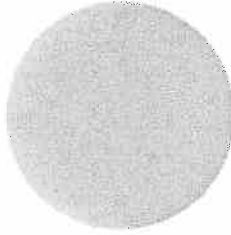
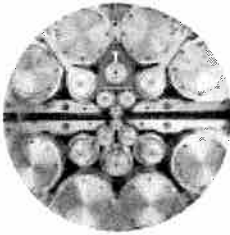
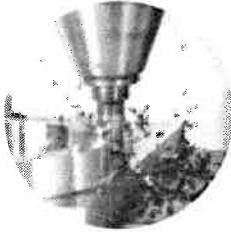


**Document 1 of 4**

**Sandvik Annual Report 2008**

Sandvik

# Annual Report 2009



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Annual Report 2009	April 2010
The Sandvik World 2009/2010	April 2010
Report on the first quarter	4 May 2010
Annual General Meeting	4 May 2010
Report on the second quarter	20 July 2010
Report on the third quarter	29 October 2010
Report on the fourth quarter	2 February 2011
Annual Report 2010	April 2011
The Sandvik World 2010/2011	April 2011

Financial information may be ordered from:  
Sandvik AB  
Group Staff Information  
SE-811 81 Sandviken  
Sweden  
Phone: +46 (0)26-26 10 47  
[www.sandvik.com](http://www.sandvik.com)

Sandvik is well prepared for the future. Investments implemented in 2009, which enabled the expansion of capacity for the production of steam generator tubing for the nuclear power industry and the establishment of five new production facilities in China, have formed the basis for Sandvik's future growth.

Investment in new

Sandvik's invoiced sales amounted to SEK 71,937 M (92,654) and the Group's result after financial items totaled SEK –3,472 M (10,577).

Investment in new

Sustainability is an integral part of the company's business operations. The concept of sustainable development includes accepting responsibility, risk management and improvement work within the areas of the environment, health and safety, business ethics and human rights.

Investment in new

In addition to information in the Annual Report, the Sandvik Group is presented in *The Sandvik World 2009/2010*, a publication distributed to shareholders in April 2010. In addition to descriptions of operations, financial key figures, goals, business concept, strategy and more, *The Sandvik World* provides an in-depth look at a number of key areas. More information is provided at [www.sandvik.com](http://www.sandvik.com).

## Year in brief

### Financial data

- Order intake –31%\*, SEK 71,285 M.
- Invoiced sales –30%\*, SEK 71,937 M.
- Result after financial items, SEK –3,472 M.
- Earnings per share, SEK –2.24.
- Proposed dividend, SEK 1.00.

\* At fixed exchange rates for comparable units.

### Operational information

- Strong cash flow and significant improvement in capital efficiency.
- Focus on capital efficiency strengthened cash flow at the expense of the Group's result.
- Structural cost reductions enable improvements in productivity.
- Expanded presence in emerging markets and in the energy sector.

#### Key figures

	2009	2008	2007	2006	2005	Change 2009/2008
SEK M						
Order intake	71,285	92,610	92,059	77,708	66,186	–31*
Invoiced sales	71,937	92,654	86,338	72,289	63,370	–30*
Result after financial items	–3,472	10,577	12,997	11,113	8,819	
Earnings per share, SEK	–2.24	6.30	7.65	6.45	4.95	
Return on capital employed, %	–1.3	19.9	27.0	27.6	23.7	
Return on shareholders' equity, %	–7.9	24.8	34.4	31.8	27.4	
Cash flow from operations	12,312	9,671	5,476	8,170	7,266	+27
Number of employees at 31 December	44,355	50,028	47,123	41,743	39,613	–11

\* At fixed exchange rates for comparable units.



# This is Sandvik

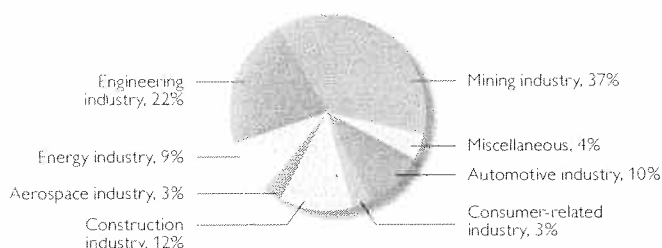
Sandvik is a high-technology engineering group with advanced products and world-leading positions in selected areas. In 2009, the Group had representation in more than 130 countries and about 44,000 employees. Sales amounted to approximately SEK 72 billion.

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

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

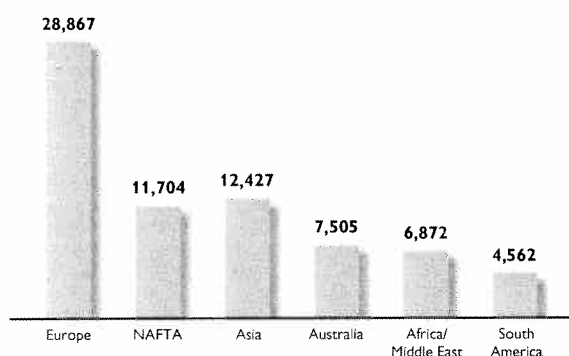
Sandvik is focused on long-term growth. To create the basis for long-term profitable growth, operations are divided into three business areas, with world-leading positions. Each business area is responsible for research and development, production and sales of its particular products.

## Invoiced sales by customer area



The global economic downturn was exceptionally dramatic. The downturn impacted all business areas and markets. However, the extent of the decline varied between industry segments and the energy segment displayed a continued positive trend.

## Invoicing by market area, SEK M



## The world as our local market

Invoiced sales and number of employees for the 15 largest markets in 2009.

	SEK M	Change, %	Number of employees
US	8,854	-20	4,287
Australia	7,154	-12	2,269
Germany	5,679	-29	3,557
China	4,833	12	1,761
South Africa	3,567	-10	1,961
Sweden	3,356	-29	10,285
Italy	2,835	-39	917
France	2,807	-24	1,996
Brazil	2,345	-34	1,514
UK	2,127	-36	1,681
Russia	1,815	-31	722
India	1,800	-12	2,269
Canada	1,709	-30	693
Japan	1,596	-25	584
Norway	1,357	-12	208

The market situation in 2009 was weak in Europe, but improved gradually in North America, Asia, Australia and Africa.

## Sandvik Tooling

is primarily focused on tools and tooling systems for metal cutting.

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

### Offering

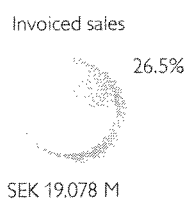
Advanced products manufactured in cemented carbide and other hard materials, such as synthetic diamond, cubic boron nitride, ceramics and high-speed steel. The objective is to increase customer productivity by providing products, services and applications know-how.

### Market

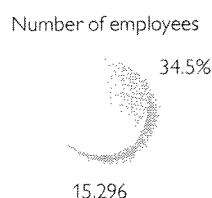
Customers include companies in the general engineering, aerospace and automotive industries, oil and gas extraction sectors, as well as electronics and medical technology industries.

In 2009, the global market for metal-cutting tools as well as wear parts and components in cemented carbide and other hard materials was estimated to total some SEK 100 billion. Given the turbulent conditions in the market in 2009, some increased degree of uncertainty surrounds estimations of the market size. The average annual long-term growth has been 3–4%.

### Share of Group



Operating result  
SEK –527 M



## Sandvik Mining and Construction

specializes in equipment, tools and service for the mining and construction industries.

Since 1 April 2009, Sandvik Mining and Construction is active in three customer segments: Underground Mining, Surface Mining and Construction.

### Offering

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

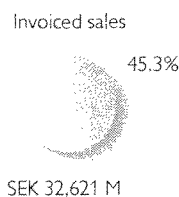
The business area provides an extensive product program for drilling and mechanical mining, as well as for loading and transport, crushing and sorting, demolition, recycling and handling of rock and minerals.

### Market

The products are deployed primarily in mines and in construction operations worldwide.

The global market for 2009 was estimated to amount to about SEK 230 billion. Average, long-term annual growth for equipment, tools and spare parts is about 4–6%, with a higher growth rate for services.

### Share of Group



Operating result  
SEK 466 M



## Sandvik Materials Technology

develops products in advanced stainless materials, special alloys, metallic and ceramic resistance materials, as well as process systems.

Operations are divided into five product areas: Tube, Strip, Kanthal, Process Systems and MedTech.

### Offering

High value-added products and system solutions based on advanced metallic materials.

Process equipment based on steel belts.

Production of orthopedic implants and surgical instruments.

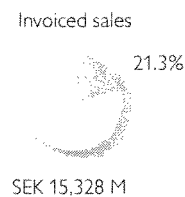
Systems for generating, controlling, measuring or protecting against heat.

### Market

Customers are active in most industrial segments in which exacting demands are imposed on safety, productivity, cost efficiency and a long life cycle.

The world market for 2009 was estimated at more than SEK 150 billion. The underlying average annual growth is 4–6%, while growth is normally higher in such segments as medical technology and energy.

### Share of Group



Operating result  
SEK –1,137 M



Note: The shares do not take Seco Tools into account.

## Sandvik is well prepared for the future

The global economic downturn in 2008 triggered a deep recession that impacted essentially all markets and industries simultaneously. Demand for Sandvik's products declined rapidly and very sharply, with the exception of the energy sector. In 2009, the Group focused on measures to manage the downturn in demand while also creating conditions to enable it to emerge strongly from this business situation.

The extent of the economic downturn during the year was considerable and the market contracted by one third over a short period. Sandvik's invoiced sales for 2009 amounted to SEK 71,937 M (92,654) and the result after financial items was SEK -3,472 M (10,577).

The Group has grown rapidly over the course of many years, both organically and through acquisitions. Improved productivity and capital structure has been prioritized and, in 2009, efforts in these areas were intensified. Our assessment is that despite the sharp drop in sales, the company has increased its market shares.

### **Consolidation and crisis management**

In parallel with a deepening of the dramatic decline in the global economy, the company implemented robust savings and rationalization programs aimed at once again returning to a favorable level of profitability. The immediate measures focused on reducing the cost base and capital utilization to meet the low level of demand. Capital efficiency was prioritized over short-term profitability. Cost savings on an annualized basis corresponded to SEK 8 billion at year-end

2009. Measures included personnel reductions corresponding to about 11,000 full-time positions, for example, through the closure of 18 production units and a range of other efficiency-enhancement measures, and the utilization of agreements regulating shorter working hours.

The cost reductions are mainly structural and encompass streamlining and consolidations that aim to create conditions for sustainable productivity improvements.

Through financial stability and measures that ensured a strong cash flow, Sandvik was able to maintain a high level with respect to market presence as well as research and development. The continuous introduction of new products thus continued according to plan and contributed to increased cost efficiency among our customers.

Through investments made in 2009, which enabled the expansion of production capacity for steam generator tubing used in the nuclear power industry and the establishment of five new production plants in China, conditions have been established for Sandvik's future growth, not least in Asia.

### **Developments in Sandvik's business areas**

The significant downturn in volumes for Sandvik Tooling resulted in the implementation of extensive cost savings and the intensification of the consolidation of companies acquired earlier.

The highly strategic acquisition of Wolfram Bergbau und Hütten AG strengthened Sandvik's supply of raw materials, since this company contributes know-how and technology to the development of cemented carbide and the recycling of tungsten and other raw materials.

At Sandvik Mining and Construction, which has been distinguished by a high pace of acquisition over the past number of years, the consolidation of acquired units continued in order to enhance efficiency and create cohesive product development, manufacturing, logistics and brand strategy. The coordination of global logistics to a small number of strategic locations generated positive effects for working capital and a higher service level, similar to that achieved in other business areas in the past.

Sandvik Materials Technology continued the work it commenced at the beginning of 2008 to raise productivity and further

### **Our main tasks in 2010:**

New cost and capital structures as well as major investments in future-oriented areas will now be translated into increased sales, productivity and profitability.

*The Group's successful performance in the energy sector was strengthened through the development of products and solutions that enhance efficiency and reduce customers' environmental footprint.*

develop the product mix toward more high value-added and profitable products. The business area was highly successful in the energy sector with products for both conventional and renewable energy sources. Intensive work focused on logistics and raw materials management helped to rationalize capital utilization.

**Equipped for both challenges and growth**

In the third and fourth quarters, demand leveled out at a low but stable level and preparedness remains high for possible changes.

Sandvik advanced its positions further in Asia, particularly through the establishment of the new units in China. The company is thus well invested and has created strong positions for all business areas in a region where the continued growth is anticipated to be robust.

The Group's successful performance in the energy field was strengthened through the development of products and solutions that enhance efficiency and reduce customer's environmental footprint in the oil, gas, coal and nuclear power sectors. In addition, the Group has further developed its offering for renewable energy, such as wind and solar power.

Development in the years ahead will primarily take place through organic growth, continuous streamlining activities, profitability enhancements and improvements to the product mix.

In many ways, 2009 was an exceptional year. Sandvik's employees, customers, suppliers and other stakeholders were faced with substantial challenges. The measures taken have reduced the cost base and increased capital efficiency, at the same time as they have ensured that the Group has good preparedness to meet a possible continued weak business climate as well as a future upswing in demand.

Sandvik has a strong market position and, as a result of the actions taken, the company is well prepared to meet the future.

Sandviken, January 2010



Lars Pettersson  
President and CEO

*Sandvik advanced its positions further in Asia, particularly through the establishment of the new units in China.*

## Business concept, focus and strategies

Sandvik is a global engineering Group whose offering includes products, services and support that improve customer productivity and profitability. To achieve long-term success, Sandvik has developed a holistic approach that includes financial, environmental and social responsibility. Assuming an active role in addressing sustainability issues also characterizes cooperation with customers and suppliers.

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

Sandvik manufactures advanced engineering tools, mining equipment and products in high-alloy materials. Sandvik holds, or has the potential to establish, world-leading positions in all of the market segments in which it operates.

### A business concept that strengthens customers' competitiveness

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

Sandvik's long-term strategy is based on creating an interaction between the Group's strengths, such as advanced and broad-based R&D, high value-added products, in-house manufacturing, efficient logistics systems, financial strength, a well-established approach to sustainability and a strong corporate culture.

### Management by objectives

Sandvik has a number of customer-oriented, financial, social and environmental objectives.

To achieve both its short and long-term goals, Sandvik works in a decentralized fashion with management by objectives. This means that the objectives are broken down into a number of targets that are adapted to the various levels in the organization. Read more about the objectives of the Group's sustainability work in this publication on pages 88–99 or at [www.sandvik.com](http://www.sandvik.com).

### Overall financial goals

The overall financial goal is based on the Group's world-leading positions in various business areas.

The long-term goal for Sandvik's organic growth is 8%, compared with the estimated underlying average market growth over the same period of 4–6% in Sandvik's areas of activities. The goal is based on:

- Increased market shares in current and new markets.
- New products.
- New application areas with high growth potential.

The goal for return on capital employed in existing operations is 25% for the Group as a whole. The commercial conditions differ among the business areas and they have thus been assigned different goals.

### Specialized and decentralized organization

Sandvik is a global engineering Group with a decentralized organization. Decisions regarding operational activities are carried out within the Group's three business areas, all of which have specialist expertise in various technological areas, as well as deep insight into customer requirements and processes.

### Significant customer value

Sandvik creates customer value by offering products that reduce costs, and provide more reliable and cost-efficient processes. By means of a global presence, Sandvik offers customers worldwide optimum solutions that cover products, service and technical support. Sandvik aims to be a valued business partner and the customer's obvious first choice.

### Group's financial goals

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

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

\* Relates to existing operations.

### Business concept

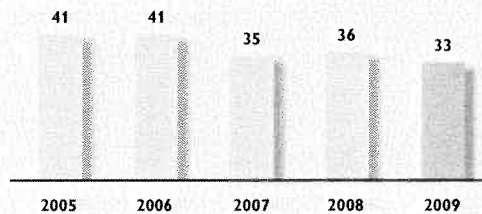
To develop, manufacture and market high-tech products and services that facilitate higher customer productivity and profitability.

