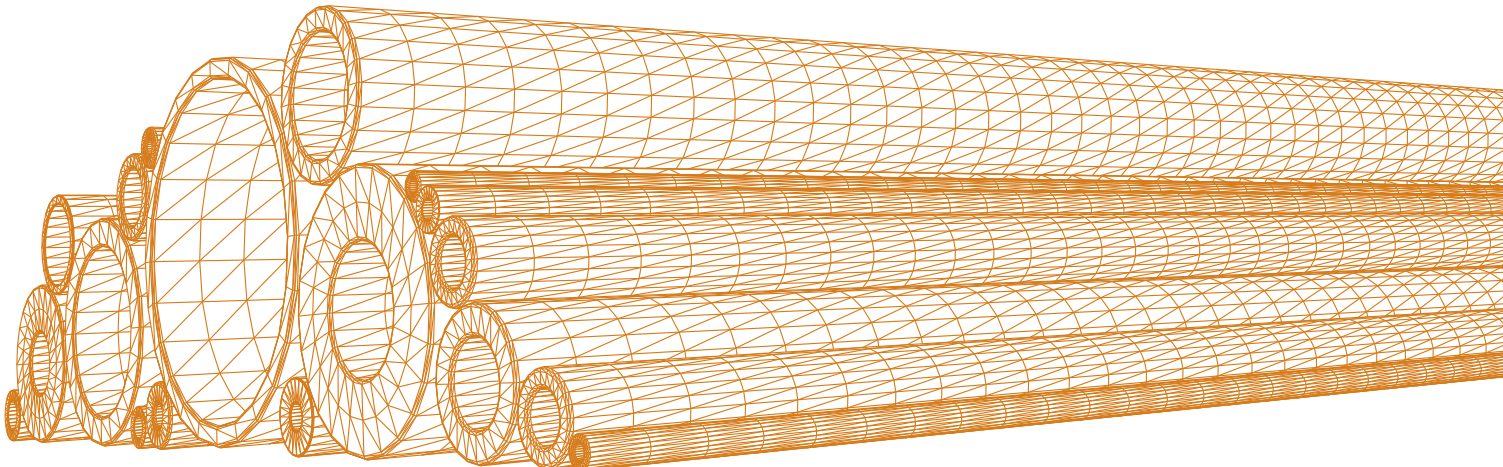
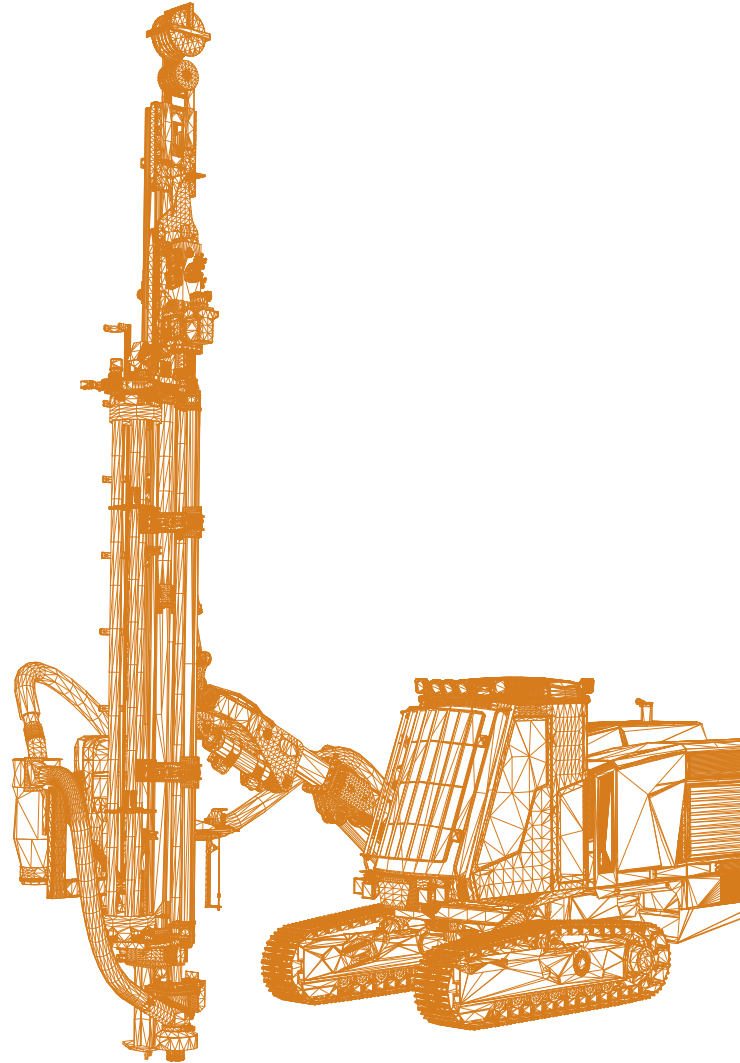
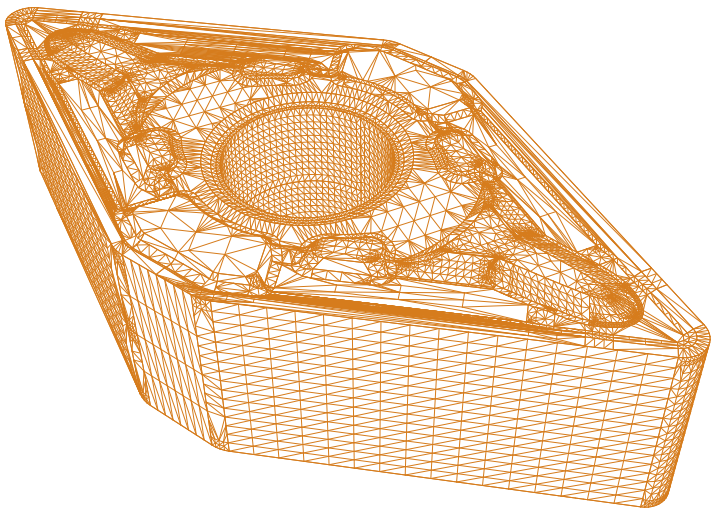




# ANNUAL REPORT 2016

INCLUDING SUSTAINABLE  
BUSINESS REPORT



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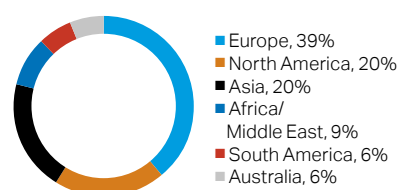
The formal Annual Report comprises the pages 42–124. Please note that the official audited version of the Annual Report is the Swedish version available in the pdf and printed versions. In some cases, tables and calculations do not always agree exactly with the totals shown due to rounding. The GRI-index defines the boundaries of the sustainability information.

## YEAR IN BRIEF

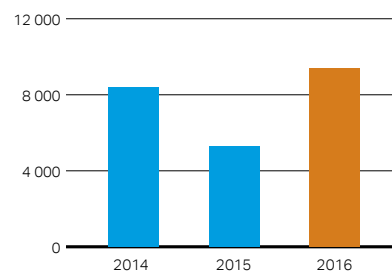
### HIGHLIGHTS

- New strategic agenda to increase decentralization and accountability
- Consolidation into three business areas and non-strategic operations identified
- New financial targets
- Market conditions remained muted overall, however improved as the year progressed with positive order growth achieved in the fourth quarter
- Increased focus on digitalization, automation and intelligent tools
- Commercialization of additive manufacturing; new product area established 1 January 2017
- Lost time injury frequency rate (LTIFR) at 1.7, lowest in the Group's history
- Increased scores in the 2016 Dow Jones Sustainability Index (DJSI) and reconfirmation as a constituent of the FTSE4Good Index Series and the Ethibel Sustainability Index (ESI) Excellence Europe

### REVENUES BY MARKET AREA



### PROFIT AFTER FINANCIAL ITEMS, MSEK



### REVENUES, MSEK

**81,553**

### OPERATING MARGIN, %

**13.5**

### RETURN ON CAPITAL EMPLOYED, %

**14.7**

### PROPOSED DIVIDEND, SEK

**2.75**

### RECOVERED METALLIC RAW MATERIAL, %

**78**

### OPERATING PROFIT, MSEK

**11,018**

### ORDER INTAKE, MSEK

**81,861**

### EARNINGS PER SHARE, GROUP TOTAL, SEK

**4.39**

### LOST TIME INJURY FREQUENCY RATE, GROUP TOTAL

**1.7**

### SHARE OF WOMEN, GROUP TOTAL, %

**19.4**

Unless otherwise stated, text and numbers on pages 0-7, 10-28 and 48-51 refer to continuing operations.

# HIGH-TECH AND GLOBAL ENGINEERING GROUP



Sandvik is a high-tech and global engineering Group with approximately 43,000 employees and sales in more than 150 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.

## OUR BUSINESS AREAS

### SANDVIK MACHINING SOLUTIONS

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

SHARE OF  
REVENUES

**40%**

SHARE OF  
OPERATING PROFIT

**59%**



### 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

**38%**

SHARE OF  
OPERATING PROFIT

**27%**



### SANDVIK MATERIALS TECHNOLOGY

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

SHARE OF  
REVENUES

**16%**

SHARE OF  
OPERATING PROFIT

**9%**



### OTHER OPERATIONS

Sandvik Process Systems and Sandvik Hyperion have been identified as non-strategic operations and are placed outside the business area structure in "Other Operations". Sandvik's ambition is to exit these businesses. Share of the Group's revenues was 6% and share of operating profit was 5% in 2016.

### DISCONTINUED OPERATIONS

Mining Systems business, that the Group intends to divest, was classified as discontinued operations already in 2015 and the process to exit the business continued during 2016.

# SHAPING OUR FUTURE THROUGH STABILITY AND GROWTH

2016 was a positive and eventful year for Sandvik with several significant changes. We took considerable actions to move accountability closer to the business. These measures are important to strengthen our entrepreneurial way of working, ensure continuous improvements and promote agility in responding to customer needs. For me, it is important that Sandvik is a great company to work for and to own. We shall be leading in the industries in which we operate and we strengthened our core businesses during the year.

The new strategic direction that we established during the year focuses on decentralization and that decisions are made closer to customers. We moved the profit and loss responsibility to the product areas, i.e. to our different businesses, and established new management teams for many of these. This is the foundation for Sandvik to drive performance and

become faster in the response to changing customer demand.

We also altered our business area structure in order to ensure focus on our core operations. The merger of Sandvik Mining and Sandvik Construction into the new business area Sandvik Mining and Rock Technology was an important undertaking that required a great deal of the many people

involved. The divestment process of Mining Systems, Sandvik Hyperion and Sandvik Process Systems continued during the year.

The new organizational structure and the adjusted ways of working will certainly contribute to securing a stable and profitable business moving forward. This, in turn, will allow us to invest and make new



"I believe that strong performance is about small improvements every day."



Photo: Tomas Öneborg

Talks with representatives from the financial market.

acquisitions more in line with our core businesses.

#### BUSINESS PROGRESS – CONTINUOUS IMPROVEMENTS

Sandvik has a solid foundation to build upon as many of our business units are world leaders in the areas they operate. We have highly competent people and extensive technical expertise. Together with our ability to industrialize and enhance customer value, we are now building on our over 150-year heritage. We are focusing on our core capabilities, such as material and application knowledge and close customer cooperation.

Some of our customer segments continued to be affected by a challenging macroeconomic situation during the year, particularly the oil and gas and the engineering segments. In the mining segment however, order intake improved as a consequence of increased commodity prices towards the later part of the year and the outlook became increasingly positive. The aerospace segment continued to develop well and demand in the automotive segment remained stable. Many of our geographical markets continued to grow, although at a slower pace. We saw Asia pick up in the second half of the year and I believe there are exciting opportunities for us also in other emerging markets.

Aftermarket developed positively and continues to be an important part of our business. For example, spare parts and service, account for 65% of Sandvik Mining and Rock Technology's business, and approximately 30% of Sandvik Materials Technology's business involves industrial consumables.

Our order intake in 2016 amounted to 81,861 million SEK and revenues to 81,553 million SEK, and operating profit was 11,018 million SEK. We delivered a strong cash flow and good result in a challenging organic growth situation. Although we experienced quite a strained business environment during the year, our earnings developed in the right direction. I am particularly satisfied with the EBIT improvement resulting from our supply chain optimization program and the reduction of administration and sales costs, which have streamlined our operations and contributed toward improving our margins.

I believe that strong performance is about small improvements every day and we are fully committed to deliver in line with the new targets that we have communicated. Together with our new decentralized business model, they will support revenue growth, internal performance improvements and a more cost-efficient organization that is focused on driving profitable growth and ensuring a generous dividend.

#### AT THE FOREFRONT OF TECHNOLOGICAL DEVELOPMENT

Our vision is to set the industry standard in the eyes of our customers. This involves not only being the number one choice for our customers in our selected segments, but also keeping ahead of other actors on the market.

The prevailing market trends toward greater digitalization and sustainability, fit well with Sandvik's business and customer offering as well as with the tradition to focus on research and development. We work close to our customers to lead the technological development, and launch new and leading products and solutions that contribute to improved customer productivity, profitability and sustainability. Efficient time-to-market processes as well as a continuous focus on application knowledge are crucial for our success. During 2016, we introduced many exciting new products. For example, Sandvik Machining Solutions launched groundbreaking technology with intelligent digitally connected tools for use in the metal-cutting industry.

We also initiated work to establish a new product area called Additive Manufacturing, which is in operation as of 1 January 2017. It will fully commercialize our business of metal additive manufacturing. The new product area will have complete profit and loss responsibility and will step-by-step take a position on the market through organic growth as well as acquisitions. In addition, our unit Sandvik Osprey, within the business area Sandvik Materials Technology, is a market leader in metal powder for additive manufacturing.

Sandvik Mining and Rock Technology launched battery-driven loaders, drill rigs and more efficient engines. This will enhance the productivity,



Visit at Sandvik's facility in Patancheru, India.



Meeting with employees at Sandvik Mining and Rock Technology's plant in Tampere, Finland.



Participation in the international tool trade fair IMTS in Chicago, Illinois, USA.

environmental performance and safety of customer operations, particularly in remote-controlled mining activities, i.e. our mining automation offering AutoMine®.

Sandvik Materials Technology made good progress together with various fuel cell customers globally. With our unique material, we enable our customers to bring affordable commercially viable fuel cell cars to the mass market. In Sandviken, we opened Sweden's fourth hydrogen filling station in partnership with the municipality.

Such work will further leverage the value we provide to our customers, while continuing to support growth opportunities.

### RESPONDING FASTER TO CUSTOMER DEMAND

Our product areas work closely with our customers and have full operational and financial responsibility. The responsibility regarding R&D, indirect purchasing and supply chain were moved back into the businesses during the year. We also started to move out other resources, such as Finance and HR. Once completed, I believe this will improve our performance.

We also need to create the best possible conditions for delivering results, and fostering good leaders. By giving greater accountability to the product areas, our leaders will have a deep understanding of how to run successful businesses. This is essential for Sandvik's leadership development and provides us with opportunities for a solid and well-functioning open, internal job market.

Increased decentralization also means a greater need to ensure a

culture of high ethical and responsible behavior. We have therefore revised our governance framework, "The Sandvik Way", in which we have established common principles and values that all our businesses need to adhere to, including our Code of Conduct, our principles regarding an internal job market, and our financial processes.

### SUSTAINABLE BUSINESS INTEGRATED INTO OUR OFFERINGS AND OPERATIONS

Sustainability is crucial to our ability to create increased customer value, enabling us to help our customers become safer, more efficient and more productive. Climate change is an increasingly important issue. Our high performing products can meet the growing customer demand for low-carbon and more sustainable solutions.

Circular economy is another important competitive advantage for us. For example, Sandvik Materials Technology uses almost 80% of recovered metal material for its production of stainless steels and special alloys, and Sandvik Machining Solutions uses over 50% of recycled material for its tools and inserts – which we believe could reach 80% in the future. In Sandvik Mining and Rock Technology, about 90% of metallic input material used in manufacturing is recovered material. These are concrete examples of how we have turned the circular economy concept into reality.

While promoting our sustainable offering, we are also keen to ensure that our own operations are responsible. This includes areas such as the environment, compliance and anti-corruption, diversity and sustainable supplier management.

Safety is a key focus area for Sandvik. We continue to improve and I am satisfied that we reduced our Lost time injury frequency (LTIFR) to 1.7 (2.2) in 2016. However, despite the fact that we are making progress, we will not be completely satisfied until we achieve zero accidents.

We further improved our performance in the Dow Jones Sustainability Index, performing better than 98% of the companies assessed in our industry. Another part of our commitment to sustainability is that we are and will remain a signatory to the ten principles of the UN Global Compact.

### BUILDING FOR THE FUTURE

Looking ahead, we have more to do, and I am confident that we are progressing in the right direction. We are on track to fulfill our ambitious targets by making continuous improvements throughout our business to achieve stability, profitability and growth. Our increased decentralization and the changes we are now focusing on are the foundation for our capability to deal with anticipated market trends and variations in the business climate. We will continue to be a market leader, secure even better results and market shares, as well as continue to be an attractive company to work for and to own.

Finally, I would like to thank you, our shareholders, our customers, partners and employees for your continuous engagement and trust. Without you, our success today and tomorrow would not be possible.

Stockholm, February 2017

Björn Rosengren  
President and CEO

# OUR WAY FORWARD

## 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 segments and markets.

## 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.

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

EBIT GROWTH (CAGR)

≥7%

ROCE IMPROVEMENT

≥3% PTS

NET DEBT/EQUITY RATIO

<0.8

DIVIDEND PAYOUT RATIO

50%

*1) For further information, see page 151.*

## STRATEGIC AGENDA



### SUSTAINABLE BUSINESS



## CORE CAPABILITIES

In order to achieve our vision, we strive for continuous improvements in customer productivity through our core capabilities within material knowledge, enabling customer solutions and ability to industrialize. We enjoy a strong brand recognition and a robust market position, and our ambition is to further strengthen our competitive advantages in a market that continues to develop at a high pace.

## CORE VALUES

- **Customer Focus** – we constantly strive to exceed customer expectations and enable them to excel in their business.
- **Innovation** – we shape the future by creating pioneering solutions throughout our operations.
- **Fair Play** – we conduct business in a sustainable and responsible manner.
- **Passion to Win** – we are passionate about making our company number one.

# OUR SEVEN FOCUS AREAS AND PROGRESS IN 2016

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

We focus on areas where we are or can become world leading and the customers' first choice. By focusing on our core capabilities – material knowledge, close cooperation with customers to develop our offering, and ability to industrialize – we ensure our world-leading position within metal cutting, mining and rock technology and advanced material knowledge.

### PROGRESS IN 2016

Following an analysis of profit, business potential and core capabilities, we made important decisions that will allow us to focus on our core areas. Key progress included:

- **Restructuring:** Sandvik restructured the business from five to three business areas in order to achieve total ownership and accountability for the respective businesses.
- **Divestment:** Sandvik initiated the divestment of specific businesses that fall outside the scope of our selected segments of the cutting tool industry, the mining industry, and the advanced stainless steels and special alloys industry.

---

## TECHNOLOGY LEADERSHIP AND INNOVATION

We strive to be a technology leader within our chosen segments and markets, by investing in product innovation and R&D, efficient time-to-market processes and through close cooperation with our customers.

### PROGRESS IN 2016

We continued to focus on product innovations that boost productivity and energy efficiency, reduce CO<sub>2</sub> emissions, improve resource utilization and increase safety, as well as leverage digitalization opportunities. Examples include:

- **Broad offering of electric mining equipment:** Sandvik Mining and Rock Technology offers customers a wide range of electric equipment solutions for mining applications, which promote safe, environmentally beneficial and cost-effective production. For example, the Group launched Sandvik DD422iE, the world's first, highly automated, battery-trammed mining jumbo drill rig, and Sandvik LH307B, a battery-powered loader with new technology for emission-free underground loading and hauling.
- **Digital manufacturing and intelligent tools:** Sandvik Machining Solutions provides advanced solutions for monitoring and controlling machining processes in production machines and launched in 2016 CoroPlus®, a sensor-based intelligence platform for digital machining.

- **Game-changing materials meeting the energy and climate change challenges:** Sandvik Materials Technology is leading the development of coated strip steel for bipolar plates in fuel cells. Simply put, a fuel cell is an energy converter that can be used to make electricity and heat from hydrogen gas. The energy conversion takes place without any combustion. The only emission is pure water. With our unique large scale production plant we are in the front line for the upcoming commercialization of the fuel cell technology.

---

## ACCOUNTABILITY AND DECISIONS

### CLOSE TO CUSTOMERS

We ensure a high degree of accountability by taking decisions close to customers through a decentralized, entrepreneurial way of working.

### PROGRESS IN 2016

We continued to decentralize our business model to ensure that decisions are made closer to our customers, thereby improving the speed with which we can respond to customer requirements and market changes. Examples include:

- **Greater product area ownership:** Within the business areas, each product area has greater ownership and accountability for their performance and result, which creates a more entrepreneurial environment. Product area performance is continuously monitored in line with our decentralization strategy. An example of full-line accountability is the move of production units into the product areas within Sandvik Machining Solutions.
- **Customer-focused business models:** Sandvik Mining and Rock Technology implemented a new business model with eight product areas based on their product offering. The purpose is to enhance our responsiveness to customer needs and demand.
- **Decentralized support functions:** The process of bringing Human Resources and Finance service functions to individual business areas to ensure greater accountability for the services used by the business areas was initiated.

---

## STABILITY AND PROFITABILITY BEFORE GROWTH

We will focus on stability and profitability before growth.

This involves ensuring we have the right organizational structure, strong management, efficient working processes and that our businesses ensure stable, predictable results as a prerequisite before driving growth.



## PROGRESS IN 2016

Sandvik's business areas were characterized by different challenges and opportunities concerning stability, profitability and growth, which requires different strategies and focus.

- **Sandvik Machining Solutions:** Has maintained a stable and profitable business and strengthened their growth ambitions, for example through additive manufacturing.
- **Sandvik Mining and Rock Technology:** Focused on stability by ensuring the right organizational structure, strong management and efficient working processes were in place during the process of restructuring.
- **Sandvik Materials Technology:** Focused on ensuring stable performance and profitability by generating value for the Group through greater efficiency in Administration and Sales costs and Net Working Capital.
- **New financial targets:** In May 2016, we established ambitious financial targets that are in accordance with our decentralized business model and the prevailing muted macro environment. The targets are set until 2018.

---

## EFFICIENCY AND COST REDUCTIONS

We strive to achieve efficiency through continuous improvements. This involves promoting a culture of implementing small every-day improvements to increase our own productivity, efficiency and, consequently, achieve cost reductions – and ultimately ensure operational excellence.

## PROGRESS IN 2016

Sandvik established an overall objective to achieve year-on-year productivity improvements of at least 3% (revenues/employee). A number of important improvements were made during the year:

- Consolidation of the supply chain and other cost efficiency measures generated more than 800 million SEK in savings compared with previous year.
- Group functions' cost decreased by more than 20% compared with 2015.
- The number of employees was lowered by 4%, mainly as a consequence of efficiency measures and additional savings due to muted market conditions.
- Net working capital improved, which together with strong earnings gave the next highest operating cash flow in the company's history.
- Strong cash generation resulted in that net debt reached a three-year low level and the target of <0.8 was achieved, finishing the year at 0.7.

---

## CULTURE OF DOING THINGS RIGHT

We believe that high ethical standards and strong values create long-term value for customers, employees and other stakeholders. Through our values, our Code of Conduct and key policies, all encompassed within our governance model, The Sandvik Way, we set clear standards for "doing things right". These key principles apply to all parts of Sandvik and are non-negotiable for all employees and entities. Our Speak Up and investigations process supports central principles within internal control, compliance and internal audit to build a stable foundation for Sandvik's long-term business.

## PROGRESS IN 2016

- We launched our new governance model, The Sandvik Way, with a complete review of all policies and procedures to adjust them to the new decentralization strategy.
- Our Speak Up process was further developed and transferred to the business areas, through the new Investigations procedure, which aims to ensure that we deal with all deviations from our Code and policies swiftly and with integrity.
- Our compliance programs continued to be rolled-out, with increased activities and program launch of the Data Privacy-program, to prepare for new legislation entering into force in 2018.
- Training on all major compliance programs as well as the Code of Conduct.

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## EXCEPTIONAL PEOPLE

We promote a culture that attracts, develops and retains exceptional people, and ensures that Sandvik is a great place to work. This is fundamental to our success.

## PROGRESS IN 2016

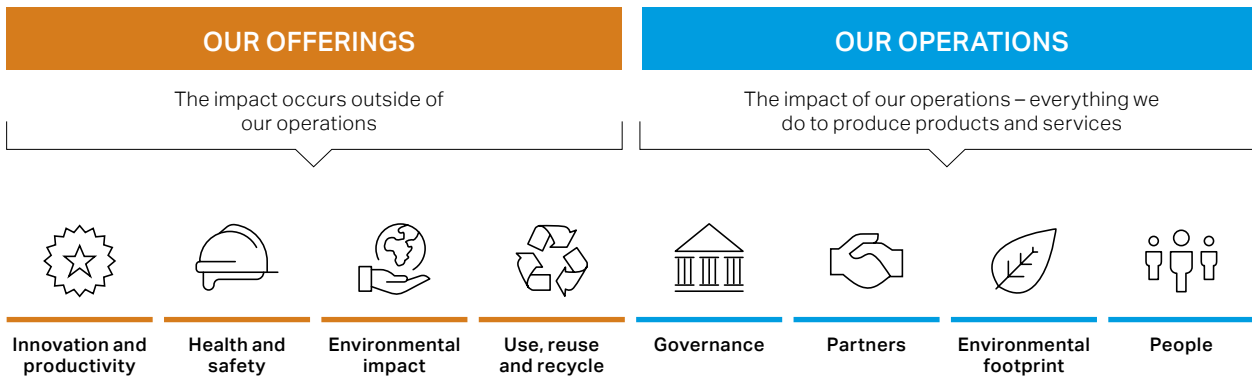
We continued to drive initiatives that promote leadership and develop key competence within the organization. We focused on attracting and recruiting employees through our increased digital presence, and took measures to increase diversity and inclusion. Examples include:

- **Leadership initiatives:** We drive various initiatives to identify and promote talent in all parts of the organization. In 2016, more than 670 leaders across the Group participated in Sandvik's leadership programs.
- **Diversity & Inclusion:** Workplace diversity and inclusion provides us with a competitive advantage. During 2016, the share of women in product areas' management teams was 24% and the share of non-Europeans was 17%.

# SUSTAINABLE BUSINESS

We have a long history of responsible business conduct. We are convinced that we can create a more sustainable future together with our customers, employees, shareholders and other stakeholders. Our sustainable business strategy, revised in 2016, aims to further integrate these matters into our core operations, and promote a greater understanding of how our offerings can contribute to a better future.

## TWO IMPACT AREAS – EIGHT DIMENSIONS



### MAKING OUR CUSTOMERS MORE SUSTAINABLE

We develop products, solutions and services that enhance our customers' 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 life cycle by providing service and aftermarket support, such as in customer buy-back programs which enable us to recover and recycle used products. We constantly work on making our products more energy efficient thereby lowering our customers' costs.

### PROMOTING SUSTAINABILITY IN OUR OPERATIONS

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.

### STAKEHOLDER DIALOGS

We engage in open dialog with our various Group and business area stakeholders on sustainability matters, which provides essential input and guidance on how we integrate sustainability into our business.

### MATERIAL ASPECTS

We conduct a materiality analysis on a regular basis. This analysis provides us with a clear direction and indicates the most significant aspects of the sustainability agenda for us at a particular point in time. For 2013–2016

the following areas were defined as material by our Group executive management:

- Compliance
- Sustainable supplier management
- Use, reuse and recycle of materials and natural resources
- Energy, emissions and climate change
- Health and safety
- Diversity and inclusion
- Talent attraction, development and retention

A new materiality analysis was conducted in 2016 and will be applied as of 2017. The process involved a large number of both internal and external stakeholders. It was based on our sustainable business strategy, international frameworks and institutions, the media, global trends, stakeholder dialog as well as on our own assessments.

See the Sustainability Notes on pages 130-144 for more details on stakeholder dialogs and materiality analysis.

# TARGETS AND TARGET FULFILLMENT

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

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

EBIT GROWTH (CAGR)

**≥7%**

Outcome 2016: +3.1%

ROCE IMPROVEMENT

**≥3%** PTS

Outcome 2016: +1%-point

NET DEBT/EQUITY RATIO

**<0.8**

Outcome 2016: 0.7

DIVIDEND PAYOUT RATIO

**50%**

Outcome 2016: 63%<sup>2</sup>

1) For further information, see page 151. 2) Based on proposed dividend of 2.75 SEK per share.

New financial targets were introduced in May 2016 with a target period of three years, 2016–2018. At year-end Sandvik as a Group has delivered in accordance to the original plan on all targets. Depending on business context the focus areas and contributions vary across the businesses; from securing financial stability to driving profitability and growth.

Focus has been on cost savings initiatives, productivity improvements and further footprint consolidation mainly through the supply chain optimization program. This has supported earnings growth. Higher return on capital was supported by higher earnings, relatively low investment levels and initiatives to further reduce working capital.

## SUSTAINABILITY GOALS

LOST TIME INJURY FREQUENCY RATE IN 2020

**<1**

Outcome 2016: 1.7

EMPLOYEES TRAINED IN THE CODE OF CONDUCT

**100%**

Outcome 2016: 91% trained

ENERGY EFFICIENCY INCREASE IN 2020

**20%**

Outcome 2016: 2% decrease

MAINTAINED LEVEL OF RECOVERED METAL RAW MATERIAL

**≥80%**

Outcome 2016: 78%

Sustainability targets are set at Group and business area levels in order to efficiently manage related risks and leverage opportunities. The business areas integrate these in their businesses. In 2016, Sandvik worked toward achieving a lost time injury frequency rate (LTIFR) target of 1.7. Sandvik's LTIFR improved by 20% to 1.7 at year-end (2.2). Safety remains, however, a top priority. During 2016, a Code of Conduct training program was concluded

with a 91% completion rate. Each business area assumes responsibility for ensuring compliance with the Code of Conduct. Energy intensity is measured as energy per hours worked. Since 2014 we have reduced hours worked more than the energy reduction during the same period. With 2014 as base year, the energy use decreased by 5% in absolute terms, while the same time hours worked decreased by 7%.

Please refer to pages 134-135 and *home.sandvik* for additional sustainability targets.

# VALUE-CREATING OFFERINGS TO OUR CUSTOMERS WORLDWIDE

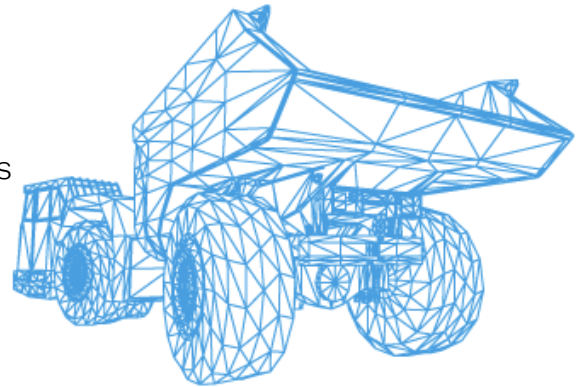
With our solutions, we enhance the customers' productivity, profitability and sustainability in a variety of industries. The mining segment is the largest component of our business, closely followed by the engineering and the energy segments as well as part of the construction segment related to rock excavation. We also hold strong positions in segments such as automotive and aerospace.

*The commercial port of Singapore.*



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



SHARE OF GROUP REVENUES 2016:

# 27%



### PARTS AND SERVICES OUR CUSTOMERS CAN COUNT ON

Our qualified service engineers and advanced rock-drilling tools make sure that equipment can run 365 days a year.



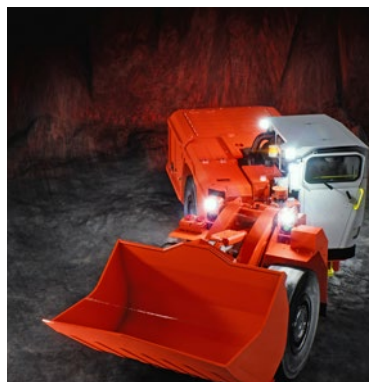
### DRILLING

Our underground mining jumbos deliver productivity, accuracy and reliability, reducing operating costs while also improving environment, health and safety.



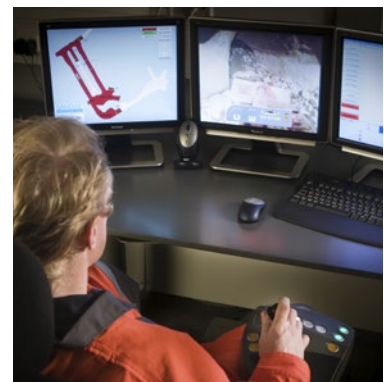
### ROCK DRILL STEEL

Our drill steel is characterized by a number of properties that enable efficient production, such as high fatigue strength and toughness, close tolerances and high resistance to wear and permanent distortion.



### LOADING AND HAULING

Sandvik's underground loaders are engineered for safety, productivity and reliability in the toughest of applications.



### AUTOMATION AND MONITORING

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

# OPTIMIZED CUSTOMER ADDED VALUE IN THE WORLD'S DEEPEST BASE-METAL MINE

The mining automation system AutoMine® has improved safety and loader efficiency in the Kidd Operations copper and zinc mine in Timmins, Ontario, Canada, by allowing remote and automated, driver-free loader operation.

The mine has used Sandvik loaders for 25 years – some of which have been equipped with the mining automation system AutoMine® since 2012, to overcome the technical and logistical challenges of operating at depths of down to 9,889 feet (3,000 meters). These challenges include seismicity considerations, and transporting miners and materials from the surface, which can take over an hour.

Kerry Falk, Marketing Manager, Sales Area Canada, at Sandvik Mining and Rock Technology, tells us more.

## HOW DO KIDD OPERATIONS USE AUTOMINE®?

The mining automation system AutoMine® enables Kidd Operations to operate their Sandvik LH514s for as many as 21 hours of mucking each day. They can continue mucking even between shifts and when conventional operations must stop due to safety precautions – such as during seismic activity following a blast and during gas checks on levels where no personnel are allowed.

## WHAT HAVE BEEN THE CUSTOMER PRODUCTIVITY BENEFITS?

Effective production hours have increased by 30% compared with the customer's conventional loaders. The mine has also been able to reduce its total loader fleet by three units, in part due to the gains from mining automation.

## WHAT HAVE BEEN THE CUSTOMER HEALTH AND SAFETY IMPLICATIONS?

AutoMine® improves health and safety as the customer does not need to have operators in the automated production area. Operators can instead work from air-conditioned offices on the surface.

## HOW DOES SANDVIK OPTIMIZE LONG-TERM CUSTOMER ADDED VALUE?

As part of our commitment to optimize the total added value for our customers in these challenging times of low commodity prices, we are not only measuring how AutoMine® increases productivity. We also evaluate how the system reduces fuel usage, emissions, and maintenance costs for Kidd Operations, and how the customer solution can be continuously improved over the long-term.



The control room at Kidd Operations.



Kerry Falk, Marketing Manager, Sales Area Canada, at Sandvik Mining and Rock Technology.

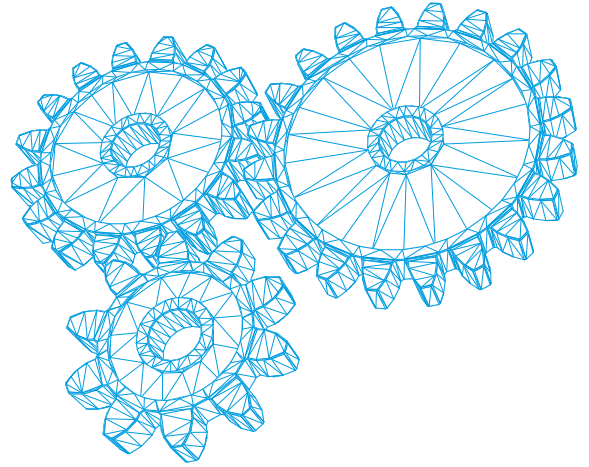
## FACTS

### AUTOMINE®

Allows operators to manage load-haul-dump trucks in real-time, and oversee fully-automated tasks such as trampling remotely from the surface.

# 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, output, safety and environment.



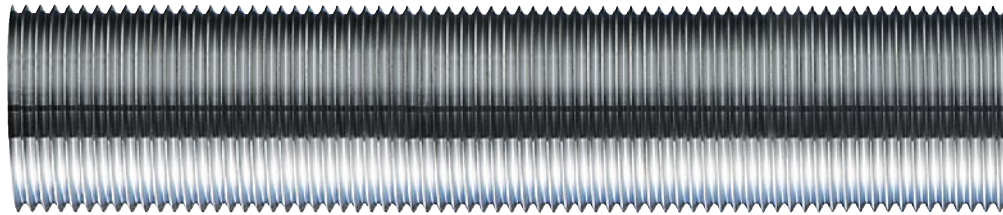
SHARE OF GROUP REVENUES 2016:

# 23%



### FUEL NOZZLES

Powder technology-based fuel nozzels are critical components in fuel injection systems in marine diesel engines – reducing emissions, improving fuel efficiency and offers a long service life.



### EXTERNAL TURNING TOOLS

Turning generates cylindrical and rounded forms with a single-point tool. The tool remains stationary while the work piece rotates



### DIGITAL TOOLS

The embedded system CoroBore® + allows for wireless, automatic adjustments of cutting diameter using digital interfaces, making it easy to accurately adjust the tool in the machine or in pre-setting for precision boring.



### SHOULDER MILLING TOOLS

Shoulder milling generates two faces simultaneously, which requires peripheral milling in combination with face milling.



# REDUCED ENVIRONMENTAL IMPACT THROUGH INNOVATIVE POWDER-BASED SOLUTIONS

Sandvik Materials Technology's strategy is to develop customer solutions which contribute to a more sustainable future. One example is a powder technology based Hot Isostatic Pressed (HIP) technique that is used to manufacture efficient fuel nozzles – which enables the customer MAN to produce fuel-efficient marine engines, radically reducing emissions.

As the world's leading designer and manufacturer of two and four-stroke marine diesel engines, MAN Diesel & Turbo engines use around half of all power needed for global trade. With conventional fuel nozzles subject to corrosion issues and inadequate fuel efficiency, MAN needed an innovative solution to meet the rising demands on engine components for reduced emission and increased fuel efficiency.

Hans Södervall, Marketing Manager for powder technology-based HIP-products at Sandvik Materials Technology, explains.

## CAN YOU TELL US MORE ABOUT HOW SANDVIK'S HIP METHOD CAME ABOUT?

Sandvik's HIP manufacturing method for fuel nozzles was the result of a long-term development and supply agreement with MAN that is committed to meeting the customer's ambitious emissions and fuel efficiency objectives. We launched this second-generation fuel nozzle on the market in early 2016, and the product has exceeded our customer's performance objectives.

## HOW DOES THE SOLUTION CREATE CUSTOMER VALUE?

HIP, combined with design and material solutions, is an enabling technology, which in this case results in second-generation fuel nozzles achieving higher fuel efficiency and lower emissions of NO<sub>x</sub>, CO<sub>2</sub>, smoke and unburnt hydrocarbons. This improved efficiency will not only help MAN meet rising fuel efficiency and emission regulations in the shipping industry, but also help them to maintain their world-leading position in the marine engine market. An added benefit is of course the huge impact these second-generation fuel nozzles will have on combating one of mankind's greatest challenges – climate change – through significantly reduced greenhouse gas emissions. Powder metallurgy is in itself also a recognized green technology.

## WHAT POSITIVE EFFECTS HAVE YOU SEEN ON THE MARKET?

The product has exceeded our sales expectations, as our total fuel nozzles sales have increased by 500% following the launch of our second-generation nozzle. Sandvik's second-generation nozzles now lead the marine engine fuel nozzle market, setting the industry standard.



Sandvik makes it possible to produce marine engines that radically reduce emissions.



Hans Södervall, Marketing Manager for powder technology-based HIP-products at Sandvik Materials Technology.

## FACTS

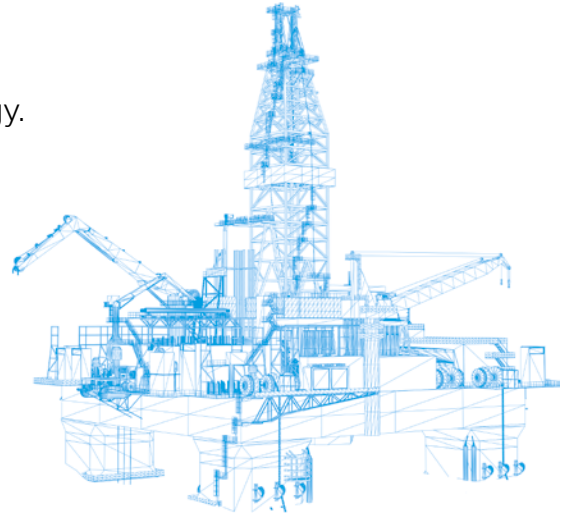
A fuel nozzle is an important part of a diesel engine's fuel injection system that disperses diesel fuel into the combustion chamber. Sandvik's patented powder-technology-based HIP technique combines two different powder-based metals under high temperature and isostatic pressure to improve the corrosion resistance and overall performance of the fuel nozzles.

# ENERGY

Sandvik offers solutions for all forms of energy production, including clean and renewable energy. We supply stainless and high-alloy products as well as tools and tooling systems to satisfy the industry's metal-cutting needs.

SHARE OF GROUP REVENUES 2016:

# 12%



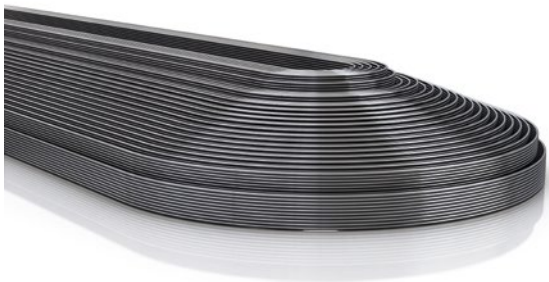
### OIL AND GAS EXPLORATION AND PRODUCTION

Our super-duplex stainless steel tubes for umbilicals have become industry standard due to their corrosion resistance, reliability and ability to withstand extreme temperatures and pressures.



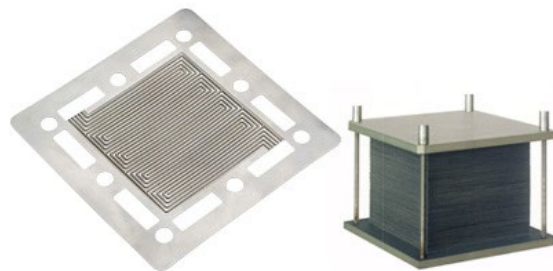
### METAL-CUTTING TOOLS

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



### NUCLEAR POWER GENERATION

We provide safe, qualitative and reliable products in advanced stainless steels and special alloys. With more than 50 years in the industry, we have delivered steam generator tubes to more than 100 nuclear reactors worldwide.



### MATERIALS FOR FUEL CELLS

We offer strip steel with functional coating for different types of fuel cells. Simply put, a fuel cell is an energy converter that can be used to make electricity and heat from hydrogen. The energy conversion takes place without any combustion. The only emission is pure water.

# SANDVIK SOLUTION SOLVES CUSTOMER PROBLEM AND ENHANCES EFFICIENCY

The energy segment is important for the Group. Sandvik Coromant has developed a new plunge milling solution for Siemens that significantly reduces machining time on gas turbine housings – to lower both customer cost and environmental impact.

Siemens Power Generation Division manufactures SGT5-8000H gas turbines at its plant in Berlin, Germany. The turbines are key components in gas-fired power plants, which represent a growing global market. Back in 2012, when Siemens introduced a new gas turbine maxi housing, the established production process was not stable enough to make the 16 borings required for the turbine burners in the turbine housing. From 2013, Sandvik Coromant has worked with Siemens to develop a solution that involves plunge milling, followed by finish boring, to give the surfaces the necessary high surface demands.

Olaf Zahn, Technical Consultant and Sales Representative at Sandvik Coromant, tells us more.

## CAN YOU EXPLAIN HOW THE SOLUTION CAME ABOUT?

Sandvik Coromant has been a Siemens technology partner for many years, so it was natural for them to come to us with this problem of drilling wide diameter borings. We were able to draw up a potential solution to their problem almost immediately with a concept based on plunge milling. This technology is used in other industries, such as the automotive industry, but was quite innovative in this instance.

## HOW DOES THE SOLUTION CREATE CUSTOMER VALUE?

The plunge milling solution is much faster and more efficient than conventional milling solutions. Our data shows that it makes financial savings of around €77,000 per year for the customer, primarily by reducing machining time from 100 hours per housing to 42 hours.

More efficient milling also reduces energy use and the number of cutting inserts required, which both reduce overall environmental impact. Safety is improved too, as the milling action is more stable with less vibration than the previous corner milling system.

## WHAT IS THE FUTURE POTENTIAL OF THE SOLUTION?

The solution can easily be transferred to other processes and has already been used for another Siemens housing, with more projects planned. In this sense it is really a model technology.



Plunge milling when machining turbine housings reduces the customer's processing time, costs and environmental impact.



Olaf Zahn, Technical Consultant and Sales Representative at Sandvik Coromant.

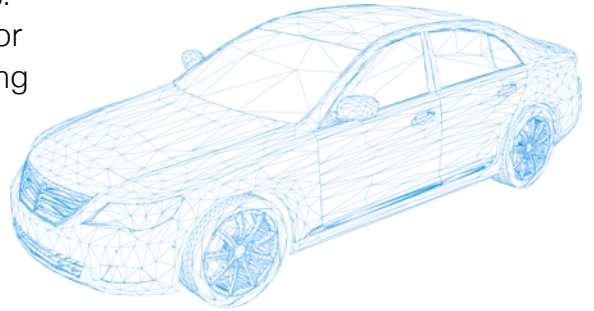
## FACTS

**PLUNGE MILLING** involves plunging straight into precast borings, cutting at the end of the tool instead of at the periphery. Plunging is the most efficient milling system in terms of quickly removing large quantities of material.

**Siemens SGT5-8000H** is one of the largest and most powerful gas turbines available, and an important component in the most efficient gas-fired power plants in the world. The turbine has a raw power capacity of 1,200 Porsche 911 cars and weighs as much as a fully fuelled Airbus A380.

# AUTOMOTIVE

Our cemented-carbide tools and tooling systems for turning, milling and drilling in metals raise productivity when manufacturing e.g. engines and transmissions. Our stainless and high-alloy products are found in, for example, safety belts, airbags, brakes, air conditioning and various instruments.



SHARE OF GROUP REVENUES 2016:

# 14%

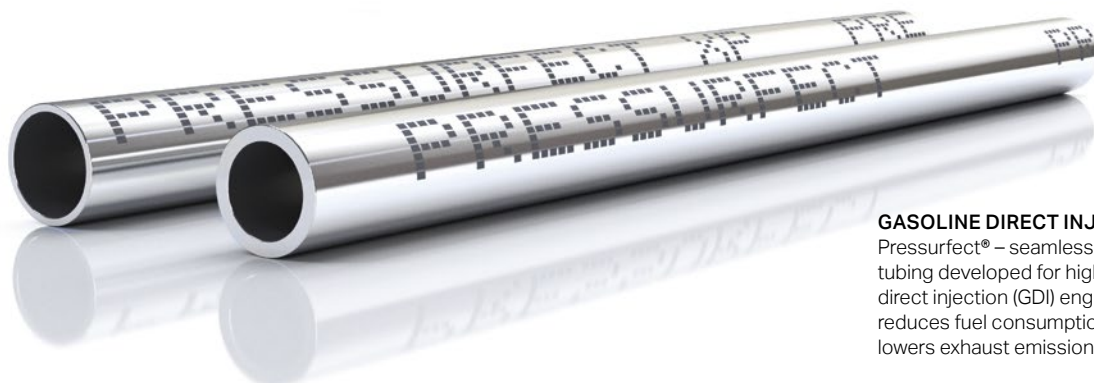


### METAL-CUTTING TOOLS

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

### COMPRESSOR VALVE STEEL

Valve steel for highly energy-efficient compressors in car air conditioning systems reduce fuel consumption and exhaust emissions. They are designed with extremely high demand on fatigue strength.



### GASOLINE DIRECT INJECTION TUBES

Pressurfect® – seamless stainless steel tubing developed for high-pressure gasoline direct injection (GDI) engines. Significantly reduces fuel consumption and consequently lowers exhaust emissions.

# CONSTRUCTION

We provide solutions for the breaking, drilling, tunneling, crushing and screening niches of the construction industry.

SHARE OF GROUP REVENUES 2016:

**12%**



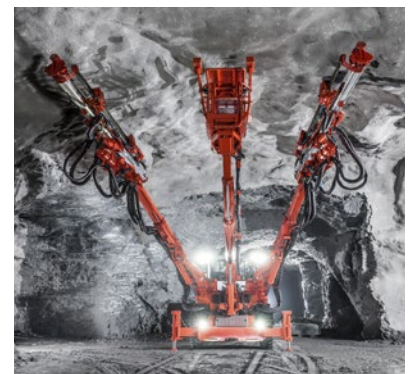
**CRUSHING AND SCREENING**

Stationary and mobile crushers, together with a wide range of screens and feeders, service applications increase efficiency in quarrying, mining and aggregate production.



**BREAKING**

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

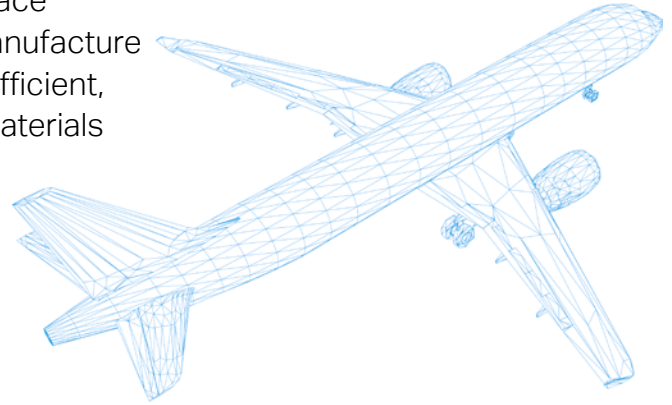


**DRILLING AND TUNNELING**

Our comprehensive offering consists of advanced equipment such as surface drill rigs, roadheaders, tunneling jumbos and load and haul equipment.

# AEROSPACE

Sandvik works 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 light-weight materials from the Group are critical.



SHARE OF GROUP REVENUES 2016:

**6%**



### TURNING AND MILLING TOOLS

Material and application knowledge and performance tooling solutions are requirements needed to succeed when machining components for landing gear and turbine blades.



### DRILLING TOOLS

There are approximately one million holes in an airplane for rivets, bolts etc. This requires several drilling operations. Our range of drills has been designed with optimum hole quality in mind.



### STAINLESS STEEL AND TITANIUM TUBES

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

# DIFFERENT CHALLENGES AND OPPORTUNITIES

Sandvik's business areas as well as their respective product areas are characterized by different challenges and opportunities concerning stability, profitability and growth, which requires different strategies and focus.



