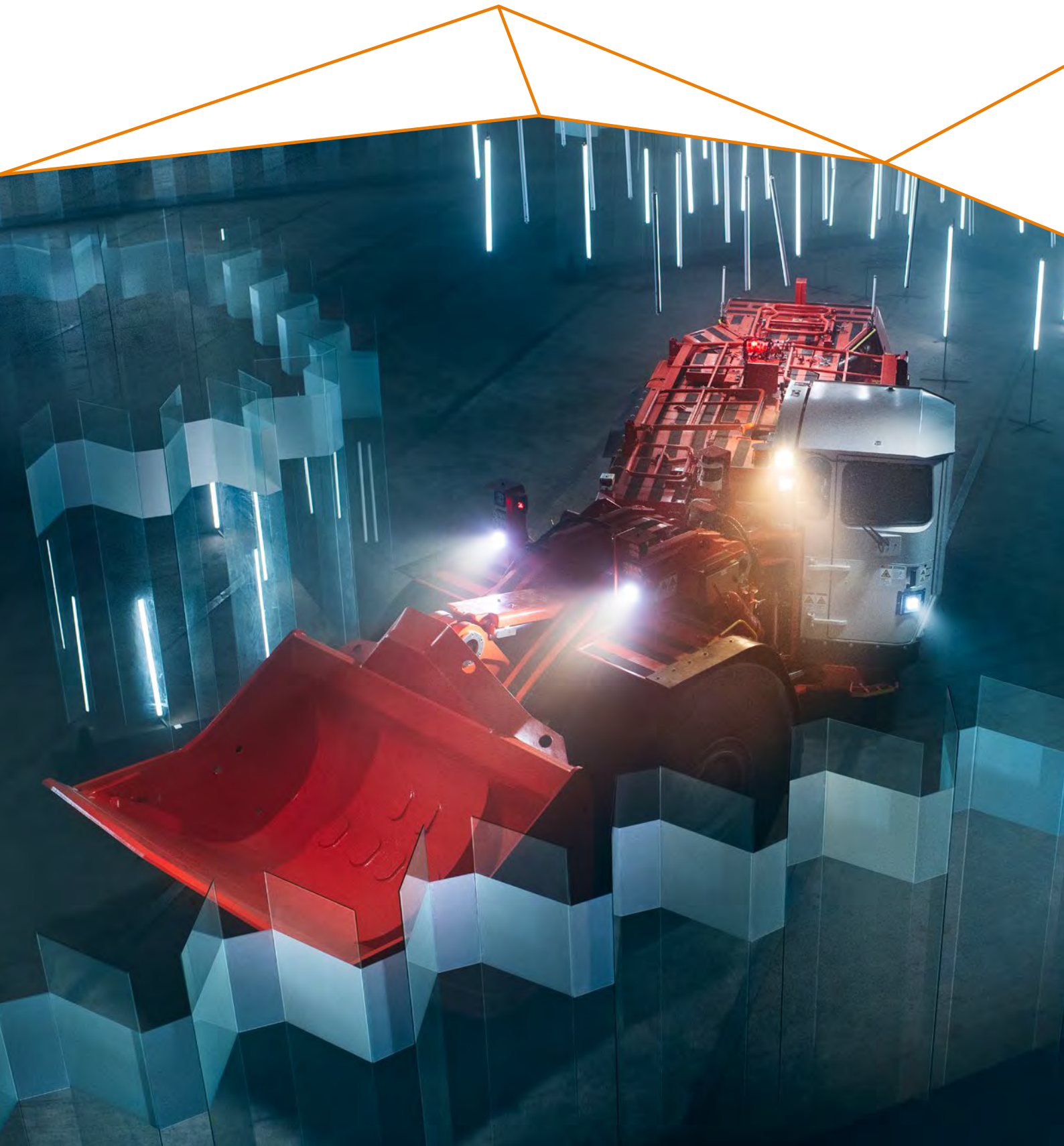




# ANNUAL REPORT 2018



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Cover photo: In 2018 Sandvik launched its first-ever global branding campaign under the theme "Let's Create". In the first movie, a self-driving loader navigates a glass labyrinth – showcasing Sandvik's pioneering solutions within automation. Watch the film at [home.sandvik/letscreate](http://home.sandvik/letscreate).

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 0–7 and 10–29 and 50–53 refers to continuing operations, i.e. excluding Sandvik Mining Systems.

# YEAR IN BRIEF

## HIGHLIGHTS

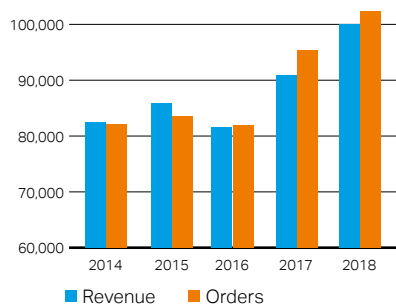
- Strong development in all customer segments and geographical regions
- Record-high adjusted operating profit
- Strengthened balance sheet enables growth
- Several strategic acquisitions completed, including the metrology software company Metrologic Group
- Sandvik Hyperion and the wire operations (welding wire and stainless wire) were divested
- Investment in manufacturing plant for titanium and nickel powder
- Inclusion in the 2018 Global 100 Most Sustainable Corporations Index and the 2018 Dow Jones Sustainability Index



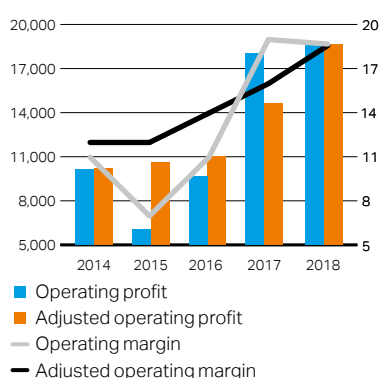
KEY RATIOS, CONTINUING OPERATIONS	2017	2018
Order intake, MSEK	95,444	102,440
Revenues, MSEK	90,827	100,072
Operating profit, MSEK	18,073	18,689
Operating margin, %	19.9	18.7
Adjusted operating profit, MSEK <sup>1)</sup>	14,613	18,625
Adjusted operating margin, % <sup>1)</sup>	16.1	18.6
Free operating cash flow, MSEK	15,095	15,281
Return on capital employed, %	23.8	22.7
Earnings per share, SEK	10.54	10.57
Adjusted Earnings per share, SEK <sup>1)</sup>	8.04	10.41
Net debt/equity ratio	0.8	0.2
Lost Time Injury Frequency Rate, LTIFR <sup>2)</sup>	1.6	1.7
Total Recordable Injury Frequency Rate, TRIFR <sup>3)</sup>	4.6	4.0
Number of employees	42,858	41,670
Share of women, %	19.4	19.5

1) Adjusted for items affecting comparability.  
 2) Injuries resulting in lost time per million hours worked.  
 3) Total number of injuries per million hours worked.

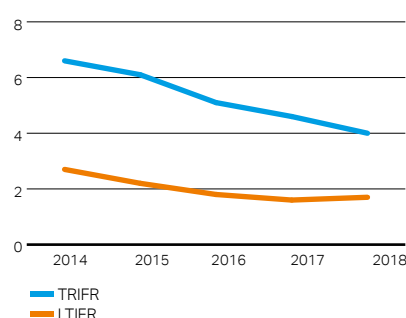
REVENUES AND ORDER INTAKE, MSEK



OPERATING PROFIT, MSEK AND OPERATING MARGIN, %



LTIFR AND TRIFR



REVENUES BY CUSTOMER SEGMENT

- Mining, 34%
- Engineering, 23%
- Automotive, 12%
- Energy, 11%
- Construction, 9%
- Aerospace, 6%
- Other, 5%



REVENUES BY MARKET AREA

- Europe, 38%
- North America, 21%
- Asia, 20%
- Africa/Middle East, 9%
- Australia, 7%
- South America, 5%



RECOGNITIONS AND MEMBERSHIPS

Sandvik is included in several prestigious sustainability indices and a signatory of the UN Global Compact (UNGC).



# VALUE-CREATING OFFERINGS TO OUR CUSTOMERS WORLDWIDE

Sandvik is a high-tech and global engineering Group with approximately 42,000 employees and sales in more than 160 countries. We have a strong focus on enhancing customer productivity, profitability and sustainability. Our operations are based on unique expertise in materials technology, extensive knowledge of industrial processes and close customer cooperation. Sandvik is organized in three business areas and 19 divisions. The divisions have individual focus areas and are fully responsible for their performance. They deliver solutions mainly to six customer segments.

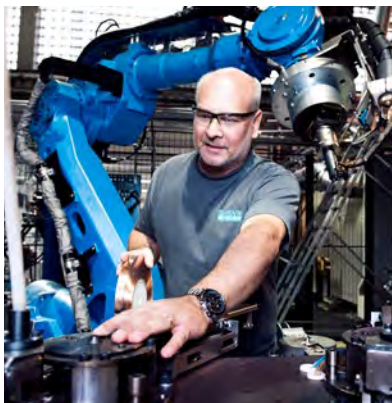
## BUSINESS AREAS



### SANDVIK MACHINING SOLUTIONS

A market-leading manufacturer of tools and tooling systems for advanced metal cutting, expanding into digital and additive manufacturing.

SHARE OF REVENUES **40%**    SHARE OF ADJUSTED OPERATING PROFIT **53%**



### 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.

SHARE OF REVENUES **43%**    SHARE OF ADJUSTED OPERATING PROFIT **39%**



### SANDVIK MATERIALS TECHNOLOGY

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

SHARE OF REVENUES **15%**    SHARE OF ADJUSTED OPERATING PROFIT **7%**

## DIVISIONS

- Sandvik Coromant
- Seco
- Walter
- Dormer Pramet
- Sandvik Machining Solutions Supply
- Additive Manufacturing
- Applied Manufacturing Technologies

- Underground Drilling
- Loading and Hauling
- Surface Drilling and Exploration
- Crushing and Screening
- Rock Drills and Technologies
- Mechanical Cutting
- Parts and Services
- Rock Tools
- Pedestal Drills<sup>1)</sup>

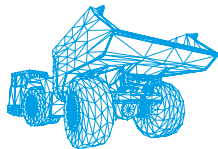
- Tube
- Kanthal
- Strip
- Powder<sup>2)</sup>

*For the remaining 2 percent of revenues and 1 percent of operating profit refer to Other Operations (page 53). Revenues and operating profit are excluding Group activities and operating profit is adjusted for items affecting comparability.*

*1) New division as of 1 January 2019.*

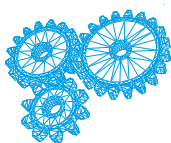
*2) Transferred into the Additive Manufacturing division as of 1 January 2019.*

CUSTOMER SEGMENTS/SHARE OF REVENUES



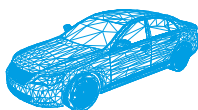
**MINING**

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 service and various solutions to increase automation, safety and customer productivity.



**ENGINEERING**

Our tools and tooling systems for metal cutting as well as advanced materials and components are used in engineering industries worldwide, improving productivity, profitability, quality and safety as well as reducing environmental impact. We are also a global leader in high-alloy metal powder.



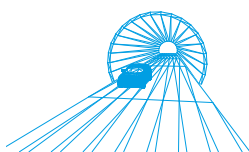
**AUTOMOTIVE**

Our tools and tooling systems for turning, milling and drilling in metals raise productivity when manufacturing, for example, engines and transmissions. Our stainless and high-alloy products are found in, for example, air conditioning and air bags.



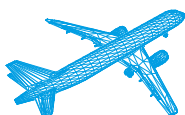
**ENERGY**

We offer solutions for all forms of energy production, including clean and renewable energy. We supply high-alloy products, such as 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.



**CONSTRUCTION**

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.



**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.



- Sandvik Machining Solutions
- Sandvik Mining and Rock Technology
- Sandvik Materials Technology

*The remaining 5 percent includes mainly consumer goods, electronics and chemicals.*

# SANDVIK STANDING STRONG

2018 was a record year for Sandvik. We reported the best earnings in the history of the company and a record-high operating margin. For the first time ever, sales exceeded 100 billion SEK. Our strong cash flow, together with successful divestments, strengthened our balance sheet, and we carried out growth-orientated acquisitions in all three of our business areas.

The positive economic climate, with favorable demand in all of our segments and on all continents, has, without a doubt, helped us prosper. But the record year was also an effect of intensive work in recent years to turn Sandvik into a decentralized and more streamlined company with decision-making moved closer to the customers.

## LEADING MARKET POSITIONS

Our clear strategy is to be number one or two in the markets in which we operate. Leading market positions enable economies of scale in both manufacturing operations and product development and provide us with closer links to our customers. We will continue to challenge all of our operations based on this strategy.

During the year, we continued to review our structure to ensure that we truly focus on our core business. In July, we completed the sale of Sandvik Hyperion and during the year we also divested the operations for stainless wire and welding wire in two separate transactions.

## PREPARED FOR GROWTH

The order of priorities is clear in our strategic agenda: stability and profitability before growth. Several divisions have achieved a good profitability, where the best way to continue to generate value is to grow. The focus will remain on organic growth, driven by innovations and new products. We have also seized acquisition opportunities in all three of our business areas, in order to safeguard our leading market positions or to strengthen our technology offering.

The acquisition of Metrologic Group is an important step towards helping our customers in metal cutting create a seamless manufacturing chain. The acquisition of Inrock strengthens our offering in the segment for horizontal directional drilling while the acquisition of Custom Electric Manufacturing has further improved our position in industrial heating. We also strengthened our position within round tools with the acquisitions of Dura-Mill and Kunshan Ousike Precision Tools.

Business units that have achieved the stability and profitability criteria will continue to consider acquisition alternatives as a tool for growth, or to consolidate a position as number one or two in the market.

## EQUIPPED FOR THE FUTURE

The fact that Sandvik can look back at a record year is no reason to be complacent. There are always operations in our decentralized structure that need improving and the political landscape and economic trends in our external environment can change very rapidly. This is not a new situation for us, considering our long experience of international trade and our presence in most major markets. Sandvik has rarely been better equipped for the future, regardless of the prevailing market situation.

All of our operating units have been tasked with preparing plans for how they are to act in the event of a downturn in the market. Every unit has its own unique conditions and must plan on the basis of a minor or more substantial downturn in its market, and all units have an obligation to the Group

to adapt their operations as required.

Our strong cash flow and the completed divestments have strengthened our balance sheet. Our net debt/equity ratio decreased to 0.2 and our balance sheet offers us a high degree of flexibility to address both challenges and growth opportunities.

## EXCEEDED TARGETS

Sandvik's financial targets applied between 2016 and 2018 and we exceeded the targets by a wide margin for profit growth, improvements in return on capital employed, and the net debt/equity ratio. New targets will be presented in the spring of 2019.

## SUSTAINABILITY AS A BUSINESS OPPORTUNITY

Sandvik is ambitious in terms of sustainability. We have continued to support the principles of the UN Global Compact and contribute toward fulfilling the UN's Sustainable Development Goals. During the year, we received awards and were included in several sustainability indices and lists, such as the prestigious Dow Jones Sustainability Index and Global 100 Most Sustainable Corporations.

Sustainability provides an essential business opportunity for us and this involves being more efficient and systematic in our work and helping our customers improve their processes in areas such as energy efficiency, safety and reduced environmental impact. One practical example of this is offered by our electric mining equipment and automation solutions that help to reduce emissions for mining customers and improve safety in the workplace.



Other examples include advanced materials in fuel cells for hydrogen propulsion, productivity-enhancing turning techniques and the buy-back programs for cemented-carbide tools from customers.

Sustainability is already an integrated part of our operations and will be linked even more clearly with our strategic targets and plans in the future.

Sustainability is crucial when young people choose an employer. Our ambitions to reduce our environmental footprint, improve health and safety, promote diversity, offer fair and just working conditions and a sustainable supply chain are qualities that young talent will consider when evaluating us. Ethics, a culture of doing things right and development opportunities are other critical factors. Building a strong brand is

another important element in attracting the right expertise and we have launched several initiatives in this area during the year.

#### WORLD-CLASS EMPLOYEES

The substantial earnings improvements we have achieved at Sandvik in recent years would not have been possible without world-class employees. I would like to thank you all who share your expertise and energy every day and who act as ambassadors for the generous culture of knowledge-sharing that has made Sandvik so successful.

This culture is crucial for the continued development and improvement of the company, as is our open job market, where employees can transfer between divisions and business areas and contribute with their experiences.

Sandvik stands strong and is well-positioned for the future. I look forward to taking full advantage of the opportunities that lie ahead of us.

Stockholm, February 2019

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 of Customer Focus, Innovation, Fair Play and Passion to Win form the base for our corporate culture and ways of working.

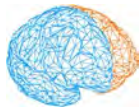
## VISION – WE SET THE INDUSTRY STANDARD

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

## 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.



## STRATEGIC FOCUS AREAS AND OUTCOME

### FOCUS ON CORE CAPABILITIES AND TO BE NUMBER ONE OR TWO IN CHOSEN SEGMENTS AND MARKETS

Sandvik actively worked on its business portfolio in 2018 and divested four operations that were not considered core or did not support our goal to be number one or two in chosen segments and markets. Sandvik successfully divested Sandvik Welding Wire, Sandvik Stainless Wire, Sandvik Hyperion and the Fagersta Stainless wire rod mill for a purchase price on a cash- and debt-free basis of 4.1 billion SEK.

Sandvik also acquired Metrologic Group, Inrock, Customer Electric Manufacturing and Dura-Mill for a purchase price on a cash- and debt-free basis of 4.6 billion SEK. The divestments and acquisitions were part of our continuous efforts to obtain a more consolidated portfolio focused on the core.

### TECHNOLOGY LEADERSHIP AND INNOVATION

Sandvik focuses on innovations that help our customers increase their productivity and energy efficiency, improve safety and leverage the opportunities that are arising with digitalization and automation. A number of new products and solutions that are keeping us at the forefront of technological innovation were launched during the year.

– **Sandvik Machining Solutions** The sensor-equipped Silent Tools™ Plus damped adapters increase process security in internal turning with long overhangs. The acquisition of market-leading Metrologic Group broadened our offering within software metrology and the acquisitions of Dura-Mill and Kunschan Ousike Precision Tools, strengthened our leading position in round tools.

– **Sandvik Mining and Rock Technology** The next generation of Optimine® data analytics enables mining companies to gain operational improvements in their mining process. The new down-the-hole (DTH) drill rig Leopard™ DI650i helps customers raise productivity and reduces fuel consumption by up to 15 percent compared with conventional DTH rigs.

– **Sandvik Materials Technology** The intelligent tube system Sentusys™ helps customers increase safety and control the status of the tubes inside their processes with the help of cloud-based computing.

### ACCOUNTABILITY AND DECISIONS CLOSE TO CUSTOMERS

Sandvik has been on a journey to decentralize its structure since 2016. The new structure enables quicker decision-making that is closer to customers, with greater product ownership and accountability for better performance and results. Sandvik further developed its common scorecard system which improved the transparency even more and enabled Sandvik to drive cost control on all levels in the decentralized organization.

### STABILITY AND PROFITABILITY BEFORE GROWTH

Sandvik takes continuous measures to reduce volatility and sensibility to market fluctuations. One example is the outsourcing of a relatively higher share of product assembly within Sandvik Mining and Rock Technology.

Sandvik further improved its performance as it benefited from

a favorable market and had a strong focus on cost efficiency in 2018. Operational results increased with significant margin improvements in all business areas. While Sandvik had a number of loss-making divisions in 2016, there were none in 2017 and 2018. This has created a solid platform for future growth.

Sandvik Machining Solutions had another good year with record-high order intake, revenues and operating profit. The strong market growth was driven by all key geographical areas. Sandvik Mining and Rock Technology continued to benefit from a strong mining market. The favorable market situation, an intense focus on pricing, coupled with the positive effects from internal efficiencies, resulted in a solid financial year for the business area. Sandvik Materials Technology improved its performance, with increased revenues and operating margins. This resulted from higher market demand along with efficiency measures.

### EFFICIENCY AND CONTINUOUS IMPROVEMENTS

Sandvik has a target to improve productivity (revenues per employee) by at least 3 percent annually. In 2018, productivity improved by 10 percent. Cash flow from operations increased 4 percent to 15,353 million SEK (14,752). Return On Capital Employed (ROCE) improved to 22.6 percent (19.4), calculated on adjusted EBIT. Reported ROCE was 22.7 percent (23.8). Net working capital (four quarter average) increased by 0.5 percentage points to 24 percent.

During the year Sandvik announced the closures of four production units and the discontinuation of a production line.

### CULTURE OF DOING THINGS RIGHT

Sandvik's commitment to Fair Play and doing things right is long standing. During 2018, total work related injuries (TRIFR) continued to decrease, and injuries leading to lost working time (LTIFR) increased somewhat. Continued focus is needed to bring further improvement in employee health and safety.

– The roll-out of our governance model, The Sandvik Way, continued, now with implementation of the common processes into the business areas and divisions.

– 94 (93) percent of Sandvik's employees and long-term contractors had completed Code of Conduct training. About 10,000 employees participated in some type of in-depth compliance training.

– The program for ensuring compliance with the requirements of the EU General Data Protection Regulation (GDPR) was rolled out.

– Performance management and internal control and audit efforts were strengthened.

### EXCEPTIONAL PEOPLE

– We continued programs to promote leadership and develop key competences. About 600 (500) people participated in Sandvik's leadership training programs in 2018.

– About 2,900 (3,800) new employees were hired and a majority of the positions were posted on the open internal job market. 78 percent of top management positions were sourced internally (target 80).

– Increased use of social media channels leading to more precise recruitment and expanding our talent pool. For example, we received 1,688 new leads from targeted LinkedIn campaigns in 2018.

– New hire stay rate amounted to 92 percent (target 90).

# TARGETS AND TARGET FULFILLMENT

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

## FINANCIAL TARGETS<sup>1)</sup>

### EBIT GROWTH (CAGR)

To achieve an EBIT growth (CAGR) of 7 percent or more 2016–2018.

### ROCE IMPROVEMENT

To achieve a ROCE improvement of 3 percentage points or more 2016–2018.

### NET DEBT/EQUITY RATIO

To achieve a net debt/equity ratio below 0.8.

### DIVIDEND PAYOUT RATIO

To achieve a dividend payout ratio of 50 percent of reported earnings per share.

## OUTCOME<sup>1)</sup>

**+19%**

The EBIT<sup>1)</sup> growth (CAGR) for 2016–2018 was 19 percent, well above the target of 7 percent. The EBIT improvement was a result of favorable market conditions combined with a strong cost focus and active portfolio management.

**+9% PTS**

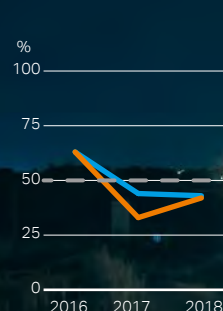
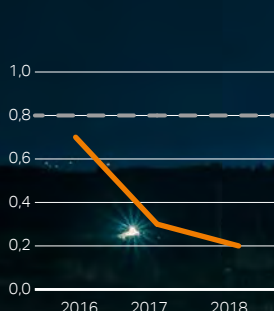
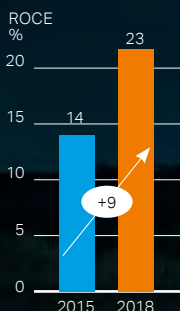
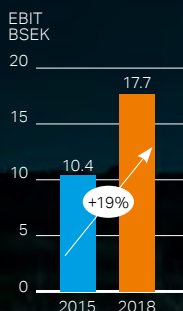
The return on capital employed was 23 (24). The adjusted return on capital employed was 23 (19), a 9 percentage points increase since 2015. The favorable return on capital employed in 2018 was the result of a strong EBIT development coupled with a continuous focus on improving capital employed.

**0.2**

Net debt amounted to 12 billion SEK (16) at the end of the fourth quarter and the net pension liability was 6 billion SEK (5). The net debt to equity ratio year-end 2018 was reduced to 0.2 (0.3).

**43%<sup>2)</sup>**

Sandvik's strong performance in 2018 resulted in a proposed dividend of 5 billion SEK (4), corresponding to a payout ratio of 43 percent (44).



1) For further information with regard to target definitions see page 151.  
2) Proposed adjusted dividend payout ratio.

SUSTAINABILITY TARGETS

HEALTH AND SAFETY<sup>1)</sup>

To achieve a Lost Time Injury Frequency Rate (LTIFR) of 1.4 and a Total Recordable Injury Frequency Rate (TRIFR) of 4.3.

ENERGY EFFICIENCY

To reduce the energy usage by 1.5 percent in 2018.

DIVERSITY AND INCLUSION

To increase the share of women in managerial positions by 3 percent annually. For 2018 the target was 17.6 percent.

CODE OF CONDUCT

To train 100 percent of employees, including long-term contractors, in our Code of Conduct.

OUTCOME 2018

**1.7/4.0**

The LTIFR amounted to 1.7 (1.6) and the TRIFR to 4.0 (4.6). The LTIFR increase was mainly due to an increase in low level lost time injuries (1–2 days lost).

**1.7%**

The energy usage was reduced by 1.7 percent during the year.

**17.7%**

The share of women in managerial positions increased to 17.7 percent (17.1), corresponding to a 3.5 percent increase.

**94%**

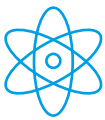
94 percent (93) of employees and long-term contractors (longer than three months) were trained in the Code of Conduct.



For more environmental and social KPIs, see page 134–140.  
 1) LTIFR=Injuries resulting in lost time per million hours worked, TRIFR=total number of injuries per million hours worked.

# A CHANGING WORLD

Sandvik has defined some external factors and drivers that impact our company. Together with customers and other stakeholders, we will seize the opportunities they create in order to generate profitable growth and minimize our environmental impact.



## 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. Lower weight, improved strength and anti-corrosion durability are examples of properties in demand. The new materials often entail reduced environmental impact as lower weight, for example, leads to a reduction in fuel consumption for aircraft.

Sandvik is a world leader in materials development and produces materials with customized properties for new applications. Metal powder can be used as a raw material in applications with stringent demands on hardness, strength or ability to conduct electricity and heat. Sandvik is strengthening its position in the rapidly expanding markets for manufacturing metal powders and additive manufacturing (3D printing).



## NEW MANUFACTURING TECHNIQUES

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 Big Data, sophisticated analytical tools, robotization and artificial intelligence are creating new business opportunities and resulting in better business intelligence, new ways for people to interact with machines and new opportunities to transfer digital instructions to physical products. The development contributes to reduced costs, increased productivity and improved management of fluctuations in demand.

Sandvik invests in additive manufacturing, or 3D printing, a new technology that requires fewer manufacturing steps and reduces impact on the environment by producing lighter products with less raw material. Multi-axle technology, where you can machine a material from several different angles, improves efficiency and enables completely new types of products. Optimizing manufacturing processes reduces carbon emissions and costs and increases productivity.



## DIGITALIZATION AND AUTOMATION

Historically, design, machining and analysis have been three clearly defined phases in metal cutting. New technology and digitalization are leading to the integration of the three stages to form a seamless manufacturing process. The acquisition of the metrology software company Metrologic Group is one example of how Sandvik is expanding its offering within digital manufacturing by fully integrating the analysis and verification phase into the process.

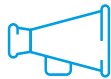
Sandvik offers digitalized solutions and services to optimize its customers' and its own operations pertaining to costs, productivity and environmental impact. Data collection, for example in mining equipment, enables advanced analysis and the creation of models to identify and solve productivity problems, to optimize processes and also to predict maintenance needs. Other examples of new solutions being developed by Sandvik include automated mines, intelligent tube systems and digital tools.



**RESOURCE EFFICIENCY**

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 with new solutions, such as electric drill rigs, and is developing materials for solar panels and hydrogen-powered cars. We are developing new technologies in metal cutting that help to improve productivity and reduce environmental impact. We aim for resource efficiency in our own operations and have the ambition to achieve as high a recycling rate as possible to contribute towards a circular society.



**ECONOMIC AND POLITICAL DEVELOPMENT**

Macro factors such as globalization, urbanization, political governance, and cyclical conditions influence Sandvik. Changes in circumstances for trade, such as customs duties, Brexit or the EU General Data Protection Regulation (GDPR) are examples of factors that impact the business sector. Our global presence, with production and sales almost all over the world, and our decentralized work procedures, allow us to be flexible and adapt to changes in circumstances. All of our business areas have business and action plans in place to manage changes in market conditions.

Read about our risk management on page 54.



**UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS**

World leaders have committed 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.



Read more on page 141.



OPERATIONS

# SANDVIK MACHINING SOLUTIONS

2018 was another strong year for Sandvik Machining Solutions, with record-high order intake, revenues and operating profit. The solid market growth came from all geographical areas and industry segments.

Business area Sandvik Machining Solutions is a market leading manufacturer of tools and tooling systems for advanced metal cutting. Revenues come from inserts (58 percent), round tools (20 percent), tool holders (13 percent) and tooling systems (8 percent). The business area comprises several market-leading brands that offer their own products and services, such as Sandvik Coromant, Seco, Dormer Pramet and Walter. In 2018, a new division was introduced: Applied Manufacturing Technologies, which complements our core machining divisions and helps us expand within digital manufacturing to further strengthen our customer offering. As of January 1, 2019 the Powder division was moved to the business area from Sandvik Materials Technology, for further growth and synergies with the additive manufacturing business.

**MARKET 2018**

The year started with good momentum carried over from 2017 with strong growth in all geographic regions. Things slowed down somewhat in the second half of 2018 with slightly lower growth rates in the global automotive and aerospace industries. Meanwhile, both the oil and gas and machinery sectors had stable growth, but at lower levels compared to 2017.

Cutting tools were particularly strong in the Americas in 2018 showing double-digit growth throughout the year. Asia Pacific had high-pace growth in the first six months, while China slowed down in the last half of the year. Both Japan and India were more stable, closing the year with double-digit growth. The cutting tool market in Europe continued to show healthy growth throughout 2018 with strong performance in most markets. Among the market growth leaders were Sweden, followed by Italy and the Czech Republic.

**STRATEGIC FOCUS AREAS**

During the year, we continued to work according to the business area's key priorities, such as growing in the core machining area and expanding into digital and additive manufacturing.

**FOCUS ON CORE**

We continue to grow in the core machining area but are also expanding into design, planning and preparation as well as entering into verification and evaluation to cover the complete manufacturing value chain. This is being achieved through organic growth, collaborations and acquisitions.

In July we acquired Metrologic Group, a market-leading metrology software company. This acquisition is an important step on our journey to expand into the verification and evaluation market with a quality assurance process. By combining Metrologic's understanding of measurement technology with Sandvik's machining expertise, we can expand our offering to increase customer productivity.

**TECHNOLOGY LEADERSHIP AND INNOVATION**

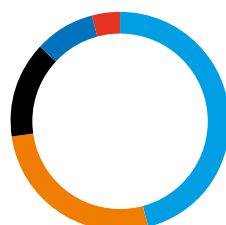
To further cement our leading position, we continue to develop new cutting tools and materials for high productivity, reliability and demanding machining applications. Newly developed products account for more than 30 percent of sales. We are actively developing our intellectual property to maintain the strongest patent portfolio in our business. Sandvik is also investing in additive manufacturing and digital and software development. Our Applied Manufacturing Technologies division has expertise in digital enablement, machine learning, artificial intelligence and digital user experience design. It includes the Metrologic Group and Tool Data Management (TDM) Systems, which focuses on process optimization through optimal tool planning and provisioning.

**2018 IN FIGURES**

**Revenues:** 40,343 million SEK ( 35,777) with 7.7% organic growth  
**Operating profit:** 9,872 million SEK (8,413)  
**Operating margin:** 24.5% (23.5)  
**Return on capital employed:** 36.9% (35.0)  
**Employees:** 19,284 (18,745<sup>1)</sup>)  
**Gender balance:**  
 Men 79%, Women 21%  
**President:** Klas Forsström  
**Lost time injury frequency rate (LTIFR):**  
 1.7 (1.8)  
**Total recordable injury frequency rate (TRIFR):** 3.0 (4.2)  
**Estimated market size:** 200 billion SEK

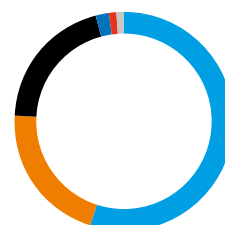
*1) Number of employees adjusted for items affecting comparability, due to internal reallocation.*

REVENUES BY CUSTOMER SEGMENT



- Engineering, 46%
- Automotive, 27%
- Aerospace, 14%
- Energy, 9%
- Other, 4%

REVENUES BY MARKET AREA



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

## OPERATIONS

### STABILITY, PROFITABILITY, GROWTH

Sandvik Machining Solutions has been stable and profitable for many years and in 2018 we intensified our focus on profitable growth. Apart from the Metrologic acquisition, we also made a number of strategic acquisitions, such as privately-owned US-based company Dura-Mill, a manufacturer of precision solid carbide end mills and Chinese company Kunshan Ousike Precision Tools, a leading supplier of solid carbide round tools.

### EFFICIENCY AND CONTINUOUS IMPROVEMENTS

Even in times of profitability and growth, we continue to work with efficiency and cost measures such as operational excellence and lean to alleviate bottlenecks or areas where we have unnecessary costs. This ensures we have a good base in the event of an economic downturn and it also frees up resources to invest in growth areas.

As a part of our ongoing work with operational excellence, we monitor our production footprint and capacity worldwide in order to adapt to global and local market conditions. In line with this we announced that the supply of ready to press (RTP) powder from the Coventry UK production unit will be phased out over the next three years. In 2018 we also announced the intention to close our insert production in Fondettes, France.

### SUSTAINABLE BUSINESS

Sandvik Machining Solutions is focused on lowering its environmental impact by reducing waste and carbon dioxide emissions through better energy efficiency. Our efforts include using more LED technology, solar panels and district heating solutions. We are also optimizing our manufacturing processes for better efficiency and less

waste. Our production plant in Gimo, Sweden converted from heating oil to district heat produced from biofuel. The new district heating solution is expected to reduce the plant's greenhouse gas emissions by 1,850 tons, which is equivalent to the amount of heat required to heat 230 average single-family homes on a yearly basis.

We are also developing products that help our customers increase their productivity. For example, PrimeTurning™, a method that enables turning in all directions, results in a more than 50 percent increase in productivity compared to conventional turning. In addition to increasing production efficiency, our digital tools address waste across the machining value chain, simplifying Computer Numerical Control (CNC) programming and helping to reduce tool inventory and transport. Our in-machining metrology and adaptive process control efforts also lead to a reduction of scrap material.

In our production chain we can both regrind and recycle cemented carbide tools. We have local buy-back programs for used tools, such as inserts and solid carbide tools, and our Wolfram Bergbau und Hütten site in Austria recycles cemented carbide that goes back into the production of new tools.

### THE JOURNEY AHEAD

Sandvik Machining Solutions is transitioning from being a world-leading player in the industry of metal cutting, to becoming a leading solutions provider for the wider component manufacturing industry. With our technology and innovation capabilities, we see many opportunities for growth, both within our core metal cutting business as well as into areas such as digital manufacturing and additive manufacturing.

## SANDVIK RECOGNIZED BY THE WORLD ECONOMIC FORUM

The World Economic Forum (WEF) has recognized the Sandvik Coromant production unit in Gimo, Sweden as an advanced Industry 4.0 facility. The plant was added to a network of "Manufacturing Lighthouses", state-of-the-art facilities that serve as world leaders in how to successfully adopt and integrate cutting-edge technologies, including automation, Internet of Things, Artificial Intelligence and cloud computing. WEF points out how Sandvik has created a digital thread throughout its production processes that has significantly raised productivity.

The Gimo plant is the world's largest site for inserts and tools production and part of Sandvik Coromant's "green factory" vision, aiming towards reduced carbon emissions, improved energy efficiency and extensive recycling programs.



In Sandvik's factory in Gimo, Sweden, robots keep up production when employees have left work at night. Gimo is part of Sandvik Coromant's "green factory" vision.





Sandvik's highly automated production site in Renningen, Germany.

## OVERVIEW

<b>Product portfolio</b>	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.
<b>Market characteristics</b>	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 differentiators for the premium offering. Lower service degree for mid-market which is more price sensitive.
<b>Demand drivers</b>	<ul style="list-style-type: none"> <li>- Global industrial production</li> <li>- Primary metals consumption</li> <li>- Materials evolution: aluminum, titanium, composites</li> <li>- New technologies: additive manufacturing, near-net shaping, 5-axis machining</li> </ul>
<b>Competitive landscape/Major competitors</b>	<ul style="list-style-type: none"> <li>- Consolidated in the premium segment: IMC group (Iscar brand), Kennametal (Kennametal brand)</li> <li>- Fragmented in mid-market including global premium players present with their mid-market brands: Mitsubishi, IMC group (Taegutec brand), Kennametal (Widia brand), Zhuzhou</li> </ul>
<b>Go-to-market model</b>	Direct sales ~55–60 percent. Distribution sales are predominant in North America whereas direct sales are 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.
<b>Growth strategy</b>	Expansion through organic growth, innovation and niche acquisitions in the core (round tools). Complementary expansion into pre-machining, post-machining and additive manufacturing.
<b>Strategic risk management</b>	Various forms of business environment risks with an impact on the metal cutting market in general, mainly changes in customers behavior, acquisition-related risks, structural changes in our industry, information security risks and compliance-related risks.

## CUSTOMERS AND NEW PRODUCTS

Sandvik Machining Solutions has more than 100,000 customers around the world. They are mainly in the engineering segment (46 percent) followed by 27 percent in the automotive segment. We also have customers in the aerospace (14 percent) and energy sectors (9 percent). Four percent of our customers are in other industries, such as the mining industry.

### NEW PRODUCTS AND INNOVATIONS

#### XTRATEC® XT

The latest generation of Walter milling tools offers better performance and greater process reliability. Eight cutting edges per indexable insert make machining precise and reliable – even over a long period of time. This results in a reduction in the cost of cutting materials and more efficient use of resources.



#### FORCE M™

Force M™ is an assortment of drills providing a high level of productivity when drilling stainless steels across a diverse variety of machines and conditions. This makes them ideal for general engineering and sub-contract environments. All drills feature a unique continuously thinned web flute construction combined with a modified four-facet split point geometry. This improves chip evacuation and provides a secure drilling process, delivering enhanced tool life, performance and superior hole quality.



#### DOUBLE QUATTROMILL™ 22

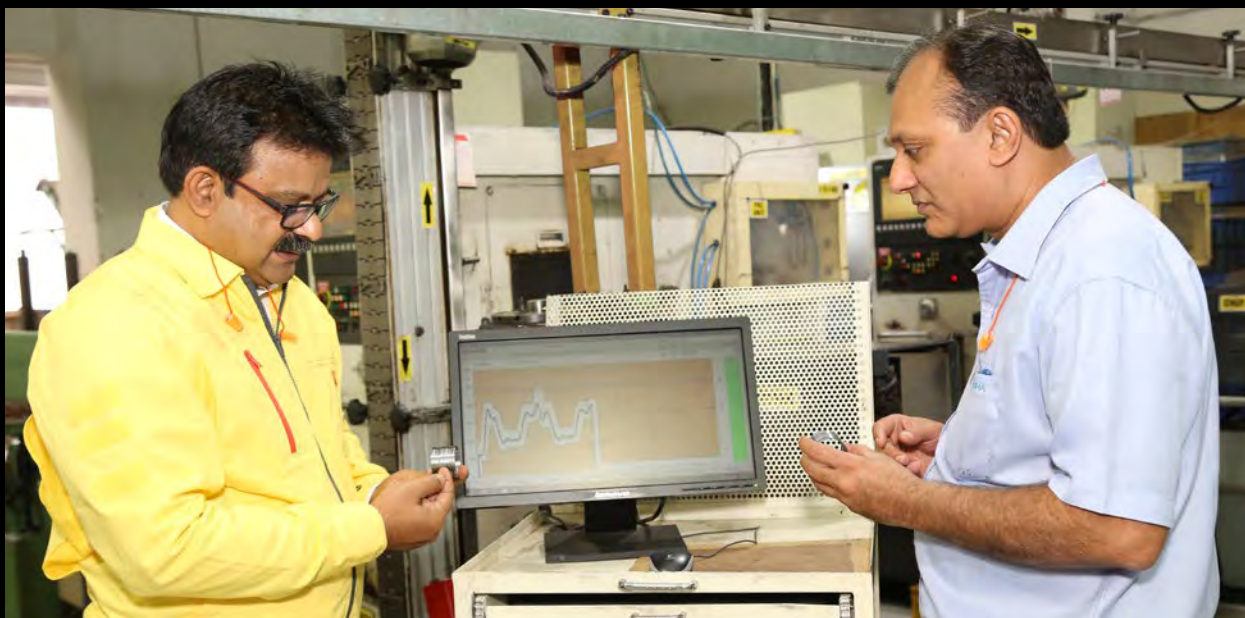
Seco's latest face milling cutter, Double Quattromill™ 22, significantly boosts metal removal rates and allows workshops to push cutting tools to their full milling potentials. The new cutter, for both roughing and semi-finishing, features inserts with eight cutting edges that cost-effectively increase depths-of-cut for high output.



#### SILENT TOOLS™ PLUS

Sandvik Coromant's sensor-equipped Silent Tools™ Plus damped adapters increase process security in internal turning with long overhangs. The solution gives customers access to information about what is happening inside the component, making process improvements possible.

## NEW SOLUTION BOOSTS METALWORKING EFFICIENCY



Harsha Engineers' Himanshu Parekh (right) and Sandvik Coromant's Ravi Gowdara study the results after installing CoroPlus® ProcessControl.

**Manufacturing companies such as Harsha Engineers are able to work more productively and cost efficiently with the help of the digital solution CoroPlus® Process Control from Sandvik Coromant.**

Headquartered in India, Harsha Engineers Limited (Harsha) manufactures precision bearing cages in brass, steel and polyamide injection molding for major bearing manufacturers globally. Harsha also manufactures stamped components for the automotive industry and other sectors.

Metalworking is an integral part of Harsha's manufacturing process and it includes turning and parting processes in the machining of bearing cages. The company was experiencing tool damage in the parting process and it also needed to reduce the cycle time in the turning process in order to meet an increase in product demand.

### REAL TIME MONITORING

Harsha approached its long-time partner, Sandvik Coromant, for advice. As experts in tools and machining solutions for the metalworking industry, the Sandvik team was able to propose a suitable new insert and present CoroPlus Process-

Control, a solution for real time tool monitoring. It automates, collects and aggregates process data, enabling prediction of when to perform maintenance, which leads to a reduction in unplanned machine downtime and a reduced total cost of ownership. The system also increases the overall stability and security in a machining workshop by detecting tool force overload and correcting it to optimize cutting tool life.

Harsha had to stop production for just a few hours in order to install and test the new digital monitoring system. By the end of the trial, which lasted several months, the customer was convinced of its effectiveness, especially with the ability to machine two pieces at a time instead of one.

### BENEFITS WEIGH IN

"After installing the digital solution we have achieved our desired results," says Himanshu Parekh, senior engineer. "There was a reduction in cycle time by 43 percent, a reduction

of part rejection, reduced inventory costs, a reduced need for human intervention due to automation, help with quality improvement, and zero parting tool breakage incidents, which helps to reduce tooling cost."

Best of all, says Parekh is that Sandvik's monitoring system helps to identify new areas for improvement and it is very user friendly. "CoroPlus as an online tool monitoring system gives us confidence in the safety of our tools and people, and it helps to optimize the process parameters," he says.

Parekh is grateful to his own management for giving the green light to use CoroPlus ProcessControl and pleased that Sandvik successfully met the challenge. "The Sandvik team is always ready to support with extra efforts and new, advanced technology ahead of other suppliers, which helps us to make new benchmarks for cycle time."

# SANDVIK MINING AND ROCK TECHNOLOGY

Sandvik Mining and Rock Technology continued to benefit from a strong mining market in 2018. The favorable market situation, coupled with the positive effects from internal efficiencies, resulted in a solid financial year for the business area.



Business area Sandvik Mining and Rock Technology is a leading supplier of equipment and tools, service and support for the mining and construction industries. We offer service and technical solutions for rock drilling, as well as rock cutting and rock excavation, crushing and screening, loading and hauling, tunneling, quarrying and breaking and demolition work.

Operating margins for the business area have increased significantly since 2015. This can be attributed to both internal activities to streamline the organization and make it more efficient, as well as to the concentrated efforts to decentralize Sandvik's business. We grew significantly in the aftermarket business, which in 2018 accounted for 61 percent of revenues.

**MARKET 2018**

The mining market continued to develop positively in 2018. Commodity prices were generally stable, despite a drop in gold and copper prices in 2018. Much of this was due to currency fluctuations, mainly against the dollar, rather than commodity shortages. Capital expenditures were at a steady level and this continued to drive our equipment sales for both underground and surface mining equipment. Gross domestic product, which is one important driver for infrastructure investments, remained stable at 3 percent growth globally. Our largest markets are Australia and South Africa.

