCLUSION

An inclusive environment leveraging the different perspectives and ideas of a diverse workforce will enrich our customer relationships and make our business more competitive and successful.

Sandvik offers knowledge and training in diversity and inclusion through

a toolbox that includes e-learning, workshops and exercises. Our Bridge program focuses on leading across boundaries and our global core leadership program provides an introduction on how to work with diversity and inclusion as a manager.

The share of women in managerial positions increased to 17.1 percent (16.5), the share of women in product area management teams decreased to 19 percent (24) and the share of women in the pool of managers preparing for senior managerial positions was 27 percent (28).

On a broader scale, we are engaging with educational institutes and other parts of society in local efforts, for example, in Sweden where we are partners in the Future Female Leader Award. The award goes to a female civil engineering student who has demonstrated outstanding problem-solving abilities and excellent leadership qualities.

PARTICIPANTS IN GLOBAL LEADERSHIP PROGRAMS

~500

Average number of employees: 43,376 (44,769)
Of which women: 19% (19)
Turnover rate: 9% (11)



Debbie Tucker is a manufacturing operator at the Palm Coast site in the US.

OPERATIONS



Malin Björk works as a production leader at the product area Powder in Sandviken, Sweden.

COMPETENCE FOR THE FUTURE

Sandvik works to attract the best talent and retain this talent by offering development and career opportunities. We are facing challenges of new market demands, for example in the area of digital competence. Attracting the right competence is critical, and we leverage the strength of social media platforms, such as LinkedIn, to target for example front- and back-end developers, user experience designers, data scientists and digital marketers. The results are significant savings and on-boarding of hard to come by competence. In 2017 we reached about 184,000 followers on LinkedIn (target 200,000), which was an increase of 21 percent compared to 2016.

We promote an open internal job market where our employees can apply for new positions on our job portal. This encourages internal mobility and career development driven by each employee. During 2017, we had about 3,800 open positions, of which a majority was posted on our internal job portal. Among top management positions, 88 percent were posted on the open internal job market. We

also aim for a good balance between internal and external recruitments to capture knowledge and experience from other markets and industries.

LEARNING AND DEVELOPMENT

We support an organization that is constantly learning, to stay on top of the competition, and all competence development activities are based on business needs. Sandvik offers a variety of learning opportunities that are available through our Learning Management System. About 75 percent of Sandvik employees have access to the system and its global offering within, for example, leadership, language, compliance, the Code of Conduct and finance.

Global Graduate Program

Sandvik's Global Graduate Program attracts top talents in selected markets. The third 18-month long program started in September 2017. We received over 2,500 applications, out of which ten graduates were selected – five men and five women from India, China, the US, Sweden and Finland.

Leadership programs

About 500 managers participated

in our global leadership programs in 2017. The largest program is a core leadership program for all managers with people responsibility. We also have a mid-level management program, an expert program, a next generation leadership program and a program focusing on cross-border leadership. All our leadership programs are based on our leadership model, which sets clear expectations on both leadership capabilities and behaviors.

Learning Academies and mentoring

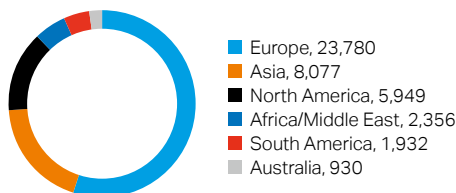
Our business areas and product areas provide specialized academies that focus on competence development for employees, customers and suppliers. These often have a strong focus on technology, business, product and sales training.

Mentoring is being used to develop the ability of managers and employees to motivate and encourage others, share knowledge and expertise and sometimes to prepare an employee for a future position.

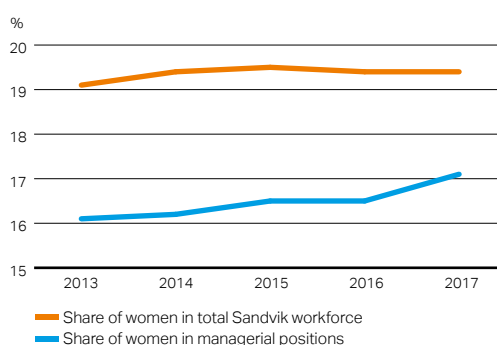
University collaboration

Sandvik collaborates with many universities all over the world to attract talent, participate in projects, offer lectures, do PhD and thesis work and collaborate on research. In Germany, for example, we collaborate with the University of Tübingen and the University of Heilbronn. In Sweden, we have many initiatives with the Royal Institute of Technology (KTH) and Uppsala University, and in the US we have a long history of collaborating with Ferris State University in Big Rapids, Michigan.

NUMBER OF EMPLOYEES BY MARKET AREA, 2017



SHARE OF WOMEN, %





Miners at the Klondex Fire Creek mine in Nevada, USA listen during a morning pre-start meeting. The mine, the world's highest-grade gold operation, relies on a Sandvik 365 Expertise On Site service agreement to help guarantee equipment reliability and availability.

HUMAN RIGHTS AND FAIR LABOR CONDITIONS

Our commitment to human rights is confirmed in our Code of Conduct as well as in our Supplier Code of Conduct. The Codes also provide guidance in identifying, preventing and mitigating risks related to human rights. In 2017, 23 percent of all Speak Up reports related to human rights matters. In our supplier audits, 23 percent of the deviations were related to human rights.

To mitigate human rights risks, we continuously work to ensure compliance with national legislation and internationally agreed human rights standards and regulations. We regularly evaluate our standards and procedures for identifying, preventing and mitigating adverse human rights impacts in the Group's operations and in our value chain. Our work on human rights is integrated in our regular processes and procedures in different ways, for example, in our

Sustainable Supplier Management, our safety work and in our diversity and inclusion scheme. We have zero tolerance for forced or slave labor and child labor.

We also support children's rights and the right to education through our community involvement programs in, for example, India and China. All employees have the right, if they choose, to join a union and be covered by a collective agreement. Health and safety are key elements in our operations as we believe the right to a safe and healthy workplace is central.

We believe in a diverse workforce without any form of discrimination based on gender identity, ethnicity, national origin, age, disability, marital status, social group or any other characteristics, nor do we accept any form of harassment or bullying.

In light of the recent global campaign "#metoo", the Group Executive Management encouraged every employee having been subjected to harassment or discrimination to report this to a manager or through our Speak Up system. In the last two months of 2017, a total of 15 harassment-related matters were reported through Speak Up. This can be compared to a previous average of two reports per month. All individual reports through our Speak Up system are managed according to established processes and, when needed, followed up with appropriate measures.

HEALTH AND SAFETY

Health and safety has the highest priority at Sandvik. Our vision is “Zero Harm to our people, our customers, our suppliers and the environment we work in”. This means that everyone should go home from Sandvik in at least the same condition as they arrived in.

We have reduced the Lost Time Injury Frequency Rate (LTIFR) for seven years in a row and the Total Recordable Injury Frequency Rate (TRIFR) for four years in a row – both to all-time lows. Sandvik’s health and safety work is in compliance with all relevant legislation, and strives to go beyond compliance to ensure the best performance for both our employees and our customers.

Maintaining a strong health and safety culture requires continuous vigilance and effort. Sandvik’s Environment, Health and Safety (EHS) management system provides us with a structured approach to help us achieve our health and safety vision. Reports are produced every month to monitor health and safety in every part of our organization so we can take corrective action where needed.

Our health and safety activities are based on Sandvik’s EHS Policy and Group EHS Objectives. Each business area works to meet these objectives according to their own

plans, including activities to reduce the number of work-related injuries and illnesses. Targets are set year on year to drive performance for the Group, Business Areas and Product Areas.

Our management systems are audited by external agencies to ensure that they meet internationally accepted standards (OHSAS 18001 or equivalent) and are regularly audited internally to continually improve our operating practices.

MIND ON SAFETY

A safe and healthy workplace requires a strong culture and the Sandvik EHS Council shares best practices across the Group to maintain a “people caring for people” mindset at all times.

Our employee survey results from 2016 indicate that there is strong belief among our employees that our safety culture is supporting our EHS Vision. A key factor is that our leaders “walk the talk” when it comes to health and safety. In all business

areas, for example, leaders must commit to three personal EHS Leadership Behaviors. These behaviors are monitored and measured.

PERFORMANCE IN 2017

Sandvik utilizes a wide range of indicators to measure its safety and health performance, including Lost Time Injury Frequency Rate. Since 2012, Sandvik has also been measuring the Total Recordable Injury Frequency Rate as a group-wide safety performance indicator. Both of these indicators are showing long-term positive trends.

The target for 2017 was to achieve an LTIFR of 1.4. At year-end the LTIFR for the Group was 1.6 (1.7).

EMPLOYEE WELL-BEING

Our culture and working environment should also support the well-being of our employees. All of our sites implement health and well-being programs that are selected by the local workforce. These programs address a wide range of issues from mental health to fitness and nutrition.

Surveys are conducted to ensure that the programs continue to meet the needs of the workforce. The main conclusion from this year’s survey was that awareness about our health and well-being programs needs to increase. Roughly one third of the surveyed population said they did not know about the programs, whether or not they are adapted to local needs or if they are effective. The remaining respondents said the programs were adapted to local needs (94%) and they perceived them as effective (84%).



At a fire drill at the Tampere site in Finland in November, a widespread machine fire was simulated. The fire was extinguished and the evacuation was done within minutes for all 800 employees on site.



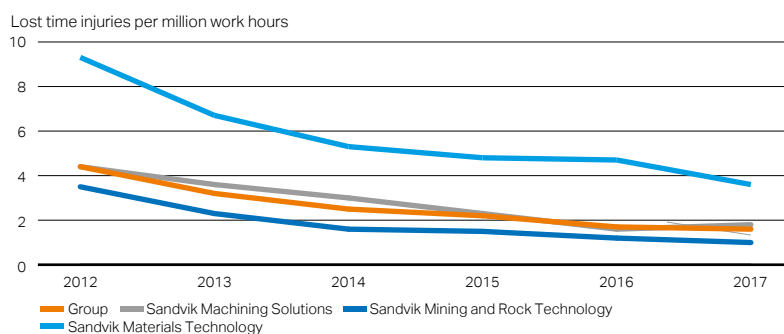
Safety is a top priority for employees at the Sandvik facility in Kumasi, Ghana.

OCCUPATIONAL ILLNESS AND HAZARDOUS MATERIALS

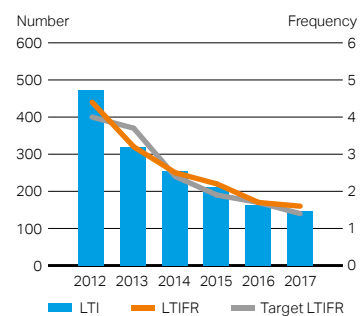
Sandvik records and investigates occupational illnesses to determine their causes and develop prevention strategies. The increasing incidence of work-related mental health issues is causing concern for many communities around the world. Sandvik has already begun developing and implementing education and awareness campaigns to address this concern.

Sandvik continually works to replace hazardous materials with less hazardous options, and to invest in new equipment and improve processes to reduce employee exposure to hazards such as noise, dust and exposure to gases or other substances. We also help customers improve their health and safety through solutions and products that reduce exposure to the same hazards.

LOST TIME INJURY FREQUENCY RATE (LTIFR)



LOST TIME INJURIES (LTI) AND LTIFR



OUR ENVIRONMENTAL FOOTPRINT

Responsible environmental business practices are an integral part of our business model and strategy. In addition to having a product and services portfolio that contributes to our customers' environmental performance, we strive to improve our environmental footprint within our own operations. We have production, distribution and service-related operations all around the world. Each site is responsible for minimizing their relative environmental footprint.

TARGETS

Our objective is to achieve significant improvements in areas where our operations have an important environmental impact. The Group's environmental targets have 2014 as a base year and run to the end of 2020. The targets are as follows:

- Increase energy efficiency related to worked hours by 20 percent
- Decrease carbon emissions related to worked hours by 20 percent
- Decrease freshwater consumption related to worked hours by 20 percent
- Increase the share of waste that goes to recovery operations by more than 20 percent of the total waste generated
- Maintain the percentage (80%) of metallic raw material that comes from recovered materials

Environmental data and progress are reported on a quarterly basis.

During 2017, the Sandvik EHS (Environment, Health and Safety) Council worked to develop its environmental target setting to reflect Sandvik's decentralized business model.

Sandvik Materials Technology has the biggest environmental impact of our three business areas due to its stainless steel production in Sandviken, Sweden. Hence, many environmental efforts lie within Sandvik Materials Technology. Sandvik Machining Solutions' production is highly automated and Sandvik Mining and Rock Tech-

nology is mainly based on assembly, both with less environmental impact.

REDUCING ENERGY AND EMISSIONS

Energy efficiency and climate change mitigation are key focus areas.

Sandvik has hundreds of projects to reduce energy consumption and lower carbon dioxide (CO₂) emissions at locations ranging from our largest, most energy-intensive operations, to some of our very smallest. In Europe, we purchase low-emission electricity in accordance with the European Guarantees of Origin (GoO) scheme. This has had a positive impact on our CO₂ emissions, and the estimated avoidance for 2017 amounted to nearly 100,000 tons, corresponding to more than 25 percent of the Group's reported annual carbon emissions.

In 2017, Sandvik increased its total use of energy by 40 GWh, corresponding to an increase of 2 percent. In relation to Sandvik's 11 percent growth in invoiced sales, this constituted a 9 percent improvement of energy use.

Some of Sandvik's production processes release emissions of sulphur dioxide (SO₂) and nitrogen oxides (NO_x), in addition to CO₂. The Group's emissions of SO₂ originate mainly from the combustion of oils and coal, and amounted to approximately 31 tons (35) in 2017. NO_x emissions mainly come from the smelting processes in Sandviken, Hallsta-

hammar and Svedala in Sweden. NO_x emissions remained unchanged and amounted to 329 tons (330).

The Sandviken operations have been switching some of their furnaces from Liquefied Petroleum Gas to Liquid Natural Gas. For 2017, this resulted in an estimated decrease in CO₂ emissions of approximately 10,000 tons, or 2.6 percent in relation to the 2014 base year. The new furnaces also decreased emissions of NO_x.

Sandvik Materials Technology in Sandviken has had a certified energy management system (ISO 50001) in place since 2006. In line with legal obligations, such as the EU Energy Efficiency Directive, Sandvik facilities in Sweden conduct energy reviews. During 2017 there were four energy reviews completed. The sites in Sandviken and Hallstahammar, Sweden were assigned EU ETS emission rights corresponding to 84,368 tons of CO₂.

Several of Sandvik's locations are engaged in renewable energy projects such as solar energy. Sandvik's Pune, India location, for example, installed solar panels at their site, which began generating power in November 2017. Annual power generation is expected to be 250 MWh.

USE, REUSE AND RECYCLE

In our efforts to contribute to a more circular economy, we prioritize the use of recycled material as much as



possible in production processes. We use 79 percent recycled steel in our production today, with a large portion of that coming from material created in our own turning and drilling production.

In 2017, the Sandvik Coromant product area set a target to recycle 75 percent of tungsten carbide according to sold weight through a closed-loop recycling system. In 2017, the outcome was 84 percent. Sandvik Coromant buys used inserts and solid carbide tools from its customers, collecting the used tools at

customer premises. The solid material is sorted, purified and regrinded to powder that is then used by Sandvik's production plants. Making new tools from recycled solid carbide uses 70 percent less energy than making them from virgin raw materials and 40 percent less CO₂ is emitted.

WASTE MANAGEMENT

More than 80 percent of all waste is generated at Sandvik Materials Technology's facilities in Sandviken, Sweden and Sandvik Machining Solutions' Wolfram Bergbau und Hütten facility in Austria. The overall goal is to reduce the consumption of raw materials and waste to landfill. Currently 15 percent of the generated waste is reused or recycled and there are plans in place to increase this further.

Successful trials were performed in 2017 to reuse refractory as a slag-forming agent in Sandviken's steel plant and the method is now under implementation as a standard operational procedure. Further trials have begun to reduce the amount of slag to landfill by creating products for both internal and external use.

The total amount of waste declined by 2 percent and the waste recovery ratio remained at 15 percent of total waste. 11 percent of Sandvik's total waste was classified as hazardous.

This type of waste is treated and disposed of in a safe manner in accordance with strict legislation.

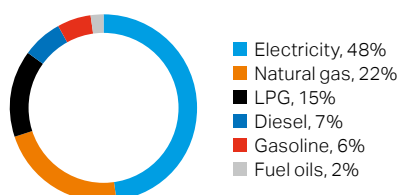
WATER

In our efforts to reduce water consumption, we strive to re-circulate water within our plants. Rainwater collection systems have been installed, for example at the Indian Pune site in 2017. A water recycling plant is also in place in our site in Jet Park, South Africa.

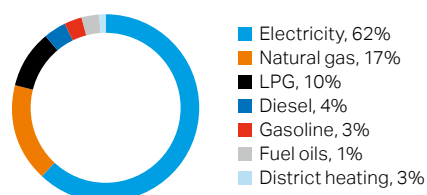
All wastewater from processes is treated before being released. Sandvik's emissions to water consist mainly of phosphorous and nitrogen compounds, oxygen-consuming substances and metals.

Sandvik Materials Technology began using local groundwater for cooling processes in 2016 instead of potable water. This has resulted in an annual 30,000 m³ reduction of this resource.

CO₂ EMISSIONS 2017



ENERGY CONSUMPTION 2017



COMPLIANCE

Sandvik is bound by international regulations and standards and by the laws of the countries in which it operates. Four compliance programs mitigate risks and meet the requirements of the law as well as stakeholder expectations. These programs address anti-bribery and corruption, competition law, trade compliance, and data privacy.

ENFORCEMENT AND REPORTING

The Sandvik Compliance Functional Council includes compliance officers from the business areas and specialist legal counsel at the Group level. It oversees the programs that are implemented by each business area. The Council sets requirements, reviews performance and reports to the main board through the Audit Committee. The Council met four times in 2017.

The development in all programs are reported to the Board of Directors on a regular basis. Reporting is designed to provide visibility of program effectiveness and timely advice of risks as they occur.

Employees and other stakeholders are encouraged to report any deficiencies or breaches of Sandvik compliance programs through the Speak Up system. This facilitates rapid identification of risks and enables corrective remediation to take place.

ANTI-BRIBERY AND CORRUPTION

Our policy on anti-bribery and anti-corruption states the following: "Sandvik is firmly committed to fair business practices without any form of bribery or corruption and confirms to comply with anti-bribery laws in all countries where we operate." This policy applies to all entities and employees within the Sandvik Group and we expect the same high ethical standards from our business partners, suppliers and intermediaries regarding anti-bribery and corruption.

Sandvik's anti-bribery and corruption program closely conforms to the guidance provided by major regulators with policies and procedures, assessment of bribery and corruption risks, screening and vetting of business partners, training of employees and monitoring and reporting of these activities.

In 2017, Sandvik strengthened group-wide management of commercial intermediaries by acquiring new IT systems support, which facilitates risk assessment, due diligence, ongoing management and monitoring of commercial intermediaries. Sandvik further enhanced penetration and monitoring of anti-bribery and corruption compliance through embedding specific controls into the group-wide risk and control matrix.

OTHER PROGRAMS

During the year, the competition law program focused on training and working on compliance issues together with business leaders in the industry.

The trade compliance program addresses customs, sanctions and export controls. In 2017 the program continued to support the business with the changes in the lifting of sanctions in Iran and elsewhere.

The data privacy program was revamped in 2017 for better alignment with the requirements of the EU General Data Protection Regulation (GDPR), which comes into effect in May 2018.

EACH OF THE COMPLIANCE PROGRAMS COMPRISE THE FOLLOWING:

- Risk identification and assessment
- Controls (including policies, procedures and record keeping)
- Training
- Enabling and enforcing
- Follow up, reporting and improvement
- Organization

SUSTAINABLE SUPPLIER MANAGEMENT

Sustainable supplier management is a prioritized area at Sandvik. We believe in acquiring goods and services in an ethical manner that, from a lifecycle perspective, achieves value for money while minimizing our negative social and environmental impact.

In 2017 we had approximately 82,000 suppliers situated around the world. Our supply base ranges from multi-national raw material and component suppliers to small, local service providers. Regardless of the type of supplier, we believe it is essential to partner with those who embrace our sustainability standards (outlined in the Sandvik Supplier Code of Conduct).

SANDVIK PROCUREMENT POLICY

During the year, we adopted a group-wide procurement policy that fully integrates our sustainability commitments into the procurement processes. The new policy sets the rules for procurement operations so that they contribute to the economic development of the Group, protect and create business value, reduce environmental footprint and negative social impact of our supply base, and prevent bribery and corruption.

SUPPLIER SUSTAINABILITY PROGRAM

Our Supplier Sustainability Program focuses on three areas: Creating supplier commitment, building capacity and monitoring high-risk suppliers through audits.

Creating supplier commitment

All suppliers are required to accept Sandvik's Supplier Code of Conduct.

Building capacity

We continued our capacity-building activities across the Sandvik organization in order to improve competence and increase awareness on the topic of sustainable supplier management. In 2017, 76 purchasers and related functions attended training sessions focused on sustainable

supplier management and related processes. Additionally, 133 suppliers audited in 2017 received training in the Sandvik Supplier Code of Conduct and our way of working with it.

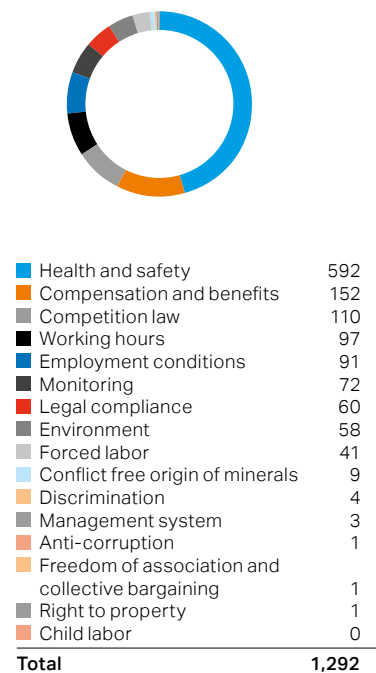
Monitoring high-risk suppliers

We conducted 134 Supplier Code of Conduct audits in 2017 as follows: 68 in India, 62 in China, and one audit in each of the following countries: Taiwan, South Korea, Singapore and Malaysia. 133 audits were performed on site. We did not identify any cases of child labor in 2017. All cases of forced labor (41) are related to salary deductions as a disciplinary measure, discrimination (4) relates to employment practices, while deviations from competition law (110) and anti-bribery (1) refer to missing policies or training.

133 of the total audits performed during 2017 verified compliance with the conflict minerals section of Sandvik's Supplier Code of Conduct and they identified 6 deviations related to missing policy or statement, and 3 related to missing procedures or documentation as proof in a due diligence audit.

The health and safety deviations (592) vary widely from missing fire alarm systems, signage, daily maintenance records, firefighting or evacuation drill, to a lack of relevant policies, fire safety measures or unsafe conditions and risk assessments. Compensation and benefits deviations (152) relate to social insurance not covering all workers, overtime which was not compensated according to law, workers that were not granted legal annual leave and, in a few cases, minimum level wages that were not paid.

DEVIATIONS IDENTIFIED AMONG SUPPLIERS 2017



During 2017, we carried out a reasonable country of origin enquiry based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas to identify smelters/refiners associated with our supply chain.

A large part of the tungsten supply across the organization comes from Sandvik's own subsidiary Wolfram Bergbau und Hütten (WBH), a conflict-free smelter that has maintained its compliant smelter status since the company successfully completed the Conflict-Free Smelter Program audit in March 2015.

COMMUNITY INVOLVEMENT AND SPONSORSHIP

Sandvik strives to be a good corporate citizen and have a positive influence on the communities we work in. As a global company, we contribute to many communities around the world. We support projects related to innovation, education and skills, health and safety and “local enabler” projects.

We believe that both the community and our company benefit from sponsorship and community involvement, making Sandvik a more attractive employer and increasing loyalty among employees and a positive perception among people in the local community.

We view community involvement projects as investments for which we require contracts, clear target groups and objectives with measurable results. All activities must conform to our Code of Conduct, which means that we do not engage in any activities of a political or religious nature or in projects that may be viewed as hazardous to health or the environment. All our project partners must sign our Supplier Code of Conduct and undergo the same screening process as our suppliers.

FOUR DISTINCT PROJECT AREAS

Our platform for projects in sponsorship and community involvement comprises the following four areas:

Innovation

Projects that clearly link to our daily work, products and solutions.

Education and skills

Projects that demonstrate our role as an employer and provide long-term employer branding value.

Health and safety

Health-related projects showing our societal commitment.

Local enabler

Projects creating joint value for our stakeholders and our employees.

ENGINEERS WITHOUT BORDERS

In June 2017, Sandvik signed a long-term partnership agreement with Engineers Without Borders, Sweden to contribute technical expertise, project management skills and international experience to the non-governmental organization’s (NGO) volunteer projects. Sandvik will contribute both financially as well as in the form of human or knowledge resources. At the same time, Sandvik employees benefit from the opportunity to participate in humanitarian projects.

Engineers Without Borders has national affiliates across the world that run development projects in partnership with the local population. The focus is on sustainable energy and water supply, schools and education, hospitals and care.



In 2017, Sandvik signed an agreement with Engineers Without Borders, Sweden. The first joint project is a wind power project in Tanzania.



Sandvik operates several school projects across the globe. The Sandvik Every Child Counts campaign aims to prevent child labor and provide education to migrant and street children in India.

The NGO is active in Africa where it currently has some 20 projects in progress, including installing solar cell electricity to provide lighting in Kenyan schools and building sanitation systems in Tanzania.

SCHOOL PROGRAMS

The Sandvik Every Child Counts campaign in India is an initiative to prevent child labor and provide education to migrant and street children in the country. Since 2014, a total of 3,335 out of school children have been enrolled in mainstream schools and 1,305 have continued education in 45 different schools across the Pune region.

The Sandvik School on Wheels program complements the Every Child Counts campaign by providing education at the doorstep of sites where there is no school. The School on Wheels is a refurbished bus equipped with classroom supplies in which we conduct classes across different sites. This initiative reaches out to children of the most marginalized communities like rag pickers, roadside sellers and migrant workers.

In Sweden, Sandvik runs two technical secondary schools with the Sandviken and Östhammar municipalities.

VOCATIONAL TRAINING IN SOUTH AFRICA

We run a number of vocational training programs in order to increase the level of technical expertise in countries where there is a lack of trained mechanics impacting our ability to obtain skilled labor.

More than 900 people have been trained and subsequently employed by Sandvik in South Africa through the Sandvik Apprenticeship program, established in 2001. The program was started to address a skills shortage in South Africa for tradespeople, including electricians, carpenters and mechanics. The corporate sector was encouraged to join forces with the South African government in addressing this shortage and

training tradespeople in conjunction with the Department of Education, the Department of Labor and the Department of Higher Education and Training.

Sandvik continues to provide workshops, coaching, on-site learning and evaluations. We also provide Sandvik-specific machining courses and technical training at the local Sandvik Academy. The maximum four-year program includes formal courses at a chosen college.

Through the Sandvik Apprenticeship program, we help improve the skills and employability of South Africans in the area where we operate. All participants receive benefits such as access to medical health care.



Some of the participants in Sandvik's vocational training programs in South Africa.

OUR SHARE

Our growth prospects are based on our ability to continuously provide superior customer productivity enhancements as part of our offering of products and services. We do so by leveraging our core capabilities in materials and the ability to industrialize advanced products. During 2017, the share price increased by 26 percent, while the OMXS 30 index on Nasdaq Stockholm increased by 3 percent.

Sandvik's share is listed on Nasdaq Stockholm, Sweden. At year-end 2017, the share was quoted at 143.7 SEK, corresponding to a market capitalization of 180 billion SEK, placing Sandvik as the 12th (15) largest company on Nasdaq Stockholm.

SHARE TRADING

In 2017, a total of 1,082 million shares (1,300) were traded for a total value of 145 billion SEK (113). Trading in Sandvik shares on the Nasdaq Stockholm accounted for 63 percent (55) of the total volume of shares traded. Other markets, e.g. BATS Chi-X, Turquoise etc. accounted for 37 percent (45). The Sandvik share can be traded in the US in the form of American Depositary Receipts (ADRs), a process handled by Deutsche Bank Trust Company Americas as a depository bank. In 2017, the average daily ADR trading volume was 17,995 (27,768). At the end of 2017 there were 2,546,925 ADRs outstanding (4,769,608).

DIVIDEND AND TOTAL SHAREHOLDER RETURN

Our yearly target is that the dividend will amount to at least 50 percent of reported earnings per share. The Board has proposed a dividend of 3.50 SEK (2.75) per share to the 2018 Annual General Meeting, corresponding to approximately 4.4 billion SEK (3.4) and a dividend yield of 2.4

percent based on the share price at year-end. Assuming the approval of the proposed dividend for 2017 of 3.50 SEK, Sandvik's dividend over the past five years has averaged 3.15 SEK annually. A total of 62 percent of reported earnings per share for the Group total has been distributed.

SHARE CAPITAL

The number of Sandvik shares amounts to 1,254,385,923. Each share has a nominal value of 1.2 SEK and the share capital amounts to 1,505,263,108 SEK. Sandvik's share capital comprises one series of share, with each share carrying equal voting rights and equal rights to a dividend. Sandvik does not hold any shares in treasury and the most recent occasion when new shares were issued was in conjunction with the acquisition of the shares outstanding in Seco Tools in 2012.

SUSTAINABILITY INDICES

Sandvik is included in several sustainability indices, such as the Dow Jones Sustainability Index, the Global 100 Most Sustainable Corporations in the World, FTSE4Good and Ethibel Excellence Europe. These are international indices analyzing global companies that assume their responsible business practices. Sandvik's inclusion in these indices confirms the Group's achievements in relation to sustainable business practices.

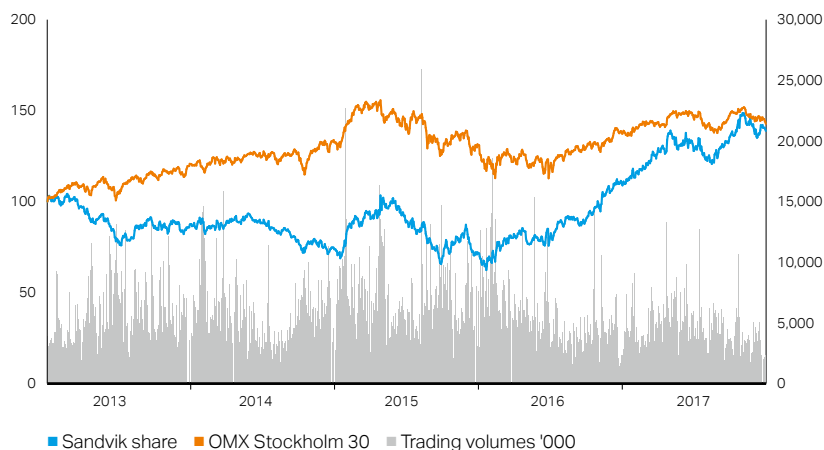
OWNERS

In 2017, the number of shareholders decreased to 103,334 (109,072). There are shareholders in 81 countries, and the total ownership outside of Sweden amounted to 37 percent (33) at year-end. The ten largest individual shareholders accounted for 31 percent of the share capital on the same date. As of 31 December 2017, members of Sandvik's Group Executive Management owned a total of 164,846 shares in Sandvik. Members of the Board of Sandvik owned a total of 484,561 shares in Sandvik (including deputy board members, excluding the CEO). Total ownership of Group Executive Management and the Board corresponds to about 0.05 percent of the capital and voting rights.

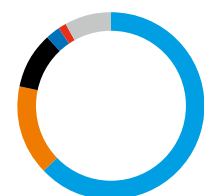
PROPOSED DIVIDEND, SEK

3.50

THE SANDVIK SHARE, FIVE-YEAR TREND



DISTRIBUTION OF SHAREHOLDING BY COUNTRY, 31 DECEMBER 2017



- Sweden, 63.0%
- USA, 15.4%
- UK, 9.8%
- Luxembourg, 2.6%
- Finland, 1.3%
- Other countries, 7.9%

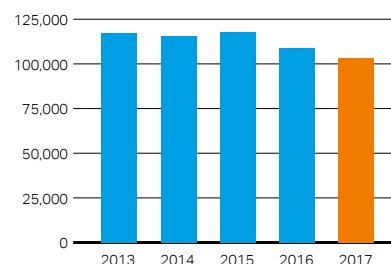
KEY FIGURES

	2016	2017
Number of shares at year-end (millions)	1,254	1,254
Market capitalization at year-end (SEK billion)	141	180
Number of shareholders	109,072	103,334
Share price at year-end, SEK	112.7	143.7
Earnings per share, SEK Group total	4.39	10.52
P/E ratio at year-end	25.7	13.7
Change in share price during the year, %	52.2	25.9
Regular dividend, SEK/share	2.75	3.50*
Dividend as a percentage of earnings per share	63	33*
Total shareholder value (price increase + dividend), %	54.6	29.0*
Proportion of shares in Sweden, %	67	63
Proportion of shares owned by the ten largest shareholder groups, %	32	31

*Proposed dividend.

Source: Euroclear, Monitor by Modular Finance AB

NUMBER OF SHAREHOLDERS, 31 DECEMBER 2013 – 2017



THE TEN LARGEST SHAREHOLDER GROUPS, AS OF 31 DECEMBER, %

	2016	2017
AB Industrivärden	11.8	11.8
Alecta Pension Insurance	5.9	6.1
AMF Insurance and Funds	2.8	2.7
Handelsbanken Pension	3.2	2.6
Swedbank Robur Funds	2.8	2.5
L E Lundbergföretagen AB	2.4	2.4
SEB Investment Management	1.6	1.9
JP Morgan Chase	1.5	1.8
Fourth Swedish National Pension Fund	1.5	1.4
Nordea Investment Funds	2.2	1.4

Source: Euroclear

INVESTMENT CASE

Sandvik's equity story is built on more than 150 years of leading material and application knowledge with close long-term customer relations based on our offering to increase productivity.

Improved performance will be derived through maintained market and technology leadership supporting continuous product launches, combined with a decentralized and cost-efficient business model for higher transparency, accountability and speed as well as business portfolio review.



GENERATING GROWTH

- All businesses should maintain or be able to achieve a No. 1 or 2 position, supported by new product launches in core segments and applications in order to sustainably drive customer's productivity
- Capture aftermarket opportunity in Sandvik Mining and Rock Technology through higher sales penetration on installed base
- Acquire growth within the already stable and profitable product areas



COST EFFICIENCY

- In the decentralized set-up the product areas are the highest operating level with full accountability on performance
- Decisions taken closer to customers making Sandvik more agile to changes in customer requirements
- Leaner overhead structure
- Productivity improvements by 3 percent annually
- High cost awareness, with focus on SG&A (Selling, General & Administrative Costs)



PORTFOLIO OPTIMIZATION

- Acquisitions in the high-performing areas
- Continuous review of operations to focus on core businesses where Sandvik is or can be global no. 1 or 2



CAPITAL EFFICIENCY AND CASH FLOW GENERATION

- Capital allocation to the higher growth and return areas
- Continued consolidation of the supply chain
- Stringent management of net working capital

DIALOG WITH ANALYSTS

Approximately 25 analysts cover Sandvik on a continuous basis. At year-end 2017, the breakdown of recommendations relating to the Sandvik share was as follows: 9 percent buy/increase, 59 percent retain/neutral and 32 percent sell/decrease according to Factset. Here are some of the most frequent questions discussed in 2017 and our answers:

Q: How will the transition to electrical vehicles impact Sandvik Machining Solutions?

A: There are several factors to take into account, such as battery technology development, build rate for infrastructure supporting a fully electrified car fleet, how long hybrid vehicles will be dominating, etc. Manufacturing a fully electrical vehicle requires about 1/3 of inserts compared to a combustion engine, while hybrid vehicles require 20-30 percent more cutting tools. The net impact of these important technology shifts present both a long-term challenge and a short- to mid-term opportunity, depending on how rapidly and well we can develop our offering to better address customer issues, using new technologies as an enabler.

Q: Explain the key drivers for further margin improvement in Sandvik Mining and Rock Technology.

A: Servicing more of our installed base. Improved performance in some still underperforming product areas, e.g. Drilling and Completions, Crushing and Screening. We also see great potential within the automation offering. In total, we expect improved profitability and less volatility in earnings.

Q: How much could you spend on acquisitions?

A: The most likely targets would be small- to mid-sized companies of strategic importance. For Sandvik Machining Solutions this could be within the digital offering and also in the core business for, for example, round tools. We are cautious to safeguard the BBB+ credit rating and a solid balance sheet.

Q: What is the most important in terms of sustainable business?

A: That our sustainable business strategy gets even more deeply integrated into our businesses. In 2017, each business area developed ambitions and targets for sustainable offerings which are key to drive sustainability towards our customers. We are very proud to have been included in international sustainability indices, such as the Dow Jones Sustainability Index and the 2018 Global 100 Most Sustainable Corporations in the World index. This acknowledges that we are on track with our ambition to be in the forefront in sustainable business.

Q: Why such weak performance in Sandvik Materials Technology and how will you reach a 10 percent operating margin?

A: The energy segment represents some 50 percent of sales and here demand has remained weak and put pressure on performance. Over time, competition has increased by the entry of new suppliers for standard tubular products. We have focused on maintaining our strong position in the capex-driven energy segment, pruned the portfolio by exiting from the wire business, decentralized the organization, announced staff reductions and, since the end of 2017, we have new management onboard. We expect to see improved performance in the coming years. The margin target is challenging but we are determined to implement the actions necessary to get there. We see potential to improve operational and commercial excellence and expect to grow some already stable and profitable product areas like Powder and Kanthal.

Q: How does digital/software impact Sandvik Machining Solutions and how does that fit into metal cutting?

A: It is not about implementing a stand-alone digital strategy, it is about solving our customers' current issues. For us, there are two aspects of digitalization: Internally, digital tools and technology will enable us to accelerate improvements in our own operations and customer service. Externally, we combine digitalization with our deep metal-cutting know-how to create a rich portfolio of offerings aiming to solve customer problems across the manufacturing process. Overall, we see a great opportunity to help customers achieve a more seamless and efficient production process.

DIRECTORS' REPORT

SUMMARY, GROUP TOTAL

In 2017, demand for Sandvik's products improved. This was the result of a broad-based improvement from all business areas and all main customer segments. The strongest growth was reported in the mining segment due to a significant improvement in demand for replacement equipment as well as higher demand in the aftermarket business. Demand for Sandvik's products improved in all regions and Sandvik's order intake and revenue for continuing operations increased by 15 percent (-1) and 10 percent (-6), respectively at fixed rates for comparable units.

FINANCIAL TARGETS¹⁾

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

TARGET FULFILLMENT

The financial targets are set for 2016–2018. In 2017, the EBIT growth was 16 percent and return on capital employed improved 4.6 percentage points. At the end of 2017, the net debt to equity ratio was 0.3. The proposed dividend for 2017 corresponds to a payout ratio of 33 percent of reported earnings per share.

EARNINGS AND RETURNS

Sandvik's order intake amounted to 96,743 million SEK in 2017 (84,233), and revenue totaled 93,985 million SEK (84,430). The operating profit was 18,037 million SEK (9,657), corresponding to 19 percent (11) of revenue. Movements in metal prices for Sandvik Materials Technology made a positive contribution to the operating profit of 112 million SEK (64). Changes in foreign exchange rates since the beginning of the year affected earnings favorably by about 128 million SEK (-300) compared with the preceding year.

Net financial items amounted to -1,071 million SEK (-1,661). Result after financial income and expenses for the Group was 16,966 million SEK (7,996), and 17,018 million SEK (9,366) for continuing operations. Income tax had a total impact of -3,783 million SEK (-2,528) on earnings, corresponding to 22 percent (32) of profit before taxes. Profit for the year attributable to equity holders of the Parent Company was 13,197 million SEK (5,508). Earnings per share for the Group amounted to 10.52 SEK (4.39) and 10.56 SEK (5.48) for continuing operations. Return on capital employed was 24 percent (13) and return on equity was 31 percent (15).

FINANCIAL POSITION

Cash flow from operating activities increased to 14,286 million SEK (12,032). Net cash flow after investing activities was 15,734 million SEK (8,601). At the end of the year, cash

and cash equivalents amounted to 12,724 million SEK (8,818).

Interest-bearing liabilities, minus cash and cash equivalents, yielded a net debt of 16,040 million SEK (28,579). Sandvik's credit facility of 9,000 million SEK was unutilized at year-end. Under the Swedish bond program, totaling 15,000 million SEK, bonds corresponding to a nominal amount of 6,218 million SEK were outstanding at year-end. Under the European bond program, totaling 3,000 million EUR, a nominal amount of 1,103 million EUR was outstanding at year-end. In addition, there were bonds outstanding in the US for a nominal amount of 555 million USD.

The remaining maturity of bonds averaged 3 years for Swedish bonds, 8.5 years for European bonds and 2.8 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.