SANDVIK MINING AND ROCK TECHNOLOGY



SANDVIK MATERIALS TECHNOLOGY



SANDVIK MACHINING SOLUTIONS



STABILITY

PROFITABILITY

GROWTH

## THREE BUSINESS AREAS – 19 PRODUCT AREAS

### SANDVIK MINING AND ROCK TECHNOLOGY

- Underground Drilling (incl. Tunneling)
- Load & Haul
- Surface Drilling & Exploration
- Crushing & Screening (incl. Breaking)
- Rock Drills & Technologies (incl. Automation)
- Mechanical Cutting
- Parts & Services
- Rock Tools

### SANDVIK MATERIALS TECHNOLOGY

- Tube
- Strip, Wire and Heating Technology
- Primary Products

### SANDVIK MACHINING SOLUTIONS

- Sandvik Coromant
- Seco Tools
- Walter
- Dormer Pramet
- Powder & Blanks Technology
- Additive Manufacturing\*

### OTHER OPERATIONS

- Sandvik Process Systems
- Sandvik Hyperion

\* From 1 January 2017.

# SANDVIK MACHINING SOLUTIONS

Sandvik Machining Solutions is a market-leading manufacturer of tools and tooling systems for advanced industrial metal cutting. The focus is on increasing customer productivity by providing products, services and applications know-how.

## 2016 IN FIGURES

**Revenues:** 32,852 million SEK (33,809) with -2% organic growth

**Operating profit:** 6,970 million SEK (5,504)

**Operating margin:** 21.2% (16.3)

**Adjusted operating profit:** 6,970 million SEK (6,814)

**Adjusted operating margin:** 21.2% (20.2)

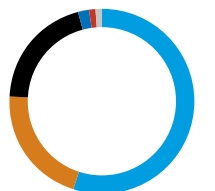
**President:** Jonas Gustavsson

**Gender balance:** Men 80.2%, Women 19.8%

**Lost time injury frequency rate (LTIFR):** 1.6

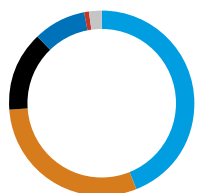
**Share of recovered metallic raw material:** 53%

REVENUES BY MARKET AREA, %



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

REVENUES BY CUSTOMER SEGMENT, %



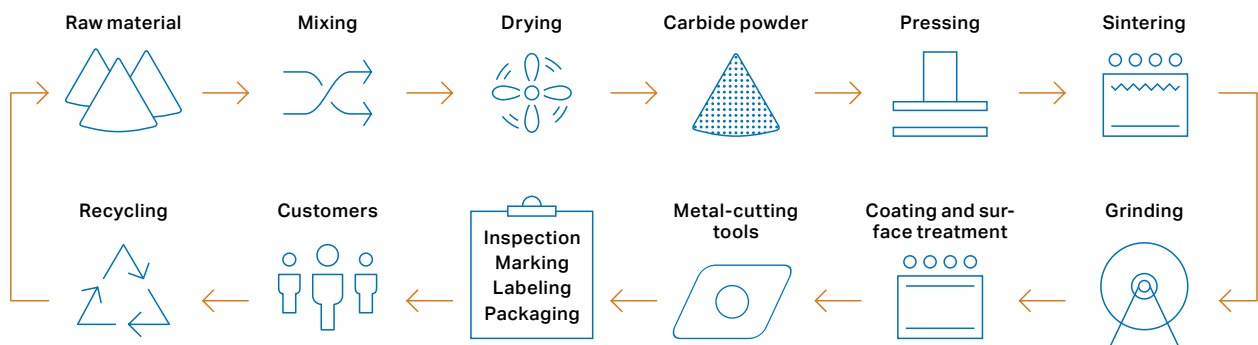
- Engineering, 44%
- Automotive, 30%
- Aerospace, 14%
- Energy, 9%
- Mining, 1%
- Other, 2%

EXTERNAL	<b>Market characteristics</b>	High barriers of entry due to capital intensive business model and IP throughout the value chain (high degree of vertical integration). Cutting tools represent a small share of total manufacturing cost for the customers however they are significant for the productivity. Service levels and product solutions are the main differentiator for premium offering. Lower service degree for mid-market which is more price sensitive.
	<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>Estimated market value<sup>1</sup>, billion SEK</b>	<b>~160</b>
	<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 premium mid-market including global premium players present with their mid-market brands: Mitsubishi, IMC group (Taegutec brand), Kennametal (Widia brand), Zhuzhou</li> </ul>
INTERNAL	<b>Revenues, billion SEK</b>	<b>~33</b>
	<b>Go-to-market model</b>	Direct sales ~55-60%. Different go-to-market model depending on the geography: NA more distribution sales, EU more direct sales, Asia predominantly distribution sales with limited service offering in the mid-market segment, while majority direct sales, with high service level in the premium segment.
	<b>Growth strategy</b>	Continuous product launches in core segments and increased focus on round tools. Strengthen offer in digital manufacturing and as a solutions provider. Increased focus on channel strategy. Bolt-on acquisitions in core and digital areas.
	<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>Strategic risk management</b>	Various forms of business environment risks with an impact on the metal cutting market in general, mainly changes in customer behavior, increased competition, brand positioning and the development of new products and services
	<b>Material sustainability aspects for 2017-2018</b>	Based on the sustainable business strategy (page 8), Sandvik Machining Solutions will focus on: <b>Our offerings:</b> innovation and productivity <b>Our operations:</b> Compliance; Sustainable supplier management; Efficient use of materials and resources; Health and Safety.

1) Addressable market.



HIGHLY INTEGRATED PRODUCTION PROCESS – FROM POWDER TO CUTTING TOOL



**2016 IN SHORT**  
**MARKET DEVELOPMENT**

Activity in the global cutting tool industry was lacklustre during 2016 and the muted customer activity resulted in negative organic growth in Sandvik Machining Solutions. However, demand improved towards the end of the year and positive growth was achieved in the fourth quarter. In the year in total, North America declined and was the relatively weakest region. Europe and Asia remained over all stable, with Asia – and particularly China – improving strongly towards the end of the period. Demand in the aerospace segment was strong. Customer activity in the general engineering segment improved gradually, while the automotive segment softened in the latter half of the year.

**KEY ACHIEVEMENTS**

Despite negative organic growth Sandvik Machining Solutions improved the operating margin, supported by the ongoing structural program for consolidation of the manufacturing footprint, reduction of front- and back-office resources as well as a general tight cost control.

Launch of 11,000 new products focused on the core segments and applications, including the introduction of the first digital tools on the market. These launches are essential to maintain the global No.1 position.

The integration of the product area Powder and Blanks Technology was successful. It consists of the tung-

sten mine and recycling business Wolfram Bergbau und Hütten as well as the internal supply of round tool blanks in Sandvik Hyperion. Both operations were previously within the former business area Sandvik Venture.

**GOING FORWARD**  
**NEAR-TERM FOCUS**

It is imperative that we maintain the strong flow of product launches in to core segments and applications, for Sandvik Machining Solutions to be the relative winner also in muted market environments. New materials will require new cutting tool solutions and we will leverage on our leading material knowledge and customer understanding. Additionally, to further

add to value creation, we will ensure a strict cost control and review of sales-, general- and administration costs and ensure we respond swiftly to changes in customer requirements.

**LONG-TERM FOCUS**

Through close relations and collaboration with customers all over the world we maintain our leading material- and application know-how which enables us to deliver more productive solutions to the market. We will broaden the scope of the offering and expand our digital offer and develop additive manufacturing in order to provide the right solutions to our customers.

**RESEARCH AND DEVELOPMENT – NEW PRODUCT HIGHLIGHT**

Within the business area, the different product areas are responsible to drive their respective product development. Research and product development may be shared when technology and applications are common.

**COST-EFFICIENT METAL-CUTTING TOOL**  
CoroMill® 745 is a new, double-sided, face milling concept that offers light cutting action with smooth, soft sound for a good working environment. The innovative design from Sandvik Coromant offers benefits such as excellent chip formation and low power consumption, while providing the cost-efficiency that only 14 true cutting edges can bring.



# SANDVIK MINING AND ROCK TECHNOLOGY

Sandvik Mining and Rock Technology is a leading supplier in equipment and tools, service and technical solutions for the mining and construction industries. Application areas include rock drilling, rock cutting, crushing as well as screening, loading and hauling, tunneling, quarrying and breaking and demolition.

## 2016 IN FIGURES

**Revenues:** 31,093 million SEK (33,131) with -3% organic growth

**Operating profit:** 3,206 million SEK (2,417)

**Operating margin:** 10.3% (7.3)

**Adjusted operating profit:** 3,206 million SEK (3,492)

**Adjusted operating margin:** 10.3% (10.5)

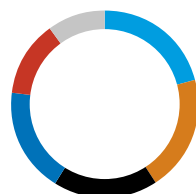
**President:** Lars Engström

**Gender balance:** Men 86.2%, Women 13.8%

**Lost time injury frequency rate (LTIFR):** 1.1

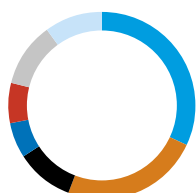
**Share of recovered metal raw material:** 91% (metallic input material used in manufacturing, excluding assembled metal parts)

REVENUES BY MARKET AREA, %



- Africa/Middle East, 21%
- Asia, 20%
- Europe, 18%
- North America, 18%
- Australia, 13%
- South America, 10%

REVENUES BY COMMODITY\*, %



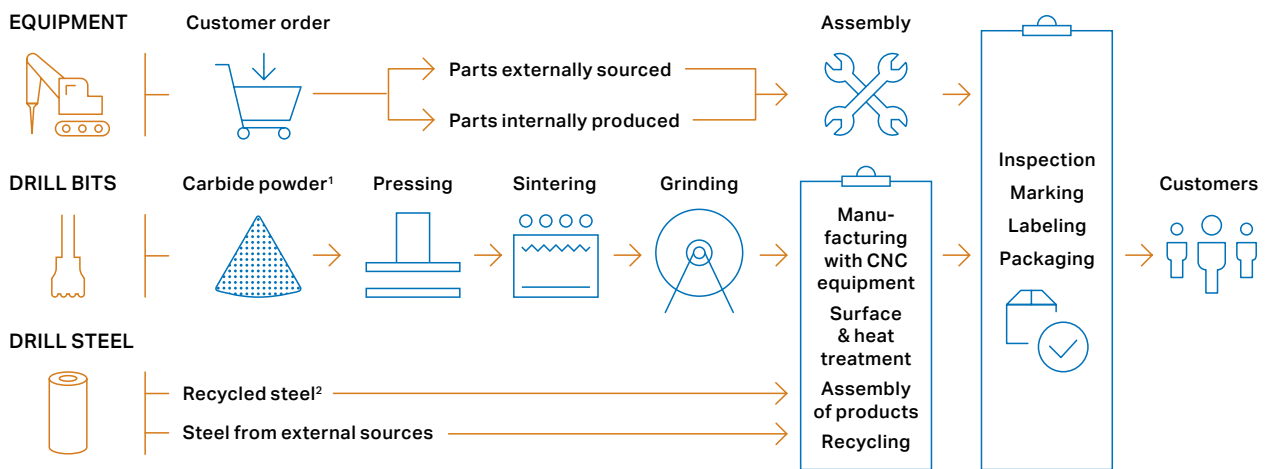
- Gold, 32%
- Copper, 24%
- Coal, 10%
- Iron Ore, 7%
- Platinum, 6%
- Other base metals, 11%
- Other, 10%

\* Only for mining-related revenues, i.e. 69% of total revenues.

	MINING	CONSTRUCTION	
EXTERNAL	<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 after-market business.	Sandvik is active in the niche 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 (green- and brownfield)</li> <li>- Productivity improvements and new technology</li> <li>- Demand in the areas of health, safety and environment</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>Estimated market value<sup>1</sup>, billion SEK</b>	<b>~265</b>	
	<b>Competitive landscape/ Major competitors</b>	Consolidated in certain segments i.e. underground hard-rock mining: Atlas Copco, Metso Minerals, Caterpillar, Komatsu/ Joy Global	Some global competitors present in several niches but many local players: Atlas Copco, Terex, Metso, Furukawa
INTERNAL	<b>Revenues, billion SEK</b>	<b>~31</b>	
	<b>Go-to-market model</b>	Direct sales ~95% with world-wide service network	Due to fragmented customer base 50% 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>Product portfolio</b>	Equipment for drilling, cutting, breaking, crushing, loading and hauling. Drilling consumables (rock tools), service, spare- and wear parts.	
	<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	
	<b>Material sustainability aspects for 2017-2018</b>	Based on the sustainable business strategy (page 8), Sandvik Mining and Rock Technology will focus on: <b>Our offerings:</b> Innovation and productivity; Health and safety; Environmental impact <b>Our operations:</b> Governance; Compliance; Customer relations; Sustainable supplier management; Efficient use of materials and resources; Reduction of emissions; Health and safety; Equal career opportunities.	

1) Addressable market.

**MANUFACTURING IS PRIMARILY ASSEMBLY BASED, WITH HIGHER VERTICAL INTEGRATION IN PARTS OF THE AFTERMARKET BUSINESS**



1) From Sandvik Machining Solutions. 2) From Sandvik Materials Technology.

**2016 IN SHORT  
MARKET DEVELOPMENT**

Mining customers have continued to extract a high level of volume output from existing mines, and we also saw an increase in the aggregated weighted price index for the basket of commodities we are exposed to. As the year progressed, customer demand improved for replacing equipment as well as for the aftermarket business. In addition, initial signs of improving customer activity in the exploration mining segment was noted. Construction related demand remained muted.

**KEY ACHIEVEMENTS**

During 2016 we successfully merged the previous business areas Sandvik Mining and Sandvik Construction, creating Sandvik Mining and Rock Technology. In doing so, also implementing a more decentralized business model, where the highest operating level lies with the established eight product areas. This will bring higher transparency, accountability and speed to the organization, for improved cost control and performance.

During the year we successfully completed important product launches offering sustainable productivity for customers. We expanded the electrical equipment offering to also include the first battery driven underground drill rig, as well as a battery driven underground loader. Both

products offering zero emissions, driving safety and reducing expensive ventilation requirements in the mine.

**GOING FORWARD  
NEAR-TERM FOCUS**

Growing the aftermarket business within Sandvik Mining and Rock Technology is a key focus area. This will improve profitability as well as reduce the volatility in earnings. We aim to leverage on the improved customer offering, e.g. new customer e-solutions, global roll-out of customer service centers and upgraded service and maintenance kits to capture parts potential. This will be combined with improved internal structure and processes and a higher understanding of our installed equipment base.

Continuous success in product launches responding to customers' focus on productivity, safety and sustainability.

**LONG-TERM FOCUS**

Our long-term focus is to remain a leading provider of cutting-edge technology to selected applications in mining and construction industries, by adding value to customers by making them safer, more productive and sustainable, not least through the offering of automizing the mines. Leverage on our leading technology within mechanical cutting to drive the entry of this technology from soft rock into hard rock, to make a game changer for the entire mining industry.

**RESEARCH AND DEVELOPMENT – NEW PRODUCT HIGHLIGHT**

Within the business area, the different product areas are responsible to drive their respective product development. Research and product development may be shared when technology and applications are common.

**100% ELECTRIC TRAMMING**

Sandvik DD422iE mining jumbo launched in 2016 uses electric energy from an onboard battery during tramming. It produces zero emissions while maneuvering between headings. This improves health and safety for miners working underground. Lower diesel consumption in the mine can ease ventilation requirements while also reducing associated diesel logistics and maintenance expenses.



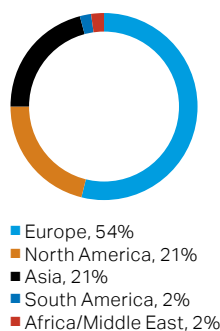
# SANDVIK MATERIALS TECHNOLOGY

Sandvik Materials Technology is a world-leading developer and manufacturer of advanced stainless steels, powder-based alloys and special alloys for the most demanding industries, as well as products for industrial heating. The focus is on making customers' processes safer and more efficient while reducing the environmental impact.

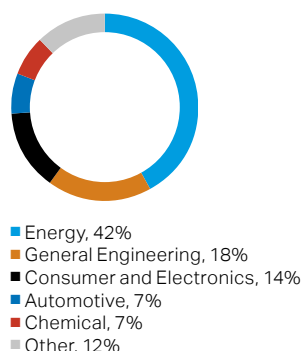
## 2016 IN FIGURES

**Revenues:** 12,931 million SEK (13,909) with -7% organic growth  
**Operating profit:** 1.115 million SEK (8)  
**Operating margin:** 8.6% (0.1)  
**Adjusted operating profit<sup>1</sup>:** 1,115 million SEK (818)  
**Adjusted operating margin<sup>1</sup>:** 8.6% (5.9)  
**President:** Petra Einarsson  
**Gender balance:** Men 81.9%, Women 18.1%  
**Lost time injury frequency rate (LTIFR):** 4.7  
**Share of recovered metallic raw material:** 78%

REVENUES BY MARKET AREA, %



REVENUES BY CUSTOMER SEGMENT, %

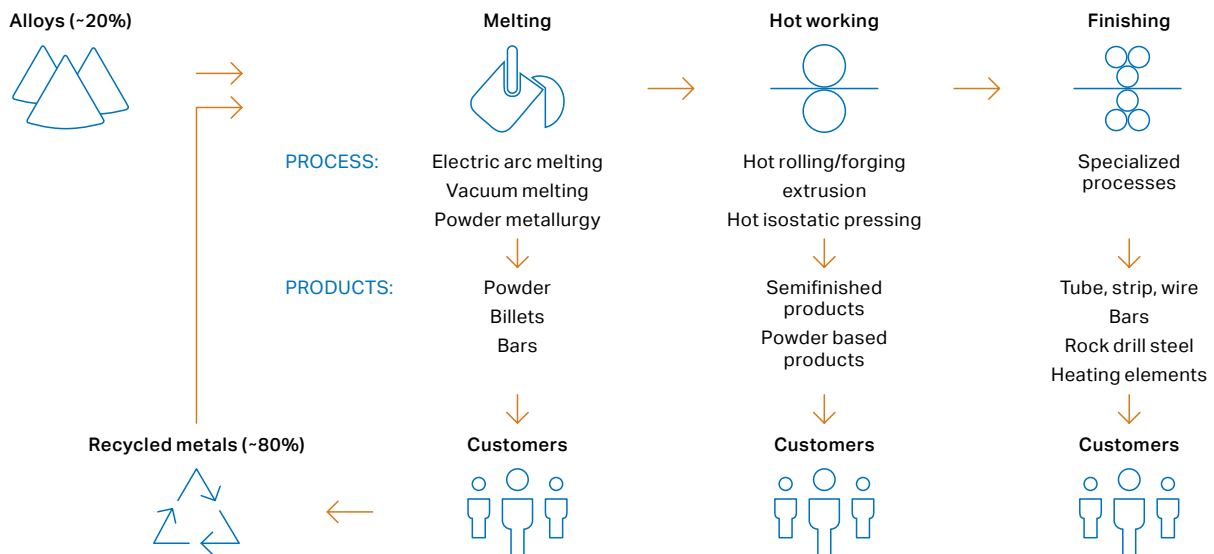


EXTERNAL	<b>Market characteristics</b>	Selected niches in demanding industries where material requirements, as well as product quality and reliability, are extremely high. High entry barriers.
	<b>Demand drivers</b>	<ul style="list-style-type: none"> <li>- Energy demand and oil and gas prices</li> <li>- 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>Estimated market value<sup>2</sup>, billion SEK</b>	<b>&gt; 130</b>
	<b>Competitive landscape/ Major competitors</b>	Nippon Steel & Sumitomo Metal (tube), Tubacex (tube), VoestAlpine (strip), Aperam (heating elements and systems), smaller niche players
	<b>Revenues, billion SEK</b>	<b>~13</b>
INTERNAL	<b>Go-to-market model</b>	Direct sales ~80%
	<b>Growth strategy</b>	Increased focus on products for energy-, energy efficiency and emission-reducing solutions. Continued material evolution through focused R&D efforts and green technologies such as powder metallurgy.
	<b>Product portfolio</b>	Tubular products, bars, billets, strip, wire, rock drill steel, heating systems (Kanthal) – as well as metal, powder to e.g. additive manufacturing as well as powder-based products
	<b>Strategic risk management</b>	Different risks with an impact on the advanced stainless steel- and special alloy-market in general, such as a recession in the oil and gas industry, increased market competition and alternative technologies
	<b>Material sustainability aspects for 2017-2018</b>	Based on the sustainable business strategy (page 8), Sandvik Materials Technology will focus on: <b>Our offerings:</b> Innovation and productivity in ensuring safer customer processes, as well as reduced environmental impact. <b>Our operations:</b> Ensuring a sustainable supplier management and reduced carbon dioxide emissions. Our production is based on recovered stainless steel. Health and safety is a top priority.

1) Adjusted operating profit, excluding metal price effects totalling +64 million SEK, amounted to 1,051 million SEK (1,158), with an underlying operating margin of 8,1% (8,3).

2) Addressable market.

HIGHLY INTEGRATED PRODUCTION FOR ADVANCED STAINLESS STEELS AND SPECIAL ALLOYS



2016 IN SHORT

MARKET DEVELOPMENT

During the year, the oil price increased somewhat compared to 2015, but remained on a low level from a historical perspective. Customers continued postponing placing orders for the oil and gas-related products. Competition increased for the more standardized tubular offering, as companies active in the tubular area sought to replace lost volumes in the oil and gas industry with volumes in adjacent segments. However, several larger orders from the oil and gas industry were received, supported by geo-political drivers. Customer activity within the nuclear segment increased during the year – and one major order was received from Asia. Demand for fine-powder technology products, to applications such as additive manufacturing, continued to develop positively – as well as the Kanthal products for industrial heating.

KEY ACHIEVEMENTS

Despite the negative organic growth during 2016, the operating margin was stable year-on-year, supported by an extensive mitigation program – including flexibility solutions to manage volatility, general strict cost control and the ongoing cost adjustment programs. To further strengthen the position in the oil and gas industry, a new state-of-the-art ultra-sonic testing line for OCTG-tubing (production

tubing) was inaugurated in Sandviken, Sweden – and a new control line facility was taken into operation in Rio de Janeiro, Brazil. The capacity for fine powder used for e.g. additive manufacturing, was expanded in Neath, Wales. 142 new or modified alloys were added to the materials program and 161 patents were granted for new materials, applications or production processes.

GOING FORWARD

NEAR-TERM FOCUS

Near term, focus is on managing the negative effects from the downturn in oil and gas. The work to improve capital efficiency will also continue, as well as the implementation of a lean business model for the more standardized product program. Key

priorities also include a sustained strong focus on safety, continued materials evolution in close cooperation with key customers, and profitable growth in the energy segment as well as areas related to energy efficiency and reduced emissions, meeting the climate challenge.

LONG-TERM FOCUS

Sandvik Materials Technology's mission is to make customers' processes safer and more efficient while reducing the environmental impact. With its unique expertise in materials technology, the business area can contribute in solving some of the world's greatest challenges, especially the energy- and climate challenges, and can also enable important technology shifts in these areas.

RESEARCH AND DEVELOPMENT – NEW PRODUCT HIGHLIGHT

Within the business area, product and process development is the responsibility of the product areas. Strategic and more long-term research platforms – with focus on applications related to energy, energy efficiency and reduced emissions – is run by a common and dedicated strategic research organization, with strong links to the business.

MAJOR ENERGY SAVINGS WITH FIBROTHAL® GSO

Fibrothal® GSO heating modules offer energy savings and increased customer flexibility in industrial furnaces. The compact design enables use in tougher conditions, with great adaptability in power-voltage and design, offering unique customer benefits within the automotive and power industries.



# OTHER OPERATIONS

Sandvik Process Systems and Sandvik Hyperion was during 2016 identified as non-strategic operations and are placed outside the business area structure in "Other Operations". Sandvik's intention is to exit these businesses.

## 2016 IN FIGURES

**Revenues:** 4,655 million SEK (4,976) with -8% organic growth  
**Operating profit:** 545 million SEK (489)  
**Operating margin:** 11.7% (9.8)  
**Adjusted operating profit:** 545 million SEK (529)  
**Adjusted operating margin:** 11.7% (10.6)  
**Gender balance:** Men 82.1% Women: 17.9%  
**Lost time injury frequency rate (LTIFR):** 2.0



Sandvik Process Systems



Sandvik Hyperion

### MARKET DEVELOPMENT

#### SANDVIK PROCESS SYSTEMS

Sandvik Process Systems provides advanced industrial process solutions using steel belts, steel belt-based equipment and equipment based on adjacent technology. The value proposition focuses on working closely with the customers and driving their productivity through premium products, superior quality, world-leading technical support and a global sales and service network.

The challenging market environment carried over into 2016 with customers holding back investments mainly as an indirect result of the weak oil and gas market. However, the order intake improved primarily due to positive development of the aftermarket business including replacement belts, service and spare parts as well as the realization of certain medium project orders. Customer activity was relatively higher in the construction, electronics, wood-based panels and food segments. A subdued market was noted especially in the sulphur segment, but also the chemical segment was overall challenging although with some increased activity during the second half of the year.

#### SANDVIK HYPERION

Sandvik Hyperion is a global, full-line provider of innovative cemented carbide, diamond and cubic boron nitride solutions. The offering enables customers to improve business performance with effective and wear-resistant tools, applications and components in hard and super-hard materials.

2016 started out as a challenging year with decreases of both order intake and revenue, hampered by the generally lacklustre development in industrial production. However, customer activity increased during the second half of the year, including energy.

### KEY ACHIEVEMENTS

#### SANDVIK PROCESS SYSTEMS

To manage the challenging market, systematic work has been carried out to drive out cost and significantly reduce the break-even level, especially for equipment. This includes reduced manning, consolidation of supply chain, divestment of non-core product lines, design for low cost, more aggressive purchasing, and start of global sourcing mainly in China and India.

2016 was a strong year for important product launches into key segments such as sulphur, chemicals, construction and food. During the year, a successful market launch of the China mid-market product brand Econoline™ was made. The aftermarket business continued to develop favorably due to the reorganized and dedicated aftermarket organization implemented during the year.

#### SANDVIK HYPERION

In a weak market environment, actions to consolidate the supply chain were taken within the scope of the optimization program with the closure of one unit. Streamlining of production has been completed making it a more efficient business going forward. The product offering has also been streamlined and strong impact from the cost-out programs resulted in improved overall business performance.

# BUILDING A HIGH-PERFORMING ORGANIZATION

We are a multifaceted company that recognizes and benefits from diversity both in our business and our employees. We strive to realize the full potential of our employees and equip them to take ownership for their career development. This, in turn, enables them to contribute with experience and expertise to deliver results and attain business success.



# OUR PEOPLE

## HEALTH AND SAFETY

Everyone at Sandvik should have the best possible opportunity to perform their work in a safe and secure manner. We have a vision of Zero Harm; zero harm to our people, our customers, our suppliers and the environment we work in. Although all parts of our business have different challenges and market conditions, they share the same systematic and structured approach to our long-term pursuit of zero accidents and minimal environmental impact. We have common Environment, Health and Safety (EHS) management systems in place to help us achieve our vision.

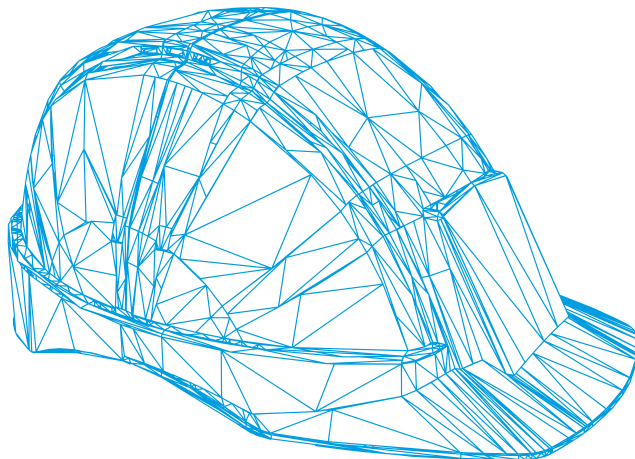
Sandvik aims to have a first-class EHS culture where all employees have the mindset and awareness that workplace safety is fundamental and that accidents can never be accepted. Safety can, however, never be taken for granted which is why we promote continuous dialogs and sharing of best practices across the business to constantly push the development further.

We believe that the best decisions on how to meet the requirements are made close to the business. All occupational health and safety activities are based on Sandvik's EHS Policy. During 2016, we adopted new 2016-2020 objectives for the company that the business areas assume responsibility for applying and breaking down to specific plans for their operations.

We have also developed new targets in order to reduce the number of work-related injuries and illnesses. All our business units work according to their own safety plans. These plans are more comprehensive and entail a stricter approval process for production-related units, but there should also be general safety plans in place for other business units. To ensure the desired results, we have adopted numerical year on year targets regarding accident frequency for the Group, business areas and individual business units.

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"We have a vision of Zero Harm; zero harm to our people, our customers, our suppliers and the environment we work in."



## GOOD OPERATIONAL UNDERSTANDING

Environment, health and safety (EHS) issues are fully integrated into all Sandvik's operations. We speak with Charlotte Ulfvin, the Production Unit Manager for Oil & Gas at Sandvik Materials Technology in Sandviken, about EHS.

### Please tell us about yourself

I have spent almost my entire career at Sandvik since writing my university thesis in 1994 – within research, support functions and production. The unit I now work at mainly produces downhole tubing which is used for transporting oil or gas from underground wells to the surface, and employs around 150 people in Sandviken. As a Production Unit Manager, I am responsible for production, quality, logistics, technical support and EHS.

### What does EHS mean to you?

To me, EHS is about the entire work environment. It is important that we enjoy our work and that we feel we work for an organization that we can be proud of. I would like all our employees to have a good understanding of their role and how they contribute to a successful outcome for the whole unit and that it comes naturally to all of us working here to promote a safety first culture.

### How do you work with EHS?

Improving EHS is a continuous effort that involves both the "hard" aspects with machines and processes, as well as the more "soft" human side that includes mindset and cultural aspects. Personally, I strongly believe in an approach that is based on involvement and a good understanding of our operations. For example, all our weekly management meetings begin with a safety audit of a particular production process together with managers and operators, which helps raise awareness and understanding of safety among the whole team. Examples of EHS-related improvements include not only actions to identify and remove risks, but also ongoing lighting and painting investments that improve health, wellbeing and safety, and finding ways to recover residue oil from production processes, which reduces environmental impacts.



**PERFORMANCE DURING 2016**

The target for 2016 was to achieve a Lost time injury frequency rate (LTIFR) of 1.7, at the most. At year-end we reported a LTIFR for the Group of 1.7, which means that we reached the target.

The rate of 1.7 is the lowest in Sandvik's history. Since this performance indicator was introduced at Sandvik some 10 years ago, we have managed to improve from nearly 1,000 Lost time injuries a year to less than 200. Our efforts to improve have paid off well and are explained by dedicated efforts from all parts of the company. It is evident that our system works but also that 'people care for people' and that our EHS culture is growing stronger by the day in our company.

**HEALTH AND WELL-BEING**

The target is that we have a locally applied health and well-being program at all our locations. When last surveyed, 90% of our sites had a program in place.

Sandvik's Health and well-being programs focus on local health issues and risks to help improve employee health.

**OCCUPATIONAL ILLNESS**

Sandvik measures occupational illnesses to determine the cause and develop prevention techniques to reduce occupational illnesses. Currently the leading cause of occupational illnesses result from ergonomically related issues.

**REDUCING EMPLOYEE EXPOSURE TO HAZARDOUS MATERIALS**

Sandvik is working to replace hazardous materials with less hazardous options and investing in new equipment and processes to reduce employee exposure to hazardous materials.

**A DIVERSE AND INCLUSIVE COMPANY**

Having a diverse mix of people, one that reflects our markets to as great an extent as possible, is a competitive advantage. It enriches our customer relationships and supports our development as a company. During 2016 we saw an increasing understanding of how to create and work with diverse teams, focusing not only on aspects such as gender and nationality, but also on cognitive diversity.

**ATTAIN THE RIGHT PEOPLE**

Our people are a vital asset to the company. We work to attract the best talent and once in the company we want to make sure they have the opportunity to grow and develop, equipping them to take ownership of their development and career.

**ATTRACTING TALENT**

We direct recruitment efforts to places where we can find potential employees, which has enhanced our focus on digital recruitment. In 2016, our LinkedIn network increased with 49.2%. The network now comprises around 151,000 people (year-end



**CREATING VALUE FROM DIVERSITY**

Within Sandvik, we believe that promoting diversity and inclusion brings value to our businesses around the world. We speak with Nuhu Salifu, Sales Area Manager at Sandvik Mining and Rock Technology West Africa, about diversity and inclusion.

**Please tell us about yourself**

I have worked for Sandvik for almost 10 years, after working with operations and HR for one of Sandvik's customers in West Africa. I am Ghanaian and was the first local West African Sales Area Manager at Sandvik Mining West Africa. My team includes a mix of Ghanaians and expats and is responsible for sales, service and customer satisfaction.

**What does diversity and inclusion mean to you?**

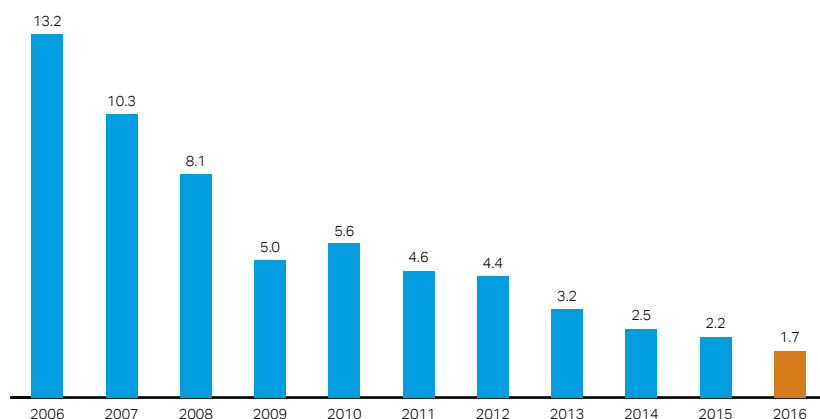
Probably due to my HR background, I consider diversity and inclusion in the broader sense of talent management – to look at the whole talent available to the company, and make sure the organization has the best people. I believe that drawing on different backgrounds, experiences and ideas ensures that a range of perspectives are considered in daily decision making.

**How do you work with diversity and inclusion?**

We have worked actively to develop a diverse team of people in terms of nationality, gender and background. I currently have five different nationalities in my team, which provides us with a broad base of knowledge and experience in our everyday activities.

Recruiting women for mining and engineering roles is a particular diversity challenge for us, due to traditional gender roles in West Africa. But in the past couple of years, we have worked more with schools to raise awareness of the engineering career prospects for girls. Providing trainings is a good way for us to recruit female engineers. I see such efforts as a work in progress to bring about change in the local status quo and allow our business to benefit from greater diversity and inclusion.

SANDVIK LOST TIME INJURY FREQUENCY RATE 2006-2016



## OUR PEOPLE

2016). 121 recruitments have been done directly through this platform; an increase of 12% from 2015. Utilizing digital channels has led to significant savings and enables us to attain specialist competence, for example in areas such as sales, IT and technology.

Our 18 month global graduate program attracts top talent in selected markets. During 2016, 11 graduates from China, India, South Africa, Sweden and US took part in the program, aiming to onboard participants and accelerate their introduction to our Sandvik world. The employment rate after the program is 100%.

### LEADERS ENABLE DEVELOPMENT

Competent leaders advance our business. They enable a strong performance culture, support the development of individuals and teams and realize change. Our leadership model is the foundation; it sets clear expectations on our managers' capabilities and behaviors, and guides development activities.

In 2016, 673 leaders participated in Sandvik's leadership programs designed to develop key capabilities.

To prepare future leaders, we also run a Next Generation Leadership Program.

### ENGAGING EMPLOYEES

Enabling our employees to realize their full potential and take ownership for their career development is of great importance to us. Individual performance dialogs and team dialogs set the foundation, followed by development activities such as on the job training, collaboration and formal learning.

To create internal mobility and utilize competence in the whole organization we strive for an open internal job market, where open positions are posted. In 2016, several senior positions were posted, creating traction to continue this positive development.

During 2016, we conducted an employee engagement survey which gave valuable input on how we can develop our organization and business. The survey is the starting point for a development process which entails team performance dialogs and development activities.



## DEVELOPING AND RETAINING TALENTS

At Sandvik, we work to develop and retain talented employees in order to ensure we have the skills and expertise we require. We speak with Sophie Egeby, Site Manager for the Sandvik Machining Solutions Powder & Blanks Technology Production Unit in Wuxi, China, about talent development and retention.

### Please tell us about yourself

Following internships with Sandvik while I was at university, I have worked for Sandvik since 2008 both in Sweden and China. I have been Site Manager for the production unit in Wuxi since July 2016, responsible for manufacturing processes to produce rod blanks, mining buttons, drawing dies and slurry.

### What does talent development and retention mean to you?

Talent development and retention for us is an essential way to keep talented and knowledgeable persons in the company. It also ensures we have a flexible workforce that is trained on multiple processes and machines. This is particularly important for our site with a diverse range of products and varying order volumes. Of course, it also saves us time and money spent training new people.

### How do you work with talent development and retention?

Our work with talent development and retention has decreased our annual employee turnover rate from 25% in 2011 to 4.6% as of October 2016. In general, we have worked on developing our people and making our site a great place to work by taking care of our employees through training programs, promoting an EHS culture, and organizing social activities outside work time.

Examples include a training program where we "train the trainer" to share knowledge and create opportunities for all employees to grow. We also use the 3E development methodology – Education, Exposure and Experience – which gives our employees opportunities to develop, even through overseas travel. Activities are followed up with a visit report shared with colleagues. This contributes to developing both employees and the unit.

LEADERS PARTICIPATED IN COMPANY LEADERSHIP PROGRAMS

673

SHARE OF WOMEN IN MANAGEMENT

16.5%

RETENTION OF NEW HIRES AFTER ONE YEAR

90%

SHARE OF WOMEN IN TOTAL WORKFORCE

19.4%

# OUR ENVIRONMENTAL FOOTPRINT

In order to achieve a significantly reduced environmental footprint we focus our efforts in areas where we can deliver the most eco efficient improvements and business advantages, for us and our customers.

## EHS GOVERNANCE

Sandvik has an Environment, Health and Safety (EHS) policy that applies to the entire Group. This policy is supported by a number of internal environmental standards for our operations. Environmental objectives and targets are set at Group level, and all business areas integrate these aspects and standards in their businesses. Environmental KPIs are reported and consolidated to follow up objectives and targets at Group and business area levels. Major sites with production, services and warehouses also have certified management systems according to ISO 14001. 25 energy-intensive sites are also certified according to ISO 50001. 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.

Our environmental impact can be divided in two parts: direct impact from our production and transportation, and indirect impact which occurs in the supply chain, customer use and the phasing-out or recycling of our products. It is therefore important to take the entire value chain into account in our efforts to change our environmental footprint. This entails our products and customer solutions, our solutions within the area of transportation as well as supply of resources and purely internal operations.

Sandvik has approximately 120 production, distribution and service related units worldwide that hold various types of environmental permits. The most significant environmental footprint occurs at the energy intensive and recycled based production site in Sandviken, Sweden.

No significant environmental penalties or fines were imposed in 2016. Sandvik is responsible for some ground pollution from older activities. Appropriate actions have been taken in cooperation with authorities and in line with relevant legislation in these countries.

Our current environmental focus areas are all aligned to where we have found our operations to have a significant impact. This is why we have developed and started to implement a strategy for environment and climate change.

## ENERGY, EMISSIONS AND CLIMATE CHANGE

Global energy demands and environmental requirements drive development of new energy-efficient

solutions with low environmental impact. Energy consumption, climate change and emissions are therefore important aspects in relation to our supply of raw materials, production and transportation.

Since 2013 we purchase electricity in Europe in accordance with the European Guarantees of Origin scheme, with the aim of reducing carbon emissions from our electricity consumption. We improve energy efficiency; in 2016 a new energy procedure was introduced in Sandvik Materials Technology, requiring all units with more than 25 employees in production to complete energy surveys and develop energy action plans, feeding into their continuous improvement and eco efficiency.

Sandvik Machining Solutions works with reduction of energy use and emissions of greenhouse gases within the frame of the Environment and climate change strategy, comprising four main areas; energy consumption, energy sources, production equipment and transportation. Within the area of energy consumption, the work started with energy surveys at production sites and distribution centers, followed by action plans and the performance of energy efficiency actions including reduction of emissions of greenhouse gases. Solar panels have been installed at some production sites and energy efficiency is one criterion when constructing production equipment. We also put efforts into reducing emissions of greenhouse gases from transportation of goods.

In addition to carbon dioxide (CO<sub>2</sub>) emissions, the Group's emissions to

## ENVIRONMENTAL FOOTPRINT

the atmosphere comprise acidifying substances, particulate matter and organic substances. These emissions mainly originate from our production processes, combustion of fossil fuel and purchase of heating, transportation and electricity. Direct emissions of acidifying substances include sulphur dioxide (SO<sub>2</sub>) and nitrogen oxides (NO<sub>x</sub>). The Group's emissions of SO<sub>2</sub> mainly originate from the combustion of oils and coal, and are estimated to have amounted to 35 tonnes (33) in 2016. Emissions of NO<sub>x</sub> are mainly derived from the smelting processes in Sandviken, Hallstahammar and Svedala in Sweden, from combustion processes and, to a lesser degree, from plants for pickling and cleaning of metal surfaces. Action has been taken at Sandviken to reduce both NO<sub>x</sub> and CO<sub>2</sub> by switching furnaces from oil or other fuels to Liquid Natural Gas, significantly reducing the NO<sub>x</sub> and reducing CO<sub>2</sub> by up to 30%. NO<sub>x</sub> emissions decreased during the year and amounted to 328 tonnes (330). This was attributable to a slight reduction in the use of fossil fuels.

### USE, REUSE AND RECYCLING OF MATERIALS AND NATURAL RESOURCES

By prioritizing the use of recycled material as far as possible in our production processes, such as recovered metal resources and repurchased used tools, and by developing a valuable use for the by-products from our operations, we contribute to a more circular society.

The production of stainless steel and special alloys is mainly based on recovered steel materials. In total for the Group, 78% of the metallic raw material derives from recovered material.

Sandvik Materials Technology is the main consumer of raw materials in the Group. The most important raw materials to the business are iron and various alloys or recovered metals containing nickel, chromium, manganese and molybdenum. Key metallic raw materials for Sandvik Machining Solutions are tungsten, tungsten carbide and cobalt. Sandvik Mining and Rock Technology uses iron and manganese raw material in the manufacturing of castings.



Manufacturing of steel at Sandvik Materials Technology's plant in Sandviken, Sweden.

In our operations we recover metallic resources internally. For example, all metallic off cuts are sent from operations in the USA back to Sweden for recycling within the steel making process. This improves the recovery of materials and reduces waste.

### USE OF WATER

We continuously seek new ways to reduce consumption of freshwater and groundwater. We do this by developing more efficient processes or finding ways for reuse of water through recirculation, whenever possible. Economizing freshwater consumption is particularly important in water-stressed regions. As an example of water saving, Sandvik is a partner in the EU Inspirewater project, which began in 2016 and aims to reduce the water and energy consumption in the process industry. In Sonora, California, USA, actions to minimize water consumption have been taken within production and the facility.

### EMISSIONS TO WATER

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

### WASTE MANAGEMENT

Sandvik's operations give rise to various types of waste. More than 80% of all waste is generated at Sandvik Materials Technology's facilities in Sandviken, Sweden, and by Wolfram Bergbau und Hütten in Austria, part of Sandvik Machining Solutions. Metaliferous waste and other by-products are reused or recycled to the greatest extent possible. However, certain waste products, such as slag from stainless steel production as well as casting and tailings from tungsten enrichment, are still disposed of pending the further development of these types of waste into usable by-products. The slag from the steel mill is hard to treat due to the diversity and complexity of the production process. Sandvik Materials Technology is conducting a research project aimed at identifying and recording slag types that are suitable for different applications. The total amount of waste declined by 11% (-4). Of the total waste, 9% (9) was classified as hazardous. This type of waste is subject to strict legislation and is treated and disposed of in a safe manner. Generation of hazardous waste decreased by 9% in comparison to 2015.

# GOVERNANCE AND PARTNERS

Well developed governance and the aspirations, principles, rules and processes that support in defining our ways of working are all part of the efforts to further develop our culture of doing things right.

## THE SANDVIK WAY

The aspirations, principles, rules and processes that define our way of working is Sandvik's governance framework, The Sandvik Way. It is based on four layers; Oversight and Directional, Culture and Enabling Structure, Operational System and Business Areas Governance. Read more about our corporate governance on page 62.

## CODE OF CONDUCT

Our recently revised Code of Conduct was launched in March 2015, together with a mandatory training program comprising all employees and long term contractors, as well as a new process and system for whistleblowing, called Speak Up.

This training initiative ran from mid-2015 to April 2016. At the end of the training 91% of all employees had been trained and records of training are stored in our HR system. The Code of Conduct training is mandatory for all new hires as part of the introduction to Sandvik.

## SPEAK UP

A key aspect of ensuring adherence to our Code of Conduct is the global reporting tool, Speak Up. In 2016, 265 reports were recorded in Speak Up, of which 109 cases were substantiated through investigation. 59% of reports concerned business ethics, 17% concerned Human Resource matters, 3% concerned Environment, Health and Safety matters while 21% were inquiries or related to other matters.

All Speak Up reports are screened by the Group Ethics Office and

assigned to the business area or Group Counsel for investigation, with support from the Business Integrity unit specialized in internal investigations and appropriate remediation. Reports, investigations and remediation are recorded, monitored and included in reporting to the Group Audit Committee.

## COMPLIANCE

Sandvik is bound by international regulations and standards and by the laws of the countries in which it operates. To mitigate the major compliance risks inherent in the way Sandvik operates and to ensure satisfaction of the requirements of law and stakeholder expectation, Sandvik implements specific compliance programs in the areas of anti-bribery and corruption, competition law, trade compliance (customs, sanctions and export controls), and data privacy.

**Each of the compliance programs is structured around six elements:**

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

The programs are implemented by each business area and overseen by the Sandvik Compliance Functional Council which sets requirements, reviews performance and provides assurance of satisfaction to the main

board through the Audit Committee. The Functional Council comprises Compliance Officers from the business areas and specialist legal counsel at Group.

In 2016, the anti-bribery and corruption program primarily focused on the screening of commercial intermediaries and related due diligence. The trade compliance program focused on restarting trade with Iran following the lifting of sanctions. Competition law compliance worked closely with business leaders through the provision of expert training and advisory work. The data privacy program ran group-wide workshops and began the preparatory work to comply with the EU General Data Protection Regulation which comes into effect in 2018.

## SUSTAINABLE SUPPLIER MANAGEMENT

It is important for us to partner with suppliers who understand and embrace our sustainability standards. Our requirements are the same for all types of suppliers – from the small local manufacturing units, to the multinational raw material and components suppliers or the high-tech operation companies.

We have a global team of sustainability experts who develop and support the implementation of Sandvik's sustainable supplier management concept. The team is based in high-risk areas in Asia, Latin America and EMEA, assisting both the local purchasing organization and suppliers.

**SUPPLIER SUSTAINABILITY PROGRAM**

Sandvik's Supplier Sustainability Program focuses on three areas:

**Creating supplier commitment**

This is done by requiring suppliers to accept Sandvik's Supplier Code of Conduct.

**Building capacity**

In 2016, capacity-building activities were continued in order to increase awareness, engagement and trust in our business partnerships and across our organization.

We continued the roll out of our internal capacity-building program based on Sandvik's Sustainable Purchasing Policy, related processes and the Supplier Code of Conduct. During 2016, 168 purchasers and related functions participated in the program. Additionally, comprehensive training on conflict minerals was provided to 220 employees.

**Monitoring of high-risk suppliers through audits**

During the year, we conducted 175 audits, out of which 174 were on-site audits, (China 66, India 60, Brazil 24, Mexico 9, Peru 7, Argentina 2, USA 2, Taiwan 1, Thailand 1, Europe 1, South Africa 1). All first time audits and re-audits were conducted against the Supplier Code of Conduct. Most deviations relate to health and safety, compensation and benefits and environment.

During 2016, we did not identify any case of child labor. Regarding young workers (15–18 years), we identified issues related to incomplete employee files, recruitment policies and procedures. The deviations concerning forced labor relate to financial penalties imposed on employees at our suppliers in China, except for two cases. These two cases relate to non-competition clauses included in employment contracts, where one of the cases has been closed in 2016 and the second one is ongoing. 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 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 are managed according to established processes and procedures which include corrective action plans. Please read more at [home.sandvik](http://home.sandvik).

During 2016, we carried out a reasonable country of origin enquiry based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas in order to identify smelters/refiners associated with our supply chain. All supplier audits verified the level of compliance with the conflict minerals section of Sandvik Supplier Code of Conduct.

A large part of the tungsten supply across the organization comes from Sandvik subsidiary Wolfram Bergbau und Hütten (WBH), a conflict-free

smelter that has been maintaining its compliant smelter status ever since the company successfully completed the Conflict Free Smelter Program audit protocol in March 2015.

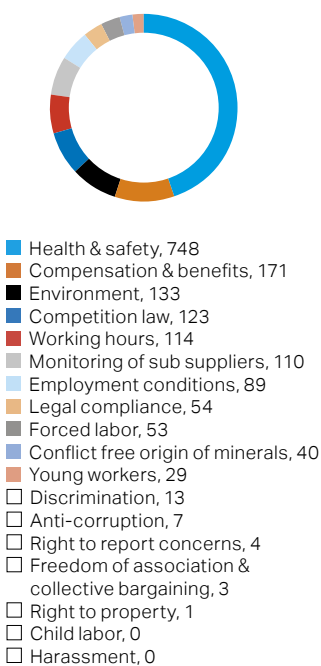
**TAX**

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 but 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 OECDs tax reform work (BEPS project) and the EU initiatives on Tax transparency carefully and prepares to adopt these standards when enacted.

Sandvik strives to have good relations with our stakeholders, such as tax authorities, non-governmental organizations and investors. We have 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 2016, the Group paid 1,650 million SEK (1,939) 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 on behalf of governments and authorities, including indirect taxes and payroll taxes.

DEVIATIONS IDENTIFIED AMONG SUPPLIERS 2016



**SPONSORSHIP AND COMMUNITY INVOLVEMENT**

To us, sponsorship and community involvement implies a dual investment for both the company and the community. It enhances the reputation of the company and loyalty among employees and in the communities. For example, we can see a direct link between vocational training programs and potential future employees, particularly in countries where there is a lack of technical expertise.

For the community, this increases the level of education and thus development opportunities, such as the means to combat poverty and raise education levels. By being directly involved in the community, we can also create close relationships with important local stakeholders.

**Management and evaluation**

During 2016, we adopted our sponsorship and community involvement strategy. It supports us in being proactive in our community contacts, identifying the most suitable projects in which to become involved. Community involvement projects should

be viewed as investments, with contracts, clear target groups and objectives, and measurable results. Our focus areas are innovation, education and skills, health and safety and local enabler.