**STRATEGIC FOCUS AREAS**

We continue our efforts to grow the aftermarket business and increase our share of parts and services in our installed base of equipment. Focusing on the aftermarket business will put us in a secure position long-term by driving profitability even in a market downturn. An efficient aftermarket offering is also the prime driver for new equipment sales to our customers. We also focus strategically on strengthening our position as the global leader for autonomous mining equipment.

**FOCUS ON CORE**

We continued to review our product portfolio to ensure that we remain focused on our core capabilities across our business and that we have the best possible offering for our customers in the areas we have chosen to operate in. We are gradually exiting product groups that fall outside of our core capabilities and in 2018, we started a divestment process of Varel's oil and gas drill bits business. We also announced the discontinuation of a product line in our Rock Tools site in Matamoros, Mexico.

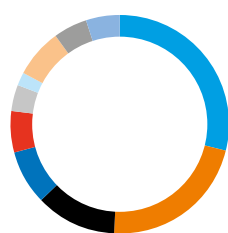
**TECHNOLOGY LEADERSHIP AND INNOVATION**

In 2018, Sandvik Mining and Rock Technology further developed its offering in automation, digital solutions and electrification, designed to help customers increase profitability, reduce costs and improve safety. During the year, we continued to build on our digital ecosystems for the mining and rock excavation industry in collaboration with IBM and Cisco.

**2018 IN FIGURES**

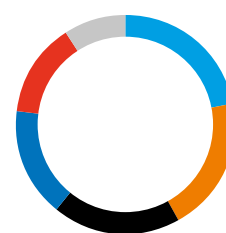
**Revenues:** 42,772 million SEK (36,495) with 15.4% organic growth  
**Operating profit:** 7,380 million SEK (5,724)  
**Operating margin:** 17.3% (15.7)  
**Return on capital employed:** 29.4% (25.3)  
**Employees:** 15,462 (15,169<sup>2)</sup>)  
**Gender balance:** Men 84%, Women 16%  
**President:** Lars Engström  
**Lost time injury frequency rate (LTIFR):** 1.0 (1.0)  
**Total recordable injury frequency rate (TRIFR):** 4.0 (3.8)  
**Estimated market size:** 305 billion SEK

REVENUES BY COMMODITY<sup>1)</sup>



- Gold, 29%
- Copper, 22%
- Coal, 12%
- Zinc, 8%
- Platinum, 6%
- Iron ore, 4%
- Diamonds, 2%
- Other minerals, 7%
- Other base metals, 5%
- Other metals, 5%

REVENUES BY MARKET AREA



- North America, 22%
- Africa/Middle East, 20%
- Asia, 19%
- Europe, 16%
- Australia, 14%
- South America, 9%

1) Only mining-related revenues, i.e. 76 percent of total revenues.

2) Number of employees adjusted for items affecting comparability, due to internal reallocation.

## OPERATIONS

We signed a strategic framework agreement with Resolute Mining Limited to fully automate the company's underground Syama gold mine in Mali by the end of the year. The agreement includes AutoMine® and OptiMine® systems for analysis, process optimization and automation, including a full fleet of Sandvik TH663 trucks and Sandvik LH514E electrical loaders. Sandvik developed the automated production system in close collaboration with the customer.

In June, we inaugurated the Battery Electrification Innovation and Development Center for loaders and trucks in Turku, Finland. The facility has gathered a highly skilled workforce that will develop battery products and electric solutions to further drive innovation in the mining and rock excavation markets worldwide.

### STABILITY, PROFITABILITY, GROWTH

2018 was a very good year for the business area, with improved profitability in all of our divisions. We continued to grow the business organically and through acquisitions. In July, Sandvik acquired Inrock, a privately owned supplier of rock drilling tools and services for Horizontal Directional Drilling (HDD), headquartered in Houston, USA. Inrock is a market leader in pilot hole bits, reamers, guidance systems, accessories and services for the premium maxi rig segment within HDD, and the acquisition enables us to expand our offering to this segment.

### EFFICIENCY AND CONTINUOUS IMPROVEMENTS

Throughout the year we focused not only on increasing efficiency for our customers, but also on our internal efficiency. Cost control was top of mind and we continued to work on making our internal processes and structure more efficient, while working in a decentralized manner with decisions made closer to customers. We have been able to increase production and keep up with market demand.

### SUSTAINABLE BUSINESS

Sandvik Mining and Rock Technology continues 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 fumes, especially in the confined spaces where many of our customers work.

Within our own operations, Sandvik Mining and Rock Technology is working to use materials and resources more efficiently and reduce carbon dioxide emissions. We are selecting more reusable types of packaging and lighter packaging for spare parts. Recycling is a priority and we are currently the only mining-related company that recycles both steel and cemented carbide. We continue to recycle consumables such as drill bits through global cus-

## SANDVIK PARTICIPATED IN UNDERWATER MINING PROJECT

Sandvik participated in the EU-funded underwater mining project ¡VAMOS! (Viable Alternative Mine Operating System) in 2018. The project aimed to find new ways to access unexploited European mineral resources with an estimated 100 billion euros worth hidden at a depth of 500 to 1,000 meters.

The objective was to build a life-size prototype robotic underwater mining machine, and to prove that the concept of mining in open-cast, water-filled and land-based mines is viable and economically feasible. Sandvik provided the cutting equipment and the frame for the underwater mining vehicle. "As Sandvik wants to keep a foot in the door for the future submerged mining market, we were keen to participate in ¡VAMOS! as it was a project that pushed for further innovation in the mining equipment sector," says Uwe Restner, product and commercial manager within Sandvik.



Sandvik supplied a 150 kilowatt hydraulic-driven cutter head, ideal for cutting solid rocks, to an underwater mining project.

tomers recycling programs. In 2018, our drill bits recycle program resulted in the recycling of about 40 percent of the rock drilling tools sold.

We have the ambition to reduce our transportation footprint by looking into delivery alternatives and business models for better efficiency and a reduction in air transportation.

**THE JOURNEY AHEAD**

Sandvik Mining and Rock Technology is in a good position for expansion, through organic growth and mergers and acquisitions in selected areas, especially related to the expansion of our digital and electrification offering. Focus will continue on opportunities within the aftermarket where we have mapped our installed base and can now be more proactive in serving customers through predictive maintenance, ordering of spare parts and other data-related services. We will continue to improve the capital efficiency and fine-tune the organization to make it even more effective and agile.



Maria Nehvonen works as an operator at the Rock Tools division in Sweden.

OVERVIEW

	MINING	CONSTRUCTION
<b>Product portfolio</b>	Equipment for drilling, cutting, breaking, crushing, loading and hauling. Drilling consumables (rock tools), service, spare and wear parts.	
<b>Market characteristics</b>	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.
<b>Demand drivers</b>	<ul style="list-style-type: none"> <li>- GDP growth rate and resource intensive industry development</li> <li>- Metal and mineral prices</li> <li>- Production levels in existing mines and expansion projects (greenfield and brownfield)</li> <li>- Productivity improvements and new technology, for example automation and electrification</li> <li>- Demand in the areas of environment, health and safety</li> </ul>	<ul style="list-style-type: none"> <li>- GDP growth/urbanization</li> <li>- Infrastructure investments and spending</li> <li>- Government stimulus programs</li> <li>- Aggregates production</li> <li>- Cement consumption</li> </ul>
<b>Competitive landscape/Major competitors</b>	Consolidated in certain segments, i.e. underground hard-rock mining: Epiroc, Metso Minerals, Caterpillar and Komatsu Mining.	Some global competitors present in several niches and many local players: Epiroc, Terex, Metso Minerals, Caterpillar and Furukawa.
<b>Go-to-market model</b>	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.
<b>Growth strategy</b>	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.	
<b>Strategic risk management</b>	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.	

## CUSTOMERS AND PRODUCTS

The vast majority (76 percent) of Sandvik Mining and Rock Technology's customers are in the mining segment, while 20 percent work in the construction industry. The remaining 4 percent is in the oil and gas industries.

Mining customers are relatively few, but they are large and mainly global. In the construction industry, customers are mainly small to medium-sized contractors and quarries and the business is project-driven with a local focus.

### NEW PRODUCTS AND INNOVATIONS



#### ADVANCED AUTOMATION

This next generation of OptiMine® data analytics enables mining companies to gain operational improvements in their mining process by providing real time and automated dashboards with a comprehensive process overview to drive improvements. The solution was developed in cooperation with both miners and contractors and the underlying technology platform is the result of a partnership between Sandvik and IBM.

#### INTELLIGENT CRUSHING

The new CH800i series of connected cone crushers offers intelligent crushing based on information delivered via the My Sandvik portal. The new series helps customers gain insights into productivity and predictive maintenance by offering statistical information that can be used to increase uptime and identify areas for improvement.



#### INCREASING PRODUCTIVITY

Leopard™ DI650i, the new down-the-hole (DTH) drill rig helps customers raise productivity. Intelligent control technology applied in both the compressor and the hydraulic system's cooler fan can reduce fuel consumption by up to 15 percent compared with conventional DTH rigs. The automated solution enables the maintenance crew to carry out daily servicing tasks at ground level through a touch screen for monitoring and diagnostics, providing the rig operator with a safer working environment.



# ELECTRIC SOLUTIONS FOR CLEANER MINING



Goldcorp's mine in Borden Lake, Canada is the world's first all-electric underground mine, an ambitious project the company hopes will inspire an industry-wide shift to more sustainable mining.

**With Sandvik DD422iE electric jumbo, mining companies like Goldcorp can achieve cleaner and healthier mining environments, while delivering cost-effective production.**

Leading gold producer Goldcorp has an ambitious project underway to build one of the world's first all-electric mines. Building and running a sustainable mine that is invisible and silent, is essential for the company, with its latest project located by the pristine Borden Lake in Ontario, Canada.

Once commercial production is underway, the underground mine is expected to not only help minimize the community and environmental impact from mining, but also improve health and safety for employees – all while boosting Goldcorp's bottom line.

"We knew that we had to create a mine in close collaboration and coexistence with our local stakeholders," says Goldcorp's senior project engineer Maarten van Koppen. "It was very important to us to minimize all sources of emission, whether it's noise, dust or other pollutants. Going electric really helped in achieving those goals."

## CUTTING EDGE

Sandvik has provided DD422iE electric mining jumbos for the mine, which produces zero emissions. Reducing the use of diesel-powered equipment underground leads to a positive impact on environment, health and safety as well as helps to reduce the need for ventilation in the mines. The electric jumbos are connected to the grid at Borden to ensure they are constantly charged during drilling.

Miner Randy Harrison is behind the controls of a Sandvik DD422iE unit that Goldcorp depends on to develop Borden's access ramp. "The computer setup and the preciseness that you can get on the face make it the best jumbo around," says Harrison, who's operated development drills since 1989. "Sandvik has been on the cutting edge right from day one since I started operating them."

The jumbo, he says, enables better accuracy, more control, and consistency from crew to crew. "We manage the profile better and have

less overbreak. It allows us to optimize the drilling pattern. Our holes are higher quality."

## SUBSTANTIAL SAVINGS

By eliminating diesel underground and fully electrifying Borden, Goldcorp anticipates a 70 percent reduction in greenhouse gases and annual savings of 2 million liters of diesel fuel and 1 million liters of propane. The company also expects to save 35,000 megawatt hours of electricity yearly, due in large part to drastically reduced ventilation needs.

Goldcorp hopes that this project will inspire an industry-wide shift to more sustainable mining. "The battery technology advancements really enable us to go fully electric," says Borden project manager Luc Joncas. "Not only do we plan to prove to the industry it's possible, we're keen to prove that it will be cost effective and bring even more value to our shareholders than a conventional mine. We believe electrifying Borden makes sense economically, environmentally and socially."

# SANDVIK MATERIALS TECHNOLOGY

Sandvik Materials Technology was back on track in 2018, with improved revenues and operating margins. This resulted from cost and efficiency measures, along with higher market demand for the business area's world-leading metallurgy and application knowledge.



Business area Sandvik Materials Technology develops and manufactures products made from advanced stainless steels and special alloys. The business area produces tubular products, metal powder, strip and products for industrial heating. Its customers come from a variety of industries including the energy, automotive, aerospace and engineering sectors, and rely on Sandvik for products, solutions and support in demanding applications.

**MARKET 2018**

2018 was a strong year for Sandvik Materials Technology with a rise in demand for products such as heating systems and tubes. High nickel prices contributed to the positive effect on our profit, as did an upturn in the oil and gas industry, which is the largest customer segment. The business area continued to benefit from the global trend towards more sustainable solutions with demand for our products, materials and competence to help customers improve energy efficiency. This includes renewable power generation and digital monitoring solutions, like Sentusys™ Intelligent Tube System. We continued to face fierce competition from China, and challenges from US import duties, but our strong production footprint in the US and our specialized products put us in a favorable position.

**STRATEGIC FOCUS AREAS**

In the short-term, we aim to reach a 10 percent EBIT (Earnings Before Interest and Tax) margin by 2019. We are in line with that target with many opportunities to grow and further improve the profitability, focusing on operational

and commercial excellence. In the long term, we aim to be a leading materials technology innovator, providing customers with solutions that make them safer, more sustainable, energy efficient and productive.

**FOCUS ON CORE**

Today, Sandvik Materials Technology’s portfolio is more focused than in the past, due to restructuring and divestments. In the first quarter, we completed the divestment of our welding wire business to industrial company ESAB, including the global sales organization and production units in Sandviken, Sweden and Scranton, US. In May, we announced a divestment of our 50 percent stake in the Fagersta Stainless wire rod mill, in a transaction that is expected to close by the end of 2019. In the third quarter, we divested our stainless wire business to the German family-owned Zapp Group. The deal included a production unit in Sandviken, Sweden, and a global sales organization along with selected trademarks and patents. In the fourth quarter, we signed an agreement to divest our electric components business to power resistor manufacturer Ohmite.

We are building on our core capabilities and in August we announced the acquisition of Custom Electric Manufacturing, a leading manufacturer of industrial heating equipment and replacement heating elements in North America. This acquisition will strengthen Sandvik’s leading position in industrial heating systems.

**2018 IN FIGURES**

**Revenues:** 15,111 million SEK (13,618) with 12.5% organic growth  
**Operating profit:** 1,391 million SEK (277)  
**Operating margin:** 9.2% (2.0)  
**Return on capital employed:** 10.5% (2.1)  
**Employees:** 6,102 (6,545<sup>1)</sup>)  
**Gender balance:** Men 82%, Women 18%  
**President:** Göran Björkman  
**Lost time injury frequency rate (LTIFR):** 4.3 (3.6)  
**Total recordable injury frequency rate (TRIFR):** 7.5 (9.9)  
**Estimated market size:** 130 billion SEK

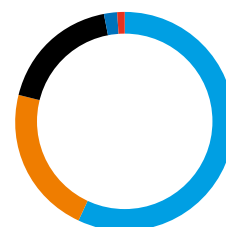
*1) Number of employees adjusted for items affecting comparability, due to internal reallocation.*

REVENUES BY CUSTOMER SEGMENT



- Energy, 38%
- Engineering, 24%
- Consumer and Electronics, 12%
- Automotive, 7%
- Chemicals, 6%
- Construction, 4%
- Other, 9%

REVENUES BY MARKET AREA



- Europe, 57%
- North America, 22%
- Asia, 18%
- Africa/Middle East, 2%
- South America, 1%

## OPERATIONS

### TECHNOLOGY LEADERSHIP AND INNOVATION

Sandvik Materials Technology is a leading expert in special alloys and advanced stainless steels. In 2018 we received an order from CERN, the European organization for particle physics research, to develop a new advanced stainless steel for the world's largest and most powerful particle collider, the Large Hadron Collider (see case below). Sandvik Materials Technology is also supplying components to the prestigious NASA WFIRST project for a space-based telescope that will help astronomers improve their understanding of dark energy. We are growing in the medical segment, which is an area where we see excellent potential for our medical wire Exera™. Exera is used for many applications, including ear implants, spine stimulation, heart solutions, and glucose and thermal measurements.

### STABILITY, PROFITABILITY, GROWTH

The business area's key priority during the year was to restore profitability to the portfolio, which is in line with Sandvik's strategy for stability and profitability before growth. We remain focused on profitability in the Strip and Tube divisions, while we have moved into growth mode for the Kanthal division. In February, Sandvik announced a 20 million EUR investment in a new plant for the manufacturing of titanium and nickel fine metal powders. The investment will expand Sandvik's metal powder offering, enabling future growth. Construction of the plant in Sandviken, Sweden is underway and expected to be operational in 2020. As of January 1, 2019 the Powder division is operated by business area Sandvik Machining Solutions.

### EFFICIENCY AND CONTINUOUS IMPROVEMENT

Sandvik has a target to improve productivity (revenues per employee) by at least 3 percent annually. In 2018, Sandvik Materials Technology contributed to this goal by improv-

ing operating margins through internal cost efficiencies; portfolio improvements resulting in a better product mix; and better price management. The efficiency program in 2017 contributed to the improved results in 2018. Closures of a Kanthal facility in Italy and a Tube site in Canada announced late in the year will have a further impact.

### SUSTAINABLE BUSINESS

We collaborate closely with customers to help them improve energy efficiency through, for example, material technologies that conduct heat better. Kanthal®, our electric heating technology and services help customers reduce their carbon footprint by converting from gas to electric heating. Sandvik Hiflex® compressor valve steel make refrigerators and cooling systems more energy effective and our stainless steel Pressurfect® enables more power to be produced in vehicles with significantly reduced fuel consumption and emissions.

Sandvik Materials Technology is also investing in solutions that make our customers' products safer and reduce their environmental impact. Our umbilical tubes, for example, improve safety in the oil and gas industry and our patented Safurex® material increases safety in urea plants and other applications by improving corrosion resistance in tubes. In 2018 we launched the next generation, Safurex Star, with our partner Stamicarbon in a further step towards increasing safety and productivity within our customers' processes (see case story on page 29).

We continue to optimize our operations through reducing energy usage, waste and water usage. Among the many local initiatives in 2018 was an agreement with Gästrike Ekogas to purchase their surplus biogas. We expect to reduce our carbon dioxide emissions by about 2,000 tons per year by replacing much of our oil and gas with carbon neutral biogas.

## SANDVIK IN PRESTIGIOUS PROJECT WITH CERN

The Large Hadron Collider (LHC) is the world's largest and most powerful particle accelerator. It is located at CERN, the European Organization for Nuclear Research, headquartered outside Geneva in Switzerland. It consists of a 27-kilometer ring of superconducting magnets with a number of accelerating structures to boost the energy of the particles along the way. Sandvik has received an order in an LHC upgrade project where our advanced stainless steel will be used to keep the particle beam in position in the accelerator. The project is CERN's most extensive during the coming decade, entailing an investment close to 1 billion EUR. CERN is regarded as the world's biggest laboratory for particle physics research where one of the aims is to understand how the universe was once formed and which fundamental laws rule our world.



Photo: CERN

Sandvik delivers advanced stainless steel in the upgrade of the Large Hydron Collider, the world's largest and most powerful particle accelerator.

### THE JOURNEY AHEAD

Sandvik Materials Technology had a good year in 2018, delivering on targets and building trust and confidence both internally and externally, with better profitability and stability compared to recent years. Following the divestment of products outside our core business, we can now look ahead to broadening our base within the aerospace

and medical sectors. Widening certain portfolios will eliminate our dependency on a single segment. Many macro trends are moving in our favor, with an ever-increasing need for more resistant and lightweight materials that help customers in their sustainability efforts. As a company with strong competence in material science, we are in a good position to tap into these trends.



Karzan Jabar works as an operator at the Strip division in Sandviken, Sweden.

## OVERVIEW

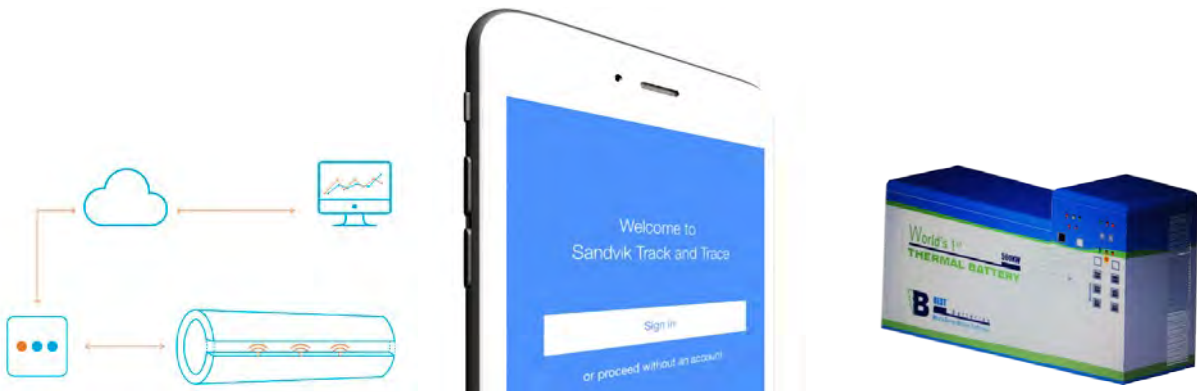
<b>Product portfolio</b>	Tubular products, bars, billets, strip, rock drill steel, heating systems, medical wire and metal powder.
<b>Market characteristics</b>	Selected niches in demanding industries where material requirements, as well as product quality and reliability, are extremely high. High entry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

## CUSTOMERS AND PRODUCTS

**Sandvik Materials Technology has got few but large customers. A major portion of them, 38 percent, are in the energy sector where we supply high-alloy products such as stainless steel tubes and strip steel with functional coating that is used, for instance, in fuel cells.**

Our stainless steel and high-alloy products are common in the automotive segment where they can be found in air conditioning and air bags. We also serve customers in aerospace with special alloys and our tubular products. Our portfolio for the medical segment is small but growing, particularly through medical wire.

## NEW PRODUCTS AND INNOVATIONS



### SENTUSYS™

The intelligent tube system Sentusys™ helps customers increase safety and control the status of the tubes inside their processes with the help of cloud-based data and sensors embedded in the tube. Customers receive continuous information about temperature, strain and vibration, enabling immediate corrections.

### TRACK AND TRACE SERVICE APP

In 2018, Sandvik launched this service app to help customers save time in their daily operations. The app makes it easy for customers to keep track of their orders from Sandvik's distribution centers to their final destination, including information about the shipping route, estimated time of arrival, the number of packages and weight of delivery.

### NEW SUPERTHAL® APPLICATION

Superthal® heating modules are used in laboratory and production furnaces/heaters wherever concentrated heat is needed. Indian customer Bharat Energy Storage Technology has developed a new application where it uses ceramic Superthal heaters to store excess solar and wind energy and, when needed, convert it to electrical heating.

## A STAR IS BORN



Sandvik and urea technology leader Stamicarbon have jointly developed a super-duplex steel with improved corrosion resistance in heat exchanger tubes operating at high pressure and temperature.

**In 2018, Sandvik and Stamicarbon launched the super-duplex steel Safurex® STAR, developed together to withstand the corrosive environments in the urea production process.**

More than 190 million tons of urea is produced each year, made from a mixture of ammonia and carbon dioxide. The vast majority (over 80 percent) of this urea is used to fertilize the world's crops, but urea can also be found in cosmetics, cattle feed, melamine for resins, and in AdBlue®, a solution used as an agent to reduce NO<sub>x</sub> from combustion gas from diesel engines.

Based in the Netherlands, Stamicarbon has been at the forefront of developing and licensing technology for the urea industry since 1947. Today, more than half of the installed capacity of urea plants around the world use Stamicarbon's technology.

### COMPLEX PROCESS

The urea process is complex, especially due to the high pressures and temperatures in urea synthesis in combination with a highly corrosive process environment that requires oxygen to inhibit active corrosion.

Some thirty years ago, Stamicarbon partnered with Sandvik to develop a material that could

withstand this severe process condition with reduced oxygen, thereby increasing plant output and safety. The partnership resulted in Safurex®, a high-alloy duplex steel that minimizes corrosion in the tubes, high-pressure valves, piping, lining, scrubber and other applications found in urea plants.

"The partnership was established based on the perfect combination of technical knowledge and expertise, combining two leading companies on materials, processes and corrosion expertise in the field of urea," says Joey Dobrée, product portfolio manager at Stamicarbon. "Continuous development and contributions to research and innovation have brought us to where we are today and has resulted in a leading knowledge center for the urea fertilizer industry worldwide."

### REDUCED COST

Today, the well-recognized Safurex brand has been expanded with Safurex STAR, a super-duplex steel designed to improve corrosion resistance in heat exchanger tubes

that are operated at high pressure and temperature. "Safurex STAR has improved mechanical properties, which allow for a thinner wall and lower weight and thus reduce the investment cost for a plant," says Oscar Johansson, product manager at Sandvik.

The two partners continue to provide solutions for the urea industry, with Stamicarbon currently developing digital services that enable plant owners to monitor plant performance and provide information regarding maintenance. These digital applications will combine Stamicarbon's Advance Insight™ Process Monitoring tool with Sandvik's intelligent tube system Sentusys™.

"Stamicarbon is proud to have such a successful strategic partnership with Sandvik, which is providing relevant solutions to the urea industry, considering that Stamicarbon urea plants are producing fertilizer to feed a large part of the world's population," Dobrée concludes.

# DOING THINGS RIGHT

Sandvik strives to be a responsible and ethical company with a culture of doing things right. Our Code of Conduct is designed to guide all employees in their daily activities to ensure that Sandvik is a good corporate citizen and respectful business partner.

Sandvik's group-wide Code of Conduct provides clear standards, processes and procedures for how employees around the world should act as representatives of the company. It covers a wide range of areas including human rights, working conditions and trade issues. The Code of Conduct also helps to ensure compliance with relevant laws and regulations.

The Code of Conduct is a vital component in The Sandvik Way governance model, which encompasses common steering documents and processes. The Sandvik Way also describes a common culture and ways of working. More about The Sandvik Way on page 58.

### OUR CORE VALUES

The Code of Conduct is based on Sandvik's four core values: Customer Focus, Innovation, Fair Play and Passion to Win. In order to support a more sustainable future for both Sandvik and our stakeholders, we are committed to adhering to the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

The Code of Conduct's foundation was built on the United Nations 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, which Sandvik has signed.

"Sandvik's Code of Conduct supports me in my daily work"



Helen Blomqvist, General Manager Sales Area North Europe, Sandvik Coromant

### TRAINING FOR ALL

Sandvik's Code of Conduct is updated regularly and applies to all employees worldwide, including long-time contractors (working more than 90 days). All new employees receive training in the Code of Conduct, including anti-bribery and corruption, and related policies as part of their introduction to Sandvik. Every month, a report is generated to identify training gaps among Sandvik's approximately 42,000 employees. By the end of 2018, 94 (93) percent of employees and long time contractors had conducted Code of Conduct training.

### WHISTLE BLOWING

Employees and external parties who witness a violation of the Code of Conduct, laws or our policies can report it, anonymously, through Speak Up, a global reporting system. They can also ask questions related to the Code of Conduct through

Speak Up. 83 percent of the respondents in Sandvik's 2018 Employee Engagement Survey said they were aware of the whistle blowing process and 74 percent said they trust the system.

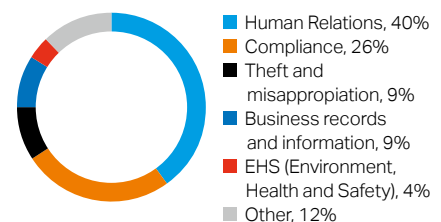
Speak Up is available through Sandvik's internet and intranet portals, as well as through telephone hotlines 24 hours a day, 7 days a week, in all major countries (today 50) where Sandvik operates. Speak Up reports are screened and each case is then assigned an investigator from the business area that conducts the investigation, supported by Group functions.

The Group Ethics Office oversees the effectiveness of the Speak Up process. Reports, investigations and remediation are recorded, monitored and included in reporting to the Group Audit Committee.

No retaliation may be taken against an employee or business partner who, in good faith, voices their concern, as is outlined in Sandvik's Speak Up Policy.

In 2018, 206 (230) Speak Up incidents were reported (see distribution in chart below). It took on average 67 days to close a Speak Up case and the substantiation rate amounted to 62 (55) percent.

TOTAL AMOUNT OF SPEAK UP REPORTS IN 2018: 206





# COMPLIANCE

At Sandvik, we are committed to conducting our business with honesty, integrity and high ethical standards to meet legal requirements as well as stakeholder expectations. Our compliance programs, addressing anti-bribery and corruption, competition law, trade compliance and data privacy, are an important part of our work.

Sandvik's compliance programs are designed based on guidance provided by major regulators and organizations. Sandvik manages risks in four compliance areas – anti-bribery and corruption, competition law, trade compliance and data privacy – by formulating measures to prevent, detect and respond to breaches of law. These measures are implemented in the business with the advice and assistance of the compliance functions. One example is that employees and other stakeholders are encouraged to report any deficiencies or breaches of compliance through Sandvik's Speak Up system (see page 30). During 2018, the strategic work has mainly focused on improving the assurance through increased follow-up and reporting as well as having better integration of Sandvik's assurance functions. Different compliance training was offered to employees in the form of e-learning, webinars or classroom training. A total of 10,000 participants received training.

## TRADE COMPLIANCE

The trade compliance program addresses customs, sanctions and export controls. This area was demanding in 2018 due to Brexit preparations, as well as a number of changes in customs tariffs and international sanctions imposed by the US government and other countries.

## DATA PRIVACY

In 2018, focus was on the implementation of the requirements in the EU General Data Protection Regulation (GDPR), which came into effect in May. Sandvik's Data Privacy policy applies to all entities within the Sandvik Group and a number of changes have been implemented within the Group to comply with the GDPR.

## ANTI-BRIBERY AND CORRUPTION

Sandvik has zero tolerance for bribery and corruption. In addition to regular operational work such as training and due diligence, a new IT system was implemented during the year to support the anti-bribery due diligence and management of commercial intermediaries. A revised procedure for handling gifts and entertainment was also introduced.

## COMPETITION LAW

With our competition law compliance program, we aim to mitigate risks associated with competition or antitrust laws in all countries where Sandvik operates. The program relies on frequent e-learning and in-person training for employees who may be exposed to competition law risks in their work. In 2018, about 4,000 employees received training in competition law. Training in this area is repeated and updated every two years. Comprehensive competition law guidelines are available for all employees who are also encouraged to seek advice from Sandvik Legal Support teams should they have any doubts about the legality of a business activity.

### EACH OF THE COMPLIANCE PROGRAMS COMPRISE THE FOLLOWING ELEMENTS:

- Identification and assessment of risks
- Controls (including policies, procedures and record keeping)
- Training
- Enabling and enforcing
- Follow up, reporting and improvement
- The organization

# COMPETENCE FOR THE FUTURE

Sandvik offers its employees a dynamic and inclusive working environment with plenty of opportunities to grow. We recognize that it is crucial to attract and maintain new competence for the future and continued our emphasis on this during the year.



Sandvik has a strong company culture and way of working that are guided by our core values of Customer Focus, Innovation, Fair Play and Passion to Win. We offer fair remuneration, a diverse and inclusive workplace, and working terms that respect the needs of the individual. Our employees are encouraged to be innovative and push industry boundaries.

## COMPETENCE SHIFT

Today there is a need for new competence from outside the company as well as a need for existing employees to continuously develop to prepare Sandvik for a future where software, robotics and automation is increasingly being leveraged to drive competitive advantages.

Among the newer skillsets that are increasingly in demand are front- and back-end developers, user experience designers, data scientists, integration architects, automation engineers, digital talents, and senior system developers. We recognize the challenge in attracting such talents

while competing with strong global players for a limited talent pool. Our recruitment focus is therefore very pro-active, in order to have a constant flow of candidates.

We are putting great effort into creating awareness of Sandvik as an employer and leveraging more niched online channels and forums to reach new audiences. We search for and build relationships with potential candidates in social networks. One example is our partnership with LinkedIn, used as a recruitment platform, and in 2018, 454 of our new hires had contact with us through LinkedIn. At year-end, about 225,000 people followed us on LinkedIn which makes it a strong platform for Sandvik employer branding.

## Internal training

In addition to searching for new talent, we provide our existing employees with prerequisites to upskill through on-the-job-training, virtual learning channels and classroom training. We can offer our employees

leadership programs, learning academies, digital workshops, mentoring, and other opportunities to acquire new skills and knowledge.

## LEADERSHIP DEVELOPMENT

Our 5,300 managers play a crucial role in enabling teams to grow and deliver results. Our leadership model and our global leadership programs set clear expectations on both leadership capabilities and behaviors. The leadership programs deliver proven business value and equip leaders to lead successful teams. In 2018, 622 (500) employees participated in a leadership program. Their feedback in follow-up surveys indicates that these programs support the development of leadership capabilities and managers' contribution to business.

## YOUNG TALENTS

Through our Global Graduate Program, we attract and train young professionals at various parts of the Sandvik organization. Our third graduate program received over 2,500 applications, out of which ten graduates were selected from five countries to mirror our business presence in different regions. All graduates have a Master's degree in Engineering or Business Administration. One of the main purposes with the program is to develop and prepare graduates for future key positions, and after the program they are deployed into different roles within our business. The program is very successful and we have a strong retention rate; 20 of 24 former graduates still work within Sandvik and they have had various roles within the company, such as internal auditor, service manager, project manager, global change leader and business development specialist.

**INTERNAL JOB MARKET**

As a Sandvik employee you are responsible for your own career development. Sandvik offers a wide range of career opportunities. Our internal job market enables our employees to move to other parts of Sandvik or other countries and grow and develop as individuals and professionals. In 2018 about 2.900 (3.600) employees were hired and a majority of the positions were posted on the open internal job market.

**DIVERSITY AND INCLUSION**

Diversity and inclusion are prioritized areas within Sandvik and we believe that an inclusive workplace that enables people to contribute in line with their full potential creates business value.

The share of women in managerial positions increased to 17.7 percent (17.1), the share of women in division management teams amounted to 17 percent (19) and the share of women in our talent pool was 28 percent (27). 19 percent (20) of the members in division management teams were non-Europeans.

We offer training in diversity and inclusion through a toolbox that includes e-learning workshops and exercises. Our Bridge program focuses on leading across boundaries and all our internal global leadership programs include training on how managers can work with diversity and inclusion.

**EMPLOYEE ENGAGEMENT**

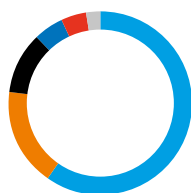
In our efforts to continuously develop our business and our teams, we

conduct a global Sandvik employee engagement survey. The survey provides a starting point for team performance dialogues and development activities, and measures both how engaged our employees are and whether we, as a company, have put in place all we need to achieve high organizational results. In 2018, 87 percent of our employees participated in the survey and we made progress in both areas mentioned above.

Every employee at Sandvik is offered at least one individual performance dialogue annually with their manager that focuses on previous performance as well as development plans for the coming years.

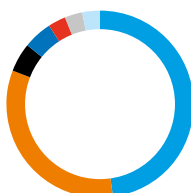
For more people-related data, see pages 136 and 140.

NUMBER OF EMPLOYEES BY MARKET AREA



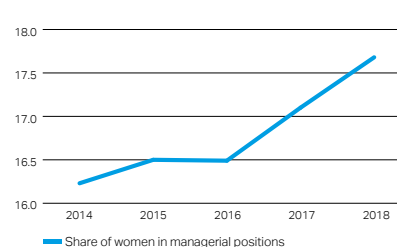
- Europe, 25,000
- Asia, 7,257
- North America, 4,452
- Africa/Middle East, 2,235
- South America, 1,895
- Australia, 943

TOP 300 MANAGERS, NATIONALITIES



- Sweden, 48%
- Europe excl Sweden, 33%
- North America, 5%
- Asia, 5%
- Africa/Middle East, 3%
- South America, 3%
- Australia, 3%

SHARE OF WOMEN IN MANAGERIAL POSITIONS, %



— Share of women in managerial positions

**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 in which we confirm our support of, amongst others, the Bill of Human Rights and UN Guiding Principles on Business and Human Rights. The Codes also provide guidance in identifying, preventing and mitigating risks related to human rights. In 2018, 28 percent of all Speak Up reports related to human rights matters.

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 initiatives 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 strongly in the right to a safe and healthy workplace.

We do not accept any form of harassment or bullying and 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.

## MEET OUR EMPLOYEES

**Lisa Jiang** has been working at Sandvik since 2006, starting as a field sales engineer and moving into a number of other sales and key account roles every couple of years. Today she is Managing Director at product unit Precision Strip, within Sandvik Materials Technology in Shanghai, China.

**Q: What was your first impression of Sandvik?**

**A:** My first impression when I joined Sandvik is that it is like a family. I have been here for 12 years and a lot has changed but we still have a very good work atmosphere.

**Q: What is the biggest difference since then?**

**A:** I feel we are more customer-focused than before and also we have become faster and even more ambitious.

**Q: Two years ago, you were selected to attend a Sandvik global leadership program. Tell us about it!**

**A:** In the beginning, I felt they had chosen the wrong person for the program. I didn't have the confidence to participate at this program level, but my manager encouraged me to do it. It paid off. Sandvik training has been a big support throughout my career development, and the leadership program in particular encouraged me to take greater responsibility.

**Q: What did you learn?**

**A:** My big takeaway from the global leadership program was to step out of the comfort zone, take challenges and try to do the thing you thought you couldn't do.



**Hugo Nordell** has degrees in engineering, economics and finance, along with a background in technology entrepreneurship in Silicon Valley, USA. He has also headed up software engineering and product management for an Internet of Things software company that operated across three continents. Hugo joined Sandvik in 2017 and is currently the Vice President of Sandvik's Center of Digital Excellence.

**Q: What is the purpose of the Center of Digital Excellence?**

**A:** The purpose is to develop, educate and enable digital business inside business area Sandvik Machining Solutions, both in terms of driving internal efficiencies using modern technology, but also to help shape new customer-facing solutions.

**Q: What attracted you to Sandvik?**

**A:** Among other things, I have clear business goals, the freedom to decide how to achieve them and can rapidly take decisions close to

customers. I also like the fact that we solve problems on a global scale and I contribute to the outcome.

**Q: What are you doing to attract new digital talent?**

**A:** We try to show that there are meaningful challenges with global impact ready to be solved in entirely new ways and that our results lead to tangible outcomes in the physical world. It's very difficult for a startup to offer this kind of bridge between the digital and the physical.

**Q: Would you recommend that other people with similar skillsets as yours work at Sandvik?**

**A:** Yes, I would. I think people like myself, who have mostly worked in software, stand to learn a lot from how complex and challenging manufacturing really is in a way that software is not. A lot of people who work at well-funded startups would become better at managing resources if they were exposed to manufacturing.



# HEALTH AND SAFETY

Sandvik is working steadily towards its vision of Zero Harm through the implementation and continual improvement of Environment, Health and Safety management systems. This is coupled with a wide range of activities to improve the already strong health and safety culture.

Our vision is Zero Harm to our people, our customers, our suppliers and the environment we work in. A strong health and safety culture with a “people caring for people” mindset is helping us to achieve this. The last time the question was asked in our employee survey, 88 percent of respondents rated the safety culture at Sandvik as either “strong” or “very strong.”

This health and safety culture permeates the whole company, and it starts from the top, with Environment, Health and Safety (EHS) leadership being one of the focus areas for the Sandvik EHS Objectives. This is implemented in Sandvik Mining and Rock Technology, for example, by leaders committing to three personal EHS leadership behaviors that are then monitored and measured. By “walking the talk” the leadership team is turning “wanted behaviors” into measurable processes and then into leading indicators that can tell a story that inspires positive cultural change.

### METRICS DRIVE CULTURE

We believe that what gets measured gets done. Sandvik’s EHS management systems and tools provide a structured approach to setting, implementing and monitoring our health and safety targets. The Sandvik EHS Council consists of representatives from each business area with its primary aim being to facilitate collaboration across the company that will enhance our progress towards our EHS vision.

Our EHS 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. Every non-administrative Sandvik location with more than 25 people is required to have external certification within two years of commencement or acquisition. Currently all of these locations meet this requirement, with

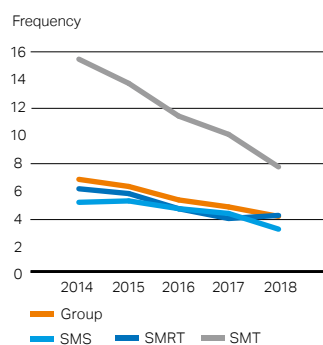
the exception of one site where the process has been delayed.

Sandvik’s EHS Policy and Group EHS Objectives drive our health and safety activities. Each business area works to meet these objectives according to their own plans, but with the common aim of eliminating all work-related fatalities and minimizing the number of work-related injuries and illnesses. Targets are set year on year to drive performance on all organizational levels. For more health and safety-related data, see page 139.

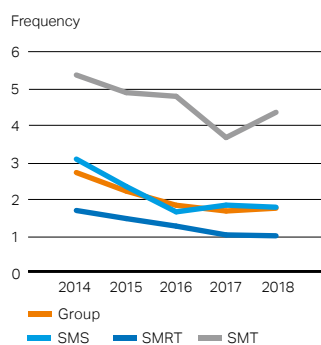
### PERFORMANCE IN 2018

Sandvik’s health and safety work shall comply with all relevant legislation and we strive to go beyond compliance to ensure the best performance for both our employees and our customers. We utilize a wide range of leading and lagging indicators to measure safety and health performance in every Sandvik location, including Lost Time Injury Frequency

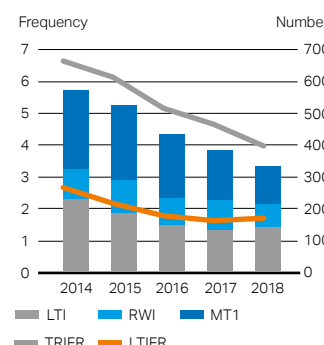
TRIFR BY BUSINESS AREA



LTIFR BY BUSINESS AREA



TRIFR AND LTIFR



Development of different injuries included in TRIFR and LTIFR over time. An LTI is an accident resulting in time away from work, a RWI (Restricted Work Injury) is an injury where you can be at work but you can’t perform your ordinary work, and a MTI (Medical Treatment Injury) is when you need some kind of medical treatment but can perform your normal work.



Automating mining equipment reduces the risks for employees, who can work above ground while mining equipment is maneuvered into riskier and difficult-to-access locations.

Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR). Both of these indicators show long-term positive trends. In 2018, the LTIFR (LTIs per million hours worked) increased to 1.7 (1.6), mainly driven by an increased number of low level LTIs (1-2 days lost) within Sandvik Materials Technology. However, the business area reduced its TRIFR by 24 percent which contributed to the Group TRIFR being reduced to 4.0 (4.6). As the LTIFR gets to lower levels, Sandvik is moving towards a greater focus on TRIFR as its primary safety performance indicator. There have been no fatalities to report since 2015.

Using a Significant Incident Alert process, business areas can quickly inform other parts of the organization of incidents that are relevant across the company to minimize the likelihood of a recurrence.

**EMPLOYEE WELL-BEING**

In line with the United Nations Sustainable Development Goals, we aim to have a culture and working environment that supports the good health and well-being of our employees. All of our sites should offer health and well-being programs

that have been adapted to local needs. The programs address a wide range of issues such as fitness, nutrition, mental health and disease prevention.

**OCCUPATIONAL ILLNESS**

The increasing incidence of work-related mental health issues is a concern for many communities around the world. To address this concern, Sandvik launched company campaigns in 2018 to increase awareness and education for employees about mental health issues, for example Australia's "R U OK?" (Are you OK?) campaign. Sandvik has processes in place to record and investigate occupational illnesses to determine the root causes and develop prevention strategies.

**HAZARDOUS MATERIALS**

Within production we continually work to replace hazardous materials with less hazardous options or, where replacement is not an option, minimize the use of hazardous materials. We are also investing in new equipment and in improving our processes to reduce employee exposure to hazards such as noise, dust and exposure to gases or other sub-

stances. Our products and solutions are designed to help our customers improve their health and safety as well, for example by reducing their exposure to chemical hazards. Our battery-driven underground mining equipment helps to alleviate the potential health impacts of diesel particulate matter and other engine emissions.

**SAFETY FORUMS**

Sandvik is the only Original Equipment Manufacturer (OEM) on the Mining Safety Round Table (MSRT), formed by Sandvik and other major mining companies to share and learn from operational practices with the aim of preventing workplace fatalities. Sandvik is also a member of the Earth Moving Equipment Safety Round Table (EMESRT) and the International Council on Mining and Metal's (ICMM) innovation forum for cleaner, safer vehicles. These collaborative forums aim to encourage and facilitate improvements to eliminate mining equipment-related fatalities, improve underground air quality and reduce emissions of greenhouse gases.

# SUSTAINABLE SUPPLIER MANAGEMENT

Sandvik is committed to sustainable procurement practices that minimize our social and environmental negative impacts, improve the sustainability performance of our supply base and generate value for business, our customers and society at large.

As a global company with operations around the world, Sandvik has a diverse supply base, totaling in 2018 approximately 78,000 suppliers located in 99 countries, from which we source raw materials, components, products and services. In 2018, 12.2<sup>1)</sup> percent of our supplier spend occurred in countries with a high risk of Sandvik Supplier Code violations such as China (5 percent), India (3.4 percent), Brazil (1.9 percent) and Mexico (0.8 percent).