### Overall goals

Profitable growth

- **Customer-focused goals**
- **Financial goals**
- **Social goals**
- **Environmental goals**

Equity ratio, %



### Strategy

#### Main focus

To maintain:

- Unique expertise in materials technology.
- Extensive insight into customer processes.

To offer:

- Added value for customers.

#### Long-term growth

Organic growth and the acquisition of businesses in priority areas generate increased market shares.

### Core values

Strong corporate culture

- **Open Mind**
- **Fair Play**
- **Team Spirit**

### Strength factors

World-leading positions in the Group's business areas:

- **Sandvik Tooling:** Tools of cemented carbide and other hard materials.
- **Sandvik Mining and Construction:** Machinery and equipment for mining and construction industries.
- **Sandvik Materials Technology:** Products of advanced metallic and ceramic materials.

#### Advanced R&D

- Leading in selected technology fields.
- Integrated in the production organization.
- Extensive organization for patents and other intellectual property rights.
- Distinct customer orientation.
- High degree of value addition.

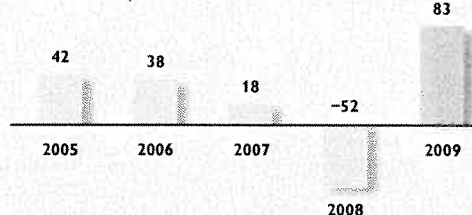
#### Focus on efficiency

- Efficient production and logistics.
- Global presence with local responsibility.
- High proportion of direct sales to end-customers.
- Continuous launch of new products.

### Shareholder value

Continued profitable growth and attractive return generate a long-term increase in value for shareholders.

Total return, %



### Long-term approach and shareholder value

The Group's long-term objective is to create value for its shareholders. Sandvik has achieved about 7% annual growth over the past 20 years – half of which was achieved through organic growth and half through acquisitions. In the past five years, the total return on an investment in Sandvik shares averaged 14% annually.

### Research and development

Comprehensive and goal-oriented research and development is a prerequisite for continued growth. Each year, Sandvik invests approximately SEK 3 billion in R&D. More than 2,400 employees work in the area and activities are often pursued in close cooperation with customers. The Group has some 5,000 active patents and other intellectual property rights that are owned and managed by a separate company to optimize value creation.

### Advanced logistics

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

### World-class manufacturing

Sandvik's production organization is integrated with R&D activities and maintains world-class efficiency. This creates

favorable potential for the continuous and rapid launch of products, which is a major competitive advantage for the Group.

### Transparent corporate governance

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

### Sustainable development

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

The Group's Code of Conduct includes policies for the environment, health, safety and social responsibility. Management by objectives and preventive programs are important foundation pillars in efforts to achieve continuous improvements. The Code of Conduct applies to all units and employees. It includes rules and guidelines for record keeping and accounting, business ethics, working conditions, and environmental and social commitments. The

Code of Conduct lays the basis for Sandvik's management system and helps to continuously improve the Group's financial, environmental and social performance. Each manager in the Group is responsible for ensuring compliance with the Code.

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

Read more about the sustainability work in this publication or at [www.sandvik.com](http://www.sandvik.com).

### Core values

Sandvik is a global company. In pace with the growth of operations and the internationalization of the company, it has been crucial to invest resources to uphold and develop Sandvik's corporate culture – the company's core values and joint corporate approach.

The Group works consciously with three basic core values:

*Open Mind* – to encourage all aspects of operations to seek consistently new, innovative solutions and potential routes to improvement.

*Fair Play* – to manage Sandvik's businesses in a sustainable manner.

*Team Spirit* – to ensure that everybody at Sandvik acts as a team player through cross-border interaction, both in terms of geography and culture.



# Acquisition strategy

Acquisition is an important part of Sandvik's growth strategy. The Group uses acquisitions to strengthen and advance positions in the Group's priority areas. Acquired operations add new products and new know-how, strengthen the existing offering, provide entry into new markets and create the potential for an even stronger presence in markets with high growth and favorable profitability.

Sandvik continuously analyzes possible acquisition candidates in its various areas of operations. At the same time, assessments are made regarding the possible divestment of operations that do not comprise part of the Group's areas of core strategic directions.

Sandvik applies an aggressive acquisition strategy. Since 1997, the Group has implemented some 50 company acquisitions.

## Strategically important acquisitions in 2009

In 2009, Sandvik acquired the Austrian company Wolfram Bergbau und Hütten AG (WBH), a producer and supplier of

tungsten carbide – the main constituent in cemented carbide. The market-leading quality of the company's products is a result of its advanced research and development resources. Sandvik and WBH have previously worked together for many years.

The acquisition complements and strengthens Sandvik Tooling's offering by allowing the Group to control the entire production chain, from ore to finished cemented-carbide powder.

The acquisition includes a plant for manufacturing tungsten carbide, a recycling unit for tungsten material, an ore dressing plant and a mine. In 2008,

WBH's sales amounted to about SEK 1.8 billion and the number of employees totaled about 300.

During the year, the acquired BTA Heller Drilling Systems Ltd was also consolidated, strengthening the customer offering of tools and tooling systems for deep-hole drilling for the Sandvik Coromant product area.



## The Sandvik Share

During 2009, Sandvik's share price rose 47%, while the Nasdaq OMX Nordic Exchange Stockholm (OMXS) rose 47%. The number of shareholders increased and the Group's distribution of information to stakeholders in the financial market was intense, with particular focus on Sandvik's management of the financial crisis and the subsequent global recession.

At year-end 2009, the Sandvik share was listed at SEK 86.40, corresponding to a market capitalization of SEK 102 billion (58). In terms of market capitalization, Sandvik was ranked the 8th (8) largest company on the OMXS. During the year, Sandvik shares were traded for a total value of SEK 123 billion (198), making it the 8th (7) most actively traded share.

### Long-term shareholder value

Sandvik endeavors to generate an attractive return and value growth for investors in the Sandvik share. The goal is that the dividend shall amount to at least 50% of earnings per share over an extended period.

### Total dividend yield

The term "total dividend yield" shows the real progress of a stock investment and consists of the change in share price, including reinvested dividends. During 2009, the total dividend yield on an investment in the Sandvik share was 83%. During the past five-year period, the total dividend yield has averaged 14% annually.

### More shareholders

Sandvik is listed on the Nasdaq OMX Nordic Exchange Stockholm and is one of the Stockholm Stock Exchange's oldest companies, with a listing dating back to 1901. The Sandvik share can be traded in the US in the form of ADRs (American Depositary Receipts).

In 2009, the number of Swedish and international shareholders continued to

increase to a total of about 109,000 (104,000). Sandvik has shareholders in a total of approximately 90 countries.

At 31 December 2009, members of Sandvik's Group Executive Management owned a total of 216,574 shares in Sandvik, corresponding to 0.02% of the capital and voting rights. Members of the Board of Sandvik owned a total of 5,646,589 shares in Sandvik, corresponding to 0.5% of the capital and voting rights.

### Dividend proposal

The Board has decided to propose a dividend of SEK 1.00 (3.15) per share for 2009 to the Annual General Meeting, corresponding to a dividend yield of 1.2% based on the share price at year-end. Overall, the proposed dividend represents some SEK 1.2 billion. Over the past five years, Sandvik's dividend has averaged SEK 2.82 per year. During the same period, an average of approximately 61% of earnings per share has been distributed.

### Reliable information to investors, analysts and the media

Sandvik's goal is to ensure that the value of the company's share shall always be assessed on the basis of relevant, correct and current information. Realization of this goal requires a clear strategy for financial communication, reassuring information management and regular contact by the company with the various stakeholders in the financial markets. In 2009, the information requirement was particularly extensive due to the many new issues raised and the considerable

turbulence caused by the financial crisis and the industrial recession.

Contacts with the financial markets include presentations in conjunction with the four interim reports and meetings with analysts, investors and journalists on capital market days, conferences and seminars, as well as visits to various Sandvik sites. Communications are coordinated by Sandvik's Investor Relations (IR) Group staff function and nearly 400 meetings were arranged worldwide in 2009.

### Awards

During 2009, Institutional Investor awarded Sandvik the prize for the Best Investor Relations Operations and the Best Investor Relations Group Function in the European engineering industry.

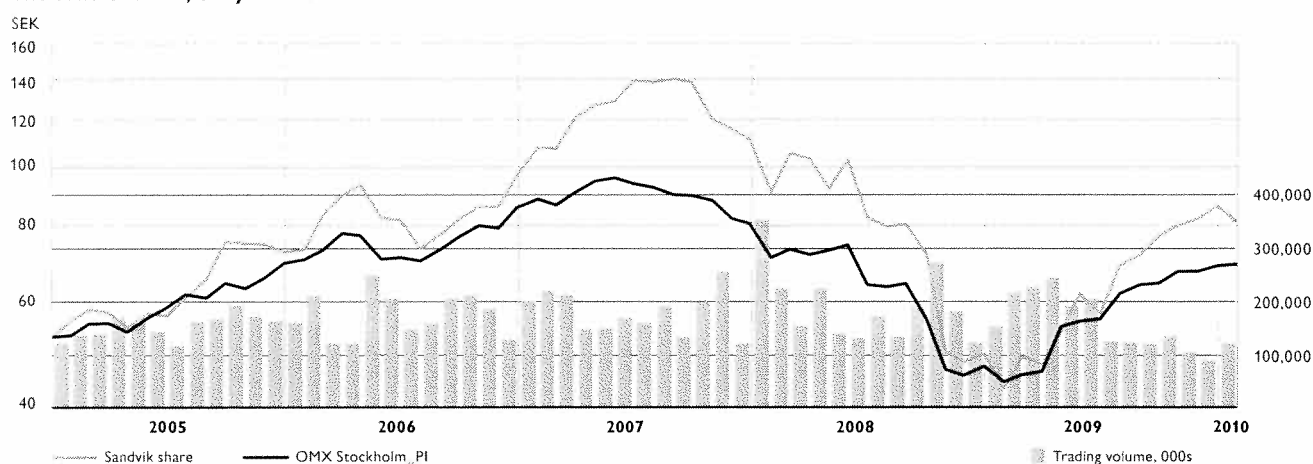
Sandvik is included in the Dow Jones Sustainability Index World (DJSI World) and the European Dow Jones STOXX Sustainability Index (DJSI STOXX). Qualification for DJSI World requires that Sandvik is among the top 10% of companies ranked in terms of three factors: financial success, environmental performance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

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

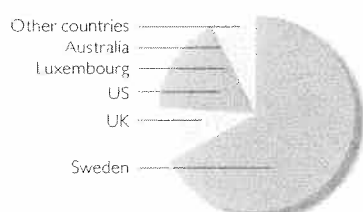
### Investor Relations on the Internet

At [www.sandvik.com/ir](http://www.sandvik.com/ir) you will find further information about the Sandvik share and IR activities.

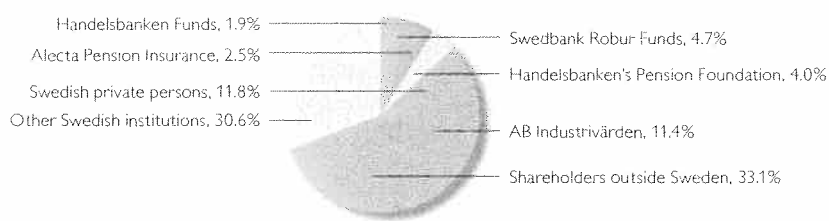
## The Sandvik share, five-year trend



## Distribution of shareholding by country



## Shareholders in Sandvik AB, 31 December 2009

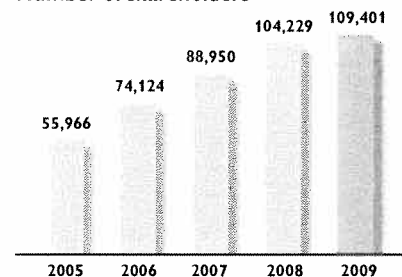


## Key figures

	2009	2008	2007	2006	2005
Number of shares at year-end (millions)	1,186	1,186	1,186	1,186	237
Number of shares at year-end, recalculated for split (millions)	1,186	1,186	1,186	1,186	1,186
Market capitalization at year-end (SEK billion)	102	58	132	118	87.8
Number of shareholders	109,401	104,299	88,950	74,124	55,966
Share price at year-end, SEK	86.40	49.00	111.25	99.50	74.00
Earnings per share, SEK	-2.24	6.30	7.65	6.45	4.95
P/E ratio at year-end	—	7.8	14.5	15.4	15.0
Change in share price during the year, %	+76	-56	+12	+34	+37
Regular dividend, SEK/share	1.00*	3.15	4.00	3.25	2.70
Dividend as a percentage of earnings per share	—	50	52	50	55
Total dividend yield (price increase + dividend), %	83	-52	18	38	42
Proportion of shares in Sweden, %	67	65	63	63	61
Proportion of shares owned by the ten largest shareholder groups, %	35	36	38	35	45

\* Proposed dividend.

## Number of shareholders

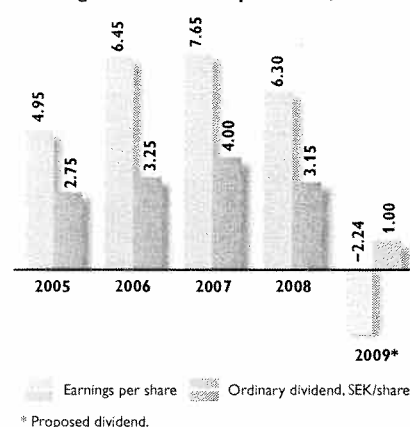


## The ten largest shareholders, holding at 31 December, %

	2009	2008	2007	2006	2005
AB Industrivärden	11.4	11.5	11.5	11.0	11.0
Swedbank Robur Funds	4.7	3.4	2.3	2.4	2.6
Handelsbanken's Pension Foundation	4.0	4.0	4.0	3.8	3.8
JP Morgan Chase Bank*	2.8	10.5	8.7	5.6	10.9
Alecta Pension Insurance	2.5	3.4	3.1	2.9	1.1
Omnibus Account W FD OM80	2.5	—	—	—	—
Handelsbanken Funds	1.9	1.4	2.1	2.0	2.2
AMF Pension Insurance	1.8	1.3	1.5	1.8	3.8
SEB Investment Management	1.7	1.9	1.5	1.7	1.6
First Swedish National Pension Fund	1.7	1.0	0.8	0.9	0.4

\* Administers shares held in trust.

## Earnings and dividends per share, SEK



\* Proposed dividend.

# Report of the Directors

## Market Conditions

The global manufacturing industry was marked by an extremely sharp downturn during the year. The decline impacted all regions and the majority of customer segments. China and India were slightly less affected by the economic decline, while the energy segment demonstrated continued growth. Demand was negatively impacted by customer destocking during the year.

Industrial output in OECD countries fell 13% compared with the preceding year. The manufacturing industry in the EU contracted significantly and was down 15%. The manufacturing industry in Russia declined 17%. In the US, the manufacturing industry continued its downward slide and declined 11% compared with the preceding year. Brazil's manufacturing industry contracted by 8% and the trend in Mexico was negative, down 11%. Growth during the year remained positive in parts of Asia. Industrial production in China and India rose by 13% and 6%, respectively, while the trend in Japan was strongly negative, down 23% compared with the preceding year.

### **Demand from Sandvik's customers**

In the wake of the financial crisis and the subsequent recession that took hold in autumn 2008, demand continued to

decline in 2009. The rate of the decline eased in the third quarter of 2009 after which demand stabilized at a low level. The automotive and engineering industries were hardest hit by the downturn, which had a negative impact on Sandvik Tooling. Demand was also low for consumer-related products and, to a certain degree, the aerospace industry. Order intake from the energy sector remained relatively favorable. Low levels of activity were reported in all markets, with the exception of China and India, where the automotive industry developed positively.