**Selected partnerships**

Our projects are conducted as partnerships between us and a local organization, created to deliver mutual effect for all parties. Projects are often carried out at local level as we believe it is important to have a solid local understanding of the needs in the different communities. All partners with whom we engage in community involvement should be perceived as suppliers to Sandvik. Our Supplier Code of Conduct, which includes anti-corruption principles, shall form part of all agreements.

We will not engage in activities that conflict in any way with our Code of Conduct, political or religious organizations, activities that do not make a clear contribution to our business goals, or projects that may be viewed as hazardous to health or the environment.

**OUR PLATFORM FOR PROJECTS IN SPONSORSHIP AND COMMUNITY INVOLVEMENT**

**INNOVATION**

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

**EDUCATION AND SKILLS**

Projects that demonstrate our role as an employer and provide long term Employer Branding value

**HEALTH AND SAFETY**

Through the projects, we show our global social commitment

**LOCAL ENABLER**

Create a sense of unity between our employees and our local stakeholders

**EXAMPLES OF SPONSORSHIP AND COMMUNITY INVOLVEMENT PROJECTS**



Health project: Since 2005 Sandvik has been working with programs to combat HIV/AIDS and other diseases among our workers, their families and customers in the southern region of Africa. The project is called SHWAP and our Head of Sustainable Business is a member of the Board of Directors for the project. To commemorate World AIDS Day 2016, Sandvik Mining and Construction Zimbabwe (Pty) Ltd. raised awareness on HIV prevention and general health, and provided wellness and HIV testing at their offices for employees and neighbouring companies. Over 300 people were reached with HIV awareness messages and 243 learnt their HIV status.



Save Vasa is one example of an ongoing research project whereby Sandvik joined forces with the Vasa museum in Stockholm, Sweden, to preserve the old wooden warship for future generations. Business area Sandvik Materials Technology is providing 5,500 new bolts in duplex stainless steel and gets the opportunity to evaluate the material in this unique environment. The bolts will make the Vasa-ship 10 ton lighter.



Sandvik Fellows: The project is to establish a model for transforming schools into high-performing schools where every child is learning well. This includes five schools near Sandvik plants across four selected states in India. One person, a Sandvik Fellow, has been stationed at each school to help bring about the transformation in supportive infrastructure, gender equality, good learning, safety and innovation and technology.

# OUR SHARE

Our growth prospects are based on our ability to continuously provide superior customer productivity enhancements as part of our offering of products and services. We can do so by leveraging our core capabilities in materials knowledge and industrial applications, enabling customer solutions and ability to industrialize advanced products. During 2016, the share price increased by 52%, while the OMXS 30-index on Nasdaq Stockholm increased by 5%.

Sandvik's share is listed on Nasdaq Stockholm, Sweden. At year-end 2016, the share was quoted at 113 SEK, corresponding to a market capitalization of 141 billion SEK, placing Sandvik as the 15th (14) largest company on Nasdaq Stockholm.

## SHARE TRADING

In 2016, a total of 1,300 million shares (1,645) were traded for a total value of 113 billion SEK (143). Trading in Sandvik shares on the Nasdaq Stockholm accounted for 55% (63) of the total volume of shares traded. Other markets, e.g. BATS Chi-X, Turquoise etc. accounted for 45% (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 2016, the average daily ADR trading volume was 27,768 (25,497). At the end of 2016 there were 4,769,608 ADRs outstanding (1,858,336).

## DIVIDEND AND TOTAL SHAREHOLDER RETURN

Our yearly target is that the dividend will amount to 50% of reported earnings per share. The Board has proposed a dividend of 2.75 SEK (2.50) per share to the 2017 Annual General Meeting, corresponding to approximately 3.4 billion SEK (3.1) and a dividend yield of 2.4% based on the share price at year-end. Assuming the approval of the proposed dividend for 2016 of 2.75 SEK, Sandvik's dividend over the past five years

has averaged 3.2 SEK annually, and a total of 73% of reported earnings per share for Group total has been distributed.

## SHARE CAPITAL

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

## OWNERS

In 2016, the number of shareholders decreased to 109,072 (117,583). There are shareholders in 88 countries, and the total ownership outside of Sweden amounted to 33% (30) at year-end. The ten largest individual shareholders accounted for 32% of the share capital at the same date. At 31 December 2016, members of Sandvik's Group Executive Management owned a total of 190,042 shares in Sandvik. Members of the Board of Sandvik owned a total of 381,915 shares in Sandvik (including deputy board members, excluding the CEO). Total ownership of Group Executive Management and the Board corresponds to about 0.05% of the capital and voting rights.

## DOW JONES SUSTAINABILITY INDEX AND FTSE4GOOD INDEX SERIES

Sandvik has been included in the Dow Jones Sustainability Index (DJSI) for 2016, meaning that Sandvik is regarded as among the top 10% most sustainable companies in its industry.

Sandvik was also included in the FTSE4Good Index Series for the thirteenth consecutive year. It is an international index for global companies that assume their responsible business practices. Sandvik's inclusion in these indexes confirms the Group's achievements in relation to economic, environmental and social responsibility issues.

MEMBER OF  
**Dow Jones**  
**Sustainability Indices**  
In Collaboration with RobecoSAM



FTSE4Good



WE SUPPORT



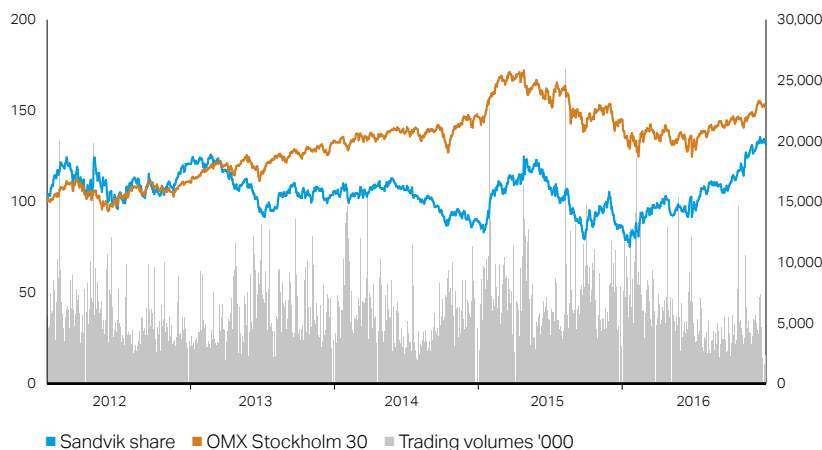
EXCELLENCE Beyond

PROPOSED DIVIDEND, SEK

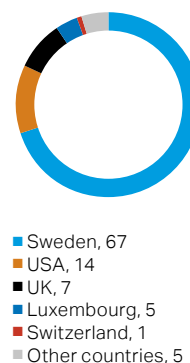
# 2.75



THE SANDVIK SHARE, FIVE-YEAR TREND



DISTRIBUTION OF SHAREHOLDING BY COUNTRY, 31 DECEMBER, %

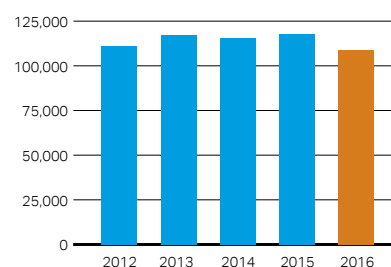


KEY FIGURES

	2015	2016
Number of shares at year-end (millions)	1,254	1,254
Market capitalization at year-end (SEK billion)	92.9	141.4
Number of shareholders	117,583	109,072
Share price at year-end, SEK	74.1	112.7
Earnings per share, SEK	1.79	4.39
P/E ratio at year-end	41.4	25.7
Change in share price during the year, %	-3	52.2
Regular dividend, SEK/share	2.50	2.75*
Dividend as a percentage of earnings per share	140	63
Total dividend yield (price increase + dividend), %	0.6	54.6
Proportion of shares in Sweden, %	70	67
Proportion of shares owned by the ten largest shareholder groups, %	35	32

\* Proposed dividend.

NUMBER OF SHAREHOLDERS, 31 DECEMBER 2012 - 2016



THE TEN LARGEST SHAREHOLDER GROUPS, AT 31 DECEMBER, %

	2015	2016
AB Industrivärden	11.8	11.8
Alecta Pension Insurance	5.9	5.9
Handelsbanken Pension	3.8	3.2
Swedbank Robur Funds	3.4	2.8
AMF Insurance and Funds	3.5	2.8
L E Lundbergföretagen AB	2.4	2.4
Nordea Investment Funds	2.1	2.2
Göranssonska Stiftelserna	1.7	1.7
SEB Investment Management	0.8	1.6
Pensionskassan SHB Försäkringsförening	1.5	1.5

Source: Euroclear

# INVESTMENT CASE

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

Improved performance will be derived through maintained market and technology leadership supporting continuous product launches, combined with a more decentralized and cost efficient business model for higher transparency, accountability and speed as well as business portfolio review. Up until 2018 Sandvik targets EBIT CAGR of 7%, ROCE improvement by 3 %-points, strengthened balance sheet whilst maintaining a generous dividend.



## GENERATING GROWTH

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



## COST EFFICIENCY

- In the decentralized set-up the product areas are the highest operating level with full accountability on performance
- Decisions taken closer to customers making Sandvik more agile to changes in customer requirements
- Leaner overhead structure
- Productivity improvements by 3% annually
- High cost awareness, with focus on SG&A
- Completion of the ongoing supply chain optimization program by end of 2017



## PORTFOLIO OPTIMIZATION

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



## CAPITAL EFFICIENCY AND CASH FLOW GENERATION

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

## DIALOG WITH ANALYSTS

Approximately 25 analysts cover Sandvik on a continuous basis. At year-end 2016, the breakdown of recommendations relating to the Sandvik share was as follows: 25% buy/increase, 36% retain/neutral and 39% sell/decrease according to Factset. Here are some of the most frequent questions discussed in 2016 and our answers:

**Q: Can you elaborate on the major drivers behind the targeted 7% EBIT CAGR until end of 2018?**

**A:** The target is based on a flat organic growth development for the Group, hence the majority of the improvement by the year-end 2018 is self-help. The lion share of the improvement will be derived from A) Sandvik Machining Solutions through product launches securing a leading position but also trimming of the sales and administrative functions, as well as B) Sandvik Mining and Rock Technology by capturing more aftermarket per installed base, further consolidation of footprint as well as cost efficiency benefits from a decentralized structure and merger of Sandvik Mining and Sandvik Construction business areas.

**Q: What are the financial benefits from Sandvik implementing a more decentralized business model, and when can we expect to see them?**

**A:** We strongly believe that the decentralized set-up encourages entrepreneurial drive and a leadership style best suited to improve performance of Sandvik. We now have 30+ management teams with full accountability for the different businesses in Sandvik. Decisions are made closer to the customers making us more agile and faster to respond to customer requirements.

**Q: How will you generate growth long-term?**

**A:** Product development is the key to be the relative winner with customers. Being a technology leader and enhancing our customers' productivity is the key to our success. Additionally, we see significant opportunities to grow the aftermarket business with a higher penetration of the installed base in Sandvik Mining and Rock Technology. We are also continuously evaluating acquisition opportunities.

**Q: Has mining demand troughed?**

**A:** It is hard to say as it is volatile between quarters, but in 2016 we saw improving customer activity during the second half of the year with strong order intake. This included both replacement equipment as well as the aftermarket business. We also saw some initial signs of higher customer activity in the segment for mining exploration equipment.

**Q: How can you grow the mining aftermarket business?**

**A:** Close relations with the customers are essential and improved internal processes and offering will help us provide an improved and more timely service. We have a complete mapping of the installed base in the mining segment, enabling a more proactive sales approach. We retro-fit remote monitoring on the installed equipment base and systematically monitor the usage. Next step is to apply the same approach to the infrastructure related side of the business.

**Q: What is core business to Sandvik? Will there be more divestments?**

**A:** There are two dimensions: 1) external factors such as market growth, competitive landscape and segment profitability and 2) internal dimensions such as scale, our market share, operational capabilities, cost position etc. Assets that are graded low in one or both dimensions are evaluated and if we cannot in a timely manner improve our position we will exit the business. The evaluation is a continuous process.

**Q: What is your M&A strategy near-term?**

**A:** Our strategy is based on stability, profitability and growth, in that order. Each business in Sandvik must have achieved both stability and profitability in order to go for acquired growth. There is no Group wide approach towards acquisitions in terms of segment or geographies, hence it is the different operations that will look for and suggest suitable targets.

**Q: How have you strengthened the business perspective in the sustainability work?**

**A:** We have launched a revised sustainable business strategy with increased focus on our offerings. By doing this, we better meet the customers' demands for sustainable solutions, giving us a competitive advantage. The strategy also shows the responsibility we have for our own operations, which is a precondition for us to deliver sustainable offerings.

# REPORT OF THE DIRECTORS

## SUMMARY, GROUP TOTAL

In 2016, demand for Sandvik's products remained overall stable. The market situation improved as the year progressed, particularly in the mining industry. The energy segment declined in total, however stabilized towards the end of the year. The automotive and general engineering segments were stable during the year. Consequently, Sandvik's order intake and revenue declined by 1% (-8) and 6% (-6), respectively at fixed rates for comparable units.

### FINANCIAL TARGETS<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 are set for 2016-2018. In 2016, growth was 3% and return on capital employed improved 1 percentage point. At the end of 2016, the net debt to equity ratio was 0.73. The proposed dividend for 2016 corresponds to a payout ratio of 63% of reported earnings per share.

### EARNINGS AND RETURNS

Sandvik's order intake amounted to 84,233 million SEK in 2016 (86,378), and revenue totaled 84,430 million SEK (90,822). The operating profit was 9,657 million SEK (6,062), corresponding to 11% (7) of revenue. Movements in metal prices for Sandvik Materials Technology made a positive contribution to operating profit of 64 million SEK (-338). Changes in foreign exchange rates since the beginning of the year affected earnings negatively by about 300 million SEK (1,950) compared with the preceding year.

Net financial items amounted to -1,661 million SEK (-2,003). Results after financial income and expenses

for the Group was 7,996 million SEK (4,059), and 9,366 million SEK (5,308) for continuing operations. Income tax had a total impact of -2,528 million SEK (-1,865) on earnings, corresponding to 32% (46) of profit before taxes. Profit for the year attributable to equity holders of the Parent Company was 5,508 million SEK (2,247). Earnings per share for the Group amounted to 4.39 SEK (1.79) and 5.48 SEK (2.79) for continuing operations. Return on capital employed was 13% (8) and return on equity was 15% (6).

### FINANCIAL POSITION

Cash flow from operating activities increased to 12,032 million SEK (11,952). Net cash flow after investing activities was 8,601 million SEK (8,042). At the end of the year, cash and cash equivalents amounted to 8,818 million SEK (6,376).

Interest-bearing liabilities less cash and cash equivalents, yielded a net debt of 28,579 million SEK (34,090). Sandvik's credit facility of 9,000 mil-

lion SEK was unutilized at year-end. Under the Swedish bond program totaling 15,000 million SEK, bonds corresponding to a nominal amount of 8,011 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 740 million USD.

The remaining maturity of bonds averaged 3.2 years for Swedish bonds, 9.5 years for European bonds and 3 years for US bonds. At year-end, the international credit-rating agency Standard & Poor's had a rating of BBB for Sandvik's long-term borrowings, and A-2 for short-term borrowings.

### WORKING CAPITAL

Relative net working capital for the year was 26% (27) of revenue, a year-on-year improvement of one percentage point. The volume of net working

Financial targets <sup>1)</sup> and target fulfillment	Target 2016-2018	Outcome 2016
EBIT growth (CAGR), %	≥7	3
Return on capital employed improvement, % pts	≥3	1
Net debt/equity ratio	<0.8	0.7
Dividend payout ratio of reported earnings per share, %	50	63 <sup>2)</sup>

<sup>1)</sup> See page 151 for definition of financial targets.

<sup>2)</sup> Proposed dividend.

capital changed by –2,009 million SEK (–3,340) compared with the preceding year, driven primarily by lower levels of inventory. Changed currency rates increased net working capital by 1,539 million SEK (–195) compared with the preceding year. The structural effect from acquisitions and divestments increased working capital by 10 million SEK (14).

Net working capital amounted to 20,801 million SEK (21,726) at the end of the year.

#### EQUITY

Equity at year-end amounted to 39,290 million SEK (34,060), or 31.2 SEK per share (27.1). The equity ratio was 38% (34).

#### INVESTING ACTIVITIES

Investments in tangible and intangible assets for the full year 2016 reached 3,691 million SEK (4,161) corresponding to 88% of scheduled

depreciation. Proceeds from sale of companies and shares, net of cash amounted to 53 million SEK (0). Investments in internally generated intangible assets were 855 million SEK (869).

#### PORTFOLIO MANAGEMENT

During 2016 Sandvik Process Systems and Sandvik Hyperion were classified as non-strategic and reported as Other Operations. The divestiture process has been initiated.

The Mining Systems business was labeled as non-strategic and reported as discontinued operations already during 2015 and the search for the new owner continued into 2016 with an anticipated closure of the deal by the fourth quarter 2016. However, as all closing conditions were not met, the transaction was not completed and the process continues with interested parties.

During the first quarter Sandvik Machining Solutions acquired Prometec GmbH. Prometec is a leading supplier of advanced solutions for monitoring and control of machining processes in production machines.

In the fourth quarter Sandvik Machining Solutions acquired Comara GmbH, specializing in process data recording and real-time optimization in machining. The company develops and markets various software solutions.

#### FUTURE PROSPECTS

The market conditions improved towards the year-end especially for the mining industry due to improved demand for the replacement equipment. In addition, the underlying market stabilized for the energy and general engineering segments. The strategy introduced in May 2016 implies that business decisions are prioritized according to stability and

Earnings and return	2015	2016
Operating profit, MSEK	6,062	9,657
as a % of revenue	6.7	11.4
Profit after financial income and expenses, MSEK	4,059	7,996
as a % of revenue	4.5	9.5
Return on capital employed, %	7.9	12.9
Return on equity, %	6.2	15.2
Basic earnings per share, SEK	1.79	4.39
Diluted earnings per share, SEK	1.79	4.39
<b>Whereof continuing operations</b>		
Operating profit, MSEK	7,271	11,018
as a % of revenue	8.5	13.5
Profit after financial income and expenses, MSEK	5,308	9,366
as a % of revenue	6.2	11.5
Basic earnings per share, SEK	2.79	5.48
<b>Capital expenditure</b>	<b>2015</b>	<b>2016</b>
Investments in non-current assets, MSEK	4,161	3,691
as a % of revenue	4.6	4.4
as a % of scheduled depreciation	87	88

Financial position	2015	2016
Cash flow from operating activities, MSEK	11,952	12,032
Cash flow after capital expenditures, MSEK	7,791	8,341
Cash flow after investing activities, MSEK	8,042	8,601
Cash and cash equivalents and short-term investments at 31 December, MSEK	6,376	8,818
Net debt at 31 December, MSEK	34,090	28,579
Net financial items, MSEK	–2,003	–1,661
Equity ratio, %	34	38
Net debt/equity ratio, times	1.0	0.7
Equity at 31 December, MSEK	34,060	39,290
Equity per share at 31 December, SEK	27.1	31.2

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

MSEK	Revenue	Profit after financial items	Net margin, %	
2015	Q1	23,334	563	2
	Q2	23,398	2,367	10
	Q3	22,092	856	4
	Q4	21,998	272	1
2016	Q1	20,420	1,939	9
	Q2	21,036	2,231	11
	Q3	20,439	1,221	6
	Q4	22,535	2,605	12

profitability before growth. Business decisions are taken close to customers facilitating improved transparency, accountability and speed.

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

The Parent Company's revenue for 2016 amounted to 15,146 million SEK (15,667) and the operating result was 722 million SEK (-761). Income from shares in Group companies consists primarily of dividends and Group contributions from these and amounted to 202 million SEK (9,346). Interest-bearing liabilities, excluding cash and cash equivalents and interest-bearing assets, amounted to 14,478 million SEK (11,132). The Parent Company's total assets decreased by 7,106 million SEK (from 73,798 million SEK to 66,692 million SEK). Investments in non-current assets amounted to 975 million SEK (907). The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB at 31 December 2016 was 7,451 (7,729).

The Board of Directors and the President and CEO proposes a dividend of 2.75 SEK (2.50) per share to the 2017 Annual General Meeting, corresponding to approximately 3.4 billion SEK (3.1).

Dividend, 2.75 SEK per share x	
number of shares 1,254,385,923 =	3,449,561,288
Profits carried forward	22,836,317,814
Total, SEK	26,285,879,102

**EVENTS AFTER THE CLOSE OF THE PERIOD**

On 19 January Sandvik announced that the previously communicated ambition to close the Mining Systems transaction during Q4 2016 will not be realized according to the original plan,

as all conditions for closing have not been met. The process to exit from Mining Systems business continues with different interested parties. Mining Systems will continue to be reported as discontinued operations in Sandvik's financial statements.

**EMPLOYEES**

The average number of employees declined to 44,769 (45,808), of whom 9,940 (10,430) work in Sweden. The employee turnover rate in 2016 was 11% (11%). Wages, salaries and other remunerations for the year totaled 20,008 (20,604) million SEK, of which 5,418 (5,385) million SEK, was paid in Sweden.

The global HR organization aims to enable a high-performing organization and create value for Sandvik at the right cost. During 2016, initiatives continued within areas such as leadership development, compensation and benefits, succession planning, talent development, employer branding, culture, diversity and inclusion, and securing internal career paths.

We have also initiated a review of the HR organization, to support a decentralized business structure.

A strong performance culture is vital to be able to leverage the full potential of our employees. During the year, we continued to strengthen our performance culture in order to support our vision – We set the industry standard.

A global remuneration strategy has been introduced throughout the Group. The remuneration structure is designed to be competitive, fair and easy to understand.

Activities related to the performance dialogue process, which encompasses all employees, follow a clear structure. Sandvik has leadership programs for managers at dif-

ferent levels, based on the business strategy and leadership model. Participants in the leadership programs represent all parts of the organization, to create a diverse and dynamic group. During the year we ran our third Global Graduate Program, with participants from China, India, South Africa, Sweden and the US.

**SAFETY FIRST**

Sandvik's EHS (Environment, Health & Safety) vision is Zero Harm and the Group's motto is "Safety First". We aim to achieve this vision by constantly trying to improve our safety culture. A great deal of emphasis is placed on holding managers accountable for EHS matters within their sphere of influence. We support our culture change with a structured approach in which we exercise good control through our management system.

Our 2020 EHS strategy is divided into five areas, with supporting objectives and targets. These areas are: EHS as a business advantage, EHS Leadership, Environment, Health and Safety. During the year, Sandvik worked toward achieving a lost time injury frequency rate (LTIFR) target of 1.7. Sandvik's LTIFR improved by 20% in 2016 and was 1.7 at year-end, compared to 2.2 at year-end 2015.

Despite a significant improvement in the Group's LTIFR in recent years, Sandvik's safety work remains a top priority. The goal is to create an industry-leading safety culture and pass this culture on to our customers and suppliers. Given the challenges and risks facing the industries in which we operate, maintaining a safe work environment must always be a top priority – out of respect for both our employees and our customers. Our safety work primarily focuses

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

on two overall areas. The aim of the first focus area is to identify the risks – even if the risk is extremely low but the potential consequences are serious – and to eliminate or, if this is not possible, control these risks. All business areas conduct ongoing safety assessments to identify potential substantial risks and implement systems for monitoring and minimizing these risks. The aim of the second focus area is to reduce the number of accidents and work-related illnesses. We are also working to strengthen our existing safety systems, implementing campaigns and expanding our focus on active and visible leadership, all with the aim of changing our corporate culture and our employees' behavior.

**DIVERSITY AND INCLUSION**

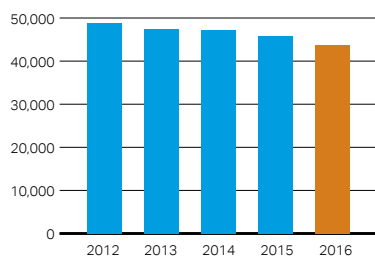
Diversity and inclusion are vital parts of our people strategy. The recruitment of individuals with diverse backgrounds has a strong impact on Sandvik's creativity and capacity for innovation. Continued efforts related to diversity and inclusion are also a prerequisite for succeeding in the continued globalization of business. The Group Executive Management is a diverse group with different backgrounds and experiences. The share of women in the Group Executive Management is now 38%.

Within the Group, the share of women in the management teams of the business areas declined somewhat, and is now 21% (25%). The share of women in the pool of next-generation managers, who are preparing

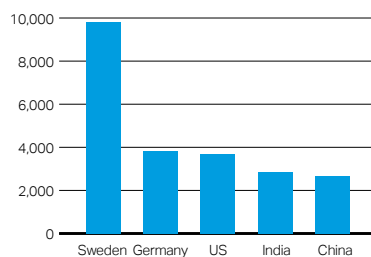
**CODE OF CONDUCT**

Our Code of Conduct was revised during 2014 and rolled-out in 2015. A global training campaign was implemented during 2016. Our Codes confirm our strong commitment to ethical and responsible business practices and compliance with the relevant laws and regulations in all markets where we operate. Our Code of Conduct is supported by a global reporting tool called "Speak Up".

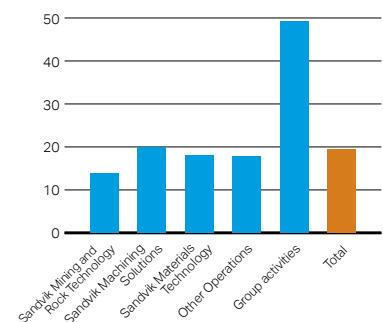
NUMBER OF EMPLOYEES, 2012-2016<sup>1)</sup>



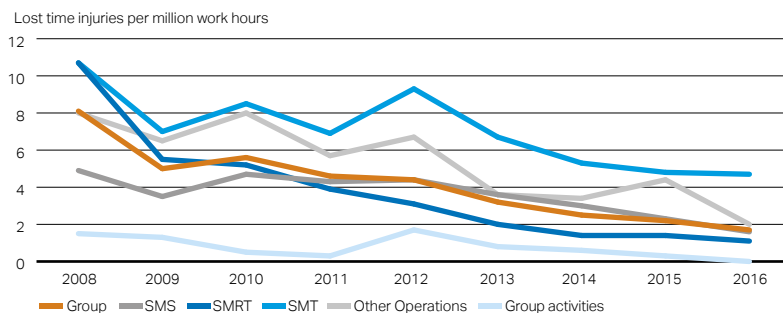
NUMBER OF EMPLOYEES, FIVE LARGEST COUNTRIES<sup>1)</sup>



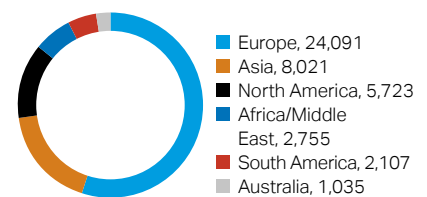
SHARE OF WOMEN, %



LTIFR BY BUSINESS AREA, 2008-2016



NUMBER OF EMPLOYEES BY MARKET AREA, 2016<sup>1)</sup>



1) Restated to Full Time Equivalents (FTEs) at 31 December 2016.

for senior managerial positions in the future, is 28%. The ambition is to continue increasing the share of women in both managerial positions and as a percentage of all employees across the entire Group.

### HUMAN RIGHTS AND EMPLOYMENT CONDITIONS

We operate in some countries with high risk of human rights violations. Therefore, we continuously work to mitigate these risks and ensure compliance with national legislation and internationally agreed human rights standards such as the UN Declaration on Human Rights and the ILO declaration on Fundamental Principles and Rights at Work.

Human Rights are integrated into our processes, for example in our Sustainable Supplier management and Diversity and Inclusion schemes. Forced or slave labor and child labor are strictly forbidden. All employees have the right to join a union and to be covered by a collective agreement if they so choose. Health and Safety are key elements in our operations as we believe the right to a safe and healthy workplace is fundamental. We believe in a diverse workforce without any form of discrimination based on gender identity, ethnicity, national origin, age, marital status or any other characteristics protected by law, nor do we accept any form of harassment or bullying.

### PROPOSAL REGARDING GUIDELINES FOR THE REMUNERATION OF SENIOR EXECUTIVES

The Board proposes that the Annual General Meeting resolve to adopt the following guidelines for the remuneration of senior executives for the period extending until the 2018 Annual General Meeting, which guidelines correspond essentially to those adopted by the 2016 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 perfor-

mance and responsibilities as well as the Group's earnings trend.

The variable salary may comprise short-term incentives in cash, and long-term incentives in cash, shares and/or share-based instruments in Sandvik AB. Variable salary in cash is conditional upon the fulfillment of defined and measurable goals and should be maximized in relation to the fixed salary. Long-term incentives in the form of shares and/or share-based instruments in Sandvik AB may be provided through participation in long-term incentive programs approved by the General Meeting. Terms and conditions for variable salary should be designed so that the Board, 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. Such remuneration may not exceed an amount corresponding to the individual's annual fixed salary and maximum variable salary in cash, and may not be paid more than once per year.

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 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 2016 Annual General Meeting are presented in Note 3.5.

### RESEARCH AND DEVELOPMENT (R&D)

Sandvik has come far in the process of implementing a decentralized business model according to the new strategy. Each product area/business area is responsible for its own R&D activities that focus on product development, technology platforms and new innovations.

A Scientific Council with representatives from each business area has been established in the Group. The chairmanship in the council is rotating between business area representatives. Pasi Kangas, Head of R&D at Sandvik Materials Technology, was chairman during 2016. The agenda for the council includes external collaboration, Wilhelm Haglund Medal and Innovation Prize, cooperation in modeling and material testing as well as knowledge sharing and networking, development of R&D Scoreboard, collaboration and strategic initiatives e.g. digitalization.

Sandvik has a portfolio of approximately 7,900 active patents and other intellectual property rights. In 2016, 1,150 (850) new patents and other intellectual property rights were granted. Investments in R&D were 3,483 million SEK (3,532) in 2016, corresponding to 4% (4) of the Group's revenues. The number of employees in R&D including Quality Assurance was approximately 2,850 (2,700) during the year.

Read more about R&D in our business areas on pages 22-27.



## ENVIRONMENT

Sandvik respects and complies with environmental legislation in all countries where it operates.

The environmental impact from Sandvik's own operations is both direct and indirect.

The significant environmental aspects are:

- Energy use, emissions and climate change
- Use, reuse and recycling of materials and natural resources
- Waste management
- Water management

Sandvik's emissions to the atmosphere comprise carbon dioxide, acidifying substances, particulate matters and organic substances. These emissions are mainly caused by the company's production processes and combustion of fossil fuels in conjunction with heating and transportation, and indirectly from purchases of electricity produced using fossil fuels.

Sandvik uses freshwater and discharges treated process wastewater and cooling water. Economizing with freshwater is important, particularly in water-stressed regions. A survey has been carried out of the facilities' locations relative to various water-related stress factors. Five facilities in India and one in China have reported some activities for more efficient use of water.

The indirect environmental impact relates to parts of the value chain that are not owned by Sandvik, meaning in the supplier, distribution and customer stages and the phasing out or recycling of products. Therefore, it is vital to consider the entire value chain when describing relative changes in environmental impacts. In certain cases, the environmental impact from raw materials, production and the delivery of products, can be substantially offset by environmental savings in the user phase, for example, as a result of potential energy optimization in the customer stage.

## ENVIRONMENTAL PERMITS

Sandvik has approximately 120 production, distribution or service sites worldwide that, where required, hold various types of environmental permits. Sandvik is entirely dependent on the environmental permits granted for these sites. In Sweden, Sandvik conducts licensed operations in accordance with the Environmental Code at 11 plants (Sandviken, Gimo, Stockholm - Västberga, Hallstahammar, Surahammar, Svedala, Köping, Fagersta, Arboga, Norrköping and Ludvika) and notifiable operations in Norberg. All licensed plants hold the requisite environmental permits for operations. The environmental permits relate to such activities as the manufacturing of steel and ingots/CC-blooms/CC-billets, the further processing of steel for bar, tube, strip and wire products, rock-drilling products, the manufacture of ceramics, metal powder, cemented-carbide products, castings and various equipment, and tools. For plants holding permits in Sweden, public environmental reports are submitted annually to supervisory authorities.

No breaches of permissible manufacturing volumes or limit values prescribed in the permit conditions under the Environmental Code 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, often in consultation with the supervisory authorities.

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.

## CHANGES IN SWEDEN DURING THE YEAR

The production unit in Köping is under closure.

## CARBON EMISSIONS

The plants in Sandviken and Hallstahammar are included in the EU's carbon emissions trading scheme. For 2016, emission rights corresponding to 85,997 tons of CO<sub>2</sub> were assigned.

# DEVELOPMENT IN BUSINESS AREAS

**From 1 July 2016 Sandvik operations are consolidated into three business areas: Sandvik Machining Solutions, Sandvik Mining and Rock Technology and Sandvik Materials Technology.**

Sandvik's order intake amounted to 84,233 million SEK (86,378), a decrease of 1% at fixed exchange rates for comparable units. Revenue totaled 84,430 million SEK (90,822), down 6% at fixed exchange rates for comparable units.

Demand for Sandvik's products during the full year of 2016 remained overall stable compared with the year-earlier period. The market situation improved as the year progressed, particularly in the mining industry. The energy segment declined in total, however stabilized towards the end of the year. The automotive segment remained stable and the general

engineering segment was stable to slightly down in the period. In total, in the shorter-cycle business related to the cutting tool industry Sandvik Machining Solutions reported a slight negative growth, however positive growth was reported in the fourth quarter supported primarily by strong improvement in Asia.

With improved cost control and ongoing efficiency programs Sandvik has been able to improve the profitability compared to last year. It is also encouraging that the common costs have gone down compared with the year-earlier period, which should be seen as a result of the current decentralization initiative.

During 2016 several important product launches took place, such as CoroMill® 745 from Sandvik Machining Solutions, battery driven version of Sandvik DD422iE mining jumbo from Sandvik Mining and Rock Technology

and Fibrothal heating modules from Sandvik Materials Technology. These products broke new grounds in their respective segments and were very well received when announced. Particularly, since these products enabled Sandvik's customers to enhance productivity as well as sustainability in terms of a low environmental impact.

Sandvik increased scores in the 2016 Dow Jones Sustainability Index (DJSI) and reconfirmation as a constituent of the FTSE4Good Index Series and the Ethibel Sustainability Index (ESI) Excellence Europe.

## ORDER INTAKE BY BUSINESS AREA

MSEK	2015	2016	Change, %	Change, %*
Sandvik Machining Solutions	33,860	33,088	-2	-2
Sandvik Mining and Rock Technology	32,335	31,886	-1	1
Sandvik Materials Technology	12,625	12,036	-5	-5
Other Operations	4,760	4,830	1	0
Group activities	17	21	n/m	n/m
<b>Continuing operations</b>	<b>83,597</b>	<b>81,861</b>	<b>-2</b>	<b>-1</b>
Discontinued operations	2,781	2,372	-15	-11
<b>Group total</b>	<b>86,378</b>	<b>84,233</b>	<b>-2</b>	<b>-1</b>

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

## REVENUE BY BUSINESS AREA

MSEK	2015	2016	Change, %	Change, %*
Sandvik Machining Solutions	33,809	32,852	-3	-2
Sandvik Mining and Rock Technology	33,131	31,093	-6	-3
Sandvik Materials Technology	13,909	12,931	-7	-7
Other Operations	4,976	4,655	-6	-8
Group activities	20	22	n/m	n/m
<b>Continuing operations</b>	<b>85,845</b>	<b>81,553</b>	<b>-5</b>	<b>-4</b>
Discontinued operations	4,977	2,877	-42	-40
<b>Group total</b>	<b>90,822</b>	<b>84,430</b>	<b>-7</b>	<b>-6</b>

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

## OPERATING PROFIT BY BUSINESS AREA

MSEK	2015	% of revenue	2016	% of revenue	Change, %	Change, %*
Sandvik Machining Solutions	5,504	16	6,970	21	27	27
Sandvik Mining and Rock Technology	2,417	7	3,206	10	33	41
Sandvik Materials Technology	8	0	1,115	9	n/m	n/m
Other Operations	489	10	545	12	11	5
Group activities	-1,147	n/m	-818	n/m	29	31
<b>Continuing operations</b>	<b>7,271</b>	<b>8</b>	<b>11,018</b>	<b>14</b>	<b>52</b>	<b>55</b>
Discontinued operations	-1,209	-24	-1,361	-47	-13	-11
<b>Group total</b>	<b>6,062</b>	<b>7</b>	<b>9,657</b>	<b>11</b>	<b>59</b>	<b>64</b>

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

## SANDVIK MACHINING SOLUTIONS

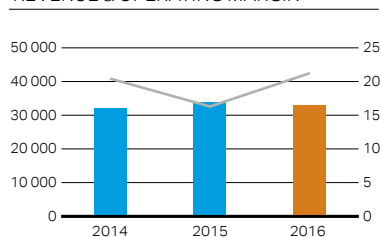
Sandvik Machining Solutions is a market-leading manufacturer of tools and tooling systems for advanced industrial metal cutting. Order intake for the business area amounted to 33,088 million SEK (33,860), a reduction of 2% at fixed exchange rates for comparable units. Revenue totaled

32,852 million SEK (33,809), down 2% at fixed exchange rates for comparable units.

The operating margin was 21.2% (16.3) of revenue. The supply chain optimization program continued during the year enabling a more stringent cost control. In the course of the

year, Sandvik Machining Solutions launched groundbreaking technology with intelligent digitally connected tools for use in the metal-cutting industry.

REVENUE & OPERATING MARGIN



■ Revenue, MSEK — Operating margin, %

Financial overview, MSEK

	2014	2015	2016
Order intake	32,568	33,860	33,088
Revenue	32,099	33,809	32,852
Operating profit	6,544	5,504	6,970
Operating margin, %	20.4	16.3	21.2
Adjusted operating profit*	6,544	6,814	6,970
Adjusted operating margin, %	20.4	20.2	21.2
Return on capital employed, %	27.0	21.9	28.9
Number of employees	19,529	18,713	18,043

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

## SANDVIK MINING AND ROCK TECHNOLOGY

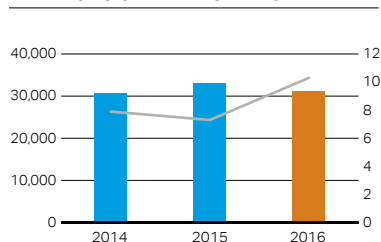
Sandvik Mining and Rock Technology consists of the previous business areas Sandvik Mining and Sandvik Construction. The business area is a leading supplier of equipment and tools, service and support for the mining and construction industries. Order intake for the business area amounted to 34,258 million

SEK (35,116), unchanged at fixed exchange rates for comparable units. Revenue totaled 33,970 million SEK (38,108), down 8% at fixed exchange rates for comparable units. The operating margin was 5.4% (3.2) of revenue. On the market side, Sandvik Mining and Rock Technology has showed a good improvement. During

2016 a new line of battery driven drill rigs, loaders and more efficient engines were launched to the market. This will enhance the productivity, environmental performance and safety of customer operations.

### SANDVIK MINING AND ROCK TECHNOLOGY, CONTINUING OPERATIONS

REVENUE & OPERATING MARGIN



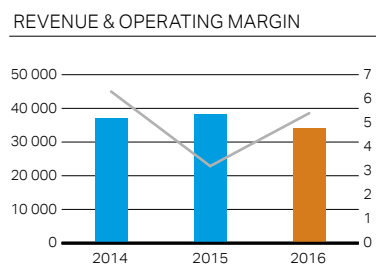
■ Revenue, MSEK — Operating margin, %

FINANCIAL OVERVIEW, MSEK

	2014	2015	2016
Order intake	29,752	32,335	31,886
Revenue	30,643	33,131	31,093
Operating profit	2,428	2,417	3,206
Operating margin, %	7.9	7.3	10.3
Adjusted operating profit*	2,507	3,492	3,206
Adjusted operating margin, %	8.2	10.5	10.3
Return on capital employed, %	10.5	9.7	13.8
Number of employees	14,648	14,595	14,087

\* Operating profit adjusted for items affecting comparability of 1,075 million SEK in 2015, and 79 million SEK in 2014.

SANDVIK MINING AND ROCK TECHNOLOGY, TOTAL



■ Revenue, MSEK — Operating margin, %

FINANCIAL OVERVIEW, MSEK	2014	2015	2016
Order intake	33,652	35,116	34,258
Revenue	36,931	38,108	33,970
Operating profit	2,343	1,207	1,845
Operating margin, %	6.3	3.2	5.4
Adjusted operating profit*	2,422	3,384	1,845
Adjusted operating margin, %	6.6	8.9	5.4
Return on capital employed, %	9.9	4.7	7.9
Number of employees	15,921	15,740	14,911

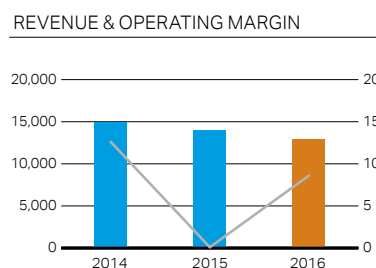
\* Operating profit adjusted for items affecting comparability of 2,177 million SEK in 2015, and 79 million SEK in 2014.

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, such as energy, aerospace and chemical. Order intake for the business area amounted to 12,036

million SEK (12,625), a reduction of 5% at fixed exchange rates for comparable units. Revenue totaled 12,931 million SEK (13,909), down 7% at fixed exchange rates for comparable units. The operating margin was 8.6% (0.1) of revenue. The market situation remained challenging, most notably in the oil and gas segment.

During 2016 Sandvik Materials Technology's capacity for fine powders expanded in Neath, Wales, as a result of a continued positive demand for fine-powder technology products used in applications such as additive manufacturing.



■ Revenue, MSEK — Operating margin, %

FINANCIAL OVERVIEW, MSEK	2014	2015	2016
Order intake	14,713	12,625	12,036
Revenue	14,907	13,909	12,931
Operating profit	1,880	8	1,115
Operating margin, %	12.6	0.1	8.6
Adjusted operating profit*	1,809	818	1,115
Adjusted operating margin, %	12.1	5.9	8.6
Return on capital employed, %	13.7	0.1	8.7
Number of employees	6,914	6,533	6,490

\* Operating profit adjusted for items affecting comparability of 810 million SEK in 2015 and -71 million in 2014.

In 2016, adjusted operating profit, excluding metal price effects totalling 64 million SEK amounted to 1,051 million SEK (1,158), with an adjusted underlying operating margin of 8.1% (8.3 for 2015 and 10.1 for 2014).

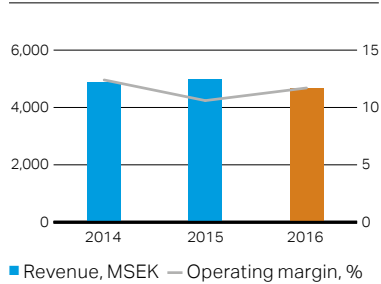
## OTHER OPERATIONS

Other Operations consists of product areas Sandvik Process Systems and Sandvik Hyperion. They are leading suppliers of products and applications in their respective niches. Sandvik Process Systems provides advanced industrial process

solutions using steel belts and steel belt-based equipment. Sandvik Hyperion is a global full-line provider of innovative cemented carbide, diamond and cubic boron nitride solutions. Order intake amounted to 4,830 million SEK (4,760), which was

unchanged compared to last year at fixed exchange rates for comparable units. Revenue totaled 4,655 million SEK (4,976), a reduction of 8% at fixed exchange rates for comparable units. The operating margin was 11.7% (9.8) of revenue.

REVENUE & OPERATING MARGIN



FINANCIAL OVERVIEW, MSEK

	2014	2015	2016
Order intake	5,008	4,760	4,830
Revenue	4,868	4,976	4,655
Operating profit	603	489	545
Operating margin, %	12.4	9.8	11.7
Adjusted operating profit*	603	529	545
Adjusted operating margin, %	12.4	10.6	11.7
Return on capital employed, %	17.7	12.5	14.5
Number of employees	2,182	2,074	1,913

\* Operating profit adjusted for items affecting comparability of 40 million SEK in 2015.

# ENTERPRISE RISK MANAGEMENT

Uncertainties in the global market place are part of Sandvik's everyday business management. We monitor and manage our exposure to various risks in a structured and proactive way.

At Sandvik we apply a comprehensive program that seeks to identify, prioritize and manage key risks at all levels in our business operations. The aim of Sandvik's enterprise risk management (ERM) process is to support better decision making through a good understanding of risks and their likely impact.

Sandvik's Board of Directors is ultimately responsible for the governance of risk management at the Group. Sandvik's Group Executive Management ensures there is a common and efficient process in place to assure the Board of Directors the Group's key risks are assessed and managed effectively and in accordance with the Board's requirements.

The Group Executive Management also reviews Sandvik's key risk profile annually and ensures that a structured risk response is implemented to manage the key risks identified for the Group.

## ENTERPRISE RISK MANAGEMENT PROCESS

Minimum requirements related to risk management for the Group are outlined in Sandvik's Enterprise Risk Management (ERM) policy and require the management teams of each business area, product area and group function to follow the annual ERM reporting calendar, use Sandvik's standardized ERM methodology when assessing their key risks and use the tools and templates issued by Sandvik's Group Risk Management function when identifying, evaluating, managing, monitoring risk, and in the follow up and reporting of key risks.

In line with the decentralized business model, the ERM policy

allows each business area and group function the freedom to design the details of their ERM processes, but such processes should always be based on the risk exposure of the business or function and adhere to the minimum requirements outlined in the ERM policy.

Each business area, product area and group function are required to:

- Assess risk by identifying, evaluating and plan risk response for their key risks using the standardized ERM methodology
- Manage, monitor and follow up on their key risks and improvement actions
- Report on their key risks and risk response according to the ERM reporting calendar

The standardized ERM methodology to identify and evaluate risks should also be used in our M&A process, investment and divestment analysis, in major strategic projects and other initiatives where managing risk can be a major factor for success.

During 2016, two consolidated ERM reports were submitted to the Group Executive Management and a year end ERM report was provided to the Sandvik Board of Directors. The report included information on all our businesses risk work and risk profiles.

The continued development of the Enterprise Risk Management process in the business areas and group functions and implementation of the process in newly established product areas was the focus during 2016. Efforts were also made to ensure that risk management controls were integrated in Sandvik's updated governance framework, The Sandvik

## SANDVIK GROUP KEY RISKS 2016

The outcome of Sandvik's Group Executive Management's annual key risk review led to the following current eight key risks identified for the Group.

1. Technological shifts
2. Fast paced change in customer and competitor behavior
3. Macroeconomic developments and Sandvik's response
4. Change demand - Business environment, strategy and operating model
5. Compliance and other regulatory implications
6. Business dependency on IT
7. Growth opportunities and financial flexibility
8. Interruptions in the production chain

Risk response and risk owners have been applied to all the risks. The risks are followed up on regularly.

Way. Read more about The Sandvik Way on page 62.

## MANAGEMENT OF RISK

At Sandvik the ERM activities are mainly focused in the different business areas and product areas who manage all the operational risks for the business.

Sandvik's risks have been categorized into six different categories: business risks, compliance and legal risks, financial reporting risks, one-off risks, sustainability risks and insurable risks. All of these risk categories can impact the Group's financial performance and market position if not managed in an effective and proactive way.

Risk assessments done by our business areas and product areas are

all mapped on a risk profile and quantified by identifying the probability of the risk materializing and the potential severity impact on EBIT for the business. This gives the business the tools to measure the risk exposure of activities and prioritize when needed.

All managers at Sandvik with operational responsibilities are expected to ensure that risks associated with their operations are appropriately identified, evaluated and managed.

#### BUSINESS RISKS

Business risks identified, mitigated and managed during 2016 by our different businesses included risks related to increased market competition, time to market, decline or recession in market segments and commodity prices, cost control and change demand risks. Also risks related to environment, health and safety, IT, R&D, intellectual property and new technical demands such as digitalization/smart industry are high on the agenda and proactively mitigated, managed with identified improvement activities and followed up on regularly.

#### COMPLIANCE RISK AND LEGAL RISKS

Sandvik conducts its business within the framework of rules and regulations that apply in the various countries, markets and industry sectors where we are active. 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.

In 2016, Sandvik developed this framework to enable the decentralization of accountability to the level of product areas through strengthened compliance, legal and risk management which is embedded in the business. Sandvik's formal compliance programs of anti-bribery and anti-corruption, competition law, customs and export controls and data privacy are managed de-centrally with oversight through a Group functional council.

#### LITIGATION

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

#### PROTECTION AND ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

In order to protect its return on investments in marketing, research and development, the Group has a strategy to actively safeguard its marketing and technical achievements against trademark/patent infringements and copying. Sandvik enforces its intellectual property rights through legal proceedings when necessary.

#### TAX DISPUTES

Sandvik is a multinational Group with many cross-border transactions. Therefore, transfer pricing and indirect taxes comprise two main areas that are the subject of investigations by the tax authorities of various countries.

At times, Sandvik is involved in discussions with the tax authorities concerning transfer pricing issues, meaning the prices applied to transactions between Sandvik companies globally. The Group maintains detailed transfer pricing documentation to support the transfer prices applied. If the tax authorities' opinion in a transfer pricing matter differs from Sandvik's position, this may have implications for the Group's revenue recognition among countries.

When deemed necessary, a provision for disputed taxes is recognized in accordance with the valid financial accounting policies. For further information on the current provision, see Note 10 Income tax on pages 98-100.

#### FINANCIAL REPORTING RISKS

Through its comprehensive and international operations Sandvik is exposed to financial risks. Sandvik's Group Treasury is the functional organization responsible for managing the greater part of the Group's financial risks. Read more about

Sandvik's financial risk management on page 54.

Operating companies within the Sandvik Group present reports on their financial performance and economic status on a regular basis in accordance with internal reporting rules and the accounting policies applied by Sandvik, the International Financial Reporting Standards (IFRS). The Group's Finance function validates and analyses the financial information as part of the quality control of financial reporting. Refer also to the Corporate Governance Report on pages 62-67.

#### ONE-OFF RISKS

Through recurring updates conducted as part of the Group's ERM activities, specific changes in the business or the factors affecting the business are identified. These may relate to the acquisition of a new company, a divestment of a business, a major investment, new legislation, changes in political or market conditions, technical innovations, etc., whose implications are assessed on a case-by-case basis. Connected to this the Group introduced and implemented strengthened procedures related to M&A activities during the year.

#### SUSTAINABILITY RISK

Responsible and sustainable business practices have always been, and will remain, an integral part of our business model and strategy. We know that market conditions are rapidly changing, which represents a challenge and an opportunity. We actively consider challenges and risks in the market segments we operate in.

#### INSURABLE RISKS

Sandvik has tailored insurance programs that transfer the risks associated with the Group's property and liability exposures. Insurable risks are continuously evaluated. Actions are taken to reduce these insurable risks, as part of Sandvik's loss-prevention strategy. Supported by the Sandvik loss-prevention standard, risk evaluations highlight opportunities to reduce the potential for significant losses and to ensure the Group's ability to deliver to its customers.