### SUPPLIER SUSTAINABILITY PROGRAM

We are constantly focused on initiatives that enhance sustainability performance, recognizing the potential for progress in this area. In 2018 our program encompassed activities aimed to create supplier commitment, increase knowledge and monitor our suppliers' performance, particularly in high-risk areas. We require our suppliers to make every effort to comply with Sandvik's Supplier Code of Conduct.

#### Building knowledge

In 2018, we continued our knowledge building activities. We trained all 202 audited suppliers in the Code of Conduct and our way of working. An additional 42 suppliers received similar training as part of two supplier events organized in India. In most cases we also supported our suppliers to develop corrective actions plans for addressing the deviations from the Supplier Code.

#### Suppliers monitoring

We assess the risk related to violations of our Supplier Code, primarily based on the suppliers' location and activities involved in the production,

delivery of goods and services to us. Going forward, we intend to further refine our risk assessment and diversify our response to risk.

In 2018, we identified 1,670 suppliers (out of 41,588 assessed) located in high-risk countries and developing activities deemed of high risk. A total number of 202 suppliers were audited, out of which 100 are located in India, 87 in China, 10 in Chile, four in South Africa and one in Brazil. All were audited either by our own auditors (142 suppliers) or by independent third-party auditors selected and trained by Sandvik (60 suppliers). All audits were conducted on site.

Follow up on the corrective actions agreed to with the suppliers is essential to ensure that deviations are rectified. 117 corrective action plans (58 percent of total) were agreed to with the suppliers audited in 2018, out of which 36 were implemented partly or fully. The remaining 54 are within the time limit agreed to with the suppliers. For about 85 audits, conducted at the end of 2018, corrective action plans are being discussed with the supplier.

In 2018, we identified no deviation related to child labor or underaged workers exposed to hazardous working conditions. Deviations related to young workers refer to incomplete physical health examinations, recruitment policies/ procedures/missing proof of age while those regarding forced labour relate to financial penalties imposed on employees at our suppliers in China. Legal compliance deviations relate primarily to missing or expired health and safety or environmental certificates/licenses. Competition Law, Anti-corruption and Conflict Minerals deviations refer to a lack of relevant policies. Deviations related to environment, health and

safety refer to a range of issues from missing relevant policies to lack of fire safety measures and/or risk assessments. Deviations related to employment conditions mostly refer to contracts missing mandatory clauses. In 2018 no supplier relationship was terminated due to audit results.

### CONFLICT MINERALS

During 2018, we carried out a reasonable country of origin enquiry to identify smelters and refiners associated with our supply chain. This was based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

A large part of Sandvik's total tungsten supply comes from our own subsidiary, Wolfram Bergbau und Hütten in Austria, a Conformant Tungsten Smelter that has maintained its compliant status since the company successfully completed the Responsible Minerals Assurance Program (former Conflict-Free Smelter Program) audit in March 2015.

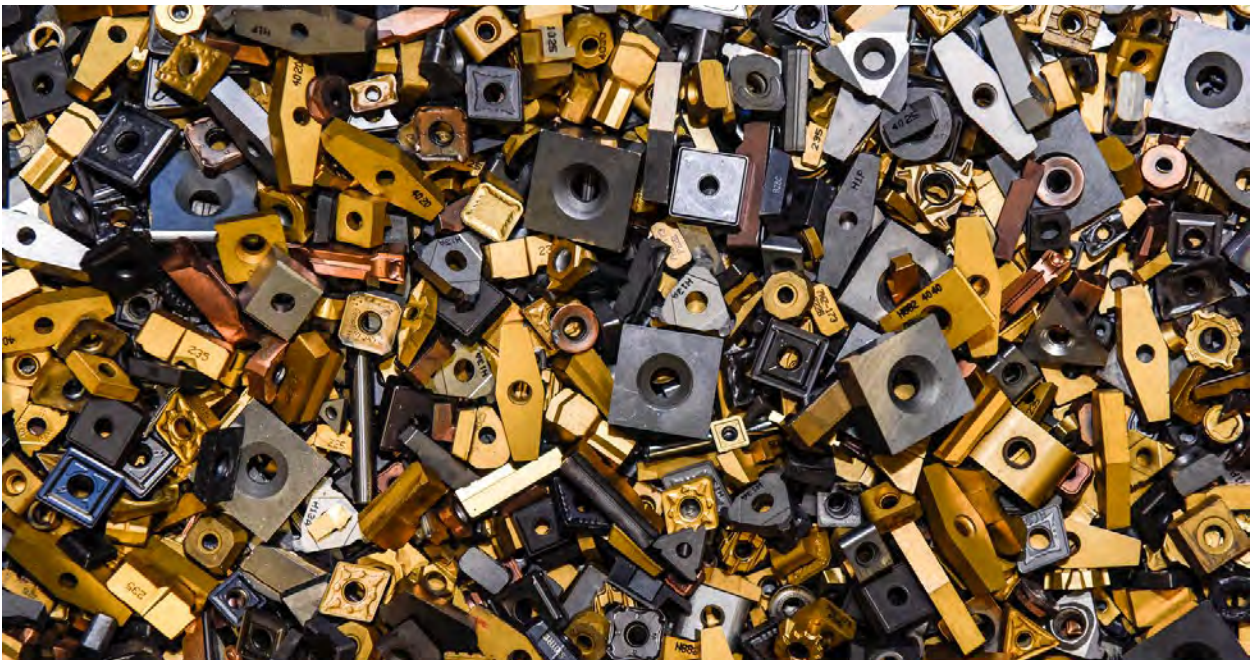
#### DEVIATIONS IDENTIFIED AMONG SUPPLIERS 2018

Health and safety	1,335
Compensation and benefits	344
Environment	327
Management system	302
Working hours	216
Anti-corruption	207
Employment conditions	193
Competition law	168
Monitoring	92
Legal compliance	90
Forced labor	40
Conflict free origin of minerals	29
Freedom of association and collective bargaining	8
Right to property	7
Discrimination	1
Child labor	0
Young workers exposed to hazardous working conditions	0
<b>Total</b>	<b>3,359</b>

1) Based on 80 percent of total spend.

# ENVIRONMENTAL FOOTPRINT

At Sandvik we see our environmental initiatives as both a fundamental responsibility and a business opportunity. We provide customers with products and services that boost their environmental performance and efficiency. Within our operations we work continuously to minimize our own environmental impact.



Sandvik is committed to meeting three of the environmentally related United Nations Sustainable Development Goals: affordable and clean energy; responsible consumption and production; and climate action (see page 141).

## REDUCING ENERGY USAGE AND EMISSIONS

Through the implementation of a new reporting process, Sandvik is working to ensure that every individual site in the company has an action plan to increase energy efficiency and reduce carbon dioxide emissions (CO<sub>2</sub>). Sandvik had about 72 environmental action plans underway in 2018. Heat exchange systems, improved insulation in buildings, LED lighting, and solar rooftop panels are some examples of initiatives.

For 2018, Sandvik had set a target to reduce its energy usage by 1.5 percent and to reduce carbon emissions by 2.2 percent. The energy usage was reduced by 1.7 percent and carbon emissions were reduced by 0.9 percent. The carbon target was not met, due to increased production. However, the carbon emission intensity, defined as emissions in relation to revenues, improved by 10 percent.

Seco has a Green Fund where money is diverted from carbon credits to fund various initiatives to decrease energy and CO<sub>2</sub> emissions at its sites. In 2018, the Green Fund paid for new energy-saving windows in La Tour du Pin, France, LED lighting in Lottum, Netherlands, the leasing of hybrid cars in Fagersta, Sweden and a voltage optimizer for the site in Alcester, UK.

Our main production sites in

Europe have been buying energy from renewable energy sources since 2013, resulting in a reduction of annual emissions by approximately 100,000 tons.

Sandvik's site in Svedala, Sweden is being connected to a new district heating system that will eventually replace all of the site's natural gas furnaces, contributing to CO<sub>2</sub> reductions.

Our Combined Heat and Power plant in Tübingen, Germany is recovering excess heat from production processes to produce energy. Since 2016, 420 kilowatts of thermic energy and 214 kilowatts of electricity have been produced.

In Katowice, Poland, Sandvik has installed a new central treatment for machining emulsion. The installation will lower the energy consumption, and the energy from the heated



emulsion will be used for hot water production and heating of the site. Energy savings are estimated at 1,500 MWh annually.

**USE, REUSE AND RECYCLE**

Circularity is a key aspect for Sandvik and we are reusing and recycling to offset the use of raw materials. More than 30 Sandvik locations report a 100 percent waste recovery rate. Sandvik recycles both steel and cemented carbide. About 50 percent of the cemented carbide that is used in our production comes from recycled material. The wear parts for crushing manufactured by Sandvik Mining and Rock Technology are made from more than 90 percent recycled steel.

The Sandvik Machining Solutions business area has buyback programs for used products from customers. Recycling of metals is done in our own refining plants. Sandvik Mining and Rock Technology collects used products and discarded drilling consumables containing cemented carbide at customer locations to make it easier for them to recycle.

In our Chiplun, India site, food waste from the canteen is used for biogas production. The gas is led back to the canteen and used for cooking food.

**WASTE MANAGEMENT**

Sandvik’s sites are working to reduce the consumption of raw materials and the amount of waste going to landfill. Our target is to increase the share of recovered waste to 20 percent and we are currently at 18 percent. Total waste increased by 11 percent, of which 10 percentage points were caused by construction work at the Sandviken site.

Each year, about 30 tons of plastic waste, including large bags and plastic packaging, is generated at our Wolfram Bergbau und Hütten refining facility in Austria. This plastic waste is being processed in a sorting plant in Austria and resold to plastic producers, serving as raw material for new plastic products.

**WATER**

About 90 percent of our manufacturing activities take place in areas where there is an abundance of water. Nonetheless, water is circulated, particularly cooling water, to reduce the consumption of fresh water at several of our production units.

Cooling systems that recirculate water have been installed at our refining plant Saint Martin in Austria, where previously fresh water from a river was used for cooling. In 2018,

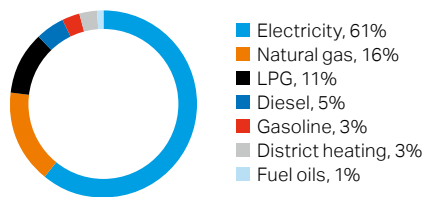
the site used 1.3 million cubic meters of cooling water which represents one third of Sandvik’s total surface water usage.

We have taken further steps where water is a scarce resource. At our Pune, India site we have installed rainwater collection systems to reduce the use of fresh water. At our Jet Park site in South Africa we have an on-site water recycling plant to lower water consumption. Our global assembly center in Jiading, China has replaced its current shower system with a solar water heater that will result in significant reductions in CO<sub>2</sub> emissions and energy costs, while increasing the facility’s showering capacity.

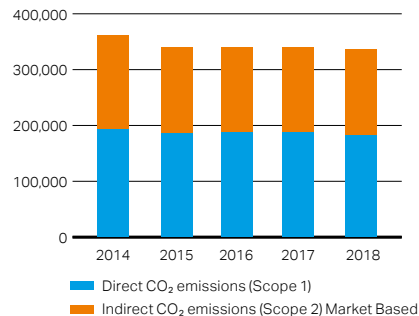
Sandvik’s emissions to water consist mainly of nitrogen compounds, oxygen-consuming substances and metals. Emissions of phosphorous declined by 95 percent, all explained by the divestment of a company that contributed to 97 percent of last years’ emissions. All wastewater from production processes is treated before being released, to ensure that all discharges are below the acceptable limit.

More environmental figures on pages 138-139.

ENERGY CONSUMPTION 2018



CO<sub>2</sub> EMISSIONS 2014–2018, TONS



Sandvik Materials Technology has the biggest environmental impact of the three business areas due to its stainless steel production in Sandviken, Sweden. Production at Sandvik Machining Solutions is highly automated, while Sandvik Mining and Rock Technology’s production is mainly based on assembly, resulting in lower CO<sub>2</sub> emissions.

# ACTIVE IN OUR COMMUNITIES

Sandvik operates in communities around the world and actively contributes to corporate social responsibility. Many of our efforts in 2018 went into improving the health, education and safety of our many neighbors.

As a global corporate citizen, we believe in the importance of making a contribution and having a positive influence wherever we operate. In addition to benefiting the local community, our efforts enhance Sandvik's reputation and increase loyalty towards the company.

We view our community 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 of our project partners must sign the Sandvik Supplier Code of Conduct and undergo the same screening process as our suppliers.

### FOUR MAIN FOCUS AREAS

Sandvik is involved in a wide variety of projects around the world. Our platform for sponsorship and community involvement projects com-

prises four areas: Innovation – projects with a clear 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 that show Sandvik's commitment to society; and Local enabler – projects creating joint value for our stakeholders and our employees.

### ENGINEERS WITHOUT BORDERS

Sandvik provides technical knowledge and international experience to Engineers Without Borders, Sweden. We are currently engaged in a project in Tanzania, cooperating with local partners to build and maintain small-scale wind power turbines and install solar panels in off-grid rural areas. The electricity that is generated goes to schools, hospitals and local community buildings.

### EDUCATION FOR LIFE

Sandvik Coromant has teamed up with UNICEF Sweden and sports

association Brynäs IF on the initiative, "A Good Start", contributing to young people's access to a secure upbringing, education and technical development. In addition to contributing to the right of every child to have an education, the initiative will also focus on inspiring young people to discover and study technical subjects.

Sandvik drives several school projects in India. The Sandvik Every Child Counts campaign aims to boost primary school enrollment among underprivileged children and in turn help prevent child labor. The Sandvik School on Wheels program provides education in locations lacking a school. Sandvik staff and volunteers conduct classes in a bus for children in the most marginalized communities. The initiative puts extra emphasis on ensuring that more girls enroll in primary school, to boost their lower literacy rates. Since 2014, 4,359 children who were outside the school system have been enrolled in mainstream schools and 2,018 have continued their education in differ-



When a rainstorm devastated a school in rural Ghana, classrooms were established outside under trees and on rainy days, classes had to be cancelled. Sandvik financed a reconstruction of the school.



Sandvik has replaced 4,000 rusty bolts on the 17th century Vasa war ship at the Vasa museum in Sweden.



Ref. Unicef Sverige/UN0225360

Education is one of Sandvik's prioritized areas for community relations. Sandvik Coromant has teamed up with UNICEF Sweden and Brynäs IF to support young people's education and technical interest.

ent schools in the Pune region.

In connection with the earthquakes in China in 2013, Sandvik and its Chinese employees donated about 500,000 RMB for rebuilding of a school. The Sandvik Hope School was opened in September 2018. It is located in the Yunnan province where 70 percent of the population is part of the Lahu minority group. In China, Sandvik also offers vocational programs in Sichuan and provides scholarships to several universities.

Preparing students for the real world is the aim of Sandvik's Metal Cutting Technology (MCT) e-learning program, started to help students gain theoretical and application knowledge related to turning and other skills. The free, interactive MCT tool is being used at colleges in the UK and the US, offering students a highly appreciated option to traditional classroom learning.

After a heavy rainstorm, Pakyi School No. 1 in rural Ghana was almost completely destroyed. After repeated attempts to obtain financial assistance school authorities and community leaders turned to Sand-

vik for help. We decided to finance the construction of a six-classroom building and construction began in 2017. The new school building, with a roof that incorporates recycled wood from pallets and containers used by Sandvik, was inaugurated in early 2018.

#### PROMOTING HEALTH AND SAFETY

Mining Emergency Response Competition is an annual initiative to exchange information related to accident prevention. Sandvik contributes by providing mining equipment and employee volunteers at the annual event. Remote Australian mine sites are often long distances from professional emergency services and the crews need to feel confident handling any kind of crisis.

Since 2005, Sandvik has been working with programs to combat HIV and AIDS and other diseases among employees, their families and customers in Sub-Saharan Africa. The programs are part of a project called SHWAP, (Swedish Workplace HIV and AIDS Programme), an initiative from the International Council of Swedish

Industry (NIR) and the Swedish Industrial and Metalworkers Union (IF Metall).

Sandvik is one of the main sponsors of Team Hasselborg, winner of gold medals in curling at the 2018 Winter Olympics and European Championships and a silver medal at the World Championships. Curling, a sport where materials knowledge and technical skills are essential, has a clear link to Sandvik's business, and we also want to encourage young womens' interest in technical education and engaged leadership.

#### THE LAST BOLT REPLACED ON THE VASA SHIP

Since 2011, Sandvik has helped replace more than 4,000 rusty bolts on the 17th century Vasa warship at the Vasa museum in Sweden. The old bolts were replaced with specially constructed high alloy stainless bolts from Sandvik that will last for at least 150 years. The job was completed in 2018.

# OUR SHARE

During 2018, the share price decreased by 12 percent, while the OMXS 30 index on Nasdaq Stockholm decreased by 11 percent.

Sandvik's share is listed on Nasdaq Stockholm, Sweden. At year-end 2018, the share was quoted at 126 SEK, corresponding to a market capitalization of 158 billion SEK, placing Sandvik as the 14th (12) largest company on Nasdaq Stockholm.

## SHARE TRADING

In 2018, a total of 823 million shares (1,082) were traded for a total value of 125 billion SEK (145). Trading in Sandvik shares on the Nasdaq Stockholm accounted for 37 percent (39) of the total volume of shares traded. Other markets, e.g. BATS Chi-X, Turquoise etc. accounted for 51 percent (37). 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 2018, the average daily ADR trading volume was 39,889 (17,995). At the end of 2018 there were 4,170,062 ADRs outstanding (2,546,925).

## 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 4.25 SEK (3.50) per share to the 2019 Annual General Meeting, corresponding to approximately 5.3 billion SEK (4.4) and a dividend yield of 3.4 percent

based on the share price at year-end. Assuming the approval of the proposed dividend for 2018 of 4.25 SEK (3.50), a 21 percent increase compared to 2017, Sandvik's dividend over the past five years has averaged 3.30 SEK annually. In this period a total of 52 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 shares, 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.

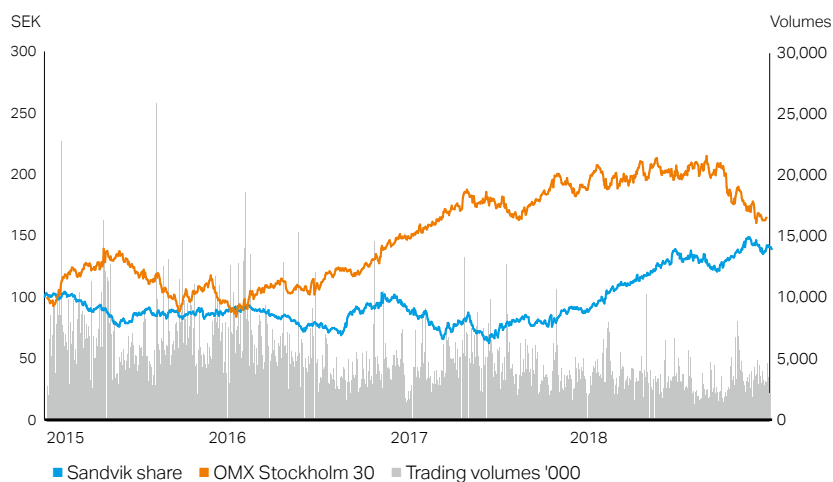
## OWNERS

In 2018, the number of shareholders remained largely stable at 100,908 (100,987). There are shareholders in 81 countries, and the total ownership outside of Sweden amounted to 35 percent (37) at year-end. The ten largest individual shareholders accounted for 38 percent of the share capital on the same date. As of 31 December 2018, members of Sandvik's Group Executive Management owned a total of 187,370 shares in Sandvik. Members of the Board of Sandvik owned a total of 488,949 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.

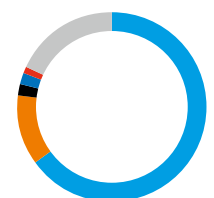
PROPOSED DIVIDEND, SEK

**4.25**

THE SANDVIK SHARE, FIVE-YEAR TREND



DISTRIBUTION OF SHAREHOLDING BY COUNTRY, 31 DECEMBER 2018



- Sweden, 65%
- USA, 12%
- Great Britain, 2%
- Norway, 2%
- Netherlands, 1%
- Other countries, 18%

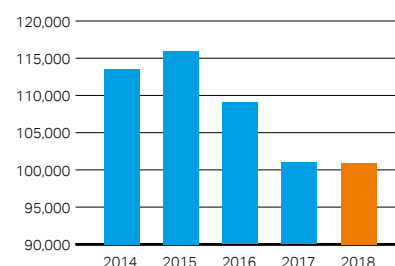
**KEY FIGURES**

	2017	2018
Number of shares at year-end (millions)	1,254	1,254
Market capitalization at year-end (SEK billion)	180	158
Number of shareholders	100,987	100,908
Share price at year-end, SEK	143.7	126.4
Earnings per share, SEK Group total	10.50	10.14
P/E ratio at year-end	13.7	12.5
Change in share price during the year, %	+27	-12
Regular dividend, SEK/share	3.50	4.25 <sup>1)</sup>
Dividend as a percentage of earnings per share	33	42 <sup>1)</sup>
Total dividend yield (price increase + dividend), %	29.1	-9.9
Proportion of shares in Sweden, %	63	65
Proportion of shares owned by the ten largest shareholder groups, %	36	38

1) Proposed dividend.

Source: Monitor by Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and Swedish Financial Supervisory Authority, among others.

NUMBER OF SHAREHOLDERS, 31 DECEMBER 2014 – 2018



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

	2017	2018
AB Industrivärden	11.9	12.1
Alecta Pension Insurance	6.1	6.5
Swedbank Robur Funds	2.6	3.9
AMF Insurance and Funds	2.7	2.7
Handelsbanken Pension	2.7	2.6
L E Lundbergföretagen AB	2.4	2.4
Vanguard <sup>1)</sup>	2.1	2.4
Blackrock	2.2	2.4
SEB Investment Management	1.7	1.8
Nordea Investment Funds	1.3	1.4

1) Shares held in trust.

Source: Monitor by Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and Swedish Financial Supervisory Authority, among others.

# 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. Sandvik has reported a significant improvement in performance since 2016, the result of a strong market situation in combination with a more decentralized business model and operational decisions based on the priorities of stability and profitability before growth. Additional operational finetuning remains for continuous improvement, but the focus has moved increasingly towards growth.

## FROM ESTABLISHING STABILITY TO LEVERAGING ON LEADING POSITIONS



### 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 customers’ productivity.
- Acquire growth within already stable and profitable divisions.
- Expand the customer offering in Sandvik Machining Solutions to cover a large part of the manufacturing value chain, also outside of the machining phase in to pre- and post machining.
- Growth in the aftermarket business in Sandvik Mining and Rock Technology.
- Grow the stable and profitable parts of Sandvik Materials Technology.

### COST EFFICIENCY

- Operating decisions are taken close to customers, in the different divisions, making Sandvik more agile to changes in customer requirements hence reducing volatility in earnings.
- Targeting productivity improvements by 3 percent annually.
- Continuous review of manufacturing footprint.

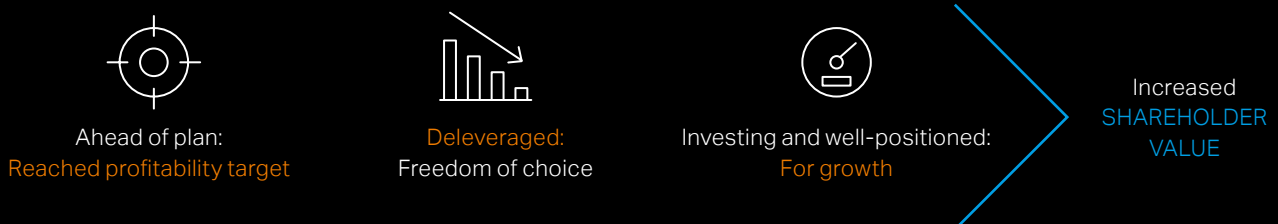
### PORTFOLIO OPTIMIZATION

- Acquisitions in the high-performing areas supported by strengthened balance sheet.
- 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.
- Stringent management of net working capital.
- Continued review of the supply chain.

## DELIVERING ON OUR PROMISE



## DIALOGUE WITH ANALYSTS

Approximately 25 analysts cover Sandvik on a continuous basis. At year-end 2018, the breakdown of recommendations relating to the Sandvik share was as follows: 50 percent buy/increase, 25 percent retain/neutral and 25 percent sell/decrease according to Factset. Below are some of the most frequent questions discussed in 2018 and our answers.

**Q: Will the next trough margin be higher than the previous, i.e. reduced volatility?**

**A:** We strive for continuous improvements all the time, and it is our ambition to deliver higher trough margin in the next downturn, whenever it comes. Some examples of changes we have implemented to reduce the volatility is moving towards a more decentralized mandate on business decisions, closer to the customers, which in theory makes us more agile and quicker to respond to market changes. We have also managed the upturn differently compared with history, with Sandvik Mining and Rock Technology utilizing third party assembly to a much greater extent. This means that whenever demand softens, we will be able to reduce produced volumes externally while maintaining the production load in our own facilities.

**Q: Increased pace in acquisitions; what will you buy and how much will you spend?**

**A:** The majority of acquisitions will most likely be announced within Sandvik Machining Solutions. Divisions within the business area that are both stable and highly profitable will focus on growth, both within the core cutting tool business and in adjacent areas of the digital/software space as well as additive manufacturing. We want to expand the customer offering to cover a larger part of the total manufacturing value chain, to include also the pre- and post-machining phases. Our balance sheet is strong and allows for fairly sizeable deals. It is however more likely that we make small to mid-sized

acquisitions, although we will grasp larger opportunities if it makes strategic sense.

**Q: A number of divestments closed during 2018. Can we expect additional consolidation of the business portfolio?**

**A:** Sandvik Drilling and Completions is a business of about 2.3 billion SEK, of which we are in the process of divesting approximately 75 percent (Varel) related to the oil and gas industry. This is not a core business for Sandvik. We constantly review the different businesses in all of our 34 operating entities based on their current and future revenue and returns potential.

**Q: Your balance sheet is strong, what are your priorities in terms of use of capital?**

**A:** We clearly prefer to re-invest the capital into the company and generate growth through acquisitions and investments in product research and development. Additionally, we want to reward shareholders with a strong dividend profile.

**Q: Give me one tangible example on how Sandvik works with sustainability in its customer offering.**

**A:** Sustainability is a core ingredient in how we run our business every day, both in our productivity offering to customers as well as in how we run our operations. A recognition of this is that we once again were selected as a member of the Dow Jones Sustainability index, which only includes companies ranked in the top 10 percent of each industry in terms of sustainability performance. One

example is the recycling business in Sandvik Machining Solutions, where we buy back virtually all inserts from customers. We recycle these inserts in our recycling plant in Austria and re-use the material in our insert manufacturing. More than 50 percent of raw material used in Sandvik Machining Solutions is recycled material.

**Q: Sandvik Materials Technology looks likely to achieve the targeted 10 percent EBIT margin in 2019. Will you keep it in the Sandvik Group?**

**A:** It is our ambition that Sandvik Materials Technology achieves a 10 percent EBIT margin for the full year of 2019. We are working to make this business area more efficient and there are opportunities in all its divisions. Like with any of the other businesses in Sandvik, we continuously review the performance trend and any potential strategic decisions will be made based on that analysis.

**Q: You have increased the pace of acquisitions. What do you think about the potential adverse impact on ROCE?**

**A:** Yes, the pace increased during the year, and it is our ambition to be active on mergers and acquisitions also going forward. We are looking to make acquisitions also in the digital space where multiples sometimes are elevated. This may adversely impact our return on capital short term, but we would not acquire something if there was not a clear plan on improved returns in the longer perspective, maybe on a five to ten year horizon.

# DIRECTORS' REPORT

## SUMMARY, GROUP TOTAL

In 2018, demand for Sandvik's products improved. This was the result of a broad-based improvement from all business areas. Sandvik's order intake and revenue for continuing operations increased by 9 percent (15) and 11 percent (10), respectively at fixed rates for comparable units.

### FINANCIAL TARGET<sup>1</sup>

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 were set for 2016–2018. For the period, the adjusted EBIT CAGR was 19 percent and the adjusted return on capital employed improved 9 percentage points. At the end of 2018, the net debt to equity ratio was 0.2. The proposed dividend for 2018 corresponds to a payout ratio of 43 percent of adjusted earnings per share.

### EARNINGS AND RETURN

Sandvik's order intake amounted to 102,510 million SEK in 2018 (96,743), and revenue totaled 100,924 million SEK (93,906). The operating profit was 18,137 million SEK (18,011), corresponding to 18 percent (19) of revenue. Movements in metal prices for Sandvik Materials Technology made a positive contribution to the operating profit of 255 million SEK (113). Changes in foreign exchange rates since the beginning of the year affected earnings favorably by about 774 million SEK (128) compared

with the preceding year. Net financial items amounted to -788 million SEK (-1,071). Result after financial income and expenses for the Group was 17,349 million SEK (16,940), and 17,894 million SEK (16,992) for continuing operations. Income tax had a total impact of -4,646 million SEK (-3,780) on earnings, corresponding to 27 percent (22) of profit before taxes. Profit for the year attributable to equity holders of the Parent Company was 12,714 million SEK (13,174). Earnings per share for the Group amounted to 10.14 SEK (10.50) and 10.57 SEK (10.54) for continuing operations. Return on capital employed was 22 percent (24) and return on equity was 23 percent (31).

### FINANCIAL POSITION

Cash flow from operating activities increased to 14,914 million SEK (14,286). Net cash flow after investing activities was 10,631 million SEK (15,734). At the end of the year, cash and cash equivalents amounted to

18,089 million SEK (12,724). Interest-bearing liabilities, less cash and cash equivalents, yielded a net debt of 11,557 million SEK (16,040).

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 5,650 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 2.3 years for Swedish bonds, 7.5 years for European bonds and 1.8 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 and target fulfillment <sup>1)</sup>	Target 2016-2018	Outcome 2018
EBIT growth (CAGR), %	≥7	19
Return on capital employed improvement, % pts	≥3	9
Net debt/equity ratio	<0.8	0.2
Dividend payout ratio, %	50	43 <sup>2)</sup>

1) For further information with regard to target definitions see page 151.

2) Proposed adjusted dividend payout ratio per share.



**WORKING CAPITAL**

Relative net working capital for the year was 24 percent (23) of revenues, a year-on-year increase of one percentage point. In terms of volume, net working capital increased by 3,198 million SEK (685) compared with the preceding year, driven primarily by higher levels of inventory. Changed currency rates increased net working capital by 1,086 million SEK (-660) compared with the preceding year. The structural effect from acquisitions and divestments decreased working capital by 1,208 million SEK (99). Net working capital amounted to 23,803 million SEK (20,727) at the end of the year.

**EQUITY**

Equity at year-end amounted to 58,518 million SEK (48,722), or 46.7 SEK per share (38.8). The equity ratio was 49 percent (46).

**INVESTING ACTIVITIES**

Investments in tangible and intangible assets for the full year 2018 reached 3,984 million SEK (3,578) corresponding to 100 percent of scheduled depreciation. Proceeds from sale of companies and shares, net of cash amounted to 4,052 million SEK (4,786). Acquisition of companies and shares, net of cash amounted to 4,631 million SEK (0). Investments in internally generated intangible assets were 484 million SEK (658).

**PORTFOLIO MANAGEMENT**

On 31 January, Sandvik announced the completion of the divestment of the welding wire business to ESAB, part of the Colfax Corporation. Revenues for the welding wire business amounted to 490 million SEK in 2017.

On 15 May, Sandvik announced the divestment of its 50 percent stake

in Fagersta Stainless wire rod mill, a joint venture between Sandvik Materials Technology and Outokumpu. Outokumpu has taken full ownership of Fagersta Stainless and the purchase price was 184 million SEK. In 2017, the company's revenues were approximately 1.6 billion SEK.

On 19 June, Sandvik announced it had signed an agreement to divest its stainless wire business to Zapp Group, a German family-owned leading supplier of advanced metal products. Revenues for the stainless wire business amounted to 310 million SEK in 2017.

On 2 July, Sandvik closed the acquisition of privately owned Inrock. Inrock is a leading supplier of rock drilling tools and services for Horizontal Directional Drilling (HDD) in North America. In 2017, Inrock had revenues of 46 million USD.

Earnings and return	2017	2018
Operating profit, MSEK	18,011	18,137
as a % of revenue	19.2	18.0
Profit after financial income and expenses, MSEK	16,940	17,349
as a % of revenue	18.0	17.2
Return on capital employed, %	23.8	22.0
Return on total equity, %	31.3	23.3
Basic earnings per share, SEK	10.50	10.14
Diluted earnings per share, SEK	10.49	10.11
<b>Whereof continuing operations</b>		
Operating profit, MSEK	18,073	18,689
as a % of revenue	19.9	18.7
Profit after financial income and expenses, MSEK	16,992	17,894
as a % of revenue	18.7	17.9
Basic earnings per share, SEK	10.54	10.57
<b>Capital expenditure</b>	<b>2017</b>	<b>2018</b>
Investments in non-current assets, MSEK	3,578	3,984
as a % of revenue	3.8	3.9
as a % of scheduled depreciation	83	100

Financial position	2017	2018
Cash flow from operating activities, MSEK	14,286	14,914
Cash flow after investing activities, MSEK	15,734	10,631
Cash and cash equivalents and short-term investments as of 31 December, MSEK	12,724	18,089
Net debt as of 31 December, MSEK	16,040	11,557
Net financial items, MSEK	-1,071	-788
Equity ratio, %	46	49
Net debt/equity ratio, times	0.3	0.2
Equity as of 31 December, MSEK	48,722	58,518
Equity per share as of 31 December, SEK	38.8	46.7

**Quarterly trend of Revenue and profit after financial items**

MSEK	Revenue	Profit after financial items	Net margin, %	
2017	Q1	22,426	3,097	14
	Q2	24,426	3,061	13
	Q3	22,571	3,186	14
	Q4	24,482	7,597	31
2018	Q1	23,981	3,998	17
	Q2	26,434	4,672	18
	Q3	24,438	4,907	20
	Q4	26,070	3,773	14

On 2 July, Sandvik also announced the completion of the divestment of Sandvik Hyperion. As of that date, Hyperion was deconsolidated from Sandvik and a net capital gain of 618 million SEK was reported in Sandvik's financial statements. The transaction represents the final divestment of all assets in Other Operations.

On 4 July, the acquisition of the France-based metrology software company Metrologic Group was completed. Metrologic Group is a market leader in agnostic software for metrology, automation and robotics control. Metrologic Group has as of 4 July 2018 been reported as part of Sandvik Machining Solutions. In 2017 Metrologic Group generated revenues of 43.3 million EUR.

On 17 July, Sandvik announced it is evaluating the strategic options for Sandvik Drilling and Completions (Varel). The business being reviewed relates to the oil and gas industry, representing approximately 75 percent of the total revenues of 2.3 billion SEK generated in 2018 by Sandvik Drilling and Completions.

On 1 August, Sandvik closed the acquisition of the US-based company Custom Electric Manufacturing Co. The company is a manufacturer of original equipment and replacement heating elements in North America. In 2017 Custom Electric Manufacturing Co. had revenues of 5 million USD.

On 10 November, Sandvik announced an agreement to acquire the privately owned US-based company Dura-Mill Inc., a manufacturer of precision solid carbide end mills. In 2017 Dura-Mill had revenues of 7.2 million USD.

On 26 November, Sandvik announced an agreement to acquire the Chinese company Kunshan Ousike Precision Tools Co., Ltd (OSK), a leading supplier of solid carbide round tools. In 2017 OSK had revenues of 120 million SEK.

### GOING FORWARD

The market conditions improved during 2018 with increased customer activity levels which supported Sandvik's profitability. Sandvik's 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.

### PARENT COMPANY<sup>1)</sup>

The Parent Company's revenues for 2018 amounted to 20,141 million SEK (18,764) and the operating result was 2,566 million SEK (1,260). Income from shares in Group companies consists primarily of dividends and Group contributions from these and amounted to 4,364 million SEK (-706). Interest-bearing liabilities, minus cash and cash equivalents and interest-bearing assets, amounted to 15,059 million SEK (11,180). The Parent Company's total assets increased by 2,710 million SEK, from 61,219 million SEK to 63,929 million SEK. Investments in non-current assets amounted to 799 million SEK (875).

The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB as of 31 December 2018 was 6,793 (7,204).

The Board of Directors proposes a dividend of 4.25 SEK (3.50) per share to the 2019 Annual General Meeting, corresponding to approximately 5.3 billion SEK (4.4).

Dividend, 4.25 SEK per share	
x number of shares	1,254,385,923
	= 5,331,140,173
Profits carried forward	16,384,240,659
Total, SEK	21,715,380,832

### EMPLOYEES

The average number of employees amounted to 42,540 (43,376), of which 19 percent (19) were women. The employee turnover rate was 8 percent (9). Wages, salaries and other remunerations for the year totaled 21,425 (21,354) million SEK.

### Safety First

During the year, Sandvik worked towards achieving a total recordable injury frequency rate (TRIFR) target of 4.3. Sandvik's TRIFR improved 15 percent and was 4.0 (4.6) at year-end. For lost time injury frequency rate (LTIFR) the target was 1.4. The target was not met as the LTIFR amounted to 1.7 (1.6).

### 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 2020 Annual General Meeting, which corresponds to those guidelines adopted by the 2018 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

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

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.

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 2018 Annual General Meeting are presented in Note 3.5.

#### RESEARCH AND DEVELOPMENT (R&D)

Each 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 approx-

imately 5,900 (6,700) active patents. In 2018, 700 (1,050) new patents were granted. The drop in patent portfolio and new granted patents is mainly related to divestments, in particular the divestment of Sandvik Hyperion. Investments in R&D were 3,727 million SEK (3,498) in 2018, corresponding to 3.7 percent (3.9) of the Group's revenues. The number of employees in R&D, including Quality Assurance, was 2,554 (2,612).

#### 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 and the EU initiatives on Tax transparency carefully and observes these standards as and 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 2018, the Group paid 2,978 million SEK (2,466) 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 a number of sites worldwide that hold environmental permits. Sandvik is dependent on the environmental permits granted for these sites.

In Sweden, Sandvik conducts licensed operations at 10 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. One environmental permit needs to be renewed in 2019.

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.

#### 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 102,440 million SEK (95,444), an increase of 9 percent at fixed exchange rates for comparable units. Revenue totaled 100,072 million SEK (90,827), up 11 percent at fixed exchange rates for comparable units.

This was the result of a broad-based improvement in all business areas.

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

## ORDER INTAKE BY BUSINESS AREA

MSEK	2017	2018	Change, %	Change, % <sup>1)</sup>
Sandvik Machining Solutions	36,636	40,720	11	6
Sandvik Mining and Rock Technology	38,973	43,557	12	10
Sandvik Materials Technology	14,739	16,272	10	12
Other Operations	5,096	1,891	-63	2
Group activities	0	0	n/m	n/m
<b>Continuing operations</b>	<b>95,444</b>	<b>102,440</b>	<b>7</b>	<b>9</b>
Discontinued operations	1,299	70	-95	-2
<b>Group total</b>	<b>96,743</b>	<b>102,510</b>	<b>6</b>	<b>8</b>

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

## REVENUE BY BUSINESS AREA

MSEK	2017	2018	Change, %	Change, % <sup>1)</sup>
Sandvik Machining Solutions	35,777	40,343	13	8
Sandvik Mining and Rock Technology	36,495	42,772	17	15
Sandvik Materials Technology	13,618	15,111	11	13
Other Operations	4,937	1,846	-63	4
Group activities	0	0	n/m	n/m
<b>Continuing operations</b>	<b>90,827</b>	<b>100,072</b>	<b>10</b>	<b>11</b>
Discontinued operations	3,078	852	-72	1
<b>Group total</b>	<b>93,906</b>	<b>100,924</b>	<b>7</b>	<b>11</b>

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

## OPERATING PROFIT BY BUSINESS AREA

MSEK	2017	% of revenue	2018	% of revenue	Change, %	Change, % <sup>1)</sup>
Sandvik Machining Solutions	8,413	24	9,872	24	17	14
Sandvik Mining and Rock Technology	5,724	16	7,380	17	29	32
Sandvik Materials Technology	277	2	1,391	9	n/m	44
Other Operations	4,433	90	731	40	-84	-4
Group activities	-774	n/m	-685	n/m	-12	7
<b>Continuing operations</b>	<b>18,073</b>	<b>20</b>	<b>18,689</b>	<b>19</b>	<b>3</b>	<b>24</b>
Discontinued operations	-62	-2	-552	-65	n/m	n/m
<b>Group total</b>	<b>18,011</b>	<b>19</b>	<b>18,137</b>	<b>18</b>	<b>1</b>	<b>21</b>

1) Change compared with the preceding year, at fixed exchange rates for comparable units adjusted for items affecting comparability.

n/m=non meaningful.

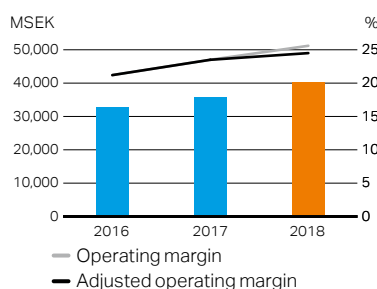
## SANDVIK MACHINING SOLUTIONS

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 40,720 million SEK (36,636), an increase of 6 percent

at fixed exchange rates for comparable units. Revenue totaled 40,343 million SEK (35,777), up 8 percent at fixed exchange rates for comparable units. The operating margin was 24.5 percent (23.5) of revenues and the adjusted operating margin was 25.6 percent (23.5) of revenues. Sandvik

Machining Solutions continued to benefit from a strong market with good momentum carried over from 2017. The business area focused on efficiency and cost measures such as operational excellence to facilitate a continued strong performance.

REVENUE, MSEK, OPERATING MARGIN AND ADJUSTED OPERATING MARGIN, %



Financial overview, MSEK

	2016	2017	2018
Order intake	33,088	36,636	40,720
Revenue	32,852	35,777	40,343
Operating profit	6,970	8,413	9,872
Operating margin, %	21.2	23.5	24.5
Adjusted operating profit <sup>1)</sup>	6,970	8,413	10,311
Adjusted operating margin, %	21.2	23.5	25.6
Return on capital employed, %	28.9	35.0	36.9
Number of employees <sup>2)</sup>	18,950	18,745	19,284

1) Operating profit adjusted for items affecting comparability of -439 million SEK in 2018.

2) Number of employees adjusted for items affecting comparability, due to internal reallocation.

## SANDVIK MINING AND ROCK TECHNOLOGY

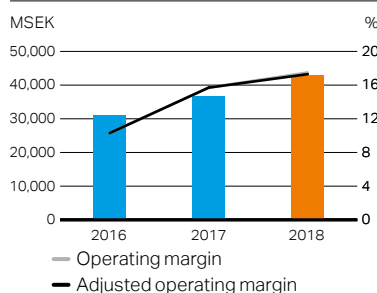
Sandvik Mining and Rock Technology is a leading supplier of equipment and tools, service and support for the mining and construction industries. Order intake for the business area amounted to 43,557 million SEK (38,973), an increase of 10 percent at fixed exchange rates for comparable units. Revenue totaled 42,772

million SEK (36,495), up 15 percent at fixed exchange rates for comparable units. The operating margin was 17.3 percent (15.7) of revenues and the adjusted operating margin was 17.5 percent (15.7) of revenues. Sandvik Mining and Rock Technology continued to benefit from a strong mining market in 2018, which resulted

in a high demand for most divisions including the aftermarket. To ensure increased flexibility Sandvik Mining and Rock Technology has outsourced a relatively higher share of product assembly, during this period of strong growth, which should facilitate reduced earnings volatility going forward.

### SANDVIK MINING AND ROCK TECHNOLOGY, CONTINUING OPERATIONS

REVENUE, MSEK, OPERATING MARGIN AND ADJUSTED OPERATING MARGIN, %



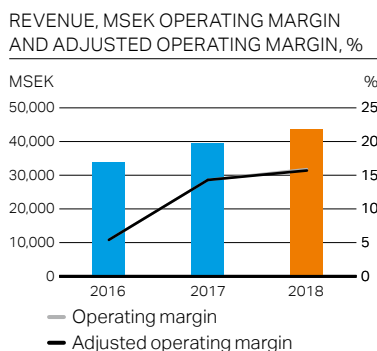
FINANCIAL OVERVIEW, MSEK

	2016	2017	2018
Order intake	31,886	38,973	43,557
Revenue	31,093	36,495	42,772
Operating profit	3,206	5,724	7,380
Operating margin, %	10.3	15.7	17.3
Adjusted operating profit <sup>1)</sup>	3,206	5,724	7,470
Adjusted operating margin, %	10.3	15.7	17.5
Return on capital employed, %	13.8	25.3	29.4
Number of employees <sup>2)</sup>	14,529	15,169	15,462

1) Operating profit adjusted for items affecting comparability of -90 million SEK in 2018.