Financial targets ¹⁾ and target fulfillment	Target 2016-2018	Outcome 2017
EBIT growth (CAGR), %	≥7	16
Return on capital employed improvement, % pts	≥3	4.6
Net debt/equity ratio	<0.8	0.3
Dividend payout ratio, %	50	44 ²⁾

1) See page 151 for definition of targets.

2) Proposed adjusted dividend payout ratio

WORKING CAPITAL

Relative net working capital for the year was 23 percent (26) of revenue, a year-on-year improvement of three percentage points. In terms of volume, net working capital increased by 748 million SEK (-2,009) compared with the preceding year, driven primarily by higher levels of inventory. Changed currency rates decreased net working capital by 463 million SEK (1,084) compared with the preceding year. The structural effect from acquisitions and divestments decreased working capital by 296 million SEK (10). Net working capital amounted to 20,809 million SEK (20,801) at the end of the year.

EQUITY

Equity at year-end amounted to 48,771 million SEK (39,290), or 38.9 SEK per share (31.2). The equity ratio was 46 percent (38).

INVESTING ACTIVITIES

Investments in tangible and intangible assets for the full year 2017 reached 3,578 million SEK (3,691) corresponding to 83 percent of scheduled depreciation. Proceeds from sale of companies and shares, net of cash, amounted to 4,786 million SEK (53). Investments in internally generated intangible assets were 658 million SEK (855).

PORTFOLIO MANAGEMENT

On 30 October an agreement was signed to divest the welding wire operations to ESAB, part of the Colfax Corporation. Revenues for the welding wire business amounted to 490 million SEK in 2017.

On 2 November the completion of the divestment of the Sandvik Mining Systems business was announced. Mining Systems' conveyor components business, including the closely

related specialist conveyor systems business in Hollola (Finland), was divested to NEPEAN. Mining Systems' project business was divested to FLSmidth. As of 2 November the Mining Systems business was deconsolidated from Sandvik's financial statements. The projects to be finalized during 2018–2019 by Sandvik, through an operational agreement with FLSmidth, will however remain reported in discontinued operations.

On 1 December the divestment of Sandvik Process Systems to FAM AB was completed. The divestiture resulted in a capital gain of 3.9 billion SEK which positively impacted the operating profit in the quarter. Sandvik Process Systems has been reported in Other Operations and the divested business was deconsolidated from Sandvik's financial statements as of 1 December.

Earnings and return	2016	2017
Operating profit, MSEK	9,657	18,037
as a % of revenue	11.4	19.2
Profit after financial income and expenses, MSEK	7,996	16,966
as a % of revenue	9.5	18.1
Return on capital employed, %	12.9	23.9
Return on equity, %	15.2	31.4
Basic earnings per share, SEK	4.39	10.52
Diluted earnings per share, SEK	4.39	10.50
Whereof continuing operations		
Operating profit, MSEK	11,018	18,098
as a % of revenue	13.5	19.9
Profit after financial income and expenses, MSEK	9,366	17,018
as a % of revenue	11.5	18.7
Basic earnings per share, SEK	5.48	10.56
Capital expenditure	2016	2017
Investments in non-current assets, MSEK	3,691	3,578
as a % of revenue	4.4	3.7
as a % of scheduled depreciation	88	83

Financial position	2016	2017
Cash flow from operating activities, MSEK	12,032	14,286
Cash flow after investing activities, MSEK	8,601	15,734
Cash and cash equivalents and short-term investments as of 31 December, MSEK	8,818	12,724
Net debt as of 31 December, MSEK	28,579	16,040
Net financial items, MSEK	-1,661	-1,071
Equity ratio, %	38	46
Net debt/equity ratio, times	0.7	0.3
Equity as of 31 December, MSEK	39,290	48,771
Equity per share as of 31 December, SEK	31.2	38.9

Quarterly trend of Revenue and profit after financial items

MSEK	Revenue	Profit after financial items	Net margin, %
2016 Q1	20,420	1,939	9
Q2	21,036	2,231	11
Q3	20,439	1,221	6
Q4	22,535	2,605	12
2017 Q1	22,436	3,109	14
Q2	24,446	3,064	13
Q3	22,612	3,192	14
Q4	24,492	7,601	31

On 8 December, Sandvik announced that it had signed an agreement to divest Hyperion to the US-listed investment firm KKR at a price of 4 billion SEK. Hyperion, with approximately 1,400 employees, has in 2017 reported revenues of 3.3 billion SEK.

Hyperion will remain reported in Other Operations in the Sandvik financial statements until closure of the deal. The closing of the transaction is expected during the first half of 2018 and is subject to the approval of relevant authorities. Upon closing, the transaction will generate a capital gain to be reported in Sandvik's financial statements.

GOING FORWARD

The market conditions improved during 2017 with increased customer activity level in all customer segments and geographies. This supported our profitability. Our operating decisions are based on the priorities of stability and profitability before growth. Given our improved operational performance, the next phase of our journey will include a higher focus on growth, in particular for business area Sandvik Machining Solutions.

PARENT COMPANY¹⁾

The Parent Company's revenues for 2017 amounted to 16,627 million SEK (15,146) and the operating result was 1,260 million SEK (722).

Expense of shares in Group companies consists primarily of dividends and Group contributions to and from these and profit from the divestment of Sandvik Process Systems and amounted to -706 million SEK (202). Interest-bearing liabilities, minus cash and cash equivalents and interest-bearing assets, amounted to 11,180 million SEK (14,478).

The Parent Company's total assets decreased by 5,473 million SEK (from 66,692 million SEK to 61,219 million SEK). Investments in non-current

assets amounted to 875 million SEK (975). The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB as of 31 December 2017 was 7,204 (7,451).

The Board of Directors proposes a dividend of 3.50 SEK (2.75) per share to the 2018 Annual General Meeting, corresponding to approximately 4.4 billion SEK (3.4).

Dividend, 3.50 SEK per share	
x number of shares	1,254,385,923
	= 4,390,350,731
Profits carried forward	19,672,405,379
Total, SEK	24,062,756,110

EMPLOYEES

The average number of employees amounted to 43,376 (44,769), of which 19 percent (19) are women. The employee turnover rate was 9 percent (11). Wages, salaries and other remunerations for the year totaled 21,354 (20,008) million SEK.

Safety First

During the year, Sandvik worked towards achieving a total recordable injury frequency rate (TRIFR) target of 4.5. Sandvik's TRIFR improved 9 percent and was 4.6 at year-end, compared to 5.1 the year before. For lost time injury frequency rate (LTIFR) the target was 1.4. Sandvik's LTIFR improved by 6 percent in 2017 and was 1.6 at year-end, compared to 1.7 at year-end 2016.

Proposal regarding guidelines for the remuneration of senior executives

The Board of Directors proposes that the Annual General Meeting resolve to adopt the following guidelines for the remuneration of senior executives for the period extending until the 2019 Annual General Meeting, which guidelines correspond to those adopted by the 2017 Annual General Meeting.

The remuneration of the Group Executive Management is to comprise fixed salary, variable salary, pension and other benefits. The total remuneration package should be based on market terms, be competitive and reflect the individual's performance and responsibilities as well as the Group's earnings trend.

The variable salary may comprise short-term incentives in cash, and long-term incentives in cash, shares and/or share-based instruments in Sandvik AB. Variable salary in cash is conditional upon the fulfillment of defined and measurable goals and should be maximized in relation to the fixed salary. Long-term incentives in the form of shares and/or share-based instruments in Sandvik AB may be provided through participation in long-term incentive programs approved by the General Meeting. Terms and conditions for variable salary should be designed so that the Board of Directors, if exceptional economic circumstances prevail, has the option of limiting or refraining from payment of variable salary if such a measure is considered reasonable.

In specific cases, agreements may be reached regarding one-off remuneration amounts provided that such remuneration does not exceed an amount corresponding to the individual's annual fixed salary and maximum variable salary in cash, and is not paid more than once per year and individual.

Pension benefits should be defined contribution.

Normally, severance pay is paid when employment is terminated by Sandvik. Members of the Group Executive Management generally have a period of notice of not more than 12 months in combination with severance pay corresponding to 6–12 months fixed salary. An alternative solution may be applied to the President comprising a period of notice

1) The Parent Company includes subsidiaries operating on commission for Sandvik AB. These are presented in Note 14.

of 24 months and no severance pay. No severance pay will be paid when employment is terminated by the employee.

The Board of Directors is to have the right to depart from the guidelines resolved on by the Annual General Meeting if, in an individual case, there are special reasons for this.

The sphere of senior executives encompassed by the guidelines comprises the President and other members of the Group Executive Management.

For information concerning the current remuneration of senior executives, including ongoing long-term incentive programs, refer to Note 3.5.

The guidelines adopted by the 2017 Annual General Meeting are presented in Note 3.5.

RESEARCH AND DEVELOPMENT (R&D)

Each product area/business area is responsible for its own R&D activities that focus on product development, technology platforms and new innovations.

Sandvik has a portfolio of approximately 7,300 active patents and other intellectual property rights. In 2017, 1,050 (1,150) new patents and other intellectual property rights were granted. Investments in R&D were 3,498 million SEK (3,483) in 2017, corresponding to 4 percent (4) of the Group's revenues. The number of employees in R&D, including Quality Assurance, was 2,612 (2,850).

TAX

Sandvik is a multinational group with many intercompany transactions. The OECD has issued guidelines for transfer pricing of cross-border transactions in multinational groups. Sandvik adheres to these guidelines and also to the local legislation of each country to ensure that a correct pricing model is deployed and that

a correct amount of tax is paid in each country. Sandvik monitors the OECD's tax reform work (BEPS project) and the EU initiatives on Tax transparency carefully and prepares to adopt these standards when enacted. Sandvik strives to have good relations with our stakeholders, such as tax authorities, non-governmental organizations and investors.

Sandvik has initiated cooperation with tax authorities in several countries. We are convinced that an open discussion and cooperation with tax authorities around the globe will help us to reduce uncertainty about the taxes we are obliged to pay. We contribute to the local communities and countries in which we operate in the form of, for example, taxes and employment opportunities. In 2017, the Group paid 2,466 million SEK (1,650) in income taxes globally. Income tax comprises just a portion of all taxes paid by Sandvik worldwide. In addition, we pay social security contributions, environmental and energy taxes, property taxes etc. Furthermore, Sandvik collects and pays taxes at the request of governments and authorities, including indirect taxes and payroll taxes.

ENVIRONMENT

Sandvik respects and complies with environmental legislation in all countries where it operates. The most significant aspects of environmental impact are:

- Energy use
- Climate change
- Water management
- Waste management

Environmental permits

Sandvik has approximately 120 sites worldwide that hold environmental permits. Sandvik is dependent on the environmental permits granted for these sites.

In Sweden, Sandvik conducts licensed operations at 11 plants and notifiable operations in one location. All these hold the requisite environmental permits. No breaches of the permits occurred during the year. A number of guideline values were exceeded for noise and emissions to air and water. Actions are taken to comply with these target values.

In other countries where Sandvik operates, some target values were exceeded and acted upon in cooperation with relevant environmental authorities.

Investigations and remediation activities have been performed at production sites with ground pollution. These activities are always performed in close cooperation with environmental authorities.

During the year, a lawsuit for alleged violations of the wastewater discharge limits at our US site in Kennewick, Washington was settled and completed. Mitigation payments and attorneys' fees amounted to approximately 7.5 million SEK. In addition, improved wastewater treatment measures were fully implemented.

STATUTORY SUSTAINABILITY REPORT

Sandvik has, in accordance with the Annual Accounts Act, prepared the statutory sustainability report as a separate report which was approved for issue by the Board of Directors and the President and CEO. The scope of the Statutory Sustainability report and Sustainable Business Report, is defined on page 128.

DEVELOPMENT IN BUSINESS AREAS

Sandvik operations consist of three business areas: Sandvik Machining Solutions, Sandvik Mining and Rock Technology and Sandvik Materials Technology.

Sandvik's order intake amounted to 95,444 million SEK (81,861), an increase of 15 percent at fixed exchange rates for comparable units. Revenue totaled 90,905 million SEK (81,553), up 10 percent at fixed exchange rates for comparable units.

Demand for Sandvik's products increased during 2017. This was the result of a broad-based improvement in all business areas and all main customer segments. The strongest growth was reported in the mining segment due to a significant improvement in demand for replacement

equipment as well as higher demand in the aftermarket business. Demand for Sandvik's products improved in all regions.

On the back of increased demand, improved cost control and ongoing efficiency programs, Sandvik improved the profitability compared to last year.

During 2017 several important product launches took place, such as Sandvik Machining Solutions' launch of PrimeTurning™, which is a new methodology that enables turning in all directions. One example from Sandvik Mining and Rock Technology is the new Ranger™ DXI series surface drill rigs which includes several new high-performing features for an improved drilling process, such as 55 square meter drilling coverage and is equipped with a new powerful

rock drill in combination with high fuel efficiency. Sandvik Materials Technology launched Sentusys™, an intelligent tube system helping customers control the status of the tubes inside their processes with the help of cloud-based computing. The true innovation lies in the combination of metallurgical knowledge and the sensor technology.

ORDER INTAKE BY BUSINESS AREA

MSEK	2016	2017	Change, %	Change, %*
Sandvik Machining Solutions	33,088	36,636	11	10
Sandvik Mining and Rock Technology	31,886	38,973	22	20
Sandvik Materials Technology	12,036	14,739	22	22
Other Operations	4,830	5,096	6	9
Group activities	21	0	n/m	n/m
Continuing operations	81,861	95,444	17	15
Discontinued operations	2,372	1,299	-45	-48
Group total	84,233	96,743	15	13

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

REVENUE BY BUSINESS AREA

MSEK	2016	2017	Change, %	Change, %*
Sandvik Machining Solutions	32,852	35,778	9	8
Sandvik Mining and Rock Technology	31,093	36,547	18	15
Sandvik Materials Technology	12,931	13,643	6	5
Other Operations	4,655	4,936	6	10
Group activities	22	0	n/m	n/m
Continuing operations	81,553	90,905	11	10
Discontinued operations	2,877	3,081	9	3
Group total	84,430	93,985	11	10

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

OPERATING PROFIT BY BUSINESS AREA

MSEK	2016	% of revenue	2017	% of revenue	Change, %	Change, %*
Sandvik Machining Solutions	6,970	21	8,413	24	21	21
Sandvik Mining and Rock Technology	3,206	10	5,743	16	79	76
Sandvik Materials Technology	1,115	9	284	2	-75	-42
Other Operations	545	12	4,432	90	713	11
Group activities	-818	n/m	-774	n/m	5	7
Continuing operations	11,018	14	18,098	20	64	33
Discontinued operations	-1,361	-47	-61	-2	96	60
Group total	9,657	11	18,037	19	87	36

* Change compared with the preceding year, at fixed exchange rates for comparable units adjusted for items affecting comparability. n/m=non meaningful.

SANDVIK MACHINING SOLUTIONS

Sandvik Machining Solutions is a market-leading manufacturer of tools and tooling systems for advanced industrial metal cutting.

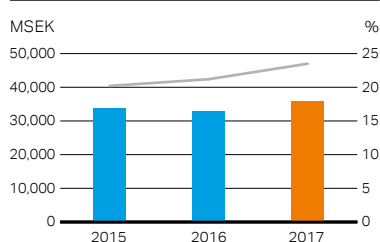
Order intake for the business area amounted to 36,636 million SEK (33,088), an increase of 10 percent at fixed exchange rates for comparable

units. Revenue totaled 35,778 million SEK (32,852), up 8 percent at fixed exchange rates for comparable units.

The operating margin was 23.5 percent (21.2) of revenues. 2017 marked the completion of the supply-chain optimization program with three additional sites closed during the year.

Generated savings combined with strong revenue growth supported the margin expansion. A new product area, Additive Manufacturing, was created at the beginning of the year with a purpose to capture new growth opportunities in 3D printing.

REVENUE, MSEK AND OPERATING MARGIN, %



Financial overview, MSEK

	2015	2016	2017
Order intake	33,860	33,088	36,636
Revenue	33,809	32,852	35,778
Operating profit	5,504	6,970	8,413
Operating margin, %	16.3	21.2	23.5
Adjusted operating profit*	6,814	6,970	8,413
Adjusted operating margin, %	20.2	21.2	23.5
Return on capital employed, %	21.9	28.9	35.0
Number of employees	18,713	18,043	18,187

* Operating profit adjusted for items affecting comparability of 1,310 million SEK in 2015.

SANDVIK MINING AND ROCK TECHNOLOGY

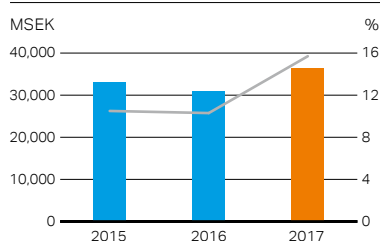
Sandvik Mining and Rock Technology consists of the previous business areas Sandvik Mining and Sandvik Construction. The business area is a leading supplier of equipment and tools, service and support for the mining and construction industries. Order intake for the business area amounted to 38,973 million SEK

(31,886), an increase of 20 percent at fixed exchange rates for comparable units. Revenue totaled 36,547 million SEK (31,093), up 15 percent at fixed exchange rates for comparable units. The operating margin was 15.7 percent (10.3) of revenues. 2017 was characterized by strong market recovery for mining equipment demand,

predominately for replacement of existing equipment, and driven by commodities gold, silver and zinc, and towards year-end also copper. The interest for our automation offering Automine®, with remote to fully automated solutions for loading and hauling, increased significantly, albeit from a low base.

SANDVIK MINING AND ROCK TECHNOLOGY, CONTINUING OPERATIONS

REVENUE, MSEK AND OPERATING MARGIN, %

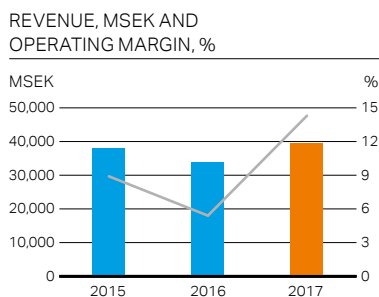


FINANCIAL OVERVIEW, MSEK

	2015	2016	2017
Order intake	32,335	31,886	38,973
Revenue	33,131	31,093	36,547
Operating profit	2,417	3,206	5,743
Operating margin, %	7.3	10.3	15.7
Adjusted operating profit*	3,492	3,206	5,743
Adjusted operating margin, %	10.5	10.3	15.7
Return on capital employed, %	9.7	13.8	25.4
Number of employees	14,595	14,087	15,041

* Operating profit adjusted for items affecting comparability of 1,075 million SEK in 2015.

SANDVIK MINING AND ROCK TECHNOLOGY, TOTAL



FINANCIAL OVERVIEW, MSEK	2015	2016	2017
Order intake	35,116	34,258	40,272
Revenue	38,108	33,970	39,628
Operating profit	1,207	1,845	5,682
Operating margin, %	3.2	5.4	14.3
Adjusted operating profit*	3,384	1,845	5,682
Adjusted operating margin, %	8.9	5.4	14.3
Return on capital employed, %	4.7	7.9	25.5
Number of employees	15,740	14,911	15,207

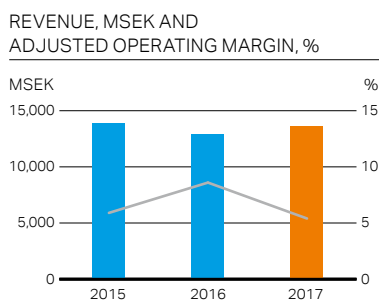
* Operating profit adjusted for items affecting comparability of 2,177 million SEK in 2015.

SANDVIK MATERIALS TECHNOLOGY

Sandvik Materials Technology is a world-leading developer and manufacturer of high value-added products in advanced stainless steels, powder-based alloys and special alloys for the most demanding industries, as well as products for industrial heating. Order intake for the business area amounted to 14,739 million SEK (12,036), an increase of 22 percent at

fixed exchange rates for comparable units. Revenue totaled 13,643 million SEK (12,931), up 5 percent at fixed exchange rates for comparable units. The adjusted operating margin was 5.4 percent (8.6) of revenues. Margin deteriorated as a consequence of less desirable product mix with higher share of low-value products. The overall demand improved across

most segments for the short-cycle standardized tubular offering, albeit from a low level. The demand for capex-related tubular offering for the oil and gas industry remained on par with last year. Towards the end of 2017 a new president was appointed to the business area and a plan to restore profitability was launched.



FINANCIAL OVERVIEW, MSEK	2015	2016	2017
Order intake	12,625	12,036	14,739
Revenue	13,909	12,931	13,643
Operating profit	8	1,115	284
Operating margin, %	0.1	8.6	2.1
Adjusted operating profit*	818	1,115	734
Adjusted operating margin, %	5.9	8.6	5.4
Return on capital employed, %	0.1	8.7	2.2
Number of employees	6,533	6,490	6,483

* Operating profit adjusted for items affecting comparability of 810 million SEK in 2015 and 450 million SEK in 2017.

In 2017, adjusted operating profit, excluding metal price effects totaling 112 million SEK amounted to 621 million SEK (1,051), with an adjusted underlying operating margin of 4.6 percent (8.1 for 2016 and 8.3 for 2015).

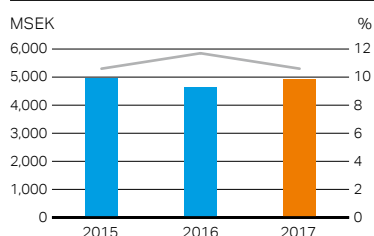
OTHER OPERATIONS

Other Operations consists of product areas Sandvik Process Systems and Sandvik Hyperion. They are leading suppliers of products and applications in their respective niches. Sandvik Process Systems provides advanced industrial process solutions using steel belts and steel belt-based equipment. Sandvik Hyperion

is a global full-line provider of innovative cemented carbide, diamond and cubic boron nitride solutions. Order intake amounted to 5,096 million SEK (4,830), up 9 percent at fixed exchange rates for comparable units. Revenue totaled 4,936 million SEK (4,655), up 10 percent at fixed exchange rates for comparable units.

The adjusted operating margin was 10.6 percent (11.7) of revenue. During 2017 the product area Sandvik Process Systems was divested. In addition, a new owner for the remaining product area Sandvik Hyperion was announced, with expected closure of the deal during the first half of 2018.

REVENUE, MSEK AND ADJUSTED OPERATING MARGIN, %



FINANCIAL OVERVIEW, MSEK

	2015	2016	2017
Order intake	4,760	4,830	5,096
Revenue	4,976	4,655	4,936
Operating profit	489	545	4,432
Operating margin, %	9.8	11.7	89.8
Adjusted operating profit*	529	545	522
Adjusted operating margin, %	10.6	11.7	10.6
Return on capital employed, %	12.5	14.5	123.8
Number of employees	2,074	1,913	1,531

* Operating profit adjusted for items affecting comparability of 40 million SEK in 2015 and 3,910 million SEK in 2017.

RISK MANAGEMENT

The Sandvik risk management processes support our business to manage and effectively mitigate critical risks.

The ability to effectively identify and manage risk is a vital element of business success for all parts of the Sandvik business. Risk management takes place in many different processes and operations throughout the Group.

The Group's risk management approach follows our decentralized structure. Sandvik's Board of Directors is ultimately responsible for the governance of risk management. Sandvik's Group Executive Management ensures there is a common and efficient process in place.

All management teams in our different businesses are responsible for their own risk management. The teams must follow the minimum requirements outlined in The Sandvik Way where specific policies, procedures, assessment tools and other guiding material are made available.

Part of the Board's requirements are clear and transparent information about Sandvik's enterprise risks and mitigating activities from all parts of our business operations.

ERM – A PART OF OUR BUSINESSES STRATEGIC WORK

Sandvik has implemented an Enterprise Risk Management (ERM) program that covers all business areas and product areas within the Group. The management teams analyze risks in their operations and related to their strategic objectives at least annually. During 2017 a Sandvik specific risk universe was introduced to increase the risk awareness and enhanced transparency of risk. Read more about the risk universe on page 55–56.

In 2017, two consolidated ERM reports were submitted to the Group Executive Management. A year-end ERM report summarizing key risks and mitigating activities across our business was provided to Sandvik's Board of Directors in December 2017.

INSURANCE AS A RISK MANAGEMENT TOOL

Sandvik has tailored insurance programs that transfer the risks associated with the Group's property and

liability exposures. Insurable risks are continuously evaluated and actions are taken to reduce these insurable risks, as part of Sandvik's loss-prevention strategy. Supported by the Sandvik loss-prevention guidance, risk evaluations highlight opportunities to reduce the potential for significant losses and to ensure the Group's ability to deliver to its customers. In order to ensure cost efficient and tailored insurance solutions selected risks are reinsured through the Group's captive insurance company.

CRISIS MANAGEMENT COMPLEMENTS OUR RISK MANAGEMENT

The requirements for local management teams on how to act in a crisis situation is outlined in a global policy, which is rolled out to all business units in the Group. The overall purpose of Sandvik's crisis management is to complement our proactive risk management work. Once a risk materializes, the priority of Sandvik's crisis management is to minimize

ERM PROCESS AT SANDVIK



harm to people, to the environment, and to minimize damage to Sandvik's business, as well as ensuring a swift return to normal activities and safeguarding the company brands.

INTERNAL AUDIT AND INTERNAL CONTROL IN SANDVIK'S RISK WORK

The internal audit function regularly follows up the implementation of different risk management programs such as ERM, business continuity, crisis management and the insurance programs. Sandvik also applies group-wide internal control activities to mitigate many of the most critical risks. Read more about the internal controls program at Sandvik on page 63.

SANDVIK'S RISK UNIVERSE

Sandvik's risk universe is based on risk categories that are organized in three main risk areas – strategic risks, business risks and financial risks. Each risk category can in one way or another significantly impact the Group's performance if not managed effectively. Read more about the main risk areas below. The detailed risk universe is outlined on page 56.

Sandvik's risk universe was developed through analysis and stakeholder dialog of material risks for our industry, our different businesses, critical laws and regulations and critical operational, commercial, sustainability and financial requirements.

Strategic risks

Strategic risks are risks that can significantly impact the execution of our business strategies and our ability to

achieve our objectives. At Sandvik we include external and emerging risks in this risk area, such as industry shifts, technological shifts and macroeconomic developments. These risks can all impact our business negatively long term but often also create business opportunities if managed well. Our approach to managing these risks differs from other categories as it includes evaluation of which strategic risks to take and improving the business ability to manage them by establishing risk tolerance, predicting the impact of possible risks and monitoring key risk indicators (KRIs).

Business risks

At Sandvik we include operational and commercial risks in the business risk area. These types of risks can often impact the financial performance of the business negatively or can have a negative reputational impact on the brands of the Group. Examples are sustainability risks, such as health and safety risks and compliance risks, and operational risks, such as IT failures, information and data protection, talent attraction and retention and more. The approach to managing these risks is through active prevention and by designing mitigation controls.

Financial risks

Through its complex and international operations, Sandvik is exposed to multiple financial risks such as currency risks, interest risks, liquidity and refinancing risk. Sandvik's Group Treasury is functionally responsible

for managing the greater part of the Group's financial risks. The Board of Directors establishes the principles for the Group's financial risk management, which comprises guidelines, objectives, and limits for financial management as well as the management of financial risks within the Group.

Operating entities 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 applied by Sandvik and the International Financial Reporting Standards (IFRS). The Group's Finance function validates and analyzes the financial information as part of the quality control of financial reporting. More information is available in the Corporate Governance Report on page 58.

For information about currency risks, interest risks, liquidity and refinancing risks, credit risks, raw material price risks and pension commitments, please see note 27 on page 112. For information about sustainability risks such as supplier management, environmental demand/climate change effects, Sandvik values and ethics compliance, and more, see sustainability notes on page 132.

SANDVIK'S RISK UNIVERSE

Sandvik's risk universe has been developed through analysis and stakeholder dialog of material risks for our industry, our different businesses, critical laws and regulations and critical operational, commercial, sustainability and financial requirements. It is a comprehensive library of risks which management teams apply to better understand, evaluate and aggregate risk within the business. The risks highlighted below are the Sandvik Group's key risks assessed during 2017.

Strategic risks

- S1. Industry shifts and market developments
 - S2. Macroeconomic development
 - S3. Technological change/shifts
 - S4. Regulatory change
 - S5. Emerging and complex market developments
 - S6. Sustainability expectations or requirements
 - S7. Geopolitical developments
 - S8. Portfolio management/M&A strategy
-

Financial risks

- F1. Liquidity and refinancing risk
 - F2. Currency risk
 - F3. Taxation risk
 - F4. Credit and counterparty risk
 - F5. Pension commitments
 - F6. Financial regulatory reporting risk
 - F7. Commodity price risk
 - F8. Interest rate risk
 - F9. Fraud activities
 - F10. Forecasting and planning
 - F11. Management estimates/assumption risk
 - F12. Accounting information risk
-

Business risks

- | | |
|--|---|
| <ul style="list-style-type: none"> B1. Noncompliance with laws and regulations B2. Health and safety B3. Increased competition B4. Product development and product support B5. Intellectual property management B6. Talent attraction and employee retention B7. IT failures B8. Insufficient IT security B9. IT capacity or capabilities B10. Information and data protection B11. Data accuracy B12. Cost flexibility and control B13. Change management/demand/readiness B14. Sales and distribution channels B15. Business interruptions B16. Product liability requirements B17. Environmental demands/climate change effects B18. Aftermarket developments and management B19. Customer retention | <ul style="list-style-type: none"> B20. Pricing models and management B21. Bottleneck processes/inefficient ways of working B22. Governance and internal controls B23. Sandvik values and ethics compliance developments B24. Employee competence development and leadership development B25. Contract management B26. Technology development and innovation demand – internal operations B27. Third-party liabilities, litigation and dispute resolution B28. Contractor/short-term staff management B29. Partners/agents /third-party management B30. Measurement and operational reporting B31. Insurable risk B32. Security situation B33. Project-related risk B34. Communications (internal and external) B35. Joint ventures and other partnership risks B36. M&A transaction or integration B37. Supplier and sourcing management |
|--|---|
-

SANDVIK GROUP KEY RISKS 2017

RISK CATEGORY	RISK DESCRIPTION	RISK CONSEQUENCE	RISK MITIGATION
S1. INDUSTRY SHIFT AND MARKET DEVELOPMENTS	Risks connected to shifts or consolidation in the industry, in certain customer segments or markets.	The inability to reach strategic objectives long term, leading to lower growth or lower financial performance.	The different business areas are working with proactive business development and M&A. There is a strong focus on product segmentation (multi-company development/strategies, midmarket), aiming to diversify the product portfolio and reduce dependence on individual customer segments. There is also strong cost control in all our businesses.
S2. MACROECONOMIC DEVELOPMENTS	Risks connected to high market volatility, rapid macroeconomic fluctuations and cyclical industries/markets.	The inability to plan long term, leading to less agile business, higher costs or price models not being profitable, causing lower financial performance long term.	All businesses are working with strong cost control and cost flexibility. All businesses are closely monitoring relevant Key Risk Indicators (capex investment in mining, raw material prices, GDP, oil rig count, daily order rates, etc.) and scenario analysis are conducted in areas where risk impact is severe.
S3. TECHNOLOGICAL CHANGES/SHIFTS	Risks connected to technological developments/ advancements that can impact or challenge current ways of doing business or demand for current products/ services.	The inability to reach strategic objectives long term, leading to lower growth or financial performance.	There is a strong focus on R&D in all our businesses as well as proactive business development and M&A activities where growth is a priority. The business is closely monitoring the development of new technologies and customer segments. Partnerships have been formed with key partners and research centers to advance knowledge and capabilities in areas currently not core business. The business has also invested in additive manufacturing, powder technology, digitalization and automation.
S4. REGULATORY CHANGE	Significant new legislation or regulations that could have an impact on the Sandvik business.	The inability to quickly respond to new regulations leading to higher costs, fines or the inability to continue manufacturing of certain products. Can have negative reputational impact.	All parts of Sandvik work with the monitoring of different initiatives and continually evaluate their impact on our business. We are active in business associations and other organizations, such as Jernkontoret and Svenskt Näringsliv, to name a few, to monitor regulatory development to benefit long-term sustainable business.
B1. NONCOMPLIANCE WITH LAWS AND REGULATIONS	Risks that legal and regulatory requirements are not met.	Worst-case scenarios show high financial impact due to fines in multiple markets. Can have a major negative reputational impact if risk were to materialize.	The Group has an established governance framework, The Sandvik Way, which includes Group policies, Group procedures and other steering documentation. The scope of the governance framework, including the controls implemented, is based on legal requirements and risk exposure. Sandvik's formal compliance programs of anti-bribery and anti-corruption, competition law, customs and export controls and data privacy are managed by the business with oversight through a Group functional council.
B6. TALENT ATTRACTION AND EMPLOYEE RETENTION	Increased need for digital and innovative business development competence. Increased need for specialist/ expert competence in R&D and other niche areas. Inability to attract new talents in certain highly competitive markets.	A general risk of losing competitiveness and business position on the market with a special risk focus of not being able to take a strong position in the digital area fast enough.	Sandvik has, across the business areas, focused on developing the Sandvik employer brand. One key area is to use new, digital channels to attract and recruit competence for the future. Succession planning has been strengthened for top management positions.
B7. IT FAILURES	Risks of disturbances in critical IT systems, business processes or other digital infrastructure.	Inability to deliver products or services on time to customers or timely information to other stakeholders, leading to lower financial performance or negative financial impact due to fines.	Each business area is running an IT security improvement program, including risk review of critical business applications and risk-based network segmentation. A cyber security improvement program across the Sandvik Group is also initiated.
B10. INFORMATION AND DATA PROTECTION	Failure to adequately restrict access to information which may result in unauthorized knowledge or use of confidential information.	Can lead to business critical information being made available to unauthorized individuals/organizations.	Increased authentication to prevent unauthorized access to certain systems has been implemented in Sandvik's IT environment. All business areas have strengthened their IT security management and information security resources during the year. Review of key processes for information release and overall communication channels initiated. GDPR (General Data Protection Regulation) implementation being rolled out globally.
B15. BUSINESS INTERRUPTIONS	Risks that major disasters or hazardous events disrupt the company's ability to sustain operations, provide essential products and services to customers, or recover operating costs.	Inability to deliver products or services on time to customers or timely information to other stakeholders, leading to lower financial performance or negative financial impact due to fines.	A review of the Group's business interruption planning will be conducted during 2018. The business areas have already performed risk scenario planning for some of the most critical production entities, supply chain vulnerabilities and IT system dependencies.
F9. FRAUD ACTIVITIES	Risk for fraudulent activities performed by employees, customers, suppliers, agents, brokers or other third parties against the company.	Can result in both financial losses and damaged reputation. Examples could be inappropriate use of assets or fraudulent payments.	Sandvik continues to develop its process for financial internal control, business integrity and the internal audit process to ensure relevant controls and monitoring to limit risks.

CORPORATE GOVERNANCE REPORT

Sandvik AB has its head office in Stockholm and is the Parent Company of the Sandvik Group, with subsidiaries in more than 60 countries. The Group has about 43,000 employees and sales in more than 150 countries. Sandvik AB is a public company with its shares listed on Nasdaq Stockholm (the "Stockholm Stock Exchange")

Corporate governance within Sandvik is based on external rules such as the Swedish Companies Act, the Stockholm Stock Exchange's Rule Book for Issuers, the Swedish Code of Corporate Governance (the "Code") and other relevant laws and regulations. The Code is available from corporategovernanceboard.se. In 2017 Sandvik applied the Code without deviating from any of its regulations.

THE SANDVIK WAY

Sandvik's corporate governance framework, The Sandvik Way, implements these external rules and also sets out the internal rules and principles for governance that apply specifically within Sandvik. It is based on four levels, as set forth in the model below, and describes how common ways of working have been implemented throughout the entire organization.

lies with the business areas and product areas, with Group functions responsible for functional policies and processes supporting the business. This level is the main focus of this Corporate Governance Report.

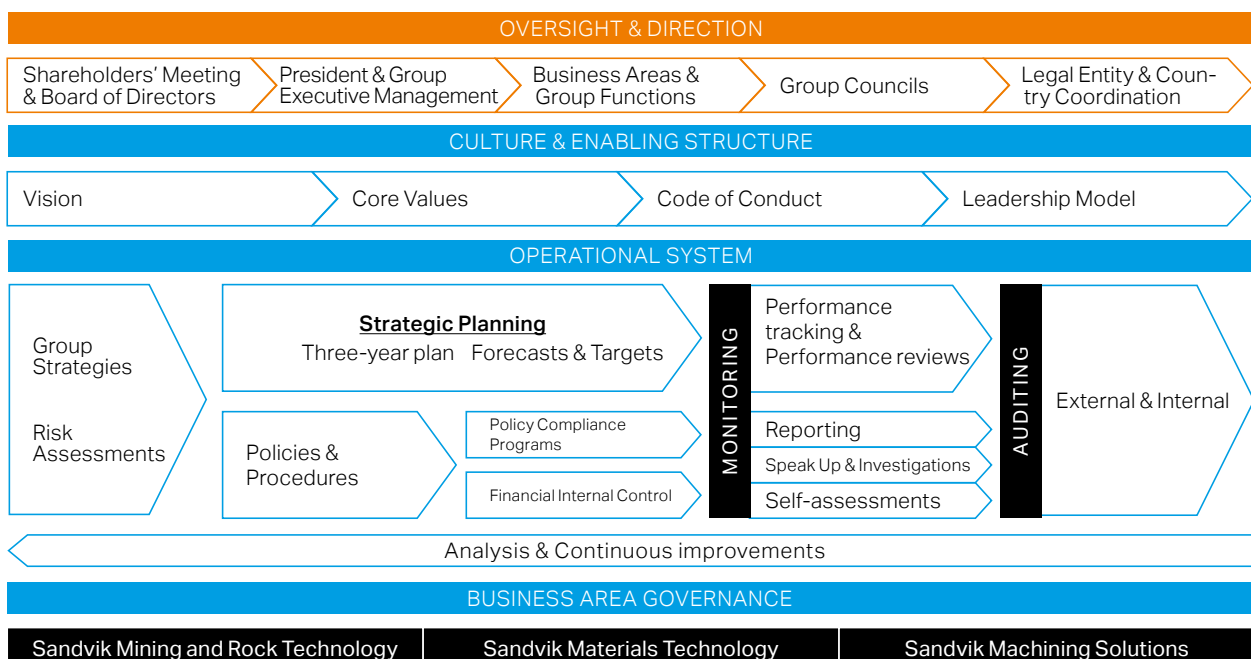
Oversight and Direction

This level outlines how the Group is led and governed from the top. The Board of Directors, elected by the Shareholders' Meeting, sets the strategic direction for the Group. The President carries this out through the Group Executive Management whose members manage and oversee the operations of the Group. The main operational responsibility in the Group

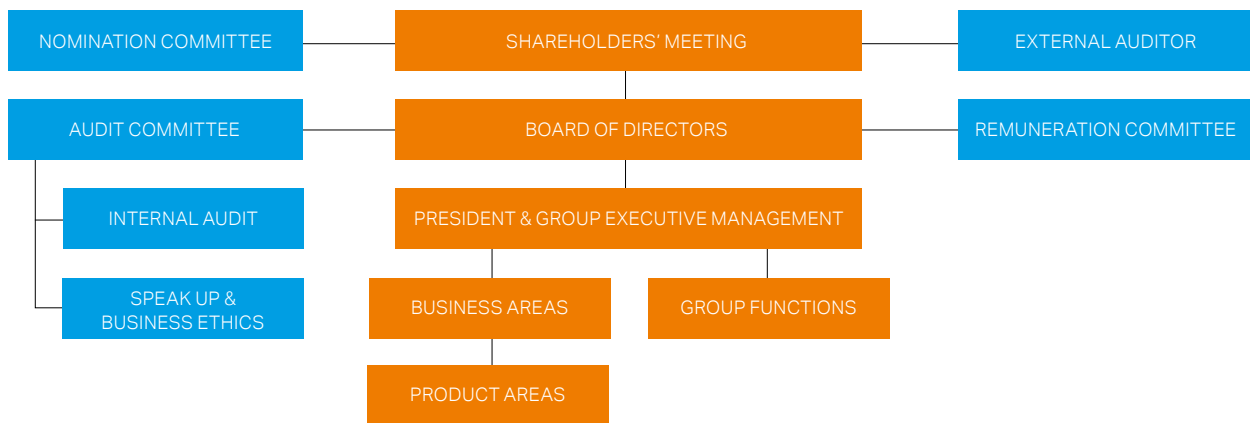
Culture and Enabling Structure

This level sets out the requirements and ambitions underpinning our operations. Our business philosophy is shaped by our Vision to excel, guided by our Core Values (Customer Focus, Innovation, Fair Play and Passion to Win), translated into the behaviors we outline in our Code of Conduct and motivated through the qualities outlined in Sandvik's Leadership Model.

THE SANDVIK WAY



CORPORATE GOVERNANCE MODEL



Operational System

The operational system in The Sandvik Way is at the core of how we work on a day-to-day basis in the Sandvik Group. It contains information and ways of working for the whole Sandvik Group related to strategic planning, risk management, internal controls and compliance, as well as Sandvik’s monitoring activities, including performance tracking and compliance self-assessment for the business units. This is also where our group-wide policies and procedures are collected.