# FINANCIAL RISK MANAGEMENT

Group Treasury is the function responsible for managing the greater part of the Group's financial risks. The primary objectives of the function are to contribute to the creation of value by managing the financial risks to which the Group is exposed to during the ordinary course of business, and to optimize the Group's financial net.

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

The Board of Directors is responsible for establishing the Group's finance policy, which comprises guidelines, objectives, and limits for financial management as well as the management of financial risks within the Group.

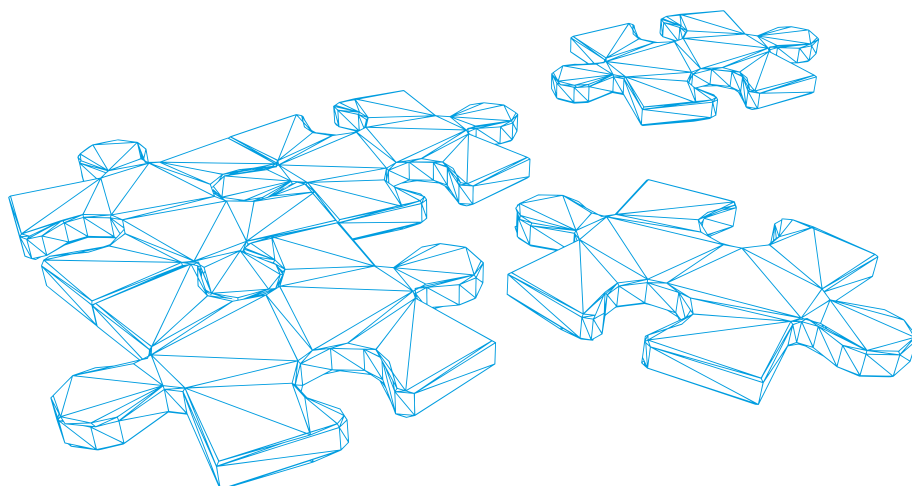
Group Treasury provides services to Group companies and its task is to support subsidiaries with loans, deposits, and foreign exchange deals, as well as to act as an advisor in financial matters. The function conducts internal banking operations and is based at the head office in Stockholm. It is also 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. This activity is carried out mainly through the head office in Stockholm, and at 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 high credit ratings are accepted as Sandvik's counterparties in financial transactions.

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

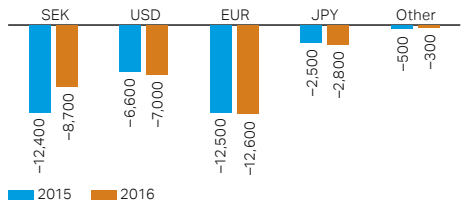
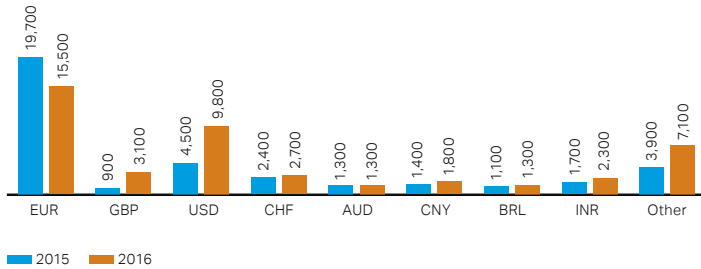




CURRENCY RISK - TRANSACTION EXPOSURE

<p><b>RISK</b></p>	<p>Transaction exposure occurs when sales and purchases are made in different currencies which affect profit for the year.</p> <p>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 16,299 million SEK (16,400) in 2016. The most important currencies for one year of exposure are shown in the diagram below.</p>																														
<p><b>EXPOSURE</b></p>	<p>NET FLOW IN FOREIGN CURRENCIES, MSEK</p> <table border="1"> <caption>NET FLOW IN FOREIGN CURRENCIES, MSEK</caption> <thead> <tr> <th>Currency</th> <th>2015 (MSEK)</th> <th>2016 (MSEK)</th> </tr> </thead> <tbody> <tr> <td>EUR</td> <td>600</td> <td>-900</td> </tr> <tr> <td>USD</td> <td>9,800</td> <td>9,400</td> </tr> <tr> <td>AUD</td> <td>1,500</td> <td>2,000</td> </tr> <tr> <td>CNY</td> <td>2,200</td> <td>2,100</td> </tr> <tr> <td>ZAR</td> <td>800</td> <td>1,800</td> </tr> <tr> <td>RUB</td> <td>1,200</td> <td>1,700</td> </tr> <tr> <td>CAD</td> <td>1,100</td> <td>1,100</td> </tr> <tr> <td>CHF</td> <td>-3,300</td> <td>-1,300</td> </tr> <tr> <td>Other</td> <td>2,500</td> <td>400</td> </tr> </tbody> </table>	Currency	2015 (MSEK)	2016 (MSEK)	EUR	600	-900	USD	9,800	9,400	AUD	1,500	2,000	CNY	2,200	2,100	ZAR	800	1,800	RUB	1,200	1,700	CAD	1,100	1,100	CHF	-3,300	-1,300	Other	2,500	400
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<p><b>COMMENTS</b></p>	<p>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.</p> <p>In order to mitigate the currency risk, pricing is managed against both customers and suppliers in circumstances where Sandvik is affected negatively by currency movements. To further reduce exposure to foreign currencies, currencies received are used to pay for purchases in the same currency via a netting structure.</p> <p>A certain portion of the anticipated net flow of sales and purchases is hedged through financial instruments in accordance with guidelines set in the Group's finance policy. In addition, major project orders are currency hedged to safeguard the gross margin. Under the finance policy, the CFO has a mandate to hedge the annual transaction exposure. At year-end, the total hedged amount was 894 million SEK (1,365). The average duration for the hedged volume of foreign currency was about 4 months (4). Unrealized losses from outstanding currency contracts for hedging of future net flows amounted to 30 million SEK (73) at year-end. This amount consists of 31 million SEK in losses related to contracts maturing in 2017 and less than 1 million SEK in gains related to contracts maturing in 2018 or later. Hedge accounting in line with IAS 39 is applied for the bulk of the hedge transactions. For a more detailed breakdown of the quarterly effects on cash flow of the transactions that have been recognized in the hedge reserve, see Note 27.</p> <p>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 -1,214 million SEK (-1,388), assuming that the composition is the same as it was at year-end.</p>																														

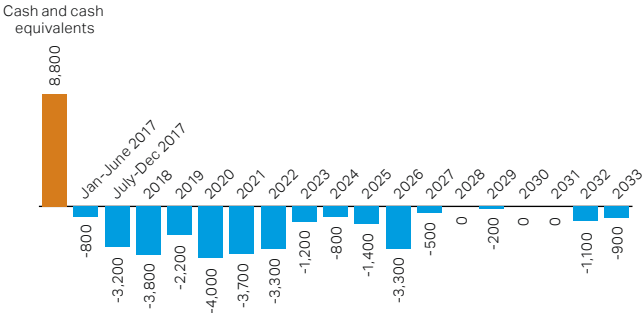
CURRENCY RISK - TRANSLATION EXPOSURE

<p><b>RISK</b></p>	<p>Translation exposure occurs when assets and liabilities are denominated in different currencies.</p> <p>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 on the balance sheet date. At 31 December, the Group's net assets in subsidiaries in local currencies amounted to 44,973 million SEK (36,600).</p>																																																
<p><b>EXPOSURE</b></p>	<p><b>GROUP'S EXTERNAL BORROWING BY CURRENCY, MSEK</b></p>  <table border="1"> <thead> <tr> <th>Currency</th> <th>2015 (MSEK)</th> <th>2016 (MSEK)</th> </tr> </thead> <tbody> <tr> <td>SEK</td> <td>-12,400</td> <td>-8,700</td> </tr> <tr> <td>USD</td> <td>-6,600</td> <td>-7,000</td> </tr> <tr> <td>EUR</td> <td>-12,500</td> <td>-12,600</td> </tr> <tr> <td>JPY</td> <td>-2,500</td> <td>-2,800</td> </tr> <tr> <td>Other</td> <td>-500</td> <td>-300</td> </tr> </tbody> </table> <p><b>NET ASSETS BY FOREIGN CURRENCY, MSEK</b></p>  <table border="1"> <thead> <tr> <th>Currency</th> <th>2015 (MSEK)</th> <th>2016 (MSEK)</th> </tr> </thead> <tbody> <tr> <td>EUR</td> <td>19,700</td> <td>15,500</td> </tr> <tr> <td>GBP</td> <td>900</td> <td>3,100</td> </tr> <tr> <td>USD</td> <td>4,500</td> <td>9,800</td> </tr> <tr> <td>CHF</td> <td>2,400</td> <td>2,700</td> </tr> <tr> <td>AUD</td> <td>1,300</td> <td>1,300</td> </tr> <tr> <td>CNY</td> <td>1,400</td> <td>1,800</td> </tr> <tr> <td>BRL</td> <td>1,100</td> <td>1,300</td> </tr> <tr> <td>INR</td> <td>1,700</td> <td>2,300</td> </tr> <tr> <td>Other</td> <td>3,900</td> <td>7,100</td> </tr> </tbody> </table>	Currency	2015 (MSEK)	2016 (MSEK)	SEK	-12,400	-8,700	USD	-6,600	-7,000	EUR	-12,500	-12,600	JPY	-2,500	-2,800	Other	-500	-300	Currency	2015 (MSEK)	2016 (MSEK)	EUR	19,700	15,500	GBP	900	3,100	USD	4,500	9,800	CHF	2,400	2,700	AUD	1,300	1,300	CNY	1,400	1,800	BRL	1,100	1,300	INR	1,700	2,300	Other	3,900	7,100
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<p><b>COMMENTS</b></p>	<p>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.</p> <p>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.</p> <p>If exchange rates were to change by 5% in an unfavorable direction the net effect on other comprehensive income would be approximately -2,252 million SEK (-2,000). This net effect primarily comprises translation exposure in equity.</p>																																																

## INTEREST RATE RISK

<b>RISK</b>	<p>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.</p> <p>Interest-rate risk arises in two ways:</p> <ul style="list-style-type: none"> <li>– The company may have invested in interest-bearing assets, the value of which changes when the interest rate changes.</li> <li>– The cost of the company's borrowing fluctuates when the general interest-rate situation changes.</li> </ul>																																				
<b>EXPOSURE</b>	<p>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 –76 million SEK.</p> <p>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 100 million SEK as a result of a 1 percentage point increase of the interest-rate curve.</p> <p><b>INTEREST RATES AND FIXED-INTEREST TERMS ON OUTSTANDING LOANS</b></p> <table border="1" data-bbox="451 734 1442 1048"> <thead> <tr> <th style="text-align: left;">Including effects of interest-rate derivatives</th> <th style="text-align: center;">Effective rate of interest, %</th> <th style="text-align: center;">Fixed-interest term, months</th> <th style="text-align: center;">Recognized liability, MSEK</th> </tr> </thead> <tbody> <tr> <td>Bond loans, Swedish MTN</td> <td style="text-align: center;">2.6</td> <td style="text-align: center;">22</td> <td style="text-align: center;">8,025</td> </tr> <tr> <td>Bond loans, European MTN</td> <td style="text-align: center;">3.6</td> <td style="text-align: center;">96</td> <td style="text-align: center;">10,486</td> </tr> <tr> <td>Private placements</td> <td style="text-align: center;">4.1</td> <td style="text-align: center;">33</td> <td style="text-align: center;">7,041</td> </tr> <tr> <td>Commercial papers</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">0</td> </tr> <tr> <td>Other loans from banks</td> <td style="text-align: center;">1.5</td> <td style="text-align: center;">15</td> <td style="text-align: center;">5,866</td> </tr> <tr> <td><b>Total loans</b></td> <td style="text-align: center;"><b>3.1</b></td> <td style="text-align: center;"><b>48</b></td> <td style="text-align: center;"><b>31,418</b></td> </tr> <tr> <td>Interest effect of currency derivatives</td> <td style="text-align: center;">1.1</td> <td></td> <td></td> </tr> <tr> <td><b>Total incl. currency derivatives</b></td> <td style="text-align: center;"><b>4.2</b></td> <td></td> <td></td> </tr> </tbody> </table>	Including effects of interest-rate derivatives	Effective rate of interest, %	Fixed-interest term, months	Recognized liability, MSEK	Bond loans, Swedish MTN	2.6	22	8,025	Bond loans, European MTN	3.6	96	10,486	Private placements	4.1	33	7,041	Commercial papers	0	0	0	Other loans from banks	1.5	15	5,866	<b>Total loans</b>	<b>3.1</b>	<b>48</b>	<b>31,418</b>	Interest effect of currency derivatives	1.1			<b>Total incl. currency derivatives</b>	<b>4.2</b>		
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<b>COMMENTS</b>	<p>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 48 months (49) at year-end, with consideration given to interest-rate swap agreements entered into.</p> <p>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 1.1% between the currencies the Group borrows and the currencies the Group lends. The Group's average interest expense, including other loans and effects of various derivatives, was 4.2% (4.8).</p> <p>Hedge accounting is applied when an effective link exists between hedged loans and interest-rate swaps. Accordingly, changed market interest rates could also impact other comprehensive income, since the Group has interest-rate swap agreements to which it applies cash-flow hedging. This means that changes in the market values of these swaps are recognized directly in other comprehensive income instead of in profit for the year. A presentation of all interest-rate swap agreements entered into, and information regarding their duration, can be found in Note 27.</p> <p>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.</p> <p>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.</p>																																				

LIQUIDITY AND REFINANCING RISK

<b>RISK</b>	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.																																			
<b>EXPOSURE</b>	<p>MATURITY PROFILE FOR BORROWING AND LIQUID ASSETS Nominal amount, MSEK</p>  <p>BORROWING, SIZE OF PROGRAMS, AND REMAINING CREDIT PERIODS</p> <table border="1" data-bbox="424 869 1393 1108"> <thead> <tr> <th></th> <th>Currency</th> <th>Recognized liability, MSEK</th> <th>Size of programs, MSEK</th> <th>Average remaining credit period (years)</th> </tr> </thead> <tbody> <tr> <td>Bond loans, Swedish MTN</td> <td>SEK</td> <td>8,025</td> <td>15,000</td> <td>3.2</td> </tr> <tr> <td>Bond loans, European MTN</td> <td>EUR</td> <td>10,486</td> <td>28,665</td> <td>9.5</td> </tr> <tr> <td>Private placements</td> <td>USD</td> <td>7,041</td> <td>—</td> <td>3.0</td> </tr> <tr> <td>Commercial papers</td> <td>EUR, SEK</td> <td>0</td> <td>17,166</td> <td>0.0</td> </tr> <tr> <td>Other loans from banks</td> <td>Others</td> <td>5,866</td> <td>—</td> <td>3.0</td> </tr> <tr> <td><b>Total borrowing</b></td> <td></td> <td><b>31,418</b></td> <td><b>60,831</b></td> <td><b>5.2</b></td> </tr> </tbody> </table>		Currency	Recognized liability, MSEK	Size of programs, MSEK	Average remaining credit period (years)	Bond loans, Swedish MTN	SEK	8,025	15,000	3.2	Bond loans, European MTN	EUR	10,486	28,665	9.5	Private placements	USD	7,041	—	3.0	Commercial papers	EUR, SEK	0	17,166	0.0	Other loans from banks	Others	5,866	—	3.0	<b>Total borrowing</b>		<b>31,418</b>	<b>60,831</b>	<b>5.2</b>
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<b>COMMENTS</b>	<p>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 68,352 million SEK and long-term financing, including share capital, pension liabilities, long-term tax liabilities, long-term provisions and the guaranteed credit facility, amounted to 81,477 million SEK. The short-term liquidity reserve, comprising credit facilities and accessible cash and cash equivalents was 15,722 million SEK. This reserve should at a minimum correspond to loans that mature for payment over the next six months and two weeks operating expenses, calculated to 3,455 million SEK.</p> <p>Sandvik has a credit facility totaling 9,000 million SEK. The facility, which is the Group's primary liquidity reserve, was unutilized at year-end.</p> <p>The aim of Sandvik's financing strategy is to achieve a well-balanced maturity profile for liabilities to thereby reduce the refinancing risk. The share of long-term loans in relation to total borrowing was 85% at year-end 2016, similar as one year earlier. The maturity structure for the Group's financial liabilities and derivatives is presented in Note 27.</p> <p>At year-end, Standard &amp; 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 <a href="http://home.sandvik.com">home.sandvik.com</a>.</p>																																			

## CREDIT RISK

<b>RISK</b>	<p>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.</p> <p>The credit risk to which Sandvik is exposed can be divided into three categories:</p> <ul style="list-style-type: none"> <li>– Financial credit risk</li> <li>– Credit risk in trade receivables</li> <li>– Credit risk in customer financing</li> </ul>																														
<b>EXPOSURE</b>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">TOTAL CREDIT RISK, M SEK</th> <th style="text-align: right;">2014</th> <th style="text-align: right;">2015</th> <th style="text-align: right; border: 2px solid orange;">2016</th> </tr> </thead> <tbody> <tr> <td>Trade receivables</td> <td style="text-align: right;">13,840</td> <td style="text-align: right;">12,238</td> <td style="text-align: right; border: 2px solid orange;">13,368</td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;">6,327</td> <td style="text-align: right;">6,376</td> <td style="text-align: right; border: 2px solid orange;">8,818</td> </tr> <tr> <td>Unrealized net gains on derivatives</td> <td style="text-align: right;">963</td> <td style="text-align: right;">708</td> <td style="text-align: right; border: 2px solid orange;">269</td> </tr> <tr> <td>Other receivables</td> <td style="text-align: right;">428</td> <td style="text-align: right;">418</td> <td style="text-align: right; border: 2px solid orange;">424</td> </tr> <tr> <td>Outstanding credits</td> <td style="text-align: right;">1,088</td> <td style="text-align: right;">1,324</td> <td style="text-align: right; border: 2px solid orange;">2,073</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>22,646</b></td> <td style="text-align: right;"><b>21,064</b></td> <td style="text-align: right; border: 2px solid orange;"><b>22,881</b></td> </tr> </tbody> </table>			TOTAL CREDIT RISK, M SEK	2014	2015	2016	Trade receivables	13,840	12,238	13,368	Cash and cash equivalents	6,327	6,376	8,818	Unrealized net gains on derivatives	963	708	269	Other receivables	428	418	424	Outstanding credits	1,088	1,324	2,073	<b>Total</b>	<b>22,646</b>	<b>21,064</b>	<b>22,881</b>
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<b>Total</b>	<b>22,646</b>	<b>21,064</b>	<b>22,881</b>																												
<b>COMMENTS</b>	<p>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 2016, the value of these amounted to 9,086 million SEK (7,084).</p> <p>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 satisfactorily reflects the spread of sales. In 2016, Sandvik's customer bad debts amounted to –100 million SEK (–226), which corresponds to about 0.1% of sales. The total gross value of outstanding trade receivables was 14,154 million SEK (13,058) at 31 December. Total impairment of these was –853 million SEK (–820). Age analysis of trade receivables at 31 December is presented in Note 19.</p> <p>Sandvik offers short and long-term customer financing through its own financing companies and in partnership with financial institutions and banks. At year-end, the value of outstanding credits was 2,126 million SEK (1,375), of which –53 million SEK (–51) was reserved for doubtful receivables. Sandvik regularly provides buyback guarantees, that is a promise to repurchase a machine at a price established in advance. At year-end, the outstanding buyback guarantees amounted to 81 million SEK (89).</p> <p>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 408 million SEK (368).</p>																														

## REPORT OF THE DIRECTORS

### RAW MATERIALS PRICE RISK

<b>RISK</b>	Sandvik's financial risks related to raw materials are primarily concentrated to nickel and electricity. The price risk associated with these is 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 and other comprehensive income by plus or minus 85 million SEK on an annual basis, based on the prevailing conditions at year-end 2016.
<b>EXPOSURE</b>	<p>When Sandvik Materials Technology obtains a customer order at a fixed price for nickel, molybdenum or copper, the price of these materials is 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.</p> <p>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.</p> <p>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.</p> <p>For Sandvik's large production units in Sweden and Finland, the electricity price is continuously hedged through derivatives. Electricity consumption at these units normally totals some 850 GWh. The hedging horizon at year-end was about 18 months' (19) expected consumption.</p>
<b>COMMENTS</b>	<p>Net total consumption of nickel amounted to about 15,100 metric tons during the year.</p> <p>At year-end, the volume of hedged nickel inventory was 1,888 metric tons (2,447). The market value of commodity derivatives entered into was -1 million SEK (-63).</p> <p>The volume of electricity hedged with derivatives was 1,241 GWh (1,283) at year-end. The market value of these derivative contracts amounted to 14 million SEK (-132).</p> <p>Hedge accounting in accordance with IAS 39 is applied to the majority of the raw materials and electricity derivatives. To see how recognized hedging transactions will impact profit for the year, refer to Note 27.</p>

PENSION COMMITMENTS

<p><b>RISK</b></p>	<p>Sandvik has comprehensive pension obligations in some of 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 Sweden, Finland, Germany, the UK, Canada, and the US. Three main risks are associated with Sandvik's pension obligations; interest rate fluctuations, capital market volatility, and changes in life expectancy.</p>																								
<p><b>EXPOSURE</b></p>	<p>The group pension liability has an average duration of 17.1 years. The average duration of the group's interest-bearing assets in the pension portfolio is 15.4 years. Since the duration of the liabilities differ from the duration of the interest-bearing assets, Sandvik is exposed to interest rate fluctuations, both when discounting the liability but also as market values change in the bond portfolio. Based on a 95 % (once every 20 years) approach under the Solvency II framework, the potential net impact in relation to such interest rate fluctuations is approximately 1,800 million SEK.</p> <p>A portion of the pension portfolio is invested in equities. A 20% movement in the equity portfolio would result in a change in market value of about 1,300 million SEK. If the life expectancy assumptions increase by one year, the pension liability would rise by about 4% which corresponds to 700 million SEK. The calculated total loss potential during one year (Pension risk), based on stress tests according to the Solvency II framework, is approximately 3,900 million SEK.</p> <p><b>DEVELOPMENT OF PENSION LIABILITY AND ASSETS</b></p> <table border="1"> <caption>DEVELOPMENT OF PENSION LIABILITY AND ASSETS (MSEK)</caption> <thead> <tr> <th>Year</th> <th>Liabilities (MSEK)</th> <th>Assets (MSEK)</th> <th>Funding (%)</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>17,500</td> <td>14,500</td> <td>83</td> </tr> <tr> <td>2013</td> <td>18,000</td> <td>15,500</td> <td>86</td> </tr> <tr> <td>2014</td> <td>23,500</td> <td>19,000</td> <td>81</td> </tr> <tr> <td>2015</td> <td>23,500</td> <td>19,500</td> <td>83</td> </tr> <tr> <td>2016</td> <td>24,400</td> <td>20,600</td> <td>85</td> </tr> </tbody> </table>	Year	Liabilities (MSEK)	Assets (MSEK)	Funding (%)	2012	17,500	14,500	83	2013	18,000	15,500	86	2014	23,500	19,000	81	2015	23,500	19,500	83	2016	24,400	20,600	85
Year	Liabilities (MSEK)	Assets (MSEK)	Funding (%)																						
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<p><b>COMMENTS</b></p>	<p>As of 31 December 2016, the pension assets totaled 20,600 million SEK (18,900) and the corresponding pension liability amounted to 24,400 million SEK (22,800), which is equal to a funding level of 85% (83). The return on Sandvik's pension assets was 10.6% during the year (2.1). In addition, Sandvik has unfunded pension commitments of 2,000 million SEK (1,900).</p> <p>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.</p>																								

# CORPORATE GOVERNANCE REPORT

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

Corporate governance within Sandvik is based on external rules such as the Swedish Companies Act, the 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 [corporategovernance-board.se](http://corporategovernance-board.se). In 2016 Sandvik applied the Code without deviating from any of its regulations.

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. The Sandvik Way was launched in June

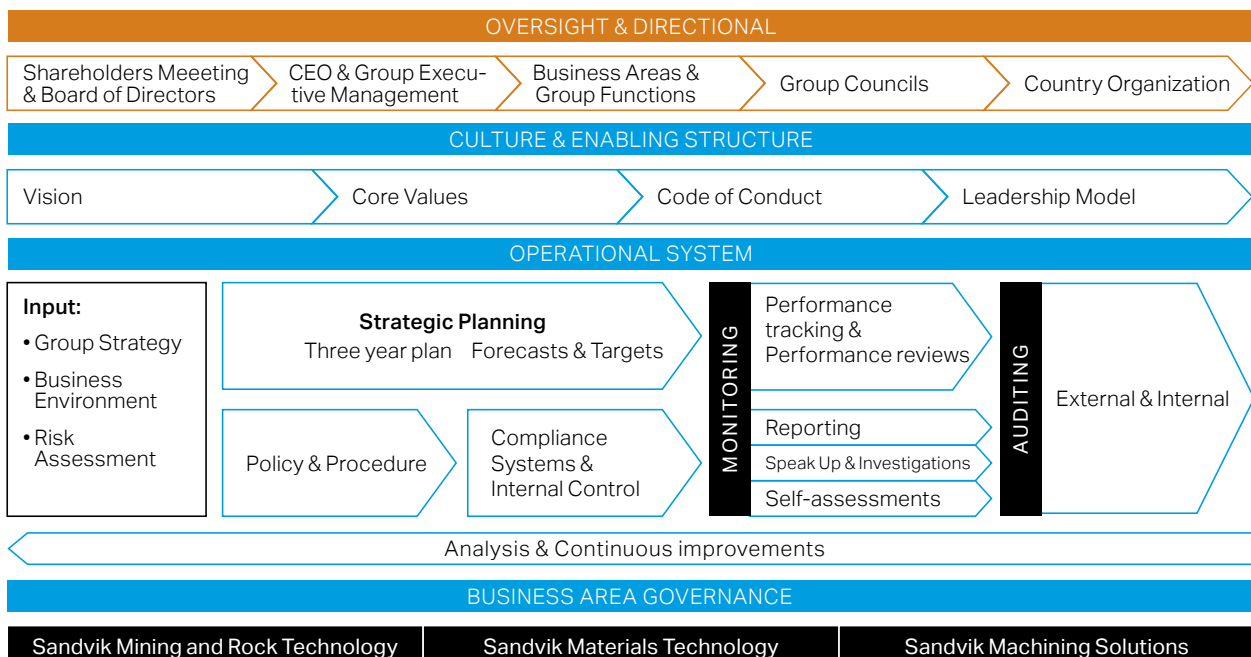
2016, thereby replacing the previous governance framework, The Power of Sandvik. It is based on four levels, as set forth in the model below, and describes how common ways of working have been implemented throughout the entire organization. Some of the parts are still under review and development. Viewing the operational system as part of the governance framework is the main difference in The Sandvik Way compared to The Power of Sandvik.

### OVERSIGHT AND DIRECTIONAL

The Board of Directors, elected by the Shareholders' Meeting, sets the strategic direction for the Group. The

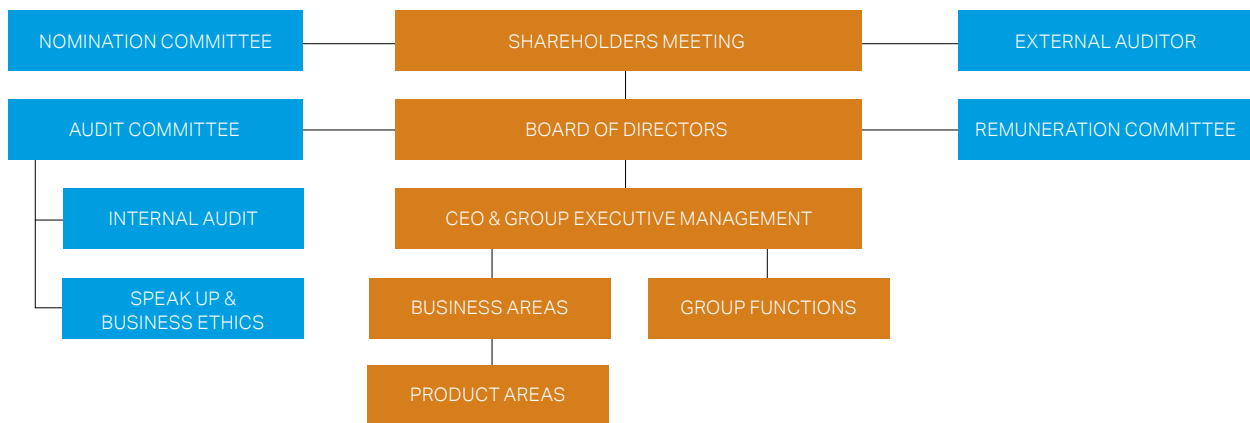
President and CEO of the Sandvik Group carries this out through the Group Executive Management whose members manage and oversee the operations of the Group. The main operational responsibility in the Group lies with the business areas and product areas, with Group functions responsible for functional policies and processes supporting the business. These are assisted by Group Councils and the network of country organizations that support operations on a local level. The country organization is currently being decentralized into the business area structure, which will adjust the model slightly.

## THE SANDVIK WAY





CORPORATE GOVERNANCE MODEL



**OWNERSHIP STRUCTURE**

At 31 December 2016, 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 109,000 shareholders at 31 December 2016. AB Industrivärden was the largest owner with about 11.8% of the share capital. Of the total share capital at year-end, about 33% 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 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 Meeting.

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

**2016 ANNUAL GENERAL MEETING**

Shareholders representing 51.03% of the share capital and votes attended the Annual General Meeting held on 28 April 2016 in Sandviken, Sweden. Sven Unger, attorney-at-law, was elected to chair the meeting. Resolutions passed at the Meeting included the following:

- Dividend of 2.50 SEK per share
- Election of Björn Rosengren and Helena Stjernholm as new members of the Board and re-election of Board members Jennifer Allerton, Claes Boustedt, Jürgen Geissinger, Johan Karlström, Johan Molin and Lars Westerberg. Re-election of Johan Molin as Chairman of the Board.
- 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
- Re-election of KPMG AB as auditor

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

**2017 ANNUAL GENERAL MEETING**

The next Annual General Meeting will be held on 27 April 2017 in Sandviken, Sweden. More information is available at [home.sandvik](http://home.sandvik).

**YEAR IN BRIEF**

- Two new members joined the Group Executive Management: Tomas Eliasson as CFO and Johan Kerstell as Head of Human Resources
- Björn Rosengren and Helena Stjernholm were elected new members of the Board in April 2016
- A new organizational model, with three instead of five business areas, came into effect from 1 July 2016
- Sandvik’s revised Sustainable Business strategy was adopted in March 2016 and launched throughout the year
- Sandvik’s new governance framework, The Sandvik Way, was launched in June 2016

**TEN LARGEST SHAREHOLDERS, 31 DECEMBER 2016, %**

AB Industrivärden	11.8
Alecta Pension Insurance	5.9
Handelsbanken Pension	3.2
Swedbank Robur Funds	2.8
AMF Insurance and Funds	2.8
L E Lundbergföretagen AB	2.4
Nordea Investment Funds	2.2
Göranssonska Stiftelserna	1.7
SEB Investment Management	1.6
Pensionskassan SHB	
Försäkringsförening	1.5

Source: Euroclear



Sandvik's Annual General Meeting 2016 was held at the Göransson Arena, Sandviken, Sweden.

**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 should consist of representatives of the four largest shareholders, in terms of the number of votes, on the

final business day in August plus the Chairman of the Board (convener).

**NOMINATION COMMITTEE FOR 2017 AGM**

For the 2017 Annual General Meeting, the Nomination Committee consists of Fredrik Lundberg, Chairman (Industrivärden), Kaj Thorén (Alecta), Pär Boman (Handelsbanken Pension), Marianne Nilsson (Swedbank Robur Funds) and Johan Molin (Sandvik's Chairman of the Board).

Up to the date of the Annual General Meeting, the Nomination Committee met on three occasions and held separate sessions to interview potential candidates for the Board. 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. Furthermore, the Nomination Committee paid special attention to the requirements relating to diversity and breadth as well as the requirement to 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.

**NOMINATION COMMITTEE'S TASKS AHEAD OF THE 2017 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

**COMPOSITION**

As per 31 December 2016, Sandvik's Board consisted of eight members elected by the Annual General Meeting. 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 2016**

During the year, the Board held 11 meetings. The Board addressed strategic issues. The executive managements of all business areas presented their goals and strategies. The Board also addressed matters related to human resources, such as incentive programs, environment, health and safety, and issues

concerning investments and the review of previously made investments, as well as acquisitions and divestments. The Remuneration and Audit Committees submitted reports from their respective meetings. In the autumn of 2016, the Board visited Walter's operations in Germany, which included visits to the sites in Tübingen and Münsingen, as well as several customer visits.

**REMUNERATION OF THE BOARD**

As resolved at the 2016 Annual General Meeting, the Chairman's fee is 2,000,000 SEK and the fee to each of the non-executive Board members elected by the General Meeting is 600,000 SEK.

In addition, 225,000 SEK was paid to the Chairman of the Audit Committee and 150,000 SEK to each of the other Committee members, in total

**ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2016**

Member	Board	Audit Committee	Remuneration Committee
<i>Total number of meetings</i>	11	5	4
Jennifer Allerton	11		
Thomas Andersson	11		
Claes Boustedt	11	5	
Jürgen M Geissinger	6		
Johan Karlström	10		4
Jan Kjellgren <sup>1)</sup>	4		
Tomas Kärnström	11		
Thomas Lilja <sup>2)</sup>	5		
Mats W Lundberg	11		
Johan Molin <sup>3)</sup>	11	2	4
Hanne de Mora <sup>4)</sup>	3	2	
Björn Rosengren <sup>5)</sup>	11		
Helena Stjernholm <sup>6)</sup>	7	3	
Lars Westerberg <sup>7)</sup>	11	3	4

1) Left the Board in capacity as employee representative in conjunction with the Annual General Meeting 2016.

2) Joined the Board in capacity as employee representative in conjunction with the Annual General Meeting 2016.

3) Left the Audit Committee in conjunction with the Annual General Meeting 2016.

4) Left the Board, and thereby also the Audit Committee, in conjunction with the Annual General Meeting 2016.

5) At 4 of 11 meetings he participated in his capacity as President, before being elected new Board member at the Annual General Meeting 2016.

6) Elected new Board member at the Annual General Meeting 2016 and joined the Audit Committee.

7) Joined the Audit Committee in conjunction with the Annual General Meeting 2016.

**COMPOSITION OF THE BOARD AT 31 DECEMBER 2016**

Name	Function	Independent in acc. with the Code	Shareholding, number <sup>1)</sup> 31 Dec 2016	Elected	Audit Committee	Remuneration Committee
Jennifer Allerton	Member	Yes	10,000	2015		
Thomas Andersson	Deputy*		612	2012		
Claes Boustedt	Member	Yes	20,000	2015	Chairman	
Jürgen M Geissinger	Member	Yes	0	2012		
Johan Karlström	Member	Yes	5,000	2011		Member
Tomas Kärnström	Member*		2,889	2006		
Thomas Lilja	Member*		3,414	2016		
Mats W Lundberg	Deputy*		0	2015		
Johan Molin	Chairman	Yes	260,000 <sup>2)</sup>	2015		Chairman
Björn Rosengren	Member	No	80,214	2016		
Helena Stjernholm	Member	No	0	2016	Member	
Lars Westerberg	Member	Yes	80,000	2010	Member	Member

\* 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.

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

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

## REPORT OF THE DIRECTORS

525,000 SEK. The Chairman of the Remuneration Committee was paid 125,000 SEK and each of the other Committee members 100,000 SEK, in total 325,000 SEK.

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

### EVALUATION OF THE WORK OF THE BOARD

To ensure the quality of the work of the Board and to identify possible need for further expertise and experience, the work of the Board and its members is evaluated annually. In 2016, the evaluations, which were led by the Chairman of the Board, were carried out by way of each Board member responding to an online questionnaire. The compiled results were presented to the Board at the final Board meeting of the year. 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.

### REMUNERATION COMMITTEE

During 2016, the members of the Remuneration Committee were the Chairman of the Board Johan Molin (Chairman of the Committee), Johan Karlström and Lars Westerberg. The tasks of the Remuneration Committee are, among others, those prescribed by the Code, which include preparing proposals regarding guidelines for remuneration of senior executives and long-term incentive programs for senior executives.

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

For guidelines, remuneration and other benefits payable to the Group Executive Management, refer to Proposal regarding guidelines for the

remuneration of senior executives on page 46 and Note 3.5.

During 2016, the Remuneration Committee held four meetings.

### AUDIT COMMITTEE

Since the 2016 Annual General Meeting, the members of the Audit Committee are Claes Boustedt (Chairman of the Committee), Helena Stjernholm and Lars Westerberg. Areas addressed by the Audit Committee mainly related to:

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

In 2016, the Audit Committee held five meetings at which Sandvik's external auditor and representatives of the company's management were present.

### EXTERNAL AUDITOR

At the 2016 Annual General Meeting, the audit firm KPMG AB was re-elected auditor of Sandvik AB for the period until the 2017 Annual General Meeting, with George Pettersson as the auditor-in-charge. Following George's tragic passing beginning of January 2017, Joakim Thilstedt was appointed auditor-in-charge.

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

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

other member of the Group Executive Management attending.

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

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

### CEO AND GROUP EXECUTIVE MANAGEMENT

The President and CEO 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 2016 the Group Executive Management consisted of:

- Björn Rosengren, President and CEO
- Tomas Eliasson, Executive Vice President and CFO, from 1 April 2016
- Jonas Gustavsson, President of Sandvik Machining Solutions
- Lars Engström, President of Sandvik Mining and Rock Technology, from 1 July 2016 (previously President of Sandvik Mining)
- Petra Einarsson, 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, from 1 June 2016
- Åsa Thunman, Executive Vice President and General Counsel
- Mats Backman, Executive Vice President and CFO, until 31 March 2016
- Anna Vikström Persson, Executive Vice President and Head of Human Resources, until 31 May 2016
- Jim Nixon, President of Sandvik Venture, until 30 June 2016

- Dingui Gao, President of Sandvik Construction, until 30 June 2016
- Zhqiang (ZZ) Zhang, Executive Vice President and Head of Emerging Markets, left his position as member of the Group Executive Management on 30 June 2016

The President and other members of the Group Executive Management are further presented 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. The business area Presidents are responsible for the business area's income statement and capital employed and is accountable for business area targets.

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

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

### GROUP FUNCTIONS

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

### CULTURE AND ENABLING STRUCTURE

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 of The Sandvik Way is the core of how we work on a day-to-day basis in the Sandvik Group. Some parts in the operational system are still under development and are expected to be in place during 2017. Once fully completed it will contain information and ways of working for the whole Sandvik Group related to strategic planning, risk management, internal controls and compliance, as well as Sandvik's monitoring activities, including performance tracking and compliance self-assessment for the business units. This is also where all of our group wide policies and procedures are collected. These policies are mandatory for all Sandvik units globally. We currently have a policy portfolio of around 30 policies concerning areas such as finance, HR, compliance and risk management.

### INTERNAL CONTROL AND RISK MANAGEMENT

As outlined in the chapter on Enterprise Risk Management on pages 52–53, the Board has the overall responsibility to ensure that the Group's system for risk management and internal control is effective. The Group applies a comprehensive risk management program. During the year the embedment of risk management and internal control in The Sandvik Way was strengthened in order to assist the company in strategic decision making and to manage change demands more effectively.

### BUSINESS AREA GOVERNANCE

The three top levels of The Sandvik Way – Oversight and Directional, Culture and Enabling Structure, and Operational System – set the group-wide way of working that applies across all of the business areas and Group functions. Due to the varied nature of business in each of the business areas, further controls and management systems tailored to the business need to be detailed and implemented within the business areas to ensure appropriate control by

the business area Presidents. These specific rules and procedures for each business area, product area, business unit as well as other relevant parts of the operational business structure form the business area governance systems and are currently under review or development.

### 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 set to address the material areas identified by the Group and business areas and to efficiently manage related risks and leverage opportunities.

The Board adopts the Group's Code of Conduct and the Group Executive Management establishes objectives and performance indicators for sustainability operations. At the end of 2014, a revised Code of Conduct was adopted and launched in 2015. During 2016 a vast training program was concluded with 91% completion rate. Each business area assumes responsibility for ensuring compliance with the Code of Conduct. The Group Executive Management adopts the Sandvik Sustainable Business strategy and the business areas are responsible for its implementation, including target setting and reporting thereof. The business areas are also responsible for the assessment and management of sustainability risks (for example environment, health, safety, corruption, human rights, working conditions and supplier responsibility) in their operations.

Sandvik conducts a materiality analysis on a regular basis. The following aspects were identified as material for 2013–2016: Compliance; sustainable supplier management; use, reuse and recycling of materials and natural resources; energy, emissions and climate change; health and safety; diversity and inclusion; and talent attraction and development.

# INTERNAL CONTROL OF FINANCIAL REPORTING

The financial statements are established in accordance with prevailing legislation, International Financial Reporting Standards (IFRS) as adopted by EU and the listing agreement with Nasdaq Stockholm. This description of internal control over financial reporting has been prepared in accordance with the Annual Accounts Act and constitutes an integrated part of the Corporate Governance Report.

Sandvik's finance organization manages a well-established financial reporting process aimed at ensuring a high level of internal control. The internal control system aligns with the conceptual framework of COSO, which is based on five key components that jointly facilitate good internal control. The five components are Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring and Follow-up.

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

## CONTROL ENVIRONMENT

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

The Sandvik Financial Reporting Policies and Procedures govern control over financial reporting. These documents contain detailed instruc-

tions regarding accounting policies and financial reporting procedures to be applied by all Sandvik reporting entities. At Group level, Group Control manages the reporting process to ensure the completeness and accuracy of financial reporting and compliance with IFRS requirements. Group Control also performs business analysis and compiles reports on operational performance. Both statutory and management reporting is conducted in close cooperation with business areas and specialist functions such as tax, financial services and legal to ensure the correct reporting of the income statement, balance sheet, equity and cash flow.

Internal Control, reporting to CFO, is a new function from 1 September 2016. Its main responsibilities include the establishment and maintenance of the internal control framework for all reporting entities in the Group and the set-up of global monitoring and reporting of internal control effectiveness worldwide.

## RISK ASSESSMENT AND RISK MANAGEMENT

The Enterprise Risk Management (ERM) process at Sandvik, which is described in the Enterprise Risk Management Report on pages 52–53, encompasses the area of financial reporting. Risk management is a normal component of the daily work on financial reporting. Specific activities have been established with the purpose of identifying risks, weaknesses

and any changes needed to the financial reporting process to minimize risks. The amalgamation of roles and responsibilities, work descriptions, IT systems, skills and expertise creates an environment that is monitored continuously to identify and manage potential risks.

## CONTROL ACTIVITIES

Internal Control activities have been effected in all areas that impact upon financial reporting. The internal control activities follow the logic of the reporting process and the finance organization. In each reporting entity, the finance staff is responsible for accurate accounting and the closing of books. Finance staff adheres to the Sandvik Financial Reporting Policies and Procedures and validate and reconcile local accounts before submitting them to business area management and Group finance for consolidation.

Controllers in the product and business areas perform analytical reviews and investigations, conduct business trend analyses and update forecasts and budgets. They investigate certain issues related to the financial information 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.

In addition, Internal Control and Group Control have key responsibilities for control activities regarding financial reporting.

## INFORMATION AND COMMUNICATION

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

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

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

Information to external parties is communicated regularly on Sandvik's website, which contains news and press releases. Quarterly interim reports are published externally and are supplemented by investor meetings attended by the Group Executive Management. In addition, there is an established agenda for communi-

cating information on shareholder meetings and other information to investors. The Annual Report is made available to shareholders and the general public, both as a printed version and on Sandvik's website.

## MONITORING AND FOLLOW-UP

Each business entity manager and their respective finance organization is ultimately responsible for continuously monitoring the financial information of the various entities. The information is also monitored at a business area level, by Group staff functions, the Group Executive Management and by the Board. The Audit Committee at Sandvik is to ensure that the company's financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies. The Audit Committee prepares issues and presents them to the Board for resolution.

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

The external auditors continuously examine the level of internal control over financial reporting. They review the third-quarter interim report and

study the financial reports prepared for the other quarters. In conjunction with the close of the third quarter, the external auditors perform a more detailed examination of the operations, as part of a hard-close audit, which includes an assessment of the Parent Company's reporting and internal control over financial reporting in the business areas, subsidiaries and Group functions. Finally, the external auditors perform an examination of the annual accounts and the Annual Report.

## INTERNAL AUDIT

The Internal Audit function audits the corporate governance, internal control and risk-management procedures.

Internal Audit is subordinated to the Board's Audit Committee and the head of the unit reports to the Audit Committee.

Internal audits include, as a basis, the Group's guidelines and policies for corporate governance, risk management and internal control with regard to areas such as financial reporting, compliance with the Code of Conduct and IT. The outputs of the audits include action plans and programs for improvement. Findings are reported to the Group Executive Management and the business area management and to the Board's Audit Committee.

# CONSOLIDATED FINANCIAL STATEMENTS

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# CONSOLIDATED INCOME STATEMENT

MSEK	Note	2015	2016
<b>Continuing operations</b>			
Revenue	1, 2	85,845	81,553
Cost of sales and services		-55,239	-49,882
<b>Gross profit</b>		<b>30,606</b>	<b>31,671</b>
Selling expenses		-13,116	-11,865
Administrative expenses		-7,079	-5,842
Research and development costs	4	-3,001	-3,075
Share of results of associated companies		8	16
Other operating income	5	157	214
Other operating expenses	6	-304	-101
<b>Operating profit</b>	1, 3, 7, 8	<b>7,271</b>	<b>11,018</b>
Financial income		173	191
Financial expenses		-2,136	-1,843
<b>Net financing cost</b>	9	<b>-1,963</b>	<b>-1,652</b>
<b>Profit after financial items</b>		<b>5,308</b>	<b>9,366</b>
Income tax	10	-1,865	-2,528
<b>Profit for the year, continuing operations</b>		<b>3,443</b>	<b>6,838</b>
<b>Discontinued operations</b>			
Revenue		4,977	2,877
Operating profit		-1,209	-1,361
Profit after financial items		-1,249	-1,370
<b>Profit for the year, discontinued operations</b>	30	<b>-1,249</b>	<b>-1,370</b>
<b>Group total</b>			
Revenue		90,822	84,430
Operating profit		6,062	9,657
Profit after financial items		4,059	7,996
<b>Profit for the year, Group total</b>		<b>2,194</b>	<b>5,468</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	589	168
Tax relating to items that cannot be reclassified to profit/loss for the year	10	-139	-82
		<b>450</b>	<b>86</b>
<b>Items that can be reclassified to profit/loss for the year</b>			
Translation differences during the year		-972	2,323
Fair-value changes in cash flow hedges		-107	-47
Fair-value changes in cash flow hedges transferred to profit/loss for the year		162	153
Tax related to fair-value changes in cash flow hedges	10	-7	-22
		<b>-924</b>	<b>2,407</b>
<b>Total other comprehensive income for the year</b>		<b>-474</b>	<b>2,493</b>
<b>Total comprehensive income for the year</b>		<b>1,720</b>	<b>7,961</b>
<b>Profit for the year attributable to:</b>			
Equity holders of the Parent		2,247	5,508
Non-controlling interests		-53	-40
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the Parent		1,770	8,001
Non-controlling interests		-50	-40
<b>Earnings per share, SEK*</b>			
Continuing operations	11	2.79	5.48
Discontinued operations	11	-1.00	-1.09
Group Total	11	1.79	4.39

\* Basic and diluted earnings per share.