2) Number of employees adjusted for items affecting comparability, due to internal reallocation.

SANDVIK MINING AND ROCK TECHNOLOGY, TOTAL



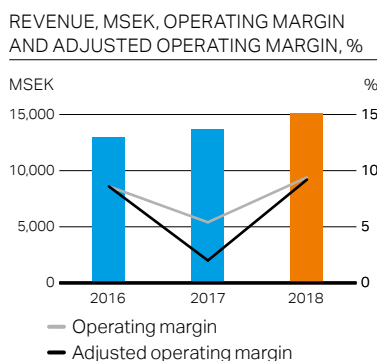
FINANCIAL OVERVIEW, MSEK	2016	2017	2018
Order intake	34,258	40,272	43,627
Revenue	33,970	39,574	43,624
Operating profit	1,845	5,662	6,828
Operating margin, %	5.4	14.3	15.7
Adjusted operating profit <sup>1)</sup>	1,845	5,662	6,918
Adjusted operating margin, %	5.4	14.3	15.9
Return on capital employed, %	7.9	25.4	27.0
Number of employees	15,353	15,334	15,497

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 16,272 million SEK (14,739), an increase of 12 percent at fixed exchange rates for

comparable units. Revenue totaled 15,111 million SEK (13,618), up 13 percent at fixed exchange rates for comparable units. The operating margin was 9.2 percent (2.0) of revenues and the adjusted operating margin was 9.4 percent (5.3) of revenues. Market conditions were good for Sandvik Materials Technology. The demand for standardized tubular products and heating systems was

strong, and several major orders were received in the energy sector. Sandvik Materials Technology continued its efficiency program in 2018 with strict cost controls and cost reductions, including layoffs that contributed to the improved results. Portfolio improvements also resulted in a better product mix in standardized tubular products and improved price management.



FINANCIAL OVERVIEW, MSEK	2016	2017	2018
Order intake	12,036	14,739	16,272
Revenue	12,931	13,618	15,111
Operating profit	1,115	277	1,391
Operating margin, %	8.6	2.0	9.2
Adjusted operating profit <sup>1)</sup>	1,115	727	1,416
Adjusted operating margin, %	8.6	5.3	9.4
Return on capital employed, %	8.7	2.1	10.5
Number of employees <sup>2)</sup>	6,573	6,545	6,102

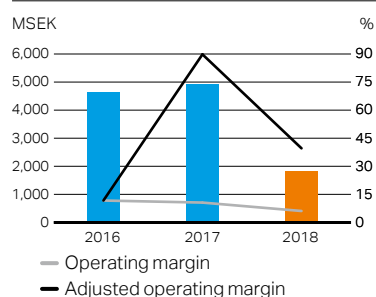
1) Operating profit adjusted for items affecting comparability of -450 million SEK in 2017 and -24 million SEK in 2018. In 2018, adjusted operating profit, excluding metal price effects totaling 255 million SEK, amounted to 1,161 million SEK (614). The adjusted underlying operating margin was 7.7 percent (4.5 for 2017 and 8.1 for 2016).

2) Number of employees adjusted for items affecting comparability, due to internal reallocation.

## OTHER OPERATIONS

On 2 July 2018, Sandvik announced the completion of the divestment of Hyperion. As of that date Hyperion was de-consolidated from Sandvik and a net capital gain of 618 million SEK was reported in Sandvik's financial statements. The transaction represents the final divestment of all assets in Other Operations.

REVENUE, MSEK, OPERATING MARGIN AND ADJUSTED OPERATING MARGIN, %



FINANCIAL OVERVIEW, MSEK	2016	2017	2018
Order intake	4,830	5,096	1,891
Revenue	4,655	4,937	1,846
Operating profit	545	4,433	731
Operating margin, %	11.7	89.8	39.6
Adjusted operating profit <sup>1)</sup>	545	522	113
Adjusted operating margin, %	11.7	10.6	6.1
Return on capital employed, %	14.5	123.9	43.6
Number of employees <sup>2)</sup>	1,896	1,533	11

1) Operating profit adjusted for items affecting comparability of +3,910 million SEK in 2017 and +618 million SEK in 2018.

2) Number of employees adjusted for items affecting comparability, due to internal reallocation.

# 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. The Sandvik 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, divisions and functions within the Group. The management teams analyze risks in their operations and related to their strategic objectives at least annually. In the beginning of 2018 a Sandvik specific risk universe and updated ERM policy was released globally to increase the risk awareness and enhanced transparency of risk. Read more about the risk universe on page 56–57. The Group Executive Management review and discuss the Sandvik Group risk appetite and decide on the Group risk profile (Group Key Risks) at least once per year. In 2018, two consolidated ERM reports were submitted to the Group Executive Management. A year-end ERM 2018 report summarizing key risks and mitigating activities across our business was provided to Sandvik's Audit Committee and Board of Directors in January 2019.

## 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 implemented in all business units in the Group. The overall

### ERM PROCESS AT SANDVIK





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 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 is also implementing 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 dialogue 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

In this risk area we include operational and commercial risks. 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 as well as talent attraction and retention. The approach to managing these risks is through active prevention and by designing and implementing mitigation actions and 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 63.

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 RISK UNIVERSE

Our risk universe has been developed through analysis and stakeholder dialogue 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 2018.

### Strategic risks

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- S1. Industry shifts and market developments
  - S2. Macroeconomic developments
  - 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

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- 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"> <li>B1. Noncompliance with laws and regulations</li> <li>B2. Health and safety</li> <li>B3. Increased competition</li> <li>B4. Product development and product support</li> <li>B5. Intellectual property management</li> <li>B6. Talent attraction and employee retention</li> <li>B7. IT failures</li> <li>B8. Insufficient IT security</li> <li>B9. IT capacity or capabilities</li> <li>B10. Information and data protection</li> <li>B11. Data accuracy</li> <li>B12. Cost flexibility and control</li> <li>B13. Change management/demand/readiness</li> <li>B14. Sales and distribution channels</li> <li>B15. Business interruptions</li> <li>B16. Product liability requirements</li> <li>B17. Environmental demands/climate change effects</li> <li>B18. Aftermarket developments and management</li> <li>B19. Customer retention</li> </ul> | <ul style="list-style-type: none"> <li>B20. Pricing models and management</li> <li>B21. Bottleneck processes/inefficient ways of working</li> <li>B22. Governance and internal controls</li> <li>B23. Sandvik values and ethics compliance developments</li> <li>B24. Employee competence development and leadership development</li> <li>B25. Contract management</li> <li>B26. Technology development and innovation demand – internal operations</li> <li>B27. Third-party liabilities, litigation and dispute resolution</li> <li>B28. Contractor/short-term staff management</li> <li>B29. Partners/agents /third-party management</li> <li>B30. Measurement and operational reporting</li> <li>B31. Insurable risk</li> <li>B32. Security situation</li> <li>B33. Project-related risk</li> <li>B34. Communications (internal and external)</li> <li>B35. Joint ventures and other partnership risks</li> <li>B36. M&amp;A transaction or integration</li> <li>B37. Supplier and sourcing management</li> </ul> |
|--|---|
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SANDVIK GROUP KEY RISKS 2018

RISK CATEGORY	RISK DESCRIPTION	RISK CONSEQUENCE	RISK MITIGATION
<b>S1. INDUSTRY SHIFTS AND MARKET DEVELOPMENTS</b>	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.
<b>S2. MACROECONOMIC DEVELOPMENTS</b>	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.). They all have up to date contingency plans, including different scenarios, ready to activate at first signs of a down-turn.
<b>S3. TECHNOLOGICAL CHANGE/SHIFTS</b>	Risks connected to technological developments/ advancements that can impact or challenge current ways of doing business or demand for current products/ services. Increased need for specialist/ expert competence in R&D and other niche areas. Inability to attract new talents in certain highly competitive markets	The inability to reach strategic objectives long term, leading to lower growth or financial performance. A general risk of losing competitiveness and business position on the market with a special risk focus if not being able to take a strong position in the digital area fast enough.	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. 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.
<b>S4. REGULATORY CHANGE</b>	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.
<b>B1. NONCOMPLIANCE WITH LAWS AND REGULATIONS</b>	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. GDPR (General Data Protection Regulation) program being rolled out globally.
<b>B7. IT FAILURES</b>	Risks of disturbances in critical IT systems, business processes or other digital infrastructure. Increased need for digital and innovative business development competence. .	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 cyber security improvement program across the Sandvik Group is ongoing. Each business area is running an IT security improvement program, including risk review of critical business applications and risk-based network segmentation.
<b>B10. INFORMATION AND DATA PROTECTION</b>	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 is being rolled out globally.
<b>B13. CHANGE MANAGEMENT/ DEMAND/READINESS</b>	Risk of unclarity on mandate and responsibilities in the new decentralized way of working.	Can result in both organisational inefficiency and inability to deliver products or services on time to customers.	Improved communication and training on roles and responsibilities in the new decentralized way of working. Compliance with Limits of authority.
<b>B15. BUSINESS INTERRUPTIONS</b>	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 and update of the Group's Crisis Management Policy was conducted during 2018 and the development of the Business Continuity framework has been initiated. The business areas have already performed risk scenario planning for some of the most critical production entities, supply chain vulnerabilities and IT system dependencies.

# CORPORATE GOVERNANCE REPORT

Sandvik AB has its head office in Stockholm and is the Parent Company of the Sandvik Group, with subsidiaries in about 70 countries. The Group has about 42,000 employees and revenues in more than 160 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](http://corporategovernanceboard.se). In 2018 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.

#### 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 lies with the business areas and divisions, with Group functions responsible for functional policies and

processes supporting the business. This level is the main focus of this Corporate Governance Report.

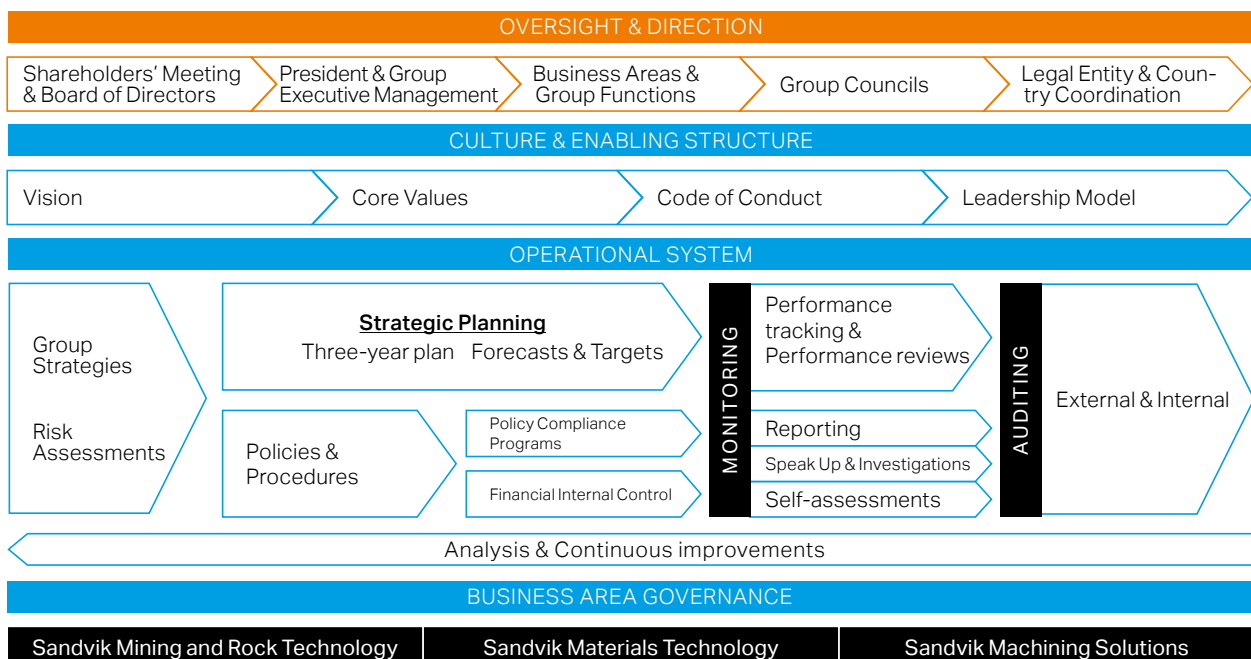
#### Culture and Enabling Structure

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.

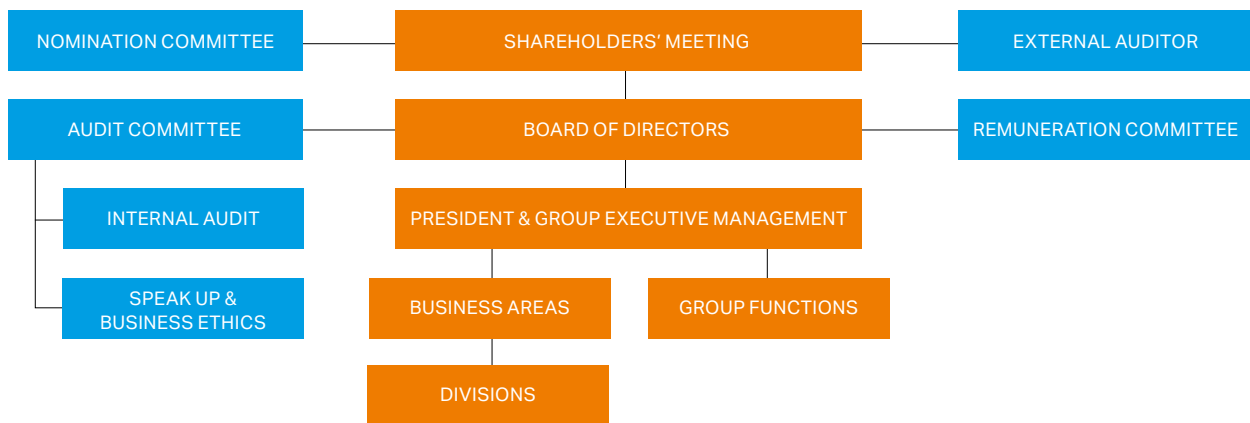
#### Operational System

The operational system in The Sandvik Way is at the core of how

### THE SANDVIK WAY



CORPORATE GOVERNANCE MODEL



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 organization. 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, divisions and Group functions, the business areas and divisions have their own tailored governance systems based on The Sandvik Way.

**OWNERSHIP STRUCTURE**

As of 31 December 2018 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 101,000 shareholders as of 31 December 2018. AB Industrivärden was the largest owner with about 12.1 percent of the share capital. Of the total share capital at year-end, about 35 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 with one vote per share.

**2018 Annual General Meeting**

Shareholders representing 55.22 percent of the share capital and votes attended the Annual General Meeting held on 27 April 2018 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 3.50 SEK per share
  - Re-election of Board members Jennifer Allerton, Claes Boustedt, Marika Fredriksson, Johan Karlström, Johan Molin, Björn Rosengren, Helena Stjernholm and Lars Westerberg. Re-election of Johan Molin as Chairman of the Board.
  - Election of PricewaterhouseCoopers AB as new auditor
  - Guidelines for remuneration of senior executives
  - A long-term incentive program in the form of a performance share program for about 350 senior executives and key employees in the Group

**TEN LARGEST SHAREHOLDERS, 31 DECEMBER 2018, %**

AB Industrivärden	12.1
Alecta Pension Insurance	6.5
Swedbank Robur Funds	3.9
AMF Insurance and Funds	2.7
Handelsbanken Pension	2.6
L E Lundbergföretagen AB	2.4
Vanguard <sup>1)</sup>	2.4
BlackRock	2.4
SEB Investment Management	1.8
Nordea Investment Funds	1.4

Source: Monitor by Modular Finance AB

<sup>1)</sup> Shares held in trust.

For additional information about the Annual General Meeting, including the minutes, refer to [home.sandvik](http://home.sandvik).

**2019 Annual General Meeting**

The next Annual General Meeting will be held on 29 April 2019 in Sandviken, Sweden. More information is available at [home.sandvik](http://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 the Nomination Committee, valid until a General Meeting resolves on a change. In accordance with this instruction, the Nomination Committee shall 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).



**Sandvik's Annual General Meeting 2018 was held at the Göransson Arena, Sandviken, Sweden.**

**Nomination Committee for 2019 AGM**

For the 2019 Annual General Meeting, the Nomination Committee consists of Fredrik Lundberg, Chairman (Industrivärden), Kaj Thorén (Alecta), Pär Boman (Handelsbankens Pensionsstiftelse and others), Marianne Nilsson (Swedbank Robur) 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 2018 Sandvik's Board consisted of eight members elected by the Annual General Meeting.

The Nomination Committee communicated before the 2018 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 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 2018**

During the year, the Board held twelve meetings. The executive managements of all business areas presented their goals and strategies. The Board also reviewed the strategies and results from a number of the divi-

**NOMINATION COMMITTEE'S TASKS AHEAD OF THE 2019 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

sions (all divisions are reviewed in an 18 month rolling period). The Board addressed matters related to overall Group strategy, IT, human resources, such as incentive programs, environment, health and safety, and issues concerning investments and operational restructuring and the review of previously made investments. Further, the Board handled matters with respect to acquisitions and divestments, such as the sale of Sandvik's 50% stake in Fagersta Stainless and the stainless wire business and the acquisitions of the Metrologic Group, Inrock and Dura-Mill. The Remuneration Committee, Audit Committee and the Acquisitions and Divestitures Committee reported from their respective meetings. In respect of the Audit Committee, reported matters included ERM, compliance, SpeakUp and Code of Conduct, internal control and internal audit as well as the result of the external audit. The Committees also submitted matters for resolution by the Board and the minutes and reports from these meetings were made available to the Board members. In the autumn of 2018 the Board visited Sandvik's operations in China.

#### Remuneration of the Board

As resolved at the 2018 Annual General Meeting, the fee to the Chairman of the Board is 2,400,000 SEK and the fee to each of the non-executive Board members elected by the General Meeting is 660,000 SEK.

In addition, 285,000 SEK was paid to the Chairman of the Audit Committee and 160,000 SEK to each of the other Committee members, in total 605,000 SEK. The Chairman of the Remuneration Committee was paid 135,000 SEK and each of the other Committee members 110,000 SEK, in total 355,000 SEK. No remuneration was paid to the members of the Acquisitions and Divestitures Committee.

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 2018 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 2018

Member	Board	Audit Committee	Remuneration Committee	Acquisitions and Divestitures Committee
<i>Total number of meetings</i>	12	5	2	2
Jennifer Allerton	12			
Thomas Andersson	12			
Claes Boustedt	12	5		2
Marika Fredriksson	11			
Johan Karlström	12		2	
Tomas Kärnström	12			
Thomas Lilja	11			
Mats W Lundberg	12			
Johan Molin	12		2	2
Björn Rosengren	12			
Helena Stjernholm	12	5		2
Lars Westerberg	12	5	2	

#### COMPOSITION OF THE BOARD AS OF 31 DECEMBER 2018

Name	Function	Independent in acc. with the Code	Shareholding, number <sup>1)</sup> 31 Dec 2018	Elected	Audit Committee	Remuneration Committee	Acquisitions and Divestitures Committee
Jennifer Allerton	Member	Yes	10,000	2015			
Thomas Andersson	Deputy <sup>2)</sup>		0	2012			
Claes Boustedt	Member	Yes	20,000	2015	Chairman		Member
Marika Fredriksson	Member	Yes	2,500	2017			
Johan Karlström	Member	Yes	5,000	2011		Member	
Tomas Kärnström	Member <sup>2)</sup>		2,889	2006			
Thomas Lilja	Member <sup>2)</sup>		3,560	2016			
Mats W Lundberg	Deputy <sup>2)</sup>		0	2015			
Johan Molin	Chairman	Yes	260,000 <sup>3)</sup>	2015		Chairman	Chairman
Björn Rosengren	Member	No <sup>4)</sup>	104,903	2016			
Helena Stjernholm	Member	No <sup>4)</sup>	5,000	2016	Member		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) Helena Stjernholm is not regarded as independent in relation to major shareholders in the company and Björn Rosengren is not regarded as independent in relation to the company and its executive management.

## DIRECTORS' REPORT

### Remuneration Committee

During 2018 the members of the Remuneration Committee were 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 88 and Note 3.5.

During 2018 the Remuneration Committee held two meetings.

### Audit Committee

During 2018 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:

- Monitoring the financial reporting and ensuring its reliability
- Effectiveness of the system of internal control and internal audit
- Planning, scope and follow-up of the internal and external audit for the year, with special focus on the change of audit firm decided by the 2018 Annual General Meeting
- Assistance to the Nomination Committee with regards to proposal for auditor
- Monitoring of the external auditor's independence and objectivity vis-à-vis the company, including the extent to which the auditor provides other services than auditing services to the company
- The Group's systematic processes for overall corporate risk management (ERM), as well as more detailed risk management matters including legal disputes, compliance, corporate investigations, IT security, accounting procedures,

taxation, treasury, finance operations, insurance coverage and pension issues

- The development and effectiveness of compliance processes, with special focus on the roll-out of the GDPR processes
- Sandvik's Code of Conduct, some specific cases managed through SpeakUp, Sandvik's global whistleblowing system, as well as the overall effectiveness of the system
- Sandvik's sustainable business strategy and materiality analysis

During 2018 the Audit Committee held five meetings at which Sandvik's external auditor and representatives of the company's management were present.

### Acquisitions and Divestitures Committee

The Acquisitions and Divestitures Committee was established in April 2018 to provide a better process for preparing major or strategically important acquisitions and divestitures for Board decision. The Committee currently consists of Johan Molin (Chairman of the Committee), Claes Boustedt and Helena Stjernholm. The Committee meets on an ad hoc basis, at the request of the President and CEO in consultation with the Chairman of the Board.

During 2018 the Acquisitions and Divestitures Committee held two meetings and reviewed matters related to strategically important acquisitions, which were later reported to the Board.

### 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 2018 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

- Lars Engström, President of Sandvik Mining and Rock Technology (will be succeeded by Henrik Ager on 1 April 2019)
- Göran Björkman, President of Sandvik Materials Technology
- 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

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 divisions based on product offering or brand. The division is the highest operational level in the Sandvik organizational structure. Where the division structure is based on the product offering, some divisions are also organized in business units representing defined parts of the product offering.

Visit [home.sandvik](http://home.sandvik) for more detailed information relating to the Group's business activities and product portfolios.

### GROUP FUNCTIONS

There are 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 2018 Annual General Meeting, the audit firm PricewaterhouseCoopers AB was elected new auditor of Sandvik AB for the period until the 2019 Annual General Meeting. Peter Nyllinge is the auditor-in-charge.



The auditor 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, 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 the Audit Committee having determined the principles for allowing non-audit services to be provided by the auditor and, in some cases, pre-approving non-audit services.

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.

#### INTERNAL CONTROL OVER 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 provide an effective framework for describing and analyzing the internal control system implemented in the organization. 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.

Sandvik internal control over financial reporting forms an integral part of the operational system described in The Sandvik Way on page 58 which also includes risk assessments, policies, procedures and compliance. Sandvik's Board of Directors is ultimately responsible for the governance of risk management including internal control over financial reporting.

#### 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 activities include business process controls, IT controls and entity-wide controls focusing on compliance with policies and procedures. The process of rolling-out the common framework to the Sandvik entities is nearly completed in Sandvik Mining and Rock Technology and is well underway in the other business areas and Group functions.

#### Risk assessment and risk management

The Enterprise Risk Management (ERM) process at Sandvik includes the area of financial reporting. Read more about the Enterprise Risk Management (ERM) program on page 54. 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 divisions, business areas and Group 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 divisions 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. Quarterly interim reports are published externally and are supplemented by investor meetings attended by members of the Group Executive Management.

#### Monitoring and follow-up

Entity management and process owners are responsible for testing the effectiveness of internal controls through self-assessments on a quarterly basis and according to the requirements in the Sandvik Internal Control Framework. The Audit Committee monitors the effectiveness of internal controls related to financial reporting presented by management with potential deficiencies and suggested actions.

The Board reviews all quarterly interim reports as well as the Annual Report prior to publishing.

#### 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 Internal Audit 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, the business area management and to the Audit Committee.

# CONSOLIDATED FINANCIAL STATEMENTS

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# CONSOLIDATED INCOME STATEMENT

MSEK	Note	2017	2018
<b>Continuing operations</b>			
Revenue	1, 2	90,827	100,072
Cost of sales and services		-54,226	-59,060
<b>Gross profit</b>		<b>36,601</b>	<b>41,012</b>
Selling expenses		-12,819	-13,377
Administrative expenses		-5,954	-6,180
Research and development costs	4	-3,163	-3,535
Share of results of associated companies		56	45
Other operating income	5	4,219	1,337
Other operating expenses	6	-867	-613
<b>Operating profit</b>	<b>1, 3, 7, 8</b>	<b>18,073</b>	<b>18,689</b>
Financial income		381	374
Financial expenses		-1,462	-1,169
<b>Net financing cost</b>	<b>9</b>	<b>-1,081</b>	<b>-795</b>
<b>Profit after financial items</b>		<b>16,992</b>	<b>17,894</b>
Income tax	10	-3,780	-4,645
<b>Profit for the year, continuing operations</b>		<b>13,212</b>	<b>13,249</b>
<b>Discontinued operations</b>			
Revenue		3,079	852
Operating profit		-62	-552
Loss after financial items		-52	-545
<b>Loss for the year, discontinued operations</b>	<b>30</b>	<b>-52</b>	<b>-545</b>
<b>Group total</b>			
Revenue		93,906	100,924
Operating profit		18,011	18,137
Profit after financial items		16,940	17,349
<b>Profit for the year, Group total</b>		<b>13,160</b>	<b>12,704</b>
<b>Other comprehensive income</b>			
<b>Items that cannot be reclassified to profit/loss for the year</b>			
Actuarial gains/losses on defined-benefit pension plans	20	860	-684
Tax relating to items that cannot be reclassified to profit/loss for the year	10	-108	163
		<b>751</b>	<b>-522</b>
<b>Items that can be reclassified to profit/loss for the year</b>			
Translation differences during the year		-1,353	1,752
Fair-value changes in cash flow hedges		9	3
Fair-value changes in cash flow hedges transferred to profit/loss for the year		77	15
Tax related to fair-value changes in cash flow hedges	10	-19	-4
		<b>-1,286</b>	<b>1,766</b>
<b>Total other comprehensive income for the year</b>		<b>-535</b>	<b>1,244</b>
<b>Total comprehensive income for the year</b>		<b>12,625</b>	<b>13,948</b>
<b>Profit for the year attributable to:</b>			
Equity holders of the Parent		13,174	12,714
Non-controlling interests		-14	-10
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the Parent		12,639	13,958
Non-controlling interests		-14	-10
<b>Earnings per share, SEK<sup>1)</sup></b>			
Continuing operations	11	10.54	10.57
Discontinued operations	11	-0.04	-0.43
Group Total	11	10.50	10.14

1) Basic and diluted earnings per share.

## CONSOLIDATED BALANCE SHEET

MSEK	Note	31 Dec. 2017	31 Dec. 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets			
Patents and other intangible assets	12	5,465	6,645
Goodwill	12	11,911	15,605
<b>Total</b>		<b>17,376</b>	<b>22,250</b>
Property, plant and equipment			
Land and buildings	12	8,811	9,118
Plant and machinery	12	11,716	11,879
Equipment, tools, fixtures and fittings	12	1,494	1,580
Construction in progress and advance payments	12	2,377	2,785
<b>Total</b>		<b>24,398</b>	<b>25,362</b>
Financial assets			
Investments in associated companies	1, 15	269	100
Financial assets		83	119
Deferred tax assets	10	4,203	3,150
Non-current receivables	16	2,219	2,295
<b>Total</b>		<b>6,774</b>	<b>5,664</b>
<b>Total non-current assets</b>		<b>48,548</b>	<b>53,276</b>
<b>Current assets</b>			
Inventories	17	21,416	24,609
Contract assets		74	143
Current receivables			
Trade receivables	18	13,228	15,378
Due from associated companies		131	0
Income tax receivables	10	961	740
Other receivables	16	4,431	4,667
Prepaid expenses and accrued income		737	808
<b>Total</b>		<b>19,488</b>	<b>21,593</b>
Cash and cash equivalents		12,724	18,089
Assets held for sale	30	4,522	641
<b>Total current assets</b>		<b>58,224</b>	<b>65,075</b>
<b>TOTAL ASSETS</b>		<b>106,772</b>	<b>118,351</b>

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

## CONSOLIDATED BALANCE SHEET (CONTINUED)

MSEK	Note	31 Dec. 2017	31 Dec. 2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,505	1,505
Other paid-in capital		7,678	7,678
Reserves		3,344	5,110
Retained earnings including profit/loss for the year		36,167	44,183
<b>Equity attributable to equity holders of the Parent</b>		<b>48,694</b>	<b>58,476</b>
<b>Non-controlling interests</b>		<b>28</b>	<b>42</b>
<b>TOTAL EQUITY</b>	19	<b>48,722</b>	<b>58,518</b>
<b>Non-current liabilities</b>			
<b>Interest-bearing liabilities</b>			
Provisions for pensions	20	5,630	6,234
Loans from financial institutions		1,442	1,123
Other liabilities	23	21,391	20,431
<b>Total</b>		<b>28,463</b>	<b>27,788</b>
<b>Non-interest-bearing liabilities</b>			
Deferred tax liabilities	10	1,464	2,385
Provisions for taxes	10	1,722	1,457
Other provisions	21	984	1,149
Other non-current liabilities	24	278	303
<b>Total</b>		<b>4,447</b>	<b>5,294</b>
<b>Total non-current liabilities</b>		<b>32,911</b>	<b>33,082</b>
<b>Current liabilities</b>			
<b>Interest-bearing liabilities</b>			
Loans from financial institutions		404	2,348
Other liabilities	23	582	27
<b>Total</b>		<b>986</b>	<b>2,375</b>
<b>Non-interest-bearing liabilities</b>			
Advance payments from customers		2,495	2,447
Accounts payable		7,380	7,776
Contract liabilities		265	275
Due to associated companies		0	1
Income tax liabilities	10	1,146	1,252
Other liabilities	24	2,552	2,467
Other provisions	21	1,668	2,126
Accrued expenses and deferred income		7,078	7,420
<b>Total</b>		<b>22,585</b>	<b>23,764</b>
Liabilities directly attributed to assets held for sale	30	1,570	612
<b>Total current liabilities</b>		<b>25,139</b>	<b>26,751</b>
<b>TOTAL LIABILITIES</b>		<b>58,050</b>	<b>59,833</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>106,772</b>	<b>118,351</b>

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
<b>Equity at 1 January 2017</b>	<b>1,505</b>	<b>7,678</b>	<b>4,658</b>	<b>25,356</b>	<b>39,197</b>	<b>93</b>	<b>39,290</b>
Profit for the year	—	—	—	13,174	13,174	-14	13,160
Other comprehensive income/loss	—	—	-1,314	751	-563	—	-563
<b>Total comprehensive income/loss for the year</b>	<b>—</b>	<b>—</b>	<b>-1,314</b>	<b>13,925</b>	<b>12,611</b>	<b>-14</b>	<b>12,597</b>
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
Dividends, hedged options program 2011	—	—	—	18	18	—	18
Dividend	—	—	—	-3,449	-3,449	-8	-3,457
<b>Equity at 31 December 2017</b>	<b>1,505</b>	<b>7,678</b>	<b>3,344</b>	<b>36,167</b>	<b>48,694</b>	<b>28</b>	<b>48,722</b>
<b>Equity at 1 January 2018</b>	<b>1,505</b>	<b>7,678</b>	<b>3,344</b>	<b>36,167</b>	<b>48,694</b>	<b>28</b>	<b>48,722</b>
Adjustment due to IFRS 9	—	—	—	-71	-71	—	-71
<b>Adjusted equity at 1 January 2018</b>	<b>1,505</b>	<b>7,678</b>	<b>3,344</b>	<b>36,096</b>	<b>48,623</b>	<b>28</b>	<b>48,651</b>
Profit for the year	—	—	—	12,714	12,714	-10	12,704
Other comprehensive income/loss	—	—	1,766	-522	1,244	—	1,244
<b>Total comprehensive income/loss for the year</b>	<b>—</b>	<b>—</b>	<b>1,766</b>	<b>12,121</b>	<b>13,887</b>	<b>-10</b>	<b>13,948</b>
Acquired non-controlling interest	—	—	—	-24	-24	24	0
Share-based payment settled by equity instruments	—	—	—	151	151	—	151
Payments on exercise of options program 2013	—	—	—	20	20	—	20
Reduction of hedge options program	—	—	—	1	1	—	1
Other options	—	—	—	0	0	—	0
Dividends, hedged options program	—	—	—	137	137	—	137
Dividend	—	—	—	-4,390	-4,390	—	-4,390
<b>Equity at 31 December 2018</b>	<b>1,505</b>	<b>7,678</b>	<b>5,110</b>	<b>44,183</b>	<b>58,476</b>	<b>42</b>	<b>58,518</b>

## CONSOLIDATED CASH FLOW STATEMENT

MSEK	Note	2017	2018
<b>Group total</b>			
<b>Cash flow from operating activities</b>			
Income after financial income and expenses		16,940	17,349
Adjustment for depreciation, amortization and impairment losses		4,936	4,408
Other adjustment for non-cash items, etc.	29	-3,579	12
Income tax paid		-2,466	-2,978
<b>Cash flow from operating activities before changes in working capital</b>		<b>15,831</b>	<b>18,791</b>
<b>Changes in working capital</b>			
Change in inventories		-2,276	-2,119
Change in operating receivables		-1,568	-1,013
Change in operating liabilities		3,158	-66
<b>Cash flow from changes in working capital</b>		<b>-685</b>	<b>-3,198</b>
Investments in rental equipment		-985	-825
Divestments of rental equipment		125	146
<b>Cash flow from operating activities</b>		<b>14,286</b>	<b>14,914</b>
<b>Cash flow from investing activities</b>			
Acquisition of companies and shares, net of cash acquired	30	—	-4,631
Proceeds from sale of companies and shares, net of cash disposed	30	4,642	4,052
Acquisition of tangible assets		-2,698	-3,310
Proceeds from sale of tangible assets		327	209
Acquisition of intangible assets		-892	-611
Proceeds from sale of intangible assets		57	70
Other investments, net		12	-62
<b>Net cash used in investing activities</b>		<b>1,448</b>	<b>-4,283</b>
<b>Net cash flow after investing activities</b>		<b>15,734</b>	<b>10,631</b>
<b>Cash flow from financing activities</b>			
Repayment of borrowings	29	-8,312	-859
Dividends paid		-3,458	-4,390
<b>Cash flow from financing activities</b>		<b>-11,770</b>	<b>-5,249</b>
<b>Cash flow for the year</b>			
Cash and cash equivalents at beginning of year		8,818	12,724
Foreign exchange differences on cash and cash equivalents		-57	-17
<b>Cash and cash equivalents at end of year</b>	29	<b>12,724</b>	<b>18,089</b>
<b>Continuing operations</b>			
Cash flow from operations		14,752	15,353
Cash flow from investing activities		1,592	-4,286
Cash flow from financing activities		-11,773	-5,247
<b>Cash flow from continuing operations</b>		<b>4,571</b>	<b>5,820</b>

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

# PARENT COMPANY FINANCIAL STATEMENTS

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## PARENT COMPANY INCOME STATEMENT

MSEK	Note	2017	2018
Revenue	2	18,764	20,141
Cost of sales and services		-11,651	-11,103
<b>Gross profit</b>		<b>7,113</b>	<b>9,038</b>
Selling expenses		-963	-1,321
Administrative expenses		-2,287	-2,393
Research and development costs	4	-1,336	-1,492
Other operating income	5	257	26
Other operating expenses	6	-1,524	-1,291
<b>Operating profit/loss</b>	3, 8	<b>1,260</b>	<b>2,567</b>
Result from shares in Group companies	9	-706	4,364
Result from shares in associated companies	9	77	0
Interest income and similar items	9	770	541
Interest expenses and similar items	9	-1,004	-1,117
<b>Profit after financial items</b>		<b>397</b>	<b>6,355</b>
Appropriations		-62	-3,138
Income tax	10	547	-1,481
<b>Profit for the year</b>		<b>882</b>	<b>1,736</b>

Profit for the year corresponds to total comprehensive income for the year.  
The classification of certain profit and loss items has changed as of Q3 2018 affecting Revenue and Cost of sales and services. Comparative figures have been adjusted accordingly.

## PARENT COMPANY BALANCE SHEET

MSEK	Note	31 Dec. 2017	31 Dec. 2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Patents and other intangible assets	13	22	26
Goodwill	13	109	81
<b>Total</b>		<b>131</b>	<b>107</b>
<b>Property, plant and equipment</b>			
Land and buildings	13	1,021	985
Plant and machinery	13	4,398	4,158
Equipment, tools, fixtures and fittings	13	385	373
Construction in progress and advance payments	13	1,436	1,537
<b>Total</b>		<b>7,240</b>	<b>7,053</b>
<b>Financial assets</b>			
Shares in Group companies	14	32,558	30,777
Due from Group companies		10,969	11,505
Investments in associated companies	15	0	0
Other investments		3	2
Non-current receivables	16	95	109
Deferred tax assets	10	712	—
<b>Total</b>		<b>44,337</b>	<b>42,393</b>
<b>Total non-current assets</b>		<b>51,708</b>	<b>49,553</b>
<b>Current assets</b>			
<b>Inventories</b>			
Inventories	17	2,926	3,065
<b>Current receivables</b>			
Trade receivables		581	747
Due from Group companies		4,859	9,160
Due from associated companies		131	—
Income tax receivables	10	169	81
Other receivables	16	214	684
Prepaid expenses and accrued income		631	636
<b>Total</b>		<b>6,585</b>	<b>11,308</b>
Cash and cash equivalents		0	3
<b>Total current assets</b>		<b>9,511</b>	<b>14,376</b>
<b>TOTAL ASSETS</b>		<b>61,219</b>	<b>63,929</b>

## PARENT COMPANY BALANCE SHEET (CONTINUED)

MSEK	Note	31 Dec. 2017	31 Dec. 2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Non-distributable equity</b>			
Share capital		1,505	1,505
Statutory reserve		1,611	1,611
<b>Total</b>		<b>3,116</b>	<b>3,116</b>
<b>Distributable equity</b>			
Profit brought forward		23,181	19,979
Profit for the year		882	1,736
<b>Total</b>		<b>24,063</b>	<b>21,715</b>
<b>TOTAL EQUITY</b>	19	<b>27,179</b>	<b>24,831</b>
<b>Untaxed reserves</b>			
Other untaxed reserves		3	3,140
<b>Total</b>		<b>3</b>	<b>3,140</b>
<b>Provisions</b>			
Provisions for pensions	20	306	376
Other provisions	21	254	215
<b>Total</b>		<b>560</b>	<b>591</b>
<b>Non-current interest-bearing liabilities</b>			
Loans from Group companies	22	1	1
Other liabilities	22	16,468	16,962
<b>Total</b>		<b>16,469</b>	<b>16,963</b>
<b>Non-current non-interest-bearing liabilities</b>			
Deferred tax liabilities	10	—	649
Other liabilities		250	258
<b>Total</b>		<b>250</b>	<b>907</b>
<b>Current interest-bearing liabilities</b>			
Loans from financial institutions		3	93
Loans from Group companies		5,854	10,730
Other liabilities		576	—
<b>Total</b>		<b>6,433</b>	<b>10,823</b>
<b>Current non-interest-bearing liabilities</b>			
Advance payments from customers		285	342
Accounts payable		1,680	1,844
Due to Group companies		5,463	1,541
Other liabilities		374	248
Accrued expenses and deferred income	25	2,523	2,699
<b>Total</b>		<b>10,325</b>	<b>6,674</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>61,219</b>	<b>63,929</b>

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
<b>Equity at 1 January 2017</b>	<b>1,505</b>	<b>1,611</b>	<b>26,286</b>	<b>29,402</b>
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
<b>Equity at 31 December 2017</b>	<b>1,505</b>	<b>1,611</b>	<b>24,063</b>	<b>27,179</b>
Comprehensive income for the year	—	—	1,735	1,735
Adjustment due to IFRS 9	—	—	-2	-2
Dividend	—	—	-4,390	-4,390
Share-based payment settled by equity instruments	—	—	151	151
Reduction of hedge options programs	—	—	137	137
Payments on exercise of options program 2013	—	—	1	1
Dividends, hedged options program	—	—	20	20
<b>Equity at 31 December 2018</b>	<b>1,505</b>	<b>1,611</b>	<b>21,715</b>	<b>24,831</b>

## PARENT COMPANY CASH FLOW STATEMENT

MSEK	2017	2018
<b>Cash flow from operating activities</b>		
Profit before tax	335	3,217
Adjustment for depreciation, amortization and impairment losses	965	948
Adjustment for non-cash items, etc.	-1,864	6,127
Income tax paid	-77	-58
<b>Cash flow from operating activities before changes in working capital</b>	<b>-641</b>	<b>10,234</b>
<b>Changes in working capital</b>		
Changes in inventories	0	-139
Changes in operating receivables	5,085	-4,648
Changes in operating liabilities	3,323	-4,033
<b>Cash flow from operating activities</b>	<b>7,767</b>	<b>1,414</b>
<b>Cash flow from investing activities</b>		
Acquisition of companies and shares, net of cash acquired	-264	-2,930
Acquisition of property, plant and equipment	-876	-799
Proceeds from sale of companies and shares, net of cash disposed of	3,247	2,791
Proceeds from sale of property, plant and equipment	48	183
<b>Net cash used in investing activities</b>	<b>2,155</b>	<b>-755</b>
<b>Net cash flow after investing activities</b>	<b>9,922</b>	<b>659</b>
<b>Cash flow from financing activities</b>		
Changes in advances/loans to Group companies	74	-650
Changes in advances/loans from Group companies	-1,258	4,872
Proceeds from external borrowings	-3	93
Repayment of external borrowings	-5,286	-581
Dividend paid	-3,450	-4,390
<b>Net cash used in financing activities</b>	<b>-9,923</b>	<b>-656</b>
<b>Cash flow for the year</b>	<b>0</b>	<b>3</b>
Cash and cash equivalents at beginning of year	1	0
<b>Cash and cash equivalents at end of year</b>	<b>0</b>	<b>3</b>

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 2019. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on 29 April 2019.

## 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 had a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed further 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 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 2018. None of these standards had any material impact on Sandvik's financial statements.

– 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 Group has chosen to continue to apply IAS 39 Financial Instruments: Recognition and Measurement for its hedge accounting. The opening balance for 2018 is adjusted with a decrease in equity of -72 million SEK related to the transition to IFRS 9. The Group will not restate prior periods.

– IFRS 15 Revenue from Contracts with Customers. The purpose with the new revenue standard is to create one single principle-based standard for all industries to replace existing standards and statements concerning revenues. The revenue standard establishes a new five step model of recognizing revenue from customer contracts. It requires revenue to be recognized when control of goods and services are transferred to the customer point in time or over time. Sandvik has chosen to apply the full retrospective method for the transition to IFRS 15. The opening balance for 2017 is adjusted with a decrease in equity of -28 million SEK. The consolidated financial statements for 2017 have been restated in accordance with the chosen transition method.

## New standards published by IASB, but not yet effective

– IFRS 16 Leases. The standard will be effective from 1 January 2019. Sandvik has in project form reviewed all the group's leasing arrangements and assessed the impact transiting to the new lease standard. The lease portfolio includes almost 10,000 contracts and covers mainly operational leases for offices, production and warehouse facilities, production, office and IT equipment. Existing finance leases measured previously under IAS 17 Leases are reclassified to IFRS 16 to the amounts recognized immediately before the date of application of the new standard. Sandvik has chosen to perform the transition in line with the Cumulative catch-up approach and has applied the expedient to not restate any comparative information. Right-of-use assets have been determined as an amount equal to the lease liabilities as identified at initial application. A single discount rate has been applied per country and per asset classes Land and Buildings respectively Other assets such as machinery, equipment, vehicles and IT. Hindsight has been used to determine the lease terms when an option to terminate or extend has been available. Lease contracts shorter than 12 months or ending within 12 months at the date of application are considered short-term and hence not recognized as lease liability or right-of-use asset. In addition, low value contracts (with a value as new below 5,000 USD) are also excluded from being recognized as lease liability or right-of-use asset. The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year. The effect on the Group financial reports transiting to IFRS 16 as per 1 January 2019 is summarized on the following page.

MSEK	Closing balance 31 Dec 2018 before transition to IFRS 16	Reclassification of finance leases due to IFRS 16 transition	Estimated adjustments due to IFRS 16 transition	Estimated adjusted opening balance 1 Jan 2019
Property, plant and equipment	25,362	-30	—	25,332
Right-of-use assets	—	30	3,323	3,353
Other liabilities	20,431	-30	—	20,401
Long term Lease liabilities	—	30	2,607	2,637
Short term Lease liabilities	—	—	716	716

Sandvik has identified many contracts concerning premises with open-ended contracts. In many countries local law provides protection to the lessee from being noticed. This requires the Sandvik lessee to determine the contract period instead of considering the termination clause. The lessee then determines the length of the contract period based on factors such as the importance of building to the business, any planned or made leasehold investments and the market situation for premises. As a consequence, these contracts have in many cases had the contract period extended.