Business Area Governance

Whereas the three top levels of The Sandvik Way set the group-wide way of working that applies across all of the business areas, product areas and Group functions, the business areas and product areas have their own tailored governance systems based on The Sandvik Way.

OWNERSHIP STRUCTURE

As of 31 December 2017 Sandvik’s share capital amounted to 1,505,263,107.60 SEK represented by 1,254,385,923 shares. According to the share register, Sandvik had about 103,000 shareholders as of 31 December 2017. AB Industrivärden was the largest owner with about 11.8 percent of the share capital. Of the total share capital at year-end, 37 percent was owned by investors outside Sweden.

SHAREHOLDERS' MEETING

The General Meeting of Shareholders is the highest decision-making body. At the Annual General Meeting,

the shareholders are given the possibility to exercise their voting rights in relation to, for example, the Annual Report, dividends, election of the Board and appointment of auditor, and other matters stipulated in the Companies Act, the Articles of Association and, where applicable, the Code.

All shareholders who have been entered in the share register and have informed the company of their attendance within the time limit stated in the notice of the General Meeting 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 General Meeting.

All shares in Sandvik carry equal voting rights, namely one vote per share.

2017 Annual General Meeting

Shareholders representing 49.52 percent of the share capital and votes attended the Annual General Meeting held on 27 April 2017 in Sandviken, Sweden. Sven Unger, attorney-at-law, was elected to chair the meeting. Resolutions passed at the General Meeting included the following:

- Dividend of 2.75 SEK per share
- Election of Marika Fredriksson as new member of the Board and re-election of Board members Jennifer Allerton, Claes Boustedt, Johan Karlström, Johan Molin, Björn Rosengren, Helena Stjernholm and Lars Westerberg. Re-election of Johan Molin as Chairman of the Board.
- Guidelines for remuneration of senior executives

TEN LARGEST SHAREHOLDERS, 31 DECEMBER 2017, %

AB Industrivärden	11.8
Alecta Pension Insurance	6.1
AMF Insurance and Funds	2.7
Handelsbanken Pension	2.6
Swedbank Robur Funds	2.5
L E Lundbergföretagen AB	2.4
SEB Investment Management	1.9
JP Morgan Chase*	1.8
Fourth Swedish National Pension Fund	1.4
Nordea Investment Funds	1.4

Source: Euroclear

* Shares held in trust

- A long-term incentive program in the form of a performance share program for about 350 senior executives and key employees in the Group
- Re-election of KPMG AB as auditor

For additional information about the Annual General Meeting, including the minutes, refer to home.sandvik.

2018 Annual General Meeting

The next Annual General Meeting will be held on 27 April 2018 in Sandviken, Sweden. More information is available at home.sandvik.

NOMINATION COMMITTEE

The Nomination Committee is a preparatory body that prepares proposals for, among other things, the election of the Board of Directors, the Chairman of the Board and auditors as well as fees for adoption at the General Meeting. The Annual General Meeting has adopted an instruction for the Nomination Committee, which includes a procedure for appointing



Sandvik's Annual General Meeting 2017 was held at the Göransson Arena, Sandviken, Sweden.

the Nomination Committee, valid until a General Meeting resolves on a change. In accordance with this instruction, the Nomination Committee should consist of representatives of the four largest shareholders, in terms of the number of votes, on the final business day in August plus the Chairman of the Board (convener).

Nomination Committee for 2018 AGM

For the 2018 Annual General Meeting, the Nomination Committee consists of Fredrik Lundberg, Chairman (Industrivärden), Kaj Thorén (Alecta), Pär Boman (Handelsbanken Pension), Anders Oscarsson (AMF Insur-

ance and Funds) and Johan Molin (Sandvik's Chairman of the Board).

Up to the date of the Annual General Meeting, the Nomination Committee met on three occasions. Through Sandvik's Chairman of the Board, the Nomination Committee was informed of the results of the Board's own evaluation. The Committee also met with Sandvik's President to review the company's operations, stage of development and overall strategy. The Nomination Committee discussed the general criteria that Board members should fulfill, including the independence requirement, and reviewed the number of Board assignments that each Board member has in other companies. The Nomination Committee applied rule 4.1 of the Code as the diversity policy. This rule states that the Board shall have an appropriate composition in view of the company's operations, phase of development and other relevant circumstances, display diversity and breadth in terms of qualifications, experience and background of the Board members elected by the General Meeting and that the company shall strive for gender balance.

BOARD OF DIRECTORS

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

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

The President is appointed by the Board and is responsible for the daily operations pursuant to guidelines and instructions issued by the Board. The distribution of responsibilities between the Board and the President is laid down in the Board's Procedural Guidelines which are reviewed and adopted each year. The review is based on such aspects 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, significant acquisitions and investments, as well as matters relating to the capital structure. Senior executives report business plans and strategic issues to the Board on an ongoing basis.

Composition

As of 31 December 2017 Sandvik's Board consisted of eight members elected by the Annual General Meeting.

The Nomination Committee communicated before the 2017 Annual General Meeting that the Nomination Committee had applied rule 4.1 of the Code as the diversity policy. The current Board composition is the result of the work of the Nomination Committee prior to that General Meeting. The Board consists of members with experiences from different geographic areas and different industry sectors and, excluding the President, 42 percent of the Board members elected by the General Meeting are women.

Pursuant to Swedish legislation, trade unions are entitled to representation on the Board and they have appointed two members and two deputies.

The Board members are presented on pages 146–147.

Independence

Helena Stjernholm is not regarded as independent in relation to major shareholders in the company and

NOMINATION COMMITTEE'S TASKS AHEAD OF THE 2018 ANNUAL GENERAL MEETING

- Proposal concerning the Chairman of the Meeting
- Proposal concerning the number of Board members
- Proposal concerning remuneration of each Board member
- Proposal concerning the Board and Chairman of the Board
- Proposal concerning auditor and remuneration of the auditor
- If deemed necessary, proposal for changes to the Nomination Committee's instruction concerning the procedure for appointment of the Nomination Committee for the forthcoming Annual General Meeting and its assignment

Björn Rosengren is not regarded as independent in relation to the company and its executive management. The other six Board members elected by the General Meeting are all independent in relation to Sandvik and its executive management, as well as the company's major shareholders. Accordingly, the composition of the Board complies with the independence requirements of the Code.

Board proceedings during 2017

During the year, the Board held 13 meetings. The Board addressed strategic issues. The executive management of all business areas presented their goals and strategies. The Board also addressed matters related to IT, human resources, such as incentive programs, environment, health and safety, and issues concerning investments and the review of previously made investments, as well as acquisitions and divestments, such as the sale of the Sandvik Process Systems and Hyperion businesses. The Remuneration and Audit Committees submitted reports from their respective meetings and the minutes from these minutes were made available to the Board members. In the autumn of 2017 the Board visited the Sandvik site in Fairlawn, US.

Remuneration of the Board

As resolved at the 2017 Annual General Meeting, the fee to the Chairman of the Board is 2,200,000 SEK and the fee to each of the non-executive

Board members elected by the General Meeting is 630,000 SEK.

In addition, 275,000 SEK was paid to the Chairman of the Audit Committee and 150,000 SEK to each of the other Committee members, in total 575,000 SEK. The Chairman of the Remuneration Committee was paid 125,000 SEK and each of the other Committee members 100,000 SEK, in total 325,000 SEK.

For more detailed information on remuneration of the Board members, see Note 3.5.

Evaluation of the work of the Board

To ensure the quality of the work of the Board and to identify the possible need for further expertise and experience, the work of the Board and

its members is evaluated annually. In 2017 the evaluation, which was led by the Chairman of the Board, was carried out by way of each Board member responding to an online questionnaire. The Chairman also held separate evaluation meetings with all Board members. The compiled results were presented to the Board. The Chairman of the Board also presented the results of the evaluations at a meeting with the Nomination Committee.

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 prepare issues and present them to the Board for resolution.

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2017

Member	Board	Audit Committee	Remuneration Committee
<i>Total number of meetings</i>	13	6	7
Jennifer Allerton	13		
Thomas Andersson	13		
Claes Boustedt	13	6	
Marika Fredriksson ¹⁾	7		
Jürgen M Geissinger ²⁾	3		
Johan Karlström	13		7
Tomas Kärnström	13		
Thomas Lilja	13		
Mats W Lundberg	13		
Johan Molin	13		7
Björn Rosengren	13		
Helena Stjernholm	13	6	
Lars Westerberg	12	6	7

1) Elected new Board member at the Annual General Meeting 2017.

2) Left the Board in conjunction with the Annual General Meeting 2017.

COMPOSITION OF THE BOARD AS OF 31 DECEMBER 2017

Name	Function	Independent in acc. with the Code	Shareholding, number ¹⁾ 31 Dec 2017	Elected	Audit Committee	Remuneration Committee
Jennifer Allerton	Member	Yes	10,000	2015		
Thomas Andersson	Deputy ²⁾		612	2012		
Claes Boustedt	Member	Yes	20,000	2015	Chairman	
Marika Fredriksson	Member	Yes	2,500	2017		
Johan Karlström	Member	Yes	5,000	2011		Member
Tomas Kärnström	Member ²⁾		2,889	2006		
Thomas Lilja	Member ²⁾		3,560	2016		
Mats W Lundberg	Deputy ²⁾		0	2015		
Johan Molin	Chairman	Yes	260,000 ³⁾	2015		Chairman
Björn Rosengren	Member	No	95,216	2016		
Helena Stjernholm	Member	No	0 ⁴⁾	2016	Member	
Lars Westerberg	Member	Yes	180,000	2010	Member	Member

1) Pertains to own and closely related persons' shareholdings in Sandvik AB.

2) Employee representatives (both members and deputy members participate in Board meetings). Thomas Lilja (member) and Mats W Lundberg (deputy) represent Unionen/Ledarna/Swedish Association of Graduate Engineers. Tomas Kärnström (member) and Thomas Andersson (deputy) represent IF Metall.

3) In addition 1,000,000 call options in Sandvik AB.

4) Acquired 5,000 shares on 12 February 2018.

Remuneration Committee

During 2017 the members of the Remuneration Committee were the Chairman of the Board Johan Molin (Chairman of the Committee), Johan Karlström and Lars Westerberg. The tasks of the Remuneration Committee are, among others, those prescribed by the Code, which include preparing proposals regarding guidelines for remuneration of senior executives and long-term incentive programs for senior executives.

Based on the recommendations of the Remuneration Committee, the Board decides the remuneration and terms of employment for the President, who in turn decides on the remuneration to be paid to the Group Executive Management in consultation with the Remuneration Committee.

For guidelines, remuneration and other benefits payable to the Group Executive Management, refer to Proposal regarding guidelines for the remuneration of senior executives on page 48 and Note 3.5.

During 2017 the Remuneration Committee held seven meetings. The increased number of meetings was mainly driven by the replacement of two members of the Group Executive Management during 2017.

Audit Committee

During 2017 the members of the Audit Committee were Claes Boustedt (Chairman of the Committee), Helena Stjernholm and Lars Westerberg. Areas addressed by the Audit Committee mainly related to:

- Financial reporting
- Effectiveness of the system of internal control
- Planning, scope and follow-up of the internal and external audit for the year
- The Group's systematic processes for risk management, including legal disputes, IT, accounting procedures, taxation, treasury, finance operations and pension issues
- The development and effectiveness of compliance processes and Speak Up, Sandvik's global whistleblowing system
- Sandvik's sustainable business strategy and materiality analysis
- Preparation for election of new auditor

During 2017 the Audit Committee held six meetings at which Sandvik's external auditor and representatives of the company's management were present.

PRESIDENT AND GROUP EXECUTIVE MANAGEMENT

The President is accountable for Group decision-making in all areas delegated by the Board. In order to ensure a full Group perspective in these matters, the President has appointed the Group Executive Management as an advisory forum, focusing on how to achieve Group targets, strategies, structure and organization. The Group Executive Management meets each month and its members are accountable for implementing the President's decisions.

In 2017 the Group Executive Management consisted of:

- Björn Rosengren, President and CEO
- Tomas Eliasson, Executive Vice President and CFO
- Klas Forsström, President of Sandvik Machining Solutions, from 1 April 2017
- Lars Engström, President of Sandvik Mining and Rock Technology
- Göran Björkman, President of Sandvik Materials Technology, from 1 November 2017
- Jessica Alm, Executive Vice President and Head of Group Communications
- Johan Kerstell, Executive Vice President and Head of Human Resources
- Åsa Thunman, Executive Vice President and General Counsel
- Jonas Gustavsson, President of Sandvik Machining Solutions, until 31 March 2017
- Petra Einarsson, President of Sandvik Materials Technology, until 31 October 2017

The President and other members of the Group Executive Management are presented further on pages 148–149.

BUSINESS AREAS

The Sandvik organization model is based on a decentralized business model with three separate business areas – Sandvik Machining Solutions, Sandvik Mining and Rock Technology and Sandvik Materials Technology – based on distinct product offerings.

Each business area has full responsibility and accountability for its respective business results.

Each of the three business areas is organized in a number of product areas based on product offering or brand. The product area is the highest operational level in the Sandvik organizational structure. Where the product area structure is based on the product offering, each product area is organized in business units representing defined parts of the product offering.

Visit home.sandvik for more detailed information relating to the Group's business activities and product portfolios.

GROUP FUNCTIONS

There are currently four Group functions within Sandvik: Communications, Finance, HR and Legal. Group Functions specifically focus on setting the appropriate enabling structures and processes that are common for the Group or cover a specific area for which the Group is responsible.

EXTERNAL AUDITOR

At the 2017 Annual General Meeting, the audit firm KPMG AB was re-elected auditor of Sandvik AB for the period until the 2018 Annual General Meeting. Joakim Thilstedt is the auditor-in-charge.

The auditors continuously audit and monitor the company's general accounting and the execution by the Board and the President of their respective responsibilities.

The progress of the audit is reported regularly during the year to the management teams of individual companies and the business areas, to the Group Executive Management, the Audit Committee and to the Board. The auditor meets with the Board at least once a year without the President or any other member of the Group Executive Management attending.

The independence of the external auditor is guaranteed by a requirement that the Audit Committee pre-approves non-audit services to be provided by the auditors.

Audit fees are paid continuously over the period in office on an approved current account basis. For detailed information on fees paid to the auditor, see Note 3.6.

BREACH OF THE STOCKHOLM STOCK EXCHANGE'S RULE BOOK

In December 2017 the Disciplinary Committee of the Stockholm Stock Exchange found that Sandvik had breached the Stockholm Stock Exchange's Rule Book for Issuers (the "Rule Book") and imposed a fine on Sandvik amounting to one annual fee, equivalent to an amount of SEK 3,105,000. The Disciplinary Committee found that Sandvik had contravened section 3.1 of the Rule Book by mistakenly publishing its interim report for the second quarter of 2017 on the company's website before the report was disclosed in a correct manner as stipulated in the Rule Book.

INTERNAL CONTROL OF FINANCIAL REPORTING

Sandvik's finance organization manages a well-established financial reporting process aimed at ensuring a high level of internal control.

The internal control system aligns with the conceptual framework of COSO, which is based on five key components that jointly facilitate good internal control. The five components are Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring and Follow-up. The application of the COSO framework is described below.

Control environment

The Sandvik Way regulates the governance of the Sandvik Group. It includes delegation of responsibilities, including signatory and authorization principles for decision making and cost approvals, and request and approval procedures in respect to investments and acquisitions, among other items.

The Sandvik Financial Reporting Policies and Procedures govern control over financial reporting. These documents contain detailed instructions regarding accounting policies and financial reporting procedures to be applied by all Sandvik reporting entities

A Sandvik Financial Internal Control Framework has been developed and includes key components such as; well-defined roles and responsibilities, internal control policy and the risk and

control matrix which defines a mandatory minimum of control activities that contribute to the mitigation of risks to acceptable levels. The process of rolling-out the common framework to the Sandvik entities is well underway.

Risk assessment and risk management

The Enterprise Risk Management (ERM) process at Sandvik encompasses the area of financial reporting. Key risks noted in local assessments and observations made by Internal and External Audit are also taken into consideration to ensure that adequate controls exist to mitigate these risks.

Control activities

In each legal entity, the finance staff is responsible for accurate accounting and the closing of books. At Group level, Group Control manages the reporting process to ensure the completeness and accuracy of financial reporting and compliance with IFRS requirements. Both statutory and management reporting is conducted in close cooperation with product areas, business areas and specialist functions such as tax, treasury and legal to ensure the correct reporting of the income statement, balance sheet, equity and cash flow.

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

Information and communication

Financial reports setting out the Group's financial position and the earnings trend of operations are submitted regularly to Sandvik's 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 Internal Audit and the external auditors.

Quarterly interim reports are published externally and are supplemented by investor meetings attended by the Group Executive Management.

Monitoring and follow-up

Each legal entity manager and their respective finance organization is ultimately responsible for continuously monitoring the financial information of the various entities. The Audit Committee is to ensure that the company's financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies. The Audit Committee prepares issues and presents them to the Board for resolution.

The external auditors 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 level of internal control over the financial reporting as part of a hard-close audit, which includes an assessment of the Parent Company's reporting and internal control over financial reporting in the business areas, subsidiaries and Group functions.

Internal audit

The Internal Audit function audits the corporate governance, internal control and risk-management procedures. Internal Audit is subordinated to the Audit Committee and the head of the unit reports to the Audit Committee.

Internal audits include, as a basis, the Group's policies for corporate governance, risk management and internal control with regard to areas such as financial reporting, compliance with the Code of Conduct and IT. The outputs of the audits include action plans and programs for improvement.

Findings are reported to the Group Executive Management and the business area management and to the Audit Committee.

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CONSOLIDATED INCOME STATEMENT

MSEK	Note	2016	2017
Continuing operations			
Revenue	1, 2	81,553	90,905
Cost of sales and services		-49,882	-54,279
Gross profit		31,671	36,626
Selling expenses		-11,865	-12,819
Administrative expenses		-5,842	-5,954
Research and development costs	4	-3,075	-3,163
Share of results of associated companies		16	56
Other operating income	5	214	4,219
Other operating expenses	6	-101	-867
Operating profit	1, 3, 7, 8	11,018	18,098
Financial income		191	381
Financial expenses		-1,843	-1,462
Net financing cost	9	-1,652	-1,080
Profit after financial items		9,366	17,018
Income tax	10	-2,528	-3,783
Profit for the year, continuing operations		6,838	13,235
Discontinued operations			
Revenue		2,877	3,080
Operating profit		-1,361	-61
Profit after financial items		-1,370	-52
Profit for the year, discontinued operations	30	-1,370	-52
Group total			
Revenue		84,430	93,985
Operating profit		9,657	18,037
Profit after financial items		7,996	16,966
Profit for the year, Group total		5,468	13,183
Other comprehensive income			
Items that cannot be reclassified to profit/loss for the year			
Actuarial gains/losses on defined-benefit pension plans	20	168	860
Tax relating to items that cannot be reclassified to profit/loss for the year	10	-82	-108
		86	751
Items that can be reclassified to profit/loss for the year			
Translation differences during the year		2,323	-1,355
Fair-value changes in cash flow hedges		-47	9
Fair-value changes in cash flow hedges transferred to profit/loss for the year		153	76
Tax related to fair-value changes in cash flow hedges	10	-22	-19
		2,407	-1,288
Total other comprehensive income for the year		2,493	-537
Total comprehensive income for the year		7,961	12,646
Profit for the year attributable to:			
Equity holders of the Parent		5,508	13,197
Non-controlling interests		-40	-14
Total comprehensive income for the year attributable to:			
Equity holders of the Parent		8,001	12,660
Non-controlling interests		-40	-14
Earnings per share, SEK*			
Continuing operations	11	5.48	10.56
Discontinued operations	11	-1.09	-0.04
Group Total	11	4.39	10.52

* Basic and diluted earnings per share.

CONSOLIDATED BALANCE SHEET

MSEK	Note	31 Dec. 2016	31 Dec. 2017
ASSETS			
Non-current assets			
Intangible assets			
Patents and other intangible assets	12	5,907	5,465
Goodwill	12	13,333	11,911
Total		19,240	17,376
Property, plant and equipment			
Land and buildings	12	9,369	8,811
Plant and machinery	12	13,181	11,718
Equipment, tools, fixtures and fittings	12	1,675	1,494
Construction in progress and advance payments	12	2,484	2,376
Total		26,709	24,399
Financial assets			
Investments in associated companies	1, 15	246	269
Financial assets		82	83
Deferred tax assets	10	5,928	4,192
Non-current receivables	16	1,780	2,220
Total		8,036	6,764
Total non-current assets		53,985	48,539
Current assets			
Inventories	17	20,977	21,389
Current receivables			
Trade receivables	18	13,301	13,239
Due from associated companies		116	131
Income tax receivables	10	1,047	961
Other receivables	16	4,005	4,466
Prepaid expenses and accrued income		893	833
Total		19,362	19,630
Cash and cash equivalents		8,818	12,724
Assets held for sale	30	358	4,522
Total current assets		49,515	58,265
TOTAL ASSETS		103,500	106,804

For information on contingent liabilities and pledged assets, refer to Note 26.

CONSOLIDATED BALANCE SHEET (CONTINUED)

MSEK	Note	31 Dec. 2016	31 Dec. 2017
EQUITY AND LIABILITIES			
Equity			
Share capital		1,505	1,505
Other paid-in capital		7,678	7,678
Reserves		4,658	3,370
Retained earnings including profit/loss for the year		25,356	36,190
Equity attributable to equity holders of the Parent		39,197	48,743
Non-controlling interests		93	28
TOTAL EQUITY	19	39,290	48,771
Non-current liabilities			
Interest-bearing liabilities			
Provisions for pensions	20	6,449	5,630
Loans from financial institutions		4,576	1,442
Other liabilities	23	22,162	21,391
Total		33,187	28,463
Non-interest-bearing liabilities			
Deferred tax liabilities	10	2,130	1,463
Provisions for taxes	10	1,356	1,722
Other provisions	21	1,029	984
Other non-current liabilities	24	352	294
Total		4,867	4,463
Total non-current liabilities		38,054	32,926
Current liabilities			
Interest-bearing liabilities			
Loans from financial institutions		2,883	404
Other liabilities	23	1,797	582
Total		4,680	986
Non-interest-bearing liabilities			
Advance payments from customers		2,127	2,499
Accounts payable		6,286	7,380
Due to associated companies		2	0
Income tax liabilities	10	948	1,147
Other liabilities	24	2,926	2,616
Provisions	21	1,788	1,676
Accrued expenses and deferred income		6,502	7,233
Total		20,579	22,551
Liabilities directly attributed to assets held for sale	30	897	1,570
Total current liabilities		26,156	25,107
TOTAL LIABILITIES		64,210	58,033
TOTAL EQUITY AND LIABILITIES		103,500	106,804

For information on contingent liabilities and pledged assets, refer to Note 26.

CONSOLIDATED CHANGES IN EQUITY

MSEK	Equity attributable to equity holders of the parent company						
	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 2016	1,505	7,678	2,251	22,545	33,979	81	34,060
Profit for the year	—	—	—	5,508	5,508	-40	5,468
Other comprehensive income/loss	—	—	2,407	86	2,493	—	2,493
Total comprehensive income/loss for the year	—	—	2,407	5,594	8,001	-40	7,961
New stock issue to non-controlling interest	—	—	—	—	—	52	52
Share-based payment settled by equity instruments	—	—	—	47	47	—	47
Payments on exercise of options program 2012 and 2013	—	—	—	19	19	—	19
Reduction of hedge options program 2011	—	—	—	262	262	—	262
Other options	—	—	—	-4	-4	—	-4
Dividends, hedged options program 2011	—	—	—	29	29	—	29
Dividend	—	—	—	-3,136	-3,136	—	-3,136
Equity at 31 December 2016	1,505	7,678	4,658	25,356	39,197	93	39,290
Equity at 1 January 2017	1,505	7,678	4,658	25,356	39,197	93	39,290
Profit for the year	—	—	—	13,197	13,197	-14	13,183
Other comprehensive income/loss	—	—	-1,288	751	-537	—	-537
Total comprehensive income/loss for the year	—	—	-1,288	13,948	12,660	-14	12,646
New stock issue to non-controlling interest	—	—	—	—	—	-43	-43
Acquired non-controlling interest	—	—	—	-9	-9	—	-9
Share-based payment settled by equity instruments	—	—	—	107	107	—	107
Payments on exercise of options program 2012 and 2013	—	—	—	258	258	—	258
Reduction of hedge options program 2011	—	—	—	-39	-39	—	-39
Other options	—	—	—	—	—	—	—
Dividends, hedged options program 2011	—	—	—	18	18	—	18
Dividend	—	—	—	-3,449	-3,449	-8	-3,457
Equity at 31 December 2017	1,505	7,678	3,370	36,190	48,743	28	48,771

CONSOLIDATED CASH FLOW STATEMENT

MSEK	Note	2016	2017
Group total			
Cash flow from operating activities			
Income after financial income and expenses		7,996	16,966
Adjustment for depreciation, amortization and impairment losses		4,715	4,936
Adjustment for non-cash items, etc.		-515	-3,542
Income tax paid		-1,650	-2,466
Cash flow from operating activities before changes in working capital		10,546	15,894
Changes in working capital			
Change in inventories		1,963	-2,245
Change in operating receivables		1,367	-1,672
Change in operating liabilities		-1,321	3,168
Cash flow from changes in working capital		2,009	-748
Investments in rental equipment		-697	-985
Divestments of rental equipment		174	125
Cash flow from operating activities		12,032	14,286
Cash flow from investing activities			
Acquisition of companies and shares, net of cash acquired	30	-31	—
Proceeds from sale of companies and shares, net of cash disposed		53	4,642
Acquisition of tangible assets		-2,708	-2,698
Proceeds from sale of tangible assets		210	327
Acquisition of intangible assets		-993	-892
Proceeds from sale of intangible assets		28	57
Other investments, net		10	12
Net cash used in investing activities		-3,431	1,448
Net cash flow after investing activities		8,601	15,734
Cash flow from financing activities			
Proceeds from borrowings		2,885	—
Repayment of borrowings		-6,062	-8,313
Dividends paid		-3,136	-3,458
Cash flow from financing activities		-6,313	-11,771
Cash flow for the year		2,288	3,963
Cash and cash equivalents at beginning of year		6,376	8,818
Foreign exchange differences on cash and cash equivalents		154	-57
Cash and cash equivalents at end of year		8,818	12,724
Continuing operations			
Cash flow from operations		12,542	14,752
Cash flow from investing activities		-3,410	1,592
Cash flow from financing activities		-6,321	-11,773
Cash flow from continuing operations		2,811	4,571

For supplementary information, refer to Note 29 and Note 30.

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PARENT COMPANY INCOME STATEMENT

MSEK	Note	2016	2017
Revenue	2	15,146	16,627
Cost of sales and services		-8,418	-9,514
Gross profit		6,728	7,113
Selling expenses		-820	-963
Administrative expenses		-2,144	-2,287
Research and development costs	4	-1,371	-1,336
Other operating income	5	11	257
Other operating expenses	6	-1,682	-1,524
Operating profit/loss	3, 8	722	1,260
Result from shares in Group companies	9	202	-706
Result from shares in associated companies	9	10	77
Interest income and similar items	9	824	770
Interest expenses and similar items	9	-1,342	-1,004
Profit after financial items		416	397
Appropriations		8	-62
Income tax	10	-240	547
Profit for the year		184	882

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

PARENT COMPANY BALANCE SHEET

MSEK	Note	31 Dec. 2016	31 Dec. 2017
ASSETS			
Non-current assets			
Intangible assets			
Patents and other intangible assets	13	24	22
Goodwill	13	137	109
Total		161	131
Property, plant and equipment			
Land and buildings	13	1,046	1,021
Plant and machinery	13	4,902	4,398
Equipment, tools, fixtures and fittings	13	425	385
Construction in progress and advance payments	13	1,237	1,436
Total		7,610	7,240
Financial assets			
Shares in Group companies	14	33,111	32,558
Due from Group companies		13,800	10,969
Investments in associated companies	15	4	—
Other investments		1	3
Non-current receivables	16	67	95
Deferred tax assets	10	93	712
Total		47,076	44,337
Total non-current assets		54,847	51,708
Current assets			
Inventories			
Inventories	17	2,927	2,926
Current receivables			
Trade receivables		716	581
Due from Group companies		6,788	4,859
Due from associated companies		115	131
Income tax receivables	10	163	169
Other receivables	16	426	214
Prepaid expenses and accrued income		709	631
Total		8,917	6,585
Cash and cash equivalents		1	0
Total current assets		11,845	9,511
TOTAL ASSETS		66,692	61,219

PARENT COMPANY BALANCE SHEET (CONTINUED)

MSEK	Note	31 Dec. 2016	31 Dec. 2017
EQUITY AND LIABILITIES			
Equity			
Non-distributable equity			
Share capital		1,505	1,505
Statutory reserve		1,611	1,611
Total		3,116	3,116
Distributable equity			
Profit brought forward		26,102	23,181
Profit for the year		184	882
Total		26,286	24,063
TOTAL EQUITY	19	29,402	27,179
Untaxed reserves			
Other untaxed reserves		3	3
Total		3	3
Provisions			
Provisions for pensions	20	341	306
Other provisions	21	333	254
Total		674	560
Non-current interest-bearing liabilities			
Loans from financial institutions	22	2,804	—
Loans from Group companies	22	302	1
Other liabilities	22	16,718	16,468
Total		19,824	16,469
Non-current non-interest-bearing liabilities			
Other liabilities		316	250
Total		316	250
Current interest-bearing liabilities			
Loans from financial institutions		689	3
Loans from Group companies		6,812	5,854
Other liabilities		1,793	576
Total		9,294	6,433
Current non-interest-bearing liabilities			
Advance payments from customers		450	285
Accounts payable		1,649	1,680
Due to Group companies		2,474	5,463
Other liabilities		318	374
Accrued expenses and deferred income	25	2,288	2,523
Total		7,179	10,325
TOTAL EQUITY AND LIABILITIES		66,692	61,219

For information on contingent liabilities and pledged assets, refer to Note 26.

PARENT COMPANY CHANGES IN EQUITY

MSEK	Share capital	Statutory reserve	Distributable equity	Total equity
Equity at 1 January 2016	1,505	1,611	28,881	31,997
Comprehensive income for the year	—	—	184	184
Dividend	—	—	-3,136	-3,136
Share-based payment settled by equity instruments	—	—	47	47
Reduction of hedge options programs 2011	—	—	262	262
Payments on exercise of options program 2012 and 2013	—	—	19	19
Dividends, hedged options program 2011	—	—	29	29
Equity at 31 December 2016	1,505	1,611	26,286	29,402
Comprehensive income for the year	—	—	882	882
Dividend	—	—	-3,449	-3,449
Share-based payment settled by equity instruments	—	—	107	107
Reduction of hedge options programs 2011-2014	—	—	-39	-39
Payments on exercise of options program 2012 and 2013	—	—	258	258
Dividends, hedged options program 2011	—	—	18	18
Equity at 31 December 2017	1,505	1,611	24,063	27,179

PARENT COMPANY CASH FLOW STATEMENT

MSEK	2016	2017
Cash flow from operating activities		
Profit before tax	424	335
Adjustment for depreciation, amortization and impairment losses	913	965
Adjustment for non-cash items, etc.	1,554	-1,864
Income tax paid	-57	-77
Cash flow from operating activities before changes in working capital	2,834	-641
Changes in working capital		
Changes in inventories	260	0
Changes in operating receivables	-538	5,085
Changes in operating liabilities	1,548	3,323
Cash flow from operating activities	4,104	7,767
Cash flow from investing activities		
Acquisition of companies and shares, net of cash acquired	-1,292	-264
Acquisition of property, plant and equipment	-975	-876
Proceeds from sale of companies and shares, net of cash disposed of	752	3,247
Proceeds from sale of property, plant and equipment	-1	48
Net cash used in investing activities	-1,516	2,155
Net cash flow after investing activities	2,588	9,922
Cash flow from financing activities		
Changes in advances/loans to/from Group companies, net	3,951	-1,184
Proceeds from external borrowings	689	-3
Repayment of external borrowings	-4,092	-5,286
Dividend paid	-3,136	-3,450
Net cash used in financing activities	-2,588	-9,923
Cash flow for the year	0	0
Cash and cash equivalents at beginning of year	1	1
Cash and cash equivalents at end of year	1	0

Supplementary information, Note 29.

SIGNIFICANT ACCOUNTING POLICIES – 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 46-122 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 1 March 2018. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on 27 April 2018.

Basis of measurement

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

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 Group reporting by all members of the Group and also in the Group reporting of associated companies, where necessary, by adaptation to Group policies.

Changes in accounting policies

The below amendments of standards and new and amended interpretations came into effect 1 January 2017. None of these standards had any material impact on Sandvik's financial statements.

– Amendments to IAS 7 Statement of Cash Flows: Entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The entity is required to disclose information on what changes in liabilities, relating to financing activities according to IAS 7, that are affecting cash flow and what changes are not affecting cash flow. Amendments to IAS 12 Recognition of Deferred taxes for Unrealized Losses: The amendments clarify the requirements on recognition of deferred tax assets for unrealized losses give rise to a deductible tax difference regardless of whether the holder expects to recover the carrying amount by holding the debt instrument until maturity or by selling the debt instrument. In circumstances in which tax law restricts the utilization of tax losses against income of a specified type, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

New standards published by IASB, but not yet effective

– IFRS 9 Financial Instruments. The standard specifies how an entity should classify and measure financial assets, a forward looking expected credit loss model is introduced and hedge accounting aligned to how the entity manages risks. The standard is effective from 1 January 2018, which also is the date when Sandvik will start to apply the standard. The standard is adopted by the EU. The assessment made by Sandvik of the new categories of assets introduced will not have any greater impact on Sandvik reporting of Trade receivables, Loan receivables or investment in securities and shares held on basis of fair value. Sandvik have chosen to make reservations for expected credit losses over the financial assets lifetime based on the simplified model. The group have chosen to continue to apply IAS 39 Financial Instruments: Recognition and Measurement for its hedge accounting. The Group will not restate prior periods. Any differences between between previous carrying amounts and those determined under IFRS 9 at the date of initial application will be included in opening retained earnings and reserves as per 1 January 2018.

– IFRS 15 Revenue from Contracts with Customers. The purpose with a new revenue standard is to create one single principle based standard for all industries to replace existing standards and statements concerning revenues. The standard is effective from 1 January 2018, which also is the date when Sandvik will apply the standard. EU has adopted the standard. Sandvik have chosen to apply the partial retroactive method for the transition to IFRS 15. Sandvik has estimated the effects from the transition to IFRS 15 on group financial statements. The effect on the Group equity as per 1 January 2018 is summarized below.

MSEK	Closing balance 31 Dec 2017 before transi- tion to IFRS 15	Estimated adjustments due to IFRS 15 transition	Estimated adjusted opening balance 1 Jan 2018
Retained earnings	36,190	-23	36,167

In the parallel reporting performed during 2017 Sandvik has identified only smaller amounts that are being deferred to a later period compared to revenue reported under IAS 18 Revenue and IAS 11 Construction contracts. The effect is mainly related to turnkey contracts and extended warranties where control has been identified to take place at a later period, point in time respectively over time.

When Sandvik reclassifies the closing balances of 2017 to identify the contract balances according to IFRS 15, the Sandvik Group will report contract assets of 429 million SEK and contract liabilities of 2,959 million SEK, with only minor additional amounts from applying the new standard.

– IFRS 16 Leases. The standard will be effective from 1 January 2019. The standard is adopted by the EU. Sandvik is presently working with the in-depth analysis of the effects from the new standard. The most essential effect arises from reporting new assets and liabilities due from all operational leasing agreements concerning office, plants and inventory and tools and vehicles. The information provided in Note 8 on Sandvik's operational leasing commitments gives an indication on the type and the extent of the existing leasing agreements. The Group plans to apply the practical expedient not to reassess whether a contract is, or contains, a lease at the date of initial application of IFRS 16.

– Amendments to IFRS 2 Share-based Payment. The amendments are intended to eliminate diversity in practice in three main areas: The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction. The classification of a share-based payment transaction with net settlement features for withholding tax obligations. The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. According to IASB initial application is from 1 January 2018. The amendment is expected to be adopted by the EU during the first quarter 2018.

– IFRIC 22 Foreign Currency Transactions and Advance Considerations. The interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

– IFRIC 23 Uncertainty over Income Tax Treatments. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12, for example how a tax receivable should be accounted for when the amount is appealed and discussions held with tax authorities. According to IASB initial application is from 1 January 2019. The amendment is expected to be adopted by the EU during 2018.

– Other changes and amendments are considered not having a material effect on Sandvik's financial statements.

BASIS OF CONSOLIDATION

The consolidated accounts are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all Group companies. Group companies are consolidated from the date the Group exercises control or influence over the company. Divested companies are included in the consolidated accounts until the date the Group ceases to control or exercise influence over them. In preparing Sandvik's consolidated financial statements, any Intra-Group transactions have been eliminated.

Subsidiaries

Subsidiaries are entities over which the Parent Company has a controlling influence. Controlling influence exists if the Parent Company has the power over the investee, meaning the investor has existing rights that give it the ability to direct the relevant activities, is exposed to or has the rights to variable return from its involvement in the investee and can, through its influence, affect the return from the involvement in the investee. In assessing controlling interest, de facto control, potential voting rights that are currently 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 comply with the Group's accounting policies.

The consolidated financial statements are prepared in accordance with the purchase method. In business combinations, acquired assets and assumed liabilities are identified and classified, and measured at fair value on the date of acquisition (also known as a purchase price allocation).

Transaction costs in conjunction with acquisitions are directly in profit or loss for the year as other operating expenses.

Contingent considerations are recognized as financial liabilities and at fair value on the acquisition date. Contingent considerations are remeasured at each reporting period with any change recognized in profit or loss for the year.

In step acquisitions, when a controlling interest is achieved, any net assets acquired earlier in the acquired units are remeasured at fair value and the result of the remeasurement is recognized in profit or loss. If the controlling interest is lost upon divestment, net profit is recognized in profit or loss. Any residual holding in the divested business is then measured at fair value on the date of divestment and its effect is recognized in profit or loss for the year.

Non-controlling interests

Non-controlling interests are recognized as a separate item in the Group's equity.

Acquisitions of non-controlling interests are recognized as a transaction within shareholders' equity, meaning between the Parent Company's owners and non-controlling interests. Accordingly, goodwill does not arise in conjunction with such transactions. Gains or losses on disposals to non-controlling interests are also recognized in equity.

Associated companies

Associated companies are partly owned entities over which the Group commands a significant influence, but not control, over the financial and operating policies. Normally this means a shareholding of between 20% and 50% of the voting rights. Interests in associated companies are 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. Sandvik's share of the associated company's income, adjusted for dissolution of acquired surplus or deficit values, is recognized as a separate item in the consolidated income statement.

FOREIGN CURRENCY

Functional currency and presentation currency

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 million SEK unless otherwise stated.

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 the 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

SIGNIFICANT ACCOUNTING POLICIES

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 of 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.

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 noncurrent liabilities are included in the accumulated translation differences reclassified from the translation reserve in equity to profit or loss for the year.

FINANCIAL INSTRUMENTS

Financial instruments recognized in the balance sheet include assets, such as cash and cash equivalents, loan and trade 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.

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.

Classification and measurement

A non-derivative financial instrument is initially recognized at fair value plus any transaction costs. 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, as described below.

Cash and cash equivalents comprise cash balances and bank deposits, 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:

Financial assets and financial liabilities measured at fair value in profit or loss.

Financial assets and financial liabilities held for trading, which comprise all derivatives held by Sandvik to which hedge accounting is not applied. Derivative agreements are entered mainly to hedge the Group's foreign exchange and interest-rate risks. Derivatives with positive fair values are recognized as other short-term or long-term receivables (unrealized profits), while derivatives with negative fair values are recognized as other short-term or long-term liabilities (unrealized losses).

The assets held for trading consist of investments in non-listed shares. The fair value cannot be established reliably and the shares are thus measured at cost. The shares are tested regularly for impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets, with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. 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.

Bad debt provisions are made based on negative information and observed non-payment patterns. A provision for 50-100% of the value is made for receivables overdue by between 181 and 360 days, while a provision for 100% of the value is made for receivables overdue by 361 days or more.

Financial liabilities

Group borrowings are classified as short-term liabilities and long-term liabilities. Borrowings are initially measured at fair value net of transaction costs. Subsequently, borrowings are measured at amortized cost. 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.

Derivatives and hedge accounting

All derivatives are initially recognized at fair value excluding any transaction costs. After initial recognition, derivatives not qualified for hedge accounting are measured at fair value and the change in value is recognized in profit or loss either as other operating income or expenses or financial income or expenses.

Hedge accounting

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. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized as described below under cash flow or fair-value hedges.

Cash flow hedges

Hedge accounting is applied when hedging a particular risk associated with highly probable future cash flows and forecast transactions. The effective portion of the change in fair value for the year, of derivatives that are qualified as cash flow hedges, is recognized in other comprehensive income and the accumulated changes in a separate component of shareholders' equity. The ineffective portion of a gain or loss is immediately recognized in profit or loss for the year. When the hedged item impacts profit or loss for the year, the accumulated changes in value of the hedging instrument are reclassified to 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 operating profit.