## CONSOLIDATED BALANCE SHEET

MSEK	Note	31 Dec. 2015	31 Dec. 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets			
Patents and other intangible assets	12	5,656	5,907
Goodwill	12	12,657	13,333
<b>Total</b>		<b>18,313</b>	<b>19,240</b>
Property, plant and equipment			
Land and buildings	12	9,083	9,369
Plant and machinery	12	13,062	13,181
Equipment, tools, fixtures and fittings	12	1,691	1,675
Construction in progress and advance payments	12	2,495	2,484
<b>Total</b>		<b>26,331</b>	<b>26,709</b>
Financial assets			
Investments in associated companies	1, 15	236	246
Financial assets		83	82
Deferred tax assets	10	6,237	5,928
Non-current receivables	16	1,258	1,780
<b>Total</b>		<b>7,814</b>	<b>8,036</b>
<b>Total non-current assets</b>		<b>52,458</b>	<b>53,985</b>
<b>Current assets</b>			
Inventories	17	21,522	20,977
Current receivables			
Trade receivables	18	12,238	13,301
Due from associated companies		77	116
Income tax receivables	10	1,067	1,047
Other receivables	16	4,279	4,005
Prepaid expenses and accrued income		1,106	893
<b>Total</b>		<b>18,767</b>	<b>19,362</b>
Cash and cash equivalents		6,376	8,818
Assets held for sale	30	2,119	358
<b>Total current assets</b>		<b>48,784</b>	<b>49,515</b>
<b>TOTAL ASSETS</b>		<b>101,242</b>	<b>103,500</b>

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

## CONSOLIDATED BALANCE SHEET (CONTINUED)

MSEK	Note	31 Dec. 2015	31 Dec. 2016
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,505	1,505
Other paid-in capital		7,678	7,678
Reserves		2,251	4,658
Retained earnings including profit/loss for the year		22,545	25,356
<b>Equity attributable to equity holders of the Parent</b>		<b>33,979</b>	<b>39,197</b>
<b>Non-controlling interests</b>		<b>81</b>	<b>93</b>
<b>TOTAL EQUITY</b>	19	<b>34,060</b>	<b>39,290</b>
<b>Non-current liabilities</b>			
<b>Interest-bearing liabilities</b>			
Provisions for pensions	20	6,252	6,449
Loans from financial institutions		2,059	4,576
Other liabilities	23	27,299	22,162
<b>Total</b>		<b>35,610</b>	<b>33,187</b>
<b>Non-interest-bearing liabilities</b>			
Deferred tax liabilities	10	1,992	2,130
Provisions for taxes	10	1,060	1,356
Other provisions	21	1,105	1,029
Other non-current liabilities	24	105	352
<b>Total</b>		<b>4,262</b>	<b>4,867</b>
<b>Total non-current liabilities</b>		<b>39,872</b>	<b>38,054</b>
<b>Current liabilities</b>			
<b>Interest-bearing liabilities</b>			
Loans from financial institutions		2,177	2,883
Other liabilities	23	3,013	1,797
<b>Total</b>		<b>5,190</b>	<b>4,680</b>
<b>Non-interest-bearing liabilities</b>			
Advance payments from customers		2,115	2,127
Accounts payable		5,953	6,286
Due to associated companies		3	2
Income tax liabilities	10	871	948
Other liabilities	24	3,011	2,926
Provisions	21	2,365	1,788
Accrued expenses and deferred income		5,913	6,502
<b>Total</b>		<b>20,231</b>	<b>20,579</b>
Liabilities directly attributed to assets held for sale	30	1,889	897
<b>Total current liabilities</b>		<b>27,310</b>	<b>26,156</b>
<b>TOTAL LIABILITIES</b>		<b>67,182</b>	<b>64,210</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>101,242</b>	<b>103,500</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 2015</b>	<b>1,505</b>	<b>7,678</b>	<b>3,178</b>	<b>24,177</b>	<b>36,538</b>	<b>134</b>	<b>36,672</b>
Profit for the year	—	—	—	2,247	2,247	-53	2,194
Other comprehensive income/loss	—	—	-927	450	-477	3	-474
<b>Total comprehensive income/loss for the year</b>	<b>—</b>	<b>—</b>	<b>-927</b>	<b>2,697</b>	<b>1,770</b>	<b>-50</b>	<b>1,720</b>
Share-based payment settled by equity instruments	—	—	—	25	25	—	25
Payment of options on treasury shares, hedging of options program 2013	—	—	—	3	3	—	3
Other options	—	—	—	-8	-8	—	-8
Dividends, hedged options program 2011	—	—	—	41	41	—	41
Dividend	—	—	—	-4,390	-4,390	-3	-4,393
<b>Equity at 31 December 2015</b>	<b>1,505</b>	<b>7,678</b>	<b>2,251</b>	<b>22,545</b>	<b>33,979</b>	<b>81</b>	<b>34,060</b>
<b>Equity at 1 January 2016</b>	<b>1,505</b>	<b>7,678</b>	<b>2,251</b>	<b>22,545</b>	<b>33,979</b>	<b>81</b>	<b>34,060</b>
Profit for the year	—	—	—	5,508	5,508	-40	5,468
Other comprehensive income/loss	—	—	2,407	86	2,493	—	2,493
<b>Total comprehensive income/loss for the year</b>	<b>—</b>	<b>—</b>	<b>2,407</b>	<b>5,594</b>	<b>8,001</b>	<b>-40</b>	<b>7,961</b>
New stock issue to non-controlling interest	—	—	—	—	—	52	52
Share-based payment settled by equity instruments	—	—	—	47	47	—	47
Payments on exercise of options program 2012 and 2013	—	—	—	19	19	—	19
Reduction of hedge options program 2011	—	—	—	262	262	—	262
Other options	—	—	—	-4	-4	—	-4
Dividends, hedged options program 2011	—	—	—	29	29	—	29
Dividend	—	—	—	-3,136	-3,136	—	-3,136
<b>Equity at 31 December 2016</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>

# CONSOLIDATED CASH FLOW STATEMENT

MSEK	Note	2015	2016
<b>Group total</b>			
<b>Cash flow from operating activities</b>			
Income after financial income and expenses		4,059	7,996
Adjustment for depreciation, amortization and impairment losses		5,350	4,715
Adjustment for non-cash items, etc.		1,569	-515
Income tax paid		-1,939	-1,650
<b>Cash flow from operating activities before changes in working capital</b>		<b>9,039</b>	<b>10,546</b>
<b>Changes in working capital</b>			
Change in inventories		2,187	1,963
Change in operating receivables		1,035	1,367
Change in operating liabilities		118	-1,321
<b>Cash flow from changes in working capital</b>		<b>3,340</b>	<b>2,009</b>
Investments in rental equipment		-625	-697
Divestments of rental equipment		198	174
<b>Cash flow from operating activities</b>		<b>11,952</b>	<b>12,032</b>
<b>Cash flow from investing activities</b>			
Acquisition of companies and shares, net of cash acquired	30	-7	-31
Disposal of operations		—	53
Acquisition of tangible assets		-3,265	-2,708
Proceeds from sale of tangible assets		251	210
Acquisition of intangible assets		-949	-993
Proceeds from sale of intangible assets		7	28
Other investments, net		53	10
<b>Net cash used in investing activities</b>		<b>-3,910</b>	<b>-3,431</b>
<b>Net cash flow after investing activities</b>		<b>8,042</b>	<b>8,601</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		923	2,885
Repayment of borrowings		-4,493	-6,062
Dividends paid		-4,393	-3,136
<b>Cash flow from financing activities</b>		<b>-7,963</b>	<b>-6,313</b>
<b>Cash flow for the year</b>			
		<b>79</b>	<b>2,288</b>
Cash and cash equivalents at beginning of year		6,327	6,376
Foreign exchange differences on cash and cash equivalents		-30	154
<b>Cash and cash equivalents at end of year</b>		<b>6,376</b>	<b>8,818</b>
<b>Continuing operations</b>			
Cash flow from operations		12,793	12,542
Cash flow from investing activities		-3,865	-3,410
Cash flow from financing activities		-7,963	-6,321
<b>Cash flow from continuing operations</b>		<b>965</b>	<b>2,811</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	2015	2016
Revenue	2	15,667	15,146
Cost of sales and services		-10,154	-8,418
<b>Gross profit</b>		<b>5,513</b>	<b>6,728</b>
Selling expenses		-551	-820
Administrative expenses		-2,864	-2,144
Research and development costs	4	-1,521	-1,371
Other operating income	5	105	11
Other operating expenses	6	-1,443	-1,682
<b>Operating profit/loss</b>	3, 8	<b>-761</b>	<b>722</b>
Income from shares in Group companies	9	9,346	202
Income from shares in associated companies	9	10	10
Interest income and similar items	9	1,072	824
Interest expenses and similar items	9	-1,402	-1,342
<b>Profit after financial items</b>		<b>8,265</b>	<b>416</b>
Appropriations		-6	8
Income tax	10	-137	-240
<b>Profit for the year</b>		<b>8,122</b>	<b>184</b>

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

## PARENT COMPANY BALANCE SHEET

MSEK	Note	31 Dec. 2015	31 Dec. 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Patents and other intangible assets	13	20	24
Goodwill	13	—	137
<b>Total</b>		<b>20</b>	<b>161</b>
<b>Property, plant and equipment</b>			
Land and buildings	13	1,082	1,046
Plant and machinery	13	4,926	4,902
Equipment, tools, fixtures and fittings	13	432	425
Construction in progress and advance payments	13	1,285	1,237
<b>Total</b>		<b>7,725</b>	<b>7,610</b>
<b>Financial assets</b>			
Shares in Group companies	14	33,221	33,111
Due from Group companies		13,621	13,800
Investments in associated companies	15	4	4
Other investments		1	1
Non-current receivables	16	31	67
Deferred tax assets	10	261	93
<b>Total</b>		<b>47,139</b>	<b>47,076</b>
<b>Total non-current assets</b>		<b>54,884</b>	<b>54,847</b>
<b>Current assets</b>			
<b>Inventories</b>			
Inventories	17	3,186	2,927
<b>Current receivables</b>			
Trade receivables		463	716
Due from Group companies		13,759	6,788
Due from associated companies		76	115
Income tax receivables	10	179	163
Other receivables	16	319	426
Prepaid expenses and accrued income		931	709
<b>Total</b>		<b>15,727</b>	<b>8,917</b>
Cash and cash equivalents		1	1
<b>Total current assets</b>		<b>18,914</b>	<b>11,845</b>
<b>TOTAL ASSETS</b>		<b>73,798</b>	<b>66,692</b>



## PARENT COMPANY BALANCE SHEET (CONTINUED)

MSEK	Note	31 Dec. 2015	31 Dec. 2016
<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		20,759	26,102
Profit for the year		8,122	184
<b>Total</b>		<b>28,881</b>	<b>26,286</b>
<b>TOTAL EQUITY</b>	19	<b>31,997</b>	<b>29,402</b>
<b>Untaxed reserves</b>			
Other untaxed reserves		11	3
<b>Total</b>		<b>11</b>	<b>3</b>
<b>Provisions</b>			
Provisions for pensions	20	350	341
Other provisions	21	398	333
<b>Total</b>		<b>748</b>	<b>674</b>
<b>Non-current interest-bearing liabilities</b>			
Loans from financial institutions	22	2,499	2,804
Loans from Group companies	22	452	302
Other liabilities	22	18,051	16,718
<b>Total</b>		<b>21,002</b>	<b>19,824</b>
<b>Non-current non-interest-bearing liabilities</b>			
Other liabilities		59	316
<b>Total</b>		<b>59</b>	<b>316</b>
<b>Current interest-bearing liabilities</b>			
Loans from financial institutions		1,352	689
Loans from Group companies		9,761	6,812
Other liabilities		2,999	1,793
<b>Total</b>		<b>14,112</b>	<b>9,294</b>
<b>Current non-interest-bearing liabilities</b>			
Advance payments from customers		500	450
Accounts payable		1,574	1,649
Due to Group companies		1,181	2,474
Other liabilities		607	318
Accrued expenses and deferred income	25	2,007	2,288
<b>Total</b>		<b>5,869</b>	<b>7,179</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>73,798</b>	<b>66,692</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 2015</b>	<b>1,505</b>	<b>1,611</b>	<b>25,080</b>	<b>28,196</b>
Comprehensive income for the year	—	—	8,122	8,122
Dividend	—	—	-4,390	-4,390
Share-based payment settled by equity instruments	—	—	24	24
Payment of options on treasury shares, hedging of options program 2013	—	—	4	4
Dividends, hedged options program 2011	—	—	41	41
<b>Equity at 31 December 2015</b>	<b>1,505</b>	<b>1,611</b>	<b>28,881</b>	<b>31,997</b>
Comprehensive income for the year	—	—	184	184
Dividend	—	—	-3,136	-3,136
Share-based payment settled by equity instruments	—	—	47	47
Reduction of hedge options programs 2011	—	—	262	262
Payments on exercise of options program 2012 and 2013	—	—	19	19
Dividends, hedged options program 2011	—	—	29	29
<b>Equity at 31 December 2016</b>	<b>1,505</b>	<b>1,611</b>	<b>26,286</b>	<b>29,402</b>

## PARENT COMPANY CASH FLOW STATEMENT

MSEK	2015	2016
<b>Cash flow from operating activities</b>		
Profit before tax	8,265	424
Adjustment for depreciation, amortization and impairment losses	881	913
Adjustment for non-cash items, etc.	201	1,554
Income tax paid	-65	-57
<b>Cash flow from operating activities before changes in working capital</b>	<b>9,282</b>	<b>2,834</b>
<b>Changes in working capital</b>		
Changes in inventories	406	260
Changes in operating receivables	994	-538
Changes in operating liabilities	-5,958	1,548
<b>Cash flow from operating activities</b>	<b>4,724</b>	<b>4,104</b>
<b>Cash flow from investing activities</b>		
Acquisition of companies and shares, net of cash acquired	-1,232	-1,292
Acquisition of property, plant and equipment	-907	-975
Proceeds from sale of companies and shares, net of cash disposed of	211	752
Proceeds from sale of property, plant and equipment	62	-1
<b>Net cash used in investing activities</b>	<b>-1,866</b>	<b>-1,516</b>
<b>Net cash flow after investing activities</b>	<b>2,858</b>	<b>2,588</b>
<b>Cash flow from financing activities</b>		
Changes in advances/loans to/from Group companies, net	3,392	3,951
Proceeds from external borrowings	—	689
Repayment of external borrowings	-1,860	-4,092
Dividend paid	-4,390	-3,136
<b>Net cash used in financing activities</b>	<b>-2,858</b>	<b>-2,588</b>
<b>Cash flow for the year</b>	<b>0</b>	<b>0</b>
Cash and cash equivalents at beginning of year	1	1
<b>Cash and cash equivalents at end of year</b>	<b>1</b>	<b>1</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 42-124 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 2017. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on 27 April 2017.

## BASIS OF MEASUREMENT

Assets and liabilities are stated on a historical cost basis except for certain financial assets and liabilities, which are stated at their fair value. Financial assets and liabilities measured at fair value comprise derivative instruments. Receivables and liabilities and items of income and expense are offset only when required or expressly permitted in an accounting standard.

The preparation of financial statements in conformity with IFRS requires management to make assessments, estimates and assumptions that affect the application of accounting policies and recognized amounts of assets and liabilities, income and expenses. Actual results may differ from these assessments. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are further discussed below. Events after the balance sheet date refer to both favorable and unfavorable events that have occurred after the balance sheet date but before the date the financial statements were authorized for issue by the Board of Directors. Significant non-adjusting events, that is, events indicative of conditions that arose after the balance sheet date, are disclosed in the financial statements. Only adjusting events, that is, those that provide evidence of conditions that existed at the balance sheet date, have been considered in the final establishment of the financial statements. The most significant accounting policies for the Group, as set out below, have been applied consistently to all periods presented in these consolidated financial statements except as specifically described. Moreover, the Group's accounting policies have been consistently applied in the Group reporting by all members of the Group and also in the Group reporting of associated companies, where necessary, by adaptation to Group policies.

## CHANGES IN ACCOUNTING POLICIES

The below amendments of standards and new and amended interpretations came into effect 1 January 2016. None of these standards had any material impact on Sandvik's financial statements.

- Amendments to IFRS 11 Joint arrangements. Specific guidance is provided on accounting for the acquisition of an interest in a Joint Operation that is a business. An investor is required to apply the principles of business combination accounting under IFRS 3 Business Combinations when it acquires an interest in a Joint Operation that constitutes a business.
- Amendments to IAS 1 Presentation of Financial statements. The amendments make clear that materiality applies to the whole of financial statements. The amendments relate to materiality; order of the notes; subtotals; accounting policies; and disaggregation and are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements.
- Amendments to IAS 19 Employee benefits. The amendment eases the disclosure of Defined Benefit Plans where fees to such a Plan come from employees or third parties.
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization. Clarification is given on that a revenue-based method is not considered to be an appropriate manifestation of consumption.

## NEW STANDARDS PUBLISHED BY IASB, BUT NOT YET EFFECTIVE

- IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement by 1 January 2018. The standard is adopted by the EU. The company has initiated an assessment of the standard and no material effects have yet been identified.
- IFRS 15 Revenue from Contracts with Customers. The standard will be effective from 1 January 2018 and is adopted by the EU. The standard is not expected to have any material impact on Sandvik's financial statements. However, the new standard will require more extensive disclosures.
- IFRS 16 Leases. The standard will be effective from 1 January 2019. The standard has not yet been adopted by the EU. Sandvik will be affected by IFRS 16 foremost as being an operational lessee. Quantification of possible effects and choice of transition method has not yet been made. The information provided in Note 8 on Sandvik's operational leasing commitments gives an indication on the type and the extent of the existing leasing agreements.
- 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 recognized 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 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.

## SIGNIFICANT ACCOUNTING POLICIES

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

### FINANCIAL ASSETS AND LIABILITIES ARE CLASSIFIED AS FOLLOWS:

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

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

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

### LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets, with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between contractual parties that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

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

### FINANCIAL LIABILITIES

Group borrowings are classified as short-term liabilities and long-term liabilities. Borrowings are initially measured at fair value net of transaction costs. Subsequently, borrowings are measured at amortized cost. Any difference between the loan amount, net of transaction costs, and the repayable amount is allocated to profit or loss for the year over the term of the loan using the effective interest method.

### DERIVATIVES AND HEDGE ACCOUNTING

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

### HEDGE ACCOUNTING

To meet the criteria for hedge accounting, there must be a clear-cut relation to the hedged item and the hedge must be expected to be highly effective and it must be possible to measure such effectiveness reliably. Moreover, the hedge must be formally designated and documented. Gains and losses on hedges are recognized in profit or loss for the year at the same time that the gains and losses are recognized for the hedged items. Gains and losses on remeasurement of derivatives used for hedging purposes are recognized as described below under cash flow or fair-value hedges.

### Cash flow hedges

Hedge accounting is applied when hedging a particular risk associated with highly probable future cash flows and forecast transactions. The effective portion of the change in fair value for the year, of derivatives that are qualified as cash flow hedges, is recognized in other comprehensive income and the accumulated changes in a

separate component of shareholders' equity. The ineffective portion of a gain or loss is immediately recognized in profit or loss for the year. When the hedged item impacts profit or loss for the year, the accumulated changes in value of the hedging instrument are reclassified to profit or loss for the year.

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

### Fair-value hedges

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

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

Foreign currency gains and losses are recognized net.

### REPORTING OF OPERATING SEGMENTS

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

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

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

### REVENUE

#### REVENUE FROM SALES AND SERVICES

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

Revenue from service assignments is normally recognized in connection with the rendering of the service. Revenue from service and maintenance contracts is recognized in accordance with the percentage of completion method. The stage of completion is normally determined based on the proportion of costs incurred on the balance sheet date in relation to the estimated total costs of the

assignment. Only expenditures relating to work carried out or to be carried out are included in calculating the total costs.

#### CONSTRUCTION CONTRACTS

Construction contracts exist to some extent, mainly in the business areas Sandvik Mining and Rock Technology and Other Operations, product area Process Systems. Contract revenue and expenses are recognized in profit or loss for the year in proportion to the stage of completion of the contract, if the customer contract is considered enforceable, contains a customer specific delivery and the proportion of stage of completion can be estimated reliably. The stage of completion is based on the input method and is determined based on the proportion that contract costs incurred to date bear to the estimated total contract costs. Expected losses are immediately recognized as an expense in consolidated profit or loss for the year.

#### OTHER REVENUE

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

#### GOVERNMENT GRANTS

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

#### FINANCIAL INCOME AND EXPENSES

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

#### INCOME TAX

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

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

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

Deferred tax is recognized based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their value for tax purposes. Deferred taxes are measured at their nominal amount and based on the expected manner of realization or settlement of the carrying amount of the underlying assets and liabilities, using tax rates and fiscal regulations enacted or substantively enacted at the balance sheet date.

Deferred tax assets relating to deductible temporary differences and tax loss carry-forwards are recognized only to the extent that it is probable they can be utilized against future taxable profits.

#### INTANGIBLE ASSETS

##### GOODWILL

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

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and an annual impairment test is made in the fourth quarter or when there is an indication of impairment. Impairment losses on goodwill are not reversed. Goodwill arising on the acquisition of an associated

company is included in the carrying amount of participations in associated companies.

#### RESEARCH AND DEVELOPMENT

Expenditure on research activities related to the obtaining of new scientific or technical knowledge is expensed as incurred. Expenditure on development activities, whereby the research results or other knowledge is applied to accomplish new or improved products or processes, is recognized as an intangible asset in the balance sheet, provided the product or process is technically and commercially feasible and the company has sufficient resources to complete development, and is subsequently able to use or sell the intangible asset.

The carrying amount includes the directly attributable expenditure, such as the cost of materials and services, costs of employee benefits, fees to register intellectual property rights and amortization of patents and licenses. Other expenses for development are expensed as incurred. In the balance sheet, capitalized development expenditure is stated at cost less accumulated amortization and any impairment losses.

#### OTHER INTANGIBLE ASSETS

Other intangible assets acquired by the company are recognized at cost less accumulated amortization and any impairment losses. Capitalized expenditure for the development and purchase of software for the Group's IT operations are included here.

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

#### AMORTIZATION OF INTANGIBLE ASSETS

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

The estimated useful lives are as follows:

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

#### PROPERTY, PLANT AND EQUIPMENT

##### OWNED ASSETS

Property, plant and equipment are recognized at cost less accumulated depreciation and any impairment losses.

##### LEASED ASSETS

In the consolidated financial statements, leases are classified as either finance leases or operating leases. Further details on how Sandvik recognizes leases are found below.

#### DEPRECIATION OF TANGIBLE ASSETS

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

- Plant and machinery is generally depreciated on a straight-line basis over 5–10 years
- Rental assets over 3 years
- Buildings over 10–50 years
- Site improvements over 20 years
- Land is regarded as having an indefinite useful life
- Computer equipment is depreciated over 3–5 years using the reducing balance method

If an item of property, plant and equipment comprises components with different useful lives, each such significant component is depreciated separately. Depreciation methods and estimated residual values and useful lives are reviewed at each year-end.

## SIGNIFICANT ACCOUNTING POLICIES

### 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 of items of property, plant and equipment and intangible fixed assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

#### BORROWING COSTS FOR INTANGIBLE AND TANGIBLE ASSETS

Borrowing costs attributable to the construction of qualifying assets are capitalized as a portion of the qualifying asset's cost. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. The Group considers a period in excess of one year to be a substantial period of time. For the Group, the capitalization of borrowing costs is relating to intangibles is mainly relevant for capitalized expenditure for the development of new data systems. For tangibles it relates to the construction of production buildings on a proprietary basis.

### INVENTORIES

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

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

### EQUITY

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

### EARNINGS PER SHARE

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

### EMPLOYEE BENEFITS

#### THE GROUP'S PENSION PLANS

The Group sponsors a number of defined-contribution and defined-benefit pension plans, some of which with plan assets held by separate foundations or equivalent. A number of Group entities also provide post-employment medical benefits.

Whenever possible, Sandvik nowadays seeks defined contribution pension solutions and in recent years defined-benefit plans have as far as possible been closed for new entrants in connection with negotiations about defined-contribution pension arrange-

ments. The Group's Swedish companies offer all newly hired salaried employees, regardless of age, the defined-contribution pension solution (ITP 1) resulting from the renegotiation of the ITP Plan between the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector.

#### Defined-contribution plans

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

#### Defined-benefit plans

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

In measuring the present value of pension obligations and the fair value of plan assets, actuarial gains and losses may accrue either because the actual outcome differs from earlier assumptions (so-called experience adjustments) or the assumptions are changed. These actuarial gains and losses are recognized in the balance sheet and in profit or loss under other comprehensive income.

When the benefits under a plan are improved, the portion of the increased benefits that relate to past service by employees is recognized in profit or loss for the year. The amount of obligations recognized in the balance sheet for pensions and similar obligations reflects the present value of the obligations at the balance sheet date, less the fair value of any plan assets.

### PENSION ASSUMPTIONS

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

### TERMINATION BENEFITS

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



**SHARE-BASED PAYMENTS**

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

Share option programs allow employees to acquire shares in the company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value as measured at the grant date is spread over the vesting period. The fair value of the options is measured using the Black & Scholes formula, taking into account the terms and conditions upon which the options were granted. The share-based programs includes two types of rights. Matching share rights provide entitlement to shares in Sandvik if the participant remains employed and retains the saving share that has been purchased initially. Performance share rights provide entitlement to shares subject to the same conditions and if goals relating to operating performance are achieved.

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

In order to meet its commitments under the option program, Sandvik has entered into an equity swap agreement with a financial institution. Under the agreement, the financial institution undertakes to distribute Sandvik shares to participants in the program when the date for allotment occurs in accordance with the terms and conditions of the program. The fair value of the Sandvik share when the swap agreement was signed is recognized as a financial liability and as a reduction of equity in accordance with IAS 32.

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

**PROVISIONS**

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The provisions are mainly related to warranty commitments, restructuring, environmental obligations, long-term incentives and legal disputes and claims, such as value added tax issues, customer and supplier claims relating to ongoing or finished projects.

**WARRANTIES**

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

**RESTRUCTURING**

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

**SITE RESTORATION**

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

**ONEROUS CONTRACTS**

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

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

**LEASING**

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

**SANDVIK AS A LESSEE**

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

**SANDVIK AS A LESSOR**

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

**PARENT COMPANY'S ACCOUNTING POLICIES**

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

**CHANGED ACCOUNTING POLICIES**

Unless otherwise stated below, the Parent Company's accounting policies in 2016 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.

## SIGNIFICANT ACCOUNTING POLICIES

### SHARES IN GROUP COMPANIES AND ASSOCIATED COMPANIES

The Parent Company recognizes shares in Group companies and associated companies in accordance with the cost model, meaning that transaction costs are included in the carrying amount of holdings in subsidiaries and associated companies. Transaction costs related to shares in Group companies are recognized directly in profit or loss in the consolidated financial statements when they arise. Contingent consideration is valued based on the probability that the consideration will be paid. Any changes in the provision/receivable are added to/deducted from the cost. Contingent consideration is measured at fair value in the consolidated financial statements with changes in value recognized in profit or loss. Dividends from subsidiaries are recognized in full as income in profit or loss for the year.

### LEASED ASSETS

The Parent Company recognizes all lease contracts according to the rules for operating leases.

### INTANGIBLE ASSETS

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

### BORROWING COSTS

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

### EMPLOYEE BENEFITS

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

### INCOME TAX

The Parent Company recognizes untaxed reserves including the deferred tax component.

In the consolidated financial statements, untaxed reserves are recognized in their equity and deferred tax components. Correspondingly, portions of appropriations are not allocated to deferred tax expenses in the Parent Company's income statement.

### GROUP CONTRIBUTIONS AND SHAREHOLDERS' CONTRIBUTIONS IN LEGAL ENTITY ACCOUNTS

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

### ANTICIPATED DIVIDENDS

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

### FINANCIAL GUARANTEES

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

### CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### IMPAIRMENT TESTS OF GOODWILL

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired, for example due to a changed business climate or a decision taken either to sell or close down certain operations. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. This is further described in Note 12. As can be deduced from this description, changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

### IMPAIRMENT TESTS OF OTHER NON-CURRENT ASSETS

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

The carrying amount of the Group's non-current assets is tested for impairment whenever events or changes in circumstances indicate that the carrying amount will not be recovered. The carrying amount of intangible assets not yet available for use is tested annually. If such analysis indicates an excessive carrying amount, the recoverable amount of the asset is estimated. The recoverable amount is the higher of the asset's fair value less selling costs, and its value in use. Value in use is measured as the discounted future cash flows of the asset, alternatively the cash-generating unit to which the asset belongs. The rental fleets of Sandvik Mining and Rock Technology are subject to special examination considering their dependence on the business climate in the mining- and oil industry and the risk that rental agreements may be cancelled. The carrying amount of the rental fleets at the end of 2016 was 652 million SEK (541).

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 2016, Sandvik recognized deferred tax assets of 5,928 million SEK (6,237). Furthermore, the Group had additional tax loss carry-forward of about 2,428 million SEK (2,052) at the end of 2016 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 1,356 million SEK (1,060) at the end of 2016.

#### POST-EMPLOYMENT BENEFITS

Sandvik provides pension solutions and other post-employment benefits to employees throughout the Group. In certain countries defined-benefit plans are provided and the accounting for these plans is complex because actuarial assumptions are required to determine the obligation and the expense. Life expectancy, inflation and discount rate are examples of assumptions used for the calculations. Furthermore, the obligations are measured on a discounted basis since they may be settled many years after the employment. The applied actuarial assumptions as well as a sensitivity analysis are presented in Note 20. Some of the defined-benefit plans are funded, with plan assets held by separate foundations or equivalent. The financial risk management associated with the defined-benefit plans are presented in the Report of Directors 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	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
<b>Revenue</b>														
External revenue	33,809	32,852	33,131	31,093	13,909	12,931	4,976	4,655	20	22			85,845	81,553
Internal revenue	962	973	109	32	313	311	288	302	—	—	-1,672	-1,618		
<b>Group total</b>	<b>34,771</b>	<b>33,825</b>	<b>33,240</b>	<b>31,125</b>	<b>14,222</b>	<b>13,242</b>	<b>5,264</b>	<b>4,957</b>	<b>20</b>	<b>22</b>	<b>-1,672</b>	<b>-1,618</b>	<b>85,845</b>	<b>81,553</b>
<b>Share of results of associated companies</b>	<b>8</b>	<b>4</b>	<b>7</b>	<b>5</b>	<b>-14</b>	<b>12</b>	<b>—</b>	<b>—</b>	<b>7</b>	<b>-5</b>			<b>8</b>	<b>16</b>
<b>Operating profit/loss by business area</b>	<b>5,504</b>	<b>6,970</b>	<b>2,417</b>	<b>3,206</b>	<b>8</b>	<b>1,115</b>	<b>489</b>	<b>545</b>	<b>-1,147</b>	<b>-818</b>			<b>7,271</b>	<b>11,018</b>
Net financing cost													-1,963	-1,652
Income tax expense for the year													-1,865	-2,528
<b>Profit for the year</b>													<b>3,443</b>	<b>6,838</b>
<b>Other disclosures</b>														
Assets	28,927	30,147	31,145	31,104	15,598	16,252	4,746	4,693	2,417	2,214			82,833	84,410
Investments in associates	37	32	64	72	129	142	—	—	6	—			236	246
Total assets	28,964	30,179	31,209	31,176	15,727	16,394	4,746	4,693	2,423	2,214			83,069	84,656
Unallocated assets													16,054	18,486
<b>Group total</b>													<b>99,123</b>	<b>103,142</b>
Liabilities	5,341	5,703	7,790	8,360	3,587	3,263	953	945	1,747	1,469			19,418	19,740
Unallocated liabilities													45,874	43,572
<b>Group total</b>													<b>65,292</b>	<b>63,312</b>
Capital expenditure	2,038	1,697	735	802	948	849	189	129	185	196			4,095	3,673
Depreciation/Amortization	-1,934	-1,916	-1,457	-1,348	-779	-773	-195	-195	-140	-142			-4,505	-4,374
Impairment losses	-65	40	-221	-158	-511	33	—	-2	-19	-43			-816	-130
Other non-cash expenses	800	-347	444	-247	75	-153	-34	-19	104	3			1,389	-763

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	2015	2016	Non-current assets by country, Group	2015	2016
USA	13,598	11,951	Sweden	13,994	13,990
Germany	6,980	6,707	USA	10,840	11,369
China	6,406	5,569	Germany	3,591	3,788
Australia	3,625	4,286	Austria	2,548	2,576
Italy	3,245	3,561	Finland	1,716	1,754
Sweden	3,525	3,189	UK	1,979	1,724
France	2,834	2,839	China	1,643	1,584
UK	3,799	2,824	India	1,239	1,367
Russia	2,350	2,792	Australia	962	956
South Africa	2,979	2,736	France	878	873
India	2,300	2,560	Czech Republic	721	747
Mexico	2,197	2,356	Japan	588	592
Canada	2,499	2,213	Canada	470	570
Japan	2,079	2,197	Switzerland	281	456
Indonesia	1,542	1,577	Italy	423	435
Other countries	25,887	24,196	Other countries	2,771	3,168
<b>Total</b>	<b>85,845</b>	<b>81,553</b>	<b>Total</b>	<b>44,644</b>	<b>45,949</b>

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

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

## NOTES

### NOTE 2. Categories of revenue

	Group		Parent Company	
	2015	2016	2015	2016
Sale of goods	82,008	78,251	15,658	15,060
Contract revenue	442	675	0	8
Rendering of services	2,469	1,915	7	73
Rental income	926	712	2	5
<b>Total</b>	<b>85,845</b>	<b>81,553</b>	<b>15,667</b>	<b>15,146</b>

### NOTE 3. Personnel information and remuneration of management and auditors

#### 3.1 AVERAGE NUMBER OF EMPLOYEES

	Group				Parent Company			
	2015		2016		2015		2016	
	Number	Women, %	Number	Women, %	Number	Women, %	Number	Women, %
Sweden	10,430	24	9,940	24	7,874	22	7,590	22
Rest of Europe	14,847	20	14,599	19	—	—	—	—
<b>Total Europe</b>	<b>25,277</b>	<b>21</b>	<b>24,539</b>	<b>21</b>	<b>7,874</b>	<b>22</b>	<b>7,590</b>	<b>22</b>
North America	6,256	17	5,912	16	2	50	—	—
South America	2,482	15	2,211	15	—	—	—	—
Africa, Middle East	2,820	17	2,839	17	—	—	—	—
Asia	8,224	16	7,958	16	—	—	—	—
Australia	1,504	14	1,310	14	—	—	—	—
<b>Total</b>	<b>46,563</b>	<b>19</b>	<b>44,769</b>	<b>19</b>	<b>7,876</b>	<b>22</b>	<b>7,590</b>	<b>22</b>
Whereof discontinued operations	1,210		984					
Continuing operations	45,353		43,785					

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

	Group		Parent Company	
	2015	2016	2015	2016
Wages, salaries and other remuneration	20,604	20,008	4,039	4,141
Social costs	5,263	5,085	1,876	1,794
Employee profit sharing	13	169	10	130
<b>Total</b>	<b>25,880</b>	<b>25,262</b>	<b>5,925</b>	<b>6,065</b>
Whereof discontinued operations	533	476	—	—
<b>Continuing operations</b>	<b>25,347</b>	<b>24,786</b>	<b>5,925</b>	<b>6,065</b>
Of which, pension costs recognized in social costs	1,426	1,414	476	588

A total of 79 million SEK (87) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to 156 million SEK (175). Correspondingly, 47 million SEK (21) 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 2016 resulted in an allocation of 169 million SEK (13) to the profit-sharing foundation.

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

	Group		Parent Company	
	2015	2016	2015	2016
Sweden	5,385	5,418	4,039	4,141
Rest of Europe	7,404	7,122	—	—
<b>Total Europe</b>	<b>12,789</b>	<b>12,540</b>	<b>4,039</b>	<b>4,141</b>
North America	3,522	3,165	—	—
South America	707	620	0	—
Africa, Middle East	806	817	—	—
Asia	1,835	2,031	—	—
Australia	945	835	—	—
<b>Total</b>	<b>20,604</b>	<b>20,008</b>	<b>4,039</b>	<b>4,141</b>
Whereof discontinued operations	394	352	—	—
<b>Total continuing operations</b>	<b>20,210</b>	<b>19,656</b>	<b>4,039</b>	<b>4,141</b>
<b>Of which, to Boards of Directors and presidents</b>				
Salaries and other remuneration	605	707	40	46
Of which, variable salary	75	79	6	13

#### 3.4 GENDER DISTRIBUTION IN SENIOR MANAGEMENT

	Group		Parent Company	
	2015	2016	2015	2016
<b>Proportion of women, %</b>				
Gender distribution in senior management	12	15	20	18
Other senior executives	21	21	36	43

### 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 2016 Annual General Meeting, the total fee to the external Board members elected at the Meeting amounts to in total 5,600,000 SEK on an annual basis. Of this amount, 2,000,000 SEK is payable to the Chairman of the Board (Johan Molin) and 600,000 SEK to each of the other external Board members (Jennifer Allerton, Claes Boustedt, Jürgen M Geissinger, Johan Karlström, Helena Stjernholm and Lars Westerberg).

In addition to these amounts, the Annual General Meeting resolved that a fee for committee work should be paid to Board members elected by the Meeting, in an amount totaling 525,000 SEK to the members of the Audit Committee (Claes Boustedt 225,000 SEK, Helena Stjernholm 150,000 SEK and Lars Westerberg 150,000 SEK) and in an amount totaling 325,000 SEK to the members of the Remuneration Committee (Johan Molin 125,000 SEK, Johan Karlström 100,000 and Lars Westerberg 100,000 SEK).

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

#### PRESIDENT AND OTHER SENIOR EXECUTIVES

##### Principles of remuneration

The following guidelines approved by the Annual General Meeting for remuneration of senior executives have been applied since the Annual General Meeting in 2016:

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

The variable salary may comprise short-term incentives in cash and long-term incentives in cash, shares and/or share-based instruments in Sandvik AB. Variable salary in cash is conditional upon the fulfillment of defined and measurable goals and should be maximized in relation to the fixed salary. Long-term incentives in the form of shares and/or share-based instruments in Sandvik AB may be provided through participation in long-term incentive programs approved by the General Meeting. Terms and conditions for variable salary should be designed so that the Board, 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 either be defined benefit or defined contribution, or a combination thereof.

Normally, severance payment is made 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 payment will be made when employment is terminated by the employee.

The Board is to have the right to depart from the guidelines resolved 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 2017 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 12,500,040 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 2016 amounted to 6,181,660 SEK.

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

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

##### Other senior executives

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

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

For members that are covered by the ITP Plan 2 (defined benefit), a supplementary defined-contribution plan under which the company each year contributes 20-38% (depending on age and employment start in GEM) of fixed salary portions in excess of 20 price base amounts applies. Of the seven members of the Group Executive Management who are covered by a Swedish pension plan and were employed as per 31 December 2016, three are encompassed by the ITP 1 plan and four are encompassed by the ITP 2 plan. Former members of the Group Executive Management who were not covered by a Swedish pension plan had defined-contribution plans.

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

#### Remuneration and other benefits pertaining to 2016 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	2,125,000 <sup>4</sup>				
Other Board members	4,325,000 <sup>4</sup>				
President and CEO Björn Rosengren	12,771,667 <sup>5</sup>	6,181,660	109,626	1,951,464	4,687,872
Other senior executives <sup>6</sup>	60,139,845	15,971,234	1,388,028	4,399,764	11,505,951
<b>Sum</b>	<b>79,361,512</b>	<b>22,152,894</b>	<b>1,497,654</b>	<b>6,351,228</b>	<b>16,193,823</b>

<sup>1</sup>) Amount pertaining to 2016 and expected to be paid in 2017.

<sup>2</sup>) Relates mainly to the fringe-benefit value of housing and company car.

<sup>3</sup>) The amounts pertain to changes in provisions made for the 2014, 2015 and 2016 LTI programs.

<sup>4</sup>) Expensed during 2016.

<sup>5</sup>) Björn Rosengren's fixed salary 2016 amounts to 12,500,040 SEK, the remaining amount relates to vacation pay, etc. Board fees are not payable to executive Board members.

<sup>6</sup>) Pertains to the following persons in 2016: Johan Kerstell (from Jun), Tomas Eliasson (from Apr), Jonas Gustavsson, Jessica Alm, Åsa Thunman, Petra Einarsson, Lars Engström, Anna Vikström Persson (Jan-May), Dinggui Gao (Jan-Jun), ZZ Zhang (Jan-Jun), Jim Nixon (Jan-Jun), Mats Backman (Jan-Apr). The amounts also include notice and severance pay for former EVP & Head of Human Resources and the Presidents of Sandvik Construction and Venture business areas.

## NOTES

### LONG-TERM INCENTIVE PROGRAM

#### Share-based incentive program 2011–2013

The 2011, 2012 and 2013 Annual General Meetings approved the Board proposals to introduce a share-based LTI program for each year. The programs are aimed at about 400 senior executives and key individuals in the Sandvik Group and encompass a maximum total of 35,124,878 Sandvik shares.

The program participants have been allotted employee stock options that entitle the employee to acquire Sandvik shares after three years at a set exercise price, on condition that certain performance targets linked to the Sandvik Group's growth in value – Sandvik Value Added (SVA) – are met ("performance shares"). For the President, senior executives and certain top level executives, a personal investment in Sandvik shares ("saving shares"), corresponding to 10% of fixed annual pre-tax salary for the year in which the investment in saving shares is made, was required in order to receive allotment of employee stock options. Provided that such a personal investment in Sandvik shares has been made, these executives also received allotment of "matching rights" (one per saving share acquired) that entitle the executive to acquire Sandvik shares after three years at a set exercise price ("matching shares"). Employee stock options and matching rights are non-transferrable.

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

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

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

Each matching right automatically provides entitlement to acquire one matching share not earlier than three and not later than five years after the allotment of the matching rights. The exercise of matching rights to acquire matching shares requires continued employment at Sandvik and that all acquired saving shares are held for a three-year period after the allotment of matching rights.

The exercise price to acquire a performance share or matching share equals an amount corresponding to 110% and 75%, respectively, of the average volume-weighted price paid for the Sandvik share on NASDAQ Stockholm during a period of ten trading days immediately following the Annual General Meeting that approved the program. The average volume-weighted price paid was determined for 2011 at 117.20 SEK, for 2012 at 97.12 SEK and for 2013 at 92.41 SEK.

For the 2011 LTI program, encompassing the years 2011–2013, no employee stock options were vested, since the performance targets set by the Board of Directors were not met. The program lapsed June 2016.

For the 2012 LTI program, encompassing the years 2012–2014, 36% of the employee stock options were vested.

For the 2013 LTI program, encompassing the years 2013–2015, no employee stock options vested, since the performance targets set by the Board of Directors were not met.

The number of allotted employee stock options and acquired matching rights under the 2012 and 2013 programs for the President and other members of the Group Executive Management on 31 December 2016 corresponds to the number of outstanding employee stock options and matching rights at year-end.

#### Assumptions for determining the value based on the Black & Scholes model, 2011 – 2013 LTI programs

Assumptions	Program 2011 (on date of issue)	Program 2012 (on date of issue)	Program 2013 (on date of issue)
Share price	117 SEK	92.65 SEK	94.65 SEK
Exercise price	129.00/87.90 SEK	106.80/72.80 SEK	101.70/69.30 SEK
Expected volatility	32 %	36.50 %	35 %
Expected maturity	3 years	3 years	3 years
Present value of forecasted future dividends <sup>1</sup>	13.10 SEK	12.17 SEK	12.22 SEK
Risk-free interest rate	2.6 %	0.95 %	0.91 %

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

#### Number and exercise price, Group (Including Parent Company), 2011 – 2013 LTI programs

	Employee stock options 2011	Matching rights 2011	Employee stock options 2012	Matching rights 2012	Employee stock options 2013	Matching rights 2013
Outstanding at beginning of year	—	36,702	3,197,880	93,828	—	111,688
Allotted during the period	—	—	—	—	—	—
Exercised during the year	—	—	-39,240	-29,258	—	-33,380
Forfeited during the year	—	-36,702	-76,320	-1,960	—	-3,579
Outstanding at year-end	—	—	3,082,320	62,610	—	74,729
Theoretical value when allotted acc. to Black & Scholes, SEK	17	33.10	13	24	14.30	26.30
Exercise price, SEK	129	87.90	106.80	72.80	101.70	69.30

#### Number and exercise price, Parent Company, 2011 – 2013 LTI programs

	Employee stock options 2011	Matching rights 2011	Employee stock options 2012	Matching rights 2012	Employee stock options 2013	Matching rights 2013
Outstanding at beginning of year	—	20,941	433,080	28,265	—	37,869
Allotted during the year	—	—	—	—	—	—
Exercised during the year	—	—	-12,960	-13,453	—	-14,826
Forfeited during the year	—	-20,941	-20,880	—	—	-1,577
Outstanding at year-end	—	—	399,240	14,812	—	21,466
Theoretical value when allotted acc. to Black & Scholes, SEK	17	33.10	13	24	14.30	26.30
Exercise price, SEK	129	87.90	106.80	72.80	101.70	69.30



The number of allotted matching rights under the 2012 and 2013 programs corresponds to the number of outstanding matching rights at 31 December 2016.

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 2014-2016

The 2014, 2015 and 2016 Annual General Meetings approved the Board's proposal to introduce a performance share program for each year for about 350 senior executives and key individuals in the Sandvik Group, divided into four categories. For all participants, a personal investment is required in each separate program and the programs encompass a maximum total of 6,488,540 shares.

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

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

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

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

For the 2014 LTI program matching shares will be allotted during 2017, if all the prerequisites for allotment are met. No performance shares will be allotted since the performance targets set by the Board of Directors were not met.

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

In order for any performance shares to be allotted in the 2016 LTI program, adjusted EPS growth for the financial year 2016 must exceed 5% in relation to adjusted EPS for the financial year 2015. For the maximum number of performance shares to be allotted in the 2016 LTI program, adjusted EPS growth for the financial year 2016 must attain 20% in relation to adjusted EPS for the financial year 2015. Within the range, a proportional linear number of performance shares will be allotted.

Adjusted EPS for the financial year 2014 amounted to 4.83 SEK; year 2015 amounted to 4.72 SEK. For the financial year 2016, EPS amounted to 5.48 SEK, which means that the performance targets were essentially met and performance shares will therefore vest in 2019 subject to the requirements in the plan rules.

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

The right to be allotted matching shares under the 2016 LTI program presupposes that the 2017 Annual General Meeting decides on dividends for the financial year 2016. Whether or not dividends

are decided on does not impact a participant's right to be allotted performance shares.

If all the prerequisites for allotment are met, allotment of matching shares under the 2016 LTI program will take place during 2019, and no later than 30 June 2019.

The number of allotted performance shares and matching shares under the 2016 LTI program for the President and other members of the Group Executive Management on 31 December 2016 corresponds to the number of outstanding performance shares and matching shares at year-end.

The number of allotted matching shares under the 2014 and 2015 LTI programs for the President and other members of the Group Executive Management on 31 December 2016 corresponds to the number of outstanding matching shares at year-end.

#### COSTS FOR THE PROGRAMS

The following provisions were established during the year: 33,3 million SEK, excluding social costs for the 2016 LTI program, of which 5,4 million SEK for the President and other senior executives; 7,8 million SEK, excluding social costs, for the 2015 LTI program, of which 0,5 million SEK for the President and other senior executives; and 7,0 million SEK, excluding social costs, for the 2014 LTI program, of which 0,4 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 four times during the year. Issues dealt with included the remuneration level in connection with completed recruitments, distribution between fixed and variable salary, the magnitude of any pay increases and the long-term variable incentive program.

The Board discussed the Remuneration Committee's proposals and made a decision, using the Committee's proposal as a basis. Based on the Remuneration Committee's proposals, the Board decided on the remuneration of the President for 2016. The President decided on remuneration to other senior executives after consultation with the Remuneration Committee. The Remuneration Committee performed its task supported by expertise on remuneration levels and structures. For information on the composition of the Committee, refer to the Corporate Governance Report.

#### Assumptions for determining the value, 2014 – 2016 LTI programs

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

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

## NOTES

### Number of shares, Group (including Parent Company), 2014 – 2016 LTI programs

	Performance shares 2014	Matching shares 2014	Performance shares 2015	Matching shares 2015	Performance shares 2016	Matching shares 2016
Outstanding at beginning of year	—	349,089	—	344,802	—	—
Allotted during the year	—	—	—	—	1,689,722	362,152
Forfeited during the year	—	-33,320	—	-45,523	-170,036	-6,761
Outstanding at year-end	—	315,769	—	299,279	1,519,686	355,390
Theoretical value when allotted, SEK	84.90	84.90	92.10	92.10	74.00	74.00

### Number of shares, Parent Company, 2014 - 2015 LTI programs

	Performance shares 2014	Matching shares 2014	Performance shares 2015	Matching shares 2015	Performance shares 2016	Matching shares 2016
Outstanding at beginning of year	—	55,119	—	52,073	—	—
Allotted during the year	—	—	—	—	248,980	43,832
Forfeited during the year	—	-12,182	—	-23,645	-21,412	—
Outstanding at year-end	—	42,937	—	28,428	227,568	43,832
Theoretical value when allotted, SEK	84.90	84.90	92.10	92.10	74.00	74.00

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

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

	KPMG		Other		Total	
	2015	2016	2015	2016	2015	2016
<b>Audit</b>						
Parent Company	11.5	12.0	—	—	11.5	12.0
Subsidiaries	74.8	64.7	3.0	2.7	77.8	67.4
<b>Group</b>	<b>86.3</b>	<b>76.7</b>	<b>3.0</b>	<b>2.7</b>	<b>89.3</b>	<b>79.4</b>
<b>Tax consultancy services</b>						
Parent Company	0.3	0.1				
Subsidiaries	6.3	6.6				
<b>Group</b>	<b>6.6</b>	<b>6.7</b>				
<b>Other services</b>						
Parent Company	3.5	2.3				
Subsidiaries	3.6	3.1				
<b>Group</b>	<b>7.1</b>	<b>5.4</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 advice on accounting issues and due-diligence services in connection with acquisitions.

**NOTE 4. Research, development and quality assurance**

	Group		Parent Company	
	2015	2016	2015	2016
<b>Expenditure for</b>				
Research and development	3,532	3,483	1,714	1,498
Quality assurance	496	452	279	303
<b>Total</b>	<b>4,028</b>	<b>3,935</b>	<b>1,993</b>	<b>1,801</b>
of which expensed, total	3,498	3,528	1,800	1,673
of which expensed relating to research and development	3,001	3,075	1,521	1,371

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 214 million SEK (157). The amount includes gains on the divestment of operations with 53 million SEK (0). Also included are foreign exchange gains on operating receivables and payables of 44 million SEK, which last year was a loss of -114 million SEK and then reported under other operating expenses. 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 gain on disposal of land and buildings and unrealized hedges.

**NOTE 6. Other operating expenses****CONTINUING OPERATIONS**

Other operating expenses amounted to -101 million SEK (-304), which comprises a number of smaller items recognized as other operating expenses.

**PARENT COMPANY**

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

**NOTE 7. Operating expenses**

Group	2015	2016
Cost of goods and material	-28,639	-25,143
Employee benefit expense	-25,347	-24,786
Depreciation and amortization	-4,505	-4,374
Impairment losses, inventories	-397	-418
Impairment losses and reversal		
impairment losses, non-current assets	-816	-130
Impairment losses, doubtful receivables	-226	-100
Other expenses	-18,809	-15,824
<b>Total</b>	<b>-78,739</b>	<b>-70,775</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 2016, the planned residual value of such leased assets was 51 million SEK (69). Variable fees recognized as expenses totaled 0 million SEK (1).

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

Group	Nominal fee		Present value	
	2015	2016	2015	2016
Within one year	19	18	13	12
Between one and five years	55	58	50	51
Later than five years	7	0	3	0
<b>Group total</b>	<b>81</b>	<b>76</b>	<b>66</b>	<b>63</b>

**FINANCE LEASES WITH SANDVIK AS LESSOR**

The Group's investments in finance leases amounted to 1,948 million SEK (1,191) at year-end 2016. 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	
	2015	2016	2015	2016
Within one year	794	916	749	767
Between one and five years	380	1,017	362	905
More than five years	17	15	9	6
<b>Group total</b>	<b>1,191</b>	<b>1,948</b>	<b>1,120</b>	<b>1,678</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 2016, the Group expensed 897 million SEK (840), including minimum lease payments of 903 million SEK (837), variable fees of 3 million SEK (7), and net of sublease income of -9 million SEK (-4). The Parent Company expensed 240 million SEK (211).

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

	Group		Parent Company	
	2015	2016	2015	2016
Within one year	754	809	195	220
Between one and five years	1,579	1,625	594	558
Later than five years	634	697	418	378
<b>Group total</b>	<b>2,967</b>	<b>3,131</b>	<b>1,207</b>	<b>1,156</b>

## NOTES

Future minimum lease payments under non-cancellable lease contracts that pertain to subleased items amounted to 211 million SEK (6).

### OPERATING LEASES WITH SANDVIK AS LESSOR

The planned residual value of the Group's rental fleet is 652 million SEK (541). Depreciation for the year amounted to 418 million SEK (457). The future minimum lease payments under non-cancellable leases amount to 763 million SEK (514). Variable fees amounted to 22 million SEK (5).

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

	Group		Parent Company	
	2015	2016	2015	2016
Within one year	224	340	1	0
Between one and five years	290	423	—	—
Later than five years	—	0	—	—
<b>Group total</b>	<b>514</b>	<b>763</b>	<b>1</b>	<b>0</b>

### NOTE 9. Net financing cost

Group	2015	2016
Interest income	130	159
Dividend	9	5
<b>Other investments incl. derivatives</b>		
Net gain on remeasurement of financial assets/liabilities	22	5
Net foreign-exchange gains	—	—
Other financial income	11	7
<b>Financial income</b>	<b>173</b>	<b>176</b>
Interest expense	-1,880	-1,670
<b>Other investments incl. derivatives</b>		
Net loss on remeasurement of financial assets/liabilities	-180	-108
Net foreign-exchange losses	-22	-12
Other financial expenses	-55	-47
<b>Financial expenses</b>	<b>-2,136</b>	<b>-1,837</b>
<b>Net financing cost</b>	<b>-1,963</b>	<b>-1,661</b>

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to -1,507 million SEK (-1,782). In 2016, the hedging of fair values resulting from the valuation of hedged items had an effect of -4 million SEK (-8) on the result, while the valuation of hedged instruments affected the result by 4 million SEK (8). 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.