Demand during the year was weak, particularly for equipment and projects related to materials handling in the mining and construction industries. The after-market was also affected, but to a lesser degree. Metal prices recovered during the year despite the fact that customers adopted a wait-and-see approach. Activity levels in the coal sector were impacted to a lesser

extent, but a decline was also reported in this area. A sharp downturn was reported in the construction industry mainly in mature markets, such as Western Europe and the US, but also in Russia. The part of the construction industry served by Sandvik Mining and Construction benefited to a limited degree from the investments in infrastructure carried out in many countries.

The global recession meant that the market situation for Sandvik Materials Technology remained weak in 2009. Demand was low in the majority of customer segments, with the exception of products for the energy sector, where the nuclear power and oil/gas industry reported a continued favorable trend. The market trend was relatively favorable in Asia, while development in both Europe and North America was poor.

# Group summary review

Order intake amounted to SEK 71,285 M (92,610), down 23% in value and down 31% at fixed exchange rates for comparable units. The Sandvik Group's invoiced sales reached SEK 71,937 M (92,654), down 22% in value and down 30% at fixed exchange rates for comparable units.

Markets outside Sweden accounted for 95% (95) of invoiced sales. The consolidated result after financial income and expenses totaled SEK -3,472 M (10,577). Earnings per share amounted to SEK -2.24 (6.30). Return on capital employed was -1.3% (19.9). The Board of Directors proposes a dividend of SEK 1.00 per share (3.15), corresponding to a decrease of 68% from a year earlier.

## Future prospects

During the third and fourth quarters, demand leveled out at a low but stable level. Preparedness remains high for possible changes in the business climate. Sandvik further advanced its positions in Asia, particularly through the new units in China. The Group is thus well-invested and has created strong positions for all business areas in a region where the rate

of continued growth is expected to be robust. The Group's successful performance in the energy area was reinforced through the development of products and solutions that enhance efficiency and reduce customers' environmental footprint in the oil, gas, coal and nuclear power sectors. In addition, the Group further developed its offering for renewable energy, such as wind and solar power, and established a position in medical technology.

In the years ahead, development will primarily take place through organic growth, continued efficiency enhancements, improvements in profitability and refinement of the product mix. Sandvik has a strong market position and, as a result of the actions taken, is well prepared for the future.

## Financial goals

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

## Goal fulfillment

The outcome since 2000 corresponds to average annual organic growth of 4.1% and a return on capital employed of 18.4%. In addition, the annual growth from acquisitions, net of divestments, has averaged 1%. In 2009, the organic growth was -29% and the return on capital employed was -1.3%. At the end of 2009, the net debt/equity ratio was 1.0.

## Goals and goal fulfillment

Sandvik Group	Long-term goals	Outcome 2009	Average 2000-2009
Organic growth	8%	-29%	4%
Return on capital employed	25%*	-1.3%	18%
Net debt/equity ratio	0.7-1.0	1.0	
Payout ratio, % of earnings per share	≥50%		64%
<b>Sandvik Tooling</b>			
Organic growth	7%	-36%	1%
Return on capital employed	30%*	-2%	24%
<b>Sandvik Mining and Construction</b>			
Organic growth	9%	-23%	11%
Return on capital employed	25%*	2%	21%
<b>Sandvik Materials Technology</b>			
Organic growth	8%	-34%	3%
Return on capital employed	20%*	-7%	9%

\* Relates to existing operations.

# Earnings, returns and financial position

## Earnings and returns

The operating result amounted to SEK -1,412 M (12,794). The change was mainly due to the severe deterioration in the business climate with lower production volumes in all business areas leading to lower gross margins. The result was also negatively impacted by restructuring activities, impairment losses and increased obsolescence. Implemented savings programs reduced costs by approximately SEK 6,000 M. Capital efficiency was prioritized above short-term profitability. The operating result was also influenced negatively by approximately SEK 500 M by changed metal prices in Sandvik Materials Technology. Changes in foreign exchange rates compared with 2008 negatively affected the operating result by about SEK 18 M. The net financing cost was SEK -2,060 M (-2,217). The improvement in net financial items compared with the preceding year was mainly caused by lower average interest rates. The result after financial income

and expenses was SEK -3,472 M (10,577). Income tax had a positive impact on the result of SEK 876 M (-2,741) or 25% (26) of the result before taxes. The result for the year attributable to equity holders of the Parent Company was SEK -2,652 M (7,472). Earnings per share amounted to SEK -2.24 (6.30). Return on capital employed amounted to -1.3% (19.9) and return on equity was -7.9% (24.8).

## Financial position

Cash flow from operating activities amounted to SEK 12,312 M (9,671). Cash flow after investments, acquisitions and divestments was SEK 6,119 M (2,040). At the end of the year, cash and cash equivalents amounted to SEK 7,506 M (4,998). Interest-bearing liabilities, including net provisions for pensions, less cash and cash equivalents yielded a net debt of SEK 30,342 M (33,323). Sandvik has a credit facility of EUR 500 M expiring in 2012 and another facility of EUR 1,000 M

expiring in 2013. These facilities, which are the Group's primary liquidity reserve, were unutilized at the end of the year. Under the Swedish bond program of SEK 15,000 M, bonds in the amount of SEK 14,119 M were outstanding at year-end. Under the European bond program of EUR 3,000, SEK 600 M was utilized. In addition, there were bonds issued in the US amounting to USD 740 M. The remaining maturity of bonds averaged four years for Swedish bonds and ten years for US bonds. At year-end, the international credit-rating agency Standard & Poor's had an A- rating for Sandvik's long-term borrowings, and A-2 for short-term borrowings.

## Working capital

Working capital at the end of the year amounted to SEK 22,122 M (32,571). Relative working capital during the fourth quarter of 2009 was 32% (32) of invoiced sales. The carrying amount of

## Capital expenditure

	2009	2008
Investments in property, plant and equipment, SEK M	4,625	7,169
as a % of invoiced sales	6.4	7.7

Of these investments, SEK 619 M (535) pertained to Sandvik Mining and Construction's fleet of rental machines.

## Results and returns

	2009	2008
Operating result, SEK M	-1,412	12,794
as a % of invoiced sales	-2.0	13.8
Result after financial income and expenses, SEK M	-3,472	10,577
as a % of invoiced sales	-4.8	11.4
Return on capital employed, %	-1.3	19.9
Return on equity, %	-7.9	24.8
Basic earnings per share, SEK	-2.24	6.30
Diluted earnings per share, SEK	-2.24	6.29

Definitions, page 57.

inventories at the end of the year was SEK 19,842 M (28,614). Capital tied up in inventory was 28% (29) relative to invoiced sales. At year-end, accounts receivables totaled SEK 11,587 M (15,930), which was 16% (16) of invoiced sales.

#### Equity

Equity at year-end amounted to SEK 29,957 M (36,725), or SEK 24.40 (30.00) per share. The equity ratio was 33% (36).

#### Capital expenditure

The purchase consideration for company acquisitions during the year (less acquired cash) was SEK 2,036 M (954). Proceeds from the sale of companies and shares amounted to SEK 55 M (111). Investments in internally generated intangible assets amounted to SEK 427 M (460). Investments in property, plant and equipment amounted to SEK 4,625 M (7,169).

#### Parent Company and subsidiaries operating on commission for Sandvik AB

The Parent Company's invoicing amounted to SEK 13,524 M (20,427) and the operating result was SEK -1,903 M (-395). As was the case for the Group's operating result, the Parent Company's operating result was influenced negatively by changed metal prices, low capacity utilization in certain production facilities and nonrecurring items. In 2009, the result was negatively impacted in the amount of SEK 537 M due to metal price effects and SEK 197 M due to costs for restructuring measures. At 31 December 2009, interest-bearing liabilities less cash and cash equivalents and interest-bearing provisions amounted to SEK 11,319 M (12,362). Capital expenditure during the year amounted to SEK 899 M (1,537). The Parent Company's total assets increased SEK 5,817 M (from SEK 41,899 M

to SEK 47,716 M) through the raising of a bond loan as part of the Group's total financing.

In 2009, the Parent Company received dividends of SEK 5,754 M, of which SEK 5,521 M from Sandvik Finance BV. The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB at 31 December 2009 was 7,535 (8,151). Besides Sweden, the Parent Company operates in a number of countries, mainly through representative offices.

#### Quarterly trend of invoiced sales and result after financial items

SEK M		Invoiced sales	Result after financial items	Net margin, %
2008	1:st quarter	21,990	2,715	12
	2:nd quarter	24,016	3,302	14
	3:rd quarter	22,478	3,035	14
	4:th quarter	24,171	1,524	6
2009	1:st quarter	19,136	-429	-2
	2:nd quarter	18,011	-2,443	-14
	3:rd quarter	16,578	-523	-3
	4:th quarter	18,211	-77	0

#### Financial position

	2009	2008
Cash flow from operating activities, SEK M	12,312	9,671
Cash flow after capital expenditures, acquisitions and divestments, SEK M	6,119	2,040
Cash and cash equivalents and short-term investments at 31 December, SEK M	7,506	4,998
Net debt at 31 December, SEK M	30,342	33,323
Net financial items, SEK M	-2,060	-2,217
Equity ratio, %	33	36
Net debt/equity ratio, times	1.0	0.9
Equity at 31 December, SEK M	29,957	36,725
Equity per share at 31 December, SEK	24.40	30.00

Definitions, page 57.

# Order intake, sales, and development in business areas

Sandvik's operations are divided into three business areas: Sandvik Tooling, Sandvik Mining and Construction and Sandvik Materials Technology. Sandvik also controls 60% of the shares and 89% of the votes in Seco Tools, which is a global group active in the area of metal cutting. Seco Tools describes its operations in its own annual report.

## Demand status in brief

Demand was low for Sandvik's products and services in 2009, with an especially difficult market situation in all market areas and in the majority of customer segments. Demand was negatively affected by customer destocking. For full-year 2009, the trend in order intake was negative in the EU, where activity declined strongly in such countries as Germany and Italy. Demand in Eastern Europe slowed considerably. Order intake in NAFTA fell sharply. The business climate in South America was slightly more favorable during the year despite a negative trend in order intake. Order intake also declined in Africa and the Middle East, with the weakening in these markets due to a fall in investments in the mining industry. Demand in Asia weakened, with the exception of China, where order intake continued to grow. Asia accounted for 19% (16) of the Group's total order intake. Demand in Australia weakened significantly.

## Sandvik Tooling in figures

Sandvik Tooling's order intake totaled SEK 18,962 M (25,798), down 36% on the preceding year at fixed exchange rates for comparable units. Invoiced sales totaled SEK 19,078 M (25,975), a decline of 36% from the preceding year at fixed exchange rates for comparable units. Changes in exchange rates affected order intake and invoiced sales positively by 12%. The price level was stable.

The operating result totaled SEK -527 M (5,461), yielding an operating margin of -2.8%. The decline was due to low order intake and low production volumes, resulting in a reduction in gross profit and under-absorption of fixed costs. Earnings were also negatively impacted by costs for restructuring programs, impairment losses and increased obsolescence.

The number of employees at 31 December totaled 15,296 (16,988).

## Performance and key events at Sandvik Tooling

Sandvik Tooling was negatively impacted in all markets by the weak global economy. The downturn was severe at the beginning of the year but leveled out during the third quarter. The level of activity in the oil and gas sector, as well as the aerospace industry, displayed a negative trend. Demand from the automotive and engineering industries was low, but gradually increased during the second half of the year.

Following the financial crisis and the subsequent recession that took hold in autumn 2008, demand continued to decline in 2009. The rate of the decline eased during the third quarter and demand stabilized at a low level during the remainder of the year. Hardest hit by the downturn were the automotive and general engineering industries. Demand for consumer-related products and, to a certain degree, within the aerospace industry was also weak, while order intake from the energy sector remained relatively favorable. Activity levels were

## Order intake by market area

SEK M	2009	Share, %	2008	Change, %	Change, %*
Europe	27,233	38	40,945	-33	-39
NAFTA	11,235	16	15,071	-25	-35
South America	5,275	7	5,839	-10	-17
Africa, Middle East	7,789	11	7,743	1	-13
Asia	13,321	19	14,701	-9	-23
Australia	6,432	9	8,311	-23	-28
<b>Group total</b>	<b>71,285</b>	<b>100</b>	<b>92,610</b>	<b>-23</b>	<b>-31</b>

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

low in all markets, with the exception of China, where the performance of the automotive industry was positive.

The measures initiated in 2008 to reduce costs and working capital were intensified in 2009. Working hours for many employees were reduced and costs were cut proportionately. In addition, time banks were utilized in Sweden and Germany, meaning that compensatory leave accrued earlier in connection with periods of high demand is exchanged in return for reduced working hours during periods with low production requirements. Actions taken to reduce working hours yielded a saving in personnel costs corresponding to approximately 2,200 full-time positions. In addition, the workforce was reduced by a total of about 2,000 full-time employees.

The acquisition of the Austrian company Wolfram Bergbau und Hütten AG took place during the year and the company formed the new Wolfram product area. Wolfram is a producer and supplier of tungsten carbide – the main constituent in cemented carbide. The company's advanced research and development resources have yielded a market-leading product quality. The acquisition also strengthens Sandvik Tooling's supply of

raw materials and contributes know-how and technology that aids in the development of cemented carbide and the recovery of tungsten and other raw materials from cemented carbide.

The acquisition of the UK-based BTA Heller Drilling Systems Ltd was finalized in early 2009 and strengthened the Sandvik Coromant product area's customer offering of tools and tooling systems for deep-hole drilling.

The ValeniteSafety product area was restructured and this resulted in the formation of the new Safety product area. Valenite was integrated in the Walter product area. Walter and Valenite products will be sold under the Walter Valenite brand in the North American market, which will strengthen Walter's product offering and market position.

A new production unit for medical technology equipment was inaugurated in Zell, Germany, while in Pune, India, a Tooling Engineering Center was opened to support work related to production engineering in the business area. Sandvik Nora, a unit in Sweden focused on the development and production of diamond-based tools for machining of such items as composite materials, was taken over from Sandvik Mining and Construction.

### Sandvik Mining and Construction in figures

In 2009, Sandvik Mining and Construction's order intake amounted to SEK 30,915 M (38,634). This represents a decline of 27% compared with the preceding year at fixed exchange rates for comparable units. Cancellations of orders already placed contributed to the negative trend. Invoiced sales amounted to SEK 32,621 M (38,651), down 23% from the preceding year at fixed exchange rates for comparable units. Changes in exchange rates had a positive impact of about SEK 3,900 M on invoiced sales. The price trend remained relatively stable. Government stimulus packages in many countries and higher metal prices had no discernible effect on order intake for the year.

The operating result totaled SEK 466 M (4,996), yielding an operating margin of 1.4%. The result was adversely impacted by low volumes, impairment losses and restructuring costs. The number of employees at 31 December was 14,429 (16,796).

#### Invoiced sales by market area

SEK M	2009	Share. %	2008	Change. %	Change. %*
Europe	28,867	40	41,851	-31	-36
NAFTA	11,704	16	14,827	-21	-30
South America	4,562	6	5,982	-24	-31
Africa, Middle East	6,872	10	7,811	-12	-23
Asia	12,427	17	13,653	-9	-21
Australia	7,505	11	8,530	-12	-19
<b>Group total</b>	<b>71,937</b>	<b>100</b>	<b>92,654</b>	<b>-22</b>	<b>-30</b>

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

#### Invoiced sales in the ten largest markets

SEK M	2009	2008	Change. %
US	8,854	11,039	-20
Australia	7,154	8,152	-12
Germany	5,679	7,958	-29
China	4,833	4,311	12
South Africa	3,567	3,955	-10
Sweden	3,356	4,753	-29
Italy	2,835	4,682	-39
France	2,807	3,698	-24
Brazil	2,345	3,567	-34
UK	2,127	3,307	-36



### Performance and key events at Sandvik Mining and Construction

Sandvik Mining and Construction's order intake in the mining industry declined sharply during the latter part of 2008 and early 2009 to subsequently stabilize at a low level. The underlying demand for base metals remained, but many customers showed hesitation in placing orders. Demand from the coal industry also stalled, particularly with respect to metallurgical coal. This was also the case for demand within energy production, since much of the energy-intensive basic industry operated at restricted capacity. Demand in the construction industry was stable at a low level during the year. For materials handling solutions, the degree of activity increased toward the end of the year, when a number of large orders were received.