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 liability and the change for the period is recognized in profit or loss.

Fair-value hedges are used to hedge the fair value of fixed rate funding recognized in the balance sheet, provided that the hedged item is otherwise recognized at amortized cost. The derivative instrument used is interest rate swaps to hedge fixed interest rate risk on borrowings. If the hedge relationship is discontinued, the carrying amount of the hedged item is adjusted with the accumulated amount referring to the hedge relationship. Foreign currency gains and losses are recognized net.

REPORTING OF OPERATING SEGMENTS

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' 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.

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 business areas Sandvik Mining and Rock Technology and Other Operations, product area Process Systems. Contract revenue and expenses are recognized in profit or loss for the year in proportion to the stage of completion of the contract, if the customer contract is considered enforceable, contains a customer specific delivery and the proportion of stage of completion can be estimated reliably. The stage of completion is based on the input method and 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 attached 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.

FINANCIAL INCOME AND EXPENSES

Financial expenses consists of interest expense on borrowings, interest income and expenses on interest swaps that are recognized net as an interest expense. Credit losses on financial assets and foreign exchange gains and losses on hedging instruments are recognized in profit or loss for the year.

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 these cases, the associated tax effects are recognized in other comprehensive income.

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

Current tax liabilities are offset against current tax receivables and deferred tax assets are offset against deferred tax liabilities when the entity has a legal right to offset these items.

Deferred tax is recognized based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their value for tax purposes. Deferred taxes are measured at their nominal amount and 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 they can be utilized against future taxable profits.

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 an annual impairment test is made in the fourth quarter or when there is an indication of impairment. Impairment losses on goodwill are not reversed. Goodwill arising on the acquisition of an associated company is included in the carrying amount of participations in associated companies.

SIGNIFICANT ACCOUNTING POLICIES

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.

Intangible assets also include patents, trademarks, licenses, customer relationships and other rights. They are split between acquired and internally generated intangible assets.

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. 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 of the date the asset is available for use.

The estimated useful lives are as follows:

- Patents and trademarks 10–20 years
- Customer relationships 10 years
- Capitalized development costs 3–7 years
- Software for IT operations 3 years

PROPERTY, PLANT AND EQUIPMENT

Owned assets

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. Further details on how Sandvik recognizes leases are found below.

Depreciation of tangible assets

Depreciation is based on cost less estimated residual value. The assets are depreciated over the estimated useful lives, as follows:

- Plant and machinery is generally depreciated on a straight-line basis over 5–10 years
- Rental assets over 3 years
- Buildings over 10–50 years
- Site improvements over 20 years
- Land is regarded as having an indefinite useful life
- 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 BORROWING COSTS

Impairment and reversals of impairment

Assets with an indefinite useful life are not amortized, but tested annually for impairment. 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 the carrying amount of an asset exceeds its recoverable amount, which is the greater of the fair value less selling costs 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.

In respect to 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 to 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.

Borrowing costs for intangible and tangible assets

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. The Group considers a period in excess of one year to be a substantial period of time. For the Group, the capitalization of borrowing costs relating to intangibles is mainly relevant for capitalized expenditure for the development of new data systems. For tangibles it relates to the construction of production buildings on a proprietary basis.

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.

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 share-based payment arrangements issued to employees. The share-based awards 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 all newly hired salaried employees, 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 cases 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.

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, 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 is assessed. This method of accounting is applied to the most significant defined-benefit plans in the Group. 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. These actuarial gains and losses are recognized in the balance sheet and in profit or loss under other comprehensive income.

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. The amount of obligations recognized in the balance sheet for pensions and similar obligations reflects the present value of the obligations at the balance sheet date, less the fair value of any plan assets.

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. One critical assumption – the discount rate – is essential for the measurement of both the expense of the year and the present value of the defined-benefit obligations' current year. The discount rate is used both for calculating the present value of the obligation and as an estimate for the return on plan assets. The discount rate is reviewed quarterly, which affects the net liability, and annually, which also affects the expense for coming years. Other assumptions are reviewed annually, which can relate to demographic factors such as pension age, mortality rates and employee turnover. A lower discount rate increases the present value of the pension obligation and the annual pension cost.

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

Share-based payments refer to remuneration to employees in accordance with employee option programs and a share saving program.

Share option programs allow 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. The share-based programs includes two types of rights. Matching share rights provide entitlement to shares in Sandvik if the participant remains employed and retains the saving share that has been purchased initially. Performance share rights provide entitlement to shares subject to the same conditions and if goals relating to operating performance are achieved.

The amount recognized as an expense is adjusted to reflect the actual number of share options/rights vested.

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 undertakes to distribute Sandvik shares to participants in the program when the date for allotment occurs in accordance with the terms and conditions of the program. 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. The provisions are mainly related to warranty commitments, restructuring, environmental obligations, long-term incentives and legal disputes and claims, such as value added tax issues, customer and supplier claims relating to ongoing or finished projects.

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.

SIGNIFICANT ACCOUNTING POLICIES

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.

DISCONTINUED OPERATIONS

To qualify as Discontinued operations, a component of the Sandvik Group must have been classified as held for sale and represent a separate major line of business or be a part of a single coordinated plan to dispose of a separate major line of business. Product area Mining Systems within business area Sandvik Mining and Rock Technology is classified as discontinued operation and reported as held for sale. The discontinued operation is measured at fair value less cost to sell. See Consolidated financial statements and Notes for further information.

LEASING

There are two basic categories of leases, finance and operating. Lease contract terms, under which the lessor has transferred the majority of the risks and rewards of ownership to the lessee, are classified as finance leases. All other leases are classified as operating leases.

Sandvik as a lessee

Under a finance lease, the lessee recognizes the leased asset measured at the lower of its fair value and the present value of future lease payments. Simultaneously, a liability corresponding to future lease expenses is recognized. The asset is depreciated according to the proper accounting policy valid for the type of asset. However, depreciation may never exceed the lease term. The lease payments are recognized against the lease liability. Operating leases are not recognized in the balance sheet. Expenses attributable to an operating lease are recognized in profit or loss for the year on a straight line basis following the lease term.

Sandvik as a lessor

Under a finance lease, the lessor recognizes a sale and a financial receivable equal to the future lease installments and residual values that might have been guaranteed to the lessee. For the duration of the lease term, interest revenue is recognized in profit or loss for the year, while amortization is recognized as a decline of the financial receivable. Under an operating lease, the lessor recognizes the equipment as an asset, and revenue and depreciation are recognized on a straight line basis over the lease term.

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. The interpretations issued by the Financial Reporting Board valid for listed companies have also been applied. Under RFR 2, the Parent Company in its Annual Report is to 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.

Changed accounting policies

Unless otherwise stated below, the Parent Company's accounting policies in 2017 changed in accordance with the amendments described above for the Group's accounting policies.

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 with IAS 1 Presentation of Financial

Statements applied when presenting the consolidated financial statements mainly pertain to the presentation of finance income and expenses, non-current 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.

Leased assets

The Parent Company recognizes all lease contracts according to the rules for 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 and the fact that the obligation is calculated based on the current salary level disregarding assumptions about future levels.

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 appropriations 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 the 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 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 12. 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 non-current 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 or 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 is 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 selling costs, 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 fleets of Sandvik Mining and Rock Technology are subject to special examination considering their dependence on the business climate in the mining- and oil

industry and the risk that rental agreements may be cancelled. The carrying amount of the rental fleets at the end of 2017 was 544 million SEK (652).

A call for an impairment test also arises 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.

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 2017, Sandvik recognized deferred tax assets of 4,192 million SEK (5,928). Furthermore, the Group had additional tax loss carry-forward of about 1,663 million SEK (2,428) at the end of 2017 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 is based on management's best estimate of the outcome, and amounted to 1,722 million SEK (1,356) at the end of 2017.

Post-employment benefits

Sandvik provides pension solutions and other post-employment benefits to employees throughout the Group. In certain countries defined-benefit plans are provided and the accounting for these plans is complex because actuarial assumptions are required to determine the obligation and the expense. Life expectancy, inflation and discount rate are examples of assumptions used for the calculations. Furthermore, the obligations are measured on a discounted basis since they may be settled many years after the employment. The applied actuarial assumptions as well as a sensitivity analysis are presented in Note 20. Some of the defined-benefit plans are funded, with plan assets held by separate foundations or equivalent. The financial risk management associated with the defined-benefit plans are presented in the Directors' Report in the section Financial Risk Management.

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 Enterprise Risk Management section.

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NOTES

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, CONTINUING OPERATIONS

	Sandvik Machining Solutions		Sandvik Mining and Rock Technology		Sandvik Materials Technology		Other Operations		Group activities		Eliminations		Group total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Revenue														
External revenue	32,852	35,778	31,093	36,547	12,931	13,643	4,655	4,936	22	1			81,553	90,905
Internal revenue	973	983	32	48	311	331	302	218	—	—	-1,618	-1,580		
Group total	33,825	36,761	31,125	36,595	13,242	13,974	4,957	5,154	22	1	-1,618	-1,580	81,553	90,905
Share of results of associated companies	4	2	5	20	12	33	—	—	-5	1			16	56
Operating profit/loss by business area	6,970	8,413	3,206	5,743	1,115	284	545	4,432	-818	-774			11,018	18,098
Net financing cost													-1,652	-1,080
Income tax expense for the year													-2,528	-3,783
Profit for the year													6,838	13,235
Other disclosures														
Assets	30,147	30,067	31,104	32,581	16,252	15,566	4,693	491	2,214	1,795			84,410	80,500
Investments in associates	32	5	72	89	142	175	—	—	—	—			246	269
Total assets	30,179	30,072	31,176	32,670	16,394	15,741	4,693	491	2,214	1,795			84,656	80,769
Unallocated assets													18,486	21,513
Group total													103,142	102,282
Liabilities	5,703	6,424	8,360	10,033	3,263	3,467	945	272	1,469	1,699			19,740	21,895
Unallocated liabilities													43,572	34,568
Group total													63,312	56,463
Capital expenditure	1,697	1,561	802	778	849	869	129	150	196	222			3,673	3,580
Depreciation/Amortization	-1,916	-1,956	-1,348	-1,553	-773	-792	-195	-157	-142	-123			-4,374	-4,581
Impairment losses	40	11	-158	-39	33	-320	-2	-1	-43	-1			-130	-350
Other non-cash expenses	-347	-122	-247	109	-153	77	-19	-4,157	3	552			-763	-3,541

All transactions between the business areas are on market terms. For information regarding business combinations, see Note 30.

1.2 INFORMATION BY COUNTRY, CONTINUING OPERATIONS

Revenue by country, Group	2016	2017	Non-current assets by country, Group	2016	2017
USA	11,951	13,917	Sweden	13,990	13,494
Germany	6,707	7,147	USA	11,369	9,922
China	5,569	6,259	Germany	3,788	3,663
Australia	4,286	5,304	Austria	2,576	2,545
Italy	3,561	3,721	Finland	1,754	1,865
Sweden	3,189	3,541	UK	1,724	1,656
South Africa	2,736	3,164	China	1,584	1,422
Russia	2,792	3,163	India	1,367	1,270
France	2,839	3,149	Australia	956	928
UK	2,824	2,967	France	873	907
India	2,560	2,923	Czech Republic	747	817
Canada	2,213	2,889	Canada	570	575
Mexico	2,356	2,712	Japan	592	479
Japan	2,197	2,241	Italy	435	466
Brazil	1,359	1,479	Switzerland	456	445
Other countries	24,414	26,329	Other countries	3,168	1,322
Total	81,553	90,905	Total	45,949	41,776

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

Non-current assets are specified by country based on where the assets are located.

NOTES

NOTE 2. Categories of revenue

	Group		Parent Company	
	2016	2017	2016	2017
Sale of goods	78,251	86,494	15,060	16,029
Contract revenue	675	1,433	8	582
Rendering of services	1,915	1,913	73	6
Rental income	712	1,065	5	10
Total	81,553	90,905	15,146	16,627

NOTE 3. Personnel information and remuneration of management and auditors

3.1 AVERAGE NUMBER OF EMPLOYEES

	Group				Parent Company			
	2016		2017		2016		2017	
	Number	Women, %	Number	Women, %	Number	Women, %	Number	Women, %
Sweden	9,940	24	9,572	24	7,590	22	7,328	23
Rest of Europe	14,599	19	14,363	20	—	—	—	—
Total Europe	24,539	21	23,934	21	7,590	22	7,328	23
North America	5,912	16	5,835	16	—	—	—	—
South America	2,211	15	2,019	16	—	—	—	—
Africa, Middle East	2,839	17	2,556	17	—	—	—	—
Asia	7,958	16	8,049	15	—	—	—	—
Australia	1,310	14	983	16	—	—	—	—
Total	44,769	19	43,376	19	7,590	22	7,328	23
Whereof discontinued operations	984		495					
Continuing operations	43,785		42,881					

3.2 WAGES, SALARIES, OTHER REMUNERATION AND SOCIAL COSTS

	Group		Parent Company	
	2016	2017	2016	2017
Wages, salaries and other remuneration	20,008	21,354	4,141	4,331
Social costs	5,085	5,354	1,794	1,887
Employee profit sharing	169	213	130	154
Total	25,262	26,921	6,065	6,372
Whereof discontinued operations	476	371	—	—
Continuing operations	24,786	26,550	6,065	6,372
Of which, pension costs recognized in social costs	1,414	1,540	588	638

A total of 56 million SEK (79) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to 159 million SEK (156). Correspondingly, 22 million SEK (47) of the Parent Company's pension costs related to the Boards and presidents. The Parent Company's pension liability relating to these persons amounted to 4 million SEK (4).

Employee profit-sharing program

To promote 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 2017 resulted in an allocation of 213 million SEK (169) to the profit-sharing foundation.

3.3 WAGES, SALARIES AND OTHER REMUNERATION BY MARKET AREA

	Group		Parent Company	
	2016	2017	2016	2017
Sweden	5,418	5,628	4,141	4,331
Rest of Europe	7,122	7,719	—	—
Total Europe	12,540	13,347	4,141	4,331
North America	3,165	3,356	—	—
South America	620	651	—	—
Africa, Middle East	817	1,088	—	—
Asia	2,031	2,084	—	—
Australia	835	828	—	—
Total	20,008	21,354	4,141	4,331
Whereof discontinued operations	352	275	—	—
Total continuing operations	19,656	21,079	4,141	4,331
Of which, to Boards of Directors and presidents				
Salaries and other remuneration	707	746	46	56
Of which, variable salary	79	96	13	17

3.4 GENDER DISTRIBUTION IN SENIOR MANAGEMENT

	Group		Parent Company	
	2016	2017	2016	2017
Proportion of women, %				
Gender distribution in senior management	15	14	18	27
Other senior executives	21	20	43	29

Note 3, continued

3.5 REMUNERATION OF THE BOARD OF DIRECTORS 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.

In accordance with the resolution of the 2017 Annual General Meeting, the total fee to the external Board members elected at the Meeting amounts to in total 5,980,000 SEK on an annual basis. Of this amount, 2,200,000 SEK is payable to the Chairman of the Board (Johan Molin) and 630,000 SEK to each of the other external Board members (Jennifer Allerton, Claes Boustedt, Johan Karlström, Helena Stjernholm, Lars Westerberg and Marika Fredriksson).

In addition to these amounts, the Annual General Meeting resolved that a fee for committee work should be paid to Board members elected by the Meeting, in an amount totaling 575,000 SEK to the members of the Audit Committee (Claes Boustedt 275,000 SEK, Helena Stjernholm 150,000 SEK and Lars Westerberg 150,000 SEK) and in an amount totaling 325,000 SEK to the members of the Remuneration Committee (Johan Molin 125,000 SEK, Johan Karlström 100,000 and Lars Westerberg 100,000 SEK).

The long-term asset manager and largest shareholder of Sandvik shares, Industrivärden, granted in 2015 the Chairman of the Board one million call options over Sandvik shares with a five year term and an exercise price of SEK 110. The options were purchased at market price.

President and other senior executives

Principles of remuneration

The following guidelines approved by the Annual General Meeting for remuneration of senior executives have been applied since the Annual General Meeting in 2017:

The remuneration of the Group Executive Management is to comprise fixed salary, variable salary, pension and other benefits. The total remuneration package should be based on market terms, be competitive and reflect the individual's performance and responsibilities as well as the Group's earnings trend.

The variable salary may comprise short-term incentives in cash and long-term incentives in cash, shares and /or share-based instruments in Sandvik AB. Variable salary in cash is conditional upon the fulfilment of defined and measurable goals and should be maximized in relation to the fixed salary. Long-term incentives in the form of shares and /or share-based instruments in Sandvik AB may be provided through participation in long-term incentive programs approved by the General Meeting. Terms and conditions for variable salary should be designed so that the Board of Directors, if exceptional economic circumstances prevail, has the option of limiting or refraining from payment of variable salary if such a measure is considered reasonable.

In specific cases, agreements may be reached regarding one-off remuneration amounts provided that such remuneration does not

exceed an amount corresponding to the individual's annual fixed salary and maximum variable salary in cash, and is not paid more than once per year and individual.

Pension benefits should be defined contribution.

Normally, severance pay is paid when employment is terminated by Sandvik. Members of the Group Executive Management generally have a period of notice of not more than 12 months, in combination with severance pay corresponding to 6–12 months fixed salary. An alternative solution may be applied to the President comprising a period of notice of 24 months and no severance pay. No severance pay will be paid when employment is terminated by the employee.

The Board of Directors is to have the right to depart from the guidelines resolved on by the Annual General Meeting if, in an individual case, there are special reasons for this.

The sphere of senior executives encompassed by the guidelines comprises the President and other members of the Group Executive Management.

The proposal for principles for remuneration that the Board intends to submit to the 2018 Annual General Meeting for resolution is presented in the Report of the Directors, in the "People" section.

President and CEO

Sandvik's President and CEO, Björn Rosengren, was paid an annual fixed salary of 13,312,500 SEK and received the fringe-benefit value of a car provided by the company. In addition, an annual variable cash based salary of maximum 75% of the fixed salary is payable. The variable salary for 2017 amounted to 9,984,375 SEK.

Björn Rosengren is entitled to retire at age 65. A pension premium of 37.5% of his annual fixed salary is reserved annually.

In the event of termination of employment by the company, Björn Rosengren has a notice period of 12 months and 12 months' severance pay.

Other senior executives

For other members of the Group Executive Management who are covered by a Swedish pension plan (ITP1 or ITP2), the retirement age is minimum 62.

For members that are covered by the ITP plan 1 (defined contribution) a supplement of 5% of the salary portions in excess of 7.5 income base amounts applies.

For members that are covered by the ITP Plan 2 (defined benefit), a supplementary defined-contribution plan under which the company each year contributes 20–38% (depending on age and employment start in GEM) of fixed salary portions in excess of 20 price base amounts applies. Members of the Group Executive Management employed as per 31 December 2017 are covered either by the ITP 1- or by the ITP2 occupational pension plans.

Severance pay is paid in the event that the company terminates employment. The severance pay equals 6–12 months' fixed salary in addition to the notice period, which is 6–12 months. Any other income from employment is normally deducted from the severance pay.

REMUNERATION AND OTHER BENEFITS PERTAINING TO 2017 EXPENSED DURING THE YEAR, SEK

Position	Fixed salary/ Board fee	Annual variable salary ¹	Other benefits ²	Long-term variable salary ³	Pension costs
Chairman of the Board	2,325,000				
Other Board members	4,555,000				
President and CEO Björn Rosengren	13,742,873 ⁴	9,984,375	112,430	6,869,455	5,075,755
Other senior executives ⁵	28,701,531	14,537,111	406,065	10,037,910	11,367,945
Sum	49,324,404	24,521,486	518,495	16,907,365	16,443,700

1) Amount pertaining to 2017 and expected to be paid in 2018.

2) Relates mainly to the fringe-benefit and company car.

3) The amounts pertain to changes in provisions made for the, 2015, 2016 and 2017 LTI programs.

4) Björn Rosengren's fixed salary 2017 amounts to 13,312,500 SEK, the remaining amount relates to vacation pay, etc. Board fees are not payable to executive Board members.

5) Pertains to the following persons in 2017: Johan Kerstell, Tomas Eliasson, Jessica Alm, Åsa Thunman, Petra Einarsson (Jan – Oct), Göran Björkman (Nov – Dec), Lars Engström, Jonas Gustavsson (Jan-Mar), Klas Forsström (Apr – Dec).

NOTES

Note 3, continued

Long-term incentive program

Share-based incentive program 2012 and 2013

The 2012 and 2013 Annual General Meetings approved the Board proposals to introduce a share-based LTI program for each year. The programs were aimed at about 400 senior executives and key individuals in the Sandvik Group and a maximum of 23,405,188 Sandvik shares could maximum be used.

The program participants have been allotted employee stock options that entitle the employee to acquire Sandvik shares after three years at a set exercise price, on condition that certain performance targets linked to the Sandvik Group's growth in value – Sandvik Value Added (SVA) – are met ("performance shares"). 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 the year in which the investment in saving shares is made, was required in order to receive allotment of employee stock options. Provided that such a personal investment in Sandvik shares has been made, these executives also received allotment of "matching rights" (one per saving share acquired) that entitle the executive to acquire Sandvik shares after three years at a set exercise price ("matching shares"). Employee stock options and matching rights are non-transferrable.

Each employee stock option entitles the employee to acquire one performance share not earlier than three years and not later than five years following allocation of the employee stock option. The number of the allotted employee stock options that will eventually provide entitlement to the acquisition of performance shares depends on the development of SVA over the three financial years following approval of the program by the Annual General Meeting.

The exercise of the employee stock options to acquire performance shares requires continued employment at Sandvik and that

all acquired saving shares are held for a three-year period after the allotment of the employee stock options.

Each matching right automatically provides entitlement to acquire one matching share not earlier than three and not later than five years after the allotment of the matching rights. The exercise 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 exercise price to acquire a performance share or matching share equals an amount corresponding to 110% and 75%, respectively, of the average volume-weighted price paid for the Sandvik share on NASDAQ Stockholm during a period of ten trading days immediately following the Annual General Meeting that approved the program. The average volume-weighted price paid was determined for 2012 at 97.12 SEK and for 2013 at 92.41 SEK.

For the 2012 LTI program, encompassing the years 2012–2014, 36% of the performance stock options vested. The program lapsed June 2017. For the 2013 LTI program, encompassing the years 2013–2015, no performance stock options vested, since the performance targets set by the Board of Directors were not met.

The number of allotted employee stock options and acquired matching rights under the 2012 and 2013 programs for the President and other members of the Group Executive Management on 31 December 2017 corresponds to the number of outstanding employee stock options and matching rights at year-end.

The number of allotted matching rights under the 2012 and 2013 programs corresponds to the number of outstanding matching rights at 31 December 2017.

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

ASSUMPTIONS FOR DETERMINING THE VALUE BASED ON THE BLACK & SCHOLES MODEL, 2012 AND 2013 LTI PROGRAMS

Assumptions	Program 2012 (on date of issue)	Program 2013 (on date of issue)
Share price	92.65 SEK	94.65 SEK
Exercise price	106.80/72.80 SEK	101.70/69.30 SEK
Expected volatility	36.50 %	35 %
Expected maturity	3 years	3 years
Present value of forecasted future dividends ¹	12.17 SEK	12.22 SEK
Risk-free interest rate	0.95 %	0.91 %

¹) Based on analysts' combined expectations.

NUMBER AND EXERCISE PRICE, GROUP (INCLUDING PARENT COMPANY), 2012 – 2013 LTI PROGRAMS

	Employee stock options 2012	Matching rights 2012	Employee stock options 2013	Matching rights 2013
Outstanding at beginning of year	3,082,320	62,610	—	74,729
Allotted during the period	—	—	—	—
Exercised during the year	-2,187,360	-48,580	—	-56,474
Forfeited during the year	-894,960	-14,030	—	-263
Outstanding at year-end	—	—	—	17,992
Theoretical value when allotted acc. to Black & Scholes, SEK	13	24	14.30	26.30
Exercise price, SEK	106.80	72.80	101.70	69.30

NUMBER AND EXERCISE PRICE, PARENT COMPANY, 2012 – 2013 LTI PROGRAMS

	Employee stock options 2012	Matching rights 2012	Employee stock options 2013	Matching rights 2013
Outstanding at beginning of year	399,240	14,812	—	21,466
Allotted during the year	—	—	—	—
Exercised during the year	-185,040	-5,466	—	-7,487
Forfeited during the year	-214,200	-9,346	—	-9,530
Outstanding at year-end	—	—	—	4,449
Theoretical value when allotted acc. to Black & Scholes, SEK	13	24	14.30	26.30
Exercise price, SEK	106.80	72.80	101.70	69.30

Note 3, continued

made regarding expected behaviour patterns for exercising the employee stock options and acquired matching rights among the program participants.

Share-based incentive program 2014 – 2017

The 2014, 2015, 2016 and 2017 Annual General Meetings approved the Board's proposal to introduce a performance share program for each year for about 350 senior executives and key individuals in the Sandvik Group, divided into four categories. For all participants, a personal investment is required in each separate program and the programs encompass a maximum total of 8,062,608 shares.

All program participants have invested in Sandvik shares ("investment shares"), up to an amount corresponding to 10% of their fixed annual pre-tax salary at the time of the investment.

Each acquired investment share entitles participants to be allotted, free of charge, after a period of three years, one Sandvik share ("matching share") and, provided certain performance targets are met, further Sandvik shares ("performance shares"). The maximum number of performance shares that may be allotted for each acquired investment share depends on the category to which the participant belongs.

The number of performance shares that will finally be allotted to the participant for each acquired investment share is dependent on the development of the Sandvik Group adjusted Earnings Per Share ("EPS") during the financial year that the investment shares were acquired, compared to adjusted EPS for the previous financial year.

In January 2014, 2015, 2016 and 2017 respectively the Board of Directors established the levels regarding adjusted EPS for the year in question that had to be attained for allotment of a certain number of performance shares.

For the 2014 LTI program matching shares were allotted during 2017. No performance shares were allotted since the performance targets set by the Board of Directors were not met. The program closed 2017.

For the 2015 LTI program matching shares will be allotted during 2018, if all the prerequisites for allotment are met. No performance shares will be allotted since the performance targets set by the Board of Directors were not met.

For the 2016 LTI program matching shares will be allotted during 2019, if all the prerequisites for allotment are met. Performance shares will be allotted since the performance targets set by the Board of Directors were essentially met.

In order for any performance shares to be allotted in the 2017 LTI program, adjusted EPS growth for the financial year 2017 must exceed 5% in relation to adjusted EPS for the financial year 2016. For the maximum number of performance shares to be allotted in the 2017 LTI program, adjusted EPS growth for the financial year 2017 must attain 20% in relation to adjusted EPS for the financial year 2016. Within the range, a proportional linear number of performance shares will be allotted.

Adjusted EPS for the financial year 2014 amounted to 4.83 SEK; year 2015 amounted to 4.72 SEK; year 2016 amounted to 5.48 SEK.

For the financial year 2017 adjusted EPS amounted to 7.99 SEK, which means that the maximum performance targets were met

and performance shares will therefore vest in 2020 subject to the requirements in the plan rules.

The allotment of matching- and performance shares, respectively, requires continuous employment and that all investment shares be held during a period of three years from the acquisition of the investment shares.

The right to be allotted matching shares under the 2017 LTI program presupposes that the 2018 Annual General Meeting decides on dividends for the financial year 2018. Whether or not dividends are decided on does not impact a participant's right to be allotted performance shares.

If all the prerequisites for allotment are met, allotment of matching shares under the 2017 LTI program will take place during 2020, and no later than 30 June 2020.

The number of allotted performance shares and matching shares under the 2014 – 2017 LTI programs for the President and other members of the Group Executive Management on 31 December 2017 corresponds to the number of outstanding performance shares and matching shares at year-end.

Costs for the programs

The following IFRS2 provisions were established during the year: 66,3 million SEK, excluding social costs for the 2017 LTI program, of which 8,2 million SEK for the President and other senior executives; 47,2 million SEK, excluding social costs, for the 2016 LTI program, of which 8,3 million SEK for the President and other senior executives; and 7,0 million SEK, excluding social costs, for the 2015 LTI program, of which 0,3 million SEK for the President and other senior executives.

The employee stock options, matching rights, matching shares and performance shares 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 each program. Social costs are expensed during the vesting period of each program based on the change in value of the employee stock options, matching rights, matching shares and performance shares.

Preparation and decision-making process

The Board's Remuneration Committee prepares issues relating to the Group Executive Management's remuneration. The Committee met seven times during the year. Issues dealt with included the remuneration level in connection with completed recruitments, 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 a basis. Based on the Remuneration Committee's proposals, the Board decided on the remuneration of the President for 2017. 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.

ASSUMPTIONS FOR DETERMINING THE VALUE, 2014 – 2017 LTI PROGRAMS

Assumptions	Program 2014 (on date of issue)	Program 2015 (on date of issue)	Program 2016 (on date of issue)	Program 2017 (on date of issue)
Share price	96.45 SEK	103.60 SEK	82.70 SEK	137.0 SEK
Present value of forecasted future dividends ¹	11.58 SEK	11.51 SEK	8.74 SEK	10.55 SEK
Risk-free interest rate	0.71%	0.0%	-0.41%	-0.46%

¹ Based on analysts' combined expectations.

NOTES

Note 3, continued

NUMBER OF SHARES, GROUP (INCLUDING PARENT COMPANY), 2014 – 2017 LTI PROGRAMS

	Performance shares 2014	Matching shares 2014	Performance shares 2015	Matching shares 2015	Performance shares 2016	Matching shares 2016	Performance shares 2017	Matching shares 2017
Outstanding at beginning of year	—	315,769	—	299,279	1,519,686	355,390	—	—
Allotted during the year	—	—	—	—	—	—	1,291,369	282,694
Vested during the year	—	-303,755	—	-5,692	-16,042	-4,023	—	—
Forfeited during the year	—	-12,014	—	-18,066	-76,864	-17,307	—	—
Outstanding at year-end	—	—	—	277,521	1,426,780	334,060	1,291,369	282,694
Theoretical value when allotted, SEK	84.90	84.90	92.10	92.10	74.00	74.00	126.40	126.40

NUMBER OF SHARES, PARENT COMPANY, 2014 – 2017 LTI PROGRAMS

	Performance shares 2014	Matching shares 2014	Performance shares 2015	Matching shares 2015	Performance shares 2016	Matching shares 2016	Performance shares 2017	Matching shares 2017
Outstanding at beginning of year	—	42,937	—	28,428	227,568	43,832	—	—
Allotted during the year	—	—	—	—	—	—	249,533	44,662
Vested during the year	—	-36,932	—	—	—	—	—	—
Forfeited during the year	—	-6,005	—	-3,365	-4,450	-1,217	—	—
Outstanding at year-end	—	—	—	25,063	223,118	42,615	249,533	44,662
Theoretical value when allotted, SEK	84.90	84.90	92.10	92.10	74.00	74.00	126.40	126.40

Note 3, continued

3.6 FEES AND REMUNERATION TO THE GROUP'S AUDITORS

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

	KPMG		Other		Total	
	2016	2017	2016	2017	2016	2017
Audit						
Parent Company	12.0	10.2	—	—	12.0	10.2
Subsidiaries	64.7	64.6	2.7	2.6	67.4	67.2
Group	76.7	74.8	2.7	2.6	79.4	77.4
Tax consultancy services						
Parent Company	0.1	0.1				
Subsidiaries	6.6	5.9				
Group	6.7	6.0				
Other services						
Parent Company	2.3	3.9				
Subsidiaries	3.1	3.2				
Group	5.4	7.1				

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 CEO, 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 other assurance, advice on accounting issues and due-diligence services in connection with acquisitions.

NOTE 4. Research, development and quality assurance

	Group		Parent Company	
	2016	2017	2016	2017
Expenditure for				
Research and development	3,483	3,498	1,498	1,440
Quality assurance	452	470	303	269
Total	3,935	3,968	1,801	1,709
of which expensed, total	3,528	3,633	1,673	1,604
of which expensed relating to research and development	3,075	3,163	1,371	1,336

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**Continuing operations**

Other operating income amounted to 4,219 million SEK (214). The amount includes gains on the divestment of operations with 4,112 million SEK (53), where of 4,057 million SEK is related to Sandvik Process Systems. There are also a number of smaller items recognized under other operating income.

Parent Company

The Parent Company's other operating income mainly pertains to foreign exchange gains on operating receivables and payables and profit on disposal of land and buildings.

NOTE 6. Other operating expenses**Continuing operations**

Other operating expenses amounted to –867 million SEK (–101). Included here are foreign exchange loss on operating receivables and payables of –132 million SEK, which last year was a gain of 44 million SEK. –450 million SEK primarily related to impairments of fixed assets driven by the announced intention to divest the welding and stainless wire business are also included.

Parent Company

The Parent Company's other operating expenses mainly pertains to royalties between Group companies, losses on foreign exchange on operating receivables and payables and losses on disposals of intangible and tangible assets.

NOTE 7. Operating expenses

Group	2016	2017
Cost of goods and material	–25,143	–27,927
Employee benefit expense	–24,786	–26,550
Depreciation and amortization	–4,374	–4,581
Impairment losses, inventories	–418	–408
Impairment losses and reversal impairment losses, non-current assets	–130	–350
Impairment losses, doubtful receivables	–100	–111
Other expenses	–15,824	–17,154
Total	–70,775	–77,081

Other expenses mainly relate to purchases of services and consumables.

NOTE 8. Fees for finance and operating leases**FINANCE LEASES***Finance leases with Sandvik as lessee*

The Group leases assets under finance lease agreements. At 31 December 2017, the planned residual value of such leased assets was 42 million SEK (51). Variable fees recognized as expenses totaled 11 million SEK (0).

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

Group	Nominal fee		Present value	
	2016	2017	2016	2017
Within one year	18	15	12	14
Between one and five years	58	46	51	44
Later than five years	0	—	0	—
Group total	76	61	63	58

Finance leases with Sandvik as lessor

The Group's investments in finance leases amounted to 2,224 million SEK (1,948) at year-end 2017. 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:

Group	Nominal fee		Present value	
	2016	2017	2016	2017
Within one year	916	809	767	688
Between one and five years	1,017	1,402	905	1,240
More than five years	15	13	6	5
Group total	1,948	2,224	1,678	1,933

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 2017, the Group expensed 861 million SEK (897), including minimum lease payments of 864 million SEK (903), variable fees of 3 million SEK (3), and net of sublease income of –7 million SEK (–9). The Parent Company expensed 219 million SEK (240).

NOTES

Note 8, continued

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

	Group		Parent Company	
	2016	2017	2016	2017
Within one year	809	761	220	211
Between one and five years	1,625	1,601	558	633
Later than five years	697	625	378	404
Group total	3,131	2,988	1,156	1,248

Future minimum lease payments under non-cancellable lease contracts that pertain to subleased items amounted to 156 million SEK (211).

Operating leases with Sandvik as lessor

The planned residual value of the Group's rental fleet is 544 million SEK (652). Depreciation for the year amounted to 599 million SEK (418). The future minimum lease payments under non-cancellable leases amount to 713 million SEK (763). Variable fees amounted to 29 million SEK (22).

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

	Group		Parent Company	
	2016	2017	2016	2017
Within one year	340	287	0	0
Between one and five years	423	426	—	—
Later than five years	0	—	—	—
Group total	763	713	0	0

NOTE 9. Net financing cost

Group	2016	2017
Interest income	159	207
Dividend	5	25
Other investments incl. derivatives		
Net gain on remeasurement of financial assets/ liabilities	5	134
Net foreign-exchange gains	—	—
Other financial income	7	15
Financial income	176	381
Interest expense	-1,670	-1,377
Other investments incl. derivatives		
Net loss on remeasurement of financial assets/liabilities	-108	-41
Net foreign-exchange losses	-12	-9
Other financial expenses	-47	-34
Financial expenses	-1,837	-1,462
Net financing cost	-1,661	-1,080

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to -1,157 million SEK (-1,507). In 2017, the hedging of fair values resulting from the valuation of hedged items had an effect of -4 million SEK (-4) on the result, while the valuation of hedged instruments affected the result by 4 million SEK (4). No inefficiencies in cash flow hedges impacted profit for the year (0). For further information regarding valuation policies for financial instruments, refer to Note 27.

	Income from shares in Group companies		Income from shares in associated companies	
	2016	2017	2016	2017
Parent Company				
Dividend, net of withholding tax	328	1,072	10	5
Group contributions paid/received	525	-3,955	—	—
Gain on sale of shares and participations	47	2,344 ¹	—	72
Impairment	-698	-167	—	—
Reversed impairment	—	—	—	—
Total	202	-706	10	77

1) Profit from disposal of shares in Sandvik Process Systems AB.

Interest income and similar items

Parent Company	2016	2017
Interest income, Group companies	823	631
Other interest income	1	0
Derivatives, Group companies	—	139
Other	—	—
Total	824	770

Interest expense and similar items

Parent Company	2016	2017
Interest expense, Group companies	-546	-451
Other interest expense	-701	-543
Derivatives, Group companies	-81	5
Other	-14	-15
Total	-1,342	-1,004

NOTE 10. Income tax

RECOGNIZED IN PROFIT AND LOSS

	Group		Parent Company	
	2016	2017	2016	2017
Income tax expense for the year				
Current tax	-1,831	-2,772	-73	-71
Adjustment of taxes attributable to prior years	-196	-322	—	—
Total current tax expense	-2,027	-3,094	-73	-71
Deferred taxes relating to temporary differences and tax loss carry-forward	-501	-689	-167	618
Total tax expense	-2,528	-3,783	-240	547

The Group's recognized tax expense for the continuing operations for the year amounted to 3,783 million SEK (2,528) or 22.2% (27.0) of profit after financial items.

Reconciliation of the Group's tax expense

The Group's weighted average tax rate for the continuing operations, calculated in accordance with the statutory tax rates in each country, is 22.4% (19.7). The tax rate in Sweden is 22% (22). The federal corporate tax rate in the United States of America has been reduced from 35% to 21%. A positive nonrecurring effect on deferred tax for the year of approximately 190 million SEK, related to this change, has affected the weighted average tax rate.

Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

	2016		2017	
	MSEK	%	MSEK	%
Continuing operations				
Profit after financial items	9,366		17,018	
Weighted average tax based on each country's tax rate	-1,841	-19.7	-3,813	-22.4
Tax effect of				
Non-deductible expenses	-396	-4.2	-149	-0.9
Tax-exempt income	61	0.7	646	3.8
Adjustments relating to prior years	-196	-2.1	-322	-1.9
Effects of tax loss carry-forward, net	-12	-0.1	-53	-0.3
Other	-144	-1.6	-92	-0.5
Total recognized tax expense	-2,528	-27.0	-3,783	-22.2

The weighted average tax rate for Group total, based on the statutory tax rates in each country, is 22.5% (23.0). The federal corporate tax rate change in the US, described above, is included in the weighted average tax.

Note 10, continued

Group total	2016		2017	
	MSEK	%	MSEK	%
Profit after financial items	7,996		16,966	
Weighted average tax based on each country's tax rate	-1,841	-23.0	-3,813	-22.5
Tax effect of				
Non-deductible expenses	-396	-5.0	-149	-0.9
Tax-exempt income	61	0.8	646	3.8
Adjustments relating to prior years	-196	-2.4	-322	-1.9
Effects of tax loss carry-forward, net	-12	-0.2	-53	-0.3
Other	-144	-1.8	-92	-0.5
Total recognized tax expense	-2,528	-31.6	-3,783	-22.3

Reconciliation of the Parent Company's tax expense

The Parent Company's effective tax rate is lower than the nominal tax rate in Sweden, mainly due to the sale of shares in Group companies which are non-taxable incomes.

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

Parent company	2016		2017	
	MSEK	%	MSEK	%
Profit before tax	424		335	
Tax based on the nominal tax rate for the Parent Company	-93	-22	-74	-22
Tax effects of				
Non-deductible expenses	-212	-50	-88	-26
Tax-exempt income	115	27.1	705	210.6
Tax related to Sandvik Process Systems ¹⁾			-24	-7.2
Adjustments relating to prior years	-50	-11.8	28	8.3
Total recognized tax expense	-240	-56.6	547	163.4

¹⁾ Related to exit of the commissionarie structure in current year.

TAX ITEMS ATTRIBUTABLE TO OTHER COMPREHENSIVE INCOME

Group	2016			2017		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Actuarial gains/losses attributable to defined- benefit pension plans	168	-82	86	860	-108	752
Translation differences for the year	2,323	—	2,323	-1,355	—	-1,355
Fair-value changes in cash flow hedges for the year	-47	12	-35	9	-2	7
Fair-value changes in cash flow hedges carried forward to profit/loss for the year	153	-34	119	76	-17	59
Other comprehensive income	2,597	-104	2,493	-410	-127	-537

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).