– IFRIC 23 Uncertainty over Income Tax Treatments. Initial application is from 1 January 2019 with earlier adoption permitted. The amendment is adopted by the EU. The amendment addresses how uncertainty regarding amounts for income taxation shall be reported, how a tax receivable shall be reported when the amount is appealed, and discussions are held with tax authorities. IFRIC 23 is expected to have very limited impact on the financial reports. The opening balance for 2019 will be adjusted by reclassifying the provision for taxes, 1,457 MSEK.

– 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 from the foreign operation's functional currency to the Group's reporting currency, SEK, at foreign exchange rates prevailing at the

## SIGNIFICANT ACCOUNTING POLICIES

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 account-

ing 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 listed and non-listed shares. The fair value is determined either by applying the known market value or is determined by applying different calculation methods to determine an estimated fair value with any revaluation is reported in the income statement.

### 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 the full lifetime expected credit loss model with a provision matrix where fixed provision rates are applied depending on the number of days outstanding.

The entities consider reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring the expected credit losses.

### 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 object to 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 while 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 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.

#### 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 based on 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 goods and services

The revenue standard establishes a new five step model of recognizing revenue from customer contracts. It requires revenue to be recognized when control of goods and services are transferred to the customer. The supply of goods and services comprises metal cutting tools, mining equipment, stainless steels, furnaces, installation, support and maintenance.

Customer contracts can include variable considerations such as cash discounts, rebates or right of returns. When Sandvik identifies such components the company determines if the identified portion of revenue and any related cost of goods sold should be deferred to a later period. This is established by determining if a significant revenue reversal might not take place, by applying the expected value method or the most likely amount method with the threshold of being highly probable.

If a customer contract is including a buy-back clause, exercised at the customer discretion and a significant transfer of control has not taken place, the transaction is then accounted for as an operational lease in accordance with IAS 17 Leases. If the customer is not considered having a significant economic incentive to exercise the option, the contract is then accounted for by applying the principles of right of return in IFRS 15.

Sandvik receives advances from customers, if a significant financing component is identified in the contract the company applies the practical expedient of not recognizing any time value of money for advances being performed upon within 12 months. Sandvik also applies the practical expedient of not recognizing a contract asset for costs to obtain a contract, if the customer contract has a duration equal to or shorter than 12 months. Sandvik allocates the transaction price to each identified performance obligation on a relative stand-alone selling price basis. This means that each performance obligation will be allocated its share of revenue based on its stand-alone selling price put in relation to the sum of all performance obligation's stand-alone selling price. Sandvik usually applies the methods Adjusted market

assessment approach and Expected cost plus a margin approach to determine the stand-alone selling price if not observable for one or more of the performance obligations. Variable consideration is generally allocated proportionally to all performance obligations unless there is evidence that the entire discount does not relate to all performance obligations in the contract.

Sandvik recognizes revenue over time when any of the three over time indicators are identified as being fulfilled the customer simultaneously receives and consumes all the benefits provided by the entity as the entity performs; the entity's performance creates or enhances an asset that the customer controls as the asset is created; or the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. Goods are recognized over time most often under the criteria the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. Service contracts recognized over time are identified under the criteria the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs. Sandvik applies both the Input and Output method to determine the progress and when revenue should be recognized. The output method is only applied to service contracts by applying the expedient allowing revenue to be recognized in line with amounts that correspond directly with the value to the customer and to which the entity has the right to invoice. The majority of Sandvik's revenues are recognized at a point in time. The transfer of control is identified taking place when any of the five available indicators are fulfilled: significant risks and rewards of ownership, transferred physical possession, the customer has accepted the asset, present right to payment and legal title of goods and services. For sale of goods the transfer of control occurs usually according to the risk and reward criteria by applying Incoterms. For sale of services the transfer of control usually occurs when the customer has accepted the performed service.

##### 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

## SIGNIFICANT ACCOUNTING POLICIES

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.

#### 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 as follows:

#### 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 time period to get ready for its intended use or sale. The Group considers a period in excess of one year to be a substantial time period. 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 lowest end 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 shared-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 have 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.

*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 program and share saving programs.

The remaining share option program allows employees to acquire shares in the company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value as measured at the grant date is spread over the vesting period. The fair value of the options is measured using the Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. The share-based programs include 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, and 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.

## SIGNIFICANT ACCOUNTING POLICIES

### 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 to contaminated land is recognized when land has become contaminated.

### Onerous contracts

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

### Contingent liabilities

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

### 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, financial and operational. 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 end 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 2018 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 IFRS 9. 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 2018 was 943 million SEK (836).

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 2018, Sandvik recognized deferred tax assets of 3,150 million SEK (4,203). Furthermore, the Group had additional tax loss carry-forward of about 3,038 million SEK (1,663) at the end of 2018 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 1,457 million SEK (1,722) at the end of 2018.

**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 the 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	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
<b>Revenue</b>														
External revenue	35,777	40,343	36,495	42,772	13,618	15,111	4,937	1,846	—	—			90,827	100,072
Internal revenue	983	720	49	30	333	338	218	148	—	—	-1,582	-1,235		
<b>Group total</b>	<b>36,761</b>	<b>41,063</b>	<b>36,544</b>	<b>42,802</b>	<b>13,951</b>	<b>15,448</b>	<b>5,155</b>	<b>1,994</b>	<b>—</b>	<b>—</b>	<b>-1,582</b>	<b>-1,235</b>	<b>90,827</b>	<b>100,072</b>
<b>Share of results of associated companies</b>	<b>2</b>	<b>—</b>	<b>20</b>	<b>6</b>	<b>33</b>	<b>39</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>			<b>56</b>	<b>45</b>
<b>Operating profit/loss by business area</b>	<b>8,413</b>	<b>9,872</b>	<b>5,724</b>	<b>7,380</b>	<b>277</b>	<b>1,391</b>	<b>4,433</b>	<b>731</b>	<b>-774</b>	<b>-685</b>			<b>18,073</b>	<b>18,689</b>
Net financing items													-1,080	-795
Income tax expense for the year													-3,780	-4,646
<b>Profit for the year</b>													<b>13,212</b>	<b>13,249</b>
<b>Other disclosures</b>														
Assets	29,993	36,483	32,422	39,120	15,490	17,048	491	216	1,796	1,489			80,193	94,356
Investments in associates	5	5	89	94	175	—	—	—	—	—			269	100
<b>Total assets</b>	<b>29,999</b>	<b>36,488</b>	<b>32,512</b>	<b>39,214</b>	<b>15,665</b>	<b>17,048</b>	<b>491</b>	<b>216</b>	<b>1,796</b>	<b>1,489</b>			<b>80,462</b>	<b>94,455</b>
Unallocated assets													21,787	23,254
<b>Group total</b>													<b>102,250</b>	<b>117,710</b>
Liabilities	6,425	7,389	10,011	10,535	3,507	3,897	276	302	1,698	1,162			21,918	23,285
Unallocated liabilities													34,562	35,936
<b>Group total</b>													<b>56,480</b>	<b>59,220</b>
Capital expenditure	1,561	2,223	778	743	869	811	150	10	222	133			3,580	3,920
Depreciation/Amortization	-1,956	-1,982	-1,553	-1,580	-792	-797	-157	-59	-123	-129			-4,581	-4,546
Impairment losses	11	-53	-39	-41	-320	127	-1	124	—	-8			-349	150
Other non-cash expenses	-122	140	72	160	77	3	-4,157	-730	553	299			-3,579	-128

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	2017	2018	Non-current assets by country, Group	2017	2018
USA	13,895	14,302	Sweden	13,494	13,549
Germany	7,147	7,916	USA	9,922	9,848
China	6,259	7,299	France	907	4,442
Australia	5,299	6,415	Germany	3,663	3,833
Sweden	3,537	3,951	Austria	2,545	2,565
Russia	3,157	3,921	Finland	1,865	2,062
Italy	3,721	3,817	UK	1,656	1,874
Canada	2,890	3,653	China	1,422	1,595
Mexico	2,711	3,588	India	1,270	1,180
France	3,149	3,299	Canada	575	774
UK	2,967	3,180	Czech Republic	817	823
South Africa	3,158	3,102	Australia	928	622
India	2,918	3,019	Italy	466	617
Japan	2,229	2,273	Japan	479	532
Indonesia	1,410	1,730	Switzerland	445	423
Brazil	1,479	1,628	Other countries	1,319	2,873
Norway	991	1,504	<b>Total</b>	<b>41,773</b>	<b>47,612</b>
Poland	1,046	1,319			
Korea	1,468	1,237			
Chile	942	1,231			
Spain	1,055	1,194			
Austria	1,023	1,140			
Ghana	721	1,032			
Finland	1,057	1,030			
Other countries	16,599	17,294			
<b>Total</b>	<b>90,827</b>	<b>100,072</b>			

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

Income is specified by country based on where customers are.

## NOTES

### NOTE 2. CATEGORIES OF REVENUE

Primary geographical markets	2017					2018				
	Group	SMS	SMRT	SMT	Oth Op	Group	SMS	SMRT	SMT	Oth Op
Europe	35,631	19,826	6,846	7,028	1,931	38,300	22,454	6,773	8,361	711
North America	19,852	7,476	7,643	3,420	1,313	21,684	8,356	9,416	3,382	529
South America	4,677	800	3,503	176	198	4,992	825	3,890	205	72
Africa and Middle East	9,205	334	8,418	291	161	9,256	321	8,544	329	60
Asia	18,361	7,408	7,380	2,305	1,267	19,763	8,105	8,441	2,771	446
Australia and New Zealand	6,184	270	5,788	62	65	6,930	281	6,559	62	27
<b>Total</b>	<b>93,906</b>	<b>36,114</b>	<b>39,574</b>	<b>13,281</b>	<b>4,937</b>	<b>100,924</b>	<b>40,343</b>	<b>43,624</b>	<b>15,111</b>	<b>1,846</b>

Major goods/service lines	2017					2018				
	Group	SMS	SMRT	SMT	Oth Op	Group	SMS	SMRT	SMT	Oth Op
Sale of goods	89,716	35,958	35,707	13,231	4,819	96,154	39,918	39,350	15,043	1,843
Rendering of services	3,108	146	2,800	49	112	3,644	414	3,162	67	—
Rental income	1,065	—	1,065	—	—	1,112	—	1,112	—	—
Other non product-related revenue	17	10	—	1	6	14	1	—	—	3
<b>Total</b>	<b>93,906</b>	<b>36,114</b>	<b>39,574</b>	<b>13,281</b>	<b>4,937</b>	<b>100,924</b>	<b>40,343</b>	<b>43,624</b>	<b>15,111</b>	<b>1,846</b>

Order backlog to be recognized as revenue after 2019 until 2020.	2017				2018			
	Group	SMS	SMRT	SMT	Group	SMS	SMRT	SMT
	1,600	—	710	890	2,301	—	648	1,653

#### Contract assets

Contract assets movements, from an opening balance of 433 MSEK (678) to a closing balance of 254 MSEK (433), is due to the following:

The contract assets have been reduced with -130 (-48) MSEK relating to catch up effects from contracts satisfied in previous periods.

Acquisitions represents an increase of contract asset balances of 48 MSEK (9) and divestments represents a decrease of -24 MSEK (-). The majority of the movements of contract assets relates to accruals during the period and reversals of existing and added contract assets to be invoiced.

Currency translation effects represent only minor changes to the contract asset balances.

#### Contract liabilities

Contract liability movements, from an opening balance of 441 MSEK (579) to a closing balance of 364 MSEK (441), is due to the following:

Contract liabilities in the opening balance recognized as revenue in this period amounts to 210 MSEK (257).

Acquisitions represents an increase of contract liability balances of 3 MSEK (6) and divestments represents a decrease of -4 MSEK (-14).

The majority of the movements of contract liabilities relates to deferrals during the period and reversals of existing and added contract liabilities to be recognized as revenue.

Currency translation effects represent only minor changes to the contract liability balances.

Primary geographical markets	2017	2018
	Parent	Parent
Europe	15,509	16,393
North America	1,118	1,671
South America	119	161
Africa and Middle East	54	47
Asia	1,892	1,792
Australia and New Zealand	72	77
<b>Total</b>	<b>18,764</b>	<b>20,141</b>

Major goods/service lines	2017	2018
	Parent	Parent
Sale of goods	18,695	20,073
Rendering of services	58	63
Rental income	10	6
Other non product-related revenue	0	0
<b>Total</b>	<b>18,764</b>	<b>20,141</b>

Order backlog to be recognized as revenue after 2019 until 2020.	2017				2018			
	Parent	SMS	SMRT	SMT	Parent	SMS	SMRT	SMT
	—	—	—	—	—	—	—	—

Contract asset and contract liability balances are not disclosed for parent company, due to the small balances and corresponding small movements.



**NOTE 3. PERSONNEL INFORMATION AND REMUNERATION OF MANAGEMENT AND AUDITORS****3.1 AVERAGE NUMBER OF EMPLOYEES**

	Group				Parent Company			
	2017		2018		2017		2018	
	Number	Women, %	Number	Women, %	Number	Women, %	Number	Women, %
Sweden	9,572	24	9,293	24	7,328	23	7,000	23
Rest of Europe	14,363	20	14,439	19	—	—	—	—
<b>Total Europe</b>	<b>23,934</b>	<b>21</b>	<b>23,732</b>	<b>21</b>	<b>7,328</b>	<b>23</b>	<b>7,000</b>	<b>23</b>
North America	5,835	16	5,638	15	—	—	—	—
South America	2,019	16	1,883	16	—	—	—	—
Africa, Middle East	2,556	17	2,280	17	—	—	—	—
Asia	8,049	15	8,077	15	—	—	—	—
Australia	983	16	930	16	—	—	—	—
<b>Total</b>	<b>43,376</b>	<b>19</b>	<b>42,540</b>	<b>19</b>	<b>7,328</b>	<b>23</b>	<b>7,000</b>	<b>23</b>
Whereof discontinued operations	495		100					
Continuing operations	42,881		42,440					

**3.2 WAGES, SALARIES, OTHER REMUNERATION AND SOCIAL COSTS**

	Group		Parent Company	
	2017	2018	2017	2018
Wages, salaries and other remuneration	21,354	21,425	4,331	4,196
Social costs	5,354	5,419	1,887	1,900
Employee profit sharing	213	173	154	118
<b>Total</b>	<b>26,921</b>	<b>27,017</b>	<b>6,372</b>	<b>6,214</b>
Whereof discontinued operations	371	65	—	—
<b>Continuing operations</b>	<b>26,550</b>	<b>26,952</b>	<b>6,372</b>	<b>6,214</b>
Of which, pension costs recognized in social costs	1,540	1,596	638	677

A total of 66 million SEK (56) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to 161 million SEK (159). Correspondingly, 23 million SEK (22) 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 2018 resulted in an allocation of 173 million SEK (213) to the profit-sharing foundation.

**3.3 WAGES, SALARIES AND OTHER REMUNERATION BY MARKET AREA**

	Group		Parent Company	
	2017	2018	2017	2018
Sweden	5,628	5,561	4,331	4,196
Rest of Europe	7,719	8,115	—	—
<b>Total Europe</b>	<b>13,347</b>	<b>13,676</b>	<b>4,331</b>	<b>4,196</b>
North America	3,356	3,278	—	—
South America	651	564	—	—
Africa, Middle East	1,088	926	—	—
Asia	2,084	2,190	—	—
Australia	828	791	—	—
<b>Total</b>	<b>21,354</b>	<b>21,425</b>	<b>4,331</b>	<b>4,196</b>
Whereof discontinued operations	275	48	—	—
<b>Total continuing operations</b>	<b>21,079</b>	<b>21,377</b>	<b>4,331</b>	<b>4,196</b>
<b>Of which, to Boards of Directors and presidents</b>				
Salaries and other remuneration	746	791	56	51
Of which, variable salary	96	127	17	14

**3.4 GENDER DISTRIBUTION IN SENIOR MANAGEMENT**

	Group		Parent Company	
	2017	2018	2017	2018
Proportion of women, %				
Gender distribution in senior management	14	16	27	27
Other senior executives	20	22	29	29

**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 2018 Annual General Meeting, the total fee to the external Board members elected at the Meeting amounts to in total 6,360,000 SEK on an annual basis. Of this amount, 2,400,000 SEK is payable to the Chairman of the Board (Johan Molin) and 660,000 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 totalling 605,000 SEK to the members of the Audit Committee (Claes Boustedt 285,000 SEK, Helena Stjernholm 160,000 SEK and Lars Westerberg 160,000 SEK) and in an amount totalling 355,000 SEK to the members of the Remuneration Committee (Johan Molin 135,000 SEK, Johan Karlström 110,000 and Lars Westerberg 110,000 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.

## NOTES

Note 3, continued

### 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 2018:

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 14,244,372 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 2018 amounted to 8,546,623 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 minimum retirement age is 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 25–33% (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 2018 are covered either by the ITP 1 or by the ITP2 occupational pension plans.

### REMUNERATION AND OTHER BENEFITS PERTAINING TO 2018 EXPENSED DURING THE YEAR, SEK

Position	Fixed salary/ Board fee	Annual variable salary <sup>1)</sup>	Other benefits <sup>2)</sup>	Long-term variable salary <sup>3)</sup>	Pension costs
Chairman of the Board	2,535,000 <sup>4)</sup>				
Other Board members	4,785,000 <sup>4)</sup>				
President and CEO Björn Rosengren	14,843,245 <sup>5)</sup>	8,546,623	135,672	9,697,244	5,342,004
Other senior executives <sup>6)</sup>	27,631,023	12,733,694	502,334	14,108,164	12,392,179
<b>Sum</b>	<b>49,794,268</b>	<b>21,280,317</b>	<b>638,006</b>	<b>23,805,407</b>	<b>17,734,183</b>

1) Amount pertaining to 2018 and expected to be paid in 2019.

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

3) The amounts pertain to changes in provisions made for the 2016, 2017 and 2018 LTI programs.

4) Expensed during 2018.

5) Björn Rosengren's fixed salary 2018 amounts to 14,244,372 SEK, the remaining amount relates to vacation pay, etc. Board fees are not payable to Executive Board members.

6) Pertains to the following persons in 2018: Göran Björkman, Jessica Alm, Johan Kerstell, Klas Forsström, Lars Engström, Tomas Eliasson, Åsa Thunman.

### REMUNERATION AND OTHER BENEFITS PERTAINING TO 2017 EXPENSED DURING 2017, SEK

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

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) Expensed during 2017.

5) 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.

6) 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).

Note 3, continued

Severance pay is paid in the event that the company terminates employment. The severance pay is equivalent to 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.

#### Long-term incentive program

##### Share-based incentive program 2013

The 2013 Annual General Meeting approved the Board proposal to introduce a share-based Long-term incentive (LTI) program for that year. The program was aimed at about 400 senior executives and key individuals in the Sandvik Group and a maximum of 11,749,115 Sandvik shares could 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").

#### ASSUMPTIONS FOR DETERMINING THE VALUE BASED ON THE BLACK-SCHOLES MODEL, 2013 LTI PROGRAM

Assumptions	Program 2013 (on date of issue)
Share price	94.65 SEK
Exercise price	101.70/69.30 SEK
Expected volatility	35%
Expected maturity	3 years
Present value of forecasted future dividends <sup>1</sup>	12.22 SEK
Risk-free interest rate	0.91%

<sup>1</sup>) Based on analysts' combined expectations.

#### NUMBER AND EXERCISE PRICE, GROUP (INCLUDING PARENT COMPANY), 2013 LTI PROGRAM

	Employee stock options 2013	Matching rights 2013
Outstanding at beginning of year	—	17,992
Allotted during the period	—	—
Exercised during the year	—	-15,574
Forfeited during the year	—	-2,418
Outstanding at year-end	—	—
Theoretical value when allotted acc. to Black-Scholes, SEK	14.30	26.30
Exercise price, SEK	101.70	69.30

#### NUMBER AND EXERCISE PRICE, PARENT COMPANY, 2013 LTI PROGRAM

	Employee stock options 2013	Matching rights 2013
Outstanding at beginning of year	—	4,449
Allotted during the year	—	—
Exercised during the year	—	-4,167
Forfeited during the year	—	-2,418
Transferred during the year	—	2,136
Outstanding at year-end	—	—
Theoretical value when allotted acc. to Black-Scholes, SEK	14.30	26.30
Exercise price, SEK	101.70	69.30

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 2013 at 92.41 SEK.

For the 2013 LTI program, encompassing the years 2013–2015, no performance stock options were vested, since the performance targets set by the Board of Directors were not met. The program was discontinued in June 2018.

The number of allotted employee stock options and acquired matching rights under the 2013 program for the President and other members of the Group Executive Management on 31 December 2018 corresponds to the number of outstanding employee stock options and matching rights at year-end.

The number of allotted matching rights under the 2013 program corresponds to the number of outstanding matching rights at 31 December 2018.

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

#### Share-based incentive program 2015 – 2018

The 2015, 2016, 2017 and 2018 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 at Grant a maximum total of 7,187,339 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.

In the LTI program 2015, 2016 and 2017, each acquired investment share entitles participants to be allotted, free of charge, after a period of three years, one Sandvik share ("matching share"). In the LTI program for 2015, 2016, 2017 and 2018, provided certain performance targets are met Sandvik shares ("performance shares") may be allotted. 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 2015, 2016, 2017 and 2018 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 2015 LTI program matching shares were allotted during 2018. No performance shares were allotted since the performance

## NOTES

Note 3, continued

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.

For the 2017 LTI program matching shares will be allotted during 2020, if all the prerequisites for allotment are met. Performance shares will be allotted since the performance targets set by the Board of Directors were met.

In order for any performance shares to be allotted in the 2018 LTI program, adjusted EPS growth for the financial year 2018 must exceed 5% in relation to adjusted EPS for the financial year 2017. For the maximum number of performance shares to be allotted in the 2018 LTI program, adjusted EPS growth for the financial year 2018 must attain 15% in relation to adjusted EPS for the financial year 2017. Within the range, a proportional linear number of performance shares will be allotted.

Adjusted EPS for the financial year 2015 amounted to 4.72 SEK; year 2016 amounted to 5.48 SEK; year 2017 amounted to 7.99 SEK.

For the financial year 2018 adjusted EPS amounted to 10.41 SEK, which means that the maximum performance targets were met, and performance shares will therefore vest in 2021 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.

If all the prerequisites for participant's right to allotment are met, allotment of matching shares under the 2018 LTI program will take place during 2021, and no later than 30 June 2021.

The number of allotted performance shares under the 2015–2018 LTI programs and matching shares under the 2015–2017 LTI programs for the President and other members of the Group Executive Management on 31 December 2018 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: 67.4 million SEK, excluding social costs for the 2018 LTI program, of which 8.9 million SEK for the President and other senior executives; 55.3 million SEK, excluding social costs for the 2017 LTI program, of which 8.2 million SEK for the President and other senior executives; 32.7 million SEK, excluding social costs, for the 2016 LTI program, of which 6.6 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 two times during the year. Issues dealt with included the distribution between fixed and variable salary, the magnitude of any pay increases and the long-term variable incentive program.

The Board discussed the Remuneration Committee's proposals and made a decision, using the Committee's proposal as a basis. Based on the Remuneration Committee's proposals, the Board decided on the remuneration of the President for 2018. 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, 2015 – 2018 LTI PROGRAMS

Assumptions	Program 2015 (on date of issue)	Program 2016 (on date of issue)	Program 2017 (on date of issue)	Program 2018 (on date of issue)
Share price	103.60 SEK	82.70 SEK	137.0 SEK	162.90 SEK
Present value of forecasted future dividends <sup>1</sup>	11.51 SEK	8.74 SEK	10.55 SEK	12.70 SEK
Risk-free interest rate	0.0%	-0.41%	-0.46%	-0.41%

<sup>1</sup> Based on analysts' combined expectations.

### NUMBER OF SHARES, GROUP (INCLUDING PARENT COMPANY), 2015 – 2018 LTI PROGRAMS

	Performance shares 2015	Matching shares 2015	Performance shares 2016	Matching shares 2016	Performance shares 2017	Matching shares 2017	Performance shares 2018
Outstanding at beginning of year	—	275,521	1,426,780	334,060	1,291,369	282,694	—
Allotted during the year	—	—	—	—	—	—	1,398,267
Vested during the year	—	-253,111	-36,007	-8,473	-2,493	-623	—
Forfeited during the year	—	-22,410	-149,144	-32,012	-105,639	-22,229	-51,151
Outstanding at year-end	—	—	1,241,629	293,576	1,183,237	259,842	1,347,116
Theoretical value when allotted, SEK	92.10	92.10	74.00	74.00	126.40	126.40	150.1

### NUMBER OF SHARES, PARENT COMPANY, 2015 – 2018 LTI PROGRAMS

	Performance shares 2015	Matching shares 2015	Performance shares 2016	Matching shares 2016	Performance shares 2017	Matching shares 2017	Performance shares 2018
Outstanding at beginning of year	—	25,063	223,118	42,615	249,533	44,662	—
Transferred during the year	—	—	—	—	—	—	197,224
Vested during the year	—	-24,052	—	—	—	—	—
Forfeited during the year	—	-1,011	—	—	-17,929	-2,860	-2,883
Transferred during the year	—	—	18,863	3,464	—	—	—
Outstanding at year-end	—	—	241,981	46,079	231,604	41,802	194,341
Theoretical value when allotted, SEK	92.10	92.10	74.00	74.00	126.40	126.40	150.1

Note 3, continued

### 3.6 FEES AND REMUNERATION TO THE GROUP'S AUDITORS

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

	PwC		KPMG		Other		Total	
	2017	2018	2017	2018	2017	2018	2017	2018
<b>Audit</b>								
Parent Company	—	12.4	10.2	0.0	—	—	10.2	12.4
Subsidiaries	—	56.1	64.6	4.0	2.6	16.4	67.2	76.5
<b>Group</b>	—	<b>68.5</b>	<b>74.8</b>	<b>4.0</b>	<b>2.6</b>	<b>16.4</b>	<b>77.4</b>	<b>88.9</b>
<b>Tax consultancy services</b>								
Parent Company	—	3.1	0.1	0.5				
Subsidiaries	—	9.9	5.9	4.7				
<b>Group</b>	—	<b>13.0</b>	<b>6.0</b>	<b>5.2</b>				
<b>Other services</b>								
Parent Company	—	17.6	3.9	3.8				
Subsidiaries	—	8.0	3.2	1.0				
<b>Group</b>	—	<b>25.6</b>	<b>7.1</b>	<b>4.8</b>				

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	
	2017	2018	2017	2018
<b>Expenditure for</b>				
Research and development	3,498	3,727	1,440	1,544
Quality assurance	470	423	269	252
<b>Total</b>	<b>3,968</b>	<b>4,150</b>	<b>1,709</b>	<b>1,796</b>
of which expensed, total	3,633	3,958	1,604	1,744
of which expensed relating to research and development	3,163	3,535	1,336	1,492

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 1,337 million SEK (4,219). The amount includes gains on the divestment of operations with 879 million SEK (4,112), where of 618 million SEK is related to Hyperion. 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 profit from sale of assets and revaluation of unrealized hedges.

### NOTE 6. OTHER OPERATING EXPENSES

#### Continuing operations

Other operating expenses amounted to -613 million SEK (-867). The main part is foreign exchange loss on operating receivables and payables of -322 million SEK (-132).

#### Parent Company

The Parent Company's other operating expenses mainly pertains to royalties between Group companies, none financial or none operative cost and losses on foreign exchange on operating receivables and payables.

### NOTE 7. OPERATING EXPENSES

Group	2017	2018
Cost of goods and material	-28,092	-31,748
Employee benefit expense	-26,550	-26,952
Depreciation and amortization	-4,581	-4,546
Impairment losses, inventories	-408	-297
Impairment losses and reversal		
impairment losses, non-current assets	-349	150
Impairment losses, doubtful receivables	-111	-78
Other expenses	-16,938	-19,343
<b>Total</b>	<b>-77,029</b>	<b>-82,814</b>

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 2018, the planned residual value of such leased assets was 36 million SEK (42). Variable fees recognized as expenses totaled 16 million SEK (11). Future minimum lease payments in respect of non-cancellable contracts fall due as follows:

Group	Nominal fee		Present value	
	2017	2018	2017	2018
Within one year	15	16	14	15
Between one and five years	46	35	44	31
Later than five years	—	—	—	—
<b>Group total</b>	<b>61</b>	<b>51</b>	<b>58</b>	<b>46</b>

##### Finance leases with Sandvik as lessor

The Group's investments in finance leases amounted to 2,881 million SEK (2,224) 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	
	2017	2018	2017	2018
Within one year	809	1,517	688	1,431
Between one and five years	1,402	1,347	1,240	1,291
Later than five years	13	16	5	4
<b>Group total</b>	<b>2,224</b>	<b>2,881</b>	<b>1,933</b>	<b>2,726</b>

#### 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 2018, the Group expensed 1,233 million SEK (861), including minimum lease payments of 1,231 million SEK (864), variable fees of 11 million SEK (3), and net of sublease income of -9 million SEK (-7). The Parent Company expensed 241 million SEK (219).

## NOTES

Note 8, continued

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

	Group		Parent Company	
	2017	2018	2017	2018
Within one year	761	1,143	211	186
Between one and five years	1,601	2,265	633	479
Later than five years	625	829	404	333
<b>Group total</b>	<b>2,988</b>	<b>4,237</b>	<b>1,248</b>	<b>998</b>

Future minimum lease payments under non-cancellable lease contracts that pertain to subleased items amounted to 171 million SEK (156).

### Operating leases with Sandvik as lessor

The planned residual value of the Group's rental fleet is 943 million SEK (836). Depreciation for the year amounted to 602 million SEK (599). The future minimum lease payments under non-cancellable leases amount to 824 million SEK (713). Variable fees amounted to 17 million SEK (29). Future minimum lease payments under non-cancellable operating lease contracts fall due as follows:

	Group		Parent Company	
	2017	2018	2017	2018
Within one year	287	459	0	0
Between one and five years	426	361	—	0
Later than five years	—	4	—	—
<b>Group total</b>	<b>713</b>	<b>824</b>	<b>0</b>	<b>0</b>

## NOTE 9. NET FINANCING COST

Group	2017	2018
Interest income	207	281
Dividend	25	15
<b>Other investments incl. derivatives</b>		
Net gain on remeasurement of financial assets/ liabilities	134	43
Net foreign-exchange gains	—	—
Other financial income	15	35
<b>Financial income</b>	<b>381</b>	<b>374</b>
Interest expense	-1,377	-1,081
<b>Other investments incl. derivatives</b>		
Net loss on remeasurement of financial assets/liabilities	-41	-15
Net foreign-exchange losses	-9	-6
Other financial expenses	-34	-59
<b>Financial expenses</b>	<b>-1,462</b>	<b>-1,161</b>
<b>Net financing cost</b>	<b>-1,080</b>	<b>-788</b>

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to -801 million SEK (-1,157). In 2018, the hedging of fair values resulting from the valuation of hedged items had an effect of 0 million SEK (-4) on the result, while the valuation of hedged instruments affected the result by 0 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	
	2017	2018	2017	2018
Parent Company				
Dividend, net of withholding tax	1,072	3,129	5	—
Group contributions paid/received	-3,955	3,072	—	—
Gain or loss on sale of shares and participations	2,344 <sup>1)</sup>	-1,824 <sup>2)</sup>	72	0
Impairment	-167	-13	—	—
Reversed impairment	—	—	—	—
<b>Total</b>	<b>-706</b>	<b>4,364</b>	<b>77</b>	<b>0</b>

1) Profit from disposal of shares in Sandvik Process Systems AB.  
2) Loss from intra-group disposal of shares in subsidiary

Interest income and similar items

Parent Company	2017	2018
Interest income, Group companies	631	491
Other interest income	0	0
Derivatives, Group companies	139	50
Other	—	—
<b>Total</b>	<b>770</b>	<b>541</b>

Interest expense and similar items

Parent Company	2017	2018
Interest expense, Group companies	-451	-301
Other interest expense	-543	-550
Derivatives, Group companies	5	-238
Other	-15	-28
<b>Total</b>	<b>-1,004</b>	<b>-1,117</b>

## NOTE 10. INCOME TAX

### RECOGNIZED IN PROFIT AND LOSS

	Group		Parent Company	
	2017	2018	2017	2018
Income tax expense for the year				
Current tax	-2,771	-2,651	-71	-120
Adjustment of taxes attributable to prior years	-322	-290	—	—
<b>Total current tax expense</b>	<b>-3,093</b>	<b>-2,941</b>	<b>-71</b>	<b>-120</b>
Deferred taxes relating to temporary differences and tax loss carry-forward	-687	-1,704	618	-1,361
<b>Total tax expense</b>	<b>-3,780</b>	<b>-4,645</b>	<b>547</b>	<b>-1,481</b>

The Group's recognized tax expense for the continuing operations for the year amounted to 4,645 million SEK (3,780) or 26% (22.2) of profit after financial items. The main part of the deferred tax expense is related to the temporary differences and the utilization of tax loss carryforwards in Sweden.

### 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 22.3% (22.4). The tax rate in Sweden is 22% (22). The tax loss carryforwards, net, is related to the revaluations in different countries whereof no stand-alone items are significant. Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

	2017		2018	
	MSEK	%	MSEK	%
Continuing operations				
Profit after financial items	16,992		17,894	
Weighted average tax based on each country's tax rate	-3,810	-22.4	-3,985	-22.3
<b>Tax effect of</b>				
Non-deductible expenses	-149	-0.9	-465	-2.6
Tax-exempt income	646	3.8	395	2.2
Adjustments relating to prior years	-322	-1.9	-290	-1.6
Effects of tax loss carry-forward, net	-53	-0.3	-207	-1.2
Other	-92	-0.5	-93	-0.5
<b>Total recognized tax expense</b>	<b>-3,780</b>	<b>-22.2</b>	<b>-4,645</b>	<b>-26.0</b>

Note 10, continued

The weighted average tax rate for Group total, based on the statutory tax rates in each country, is 23% (22.5). The higher loss for the discontinued operations this year results in a lower profit after financial items, which has a negative impact on the weighted average tax for Group total.

Group total	2017		2018	
	MSEK	%	MSEK	%
Profit after financial items	16,940		17,349	
Weighted average tax based on each country's tax rate	-3,810	-22.5	-3,985	-23.0
<b>Tax effect of</b>				
Non-deductible expenses	-149	-0.9	-465	-2.7
Tax-exempt income	646	3.8	395	2.3
Adjustments relating to prior years	-322	-1.9	-290	-1.7
Effects of tax loss carry-forward, net	-53	-0.3	-207	-1.2
Other	-92	-0.5	-93	-0.5
<b>Total recognized tax expense</b>	<b>-3,780</b>	<b>-22.3</b>	<b>-4,645</b>	<b>-26.8</b>

#### Reconciliation of the Parent Company's tax expense

The Parent Company's effective tax rate is higher than the nominal tax rate in Sweden, mainly due to the loss at sale of shares in Group companies which are non-deductible costs and adjustments of tax relating to prior years.

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

Parent company	2017		2018	
	MSEK	%	MSEK	%
Profit before tax	335		6,337	
Tax based on the nominal tax rate for the Parent Company	-74	-22	-1,394	-22
<b>Tax effects of</b>				
Non-deductible expenses	-88	-26	-513	-8.1
Tax-exempt income	705	210.6	671	10.6
Tax related to Sandvik Process Systems <sup>1)</sup>	-24	-7.2	—	—
Adjustments relating to prior years	28	8.3	-245	-3.9
<b>Total recognized tax expense</b>	<b>547</b>	<b>163.4</b>	<b>-1,481</b>	<b>-23.4</b>

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

#### TAX ITEMS ATTRIBUTABLE TO OTHER COMPREHENSIVE INCOME

Group	2017			2018		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Actuarial gains/losses attributable to defined-benefit pension plans	860	-108	751	-684	163	-522
Translation differences for the year	-1,353	—	-1,353	1,752	—	1,752
Fair-value changes in cash flow hedges for the year	9	-2	7	3	-1	2
Fair-value changes in cash flow hedges carried forward to profit/loss for the year	77	-17	60	15	-3	12
<b>Other comprehensive income</b>	<b>-408</b>	<b>-127</b>	<b>-535</b>	<b>1,086</b>	<b>159</b>	<b>1,244</b>

#### 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	2017			2018		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	38	-1,294	-1,256	53	-1,588	-1,535
Property, plant and equipment	151	-880	-729	160	-1,487	-1,327
Financial non-current assets	66	-151	-85	70	-128	-58
Inventories	925	-86	839	848	-85	763
Receivables	162	-93	69	168	-36	132
Interest-bearing liabilities	1,191	-3	1,188	1,292	0	1,292
Non-interest-bearing liabilities	1,018	-17	1,001	1,126	-16	1,110
Other	11	-11	0	1	-9	-8
Tax loss carry-forward	1,712	—	1,712	396	—	396
<b>Total</b>	<b>5,274</b>	<b>-2,535</b>	<b>2,739</b>	<b>4,114</b>	<b>-3,349</b>	<b>765</b>
Offsetting within companies	-1,071	1,071	—	-964	964	—
<b>Total deferred tax assets and liabilities</b>	<b>4,203</b>	<b>-1,464</b>	<b>2,739</b>	<b>3,150</b>	<b>-2,385</b>	<b>765</b>

Parent Company	2017			2018		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	—	-27	-27	—	-669	-669
Inventories	8	—	8	—	—	9
Provisions	28	-8	20	9	-24	6
Non-interest-bearing assets and liabilities	18	—	18	30	—	5
Tax loss carry-forward	693	—	693	5	—	—
<b>Total</b>	<b>747</b>	<b>-35</b>	<b>712</b>	<b>44</b>	<b>-693</b>	<b>-649</b>
Offsetting	-35	35	—	-44	44	—
<b>Total deferred tax assets and liabilities</b>	<b>712</b>	<b>—</b>	<b>712</b>	<b>—</b>	<b>-649</b>	<b>-649</b>

## NOTES

Note 10, continued

### Unrecognized deferred tax assets

The Group has additional tax loss carry-forward of 3,038 million SEK (1,663). The main part of the change for 2018 relates to revaluation and expiry of tax losses in prior years in China and Chile. No deferred tax asset was recognized for these losses.

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

Year	MSEK
2019	102
2020	230
2021	160
2022	119
2023 and later	53
No expiry date	2,374
<b>Total</b>	<b>3,038</b>

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 826 million SEK (503).

### CHANGE OF DEFERRED TAX IN TEMPORARY DIFFERENCES AND UNUSED TAX LOSSES

	Group		Parent Company	
	2017	2018	2017	2018
Balance at beginning of year, net	3,798	2,739	93	712
Recognized in profit and loss	-687	-1,704	619	-1,361
Acquisitions/disposals of subsidiaries	-7	-364	—	—
Recognized in other comprehensive income	-127	159	—	—
Recognized in equity	-202	—	—	—
Translation differences	-36	-65	—	—
<b>Balance at end of year, net</b>	<b>2,739</b>	<b>765</b>	<b>712</b>	<b>-649</b>

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

	Group		Parent Company	
	2017	2018	2017	2018
Provisions for taxes	-1,722	-1,457	—	—
Income tax liabilities	-1,146	-1,252	—	—
Income tax receivables	961	740	169	81
<b>Net tax liabilities/receivables</b>	<b>-185</b>	<b>-512</b>	<b>169</b>	<b>81</b>

Provisions for taxes of -1,457 million SEK (-1,722) relate to ongoing disputes and assessed tax risks.

## NOTE 11. EARNINGS PER SHARE

### BASIC AND DILUTED EARNINGS PER SHARE, SEK

	Basic		Diluted	
	2017	2018	2017	2018
Earnings per share, Group total	10.50	10.14	10.49	10.11
Earnings per share, continuing operations	10.54	10.57	10.53	10.55

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

### PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY

	2017	2018
Profit for the year attributable to the equity holders of the Parent Company, Group total	13,174	12,714
Profit for the year attributable to equity holders of the Parent Company, continuing operations	13,226	13,259

### Basic earnings per share

The calculation of earnings per share for 2018 is based on the profit for the year attributable to the equity holders of the Parent Company, Group total, continuing operations and the weighted average number of shares (thousands) of 1,254,386 (1,254,386) during 2018.

### WEIGHTED AVERAGE NUMBER OF SHARES, BASIC

In thousands of shares	2017	2018
Total number of ordinary shares at 1 January	1,254,386	1,254,386
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 2018 is based on the profit attributable to the equity holders of the Parent Company, Group total, continuing operations and the weighted average number of shares (thousands) of 1,257,527 (1,256,346) during 2018, calculated as follows:

### WEIGHTED AVERAGE NUMBER OF SHARES, DILUTED

In thousands of shares	2017	2018
Weighted average number of shares, basic	1,254,386	1,254,386
Effect of share options	1,960	3,141
Weighted average number of shares outstanding during the year, diluted	1,256,346	1,257,527

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
<b>Cost</b>												
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
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
<b>At 31 December 2017</b>	<b>3,779</b>	<b>2,744</b>	<b>231</b>	<b>162</b>	<b>6,916</b>	<b>151</b>	<b>799</b>	<b>2,064</b>	<b>11,911</b>	<b>2,376</b>	<b>17,301</b>	<b>24,217</b>
At 1 January 2018	3,779	2,744	231	162	6,916	151	799	2,064	11,911	2,376	17,301	24,217
Additions	192	274	9	9	484	45	80	—	—	1	127	611
Business combinations	—	—	—	—	—	254	34	129	3,198	967	4,582	4,582
Divestments and disposals	-53	-74	-63	-41	-231	—	-44	-7	-1,016	-216	-1,284	-1,514
Reclassifications	16	37	44	-8	89	19	45	-18	909 <sup>1)</sup>	137	1,093	1,181
Translation differences for the year	74	41	6	10	131	7	24	128	602	147	908	1,039
<b>At 31 December 2018</b>	<b>4,009</b>	<b>3,022</b>	<b>227</b>	<b>132</b>	<b>7,389</b>	<b>476</b>	<b>937</b>	<b>2,296</b>	<b>15,605</b>	<b>3,412</b>	<b>22,727</b>	<b>30,116</b>
<b>Accumulated amortization and impairment losses</b>												
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
<b>At 31 December 2017</b>	<b>2,317</b>	<b>1,448</b>	<b>111</b>	<b>126</b>	<b>4,002</b>	<b>59</b>	<b>549</b>	<b>821</b>	<b>—</b>	<b>1,410</b>	<b>2,839</b>	<b>6,841</b>
At 1 January 2018	2,317	1,448	111	126	4,002	59	549	821	—	1,410	2,839	6,841
Business combinations	—	—	—	—	—	—	22	—	—	—	22	22
Divestments and disposals	-44	-71	-13	-40	-167	—	-42	-7	—	-122	-171	-338
Impairment losses	30	—	—	8	38	—	—	1	—	—	1	39
Reversal of earlier impairment losses	—	—	—	—	—	—	-1	—	—	—	-1	-1
Reclassifications	—	-10	-8	—	-17	—	39	-14	—	140	165	147
Amortization for the year	317	263	12	3	594	49	48	106	—	168	371	965
Translation differences for the year	40	7	4	9	59	2	21	43	—	65	131	191
<b>At 31 December 2018</b>	<b>2,660</b>	<b>1,637</b>	<b>106</b>	<b>106</b>	<b>4,508</b>	<b>110</b>	<b>637</b>	<b>950</b>	<b>—</b>	<b>1,661</b>	<b>3,357</b>	<b>7,866</b>
<b>Net carrying amounts</b>												
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
1 January 2018	1,462	1,295	120	37	2,914	92	250	1,243	11,911	966	14,462	17,376
31 December 2018	1,349	1,384	121	26	2,880	366	300	1,345	15,605	1,753	19,370	22,250
<b>Amortization for the year is included in the following lines in the 2017 income statement</b>												
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
<b>Total</b>	<b>-293</b>	<b>-172</b>	<b>-11</b>	<b>-5</b>	<b>-481</b>	<b>-36</b>	<b>-47</b>	<b>-111</b>	<b>—</b>	<b>-181</b>	<b>-375</b>	<b>-856</b>
<b>Amortization for the year is included in the following lines in the 2018 income statement</b>												
Cost of sales	—	-84	—	-1	-85	-7	-26	-102	—	-32	-167	-252
Selling expenses	—	-8	—	-2	-10	-37	-7	-2	—	-134	-180	-190
Administrative expenses	-317	-171	-12	—	-500	-5	-15	-2	—	-2	-24	-524
<b>Total</b>	<b>-317</b>	<b>-263</b>	<b>-12</b>	<b>-3</b>	<b>-595</b>	<b>-49</b>	<b>-48</b>	<b>-106</b>	<b>—</b>	<b>-168</b>	<b>-371</b>	<b>-965</b>
<b>Impairment losses/Reversal of impairment losses per line in the income statement 2017</b>												
Cost of sales	—	—	—	—	—	—	—	—	—	—	—	—
Selling expenses	5	—	—	—	5	—	—	—	—	—	—	5
Administrative expenses	40	—	—	—	40	—	—	—	—	—	—	40
<b>Total</b>	<b>45</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>45</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>45</b>
<b>Impairment losses/Reversal of impairment losses per line in the income statement 2018</b>												
Cost of sales	—	—	—	—	—	—	—	—	—	—	—	—
Selling expenses	—	—	—	8	8	—	—	—	—	—	—	8
Administrative expenses	30	—	—	—	30	—	—	1	—	—	1	31
<b>Total</b>	<b>30</b>	<b>—</b>	<b>—</b>	<b>8</b>	<b>38</b>	<b>—</b>	<b>—</b>	<b>1</b>	<b>—</b>	<b>—</b>	<b>1</b>	<b>39</b>

1) Mainly goodwill classified as assets held for sale previous year.