Robust action programs were implemented in 2009 in response to the continued downturn in the global economy. The primary focus was to curtail production rates, adjust inventory levels and reduce costs. The business area announced the

closure of 13 production units to adapt the production and service structure, while manufacturing rates were reduced in almost the same number of facilities. Several units prepared new agreements regulating reduced working hours and pay, while other plants utilized existing agreements. The number of employees and contracted staff was reduced by just over 4,500.

Restructuring the organization around three customer segments helped to clarify responsibility in processes, enhance coordination, increase synergies and improve cost efficiency.

The business area's global presence was reinforced by the inauguration of new assembly facilities for mining equipment outside Shanghai, China, and near Belo Horizonte, Brazil. The new facilities offer assembly capacity closer to major customers and facilitate shorter lead times, as well as continued consolidation and streamlining of the manufacturing and delivery process. Combined with a concentration to a small number of strategi-

cally located distribution centers, these investments play an important part in efforts to move closer to customers.

Sandvik Mining and Construction received three major project orders with a combined value of nearly SEK 2 billion. These comprised a materials-handling system for an underground mine in Africa, a loading system in South America and a materials-handling system for a power plant in the Netherlands.

### Sandvik Materials Technology in figures

Sandvik Materials Technology's order intake totaled SEK 16,480 M (21,581), down 30% from the preceding year at fixed exchange rates for comparable units. Invoiced sales totaled SEK 15,328 M (21,480), a decrease of 34% from the preceding year at fixed exchange rates for comparable units. The effects of changed metal prices had a negative impact on order intake and invoiced sales of about 10 and 12 percentage points, respectively. Changed exchange rates impacted order

### Order intake by business area

SEK M	2009	2008	Change, %	Change, %*
Sandvik Tooling	18,962	25,798	-26	-36
Sandvik Mining and Construction	30,915	38,634	-20	-27
Sandvik Materials Technology	16,480	21,581	-24	-30
Seco Tools	4,926	6,594	-25	-30
Group activities	2	3	—	—
<b>Group total</b>	<b>71,285</b>	<b>92,610</b>	<b>-23</b>	<b>-31</b>

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

### Invoiced sales by business area

SEK M	2009	2008	Change, %	Change, %*
Sandvik Tooling	19,078	25,975	-27	-36
Sandvik Mining and Construction	32,621	38,651	-16	-23
Sandvik Materials Technology	15,328	21,480	-29	-34
Seco Tools	4,871	6,513	-25	-30
Group activities	39	35	—	—
<b>Group total</b>	<b>71,937</b>	<b>92,654</b>	<b>-22</b>	<b>-30</b>

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

intake and invoiced sales positively by 9%. The price trend was favorable for high value-added niche products, but somewhat more pressured for products exposed to a higher degree of competition.

The operating result totaled SEK -1,137 M (1,187), yielding an operating margin of -7.4%. The decline was due to low invoiced sales and low production volumes, resulting in a reduction in gross profit and under-absorption of fixed costs. Earnings were also negatively impacted by costs for restructuring programs, impairment and changed metal prices.

The number of employees at 31 December totaled 8,246 (9,281).

### Performance and key events at Sandvik Materials Technology

The global recession resulted in a weak business situation for Sandvik Materials Technology in 2009. The areas that were worst affected were the automotive, mining and consumer-related industries. The energy sector, however, displayed strong growth, particularly in such segments as nuclear power and oil/gas.

The action program initiated in 2008 to reduce costs and working capital was intensified in 2009. In response to the weak volume trend, the business area implemented extensive cost restraints, personnel reductions and production cuts. The number of full-time employees decreased by a total of about 1,000 dur-

ing the year and inventories were reduced by about SEK 2,300 M. In addition, agreements were reached covering a temporary reduction in working hours and pay for large parts of the organization.

Metal prices fluctuated during the year and metals in stock were valued at the lower of cost or net realizable value, which had a negative impact of SEK 541 M on the reported result. However, the effect of metal prices on inventory valuations did not impact cash flow. During 2009, a range of measures were applied to reduce exposure to fluctuations in metal prices and to minimize the effects on margins and cash flow.

The Kanthal and Wire product areas were merged to capitalize on synergies and improve cost efficiency, market presence and product mix. Consequently, the number of product areas was reduced from six to five.

Investments aimed at strengthening the business area's market position in Asia continued during the year. A new production facility for cold rolling and finishing of high-alloy seamless tubes was constructed in Zhenjiang, China. The sales organizations in China and India were expanded in parallel with the build-out of capacity. A service center for precision strip was brought on-stream in Zhenjiang, China, while the research center in Pune, India, was strengthened through the addition of further resources.

Sandvik Materials Technology holds a strong position in selected niches in the fast-growing nuclear power industry and is a leading supplier of such products as steam generator tubes. During the year, the business area signed agreements for steam generator tubes for a combined value of more than SEK 6 billion. Deliveries will commence in 2012. In response to the increased demand, work was initiated to substantially expand manufacturing capacity.

Consolidation of units in the MedTech product area continued during the year. To better capitalize on synergies in the medical technology area, it was decided that Protomedical GmbH, a unit that offers manufacturing of medical implants and surgical instruments, would be transferred from Sandvik Tooling to Sandvik Materials Technology effective 1 January 2010.

Back-office functions in the business area's European sales organization were coordinated. One single unit is now responsible for providing service to large parts of the European market.

A powder technology research facility was started up at the research center in Sandviken and comprehensive investments were also made to significantly expand capacity for rock-drill steel in Sandviken.

### Operating result by business area

SEK M	2009	Margin as a % of invoiced sales	2008	Margin as a % of invoiced sales
Sandvik Tooling	-527	-3	5,461	21
Sandvik Mining and Construction	466	1	4,996	13
Sandvik Materials Technology	-1,137	-7	1,187	6
Seco Tools	307	6	1,332	20
Group activities	-521	—	-184	—
<b>Group total</b>	<b>-1,412</b>	<b>-2</b>	<b>12,794</b>	<b>14</b>

## Research and development

Sandvik's research and development is highly prioritized in the Group and aims to increase customers' productivity, facilitate their efforts in the environmental area and improve the work environment of employees. Projects include metallurgic research, metal cutting and the development of production technologies, production processes and IT systems.

Sandvik invests almost SEK 3 billion each year in R&D and more than 2,400 employees are active in this area. The Group has about 5,000 active patents and other intellectual property rights.

Research and development is conducted in a decentralized manner in each of the business areas. The exchange of knowledge between the business areas is substantial, which generates synergies and qualitative accumulation of data upon which decisions can be based.

### Sandvik Tooling

The focus of Sandvik Tooling's research and development is on the development of new materials and products and the improvement of the production methods and production equipment. The aim is to enhance tool performance and quality as well as production efficiency both for customers and the business area itself. The business area continuously develops new methods for the production of cemented carbide, ceramic materials, cubic boron nitride and synthetic diamonds. Development of methods for precision pressing and coating in the production of indexable inserts has a high priority.

Research and development activities are carried out in several locations throughout the world. Each product area pursues product and application development in close cooperation with customers.

A selection of advances in research and development in 2009 are listed below:

- **Focus on milling at Sandvik Coromant**  
During the year, Sandvik Coromant launched the CoroMill®316 end mill with exchangeable cutting heads and the CoroMill®345 face mill with eight cutting edges. A number of important enhancements to the CoroMill®490 shoulder-milling program were also introduced. The new CoroMill®329 increases productivity in slot milling. Furthermore, the Coromant Capto tool-

holding system was expanded to include a larger version for heavy-duty machining. The CoroCut parting and grooving program was complemented with new, larger inserts for heavy-duty parting and grooving operations and thus covers a broad range of applications.

- **Walter strengthens and expands its total product offering**

The Walter product area, with the three brands Walter, Walter Titex and Walter Prototyp, offers a complete product range for all types of metal cutting. During the year, Walter launched Tiger-tec®Silver, incorporating new technology for coated indexable inserts that delivers a performance increase of 50–100%. Walter Titex introduced the Xtreme D8 and D12 drills for extreme deep-hole and small diameter drilling. Walter Prototyp introduced the Cone-Fit™ shoulder mill with exchangeable cutting heads.

- **Broadened offering in diamond and cemented carbide tools**

Dormer strengthened its offering in machining of composite materials for such sectors as the aerospace industry through the launch of diamond-tipped tools. In addition, a broad range of cemented-carbide tools for specific applications and materials was launched.

- **Continued development of superhard materials at Diamond Innovations**

Diamond Innovations introduced a new generation of diamond-tipped drill buttons with improved service life for drilling for oil and gas, which resulted in an increased market share.

- **Successful technology development in attractive niches**

At Sandvik Hard Materials, improved extrusion technology enabled the production of cemented-carbide blanks with complex shapes. New grades of titanium-based cemented carbide for

metal sawing offered major efficiency gains for customers. A new, patented locking system for rolls, DynaLock, had its commercial breakthrough. The system offers increased productivity, since slippage is avoided at high loads.

- **Customer-driven development of new tungsten carbide grades**

The Wolfram product area offers a complete range of tungsten carbide powders with various properties. The powders are mainly used in the production of cemented carbide tools, but also in other applications in which strict demands are placed on hardness and wear resistance. The various powder grades are continuously improved and tailored based on the customers' needs. During 2009, the ultra fine-grained tungsten carbide grade, CRC010, was introduced. It enables, for example, the production of high-performance drills in extremely small dimensions for the electronics industry.

### Sandvik Mining and Construction

Sandvik Mining and Construction continued to introduce new technology and new products in the market. Through close cooperation with customers, the business area can continuously adapt its products to the needs of customers and offer holistic solutions. For example, the business area develops innovative solutions for automated mining operations and mechanical excavation of harder rock grades. The principal driving forces in its development work are to create improvements in the areas of the environment, health and safety. Other important driving forces for the development work include cost savings, reduced energy use and skills enhancement.

The issues with the highest priority in Sandvik Mining and Construction's R&D efforts relate to safety and products and services for the aftermarket. The largest development units can be found in Finland, Sweden, Austria and the US.

A number of the products and process solutions introduced in 2009 are listed below:

- **New system for complete surface crushing stations**

With the Sandvik PF300, Sandvik launches a system for complete mobile

crushing stations. The system has been created for surface mining in which the minerals are crushed and immediately removed from the extraction site. The new method reduces truck transports, which results in direct cost savings, reduced fuel consumption and lower carbon dioxide emissions.

- **More efficient and safer coal mining**  
Customers in the coal industry demand reliable equipment with high cutting power and availability. To meet these requirements, Sandvik Mining and Construction has developed the Sandvik MC350 mining machine that offers state-of-the-art-technology for underground mining of soft rock grades. Combined with the other products in the business area, Sandvik offers a powerful, safe and efficient coal-mining system.

- **Hybrid crusher for a variety of needs**  
The newly developed Sandvik CR810 hybrid roll crusher was introduced at the beginning of the year. The crusher features a unique and compact design that combines the advantages of reducing the space requirement with the benefits of traditional double-roll crushers that have hydraulic gap adjustment and overload protection. The Sandvik CR810 is used in surface and underground mining operations and in construction projects.

- **Cost and eco-efficient electronically controlled loader**  
Sandvik continues to develop the product range for electronically controlled loaders for the loading and transport of ore from underground mines in a productive, safe and profitable manner. During the year, the customer offering was expanded through the addition of a new model, the Sandvik LH514E, which has an excellent power-to-weight ratio, combined with a superior turning radius and improved electronic control system. The electric power system, with its low noise levels and zero emissions, provides an improved work environment and reduces the costs for mine ventilation. The loader also requires fewer maintenance hours than a conventional diesel-powered loader. The combined benefits enable considerable savings for customers.

### Sandvik Materials Technology

Sandvik Materials Technology develops advanced materials, products and system solutions in close cooperation with customers. The aims include increasing customer productivity, reducing energy use and the impact on the environment, and creating processes that result in a secure working environment.

The business area has one of Europe's largest R&D centers for advanced metallic materials and special alloys in Sandviken, Sweden. The business area also operates an R&D center for ceramic and metallic resistance materials in Hallstammar, Sweden. A research and modeling center for advanced materials is sited in Pune, India, where simulations of various processes and materials are conducted, among other activities.

A few years ago, work commenced on a number of key R&D programs in strategically important areas for Sandvik Materials Technology, including energy and medical technology. Through continuous development of advanced material and extensive investments in powder and surface technology, Sandvik Materials Technology can play a decisive role in the development within these prioritized segments.

A selection of products and process solutions introduced in 2009 are listed below:

- **More efficient energy use enhances productivity**  
The Kanthal product area continuously launches new products that enhance the efficiency of energy use and increase productivity for customers. One example is the new thermoelement material, Thermothal®Low Drift, which allows more precise temperature control and thus enhanced performance in the manufacture of, for example, components for the aerospace industry.
- **Capacity increase in the oil industry**  
Large volumes of liquid sulfur are a by-product of oil extraction, and must be converted into pastilles to facilitate handling. The conversion process takes place in high-speed and high-performance Rotoform lines, which significantly increase customers' capacity. During 2009, several orders were received for Rotoform HS® for refineries, including an important breakthrough order in

Russia. Sandvik offers complete solutions providing financial, logistical and environmental benefits.

- **Development of medical implants**  
Through its MedTech product area, Sandvik is a leading supplier of implants and surgical instruments to global medical technology companies. Sandvik's products meet the exacting demands imposed on surfaces, precision, strength and corrosion resistance. During the year, the product area further developed models of medical implants, including hip replacement implants. Important breakthrough orders were received from, for example, India and Korea.
- **New materials with extreme performance for the oil and gas industries**

Sandvik SAF 2707HD® is a new material for wirelines used in the oil and gas industry to lower various measurement instruments and tools in oil wells. Extreme demands are placed on the material's performance, which is adapted to chloride-containing environments, features high mechanical strength and has high resistance to corrosion. The same material is also used in tube applications in the offshore industry and in oil refineries.

- **New spring material increases performance**  
Sandvik Loniflex® is a new wire material for aerosol springs used in aerosols, perfume bottles and pump soap dispensers. The material contains considerably less nickel, which is expensive and fluctuates considerably in price. At the same time, the material has comparable or superior properties in terms of corrosion and hot and cold machining possibilities. This also helps increase productivity of spring customers.
- **Productivity boost for milling, turning and drilling**  
Sanmac SAF 2205® is a re-launched and improved product that is once again available in the bar program in an exceptionally broad size range. The bars are used, for example, in the manufacture of fittings and flanges in several industries.

# Human resources

Since competence development and competitiveness are strongly interconnected, HR issues are assigned a high priority at Sandvik. The Group's capacity to effectively develop employees to their full potential plays a significant role in the Group's financial results and its ability to compete in the global market.

The aim of Sandvik's efforts relating to Human Resource management (HR) is to create methods and a working climate that allow the Group to realize its short and long-term goals. The organization must have the capacity to manage successes and setbacks in its business operations. It is the responsibility of central and local HR functions to contribute cost-efficiency and effective support for managers, create simplicity and clarity for employees, and help to make Sandvik an attractive employer.

A number of global processes facilitate this work so that the methods can be practically applied in day-to-day activities. These are subsequently introduced on a gradual basis to all units in the Group.