Group	2016			2017		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	1,310	-1,435	-125	38	-1,294	-1,256
Property, plant and equipment	112	-1,070	-958	151	-880	-729
Financial non-current assets	72	-97	-25	66	-151	-85
Inventories	1,041	-78	963	925	-86	839
Receivables	277	-66	211	162	-93	69
Interest-bearing liabilities	1,482	-10	1,472	1,191	-3	1,188
Non-interest-bearing liabilities	1,027	-133	894	1,018	-17	1,001
Other	—	-1	-1	—	-10	-10
Tax loss carry-forward	1,367	—	1,367	1,712	—	1,712
Total	6,688	-2,890	3,798	5,263	-2,534	2,729
Offsetting within companies	-760	760	—	-1,071	1,071	—
Total deferred tax assets and liabilities	5,928	-2,130	3,798	4,192	-1,463	2,729

Parent Company	2016			2017		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	—	-27	-27	—	-27	-27
Inventories	7	—	7	8	—	8
Provisions	46	-12	34	28	-8	20
Non-interest-bearing assets and liabilities	56	—	56	18	—	18
Tax loss carry-forward	23	—	23	693	—	693
Total	132	-39	93	747	-35	712
Offsetting	-39	39	—	-35	35	—
Total deferred tax assets and liabilities	93	—	93	712	—	712

NOTES

Note 10, continued

Unrecognized deferred tax assets

The Group has additional tax loss carry-forward of 1,663 million SEK (2,428). The main part of the change for 2017 relates to revaluation and expiry of tax losses in prior years in China. No deferred tax asset was recognized for these losses.

The expiry dates of these tax loss carry-forwards are distributed as follows:

Year	MSEK
2018	87
2019	97
2020	210
2021	155
2022 and later	139
No expiry date	975
Total	1,663

Related deferred tax assets were not recognized since utilization of the tax losses against future taxable profits is not deemed probable in the foreseeable future. The tax value of the unrecognized tax loss carry-forwards amounted to 503 million SEK (692).

CHANGE OF DEFERRED TAX IN TEMPORARY DIFFERENCES AND UNUSED TAX LOSSES

	Group		Parent Company	
	2016	2017	2016	2017
Balance at beginning of year, net	4,245	3,798	261	93
Recognized in profit and loss	-501	-689	-168	619
Acquisitions/disposals of subsidiaries	-1	-7	—	—
Recognized in other comprehensive income	-104	-127	—	—
Recognized in equity	—	-212	—	—
Translation differences	159	-34	—	—
Balance at end of year, net	3,798	2,729	93	712

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

	Group		Parent Company	
	2016	2017	2016	2017
Provisions for taxes	-1,356	-1,722	—	—
Income tax liabilities	-948	-1,147	—	—
Income tax receivables	1,047	961	163	169
Net tax liabilities/receivables	99	-186	163	169

Provisions for taxes of -1,722 million SEK (-1,356) relate to ongoing disputes and assessed tax risks.

NOTE 11. Earnings per share

BASIC AND DILUTED EARNINGS PER SHARE, SEK

	Basic		Diluted	
	2016	2017	2016	2017
Earnings per share, Group total	4.39	10,52	4.39	10,50
Earnings per share, continuing operations	5.48	10,56	5.48	10,55

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 per share for 2017 is based on the profit for the year attributable to the equity holders of the Parent Company, Group total of 13,197 million SEK (5,508), continuing operations of 13,249 million SEK (6,878) and the weighted average number of shares (thousands) of 1,254,386 (1,254,386) during 2017. These two components have been calculated as follows:

PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY, BASIC

	2016	2017
Profit for the year attributable to the equity holders of the Parent Company, Group total	5,508	13,197
Profit for the year attributable to equity holders of the Parent Company, continuing operations	6,878	13,249

WEIGHTED AVERAGE NUMBER OF SHARES, BASIC

In thousands of shares	2016	2017
Total number of ordinary shares at 1 January	1,254,386	1,254,386
Effects of reacquisitions and redemption	—	—
Weighted average number of shares outstanding during the year, basic	1,254,386	1,254,386

Diluted earnings per share

The calculation of diluted earnings per share for 2017 is based on the profit attributable to the equity holders of the Parent Company, Group total of 13,197 million SEK (5,508), continuing operations of 13,249 million SEK (6,878) and the weighted average number of shares (thousands) of 1,256,346 (1,254,604) during 2017. The two components have been calculated as follows:

PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY, DILUTED

	2016	2017
Profit for the year attributable to equity holders of the Parent Company, Group total	5,508	13,197
Profit for the year attributable to equity holders of the Parent Company, continuing operations	6,878	13,249

WEIGHTED AVERAGE NUMBER OF SHARES, DILUTED

In thousands of shares	2016	2017
Weighted average number of shares, basic	1,254,386	1,254,386
Effect of share options	218	1,960
Weighted average number of shares outstanding during the year, diluted	1,254,604	1,256,346

Diluted earnings per share is related to outstanding share-based LTI programs. Information about these programs is found in Note 3.5.

NOTE 12. Intangible assets and property, plant and equipment, Group

INTANGIBLE ASSETS	Internally generated intangible assets					Acquired intangible assets						
	Capitalized R&D expenditure	IT software	Patents, licenses, trademarks, etc.	Other	Sub-total	Capitalized R&D expenditure	IT software	Patents, licenses, trademarks, etc.	Goodwill	Other	Sub-total	Total
Cost												
At 1 January 2016	3,126	2,025	263	167	5,583	28	607	2,200	12,657	2,659	18,151	23,733
Additions	407	444	4	—	855	57	54	25	—	2	138	993
Business combinations	—	—	—	—	—	—	—	4	35	—	40	40
Divestments and disposals	-44	-20	—	-23	-87	—	-10	-1	—	-6	-17	-103
Impairment losses	—	—	—	—	—	—	—	—	-118	—	-118	-118
Reclassifications	10	2	2	—	14	9	10	-24	—	-21	-26	-12
Translation differences for the year	60	24	15	9	107	—	12	89	759	20	880	987
At 31 December 2016	3,559	2,475	285	153	6,472	94	673	2,294	13,333	2,654	19,048	25,520
At 1 January 2017	3,559	2,475	285	153	6,472	94	673	2,294	13,333	2,654	19,048	25,520
Additions	335	309	5	8	658	54	167	2	—	11	234	892
Business combinations	—	—	—	—	—	—	3	—	—	—	3	3
Divestments and disposals	-150	-37	—	—	-187	—	-37	-79	—	-40	-155	-342
Impairment losses	—	—	—	—	—	—	—	—	—	—	—	—
Reclassifications	-2	14	-60	8	-40	—	-20	-16	-1,052	-125	-1,213	-1,253
Translation differences for the year	36	-17	1	-6	13	3	12	-137	-370	-124	-616	-603
At 31 December 2017	3,779	2,744	231	162	6,916	151	799	2,064	11,911	2,376	17,301	24,217
Accumulated amortization and impairment losses												
At 1 January 2016	1,517	1,207	87	135	2,948	4	511	688	—	1,270	2,472	5,420
Divestments and disposals	-32	-20	—	-4	-56	—	-10	-1	—	—	-11	-67
Impairment losses	204	5	—	—	210	—	—	—	—	—	—	210
Reversal of earlier impairment losses	—	—	—	-18	-18	—	—	—	—	—	—	-18
Reclassifications	5	-2	—	—	3	—	-3	-9	—	-21	-33	-30
Amortization for the year	285	103	13	6	407	18	39	115	—	214	387	794
Translation differences for the year	25	5	7	8	43	-1	17	-24	—	-67	-73	-30
At 31 December 2016	2,004	1,299	107	127	3,538	21	554	770	—	1,396	2,742	6,280
At 1 January 2017	2,004	1,299	107	127	3,538	21	554	770	—	1,396	2,742	6,280
Divestments and disposals	-34	-23	—	—	-58	—	-30	-21	—	-7	-58	-116
Impairment losses	45	—	—	—	45	—	—	—	—	—	—	45
Reversal of earlier impairment losses	—	—	—	—	—	—	—	—	—	—	—	—
Reclassifications	-13	-8	-5	—	-26	—	-32	2	—	-123	-153	-180
Amortization for the year	293	172	11	5	481	36	47	111	—	181	375	856
Translation differences for the year	23	9	-2	-6	22	2	10	-41	—	-37	-66	-44
At 31 December 2017	2,317	1,448	111	126	4,002	59	549	821	—	1,410	2,839	6,841
Net carrying amounts												
1 January 2016	1,609	818	176	32	2,635	24	96	1,512	12,657	1,389	15,678	18,313
31 December 2016	1,555	1,176	178	25	2,934	72	119	1,524	13,333	1,258	16,306	19,240
1 January 2017	1,555	1,176	178	25	2,934	72	119	1,524	13,333	1,258	16,306	19,240
31 December 2017	1,462	1,295	120	37	2,914	92	250	1,243	11,911	966	14,462	17,376
Amortization for the year is included in the following lines in the 2016 income statement												
Cost of sales	—	-5	-1	-3	-9	—	-16	-102	—	-33	-151	-160
Selling expenses	—	-1	-1	-2	-4	—	-11	-10	—	-179	-200	-204
Administrative expenses	-285	-97	-11	-1	-394	-18	-12	-3	—	-2	-36	-430
Total	-285	-103	-13	-6	-407	-18	-39	-115	—	-214	-387	-794
Amortization for the year is included in the following lines in the 2017 income statement												
Cost of sales	—	-42	—	-3	-45	-6	-30	-104	—	-29	-169	-214
Selling expenses	—	-10	—	-2	-12	—	-7	-4	—	-149	-160	-172
Administrative expenses	-293	-120	-11	—	-424	-30	-10	-3	—	-3	-46	-470
Total	-293	-172	-11	-5	-481	-36	-47	-111	—	-181	-375	-856
Impairment losses/Reversal of impairment losses per line in the income statement 2016												
Cost of sales	—	5	—	-18	-13	—	—	—	—	—	—	-13
Selling expenses	14	—	—	—	14	—	—	—	118	—	118	132
Administrative expenses	190	—	—	—	190	—	—	—	—	—	—	190
Total	204	5	—	-18	191	—	—	—	118	—	118	309
Impairment losses/Reversal of impairment losses per line in the income statement 2017												
Cost of sales	—	—	—	—	—	—	—	—	—	—	—	—
Selling expenses	5	—	—	—	5	—	—	—	—	—	—	5
Administrative expenses	40	—	—	—	40	—	—	—	—	—	—	40
Total	45	—	—	—	45	—	—	—	—	—	—	45

NOTES

Note 12, continued

For 2016, the impairment losses/reversal of impairment losses amounted to 309 million SEK and were related to the business areas Sandvik Mining and Rock Technology 270 million SEK, Sandvik Materials Technology –4 million SEK and Group common 43 million SEK.

For 2017, the impairment losses/reversal of impairment losses amounted to 45 million SEK and were related to the business areas Sandvik Mining and Rock Technology –40 million SEK and Sandvik Machining Solutions –5 million SEK.

PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
At 1 January 2016	16,249	40,782	6,332	2,495	65,857
Additions	216	1,328	199	1,662	3,404
Business combinations	—	—	1	—	1
Divestments and disposals	–335	–1,681	–308	–22	–2,347
Reclassifications	204	511	187	–1,725	–823
Translation differences for the year	668	1,406	271	75	2,420
At 31 December 2016	17,001	42,346	6,681	2,484	68,512
At 1 January 2017	17,001	42,346	6,681	2,484	68,512
Additions	258	1,537	197	1,666	3,658
Business combinations	—	—	—	—	—
Divestments and disposals	–736	–2,616	–588	–166	–4,107
Reclassifications	113	–1,218	56	–1,585	–2,632
Translation differences for the year	–224	–390	–60	–22	–697
At 31 December 2017	16,411	39,660	6,287	2,376	64,734
Depreciation and impairment losses					
At 1 January 2016	7,166	27,720	4,641	0	39,526
Divestments and disposals	–291	–1,430	–282	—	–2,003
Reclassifications	–63	–713	16	5	–755
Depreciation for the year	521	2,629	431	—	3,581
Impairment losses	41	62	2	—	106
Reversal of earlier impairment losses	–12	–58	—	–5	–75
Translation differences for the year	271	953	198	—	1,422
At 31 December 2016	7,632	29,165	5,006	0	41,803
At 1 January 2017	7,632	29,165	5,006	0	41,803
Divestments and disposals	–324	–1,977	–516	—	–2,817
Reclassifications	–281	–1,874	–88	—	–2,243
Depreciation for the year	530	2,688	446	—	3,663
Impairment losses	103	216	2	—	322
Reversal of earlier impairment losses	—	–35	—	—	–35
Translation differences for the year	–61	–240	–57	—	–358
At 31 December 2017	7,599	27,942	4,793	0	40,335
Net carrying amounts					
1 January 2016	9,083	13,062	1,691	2,495	26,331
31 December 2016	9,369	13,181	1,675	2,484	26,709
1 January 2017	9,369	13,181	1,675	2,484	26,709
31 December 2017	8,811	11,718	1,494	2,376	24,399

Note 12, continued

Impairment losses/Reversal of impairment losses per line in the income statement 2016	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost of sales	29	-15	—	-5	9
Selling expenses	—	8	—	—	8
Administrative expenses	—	12	2	—	14
Total	29	5	2	-5	31

Impairment losses/Reversal of impairment losses per line in the income statement 2017

Cost of sales	103	189	—	—	292
Selling expenses	—	-4	—	—	-4
Administrative expenses	—	-3	2	—	-1
Total	103	182	2	—	287

Impairment losses/Reversal of impairment losses per business area 2016

Sandvik Machining Solutions	3	-44	—	—	-41
Sandvik Mining and Rock Technology	34	64	—	—	98
Sandvik Materials Technology	-8	-16	—	-5	-29
Other Operations	—	1	2	—	3
Total	29	5	2	-5	31

Impairment losses/Reversal of impairment losses per business area 2017

Sandvik Machining Solutions	—	-24	—	—	-24
Sandvik Mining and Rock Technology	—	4	2	—	6
Sandvik Materials Technology	103	202	—	—	305
Other Operations	—	—	—	—	—
Total	103	182	2	—	287

Additional information

Items of property, plant and equipment totaling 281 million SEK (214) have been pledged as security for liabilities. In 2017, contractual commitments for the acquisition of property, plant and equipment amounted to 231 million SEK (299).

Borrowing costs included in the cost of assets during the year amounted to zero for 2017 and 2016.

Disclosure regarding government grants in the Group

Government grants during the year amounted to 10 million SEK (34).

Impairment tests of goodwill

Goodwill was impairment tested on the balance sheet date of 31 December 2017. As stated below, the carrying amount of goodwill in the consolidated balance sheet is 11,911 million SEK (13,333), essentially related to a number of major business combinations.

Goodwill by cash-generating unit	Carrying amount	
	2016	2017
Sandvik Machining Solutions		
Walter Group	1,059	1,092
Seco Tools	253	256
Wolfram	1,460	1,506
Business area level	1,414	1,303
Total	4,186	4,157
Sandvik Mining and Rock Technology		
Business area level	6,903	6,580
Total	6,903	6,580
Sandvik Materials Technology		
Business area level	1,154	1,132
Total	1,154	1,132
Other Operations		
Hyperion	1,046	950
Total	1,046	950
Other	44	42
Group total	13,333	12,861
Transfer to held for sale	—	-950
Continuing operations	13,333	11,911

Consolidated goodwill is allocated to the 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. Calculations of value in use are based on the estimated future cash flows using forecasts covering a four-year period, which are in turn based on the three-year plans prepared annually by each of the business areas and approved by Sandvik Group Executive Management.

NOTES

Note 12, continued

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. The forecasts form the basis for how the values of the material assumptions are established.

The assumptions mentioned below reflect past experience and are consistent with external information. 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 four years was 2% for Walter (2), Seco Tools (2), Wolfram (2), Sandvik Machining Solutions business area level (3), Sandvik Materials Technology business area level (2) and Hyperion (2), and 3% for Sandvik Mining and Rock Technology business area level (3). Need of working capital beyond the four-year period is deemed to increase approximately as the expected growth in the terminal period. 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. The specific risks of the cash-generating units have been adjusted for in the future cash flow forecasts.

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. Mobile Crushing and Screening and Drilling and Completions, which were defined as own cash-generating units within the business areas Sandvik Construction and Other Operations (Sandvik Venture) earlier, have been included in Sandvik Mining and Rock Technology during 2016 and have been tested for impairment on a business area level, due to reasons mentioned above. At present, the activities of Walter, Seco Tools, Wolfram and Hyperion are conducted in such a way that it has been possible to separately test goodwill allocated to these acquisitions.

Goodwill attributable to Hyperion, amounting to 950 million SEK, has been classified as assets held for sale and is measured at cost.

Goodwill testing did not indicate any impairment requirement. Sensitivity in the calculations where impairment was not carried out implies that the goodwill value would be maintained even if the discount rate was increased by 2 percentage points or if the long-term growth rate was lowered by 2 percentage points. The goodwill value would also be maintained, given an operating margin drop by 2 percentage points.

Other impairment tests

Property, plant and equipment and intangible assets with a definite useful life were tested for impairment when an indication for impairment was identified. The tests resulted in impairment losses of 332 million SEK (222) for 2017. For property, plant and equipment the amount was 287 million SEK and for intangible assets 45 million SEK (excluding goodwill).

NOTE 13. Intangible assets and property, plant and equipment, Parent Company

Intangible assets	Patents and other intangible assets	Goodwill	Total
Cost			
At 1 January 2016	112	—	112
Additions	6	139 ¹⁾	145
Divestments and disposals	-6	—	-6
Reclassifications	9	—	9
At 31 December 2016	121	139	260
At 1 January 2017	121	139	260
Additions	3	—	3
Divestments and disposals	-14	—	-14
Reclassifications	2	—	2
At 31 December 2017	112	139	251

1) Generated from internal transactions within the Group.

Note 13, continued

	Patents and other intangible assets	Goodwill	Total
Accumulated amortization			
At 1 January 2016	92	—	92
Amortization for the year	5	2	7
At 31 December 2016	97	2	99
Net carrying amount at end of year	24	137	161
At 1 January 2017	97	2	99
Divestments and disposals	-11	—	-11
Reclassifications	0	—	0
Amortization for the year	4	28	32
At 31 December 2017	90	30	120
Net carrying amount at end of year	22	109	131

**AMORTIZATION FOR THE YEAR IS INCLUDED IN THE FOLLOWING
LINES IN THE INCOME STATEMENT**

	2016	2017
Administrative expenses	7	32
Total	7	32

Property, plant and equipment	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2016	1,703	14,324	1,508	1,285	18,820
Additions	6	177	35	620	838
Divestments and disposals	-4	-191	-28	-17	-240
Reclassifications	14	568	60	-651	-9
At 31 December 2016	1,719	14,878	1,575	1,237	19,409
At 1 January 2017	1,719	14,878	1,575	1,237	19,409
Additions	23	110	22	729	884
Divestments and disposals	-60	-899	-65	-43	-1,067
Reclassifications	29	422	34	-487	-2
At 31 December 2017	1,711	14,511	1,566	1,436	19,224
Revaluations					
At 1 January 2016	41	—	—	—	41
Divestments and disposals	-2	—	—	—	-2
At 31 December 2016	39	—	—	—	39
At 1 January 2017	39	—	—	—	39
Divestments and disposals	—	—	—	—	—
At 31 December 2017	39	—	—	—	39
Depreciation					
At 1 January 2016	662	9,398	1,076	—	11,136
Divestments and disposals	-1	-178	-26	—	-205
Reclassifications	0	-2	2	—	0
Depreciation for the year	51	721	98	—	870
Impairment losses	—	37	—	—	37
At 31 December 2016	712	9,976	1,150	—	11,838
At 1 January 2017	712	9,976	1,150	—	11,838
Divestments and disposals	-36	-642	-57	—	-735
Reclassifications	1	0	-1	—	0
Depreciation for the year	52	731	89	—	872
Impairment losses	—	51	—	—	51
Reversal of impairment losses	—	-3	—	—	-3
At 31 December 2017	729	10,113	1,181	—	12,023
Net carrying amounts					
1 January 2016	1,082	4,926	432	1,285	7,725
31 December 2016	1,046	4,902	425	1,237	7,610
1 January 2017	1,046	4,902	425	1,237	7,610
31 December 2017	1,021	4,398	385	1,436	7,240

NOTES

NOTE 14. Shares in Group companies

	Parent Company		(Continued)	Parent Company	
	2016	2017		2016	2017
Cost			Accumulated impairment losses		
At beginning of year	33,881	34,469	At beginning of year	-676	-1,374
Additions	0	0	Impairment losses for the year	-698	-167
Capital contributions	1,269	265	Impairment reversed during the year	0	0
Divestments	-681	-651	Total	-1,374	-1,541
Total	34,469	34,083	Accumulated revaluations		
			At beginning of year	16	16
			Total	16	16
			Carrying amount at year-end	33,111	32,558

SANDVIK AB'S HOLDINGS OF SHARES AND PARTICIPATIONS IN SUBSIDIARIES, DIRECT HOLDINGS, ACCORDING TO BALANCE SHEET AT 31 DECEMBER

Company, domicile	2016				2017		
	Corp. Reg. number	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK
SWEDEN							
Förvaltningsbolaget Predio 4 KB, Sandviken	916624-2181	—	0 ³⁾	0	—	—	—
Gimo Utbildningsaktiebolag, Gimo	556061-4041	1,000	91	5,091	1,000	91	8,354
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	23,788	200,000	100	23,788
Industri AB Skomab, Sandviken	556008-8345	2,000	100	25,809	2,000	100	23,729
Rammer Svenska AB, Sandviken	556249-4004	3,000	100	851	—	—	—
Sandvik Global Purchasing AB, Stockholm	556052-4315	1,000	100	50	1,000	100	50
Sandvik Mining AB, Sandviken 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 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	35,000
Sandvik Hyperion AB, Stockholm ¹⁾	556234-6857	1,000	100	50	1,000	100	50
Sandvik Besökservice 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
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	2,050	1,000	100	2,050
Sandvik 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	8,000	80,000	100	8,000
Sandvik Powder Solutions AB, Surahammar	556032-6760	600	100	60,000	600	100	60,000
AB Sandvik Process Systems, Sandviken ¹⁾	556312-2992	1,000	100	100	—	—	—
Sandvik Rotary Tools AB, Köping	556191-8920	101,000	100	103,231	101,000	100	103,231
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
Sanrip AB, Sandviken ¹⁾	556692-0038	1,000	100	100	1,000	100	100
Sandvik Machining Solutions AB, Sandviken ¹⁾	556692-0053	1,000	100	100	1,000	100	100
Sandvik Utbildnings AB, Sandviken	556304-8791	910	91	91	910	91	9,391
Sandvikens Brukspersonals Byggnadsförening upa, Sandviken	785500-1686	—	100	0	—	100	0
Dormer Pramet AB, Halmstad	556240-8210	80,000	100	46,145	80,000	100	46,145
Walter Norden AB, Halmstad	556752-4698	15,000	100	5,139	15,000	100	5,139
Sandvik Mining and Construction Köping AB, Köping ¹⁾	556776-9525	1,000	100	100	1,000	100	100
Wire Sandviken AB, Sandviken ¹⁾	556779-3897	1,000	100	100	1,000	100	100
Sandvik IT Services AB, Sandviken ¹⁾	556788-9059	1,000	100	100	1,000	100	100
Sandvik Venture AB, Stockholm ¹⁾	556868-7155	1,000	100	100	1,000	100	100
Sandvik Credit AB, Stockholm	556843-7296	10,000	100	75,000	10,000	100	75,000
Seco Tools AB, Fagersta	556071-1060	145,467,690	100	15,658,859	145,467,690	100	15,658,859
Svensk Export Flyg AB, Stockholm	556934-7452	100,000	100	179	—	—	—

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 76%.

5) Shares up to an ownership interest of 100% are held by other Group companies.

Note 14, continued

**SANDVIK AB'S HOLDINGS OF SHARES AND PARTICIPATIONS IN FOREIGN SUBSIDIARIES, DIRECT HOLDINGS,
ACCORDING TO BALANCE SHEET AT 31 DECEMBER**

Country/Location	Company	2016			2017		
		No. of shares	Holding, % ²⁾	Carrying amount 000s SEK	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK
Australia	Sandvik Australia Pty. Ltd.	—	64 ^{3,4)}	859,926	—	25 ^{3,4)}	235,382
	Sandvik Australian Ltd. Partnership	—	99	—	—	99	—
Brazil	Dormer Tools S.A.	2,137,623,140	100	461,197	2,137,623,140	100	461,197
	Sandvik do Brasil S.A.	1,894,797,190	100	821,575	1,894,797,190	100	821,575
	Sandvik Materials Technology do Brasil S.A.	10,877,380	100	142,093	10,877,380	100	193,284
	Sandvik MGS S.A.	14,999,998	100	175,661	14,999,998	100	11,064
	Sandvik Mining and Construction do Brasil S.A.	85,329,996	100	942,434	85,329,996	100	942,434
	Walter do Brasil Ltda	1,809,999	100	109,574	1,809,999	100	109,574
Bulgaria	Sandvik Bulgaria Ltd.	—	100	0	—	100	0
Chile	Sandvik Credit Chile S.A.	9,900	99	165,331	9,900	99	165,331
China	Sandvik China Holding Co Ltd.	—	100	1,157,560	—	100	1,263,072
	Sandvik Materials Technology (China) Ltd.	—	58 ³⁾	207,854	—	58 ³⁾	282,749
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	66	9,990	100	—
Hungary	Sandvik Magyarország Kft.	—	100	3,258	—	100	3,258
India	Sandvik Asia Ltd.	16,030,241	17 ⁵⁾	277,028	1,801,241	75 ⁵⁾	252,481
Ireland	Sandvik Mining and Construction Logistics Ltd.	100	100	5,508	100	100	5,508
Japan	Sandvik K.K.	2,780,000	100	224,701	2,780,000	100	224,701
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 Mexicana S.A. de C.V.	406,642,873	90 ³⁾	712,312	406,642,873	90 ³⁾	712,312
Mongolia	Sandvik Mongolia LLC.	400,000	100	2,682	400,000	100	2,682
Netherlands	Sandvik Finance B.V.	18,788	100	7,093,582	18,788	100	7,093,582
	Frost Holding B.V.	1	100	0	1	100	0
Peru	Sandvik del Perú S.A.	6,562,795	90 ³⁾	26,025	6,562,795	90 ³⁾	26,025
Slovakia	Sandvik Slovakia s.r.o.	—	100	1,238	—	100	1,238
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				33,110,586			32,557,783

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 76%.

5) Shares up to an ownership interest of 100% are held by other Group companies.

NOTES

Note 14, continued

SANDVIK AB'S HOLDINGS OF SHARES AND PARTICIPATIONS IN SUBSIDIARIES. INDIRECT HOLDINGS IN OPERATING GROUP COMPANIES GROUP HOLDING, %

Country/Location	Company	2016 ¹⁾	2017 ¹⁾
Sweden	Sandvik Heating Technology AB	100	100
	Sandvik SRP AB	100	100
	Sandvik Treasury AB	100	100
	Alfa Tool International AB	100	100
	Dormer Pramet AB	100	100
	AB Sandvik Materials Technology (fastighetsbolaget)	100	100
Argentina	Sandvik Argentina S.A.	100	100
	Sandvik Mining and Construction Argentina S.A.	100	100
Australia	Sandvik Mining and Construction Pty. Ltd. Australia	100	100
	Sandvik Mining and Construction Australia (Production Supply) Pty. Ltd	100	100
	Seco Tools Australia Pty. Ltd.	100	100
	Varel International (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
	Seco Tools Gesellschaft m.b.H.	100	100
Belgium	Walter Benelux N.V./S.A.	100	100
	S.A. Seco Tools Benelux N.V.	100	100
Botswana	Sandvik Botswana Pty Ltd.	100	100
Brazil	Seco Tools Indústria e Comércio Ltda	100	100
	Sandvik do Brasil	100	100
	Sandvik Arames Ltda	100	100
Canada	Sandvik Canada Inc.	100	100
	Varel Rock Bits 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 Hyperion (Wuxi) Co., Ltd.	100	100
	Sandvik Process Systems (Shanghai) Co. Ltd.	100	100
	Sandvik Tooling Round Tools Langfang Co., Ltd.	100	100
	Sandvik Tooling Production (Langfang) Co. Ltd.	100	100
	Sandvik Coromant Cutting Tools (Shanghai) Ltd.	100	100
	Sandvik (Qingdao) Ltd.	100	100
	Walter Wuxi Co. Ltd.	100	100
	Shanghai Jianshe Luqiao Machinery Co. Ltd	80	80
	Shandong Energy Machinery Group ZhongRui Mining Equipment Manufacturing Co., Ltd.	50 ²⁾	50 ²⁾
	Seco Tools (Shanghai) Co. Ltd.	100	100
Pramet Tools (Shanghai) Co. Ltd.	100	100	
Dormer Tools (Shanghai) Co Ltd	100	100	
Colombia	Sandvik Colombia S.A.S.	70	70
Czech Republic	Sandvik Chomutov Precision Tubes s.r.o.	100	100
	Walter CZ s.r.o.	100	100
	Seco Tools CZ s.r.o.	100	100
	Pramet Tools s.r.o.	100	100
Denmark	Sandvik A/S	100	100
	Seco Tools A/S	100	100
Finland	Sandvik Mining and Construction Finland Oy	100	100
	Sandvik Mining and Construction Oy	100	100
	Seco Tools Oy	100	100
France	Sandvik Mining and Construction Chauny S.A.S.	100	100
	Sandvik Hyperion 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
	Seco Tools France S.A.S.	100	100
	SECO - E.P.B S.A.S.	100	100
	Varel Europe S.A.S.	100	100
	Seco Tools Reaming SAS	100	100

Note 14, continued

Country/Location	Company	2016 ¹⁾	2017 ¹⁾	
Germany	Sandvik Mining and Construction Crushing Technology GmbH	100	100	1
	Prototyp-Werke GmbH	100	100	2
	Sandvik Materials Technology Deutschland GmbH	100	100	3
	Sandvik Mining and Construction Europe GmbH	100	100	4
	Sandvik Mining and Construction Supply GmbH	100	100	5
	Sandvik Tooling Deutschland GmbH	100	100	6
	TDM Systems GmbH	100	100	7
	Walter AG	100	100	8
	Comara GmbH	100	100	9
	Walter Deutschland GmbH	100	100	10
	Werner Schmitt PKD-Werkzeug GmbH	100	100	11
	Seco Tools GmbH	100	100	12
	Pramet GmbH	100	100	13
	Sandvik Mining & Construction Central Europe GmbH	100	100	14
Ghana	Sandvik Mining and Construction Ghana Ltd.	100	100	15
Hong Kong	Sandvik Hong Kong Ltd.	100	100	16
Hungary	Walter Hungaria Kft.	100	100	17
	Seco Tools Kft.	100	100	18
India	Walter Tools India Pvt. Ltd.	100	100	19
	Seco Tools India Private Limited	100	100	20
Indonesia	PT Sandvik Indonesia	100	100	21
	PT Sandvik Mining and Construction Indonesia	100	100	22
	PT Sandvik SMC	100	100	23
Italy	Sandvik Italia S.p.A.	100	100	24
	Walter Italia S.R.L.	100	100	25
	Seco Tools Italia S.p.A.	100	100	26
Japan	Sandvik Tooling Supply Japan K.K.	100	100	27
	Walter Japan K. K.	100	100	28
	Seco Tools Japan K.K.	100	100	29
Kazakhstan	Sandvik Mining and Construction Kazakhstan Ltd	100	100	30
Korea	Sandvik SuhJun Ltd.	100	100	31
	Walter Korea Ltd.	100	100	32
	Seco Tools Korea Ltd.	100	100	33
Malaysia	Sandvik Malaysia Sdn. Bhd.	100	100	34
	Sandvik Mining and Construction (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	
	Sandvik Hard Materials de Mexico S.A. de C.V.	100	100	
	Varel de Mexico S.A. de C.V.	100	100	
	Varel International de Mexico S.A. de C.V.	100	100	
Namibia	Sandvik Namibia Pty Ltd	100	100	
Netherlands	Sandvik Benelux B.V.	100	100	
	Jabro Tools B.V.	100	100	
	SGL Technology B.V.	100	100	
Nigeria	Sandvik Mining and Construction Nigeria Ltd.	100	100	
Norway	Teeness ASA	100	100	
	Sandvik Norge AS	100	100	
	Seco Tools AS	100	100	
New Zealand	Sandvik New Zealand Ltd.	100	100	
Philippines	Sandvik Tamrock (Philippines) Inc.	100	100	
Poland	Walter Polska Sp. z.o.o.	100	100	
	Seco Tools (Poland) Sp. z.o.o.	100	100	
Romania	Sandvik SRL	100	100	
	Walter Tools 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	
	Firma ALG LLC	100	100	
	LLC Pramet	100	100	
	LLC "Seco Tools"	100	100	

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Country/Location	Company	2016 ¹⁾	2017 ¹⁾
Singapore	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
	Seco Tools (SEA) Pte. Ltd.	100	100
Slovakia	Walter Slovakia s.r.o.	100	100
Slovenia	Sandvik D.o.o.	100	100
	Walter Tools d.o.o.	100	100
South Africa	Sandvik Mining RSA (Pty) Ltd.	100	100
	Sandvik (Pty) Ltd.	100	100
	Seco Tools South Africa (Pty) Ltd.	100	100
Spain	Sandvik Española S.A.	100	100
	Walter Tools Iberica S.A.U.	100	100
	Seco Tools España S.A.	100	100
Switzerland	Sandvik AG	100	100
	Santrade Ltd.	100	100
	Walter (Schweiz) AG	100	100
	Seco Tools AG	100	100
Taiwan	Sandvik Hyperion Taiwan Limited	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
	Seco Tools (Thailand) Co., Ltd	100	100
Turkey	Walter Cutting Tools Industry and Trade LLC	100	100
	Seco Tools Kesici Takmlar Makina San.Tic. A.S	100	100
UK	Dormer Tools Ltd.	100	100
	Sandvik Ltd.	100	100
	Sandvik Osprey Ltd.	100	100
	Walter GB Ltd.	100	100
	Seco Tools (U.K) Ltd.	100	100
	Downhole Products Limited	100	100
Ukraine	Sandvik Ukraine	100	100
US	Diamond Innovations Inc.	100	100
	TDM System Inc.	100	100
	Sandvik Wire and Heating Technology Corporation	100	100
	Sandvik Thermal Process Inc.	100	100
	Pennsylvania Extruded Tube Co.	70	70
	Dormer Pramet Sales USA	100	100
	Sandvik Customer Finance LLC	100	100
	Sandvik 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
	Seco Tools LLC	100	100
	Niagara Cutter,LLC	100	100
	uFab LLC	100	100
Precorp Inc.	100	100	
Varel International Ind., LLC	100	100	
Aberdeen Products, Inc.	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 60% (60).

NOTE 15. Investments in associated companies

Group shares in associated companies	2016	2017	Parent Company's shares in associated companies	2016	2017
Accumulated share of equity			Accumulated cost		
At beginning of year	236	246	At beginning of year	4	4
Acquisition of associates	—	—	Divestment of associates	—	-4
Divestment of associates	-25	-24	Carrying amount at end of year	4	0
Share of profits for the year	16	56			
Capital contribution	25	—			
Less dividend received	-11	-6			
Translation differences during the year	5	-3			
Carrying amount at end of year	246	269			

SUMMARIZED FINANCIAL INFORMATION OF ASSOCIATED COMPANIES, AND THE GROUP'S SHARE

2017	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB							
Oerlikon Balzers Sandvik Coating AB (sold in August 2017)	Sweden	60	6	—	—	—	—
Owned indirectly by Sandvik AB							
Eimco Elecon	India	260	32	401	45	356	25.1
Fagersta Stainless AB	Sweden	1,560	63	819	464	355	50.0
Fagersta Seco AB	Sweden	0	0	3	2	1	50.0
Fagerstahälsan AB	Sweden	7	0	8	6	2	50.0
Shanghai Innovatools Co. Ltd.	China	-6	0	12	3	9	40.0

2016	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB							
Oerlikon Balzers Sandvik Coating AB	Sweden	84	9	70	17	53	49.0
Owned indirectly by Sandvik AB							
Eimco Elecon	India	182	21	335	47	288	25.1
Fagersta Stainless AB	Sweden	1,200	28	727	438	289	50.0
Fagersta Seco AB	Sweden	0	0	3	2	1	50.0
Fagerstahälsan AB	Sweden	7	0	9	7	2	50.0
Shanghai Innovatools Co. Ltd.	China	5	-1	12	3	9	40.0
Bromma Business Jet AB	Sweden	41	-8	—	—	—	—

Additional information

The close of the reporting period for the associate Eimco Elecon is 31 March 2017. The dividend paid in 2017 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. The associated company Oerlikon Balzers Sandvik Coating AB was divested in 2017. Revenue and profit were recognized up to the date of sale.

	Corp. Reg. No.	Share of capital and voting rights, %
2017		
—	—	—
2016		
Oerlikon Balzers Sandvik Coating AB, Stockholm	556098-1333	49

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NOTE 16. Non-current receivables and other current receivables

Group	2016	2017	Parent Company	2016	2017
Non-current receivables			Non-current receivables		
Derivatives designated as hedging instruments	58	104	Derivatives	41	77
Funded pension plans	470	695	Other non-interest-bearing receivables	0	0
Other non-interest-bearing receivables	425	347	Other interest-bearing receivables	26	19
Other interest-bearing receivables	924	1,152	Total	67	96
Total	1,877	2,298	Other current receivables		
Whereof discontinued operations and assets held for sale	-97	-78	Derivatives	27	30
Continuing operations	1,780	2,220	Other non-interest-bearing receivables	398	182
Other current receivables			Other interest-bearing receivables	1	2
Derivatives designated as hedging instruments	210	491	Total	426	214
Due from customers for contract work	412	394	Construction contracts, Group	2016	2017
Other non-interest-bearing receivables	2,349	2,815	Contract costs incurred and recognized profits (less recognized losses)	12,924	12,767
Other interest-bearing receivables	991	1,167	Advances received	546	88
Advances to suppliers	253	290	Amounts retained by customers	41	48
Total	4,215	5,157	Gross amount due from customers	412	394
Whereof discontinued operations and assets held for sale	-210	-691	Gross amount due to customers	112	238
Continuing operations	4,005	4,466			

NOTE 17. Inventories

	Group		Parent Company	
	2016	2017	2016	2017
Raw materials and consumables	4,598	5,434	820	1,014
Work in progress	3,918	4,264	1,528	1,170
Finished goods	12,441	12,683	579	742
Total	20,957	22,381	2,927	2,926
Whereof discontinued operations	20	-993		
Continuing operations	20,977	21,388		

Cost of sales of the Group includes impairment of inventories of 408 million SEK (418) while cost of sales of the Parent Company includes impairment of 104 million SEK (35). There were no significant reversals of impairment losses during 2017 and 2016.

NOTE 18. Trade receivables

AGE ANALYSIS OF TRADE RECEIVABLES, GROUP

	2016			2017		
	Gross	Allowance for bad debts	Net carrying amount	Gross	Allowance for bad debts	Net carrying amount
Current receivables	11,384	-126	11,258	12,091	-100	11,991
Past due receivables 0-3 months	1,770	-33	1,738	1,719	-23	1,696
Past due receivables 4-12 months	539	-180	359	592	-172	420
Past due receivables >12 months	541	-528	14	465	-429	36
Group total	14,235	-867	13,368	14,867	-724	14,143
Whereof discontinued operations	-81	14	-67	-950	46	-904
Continuing operations	14,154	-853	13,301	13,917	-678	13,239

NOTE 19. Capital and reserves**GROUP**

Details of reserves	2016	2017
Translation reserve		
At beginning of year	2,539	4,862
Translation differences during the year	2,323	-1,355
At end of year	4,862	3,507
Hedging reserve		
At beginning of year	-288	-204
Cash-flow hedges recognized in other comprehensive income	84	67
At end of year	-204	-137
Total reserves		
Reserves at beginning of year	2,251	4,658
Changes in reserves:		
Translation reserve	2,323	-1,355
Hedging reserve	84	67
Reserves at end of year	4,658	3,370

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. Translation reserves relating to divested assets are not material.

The Parent Company's and the Group's presentation and functional 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 change in cash flow hedges that was transferred to profit/loss for the year amounted to 76 million SEK (153).

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*Financial goals*

Operating profit growth 2015-2018	≥7%
Return on capital employed, improvement 2015-2018	≥3% points
Net debt/equity ratio	<0.8
Dividend pay-out ratio of reported earnings per share	50%

Equity

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

Equity	2016	2017
Share capital	1,505	1,505
Other paid-in capital	7,678	7,678
Reserves	4,658	3,370
Retained earnings including profit for the year	25,356	36,190
Equity attributable to equity holders of the Parent	39,197	48,743
Non-controlling interests	93	28
Total equity	39,290	48,771

The Board of Directors has proposed to the 2018 Annual General Meeting a dividend of 3.50 SEK per share (2.75). The proposal corresponds to approximately 33% 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	Quotient value SEK/share	Share capital SEK
Share capital at 31 December 2015	1,254,385,923	1.20	1,505,263,108
Share capital at 31 December 2016	1,254,385,923	1.20	1,505,263,108
Share capital at 31 December 2017	1,254,385,923	1.20	1,505,263,108

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 2017 is estimated to amount to 4,390 million SEK (3.50 SEK per share). This amount has not been 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 Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

Undistributable equity

Undistributable equity 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 profit that is not needed to cover an accumulated deficit. The statutory reserve includes amounts that before 1 January 2006 were included in the share premium reserve.