## NOTES

Note 12, continued

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.

For 2018, the impairment losses/reversal of impairment losses amounted to –39 million SEK and was related to the business area Sandvik Mining and Rock Technology.

### PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
<b>Cost</b>					
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
<b>At 31 December 2017</b>	<b>16,411</b>	<b>39,660</b>	<b>6,287</b>	<b>2,376</b>	<b>64,734</b>
At 1 January 2018	16,411	39,660	6,287	2,376	64,734
Additions	373	1,421	274	2,035	4,103
Business combinations	7	232	25	—	264
Divestments and disposals	–493	–3,213	–585	–237	–4,528
Reclassifications	753	3,038 <sup>1)</sup>	439	–1,432	2,798
Translation differences for the year	489	929	154	42	1,613
<b>At 31 December 2018</b>	<b>17,541</b>	<b>42,067</b>	<b>6,591</b>	<b>2,786</b>	<b>68,984</b>
<b>Depreciation and impairment losses</b>					
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
<b>At 31 December 2017</b>	<b>7,599</b>	<b>27,942</b>	<b>4,793</b>	<b>0</b>	<b>40,335</b>
At 1 January 2018	7,599	27,942	4,793	0	40,335
Business combinations	2	130	19	—	150
Divestments and disposals	–243	–2,395	–532	—	–3,170
Reclassifications	346	1,197 <sup>1)</sup>	193	—	1,736
Depreciation for the year	540	2,635	417	—	3,592
Impairment losses	45	80	4	—	129
Reversal of earlier impairment losses	–109	–83	—	—	–192
Translation differences for the year	242	685	118	—	1,043
<b>At 31 December 2018</b>	<b>8,423</b>	<b>30,188</b>	<b>5,012</b>	<b>0</b>	<b>43,622</b>
<b>Net carrying amounts</b>					
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
1 January 2018	8,811	11,718	1,494	2,376	24,399
31 December 2018	9,118	11,879	1,580	2,785	25,362

<sup>1)</sup> Mainly plant and machinery classified as assets held for sale previous year.

Note 12, continued

Impairment losses/Reversal of impairment losses	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
<b>Per line in the income statement 2017</b>					
Cost of sales	103	189	—	—	292
Selling expenses	—	-4	—	—	-4
Administrative expenses	—	-3	2	—	-1
<b>Total</b>	<b>103</b>	<b>182</b>	<b>2</b>	<b>—</b>	<b>287</b>
<b>Per line in the income statement 2018</b>					
Cost of sales	-63	5	4	-2	-56
Selling expenses	—	—	—	—	—
Administrative expenses	—	-8	—	—	-8
<b>Total</b>	<b>-63</b>	<b>-3</b>	<b>4</b>	<b>-2</b>	<b>-64</b>
<b>Per business area 2017</b>					
Sandvik Machining Solutions	—	-24	—	—	-24
Sandvik Mining and Rock Technology	—	4	2	—	6
Sandvik Materials Technology	103	202	—	—	305
Other Operations	—	—	—	—	—
<b>Total</b>	<b>103</b>	<b>182</b>	<b>2</b>	<b>—</b>	<b>287</b>
<b>Per business area 2018</b>					
Sandvik Machining Solutions	35	19	4	—	58
Sandvik Mining and Rock Technology	—	1	—	2	3
Sandvik Materials Technology	-106	-22	—	-4	-132
Other Operations	8	-1	—	—	7
<b>Total</b>	<b>-63</b>	<b>-3</b>	<b>4</b>	<b>-2</b>	<b>-64</b>

**Additional information**

Items of property, plant and equipment totaling 293 million SEK (281) have been pledged as security for liabilities. In 2018, contractual commitments for the acquisition of property, plant and equipment amounted to 222 million SEK (231).

Borrowing costs included in the cost of assets during the year amounted to zero for 2018 and 2017.

**Disclosure regarding government grants in the Group**

Government grants during the year amounted to 8 million SEK (10).

**Impairment tests of goodwill**

Goodwill was impairment tested in the fourth quarter 2018. As stated below, the carrying amount of goodwill in the consolidated balance sheet is 15,605 million SEK (11,911), essentially related to a number of major business combinations.

Goodwill by cash-generating unit	Carrying amount	
	2017	2018
<b>Sandvik Machining Solutions</b>		
Walter group	1,092	1,141
Seco Tools	256	267
Wolfram	1,506	1,574
Metrologic	—	2,606
Business area level	1,303	1,555
<b>Total</b>	<b>4,157</b>	<b>7,143</b>
<b>Sandvik Mining and Rock Technology</b>		
Business area level	6,580	7,196
<b>Total</b>	<b>6,580</b>	<b>7,196</b>
<b>Sandvik Materials Technology</b>		
Business area level	1,132	1,224
<b>Total</b>	<b>1,132</b>	<b>1,224</b>
<b>Other operations</b>		
Hyperion	950	—
<b>Total</b>	<b>950</b>	<b>—</b>
Other	42	42
<b>Group total</b>	<b>12,861</b>	<b>15,605</b>
Transfer to held for sale	-950	—
<b>Continuing operations</b>	<b>11,911</b>	<b>15,605</b>

## NOTES

Note 12, continued

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. 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 (2), 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.

In 2017, Goodwill attributable to Hyperion, amounting to 950 million SEK, was classified as assets held for sale and measured at cost. Hyperion was divested in 2018.

The testing of Goodwill 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 -25 million SEK (332) for 2018. For property, plant and equipment the amount was -64 (287) million SEK and for intangible assets 39 (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
<b>Cost</b>			
At 1 January 2017	121	139	260
Additions	3	—	3
Divestments and disposals	-14	—	-14
Reclassifications	2	—	2
<b>At 31 December 2017</b>	<b>112</b>	<b>139</b>	<b>251</b>
At 1 January 2018	112	139	251
Additions	19	—	19
Divestments and disposals	-8	—	-8
Reclassifications	—	—	—
<b>At 31 December 2018</b>	<b>123</b>	<b>139</b>	<b>262</b>

Note 13, continued

	Patents and other intangible assets	Goodwill	Total
<b>Accumulated amortization</b>			
At 1 January 2017	97	2	99
Divestments and disposals	-11	—	-11
Reclassifications	0	—	0
Amortization for the year	4	28	32
<b>At 31 December 2017</b>	<b>90</b>	<b>30</b>	<b>120</b>
Net carrying amount at end of year	22	109	131
At 1 January 2018	90	30	120
Divestments and disposals	—	—	—
Reclassifications	—	—	—
Amortization for the year	7	28	35
<b>At 31 December 2018</b>	<b>97</b>	<b>58</b>	<b>155</b>
Net carrying amount at end of year	26	81	107

**AMORTIZATION FOR THE YEAR IS INCLUDED IN THE FOLLOWING  
LINES IN THE INCOME STATEMENT**

	2017	2018
Administrative expenses	32	35
<b>Total</b>	<b>32</b>	<b>35</b>

Property, plant and equipment	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
<b>Cost</b>					
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
<b>At 31 December 2017</b>	<b>1,711</b>	<b>14,511</b>	<b>1,566</b>	<b>1,436</b>	<b>19,224</b>
At 1 January 2018	1,711	14,511	1,566	1,436	19,224
Additions	5	167	19	616	807
Divestments and disposals	-13	-746	-134	-4	-897
Reclassifications	21	433	57	-511	—
<b>At 31 December 2018</b>	<b>1,724</b>	<b>14,365</b>	<b>1,508</b>	<b>1,537</b>	<b>19,134</b>
<b>Revaluations</b>					
At 1 January 2017	39	—	—	—	39
Divestments and disposals	—	—	—	—	—
<b>At 31 December 2017</b>	<b>39</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>39</b>
At 1 January 2018	39	—	—	—	39
Divestments and disposals	0	—	—	—	0
<b>At 31 December 2018</b>	<b>39</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>39</b>
<b>Depreciation</b>					
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
<b>At 31 December 2017</b>	<b>729</b>	<b>10,113</b>	<b>1,181</b>	<b>—</b>	<b>12,023</b>
At 1 January 2018	729	10,113	1,181	—	12,023
Divestments and disposals	-10	-574	-128	—	-712
Reclassifications	—	2	-2	—	—
Depreciation for the year	51	666	84	—	801
Impairment losses	8	—	0	—	8
Reversal of impairment losses	—	—	—	—	—
<b>At 31 December 2018</b>	<b>778</b>	<b>10,207</b>	<b>1,135</b>	<b>—</b>	<b>12,120</b>
<b>Net carrying amounts</b>					
1 January 2017	1,046	4,902	425	1,237	7,610
31 December 2017	1,021	4,398	385	1,436	7,240
1 January 2018	1,021	4,398	385	1,436	7,240
31 December 2018	985	4,158	373	1,537	7,053

## NOTES

### NOTE 14. SHARES IN GROUP COMPANIES

	Parent Company		(Continued)	Parent Company	
	2017	2018		2017	2018
<b>Cost</b>			<b>Accumulated impairment losses</b>		
At beginning of year	34,469	34,083	At beginning of year	-1,374	-1,541
Additions	0	4,793	Impairment losses for the year	-167	-13
Capital contributions	265	93	Impairment reversed during the year	0	—
Divestments	-651	-6,654	<b>Total</b>	<b>-1,541</b>	<b>-1,554</b>
<b>Total</b>	<b>34,083</b>	<b>32,315</b>	<b>Accumulated revaluations</b>		
			At beginning of year	16	16
			<b>Total</b>	<b>16</b>	<b>16</b>
			<b>Carrying amount at year-end</b>	<b>32,558</b>	<b>30,777</b>

### SANDVIK AB'S HOLDINGS OF SHARES AND PARTICIPATIONS IN SUBSIDIARIES, DIRECT HOLDINGS, ACCORDING TO BALANCE SHEET AT 31 DECEMBER

Company, domicile	2017				2018			
	Corp. Reg. number	No. of shares	Holding, % <sup>2)</sup>	Carrying amount 000s SEK	No. of shares	Holding, % <sup>2)</sup>	Carrying amount 000s SEK	
SWEDEN								
Gimo Utbildningsaktiebolag, Gimo	556061-4041	1,000	91	8,354	1,000	91	—	
Gusab Holding AB, Sandviken	556001-9290	1,831,319	100	53,474	—	—	—	
Gusab Stainless AB, Mjölby	556012-1138	200,000	100	23,788	—	—	—	
Industri AB Skomab, Sandviken	556008-8345	2,000	100	23,729	2,000	100	21,946	
Sandvik Global Purchasing AB, Stockholm	556052-4315	1,000	100	50	1,000	100	50	
Sandvik Mining AB, Sandviken <sup>1)</sup>	556659-6952	1,000	100	100	1,000	100	100	
AB Sandvik Coromant, Sandviken <sup>1)</sup>	556234-6865	1,000	100	50	1,000	100	50	
Sandvik Coromant Sverige AB, Stockholm <sup>1)</sup>	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	35,000	1,500	100	81,000	
Sandvik Hyperion AB, Stockholm <sup>1)</sup>	556234-6857	1,000	100	50	—	—	—	
Sandvik Besökservice AB, Sandviken <sup>1)</sup>	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 <sup>1)</sup>	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 <sup>1)</sup>	556234-6832	1,000	100	2,050	1,000	100	2,050	
Sandvik Construction AB, Sandviken <sup>1)</sup>	556664-9983	1,000	100	100	1,000	100	100	
Sandvik Mining and Construction Sverige AB, Sandviken <sup>1)</sup>	556288-9443	1,000	100	50	1,000	100	50	
Sandvik Mining and Construction Tools AB, Sandviken <sup>1)</sup>	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	
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 <sup>1)</sup>	556251-5386	1,000	100	50	1,000	100	50	
Sanrip AB, Sandviken <sup>1)</sup>	556692-0038	1,000	100	100	1,000	100	100	
Sandvik Machining Solutions AB, Sandviken <sup>1)</sup>	556692-0053	1,000	100	100	1,000	100	100	
Sandvik Utbildnings AB, Sandviken	556304-8791	910	91	9,391	910	91	18,355	
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 <sup>1)</sup>	556776-9525	1,000	100	100	1,000	100	100	
Wire Sandviken AB, Sandviken <sup>1)</sup>	556779-3897	1,000	100	100	1,000	100	100	
Sandvik IT Services AB, Sandviken <sup>1)</sup>	556788-9059	1,000	100	100	1,000	100	100	
Sandvik Venture AB, Stockholm <sup>1)</sup>	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	

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	2017			2018		
		No. of shares	Holding, % <sup>2)</sup>	Carrying amount 000s SEK	No. of shares	Holding, % <sup>2)</sup>	Carrying amount 000s SEK
Australia	Sandvik Australia Pty. Ltd.	—	25 <sup>3,4)</sup>	235,382	—	25 <sup>3,4)</sup>	235,382
	Sandvik Australian Ltd. Partnership	—	99	—	—	99	—
Brazil	Dormer Tools S.A.	2,137,623,140	100	461,197	—	—	—
	Sandvik do Brasil S.A.	1,894,797,190	100	821,575	—	—	—
	Sandvik Materials Technology do Brasil S.A.	10,877,380	100	193,284	—	—	—
	Sandvik MGS S.A.	14,999,998	100	11,064	—	—	—
	Sandvik Mining and Construction do Brasil S.A.	85,329,996	100	942,434	—	—	—
	Sandvik Holding Do Brasil Ltda	—	—	—	339,135,756	100	790,695
	Walter do Brasil Ltda	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	1,263,072	—	100	1,263,072
	Sandvik Materials Technology (China) Ltd.	—	58 <sup>3)</sup>	282,749	—	58 <sup>3)</sup>	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	—	9,990	100	—
Hungary	Sandvik Magyarország Kft.	—	100	3,258	—	100	3,258
India	Sandvik Asia Ltd.	1,801,241	75 <sup>5)</sup>	252,481	1,801,241	75 <sup>5)</sup>	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 <sup>3)</sup>	712,312	406,642,873	90 <sup>3)</sup>	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 <sup>3)</sup>	26,025	6,562,795	90 <sup>3)</sup>	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
<b>Total</b>				<b>32,557,783</b>			<b>30,776,865</b>

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	2017 <sup>1)</sup>	2018 <sup>1)</sup>
Sweden	Kanthal 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
	Metrologic Services Nordic AB	—	100
Sweden	Pramet Scandinavia AB	100	100
	Seco Aktiebolag	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	—
	Sandvik Holding Do Brazil	—	100
Burkina Faso	Sandvik Mining and Rock Technology Burkina Faso	—	100
Canada	Sandvik Canada Inc.	100	100
	Inrock Ltd. (Canada)	—	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	—
	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 <sup>2)</sup>	50 <sup>2)</sup>
	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.	100	100
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
	Sandvik Coromant Finland Oy	—	100
	Seco Tools Oy	100	100
France	Sandvik Mining and Construction Chauny S.A.S.	100	100
	Sandvik Hyperion S.A.S.	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



Note 14, continued

Country/Location	Company	2017 <sup>1)</sup>	2018 <sup>1)</sup>
France	Gunther Tools S.A.S.	100	100
	Financière Metrolog S.A.S.	—	100
	Metrologic Group S.A.S.	—	99
	Metrologic Services S.A.S.	—	100
	Metrologic Holding France	—	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
Germany	Varel Europe S.A.S.	100	100
	Seco Tools Reaming S.A.S.	100	100
	Sandvik Mining and Construction Crushing Technology GmbH	100	100
	Prototyp-Werke GmbH	100	100
	Sandvik Materials Technology Deutschland GmbH	100	100
	Sandvik Mining and Construction Europe GmbH	100	100
	Sandvik Mining and Construction Supply GmbH	100	100
	Sandvik Tooling Deutschland GmbH	100	100
	TDM Systems GmbH	100	100
Ghana	Walter AG	100	100
	Comara GmbH	100	100
	Walter Deutschland GmbH	100	100
	Werner Schmitt PKD-Werkzeug GmbH	100	100
	Seco Tools GmbH	100	100
	Metrologic Group GmbH	—	100
	Sandvik Mining & Construction Central Europe GmbH	100	100
	Sandvik Mining and Construction Ghana Ltd.	100	100
	Sandvik Hong Kong Ltd.	100	100
Hong Kong	Smooth Team Investments Limited	—	100
	Walter Hungaria Kft.	100	100
Hungary	Seco Tools Kft.	100	100
	Walter Tools India Pvt. Ltd.	100	100
India	Seco Tools India Private Limited	100	100
	PT Sandvik Indonesia	100	100
Indonesia	PT Sandvik Mining and Construction Indonesia	100	100
	PT Sandvik SMC	100	100
	Sandvik Italia S.p.A.	100	100
Italy	Walter Italia S.R.L.	100	100
	Seco Tools Italia S.p.A.	100	100
	Metrologic Group Italia S.R.L.	—	100
	Sandvik Tooling Supply Japan K.K.	100	100
Japan	Walter Japan K. K.	100	100
	Seco Tools Japan K.K.	100	100
	Sandvik Mining and Construction Kazakhstan Ltd	100	100
Kazakhstan	Sandvik SuhJun Ltd.	100	100
	Walter Korea Ltd.	100	100
	Seco Tools Korea Ltd.	100	100
Korea	Sandvik Malaysia Sdn. Bhd.	100	100
	Sandvik Mining and Construction (Malaysia) Sdn. Bhd.	100	100
Malaysia	Sandvik 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
Mexico	Sandvik Namibia Pty Ltd	100	100
	Jabro Tools B.V.	100	100
Netherlands	Sandvik Mining and Construction Nigeria Ltd.	100	100
Nigeria	Teeness ASA	100	100
	Sandvik Norge A/S	100	100
	Seco Tools A/S	100	100
Norway	Sandvik New Zealand Ltd.	100	100
	Sandvik Tamrock (Philippines) Inc.	100	100
New Zealand	Walter Polska Sp. z.o.o.	100	100
	Seco Tools (Poland) Sp. z.o.o.	100	100
Philippines	Sandvik SRL	100	100
	Walter Tools SRL	100	100
Poland			
Romania			

## NOTES

Note 14, continued

Country/Location	Company	2017 <sup>1)</sup>	2018 <sup>1)</sup>
Russia	LLC Sandvik	100	100
	OOO Walter	100	100
	Sandvik Mining and Construction CIS LLC	100	100
	Sandvik-MKTC OAO	100	100
	LLC Pramet	100	100
	LLC "Seco Tools"	100	100
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
	Metrologic Group Spain S.L.	—	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 Taiwan Ltd.	100	100
	Sandvik Hyperion Taiwan Limited	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
	Inrock Ltd. (U.K.)	—	100
	Downhole Products Limited	100	100
Ukraine	Sandvik Ukraine	100	100
US	Diamond Innovations Inc.	100	—
	Sandvik Machining Solutions USA LLC	—	100
	TDM System Inc.	100	100
	Custom Electric Manufacturing LLC	—	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 Special Metals LLC	100	100
	Walter USA LLC	100	100
	Seco Tools LLC	100	100
	Inrock Drilling Systems Inc.	—	100
	Inrock Acquisitions Inc	—	100
	Niagara Cutter,LLC	100	100
	uFab LLC	100	100
	Precorp Inc.	100	100
	Advanced Theodolite Technology, Inc.	—	80
MG USA Properties, Inc.	—	100	
Metrologic Group Services, Inc	—	100	
Dura-Mill	—	100	
	Varel International Ind., LLC	100	100
Zambia	Sandvik Mining and Construction Zambia Ltd.	100	100

1) Refers to share of capital, which also corresponds to voting rights for the total number of shares, unless otherwise stated.

2) Share of votes 60% (60).

**NOTE 15. INVESTMENTS IN ASSOCIATED COMPANIES**

Group shares in associated companies	2017	2018
<b>Accumulated share of equity</b>		
At beginning of year	246	269
Divestment of associates	-24	-214
Share of profits for the year	56	46
Less dividend received	-6	-1
Translation differences during the year	-3	0
<b>Carrying amount at end of year</b>	<b>269</b>	<b>100</b>

Parent Company's shares in associated companies	2017	2018
<b>Accumulated cost</b>		
At beginning of year	4	0
Divestment of associates	-4	—
<b>Carrying amount at end of year</b>	<b>0</b>	<b>0</b>

**SUMMARIZED FINANCIAL INFORMATION OF ASSOCIATED COMPANIES, AND THE GROUP'S SHARE**

2018	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
<b>Owned directly by Sandvik AB</b>							
—	—	—	—	—	—	—	—
<b>Owned indirectly by Sandvik AB</b>							
Eimco Elecon	India	188	20	431	56	375	25.1
Fagersta Stainless AB (sold in June 2018)	Sweden	1,054	69	—	—	—	—
Fagersta Seco AB	Sweden	—	0	3	2	1	50.0
Fagerstahälsan AB	Sweden	7	0	9	6	2	50.0
3C Metrologic (acquired in July 2018)	Mexico	—	—	—	—	—	40.0
Shanghai Innovatools Co. Ltd.	China	6	0	12	3	9	40.0

2017	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
<b>Owned directly by Sandvik AB</b>							
Oerlikon Balzers Sandvik Coating AB (sold in August 2017)	Sweden	60	6	—	—	—	—
<b>Owned indirectly by Sandvik AB</b>							
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

**Additional information**

The close of the reporting period for the associate Eimco Elecon is 31 March 2018. The dividend paid in 2018 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 Fagersta Stainless AB was divested in 2018. Revenue and profit were recognized up to the date of sale. The associated company 3C Metrologic was acquired in 2018. Revenue and profit were not recognized in 3C Metrology under 2018.

**NOTE 16. NON-CURRENT RECEIVABLES AND OTHER CURRENT RECEIVABLES**

Group	2017	2018
<b>Non-current receivables</b>		
Derivatives designated as hedging instruments	104	140
Funded pension plans	695	516
Other non-interest-bearing receivables	347	397
Other interest-bearing receivables	1,152	1,319
<b>Total</b>	<b>2,298</b>	<b>2,372</b>
Whereof discontinued operations and assets held for sale	-78	-77
<b>Continuing operations</b>	<b>2,220</b>	<b>2,295</b>
<b>Other current receivables</b>		
Derivatives designated as hedging instruments	491	414
Other non-interest-bearing receivables	2,815	2,464
Other interest-bearing receivables	1,167	1,621
Advances to suppliers	290	283
<b>Total</b>	<b>4,763</b>	<b>4,782</b>
Whereof discontinued operations and assets held for sale	-332	-115
<b>Continuing operations</b>	<b>4,431</b>	<b>4,667</b>

Parent Company	2017	2018
<b>Non-current receivables</b>		
Derivatives	77	91
Other non-interest-bearing receivables	0	—
Other interest-bearing receivables	19	18
<b>Total</b>	<b>96</b>	<b>109</b>
<b>Other current receivables</b>		
Derivatives	30	138
Other non-interest-bearing receivables	182	511
Other interest-bearing receivables	2	35
<b>Total</b>	<b>214</b>	<b>684</b>

## NOTES

### NOTE 17. INVENTORIES

	Group		Parent Company	
	2017	2018	2017	2018
Raw materials and consumables	5,434	5,649	1,014	1,340
Work in progress	4,264	4,771	1,170	1,356
Finished goods	12,711	14,261	742	369
<b>Total</b>	<b>22,409</b>	<b>24,681</b>	<b>2,926</b>	<b>3,065</b>
Whereof discontinued operations	-993	-72	—	—
<b>Continuing operations</b>	<b>21,416</b>	<b>24,609</b>	<b>2,926</b>	<b>3,065</b>

Cost of sales of the Group includes impairment of inventories of 297 million SEK (408) while cost of sales of the Parent Company includes impairment of 98 million SEK (104). There were no significant reversals of impairment losses during 2018 and 2017.

### NOTE 18. TRADE RECEIVABLES

#### AGE ANALYSIS OF TRADE RECEIVABLES, GROUP

	2017			2018		
	Gross	Allowance for bad debts	Net carrying amount	Gross	Allowance for bad debts	Net carrying amount
Current receivables	12,080	-100	11,980	13,251	-210	13,041
Past due receivables 0-3 months	1,719	-23	1,696	2,070	-54	2,016
Past due receivables 4-12 months	592	-172	420	673	-165	508
Past due receivables >12 months	465	-429	36	450	-403	47
<b>Group total</b>	<b>14,856</b>	<b>-724</b>	<b>14,132</b>	<b>16,444</b>	<b>-832</b>	<b>15,612</b>
Whereof discontinued operations	-950	46	-904	-315	82	-234
<b>Continuing operations</b>	<b>13,906</b>	<b>-678</b>	<b>13,228</b>	<b>16,129</b>	<b>-751</b>	<b>15,378</b>

2018	Current	1-30 days past due	31-60 days past due	61-90 days past due	91-180 days past due	181-360 days past due	More than 360 days past due	Total
<b>Loss allowance</b>								
Expected loss rate, %	0.5	1.8	5.0	16.1	16.2	45.5	90.2	<b>4.7</b>
Gross carrying amount – trade receivables	12,375	1,595	496	257	308	219	480	<b>15,730</b>
Gross carrying amount – contract assets	363	9	3	1	1	0	22	<b>399</b>
	<b>12,738</b>	<b>1,604</b>	<b>499</b>	<b>258</b>	<b>309</b>	<b>219</b>	<b>502</b>	<b>16,129</b>
Loss allowance	-59	-29	-25	-41	-50	-100	-447	-751
<b>Carrying value</b>	<b>12,679</b>	<b>1,575</b>	<b>474</b>	<b>217</b>	<b>259</b>	<b>119</b>	<b>55</b>	<b>15,378</b>

Sandvik evaluates its trade receivables, contract assets and financial leases on a collective basis for its categories respectively. Each reporting entity groups its receivables in suitable risk categories according to Group policy. The Group's assessment is that the aggregated credit risk has not increased during the reporting period.

Sandvik's principles for the writing off of receivables are based on several prerequisites, such as proof of write-off, insolvency or failed legal and other collection processes. An assessment is made whether one or several of these prerequisites are fulfilled before the write-off takes place.

Credit risks are classified based on credit information provided by credit agencies, identified payment behavior of the customer and other relevant information available, such as lost contracts, changes in company management and other customer specific information. Additionally, a macro economic evaluation is conducted of the outlook of industries and countries relevant for our customers.

As regards credit securities, the Group selectively utilizes different forms of credit securities, such as letters of credit, retention of title or credit insurance.

**NOTE 19. CAPITAL AND RESERVES****GROUP**

Details of reserves	2017	2018
<b>Translation reserve</b>		
At beginning of year	4,862	3,481
Translation differences during the year	-1,381	1,752
<b>At end of year</b>	<b>3,481</b>	<b>5,233</b>
<b>Hedging reserve</b>		
At beginning of year	-204	-137
Cash-flow hedges recognized in other comprehensive income	67	14
<b>At end of year</b>	<b>-137</b>	<b>-123</b>
<b>Total reserves</b>		
Reserves at beginning of year	4,658	3,344
<b>Changes in reserves:</b>		
Translation reserve	-1,381	1,752
Hedging reserve	67	14
<b>Reserves at end of year</b>	<b>3,344</b>	<b>5,110</b>

**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 15 million SEK (76).

**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	2017	2018
Share capital	1,505	1,505
Other paid-in capital	7,678	7,678
Reserves	3,344	5,110
Retained earnings including profit for the year	36,167	44,183
<b>Equity attributable to equity holders of the Parent</b>	<b>48,694</b>	<b>58,476</b>
<b>Non-controlling interests</b>	<b>28</b>	<b>42</b>
<b>Total equity</b>	<b>48,722</b>	<b>58,518</b>

The Board of Directors has proposed to the 2019 Annual General Meeting a dividend of 4.25 SEK per share (3.50). The proposal corresponds to approximately 42% 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 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
Share capital at 31 December 2018	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 2018 is estimated to amount to 5,331 million SEK (4.25 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.

## NOTES

### 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 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 2018, Alecta reported a preliminary plan surplus of 142% (154).

The Group's share of Alecta's saving premiums is 0.4%, the total share of active members in Alecta is 0.7%. For 2019, the expected contribution to Alecta is 32 million SEK.

#### 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 to 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 92% 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. Those eligible for the pension plan are also eligible for the medical plan in retirement. The retiree medical plan offers a dollar amount for each service year based on the age at which someone retires.

#### 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 2017	Sweden	UK	US	Finland	Germany	Canada	Other	Total
<b>Amount in the balance sheet</b>								
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%
<i>Pension plans recognized according to local rules</i>	—	—	—	—	—	—	—	-212
Duration (remaining term of pension obligation), years	23	18	15	17	9	12	—	17
<b>Amount in income statement/other comprehensive income</b>								
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
<b>Amount in cash flow</b>								
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
<b>Key assumptions used in the valuation of the pension liability</b>								
Life expectancy, years <sup>1)</sup>	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%

<sup>1)</sup> Expressed as the expected remaining life expectancy of a 65 year old in number of years.

Note 20, continued

Information by country, 31 December 2018	Sweden	UK	US	Finland	Germany	Canada	Other	Total
<b>Amount in the balance sheet</b>								
Present value of funded and unfunded pension obligations	5,772	6,605	6,801	3,443	2,655	543	1,217	27,036
- of which for actives	2,866	1,375	3,005	968	1,245	280	982	10,721
- of which for vested deferreds	1,485	1,930	946	794	227	20	36	5,438
- of which for retirees	1,421	3,300	2,850	1,681	1,183	243	199	10,877
Plan assets	2,574	6,417	6,176	3,612	1,456	526	756	21,517
Total surplus/(deficit)	-3,198	-188	-625	169	-1,199	-17	-461	-5,519
Funding level, %	45%	97%	91%	105%	55%	97%	62%	80%
Pension plans recognized according to local rules	—	—	—	—	—	—	—	-198
Duration (remaining term of pension obligation), years	23	17	13	16	10	12	—	16
<b>Amount in income statement/other comprehensive income</b>								
Current service cost	-194	-114	-158	-95	-44	-43	-48	-696
Net interest	-62	-8	-20	7	-21	1	-22	-125
Actuarial gains/(losses)	-700	181	-36	-100	-10	-11	-8	-684
Total cost of defined-benefit pension plans before tax	-956	59	-214	-188	-75	-53	-78	-1,505
<b>Amount in cash flow</b>								
Employer contributions to pension plans	—	-143	-184	-28	-44	-15	-41	-455
Pension payments directly from the company	-110	—	-30	—	-64	-3	-31	-238
Settlements paid	—	—	—	—	-7	—	—	-7
<b>Key assumptions used in the valuation of the pension liability</b>								
Life expectancy, years <sup>1)</sup>	23	22	22	21	22	23	—	—
Inflation, %	1.75%	3.10%	2.27%	1.85%	2.00%	2.00%	—	2.24%
Discount rate, % (weighted average)	2.50%	2.90%	4.20%	2.10%	1.75%	3.76%	—	2.92%
Future salary increases (weighted average)	3.00%	2.64%	3.00%	2.50%	3.00%	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

	2017	2018
<b>At 1 January</b>	<b>26,369</b>	<b>26,127</b>
Current service cost	410	696
Settlements	-497	-55
Interest expense	732	728
Employee contributions	30	34
Pension payments	-978	-1,073
Actuarial gains/(losses) attributable to:		
- Financial assumptions	829	-501
- Demographic assumptions	-163	-96
- Experience adjustments	-23	248
Other	-49	-163
Foreign exchange differences	-533	1,091
<b>At 31 December</b>	<b>26,127</b>	<b>27,036</b>

#### PLAN ASSETS

	2017	2018
<b>At 1 January</b>	<b>20,621</b>	<b>21,404</b>
Interest income	578	603
Settlements	-497	-55
Employer contributions to pension plans	382	455
Pension payments directly from the company	235	238
Settlements paid by employer	75	7
Employee contributions	30	34
Pension payments	-978	-1,073
Return on plan assets, excluding amount included in interest income	1,503	-1,033
Other	-59	-43
Foreign exchange differences	-486	980
<b>At 31 December</b>	<b>21,404</b>	<b>21,517</b>

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 516 million SEK (695) in the item non-current receivables. Provisions for pensions include pension plans of 6,234 million SEK (5,630). The total net liability is 5,717 million SEK (4,935).

#### 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	202	212	160	127	24	14	739
Discount rate and inflation <sup>1)</sup>	552	541	858	172	61	59	2,243
Equities -20%	113	189	441	246	43	20	1,052
	<b>867</b>	<b>942</b>	<b>1,459</b>	<b>545</b>	<b>128</b>	<b>93</b>	<b>4,034</b>

1) Aggregated impact based on Solvency II.

Sandvik estimates that approximately 656 million SEK will be paid into existing defined-benefit plans in 2019.

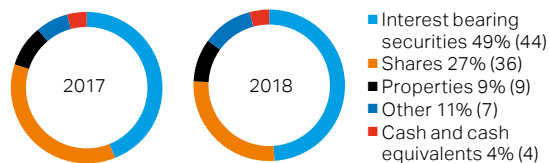
## NOTES

Note 20, continued

### Plan assets

Plan assets amounted to 21,517 million SEK (21,404). Actual return on plan assets was -430 million SEK (2,081) in 2018. The consolidation ratio for funded plans is 86% (88). For all plans including unfunded plans, the consolidation ratio is 80% (82).

### CLASS OF ASSETS



Assets without quoted prices amounted to approximately 9% (9) of the total plan assets of 21,517 million SEK.

The fair value of plan assets on 31 December 2018 included loans of 0 million SEK (0) to Sandvik companies and the value of properties leased to Sandvik of 219 million SEK (210).

### 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.

### 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 376 million SEK (305). 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 2,574 million SEK (2,657), which was 442 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

	2017	2018
Present value of funded and unfunded pension obligations	2,210	2,323
Plan assets	2,060	2,201
Deficit in the assets of the pension foundation	-155	-254
<b>Net amount recognized for pension obligations</b>	<b>-305</b>	<b>-376</b>

## NOTE 21. OTHER PROVISIONS

	Warranties	Restructuring	Employee benefits	Environmental obligations	Legal disputes	Other obligations	Total
<b>Group</b>							
Balance at 31 December 2017	500	767	537	228	168	452	2,652
Provisions made during the year	219	888	290	148	142	236	1,923
Provisions used during the year	-194	-405	-228	-18	-7	-166	-1,017
Unutilized provisions reversed during the year	-76	-162	-23	-7	-10	-162	-440
Provision disposed through divestment	-3	—	-3	—	—	-3	-9
Reclassifications	-8	-16	-15	0	0	38	-2
Translation differences	17	6	8	5	0	5	41
Transfer to liabilities held for sale	4	111	4	4	2	3	128
<b>Balance at 31 December 2018</b>	<b>458</b>	<b>1 188</b>	<b>571</b>	<b>359</b>	<b>295</b>	<b>404</b>	<b>3,275</b>
of which current	371	956	189	49	220	342	2,126
of which non-current	87	232	382	310	75	62	1,149
<b>Parent Company</b>							
Balance at 31 December 2017	18	86	127	23	—	0	254
Provisions made during the year	-0	23	52	9	—	—	83
Provisions used during the year	-4	-73	-34	-1	—	—	-112
Unutilized provisions reversed during the year	-1	—	—	-4	—	—	-5
Provisions disposed through divestment	-2	—	-2	—	—	—	-4
Reclassifications	0	0	0	—	—	—	0
<b>Balance at 31 December 2018</b>	<b>10</b>	<b>36</b>	<b>143</b>	<b>27</b>	<b>—</b>	<b>0</b>	<b>216</b>



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:

	2017			2018		
	Within one to five years	Later than five years	Total	Within one to five years	Later than five years	Total
Loans from financial institutions	—	—	—	—	—	—
Loans from Group companies	1	—	1	1	—	1
Other liabilities	6,830	9,638	16,468 <sup>1)</sup>	8,153	8,809	16,962 <sup>1)</sup>
<b>Total</b>	<b>6,831</b>	<b>9,638</b>	<b>16,469</b>	<b>8,154</b>	<b>8,809</b>	<b>16,963</b>

1) Other liabilities mainly comprise bond loans.

## NOTE 23. OTHER INTEREST-BEARING LIABILITIES

Group	2017	2018
<b>Non-current liabilities</b>		
Bond issues	21,264	20,308
Other	127	123
<b>Total</b>	<b>21,391</b>	<b>20,431</b>
<b>Current liabilities</b>		
Bond issues	576	0
Other	6	27
<b>Total</b>	<b>582</b>	<b>27</b>

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	2017	2018
<b>Other non-current liabilities</b>		
Derivatives designated as hedging instruments	255	258
Other	23	45
<b>Total</b>	<b>278</b>	<b>303</b>
<b>Other current liabilities</b>		
Derivatives designated as hedging instruments	341	238
Bills payable	111	104
Other	2,204	2,145
<b>Total</b>	<b>2,656</b>	<b>2,487</b>
Whereof discontinued operations	-104	-20
<b>Continuing operations</b>	<b>2,552</b>	<b>2,467</b>

## NOTE 25. ACCRUED EXPENSES AND DEFERRED INCOME

Parent Company	2017	2018
Personnel related	1,837	1,782
Expenses related to finance	298	298
Other	388	619
<b>Total</b>	<b>2,523</b>	<b>2,699</b>

## 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	
	2017	2018	2017	2018
<b>Contingent liabilities</b>				
Bills discounted	7	6	—	—
Other surety undertakings and contingent liabilities	351	377	10,705	10,798
<b>Total</b>	<b>359</b>	<b>383</b>	<b>10,705</b>	<b>10,798</b>
of which for subsidiaries	—	—	10,659	10,700

The Parent Company's surety undertakings and contingent liabilities amounted to 10,798 million SEK (10,705), of which 6,492 million SEK (6,367) 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 commitments.

## NOTES

Note 26, continued

The Group's surety undertakings and contingent liabilities amounted to 383 million SEK (359) and mainly comprised pension guarantees and ongoing proceedings.

### PLEGDED ASSETS

Pledged assets for own liabilities and provisions.

Group	2017	2018
Property mortgages	221	231
Chattel mortgages	60	62
<b>Total</b>	<b>281</b>	<b>293</b>

No assets of the Parent Company had been pledged in 2018 and 2017.

## NOTE 27. SUPPLEMENTARY INFORMATION – FINANCIAL RISK MANAGEMENT

### Financial risk management

Through its comprehensive international operations, Sandvik is exposed to financial risks.

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.

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 supports 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 Sandvik Mining and Rock Technology 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 under IFRS 7, IFRS 9, and IAS 39 for Hedge Accounting.

### Currency risk - Transaction exposure

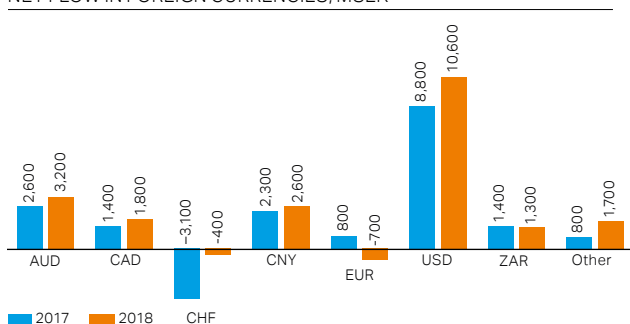
#### Risk

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 19,468 million SEK (14,852) in 2018. The most important currencies for one year of exposure are shown in the following diagram.

### 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 adjusted 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 and bank account balances 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 2,521 million SEK (1,324). The average duration for the hedged volume of foreign currency was 2 months (3). Unrealized gains from outstanding currency contracts for hedging of future net flows amounted to 0.2 million SEK (76) at year-end. This amount consists of -9.6 million SEK in losses related

Note 27, continued

to contracts maturing in 2019 and 9.4 million SEK in gains related to contracts maturing in 2020 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 -1,126 million SEK (-1,174), assuming that the composition is the same as it was at year-end.

#### SENSITIVITY ANALYSIS BY CURRENCY, MSEK

AUD	CAD	CHF	CNY	EUR	USD	ZAR	Other	Total
-129	-82	-22	-124	-27	-482	-57	-203	-1,126

#### Currency risk - Translation exposure

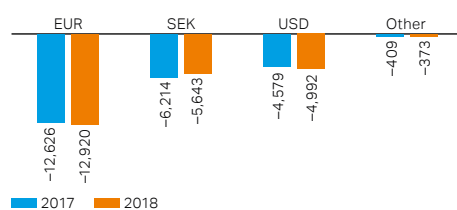
##### Risk

Translation exposure occurs when assets and liabilities are denominated in different currencies.

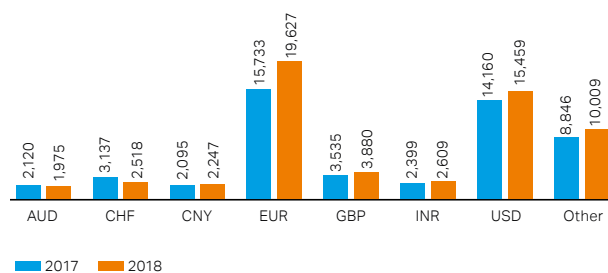
Since the Swedish krona (SEK) is Sandvik's base currency, a translation risk related to the valuation of the net assets in foreign subsidiaries and the profit/loss in foreign currency achieved during the period occurs. The net assets, which usually consist of the foreign subsidiaries' shareholders equity, are translated to SEK at the rates applied at the balance sheet date. At 31 December, the Group's net assets in subsidiaries in local currencies amounted to 58,324 million SEK (52,025).

#### 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 -2,921 million SEK (-2,605). This net effect primarily comprises translation exposure in equity.

#### SENSITIVITY ANALYSIS BY CURRENCY, MSEK

AUD	CHF	CNY	EUR	GBP	INR	USD	Other	Total
-99	-126	-112	-981	-194	-130	-773	-505	-2,921

#### 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 -38 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 65 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	2.6	17	5,652
Bond loans, European MTN	3.6	78	11,314
Private placements	4.1	21	5,133
Commercial papers	0	0	0
Other loans from banks	2.7	23	1,830
<b>Total loans</b>	<b>3.4</b>	<b>47</b>	<b>23,928</b>

Interest effect of currency derivatives

Interest effect of currency derivatives	0.4
<b>Total incl. currency derivatives</b>	<b>3.8</b>

#### 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 47 months (54) 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 0.4% 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 3.8% (4.0).

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 that are 100% effective and with a notional amount of 1,500 million SEK, 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.

## NOTES

Note 27, continued

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

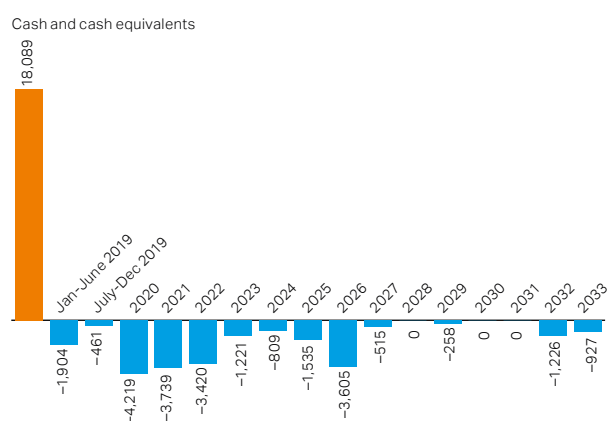
#### Risk

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.

### 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	5,652	15,000	2.3
Bond loans, European MTN	EUR	11,314	30,901	7.5
Private placements	USD	5,133	—	1.8
Commercial papers	EUR, SEK	0	17,725	0.0
Other loans	EUR, SEK	1,830	—	3.1
<b>Total borrowing</b>		<b>23,928</b>	<b>63,626</b>	<b>4.7</b>

#### 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 70,450 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 95,406 million SEK. The short-term liquidity reserve, comprising committed credit facilities and accessible cash and cash equivalents was 24,256 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 4,906 million SEK.

Sandvik has a credit facility totaling 9,000 million SEK maturing in year 2023. 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-bal-

anced maturity profile for liabilities to thereby reduce the refinancing risk. The share of long-term loans in relation to total borrowing was 90% at year-end 2018 compared with 96% 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 to can be divided into three categories:

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

### EXPOSURE

Total credit risk, MSEK	2017	2018
Trade receivables	13,928	15,378
Cash and cash equivalents	12,724	18,089
Unrealized net gains on derivatives	595	554
Other receivables	407	277
Outstanding credits	2,623	3,244
<b>Total</b>	<b>30,277</b>	<b>37,542</b>

#### 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 2018, the value of these amounted to 18,643 million SEK (13,319).