## Competence development and sourcing

Sandvik is a global company that offers many opportunities for development. The creation of increased mobility in the Group is an important element on many levels. Firstly, it allows personal development for employees and, secondly, it is a way of transferring competencies within the company. One example of a tool that stimulates mobility is Sandvik's internal employment market, which comprises a portal on the Group's intranet where all

vacancies are published, with support also being offered to employees in the application process.

Competence development is a continuous process in all areas of the organization. All Sandvik employees are entitled to a personal development plan – this applies to all Group companies and countries in which Sandvik conducts operations. Each manager is responsible for preparing educational plans together with the employee. This plan forms the base for the planned development efforts. The manager bears a long-term responsibility to ensure that his or her own organization at any given time is staffed by employees with the necessary expertise in relation to the work content of the unit. Managers receive training and develop in their roles thanks to the company's global strategic leadership development program. Sandvik also tailors its own industry-specific educational programs. One example of this is the Sandvik International Mining School – a two-year program that is offered in partnership with five universities from four continents.

Sandvik works actively with Employer Branding as part of the company's work to identify, recruit and retain in-demand personnel. The Group's initiatives in this area are based on communicating, in various contexts, the opportunities offered

by a professional career at Sandvik. This profiling work is conducted on a broad front, ranging from meetings on labor market days at universities and colleges to how communication messages are formulated.

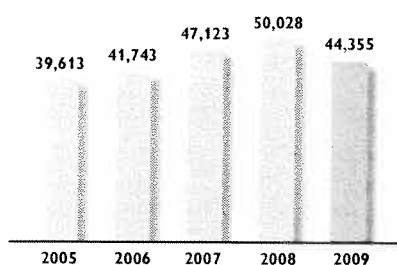
## Management by objectives

A manager at Sandvik shall enjoy effective support in his or her role as a leader. HR functions are focused on such tasks as offering practical tools and templates that facilitate administration and release resources for management by objectives and teambuilding. The ability to break down objectives into specific targets to be achieved by an individual or a group is vital in efforts to retain and develop Sandvik's competitiveness.

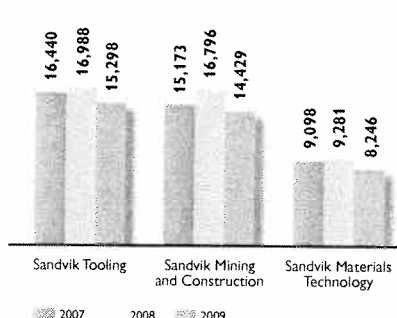
## Remuneration and compensation

Sandvik's management by objectives is also reflected in the strategy for remuneration and compensation, which aims to support Sandvik's business objectives and contribute to maintaining Sandvik as an attractive company in which to work and develop. Sandvik's remuneration model comprises fixed salary, performance-based annual variable salary, long-term performance-based salary to senior executives and specialists, pensions and benefits. According to Sandvik's remuneration

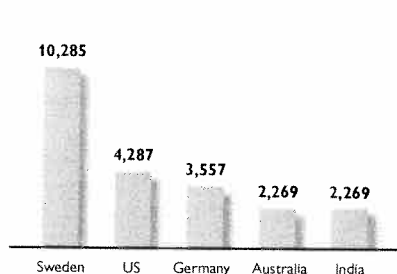
Number of employees



Number of employees by business area



Number of employees by country



policy, fixed salary is based on four cornerstones: the complexity and difficulty of the position, individual performance, the salary situation in the relevant market, and professional incentive. Some of Sandvik's employees are entitled to performance-based variable salary. Remuneration of these individuals is always based on predetermined goals. For remuneration of senior executives, see below and Note 3.5.

#### Adaptation to sharp fall in demand

In 2009, Sandvik focused on a range of measures to adjust production capacity and cost levels to the prevailing market conditions. This work was conducted on a global scale and actions taken include a reduction of temporary and permanent employees, the closure of units, and employee agreements regulating shorter working hours, lay-offs and similar actions. Following the expiration of agreements for shorter working hours, they will be concluded or renegotiated. Work aimed at retaining and further developing key expertise within the company has been carried out.

#### Number of employees

The number of employees at the end of the year was 44,355 (50,028), a decrease for comparable operations of 5,947 per-

sons during the year. The number of employees in Sweden at 31 December 2009 totaled 10,285 (11,487). Data on personnel expenses and the average number of employees is available on page 60, Note 3.

#### Employment conditions

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

Activities pursued during the year to attain Group-wide objectives for health and safety, and employee conditions and development, include certification of the occupational health and safety management system in accordance with OHSAS 18001 for companies recently acquired, training, risk assessment of the workplace, more focus on reporting of incidents, improving the efficiency of safety committees, and providing stimulation to managers to emphasize Sandvik's objective to improve the balance between men and women in connection with recruitment processes. Relevant performance indicators that are monitored on a quarterly basis include the number of fatalities, the number of lost time injuries resulting in lost time, the number of reported near misses, the number of lost days due to injuries, employee turnover, as well as the number of men and women in various positions. The trend in occupational injuries resulting in lost time and the lost time injury frequency rate remained positive during the year, but the improvement in the balance between men and women remains weak.

#### Decision on principles for the remuneration of senior executives

The guidelines for the remuneration of the Board and senior executives that applied during 2009 are set out in Note 3.5 on pages 60–62. The company's auditors have examined compliance with the guidelines.

The Board of Sandvik AB proposes that the Annual General Meeting on 4 May 2010 resolve on the following principles for the remuneration of senior executives in accordance with that stated in Note 3.5. The Board's proposal is designed to ensure that Sandvik, from a global perspective, can offer remuneration at the market rate that will attract and retain qualified members of the Group Executive Management. The remuneration package for Group Executive Management comprises fixed salary, annual variable salary and long-term variable salary and pension. The aim is that the components will form a well-balanced remuneration and benefit package that reflects the individual's performance and responsibility and the Group's earnings trend. The fixed salary, which is individual and differentiated considering responsibility and performance, is determined taking into account market conditions and is reviewed each year. The Board may depart from the principles established by the Annual General Meeting if, in isolated cases, there are special reasons for so doing. Those affected by these proposed principles are the President and the other members of the Group Executive Management. For further details, refer to Note 3.5 on pages 60–62.

Key figures	2009	2008
No. of employees 31 December	44,355	50,028
Average number of employees		
Women	8,574	8,819
Men	38,617	39,752
Total	47,191	48,571

# Sandvik's responsibility

Sustainable development represents an integral part of the business process, with focus on continual improvement in such areas as environment, occupational health and safety, human rights and business ethics.

The Group's Code of Conduct forms the basis for Sandvik's improvements efforts in these areas.

In addition to the financial results of Sandvik's operations, the Group's environmental and social objectives and the outcome of these is presented in the company's Sustainability Report on pages 88–99.

## Environmental objectives

Activities conducted during the year to fulfill Sandvik's objectives include certification in accordance with ISO 14001 for companies recently acquired, the continued introduction of energy-saving programs, phasing-out of chlorinated solvents and reduction of water consumption using such methods as recirculation. Relevant performance indicators for the use of electricity and fossil fuel, carbon dioxide emissions and water consumption are monitored on a quarterly basis. Furthermore, the Group monitors waste volumes and wastewater from processes on an annual basis. The outcome for 2009 is presented in Sandvik's Sustainability Report. During the year, the absolute environmental indicators, such as energy use and carbon dioxide emissions, developed positively while the relative indicators displayed a negative trend largely due to the sharp downturn in business volumes.

## Licensed operations

Sandvik complies with applicable laws and regulations relating to environmental issues in the countries where the Group operates. However, Sandvik applies even stricter requirements when it is ecologically warranted, technically possible and economically viable. Sandvik's Swedish units conduct licensed operations in accordance with Swedish environmental legislation at the plants in Sandviken, Gimo, Stockholm, Halmstad, Hallstahammar, Surahammar, Svedala and Köping. The environmental permits for these sites relate to such activities as the manufacturing of ingots/CC-blooms/CC-billets, bar, tube, strip and wire products, rock-drilling products, rollable ingots, ceramics, metal powder, cemented carbide products, castings and

various equipment and tools. All these units have the environmental permits that are required for their operations. The main environmental impacts from these sites are emissions to air and water, energy use, waste production, older contaminated land areas and noise. Sandvik is highly dependent on the environmental permits granted for these sites.

During the year, Kanthal AB in Hallstahammar, Sweden, was granted a new permit for carbon dioxide emissions due to the addition of a number of reserve power generators under the terms of the license. A permit to use an internal landfill for metal hydroxide sludge in Hallstahammar also expired in 2009. No breaches of permissible manufacturing volumes or limit values within the parameters of the terms and conditions of permits occurred during the year. A number of target values were exceeded for noise and emissions to air and water at a few sites. Actions are being taken to comply with these target values, often in consultation with the relevant supervisory authority.

For the units subject to environmental permits, public environmental reports are submitted each year to the supervisory authority. In these reports, conditions and compliance with all the various requirements are presented, as are annual emissions and actions taken to lessen impacts on the environment or the consumption of resources. No unit has been issued with any significant injunction related to applicable conditions from the supervisory authorities in 2009.

Some 23 units throughout the entire Sandvik Group are affected by known or presumed land contamination. Of these, remediation procedures have been ordered at ten units at an estimated cost of some SEK 60 M. Moreover, voluntary remediation measures at a further seven sites have been agreed. Soil remediation was completed in Västberga, Sweden during the year.

When new manufacturing companies are divested and acquired, the due diligence procedures always include a comprehensive environmental audit to identify any environ-

mental liabilities related to the operation in question.

## Emission allowances

The Group's plants in Sandviken and Hallstahammar are covered by the trading system in carbon dioxide emission allowances in the EU. In 2009, the Group was allocated emission allowances corresponding to 109,727 tons of carbon dioxide. For the period, the Group declared emissions amounting to 88,240 tons of carbon dioxide.

All use of production-related fossil fuel in the industrial site in Sandviken is encompassed by trading in emission allowances.

The trading in emission allowances also affects Sandvik in that the price for electricity, even such electricity not affected by emission allowances, has risen.

The European REACH chemical legislation and similar legislation in other parts of the world will involve costs for processing of applications and registration. The fulfillment of requirements is also a strength for Sandvik's businesses.

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

## Suppliers

Sandvik increased the focus on risks related to suppliers during 2009. A new supplier Code of Conduct was developed and special supplier audit functions were introduced in China and India during the year. Further information is presented in the sustainability report.

## Human rights and business ethics

Sandvik's policies relating to human rights and business ethics are summarized in the Code of Conduct. To emphasize the importance of compliance, training in these issues is regularly arranged. At the end of 2009, more than 84% of the employees had participated in this training.

No incidents relating to violation of human rights in proprietary operations were reported during 2009. Some 40 incidents of suspected harassment, fraud and corruption were reported. Where appropriate, corrective measures were implemented in all of these cases, including the dismissal of personnel.

# Integrated risk management

The aim of Sandvik's risk management is to minimize risks within the company and also to ensure that opportunities are capitalized on in the best possible manner. The turbulence in the financial markets and the global recession have meant that Sandvik's work on restricting and controlling risk-taking was particularly important in 2009. Sandvik has a favorable risk spread with operations in 130 countries in about 20 product areas and a number of different industries.

The substantial decline in demand for Sandvik's products in the past year has affected all markets and industries, with only a handful of exceptions. In light of this trend, risk management directed its focus to the Group's business risks. It is essential to balance the operations by reporting profitability based on the prevailing lower volume levels, while retaining capacity and personnel to efficiently manage an economic upturn.

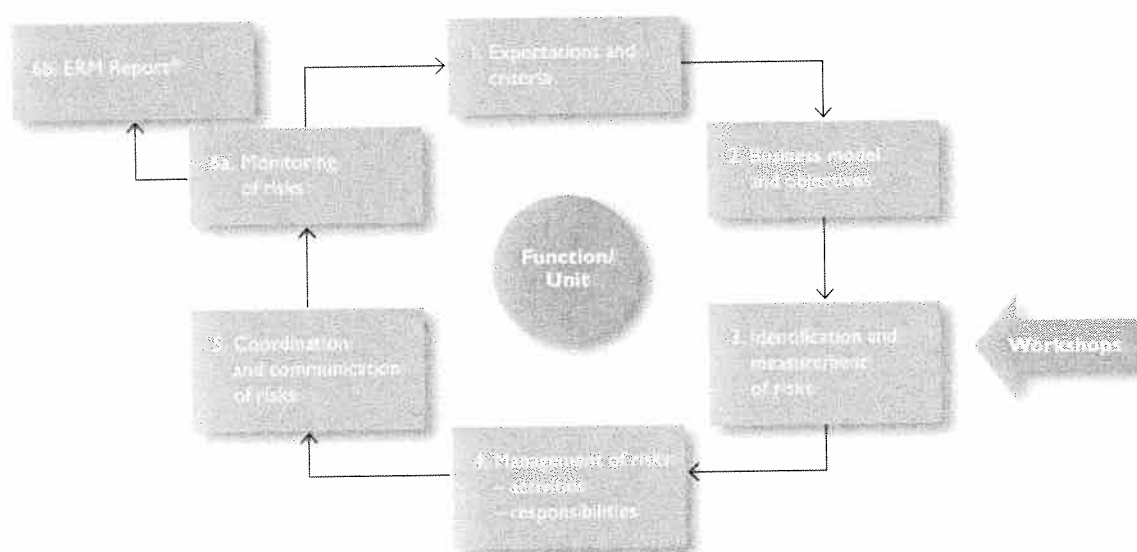
## Integrated risk management at Sandvik

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

The main components of risk management are identification, measurement, management, reporting, monitoring and control. An action plan is established for each risk to accept, reduce, eliminate or increase the risk. Formal procedures and processes are established for the reporting, monitoring and control of risks.

A full, consolidated ERM Report is submitted to Executive Group Management twice a year and to the Board once a year.

## ERM process – Overview



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



## The purpose of the integrated risk management work is to:

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

### Operational risks

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

### Compliance risks

Sandvik is globally engaged in many different areas and conducts its business within the framework of rules and regulations that apply in various countries, markets and factual areas. The Group

shall comply with laws as regards environmental and labor issues, the operation of the business, taxation, terms of employment, marketing regulations, and so forth. In addition, the Group has internally established regulatory systems and instructions as support for management and other employees in the company.

### Financial reporting risks

Operating companies within the Sandvik Group present reports on their financial performance and economic status on a regular basis in accordance with internal reporting rules and the accounting policies that Sandvik applies, the International Financial Reporting Standards (IFRS). The Group's controller function validates and analyzes the financial information as a part of the quality control of financial reporting. See also the Corporate Governance Report on pages 100–107.

### One-off risks

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

### Legal risks

#### Litigation

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

In the US, companies that sell welding electrodes, including Sandvik's US subsidiary, Sandvik Inc., are the object of claims in which it is alleged that exposure to welding fumes causes neurological damage. All of these claims involve multiple defendants in addition to Sandvik Inc. To obtain a favorable verdict against Sandvik Inc., a plaintiff would have to prove that any neurological injury was caused by Sandvik Inc.'s welding electrodes. The market share of Sandvik Inc. for welding electrodes in the US is less than 1%, and many of the cases against the company have been dismissed because the plaintiffs could not prove that they had used Sandvik Inc.'s welding electrodes.

## Sandvik's risk areas



In addition, Sandvik believes that there is no reliable scientific evidence to support the claims. Despite such absence of evidence, and also considering the minimal market share, Sandvik anticipates that it will have to continue to defend itself against these types of claims in lawsuits. To date, the Group has not received an unfavorable verdict in any proceedings or been forced to come to a settlement in regards to injury compensation related to welding electrodes and the only expenses it has incurred are legal costs. A significant share of these costs has been covered by insurance.