Distributable equity*Share premium reserve*

Comprises the value of shares that have been issued at a premium, meaning the price paid was in excess of the share's quotient value. The amount received in excess of the quotient value was transferred to the share premium reserve.

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 20. 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 practices. In recent years, Sandvik has sought to move from defined-benefit based plans to pension solutions that are defined-contribution plans and, to an ever increasing

NOTES

Note 20, continued

extent, the total pension expense comprises the costs for such plans. In principle, the plans cover all employees. The Group's most significant defined-benefit pension plans are described below.

Sweden

The Swedish pension plan is funded through a foundation and is based on salary at the time of retirement and is partly closed for new participants, meaning that only new employees born prior to 1979 have the option of joining the plan. Employees born after 1979 are encompassed by a defined-contribution plan. There are no funding requirements for the defined-benefit plan. Pension payments to retirees are made directly from Sandvik.

The commitment for family pension, also a defined-benefit plan, is insured with Alecta. Sufficient information to use defined-benefit accounting for this plan was not available, which is why these commitments are recognized as a defined-contribution plan. At the end of 2017, Alecta reported a preliminary plan surplus of 154% (148).

UK

The main pension plan in the UK is funded through a foundation, which is closed for new participants and the pension is based on salary at the time of retirement. The funding level is revalued every three years, and if this valuation indicates a requirement to increase the funding, the company pays money into the plan over a certain period of time. The plan is governed by Trustees who make investment decisions after having consulted with the company. As a part of the actuarial valuation, Sandvik and the Trustees have agreed a plan to clear shortfall and meet the costs of the further build-up of benefits. Pension payments to retirees are made from the plan.

US

There are a number of pension plans in the US, including commitments for medical benefits. The largest pension plan covers

approximately 75% of the total commitment in the US. The pension is based on salary at the time of retirement and is closed for new participants. The funding level is revalued every year with a target of restoring the funding level over a seven-year period. Pension payments to retirees are primarily made from the plan.

Finland

In Finland, Sandvik sponsors a defined-benefit pension plan funded in a foundation. 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. Pension payments to retirees are made from the plan.

Germany

In Germany, Sandvik has defined-benefit pension plans. A few years ago, Sandvik formed a foundation, a Contractual Trust Agreement (CTA), which covers the current employees in most of Sandvik's German companies. The pension commitments for retirees and paid-up policyholders remain unfunded. The pension is based on salary at the time of retirement and other parameters. There are no funding requirements and employees in the plan are required to contribute a certain percentage of their salary to the plan. Pension payments to retirees are mainly made from the company.

Canada

There are a number of pension plans in Canada. The pension is based on average salary at the time of retirement and is closed for new participants for non-bargaining unit plans starting 2008. The funding level is revalued every year or up to every three years for the plans, and is based on the solvency ratio determined by actuaries. Pension payments to retirees are mainly made from the company. Employees who joined the company after 1 January 2008 are included in a defined-contribution plan.

Information by country, 31 December 2016	Sweden	UK	US	Finland	Germany	Canada	Other	Total
Amount in the balance sheet								
Present value of funded and unfunded pension obligations	4,517	7,134	6,690	3,029	2,553	548	1,898	26,369
- of which for actives	2,295	1,633	3,326	891	1,210	287	1,178	10,820
- of which for vested deferreds	983	2,245	851	817	217	26	454	5,593
- of which for retirees	1,239	3,256	2,513	1,321	1,126	235	266	9,956
Plan assets	2,445	6,346	5,673	3,123	1,298	602	1,134	20,621
Total surplus/(deficit)	-2,072	-788	-1,017	94	-1,255	54	-764	-5,748
Funding level, %	54%	89%	85%	103%	51%	110%	60%	78%
<i>Pension plans recognized according to local rules</i>	—	—	—	—	—	—	—	-231
Duration (remaining term of pension obligation), years	23	19	15	18	9	15	—	17
Amount in income statement/other comprehensive income								
Current service cost	-171	-51	-131	-89	-42	-20	-54	-558
Net interest	-65	-15	-48	-7	-22	2	-30	-185
Actuarial gains/(losses)	42	-405	152	483	-95	18	-27	168
Total cost of defined-benefit pension plans before tax	-194	-471	-27	387	-159	0	-111	-575
Amount in cash flow								
Employer contributions to pension plans	—	-139	-182	-6	-35	-16	-59	-437
Pension payments directly from the company	-103	—	-27	—	-61	-2	-26	-219
Settlements paid	—	—	—	—	—	—	-68	-68
Key assumptions used in the valuation of the pension liability								
Life expectancy, years ¹⁾	22	22	21	21	21	22	—	—
Inflation, %	1.50%	3.30%	2.50%	1.40%	2.00%	2.00%	—	2.31%
Discount rate, % (weighted average)	3.00%	2.70%	4.23%	1.90%	1.51%	3.93%	—	2.91%
Future salary increases (weighted average)	3.00%	3.40%	3.00%	2.50%	2.99%	3.00%	—	3.08%

1) Expressed as the expected remaining life expectancy of a 65 year old in number of years.

Note 20, continued

Information by country, 31 December 2017	Sweden	UK	US	Finland	Germany	Canada	Other	Total
Amount in the balance sheet								
Present value of funded and unfunded pension obligations	5,008	7,026	6,563	3,086	2,586	567	1,291	26,127
- of which for actives	2,553	1,571	3,170	884	1,224	308	1,077	10,787
- of which for vested deferreds	1,167	2,140	836	754	242	16	50	5,205
- of which for retirees	1,288	3,315	2,557	1,448	1,120	243	164	10,135
Plan assets	2,657	6,650	5,980	3,402	1,384	585	746	21,404
Total surplus/(deficit)	-2,351	-376	-583	316	-1,202	18	-545	-4,723
Funding level, %	53%	95%	91%	110%	54%	103%	58%	82%
Pension plans recognized according to local rules	—	—	—	—	—	—	—	-212
Duration (remaining term of pension obligation), years	23	18	15	17	9	12	—	17
Amount in income statement/other comprehensive income								
Current service cost	-140	-65	-127	-84	-53	-17	76	-410
Net interest	-61	-21	-37	2	-19	2	-20	-154
Actuarial gains/(losses)	-185	379	303	273	64	-24	50	860
Total cost of defined-benefit pension plans before tax	-386	293	139	191	-8	-39	106	296
Amount in cash flow								
Employer contributions to pension plans	—	-64	-186	-23	-44	-3	-62	-382
Pension payments directly from the company	-106	—	-28	—	-61	-2	-38	-235
Settlements paid	—	—	—	—	-55	—	-20	-75
Key assumptions used in the valuation of the pension liability								
Life expectancy, years ¹⁾	22	22	21	21	21	22	—	—
Inflation, %	1.50%	3.10%	2.27%	1.60%	1.99%	2.43%	—	2.22%
Discount rate, % (weighted average)	2.70%	2.50%	3.74%	2.00%	1.72%	3.48%	—	2.72%
Future salary increases (weighted average)	3.00%	2.64%	3.00%	2.50%	2.98%	3.00%	—	2.87%

1) Expressed as the expected remaining life expectancy of a 65 year old in number of years.

PRESENT VALUE OF FUNDED AND UNFUNDED PENSION OBLIGATIONS

	2016	2017
At 1 January	24,636	26,369
Current service cost	558	410
Settlements	-332	-497
Interest expense	814	732
Employee contributions	15	30
Pension payments	-904	-978
Actuarial gains/(losses) attributable to:		
- Financial assumptions	1,804	829
- Demographic assumptions	-173	-163
- Experience adjustments	-432	-23
Other	93	-49
Foreign exchange differences	290	-533
At 31 December	26,369	26,127

PLAN ASSETS

	2016	2017
At 1 January	18,946	20,621
Interest income	629	578
Settlements	-332	-497
Employer contributions to pension plans	437	382
Pension payments directly from the company	219	235
Settlements paid by employer	68	75
Employee contributions	15	30
Pension payments	-904	-978
Return on plan assets, excluding amount included in interest income	1,368	1,503
Other	92	-59
Foreign exchange differences	83	-486
At 31 December	20,621	21,404

An asset is recognized if the value of the plan assets for a certain plan exceeds the liability. Funded pension plans are recognized as an asset in the amount of 695 million SEK (470) in the item non-current receivables. Provisions for pensions include pension plans of 5,630 million SEK (6,449). The total net liability is 4,935 million SEK (5,979).

Risks and cash flows

Three main categories of risks are associated with the company's defined-benefit pension plans. The first category is linked to future pension payments. Greater life expectancy, increased inflation assumptions and higher salaries can increase future pension payments and thus also the liability for the pension obligation. The second category refers to the assets in the foundations that are funded. Low returns may, in the future, lead to the assets being insufficient for covering future pension payments. The third and final category pertains to the measurement methods and accounting of defined-benefit pension plans, primarily regarding the discount rate utilized in the measurement of the present value of the pension obligations. This rate can fluctuate, leading to major changes in the recognized pension liability. The discount rate also affects the interest rate component of the pension liability and that is recognized in net financial items.

To determine the discount rate, AA credit rated corporate bonds are used that correspond to the duration of the pension obligation. If there is no deep market for corporate bonds, government bonds are instead used as the basis for determining the discount rate. Mortgage bonds are used in Sweden to determine the discount rate.

A sensitivity analysis of the most important assumptions affecting the recognized pension liability is provided below. Note that this sensitivity analysis is not intended to be the expression of an opinion by the company regarding the probability of such events occurring.

SENSITIVITY ANALYSIS, CHANGE IN PENSION PROVISION

(net)	SE	UK	US	FI	DE	CA	Total
Life expectancy, +1 year	216	220	162	115	9	15	737
Discount rate and inflation ¹⁾	490	539	652	137	50	54	1,922
Equities -20%	132	315	643	264	42	24	1,420
	838	1,074	1,457	516	101	93	4,079

1) Aggregated impact based on Solvency II.

NOTES

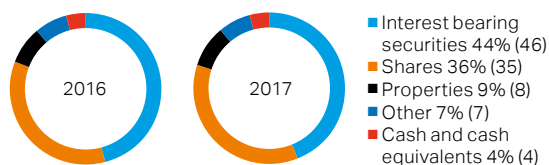
Note 20, continued

Sandvik estimates that approximately 662 million SEK (630) will be paid into existing defined-benefit plans in 2018.

Plan assets

Plan assets amounted to 21,404 million SEK (20,621). Actual return on plan assets was 2,081 million SEK (1,997) in 2017. The consolidation ratio for funded plans is 88% (85). For all plans including unfunded plans, the consolidation ratio is 82% (78).

CLASS OF ASSETS



Assets without quoted prices amounted to approximately 9% (8) of the total plan assets of 21,404 million SEK.

The fair value of plan assets on 31 December 2017 included loans of 0 million SEK (2) to Sandvik companies and the value of properties leased to Sandvik of 210 million SEK (220).

Governance

The defined-benefit and defined-contribution plans are governed through Sandvik's Pension Supervisory Board (PSB). PSB meets twice a year and has the following areas of responsibility:

- Implement policies and directives
- Ensure efficient administration of the major pension plans and efficient management of reserved plan assets
- Approve establishment of new plans, material changes or closure of existing plan
- Approve guidelines for management of assets

The Group Pension Committee (GPC) is another operating body, which is also preparatory to the PSB, that has representatives from countries with large defined-benefit plans and the relevant Group functions. The GPC's task is to monitor developments in countries, submit proposals on changes to pension plans to the PSB and approve the principle of how actuarial assumptions are established. GPC meets twice a year.

NOTE 21. Other provisions

	Warranties	Restructuring	Employee benefits	Environmental obligations	Legal disputes	Other obligations	Total
Group							
Balance at 31 December 2016	449	1,124	507	251	186	299	2,816
Provisions made during the year	482	491	368	12	82	1,172	2,607
Provisions used during the year	-273	-465	-275	-25	-60	-802	-1,900
Unutilized provisions reversed during the year	-82	-219	-37	-2	-52	-130	-522
Provision disposed through divestment	-27	0	-15	—	—	-12	-54
Reclassifications	-54	-59	23	3	-11	98	0
Translation differences	0	-3	-2	-7	-11	-41	-64
Transfer to liabilities held for sale	5	-102	-34	-4	33	-124	-226
Balance at 31 December 2017	500	767	537	228	168	460	2,660
of which current	374	567	204	9	128	394	1,676
of which non-current	125	200	334	219	40	66	984
Parent Company							
Balance at 31 December 2016	18	161	136	18	—	0	333
Provisions made during the year	2	36	66	5	—	—	109
Provisions used during the year	-1	-110	-74	—	—	—	-185
Unutilized provisions reversed during the year	-1	-1	—	—	—	—	-2
Provisions disposed through divestment	—	—	-1	—	—	—	-1
Reclassifications	0	0	0	—	—	—	0
Balance at 31 December 2017	18	86	127	23	—	0	254

Investment strategy

The aims of the investment decisions made in the foundations managing plan assets are as follows:

- Ensure that the plan assets are sufficient to cover the foundation's future pension commitments
- Achieve optimal returns while taking into account a reasonable level of risk

Each foundation is to have a written investment policy approved by GPC. Reviews are performed annually. The foundation makes its own decisions on its investment strategy and takes into consideration the composition of the pension commitments, requirements of cash and cash equivalents and available investment opportunities. The investment strategy is to be long term and in line with the guidelines established by PSB. An investment committee is to be in place.

Parent Company

The Parent Company's recognized pension provision was 305 million SEK (341). 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 are members of the foundation. The total value of the assets held by the foundation was 2,657 million SEK (2,445), which was 229 million SEK lower than the capital value of the corresponding pension obligations for the entire foundation. The deficit was recognized as a liability in the companies. The Parent Company's funded obligations mainly comprise ITP Plans.

PRESENT VALUE OF FUNDED AND UNFUNDED PENSION OBLIGATIONS

	2016	2017
Present value of funded and unfunded pension obligations	2,151	2,210
Plan assets	1,901	2,060
Deficit in the assets of the pension foundation	-91	-155
Net amount recognized for pension obligations	-341	-305

Note 21, continued

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.

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.

Employee benefits

A provision for personnel-related benefits is recognized in accordance with agreements entered for long-term incentive programs, local bonus programs, part-time pensions and other personnel obligations.

Environmental obligations

Environment-related provisions include provisions for environmental remediation measures related to the Group's sites.

Legal disputes

Legal disputes include provisions for claims which, at the balance sheet date, had not been closed.

Other obligations

Other obligations include provisions for onerous contracts and obligations within the scope of Sandvik Försäkring AB's operations. Provisions classified as current are expected to result in an outflow of resources within twelve months from the balance sheet date.

NOTE 22. Non-current interest-bearing liabilities

PARENT COMPANY

Non-current interest-bearing liabilities fall due as follows:

	2016			2017		
	Within one to five years	Later than five years	Total	Within one to five years	Later than five years	Total
Loans from financial institutions	2,804	—	2,804	—	—	—
Loans from Group companies	302	—	302	1	—	1
Other liabilities	5,915	10,803	16,718 ¹⁾	6,830	9,638	16,468 ¹⁾
Total	9,021	10,803	19,824	6,831	9,638	16,469

1) Other liabilities mainly comprise bond loans.

NOTE 23. Other interest-bearing liabilities

Group	2016	2017
Non-current liabilities		
Bond issues	22,055	21,264
Other	107	127
Total	22,162	21,391
Current liabilities		
Bond issues	1,792	576
Other	5	6
Total	1,797	582

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 24. Other non-interest-bearing liabilities

Group	2016	2017
Other non-current liabilities		
Derivatives designated as hedging instruments	320	255
Other	32	39
Total	352	294
Other current liabilities		
Derivatives designated as hedging instruments	701	341
Bills payable	91	111
Gross amount due to construction contract customers	112	238
Other	2,281	2,205
Total	3,185	2,895
Whereof discontinued operations	-259	-279
Continuing operations	2,926	2,616

NOTE 25. Accrued expenses and deferred income

Parent Company	2016	2017
Personnel related	1,596	1,837
Expenses related to finance	299	298
Other	393	388
Total	2,288	2,523

NOTE 26. 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.

CONTINUING OPERATIONS

	Group		Parent Company	
	2016	2017	2016	2017
Contingent liabilities				
Bills discounted	5	7	—	—
Other surety undertakings and contingent liabilities	449	351	13,463	10,705
Total	454	359	13,463	10,705
of which for subsidiaries			13,284	10,659

The Parent Company's surety undertakings and contingent liabilities amounted to 10,705 million SEK (13,463), of which 6,367 million SEK (8,816) 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 on advances received and various types of performance bonds and guarantees to financial institutions relating to local borrowings, and guarantee facilities as well as to pension programs.

NOTES

Note 26, continued

The Group's surety undertakings and contingent liabilities amounted to 359 million SEK(454) and mainly comprised pension guarantees and ongoing proceedings.

PLEGGED ASSETS

Pledged assets for own liabilities and provisions.

Group	2016	2017
Property mortgages	214	221
Chattel mortgages	101	60
Total	315	281

No assets of the Parent Company had been pledged in 2017 and 2016.

NOTE 27. Supplementary information – financial risk management

Financial risk management

Group Treasury is the function responsible for managing most of the Group's financial risks. The primary objectives of the function are to contribute to the creation of value by managing the financial risks to which the Group is exposed to during the ordinary course of business, and to optimize the Group's financial net.

Through its comprehensive international operations, Sandvik is exposed to financial risks.

The Board of Directors is responsible for establishing the Group's finance policy, which comprises guidelines, objectives, and limits for financial management within Group Treasury as well as the management of financial risks within the Group.

Group Treasury provides services to Group companies and its tasks are to support subsidiaries with loans, deposits, foreign exchange deals, and banking solutions, as well as to act as an advisor in financial matters. The function conducts internal banking operations and is based at the head office in Stockholm. It is also responsible for the Group's bank account set-up.

In addition, Group Treasury conducts operations for payment advisory and trade finance, and is responsible for the Group's global policy for granting credit to customers in conjunction with sales. The customer finance activity is carried out through the Business Area SMRT through some selected locations worldwide.

Finally, Group Treasury also manages the financial risks associated with the company's defined-benefit pension plans.

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

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

Currency risk - Transaction exposure

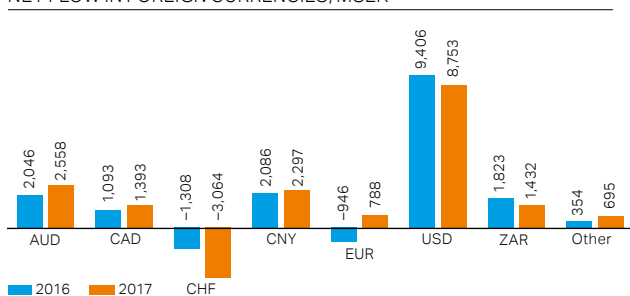
Risk

Transaction exposure occurs when sales and purchases are made in different currencies which affect profit for the year.

Sandvik's annual transaction exposure, meaning the Group's net flow of currencies, after full offsetting of the countervalue in the exporting companies' local currencies, and measured at the average exchange rate, amounted to 14,852 million SEK (16,299) in 2017. The most important currencies for one year of exposure are shown in the diagram below.

EXPOSURE

NET FLOW IN FOREIGN CURRENCIES, MSEK



Comments

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 associated with account receivables denominated in foreign currency and with 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.

In order to mitigate the currency risk, pricing is managed against both customers and suppliers in circumstances where Sandvik is affected negatively by currency movements. To further reduce exposure to foreign currencies, currencies received are used to pay for purchases in the same currency via a netting structure.

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. Under the finance policy, the CFO has a mandate to hedge the annual transaction exposure. At year-end, the total hedged amount was 1,324 million SEK (894). The average duration for the hedged volume of foreign currency was 3 months (4). Unrealized gains from outstanding currency contracts for hedging of future net flows amounted to 76 million SEK (-30) at year-end. This amount consists of 21 million SEK in gains related to contracts maturing in 2018 and 55 million SEK in gains related to contracts maturing in 2019 or later. For a more detailed breakdown of the quarterly effects on cash flow of the transactions that have been recognized in the hedge reserve, see the table at the end of Note 27.

If all exchange rates for the exposure currencies were to change by 5% in an unfavorable direction, total operating profit over a 12-month period would change by approximately -1,174 million SEK (-1,214), assuming that the composition is the same as it was at year-end.

Currency risk - Translation exposure

Risk

Translation exposure occurs when assets and liabilities are denominated in different currencies.

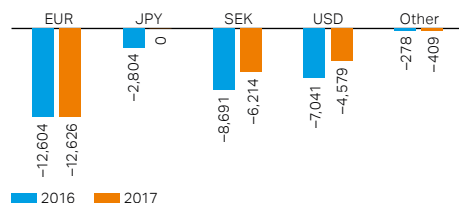
Since the Swedish krona (SEK) is Sandvik's base currency, a translation risk related to the valuation of the net assets in foreign subsidiaries and the profit/loss in foreign currency achieved during the period occurs. The net assets, which usually consist of the foreign subsidiaries' shareholders equity, are translated to SEK at

Note 27, continued

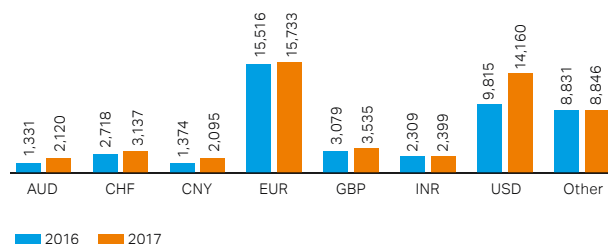
the rates applied on the balance sheet date. At 31 December, the Group's net assets in subsidiaries in local currencies amounted to 52,025 million SEK (44,973).

EXPOSURE

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 in their local currency through the internal bank. External borrowing often takes place in a specific currency, as shown in the first diagram. The currency risk that arises in the internal bank as a result of this is managed using various derivatives to minimize 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 quarter are recognized directly in other comprehensive income. The second diagram shows the distribution of net assets among various currencies.

If exchange rates were to change by 5% in an unfavorable direction the net effect on other comprehensive income would be approximately -2,605 million SEK (-2,252). This net effect primarily comprises translation exposure in equity.

Interest rate risk

Risk

Interest-rate risk is defined as the risk that changes in market interest rates will have on the Group's net interest items. The impact on net interest items of a change in interest rates depends on the 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.

Exposure

If market rates were to rise by 1 percentage point across all terms, in relation to loans for which the interest rate will be reset during the coming year, interest costs would be impacted by -33 million SEK.

An interest-rate sensitivity analysis of interest-rate swap agreements valid at year-end, and to which hedge accounting was applied, shows that other comprehensive income would change by 81 million SEK as a result of a 1 percentage point increase of the interest-rate curve.

INTEREST RATES AND FIXED-INTEREST TERMS ON OUTSTANDING LOANS

Including effects of interest-rate derivatives	Effective rate of interest, %	Fixed-interest term, months	Recognized liability, MSEK
Bond loans, Swedish MTN	2.5	21	6,223
Bond loans, European MTN	3.6	87	10,821
Private placements	4.0	31	4,796
Commercial papers	0	0	0
Other loans from banks	2.5	30	1,988
Total loans	3.3	54	23,828

Interest effect of currency derivatives	0.7
---	-----

Total incl. currency derivatives	4.0
---	------------

Comments

The Group's interest-rate risk arises mainly in connection with borrowing. Interest-rate swap agreements are sometimes used to achieve the desired fixed-interest term. The Group CFO has a mandate to vary the average fixed-interest term of the Group's debt portfolio, provided that it does not exceed 60 months. The average fixed-interest term on Sandvik's borrowing was 54 months (48) at year-end, with consideration given to interest-rate swap agreements entered into.

In line with the Group's finance policy, internal lending to foreign subsidiaries is hedged. Consequently, there is an interest-rate effect in currency derivatives of 0.7% between the currencies the Group borrows and the currencies the Group lends. The Group's average interest expense, including other loans and effects of various derivatives, was 4.0% (4.2).

Hedge accounting is applied when an effective link exists between hedged loans and interest-rate swaps. Accordingly, changed market interest rates could also impact other comprehensive income, since the Group has interest-rate 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 profit for the year. A presentation of all interest-rate swap agreements entered into, and information regarding their duration, can be found at the end of Note 27.

Sandvik's loan conditions do not currently entail financial covenants linked to key figures. Only under exceptional circumstances are assets pledged in connection with the raising of loans. Such pledging is disclosed in Note 26.

In the event that Sandvik has surplus liquidity, it is placed in bank deposits or in short-term money market instruments (durations of up to 90 days), which means that the interest-rate risk (the risk of a change in value) is low.

Liquidity and refinancing risk

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.

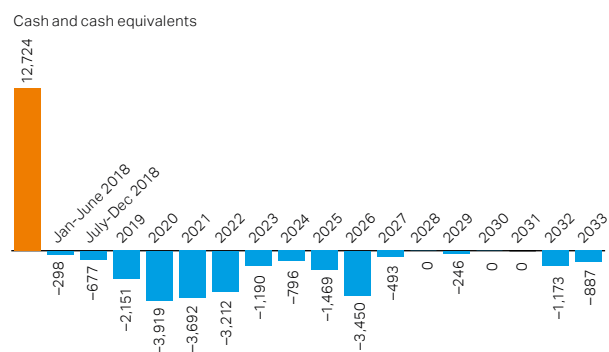
NOTES

Note 27, continued

EXPOSURE

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	6,223	15,000	3.0
Bond loans, European MTN	EUR	10,821	29,569	8.5
Private placements	USD	4,796	—	2.8
Commercial papers	EUR, SEK	—	17,392	0.0
Other loans from banks	Others	1,988	—	4.3
Total borrowing		23,828	61,961	5.6

Comments

According to the finance policy, the Group's capital employed excluding cash and cash equivalents should be financed on a long-term basis. At year-end, the Group's capital employed, excluding cash and cash equivalents, was 65,506 million SEK and long-term financing, including share capital, pension liabilities, long-term tax liabilities, long-term provisions and the guaranteed long-term credit facility, amounted to 86,343 million SEK. The short-term liquidity reserve, comprising committed credit facilities and accessible cash and cash equivalents was 19,286 million SEK. This reserve should at a minimum correspond to loans that mature for payment over the next six months and two weeks operating expenses, calculated to 3,126 million SEK.

Sandvik has a credit facility totaling 9,000 million SEK maturing in year 2022. The facility, which is the Group's primary liquidity reserve, was unutilized at year-end.

The aim of Sandvik's financing strategy is to achieve a well-balanced maturity profile for liabilities to thereby reduce the refinancing risk. The share of long-term loans in relation to total borrowing was 96% at year-end 2017 compared with 85% one year earlier. The maturity structure for the Group's financial liabilities and derivatives is presented further down in Note 27.

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 home.sandvik.

Credit risk

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

EXPOSURE

Total credit risk, MSEK	2015	2016	2017
Trade receivables	12,238	13,301	13,928
Cash and cash equivalents	6,376	8,818	12,724
Unrealized net gains on derivatives	708	269	595
Other receivables	418	424	407
Outstanding credits	1,324	2,073	2,623
Total	21,064	24,885	30,277

Comments

Sandvik has entered into agreements with the banks that are most important to the company covering such matters as the right to offset assets 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 net gains that arise in derivative agreements, and investments and bank balances. At 31 December 2017, the value of these amounted to 13,319 million SEK (9,086).

Sandvik companies are exposed to the credit risk associated with outstanding trade receivables from ongoing sales. Credit risk is spread over a large number of customers in all business areas and reflects the spread of sales. In 2017, Sandvik's bad debts written off amounted to -111 million SEK (-115), corresponding to 0.15% of sales. The total gross value of outstanding trade receivables was 14,617 million SEK (14,154) at 31 December. Total impairment of these was -690 million SEK (-853). Age analysis of trade receivables at 31 December is presented in Note 19.

Sandvik offers short and long-term customer financing through its own financing companies and in partnership with financial institutions and banks. At year-end, the value of outstanding credits was 2,668 million SEK (2,126), of which -45 million SEK (-53) was reserved for doubtful receivables.

In addition to the traditional financing of equipment, Sandvik also offers short-lease machinery. At year-end, the net carrying amount of this short-lease machinery was 390 million SEK (408).

Raw materials price risk

Risk

Sandvik's financial risks related to raw materials are primarily concentrated to nickel and electricity. The price risks associated with these are partially hedged through the signing of financial contracts. A change in the electricity price of 0.1 SEK per kWh is estimated to affect Sandvik's operating profit by plus or minus 85 million SEK on an annual basis, based on the prevailing conditions at year-end 2017.

Exposure

When Sandvik Materials Technology obtains a customer order at a fixed price for nickel, molybdenum or copper, the prices of these materials are hedged by signing financial contracts. This means that Sandvik's operating profit is not impacted by movements in the price of these raw materials, relating to the aforementioned orders at a fixed price.

The Group applies a hedging strategy in order to minimize the metal price risk in connection with transactions conducted at a variable metal price. The measurement of inventory is not affected by hedging.

Note 27, continued

Changes in metal prices affect the result as a consequence of the rules regarding revaluation of inventory. The net effect is presented in the "Development in business areas" section.

For Sandvik's large production units in Sweden and Finland, the electricity price is continuously hedged through derivatives. Electricity consumption at these units normally totals some 850 GWh. The hedging horizon at year-end was about 17 months' (18) expected consumption.

Comments

Net total consumption of nickel amounted to about 15,600 metric tons during the year.

At year-end, the volume of hedged nickel inventory was 2,068 metric tons (1,888). The market value of commodity derivatives entered into was 21 million SEK (-1).

The volume of electricity hedged with derivatives was 1,204 GWh (1,241) at year-end. The market value of these derivative contracts amounted to 42 million SEK (14).

For a more detailed breakdown of the quarterly effects on cash flow of the transactions that have been recognized in the hedge reserve, see the table at the end of Note 27.

Pension commitments

Risk

Sandvik has comprehensive pension obligations in the countries in which it operates. The pension solutions and funding requirements vary depending on legislation and local agreements. The largest funded pension plans are found in the UK, US, Finland, Sweden, Germany, and Canada. Three main risks are associated with Sandvik's pension obligations; interest rate fluctuations, capital market volatility and changes in life expectancy.

Exposure

The group pension liability has an average duration of 16.6 years. The average duration of the group's interest-bearing assets in the pension portfolio is currently also 16.6 years. Since only 44% of the pension portfolio is invested in interest-bearing assets, Sandvik is exposed to interest rate fluctuations, both when discounting the liability but also as market values change in the bond portfolio. Based on a 95% (once every 20 years) approach under the Solvency II framework, the potential net impact in relation to such interest rate fluctuations is 2,214 million SEK.

A portion of the pension portfolio is invested in equities. A 20% movement in the equity portfolio would result in a change in market value of 1,421 million SEK. If the life expectancy assumptions increase by one year, the pension liability would rise by 3% which corresponds to 645 million SEK. The calculated total loss potential during one year (Pension risk), based on stress tests according to the Solvency II framework, is on aggregate 4,189 million SEK.

Comments

In 2017, the pension assets totaled 21,415 million SEK (20,632) and the corresponding pension liability amounted to 24,255 million SEK (24,363), which is equal to a funding level of 88% (85). The return on the pension assets was 10.6% during the year (10.6). In addition, Sandvik has unfunded pension commitments of 1,872 million SEK (2,010).

The pension plans are governed through Sandvik's Pension Supervisory Board (PSB). PSB is responsible for implementing policies and directives, approving new plans or material changes and closure of existing plans. The pension plans and governance are further described in Note 20.

Disclosure regarding financial instruments measured at fair value in the balance sheet

Under the IFRS 13 disclosure requirements, the method applied to the valuation of assets and liabilities 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 measured according to Level 2.

Measurements of fair value

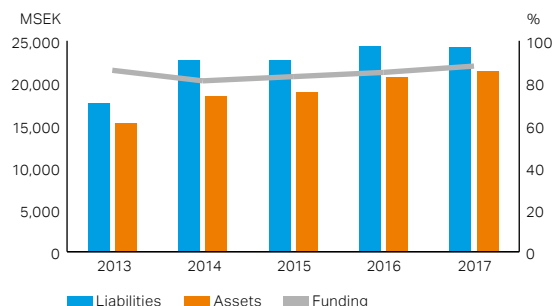
The following is a summary of the methods and assumptions primarily applied to determine the fair value of the financial instruments presented in the table below.

The fair value of foreign exchange contracts is determined based on observable market prices. 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 payables with variable interest and current receivables and payables (for example, trade receivables and accounts payable), the fair value has been considered to correspond to the carrying amount.

DEVELOPMENT OF PENSION LIABILITY AND ASSETS



NOTES

THE GROUP'S FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE IN THE BALANCE SHEET

Financial instruments measured at fair value	2016	2017
Financial assets		
Derivatives		
Foreign exchange contracts	185	509
Foreign currency options	—	—
Interest-rate swaps	20	8
Commodity and electricity derivatives	64	78
Total	269	595
Financial liabilities		
Derivatives		
Foreign exchange contracts	663	323
Foreign currency options	—	—
Interest-rate swaps	310	261
Commodity and electricity derivatives	49	12
Total	1,022	595

Financial assets and liabilities are not offset in the balance sheet. Derivative contracts are subject to framework agreements governing offsetting, and the carrying amounts of assets not offset in the

balance sheet amounted to 595 million SEK. The carrying amount of corresponding liabilities was –595 million SEK. No collateral has been received or pledged. In the event of a default by a derivative counterparty, assets and liabilities for a total value of 259 million SEK would be offset in accordance with the framework agreement governing offsetting.

Financial assets and liabilities, except financial derivatives, are measured at amortized cost. Calculation at fair value would increase the Group's non-current borrowings by 2,117 million SEK (2,358). When measuring interest-bearing liabilities, the company's Swedish and European bond loans have then been remeasured using observable market prices for identical securities to value the Group's marketable debt instruments. Other non-current debt has been remeasured in accordance with the principles described above. For short-term loans and deposits, no remeasurement was carried out, given that the carrying amount is considered to represent a good approximation of the fair value due to the short duration.

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	Assets at fair value through profit and loss											
	Derivatives for hedge accounting ¹⁾		Derivatives held for trading ²⁾		Available-for-sale financial assets		Loans and receivables		Total carrying amount		Fair value	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Financial assets												
Financial investments	—	—	—	—	81	83	—	—	81	83	81	83
Trade receivables	—	—	—	—	—	—	13,301	13,928	13,301	13,928	13,301	13,928
Other receivables ³⁾	—	—	—	—	—	—	2,067	2,487	2,067	2,487	2,067	2,487
Derivatives ⁴⁾	91	28	178	567	—	—	—	—	269	595	269	595
Cash and cash equivalents	—	—	—	—	—	—	8,818	12,724	8,818	12,724	8,818	12,724
Total financial assets	91	28	178	567	81	83	24,185	29,139	24,535	29,816	24,535	29,816

Balance sheet items	Liabilities at fair value through profit and loss											
	Derivatives for hedge accounting ¹⁾		Derivatives held for trading ²⁾		Other financial liabilities		Total carrying amount		Fair value			
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017		
Financial liabilities												
Borrowings ⁵⁾	—	—	—	—	31,418	23,828	—	—	31,418	23,828	33,776	25,945
Derivatives ⁶⁾	334	197	688	398	—	—	—	—	1,022	595	1,022	595
Accounts payable	—	—	—	—	6,286	7,645	—	—	6,286	7,645	6,286	7,645
Due to associates	—	—	—	—	2	3	—	—	2	3	2	3
Other liabilities ⁷⁾	—	—	—	—	91	111	—	—	91	111	91	111
Total financial liabilities	334	197	688	398	37,797	31,586			38,819	32,181	41,177	34,298

1) Of which –177 million SEK (–262) pertains to cash flow hedges recognized in the hedging reserve in equity and –13 million SEK (11) pertains to fair-value hedges recognized in profit or loss.

2) Of which 169 million SEK (–510) 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.

Note 27, continued

NET RESULT PER VALUATION CATEGORY

In addition to fair value adjustment, interest and currency movement effects are included.

	2016	2017
Assets and liabilities at fair value (Derivatives)	-235	330
Loans and accounts receivables	286	-162
Available-for-sale financial assets	5	25
Financial liabilities	-1,535	-1,239

The company's financial liabilities amounted to 32,181 million SEK (38,819) at year-end.

GROUP'S MATURITY STRUCTURE RELATING TO UNDISCOUNTED CASH FLOWS FOR FINANCIAL LIABILITIES AND DERIVATIVES, NOMINAL AMOUNTS

		2016				2017			
		<6 months	6-12 months	1-5 years	>5 years	<6 months	6-12 months	1-5 years	>5 years
Bank loans	SEK	-169	-396	-4,447	-372	-59	-362	-1,689	—
Commercial papers	SEK	—	—	—	—	—	—	—	—
Medium Term Notes	SEK	-79	-1,850	-5,566	-1,055	-317	-372	-4,916	-1,030
European Medium Term Notes	EUR	-255	-123	-2,183	-11,807	-263	-127	-3,702	-10,339
Private placements	USD	-874	-1,172	-4,333	-1 570	-133	-133	-5,092	—
Derivatives									
- Currency derivatives		-477	-5	-3	—	113	4	51	—
- Interest-rate derivatives		-39	-26	-245	-69	-46	8	-210	-70
- Commodity and electricity derivatives		5	-5	11	—	16	25	22	—
Finance leases		-2	-2	-56	—	-1	-2	-50	—
Accounts payable		-6,286	—	—	—	-7,907	—	—	—
Total		-8,176	-3,579	-16,822	-14,872	-8,597	-959	-15,586	-11,439

PERIODS WHEN HEDGED CASH FLOWS ARE EXPECTED TO OCCUR AND AFFECT EARNINGS

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2020 and later
Currency derivatives	2	0	-1	—	—	—	—	—	0
Interest derivatives	—	—	—	—	—	—	—	—	-188
Commodity and electricity derivatives	-1	0	0	9	0	—	0	2	0
Total	1	0	-1	9	0	—	0	2	-188

NOTES

NOTE 28. Related parties

Related-party transactions

The Group's sales to associated companies amounted to 848 million SEK (856). The Group's purchases from associated companies amounted to 231 million SEK (179). Loans to associated companies amounted to 0 million SEK (0). Interest income on loans to associated companies amounted to 0 million SEK (3). Guarantees have been made for the obligations of associated companies in the amount of 0 million SEK (0). All transactions are carried out on market terms.

Sales to Group companies from the Parent Company amounted to 12,695 million SEK (11,350), or 76% (75) of total sales. The share of exports was 69% (73). The Parent Company's purchases from Group companies amounted to 2,810 million SEK (2,420), or 17% (16) 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 million SEK (0). All transactions are effected on an arm's length basis.

Transactions with key management personnel

Except as indicated in Note 3.5, Remuneration of the Board of Directors and senior executives, and in the description of the Board of Directors, no transactions took place with persons closely associated with the company.

NOTE 29. Supplementary information to the cash flow statement

Cash and cash equivalents	2016	2017
Group		
Cash and cash equivalents comprise:		
Cash and bank	3,330	5,370
Short-term investments comparable to cash and cash equivalents	5,488	7,354
Total in the balance sheet	8,818	12,724
Total in the cash flow statement	8,818	12,724
Parent Company		
Cash and cash equivalents comprise:		
Cash and bank	1	0
Total in the balance sheet	1	0
Total in the cash flow statement	1	0

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	
	2016	2017	2016	2017
Interest and dividend paid and received				
Dividend received	5	25	337	1,077
Interest received	176	205	864	649
Interest paid	-1,743	-1,374	-775	-545
Total	-1,562	-1,144	426	1,181

RECONCILIATION OF ITEMS INCLUDED IN FINANCING ACTIVITIES – GROUP

	2016-12-31	Cash flow effects	Non cash flow effects	Foreign exchange differences	2017-12-31
Loans including net pension liabilities	37,312	-7,722	-867	-35	28,688
Leasing receivables	-1,749	-529	0	95	-2,183
Other financing items	922	-62	-555	9	314
Total	36,485	-8,313	-1,422	69	26,819

	Group		Parent Company	
	2016	2017	2016	2017
Adjustment for non-cash items, etc.				
Changes in value of financial instruments	—	—	-13	-154
Unappropriated results of associated companies	-6	-50	—	—
Gains and losses on disposal of non-current assets	-77	-55	25	5
Gains on disposal of companies and shares	-52	-4,112	-47	-2,416
Provisions for pensions	—	—	-26	-36
Other provisions	-847	132	-43	-78
Other	467	543	1,658	815
Total	-515	-3,542	1,554	-1,864

	2016	2017
Acquisitions of subsidiaries and other business operations – Group		
Net assets acquired:		
Intangible assets	4	—
Property, plant and equipment	1	—
Inventories	6	—
Current receivables	7	—
Cash and cash equivalents	10	—
Total assets	28	—
Non-interest-bearing liabilities	-13	—
Total provisions and liabilities	-13	—
Net identifiable assets and liabilities	15	—

In 2016, acquired assets and liabilities refer to the acquisition of Promotec GmbH and Comara GmbH.