Parent Company	Income from shares in Group companies		Income from shares in associated companies	
	2015	2016	2015	2016
Dividend, net of withholding tax	7,966	328	10	10
Group contributions paid/received	1,422	525	—	—
Gain on sale of shares and participations	116	47	—	—
Impairment	-157	-698	—	—
Reversed impairment	—	—	—	—
<b>Total</b>	<b>9,346</b>	<b>202</b>	<b>10</b>	<b>10</b>

Parent Company	Interest income and similar items	
	2015	2016
Interest income, Group companies	1,009	823
Other interest income	0	1
Derivatives, Group companies	62	—
Other	—	—
<b>Total</b>	<b>1,072</b>	<b>824</b>

Interest expense and similar items

Parent Company	2015	2016
Interest expense, Group companies	-659	-546
Other interest expense	-731	-701
Derivatives, Group companies	—	-81
Other	-13	-14
<b>Total</b>	<b>-1,402</b>	<b>-1,342</b>

### NOTE 10. Income tax

#### RECOGNIZED IN PROFIT AND LOSS

	Group		Parent Company	
	2015	2016	2015	2016
<b>Income tax expense for the year</b>				
Current tax	-1,590	-1,831	-32	-73
Adjustment of taxes attributable to prior years	-260	-196	-34	—
<b>Total current tax expense</b>	<b>-1,850</b>	<b>-2,027</b>	<b>-66</b>	<b>-73</b>
Deferred taxes relating to temporary differences and tax loss carry-forward	-15	-501	-71	-167
<b>Total tax expense</b>	<b>-1,865</b>	<b>-2,528</b>	<b>-137</b>	<b>-240</b>

The Group recognized tax expense for the continuing operations for the year of 2,528 million SEK (1,865) or 27.0% (35.1) of profit after financial items.

#### RECONCILIATION OF THE GROUP'S TAX EXPENSE

The Group's weighted average tax rate for the continuing operations, calculated in accordance with the statutory tax rates in each country, is 19.7% (16.9). The tax rate in Sweden is 22% (22). Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

Continuing operations	2015		2016	
	MSEK	%	MSEK	%
Profit after financial items	5,308		9,366	
Weighted average tax based on each country's tax rate	-896	-16.9	-1,841	-19.7
<b>Tax effect of</b>				
Non-deductible expenses	-234	-4.4	-396	-4.2
Tax-exempt income	54	1.0	61	0.7
Adjustments relating to prior years	-260	-4.9	-196	-2.1
Effects of tax loss carry-forward, net	-467	-8.8	-12	-0.1
Other	-62	-1.1	-144	-1.6
<b>Total recognized tax expense</b>	<b>-1,865</b>	<b>-35.1</b>	<b>-2,528</b>	<b>-27.0</b>

The weighted average tax rate for Group total, based on the statutory tax rates in each country, is 23.0% (22.1).

Group total	2015		2016	
	MSEK	%	MSEK	%
Profit after financial items	4,059		7,996	
Weighted average tax based on each country's tax rate	-896	-22.1	-1,841	-23.0
<b>Tax effect of</b>				
Non-deductible expenses	-234	-5.8	-396	-5.0
Tax-exempt income	54	1.3	61	0.8
Adjustments relating to prior years	-260	-6.4	-196	-2.4
Effects of tax loss carry-forward, net	-467	-11.5	-12	-0.2
Other	-62	-1.4	-144	-1.8
<b>Total recognized tax expense</b>	<b>-1,865</b>	<b>-45.9</b>	<b>-2,528</b>	<b>-31.6</b>

## RECONCILIATION OF THE PARENT COMPANY'S TAX EXPENSE

The Parent Company's effective tax rate exceeds the nominal tax rate in Sweden, mainly due to writedown of shares in Group companies which are non-deductible expenses.

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

	2015		2016	
	MSEK	%	MSEK	%
Parent company				
Profit before tax	8,265		424	
Tax based on the nominal tax rate for the Parent Company	-1,818	-22	-93	-22
<b>Tax effects of</b>				
Non-deductible expenses	-45	-0.5	-212	-50
Tax-exempt income	1,816	21.9	115	27.1
Adjustments relating to prior years	-90	-1.1	-50	-11.8
<b>Total recognized tax expense</b>	<b>-137</b>	<b>-1.7</b>	<b>-240</b>	<b>-56.6</b>

## TAX ITEMS ATTRIBUTABLE TO OTHER COMPREHENSIVE INCOME

Group	2015			2016		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Actuarial gains/losses attributable to defined- benefit pension plans	589	-139	450	168	-82	86
Translation differences for the year	-972	—	-972	2,323	—	2,323
Fair-value changes in cash flow hedges for the year	-107	29	-78	-47	12	-35
Fair-value changes in cash flow hedges carried forward to profit/loss for the year	162	-36	126	153	-34	119
<b>Other comprehensive income</b>	<b>-328</b>	<b>-146</b>	<b>-474</b>	<b>2,597</b>	<b>-104</b>	<b>2,493</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	2015			2016		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	1,746	-1,342	404	1,310	-1,435	-125
Property, plant and equipment	118	-1,082	-964	112	-1,070	-958
Financial non-current assets	56	-90	-34	72	-97	-25
Inventories	962	-79	883	1,041	-78	963
Receivables	260	-120	140	277	-66	211
Interest-bearing liabilities	1,478	-4	1,474	1,482	-10	1,472
Non-interest-bearing liabilities	1,124	-143	981	1,027	-133	894
Other	13	—	13	—	-1	-1
Tax loss carry-forward	1,348	—	1,348	1,367	—	1,367
<b>Total</b>	<b>7,105</b>	<b>-2,860</b>	<b>4,245</b>	<b>6,688</b>	<b>-2,890</b>	<b>3,798</b>
Offsetting within companies	-868	868	—	-760	760	—
<b>Total deferred tax assets and liabilities</b>	<b>6,237</b>	<b>-1,992</b>	<b>4,245</b>	<b>5,928</b>	<b>-2,130</b>	<b>3,798</b>

Parent Company	2015			2016		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	—	-28	-28	—	-27	-27
Inventories	1	—	1	7	—	7
Provisions	54	-11	43	46	-12	34
Non-interest-bearing assets and liabilities	77	—	77	56	—	56
Tax loss carry-forward	168	—	168	23	—	23
<b>Total</b>	<b>300</b>	<b>-39</b>	<b>261</b>	<b>132</b>	<b>-39</b>	<b>93</b>
Offsetting	-39	39	—	-39	39	—
<b>Total deferred tax assets and liabilities</b>	<b>261</b>	<b>—</b>	<b>261</b>	<b>93</b>	<b>—</b>	<b>93</b>

## NOTES

### UNRECOGNIZED DEFERRED TAX ASSETS

The Group has additional tax loss carry-forward of 2,428 million SEK (2,052).

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

Year	MSEK
2017	153
2018	93
2019	122
2020	730
2021 and later	128
No expiry date	1,202
<b>Total</b>	<b>2,428</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 692 million SEK (573).

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

	Group		Parent Company	
	2015	2016	2015	2016
Balance at beginning of year, net	4,580	4,245	332	261
Recognized in profit and loss	-15	-501	-71	-168
Acquisitions/disposals of subsidiaries	-4	-1	—	—
Recognized in other comprehensive income	-146	-104	—	—
Translation differences	-170	159	—	—
<b>Balance at end of year, net</b>	<b>4,245</b>	<b>3,798</b>	<b>261</b>	<b>93</b>

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

	Group		Parent Company	
	2015	2016	2015	2016
Provisions for taxes	-1,060	-1,356	—	—
Income tax liabilities	-871	-948	—	—
Income tax receivables	1,067	1,047	179	163
<b>Net tax liabilities/receivables</b>	<b>196</b>	<b>99</b>	<b>179</b>	<b>163</b>

Provisions for taxes of -1,356 million SEK (-1,060) relate to ongoing disputes and assessed tax risks.

### NOTE 11. Earnings per share

#### BASIC AND DILUTED EARNINGS PER SHARE, SEK

	Basic		Diluted	
	2015	2016	2015	2016
Earnings per share, Group total	1.79	4.39	1.79	4.39
Earnings per share, continuing operations	2.79	5.48	2.79	5.48

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

#### BASIC EARNINGS PER SHARE

The calculation of earnings per share for 2016 is based on the profit for the year attributable to the equity holders of the Parent Company, Group total of 5,508 million SEK (2,247), continuing operations of 6,878 million SEK (3,496) and the weighted average number of shares (thousands) of 1,254,386 (1,254,386) during 2016. These two components have been calculated as follows:

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

	2015	2016
Profit for the year attributable to the equity holders of the Parent Company, Group total	2,247	5,508
Profit for the year attributable to equity holders of the Parent Company, continuing operations	3,496	6,878

#### WEIGHTED AVERAGE NUMBER OF SHARES, BASIC

In thousands of shares	2015	2016
Total number of ordinary shares at 1 January	1,254,386	1,254,386
Effects of reacquisitions and redemption	—	—
Weighted average number of shares outstanding during the year, basic	1,254,386	1,254,386

#### DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share for 2016 is based on the profit attributable to the equity holders of the Parent Company, Group total of 5,508 million SEK (2,247), continuing operations of 6,878 million SEK (3,496) and the weighted average number of shares (thousands) of 1,254,604 (1,254,386) during 2016. The two components have been calculated as follows:

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

	2015	2016
Profit for the year attributable to equity holders of the Parent Company, Group total	2,247	5,508
Profit for the year attributable to equity holders of the Parent Company, continuing operations	3,496	6,878

#### WEIGHTED AVERAGE NUMBER OF SHARES, DILUTED

In thousands of shares	2015	2016
Weighted average number of shares, basic	1,254,386	1,254,386
Effect of share options	—	218
Weighted average number of shares outstanding during the year, diluted	1,254,386	1,254,604

The 2014, 2015 and 2016 Annual General Meetings approved a share-based LTI program. This could entail future dilution effects. For information about the program, refer to Note 3.5.

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

INTANGIBLE ASSETS	Internally generated intangible assets					Acquired intangible assets						
	Capitalized R&D expenditure	IT software	Patents, licenses, trademarks, etc.	Other	Sub-total	Capitalized R&D expenditure	IT software	Patents, licenses, trademarks, etc.	Goodwill	Other	Sub-total	Total
Cost												
At 1 January 2015	2,722	1,812	258	155	4,947	27	543	2,100	12,743	2,576	17,989	22,936
Additions	531	321	8	9	869	16	39	12	—	13	80	949
Business combinations	—	—	—	—	—	—	—	15	—	—	15	15
Divestments and disposals	-127	-64	—	—	-190	-15	-5	—	—	-5	-25	-215
Impairment losses	—	—	—	—	—	—	—	—	-101	—	-101	-101
Reclassifications	53	-44	—	—	9	—	38	-4	—	3	37	46
Translation differences for the year	-42	—	-3	3	-41	—	-8	77	127	72	268	226
Transfer to held for sale	-11	—	—	—	-11	—	—	—	-112	—	-112	-123
<b>At 31 December 2015</b>	<b>3,126</b>	<b>2,025</b>	<b>263</b>	<b>167</b>	<b>5,583</b>	<b>28</b>	<b>607</b>	<b>2,200</b>	<b>12,657</b>	<b>2,659</b>	<b>18,151</b>	<b>23,733</b>
At 1 January 2016	3,126	2,025	263	167	5,583	28	607	2,200	12,657	2,659	18,151	23,733
Additions	407	444	4	—	855	57	54	25	—	2	138	993
Business combinations	—	—	—	—	—	—	—	4	35	—	40	40
Divestments and disposals	-44	-20	—	-23	-87	—	-10	-1	—	-6	-17	-103
Impairment losses	—	—	—	—	—	—	—	—	-118	—	-118	-118
Reclassifications	10	2	2	—	14	9	10	-24	—	-21	-26	-12
Translation differences for the year	60	24	15	9	107	—	12	89	759	20	880	987
<b>At 31 December 2016</b>	<b>3,559</b>	<b>2,475</b>	<b>285</b>	<b>153</b>	<b>6,472</b>	<b>94</b>	<b>673</b>	<b>2,294</b>	<b>13,333</b>	<b>2,654</b>	<b>19,048</b>	<b>25,520</b>
<b>Accumulated amortization and impairment losses</b>												
At 1 January 2015	1,264	1,138	80	109	2,591	17	470	551	—	984	2,022	4,613
Divestments and disposals	-71	-47	—	-2	-119	-15	-2	—	—	—	-17	-136
Impairment losses	64	—	—	18	82	—	—	21	—	55	76	158
Reclassifications	19	—	—	—	19	—	12	-5	—	—	7	26
Amortization for the year	260	117	12	7	396	2	38	122	—	231	392	788
Translation differences for the year	-19	-1	-5	3	-21	—	-7	-1	—	—	-8	-29
<b>At 31 December 2015</b>	<b>1,517</b>	<b>1,207</b>	<b>87</b>	<b>135</b>	<b>2,948</b>	<b>4</b>	<b>511</b>	<b>688</b>	<b>—</b>	<b>1,270</b>	<b>2,472</b>	<b>5,420</b>
At 1 January 2016	1,517	1,207	87	135	2,948	4	511	688	—	1,270	2,472	5,420
Divestments and disposals	-32	-20	—	-4	-56	—	-10	-1	—	—	-11	-67
Impairment losses	204	5	—	—	210	—	—	—	—	—	—	210
Reversal of earlier impairment losses	—	—	—	-18	-18	—	—	—	—	—	—	-18
Reclassifications	5	-2	—	—	3	—	-3	-9	—	-21	-33	-30
Amortization for the year	285	103	13	6	407	18	39	115	—	214	387	794
Translation differences for the year	25	5	7	8	43	-1	17	-24	—	-67	-73	-30
<b>At 31 December 2016</b>	<b>2,004</b>	<b>1,299</b>	<b>107</b>	<b>127</b>	<b>3,538</b>	<b>21</b>	<b>554</b>	<b>770</b>	<b>—</b>	<b>1,396</b>	<b>2,742</b>	<b>6,280</b>
<b>Net carrying amounts</b>												
1 January 2015	1,458	674	178	46	2,356	10	73	1,549	12,743	1,592	15,967	18,323
31 December 2015	1,609	818	176	32	2,635	24	96	1,512	12,657	1,389	15,678	18,313
1 January 2016	1,609	818	176	32	2,635	24	96	1,512	12,657	1,389	15,678	18,313
31 December 2016	1,555	1,176	178	25	2,934	72	119	1,524	13,333	1,258	16,306	19,240
<b>Amortization for the year is included in the following lines in the 2015 income statement</b>												
Cost of sales	—	-8	—	—	-8	—	-18	-107	—	-40	-165	-173
Selling expenses	—	-3	-1	-3	-7	—	-7	-9	—	-188	-204	-211
Administrative expenses	-260	-106	-11	-4	-381	-2	-13	-6	—	-3	-24	-405
<b>Total</b>	<b>-260</b>	<b>-117</b>	<b>-12</b>	<b>-7</b>	<b>-396</b>	<b>-2</b>	<b>-38</b>	<b>-122</b>	<b>—</b>	<b>-231</b>	<b>-392</b>	<b>-788</b>
<b>Amortization for the year is included in the following lines in the 2016 income statement</b>												
Cost of sales	—	-5	-1	-3	-9	—	-16	-102	—	-33	-151	-160
Selling expenses	—	-1	-1	-2	-4	—	-11	-10	—	-179	-200	-204
Administrative expenses	-285	-97	-11	-1	-394	-18	-12	-3	—	-2	-36	-430
<b>Total</b>	<b>-285</b>	<b>-103</b>	<b>-13</b>	<b>-6</b>	<b>-407</b>	<b>-18</b>	<b>-39</b>	<b>-115</b>	<b>—</b>	<b>-214</b>	<b>-387</b>	<b>-794</b>
<b>Impairment losses/Reversal of impairment losses per line in the income statement 2015</b>												
Cost of sales	—	—	—	18	18	—	—	—	—	37	37	55
Selling expenses	—	—	—	—	—	—	—	22	101	18	141	141
Administrative expenses	64	—	—	—	64	—	—	—	—	—	—	64
<b>Total</b>	<b>64</b>	<b>—</b>	<b>—</b>	<b>18</b>	<b>82</b>	<b>—</b>	<b>—</b>	<b>22</b>	<b>101</b>	<b>55</b>	<b>178</b>	<b>260</b>
<b>Impairment losses/Reversal of impairment losses per line in the income statement 2016</b>												
Cost of sales	—	5	—	-18	-13	—	—	—	—	—	—	-13
Selling expenses	14	—	—	—	14	—	—	—	118	—	118	132
Administrative expenses	190	—	—	—	190	—	—	—	—	—	—	190
<b>Total</b>	<b>204</b>	<b>5</b>	<b>—</b>	<b>-18</b>	<b>191</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>118</b>	<b>—</b>	<b>118</b>	<b>309</b>

## NOTES

For 2015, the impairment losses/reversal of impairment losses amounted to 260 million SEK and were related to the business areas Sandvik Mining and Rock Technology 229 million SEK, Sandvik Materials Technology 18 million SEK and Group common 13 million SEK.

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

### PROPERTY, PLANT AND EQUIPMENT

Cost	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
At 1 January 2015	16,098	39,891	6,436	3,213	65,638
Additions	211	1,387	230	2,062	3,890
Business combinations	—	2	—	—	2
Divestments and disposals	-408	-1,627	-262	-16	-2,313
Reclassifications	659	1,737	112	-2,668	-160
Translation differences for the year	-99	-336	-100	6	-530
Transfer to held for sale	-212	-272	-84	-102	-670
<b>At 31 December 2015</b>	<b>16,249</b>	<b>40,782</b>	<b>6,332</b>	<b>2,495</b>	<b>65,857</b>
At 1 January 2016	16,249	40,782	6,332	2,495	65,857
Additions	216	1,328	199	1,662	3,404
Business combinations	—	—	1	—	1
Divestments and disposals	-335	-1,681	-308	-22	-2,347
Reclassifications	204	511	187	-1,725	-823
Translation differences for the year	668	1,406	271	75	2,420
<b>At 31 December 2016</b>	<b>17,001</b>	<b>42,346</b>	<b>6,681</b>	<b>2,484</b>	<b>68,512</b>
<b>Depreciation and impairment losses</b>					
At 1 January 2015	6,858	26,560	4,615	-4	38,029
Business combinations	—	—	—	—	—
Divestments and disposals	-271	-1,332	-237	—	-1,840
Reclassifications	73	-263	-62	4	-248
Depreciation for the year	526	2,760	463	—	3,749
Impairment losses	343	468	1	—	812
Reversal of earlier impairment losses	-218	-42	—	—	-260
Translation differences for the year	-67	-255	-77	—	-399
Transfer to held for sale	-79	-177	-62	—	-318
<b>At 31 December 2015</b>	<b>7,166</b>	<b>27,720</b>	<b>4,641</b>	<b>0</b>	<b>39,526</b>
At 1 January 2016	7,166	27,720	4,641	0	39,526
Divestments and disposals	-291	-1,430	-282	—	-2,003
Reclassifications	-63	-713	16	5	-755
Depreciation for the year	521	2,629	431	—	3,581
Impairment losses	41	62	2	—	106
Reversal of earlier impairment losses	-12	-58	—	-5	-75
Translation differences for the year	271	953	198	—	1,422
<b>At 31 December 2016</b>	<b>7,632</b>	<b>29,165</b>	<b>5,006</b>	<b>0</b>	<b>41,803</b>
<b>Net carrying amounts</b>					
1 January 2015	9,240	13,331	1,822	3,216	27,609
31 December 2015	9,083	13,062	1,691	2,495	26,331
1 January 2016	9,083	13,062	1,691	2,495	26,331
31 December 2016	9,369	13,181	1,675	2,484	26,709



Impairment losses/Reversal of impairment losses per line in the income statement 2015	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost of sales	137	402	—	—	539
Selling expenses	—	3	—	—	3
Administrative expenses	-11	20	1	—	10
<b>Total</b>	<b>126</b>	<b>426</b>	<b>1</b>	<b>—</b>	<b>552</b>

**Impairment losses/Reversal of impairment losses per line in the income statement 2016**

Cost of sales	29	-15	—	-5	9
Selling expenses	—	8	—	—	8
Administrative expenses	—	12	2	—	14
<b>Total</b>	<b>29</b>	<b>5</b>	<b>2</b>	<b>-5</b>	<b>31</b>

**Impairment losses/Reversal of impairment losses per business area 2015**

Sandvik Machining Solutions	-10	76	—	—	66
Sandvik Mining and Rock Technology	12	-22	1	—	-10
Sandvik Materials Technology	124	368	—	—	492
Other Operations	—	—	—	—	—
Group Common	—	4	—	—	4
<b>Total</b>	<b>126</b>	<b>426</b>	<b>1</b>	<b>—</b>	<b>552</b>

**Impairment losses/Reversal of impairment losses per business area 2016**

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

**ADDITIONAL INFORMATION**

Items of property, plant and equipment totaling 214 million SEK (205) have been pledged as security for liabilities. In 2016, contractual commitments for the acquisition of property, plant and equipment amounted to 299 million SEK (321).

Borrowing costs included in the cost of assets during the year amounted to zero for 2016 and 2015.

**DISCLOSURE REGARDING GOVERNMENT GRANTS IN THE GROUP**

Government grants during the year amounted to 34 million SEK (37).

**IMPAIRMENT TESTS OF GOODWILL**

Goodwill was impairment tested on the balance sheet date of 31 December 2016. As stated below, the carrying amount of goodwill in the consolidated balance sheet is 13,333 million SEK (12,657), essentially related to a number of major business combinations.

Goodwill by cash-generating unit	Carrying amount	
	2015	2016
<b>Sandvik Machining Solutions</b>		
Walter Group	1,014	1,059
Seco Tools	237	253
Wolfram	1,396	1,460
Business area level	1,268	1,414
<b>Total</b>	<b>3,915</b>	<b>4,186</b>
<b>Sandvik Mining and Rock Technology</b>		
Business area level	6,737	6,903
<b>Total</b>	<b>6,737</b>	<b>6,903</b>
<b>Sandvik Materials Technology</b>		
Business area level	1,117	1,154
<b>Total</b>	<b>1,117</b>	<b>1,154</b>
<b>Other Operations</b>		
Hyperion	960	1,046
<b>Total</b>	<b>960</b>	<b>1,046</b>
Other	40	44
<b>Group total</b>	<b>12,769</b>	<b>13,333</b>
Transfer to held for sale	-112	—
<b>Continuing operations</b>	<b>12,657</b>	<b>13,333</b>

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

## NOTES

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 (3), Sandvik Materials Technology business area level (3) and Hyperion (2), and 3% for Sandvik Machining Solutions business area level (2) and Sandvik Mining and Rock Technology business area level (3). Need of working capital beyond the four-year period is deemed to increase approximately as the expected growth in the terminal period. The discount rate consists of a weighted average cost of capital for borrowed capital and shareholders' equity and was assumed to amount to 10% (10) before tax. These assumptions apply to all cash-generating units. The specific risks of the cash-generating units have been adjusted for in the future cash flow forecasts.

Production and marketing processes of acquired businesses have, in most cases, been integrated into other Sandvik operations to such an extent that it is no longer possible to identify the cash flows and assets of the originally acquired businesses. For such reason, the impairment tests were largely made at a higher level although in no case above segment level. Mobile Crushing and Screening and Drilling and Completions, which were defined

as own cash-generating units within the business areas Sandvik Construction and Other Operations (Sandvik Venture) earlier, have been included in Sandvik Mining and Rock Technology during 2016 and have been tested for impairment on a business area level, due to reasons mentioned above. At present, the activities of Walter, Seco Tools, Wolfram and Hyperion are conducted in such a way that it has been possible to separately test goodwill allocated to these acquisitions.

In 2015 goodwill attributable to Shanghai Jianshe Luqiao was impaired and 101 million SEK was charged to selling expenses. Goodwill attributable to Mining Systems, which has been classified as assets held for sale, was impaired during 2016 and 118 million SEK was charged to selling expenses. The assets held for sale have been measured to a value that corresponds to the estimated sale price less selling costs.

Other testing of goodwill values 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 222 million SEK (711) for 2016. For property, plant and equipment the amount was 31 million SEK and for intangible assets 191 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 2015	105	—	105
Additions	14	—	14
Divestments and disposals	-21	—	-21
Reclassifications	14	—	14
<b>At 31 December 2015</b>	<b>112</b>	<b>—</b>	<b>112</b>
At 1 January 2016	112	—	112
Additions	6	139 <sup>1)</sup>	145
Divestments and disposals	-6	—	-6
Reclassifications	9	—	9
<b>At 31 December 2016</b>	<b>121</b>	<b>139</b>	<b>260</b>

1) Generated from internal transactions within the Group.

	Patents and other intangible assets	Goodwill	Total
<b>Accumulated amortization</b>			
At 1 January 2015	97	—	97
Reclassifications	9	—	9
Divestments and disposals	-15	—	-15
Amortization for the year	1	—	1
<b>At 31 December 2015</b>	<b>92</b>	<b>—</b>	<b>92</b>
Net carrying amount at end of year	20	—	20
At 1 January 2016	92	—	92
Amortization for the year	5	2	7
<b>At 31 December 2016</b>	<b>97</b>	<b>2</b>	<b>99</b>
Net carrying amount at end of year	24	137	161

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

	2015	2016
Administrative expenses	1	7
<b>Total</b>	<b>1</b>	<b>7</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 2015	1,534	13,699	1,463	1,733	18,429
Additions	21	189	54	641	905
Divestments and disposals	-21	-444	-35	—	-500
Reclassifications	169	880	26	-1,089	-14
<b>At 31 December 2015</b>	<b>1,703</b>	<b>14,324</b>	<b>1,508</b>	<b>1,285</b>	<b>18,820</b>
At 1 January 2016	1,703	14,324	1,508	1,285	18,820
Additions	6	177	35	620	838
Divestments and disposals	-4	-191	-28	-17	-240
Reclassifications	14	568	60	-651	-9
<b>At 31 December 2016</b>	<b>1,719</b>	<b>14,878</b>	<b>1,575</b>	<b>1,237</b>	<b>19,409</b>
<b>Revaluations</b>					
At 1 January 2015	41	—	—	—	41
<b>At 31 December 2015</b>	<b>41</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>41</b>
At 1 January 2016	41	—	—	—	41
Divestments and disposals	-2	—	—	—	-2
<b>At 31 December 2016</b>	<b>39</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>39</b>
<b>Depreciation</b>					
At 1 January 2015	614	9,087	1,029	—	10,730
Divestments and disposals	-5	-378	-32	—	-415
Reclassifications	5	3	-17	—	-9
Depreciation for the year	48	702	96	—	846
Impairment losses	—	2	—	—	2
Reversal of impairment losses	—	-18	—	—	-18
<b>At 31 December 2015</b>	<b>662</b>	<b>9,398</b>	<b>1,076</b>	<b>—</b>	<b>11,136</b>
At 1 January 2016	662	9,398	1,076	—	11,136
Divestments and disposals	-1	-178	-26	—	-205
Reclassifications	0	-2	2	—	0
Depreciation for the year	51	721	98	—	870
Impairment losses	—	37	—	—	37
<b>At 31 December 2016</b>	<b>712</b>	<b>9,976</b>	<b>1,150</b>	<b>—</b>	<b>11,838</b>
<b>Net carrying amounts</b>					
1 January 2015	961	4,612	434	1,733	7,740
31 December 2015	1,082	4,926	432	1,285	7,725
1 January 2016	1,082	4,926	432	1,285	7,725
31 December 2016	1,046	4,902	425	1,237	7,610

## NOTES

### NOTE 14. Shares in Group companies

	Parent Company		Parent Company	
	2015	2016	2015	2016
<b>Cost</b>				
At beginning of year	32,744	33,881	-519	-676
Additions	—	0	-157	-698
Capital contributions	1,232	1,269	—	0
Divestments	-95	-681		
<b>Total</b>	<b>33,881</b>	<b>34,469</b>	<b>-676</b>	<b>-1,374</b>
<b>Accumulated impairment losses</b>				
At beginning of year			16	16
Impairment losses for the year				
Impairment reversed during the year				
<b>Total</b>			<b>16</b>	<b>16</b>
<b>Accumulated revaluations</b>				
At beginning of year				
<b>Total</b>			<b>33,221</b>	<b>33,111</b>
<b>Carrying amount at year-end</b>				

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

Company, domicile	2015				2016		
	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							
Förvaltningsbolaget Predio 4 KB, Sandviken	916624-2181	—	0 <sup>3)</sup>	0	—	0 <sup>3)</sup>	0
Gimo Utbildningsaktiefbolag, Gimo	556061-4041	1,000	91	2,591	1,000	91	5,091
Gusab Holding AB, Sandviken	556001-9290	1,831,319	100	53,474	1,831,319	100	53,474
Gusab Stainless AB, Mjölby	556012-1138	200,000	100	23,788	200,000	100	23,788
Industri AB Skomab, Sandviken	556008-8345	2,000	100	51,888	2,000	100	25,809
Rammer Svenska AB, Sandviken	556249-4004	3,000	100	851	3,000	100	851
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	15,000	1,500	100	15,000
Sandvik Hyperion AB, Stockholm <sup>1)</sup>	556234-6857	1,000	100	50	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
AB Sandvik Process Systems, Sandviken <sup>1)</sup>	556312-2992	1,000	100	100	1,000	100	100
Sandvik Rotary Tools AB, Köping	556191-8920	101,000	100	150,177	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	91	910	91	91
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	50,000	10,000	100	75,000
Seco Tools AB, Fagersta	556071-1060	145,467,690	100	15,658,859	145,467,690	100	15,658,859
Svensk Export Flyg AB, Stockholm	556934-7452	100,000	100	25,100	100,000	100	179

1) Subsidiaries conducting business on behalf of the Parent Company.

2) Refers to voting rights, which also equals share of capital unless otherwise indicated.

3) Remaining shares are held by other Group companies.

4) Share of capital 91%.

5) Shares up to an ownership interest of 100% are held by other Group companies.

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

Country	Company	2015			2016		
		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.	—	18 <sup>3,4)</sup>	1,539,205	—	64 <sup>3,4)</sup>	859,926
	Sandvik Australian Ltd. Partnership	—	99	—	—	99	—
Brazil	Dormer Tools S.A.	2,137,623,140	100	454,184	2,137,623,140	100	461,197
	Sandvik do Brasil S.A.	1,894,797,190	100	821,575	1,894,797,190	100	821,575
	Sandvik Materials Technology do Brasil S.A.	10,877,380	100	142,093	10,877,380	100	142,093
	Sandvik MGS S.A.	14,999,998	100	797,845	14,999,998	100	175,661
	Sandvik Mining and Construction do Brasil S.A.	85,329,996	100	943,172	85,329,996	100	942,434
	Walter do Brasil Ltda	1,809,999	100	109,574	1,809,999	100	109,574
Bulgaria	Sandvik Bulgaria Ltd.	—	100	0	—	100	0
Chile	Sandvik Credit Chile S.A.	9,900	99	39,631	9,900	99	165,331
China	Sandvik China Holding Co Ltd.	—	100	668,890	—	100	1,157,560
	Sandvik Materials Technology (China) Ltd.	—	58 <sup>3)</sup>	207,854	—	58 <sup>3)</sup>	207,854
Czech Republic	Sandvik CZ s.r.o.	—	100	0	—	100	0
Democratic Republic of Congo	Sandvik Mining and Construction DRC S.P.R.L.	9,990	100	66	9,990	100	66
Hungary	Sandvik Magyarország Kft.	—	100	3,258	—	100	3,258
India	Sandvik Asia Ltd.	16,030,241	17 <sup>5)</sup>	277,028	16,030,241	17 <sup>5)</sup>	277,028
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>	71,000	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
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>33,220,538</b>			<b>33,110,586</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 91%.

5) Shares up to an ownership interest of 100% are held by other Group companies.

NOTES

**SANDVIK AB'S HOLDINGS OF SHARES AND PARTICIPATIONS IN SUBSIDIARIES. INDIRECT HOLDINGS IN OPERATING GROUP COMPANIES**  
**GROUP HOLDING, %**

Country	Company	2015 <sup>1)</sup>	2016 <sup>1)</sup>
Sweden	Sandvik Heating Technology AB	100	100
	Sandvik SRP AB	100	100
	Sandvik Treasury AB	100	100
	Alfa Tool International AB	100	100
	Dormer Pramet AB	100	100
	AB Sandvik Materials Technology (fastighetsbolaget)	100	100
Argentina	Sandvik Argentina S.A.	100	100
	Sandvik Mining and Construction Argentina S.A.	100	100
Australia	Sandvik Mining and Construction Pty. Ltd. Australia	100	100
	Sandvik Mining and Construction Australia (Production Supply) Pty. Ltd	100	100
	Seco Tools Australia Pty. Ltd.	100	100
	Varel International (Australia) Pty., Ltd.	100	100
Austria	Walter Austria GmbH	100	100
	Wolfram Bergbau und Hütten AG	100	100
	Sandvik in Austria Ges.m.b.H.	100	100
	Sandvik Mining and Construction GmbH	100	100
	Sandvik Mining and Construction Materials Handling GmbH & Co. KG	100	100
	Seco Tools Gesellschaft m.b.H.	100	100
Belgium	Walter Benelux N.V./S.A.	100	100
	S.A. Seco Tools Benelux N.V.	100	100
Botswana	Sandvik Botswana Pty Ltd.	100	100
Brazil	Seco Tools Indústria e Comércio Ltda	100	100
	Sandvik do Brasil	100	100
Canada	Sandvik Canada Inc.	100	100
	Varel Rock Bits Canada, Inc.	100	100
Chile	Sandvik Chile S.A.	100	100
	Sandvik Mining and Construction Chile S.A.	100	100
China	Sandvik International Trading (Shanghai) Co. Ltd.	100	100
	Sandvik Mining and Construction (China) Co. Ltd.	100	100
	Sandvik Mining and Construction Trading (Shanghai) Co. Ltd.	100	100
	Sandvik Hyperion (Wuxi) Co., Ltd.	100	100
	Sandvik Process Systems (Shanghai) Co. Ltd.	100	100
	Sandvik Tooling Round Tools Langfang Co., Ltd.	100	100
	Sandvik Tooling Production (Langfang) Co. Ltd.	100	100
	Sandvik Coromant Cutting Tools (Shanghai) Ltd.	100	100
	Sandvik (Qingdao) Ltd.	100	100
	Walter Wuxi Co. Ltd.	100	100
	Shanghai Jianshe Luqiao Machinery Co. Ltd	80	80
	Shandong Energy Machinery Group ZhongRui Mining Equipment Manufacturing Co., Ltd.	50 <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.	70	70
Czech Republic	Sandvik Chomutov Precision Tubes s.r.o.	100	100
	Walter CZ s.r.o.	100	100
	Seco Tools CZ s.r.o.	100	100
	Pramet Tools s.r.o.	100	100
Denmark	Sandvik A/S	100	100
	Seco Tools A/S	100	100
Finland	Sandvik Mining and Construction Finland Oy	100	100
	Sandvik Mining and Construction Oy	100	100
	Seco Tools Oy	100	100
France	Sandvik Mining and Construction Chauny S.A.S.	100	100
	Sandvik Hyperion S.A.S.	100	100
	Sandvik Materials Technology France S.A.S.	100	100
	Sandvik Mining and Construction Lyon S.A.S.	100	100
	Sandvik Mining and Construction France S.A.S.	100	100
	Sandvik Tooling France S.A.S.	100	100
	Gunther Tools S.A.S.	100	100
	Safety Production S.A.S.	100	100
	Walter France S.A.S.	100	100
	Seco Tools France S.A.S.	100	100
	SECO - E.P.B S.A.S.	100	100
	Varel Europe S.A.S.	100	100
	Seco Tools Reaming SAS	100	100
Germany	Sandvik Mining and Construction Crushing Technology GmbH	100	100
	Prototyp-Werke GmbH	100	100
	Sandvik Materials Technology Deutschland GmbH	100	100
	Sandvik Mining and Construction Europe GmbH	100	100
	Sandvik Mining and Construction Supply GmbH	100	100
	Sandvik Tooling Deutschland GmbH	100	100
	TDM Systems GmbH	100	100
	Walter AG	100	100
	Walter Deutschland GmbH	100	100
	Werner Schmitt PKD-Werkzeug GmbH	100	100
	Seco Tools GmbH	100	100
	Pramet GmbH	100	100
	Sandvik Mining & Construction Central Europe GmbH	100	100
Ghana	Sandvik Mining and Construction Ghana Ltd.	100	100
Hong Kong	Sandvik Hong Kong Ltd.	100	100
Hungary	Walter Hungaria Kft.	100	100
	Seco Tools Kft.	100	100
India	Walter Tools India Pvt. Ltd.	100	100
	Seco Tools India Private Limited	100	100
Indonesia	PT Sandvik Indonesia	100	100
	PT Sandvik Mining and Construction Indonesia	100	100
	PT Sandvik SMC	100	100
Italy	Sandvik Italia S.p.A.	100	100
	Walter Italia S.R.L.	100	100
	Seco Tools Italia S.p.A.	100	100

Country	Company	2015 <sup>1)</sup>	2016 <sup>1)</sup>
Japan	Sandvik Tooling Supply Japan K.K.	100	100
	Walter Japan K. K.	100	100
	Seco Tools Japan K.K.	100	100
Kazakhstan	Sandvik Mining and Construction Kazakhstan Ltd	100	100
Korea	Sandvik SuhJun Ltd.	100	100
	Walter Korea Ltd.	100	100
	Seco Tools Korea Ltd.	100	100
Malaysia	Sandvik Malaysia Sdn. Bhd.	100	100
	Sandvik Mining and Construction (Malaysia) Sdn. Bhd.	100	100
Mexico	Sandvik de México S.A. de C.V.	100	100
	Sandvik Mining and Construction de México S.A. de C.V.	100	100
	Walter Tools S.A. de C.V.	100	100
	Sandvik Hard Materials de Mexico S.A. de C.V.	100	100
	Varel de Mexico S.A. de C.V.	100	100
	Varel International de Mexico S.A. de C.V.	100	100
Namibia	Sandvik Namibia Pty Ltd	100	100
Netherlands	Sandvik Benelux B.V.	100	100
	Jabro Tools B.V.	100	100
	SGL Technology B.V.	100	100
Nigeria	Sandvik Mining and Construction Nigeria Ltd.	100	100
Norway	Teeness ASA	100	100
	Sandvik Norge AS	100	100
	Seco Tools AS	100	100
New Zealand	Sandvik New Zealand Ltd.	100	100
Philippines	Sandvik Tamrock (Philippines) Inc.	100	100
Poland	Walter Polska Sp. z.o.o.	100	100
	Seco Tools (Poland) Sp. z.o.o.	100	100
Romania	Sandvik SRL	100	100
	Walter Tools SRL	100	100
Russia	LLC Sandvik	100	100
	OOO Walter	100	100
	Sandvik Mining and Construction CIS LLC	100	100
	Sandvik-MKTC OAO	100	100
	Firma ALG LLC	100	100
	LLC Pramet	100	100
	LLC "Seco Tools"	100	100
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
Slovenia	Sandvik D.o.o.	100	100
South Africa	Sandvik Mining RSA (Pty) Ltd.	100	100
	Sandvik (Pty) Ltd.	100	100
	Seco Tools South Africa (Pty) Ltd.	100	100
Spain	Sandvik Española S.A.	100	100
	Walter Tools Iberica S.A.U.	100	100
	Seco Tools España S.A.	100	100
Switzerland	Sandvik AG	100	100
	Santrade Ltd.	100	100
	Walter (Schweiz) AG	100	100
	Seco Tools AG	100	100
Taiwan	Sandvik Hyperion Taiwan Limited	100	100
	Sandvik Taiwan Ltd.	100	100
Tanzania	Sandvik Mining and Construction Tanzania Ltd.	100	100
Thailand	Sandvik Thailand Ltd.	100	100
	Walter (Thailand) Co. Ltd.	100	100
	Seco Tools (Thailand) Co., Ltd	100	100
Turkey	Walter Cutting Tools Industry and Trade LLC	100	100
	Seco Tools Kesici Takmlar Makina San.Tic. A.S	100	100
UK	Dormer Tools Ltd.	100	100
	Sandvik Ltd.	100	100
	Sandvik Osprey Ltd.	100	100
	Walter GB Ltd.	100	100
	Seco Tools (U.K) Ltd.	100	100
	Downhole Products Limited	100	100
Ukraine	Sandvik Ukraine	100	100
US	Diamond Innovations Inc.	100	100
	TDM System Inc.	100	100
	Sandvik Wire and Heating Technology Corporation	100	100
	Sandvik Thermal Process Inc.	100	100
	Pennsylvania Extruded Tube Co.	70	70
	Dormer Pramet Sales USA	100	100
	Sandvik Customer Finance LLC	100	100
	Sandvik Inc.	100	100
	Sandvik Mining and Construction USA LLC	100	100
	Sandvik Process Systems LLC	100	100
	Sandvik Special Metals LLC	100	100
	Walter USA LLC	100	100
	Seco Tools LLC	100	100
	Niagara Cutter, LLC	100	100
	Precorp Inc.	100	100
	Varel International Ind., L.P.	100	100
Aberdeen Products, Inc.	100	100	
Zambia	Sandvik Mining and Construction Zambia Ltd.	100	100

1) Refers to share of capital, which also corresponds to voting rights for the total number of shares, unless otherwise stated.  
2) Share of votes 60% (60).

## NOTES

### NOTE 15. Investments in associated companies

Group shares in associated companies	2015	2016
<b>Accumulated share of equity</b>		
At beginning of year	239	236
Acquisition of associates	—	—
Divestment of associates	-1	-25
Share of profits for the year	8	16
Capital contribution	—	25
Less dividend received	-11	-11
Translation differences during the year	1	5
<b>Carrying amount at end of year</b>	<b>236</b>	<b>246</b>

Parent Company's shares in associated companies	2015	2016
<b>Accumulated cost</b>		
At beginning of year	4	4
<b>Carrying amount at end of year</b>	<b>4</b>	<b>4</b>

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

2016	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
<b>Owned directly by Sandvik AB</b>							
Oerlikon Balzers Sandvik Coating AB	Sweden	84	9	70	17	53	49.0
<b>Owned indirectly by Sandvik AB</b>							
Eimco Elecon	India	182	21	335	47	288	25.1
Fagersta Stainless AB	Sweden	1,200	28	727	438	289	50.0
Fagersta Seco AB	Sweden	0	0	3	2	1	50.0
Fagerstahälsan AB	Sweden	7	0	9	7	2	50.0
Shanghai Innovatools Co. Ltd.	China	5	-1	12	3	9	40.0
Bromma Business Jet AB	Sweden	41	-8	—	—	—	—

2015	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
<b>Owned directly by Sandvik AB</b>							
Oerlikon Balzers Sandvik Coating AB	Sweden	93	17	95	31	64	49.0
<b>Owned indirectly by Sandvik AB</b>							
Eimco Elecon	India	270	29	307	52	254	25.1
Fagersta Stainless AB	Sweden	1,285	-25	637	373	264	50.0
Fagersta Seco AB	Sweden	0	0	3	2	1	50.0
Fagerstahälsan AB	Sweden	7	0	9	7	2	50.0
S.C.I. Le Palatinat	France	0	0	—	—	—	—
Shanghai Innovatools Co. Ltd.	China	7	-2	13	3	10	40.0
Bromma Business Jet AB	Sweden	84	0	445	436	10	45.0

### ADDITIONAL INFORMATION

The close of the reporting period for the associate Eimco Elecon is 31 March 2016. The dividend paid in 2016 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 Bromma Business Jet was divested in 2016. Revenue and profit were recognized up to the date of sale.

	Corp. Reg. No.	Share of capital and voting rights, %
2016		
Oerlikon Balzers Sandvik Coating AB, Stockholm	556098-1333	49
2015		
Oerlikon Balzers Sandvik Coating AB, Stockholm	556098-1333	49



**NOTE 16. Non-current receivables and other current receivables**

Group	2015	2016	Parent Company	2015	2016
<b>Non-current receivables</b>			<b>Non-current receivables</b>		
Derivatives designated as hedging instruments	18	58	Derivatives	2	41
Funded pension plans	334	470	Other non-interest-bearing receivables	0	0
Other non-interest-bearing receivables	338	425	Other interest-bearing receivables	29	26
Other interest-bearing receivables	651	924	<b>Total</b>	<b>31</b>	<b>67</b>
<b>Total</b>	<b>1,341</b>	<b>1,877</b>	<b>Other current receivables</b>		
Whereof discontinued operations	-83	-97	Derivatives	33	27
<b>Continuing operations</b>	<b>1,258</b>	<b>1,780</b>	Other non-interest-bearing receivables	283	398
<b>Other current receivables</b>			Other interest-bearing receivables	3	1
Derivatives designated as hedging instruments	691	210	<b>Total</b>	<b>319</b>	<b>426</b>
Due from customers for contract work	804	412			
Other non-interest-bearing receivables	2,303	2,349	<b>Construction contracts, Group</b>	<b>2015</b>	<b>2016</b>
Other interest-bearing receivables	897	991	Contract costs incurred and recognized profits (less recognized losses)	12,505	12,924
Advances to suppliers	414	253	Advances received	358	546
<b>Total</b>	<b>5,109</b>	<b>4,215</b>	Amounts retained by customers	79	41
Whereof discontinued operations	-830	-210	Gross amount due from customers	804	412
<b>Continuing operations</b>	<b>4,279</b>	<b>4,005</b>	Gross amount due to customers	748	112

**NOTE 17. Inventories**

	Group		Parent Company	
	2015	2016	2015	2016
Raw materials and consumables	5,141	4,598	877	820
Work in progress	3,936	3,918	1,548	1,528
Finished goods	12,622	12,441	761	579
<b>Total</b>	<b>21,699</b>	<b>20,957</b>	<b>3,186</b>	<b>2,927</b>
Whereof discontinued operations	-177	20		
<b>Continuing operations</b>	<b>21,522</b>	<b>20,977</b>		

Cost of sales of the Group includes impairment of inventories of 418 million SEK (397) while cost of sales of the Parent Company includes impairment of 35 million SEK (128). There were no significant reversals of impairment losses during 2016 and 2015.

**NOTE 18. Trade receivables****AGE ANALYSIS OF TRADE RECEIVABLES, GROUP**

	2015			2016		
	Gross	Allowance for bad debts	Net carrying amount	Gross	Allowance for bad debts	Net carrying amount
Current receivables	10,610	-69	10,541	11,384	-126	11,258
Past due receivables 0-3 months	1,820	-57	1,763	1,770	-33	1,738
Past due receivables 3-12 months	608	-185	423	539	-180	359
Past due receivables >12 months	601	-541	60	541	-528	14
<b>Group total</b>	<b>13,639</b>	<b>-852</b>	<b>12,787</b>	<b>14,235</b>	<b>-867</b>	<b>13,368</b>
Whereof discontinued operations	-581	32	-549	-81	14	-67
<b>Continuing operations</b>	<b>13,058</b>	<b>-820</b>	<b>12,238</b>	<b>14,154</b>	<b>-853</b>	<b>13,301</b>

## NOTES

### NOTE 19. Capital and reserves

#### GROUP

Details of reserves	2015	2016
<b>Translation reserve</b>		
At beginning of year	3,514	2,539
Translation differences during the year	-975	2,323
<b>At end of year</b>	<b>2,539</b>	<b>4,862</b>
<b>Hedging reserve</b>		
At beginning of year	-336	-288
Cash-flow hedges recognized in other comprehensive income	48	84
<b>At end of year</b>	<b>-288</b>	<b>-204</b>
<b>Total reserves</b>		
Reserves at beginning of year	3,178	2,251
<b>Changes in reserves:</b>		
Translation reserve	-975	2,323
Hedging reserve	48	84
<b>Reserves at end of year</b>	<b>2,251</b>	<b>4,658</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 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 153 million SEK (162).

#### 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	2015	2016
Share capital	1,505	1,505
Other paid-in capital	7,678	7,678
Reserves	2,251	4,658
Retained earnings including profit for the year	22,545	25,356
<b>Equity attributable to equity holders of the Parent</b>	<b>33,979</b>	<b>39,197</b>
<b>Non-controlling interests</b>	<b>81</b>	<b>93</b>
<b>Total equity</b>	<b>34,060</b>	<b>39,290</b>

The Board of Directors has proposed to the 2017 Annual General Meeting a dividend of 2.75 SEK per share (2.50). The proposal corresponds to approximately 63% 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 2014	1,254,385,923	1.20	1,505,263,108
Share capital at 31 December 2015	1,254,385,923	1.20	1,505,263,108
Share capital at 31 December 2016	1,254,385,923	1.20	1,505,263,108

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 2016 is estimated to amount to 3,450 million SEK (2.75 SEK per share). This amount has not been recognized as a liability.

No shares have been reserved for transfer under options or other agreements.

The Sandvik share is officially listed only on the Nasdaq Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

#### UNDISTRIBUTABLE EQUITY

Undistributable equity may not be paid to the shareholders in the form of dividends.

#### Statutory reserve

The purpose of the statutory reserve has been to tie up part of the net profit that is not needed to cover an accumulated deficit. The statutory reserve includes amounts that before 1 January 2006 were included in the share premium reserve.

#### DISTRIBUTABLE EQUITY

##### Share premium reserve

Comprises the value of shares that have been issued at a premium, meaning the price paid was in excess of the share's quotient value. The amount received in excess of the quotient value was transferred to the share premium reserve.

#### Retained earnings

Retained earnings comprise the distributable reserves recognized in the preceding year less any dividend declared. The total of such profits brought forward and the profit for the year constitute the total distributable reserves, that is the maximum amount available for distribution to the shareholders.

### NOTE 20. Provisions for pension and other non-current post-employment benefits

Sandvik provides direct pension solutions and otherwise participates in a number of defined-benefit, defined-contribution and other plans for long-term post-employment benefits to employees throughout the Group. The plans are structured in accordance with local regulations and practices. In recent years, Sandvik has sought to move from defined-benefit based plans to pension solutions that are defined-contribution plans and, to an ever increasing 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 2016, Alecta reported a preliminary plan surplus of 148% (153).

#### UK

The main pension plan in the UK is funded through a foundation, which is closed for new participants and the pension is based on salary at the time of retirement. The funding level is revalued every three years, and if this valuation indicates a requirement to increase the funding, the company pays money into the plan over a certain period of time. The plan is governed by Trustees who make investment decisions after having consulted with the company. As a part of the actuarial valuation, Sandvik and the Trustees have agreed a plan to clear shortfall and meet the costs of the further build-up of benefits. Pension payments to retirees are made from the plan.

#### US

There are a number of pension plans in the US, including commitments for medical benefits. The largest pension plan covers approximately 75% of the total commitment in the US. The pension

is based on salary at the time of retirement and is closed for new participants. The funding level is revalued every year with a target of restoring the funding level over a seven-year period. Pension payments to retirees are primarily made from the plan.

#### FINLAND

In Finland, Sandvik sponsors a defined-benefit pension plan funded in a foundation. The benefits offered include an old-age pension and disability pension. In addition to the benefits guaranteed by the Finnish subsidiary, there is also a defined-contribution pension component. Pension payments to retirees are made from the plan.