#### *Protection of intellectual property rights*

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

#### *Tax disputes*

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

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

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

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

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

In January and December of 2008, the IP Company appealed the decision by the Tax Board regarding taxation for 2005, 2006 and 2007. For subsequent years of assessment, both the Tax Board and Sandvik have dealt with tax returns and appeals in the same manner as previously. Pending a conclusion of the legal proceedings, Sandvik has established a pro-

vision for the tax effects of implemented amortization in the IP Company and for accrued interest for the tax that the Public Commissioner's appeal against Sandvik AB would entail if it is approved.

#### **Insurable risks**

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

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

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

#### **Sustainability risks**

Sustainability risks entail the risk of adverse consequences concerning the environment, health and safety, human rights and business ethics due to the commercial operations conducted by Sandvik. To minimize these risks, Sandvik conducts comprehensive work at all levels of the company. Fair play and Code of Conduct seminars are held throughout the Group on a regular basis. These aspects also comprise key areas for Sandvik's internal assurance function, Group Assurance. In recent years, Sandvik has also developed a separate Sustainability Report, which requires a systematic analysis of the company's operations in terms of sustainability and enables the identification of risks within this area. For further information, see Sandvik's Sustainability Report on pages 88–99.

# Financial risk management

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

Sandvik Financial Services has been established to act as the functional organization responsible for managing the greater part of the Group's financial risks. The primary objective of the department is to contribute to the creation of value by minimizing the financial risks to which the Group is exposed to the ordinary course of business, and to optimize the Group's net financial expense.

Sandvik Financial Services provides service to Group companies and its task is to support subsidiaries with loans, investment

opportunities and currency-exchange deals, and to act as advisors in financial matters. The department conducts internal banking operations and is based at the head office in Sweden and in Singapore. The internal bank also conducts Sandvik's netting system, and is responsible for international cash management.

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

finance companies in the US, Germany and Chile.

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

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

The following presentation complies with the reporting requirements stated in accordance with IFRS (IFRS 7 and IAS 39).

## Currency risk

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

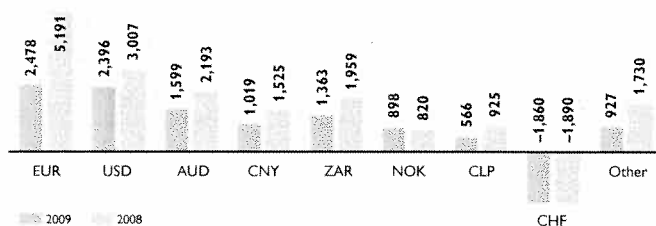
- Profit or loss for the year is affected when sales and purchases are made in different currencies (transaction exposure).
- Profit or loss for the year is affected when assets and liabilities are denominated in different currencies (translation exposure).
- Profit or loss for the year is affected when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

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

## Transaction exposure

Sandvik's principal currencies comprise the currency basket through which Sandvik's transaction exposure is measured. The value of this basket, in other words the Group's net flow of currencies, after full offsetting of the countervalue in the exporting companies' local currencies, amounted to SEK 9,386 M (15,460) in 2009. The significance of the local currencies in the basket is shown in the diagram below.

Net flow in foreign currencies, SEK M



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

A certain portion of the anticipated net flow of sales and purchases is hedged through financial instruments in accordance with guidelines set in the Group's finance policy. In addition, major project orders are currency hedged to safeguard the gross margin. An executive committee that meets regularly establishes how much of the Group's transaction exposure needs to be hedged. At year-end, the total hedged amount was SEK 6,426 M. The average duration for the hedged volume of foreign currency was about 3 years (8 months). The reason for the increase in the duration compared with the preceding year was because of currency hedging in conjunction with supply agreements signed by Sandvik Materials Technology relating to steam generator tubing, with delivery scheduled to take place from 2012 through 2014.

Unrealized losses from outstanding currency contracts for hedging of future net flows amounted to SEK -20 M (-235) at year end. Of these, SEK -43 M relates to contracts maturing in 2010 and SEK 23 M to contracts maturing in 2011 or later. Hedge reporting in line with IAS 39 is applied for the most significant portion of the hedge transactions. For a more detailed breakdown of the effects on cash flow on a quarterly basis of the transactions that have been recognized in the hedging reserve, see Note 30.

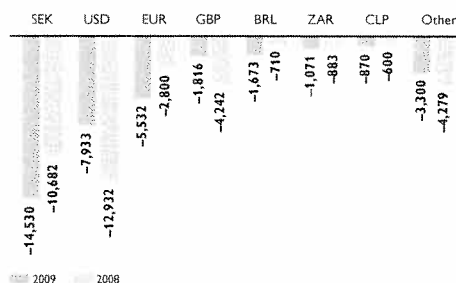
### Translation exposure

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

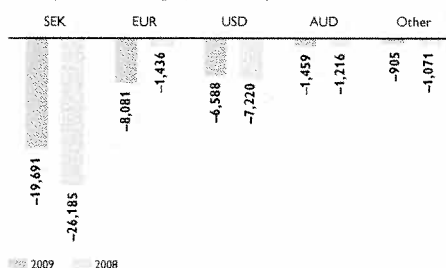
Profit/loss in a foreign subsidiary is translated to SEK based on the average rate for the period to which the profit/loss relates, which means that the Group's result is exposed to a translation risk.

Net assets, meaning the subsidiaries' shareholders equity, are translated into SEK at the rate applying on the balance-sheet date. At 31 December, the Group's net assets in subsidiaries in foreign currency were SEK 32,063 M (41,065).

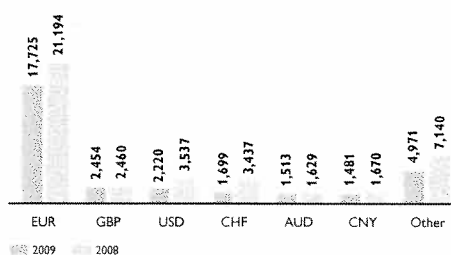
### Subsidiary financing by currency, SEK M



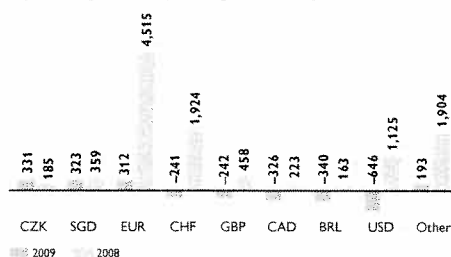
### Group's borrowing by currency, SEK M



### Net assets by foreign currency, SEK M



### Operating result by foreign currency, SEK M



To avoid translation risk in the balance sheets of subsidiaries, the subsidiaries' investments in the companies' local currencies are financed through an internal bank. External borrowing often takes place in a specific currency. The currency risk that arises in the internal bank as a result of this is managed using various derivatives, which means that the translation risk is minimized.

Sandvik has chosen not to hedge future profits in foreign subsidiaries. Net assets are also not hedged, but the differences that arise due to changes in exchange rates since the preceding year-end are recognized directly in other comprehensive income.

### Exchange-rate sensitivity

To gain a comprehensive understanding of how exchange-rate fluctuations impact the Group's operating result, consideration must be given to the transaction exposure's currency basket, the operating result of the subsidiaries in their respective currencies and implemented hedging activities.

The sensitivity of the Group's other comprehensive income to exchange rates depends on the size of net assets. Aside from net assets, other comprehensive income is also exposed to exchange-rate risk, since certain derivative contracts are subject to hedge accounting, which means that the change in the market value of these contracts is recognized directly in other comprehensive income instead of in the profit or loss for the year.

If the exchange rates for the currencies included in the basket were to change by 5% in an unfavorable direction for the company, the total operating result over a 12-months period would change by SEK 459 M, assuming that the currency basket is the same as it was at year-end.

The net effect on other comprehensive income of a similar change to exchange rates would be SEK 1,869 M.

### Interest rate risk

Interest rate risk is defined as the risk that changes in market interest rates will have an adverse impact on the Group's net interest items. The speed with which a change in interest rate affects net interest items depends on the fixed-interest terms of assets and liabilities. Sandvik applied the same method to calculate and manage interest risk as in the preceding year.

Interest rate risk arises in two ways:

- The company may have invested in interest-bearing assets, the value of which changes when the interest rate changes.
- The cost of the company's borrowing fluctuates when the general interest-rate situation changes.

If market rates were to rise by 1 percentage point across all terms at 1 January 2010, net interest items would be impacted by SEK -139 M during the coming year.

An interest-rate sensitivity analysis of interest-swap agreements valid at year-end, and to which hedge accounting was applied, shows that other comprehensive income would change by SEK 110 M as a result of a 1 percentage point parallel shift of the interest-rate curve.

In the event that Sandvik has surplus liquidity, it is placed in bank deposits or in short-term money-market instruments with durations of less than 90 days, which means that the interest risk (the risk of a change in value) is low.

The Group's interest-rate risk arises mainly in connection with borrowing. According to the Group's finance policy, a fixed-interest term of 12 months is the aim for the borrowing portfolio. Interest-swap agreements are sometimes used to achieve the desired fixed-interest term. The internal bank and the Group's CFO have a deviation mandate that enables them to apply a different fixed-interest term if this is found to be optimal, provided that it remains within the interval 6–36 months. As detailed in the table, the average fixed-interest term on Sandvik's borrowing was 36 months (13) at year-end, with consideration given to derivative agreements entered. The Group's average interest rate, including other loans and effects of interest-swap agreements, was 3.8% (4.8).

Hedge accounting was applied to the financial statement when an effective link existed between hedged loans and interest swaps. Accordingly, changed market interest rates may also impact other comprehensive income, since the Group has only a small number of interest-swap agreements to which it applies cash-flow hedging. This means that changes in the market values of these swaps are recognized directly in other comprehensive income instead of in profit or loss for the year. A presentation of all interest-swap agreements entered, and information regarding their duration, can be found in Note 30.

Sandvik's loan conditions are not connected to any financial key figures. Only under exceptional circumstance are assets pledged in connection with the raising of loans. Such pledging is disclosed in Note 29.

### Interest rates and fixed-interest terms on outstanding loans

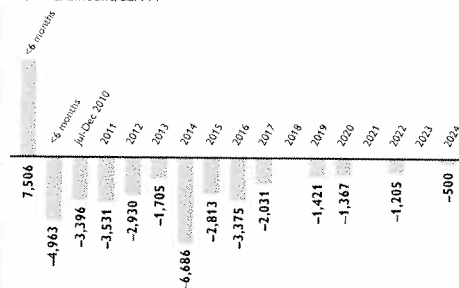
SEK M	Excluding effects of derivatives		Including effects of derivatives		Recognized liability, SEK M
	Effective rate of interest, %	Fixed-interest term, months	Effective rate of interest, %	Fixed-interest term, months	
Bond loans, Swedish MTN	2.9	10	2.5	16	14,118
Bond loans, European MTN	6.9	47	6.9	47	6,186
Private placement	5.7	114	5.7	114	6,339
Certificates	1.4	3	1.4	3	1,791
Other loans from banks	2.7	7	2.7	7	8,290
<b>Total</b>	<b>3.9</b>	<b>33</b>	<b>3.8</b>	<b>36</b>	<b>36,724</b>



## Liquidity and refinancing risk

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

**Maturity profile for borrowing and liquid assets**  
Nominal amount, SEK M



## Borrowing, size of programs and remaining credit periods

	Currency	Recognized liability, SEK M	Size of programs, SEK M	Average remaining credit period (years)
Bond loans, Swedish MTN	SEK	14,118	15,000	4.0
Bond loans, European MTN	EUR	6,186	30,976	4.2
Private placement	USD	6,339	—	9.9
Certificates	SEK	1,791	17,744	0.3
Other loans from banks	Diverse	8,290	—	2.5
<b>Total borrowing</b>		<b>36,724</b>		<b>4.5</b>

## Credit risk

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

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

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

## Total credit risk – Financial instruments

SEK M	2009	2008
Trade receivables	11,587	15,930
Cash and cash equivalents	7,506	4,998
Unrealized gains on derivatives	652	3,420
Other receivables	550	710
<b>Total</b>	<b>20,295</b>	<b>25,058</b>

According to the finance policy, the Group must always have sufficient cash and cash equivalents and guaranteed credit facilities to cover loans maturing within the next six months. In Sandvik's finance policy, the liquidity and refinancing risks are regulated to ensure that the sum of guaranteed credit facilities and cash and cash equivalents exceeds the total of all loans that mature within the next six months. At 31 December 2009, the sum of cash and cash equivalents available immediately to the Parent Company and credit facilities was SEK 20,122 M (21,415), compared with loans that mature within the next six months totaling SEK 4,963 M (9,271).

Sandvik has credit facilities of EUR 500 M maturing in 2012 and of EUR 1,000 M maturing in 2013. These credit facilities have been placed at the company's disposal by a group of banks. The constituent banks also have other relations with Sandvik. The facilities, which are the Group's primary liquidity reserve, were unutilized at year-end. The size of the facilities is revised regularly and adapted to the Group's need for a liquidity reserve.

Historically, Sandvik has largely secured short-term financing through the Swedish commercial paper market. The turbulence in the global financial markets in autumn 2008 resulted in a change in the company's financing strategy with the aim of securing a longer maturity profile for liabilities, thus reducing the refinancing risk. Among other effects, this meant that Sandvik issued EUR 600 M under a Euro Medium Term Note program (EMTN) during the year. The effect was that the share of long-term loans in relation to total borrowing was 79% at year-end 2009 compared with 68% one year earlier.

At year-end, Standard & Poor's, the international credit rating agency, had assigned an A- 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 Sandvik's website.

With respect to the financial credit risk, Sandvik has entered into agreements with the banks that are most important to the company covering such matters as the right to offset receivables and liabilities that arise from financial transactions, so-called ISDA agreements. This means that the company's counterparty exposure to the financial sector is limited to the unrealized positive results that arise in derivative agreements. At 31 December 2009, the value of these amounted to SEK 652 M (3,420). The total nominal value of derivative instruments for purchased and sold currencies amounted to SEK 49,568 M (49,924). These derivatives form part of the Group's managing of currency risks in transaction flows and financing.

The company has a credit risk in outstanding trade receivables that arises continuously due to invoicing on open terms and conditions in relation to the company's customers. The credit risk in trade receivables is regulated by a Group-wide credit policy. The distribution of the business areas' individual credit exposure per industry segment entails a favorable diversification of risk without significant concentrations to specific customers or markets. Collateral for credit is sometimes required in connection with specifically large or risky trade receivable exposures. However, the value of these is minor in relation to the total trade receivable portfolio. Sandvik's credit losses have been small in historical terms. The total gross value of outstanding trade receivables was SEK 12,299 M (16,624) at 31 December. Total impairment of these was SEK -713 M (-694). Ageing analyses of trade receivables and customer financing at 31 December are presented in Note 20.

Sandvik, notably the Sandvik Mining and Construction business area, offers customer financing to the company's distributors and end-customers. In North and South America, and in Europe, this takes place through its own finance companies. Sandvik's customers frequently wish to finance their investments in new equipment with terms that match the products' expected economic lives. Therefore, Sandvik Financial Services works in close liaison with financial institutions, such as banks and export credits guarantee boards, to be able to offer customers competitive solutions and to reduce the credit risk in customer financing. At year-end, the value of outstanding credits in financing companies was SEK 421 M (534), of which SEK 31 M was reserved for doubtful receivables.

In certain cases, Sandvik must provide 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 SEK 368 M (111).

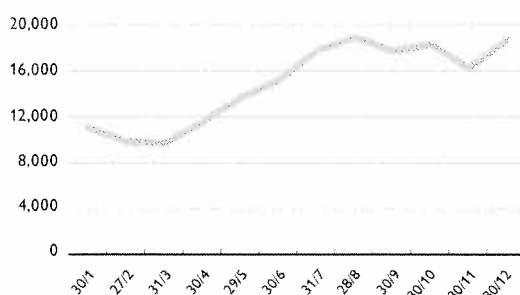
In addition to the traditional financing of equipment that the customer buys, Sandvik also offers rental machines to customers that only require the use of a machine for a shorter period. At year-end, the net book value of these machines was SEK 652 M (468).