	2016	2017
Divestments of subsidiaries and other business units – Group		
Divested assets and liabilities:		
Intangible assets	—	116
Property, plant and equipment	—	739
Financial assets	—	71
Inventories	—	484
Current receivables	—	794
Cash and cash equivalents	—	81
Total assets	—	2,285
Provisions	—	-71
Interest-bearing liabilities	—	-315
Non-interest-bearing liabilities	—	-1,068
Total liabilities	—	-1,454
Net identifiable assets and liabilities	—	831
Mining Systems (discontinued operations)	—	-144
Sandvik Process System	—	4,706
Other	—	81
Purchase consideration received	—	4,642

NOTE 30. Acquisition and divestment of operations, discontinued operations and assets held for sale

The business combinations effected during 2016 and 2017 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
Sandvik Machining Solutions	Prometec GmbH	25 January 2016	48	35
Sandvik Machining Solutions	Comara GmbH	1 October 2016	8	16

There were no acquisitions carried out during 2017.

Total fair value of assets and liabilities of acquired businesses in 2016

The value of acquired assets and assumed liabilities has been finalized for the acquisitions of Prometec and Comara, which were implemented in 2016. No adjustment was made to the acquisition values.

Fair value recognized in the Group

Intangible assets	4
Property, plant and equipment	1
Inventories	6
Current receivables	7
Cash and cash equivalents	10
Non-interest-bearing liabilities	-13
Net identifiable assets and liabilities	15
Goodwill	35
Purchase consideration	50
Cash and cash equivalents in acquired businesses	-10
Part of consideration entered as a liability	-5
Contingent purchase consideration not to be paid	-4
Net cash outflow	31

CONTRIBUTIONS FROM COMPANIES ACQUIRED IN 2016 BY BUSINESS AREA

	Sandvik Machining Solutions	Total
Contributions as of acquisition date		
Revenue	46	46
Profit/loss for the year	-2	-2
Contributions as though the acquisition date had been 1 January 2016		
Revenue	56	56
Profit/loss for the year	-2	-2

Discontinued operations

In November 2017, Sandvik completed the divestment of the Mining Systems business, which is a separate product area within Sandvik Mining and Rock Technology and a supplier of design and engineering of material handling systems for the mining industry. The Mining Systems conveyor components business, including the closely related specialist conveyor systems business in Hollola (Finland) was divested to Nepean Conveyors Pty Ltd. The Mining Systems project business was divested to FLSmidth, with the exception of the project business assets in South Africa, which awaits merger control clearance. Clearance is expected during the first quarter of 2018.

The Mining Systems business has been reported as discontinued operations as from the third quarter of 2015 until the closure of the divestment in November 2017. Some projects are to be finalized during 2018-2019 by Sandvik, through an operational agreement with FLSmidth, and these remain reported as discontinued operations in the Sandvik Group's financial statements until the closure the projects.

In 2016 the Mining Systems business recorded sales of 2.9 billion SEK, of which the conveyor components' part corresponded to about 20%.

Assets held for sale

On 17 May 2017, Sandvik announced Sandvik Materials Technology's intention to divest its welding and stainless wire operations. These businesses are subject to intense competition and Sandvik Materials Technology does not hold a leading market position. In connection with the ongoing divestment, a write-down of assets, related to impairment of fixed assets, amounting to 450 million SEK was done.

As from the second quarter of 2017 and until closure of the divestment, these businesses will be reported as assets held for sale in Sandvik Group's financial statements. The divestment is expected to be completed during 2018.

On 8 December 2017, Sandvik announced that it has signed an agreement to divest Hyperion to the US listed investment firm KKR. Hyperion is a separate product area within Other Operations, offering products and solutions based on hard and super-hard materials. The divestment of Hyperion is expected to be completed during 2018 and will make Sandvik even more focused on its core businesses.

As from the fourth quarter of 2017 and until closure of the divestment, Hyperion will be reported as assets held for sale in Sandvik Group's financial statements.

INCOME STATEMENT FOR DISCONTINUED OPERATIONS

	2016	2017
Revenue	2,877	3,080
Cost of sales and services	-3,001	-2,851
Gross profit	-124	229
Selling expenses	-305	-102
Administrative expenses	-222	-210
Research and development costs	-22	-15
Other operating income	0	49
Other operating expenses	-688	-12
Operating loss	-1,361	-61
Financial income	—	9
Financial expenses	-9	—
Net financing costs	-9	9
Loss after financial items	-1,370	-52
Income tax	—	—
Loss for the year	-1,370	-52

ASSETS AND LIABILITIES HELD FOR SALE

	2016	2017
Intangible assets	4	1,016
Property, plant and equipment	2	823
Financial assets	97	79
Current assets	255	2,604
Total assets	358	4,522
Provisions	240	438
Interest-bearing liabilities	0	9
Non-interest-bearing liabilities	657	1,123
Total liabilities	897	1,570
Profit for the year	-1,370	-38
Total liabilities	897	1,570

NOTES

Note 30, continued

ASSETS AND LIABILITIES INCLUDED IN DIVESTMENTS

	SMRT	Other Operations	SMS and SMT	Total
Intangible assets	21	95	—	116
Property, plant and equipment	291	444	4	739
Financial assets	—	47	24	71
Inventories	112	368	3	484
Current receivables	171	620	4	794
Cash and cash equivalents	—	81	—	81
Provisions	-13	-58	—	-71
Interest-bearing liabilities	—	-315	—	-315
Non-interest-bearing liabilities	-267	-795	-6	-1,068
Reversal of impairment from earlier year ¹⁾	-591	—	—	-591
Gain/loss on sale excl. reversal to profit or loss of realized translation differences in the divested company	0	3,986	52	4,037
Compensation received after divestment costs	-276	4,473	81	4,278
Less: Cash and cash equivalents in the divested company	—	-81	—	-81
Impact on the Group's cash and cash equivalents, divested operations	-276	4,391	81	4,196
Divestment of operations during the year excl. transferred net loan debt (Group's operating cash flow statement)	-144	4,706	81	4,642

1) Reversal of impaired items 2016 disposed of in 2017 selling.

CASH FLOW STATEMENT FOR DISCONTINUED OPERATIONS

	2016	2017
Cash flow from operating activities	-510	-466
Cash flow from investing activities	-21	-144
Cash flow from financing activities	8	2
Cash flow from discontinued activities	-523	-608

Divestments

In December 2017, Sandvik divested the business of Sandvik Process Systems to FAM AB. The preliminary purchase consideration received totaled 4,473 million SEK, which was paid in full. The final purchase price will be calculated based on the net debt and net working capital changes between the preliminary closing balance sheet and the final closing balance sheet. The final purchase price is expected to be paid during the first two quarters of 2018. In 2016 the business recorded sales of 1.7 billion SEK with about 600 employees.

NOTE 31. Parent Company particulars

Sandvik Aktiebolag, corporate registration number 556000-3468, is a Swedish limited liability company. The registered office of its Board of Directors is in Stockholm, Sweden. The address of the head office is PO Box 510, SE-101 30 Stockholm, Sweden. The visiting address is World Trade Center, Kungsbron 1, section G, floor 6.

The Parent Company's shares are quoted on Nasdaq Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

The 2017 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 32. 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 no less than 1,000,000,000 and no more than 4,000,000,000.

At the end of 2017, 1,254,385,923 shares (1,254,385,923) 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 (11.8%).

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 employment agreements between the companies in the Group and the Parent Company's directors or employees who provide compensation if those persons give notice of termination, or their services are terminated on a reasonable basis, or the employment is terminated as a consequence of a public takeover bid.

NOTE 33. Proposed appropriation of profits

The Board of Directors proposes a dividend of 3.50 SEK (2.75) per share to the 2018 Annual General Meeting, corresponding to approximately 4.4 billion SEK (3.4).

Dividend, 3.50 SEK per share	
× number of shares 1,254,385,923 =	4,390,350,731
Profits carried forward	19,672,405,379
Total, SEK	24,062,756,110

NOTE 34. Events after the close of the period

On 30 October 2017, Sandvik announced the agreement to divest its welding wire business to ESAB. On 31 January 2018, Sandvik announced that the divestment was completed in line with previous communication.

BOARD STATEMENT ON DIVIDEND PROPOSAL

Board statement in accordance with Chapter 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, reference is made to the Report of the Directors.

The company's financial position at 31 December 2017 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 is in the form

of an unutilized credit facility amounting to 9,000 million SEK, 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 its 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.

Stockholm, 1 March 2018

Sandvik Aktiebolag (publ)
BOARD OF DIRECTORS

PROPOSED APPROPRIATION OF PROFITS

The Board of Directors proposes that the profits at the disposal of the Annual General Meeting:

profits carried forward	23,180,435,990
<u>and result for the year</u>	<u>882,320,120</u>
SEK	24,062,756,110

be appropriated as follows:

a dividend of 3.50 SEK per share	
to the shareholders	4,390,350,731
<u>profits carried forward</u>	<u>19,672,405,379</u>
SEK	24,062,756,110

The proposed record date for dividends is Wednesday, 2 May 2018.

The income statements and the balance sheets of the Group and of the Parent Company are subject to the adop-

tion by the Annual General Meeting on 27 April 2018.

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. The Annual Report and the consolidated financial statements give a true and fair view of the Parent Company's and the Group's financial position and results. The Report of the Directors pertaining to the Parent Company and the Group gives a fair overview of the development of the Parent Company's and the Group's operations, financial position and results, and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 1 March 2018

Johan Molin
Chairman

Jennifer Allerton
Board member

Claes Boustedt
Board member

Marika Fredriksson
Board member

Johan Karlström
Board member

Tomas Kärnström
Board member

Thomas Lilja
Board member

Helena Stjernholm
Board member

Lars Westerberg
Board member

Björn Rosengren
Board member
President and CEO

Our auditor's report was submitted on 6 March 2018

KPMG AB

Joakim Thilstedt
Authorized Public Accountant

AUDITOR'S REPORT

TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF SANDVIK AB (PUBL), CORP. ID. 556000-3468

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Sandvik AB (publ.) for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 46-122 in this document.

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 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. 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 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Accounting for Assets held for sale and discontinued operations

See disclosure 30 and accounting principles on pages 82 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The Group has completed the divestment of product area Mining Systems. The divested businesses has been deconsolidated from the financial statements apart from the ongoing contracts to be finalized by the Group that was not part of the divestment. The contracts are still presented as a discontinued operation in the income statement and as a disposal Group held for sale within the balance sheet. The result of the discontinued operations amounts to -52 million SEK for 2017.

The remaining contracts involves complex estimates on the projected final revenue and cost to complete.

The Group has during 2017 completed the divestment of product area Process Systems which by 1 December 2017 has been deconsolidated from the financial statements.

The Group has also during 2017 decided to divest product area Hyperion and the Material Technology operations Welding and Stainless wire. These businesses are presented as disposal groups held for sale within the balance sheet.

Accounting treatments for discontinued operations and Assets held for sale require specific conditions to be met and judgments to be made by Group management. There are also detailed related disclosure requirements.

Response in the audit

We have assessed the divestments of Mining Systems and Process Systems by obtaining and reviewing sales agreements and other relevant documentation.

We have evaluated the internal control of the business in relation to monitoring of the remaining ongoing contract as well as challenged managements assumptions on final project forecasts. Assessment have also been made through sampling of project estimates for which we have evaluated the underlying assumptions used by the business for revenue recognition and provisions, if any.

We have assessed the assumptions applied by the Group for presenting remaining ongoing contract within Mining Systems as a discontinued operation, as well as the presentation of Hyperion and Welding and Stainless wire operations as held for sale, by obtaining and reviewing minutes and other relevant documentation of the sales processes and board decisions as well as holding discussions with Group management.

We have further assessed whether the assets and liabilities presented as held for sale have been accurately identified and appropriately measured at the balances sheet date.

We have also reviewed the Annual Report disclosures for completeness.

Valuation of acquired intangible assets and the parent company's shares in Group companies

See disclosure 12 and 14 respectively and accounting principles on pages 79-80 and 82 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of acquired intangible assets of goodwill, patents, licenses, trademarks, etc. is 17,376 million SEK as at 31 December 2017, which represents approximately 16% of total assets. Annually, or if certain indicators of impairment exist, goodwill is subject to an impairment test which is complex and contains significant elements of judgment. An impairment test must be performed for each identified cash-generating unit.

The impairment test as required by IFRS is to be performed taking into account both forecasted internal and external assumptions and plans. Examples of such judgments are future cash flows and the discount rate to be used considering that estimated future payments are subject to risk.

The parent company holds shares in Group companies of 32,558 million SEK as at 31 December 2017. If the book value of the shares exceeds the equity in a given Group company, a similar type of impairment test is performed using the same methodology and assumptions as is done in respect of goodwill in the Group.

Response in the audit

We have obtained and assessed the Group's impairment tests to ascertain whether they are carried out in accordance with the techniques prescribed by IFRS.

In addition, we have assessed the reasonableness of future cash flows and discount rate by obtaining and evaluating Group management's written documentation and plans. We have also had discussions with Group management and performed retrospective review over prior period estimates.

We have assessed the methodology used and an important part of our work has been to evaluate how changes in assumptions may affect the valuation.

We have assessed the reasonableness of the allocation of goodwill to cash-generating units. The assessment was conducted through interviews with Group management and evaluation of the Group's documentation of the allocation.

We have reviewed the Annual Report disclosures for completeness, assessed whether the disclosures are in line with the assumptions used by management in their valuation and that they are, in all material respects, in accordance with disclosures required by IFRS.

Provisions for pensions

See disclosure 20 and accounting principles on pages 80-81 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The Group has a pension obligation that mainly concerns the United Kingdom, the United States, Sweden, Finland and Germany. Before reduction by the fair value of plan assets, this pension obligation is valued at 26,339 million SEK as at 31 December 2017.

Estimation of the value of the pension obligation relies upon a number of assumptions, including mortality, inflation, and discount rates that are applied to estimate the present value of future pension payments. The Group engages external actuaries to perform these complex calculations.

Changes to the assumptions which the calculations are based on could have a significant impact on total comprehensive income as well as on the balance of the pension obligation.

Response in the audit

We have examined the external actuarial report that is used by the Group for valuation of its pension obligation.

We have critically assessed the key assumptions used for discount rate, inflation, salary increases and mortality within the calculations against assumptions used by other comparative companies and externally obtained market data.

We have reviewed and assessed the documentation supporting significant changes in plan assets and significant events impacting the obligation.

We have also reviewed the Annual Report disclosures for completeness and assessed whether they are in line with the assumptions and sensitivity analysis used.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-45, 127-144 and 146-152. The Board of Directors and the President and CEO are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President and CEO

The Board of Directors and the President and CEO are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the President and CEO are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts the Board of Directors and the President and CEO are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President and CEO intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President and CEO.
- Conclude on the appropriateness of the Board of Directors' and the President and CEO's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

AUDITOR'S REPORT

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President and CEO of Sandvik AB (publ.) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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 President and CEO be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the President and CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The President and CEO shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President and CEO in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. 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.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Sandvik AB (publ.) by the general meeting of the shareholders on the 27 April 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since financial years before 1994.

Stockholm 6 March 2018
KPMG AB

Joakim Thilstedt
Authorized Public Accountant

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SUSTAINABILITY NOTES

ABOUT THIS REPORT

This is the twelfth consecutive year of Sustainable Business reporting for Sandvik. We aim to continue reporting the same way on an annual basis. Sandvik's most recent Sustainable Business Report was published in March 2017.

The sustainability notes give the opportunity to present more detailed information on strategy, stakeholder dialogs, materiality analysis and sustainability data, as well as a more comprehensive description of our sustainability risks and targets. This information is also complemented by the website home.sandvik.

Information meeting the Swedish legal requirements on sustainability reporting, the Statutory Sustainability report, and Sandvik's Sustainable Business Report, is

found on pages 30–41 and 127–144.

The sustainability information in this report has been prepared in accordance with the Global Reporting Initiative Guidelines, GRI G4 Core and has been reviewed by an external party. Sandvik is a signatory to the UN Global Compact (UNGC) and reports on the ten principles in accordance with the UNGC Advanced level criteria,

GRI's guidance on the reporting principles of materiality, stakeholder inclusiveness, sustainability context, and completeness is used to define the content of the report. This report refers to the 2017 fiscal year and covers all operations of the Group, including subsidiaries, but excludes associated companies and joint ventures.

STAKEHOLDER DIALOGS

During 2017, stakeholder dialogs have focused on how Sandvik implements its sustainable business strategy, that is sustainability aspects in our offerings and our operations. We held dialogs with stakeholders which we deemed could have the biggest impact, such as internal business leaders and other affected employees, the investor community and business networks. Internal and business network dialogs often take place in workshops or in other interactive fora. Investor dialogs are mainly conducted through individual meetings in smaller or larger groups.

Among the key issues raised in these dialogues are strategy implementation related to the decentralization

of the company. This builds on the dialogs that we held in 2016, when we conducted a stakeholder dialog focusing on the materiality analysis for 2017–2018.

MEMBERSHIPS IN ORGANIZATIONS

Sandvik is a member of the UN Global Compact. The company is also part of the network Swedish Leadership for Sustainable Development, facilitated by Sida, comprising some 20 large Swedish companies and three expert organizations. Sandvik is also part of the industry organization Jernkontoret and Swemin where a number of sustainability initiatives are being taken, particularly in relation to the UN Development Goals.

SUSTAINABLE BUSINESS STRATEGY

The sustainable business strategy for the Group was revised and adopted by the Group Executive Management in 2016. The sustainable business strategy builds on the two impact areas "our offerings" and "our operations" and their eight dimensions, four under each impact area. This is our sustainability agenda, and it is based on this agenda that we select a number of material aspects. The dimensions under "our offerings" are further defined by each business area and not defined at Group level. The dimensions under "our operations" have been defined in the agenda on the next page.

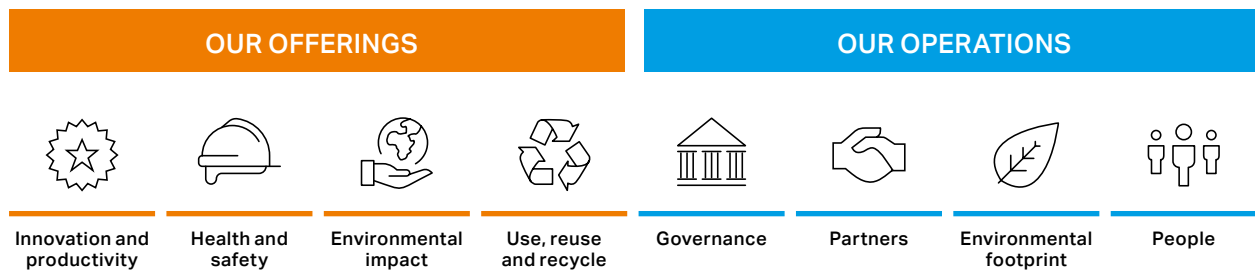
This is the result of an impact assessment made of our products and services in relation to our own operations. The strategy focuses on integrating sustainability as an integral part of the Group's central processes and business decisions, rather than having a separate sustainability agenda. The strategy includes international guidelines and principles such as the UN Global Compact, the OECD Guidelines for Multinational Corporations and the UN Guiding Principles for Business and Human Rights.

OUR OFFERINGS

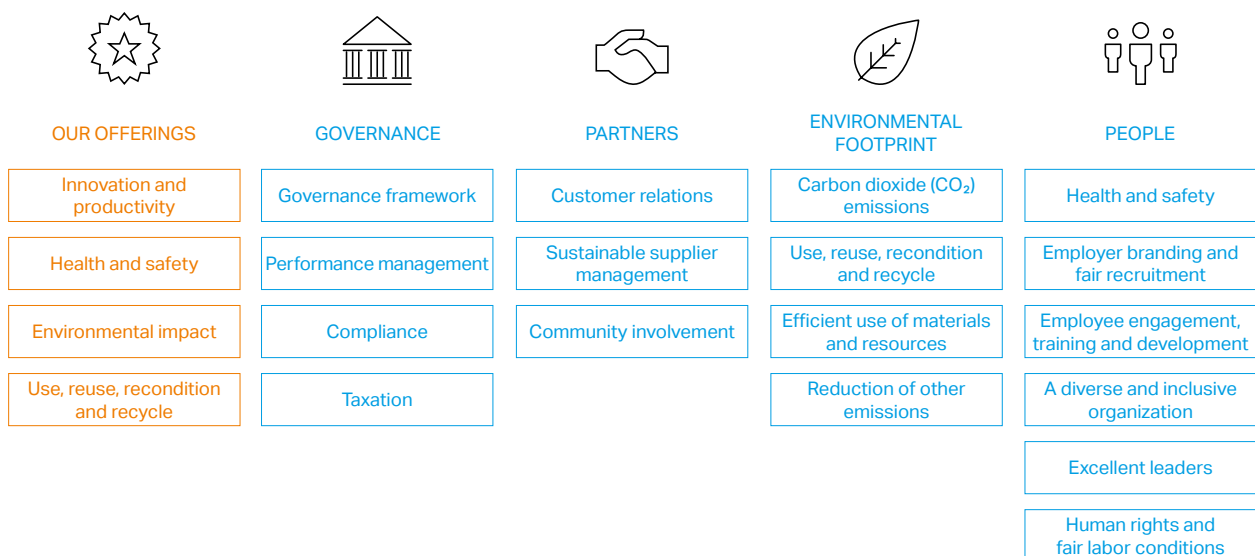
We want to make our customers more sustainable. We develop products, solutions and services that enhance our customers' sustainability through improved productivity and competitiveness, while reducing environmental impact, and promoting health and safety for our customers' employees. We work with our customers throughout the product's lifecycle by providing service and aftermarket support, such as customer buy-back programs which enable us to recover and recycle used products. We constantly strive to make our products more energy efficient, thereby lowering our customers' costs.

OUR OPERATIONS

We want to become more sustainable. We believe that promoting sustainability and responsibility in our own operations makes us a more long-term and trusted partner to our customers and other stakeholders. We work continuously to improve our internal processes, to address aspects such as our supplier management, energy use, emissions, water consumption, anti-corruption, fair working conditions as well as other human rights.



SANDVIK'S SUSTAINABILITY AGENDA:



MATERIALITY ANALYSIS

The Group Executive Management conducts a materiality analysis on a regular basis. The starting point comprises the aforementioned sustainability agenda for the Group, deriving from international frameworks and institutions such as the Global Reporting Initiative (GRI), the UN Global Compact, from media reports, global trends and from dialogs with our stakeholders, in addition to our own assessment of relevant areas.

In late 2016, following a decentralization process in the company, a materiality analysis was conducted which

applies for 2017–2018. A number of questions relating to the prioritization of our Group sustainability agenda were sent out to internal and external stakeholders. Following a decision by the Group Executive Management, inspired by the stakeholder dialog, five aspects were selected as material for the Group and several aspects were found relevant for the business areas for 2017–2018.

A complete list of material aspects is found below. Targets and key performance indicators have been developed for each material aspect both at the Group level and at the business area level.

SANDVIK MATERIAL ASPECTS 2017–2018

	OUR OFFERINGS	OUR OPERATIONS
Group	Followed up entirely by the business areas	<ul style="list-style-type: none"> ■ Compliance □ Sustainable supplier management ■ Use, reuse, recondition and recycle ■ Health and safety ■ A diverse and inclusive organization
Sandvik Machining Solutions	<ul style="list-style-type: none"> □ Innovation and productivity 	<ul style="list-style-type: none"> ■ Compliance □ Sustainable supplier management ■ Efficient use of materials and resources ■ Health and safety
Sandvik Mining and Rock Technology	<ul style="list-style-type: none"> □ Innovation and productivity □ Health and safety □ Environmental impact 	<ul style="list-style-type: none"> ■ Governance ■ Compliance □ Customer relations □ Sustainable supplier management ■ Efficient use of materials and resources ■ Reduction of other emissions ■ Health and safety ■ A diverse and inclusive organization
Sandvik Materials Technology	<ul style="list-style-type: none"> □ Innovation and productivity □ Environmental impact 	<ul style="list-style-type: none"> □ Customer relations □ Sustainable supplier management ■ Carbon dioxide emissions ■ Use, reuse, recondition and recycling ■ Efficient use of materials and resources ■ Health and safety

- Material inside Sandvik
- Material mainly outside Sandvik (supplier and/or customer)
- Material both inside and outside Sandvik (supplier and/or customer)

MANAGING OUR (GROUP) MATERIALS ASPECTS

COMPLIANCE

Compliance includes four areas: anti-corruption compliance, competition law, trade compliance and data protection. The main purpose is to ensure a well-functioning structure with control over Sandvik's international business and to manage compliance risks. Compliance programs (including risk identification, policies, training, controls, etc.) are implemented by each business area and overseen by the Sandvik Compliance Functional Council which sets requirements, reviews performance and provides assurance of satisfaction to the main board through the Audit Committee. The Functional Council comprises Compliance Officers from the business areas and specialist legal counsel at the Group. See page 38 for more information.

SUSTAINABLE SUPPLIER MANAGEMENT

A sustainable supply chain and strong supplier relationships are central to Sandvik's commitment to provide customers with the best and most innovative offerings. It is important for us to partner with suppliers who understand and embrace our sustainability standards regarding areas such as environment, labor, human rights and anti-corruption. Our requirements, which are the same for all types of suppliers, are outlined in our Supplier Code of Conduct. See page 39 for more information about our Sustainable Supplier Management Program, including purchasing practices, monitoring of suppliers and identified deviations.

USE, REUSE, RECONDITION AND RECYCLE

Comprehensive recycling programs are underway in all parts of the Group. The global raw material shortage is an impediment for a successful business. Recycling results in less virgin raw material used, lower energy consumption and reduced emissions of acidifying substances and wastewater discharge, in addition to less waste. These factors are important to Sandvik, the Group's customers and society at large.

Sandvik has an Environment, Health and Safety (EHS) policy valid for the entire Group which is supported by a number of internal environmental standards for our operations. Major sites with production, services and warehouses have certified management systems according to ISO 14001 (99%). Environmental issues are included in the process for sustainable supplier management and both environmental and safety issues form part of the process for developing new products. Lifecycle assessments are carried out for selected products, mainly within Sandvik Materials Technology. Read more about our work on environmental issues on page 36.

HEALTH AND SAFETY

Maintaining a safe work environment will always be a top priority, out of respect for both Sandvik's employees and customers. The Group's performance is meeting growing expectations from its customers and other stakeholders. Health and safety is a significant competitive advantage to Sandvik. Sandvik has an Environment, Health and Safety (EHS) policy valid for the entire Group. Objectives and targets are set at Group level, and the business areas integrate these aspects and standards in their respective organizations. KPIs are reported and consolidated to follow up objectives and targets at Group and business area levels. Major sites with production, services and warehouses have certified management systems according to OSHAS 18001 (99%). Furthermore, safety is an important aspect when developing new products. Read more about our health and safety work on page 34.

A DIVERSE AND INCLUSIVE ORGANIZATION

Sandvik's view is that diverse teams are more effective, more likely to think and act outside the box and contribute to greater creativity and innovation. Diversity and inclusion are integral parts of a modern society and, for Sandvik, a strong competitive advantage. Having the right mix of people, reflecting Sandvik's markets, will support the business and our ambition to meet the needs of global and local customers. Read more on page 31.

SUSTAINABILITY RISKS

The Group's risk management approach follows our decentralized structure and the same applies to our sustainability risks. All managers at Sandvik with operational responsibilities are expected to ensure that risks associated with their operations are appropriately identified, evaluated and managed.

The below listed risks are sustainability risk categories embedded in Sandvik's risk universe and are managed within all our operations. Risk S.4, B.1 and B.6 have been identified by the Group Executive Management Team as part of the key risks for the Group. Read more about our risk management on page 54–57.

RISK CATEGORY	RISK DESCRIPTION	RISK CONSEQUENCES	RISK MITIGATION
S4. Regulatory change	Significant new legislation or regulations that could have an impact on the Sandvik business	The inability to quickly respond to new regulations leading to higher costs, fines or the inability to continue manufacturing of certain products. Can also have a negative reputational impact if not managed effectively	All parts of Sandvik work with the monitoring of different initiatives and continually evaluate their impact on our business. We are active in business associations and other organizations, such as Jernkontoret and the Confederation of Swedish Enterprises (Svenskt Näringsliv), to monitor regulatory development to benefit long-term sustainable business
S6. Sustainability expectations and/or requirements	Risks of not keeping up with and/or meeting the increasing legal requirements and stakeholder expectations in the area of sustainability reporting, sustainable supply chain, and with requirements on more non-financial data and increased customer demands for more sustainable products and services	Slower than the competition with regards to new business models built on sustainability. Negative reputational impact and not being able to meet customer expectations which could lead to a loss of business. Negative impact on the share's attraction as an investment as well as on the attraction and retention of future or current employees	Further clarify content as well as roles and responsibilities in the delivery on the sustainable business strategy. Ensure training and awareness-raising activities throughout the organization
B1. Noncompliance with laws and regulations	Risks that legal and regulatory requirements are not met	Worst-case scenarios show high financial impact due to fines in multiple markets. Can have a major negative reputational impact if risk was to materialize	The Group has an established governance framework, The Sandvik Way, which includes Group policies, Group procedures and other steering documentation. The scope of the governance framework, including controls implemented, is based on legal requirements and risk exposure. Sandvik's formal compliance programs on anti-bribery and corruption, competition law, customs and export controls and data privacy are managed by the business with oversight through a Compliance Functional Council
B2. Health and safety	Risk connected to health and safety procedures being non-existent or not adhered to, causing injuries, increased sick leave, or even fatalities. Also including health and safety requirements set by our customers or suppliers	Business risk that our safety records don't meet the customer requirements, resulting in loss of business. Reputational risk if poor safety conditions exist in the company, resulting in brand damage. Risk that employees find the work environment unsatisfactory, resulting in difficulties to retain and recruit	Build a strong EHS culture and effective EHS Management Systems. As a minimum requirement, be certified in accordance with OHSAS 18001
B6. Talent attraction and employee retention	Increased need for digital and innovative business development competence. Increased need for specialist/expert competence in R&D and other niche areas. Inability to attract new talents in certain highly competitive markets	A general risk of losing competitiveness and business position on the market with a special risk focus of not being able to take a strong position in the digital area fast enough	Sandvik has, across the business areas, focused on developing the Sandvik employer brand. One key area is to use new, digital channels to attract and recruit competence for the future. Succession planning has been strengthened for top management positions

RISK CATEGORY	RISK DESCRIPTION	RISK CONSEQUENCES	RISK MITIGATION
B17. Environmental demands/climate change effects	Managing increased demand of more environmentally conscious products and services by our customers. Increased demand to understand climate change effect on both internal operations and other stakeholders, such as suppliers, customers and society	Risk of losing customers and market shares due to: - Changes in the demand of products and services - Not being able to meet customer expectations on our internal operations and/or products and services with regards to environmental performance, including mitigation of climate change impact - Tarnished reputation - Not being able to comply with new or changed legislation	Keep high awareness in the organization regarding market demands, customer expectations, business development and legislation. Follow the development in society and the market to be able to adapt products and services according to changed preconditions. Focus on improved efficiency to minimize environmental impact in our own operations, including in the supply chain
B23. Sandvik values and ethics compliance	Non-compliance with Sandvik's Code of Conduct. Risks connected to lack of understanding of the core values or the Code of Conduct	Internal risks, such as breaches of law and regulations that can have severe consequences for Sandvik. Unethical behavior leading to unhealthy or unsafe work environment. Difficulties to attract new employees. External risks such as reputational damage and fines	Ensure that all employees, including long-term contractors, are trained in Sandvik's Code of Conduct. Compliance with the Code of Conduct is a requirement in employment contracts for new hires. Ensure that breaches of the Code of Conduct are reported and properly investigated
B28. Contractor/short-term staff management	Risk of not managing contractors sufficiently. Outsourcing activities to contractors may for example result in the contractors not acting within the intended limits of their authority or not performing in a manner consistent with agreed requirements, including Sandvik's Supplier Code of Conduct	General risk to tarnish our reputation, weaken our financial position, lose customers and market share, face disruptions in our activities	Contractors are included in the supplier group. Strengthen the implementation of our Procurement Policy and related processes. Further integrate sustainability into procurement processes. Increase awareness and competences, leverage technology to drive process efficiency. Strengthen overall control activities and performance management. Further align procurement targets and sustainable supplier management
B29. Partners/agents/third-party management	Risk of not managing partners/agents/distributor relationships sufficiently. Outsourcing activities to a third party may for example result in the third party not acting within the intended limits of their authority or not performing in a manner consistent with agreed requirements, including ethical requirement	General risk of tarnished reputation. Failure to meet customer, investor and regulator expectations and requirements. Breach of ethical standards or breach of law	Conduct partner/agent/distributor due diligence to establish the level and scope of risks, nominate specific mitigations and monitor compliance
B32. Security situation	Risks connected with doing business in unstable conflict-affected regions. Can be related to transportation of goods or people. Could lead to increased security risks or threats for employees, injuries or even fatalities. Included in this category are risks related to travel	Safety risks for employees traveling. If our processes have weaknesses, the risk of incidents occurring could be higher and proper handling if they do occur could be weaker. Apart from the negative impact for the employee, it could potentially implicate a risk from an employer branding perspective, as well as a risk of damaging the Sandvik reputation and brand	Strengthening processes in relation to travel safety and security by ensuring that robust processes are in place and by ensuring good cooperation with external experts in the area
B37. Supplier and sourcing management	All risks related to the management of and partnership with suppliers and products/services that we purchase	General risk to tarnish our reputation, weaken our financial position, lose customers and market share, a higher cost for capital and financing, face disruptions in the supply chain, lose partnership opportunities for innovations and green solutions with our suppliers	Strengthen implementation of the Procurement Policy and supporting processes. Further integrate sustainability in procurement processes. Increase awareness and competences and leverage technology to drive process efficiency. Strengthen the overall control activities and performance management. Further align procurement targets and sustainable supplier management

SUSTAINABILITY TARGETS: OUR OFFERINGS

ASPECT	DEFINITION	2020 AMBITION
Innovation & productivity	Sandvik Machining Solutions: 1) Introduction of new products, produced by sustainable processes, providing longer tool life and increased productivity for the customer 2) Digitalization of our customer offering	Sandvik Machining Solutions: 1) Sustainability integrated in our innovation processes and our product offering to create value for Sandvik and our customers 2) Sustainable efficiency through digitalized solutions
	Sandvik Mining and Rock Technology: Renewal of Sandvik's patent portfolio	Sandvik Mining and Rock Technology: Drive innovation through new and patented solutions to create value for Sandvik and customers
	Sandvik Materials Technology: 1) Review and renewal of Sandvik's patent portfolio 2) Introduction of energy efficient and innovative products on the market 3) Sandvik Materials Technology launches sustainable offerings in selected products	Sandvik Materials Technology: 1) Drive sustainable innovation solutions to create value for Sandvik and customers 2) Renew product portfolio and reach new sales ratio above 20% 3) Become preferred material solution for products in energy and energy efficiency
Health & safety	Sandvik Mining and Rock Technology: Product safety processes	Sandvik Mining and Rock Technology: Product safety-related processes in new product development implemented across Sandvik Mining and Rock Technology
Environmental impact	Sandvik Mining and Rock Technology: Product stewardship in product development	Sandvik Mining and Rock Technology: "Environmental path" defined and integrated into new product development process across Sandvik Mining and Rock Technology
	Sandvik Materials Technology: 1) Energy efficiency at the customer 2) Product safety	Sandvik Materials Technology: 1) Strong focus on innovation and new product development, especially towards energy efficiency at our customers 2) Be a material producer that is seen as sustainable and provides valuable solutions for our customers 3) Improve efficiency of internal and external logistics

FOCUS ACTIONS 2017	TARGETS 2017	RESULTS 2017	GLOBAL COMPACT PRINCIPLE
<p>Sandvik Machining Solutions: Sandvik Coromant: sustainable strategy development work launched Seco Tools: Risk/opportunity analysis regarding sustainability done in all product and technology projects. Increase sales ratio of new products Enforce digitalization development</p>	<p>Sandvik Machining Solutions: New sales ratio in the range of 30-40%. Lower average age of patents</p>	<p>Sandvik Machining Solutions: New sales ratio within target range. Share of new patents increased 10%</p>	7-9
<p>Sandvik Mining and Rock Technology: Run two innovation workshops per year to inspire innovation ideas (for example drilling systems, environmental perception)</p>	<p>Sandvik Mining and Rock Technology: Maintain healthy trend of New Filing Ratio, NFR (share of patents filed in the last 5 years as % of the total portfolio), NFR 2017: 39%</p>	<p>Sandvik Mining and Rock Technology: NFR 2017: 40.6%.</p>	7-9
<p>Sandvik Materials Technology: Launch of Sustainability and Modelling Research & Innovation (R&I) Platforms Sustainability Strategy document Develop sustainable product offering through product area workshops</p>	<p>Sandvik Materials Technology: 1) More than 25 patents filed per year 2) New sales ratio of 15% 3) Launch of Sustainability and Modelling R&I Platforms 4) Initiate sustainability strategy development 5) Perform product area workshops to define sustainable product offering</p>	<p>Sandvik Materials Technology: 1) 23 patents filed during 2017 2) New sales ratio at 15% 3) Sustainability and Modelling R&I Platforms launched 4) Sustainability Strategy document under development 5) Workshops performed within selected product areas. Sustainable product offering initiated together with customers</p>	7-9
<p>Sandvik Mining and Rock Technology: Revising current processes, followed by internal communication and training</p>	<p>Sandvik Mining and Rock Technology: Revised and communicated product safety-related common process for new product development across SMRT</p>	<p>Sandvik Mining and Rock Technology: Product safety process for new product safety development has been revised and communicated to the relevant product areas through the business area's product safety network</p>	3-6
<p>Sandvik Mining and Rock Technology: Defining a model for identifying and reducing product-related environmental risks</p>	<p>Sandvik Mining and Rock Technology: Create a common model for product environmental risk assessment</p>	<p>Sandvik Mining and Rock Technology: Common model for product environmental risk assessment has been created.</p>	7-9
<p>Sandvik Materials Technology: Three year environmental plan Develop tools and processes for lifecycle analysis</p>	<p>Sandvik Materials Technology: 1) Three year environmental plan 2) Develop tools and processes for lifecycle analysis</p>	<p>Sandvik Materials Technology: 1) Three year environmental plan developed by vast majority of operations 2) Prestudy and pilot finished. Decision to continue initiative</p>	7-9

SUSTAINABILITY TARGETS: OUR OPERATIONS

ASPECT	DEFINITION	2020 AMBITION
Code of Conduct	Defined by the content in the Code of Conduct	An operation where business ethics is fully embedded in everyday discussions and decisions, and no breaches of the principles of our Code of Conduct exists
Speak Up	All in Code of Conduct	All employees fully aware of Speak Up as an opportunity to report, and input used in the continuous improvement of business ethics as Sandvik
Compliance*	<ol style="list-style-type: none"> 1) Anti-corruption and bribery 2) Data protection 3) Trade compliance 4) Competition law 	Compliance optimized to be both effective and efficient, as evidenced by pervasive risk assessments throughout the organization, implementation of controls down to reporting entity, trained employees, clear tone from the top and from the middle management, systematic monitoring the effectiveness of controls, Speak Up reporting and internal audit, and a compliance organization which is thoroughly embedded in the day-to-day operations of the business
Sustainable Supplier Management*	<ol style="list-style-type: none"> 1) Sustainable supply base 2) Sustainable purchasing practices 3) Sustainable supplies 	<ol style="list-style-type: none"> 1) Increase supply base compliance with Sandvik Supplier Code of Conduct and other sustainability requirements 2) Embed sustainability in the purchasing processes 3) Use of sustainable raw materials, resources and goods, whenever practical
Environmental footprint	<ol style="list-style-type: none"> 1) Climate change 2) Energy use 3) Water use 	1-3) Achieve significant improvements in areas where our operations have a significant environmental impact. The ambition is to see a 20% relative decrease of in these areas between 2016–2020 compared to 2014 as base year. This corresponds to 4% per year, meaning that the anticipated relative improvement gives a -8% target by the end of 2017
Use, reuse, reconditioning and recycling of material and natural resources*	<ol style="list-style-type: none"> 1) Use of sustainable materials and resources 2) Reuse and recondition 3) Recycling of materials and resources 	<ol style="list-style-type: none"> 1) Increase share of waste going to recovery operations to >20% of total waste generated 2) Maintain >80% of metallic raw material that comes from recovered materials
Health and Safety*	<ol style="list-style-type: none"> 1) Elimination of fatalities 2) Reduce injuries and illness 3) Health and well-being 	<ol style="list-style-type: none"> 1) To eliminate fatalities at Sandvik controlled locations 2) LTIFR of <1.0 3) To have our employees working in a culture and environment that supports their health and well-being
A diverse and inclusive organization*	<ol style="list-style-type: none"> 1) Equal career opportunities 2) Open and transparent internal job market 3) Balance internal vs external sourcing to management positions 	<ol style="list-style-type: none"> 1) A high performing organization capitalizing on diversity and inclusion to secure competitiveness 2) Strengthen an open and transparent internal job market where job opportunities are visible and available to our employees in order for them to take responsibility for their own career 3) Our ability to develop and appoint internal candidates and using all of Sandvik as a candidate pool is a key success factor to ensure future performance and growth

* Identified as a material aspect in the Group's materiality analysis.