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 2018, Sandvik's bad debts written off amounted to -78 million SEK (-111), corresponding to 0,08% of sales. The total gross value of outstanding trade receivables was 16,129 million SEK (14,617) at 31 December. Total impairment of these was -751 million SEK (-690). Age analysis of trade receivables at 31 December is presented in Note 18.

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 3,310 million SEK (2,668), of which -66 million SEK (-45) 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 370 million SEK (390).

### 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 2018.

Note 27, continued

### 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.

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 around 850 GWh. The hedging horizon at year-end was about 18 months' (17) expected consumption.

### Comments

Net total consumption of nickel amounted to about 17,000 metric tons during the year.

At year-end, the volume of hedged nickel inventory was 1,626 metric tons (2,068). The market value of commodity derivatives entered into was -26 million SEK (21).

The volume of electricity hedged with derivatives was 1,292 GWh (1,204) at year-end. The market value of these derivative contracts amounted to 202 million SEK (42).

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

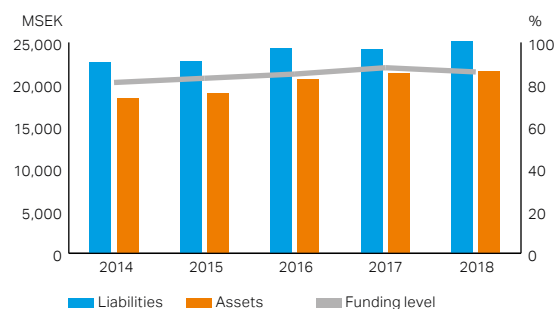
Sandvik has comprehensive pension obligations in the countries in which it operates. The pension solutions and funding requirements vary depending on legislation and local agreements. The largest funded pension plans are found in the US, UK, Finland, Sweden, Germany, and Canada. Three main risks are associated with Sandvik's pension obligations; interest rate fluctuations, capital market volatility and changes in life expectancy.

### Exposure

The group funded pension liability has an average duration of 17.2 years. The average duration of the group's interest-bearing assets in the pension portfolio is 14.1 years. The allocation to interest bearing assets is 49% of the pension portfolio. Due to the asset allocation and differences in duration between the interest-bearing assets and the liability, 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 2,243 million SEK.

27% of the pension portfolio is invested in equities. A 20% movement in the equity portfolio would result in a change in market value of 1,052 million SEK. If the life expectancy assumptions increase by one year, the pension liability would rise by 3% which corresponds to 739 million SEK. The calculated total loss potential for one year (Pension risk), based on stress tests according to the Solvency II framework, is on aggregate 4,462 million SEK.

### DEVELOPMENT OF PENSION LIABILITY AND ASSETS



### Comments

In 2018, the pension assets totaled 21,544 million SEK (21,415) and the corresponding pension liability amounted to 25,136 million SEK (24,255), which is equal to a funding level of 86% (88). The return on Sandvik's pension assets was -2.0% during the year (10.6). In addition, Sandvik has unfunded pension commitments of 1,900 million SEK (1,872).

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 measured at fair value 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 on the following page.

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 at 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

## NOTES

Note 27, continued

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.

### THE GROUP'S FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE IN THE BALANCE SHEET

Financial instruments measured at fair value		2017	2018
<b>Financial assets</b>			
<b>Derivatives</b>	Foreign exchange contracts	509	324
	Foreign currency options	—	—
	Interest-rate swaps	8	0
	Commodity and electricity derivatives	78	230
	<b>Total</b>	<b>595</b>	<b>554</b>
<b>Financial liabilities</b>			
<b>Derivatives</b>	Foreign exchange contracts	323	230
	Foreign currency options	—	—
	Interest-rate swaps	261	212
	Commodity and electricity derivatives	12	54
	<b>Total</b>	<b>595</b>	<b>496</b>

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 554 million SEK. The carrying amount of corresponding liabilities was –496 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 150 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 1,778 million SEK (2,117). When measuring interest-bearing liabilities, the company's Swedish and European bond loans have 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 <sup>1)</sup>		Derivatives held for trading <sup>2)</sup>		Available-for-sale financial assets		Loans and receivables		Total carrying amount		Fair value		
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	
<b>Financial assets</b>													
Financial investments	—	—	—	—	83	119	—	—	83	119	83	119	
Trade receivables	—	—	—	—	—	—	13,928	15,378	13,928	15,378	13,928	15,378	
Other receivables <sup>3)</sup>	—	—	—	—	—	—	2,487	2,997	2,487	2,997	2,487	2,997	
Derivatives <sup>4)</sup>	28	4	567	550	—	—	—	—	595	554	595	554	
Cash and cash equivalents	—	—	—	—	—	—	12,724	18,089	12,724	18,089	12,724	18,089	
<b>Total financial assets</b>	<b>28</b>	<b>4</b>	<b>567</b>	<b>550</b>	<b>83</b>	<b>119</b>	<b>29,139</b>	<b>36,463</b>	<b>29,816</b>	<b>37,136</b>	<b>29,816</b>	<b>37,136</b>	

Balance sheet items	Liabilities at fair value through profit and loss											
	Derivatives for hedge accounting <sup>1)</sup>		Derivatives held for trading <sup>2)</sup>		Other financial liabilities		Total carrying amount		Fair value			
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018		
<b>Financial liabilities</b>												
Borrowings <sup>5)</sup>	—	—	—	—	23,828	23,928	—	—	23,828	23,928	25,945	25,707
Derivatives <sup>6)</sup>	197	163	398	333	—	—	—	—	595	496	595	496
Accounts payable	—	—	—	—	7,645	7,914	—	—	7,645	7,914	7,645	7,914
Due to associates	—	—	—	—	3	1	—	—	3	1	3	1
Other liabilities <sup>7)</sup>	—	—	—	—	456	451	—	—	456	451	456	451
<b>Total financial liabilities</b>	<b>197</b>	<b>163</b>	<b>398</b>	<b>333</b>	<b>31,932</b>	<b>32,294</b>	<b>—</b>	<b>—</b>	<b>32,527</b>	<b>32,790</b>	<b>34,644</b>	<b>34,569</b>

1) Of which –159 million SEK (–177) pertains to cash flow hedges recognized in the hedging reserve in equity and 0 million SEK (13) pertains to fair-value hedges recognized in profit or loss.

2) Of which 217 million SEK (169) 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.

	2017	2018
Assets and liabilities at fair value (Derivatives)	330	-923
Loans and accounts receivables	-162	867
Available-for-sale financial assets	25	15
Financial liabilities	-1,239	-985

The company's financial liabilities amounted to 32,790 million SEK (32,527) at year-end.

**GROUP'S MATURITY STRUCTURE RELATING TO UNDISCOUNTED CASH FLOWS FOR FINANCIAL LIABILITIES AND DERIVATIVES, NOMINAL AMOUNTS**

		2017				2018			
		<6 months	6-12 months	1-5 years	>5 years	<6 months	6-12 months	1-5 years	>5 years
Bank loans	SEK	-59	-362	-1,689	—	-147	-478	-1,296	—
Commercial papers	SEK	—	—	—	—	—	—	—	—
Medium Term Notes	SEK	-317	-372	-4,916	-1,030	-66	-37	-5,363	-504
European Medium Term Notes	EUR	-263	-127	-3,702	-10,339	-275	-133	-4,501	-9,764
Private placements	USD	-133	-133	-5,092	—	-1,921	-91	-3,539	—
Derivatives									
- Currency derivatives		113	4	51	—	73	—	-11	-3
- Interest-rate derivatives		-46	8	-210	-70	-44	-5	-183	-34
- Commodity and electricity derivatives		16	25	22	—	-3	120	60	—
Finance leases		-1	-2	-50	—	-2	-2	-42	—
Accounts payable		-7,907	—	—	—	-7,914	—	—	—
<b>Total</b>		<b>-8,597</b>	<b>-959</b>	<b>-15,586</b>	<b>-11,439</b>	<b>-10,299</b>	<b>-626</b>	<b>-14,875</b>	<b>-10,305</b>

**PERIODS WHEN HEDGED CASH FLOWS IN THE HEDGE RESERVE ARE EXPECTED TO OCCUR AND AFFECT EARNINGS**

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	2021 and later
Currency derivatives	—	—	—	—	—	0	—	—	—
Interest derivatives	—	—	—	—	—	—	—	—	-161
Commodity and electricity derivatives	0	—	0	2	—	0	0	—	—
<b>Total</b>	<b>0</b>	<b>—</b>	<b>0</b>	<b>2</b>	<b>—</b>	<b>0</b>	<b>0</b>	<b>—</b>	<b>-161</b>

**DERIVATIVE FINANCIAL INSTRUMENTS****- INTEREST RATE SWAPS (CASH-FLOW HEDGES)**

	2017	2018
Carrying amount (included in other liabilities)	-188	-161
Notional amount	1,500	1,500
Change in fair value of outstanding hedging instruments since 1 January	49	49

## NOTES

### NOTE 28. RELATED PARTIES

#### Related-party transactions

The Group's sales to associated companies amounted to 506 million SEK (848). The Group's purchases from associated companies amounted to 107 million SEK (231). Loans to associated companies amounted to 0 million SEK (0). Interest income on loans to associated companies amounted to 0 million SEK (0). 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 16,157 million SEK (12,695), or 80% (76) of total sales. The share of exports was 87% (69). The Parent Company's purchases from Group companies amounted to 1,926 million SEK (2,810), or 11% (17) 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	2017	2018
<b>Group</b>		
Cash and cash equivalents comprise:		
Cash and bank	5,370	6,859
Short-term investments comparable to cash and cash equivalents	7,354	11,230
<b>Total in the balance sheet</b>	<b>12,724</b>	<b>18,089</b>
<b>Total in the cash flow statement</b>	<b>12,724</b>	<b>18,089</b>
<b>Parent Company</b>		
Cash and cash equivalents comprise:		
Cash and bank	0	3
<b>Total in the balance sheet</b>	<b>0</b>	<b>3</b>
<b>Total in the cash flow statement</b>	<b>0</b>	<b>3</b>

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	
	2017	2018	2017	2018
<b>Interest and dividend paid and received</b>				
Dividend received	25	15	1,077	3,129
Interest received	205	271	649	502
Interest paid	-1,374	-1,080	-545	-558
<b>Total</b>	<b>-1,144</b>	<b>-794</b>	<b>1,181</b>	<b>3,073</b>

### RECONCILIATION OF ITEMS INCLUDED IN FINANCING ACTIVITIES – GROUP

	2017-12-31	Cash flow effects	Non-cash flow effects	Foreign exchange differences	2018-12-31
Loans including net pension liabilities	28,671	-228	977	166	29,586
Leasing receivables	-2,183	-447	—	-58	-2,688
Other financing items	315	-183	-26	1	107
<b>Total</b>	<b>26,803</b>	<b>-858</b>	<b>951</b>	<b>109</b>	<b>27,005</b>

	Group		Parent Company	
	2017	2018	2017	2018
<b>Other adjustment for non-cash items, etc.</b>				
Changes in value of financial instruments	—	—	-154	-70
Unappropriated results of associated companies	-50	-44	—	—
Gains and losses on disposal of non-current assets	-55	-28	5	-17
Gains on disposal of companies and shares	-4,112	-879	-2,416	1,824
Provisions for pensions	—	—	-36	62
Other provisions	95	393	-78	-31
Other	543	570	815	4,359
<b>Total</b>	<b>-3,579</b>	<b>12</b>	<b>-1,864</b>	<b>6,127</b>

	2017	2018
<b>Acquisitions of subsidiaries and other business operations – Group</b>		
Net assets acquired:		
Intangible assets	—	4,642
Property, plant and equipment	—	114
Inventories	—	80
Current receivables	—	464
Cash and cash equivalents	—	314
<b>Total assets</b>	<b>—</b>	<b>5,613</b>
Interest-bearing liabilities	—	-7
Other provisions and liabilities	—	-2,824
<b>Net identifiable assets and liabilities</b>	<b>—</b>	<b>2,782</b>

	2017	2018
<b>Divestments of subsidiaries and other business units – Group</b>		
Divested assets and liabilities:		
Intangible assets	116	1,007
Property, plant and equipment	739	1,006
Financial assets	71	200
Deferred tax assets	—	31
Inventories	484	1,189
Current receivables	794	859
Cash and cash equivalents	81	90
<b>Total assets</b>	<b>2,285</b>	<b>4,381</b>
Provisions	-71	-7
Interest-bearing liabilities	-315	-633
Non-interest-bearing liabilities	-1,068	-932
<b>Total liabilities</b>	<b>-1,454</b>	<b>-1,572</b>
<b>Net identifiable assets and liabilities</b>	<b>831</b>	<b>2,809</b>
Mining Systems (discontinued operations)	-144	—
Sandvik Process System	4,706	—
Hyperion	—	3,577
Other	81	475
<b>Purchase consideration received</b>	<b>4,642</b>	<b>4,052</b>



### NOTE 30. ACQUISITION AND DIVESTMENT OF OPERATIONS, DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The acquisitions and divestments of business combinations executed in 2018 and 2017 are set out below. Annual revenue and number of employees reflect the situation at the date of the respective transaction.

Business area	Company	Acquisition date	Annual revenue	No. of employees
Sandvik Mining and Rock Technology	Inrock	2 July 2018	46 MUSD in 2017	70
Sandvik Machining Solutions	Metrologic group	4 July 2018	43 MEUR in 2017	170
Sandvik Materials Technology	Custom Electric Manufacturing	1 August 2018	5 MUSD in 2017	20
Sandvik Machining Solutions	Dura-Mill	3 December 2018	7 MUSD in 2017	30

There were no acquisitions carried out during 2017.

#### Total fair value of assets and liabilities of acquired businesses in 2018

The fair value of acquired assets and assessed liabilities has been preliminary established for the acquisitions of Metrologic, Inrock and Dura-Mill due to the ongoing analysis of the acquired surplus values. Only minor IFRS adjustments were made to the acquisition values.

Fair value recognized in the Group	Metrologic	Inrock	Other	Total
Intangible assets	1,463	—	51	1,514
Property, plant and equipment	29	84	1	114
Inventories	7	65	8	80
Current receivables	282	172	5	459
Cash and cash equivalents	314	—	—	314
Provisions	-10	—	—	-10
Interest-bearing liabilities	-2	-5	—	-7
Non-interest-bearing liabilities	-2,147	-325	-3	-2,475
<b>Net identifiable assets and liabilities</b>	<b>-64</b>	<b>-9</b>	<b>62</b>	<b>-11</b>
Surplus values	1,966	681	146	2,793
<b>Purchase consideration</b>	<b>-1,902</b>	<b>-672</b>	<b>-208</b>	<b>-2,782</b>
Cash and cash equivalents in acquired businesses	314	—	—	314
Repayment of loans	-1,924	-171	—	-2,095
Transaction expenses	-68	0	—	-68
<b>Net cash outflow</b>	<b>-3,580</b>	<b>-843</b>	<b>-208</b>	<b>-4,631</b>

#### CONTRIBUTIONS FROM COMPANIES ACQUIRED IN 2018 BY BUSINESS AREA

	Sandvik Machining Solutions	Sandvik Mining and Rock Technology	Sandvik Materials Technology	Total
<b>Contributions as of acquisition date</b>				
Revenue	238	163	19	420
Profit/loss for the year	93	25	3	121
<b>Contributions if the acquisition date would have been 1 January 2018</b>				
Revenue	451	313	42	806
Profit/loss for the year	184	34	9	227

#### DISCONTINUED OPERATIONS

The Mining Systems business was divested to FLSmidth and NEPEAN during 2017. Consequently, order intake and revenues in the quarter relate to small bookings of parts and service to already ongoing projects. The operating loss amounted to -262 million SEK (-95), adversely impacted by primarily high costs in completion of the remaining ongoing projects. Change in currency rates has adversely impacted the finance net by -3 million SEK.

Mining Systems has been reported as discontinued operations and the divested businesses has as of 2 November 2017 been deconsolidated from Sandvik's financial statements. The projects to be finalized during 2019 by Sandvik, through an operational agreement with FLSmidth, will be reported as discontinued operations.

#### 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, an impairment of fixed assets, amounting to 450 million SEK was exercised in 2017.

These businesses were reported as assets held for sale in Sandvik consolidated financial statements as from the second quarter of 2017 and until the second quarter of 2018 when the businesses were divested.

On 8 December 2017, Sandvik announced that it has signed an agreement to divest Hyperion to the US listed investment firm KKR. Hyperion was a separate product area within Other Operations, offering products and solutions based on hard and super-hard materials. The Hyperion business was divested in the third quarter of 2018.

#### INCOME STATEMENT FOR DISCONTINUED OPERATIONS

	2017	2018
Revenue	3,080	852
Cost of sales and services	-2,851	-1,174
<b>Gross profit</b>	<b>229</b>	<b>-322</b>
Selling expenses	-102	-42
Administrative expenses	-210	-110
Research and development costs	-15	-6
Other operating income	49	12
Other operating expenses	-12	-84
<b>Operating loss</b>	<b>-61</b>	<b>-552</b>
Financial income	9	7
Financial expenses	—	—
<b>Net financing costs</b>	<b>9</b>	<b>7</b>
<b>Loss after financial items</b>	<b>-52</b>	<b>-545</b>
Income tax	—	—
<b>Loss for the year</b>	<b>-52</b>	<b>-545</b>

## NOTES

Note 30, continued

### ASSETS AND LIABILITIES INCLUDED IN DIVESTMENTS

	Other Operations	SMT	Total
Intangible assets	1,077	6	1,083
Property, plant and equipment	897	109	1,006
Financial assets	—	200	200
Deferred tax assets	31	—	31
Inventories	961	228	1,189
Current receivables	780	81	861
Cash and cash equivalents	80	10	90
Provisions	-6	-1	-7
Interest-bearing liabilities	-453	-180	-633
Non-interest-bearing liabilities	-884	-48	-932
Gain on divestments of business combinations			879
Consideration received after divestment costs			3,769
Loan repayment			373
Less: Cash and cash equivalents in the divested entities			-90
Impact on the Group's cash and cash equivalents, divested operations			4,052

### ASSETS AND LIABILITIES HELD FOR SALE

	2017	2018
Intangible assets	1,016	—
Property, plant and equipment	823	26
Financial assets	79	4
Current assets	2,604	611
<b>Total assets</b>	<b>4,522</b>	<b>641</b>
Provisions	438	4
Interest-bearing liabilities	9	—
Non-interest-bearing liabilities	1,123	608
<b>Total liabilities</b>	<b>1,570</b>	<b>612</b>

### CASH FLOW STATEMENT FOR DISCONTINUED OPERATIONS

	2017	2018
Cash flow from operating activities	-466	-439
Cash flow from investing activities	-144	2
Cash flow from financing activities	2	-2
<b>Cash flow from discontinued activities</b>	<b>-608</b>	<b>-439</b>

#### Divestments

In July 2018, Sandvik divested the Hyperion business, within Other operations, to the US-listed investment firm KKR at the price of 4 billion SEK on a debt- and cash-free basis. In 2017 the business recorded revenues of about 3.2 billion SEK with approximately 1,400 employees.

During 2018, Sandvik Materials Technology divested its holding in the associated company Fagersta stainless and the businesses within Stainless and Welding Wire. The considerations amounted to 475 million SEK during 2018. The transactions involved some 260 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, Stockholm.

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 2018 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 2018, 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 (12%).

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 4.25 SEK (3.50) per share to the 2019 Annual General Meeting, corresponding to approximately 5.3 billion SEK (4.4).

Dividend, 4.25 SEK per share	
× number of shares 1,254,385,923 =	5,331,140,173
Profits carried forward	16,384,240,659
<b>Total, SEK</b>	<b>21,715,380,832</b>

### NOTE 34. EVENTS AFTER THE CLOSE OF THE PERIOD

On 9 January 2019, Sandvik announced the acquisition of US-based Wetmore Tool & Engineering, a manufacturer of round tools specialized for the aerospace industry. On 22 January 2019, Sandvik announced the acquisition of US-based Artisan Vehicle Systems, a manufacturer of battery powered underground mining equipment.

## 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 Directors' Report.

The company's financial position at 31 December 2018 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 2019

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	19,979,115,619
<u>and result for the year</u>	<u>1,736,265,213</u>
SEK	21,715,380,832

be appropriated as follows:

a dividend of 4.25 SEK per share	
to the shareholders	5,331,140,173
<u>profits carried forward</u>	<u>16,384,240,659</u>
SEK	21,715,380,832

The proposed record date for dividends is Thursday, 2 May 2019.

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 29 April 2019.

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 2019

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 2019  
PricewaterhouseCoopers AB

Peter Nyllinge  
Authorized Public Accountant  
Lead Partner

Magnus Svensson Henryson  
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 2018. 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 2018 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 2018 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 and is in agreement with the Annual Accounts Act. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

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.

#### *Other matter*

The audit of the annual accounts for the financial year 2017 was performed by another auditor who submitted an auditor's report dated 6 March 2018, with unmodified opinions in the Report on the annual accounts.

#### *Our audit approach*

##### **Audit scope**

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Sandvik performs its business via its subsidiaries in a large number of territories. Operationally, the business is organized in divisions that are aligned in the Group's three Business Areas. There are joint functions at various levels of the Group to support the operational activities of the divisions.

A fundamental part of our first year audit was to obtain an understanding of how the Group's business is organized, about important systems and processes as well as the internal controls put in place to provide comfort to management and the directors of the precision of the financial reporting. For this purpose we initially held many interviews with management at various levels of the Group and heads of Group functions on the business and the Group strategy. We also obtained and read management reports, policies, instructions as well as planning and governing documents.

The first year audit also included obtaining adequate audit evidence on the opening balances. Alongside other activities, we have read the preceding auditor's planning, assessments and conclusions and we have evaluated work performed in select areas.

With all of this as a starting point and for the purpose of expressing an opinion on the consolidated accounts as a whole, we decided that approximately 80 reporting units were the most important and should be in scope for the Group audit. Financial reporting from less significant units were covered through analytical procedures that were used to conclude whether extended audit procedures were necessary. Most subsidiaries of the Group are also subject to statutory audit requirements. The central team was responsible for the audit of a number of IT systems, processes, transaction flows and functions including the consolidation and the parent company accounts. The local teams were responsible for auditing items related to the operations in each reporting unit that emanates from local production and sales activities.

##### **Materiality**

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the [consolidated] financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality for the financial statements as a whole. These and qualitative considerations, were used to determine the scope of our audit and the nature, timing and extent of our audit procedures. The quantitative thresholds are also used to evaluate any effect of potential misstatements, individually or in aggregate, on the financial statements as a whole.

##### *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.

**Key audit matter**

*Revenue recognition in the appropriate period*

The Group manufactures and sells a number of products and services to its customers globally, mainly through its own distribution network. Sales contracts contain various performance obligations and other terms and the determination of when significant performance obligations have been met varies albeit a specific point in time can often be established. The new accounting standard IFRS 15 has been implemented starting from 1 January 2018. As a consequence, the Group has analyzed its various sales contracts and concluded on the principles for deciding in which period or periods the Group's sales transactions should be recognized as revenue.

Disclosure note 2 and the accounting policies provide additional information on how the Group accounts for its revenue and how the implementation of the standard IFRS 15 has affected the Group's financial reporting.

*Measurement of acquired intangible assets*

The majority of Sandvik's intangible assets have been acquired externally, mostly through acquiring businesses, these represent significant amounts. Assets with indefinite useful life such as goodwill are not subject to yearly depreciation. Instead, an annual test will show whether the carrying amount for the cash generating unit can still be supported. Sandvik has acquired and divested several businesses containing intangible assets during 2018.

There are a number of instances where management's judgment is decisive for the accounting treatment in connection with acquiring and divesting of businesses. Management's estimates of the intangible assets' potential to generate future cash flows and other assumptions are also decisive for the annual impairment tests.

The note 13 contains additional information on the Group's intangible assets and the significant assumptions applied in the annual impairment tests.

*Measurement of inventory*

Sandvik keep significant stock of raw materials, spare parts and work-in-progress at its production units and stores of finished goods mostly at its sales units and distribution centres. Measurement of inventory is important for a fair presentation of gross margin.

It is demanding to prepare accurate reporting of the acquisition cost when procurement, production and logistical processes are complex. Establishing product costing requires many instances of management judgment with effect on the reported values. This includes considering normal production levels, foreign currency, prices of raw materials and allocation of other direct and indirect costs. For finished goods, assessment is needed of obsolescence and how sellable the products are. Finally, there is a complexity in monitoring and measuring volumes particularly for some raw materials and work in progress.

The accounting policies include the Group's accounting principles for measuring inventory and note 17 provides additional information on the line item.

**How our audit addressed the Key audit matter**

Our audit included but was not limited to the following activities:

- Mapped and evaluated selected systems and processes for revenue recognition and tested a sample of key controls.
- Evaluated the Group's work to implement IFRS 15 and assessed whether Sandvik's accounting principles comply with the new accounting standard.
- Tested a sample of sales transactions for compliance with the Group accounting principles.
- Performed data analytical procedures to identify and evaluate a sample of manual and automatic journal entries.
- Traced disclosure information to accounting records and other supporting documentation.

Our audit included but was not limited to the following activities:

- Assessed the model used by the Group for impairment testing and evaluated the significant assumptions for establishing forecasted cash flows and discount interest rates used for calculating the value-in-use of the cash generating units. In our evaluation, we have compared with the historic business performance and the Group's forecasts and strategic planning as well as with external data sources when possible and relevant.
- Evaluated that the purchase price allocations of the significant acquisitions made during the year meet the requirements of IFRS and have been prepared according to generally accepted practices. Assessed that significant assumptions used to measure values of acquired assets are reasonable.
- Tested that previously acquired intangible assets belonging to groups of assets held for sale or discontinued operations have been identified, measured correctly according to the Group accounting policy and derecognized from the balance sheet at the appropriate point in time.

Our audit included but was not limited to the following activities:

- Mapped and evaluated selected systems and processes for inventory and tested a sample of key controls for establishing volumes and cost.
- Tested, on a sample basis, stocks of raw materials to actual prices. Assessed the reasonableness of the product costing for work in progress and finished goods.
- Participated in stock takes at a great number of locations and tested the cut-off of deliveries in or out of inventory.
- Obtained the Group's monitoring controls of slow movers and assessments of obsolescence as well as net selling prices.

**Key audit matter***Accounting for non-current assets held for sale*

Accounting for sales of non-current assets and liabilities and presentation of discontinued operations contain several judgments that affects timing, presentation of the income statement and measurement of balance sheet items. These judgments may, as an example, have an effect on reported EBITDA for the continuing operations and other KPIs.

Divestments of businesses are complicated transactions that often run over an extended period of time from when a sales process is initiated until it has been finalized and agreed commitments have expired. Sandvik has completed several divestments that have been presented as discontinued operations during the last few years. Sandvik retain the responsibility for the financial outcome of several major customer contracts that were ongoing at the date of agreeing the divestment of Mining Systems. The remaining revenue and expense under the customer contracts have been estimated and presented as discontinued operations in the income statement.

There is additional information in the income statement and in note 30 regarding non-current assets held for sale and discontinued operations.

**How our audit addressed the Key audit matter**

Our audit included but was not limited to the following activities:

- Read the sale agreements for divested businesses and assessed whether the classification was in accordance with accounting standards.
- Obtained and evaluated the forecasts prepared by the group of future revenue and expenses from outstanding Mining Systems customer contracts.
- Assessed management's valuation of other assets, liabilities and contingent liabilities relating to the businesses disposed during the last few years as well as that the application was consistent over time.
- Traced disclosure information to accounting records and other supporting documentation.

*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 and 146–152. The Board of Directors and the Managing Director 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 Managing Director*

The Board of Directors and the Managing Director 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 Managing Director 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 Managing Director 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 Managing Director intends 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 Directors' 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 ISA's 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.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website [www.revisorsinspektionen.se/revisorsansvar](http://www.revisorsinspektionen.se/revisorsansvar). This description is part of the 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 Managing Director of Sandvik AB (publ) for the year 2018 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 Managing Director 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.

## AUDITOR'S REPORT

### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. 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 Managing Director 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 Managing Director 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.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed auditor of Sandvik AB (publ) by the general meeting of the shareholders on the 27 April 2018 and has been the company's auditor since that date.

Stockholm, 6 March 2019  
PricewaterhouseCoopers AB

Peter Nyllinge  
Auditor-in-charge  
Authorized Public Accountant

Magnus Svensson Henryson  
Authorized Public Accountant



# SUSTAINABILITY NOTES

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## ABOUT THIS REPORT

This is the thirteenth 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 2018. The sustainability notes give the opportunity to present more detailed information on strategy, management approach, stakeholder dialogues, materiality analysis and sustainability data, as well as a more comprehensive description of our sustainability risks and targets.

Information meeting the Swedish legal requirements on sustainability reporting, the Statutory Sustainability report, and Sand-

vik's Sustainable Business Report, is found on pages 30-41 and 128-145. This report has been prepared in accordance with the GRI Standards: Core option, and has been reviewed by an external party. The assurance provider was engaged by the Board of Directors and the Managing Director of Sandvik to undertake a limited assurance engagement of Sandvik's Sustainability Report for the year 2018. The assurance provider is independent to Sandvik. Sandvik is a signatory to the UN Global Compact (UNGC) and reports on the ten principles in accordance with the UNGC Advanced level criteria.

## STAKEHOLDER DIALOGUES

We engage in an open dialogue with our stakeholders on how sustainability activities are conducted, our priorities, decisions and the results that are achieved. As an example, structured dialogues are being held as part of the materiality analysis, on which we base our reporting in accordance with GRI Standards. Stakeholder dialogues are continuously conducted at Group level and, to a large degree, in the business areas and in the local companies throughout the world. Sandvik's stakeholders are identified on the basis of their interest in Sandvik and sustainability issues and the stakeholders' potential impact on the company. We present how we work with the key topics raised in our annual report (page references below) and on our web. Example of dialogues held 2018:

**Analysts, investors, shareholders:** Dialogues are mainly held in individual meetings or in groups. Among topics discussed: sustainability strategy implementation (page 130), targets and target outcome (pages 134-137) and contribution to the UN Sustainable Development Goals (page 141). We also received specific questions on our carbon emissions (page 138).

**Suppliers, customers, authorities, other business partners:** Customer dialogues are held continuously and we receive a number of questionnaires covering the full sustainability agenda. Further,

there is an emphasis on product development, for example to increase customer safety and energy efficiency of the products (pages 12-29). We have an ongoing dialogue with suppliers relating to the Supplier Code of Conduct (page 37). Sandvik was in dialogue with the Swedish Ministry of Finance to discuss the UN Sustainable Development Goals during 2018.

**Employees:** Continuous dialogue through meetings, employee surveys and performance management meetings. Topics discussed include health and safety (pages 35-36).

**Organizations, NGOs, academia, media, unions:** Meetings with unions where our sustainability strategy was discussed (page 128). Swedwatch, a Swedish non-profit research organization, published a report on how Sandvik, among other companies, work with human rights (page 33).

### MEMBERSHIPS IN ORGANIZATIONS

Sandvik is a member of the UN Global Compact. Sandvik is also part of the industry associations Jernkontoret (steel producers) and Svemin (mines minerals and metal producers) where a number of sustainability initiatives are being taken, particularly in relation to the UN Sustainable 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.

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 into the Group's central processes and business decisions. The strategy is based on 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 after-market 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.

### MATERIALITY ANALYSIS FOR SANDVIK GROUP

The Group Executive Management conducts a materiality analysis on a regular basis. The starting point is the 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 dialogues with our stakeholders, in addition to our own assessment of relevant areas.

In late 2016, a materiality analysis was conducted which applies for 2017-2019. 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 dialogue, five aspects were selected as material for the Group (see page 129). A new materiality analysis is planned to be held in 2019.

### MATERIALITY ANALYSIS FOR THE BUSINESS AREAS

Each business area has conducted a materiality analysis which also applies for 2017-2019, please see page 129. Read more about how the business areas work with sustainability on pages 12-29. Targets and follow-up on targets for our offerings are presented for each business area on pages 134-135.

SANDVIK'S SUSTAINABILITY AGENDA

OUR OFFERINGS



Innovation and productivity



Health and safety



Environmental impact



Use, reuse and recycle

Defined and followed-up by the business areas

OUR OPERATIONS



Governance

Governance framework

Performance management

Compliance

Taxation



Partners

Customer relations

Sustainable supplier management

Community involvement



Environmental footprint

Carbon dioxide (CO<sub>2</sub>) emissions

Use, reuse, recondition and recycle

Efficient use of materials and resources

Reduction of other emissions



People

Health and safety

Employer branding and fair recruitment

Employee engagement, training and development

A diverse and inclusive organization

Excellent leaders

Human rights and fair labor conditions

With blue corners: Sandvik Group material aspects 2017-2019. These aspects are followed up by Sandvik Group and reported in accordance with GRI Standards.

MATERIAL ASPECTS 2017-2019 PER BUSINESS AREA

	OUR OFFERINGS	OUR OPERATIONS
<b>Sandvik Machining Solutions</b>	Innovation and productivity	Compliance Sustainable supplier management Efficient use of materials and resources Health and safety
<b>Sandvik Mining and Rock Technology</b>	Innovation and productivity Health and safety Environmental impact	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
<b>Sandvik Materials Technology</b>	Innovation and productivity Environmental impact	Customer relations Sustainable supplier management Carbon dioxide emissions Use, reuse, recondition and recycling Efficient use of materials and resources Health and safety

## SUSTAINABLE BUSINESS GOVERNANCE

With Sandvik's Sustainable Business strategy, Code of Conduct and Supplier Code of Conduct as the basis, risks and opportunities are analyzed and managed. Objectives and targets are adopted by the Group Executive Management to address the material areas to efficiently manage related risks and leverage opportunities.

The Group Executive Management adopts the Sandvik Sustainable Business strategy and the business areas are responsible for the implementation and follow-up. The business areas are also responsible for the assessment and management of sustainability risks in their operations.

The Sustainable business function manages Sandvik's overall sustainability strategy and provides support to the business areas. During the year, a new Sustainable Business Council has been established. The Council comprises representatives from the three business areas and group functions such as Human Resources, Environment Health and Safety, and Compliance.

The Board adopts the Code of Conduct, and each business area assumes responsibility for ensuring compliance with it. All members of the Board of Directors as well as the Group Executive Management have undergone training in Sandvik's Code of Conduct, including anti-corruption. 94 percent of the employees have been trained in the Code of Conduct. Employees and other stakeholders are encouraged to report any deficiencies or breaches of Sandvik Code of Conduct through the Speak Up system. This facilitates rapid identification of risks and enables corrective remediation to take place. The sustainability work is also evaluated through performance against our targets (pages 134-137) and through external performance ratings. KPIs are consolidated and reported to follow up objectives and targets at Group and business area levels. Each year we evaluate our performance, as well as set targets and focus actions for the coming year.

### MANAGING OUR GROUP MATERIAL ASPECTS

#### Compliance

Compliance includes four areas: anti-corruption compliance, competition law, trade compliance and data privacy. The purpose is to ensure a well-functioning structure with control over Sandvik's international business and to manage compliance risks in all countries in which Sandvik operates. 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 Board of Directors through the Audit Committee. The Functional Council comprises business area and group Compliance Officers and the Head of Business Integrity. During 2018 Sandvik received no significant fines or non-monetary sanctions for non-compliance with laws or regulation related to our four areas. See page 31 for more information.

GRI Topic: Anti-corruption. Material inside and outside Sandvik.

#### 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. The responsibility of implementation and follow-up of the Supplier Code of Conduct is decentralized and lies within each business area. See page 37 for more information about our Sustainable Supplier Management Program.

GRI Topics: Supplier Environmental Assessment, Supplier Social Assessment, Child Labor (boundary: supply chain), Forced or Compulsory Labor (boundary: supply chain). Material in Sandvik's supply chain.

#### A diverse and inclusive organization

A diverse and inclusive organization improves Sandvik's business outcomes in that it reflects a global, diverse customer base, it creates a culture of innovation, and it enables Sandvik to secure the right competence. Diversity and inclusion are integral parts of a modern society and, for Sandvik, a strong competitive advantage. The purpose is to have a workforce with the right mix of people that reflects Sandvik's markets, which will support the business and our ambition to meet the needs of global and local customers.

Diversity and inclusion are vital parts of our people strategy and part of our 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. Sandvik has a diversity and inclusion forum with representatives from Group as well as business areas with the purpose to work collaboratively to develop a diverse organization and a culture of inclusion. The Forum develops and sets the statement, vision and mission, shares experiences, reviews KPI's and collaborates on diversity and inclusion initiatives.

GRI Topics: Employment, Diversity and Equal Opportunity. Material within Sandvik.

#### Environment, Health and Safety

Sandvik's Environment, Health and Safety (EHS) Vision is for Zero Harm to our people, the environment we work in, our customers and our suppliers. Precautionary measures are taken when there is reason to believe that an action could harm the environment or human health. The Sandvik EHS Council has a responsibility to drive and promote the vision and to ensure that Sandvik manages EHS in the most effective way. While EHS activities are decentralized within the business areas, the EHS Council is the forum for identifying, reaching consensus on and implementing common initiatives and procedures. In addition, the Council drafts documents, such as the EHS Policy and objectives and targets, for the Group Executive Management to consider and approve. The council can appoint working groups to work on specific EHS issues, for example environmental working groups.

Our EHS Management systems are based on ISO 14001, ISO 45001 or equivalent standards. Management of individual topics follows the criteria of these frameworks but can go beyond. We have a common EHS Policy for the company and Group Procedures in areas where Sandvik wants to set standards that go above and beyond the requirements of our certified management systems. Any specific issues of a more local nature, e.g. effluent discharge limits or environmental permits, if not covered in legal requirements or in our certifications or Group procedures already, will always be local initiatives adapted to the specific needs at each production unit or business division. Furthermore, the scope of our EHS Management systems includes relationships outside the company boundaries, and includes a clear responsibility to ensure high standards for all work situations where we as a company are in control of the work environment. This includes working with risk identification and mitigation in order to prevent any incidents of work-related injuries or occupational illnesses.

#### Use, reuse, recondition and recycle

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's sites are working to reduce the consumption of raw materials and the amount of waste going to landfill.

About 90 percent of our manufacturing activities take place in areas where there is an abundance of water. Nonetheless, water is circulated, particularly cooling water, to reduce the consumption of fresh water at several of our production units.

The EHS policy, which is valid for the entire Group, 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 percent). 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. Life-cycle assessments are carried out for selected products, mainly within Sandvik Materials Technology. Read more about our work on environmental issues on pages 38-39.

GRI Topics: Materials, Water and Effluents, Effluents and Waste. Material inside and outside Sandvik.

#### *Health and Safety*

Maintaining a safe work environment is always 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 for Sandvik.

Sandvik has an EHS Management System that is certified according to ISO 45001 (or OHSAS 18001 until switched over). At the end of 2018, 99 percent of sites in scope were certified. All locations with a minimum of 25 employees are required to be certified according to the standard. On top of the minimum requirement Sandvik has introduced a number of EHS procedures to go above and beyond the scope of an externally verified management system. These procedures handle hazard identification and risk management; incident reporting, investigation and injury management; EHS performance measurement and monitoring; Training and Competence; Small sites and offices procedure. Sites with a lower risk profile do not have to go through the process of external certification. However, these sites will be covered by the requirements in the Group procedure for Small sites and offices, to be covered in a systematic way when it comes to EHS management.

Each Sandvik-controlled location will implement and maintain formal systems and processes for risk assessments that:

- Systematically identify all significant health and safety hazards and potential environmental impacts, including for all routine and non-routine work (e.g. maintenance work and contractor work)
- Include work processes such as ergonomics, chemicals, machinery, tools and equipment as appropriate to the type of work being done.
- Have appropriate involvement from or in consultation with relevant employees, managers, subject matter experts, EHS professionals, etc.
- Assess the Inherent risk level (i.e. without any Sandvik-initiated control measures in place).
- When appropriate, apply comprehensive risk assessment processes and methodologies appropriate to the nature and scale of the risks. (e.g. HAZOP, Bowtie, FMEA, etc.)

Based on the above risk assessments, each Sandvik-controlled location will:

- Implement appropriate control measures to ensure that EHS risks are managed to a tolerable level through the effective use of the hierarchy of control.
- Implement ongoing monitoring to ensure that, as a minimum, those controls which are deemed as 'critical' remain effective.
- Maintain an up to date risk register that contains the significant risks for the location. This shall be reviewed and updated at least annually or when circumstances or events change the risk profile of the location.
- Ensure Location Management review, on a periodic basis of the risk management systems and processes to ensure that they remain relevant and appropriate to the nature and extent of the associated risks.

All employees can and are encouraged to report the hazards they observe, which is handled by the accountable person in the location where the hazard was identified. The system supports a

process for handling all hazards adequately and following them through to completion. Hazard reporting is repeatedly encouraged, and the person reporting will not risk being held accountable in their capacity of 'reporter'. The most senior Sandvik manager at each location is responsible for correct handling of the registered hazard.

Each business area/location has an Incident Reporting and Investigation system to ensure that hazards, near misses and incidents are:

- reported in a timely and accurate manner
- accurately classified based on Sandvik EHS Definitions
- assessed for Future Risk Potential
- adequately investigated and analyzed to determine root causes, corrective action plans, and trends in the causes of incidents.

Each business area/location ensures that the findings from incident investigations are shared within the organization.

All employees have access to a colleague in their immediate workplace or as part of their organization who is representing the EHS function within Sandvik. This function is formed differently in different business divisions within the company as they are designed to be effective within the field to which they belong. There are EHS specialists in our sales areas and territories and they are specialized in covering health and safety issues e.g. in relation to travel or to harsh work environments on customer sites. They could also specialize in e.g. ergonomics or psychosocial issues if employed within a service function or an office location. Our EHS organizations in production sites have vast experience in managing industrial environments and associated risks. The EHS issues are integrated in the business everywhere and the EHS function provides expertise and support to have EHS aspects as an integral part in our day-to-day work.

The steering documents and the rules in place are approved after proper review and input from various stakeholders. A process of firmly establishing our procedures always precedes the final decision. The stakeholders are mainly from our EHS organization but also from operational management as well as from workers safety committees where EHS professionals and representatives from workers and from management regularly meet. Topics like Policies and Procedures, and Risk Management are discussed in these committees.

Health and safety commitments are organized depending on the nature of the local organization and the issues within that region. Typically, representatives are from local management and from workers and EHS professionals. Decisions in relation to local workplaces about EHS issues are dealt with in the committees.

Training is provided as part of the induction for all employees and in more depth to EHS professionals. Furthermore, EHS issues are integrated in any training for certain roles. Our training packages vary from classroom training in-house to external training and self-learning, for example, e-learning. General awareness is also raised through a notification system within the company where alerts of hazards are shared as well as best practices and problem-solving.

Access to medical and healthcare services is designed based on local needs and customs. It varies from having professional healthcare on site either as employed practitioners or as a service provided from an external party on our premises. In other locations there may be agreements with external parties where our employees have access to vaccinations, health checks, etc. Health and Well-being programs are offered and maintained for all employees. Enrollment is voluntary. The programs are adapted to local needs and tested for their effectiveness.

In addition to our own internal operations, our EHS Policy includes a commitment to external relationships that Sandvik has in the market.

GRI Topics: Occupational Health and Safety. Material inside and outside Sandvik.