## Risk

### Raw materials price exposure

Sandvik's financial risks related to raw materials are concentrated to nickel, molybdenum and electricity. The price risk involved in these is partially hedged through the signing of financial contracts. Trading in financial contracts is conducted on the London Metal Exchange and the Nordpool electricity exchange. The price of nickel is highly volatile. It varied during the year and the price at the beginning of the January was USD 12,710 per metric ton. The highest price of USD 21,070 was recorded in August, while the price at year-end was USD 18,480 per metric ton.

Trend in the price of nickel during 2009, USD



The total consumption of nickel is some 9,000 metric tons per year. When Sandvik Materials Technology obtains a significant customer order with a fixed price for nickel and molybdenum, the price of these materials is hedged by signing financial contracts. The main purpose of hedging external orders at a fixed price and volume is to ensure sales margins, and thus avoid any impact on Sandvik Materials Technology's result.

In 2009, the Group initiated an offset hedging strategy for nickel to eliminate the metal price risk in connection with transactions conducted at a variable metal price. This form of hedging is carried out each month and is based on a calculated net exposure to nickel in purchased raw materials and nickel contained in sold products. The measurement of inventory is not affected by offset hedging.

At year-end, the volume of hedged nickel inventory amounted to 3,856 tons (1,526). The market value of commodity derivatives entered into was SEK 65 M (-120). A price reduction for nickel of USD 1,000 per metric ton is estimated to have a negative effect of SEK 52 M on Sandvik's reported results on an annual basis, based on the prevailing conditions at 31 December 2009, and the effect on other comprehensive income would be SEK -28 M.

For Sandvik's large production units in Sweden, the electricity price is continuously hedged through derivatives. The total electricity use at these units normally amounts to some 900 GWh. The hedging horizon at year-end was about 19 months' (18) expected use. The market value of electricity derivatives at year-end was SEK -12 M (-67). A change in the electricity price of SEK 0.10 per kWh is estimated to impact Sandvik's operating result and other comprehensive income by plus or minus approximately SEK 90 M on an annual basis, based on the prevailing conditions at year-end 2009.

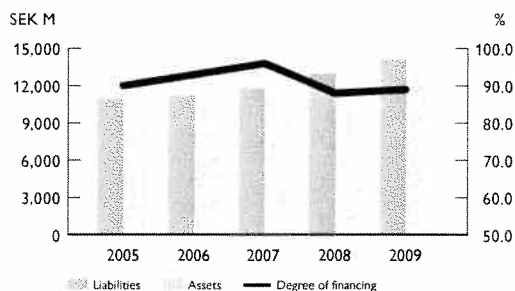
Hedge accounting in accordance with IAS 39 is applied to the majority of the raw materials and electricity derivatives. To view when reported hedging transactions will impact profit or loss for the year, see Note 30.

### Pension commitments

Sandvik has comprehensive pension obligations for its employees in all countries in which it operates. The pension solutions vary depending on legislation and local agreements. The most comprehensive agreements are found in Sweden, Finland, Germany, the UK and the US. The risk is defined as the value change effect a 1 percentage point change in interest rates would have on the net of assets and liabilities.

The average interest rate duration for the Group's interest-bearing assets in the pension portfolio is 4.1 years, and 19.2 years for the pension commitment. Since the durations of the assets and liabilities differ, a change in interest rates of 1 percentage point would have a net impact of approximately SEK 1,600 M. The risk, measured as the standard deviation (volatility) for assets, varies between 5.6 and 16.7. If the economic life assumptions are changed by one year, the pension liability would change by about 4%, which corresponds to about SEK 600 M.

Trend of pension liability and managed capital



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

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

In 2009, the return on Sandvik's Group pension portfolio was 13.2%. Managed capital totaled SEK 12,620 M and corresponding pension commitments amounted to SEK 14,126 M, which is equal to an investment ratio of 89% (88).





# Consolidated income statement

SEK M	Note	2009	2008
Revenue	1, 2	71,937	92,654
Cost of sales and services		-54,871	-61,562
<b>Gross profit</b>		<b>17,066</b>	<b>31,092</b>
Selling expenses		-10,853	-11,524
Administrative expenses		-5,188	-5,287
Research and development costs	4	-2,007	-2,014
Share of results of associated companies		-39	46
Other operating income	5	82	661
Other operating expenses	6	-473	-180
<b>Operating profit/loss</b>	1, 3, 7, 8	<b>-1,412</b>	<b>12,794</b>
Financial income		438	375
Financial expenses		-2,498	-2,592
<b>Net financing cost</b>	9	<b>-2,060</b>	<b>-2,217</b>
<b>Profit/loss after financial items</b>		<b>-3,472</b>	<b>10,577</b>
Income tax	11	876	-2,741
<b>Profit/loss for the year</b>		<b>-2,596</b>	<b>7,836</b>
<b>Other comprehensive income</b>			
Translation differences during the year		-645	4,832
Fair-value changes in cash-flow hedges		272	-537
Fair-value changes in cash-flow hedges transferred to profit/loss for the year		269	-84
Tax related to fair-value changes in cash-flow hedges	11	-142	164
<b>Other total comprehensive income for the year, net after tax</b>		<b>-246</b>	<b>4,375</b>
<b>Total comprehensive income/loss for the year</b>		<b>-2,842</b>	<b>12,211</b>
<b>Profit/loss for the year attributable to:</b>			
Equity holders of the Parent		-2,652	7,472
Minority interest		56	364
<b>Total comprehensive income/loss for the year attributable to:</b>			
Equity holders of the Parent		-2,864	11,755
Minority interest		22	456
Basic earnings per share, SEK	12	-2.24	6.30
Diluted earnings per share, SEK	12	-2.24	6.29

# Consolidated balance sheet

SEK M	Note	2009	2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
<i>Intangible assets</i>			
Patents and other intangible assets	13	3,002	2,641
Goodwill	13	11,135	9,831
<b>Total</b>		<b>14,137</b>	<b>12,472</b>
<i>Property, plant and equipment</i>			
Land and buildings	13	8,171	6,974
Plant and machinery	13	13,895	13,229
Equipment, tools, fixtures and fittings	13	1,721	1,874
Construction in progress and advance payments	13	2,732	4,046
<b>Total</b>		<b>26,519</b>	<b>26,123</b>
<i>Financial assets</i>			
Investments in associated companies	1, 16	385	485
Financial assets	17	78	78
Deferred tax assets	11	2,510	1,277
Non-current receivables	18	2,725	2,512
<b>Total</b>		<b>5,698</b>	<b>4,352</b>
<b>Total non-current assets</b>		<b>46,354</b>	<b>42,947</b>
<b>Current assets</b>			
<i>Inventories</i>			
	19	19,842	28,614
<i>Current receivables</i>			
Trade receivables	20	11,587	15,930
Due from associated companies		125	180
Income tax receivables	11	1,304	1,699
Other receivables	18	4,011	7,759
Prepaid expenses and accrued income		846	1,100
<b>Total</b>		<b>17,873</b>	<b>26,668</b>
<i>Cash and cash equivalents</i>		7,506	4,998
<b>Total current assets</b>		<b>45,221</b>	<b>60,280</b>
<b>TOTAL ASSETS</b>	1	<b>91,575</b>	<b>103,227</b>

SEK M	Note	2009	2008
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,424	1,424
Other paid-in capital		1,057	1,057
Reserves		4,439	4,651
Retained earnings including profit/loss for the year		22,067	28,456
<b>Equity attributable to equity holders of the Parent</b>		<b>28,987</b>	<b>35,588</b>
Minority interest		970	1,137
<b>Total equity</b>	21	<b>29,957</b>	<b>36,725</b>
<b>Non-current liabilities</b>			
<i>Interest-bearing liabilities</i>			
Provisions for pensions	23	2,657	2,735
Loans from financial institutions		5,093	4,691
Other liabilities	26	24,057	17,888
<b>Total</b>		<b>31,807</b>	<b>25,314</b>
<i>Noninterest-bearing liabilities</i>			
Deferred tax liabilities	11	1,242	1,514
Provisions for taxes	11	3,311	3,201
Other provisions	24	782	806
Other non-current liabilities	27	172	398
<b>Total</b>		<b>5,507</b>	<b>5,919</b>
<b>Total non-current liabilities</b>		<b>37,314</b>	<b>31,233</b>
<b>Current liabilities</b>			
<i>Interest-bearing liabilities</i>			
Loans from financial institutions		3,431	11,324
Other liabilities	26	4,143	3,225
<b>Total</b>		<b>7,574</b>	<b>14,549</b>
<i>Noninterest-bearing liabilities</i>			
Advance payments from customers		1,895	2,368
Accounts payable		4,730	7,000
Due to associated companies		42	80
Income tax liabilities	11	768	1,301
Other liabilities	27	3,428	3,312
Provisions	24	995	734
Accrued expenses and deferred income		4,872	5,925
<b>Total</b>		<b>16,730</b>	<b>20,720</b>
<b>Total current liabilities</b>		<b>24,304</b>	<b>35,269</b>
<b>TOTAL LIABILITIES</b>		<b>61,618</b>	<b>66,502</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>91,575</b>	<b>103,227</b>

For information on contingent liabilities and pledged assets, refer to Note 29.

# Consolidated statement of changes in equity

SEK M	Equity attributable to equity holders of the Parent Company				Total	Minority interest	Total equity
	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit/loss for the year			
<b>Equity at 1 January 2008</b>	<b>1,424</b>	<b>1,057</b>	<b>368</b>	<b>25,765</b>	<b>28,614</b>	<b>1,209</b>	<b>29,823</b>
Total comprehensive income for the year	—	—	4,283	7,472	11,755	456	12,211
Dividend	—	—	—	-4,745	-4,745	-366	-5,111
Purchase of minority owned shares in subsidiaries	—	—	—	—	—	-162	-162
Stock options exercised by employees settled against equity instruments	—	—	—	-36	-36	—	-36
<b>Equity at 31 December 2008</b>	<b>1,424</b>	<b>1,057</b>	<b>4,651</b>	<b>28,456</b>	<b>35,588</b>	<b>1,137</b>	<b>36,725</b>
<b>Equity at 1 January 2009</b>	<b>1,424</b>	<b>1,057</b>	<b>4,651</b>	<b>28,456</b>	<b>35,588</b>	<b>1,137</b>	<b>36,725</b>
Total comprehensive income/loss for the year	—	—	-212	-2,652	-2,864	22	-2,842
Dividend	—	—	—	-3,737	-3,737	-189	-3,926
<b>Equity at 31 December 2009</b>	<b>1,424</b>	<b>1,057</b>	<b>4,439</b>	<b>22,067</b>	<b>28,987</b>	<b>970</b>	<b>29,957</b>

# Consolidated cash-flow statement

SEK M	2009	2008
<b>Cash flow from operating activities</b>		
Income/loss after financial income and expenses	-3,472	10,577
Adjustment for depreciation, amortization and impairment losses	4,541	3,481
Adjustment for non-cash items, etc.	481	-142
Income tax paid	-870	-2,897
<b>Cash flow from operating activities before changes in working capital</b>	<b>680</b>	<b>11,019</b>
<b>Changes in working capital</b>		
Change in inventories	9,449	-1,001
Change in operating receivables	5,884	-640
Change in operating liabilities	-3,701	293
<b>Cash flow from operating activities</b>	<b>12,312</b>	<b>9,671</b>
<b>Cash flow from investing activities</b>		
Acquisition of companies and shares, net of cash acquired	-2,036	-954
Acquisition of property, plant and equipment	-4,625	-7,169
Proceeds from sale of companies and shares, net of cash disposed of	55	111
Proceeds from sale of property, plant and equipment	413	381
<b>Net cash used in investing activities</b>	<b>-6,193</b>	<b>-7,631</b>
<b>Net cash flow after investing activities</b>	<b>6,119</b>	<b>2,040</b>
<b>Cash flow from financing activities</b>		
Proceeds from external borrowings	20,852	16,026
Repayment of external borrowings	-22,417	-9,484
Realization of interest swaps and currency hedging	1,843	—
Exercise of personnel options	—	-44
Payment to new pension fund	—	-663
Dividends paid	-3,926	-5,111
<b>Cash flow from financing activities</b>	<b>-3,648</b>	<b>724</b>
<b>Cash flow for the year</b>	<b>2,471</b>	<b>2,764</b>
Cash and cash equivalents at beginning of year	4,998	2,006
Exchange-rate differences on cash and cash equivalents	37	228
<b>Cash and cash equivalents at end of year</b>	<b>7,506</b>	<b>4,998</b>

Supplementary information, Note 32.



# Parent Company income statement

SEK M	Note	2009	2008
Revenue	2	13,527	20,427
Cost of sales and services		-12,018	-17,007
<b>Gross profit</b>		<b>1,509</b>	<b>3,420</b>
Selling expenses		-536	-662
Administrative expenses		-2,402	-2,191
Research and development costs	4	-884	-920
Other operating income	5	1,132	788
Other operating expenses	6	-722	-830
<b>Operating loss</b>	3, 8	<b>-1,903</b>	<b>-395</b>
Income from shares in Group companies	9	5,834	6,774
Income from shares in associated companies	9	5	5
Interest income and similar items	9	587	613
Interest expenses and similar items	9	-1,545	-1,655
<b>Profit after financial items</b>		<b>2,978</b>	<b>5,342</b>
Appropriations	10	8	7
Income tax	11	765	401
<b>Profit for the year</b>		<b>3,751</b>	<b>5,750</b>



# Parent Company balance sheet

SIK M	Note	2009	2008
<b>ASSETS</b>			
<b>Non-current assets</b>			
<i>Intangible assets</i>			
Patents and other intangible assets	14	17	31
<b>Total</b>		<b>17</b>	<b>31</b>
<i>Property, plant and equipment</i>			
Land and buildings	14	638	491
Plant and machinery	14	4,275	4,088
Equipment, tools, fixtures and fittings	14	376	312
Construction in progress and advance payments	14	1,333	1,727
<b>Total</b>		<b>6,622</b>	<b>6,618</b>
<i>Financial assets</i>			
Shares in Group companies	15	14,366	14,435
Advances to Group companies		152	61
Investments in associated companies	16	4	4
Other investments		1	1
Non-current receivables	18	101	26
Deferred tax assets	11	865	292
<b>Total</b>		<b>15,489</b>	<b>14,819</b>
<b>Total non-current assets</b>		<b>22,128</b>	<b>21,468</b>
<b>Current assets</b>			
<i>Inventories</i>			
	19	3,310	5,123
<i>Current receivables</i>			
Trade receivables		569	861
Due from Group companies		20,691	12,800
Due from associated companies		117	116
Income tax receivables	11	165	166
Other receivables	18	338	233
Prepaid expenses and accrued income		389	1,129
<b>Total</b>		<b>22,269</b>	<b>15,305</b>
<i>Cash and cash equivalents</i>			
		9	3
<b>Total current assets</b>		<b>25,588</b>	<b>20,431</b>
<b>TOTAL ASSETS</b>		<b>47,716</b>	<b>41,899</b>