#### GERMANY

In Germany, Sandvik has defined-benefit pension plans. A few years ago, Sandvik formed a foundation, a Contractual Trust Agreement (CTA), which covers the current employees in most of Sandvik's German companies. The pension commitments for retirees and paid-up policyholders remain unfunded. The pension is based on salary at the time of retirement and other parameters. There are no funding requirements and employees in the plan are required to contribute a certain percentage of their salary to the plan. Pension payments to retirees are mainly made from the company.

#### CANADA

There are a number of pension plans in Canada. The pension is based on average salary at the time of retirement and is closed for new participants for non-bargaining unit plans starting 2008. The funding level is revalued every year or up to every three years for the plans, and is based on the solvency ratio determined by actuaries. Pension payments to retirees are mainly made from the company. Employees who joined the company after 1 January 2008 are included in a defined-contribution plan.

Information by country, 31 December 2015	Sweden	UK	US	Finland	Germany	Canada	Other	Total
<b>Amount in the balance sheet</b>								
Present value of funded and unfunded pension obligations	4,256	6,409	6,055	3,206	2,330	527	1,853	24,636
- of which for actives	2,316	1,554	3,007	862	1,115	275	1,193	10,322
- of which for vested deferreds	836	1,752	853	938	170	26	379	4,954
- of which for retirees	1,104	3,103	2,195	1,406	1,045	226	281	9,360
Plan assets	2,275	5,904	4,943	2,916	1,191	560	1,157	18,946
Total surplus/(deficit)	-1,981	-505	-1,112	-290	-1,139	33	-696	-5,690
Funding level, %	53%	92%	82%	91%	51%	106%	62%	77%
<i>Pension plans recognized according to local rules</i>	—	—	—	—	—	—	—	-228
Duration (remaining term of pension obligation), years	23	17	14	17	10	15	—	16
<b>Amount in income statement/other comprehensive income</b>								
Current service cost	-190	-70	-176	-77	-48	-20	-60	-641
Net interest	-62	-15	-41	-6	-26	1	-23	-172
Actuarial gains/(losses)	564	-136	-14	43	15	16	101	589
Total cost of defined-benefit pension plans before tax	312	-221	-231	-40	-59	-3	18	-224
<b>Amount in cash flow</b>								
Employer contributions to pension plans	—	-159	-348	4	-37	-21	-60	-621
Pension payments directly from the company	-102	—	-27	—	-67	-2	-35	-233
Settlements paid	-46	—	-85	—	—	—	-40	-171
<b>Key assumptions used in the valuation of the pension liability</b>								
Life expectancy, years <sup>1)</sup>	22	22	21	21	19	21	—	—
Inflation, %	1.50%	3.11%	2.50%	2.00%	2.00%	2.00%	—	2.31%
Discount rate, % (weighted average)	3.35%	3.89%	4.34%	2.40%	1.91%	4.12%	—	3.41%
Future salary increases (weighted average)	3.00%	3.20%	3.00%	2.50%	2.99%	3.00%	—	3.00%

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

## NOTES

Information by country, 31 December 2016	Sweden	UK	US	Finland	Germany	Canada	Other	Total
<b>Amount in the balance sheet</b>								
Present value of funded and unfunded pension obligations	4,517	7,134	6,690	3,029	2,553	548	1,898	26,369
- of which for actives	2,295	1,633	3,326	891	1,210	287	1,178	10,820
- of which for vested deferreds	983	2,245	851	817	217	26	454	5,593
- of which for retirees	1,239	3,256	2,513	1,321	1,126	235	266	9,956
Plan assets	2,445	6,346	5,673	3,123	1,298	602	1,134	20,621
Total surplus/(deficit)	-2,072	-788	-1,017	94	-1,255	54	-764	-5,748
Funding level, %	54%	89%	85%	103%	51%	110%	60%	78%
<i>Pension plans recognized according to local rules</i>	—	—	—	—	—	—	—	-231
Duration (remaining term of pension obligation), years	23	19	15	18	9	15	—	17
<b>Amount in income statement/other comprehensive income</b>								
Current service cost	-171	-51	-131	-89	-42	-20	-54	-558
Net interest	-65	-15	-48	-7	-22	2	-30	-185
Actuarial gains/(losses)	42	-405	152	483	-95	18	-27	168
Total cost of defined-benefit pension plans before tax	-194	-471	-27	387	-159	0	-111	-575
<b>Amount in cash flow</b>								
Employer contributions to pension plans	—	-139	-182	-6	-35	-16	-59	-437
Pension payments directly from the company	-103	—	-27	—	-61	-2	-26	-219
Settlements paid	—	—	—	—	—	—	-68	-68
<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%	3.30%	2.50%	1.40%	2.00%	2.00%	—	2.31%
Discount rate, % (weighted average)	3.00%	2.70%	4.23%	1.90%	1.51%	3.93%	—	2.91%
Future salary increases (weighted average)	3.00%	3.40%	3.00%	2.50%	2.99%	3.00%	—	3.08%

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

### PRESENT VALUE OF FUNDED AND UNFUNDED PENSION OBLIGATIONS

	2015	2016
<b>At 1 January</b>	<b>24,958</b>	<b>24,636</b>
Current service cost	641	558
Settlements	-187	-332
Interest expense	802	814
Employee contributions	27	15
Pension payments	-893	-904
Actuarial gains/(losses) attributable to:		
- Financial assumptions	-1,209	1,804
- Demographic assumptions	188	-173
- Experience adjustments	186	-432
Other	-42	93
Foreign exchange differences	164	290
<b>At 31 December</b>	<b>24,636</b>	<b>26,369</b>

### PLAN ASSETS

	2015	2016
<b>At 1 January</b>	<b>18,436</b>	<b>18,946</b>
Interest income	630	629
Settlements	-187	-332
Employer contributions to pension plans	621	437
Pension payments directly from the company	233	219
Settlements paid by employer	170	68
Employee contributions	27	15
Pension payments	-893	-904
Return on plan assets, excluding amount included in interest income	-246	1,368
Other	-18	92
Foreign exchange differences	173	83
<b>At 31 December</b>	<b>18,946</b>	<b>20,621</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 470 million SEK (334) in the item non-current receivables. Provisions for pensions include pension plans of

6,449 million SEK (6,252). The total net liability is 5,979 million SEK (5,918).

### 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	192	243	147	119	9	18	728
Discount rate and inflation <sup>1)</sup>	526	476	640	86	39	59	1,826
Equities -20%	122	321	611	199	40	26	1,319
	<b>840</b>	<b>1,040</b>	<b>1,398</b>	<b>404</b>	<b>88</b>	<b>103</b>	<b>3,873</b>

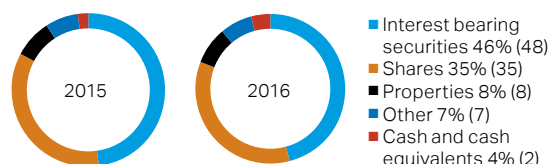
1) Aggregated impact based on Solvency II.

Sandvik estimates that approximately 630 million SEK (670) will be paid into existing defined-benefit plans in 2017.

#### PLAN ASSETS

Plan assets amounted to 20,621 million SEK (18,946). Actual return on plan assets was 1,997 million SEK (384) in 2016. The consolidation ratio for funded plans is 85% (83). For all plans including unfunded plans, the consolidation ratio is 78% (77).

#### CLASS OF ASSETS



Assets without quoted prices amounted to approximately 8% (8) of the total plan assets of 20,621 million SEK.

The fair value of plan assets on 31 December 2016 included loans of 2 million SEK (33) to Sandvik companies and the value of properties leased to Sandvik of 220 million SEK (211).

#### 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 341 million SEK (350). 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 2,445 million SEK (2,275), which was 329 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

	2015	2016
Present value of funded and unfunded pension obligations	2,063	2,151
Plan assets	1,760	1,901
Deficit in the assets of the pension foundation	-47	-91
<b>Net amount recognized for pension obligations</b>	<b>-350</b>	<b>-341</b>

#### NOTE 21. Other provisions

	Warranties	Restructuring	Employee benefits	Environmental obligations	Legal disputes	Other obligations	Total
<b>Group</b>							
Balance at 31 December 2015	425	1,946	372	286	134	307	3,470
Provisions made during the year	379	263	309	35	138	365	1,489
Provisions used during the year	-252	-937	-169	-89	-38	-389	-1,874
Unutilized provisions reversed during the year	-108	-166	-60	0	-10	-117	-461
Reclassifications	14	0	—	—	1	-15	0
Translation differences	23	19	22	19	20	17	120
Transfer to liabilities held for sale	-32	-1	33	—	-59	131	72
Balance at 31 December 2016	449	1,124	507	251	186	299	2,816
of which current	343	850	214	15	126	239	1,787
of which non-current	106	274	293	236	60	60	1,029
<b>Parent Company</b>							
Balance at 31 December 2015	35	230	118	14	—	1	398
Provisions made during the year	5	59	83	5	—	—	152
Provisions used during the year	-8	-122	-65	-1	—	—	-196
Unutilized provisions reversed during the year	-14	-7	—	—	—	—	-21
Reclassifications	—	1	0	—	—	-1	0
Balance at 31 December 2016	18	161	136	18	—	0	333

## NOTES

### 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.

### NOTE 22. Non-current interest-bearing liabilities

#### PARENT COMPANY

Non-current interest-bearing liabilities fall due as follows:

	2015			2016		
	Within one to five years	Later than five years	Total	Within one to five years	Later than five years	Total
Loans from financial institutions	2,499	—	2,499	2,804	—	2,804
Loans from Group companies	452	—	452	302	—	302
Other liabilities	4,352	13,699	18,051 <sup>1)</sup>	5,915	10,803	16,718 <sup>1)</sup>
<b>Total</b>	<b>7,303</b>	<b>13,699</b>	<b>21,002</b>	<b>9,021</b>	<b>10,803</b>	<b>19,824</b>

1) Other liabilities mainly comprise bond loans.

### NOTE 23. Other interest-bearing liabilities

Group	2015	2016
<b>Non-current liabilities</b>		
Bond issues	24,657	22,055
Other	2,642	107
<b>Total</b>	<b>27,299</b>	<b>22,162</b>
<b>Current liabilities</b>		
Bond issues	3,001	1,792
Other	12	5
<b>Total</b>	<b>3,013</b>	<b>1,797</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	2015	2016
<b>Other non-current liabilities</b>		
Derivatives designated as hedging instruments	67	320
Other	38	32
<b>Total</b>	<b>105</b>	<b>352</b>
<b>Other current liabilities</b>		
Derivatives designated as hedging instruments	804	701
Bills payable	71	91
Gross amount due to construction contract customers	748	112
Other	2,094	2,281
<b>Total</b>	<b>3,717</b>	<b>3,185</b>
Whereof discontinued operations	-706	-259
<b>Continuing operations</b>	<b>3,011</b>	<b>2,926</b>

### 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 25. Accrued expenses and deferred income

Parent Company	2015	2016
Personnel related	1,341	1,596
Expenses related to finance	366	299
Other	300	393
<b>Total</b>	<b>2,007</b>	<b>2,288</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	
	2015	2016	2015	2016
<b>Contingent liabilities</b>				
Bills discounted	13	5	—	—
Other surety undertakings and contingent liabilities	258	449	15,583	13,463
<b>Total</b>	<b>271</b>	<b>454</b>	<b>15,583</b>	<b>13,463</b>
of which for subsidiaries			15,112	13,284

The Parent Company's surety undertakings and contingent liabilities amounted to 13,463 million SEK (15,583), of which 8,816 million SEK (8,508) related to the Parent Company's guarantees for Sandvik Treasury AB's financial borrowings. The remainder comprised mainly indemnity bonds for commitments of Group companies to their customers and vendors on advances received and various types of performance bonds and guarantees to financial institutions relating to local borrowings, and guarantee facilities as well as to pension programs.

The Group's surety undertakings and contingent liabilities amounted to 454 million SEK (271) and mainly comprised pension guarantees and ongoing proceedings.

**PLEGDED ASSETS**

Pledged assets for own liabilities and provisions.

Group	2015	2016
Property mortgages	205	214
Chattel mortgages	94	101
<b>Total</b>	<b>299</b>	<b>315</b>

No assets of the Parent Company had been pledged in 2016 and 2015.

**NOTE 27. Supplementary information – financial risk management****DISCLOSURE REGARDING FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE IN THE BALANCE SHEET**

Under the IFRS 13 disclosure requirements, the method applied to the valuation of assets and liabilities measured at fair value in the balance sheet is presented below. The valuation is divided into three levels:

Level 1: Fair value is determined according to prices listed on an active market for the same instrument.

Level 2: Fair value is determined based on either directly (as a price) or indirectly (derived from prices) observable market data that is not included in level 1.

Level 3: Fair value is determined based on input data that is not observable in the market.

All of Sandvik's financial instruments are measured according to Level 2.

Information on financial risks is also presented in the financial risk section of the Report of the Directors.

**MEASUREMENTS OF FAIR VALUE**

The following is a summary of the methods and assumptions primarily applied to determine the fair value of the financial instruments presented in the table below.

The fair value of foreign exchange contracts is determined based on observable market prices. The fair value of interest-rate swaps is based on discounting estimated future cash flows under the contractual terms and conditions and maturity dates and based on the market interest rate for similar instruments on the balance sheet date. Where discounted cash flows are used, the future cash flows are calculated on the best assessments of company management. The discount rate applied is the market-based interest rate of similar instruments on the balance sheet date.

All valuation techniques applied are accepted in the market and take into account all parameters that the market would consider in its pricing. These techniques are reviewed regularly so as to ensure their reliability. Applied assumptions are compared against actual outcomes to identify any needs for adjusting the measurement or forecasting tools.

For means of payment, receivables and payables with variable interest and current receivables and payables (for example, trade receivables and accounts payable), the fair value has been considered to correspond to the carrying amount.

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

Financial instruments measured at fair value		2015	2016
<b>Financial assets</b>			
<b>Derivatives</b>	Foreign exchange contracts	657	185
	Foreign currency options	0	—
	Interest-rate swaps	32	20
	Commodity and electricity derivatives	19	64
<b>Total</b>		<b>708</b>	<b>269</b>
<b>Financial liabilities</b>			
<b>Derivatives</b>	Foreign exchange contracts	433	663
	Foreign currency options	—	—
	Interest-rate swaps	232	310
	Commodity and electricity derivatives	199	49
<b>Total</b>		<b>864</b>	<b>1,022</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 269 million SEK. The carrying amount of corresponding liabilities was –1,022 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 163 million SEK would be offset in accordance with the framework agreement governing offsetting.

Financial assets and liabilities, except financial derivatives, are measured at amortized cost. Calculation at fair value would increase the Group's non-current borrowings by 2,358 million SEK (2,154). When measuring interest-bearing liabilities, the company's Swedish and European bond loans have then been remeasured using observable market prices for identical securities to value the Group's marketable debt instruments. Other non-current debt has been remeasured in accordance with the principles described above. For short-term loans and deposits, no remeasurement was carried out, given that the carrying amount is considered to represent a good approximation of the fair value due to the short duration.

The table below shows the fair value of financial assets and liabilities compared with their carrying amounts. Fair value is the amount at which an asset or liability can be sold between well-informed partners who are independent in relation to each other and who have a vested interest in completing the transaction.

## NOTES

### 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	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Financial assets	—	—	—	—	83	81	—	—	83	81	83	81
Financial investments	—	—	—	—	—	—	12,238	13,301	12,238	13,301	12,238	13,301
Trade receivables	—	—	—	—	—	—	1,638	2,067	1,638	2,067	1,638	2,067
Other receivables <sup>3)</sup>	—	—	—	—	—	—	—	—	710	269	710	269
Derivatives <sup>4)</sup>	118	91	592	178	—	—	—	—	6,376	8,818	6,376	8,818
Cash and cash equivalents	—	—	—	—	—	—	6,376	8,818	6,376	8,818	6,376	8,818
<b>Total financial assets</b>	<b>118</b>	<b>91</b>	<b>592</b>	<b>178</b>	<b>83</b>	<b>81</b>	<b>20,252</b>	<b>24,185</b>	<b>21,044</b>	<b>24,535</b>	<b>21,044</b>	<b>24,535</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			
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016		
Financial liabilities	—	—	—	—	34,548	31,418	—	—	34,548	31,418	36,702	33,776
Borrowings <sup>5)</sup>	—	—	—	—	—	—	—	—	871	1,022	871	1,022
Derivatives <sup>6)</sup>	458	334	413	688	—	—	—	—	5,953	6,286	5,953	6,286
Accounts payable	—	—	—	—	3	2	—	—	3	2	3	2
Due to associates	—	—	—	—	71	91	—	—	71	91	71	91
Other liabilities <sup>7)</sup>	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total financial liabilities</b>	<b>458</b>	<b>334</b>	<b>413</b>	<b>688</b>	<b>40,575</b>	<b>37,797</b>	<b>41,446</b>	<b>38,819</b>	<b>43,600</b>	<b>41,177</b>	<b>43,600</b>	<b>41,177</b>

1) Of which –262 million SEK (–369) pertains to cash flow hedges recognized in the hedging reserve in equity and 11 million SEK (35) pertains to fair-value hedges recognized in profit or loss.

2) Of which –510 million SEK (179) pertains to financial hedges; hedge accounting is not applied.

3) Comprises parts of the Group's non-current receivables, accrued income and other receivables recognized in the balance sheet.

4) Derivatives form part of the other receivables recognized in the balance sheet.

5) Recognized in the balance sheet as non-current and current liabilities to financial institutions and other liabilities.

6) Derivatives form part of the other liabilities recognized in the balance sheet.

7) Form part of the Group's non-current liabilities, accrued expenses and other liabilities recognized in the balance sheet.

### NET RESULT PER VALUATION CATEGORY

In addition to fair value adjustment, interest and currency movement effects are included.

	2015	2016
Assets and liabilities at fair value (Derivatives)	–185	–235
Loans and accounts receivables	42	286
Available-for-sale financial assets	9	5
Financial liabilities	–1,771	–1,535

The company's financial liabilities amounted to 38,819 million SEK (41,446) at year-end.

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

		2015				2016			
		<6 months	6–12 months	1–5 years	>5 years	<6 months	6–12 months	1–5 years	>5 years
Bank loans	SEK	–547	–406	–4,304	–660	–169	–396	–4,819	—
Commercial papers	SEK	—	—	—	—	—	—	—	—
Medium Term Notes	SEK	–1,088	–2,055	–7,573	–1,027	–79	–1,850	–5,591	–1,030
European Medium Term Notes	EUR	–244	–118	–1,825	–12,177	–255	–123	–3,967	–10,023
Private placements	USD	–176	–176	–5,593	–1,440	–874	–1,172	–5,902	—
Derivatives									
– Currency derivatives		176	37	–1	0	–477	–5	–3	—
– Interest-rate derivatives		–55	–40	–260	–101	–39	–26	–245	–69
– Commodity and electricity derivatives		–49	–82	–62	0	5	–5	11	—
Finance leases		–10	–9	–55	–7	–2	–2	–56	—
Accounts payable		–5,953	—	—	—	–6,286	—	—	—
<b>Total</b>		<b>–7,946</b>	<b>–2,849</b>	<b>–19,673</b>	<b>–15,412</b>	<b>–8,176</b>	<b>–3,579</b>	<b>–20,572</b>	<b>–11,122</b>

### PERIODS WHEN HEDGED CASH FLOWS ARE EXPECTED TO OCCUR AND AFFECT EARNINGS

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2019 and later
Currency derivatives	–27	–5	–4	0	2	0	–1	0	0
Interest derivatives	—	—	–15	0	0	—	—	0	–224
Commodity and electricity derivatives	5	1	0	–5	–1	0	0	9	3
<b>Total</b>	<b>–22</b>	<b>–4</b>	<b>–18</b>	<b>–5</b>	<b>1</b>	<b>0</b>	<b>–1</b>	<b>9</b>	<b>–222</b>



**NOTE 28. Related parties****RELATED-PARTY TRANSACTIONS**

The Group's sales to associated companies amounted to 856 million SEK (721). The Group's purchases from associated companies amounted to 179 million SEK (219). Loans to associated companies amounted to 0 million SEK (206). Interest income on loans to associated companies amounted to 3 million SEK (6). 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 11,350 million SEK (12,121), or 75% (77) of total sales. The share of exports was 73% (73). The Parent Company's purchases from Group companies amounted to 2,420 million SEK (2,575), or 16% (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**

	2015	2016
Cash and cash equivalents		
<b>Group</b>		
Cash and cash equivalents comprise:		
Cash and bank	3,586	3,330
Short-term investments comparable to cash and cash equivalents	2,790	5,488
<b>Total in the balance sheet</b>	<b>6,376</b>	<b>8,818</b>
<b>Total in the cash flow statement</b>	<b>6,376</b>	<b>8,818</b>
<b>Parent Company</b>		
Cash and cash equivalents comprise:		
Cash and bank	1	1
<b>Total in the balance sheet</b>	<b>1</b>	<b>1</b>
<b>Total in the cash flow statement</b>	<b>1</b>	<b>1</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	
	2015	2016	2015	2016
<b>Interest and dividend paid and received</b>				
Dividend received	9	5	7,975	337
Interest received	134	176	1,087	864
Interest paid	-1,891	-1,743	-1,405	-775
<b>Total</b>	<b>-1,748</b>	<b>-1,562</b>	<b>7,657</b>	<b>426</b>

	Group		Parent Company	
	2015	2016	2015	2016
<b>Adjustment for non-cash items, etc.</b>				
Changes in value of financial instruments	—	—	-31	-13
Unappropriated results of associated companies	3	-6	—	—
Gains and losses on disposal of non-current assets	-72	-77	-34	25
Provisions for pensions	—	—	6	-26
Other provisions	1,832	-847	142	-43
Other	-194	415	118	1,611
<b>Total</b>	<b>1,569</b>	<b>-515</b>	<b>201</b>	<b>1,554</b>

	2015	2016
<b>Acquisitions of subsidiaries and other business operations – Group</b>		
Net assets acquired:		
Intangible assets	15	4
Property, plant and equipment	2	1
Inventories	3	6
Current receivables	5	7
Cash and cash equivalents	4	10
<b>Total assets</b>	<b>29</b>	<b>28</b>
Non-interest-bearing liabilities	-18	-13
<b>Total provisions and liabilities</b>	<b>-18</b>	<b>-13</b>
<b>Net identifiable assets and liabilities</b>	<b>11</b>	<b>15</b>

In 2016, acquired assets and liabilities refer to the acquisition of Prometec GmbH and Comara GmbH.

## NOTES

### NOTE 30. Acquisition and divestment of operations and discontinued operations

The business combinations effected during 2015 and 2016 are set out below. Annual revenue and number of employees reflect the situation at the date of the respective acquisition.

Business area	Company	Acquisition date	Annual revenue	No. of employees
Other Operations	SGL Technology B.V.	15 September 2015	60	20
Sandvik Machining Solutions	Prometec GmbH	25 January 2016	48	35
Sandvik Machining Solutions	Comara GmbH	1 October 2016	8	16

#### Prometec GmbH

On 25 January 2016, Sandvik acquired 100% of the shares in Prometec GmbH. A payment of 46 million SEK was made for the shares, of which 37 million SEK comprised a cash payment and 9 million SEK comprised a contingent purchase consideration. Prometec is a leading supplier of advanced solutions for monitoring and control of machining processes in production machines. The company also supplies equipment for laser beam diagnostics and primarily operates in the European and North American market. A large part of the customer base comes from the global automotive industry.

#### Comara GmbH

On 1 October 2016, Comara GmbH was acquired by way of an asset-transfer arrangement. Sandvik made a cash payment of 4 million SEK for the business and its assets. Comara specializes in collecting, evaluating and using real-time data to connect machines. Together with Walter, the company also develops software solutions for connecting all devices in the production environment, from machines and tools to logistics and databases. With "appCom", Comara offers machine manufacturers and industrial companies their own platform for individual "apps" - special software modules in the production environment.

The fair value of assets and liabilities in acquired companies is presented in the table below.

#### TOTAL FAIR VALUE OF ASSETS AND LIABILITIES OF ACQUIRED BUSINESSES IN 2016

Fair value recognized in the Group	
Intangible assets	4
Property, plant and equipment	1
Inventories	6
Current receivables	7
Cash and cash equivalents	10
Non-interest-bearing liabilities	-13
<b>Net identifiable assets and liabilities</b>	<b>15</b>
Goodwill	35
<b>Purchase consideration</b>	<b>50</b>
Cash and cash equivalents in acquired businesses	-10
Part of consideration entered as a liability	-5
Contingent purchase consideration not to be paid	-4
<b>Net cash outflow</b>	<b>31</b>

The value of acquired assets and assumed liabilities in Prometec and Comara was determined preliminarily pending a final valuation. A fair value measurement increased the value of net assets recognized as intangible assets.

#### GOODWILL

Goodwill arose as a result of synergy effects. Goodwill is not expected to be tax deductible. For more detailed information about goodwill, refer to Note 12.

#### ACQUISITION-RELATED EXPENSES

Acquisition-related expenses amounted to 4 million SEK. The expenses relate to consultant fees in conjunction with due diligence and were recognized as other operating expenses.

#### ACQUIRED RECEIVABLES

The fair value of trade receivables amounts to 6 million SEK.

#### CONTINGENT PURCHASE CONSIDERATION

The acquisition agreement covering Prometec GmbH states that a contingent purchase consideration will be paid to the seller if a specific license agreement with Ford Motor Company has been validly extended for five years commencing on 1 July 2016 and if sales exceed a specified amount. The fair value of the purchase consideration is 9 million SEK. Since the license agreement was not renewed on the date defined, 4 million SEK will not be paid to the seller. The remaining part of the contingent purchase consideration amounts to 5 million SEK and is expected to be paid out in February 2017.

#### Transferred compensation

Cash and cash equivalents	41
Contingent purchase consideration	5
	<b>46</b>

#### TOTAL FAIR VALUE OF ASSETS AND LIABILITIES OF ACQUIRED BUSINESSES IN 2015

The value of acquired assets and assumed liabilities has been finalized for the acquisition of SGL Technology B.V., which was implemented in 2015. A fair value measurement increased the value of net assets by 9 million SEK, which is an adjustment by -2 million SEK compared to previous calculations.

Fair value recognized in the Group	
Intangible assets	12
Property, plant and equipment	2
Inventories	3
Current receivables	5
Cash and cash equivalents	4
Non-interest-bearing liabilities	-16
<b>Net identifiable assets and liabilities</b>	<b>10</b>
<b>Purchase consideration</b>	<b>10</b>
Cash and cash equivalents in acquired businesses	-4
<b>Net cash outflow</b>	<b>6</b>

## CONTRIBUTIONS FROM COMPANIES ACQUIRED IN 2016 BY BUSINESS AREA

	Sandvik Machining Solutions	Sandvik Mining and Rock Technology	Sandvik Materials Technology	Other Operations	Total
<b>Contributions as of acquisition date</b>					
Revenue	46	—	—	—	46
Profit/loss for the year	-2	—	—	—	-2
<b>Contributions as though the acquisition date had been 1 January 2016</b>					
Revenue	56	—	—	—	56
Profit/loss for the year	-2	—	—	—	-2

## CONTRIBUTIONS FROM COMPANIES ACQUIRED IN 2015 BY BUSINESS AREA

	Sandvik Machining Solutions	Sandvik Mining and Rock Technology	Sandvik Materials Technology	Other Operations	Total
<b>Contributions as of acquisition date</b>					
Revenue	—	—	—	25	25
Profit/loss for the year	—	—	—	1	1
<b>Contributions as though the acquisition date had been 1 January 2015</b>					
Revenue	—	—	—	67	67
Profit/loss for the year	—	—	—	3	3

## DISCONTINUED OPERATIONS

On 1 October 2015, Sandvik announced its intention to divest the product area Mining Systems, which is a separate product area within Sandvik Mining and Rock Technology and a supplier of design and engineering of material handling systems for the mining industry. The divestment of Mining Systems will make Sandvik Mining and Rock Technology more focused on its core operations. In connection with the ongoing divestment, a write-down of assets has been made to a value that corresponds to the estimated sale price less selling costs. The write-down of assets, related to projects, and the provision for estimated selling costs amounted to 998 million SEK in 2015. During 2016 an additional write-down of assets amounting to 847 million SEK was made. As from the third quarter 2015 and until closure of the divestment, Mining Systems operations will be reported as discontinued operations in the Sandvik Group's financial statements. Sandvik has earlier announced the ambition to close the Mining Systems transaction during the fourth quarter 2016. The deal was not finalized according to plan as all conditions for closing have not been met. The process to exit from the Mining Systems business continues with different interested parties.

The following tables present the income statement of Mining Systems for the financial year, the balance sheet in summary at 31 December 2016 and the condensed cash flow statement for the financial year.

## INCOME STATEMENT FOR DISCONTINUED OPERATIONS

	2015	2016
Revenue	4,977	2,877
Cost of sales and services	-5,512	-3,001
<b>Gross profit</b>	<b>-535</b>	<b>-124</b>
Selling expenses	-201	-305
Administrative expenses	-404	-222
Research and development costs	-13	-22
Other operating income	1	0
Other operating expenses	-57	-688
<b>Operating loss</b>	<b>-1,209</b>	<b>-1,361</b>
Financial income	—	—
Financial expenses	-40	-9
<b>Net financing costs</b>	<b>-40</b>	<b>-9</b>
<b>Loss after financial items</b>	<b>-1,249</b>	<b>-1,370</b>
Income tax	—	—
<b>Loss for the year</b>	<b>-1,249</b>	<b>-1,370</b>

## ASSETS AND LIABILITIES HELD FOR SALE

	2015	2016
Non-current assets	558	103
Current assets	1,561	255
<b>Total assets</b>	<b>2,119</b>	<b>358</b>
Non-current liabilities	26	64
Current liabilities	1,863	833
<b>Total liabilities</b>	<b>1,889</b>	<b>897</b>

## CASH FLOW STATEMENT FOR DISCONTINUED OPERATIONS

	2015	2016
Cash flow from operating activities	-841	-510
Cash flow from investing activities	-45	-21
Cash flow from financing activities	0	8
<b>Cash flow from discontinued activities</b>	<b>-886</b>	<b>-523</b>

## NOTE 31. Parent Company particulars

Sandvik Aktiebolag, corporate registration number 556000-3468, is a Swedish limited liability company. The registered office of its Board of Directors is in Stockholm, Sweden. The address of the head office is PO Box 510, SE-101 30 Stockholm, Sweden. The visiting address is World Trade Center, Kungsbron 1, section G, floor 6.

The Parent Company's shares are quoted on Nasdaq Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

The 2016 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 2016, 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

## NOTES

1 issued for cash or with terms and conditions concerning rights of  
2 setoff. All shares are fully negotiable.

3 Shareholdings that directly and indirectly represent at least 10%  
4 of the voting rights are held by AB Industrivärden (11.8%).

5 Sandvik AB's Articles of Association govern such policies as the  
6 direction of the business, domicile and share capital (minimum and  
7 maximum capital). The Articles do not stipulate that the members  
8 of the Board of Directors shall be elected in any other way than at  
9 the Annual General Meeting. However, Board representatives of  
10 the employees are appointed by the trade unions under the Private  
11 Sector Employees (Board Representation) Act.

12 Companies in the Group entered into borrowing agreements  
13 that include conditions coming into effect should the control of the  
14 company change as a result of a public takeover bid.

15 There are no employment agreements between the companies  
16 in the Group and the Parent Company's directors or employees  
17 if those persons give notice of termination, or their services are  
18 improperly terminated, or the employment is terminated as a con-  
19 sequence of a public takeover bid.

### NOTE 33. Proposed appropriation of profits

20 The Board of Directors and the President and CEO proposes a divi-  
21 dend of 2.75 SEK (2.50) per share to the 2017 Annual General Meet-  
22 ing, corresponding to approximately 3.4 billion SEK (3.1).

23 Dividend, 2.75 SEK per share	
24 x number of shares 1,254,385,923 =	3,449,561,288
25 Profits carried forward	22,836,317,814
26 Total, SEK	26,285,879,102

## BOARD STATEMENT ON DIVIDEND PROPOSAL

Board statement in accordance with Chapter 18, Section 4 of the Swedish Companies Act.

The nature and extent of the company's operations are stated in the Articles of Association and issued annual reports.

Such nature and extent do not entail risks over and above those inherent, or reasonably to be expected, in the industry or otherwise inherent in business operations. For information on significant events, reference is made to the Report of the Directors.

The company's financial position at 31 December 2016 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 2017

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	26,102,317,380
<u>and result for the year</u>	<u>183,561,722</u>
SEK	26,285,879,102

be appropriated as follows:

a dividend of 2.75 SEK per share	
to the shareholders	3,449,561,288
<u>profits carried forward</u>	<u>22,836,317,814</u>
SEK	26,285,879,102

The proposed record date for dividends is Tuesday, 2 May 2017.

The income statements and the balance sheets of the Group and of the Parent Company are subject to the adop-

tion by the Annual General Meeting on 27 April 2017.

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 2017

Johan Molin  
Chairman

Jennifer Allerton  
Board member

Claes Boustedt  
Board member

Jürgen M Geissinger  
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 2017

KPMG AB

Joakim Thilstedt  
Authorized Public Accountant

# AUDITOR'S REPORT

TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF SANDVIK AB (PUBL), CORP. ID. 556000-3468

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

### Opinions

We have audited the annual accounts and consolidated accounts of Sandvik AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 42–124 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 2016 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 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the Group.

### 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. These matters refer to consolidated accounts unless otherwise stated.

### Valuation of acquired intangible assets and the parent company's shares in Group companies

See disclosure [12] and [14] respectively and accounting principles on pages 85–88 in the annual accounts and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

The carrying value of acquired intangible assets of goodwill, patents, licenses, trademarks, etc. is 19,240 million SEK as at 31 December 2016, which represents approximately 19% of total assets. Annually, or if certain indicators of impairment exist, goodwill is subject to an impairment test which is complex and contains significant elements of judgment. An impairment test must be performed for each identified cash-generating unit.

The impairment test as required by IFRS is to be performed taking into account both forecasted internal and external assumptions and plans. Examples of such judgments are future cash flows and the discount rate to be used considering that estimated future payments are subject to risk.

The parent company holds shares in Group companies of 33,111 million SEK as at 31 December 2016. If the book value of the shares exceeds the equity in a given Group company, a similar type of impairment test is performed using the same methodology and assumptions as is done in respect of goodwill in the Group.

#### Response in the audit

We have obtained and assessed the Group's impairment tests to ascertain whether they are carried out in accordance with the techniques prescribed by IFRS.

In addition, we have assessed the reasonableness of future cash flows and discount rate by obtaining and evaluating the Group's written documentation and plans. We have also had discussions with Group management and performed retrospective review over prior period estimates.

We have involved our internal valuation specialists in the audit team to ensure appropriate experience and expertise is applied in the assessment of methodology used. An important part of our work has been to evaluate how changes in assumptions may affect the valuation.

We have assessed the reasonableness of the re-allocation of goodwill to new cash-generating units during the year due to the reorganisation of operations carried out by the Group. The assessment was conducted through interviews with Group management and evaluation of the Group's documentation of the new allocation.

We have reviewed the Annual Report disclosures for completeness, assessed whether the disclosures are in line with the assumptions used by management in their valuation and that they are, in all material respects, in accordance with disclosures required by IFRS.

### Provisions for pensions

See disclosure [20] and accounting principles on pages 86 and 88-89 in the annual accounts and consolidated accounts for detailed information and description of the matter.

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#### Description of key audit matter

The Group has a pension obligation that mainly concerns the United Kingdom, the United States, Sweden, Finland and Germany. Before reduction by the fair value of plan assets, this pension obligation is valued at 26,600 million SEK as at 31 December 2016.

Estimation of the value of the pension obligation relies upon a number of assumptions, including mortality, inflation, and discount rates that are applied to estimate the present value of future pension payments. The Group engages external actuaries to perform these complex calculations.

Changes to the assumptions which the calculations are based on could have a significant impact on total comprehensive income as well as on the balance of the pension obligation.

#### Response in the audit

We have examined the external actuarial report that is used by the Group for valuation of its pension obligation. We have, with input from our internal specialists, critically assessed the key assumptions used for discount rate, inflation, salary increases and mortality within the calculations against assumptions used by other comparative companies and externally obtained market data.

We have also reviewed the Annual Report disclosures for completeness and assessed whether they are in line with the assumptions and sensitivity analysis used.

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### Accounting for discontinued operations

See disclosure [30] and accounting principles on page 87 in the annual accounts and consolidated accounts for detailed information and description of the matter.

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#### Description of key audit matter

The Group has presented product area Mining Systems as a discontinued operation in the income statement and as a disposal Group held for sale within the balance sheet. The result of the discontinued operations amounts to -1,370 million SEK for 2016.

Accounting treatments for discontinued operations require specific conditions to be met and judgments made by Group management. There are also detailed related disclosure requirements.

The Mining Systems business as such involves complex estimates on the projected financial results of ongoing projects.

#### Response in the audit

We have assessed the assumptions applied by the Group for presenting Mining Systems as a discontinued operation by obtaining and reviewing minutes and other relevant documentation of the ongoing sales process as well as holding discussions with Group management.

We have evaluated the internal control of the business in relation to monitoring of projects. Assessment have been made through sampling of project estimates for which we have evaluated the underlying assumptions used by the business for revenue recognition and provisions if any.

We have assessed whether the assets and liabilities presented as held for sale have been accurately identified and appropriately measured at the balances sheet date.

We have also reviewed the Annual Report disclosures for completeness.

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### 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 1–41, 129–144 and 146–152. The Managing Director is 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 intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to

fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director. Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## 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 2016 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.

#### 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

Stockholm, 6 March 2017  
KPMG AB

Joakim Thilstedt  
Authorized Public Accountant

# SUSTAINABILITY NOTES

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# SUSTAINABILITY NOTES

## ABOUT THIS REPORT

This is the eleventh consecutive year of Sustainable Business reporting for Sandvik, this time merged with the Annual Report. It covers the Group's sustainability activities during the 2016 fiscal year. We aim to continue reporting the same way on an annual basis. Sandvik's most recent Sustainable Business Report was published in April 2016.

The Sustainable Business information supplements the financial information presented by describing the Group's goals, strategy, governance, risk and opportunity assessment as well as the operational business of Sandvik from a sustainability perspective. This information is also

complemented by the website [home.sandvik](http://home.sandvik). The sustainability information in this report has been prepared in accordance with the Global Reporting Initiative Guidelines, GRI G4 Core.

Sandvik is a signatory to the UN Global Compact (UNGC) and we report in accordance with the UNGC Advanced level criteria. This report includes information regarding the Group's work on the UN Global Compact's ten principles in the areas of human rights, labor, environment and anti-corruption.

The report has been reviewed by an external party.

## GENERAL DISCLOSURES AND MANAGEMENT APPROACH

### BOUNDARIES OF THE REPORT

GRI's guidance on the reporting principles of materiality, stakeholder inclusiveness, sustainability context, and completeness is used to define the content of the report. This report refers to the 2016 fiscal year and covers all operations of the Group, including subsidiaries, but excludes associated companies and joint ventures. The boundaries of the sustainability information in this report are specified in the GRI index.

Information on identified material aspects has been included.

### MANAGEMENT APPROACH AND SUSTAINABLE BUSINESS STRATEGY

A recently revised Sustainable Business strategy for the Group was adopted by the Group Executive Management in March 2016. The strategy was communicated and rolled out during 2016, continuing into 2017. The strategy builds 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.

### POLICIES AND MANAGEMENT SYSTEMS

Sandvik has an Environment, Health and Safety (EHS) policy valid for the entire Group. This policy is supported by a number of internal environmental standards for

our operations. Objectives and targets are set at Group level, and the business areas integrate these aspects and standards in their respective organizations. KPIs are reported and consolidated to follow up objectives and targets at Group and business area levels.

Major sites with production, services and warehouses have certified management systems according to ISO 14001 (98%) and OSHAS 18001 (96%). 25 energy-intensive sites are also certified according to ISO 50001. 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.

### MEMBERSHIPS IN ORGANIZATIONS WITH SUSTAINABILITY FOCUS

Sandvik is a member of the UN Global Compact. The company is also part of the network Swedish Leadership for Sustainable Development, facilitated by Sida, comprising some 20 large Swedish companies and three expert organizations. Sandvik is also part of the industry organization Jernkontoret and Swemin where a number of sustainability initiatives are being taken, particularly in relation to the UN Development Goals.

## STAKEHOLDER DIALOGS

Stakeholder dialogs in 2016 focused on getting input for the materiality analysis for 2017-2018 (read more below), with a revised sustainable business strategy as a basis. 229 internal and 62 external stakeholders were asked to determine which material aspects they regarded relevant to Sandvik based on a number of identified aspects. The response rate was 54% for internal stakeholders and 34% for external ones.

External stakeholders comprised financial analysts, shareholders, institutional owners, non-governmental organizations, Swedish government, authorities, business partners, branch/sector organizations, and unions. The sustainable business strategy builds on the two impact

areas "our offerings" including its four dimensions and "our operations" and its four dimensions (see page 8). In the materiality survey, the recipients were asked to select sustainability aspects within the eight dimensions in the strategy. This included e. g. compliance, sustainable supplier management, diversity and inclusion, human rights, environmental impact and health and safety.

Other stakeholder dialogs were mainly focused to shareholders and investors in which we presented the new sustainable business strategy. Sandvik also conducted a Group-wide employee survey in which sustainability aspects were included.

## MATERIALITY ANALYSIS

The Group Executive Management conducts a materiality analysis on a regular basis. The current materiality analysis, valid for 2013-2016, gives us a strategic direction and focus for our sustainability work. The starting point comprises various sustainability topics considered relevant for the Group, deriving from international frameworks and institutions such as the Global Reporting Initiative (GRI), the UN Global Compact as well as from media, global trends and from dialogs with our stakeholders, in addition to our own assessment of relevant areas.

### 2017-2018 MATERIALITY DECISION

In late 2016, following a decentralization process in the company, a new materiality analysis was made which should apply for 2017-2018. A digital survey with questions relating to the prioritization of aspects identified in our sustainable business strategy was sent out to 291 stakeholders (229 internal and 62 external). Following the decision by the Group Executive Management, inspired by the stakeholder dialog, the aspects in the table on the next page were selected as material for the Group and business areas for 2017-2018.

### OUR PRIORITIES 2013-2016



- Sandvik's material aspects
- Material inside Sandvik
- Material mainly outside Sandvik (supplier and/or customer)
- Material both inside and outside Sandvik (supplier and/or customer)

**COMPLIANCE**

Compliance includes four areas: anti-corruption compliance, competition law, trade compliance and data protection. The main purpose is to ensure a well-functioning structure with control over Sandvik's international business and to manage compliance risks.

**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.

**USE, REUSE AND RECYCLING OF MATERIALS AND NATURAL RESOURCES**

Comprehensive recycling programs are underway in all parts of the Group. The global raw material shortage is an impediment for a successful business. Recycling results in less virgin raw material used, lower energy consumption and reduced emissions of acidifying substances and waste water discharge, in addition to less waste. Factors important to Sandvik, the Group's customers and society at large.

**ENERGY, EMISSIONS AND CLIMATE CHANGE**

Climate change affects Sandvik and we need to mitigate this risk. In addition, a high degree of energy efficiency increases the value of the energy source, resulting in lower costs and emissions, both for Sandvik and our customers.

**HEALTH AND SAFETY**

Maintaining a safe work environment will always be a top priority, out of respect for both Sandvik's employees and customers. The Group's performance is meeting growing expectations from its customers and other stakeholders. Health and safety is a significant competitive advantage to Sandvik.

**DIVERSITY AND INCLUSION**

Sandvik's view is that diverse teams are more effective, more likely to think and act outside the box and contribute to greater creativity and innovation. Diversity and inclusion are integral parts of a modern society and, for Sandvik, a strong competitive advantage. Having the right mix of people, reflecting Sandvik's markets, will support the business and our ambition to meet the needs of global and local customers.

**TALENT ATTRACTION, DEVELOPMENT AND RETENTION**

Sandvik must ensure that it has the right people in the right positions. In order to retain the Group's market-leading position in a challenging market, a high-performing culture is important.

	OUR OFFERINGS	OUR OPERATIONS
<b>Group</b>	Will be followed up entirely by the business areas	<ul style="list-style-type: none"> <li>■ Compliance</li> <li>□ Sustainable supplier management</li> <li>■ Use, reuse and recycle</li> <li>■ Health and safety</li> <li>■ Equal career opportunities</li> </ul>
<b>Sandvik Machining Solutions</b>	<ul style="list-style-type: none"> <li>□ Innovation and productivity</li> </ul>	<ul style="list-style-type: none"> <li>■ Compliance</li> <li>□ Sustainable supplier management</li> <li>■ Efficient use of materials and resources</li> <li>■ Health and safety</li> </ul>
<b>Sandvik Mining and Rock Technology</b>	<ul style="list-style-type: none"> <li>□ Innovation and productivity</li> <li>□ Health and safety</li> <li>□ Environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>■ Governance</li> <li>■ Compliance</li> <li>□ Customer relations</li> <li>□ Sustainable supplier management</li> <li>■ Efficient use of materials and resources</li> <li>■ Reduction of emissions</li> <li>■ Health and safety</li> <li>■ Equal career opportunities</li> </ul>
<b>Sandvik Materials Technology</b>	<ul style="list-style-type: none"> <li>□ Innovation and productivity</li> <li>□ Environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>□ Customer relations</li> <li>□ Sustainable supplier management</li> <li>■ Carbon dioxide emissions</li> <li>■ Use, reuse &amp; recycling</li> <li>■ Efficient use of materials and resources</li> <li>■ Health and safety</li> </ul>

- Material inside Sandvik
- Material mainly outside Sandvik (supplier and/or customer)
- Material both inside and outside Sandvik (supplier and/or customer)

## SUSTAINABILITY RISKS

Each manager with operational responsibilities is expected to ensure that risks associated with the operations are appropriately identified, evaluated and managed. Business risks include market and country risks and risks related to R&D, products, production, health and safety, environmental matters, corruption and human rights. Ident-

ified business risks are evaluated regularly and assigned action plans. The key risks are then summarized in reports, which provide input information for reporting at the business area and Group level. The table below presents sustainability risk areas that have been identified. Read more about our risk management on page 52.

RISK AREA	RISK DESCRIPTION	POTENTIAL IMPACT	MITIGATION
<b>COMPLIANCE</b> (bribery and corruption, competition law, trade compliance and data privacy)	Giving bribes to receive an order. Accepting a bribe before placing an order. Internal or external fraud. Violation of international trade regulations.	Legal consequences. Tarnished reputation and weaker financial position.	Training, due diligence, continuation and improvement of adequate procedures, monitoring and reporting to prevent breaches of bribery, competition, trade or data privacy law
<b>HEALTH AND SAFETY</b>	Injuries and occupational illnesses affecting people working at Sandvik or on Sandvik's behalf in other locations	Fatalities, injuries or illnesses at the workplace. Tarnished reputation affecting sales and the ability to attract and retain personnel.	EHS management systems that, as a minimum, are certified in accordance with OHSAS 18001. Programs to continuously improve our health and safety culture.
<b>ENVIRONMENT</b>	Inefficient use of energy, water and raw materials and/or environmental pollution. Higher focus on products' environmental footprint and possible future legislative requirements.	Increased costs, negative effects on the environment and tarnished reputation. Reduced access to raw materials for future needs. Reduced access to water for Sandvik's operations, people living close to Sandvik's plants and customers. Disruptions in the supply chain, including energy supply. Disruptions due to extreme weather conditions.	Environmental and climate change strategy implementation. Energy efficiency activities, internal and customer-focused. Sustainability focus on product development. ISO 14001 and 50001-certification, life cycle analysis, environmental reporting, training and behavioral changes.
<b>SUSTAINABLE SUPPLIER MANAGEMENT</b>	Suppliers, including subcontractors, agents and distributors, that do not respect the Group's Supplier Code of Conduct and have poor sustainability performance. Unsustainable purchasing practices and supplier management.	Tarnished reputation and weaker financial position. Sudden disruptions in the value chain. Uncompetitive prices. Increased supplier turnover and low efficiency in the value chain. Increased total cost of ownership for purchased goods and supplier management.	Strengthen implementation of Sustainable Purchasing and Conflict Minerals Policies and related processes. Increase awareness – training focused on Supplier Code of Conduct, revised supplier sustainability risk assessment and approval process. Integrate supplier sustainability performance and product/services sustainability attributes in Group purchasing processes. Strengthen the overall performance management.
<b>CUSTOMER CONDUCT</b>	Customers behaving unethically.	Tarnished reputation and weaker financial position.	Strengthen "know-your-customer" processes.

# SUSTAINABILITY TARGETS

SUSTAINABILITY AREAS	ASPECTS	2020 AMBITION	ACTIONS 2016
<b>Code of Conduct</b>	All aspects in the Code of Conduct	<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 exist</li> </ul>	<ul style="list-style-type: none"> <li>Initial training of all existing employees and design/implementation of a process for training of new hires</li> </ul>
<b>Speak Up</b>	All aspects in the Code of Conduct	<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>	<ul style="list-style-type: none"> <li>Awareness campaign as part of Code of Conduct training, release of Speak Up in remaining countries, and investigations set-up in business areas</li> </ul>
<b>Compliance</b>	<ul style="list-style-type: none"> <li>Anti-corruption &amp; bribery (ABC)</li> <li>Data protection</li> <li>Trade compliance</li> <li>Competition law</li> </ul>	<ul style="list-style-type: none"> <li>Compliance optimized to be both effective and efficient</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with our direction to embed compliance in our business areas, strengthen process and systems in respect of commercial intermediaries and record keeping</li> </ul>
<b>Sustainable Supplier Management</b>	<ul style="list-style-type: none"> <li>Sustainable supply base</li> <li>Sustainable purchasing practices</li> <li>Sustainable supplies</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>	<ul style="list-style-type: none"> <li>In line with our direction to further embed sustainability into the purchasing processes and improve our supply base compliance with Supplier Code of Conduct in the new organizational set up</li> </ul>
<b>Energy, emissions and climate change</b>	<ul style="list-style-type: none"> <li>Energy efficiency</li> <li>Transportation of goods</li> <li>Energy intensive suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Reduce CO<sub>2</sub> emissions by 20% in relation to the base year 2014</li> <li>Increase energy efficiency by 20%* in relation to the base year 2014</li> </ul>	<ul style="list-style-type: none"> <li>Guarantees of Origin (for renewable energy)</li> <li>EHS Plan Implementation</li> </ul>
<b>Use, reuse &amp; recycling of material and natural resources</b>	<ul style="list-style-type: none"> <li>Use of sustainable materials and resources</li> <li>Reuse and recondition</li> <li>Recycling of materials and resources</li> </ul>	<ul style="list-style-type: none"> <li>Decrease freshwater consumption by 20%* in relation to the base year 2014</li> <li>Increase share of waste going to recovery operations to be &gt;20% of total waste generated</li> <li>Maintain 80% of metallic raw material that comes from recovered materials</li> </ul>	<ul style="list-style-type: none"> <li>Establish EHS Plans that work towards completing activities that let us meet the EHS ambitions for 2020</li> </ul>
<b>Health &amp; Safety</b>	<ul style="list-style-type: none"> <li>Elimination of fatalities</li> <li>Reduce injuries and illness</li> <li>Health and well-being</li> </ul>	<ul style="list-style-type: none"> <li>To eliminate fatalities at Sandvik controlled locations</li> <li>LTIFR of &lt;1.0</li> <li>90% staff access to well-being programs</li> </ul>	<ul style="list-style-type: none"> <li>Critical controls</li> <li>Improve incident investigation process</li> </ul>
<b>Talent attraction &amp; recruitment</b>	<ul style="list-style-type: none"> <li>Employer branding</li> <li>Recruitment &amp; onboarding</li> </ul>	<ul style="list-style-type: none"> <li>Become the employer of choice in selected markets and target groups, and outperform the competition in acquiring the right people for the right positions</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. Ensured employee commitment, enhanced job satisfaction/engagement and shortened time from hire to full productivity from the employee.</li> </ul>	<ul style="list-style-type: none"> <li>Developed a LinkedIn success plan focusing on increasing the awareness of the platform, using storytelling in motion pictures and produce tailor made inspirational education material for all employees on how to best act as brand ambassadors on LinkedIn</li> <li>Awareness raising and commitment from top management regarding open job market. Established improved onboarding procedures in a decentralized organization.</li> </ul>
<b>Talent development &amp; retention</b>	<ul style="list-style-type: none"> <li>Employee development</li> <li>Equal career opportunities</li> <li>Employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>With strong performance management, strengthen Sandvik as a high performing organization by ensuring that the business strategy is broken down to financial, organizational and individual objectives that are executed and followed-up</li> <li>A high performing organization capitalizing on diversity and inclusion to secure competitiveness</li> <li>Employee satisfaction and engagement contributing to company success, building a culture where all employees can perform to the best of their abilities</li> </ul>	<ul style="list-style-type: none"> <li>Increased quality in performance management including target setting, dialogues and follow through on execution</li> <li>Ensured diversity perspectives in all HR areas e.g recruitment, talent management</li> <li>Identified improvement areas valid for each part of a decentralized organization based on survey results</li> </ul>

\* In relation to worked hours.