FOCUS ACTIONS 2017	TARGETS 2017	RESULTS 2017	GLOBAL COMPACT PRINCIPLE
Training of all existing employees and design/implementation of process for training of new hires	1) 100% of all employees trained in the Code of Conduct	93%	1-10
Awareness campaign as part of Code of Conduct training, release of Speak Up in remaining countries, and investigations set-up in the business areas	1) Completed awareness campaign as part of Code of Conduct roll-out training.	Completed and ongoing	1-10
Consistent with our direction to embed compliance in our business areas, strengthen processes and systems with respect to commercial intermediaries and record keeping	1) 100% of employees trained in the Code of Conduct (including ABC and competition law) 2) Number of employees trained within compliance 3) Number of commercial intermediaries screened during the year	1) 93% 2) 10,000+ 3) 447	10
In line with our direction to further embed sustainability into the procurement processes and improve our supply base compliance with Supplier Code of Conduct in the new organizational set up	1) Audit high-risk suppliers 2) Develop a Group Procurement policy with integrated sustainability commitments 3) Capacity building activities	1) 134 suppliers audited 2) Completed 3) 76 purchasers and related functions trained and 133 suppliers trained	1-10
Environmental improvement actions are identified, reported and measured in order to monitor successful progress	1) Relative decrease of CO ₂ emissions by 8% compared to 2014 2) Relative decrease of energy use by 8% compared to 2014 3) Relative decrease of water use by 8% compared to 2014	1) CO ₂ / worked hours: +8% CO ₂ / invoiced sales: -8% 2) Energy / worked hours: +7% Energy / invoiced sales: -9% 3) Water / worked hours: +4% Water / invoiced sales: -12%	7-9
Establish EHS plans that work towards completing activities that make it possible for us to meet the EHS ambitions for 2020	1) 15% share of waste going to recovery 2) 80% share of metallic raw materials from recovered materials	1) 15% 2) 79%	7-9
Critical Controls Improve Incident Investigation process	1) No Fatalities 2) LTIFR 1.4 TRIFR 4.5 3) 90% of staff access to well-being programs that are adapted to local needs 75% of employees believe that their health and well-being program is effective.	1) 0 2) LTIFR 1.6 TRIFR 4.6 3) 81% access 91% adaptation 84% effectiveness	3-6
Ensured diversity perspectives in all HR areas for example recruitment, talent management All top management positions posted Encourage and monitor internal sourcing to top management positions. Focus on developing managers and experts to build a solid pipeline of internal candidates	1) 17,1% share of women in managerial positions 2) 90% share of open recruitments to top management positions. 3) 80% internal and 20% external share of internal and external sourcing to top management positions	1) 17.1% 2) 88% 3) 78% internal, 22% external	1-2, 6

KEY FIGURES

PEOPLE KEY FIGURES		Unit	2010	2011	2012	2013	2014	2015	2016	2017
People										
Total number of employees	FTE*		47,064	50,030	48,742	47,338	47,318	45,808	43,732	43,024
Of whom are women	%		17.6	17.9	18.5	19.1	19.4	19.5	19.4	19.4
Full-time employees	%		-	-	-	97	98	98	97	97
Of whom are women	%		-	-	-	-	18	18	18	18
Part-time employees	%		-	-	-	3	2	2	3	3
Of whom are women	%		-	-	-	-	59	59	58	57
Contracted employees	FTE		-	-	-	3,524	1,776	2,376	2,456	2,814
LTIFR	Number of LTIs per million hours worked		5.6	4.6	4.4	3.2	2.5	2.2	1.7	1.6
TRIFR	Number of TRIs per million hours worked		-	-	-	8.7	6.4	6.0	5.1	4.6

		Europe	North America	South America	Africa/Middle East	Asia	Australia
Employees by region	FTE	23,780	5,949	1,932	2,356	8,077	930

		Sandvik Mining and Rock Technology	Sandvik Machining Solutions	Sandvik Materials Technology	Other Operations	Group Activities	Total
Employees by business area	FTE	15,207	18,187	6,483	1,531	1,616	43,024
Total share of women	%	15.4	20.2	18.3	18.1	48.1	19.4
Women in management positions	%	16.0	15.1	17.8	17.6	39.1	17.1

	Share of women	Age structure			
		Under 30	30-50	50 and above	
Composition of governance bodies and breakdown of other employees					
Board of Directors	%	31	0	31	69
Group Executive Management	%	25	0	38	63
Management	%	17	1	68	31
Other employees	%	20	16	57	27

	Unit	2010	2011	2012	2013	2014	2015	2016	2017
New employee hires and employee turnover									
New employee hires per year	number	-	-	-	-	3,293	2,799	2,235	3,653
Of whom are women	%	-	-	-	-	22	19	19	20
Employee turnover per year	%	8	8	11	12	10	11	11	9

		Age structure		
		Under 30	30-50	50 and above
New employee hires by age	number	1,287	2,054	312
Employee turnover by age	%	9	9	10








		Men	Women
Employee turnover by gender	%	9	10

	2017
Employees receiving regular performance and career development reviews	
Total	% 81
Men	% 81
Women	% 79

* full time equivalent

FINANCIAL KEY FIGURES	Unit	2010	2011	2012	2013	2014	2015	2016	2017
Economic value, generated and distributed									
Revenues	MSEK	82,654	94,084	98,529	87,328	88,821	90,822	84,430	93,985
Manufacturing costs	MSEK	44,758	56,054	56,161	50,507	49,717	53,695	45,007	44,508
Employee wages and benefits	MSEK	22,885	24,014	24,907	23,599	24,964	25,880	25,262	26,921
Payments to providers of capital	MSEK	2,805	5,776	6,056	6,279	6,251	6,392	4,797	4,529
Payments to governments	MSEK	2,391	3,173	3,180	3,937	1,797	1,850	2,027	3,094
Retained in company	MSEK	9,815	5,067	8,225	3,006	6,092	3,005	7,337	14,933
ENVIRONMENTAL KEY FIGURES									
Metallic raw materials	Thousand tons	359	352	318	341	328	295	314	329
Of which, recovered	%	81	80	81	81	80	80	78	79
Energy consumption	TJ	9,112	9,131	8,907	9,157	8,956	8,573	8,505	8,649
Change	%	21	0	-2	3	-2	-4	-1	2
Non-renewable fuel	TJ	3,910	3,691	3,396	3,350	3,166	3,059	3,064	3,096
Electricity, heating and cooling purchased	TJ	5,201	5,440	5,512	5,844	5,830	5,555	5,477	5,582
Electricity, heating and cooling sold	TJ				-37	-39	-42	-36	-29
Energy intensity	MJ/hour			83	92	89	88	90	95
Change	%				11	-3	-1	3	5
Water consumption	Thousand m ³	8,998	8,414	8,482	8,222	7,877	7,737	7,276	7,354
Change	%	27	-6	1	-3	-4	-2	-6	1
Of which, purchased water	Thousand m ³	3,437	3,379	3,265	3,207	3,011	2,601	2,548	2,462
Of which, groundwater	Thousand m ³	601	617	716	667	681	924	679	837
Of which, collected surface water	Thousand m ³	4,913	4,377	4,496	4,342	4,181	4,210	4,045	4,048
Of which, rain	Thousand m ³	46	41	6	6	4	2	4	7
Water intensity	liter per worked hour			79	82	78	79	77	81
Change	%				4	-5	2	-2	4
CO₂ emissions	Thousand tons	559	538	527	384	388	382	377	377
Change	%	17	-4	-2	-27	1	-1	-1	0
Direct emissions, from fossil fuels	Thousand tons	260	242	221	217	203	196	195	196
Indirect emissions, from electricity	Thousand tons	299	296	306	168	185	187	182	181
CO₂ emission intensity	g CO ₂ /hour			4,909	3,847	3,833	3,918	4,015	4,137
Change	%				-22	0	2	2	3
Waste	Thousand tons	417	433	352	366	367	352	313	307
Change	%	49	4	-19	4	0	-4	-11	-2
2007-2013 breakdown of waste									
Of which, hazardous	Thousand tons	34	36	35	38	n.a.	n.a.	n.a.	n.a.
Of which, to landfill	Thousand tons	358	366	292	307	n.a.	n.a.	n.a.	n.a.
2014-2016 breakdown of waste									
Hazardous waste to recovery	Thousand tons	n.a.	n.a.	n.a.	n.a.	13	12	11	11
Hazardous waste to other disposal	Thousand tons	n.a.	n.a.	n.a.	n.a.	20	19	17	22
Non-hazardous waste to recovery	Thousand tons	n.a.	n.a.	n.a.	n.a.	30	36	35	33
Non-hazardous waste to other disposal	Thousand tons	n.a.	n.a.	n.a.	n.a.	304	285	250	240
Emissions of process water	Thousand m ³	2,166	2,265	1,942	2,096	2,104	2,204	2,234	2,376
Change	%	52	5	-14	8	0	5	1	6
Emissions to air									
NM VOC	ton	62	61	66	64	61	62	57	57
SO ₂	ton	69	71	42	39	34	33	35	31
NO _x	ton	441	380	354	351	339	333	330	329
Emissions to water									
Nitrogen	ton	379	329	285	269	261	230	210	215
Phosphorous	ton	1	12	21	33	37	34	32	33
COD	ton	201	170	259	208	195	151	171	194
Nickel	ton	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.3
Chromium	ton	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

UN GLOBAL GOALS INDEX

	UN GOAL 2030	ASSOCIATED TARGETS	SANDVIK'S CONTRIBUTION TO THE UN'S GLOBAL GOALS	REFERENCE/PAGE
	Good health and well-being	3.3	<p>OUR OFFERINGS: Sandvik's battery-driven underground equipment helps to address the potential impacts of diesel particulate matter (DPM) and other underground engine emissions with the launch of, for example, the Sandvik DD422iE automated drill rig and Sandvik LH307B loader.</p> <p>OUR OPERATIONS: For over 10 years, Sandvik has been part of the SHWAP program in Southern Africa, with the aim to decrease cases of HIV/AIDS within our workforce and their families, mainly by preventative measures.</p>	24
		3.9		home.sandvik
	Gender equality	5.1	<p>OUR OPERATIONS: Our Code of Conduct and Supplier Code of Conduct prohibit discrimination against women or on any other discriminatory ground. We have adopted policies and processes in order to strengthen the empowerment of women. Diversity and inclusion are material areas for Sandvik that are closely followed up.</p>	31
		5.c		home.sandvik
	Affordable and clean energy	7.2	<p>OUR OFFERINGS: Coated strips for fuel cell bipolar interconnect plates can be used both in mobile (for example hydrogen cars) and stationary hydrogen solutions which are clean energy sources. Sanicro™ 25 is a next-generation alloy that copes with extreme heat. This alloy is critical in next generation power plants. Efficiency goes from approximately 35% to >50% by increasing pressure and temperature, significantly reducing CO₂ emissions.</p> <p>OUR OPERATIONS: In our major production sites in Europe we buy energy from renewable energy sources since 2013, thereby reducing the Group's CO₂ emissions by 20%. We constantly work on improving energy efficiency in our production as well as in our products and services.</p>	home.sandvik
		7.3		36
	Decent work and economic growth	8.7	<p>OUR OFFERINGS: AutoMine®, a mining automation solution, removes people from hazardous areas to a safer and healthier environment while not impacting production efficiency.</p> <p>OUR OPERATIONS: Decent working conditions are a prerequisite set out in our Code of Conduct and in our Supplier Code of Conduct. We respect the ILO Declaration on fundamental principles and rights at work, as well as principles 4, 5 and 6 of the UN Global Compact. We have a strict prohibition against forced, slave and child labor. Safety is a highly prioritized area with a vision of zero harm to our employees and contractors. We have lowered our LTIFR for the seventh consecutive year to 1.6.</p>	home.sandvik
		8.8		30, 34
	Industry, innovation and infrastructure	9.4	<p>OUR OFFERINGS: PrimeTurning™ is a completely new methodology that enables turning in all directions. It allows customers to double the speed and feed rates, providing faster metal removal, which means more parts per run. The productivity increase is substantial, >50%, compared to conventional turning. Smart Powder Solutions design reduces marine emissions through a dual-fuel marine engine running on diesel and natural gas, improving efficiency and reducing carbon footprint. Sandvik Hiflex® precision strip steel is designed for the manufacture of compressor valves for next-generation compressors. The precision strip steel contributes to enhancing compressor efficiency, promoting long service life and reducing noise.</p> <p>OUR OPERATIONS: Using refractory as a slag-forming agent in the steel plants is now under implementation as a standard operational procedure.</p>	21
				home.sandvik
	Responsible consumption and production	12.2	<p>OUR OFFERINGS: We have extensive recycling schemes of natural resources and raw materials with the aim to constantly increase the levels of recycled materials. We buy back used cemented-carbide tools from our customers and convert them back into basic raw materials in an extensive recycling program. This reduces energy consumption, lower carbon emissions and produces less waste. Our Plug and Play Grinding Container increases bit life, decreases expenses of bits, reduces emissions and environmental and human cobalt exposure.</p> <p>OUR OPERATIONS: Circularity is a key aspect for Sandvik. We have schemes in place to reduce and contain chemicals in order to prevent any damage to people or the surrounding environment. We have a number of initiatives which aim to turn waste into raw materials to be used in other processes.</p>	37
		12.4		home.sandvik
	Climate action	12.5	<p>OUR OFFERINGS: The drill rig Sandvik DD422iE®, an environmentally responsible solution, reduces particulates (NOx) and emissions underground. Hi-Flex flapper valve material helps our customers reduce energy and create more efficient air conditioners and fridges, leading to CO₂ emission reduction.</p> <p>OUR OPERATIONS: Reduction of CO₂ emissions is a priority for Sandvik and we invest in clean solutions. Since 2013, we have been buying energy from renewable energy sources at our major production sites in Europe, thereby reducing the Group's CO₂ emissions by 20%.</p>	37
				36

GRI INDEX

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SUSTAINABILITY NOTES

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	EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	111-112	
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	Supplier assessment for human rights	DMA	33, 39, 131-133, 136-137	
	HR10	Percentage of new suppliers that were screened using human rights criteria	39, 136-137	Percentage not available
	Supplier assessment for labor practices	DMA	33, 39, 131-133, 136-137	
	LA14	Percentage of new suppliers that were screened using labor practices criteria	39, 136-137	Percentage not available
	Supplier assessment for Impacts on Society	DMA	33, 39, 131-133, 136-137	
	SO09	Percentage of new suppliers that were screened using criteria for impacts on society	39, 136-137	Percentage not available
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ENVIRONMENTAL IMPACT	ENERGY, EMISSIONS AND CLIMATE CHANGE			
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	EN3	Energy consumption within the organization	139	Data not divided by type
	EN5	Energy intensity	139	
	Emissions	DMA	36-37, 131, 136-137	
	EN15	Direct greenhouse gas emissions	139	No data on biogenic CO ₂ emissions
	EN16	Energy indirect greenhouse gas emissions	139	
	EN18	Greenhouse gas emissions intensity	139	
	EN21	NO _x , SO ₂ , and other significant air emissions.	139	No data on POP, HAP or PM

SPECIFIC STANDARD DISCLOSURES (CONTINUED)

			Page	Comments and omissions
ENVIRONMENTAL IMPACT	USE, REUSE, AND RECYCLING OF MATERIALS AND NATURAL RESOURCES			
	Materials	DMA	36-37, 131, 136-137	
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	EN2	Percentage of materials used that are recycled input materials	1, 7, 18-29, 36-37, 136-137, 139	
	Water	DMA	36-37, 136-137	
	EN8	Total water withdrawal by source	139	
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	EN23	Total weight of waste by type and disposal method	139	No detailed information on disposal method
SOCIAL IMPACT	DIVERSITY AND INCLUSION			
	Diversity and equal opportunity	DMA	4-5, 8-9, 31-33, 131, 136-137	
	LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	18, 22, 26, 138	
	HEALTH AND SAFETY			
	Occupational health & safety	DMA	4-5, 34-35, 132, 136-137	
	LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	34-35, 136-137, 138	Data by gender not available
	TALENT ATTRACTION, DEVELOPMENT AND RETENTION			
	Employment	DMA	4-5, 8-9, 31-33, 131, 136-137	
	LA1	Total number and rates of new employees hires and employee turnover by age group, gender, and region	136-137, 138	Data by region not available
	Training and education	DMA	31-33	
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	31-32, 138	Data by gender and employee category not available	

ACCOUNTING PRINCIPLES

The reporting of Sandvik's sustainability activities is based on the UN Global Compact's requirements on reporting on progress as well as the Global Reporting Initiative (GRI). The report is in accordance with GRI G4 Guidelines (Core level). Some information found in the reports of previous years was not considered material and is therefore not disclosed in this report. The sustainability information in the Annual Report has been reviewed by external auditors in accordance with ISAE 3000 Assurance engagements other than audits or reviews of financial information.

REPORT SCOPE, BOUNDARY AND CALCULATION METHODS

GRI's guidance on the Reporting Principles of Materiality, Stakeholder Inclusiveness, Sustainability Context, and Completeness was used to define the content of the report. The sustainability information in the Annual Report refers to the 2017 fiscal year and covers all operations of the Group, including subsidiaries, and discontinued operations, but excludes associated companies and joint ventures.

Employee statistics regarding age, turnover, new employees, part time/full time and gender are derived from the Group's common HR system, which covers 98% of Sandvik employees. These figures are compiled on a yearly basis. Financial figures and employee statistics not stated above are derived from our financial reporting system. EHS data is derived from our EHS reporting system in which reporting is conducted on a monthly basis for safety-related indicators and on a quarterly basis for the areas relating to environmental key figures. Supplementary data is collected and compiled manually once a year, and thus the quality of the data is subject to a higher level of uncertainty. These figures are rounded to a greater degree to manage this higher level of uncertainty. In the event of further limitations in the report, these are indicated in the text.

The calculations of CO₂ emissions do not include emissions from the transport of raw materials and finished products or travel. For most of our production units specific conversion factors from their electricity supplier were used when calculating indirect CO₂ emissions. In other

cases, factors from the International Energy Agency Data Services were used. For the majority of the European sites, the emission factor is zero, with reference to the European Guarantees of Origin scheme. Waste data reporting was changed in 2014, and is since then broken down by a) hazardous or non-hazardous and b) sent to recovery (recovery, reuse or recycling) or to other disposal.

Previous waste data was reported as total waste plus a) of which hazardous and/or b) of which sent to landfill. As a consequence of the change, the waste data details can only be used for indicative comparisons for the years up to and including 2013 in comparison with the waste data details from and after 2014. However, it is possible to compare total waste amounts between all the years.

Worked hours used in calculation of injury frequency rates were derived from an assumption of 2,000 worked hours per employee per year for the years 2008–2011 and from actual hours worked from 2012 and onwards.

The key figures compiled are based on information available at the date of the most recent year-end accounts, which may entail that historical figures have been adjusted.

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 2017 for all active reporting units, unless otherwise stated.

As explained in the section about environmental targets, a new concept of following environmental improvements was decided during 2017. The environmental targets in this report have remained in their previous wording. Specifically it's important to note that the denominator for measuring relative development of the environmental performance was worked hours. Worked hours has since decreased significantly. A big driver behind this decline is the introduction of the productivity target in the company. In a way, these are contra productive, in that the denominator works in different ways for these two target categories. Therefore, we have presented the relative environmental performance both in relation to worked hours and in relation to the development of invoiced sales.

ASSURANCE REPORT

AUDITOR'S LIMITED ASSURANCE REPORT ON SANDVIK AB'S SUSTAINABLE BUSINESS REPORT AND STATEMENT REGARDING THE STATUTORY SUSTAINABILITY REPORT

To Sandvik AB, Corp. Id. 556000-3468

Introduction

We have been engaged by the Board of Directors and the Managing Director of Sandvik to undertake a limited assurance engagement of Sandvik AB's Sustainability Report for the year 2017. Sandvik has defined the scope of the Sustainability Business Report that also is the Statutory Sustainability Report on page 128 in this document.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the Sustainability Business Report including the Statutory Sustainability Report in accordance with applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 144 in the Sandvik Annual Report, and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative), that are applicable to the Sustainability Business information, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of Sustainability Business information that is free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the Sustainability Business Report based on the limited assurance procedures we have performed and to express an opinion regarding the Statutory Sustainability Report.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of financial information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the

Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR's accounting standard RevR12 The auditor's opinion regarding the Statutory Sustainability Report. A limited assurance engagement and an examination according to RevR 12 is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Sandvik in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and the Managing Director as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our conclusions below.

Conclusions

Based on the limited assurance procedures performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and the Managing Director.

A Statutory Sustainability Report has been prepared.

Stockholm, 6 March 2018

KPMG AB

Joakim Thilstedt
Authorized Public Accountant

Karin Sivertsson
Expert Member of FAR

BOARD OF DIRECTORS



JOHAN MOLIN

Born 1959. Chairman of the Board since 2015. Chairman of the Remuneration Committee.
Education and business experience: M.Sc. in Business and Economics, Stockholm School of Economics. President and CEO of ASSA ABLOY since 2005. President and CEO of Nilfisk-Advance 2001–2005 and various positions within Atlas Copco 1983–2001.
Current Board assignments: Board member of ASSA ABLOY AB.
Shareholding in Sandvik (own and closely related persons): 260,000 as well as 1,000,000 call options.



JENNIFER ALLERTON

Born 1951. Board member since 2015.
Education and business experience: M.Sc. in Physics and B.Sc.s in Mathematics, Physical Sciences and Geosciences. Chief Information Officer at F. Hoffmann-La Roche Ltd 2002–2012, Technology Director at Barclaycard 1999–2002 and various positions at ServiceNet, USA, BOC (now Linde), Cable & Wireless Business Networks and Unilever plc.
Current Board assignments: Board member of Iron Mountain Inc and AVEVA Group plc.
Shareholding in Sandvik (own and closely related persons): 10,000.



CLAES BOUSTEDT

Born 1962. Board member since 2015. Chairman of the Audit Committee.
Education and business experience: M.Sc. in Business and Economics, Stockholm School of Economics. Executive Vice President of L E Lundbergföretagen AB since 1997 and President of L E Lundberg Kapitalförvaltning AB since 1995.
Current Board assignments: Board member of Hufvudstaden AB.
Shareholding in Sandvik (own and closely related persons): 20,000.



MARIKA FREDRIKSSON

Born 1963. Board member since 2017.
Education and business experience: Master of Business Administration. CFO and Group Executive Vice President of Vestas Wind Systems A/S since 2013. CFO of Gambro AB 2009–2012, CFO of Autoliv Inc. 2008–2009 and various positions within Volvo 1996–2008, including CFO and Senior Vice President Finance & Strategy at Volvo Construction Equipment Corporation.
Current Board assignments: Board member of SSAB AB.
Shareholding in Sandvik (own and closely related persons): 2,500.



JOHAN KARLSTRÖM

Born 1957. Board member since 2011. Member of the Remuneration Committee.
Education and business experience: M.Sc. in Engineering. Senior Advisor at Skanska since 1 January 2018. President of Skanska AB 2008–2017 and various senior positions within BPA (currently Bravida) 1995–2000.
Current Board assignments: Board member of Skanska AB (until 1 January 2018)
Shareholding in Sandvik (own and closely related persons): 5,000.



BJÖRN ROSENGREN

Born 1959. Board member since 2016.
Education and business experience: M.Sc. in Engineering. President and CEO of Sandvik AB since 2015. President and CEO of Wärtsilä Corporation 2011–2015, various positions within Atlas Copco 1998–2011, including Senior Executive Vice President of Atlas Copco AB and Business Area President for Construction and Mining Technique, General Manager of Nordhydraulic at Nordwin AB 1995–1998 and various positions within ESAB 1985–1995.
Current Board assignments: Board member of Danfoss A/S.
Shareholding in Sandvik (own and closely related persons): 95,216.

Information regarding Board assignments and holdings of shares as of 31 December 2017. Current Board assignments refers to assignments in companies or organizations outside the Sandvik Group.



HELENA STJERNHOLM

Born 1970. Board member since 2016. Member of the Audit Committee.
Education and business experience: M.Sc. in Business Administration. President and CEO of AB Industrivärden since 2015. Investment manager and subsequently partner at IK Investment Partners 1998–2015 and consultant at Bain & Company 1997–1998.
Current Board assignments: Board member of AB Industrivärden, AB Volvo and Telefonaktiebolaget LM Ericsson.
Shareholding in Sandvik (own and closely related persons): 5,000 (acquired 12 February 2018).



LARS WESTERBERG

Born 1948. Board member since 2010. Member of the Audit Committee and the Remuneration Committee.
Education and business experience: M.Sc. in Engineering and B.Sc. in Business Administration. President and CEO of Autoliv Inc. 1999–2007, Gränges AB 1994–1999 and ESAB 1991–1994, and various positions within ESAB and ASEA 1972–1991.
Current Board assignments: Board member of SSAB AB, AB Volvo and Stena AB.
Shareholding in Sandvik (own and closely related persons): 180,000.



TOMAS KÄRNSTRÖM

Born 1966. Board member since 2006 (employee representative, IF Metall).
Education and business experience: Chairman of the Union Committee, Metal Worker's Union, Sandvik Materials Technology. Various positions within Sandvik since 1986.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 2,889.



THOMAS LILJA

Born 1975. Board member since 2016 (employee representative, Unionen/Ledarna/Swedish Association of Graduate Engineers).
Education and business experience: Technical College Graduate - Mechanical Engineering. Chairman Trade Union, Unionen Sandvik Sweden and Unionen Coromant & Machining Solutions. Various purchasing positions within Sandvik 2000–2010 and production and logistics positions within Scania 1995–2000.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 3,560.



THOMAS ANDERSSON

Born 1962. Deputy Board member since 2012 (employee representative, IF Metall).
Education and business experience: Chairman of the Union Committee, Metal Workers' Union, Sandvik Coromant, Gimo. Various operator positions at Gimoverken, Sandvik Coromant, since 1984. Construction firm Anders Diös 1980–1984.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 612.



MATS W LUNDBERG

Born 1974. Deputy Board member since 2015 (employee representative, Unionen/Ledarna/Swedish Association of Graduate Engineers).
Education and business experience: M.Sc. and PhD in Chemical Engineering. Sustainability Specialist, Sandvik Materials Technology, since 2017. Principal R&D Engineer, Sandvik Materials Technology 2010–2017. Scientist and postdoctoral researcher at Risø DTU, Denmark, 2007–2010 and Technical Sales Specialist at Spectral Solutions AB 2005–2007.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 0.

HONORARY CHAIRMAN

Percy Barnevik

Born 1941. Chairman of the Board of Sandvik AB 1983–2002.

BOARD SECRETARY

Åsa Thunman

Born 1969. Secretary to the Board since 2014. Executive Vice President and General Counsel, Sandvik AB, since 2014.

AUDITOR

KPMG AB

Auditor-in-charge: Joakim Thilstedt, born 1967, Authorized Public Accountant.
Other auditing assignments: Auditor-in-charge for, among others, Ahlsell AB, Holmen AB, Hufvudstaden AB, LE Lundbergföretagen AB and Modern Times Group MTG AB.

GROUP EXECUTIVE MANAGEMENT



BJÖRN ROSENGREN

Born 1959. President and CEO, Sandvik AB, since 2015.

Education and business experience:

M.Sc. in Engineering. President and CEO of Wärtsilä Corporation 2011–2015, various positions within Atlas Copco 1998–2011, including Senior Executive Vice President of Atlas Copco AB and Business Area President for Construction and Mining Technique; General Manager of Nordhydraulic at Nordwin AB 1995–1998, and various positions within ESAB 1985–1995.

Current Board assignments: Board member of Sandvik AB and Danfoss A/S.

Shareholding in Sandvik (own and closely related persons): 95,216.



JESSICA ALM

Born 1977. Executive Vice President and Head of Group Communications, Sandvik AB, since 2013.

Education and business experience:

M.Sc. in Geological and Earth Sciences/Geosciences, and Journalism. Various positions within Sandvik since 2006, including Vice President Communication and Marketing at Sandvik Coromant.

Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 8,284.



GÖRAN BJÖRKMAN

Born 1965. President of the Sandvik Materials Technology business area since 1 November 2017.

Education and business experience:

M.Sc. in Mechanical Engineering. Various positions within Sandvik since 1990, including Head of Business Development, Vice President Production Strategy and Vice President Production at Sandvik Coromant and Head of Primary Products at Sandvik Materials Technology.

Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 6,438.



TOMAS ELIASSON

Born 1962. Executive Vice President and Chief Financial Officer, Sandvik AB, since 2016.

Education and business experience:

B.Sc. in Business Administration and Economics. CFO of AB Electrolux 2012–2016, CFO and Executive Vice President of ASSA ABLOY AB 2006–2012, CFO of Seco Tools AB 2002–2006 and various positions within ABB 1987–2002.

Current Board assignments: Board member of Millicom International Cellular S.A.
Shareholding in Sandvik (own and closely related persons): 20,964.



LARS ENGSTRÖM

Born 1963. President of the Sandvik Mining and Rock Technology business area since 2016.

Education and business experience:

M.Sc. in Industrial Engineering and Management. President of the Sandvik Mining business area 2015–2016, acting President and CEO of BE Group AB 2014–2015, President and CEO of Munters AB 2006–2014, various positions within Atlas Copco 1994–2006 and various positions within Seco Tools 1988–1994.

Current Board assignments: Board member of the industry association Svemin.
Shareholding in Sandvik (own and closely related persons): 9,995.



KLAS FORSSTRÖM

Born 1967. President of the Sandvik Machining Solutions business area since 1 April 2017.

Education and business experience:

M.Sc. in Material Physics and MBA in International Marketing and Business. AMP from INSEAD, France.

Various positions within Sandvik since 1992, including President for Sandvik Coromant and President for Sandvik Hard Materials.

Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 12,483.



JOHAN KERSTELL

Born 1970. Executive Vice President and Head of Human Resources, Sandvik AB, since 2016.

Education and business experience: M.Sc. in Business and Economics. Various positions in Human Resources and Organizational Development within Sandvik since 2004 and consultant at Cap Gemini 1999–2003.

Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 9,400.



ÅSA THUNMAN

Born 1969. Executive Vice President and General Counsel, Sandvik AB, since 2014.

Education and business experience: Master of Laws (LL.M), Sweden and the Netherlands.

Various positions within Securitas 2009–2011, including General Counsel, Elektro AB 1999–2009, including General Counsel, and Lagerlöf & Leman law firm 1996–1999.

Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 9,101.

Members who left the Group Executive Management in 2017:
Petra Einarsson (President of business area Sandvik Materials Technology)
Jonas Gustavsson (President of business area Sandvik Machining Solutions)

*Information regarding Board assignments and holdings of shares as of 31 December 2017.
Current Board assignments refer to assignments in companies or organizations outside the Sandvik Group.*

ANNUAL GENERAL MEETING

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Friday, 27 April 2018 at 3:00 p.m. at the Göransson Arena, Sätragatan 21, Sandviken, Sweden.

Shareholders who wish to participate in the Meeting must:

- be recorded in the share register maintained by Euroclear Sweden AB on Saturday, 21 April 2018 (however, since the record date is on a Saturday the shareholders must be registered in the share register already on Friday, 20 April 2018), and
- notify the company of their participation in the Meeting not later than Monday, 23 April 2018.

Notice of participation in the Meeting shall be made on the company's website home.sandvik, by telephone +46 (0) 26-26 09 40 weekdays 9:00 a.m.–4:00 p.m. or by letter to Computershare AB, "Sandvik's AGM", Box 610, SE-182 16 Danderyd, Sweden.

Shareholders whose shares are registered in the name of a nominee must temporarily have re-registered the shares in their own name at Euroclear Sweden AB on Friday, 20 April 2018 to be entitled to participate in the Meeting. Please note that this procedure also applies with respect to shares held on a bank's shareholder deposit

account and certain investment savings accounts.

When giving notice, please state name, personal or corporate registration number, address and telephone number and the number of assistants, if any. If participation is by proxy, the proxy should be submitted to the address stated above in advance of the Meeting.

DIVIDEND

The Board proposes that the 2018 Annual General Meeting declare a dividend of 3.50 SEK per share.

The proposed record date is Wednesday, 2 May 2018. If the proposal is adopted by the Annual General Meeting, it is expected that dividends will be paid on Monday, 7 May 2018. 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 this change to their bank in sufficient time prior to the record date.

ANNUAL REPORT

The Annual Report is available at home.sandvik, where a printed copy can also be ordered.

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.

EBIT

Earnings before interest and taxes. Corresponds to operating profit.

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 net pension liabilities, less cash and cash equivalents divided by shareholders' equity including non-controlling interests.

RATE OF CAPITAL TURNOVER

Revenues for the last quarter annualized divided by average total capital.

WORKING CAPITAL

Total of inventories, trade receivables, account payables and other current-interest-bearing receivables and liabilities, excluding tax assets and liabilities.

RELATIVE WORKING CAPITAL

Average working capital for the last four quarters, divided by revenues in the last twelve months.

RETURN ON CAPITAL EMPLOYED

Operating profit/loss plus financial income, as a percentage of a four quarter average capital employed. Capital employed is defined as total capital less current non-interest bearing debt.

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

Operating profit/loss plus financial income, as a percentage of four quarter average total capital.

DEFINITIONS (CONT.)

ORDER INTAKE

Order intake for a period refers to the value of all orders received for immediate delivery and those orders for future delivery for which delivery dates and quantities have been confirmed. General sales agreements are included only when they have been finally agreed upon and confirmed. Service contracts are included in the order intake with the full binding contract amount upon signing of the contract.

Order intake for a period also includes all changes in the opening backlog of orders such as cancellation of orders, price changes affecting the order backlog and credit notes issued during the period.

LOST TIME INJURY FREQUENCY RATE (LTIFR)

Number of lost time injuries per million worked hours.

FINANCIAL TARGETS

DIVIDEND PAY-OUT RATIO OF 50% OF REPORTED EARNINGS PER SHARE

Reported group total earnings per share are used.

EBIT GROWTH CAGR¹ ≥7% 2016–2018

EBIT improvement excluding impact from changed exchange rates, items affecting comparability² for the Group and metal price effect due to revaluation of inventories in Sandvik Materials Technology. Metric is calculated for continuing operations excluding Other Operations.

NET GEARING, NET DEBT/EQUITY <0.8

Net debt is calculated on group total and comprises interest-bearing current and non-current debts less cash and cash equivalents divided by shareholders' equity including non-controlling interests. Excludes major acquisitions.

ROCE IMPROVEMENT² ≥3% PTS, 2016–2018

ROCE improvement calculated with annual ROCE 2015 as base.

- Operating profit/loss excludes items affecting comparability².
- Capital employed excludes remaining provisions related to items affecting comparability², however in the event of major impairments, the base – annual capital employed 2015 – is restated to align with the current level of capital employed.

Metric is calculated for continuing operations excluding Other Operations.

1) Compound Annual Growth Rate.

2) Items affecting comparability: major acquisitions and disposals, restructuring costs and impairments.

If you have any comments on our Annual Report, please contact Group Communications, +46 (0)8 456 11 00 or info@sandvik.com.

For comments or questions on sustainability-related information, please contact Sustainable Business, +46 (0)8 456 11 00 or info@sandvik.com.

FINANCIAL KEY FIGURES

KEY FIGURES, GROUP TOTAL

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue, MSEK	92,654	71,937	82,654	94,084	98,529	87,328	88,821	90,822	84,430	93,985
Change, %	+7	-22	+15	+14	+5	-11	+2	+2	-7	+11
of which organic, %	+5	-30	+17	+20	+5	-7	-2	-6	-6	+10
of which structural, %	+2	0	+1	0	0	0	+2	0	0	0
of which currency, %	0	+10	-2	-5	0	-5	+2	+8	-1	+1
Operating profit/loss, MSEK	12,794	-1,412	11,029	10,148	13,490	8,638	10,120	6,062	9,657	18,037
as % of revenue	14	-2	13	11	14	10	11	7	11	19
Profit/loss after financial items, MSEK	10,577	-3,472	9,412	8,179	11,516	6,753	8,264	4,059	7,996	16,966
as % of revenue	11	-5	11	9	12	8	9	4	9	18
Consolidated net profit for the year, MSEK	7,836	-2,596	6,943	5,861	8,107	5,008	5,992	2,194	5,468	13,183
Shareholders equity ¹ , MSEK	36,725	29,957	33,813	31,264	32,536	33,610	36,672	34,060	39,290	48,771
Equity ratio ¹ , %	36	33	38	32	31	36	34	34	38	46
Net debt/equity ratio ^{2,3} , multiple	0.9	1.0	0.7	0.7	0.8	0.9	1.0	1.0	0.7	0.3
Rate of capital turnover ² , %	101	73	92	100	97	89	89	86	83	93
Cash and cash equivalents, MSEK	4,998	7,506	4,783	5,592	13,829	5,076	6,327	6,376	8,818	12,724
Return on shareholders equity ¹ , %	24.8	-7.9	22.1	18.5	25.3	15.3	17.4	6.2	15.2	31.4
Return on capital employed ¹ , %	19.9	-1.3	17.4	16.0	19.8	12.6	13.4	7.9	12.9	23.9
Investments in non-current assets, MSEK	6,634	4,006	3,378	4,994	4,820	4,185	4,703	4,161	3,691	3,578
Total investments, MSEK	7,766	6,161	4,493	5,332	4,859	4,674	7,537	4,168	3,722	3,578
Cash flow from operations, MSEK	9,335	11,792	12,149	7,764	11,892	5,133	9,515	11,952	12,032	14,286
Cash flow, MSEK	2,764	2,471	-2,642	907	8,450	-8,656	1,039	79	2,288	3,963
Number of employees, 31 December	50,028	44,355	47,064	50,030	48,742	47,338	47,318	45,808	43,732	43,024

1) As of 2011, comparative figures adjusted due to amended accounting principles.

2) As of 2011, comparative figures adjusted due to changed definition. For definitions see page 150.

3) As of 2012, net debt includes net pension liabilities.

PER-SHARE DATA

(All historical figures are adjusted taking into account the 5:1 split)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Basic earnings ¹	6.30	-2.24	5.59	4.63	6.51	4.00	4.79	1.79	4.39	10.52
Diluted earnings ²	6.29	-2.24	5.59	4.63	6.51	4.00	4.79	1.79	4.39	10.50
Equity ³	30.0	24.4	27.5	25.2	25.9	26.7	29.1	27.1	31.2	38.9
Dividend (2017 as proposed)	3.15	1.00	3.00	3.25	3.50	3.50	3.50	2.50	2.75	3.50
Direct return ⁴ , %	6.4	1.2	2.3	3.8	3.4	3.9	4.6	3.4	2.4	2.4
Payout percentage ⁵ , %	50	—	54	70	54	88	73	140	63	33
Quoted prices, Sandvik Share, highest	108	90	133	135	107	108	97	107	116	153.9
lowest	42	41	76	73	82	79	74	68	65	113.5
year-end	49	86	131	84	103.50	90.70	76.40	74.05	112.70	143.7
No. of shares at year-end, million	1,186.3	1,186.3	1,186.3	1,186.3	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4
Average no. of shares, million	1,186.3	1,186.3	1,186.3	1,186.3	1,245.9	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4
P/E ratio ⁶	7.8	—	23.5	18.2	15.9	22.7	15.9	41.4	25.7	13.7
Quoted price, % of equity ^{2,7}	163	352	476	333	400	340	261	273	361	370

1) Profit/Loss for the year per share.

2) Profit/Loss for the year after dilution of outstanding convertible program.

3) As of 2011, comparative figures adjusted due to amended accounting principles.

4) Dividend by quoted price at year-end.

5) Dividend by basic earnings per share.

6) Market price of share at year-end in relation to earnings per share.

7) Market price of share at year-end, as a percentage of equity per share. Supplementary definitions see page 150.

DEVELOPMENT BY BUSINESS AREA, GROUP TOTAL

	REVENUE			OPERATING PROFIT AND OPERATING MARGIN					
	2015	2016	2017	2015		2016		2017	
	MSEK	MSEK	MSEK	MSEK	%	MSEK	%	MSEK	%
Sandvik Machining Solutions	33,809	32,852	35,778	5,504	16	6,970	21	8,413	24
Sandvik Mining and Rock Technology	33,131	31,093	36,547	2,417	7	3,206	10	5,743	16
Sandvik Materials Technology	13,909	12,931	13,643	8	0	1,115	9	284	2
Other Operations	4,976	4,655	4,936	489	10	545	12	4,432	90
Discontinued Operations	4,977	2,877	3,080	-1,209	-24	-1,361	-47	-61	-2

For more key figures, please visit our investors page at home.sandvik