# 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. Read more about our risk management on pages 54-57.

RISK CATEGORY	RISK DESCRIPTION	RISK CONSEQUENCES	RISK MITIGATION
<b>S4. Regulatory change</b>	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.
<b>S6. Sustainability expectations and/or requirements</b>	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 the process (including roles, responsibilities and timeline) and the content in the delivery on the Sustainable Business strategy. Ensure training and awareness-raising activities throughout the organization.
<b>B1. Noncompliance with laws and regulations</b>	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 anti-corruption, competition law, customs and export controls and data privacy are managed by the business with oversight through a Compliance Functional Council. GDPR (General Data Protection Regulation) program being rolled out globally.
<b>B2. Health and safety</b>	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. Major production, distribution and service sites are certified to ISO 45001. All other sites are required to have an effective EHS management system.
<b>B6. Talent attraction and employee retention</b>	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
<b>B17. Environmental demands/climate change effects</b>	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.
<b>B23. Sandvik values and ethics compliance</b>	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.
<b>B28. Contractor/short-term staff management</b>	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.
<b>B29. Partners/agents/third-party management</b>	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. Agents and distributors are included in the supplier group (see B37).
<b>B32. Security situation</b>	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.
<b>B37. Supplier and sourcing management</b>	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 the Sustainable Supplier Management governance (including a Group oversight) and the implementation of the Procurement Policy and develop and implement 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

DEFINITION	TARGETS 2018	OUTCOME 2018	TARGETS 2019
<b>Innovation and Productivity</b>			
<b>Sandvik Machining Solutions</b> <ul style="list-style-type: none"> <li>• Introduction of new products, produced by sustainable processes, providing longer tool life and increased productivity for the customer</li> <li>• Digitalization of our customer offering</li> </ul>	1) New Sales Ratio in the range of 30–40% 2) New Filing Ratio 30–35%	1) New Sales Ratio = 25% 2) New Filing Ratio = 33%	1) New Sales Ratio in the range of 30–40% 2) New filing Ratio 30–35% 3) Increase recycling rate in products
<b>Sandvik Mining and Rock Technology</b> <ul style="list-style-type: none"> <li>• Renewal of Sandvik’s patent portfolio</li> </ul>	1) Maintain a healthy trend of New Filing Ratio (share of patents filed the last five years as % of the total portfolio). Target New Filing Ratio: 41%	1) New Filing Ratio: 39.2%	1) Maintain a healthy trend of New Filing Ratio (share of patents filed in the last 5 years as % of the total portfolio). Target New Filing Ratio: 41%
<b>Sandvik Materials Technology</b> <ul style="list-style-type: none"> <li>• Product stewardship</li> <li>• Energy efficiency</li> <li>• Energy transition</li> </ul>	1) All divisions to have a minimum of one completed Life Cycle Analysis (LCA) developed and presented to selected customer. 2) Market introduction of two new products or applications supporting energy efficiency and green energy transition. 3) Develop a minimum of two business cases for materials used in emerging energy applications.	1) LCA process further developed and implemented. LCA reports presented to customers and included in business development discussions. 2) Multiple products launched that support energy efficiency and green energy transition, e.g. Kanthal ceramic Superthal® heaters and Strip Hiflex® Stirling linear motor used in a cryogenic cooling super conductor. 3) Multiple business cases developed in areas of hydrogen society and sustainable service offerings.	1) All divisions to have the capabilities to present a Life Cycle Analysis to selected customers. 2) Market introduction of new products or applications supporting energy efficiency and green energy transition. 3) Develop business cases for materials or applications used in emerging energy applications.
<b>Health and Safety</b>			
<b>Sandvik Mining and Rock Technology</b> <ul style="list-style-type: none"> <li>• Cyber security strategy</li> </ul>	1) Cyber security strategy created and communicated across business area, focus being on product safety and liability prevention.	1) Draft strategy being implemented. Execution started in business unit Automation.	1) Manage Cyber Security for equipment in other divisions
<b>Environmental impact</b>			
<b>Sandvik Mining and Rock Technology</b> <ul style="list-style-type: none"> <li>• Environmental regulations development roadmap</li> </ul>	1) A common environmental roadmap for the business area and focus on future environmental regulations.	1) Roadmap created. Draft of environmental regulations.	1) Ensure compliance within environmental regulations area for products.
<b>Sandvik Materials Technology</b> <ul style="list-style-type: none"> <li>• Product stewardship</li> <li>• Recycling</li> </ul>	1a) Increase the share of sea and rail transports, and decrease the share of air transports. 1b) Introduction of conventional packaging material recyclable at customer. 2) Feasibility review of potential recycling opportunities on business area product offering. 3) Develop proposal for method and ECO-labeling to implement on applicable products.	1a) Increased share of sea and decreased share of air transports compared with full year 2017. 1b) Mapping initiated of possible recyclable solutions. 2) Opportunity identified and customer dialogue initiated for possible direct circular business. 3) Development of external reporting of circularity in products initiated. Screening of established methods for ECO-labeling performed. Multiple options exist, but none with good match to SMT products.	1a) Increased share of sustainable transports. 1b) Introduction of conventional packaging material recyclable at customer. 2) Feasibility review of potential recycling opportunities on business area product offering. 3) Develop proposal for sustainability labeling to implement on applicable products.



FOCUS ACTIONS 2019

AMBITION

GLOBAL COMPACT PRINCIPLE

- Increase ratio of reused and recycled products
- Offer productivity programs to our customers
- Integrate sustainability into product development

• Sustainable Business is fully integrated in our way of thinking and acting with a strong focus on customer solutions. We have a strengthened position within the area of Innovation and Productivity where we develop world-leading efficient customer solutions. We have a strengthened position and utilization of our ability to provide a recycling offering (use, reuse and recycle). We drive sustainable innovation to create value for Sandvik and our customers. We drive sustainable efficiency through digitalized solutions.

7–9

- Ensure invention production in focus areas through Invention Mining workshops and impactful patenting through patent board operations. Develop strategic patent portfolio management and continue carrying out portfolio reviews for all divisions.

• Drive innovation through new and patented solutions to create value for Sandvik and customers.

7–9

- Continuously develop and update process for product Life Cycle Analysis.
- Ensure sufficient share of R&D portfolio covering energy efficiency and green energy transition products or applications.

• Life Cycle Analysis information available for a substantial part of our products.  
 • A growing share of products and applications supporting energy efficiency and green energy transition.  
 • Research portfolio with a substantial part in products and applications supporting energy efficiency and green energy transition.

7–9

- Execute strategy in remaining equipment divisions.

• Cyber security strategy fully implemented across SMRT.

3–6

- Review overall standards and directives quarterly and select strategic standardizations.

• Environmental regulations roadmap created and communicated.

7–9

- Continued focus on rail transport opportunities to Asia.
- Investigate potential reuse of tailored material holding solutions.
- Initiate project to evaluate established methods and processes within Sandvik and other relevant companies.
- External benchmark and market research of available and established methods for sustainability labeling.

• Offer sustainable packaging, transportation and distribution for a substantial part of our products  
 • Offer customers sustainable recycling routes of our material  
 • Global and established ECO-labeling for a substantial part of energy efficiency classified products.

7–9

# SUSTAINABILITY TARGETS: OUR OPERATIONS

DEFINITION	TARGETS 2018	OUTCOME 2018	TARGETS 2019
<b>Code of Conduct</b> <ul style="list-style-type: none"> <li>• Defined by the content of the Code of Conduct</li> </ul>	1) 100%* of all employees trained in our Code of Conduct. <i>*Including employees and consultants hired for 3 months or more. Margin of error to account for long-term leave and vacations is 2%.</i>	1) 94%	1) 100%* of all employees trained in our Code of Conduct. 2) 90% of new employees trained in our Code of Conduct within 3 months.
<b>Speak Up</b> <ul style="list-style-type: none"> <li>• All in the Code of Conduct</li> </ul>	1) Improve average open days KPI from 88 days (2017) to 55 days by end 2018. 2) Keep remediation implementation rate under 40%. <i>*Including cases in the past rolling year that have a status of either "new" or "in process", meaning that 60% of cases should be closed and remediated.</i>	1) 67 2) 34%	1) Average open days not to exceed 40 days. 2) Improve the results from 2018 SEmp survey. (a) Awareness to exceed 83%. (b) Confidence in the system/process to exceed 74%.
<b>Compliance</b> <ul style="list-style-type: none"> <li>• Anti-corruption and anti-bribery</li> <li>• Data privacy</li> <li>• Trade compliance</li> <li>• Competition law</li> </ul>	1) Code of Conduct training, see above. 2) Screen 100% of all Commercial Intermediaries according to the set procedure.	1) See above 2) 86%	1) 100 % of all identified material entities* shall have reported and have a Basic Compliance Completion Ratio. <i>*As defined together with each division</i>
<b>Sustainable Supplier Management</b> <ul style="list-style-type: none"> <li>• Sustainable procurement practices</li> <li>• Suppliers sustainability performance</li> <li>• Sustainable supplies</li> </ul>	1) 95% of Tier 1 suppliers risk assessed according to Sandvik's Supplier Code of conduct (SSCoC) inherited risk matrix. 2) Audit identified high risk suppliers.	1) 75% of spend 2) 202 audits	1) Active suppliers, corresponding to 100% of supplier spend, risk assessed according to Sandvik inherited risk matrix. 2) Workplan in place for rolling out Sandvik Supplier Sustainability Questionnaire. 3) 100% of corrective actions pertaining to audits performed in 2018 and 2019 implemented within the time limit agreed with the supplier. 4) Suppliers representing 85% of spend having signed our Supplier Code of Conduct.
<b>Environmental footprint</b> <ul style="list-style-type: none"> <li>• Energy use</li> <li>• CO<sub>2</sub></li> <li>• Water use</li> <li>• Waste</li> </ul>	1) 1.5% reduction of energy use. 2) 2.2% reduction of CO <sub>2</sub> emissions. 3) 1.2% reduction of water use. 4) 0.8% reduction of waste generation.	1) -1.7% 2) -1.0% 3) 3.9% 4) 11.5%	1) 1.3% reduction of energy use from environmental improvement action. 2) 1.3% reduction of CO <sub>2</sub> emissions from environmental improvement action. 3) 0.6% reduction of water use from environmental improvement action. 4) Reduce total waste by 0.2% from environmental improvement action.
<b>Health and Safety</b> <ul style="list-style-type: none"> <li>• Fatality elimination</li> <li>• Injury Rate Reduction</li> <li>• Increase reporting of Occupational Illness</li> <li>• Health and Well Being Programs</li> </ul>	1) LTIFR: 1.4 2) TRIFR: 4.3	1) LTIFR: 1.7 2) TRIFR: 4.0	1) TRIFR: 3.6 2) LTIFR: 1.4
<b>A Diverse and Inclusive organization</b> <ul style="list-style-type: none"> <li>• Equal career opportunities</li> <li>• Open and transparent internal job market</li> <li>• Balance internal vs external sourcing to management positions</li> </ul>	1) Share of women in managerial positions, target to increase by 3% annually (baseline: 17.1%) . 2) Share of open recruitments to top management positions, target 90%. 3) Share of internal and external sourcing to top management positions, target 80% internal and 20% external.	1) 17.7% 2) 82% 3) 78% internal, 22% external	1) Share of women in managerial positions, target to increase by 3% per year (baseline: 17.7%). 2) Share of open recruitments to top management positions (%), target 90%. 3) Share of internal and external sourcing to top management positions, target 80% internal and 20% external.

FOCUS ACTIONS 2019	AMBITION	GLOBAL COMPACT PRINCIPLE
<ul style="list-style-type: none"> <li>• Follow-up on training efforts in all parts of the Sandvik organization.</li> <li>• Renewal of training package and launch of new learning platform for better tracking.</li> <li>• Review of the Code of Conduct.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>	1–10
<ul style="list-style-type: none"> <li>• Awareness training package launched.</li> <li>• Speak Up case handling training (investigations).</li> <li>• Speak Up to open up in two additional countries.</li> <li>• Improve reporting on case management for Speak Up.</li> </ul>	<ul style="list-style-type: none"> <li>• All employees fully aware of Speak Up as an opportunity to report, and input used in the continuous improvement of business ethics at Sandvik.</li> </ul>	1–10
<ul style="list-style-type: none"> <li>• To reach the 2025 ambition including decentralization to the lowest organizational level of accountability. A key action is to measure activities at entity level. The 2019 objective is to establish a reporting mechanism and create a baseline for setting a target for activities in 2020.</li> </ul>	<ul style="list-style-type: none"> <li>• An integrity-based Culture of Doing Things Right will be the way we work, creating value and competitive advantage which positively impacts our employee engagement, financial and business objectives and society in accordance with our sustainability goals. Compliance programs will be embedded into business processes, decentralised to the lowest organizational level of accountability, measured, controlled and monitored.</li> </ul>	10
<ul style="list-style-type: none"> <li>• Improve the quality and completeness of supplier data necessary for SSCoC inherited risk calculation and measure the respective risk using a common method across business areas.</li> <li>• Prepare all business areas for the launch of supplier sustainability questionnaire, as a second step of SSCoC due diligence.</li> <li>• Pursue audits follow up to ensure implementation of all corrective actions in due time.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase supply base compliance with Sandvik Supplier Code of Conduct and other sustainability requirements</li> <li>• Embed sustainability in the purchasing processes</li> <li>• Use of sustainable raw materials, resources and goods, whenever practical.</li> </ul>	1–10
<ul style="list-style-type: none"> <li>• Using a new 'bottom up' approach, these targets are based on activities / outcomes specified / predicted by individual locations.</li> </ul>	<ul style="list-style-type: none"> <li>• Achieve significant improvements in areas where our operations have a significant environmental impact.</li> </ul>	7–9
<ul style="list-style-type: none"> <li>• Each business area /division is required to implement 'localised' annual EHS Plans that address Sandvik's 5 Focus Areas within its EHS Objectives. In addition to a wide range of activities that are put in place every year by all business areas /divisions to reduce injuries and occupational illnesses, SMRT is piloting a program, Critical Control Management, that is specifically aimed at eliminating fatalities. The reporting of lagging health and safety performance indicators up to the Group Executive Management will continue on a monthly basis and, in 2019, the frequency of reporting of business area progress against all of Sandvik's EHS Objectives will increase to quarterly.</li> </ul>	<ul style="list-style-type: none"> <li>• To eliminate fatalities at Sandvik controlled locations.</li> <li>• All employees will work within a Safety culture and work environment which acts proactively to significantly reduce work related injuries, illnesses and other incidents to achieve our 2020 ambition of a LTIFR of &lt;1.0.</li> </ul>	3–6
<ul style="list-style-type: none"> <li>• All action plans related to these focus areas are owned by the business areas and divisions. During 2019, we will continue to develop a solid follow-up process to monitor the progress of the plans.</li> </ul>	<ul style="list-style-type: none"> <li>• A high performing organization capitalizing on diversity and inclusion to secure competitiveness.</li> <li>• 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.</li> <li>• Our ability to develop and appoint internal candidates and use all of Sandvik as a candidate pool is a key success factor to ensure future performance and growth.</li> </ul>	1, 2, 6

## KEY FIGURES

ENVIRONMENTAL KEY FIGURES	Unit	2014	2015	2016	2017	2018
<b>Continuing operations</b>						
Total Energy	TJ	8,393	8,049	8,025	8,173	8,030
Change	%	-2	-4	0	2	-2
Whereof non-renewable sources	TJ	7,275	6,923	6,914	7,026	6,849
Gasoline	TJ	298	304	275	275	254
Diesel	TJ	385	376	363	360	373
Liquefied Petroleum Gas	TJ	1,012	913	890	860	838
Natural Petroleum Gas	TJ	1,123	1,159	1,225	1,344	1,282
Fuel Oils	TJ	166	141	167	107	111
Electricity	TJ	4,160	3,896	3,880	3,957	3,864
Heating, cooling and steam	TJ	131	134	114	122	126
Whereof renewable sources	TJ	1,118	1,126	1,112	1,147	1,181
Electricity	TJ	1,023	1,030	998	1,035	1,064
Heating, cooling and steam	TJ	134	137	150	142	148
Heating, cooling and steam - sold	TJ	-39	-42	-36	-29	-31
Total Energy Intensity	MJ/Revenue (SEK)	102	94	98	90	80
Change	%	-4	-8	5	-9	-11
<b>Total CO<sub>2</sub> emissions – Market Based</b>						
Total CO <sub>2</sub> emissions	'000 ton	361	340	339	340	337
Change	%	2	-6	0	0	-1
Direct emissions	'000 ton	192	186	187	187	182
Indirect emissions	'000 ton	169	155	152	153	155
Total CO <sub>2</sub> emission intensity - Market based	ton CO <sub>2</sub> /Revenue (SEK)	4.4	4.0	4.2	3.7	3.4
Change	%	0	-9	5	-10	-10
<b>Total CO<sub>2</sub> emissions - Location Based</b>						
Total CO <sub>2</sub> emissions	'000 ton	468	460	455	465	466
Change	%	1	-2	-1	2	0
Direct emissions	'000 ton	192	186	187	187	182
Indirect emissions	'000 ton	276	274	268	278	285
Total CO <sub>2</sub> emission intensity – Location Based	ton CO <sub>2</sub> /Revenue (SEK)	5.7	5.4	5.6	5.1	4.7
Change	%	-1	-6	4	-8	-9
<b>Fresh Water Withdrawal</b>						
Total Fresh Water Withdrawal	'000 m <sup>3</sup>	7,588	7,463	7,040	7,128	7,404
Change	%	-4	-2	-6	1	4
Purchased water	'000 m <sup>3</sup>	2,747	2,348	2,328	2,249	2,283
Groundwater	'000 m <sup>3</sup>	657	903	663	824	1,004
Surface water	'000 m <sup>3</sup>	4,181	4,210	4,045	4,048	4,112
Rain	'000 m <sup>3</sup>	4	2	4	7	5
Whereof Water Stressed areas	'000 m <sup>3</sup>	128	128	138	145	133
Purchased water	'000 m <sup>3</sup>	41	42	34	34	43
Groundwater	'000 m <sup>3</sup>	87	87	104	110	89
Surface water	'000 m <sup>3</sup>	0	0	0	0	0
Rain	'000 m <sup>3</sup>	0	0	0	1	1
Water Discharge from production processes	'000 m <sup>3</sup>	2,042	2,129	2,150	2,259	2,365
Change	%	2	4	1	5	5
To Surface water	'000 m <sup>3</sup>	/	/	/	/	1,451
To Groundwater	'000 m <sup>3</sup>	/	/	/	/	462
To third party	'000 m <sup>3</sup>	/	/	/	/	453
Fresh Water Discharge	'000 m <sup>3</sup>	/	/	/	/	1,249
Whereof in areas with water stress	'000 m <sup>3</sup>	/	/	/	/	19
Other Water Discharge	'000 m <sup>3</sup>	/	/	/	/	1,115
Whereof in areas with water stress	'000 m <sup>3</sup>	/	/	/	/	0
Total Water intensity	m <sup>3</sup> /Revenue (SEK)	92	87	86	78	74
Change	%	-6	-5	-1	-9	-6
<b>Waste</b>						
Total Waste	'000 ton	360	346	308	302	337
Change	%	0	-4	-11	-2	11
Hazardous waste to recovery	'000 ton	13	11	11	11	14
Hazardous waste to other disposal	'000 ton	20	19	16	22	19
Non-hazardous waste to recovery	'000 ton	27	34	33	31	48
Non-hazardous waste to other disposal	'000 ton	301	282	248	239	256
Waste Recovery Ratio	%	11	13	14	14	18
Total Waste Intensity	ton/Revenue (SEK)	4.4	4.0	3.8	3.3	3.4
Change	%	-2	-8	-6	-12	1

ENVIRONMENTAL KEY FIGURES	Unit	2014	2015	2016	2017	2018
<b>Discontinued operations</b>						
Energy	TJ	565	540	508	498	234
CO <sub>2</sub> market based	'000 ton	30	45	42	39	21
CO <sub>2</sub> location based	'000 ton	52	50	47	46	22
Water	'000 m <sup>3</sup>	291	277	239	226	80
Waste	'000 ton	7	6	4	4	1
<b>Group Total</b>						
Energy	TJ	8,957	8,589	8,533	8,671	8,264
CO <sub>2</sub> market based	'000 ton	390	385	381	379	357
CO <sub>2</sub> location based	'000 ton	520	510	502	511	488
Water	'000 m <sup>3</sup>	7,879	7,740	7,280	7,354	7,485
Waste	'000 ton	367	352	313	307	338
Metallic raw material	'000 ton	306	288	304	317	320
Of which, recovered	%	82	82	81	80	80
<b>Emissions to air</b>						
NM VOC	ton	61	62	57	57	53
SO <sub>2</sub>	ton	34	33	35	31	33
NOx	ton	339	333	330	329	321
<b>Emissions to water</b>						
Nitrogen	ton	261	230	210	215	155
Phosphorous	ton	37	34	32	33	2
COD	ton	195	151	171	194	110
Nickel	ton	0.3	0.2	0.2	0.3	0.4
Chromium	ton	0.1	0.1	0.1	0.1	0.2

HEALTH AND SAFETY	2016			2017			2018		
	Employees	Non-employees <sup>1)</sup>	Total Workforce	Employees	Non-employees <sup>1)</sup>	Total Workforce	Employees	Non-employees <sup>1)</sup>	Total Workforce
<b>Injury</b>									
Number of Fatalities	0	0	0	0	0	0	0	0	0
Number of LTI	146	6	152	129	8	137	127	19	146
LTIFR <sup>2)</sup>	1.8	0.7	1.8	1.7	0.9	1.6	1.7	2.0	1.7
Number of TRI	408	31	439	356	35	391	298	42	340
TRIFR <sup>2)</sup>	5.3	3.6	5.1	4.7	4.0	4.6	3.9	4.4	4.0
<b>Main type of injuries</b> Hand and finger injuries. Cuts and pinched hands and fingers are the most common injury types all three years									
Million Exposure Hours	76.6	8.7	85.3	75.4	8.8	84.2	76.1	9.6	85.7
Hazards reported			50,528			64,354			74,828
Near Misses reported			6,536			6,806			6,648
<b>Work Related illness</b>									
<b>Illness</b>									
Number of Fatalities	0	0	0	0	0	0	0	0	0
Number of LTIL	4	0	4	14	0	14	10	1	11
LTILFR <sup>2)</sup>	0.05	0	0.05	0.19	0	0.17	0.13	0.10	0.13
Number of TRIL	14	0	14	18	0	18	25	1	26
TRILFR <sup>2)</sup>	0.18	0	0.16	0.24	0	0.21	0.33	0.10	0.30
<b>Main type of illnesses</b> Repetitive strain injuries and stress-related symptoms are the most commonly reported illnesses.									

1) All workers who are not employees but whose work and/or workplace is controlled by the organization.  
 2) Normalization factor = 1,000,000 hours worked.

## SUSTAINABILITY NOTES

### PEOPLE, KEY FIGURES

		2014	2015	2016	2017	2018
Total number of employees	FTE	47,318	44,663	42,908	42,858	41,670
Of whom, women	%	19.4	19.5	19.4	19.4	19.5

		Total	Men	Women		
<b>Employment Contract</b>						
Permanent employees	FTE	38,053	30,717	7,336		
	%			19.3		
Temporary employees	FTE	3,628	2,812	816		
	%			22.5		
<b>Employees by region</b>						
Permanent employees	FTE	23,623	4,432	1,834	2,069	5,181 899
Temporary employees	FTE	1,377	20	61	166	2,076 44

		Sandvik Mining and Rock Technology	Sandvik Machining Solutions	Sandvik Materials Technology	Group Activities	Total
Employees by business area	FTE	15,497	19,284	6,102	811	41,694
Share of women	%	15.7	21.1	18.4	43.2	19.5
Women in management positions	%	16.2	17.5	18.5	36.8	17.7

		Total	Men	Women
<b>Employment type</b>				
Full-time employees	FTE	40,300	32,924	7,376
	%	97		18
Part-time employees	FTE	1,382	605	777
	%	3		56

<b>Collective bargaining agreements</b>	
Percentage of employees covered by collective bargaining agreements	% 55

		Share of women	Age structure		
			Under 30	30-50	Above 50
<b>Composition of governance bodies and breakdown of other employees</b>					
Board of Directors	%	31	0	31	69
Group Executive Management	%	25	0	38	63
Management	%	18	2	69	29
Other employees	%	20	15	58	26

<b>Employee turnover</b>	Number	3,568
	%	8.4




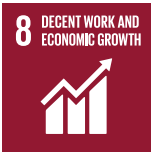



		Europe	North America	South America	Africa/Middle East	Asia	Australia
<b>Employee turnover by region</b>	Number	1,620	645	306	337	520	140
	%	7	12	16	15	7	15
<b>New employee hires by region</b>	Number	1,350	634	218	120	473	120
	%	46	22	7	4	16	4

		Age structure		
		Under 30	30-50	Above 50
<b>Employee turnover by age</b>	Number	564	1,864	969
	%	11	7	8
<b>New employee hires by age</b>	Number	883	1,364	190
	%	36	56	8

		Men	Women
<b>Employee turnover by gender</b>	Number	2,642	749
	%	8	9
<b>New employee hires by gender</b>	Number	2,265	650
	%	78	22

# UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Sandvik is committed to the UN Sustainable Development goals (SDGs). Sustainable development is relevant in the business sense, for example, how Sandvik's products and services help customers decrease climate impact. Doing business in a more developed market also decreases business risks, such as corruption. Below are some examples of how we contribute.

	ASSOCIATED TARGETS	SANDVIK'S CONTRIBUTION
 <p><b>3</b> GOOD HEALTH AND WELL-BEING</p>	3.3	<b>OUR OFFERINGS:</b> 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.
	3.9	<b>OUR OPERATIONS:</b> 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><b>5</b> GENDER EQUALITY</p>	5.1	<b>OUR OPERATIONS:</b> 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.
	5.c	
 <p><b>7</b> AFFORDABLE AND CLEAN ENERGY</p>	7.2	<b>OUR OFFERINGS:</b> 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 percent to >50 percent by increasing pressure and temperature, significantly reducing CO <sub>2</sub> emissions.
	7.3	
 <p><b>8</b> DECENT WORK AND ECONOMIC GROWTH</p>	8.7	<b>OUR OFFERINGS:</b> AutoMine® mining automation solution removes people from hazardous areas to a safer and healthier environment while not impacting production efficiency.
	8.8	
 <p><b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	9.4	<b>OUR OFFERINGS:</b> PrimeTurning™ is a 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, 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 and contributes to enhancing compressor efficiency, promoting long service life and reducing noise.
		<b>OUR OPERATIONS:</b> Using refractory as a slag-forming agent in the steel plants is under implementation as a standard operational procedure. Our production plant in Gimo, Sweden converted from heating oil to district heat produced from biofuel. The new district heating solution is expected to reduce the plant's greenhouse gas emissions by 1,850 tons on a yearly basis.
 <p><b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	12.2	<b>OUR OFFERINGS:</b> 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, lowers 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.
	12.4	
	12.5	
 <p><b>13</b> CLIMATE ACTION</p>	13.1	<b>OUR OFFERINGS:</b> The drill rig Sandvik DD422iE reduces particulates (NOx) and emissions underground. Hiflex flapper valve material helps our customers reduce energy and create more efficient air conditioners and fridges, leading to CO <sub>2</sub> emission reductions. Our Kanthal® electric heating technology and services help customers reduce their carbon footprint by converting from gas to electric heating.
		<b>OUR OPERATIONS:</b> Reduction of CO <sub>2</sub> 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 CO <sub>2</sub> emissions by approximately 20 percent.

# GRI CONTENT INDEX

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	Standard and disclosure	Page	Comments
MANAGEMENT APPROACH	<b>GRI 403: Occupational Health and Safety 2018</b>		
	403-1 Occupational health and safety management system	130-131	
	403-2 Hazard identification, risk assessment, and incident investigation	130-131	
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	<b>GRI 303: Water and effluents 2018</b>		
	303-1 Interactions with water as a shared resource	39, 130-131	
303-2 Management of water discharge-related impacts	39, 130-131		
TOPIC SPECIFIC	<b>GRI 205: Anti-corruption 2016</b>		
	205-2 Communication and training about anti-corruption policies and procedures	30-31, 130	Not applicable. Data per region and employee category not available as we follow up training by business area rather than region. Data on business partners not available.
	<b>GRI 301: Materials 2016</b>		
	301-1 Materials used by weight or volume	139	Not applicable. Data on packaging materials, reclaimed products, and semi-manufactured metallic materials is not reported as focus is on metallic raw materials.
	301-2 Recycled input materials used	139	
	<b>GRI 302: Energy 2016</b>		
	302-1 Energy consumption within the organization	138-139, 144	
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	303-3 Water withdrawal	138-139, 144	
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	<b>GRI 305: Emissions 2016</b>		
	305-1 Direct (Scope 1) GHG emissions	138-139, 144	Not applicable: Sandvik has no (significant) stationary source resulting in biologically based emission of CO <sub>2</sub>
	305-2 Energy indirect (Scope 2) GHG emissions	138-139, 144	
	305-4 GHG emissions intensity	138-139, 144	
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	138-139, 144	Not applicable: POP, HAP or PM. as not deemed significant
	<b>GRI 306: Effluents and waste 2016</b>		
	306-2 Waste by type and disposal method	138-139, 144	
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	308-2 Negative environmental impacts in the supply chain and actions taken	37	
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	401-1 New employee hires and employee turnover	140	
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403-9 Work-related injuries	131, 139, 144		
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408-1 Operations and suppliers at significant risk for incidents of child labor	37		
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409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	37		
<b>GRI 414: Supplier Social Assessment</b>			
414-2 Negative social impacts in the supply chain and actions taken	37		

## REPORTING PRINCIPLES

### REPORT SCOPE, BOUNDARY AND CALCULATION METHODS

The Group material aspects were decided in a materiality analysis by Group Executive Management in 2016. In last year's report, we stated that the materiality analysis applied for 2017-2018, but it has been extended to 2019 to fit the business cycle better. The material aspects are reported in accordance with GRI Standards. In addition, Sandvik reports on emissions and energy.

The sustainability information in the Annual Report refers to the 2018 fiscal year. See pages 102-104 for a list of entities included in the figures, unless otherwise stated.

### Human Resources Data

Employee statistics regarding number of FTEs is derived from the financial reporting system (BPC). We have revised our figures for total number of employees (FTE) for the years 2014-2017 as we now report on continuous operations to be more aligned with financial reporting. All other employee statistics (age, turnover, new employees, part time/full time, gender etc) are derived from the Group's common HR system (Workday), which covers 100 percent of Sandvik employees. These figures are compiled on a yearly basis. Data on percentage of employees participating in performance dialogues is not available for 2018 due to a change in HR systems. Sandvik does not have a significant portion of workers who are not employees.

### Environment, Health and Safety (EHS) Data

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 outside of the EHS database 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 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 2018 for all active reporting units, unless otherwise stated. For the EHS data a control approach was used for consolidation. That means that all our locations are included in our numbers to 100 percent, also joint ventures where Sandvik has operational control. We are also present at some customer locations in our service-related business. In these cases we include data when data of our usage can be obtained.

The calculations of CO<sub>2</sub> emissions do not include emissions from district heat, transport of raw materials and finished products or business travels. CO<sub>2</sub> equivalents from other greenhouse gases is not included in the reported data. Calculations show that they constitute less than one percent of the total reported data. Emission factors used for calculating carbon emissions are primarily requested from the major production units. They are asked to find their specific emission factor directly from their electricity supplier. When these cannot be obtained, country specific factors from the International Energy Agency are used. Country-specific factors are also used for all other locations. The conversion factors are uploaded in our EHS Database where the calculation of all carbon emissions is performed. For the majority of the European sites, the emission factor is zero in the market-based approach, with reference to the purchase of certificates for carbon-free electricity.

Emissions to air is a combination of calculations of fossil fuel use and sample measurements from the mill where steel production is conducted. The amount from the fossil fuels are calculated using conversion factors from Swedish EPA (2009). The emissions based on sample measurements have been constant since 2012. If the samples would indicate a significant change of emissions, the constants would be amended based on the new results. For NO<sub>x</sub>,

roughly a third of the reported volume comes from the steel production. For SO<sub>2</sub>, more than 80 percent derives from the steel mill.

The waste disposal methods have been designed and defined to meet the criteria of REGULATION (EC) No 1013/2006 on shipments of waste. Waste disposal is mainly managed in cooperation with a third-party service provider, and determination of disposal method relies on information from the service provider in most cases. No further breakdown than Waste to Recovery Operations or Waste to Other Disposal have been made.

In the data presented for Water Discharged, the split of data per GRI Standard 303-4 has been performed by applying allocation of the reported total water discharged. The allocation key was collected from major production sites constituting 86 percent of the total reported volume of discharged water. Each company has returned an estimated split of their discharge per the required split in the Standard. The remaining 14 percent of the reported discharged water was all included as fresh water to a third party. Furthermore, our definition of discharged water only includes such water that has passed through production processes. This means that the total volume of discharged water in the company is higher than what is specified in this report. No data is available on the total amount of water discharged in the year. This means that Standard 303-5 is non-meaningful. The reader should not assume that the residual between reported water withdrawal and water discharged correspond to a fair estimate of our water consumption. For inclusion in the water-stress category, the major production sites, constituting 86 percent of our total water use, have self-determined whether they are located in an area of water stress. They were asked to determine this in accordance with the definition as outlined in the GRI Standard 303. All water is deemed freshwater when drawn in to our production processes, which is why the category other water is not listed in the section for water withdrawal.

Worked hours is defined as exposure hours, which means all hours exposed to risk by employees, contractors and sub-contractors. The exposure hours are collected and entered into the EHS database on a monthly basis.

The reported data for occupational illnesses and frequency rates are part of our monthly reporting process. The term used in GRI called high-consequence injury/illness is incorporated in the key figures for Lost Time cases. In the past three years we have had one incident on record meeting the six months absence criteria. Our approach to mitigate these high severity incidents and illnesses is a key part of our management system and is handled within the processes for serious potential incidents, for example in our work with critical control management. The illness data is a more recent addition than the injury data in the reporting and therefore at a less mature stage. As a consequence, the level of uncertainty is deemed higher for the illness data. Illness is defined as an occurrence of physical or mental harm or disease that develops over time in the course of work not as the result of a single instantaneous event. Establishing that an illness is occupational can be a complicated process and could also span over a long period of time. An illness must meet the criteria of "under Sandvik Control" before it's included in our data. The primary criterion for making this decision is: "could and/or should the Sandvik EHS Management System have realistically prevented this incident from occurring?". Only if this is found to be the case, the incident will be considered under Sandvik control and recorded as such.

The percentage of sites certified according to ISO 14001 and ISO 45001 or equivalent standards is based on the status of our major production-related companies. At year-end, 109 locations were asked to provide their certification status. Seven of these were decided to be out of scope, based on being recently acquired and/or announced to be divested. Smaller locations can also choose to go for certification, but these are not included in the calculation. No previous certifications were abandoned compared to last year.

# ASSURANCE REPORT

## AUDITOR'S LIMITED ASSURANCE REPORT ON THE SUSTAINABLE BUSINESS REPORT AND STATEMENT ON THE STATUTORY SUSTAINABILITY REPORT

To the annual meeting of the shareholders of Sandvik AB (publ), Corp. Id. 556000-3468.

### Introduction

We have been engaged by the Board of Directors and the Managing Director of Sandvik AB (publ) to undertake a limited assurance engagement of Sandvik's Sustainable Business Report for the year 2018. The company has defined the scope of the Sustainable Business Report and the Statutory Sustainability Report on page 128.

### 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 Sustainable Business Report including the Statutory Sustainability Report, in accordance with the applicable criteria, and the Annual Accounts Act respectively. The criteria are defined on page 128, and consist of the GRI Sustainability Reporting Standards, as well as the accounting and calculation principles that Sandvik has developed. This responsibility also includes the internal control relevant to the preparation of a sustainability report that does not contain material misstatement, whether due to fraud or error.

### Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Sustainable Business Report based on the limited assurance procedures we have performed, and to provide a statement on the Statutory Sustainability Report.

We conducted our limited assurance engagement in accordance with ISAE3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainable Business Report,

and applying analytical and other limited assurance procedures. We have conducted our review regarding the Statutory Sustainability Report in accordance with RevR 12, *the Auditor's Opinion on the Statutory Sustainability Report*, issued by FAR. A limited assurance engagement and a review according to RevR 12 have a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit 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 in relation to Sandvik according to generally accepted auditing standards in Sweden, and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement and review according to RevR 12 do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The stated conclusion based on a limited assurance and review in accordance with RevR 12, therefore, does not have the level of assurance that a stated conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Managing Director as described above. We consider these criteria as suitable for the preparation of the Sustainable Business Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

### Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainable Business Report is not, in all material respects, prepared in accordance with the criteria defined by the Board of Directors and Managing Director.

A Statutory Sustainability Report has been prepared.

Stockholm, 6 March 2019

PricewaterhouseCoopers AB

Peter Nyllinge

*Authorized Public Accountant*

Fredrik Ljungdahl

*Sustainability Expert Member of FAR*

## BOARD OF DIRECTORS



### JOHAN MOLIN

Born 1959. Chairman of the Board since 2015. Chairman of the Remuneration Committee and Acquisitions and Divestitures Committee.

**Education and business experience:**

M.Sc. in Business and Economics, Stockholm School of Economics. President and CEO of ASSA ABLOY 2005–2018. President and CEO of Nilfisk-Advance 2001–2005 and various positions within Atlas Copco 1983–2001.

**Current Board assignments:** –

**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. 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 and member of the Acquisitions and Divestitures 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 and 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. President of Skanska AB 2008–2017 and various senior positions within BPA (currently Bravida) 1995–2000.

**Current Board assignments:** –

**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):** 104,903.

*Information regarding Board assignments and holdings of shares as of 31 December 2018. Current Board assignments refer to assignments in companies or organizations outside the Sandvik Group.*



HELENA STJERNHOLM

Born 1970. Board member since 2016. Member of the Audit Committee and Acquisitions and Divestitures 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.



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 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 and 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):** 0.



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. Sustainable Business Manager, Sandvik Materials Technology, since 2019. Sustainability Specialist and R&D positions within Sandvik Materials Technology 2010–2018. Scientist and postdoctoral researcher at Risø DTU, Denmark, 2007–2010 and Technical Sales Specialist at Spectral Solutions AB 2005–2007.  
**Current Board assignments:** Board member of Metacon AB.  
**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

Pricewaterhouse-Coopers AB

**Auditor-in-charge:** Peter Nyllinge, Authorized Public Accountant.  
**Other auditing assignments:** Skandinaviska Enskilda Banken and Fagerhult.

## 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):** 104,903.



### 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):** 11,477.



### GÖRAN BJÖRKMAN

Born 1965. President of the Sandvik Materials Technology business area since 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):** 6,316.



### 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):** 22,783.



## 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):** 13,682.



## KLAS FORSSTRÖM

Born 1967. President of the Sandvik Machining Solutions business area since 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):** 9,623.



## 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):** 10,368.



## 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 2009–2014, including General Counsel, Eleka AB 1999–2009, including General Counsel, and Lagerlöf & Leman law firm 1996–1999.  
**Current Board assignments:** –  
**Shareholding in Sandvik (own and closely related persons):** 8,218.

*Lars Engström will leave Sandvik on 1 April and will be succeeded by Henrik Ager.*

*Information regarding Board assignments and holdings of shares as of 31 December 2018. 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 Monday, 29 April 2019 at 3:00 p.m. at the Göransson Arena, Sättragatan 21, Sandviken, Sweden.

Shareholders who wish to participate in the Meeting must:

- be recorded in the share register maintained by Euroclear Sweden AB on Tuesday, 23 April 2019, and
- notify the company of their participation in the Meeting not later than Tuesday, 23 April 2019.

Notice of participation in the Meeting shall be made on the company's website [home.sandvik](http://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 Tuesday, 23 April 2019 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 2019 Annual General Meeting declare a dividend of 4.25 SEK per share.

The proposed record date is Thursday, 2 May 2019. If the proposal is adopted by the Annual General Meeting, it is expected that dividends will be paid on Tuesday, 7 May 2019. 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](http://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.

### ADJUSTED EBIT

Earnings before interest and taxes adjusted for items affecting comparability. Corresponds to adjusted operating profit.

### EQUITY RATIO

Total equity 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 total equity.

### 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 non-interest-bearing receivables and liabilities, excluding tax assets and liabilities and provisions.

### 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.



## DEFINITIONS CONT'

### RETURN ON TOTAL EQUITY

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

### RETURN ON TOTAL CAPITAL

Operating profit/loss plus financial income, as a percentage of four quarter average total capital.

### 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.

### TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)

Total number of injuries per million worked hours.

### LOST TIME INJURY FREQUENCY RATE (LTIFR)

Number of lost time injuries per million worked hours.

### ITEMS AFFECTING COMPARABILITY

Items with a significant impact on Group or Business Area results from gains and losses on business disposals, restructuring and impairments costs.

## FINANCIAL TARGETS

### DIVIDEND PAY-OUT RATIO OF 50% OF REPORTED EARNINGS PER SHARE

Reported group total earnings per share are used.

### EBIT GROWTH CAGR<sup>1)</sup> ≥ 7% 2016–2018

EBIT improvement excluding impact from changed exchange rates, items affecting comparability<sup>2)</sup> 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 IMPROVEMENT<sup>2)</sup> ≥ 3% PTS, 2016–2018

ROCE improvement calculated with annual ROCE 2015 as base.

- Operating profit/loss excludes items affecting comparability<sup>2)</sup>.
- Capital employed excludes remaining provisions related to items affecting comparability<sup>2)</sup>, 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.

If you have any comments on our Annual Report, please contact Group Communications, +46 (0)8 456 11 00 or [info@sandvik.com](mailto: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](mailto:info@sandvik.com).

1) Compound Annual Growth Rate.

2) Items affecting comparability: major acquisitions and disposals, restructuring costs and impairments.

## FINANCIAL KEY FIGURES

# KEY FIGURES, GROUP TOTAL

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue, MSEK	71,937	82,654	94,084	98,529	87,328	88,821	90,822	84,430	93,906	100,924
Change, %	-22	+15	+14	+5	-11	+2	+2	-7	+11	+7
of which organic, %	-30	+17	+20	+5	-7	-2	-6	-6	+10	+11
of which structural, %	0	+1	0	0	0	+2	0	0	0	-6
of which currency, %	+10	-2	-5	0	-5	+2	+8	-1	+1	+2
Operating profit/loss, MSEK	-1,412	11,029	10,148	13,490	8,638	10,120	6,062	9,657	18,011	18,137
as % of revenue	-2	13	11	14	10	11	7	11	19	18
Profit/loss after financial items, MSEK	-3,472	9,412	8,179	11,516	6,753	8,264	4,059	7,996	16,940	17,349
as % of revenue	-5	11	9	12	8	9	4	9	18	17
Consolidated net profit for the year, MSEK	-2,596	6,943	5,861	8,107	5,008	5,992	2,194	5,468	13,160	12,704
Equity <sup>1)</sup> , MSEK	29,957	33,813	31,264	32,536	33,610	36,672	34,060	39,290	48,722	58,518
Equity ratio <sup>1)</sup> , %	33	38	32	31	36	34	34	38	46	49
Net debt/equity ratio <sup>2,3)</sup> , multiple	1.0	0.7	0.7	0.8	0.9	1.0	1.0	0.7	0.3	0.2
Rate of capital turnover <sup>2)</sup> , %	73	92	100	97	89	89	86	83	90	89
Cash and cash equivalents, MSEK	7,506	4,783	5,592	13,829	5,076	6,327	6,376	8,818	12,724	18,089
Return on total equity <sup>1)</sup> , %	-7.9	22.1	18.5	25.3	15.3	17.4	6.2	15.2	31.3	23.3
Return on capital employed <sup>1)</sup> , %	-1.3	17.4	16.0	19.8	12.6	13.4	7.9	12.9	23.8	22.0
Investments in non-current assets, MSEK	4,006	3,378	4,994	4,820	4,185	4,703	4,161	3,691	3,578	3,984
Total investments, MSEK	6,161	4,493	5,332	4,859	4,674	7,537	4,168	3,722	3,578	8,615
Cash flow from operations, MSEK	11,792	12,149	7,764	11,892	5,133	9,515	11,952	12,032	14,286	14,914
Cash flow, MSEK	2,471	-2,642	907	8,450	-8,656	1,039	79	2,288	3,963	5,382
Number of employees, 31 December	44,355	47,064	50,030	48,742	47,338	47,318	45,808	43,732	43,024	41,705

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).

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Basic earnings <sup>1)</sup>	-2.24	5.59	4.63	6.51	4.00	4.79	1.79	4.39	10.50	10.14
Diluted earnings <sup>2)</sup>	-2.24	5.59	4.63	6.51	4.00	4.79	1.79	4.39	10.49	10.11
Equity <sup>3)</sup>	24.4	27.5	25.2	25.9	26.7	29.1	27.1	31.2	38.8	46.7
Dividend (2018 as proposed)	1.00	3.00	3.25	3.50	3.50	3.50	2.50	2.75	3.50	4.25
Direct return <sup>4)</sup> , %	1.2	2.3	3.8	3.4	3.9	4.6	3.4	2.4	2.4	3.4
Payout percentage <sup>5)</sup> , %	—	54	70	54	88	73	140	63	33	42
Quoted prices, Sandvik Share, highest	90	133	135	107	108	97	107	116	153.9	165.3
lowest	41	76	73	82	79	74	68	65	113.5	123.1
year-end	86	131	84	103.50	90.70	76.40	74.05	112.70	143.7	126.4
No. of shares at year-end, million	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	1,254.4
Average no. of shares, million	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	1,254.4
P/E ratio <sup>6)</sup>	—	23.5	18.2	15.9	22.7	15.9	41.4	25.7	13.7	12.5
Quoted price, % of equity <sup>2,7)</sup>	352	476	333	400	340	261	273	361	370	271

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					
	2016	2017	2018	2016		2017		2018	
	MSEK	MSEK	MSEK	MSEK	%	MSEK	%	MSEK	%
Sandvik Machining Solutions	32,852	35,777	40,343	6,970	21	8,413	24	9,872	24
Sandvik Mining and Rock Technology	31,093	36,495	42,772	3,206	10	5,724	16	7,380	17
Sandvik Materials Technology	12,931	13,618	15,111	1,115	9	277	2	1,391	9
Other Operations	4,655	4,937	1,846	545	12	4,433	90	731	40
Discontinued Operations	2,877	3,078	852	-1,361	-47	-62	-2	-552	-65

For more key figures, please visit our investors page at [home.sandvik](http://home.sandvik)

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