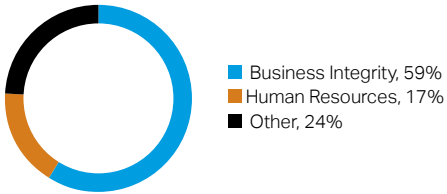


TARGETS 2016 AT GROUP LEVEL	RESULTS 2016	LINK TO GLOBAL COMPACT	LINK TO UN GLOBAL GOALS	GRI INDICATOR
<ul style="list-style-type: none"> <li>100% of all employees trained in Code of Conduct by end Q2-2016</li> </ul>	<ul style="list-style-type: none"> <li>91%</li> </ul>			
<ul style="list-style-type: none"> <li>Completed awareness campaign as part of Code of Conduct roll-out training</li> </ul>	<ul style="list-style-type: none"> <li>91%</li> </ul>			
<ul style="list-style-type: none"> <li>100 % of employees trained on revised Code of Conduct (including ABC and competition law)</li> <li>Number of employees trained within                             <ul style="list-style-type: none"> <li>a) ABC</li> <li>b) Competition law</li> </ul> </li> <li>Number of commercial intermediaries screened during the year</li> </ul>	<ul style="list-style-type: none"> <li>91%                             <ul style="list-style-type: none"> <li>a) 533</li> <li>b) 5,504</li> </ul> </li> <li>332</li> </ul>	Principle 10	16.5	SO3, SO4, SO8
<ul style="list-style-type: none"> <li>Reviewed purchasing processes (Group wide) with sustainability aspects integrated</li> <li>Clarified roles, responsibilities and accountabilities across the decentralized purchasing organization including sustainable supplier management</li> <li>Continued capacity building activities</li> <li>Audit identified high risk suppliers</li> <li>See Use, reuse and recycling of raw materials and natural resources</li> </ul>	<ul style="list-style-type: none"> <li>Completed</li> <li>Largely completed</li> <li>168 purchasers and related functions. 220 employees trained in conflict minerals</li> <li>175 high risk suppliers audited</li> </ul>	Principle 1-10	5.1, 5.2, 6.3, 6.4, 7.2, 8.3, 8.7, 8.8, 9.4, 12.2, 12.4, 12.5, 16.2, 16.5	HR10, LA14, SO09, EN30, EN32
<ul style="list-style-type: none"> <li>3,678 g CO<sub>2</sub>/hour worked</li> <li>85 MJ/hour worked</li> </ul>	<ul style="list-style-type: none"> <li>4,027 g/hour</li> <li>91 MJ/hour</li> </ul>	Principle 7, 8, 9	7.2, 7.3, 8.2, 13.1	EN3, EN5, EN15, EN16, EN18, EN21
<ul style="list-style-type: none"> <li>75 l/hour worked</li> <li>16%</li> <li>80%</li> </ul>	<ul style="list-style-type: none"> <li>77 l/hour</li> <li>15%</li> <li>78%</li> </ul>	Principle 7, 8, 9	6.3, 6.4, 9.4, 12.2, 12.4, 12.5,	EN8, EN23, EN1, EN2
<ul style="list-style-type: none"> <li>LTIFR: 1.7</li> <li>TRIFR: 4.9</li> </ul>	<ul style="list-style-type: none"> <li>LTIFR : 1.7</li> <li>TRIFR: 5.1</li> <li>90% of locations when last surveyed</li> </ul>	Principle 1, 2	3.8, 3.9, 8.7, 8.8	LA6
<ul style="list-style-type: none"> <li>Number of LinkedIn followers, target 150,000</li> <li>New hire stay rate (%), target: &gt;90%</li> </ul>	<ul style="list-style-type: none"> <li>151,876</li> <li>90%</li> </ul>	Principle 4, 5, 6	8.5, 8.7, 8.8	LA1
<ul style="list-style-type: none"> <li>Performance dialogs conducted (%), target 95%</li> <li>Share of women in managerial positions (%), target 17.1%</li> <li>Sandvik Employee Engagement Index (from the all employee survey), the extent to which employees are motivated to contribute and are willing to make an extra effort, target 75%</li> </ul>	<ul style="list-style-type: none"> <li>84%</li> <li>16.5%</li> <li>74%</li> </ul>	Principle 4, 5, 6	5.1, 5.c	LA1, LA11

# KEY FIGURES

## SUSTAINABLE GOVERNANCE

TOTAL AMOUNT OF SPEAK UP REPORTS 2016: 265



## RESEARCH AND DEVELOPMENT, R&D

NUMBER OF R&D EMPLOYEES:

**2,850**

R&D EXPENDITURE:

**3,483 MSEK**

ACTIVE PATENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS:

**7,900**

PATENTS AND OTHER INTELLECTUAL PROPERTY RIGHTS GRANTED IN 2016:

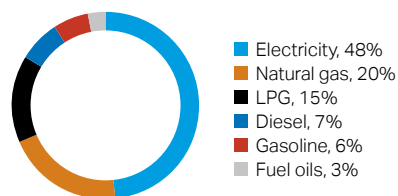
**1,150**

PERCENTAGE OF THE GROUP'S REVENUES IN 2016:

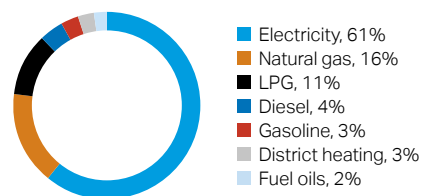
**4%**

## ENVIRONMENTAL FOOTPRINT

CO<sub>2</sub> EMISSIONS 2016, %

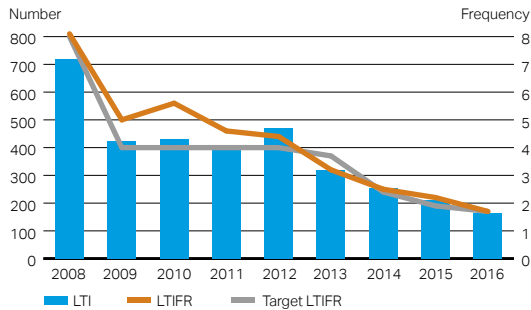


ENERGY CONSUMPTION 2016, %

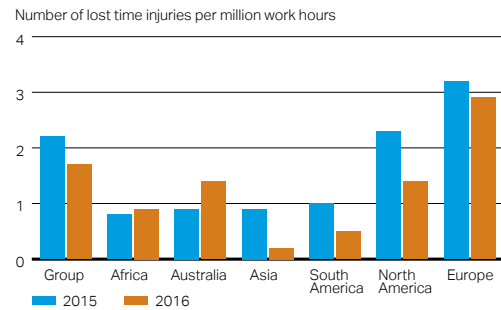


PEOPLE

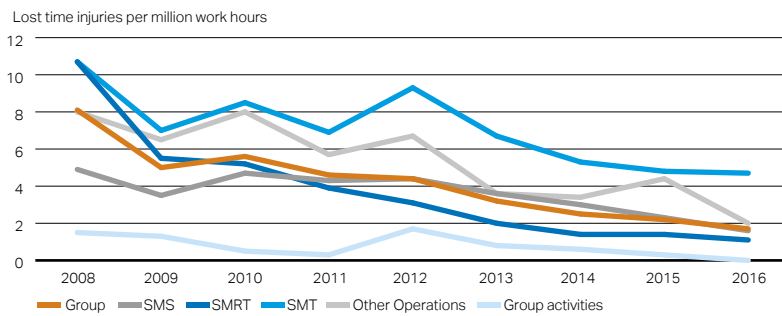
LTI AND LTIFR, 2008-2016



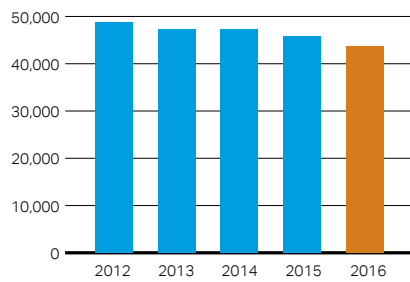
LTIFR BY MARKET AREA, 2015-2016



LTIFR BY BUSINESS AREA, 2008-2016

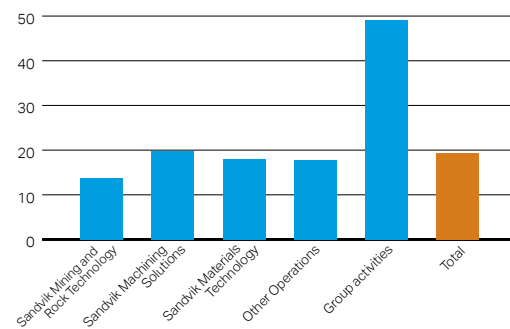


NUMBER OF EMPLOYEES, 2012-2016\*

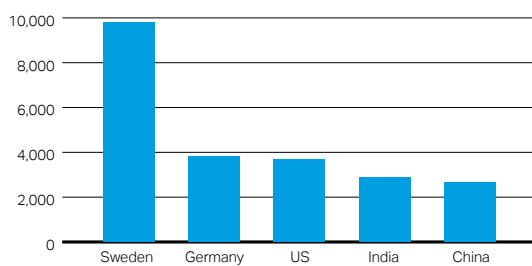


\* Restated to Full Time Equivalents (FTEs) at 31 December 2016.

SHARE OF WOMEN, %

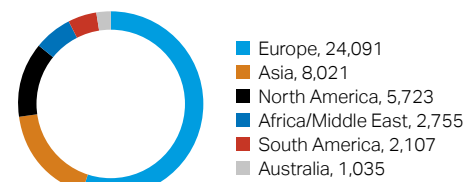


NUMBER OF EMPLOYEES, FIVE LARGEST COUNTRIES\*



\* Restated to Full Time Equivalents (FTEs) at 31 December 2016.

NUMBER OF EMPLOYEES BY MARKET AREA, 2016\*



## SUSTAINABILITY NOTES

PEOPLE KEY FIGURES	Unit	2009	2010	2011	2012	2013	2014	2015	2016
<b>People</b>									
Total number of employees	FTE	44,355	47,064	50,030	48,742	47,338	47,318	45,808	43,732
Of whom, women	%	17.2	17.6	17.9	18.5	19.1	19.4	19.5	19.4
Full-time employees	%	–	–	–	–	97	98	98	97
Of whom, women	%	–	–	–	–	–	18	18	18
Part-time employees	%	–	–	–	–	3	2	2	3
Of whom, women	%	–	–	–	–	–	59	59	58
Contracted employees	FTE	–	–	–	–	3,524	1,776	2,376	2,456
LTIFR	Number of LTIs per million hours worked	5.0	5.6	4.6	4.4	3.2	2.5	2.2	1.7
TRIFR	Number of TRIs per million hours worked	–	–	–	–	8.7	6.4	6.0	5.1

Unit	Group		Parent Company		
	2015	2016	2015	2016	
<b>Wages, salaries, other remunerations and social costs</b>					
Wages, salaries and other remunerations	MSEK	20,604	20,008	4,039	4,141
Social costs	MSEK	5,263	5,085	1,876	1,794
Employee profit sharing	MSEK	13	169	10	130
<b>Total</b>	MSEK	<b>25,880</b>	<b>25,262</b>	<b>5,925</b>	<b>6,065</b>
Of which, pension costs recognized in social costs	MSEK	1,426	1,414	476	588

Employees by Region	Unit	Europe	North America	South America	Africa/Middle East	Asia	Australia
		FTE	FTE	FTE	FTE	FTE	FTE
		24,091	5,723	2,107	2,755	8,021	1,035

Employees by business area	Unit	Sandvik Mining and Rock Technology	Sandvik Machining Solutions	Sandvik Materials Technology	Other Operations	Group Activities	Total
		FTE	FTE	FTE	FTE	FTE	FTE
		14,911	18,043	6,490	1,912	2,376	43,732
Total share of women	%	13.8	19.8	18.1	17.9	49.2	19.4
Women in management positions	%	13.2	13.8	19.1	14.0	39.0	16.5

Composition of governance bodies and breakdown of other employees	Share of women	Age structure			
		Under 30	30–50	50 and above	
Board of Directors	%	23	0	38	62
Group Executive Management	%	38	0	63	38
Management	%	17	2	70	28
Other employees	%	20	14	61	26

Unit	2009	2010	2011	2012	2013	2014	2015	2016
<b>New employee hires and employee turnover</b>								
New employee hires per year	number	–	–	–	–	3,293	2,799	2,235
of whom women	%	–	–	–	–	22	19	19
Employee turnover per year	%	14	8	8	11	12	11	11

Employee turnover by gender	%	Male	Female
		10	12

New employee hires by age	Employee turnover by age	Unit	Age structure		
			Under 30	30–50	50 and above
		number	888	1,200	148
		%	9	10	13

FINANCIAL KEY FIGURES	Unit	2009	2010	2011	2012	2013	2014	2015	2016
<b>Economic value, generated and distributed</b>									
Revenues	MSEK	71,937	82,654	94,084	98,529	87,328	88,821	90,822	84,427
Manufacturing costs	MSEK	46,859	44,758	56,054	56,161	50,507	49,717	53,695	45,004
Employee wages and benefits	MSEK	22,441	22,885	24,014	24,907	23,599	24,964	25,880	25,262
Payments to providers of capital	MSEK	5,986	2,805	5,776	6,056	6,279	6,251	6,392	4,797
Payments to governments	MSEK	885	2,391	3,173	3,180	3,937	1,797	1,850	2,027
Retained in company	MSEK	-4,234	9,815	5,067	8,225	3,006	6,092	3,005	7,337
<b>ENVIRONMENTAL KEY FIGURES</b>									
<b>Metallic raw materials</b>	Thousand tonnes	252	359	352	318	341	328	295	314
Of which recovered	%	78	81	80	81	81	80	80	78
<b>Energy consumption</b>	TJ	7,520	9,112	9,131	8,907	9,157	8,954	8,565	8,490
Change	%	-15	21	0	-2	3	-2	-4	-1
Non-renewable fuel	TJ	2,957	3,910	3,691	3,396	3,350	3,163	3,052	3,053
Electricity, heating and cooling purchased	TJ	4,563	5,201	5,440	5,512	5,844	5,830	5,555	5,474
Electricity, heating and cooling sold	TJ					-37	-39	-42	-37
<b>Energy intensity</b>	MJ/hour				83	92	89	88	91
Change	%					11	-3	-1	3
<b>Water consumption</b>	Thousand m <sup>3</sup>	7,077	8,998	8,414	8,482	8,222	7,876	7,736	7,207
Change	%	7	27	-6	1	-3	-4	-2	-7
Of which, purchased water	Thousand m <sup>3</sup>	3,202	3,437	3,379	3,265	3,207	3,011	2,607	2,540
Of which, groundwater	Thousand m <sup>3</sup>	547	601	617	716	667	681	917	618
Of which, collected surface water	Thousand m <sup>3</sup>	3,327	4,913	4,377	4,496	4,342	4,181	4,210	4,046
Of which, rain	Thousand m <sup>3</sup>	2	46	41	6	6	4	2	4
<b>Water intensity</b>	liter per worked hour				79	82	78	79	77
Change	%					4	-5	2	-3
<b>CO<sub>2</sub> emissions</b>	Thousand tonnes	479	559	538	527	384	387	382	377
Change	%	-15	17	-4	-2	-27	1	-2	-1
Direct emissions, from fossil fuels	Thousand tonnes	195	260	242	221	217	203	195	195
Indirect emissions, from electricity	Thousand tonnes	284	299	296	307	168	185	187	182
<b>CO<sub>2</sub> emission intensity</b>	g CO <sub>2</sub> /hour				4,909	3,847	3,831	3,912	4,027
Change	%					-22	0	2	3
<b>Waste</b>	Thousand tonnes	280	417	433	352	366	367	352	313
Change	%	69	49	4	-19	4	0	-4	-11
2007-2013 breakdown of waste									
Of which, hazardous	Thousand tonnes	27	34	36	35	38	n.a.	n.a.	n.a.
Of which, to landfill	Thousand tonnes	231	358	366	292	307	n.a.	n.a.	n.a.
2014-2016 breakdown of waste									
Hazardous waste to recovery	Thousand tonnes	n.a.	n.a.	n.a.	n.a.	n.a.	13	12	11
Hazardous waste to other disposal	Thousand tonnes	n.a.	n.a.	n.a.	n.a.	n.a.	20	19	17
Non-hazardous waste to recovery	Thousand tonnes	n.a.	n.a.	n.a.	n.a.	n.a.	30	36	35
Non-hazardous waste to other disposal	Thousand tonnes	n.a.	n.a.	n.a.	n.a.	n.a.	304	285	251
<b>Emissions of process water</b>	Thousand m <sup>3</sup>	1,427	2,166	2,265	1,942	2,096	2,101	2,203	2,224
Change	%	-	52	5	-14	8	0	5	1
<b>Emissions to air</b>									
NM VOC	tonne	65	62	61	66	64	61	61	57
SO <sub>2</sub>	tonne	45	69	71	42	39	34	33	35
NO <sub>x</sub>	tonne	379	441	380	354	351	338	330	328
<b>Emissions to water</b>									
Nitrogen	tonne	201	379	329	285	269	261	230	210
Phosphorous	tonne	1	1	12	21	33	37	34	32
COD	tonne	172	201	170	259	208	195	151	171
Nickel	tonne	0.7	0.2	0.2	0.3	0.2	0.3	0.2	0.2
Chromium	tonne	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

GRI INDEX

GENERAL STANDARD DISCLOSURES

		Page	Comments and omissions	
GENERAL STANDARD DISCLOSURES	<b>Strategy and analysis</b>			
	G4-1	Letter from the President and CEO	2–4	
	<b>Organizational profile</b>			
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	G4-7	Nature of ownership and legal form	62	
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	G4-9	Scale of the organization	inside front cover, 1, 62, 137–138	
	G4-10	Number of employees	1, 137–138	Data by gender not available for contracted employees
	G4-11	Employees covered by collective bargaining agreements	45	Data on specific numbers not available
	G4-12	Description of the organization's supply chain	8, 35–36, 45	Information on size of the supply chain not available
	G4-13	Significant changes during the reporting period	137	
	G4-14	Precautionary approach	33–34, 46–47	
	G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or endorses	4, 38, 45, 130	
	G4-16	Memberships of associations	37, 130	
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	G4-18	Defining report content	130–132, 144	
	G4-19	Material aspects	8, 67, 131–132	
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	G4-21	Aspect boundary outside the organization	131–132	
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<b>Stakeholder engagement</b>				
G4-24	Stakeholder groups engaged by the organization	131		
G4-25	Basis for identification of stakeholders	131		
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G4-34	Governance structure of the organization	35, 62–67		
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## SPECIFIC STANDARD DISCLOSURES

			Page	Comments and omissions	
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	EC1	Direct economic value generated and distributed			
	<b>COMPLIANCE (ANTIBRIBERY AND ANTICORRUPTION, TRADE, DATA PRIVACY)</b>				
	<b>Anticorruption</b>	DMA	8, 35, 134–135		
	SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	53, 133–135		
	SO4	Communication and training on anti-corruption policies and procedures	9, 134–135	Figure consolidated for entire Group	
	<b>Compliance (environment)</b>	DMA	8, 33–34, 46–47, 131–135		
	EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	115–116		
	<b>Compliance (product)</b>	DMA	8, 35, 131–135		
	PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	115–116		
	<b>Compliance (social)</b>	DMA	8, 35, 131–135		
	SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	115–116		
	<b>SUSTAINABLE SUPPLIER MANAGEMENT</b>				
	<b>Child labor</b>	DMA	8, 35–36, 45, 131–135		
	HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures to contribute to the effective abolition of child labor	35–36, 45		
	<b>Forced and compulsory labor</b>	DMA	8, 35–36, 45, 131–135		
	HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to elimination of all forms of forced or compulsory labor	35–36, 45		
	<b>Supplier assessment for human rights</b>	DMA	8, 35–36, 45, 131–135		
	HR10	Percentage of new suppliers that were screened using human rights criteria	35–36, 45	Percentage not available	
	<b>Supplier assessment for labor practices</b>	DMA	8, 35–36, 45, 131–135		
LA14	Percentage of new suppliers that were screened using labor practices criteria	35–36, 45	Percentage not available		
<b>Supplier assessment for Impacts on Society</b>	DMA	8, 35–36, 45, 131–135			
SO09	Percentage of new suppliers that were screened using criteria for impacts on society	35–36, 45	Percentage not available		
<b>Supplier assessment for environment</b>	DMA	8, 35–36, 45, 131–135			
EN32	Percentage of new suppliers that were screened using environmental criteria	35–36, 45	Percentage not available		
ENVIRONMENTAL IMPACT	<b>ENERGY, EMISSIONS AND CLIMATE CHANGE</b>				
	<b>Energy</b>	DMA	8, 16, 33–34, 131–135		
	EN3	Energy consumption within the organization	136, 139	Data not divided by type	
	EN5	Energy intensity	139		
	<b>Emissions</b>	DMA	8, 16, 33–34, 131–135		
	EN15	Direct greenhouse gas emissions	136, 139, 144	No data on biogenic CO <sub>2</sub> emissions	
	EN16	Energy indirect greenhouse gas emissions	139, 144		
	EN18	Greenhouse gas emissions intensity	139, 144		
	EN21	NO <sub>x</sub> , SO <sub>2</sub> , and other significant air emissions.	139, 144	No data on POP, HAP or PM	

SUSTAINABILITY NOTES

SPECIFIC STANDARD DISCLOSURES (CONT.)			Page	Comments and omissions
ENVIRONMENTAL IMPACT	<b>USE, REUSE, AND RECYCLING OF MATERIALS AND NATURAL RESOURCES</b>			
	<b>Materials</b>	DMA	8, 16, 33–34, 131–135	
	EN1	Materials used by weight or volume	19–20, 26, 34, 139	No data available on packaging material
	EN2	Percentage of materials used that are recycled input materials	4, 9, 22, 24, 26, 34	
	<b>Water</b>	DMA	8, 16, 33–34, 131–135	
	EN8	Total water withdrawal by source	139, 144	
	<b>Waste</b>	DMA	8, 16, 33–34, 131–135	
EN23	Total weight of waste by type and disposal method	139, 144	No detailed information on disposal method	
SOCIAL IMPACT	<b>DIVERSITY AND INCLUSION</b>			
	<b>Diversity and equal opportunity</b>	DMA	7–8, 29–32, 44–45, 131–135	
	LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	22, 24, 26, 137–138	
	<b>HEALTH AND SAFETY</b>			
	<b>Occupational health &amp; safety</b>	DMA	8, 30–31, 44–45, 131–135	
	LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	22, 24, 26, 31, 133, 137–138, 144	Data by gender not available
	<b>TALENT ATTRACTION, DEVELOPMENT AND RETENTION</b>			
<b>Employment</b>	DMA	7, 8, 29–32, 131–135		
LA1	Total number and rates of new employees hires and employee turnover by age group, gender, and region	31–32, 44–45, 89, 137–138	Data by region not available	
<b>Training and education</b>	DMA	7, 29–32, 134–135		
LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	32, 134–135	Data by gender and employee category not available	



## UN GLOBAL GOALS INDEX

	UN GOAL 2030	ASSOCIATED TARGETS	SANDVIK'S CONTRIBUTION TO THE UN'S GLOBAL GOALS	PAGE
	<b>Ensure healthy lives and promote well-being for all at all ages</b>	3.3	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 e.g. Sandvik DD422iE automated drill rig and Sandvik LH307B loader. Since over 10 years, we are 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.	37 home.sandvik
	<b>Ensure education and equitable quality education and promote lifelong learning opportunities for all</b>	4.3, 4.4	Sandvik runs two high schools in Sweden with a focus on technical skills. We also run a number of vocational training programs in order to increase the level of technical expertise in countries where there is lack of trained mechanics. In India, we are engaged in a project aiming at transforming schools into high performing schools where every child learns well. We have partnerships with universities and research institutes enabling access to expert knowledge, new research and innovation.	37 home.sandvik
	<b>Achieve gender equality and empower all women and girls</b>	5.1 5.c	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 is a material area for Sandvik and is closely followed-up and measured.	7, 30–31, 45, 134–135
	<b>Ensure availability and sustainable management of water and sanitation for all</b>	6.3 6.4	We constantly strive to reduce the use of dangerous substances and materials and their impact on people and our surroundings. All our wastewater is cleaned before released. We also have programs for recycling and the effective use of fresh water; particularly in water stressed areas, such as e.g. the EU "Inspirewater" project.	33–34, 46–47 home.sandvik
	<b>Ensure access to affordable, reliable, sustainable and modern energy for all</b>	7.2 7.3	In our major production sites in Europe we buy energy from renewable energy sources since 2013, thereby reducing the Group's CO <sub>2</sub> emissions by 20% per year. We constantly work on improving energy efficiency in our production as well as in our products and services.	12–20, 33–34 home.sandvik
	<b>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</b>	8.7 8.8	We have decent working conditions as a prerequisite set out in our Code of Conduct as well as in our Supplier Code of Conduct. We respect the ILO Declaration on fundamental principles and rights at work, as well as principles 4, 5 and 6 of the UN Global Compact. We have a strict prohibition against forced, slave and child labor. Safety for our employees and contractors is a highly prioritized area with a vision of zero harm to our employees. We have lowered our LTIFR for the seventh consecutive year to 1.7. AutoMine®, a mining automation solution, removes people from hazardous areas to a safer and healthier environment while not impacting production efficiency.	13, 30–32, 44–46 home.sandvik
	<b>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</b>	9.4	We constantly work on reducing our environmental footprint by decreasing the amount of resources, substances, energy and materials. Sandvik Hiflex® precision strip steel is designed for the manufacture of compressor valves for next-generation compressors. The precision strip steel contributes to enhancing compressor efficiency, promoting long service life and reducing noise. We have invested in digitalization and additive manufacturing which lead to a lower impact on the environment. Insert GC4315, based on the technology Inveio®, improves tool life and production reliability, as well as reduced cycle times for operations, yielding greater output while consuming fewer resources.	2–4, 12–20, 22–28 home.sandvik
	<b>Ensure sustainable consumption and production patterns</b>	12.2 12.4	Circularity is a key aspect for Sandvik. We have extensive recycling schemes of natural resources and raw materials with the aim to constantly increase the levels of recycled materials. We have a recycling program of used cemented-carbide tools which are bought back from our customers and converted back into basic raw materials. Our recycling processes significantly reduce energy consumption, lower carbon emissions and produce less waste. We conduct life cycle analyses and aim to close an increased number. We have schemes in place to reduce and contain chemicals in order to prevent any damage to people or the surrounding environment. We have a number of initiatives which aim to turn waste into raw materials to be used in other processes.	33–34, 46–47 home.sandvik
	<b>Take urgent action to combat climate change and its impacts</b>	13.1	Reduction of CO <sub>2</sub> emissions is a priority for Sandvik. We have schemes to reach our target of a 20% reduction in 2020 compared to 2014. We invest in the development of clean energy solutions, such as the industrialization of the manufacturing of fuel cells and Sandvik DD422iE® drill rig, an environmentally responsible solution that reduces emissions caused by underground activity.	33–34, 46–47 home.sandvik
	<b>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</b>	16.5	Our Code of Conduct prohibits corruption and bribery of any form, including on Sandvik's behalf. This is supported by thorough due diligence of our business partners, clear policies and effective processes to combat, but also report, instances of corruption. Our Speak Up system is open to internal and external parties to, anonymously or not, report on any violation of our Code of Conducts, including on corruption matters.	35, 67 home.sandvik

## ACCOUNTING PRINCIPLES

The reporting of Sandvik's sustainability activities is based on the UN Global Compact's requirements on reporting on progress as well as the Global Reporting Initiative (GRI). The report is in accordance with GRI G4 Guidelines (Core level). Some information found in the reports of previous years was not considered material and is therefore not disclosed in this report. The sustainability information in the Annual Report has been reviewed by external auditors in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR.

### REPORT SCOPE, BOUNDARY AND CALCULATION METHODS

GRI's guidance on the Reporting Principles of Materiality, Stakeholder inclusiveness, Sustainability context, and Completeness was used to define the content of the report. The sustainability information in the Annual Report refers to the 2016 fiscal year and covers all operations of the Group, including subsidiaries, discontinued operations, but excludes associated companies and joint ventures.

Employee statistics regarding age, turnover, new employees, part time/full time and gender are derived from the Group's common HR system, which covers 98% of Sandvik employees. These figures are compiled on a yearly basis. Financial figures and employee statistics not stated above are derived from our financial reporting system. EHS data is derived from our EHS reporting system in which reporting is conducted on a monthly basis for safety-related indicators and on a quarterly basis for the areas relating to environmental key figures. Supplementary data is collected and compiled manually once a year, and thus the quality of the data is subject to a higher level of uncertainty. These

figures are rounded to a greater degree to manage this higher level of uncertainty. In the event of further limitations in the report, these are indicated in the text.

The calculations of CO<sub>2</sub> emissions do not include emissions from the transport of raw materials and finished products or travel. For most of our production units specific conversion factors from their electricity supplier were used when calculating indirect CO<sub>2</sub> emissions. In other cases, factors from the International Energy Agency Data Services were used. For the majority of the European sites, the emission factor is zero, with reference to the European Guarantees of Origin scheme. Waste data reporting was changed in 2014, and is now broken down by a) hazardous or non-hazardous and b) sent to recovery (recovery, reuse or recycling) or to other disposal.

Previous waste data was reported as total waste plus a) of which hazardous and/or b) of which sent to landfill. As a consequence of the change, the waste data details can only be used for indicative comparisons for the years up to and including 2013 in comparison with the waste data details from and after 2014. However, it is possible to compare total waste amounts between all the years.

Worked hours used in calculation of injury frequency rates were derived from an assumption of 2,000 worked hours per employee per year for the years 2008–2011 and from actual hours worked from 2012 and onwards.

The key figures compiled are based on information available at the date of the most recent year-end accounts, which may entail that historical figures have been adjusted.

The Group's results in relation to its objectives are measured using relevant performance indicators and key figures. The figures presented are the accumulated figures for 2016 for all active reporting units, unless otherwise stated.

# ASSURANCE REPORT

## AUDITOR'S LIMITED ASSURANCE REPORT ON SANDVIK SUSTAINABLE BUSINESS INFORMATION INCLUDED IN SANDVIK AB ANNUAL REPORT 2016

To Sandvik AB

### INTRODUCTION

We have been engaged by the Group Executive Management of Sandvik to undertake a limited assurance engagement of Sandvik Sustainable Business information, included in the Sandvik Annual Report 2016. Sandvik has defined the sustainability reporting scope to the areas referred to in the GRI Index, see pages 140–142 in Sandvik Annual Report 2016 including Sustainability Business Report.

### RESPONSIBILITIES OF THE GROUP EXECUTIVE MANAGEMENT FOR THE SUSTAINABLE BUSINESS INFORMATION

The Group Executive Management are responsible for the preparation of the Sustainable Business information in accordance with the applicable criteria, as explained on page 130 in the Sandvik Annual Report 2016, that are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) that are applicable to the Sustainable Business information, as well as the accounting and calculation principles that the company has developed. This responsibility also includes the internal control relevant to the preparation of the Sustainable Business information that is free from material misstatements, whether due to fraud or error.

### RESPONSIBILITIES OF THE AUDITOR

Our responsibility is to express a conclusion on the Sustainable Business information based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainable Business information, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in scope than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards. The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. Consequently, the procedures performed in a limited assurance engagement do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion.

Our procedures are based on the criteria defined by the Group Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainable Business information.

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 information, is not prepared, in all material respects, in accordance with the criteria defined by the Group Executive Management.

Stockholm, 6 March 2017

KPMG AB

Joakim Thilstedt  
Authorized Public Accountant

Karin Sivertsson  
Expert Member of FAR

## BOARD OF DIRECTORS



### JOHAN MOLIN

Born 1959. Chairman of the Board since 2015. Chairman of the Remuneration Committee.  
**Education and business experience:** Master of Science in Business and Economics, Stockholm School of Economics. President and CEO of ASSA ABLOY since 2005, President and CEO of Nilfisk-Advance 2001–2005 and various positions within the Atlas Copco Group 1983–2001.  
**Current Board assignments:** Board member of ASSA ABLOY AB.  
**Shareholding in Sandvik (own and closely related persons):** 260,000 as well as 1,000,000 call options.



### JENNIFER ALLERTON

Born 1951. Board member since 2015.  
**Education and business experience:** M.Sc. in Physics and B.Sc. in Mathematics, Physical Sciences and Geosciences. Chief Information Officer at F. Hoffmann-La Roche Ltd 2002–2012, Technology Director at Barclaycard 1999–2002 and various positions at ServiceNet, USA, BOC (now Linde), Cable & Wireless Business Networks and Unilever plc.  
**Current Board assignments:** Board member of Iron Mountain Inc and AVEVA Group plc.  
**Shareholding in Sandvik (own and closely related persons):** 10,000.



### CLAES BOUSTEDT

Born 1962. Board member since 2015. Chairman of the Audit Committee.  
**Education and business experience:** MBA. Executive Vice President of L E Lundberg-företagen 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.



### JÜRGEN M GEISSINGER

Born 1959. Board member since 2012.  
**Education and business experience:** PhD in Mechanical Engineering. CEO of Servion Holding GmbH since 2015, President and CEO of Schaeffler AG 1998–2013 and various senior positions at ITT Automotive 1992–1998.  
**Current Board assignments:** Member of the Supervisory Board of MTU Aero Engines AG.  
**Shareholding in Sandvik (own and closely related persons):** 0.



### JOHAN KARLSTRÖM

Born 1957. Board member since 2011. Member of the Remuneration Committee.  
**Education and business experience:** M.Sc. (Eng.). President of Skanska AB since 2008 and various senior positions at BPA (currently Bravida) 1995–2000.  
**Current Board assignments:** Board member of Skanska AB.  
**Shareholding in Sandvik (own and closely related persons):** 5,000.



### BJÖRN ROSENGREN

Born 1959. Board member since 2016.  
**Education and business experience:** M.Sc. (Technology). President and CEO, Sandvik AB, since 2015. President and CEO of Wärtsilä Corporation 2011–2015. Senior Executive Vice President of Atlas Copco AB and Business Area President for Construction and Mining Technique 2002–2011. President of the Atlas Copco Rock Drilling Equipment Division 2001–2002. President of the Atlas Copco Craelius Division 1998–2001. General Manager of Nordhydraulic, Nordwin AB, Sweden 1995–1998. Various positions within the ESAB Group 1985–1995.  
**Current Board assignments:** Board member of Danfoss A/S.  
**Shareholding in Sandvik (own and closely related persons):** 80,214.

*Information regarding Board assignments and holdings of shares as of 31 December 2016. Current Board assignments refers to assignments in companies outside the Sandvik Group.*



## HELENA STJERNHOLM

Born 1970. Board member since 2016. Member of the Audit Committee.  
**Education and business experience:** M.Sc. Econ. President and CEO of AB Industrivärden since 2015. Prior to joining Industrivärden, she was a partner in the private equity firm IK Investment Partners where she had worked since 1998. 1997–1998 she worked as a consultant at Bain & Company.  
**Current Board assignments:** Board member in AB Industrivärden, AB Volvo and Telefonaktiebolaget LM Ericsson.  
**Shareholding in Sandvik (own and closely related persons):** 0.



## LARS WESTERBERG

Born 1948. Board member since 2010. Member of the Audit Committee and the Remuneration Committee.  
**Education and business experience:** M.Sc. (Eng.) and B.Sc. (Econ.). President and CEO of Autoliv Inc. 1999–2007, Gränges AB 1994–1999 and ESAB 1991–1994 and various positions at ESAB and ASEA from 1972.  
**Current Board assignments:** Board member of SSAB AB, AB Volvo and Stena AB.  
**Shareholding in Sandvik (own and closely related persons):** 80,000.



## TOMAS KÄRNSTRÖM

Born 1966. Board member since 2006 (employee representative).  
**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).  
**Education and business experience:** Technical College Graduate - Mechanical Engineering. Chairman Trade Union, Unionen Sandvik Sweden and Unionen Coromant & Machining Solutions. Process & System Coordinator Direct Purchasing at Sandvik Tooling 2007–2010 and Professional Buyer Direct Material at Sandvik Coromant/Tooling 2000–2007. Various positions within production and logistics at Scania 1995–2000.  
**Current Board assignments:** —  
**Shareholding in Sandvik (own and closely related persons):** 3,414.



## THOMAS ANDERSSON

Born 1962. Deputy Board member since 2012 (employee representative).  
**Education and business experience:** Chairman of the Union Committee, Metal Workers' Union, Sandvik Coromant, Gimo. Various operator positions at Gimoverken since 1984. Construction firm Anders Diös 1980–1984.  
**Current Board assignments:** —  
**Shareholding in Sandvik (own and closely related persons):** 612.



## MATS W LUNDBERG

Born 1974. Deputy Board member since 2015 (employee representative).  
**Education and business experience:** Master of Science and PhD in Chemical Engineering. Principal R&D Engineer, Sandvik Materials Technology since 2010. Scientist and postdoctoral researcher at Risø DTU, Denmark 2007–2010 and Technical Sales Specialist at Spectral Solutions AB 2005–2007.  
**Current Board assignments:** —  
**Shareholding in Sandvik (own and closely related persons):** 0.

### HONORARY CHAIRMAN

## Percy Barnevik

Born 1941. Chairman of the Board of Sandvik AB 1983–2002.

### BOARD SECRETARY

## Åsa Thunman

Born 1969. Secretary to the Board since 2014. Executive Vice President and General Counsel, Sandvik AB, since 2014.

### AUDITOR

## KPMG AB

**Auditor-in-charge (as from January 2017):** Joakim Thilstedt, born 1967, Authorized Public Accountant.  
**Other auditing assignments:** Auditor-in-charge for, among others, Ahlsell AB, Holmen AB, Hufvudstaden AB, LE Lundbergföretagen AB and Modern Times Group MTG AB.  
**Shareholding in Sandvik (own and closely related persons):** 0.

## GROUP EXECUTIVE MANAGEMENT



### BJÖRN ROSENGREN

Born 1959. President and CEO, Sandvik AB, since 2015.

**Education and business experience:** M.Sc. in Technology. President and CEO of Wärtsilä Corporation 2011–2015. Senior Executive Vice President Atlas Copco AB and Business Area President for Construction and Mining Technique 2002–2011. President of the Atlas Copco Rock Drilling Equipment division 2001–2002. President of the Atlas Copco Craelius division 1998–2001. General Manager of Nordhydraulic, Nordwin AB, Sweden 1995–1998. Various positions within ESAB Group 1985–1995.

**Current Board assignments:** Board member of Sandvik AB and Danfoss A/S.

**Shareholding in Sandvik (own and closely related persons):** 80,214.



### 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. Employed at Sandvik since 2006. Various senior positions, including Vice President Communication and Marketing at Sandvik Coromant 2012–2013 and Internal Communication Manager at Sandvik Coromant 2010–2012.

**Current Board assignments:** —  
**Shareholding in Sandvik (own and closely related persons):** 5,179.



### PETRA EINARSSON

Born 1967. President of the Sandvik Materials Technology business area since 2013.

**Education and business experience:** B.Sc. in Business Administration and Economics. Employed at Sandvik since 1990. Various senior positions, including President of the Tube product area 2011–2013, President of the Strip product area 2007–2011 and Financial Manager at Sandvik Materials Technology 2004–2007.

**Current Board assignments:** Board member of SSAB AB, the Swedish Association of Industrial Employers and the Council of the Swedish Steel Producers' Association.

**Shareholding in Sandvik (own and closely related persons):** 21,852.



### TOMAS ELIASSON

Born 1962. Executive Vice President and Chief Financial Officer, Sandvik AB, since 1 April 2016.

**Education and business experience:** B.Sc. in Business Administration and Economics, Uppsala University. Chief Financial Officer of AB Electrolux 2012–2016. Chief Financial Officer and Executive Vice President of ASSA ABLOY AB 2006–2012. Chief Financial Officer of Seco Tools AB 2002–2006. Financial Manager of ABB Robotics AB 1999–2002. Financial Manager of ABB Flexible Automation AB 1997–1999. Various positions within the ABB Group in Sweden and Australia 1987–1997.

**Current Board assignments:** Board member of Millicom International Cellular S.A.

**Shareholding in Sandvik (own and closely related persons):** 24,030.



### LARS ENGSTRÖM

Born 1963. President of the Sandvik Mining and Rock Technology business area since 1 July 2016.

**Education and business experience:** M.Sc. 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 senior positions within Atlas Copco 1994–2006, such as President of the Atlas Copco Rock Drilling Equipment/Underground Rock Excavation Division 2002–2006 and General Manager Atlas Copco CMT Australia and New Zealand 2000–2002. 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):** 6,086.



### JONAS GUSTAVSSON

Born 1967. President of the Sandvik Machining Solutions business area since 2013.

**Education and business experience:** M.Sc. (Eng.) Various senior positions at Sandvik since 2008, including President of the Sandvik Materials Technology business area 2011–2013. Vice President Operations at Rotax 2002–2007, various senior positions at Bombardier 1997–2002 and ABB 1995–1997.

**Current Board assignments:** —  
**Shareholding in Sandvik (own and closely related persons):** 40,168.

On 30 January 2017, it was announced that Jonas Gustavsson has decided to leave Sandvik to take a position outside the Group.



## JOHAN KERSTELL

Born 1970. Executive Vice President and Head of Human Resources, Sandvik AB, since 1 June 2016.

**Education and business experience:** M.Sc. in Business and Economics. Various leading positions in Human Resources and Organizational Development within Sandvik 2004–2016. Cap Gemini 1999–2003.

**Current Board assignments:** —  
**Shareholding in Sandvik (own and closely related persons):** 5,732.



## ÅSA THUNMAN

Born 1969. Executive Vice President and General Counsel, Sandvik AB, since 2014.

**Education and business experience:** Master of Laws (LL.M). Securitas Group 2009–2014, general counsel from 2011, Elekta AB 1999–2009, several senior positions, including general counsel. Lagerlöf & Leman law firm 1996–1999.

**Current Board assignments:** —  
**Shareholding in Sandvik (own and closely related persons):** 6,781.

**Members who left the Group Executive Management during 2016:**  
Mats Backman, Dinggui Gao, Jim Nixon, Anna Vikström Persson and Zhiqiang (ZZ) Zhang.

*Information regarding Board assignments and holdings of shares as of 31 December 2016.  
Current Board assignments refers to assignments in companies outside the Sandvik Group.*

## ANNUAL GENERAL MEETING

### ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Thursday, 27 April 2017 at 5:00 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 Friday, 21 April 2017 and notify the company of their participation in the Meeting not later than Friday, 21 April 2017.

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 Friday, 21 April 2017 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 2017 Annual General Meeting declare a dividend of 2.75 SEK per share.

The proposed record date is Tuesday, 2 May 2017. If the proposal is adopted by the Annual General Meeting, it is expected that dividends will be paid on Friday, 5 May 2017. 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.

### EQUITY RATIO

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

### NET DEBT/EQUITY RATIO

Interest-bearing current and non-current debts, including net pension liabilities, less cash and cash equivalents divided by shareholders' equity including non-controlling interests.

### RATE OF CAPITAL TURNOVER

Revenues for the last quarter annualized divided by average total capital.

### WORKING CAPITAL

Total of inventories, trade receivables, account payables and other current-interest-bearing receivables and liabilities, excluding tax assets and liabilities.

### RELATIVE WORKING CAPITAL

Average working capital for the last four quarters, divided by revenues in the last twelve months.

### RETURN ON CAPITAL EMPLOYED

Operating profit/loss plus financial income, as a percentage of a four quarter average capital employed. Capital employed is defined as total capital less current non-interest bearing debt.

### RETURN ON SHAREHOLDERS' EQUITY

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

### RETURN ON TOTAL CAPITAL

Operating profit/loss plus financial income, as a percentage of four quarter average total capital.



## DEFINITIONS (CONT.)

### ORDER INTAKE

Order intake for a period refers to the value of all orders received for immediate delivery and those orders for future delivery for which delivery dates and quantities have been confirmed. General sales agreements are included only when they have been finally agreed upon and confirmed. Service contracts are included in the order intake with the full binding contract amount upon signing of the contract.

Order intake for a period also includes all changes in the opening backlog of orders such as cancellation of orders, price changes affecting the order backlog and credit notes issued during the period.

## 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.

1) Compound annual growth rate.

2) Items affecting comparability: major acquisitions and disposals, restructuring costs and impairments.

If you have any comments on our Annual Report, please contact us at Group Communications, +46 8 456 11 00 or [info@sandvik.com](mailto:info@sandvik.com).

For comments or questions on the sustainability related information, please contact Sustainable Business, +46 8 456 11 00 or through [info@sandvik.com](mailto:info@sandvik.com).

## FINANCIAL KEY FIGURES

# KEY FIGURES, GROUP TOTAL

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue, MSEK	86,338	92,654	71,937	82,654	94,084	98,529	87,328	88,821	90,822	84,430
Change, %	+19	+7	-22	+15	+14	+5	-11	+2	+2	-7
of which organic, %	+18	+5	-30	+17	+20	+5	-7	-2	-6	-6
of which structural, %	+3	+2	0	+1	0	0	0	+2	0	0
of which currency, %	-2	0	+10	-2	-5	0	-5	+2	+8	-1
Operating profit/loss, MSEK	14,394	12,794	-1,412	11,029	10,148	13,490	8,638	10,120	6,062	9,657
as % of revenue	17	14	-2	13	11	14	10	11	7	11
Profit/loss after financial items, MSEK	12,997	10,577	-3,472	9,412	8,179	11,516	6,753	8,264	4,059	7,996
as % of revenue	15	11	-5	11	9	12	8	9	4	9
Consolidated net profit for the year, MSEK	9,594	7,836	-2,596	6,943	5,861	8,107	5,008	5,992	2,194	5,468
Shareholders equity <sup>1</sup> , MSEK	29,823	36,725	29,957	33,813	31,264	32,536	33,610	36,672	34,060	39,290
Equity ratio <sup>1</sup> , %	35	36	33	38	32	31	36	34	34	38
Net debt/equity ratio <sup>2,3</sup> , multiple	1.0	0.9	1.0	0.7	0.7	0.8	0.9	1.0	1.0	0.7
Rate of capital turnover <sup>2</sup> , %	112	101	73	92	100	97	89	89	86	83
Cash and cash equivalents, MSEK	2,006	4,998	7,506	4,783	5,592	13,829	5,076	6,327	6,376	8,818
Return on shareholders equity <sup>1</sup> , %	34.4	24.8	-7.9	22.1	18.5	25.3	15.3	17.4	6.2	15.2
Return on capital employed <sup>1</sup> , %	27.0	19.9	-1.3	17.4	16.0	19.8	12.6	13.4	7.9	12.9
Investments in non-current assets, MSEK	4,811	6,634	4,006	3,378	4,994	4,820	4,185	4,703	4,161	3,691
Total investments, MSEK	9,480	7,766	6,161	4,493	5,332	4,859	4,674	7,537	4,168	3,722
Cash flow from operations, MSEK	5,076	9,335	11,792	12,149	7,764	11,892	5,133	9,515	11,952	12,032
Cash flow, MSEK	179	2,764	2,471	-2,642	907	8,450	-8,656	1,039	79	2,288
Number of employees, 31 december	47,123	50,028	44,355	47,064	50,030	48,742	47,338	47,318	45,808	43,732

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)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Basic earnings <sup>1</sup>	7.65	6.30	-2.24	5.59	4.63	6.51	4.00	4.79	1.79	4.39
Diluted earnings <sup>2</sup>	7.65	6.29	-2.24	5.59	4.63	6.51	4.00	4.79	1.79	4.39
Equity <sup>3</sup>	24.1	30.0	24.4	27.5	25.2	25.9	26.7	29.1	27.1	31.2
Dividend (2016 as proposed)	4.00	3.15	1.00	3.00	3.25	3.50	3.50	3.50	2.50	2.75
Direct return <sup>4</sup> , %	3.6	6.4	1.2	2.3	3.8	3.4	3.9	4.6	3.4	2.4
Payout percentage <sup>5</sup> , %	52	50	—	54	70	54	88	73	140	63
Quoted prices, Sandvik Share, highest	151	108	90	133	135	107	108	97	107	116
lowest	96	42	41	76	73	82	79	74	68	65
year-end	111	49	86	131	84	103.50	90.70	76.40	74.05	112.70
No. of shares at year-end, million	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4
Average no. of shares, million	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,245.9	1,254.4	1,254.4	1,254.4	1,254.4
P/E ratio <sup>6</sup>	14.5	7.8	—	23.5	18.2	15.9	22.7	15.9	41.4	25.7
Quoted price, % of equity <sup>2,7</sup>	462	163	352	476	333	400	340	261	273	361

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					
	2014	2015	2016	2014		2015		2016	
	MSEK	MSEK	MSEK	MSEK	%	MSEK	%	MSEK	%
Sandvik Machining Solutions	32,099	33,809	32,852	6,544	20	5,504	16	6,970	21
Sandvik Mining and Rock Technology	30,643	33,131	31,093	2,428	8	2,417	7	3,206	10
Sandvik Materials Technology	14,907	13,909	12,931	1,880	13	8	0	1,115	9
Other Operations	4,868	4,976	4,655	603	12	489	10	545	12
Discontinued Operations	6,288	4,977	2,877	-85	-1	-1,209	-24	-1,361	-47

For more key figures, please visit our investors page at [home.sandvik](http://home.sandvik)