SEK M	Note	2009	2008
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Non-distributable equity</b>			
Share capital		1,424	1,424
Statutory reserve		1,611	1,611
<b>Total</b>		<b>3,035</b>	<b>3,035</b>
<b>Distributable equity</b>			
Profit brought forward		7,821	5,304
Profit for the year		3,751	5,750
<b>Total</b>		<b>11,572</b>	<b>11,054</b>
<b>Total equity</b>	21	<b>14,607</b>	<b>14,089</b>
<b>Untaxed reserves</b>			
Other untaxed reserves	22	4	12
<b>Total</b>		<b>4</b>	<b>12</b>
<b>Provisions</b>			
Provisions for pensions	23	128	128
Provisions for taxes	11	—	55
Other provisions	24	87	188
<b>Total</b>		<b>215</b>	<b>371</b>
<b>Non-current interest-bearing liabilities</b>			
Loans from financial institutions	25	1,894	1,653
Loans from Group companies	25	40	122
Other liabilities	25	17,145	10,591
<b>Total</b>		<b>19,079</b>	<b>12,366</b>
<b>Non-current noninterest-bearing liabilities</b>			
Other liabilities		22	108
<b>Total</b>		<b>22</b>	<b>108</b>
<b>Current interest-bearing liabilities</b>			
Loans from Group companies		6,526	7,074
Other liabilities		3,160	2,799
<b>Total</b>		<b>9,686</b>	<b>9,873</b>
<b>Current noninterest-bearing liabilities</b>			
Advance payments from customers		429	443
Accounts payable		1,147	1,532
Due to group companies		270	638
Due to associated companies		—	68
Other liabilities		202	219
Accrued expenses and deferred income	28	2,055	2,180
<b>Total</b>		<b>4,103</b>	<b>5,080</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>47,716</b>	<b>41,899</b>
Pledged assets	29	—	—
Contingent liabilities	29	17,778	17,316

# Parent Company statement of changes in equity

SEK M	Share capital	Statutory reserve	Distributable equity	Total equity
<b>Equity at 1 January 2008</b>	<b>1,424</b>	<b>1,611</b>	<b>11,260</b>	<b>14,295</b>
Profit for the year	—	—	5,750	5,750
Dividend	—	—	-4,745	-4,745
Group contributions	—	—	304	304
Tax effect of Group contributions	—	—	85	-85
Stock options exercised by employees settled against equity instruments	—	—	36	-36
<b>Equity at 31 December 2008</b>	<b>1,424</b>	<b>1,611</b>	<b>11,054</b>	<b>14,089</b>
Profit for the year	—	—	3,751	3,751
Dividend	—	—	-3,737	-3,737
Group contributions	—	—	684	684
Tax effect of Group contributions	—	—	-180	-180
<b>Equity at 31 December 2009</b>	<b>1,424</b>	<b>1,611</b>	<b>11,572</b>	<b>14,607</b>

# Parent Company cash-flow statement

SEK M	2009	2008
<b>Cash-flow from operating activities</b>		
Result before tax	2,986	5,349
Adjustment for depreciation	712	635
Adjustment for non-cash items	-460	-237
Income tax paid	-42	269
<b>Cash-flow from operating activities before changes in working capital</b>	<b>3,196</b>	<b>6,016</b>
<b>Changes in working capital</b>		
Changes in inventories	1,813	1,119
Changes in operating receivables	-334	819
Changes in operating liabilities	-418	-4,052
<b>Cash-flow from operating activities</b>	<b>4,257</b>	<b>3,902</b>
<b>Cash-flow from investing activities</b>		
Acquisition of companies and shares, net of cash acquired	-191	-678
Acquisition of property, plant and equipment	-899	-1,537
Proceeds from sale of companies and shares, net of cash disposed of	340	28
Proceeds from sale of property, plant and equipment	127	14
<b>Net cash used in investing activities</b>	<b>-623</b>	<b>-2,173</b>
<b>Net cash-flow after investing activities</b>	<b>3,634</b>	<b>1,729</b>
<b>Cash-flow from financing activities</b>		
Changes in advances/loans to/from Group companies, net	-8,090	-42
Proceeds from external borrowings	11,571	3,350
Repayment of external borrowings	-4,056	-564
Exercise of personnel options	—	-36
Dividend paid	-3,737	-4,745
Group contributions	684	305
<b>Net cash used in financing activities</b>	<b>-3,628</b>	<b>-1,732</b>
Cash-flow for the year	6	-3
Cash and cash equivalents at beginning of year	3	6
<b>Cash and cash equivalents at end of year</b>	<b>9</b>	<b>3</b>

Supplementary information, Note 32.

# Significant accounting policies

## and assessments and assumptions for accounting purposes

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and interpretations of such standards by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the EU Commission. In addition, the standard RFR 1.2, Supplementary accounting standards for consolidated accounts, issued by the Swedish Financial Accounting Standards Council, 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 12–86. The Parent Company's annual report and the consolidated financial statements were approved for issuance by the Board of Directors on 17 February 2010. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on 4 May 2010.

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

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

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

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

The preparation of financial statements in conformity with IFRS requires management to make assessments, estimates and assumptions that affect the application of accounting policies and recognized

amounts of assets and liabilities, income and expenses. Actual results may differ from these assessments.

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

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

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

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

### Changes in accounting policies

The changed accounting policies applied by the Group effective 1 January 2009 are described below. Other revisions to IFRS that came into effect in 2009 did not have any significant impact on the Group's reporting.

### Presentation of the financial statements

Since 1 January 2009, the Group applies revised IAS 1 *Presentation of Financial Statements*. The amendment has meant that income and expenses previously rec-

ognized directly in equity are now instead recognized in Other comprehensive income, which Sandvik presents after profit or loss for the year in an extended income statement. The statement of changes in equity includes Total other comprehensive income for the year and transactions with owners.

The comparative periods have been changed throughout in the annual report to comply with the new presentation. Since the changes only affect the presentation of information, no amounts have been changed, neither with respect to basic earnings per share nor other items in the financial statements.

### Disclosure requirements relating to segments

Since 1 January, the Group applies the new IFRS 8 *Operating Segments*, which replaces IAS 14 *Segment Reporting*. IFRS 8 introduces a management perspective for how operating segments can be categorized and presented. The new principles are described further on in these accounting policies. The standard has been applied in accordance with its transition rules by adapting the comparative year to requirements in IFRS 8.

For Sandvik, the application of IFRS 8 has not necessitated any change to the division of segments, since the segments identified in IAS 14 corresponded to those monitored by the President. Sandvik continues to apply the same accounting policies to its operating segments as in the consolidated financial statements, that is, IFRS. Accordingly, none of the amounts recognized were changed relative to the amounts recognized earlier.

### Disclosure requirements relating to financial instruments

Amendments to IFRS 7 *Financial Instruments: Disclosures* that apply to financial periods beginning on or after 1 January 2009 impact Sandvik's financial reporting from the 2009 annual period. The amendments mainly entail new disclosure requirements relating to financial instruments measured at fair value in the statement of financial position. The instruments are subdivided into a three-tier hierarchy depending on the quality of the input data in the measurement. The subdivision into tiers determines how and which disclosures

are to be presented regarding the instruments. These disclosure requirements have mainly impacted Note 30. Furthermore, changes to IFRS 7 entail a number of changes relating to liquidity risk disclosure. Pursuant to the transition regulations in IFRS 7, comparative data for the disclosures required by amendments need not be presented during the first year of application.

#### Borrowing costs

Since 1 January, the Group applies revised IAS 23 *Borrowing Costs*. The revised standard requires that the Group capitalizes borrowing costs in the cost for qualifying assets with a start date of 1 January 2009 or later. In the past, borrowing costs were charged to the result in the period to which they related instead of being capitalized. In accordance with the transition rules in IAS 23, the amendment was applied prospectively.

Since the amendment was applied prospectively, it has no effect on earlier years. For 2009, the new accounting policy had only a negligible effect on interest expense.

#### New or revised IFRSs and interpretations coming into effect in future accounting periods

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

Revised IFRS 3 *Business Combinations* and revised IAS 27 *Consolidated and Separate Financial Statements* result in the following changes: The definition of business is changed, transaction expenses in connection with business combinations shall be expensed, conditional purchase considerations shall be fair valued at the date of acquisition and the effects of the revaluation of liabilities related to the conditional purchase considerations shall be recognized as income or expense in profit or loss for the year. Other new items include the introduction of two alternative methods to recognize minority interest and goodwill, either at fair value, meaning the inclusion of goodwill in the minority interest, or that the minority interest forms a part of net assets. The choice between these two methods will be made on an acquisition-by-acquisition basis. In addition, further acquisitions that take place after the controlling influence has been obtained will be regarded as owner transactions and recognized directly in

equity, which represents a change of Sandvik's current policy, which states that excess amounts shall be recognized as goodwill. The revised and amended standards will be applied from the next financial year, that is, from 1 January 2010. The amendments will only have prospective effects for Sandvik.

IFRS 9 *Financial Instruments* is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* not later than 2013. The IASB has published the first of at least three components that will combine to form IFRS 9. This first component addresses the classification and measurement of financial assets. The categories for financial assets that exist in IAS 39 are replaced by two categories, in which measurement is conducted at fair value or amortized cost. Amortized cost is applied to instruments that are held with the intention of obtaining the contractual cash flows, which shall comprise payment of loan amounts and interest on loan amounts. Other financial assets are recognized at fair value and the possibility to apply the fair value option, as stipulated in IAS 39, is retained. Changes in fair value shall be recognized in earnings, with the exception of value changes of equity instruments held for trading and for which an initial choice is made to recognize value changes in other comprehensive income. Value changes of derivatives in hedge reporting are not affected by this part of IFRS 9, but will be recognized in line with IAS 39 until further notice. The standard is not expected to have any significant effects on Sandvik's financial statements.

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

- Revised IFRS 1 *First-Time Adoption of IFRS* with respect to additional exceptions.
- Revised IFRS 2 *Share-Based Payment* with respect to cash-settled intra-Group remuneration.
- IAS 24 *Related-Party Disclosures* mainly with regard to disclosures for state-regulated companies, but also concerning the definition of related party.
- IAS 32 *Financial Instruments: Presentation*, relating to the classification of new share issues.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* with regard to items authorized for hedge accounting.
- IFRIC 12 *Service Concession Arrangements*.
- Revised IFRIC 14 IAS 19 *The Limit on a Defined-Benefit Asset, Minimum Funding Requirements and their Interaction* with respect to advance payments to cover requirements for minimum funding.
- IFRIC 15 *Agreements for the Construction of Real Estate*.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*.
- IFRIC 17 *Distributions of Non-Cash Assets to Owners*.
- IFRIC 18 *Transfers of Assets from Customers*.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*.

A summary of the revised accounting policies with prospective application detailed above that have been deemed not to have an impact on Sandvik's accounting is outlined below.

Revised IFRS 2 *Share-Based Payments* mainly entails a clarification of the area of application for, and classification of, payments settled with cash or another asset (such as an equity instrument in another Group company) of a company other than the company that received the services or goods. The amendments stipulate that such cash-settled intra-Group payments are within the area of application of IFRS 2 and how the paying and receiving companies shall classify the payments, as cash or equity-settled remuneration. This amendment shall be retroactively applied from the fiscal year beginning 1 January 2010.

Revised IAS 24 *Related-Party Disclosures* mainly involves the introduction of certain exceptions from the disclosure requirements for companies over which the national government has a controlling or significant influence, but also means that the definition of related party is simplified, clarified and cleared of asymmetrical elements. Relaxations of the standard introduced mean that state-regulated companies no longer need to disclose all information regarding related-party transactions with either (i) the national government that has controlling or significant influence over the company or (ii) other companies that are related to the same national government. If this possibility is availed of, new, less extensive information must instead be disclosed. The revision of the related party definition means that a number of special relations have been added to the related party category while a few others have been deleted. The revisions are to be applied retroactively from fiscal years beginning 1 January 2011.

Amendments were made to IAS 32 *Financial Instruments: Presentation* with regard to classification as equity of rights (options and warrants) issued to acquire a fixed number of the company's equity instruments (shares) for a fixed cash amount in any currency. However, classification as equity presupposes that the company has offered the rights pro rata to all its existing owners. Prior to this amendment, rights issued to acquire a fixed number of the company's equity instruments (shares) for a fixed cash amount in a currency other than the company's functional currency were classified as a debt instrument (which must be fair valued in profit and loss since it is a derivative). The amendment must be applied no later than fiscal years beginning 1 February 2010 or later.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* deal with "items authorized for hedge accounting" and clarify the application of the principles for hedge accounting in connection with cash-flow hedging of a highly probable forecast transaction with a purchased option and defines the possibilities that exist to hedge identifiable components in the hedged item. This amendment shall be applied to fiscal years commencing after 30 June 2009.

IFRIC 12 *Service Concession Arrangements* addresses the issue of accounting by private entities for assets as well as the rights and obligations inherent in contracts with the national government, county councils or municipalities regarding, for example, financing, operation and development of the installation. The interpretation is applied to fiscal years commencing 29 March 2009 or later.

Amendments to IFRIC 14 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* specifies that advance payments to cover requirements for minimum funding may be recognized as an asset. The interpretation is applied to fiscal years commencing 1 January 2011 or later, with retroactive application from the beginning of the earliest comparative period.

IFRIC 15 *Agreements for the Construction of Real Estate* deals with issues covered by IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from construction of real estate is to be recognized. The interpretation is applied to fiscal years beginning 1 January 2010 or later.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* deals with specifics, among other stipulations, that it is solely the risk in functional currencies in the Parent

Company and respective foreign operation than can be hedged. In addition, the interpretation stipulates where in the Group the hedging instrument can be included if hedge accounting is applied and if the consolidation method affects the amount reclassified to profit or loss for the year, that is, consolidation step-by-step, or consolidation by line item. Sandvik has no derivative instruments used to hedge net investments in foreign operations. The interpretation is applied to fiscal years beginning 1 July 2009 or later.

IFRIC 17 *Distribution of Non-Cash Assets to Owners* deals with issues related to dividends paid with assets other than cash. The liability for the dividend is recognized at fair value when the dividend is adopted, with Profit/loss brought forward as the counter item. In conjunction with the expiry of reporting periods and at the date for the distribution of the dividend, the liability is fair valued, with the change in value recognized in equity. When the dividend is realized, the difference between the liability's fair value and the carrying amount of the assets is recognized on a separate line in profit or loss for the year. The interpretation is applied to fiscal years beginning 1 November 2009 or later.

IFRIC 18 *Transfers of Assets from Customers* deals with such issues as how accounting is to be conducted, at the receiver, in conjunction with agreements that regulate instances in which customers transfer an item of property, plant and equipment to the company, which are subsequently used to either connect the customer to a network or provide the customer with continuous access to goods or services, or both of these. The interpretation also addresses those instances in which the company, as per agreement, receives cash from the customer to manufacture or acquire an item of property, plant and equipment to be used for the same purpose. The interpretation is applied prospectively to fiscal years beginning 1 November 2009 or later.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* clarifies regulations for accounting when the conditions for financial liabilities are renegotiated in such a manner that the lender accepts to settle the entire or part of the liability through payment in the form of shares or other equity instruments in the company. The value of equity instruments shall be included in the payment that is made to repay the liability and they shall primarily be measured at the equity instruments' fair value. If the instruments cannot

be reliably measured, they shall be measured at the fair value of the liability that is regulated. The differences between the recognized value of the repaid liability and the value of the equity instrument is recognized in profit or loss for the year. The interpretation is applied to fiscal years commencing 1 July 2010 or later, with retroactive application from the beginning of the earliest comparative year.

## Classification

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

## Reporting of operating segments

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

The Group's business is divided into operations based on the parts of the business monitored by the Group's highest-ranking executive. This is known as a management approach.

Sandvik's business is organized in a manner that allows the Group's highest-ranking executive, meaning the CEO, to monitor results, return and cash flow generated by the various products 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, 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 rele-

vant portions of items that can be allocated on a reasonable basis to the segments. Unallocated items comprise interest and dividend income, gains on disposal of financial investments, interest expense, losses on the disposal of financial investments, income tax expense and certain administrative expenses. Unallocated assets and liabilities include income tax receivables and payables, financial investments and financial liabilities.

## Basis of consolidation

### Subsidiaries

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

Acquisitions of subsidiaries are recognized in accordance with the purchase method. Under such a method, the acquisition is regarded as a transaction whereby the Group indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. The acquisition cost to the Group is established in a purchase price allocation analysis. In such analysis, the cost of the business combination is established as being the fair values of recognized identifiable assets, liabilities and contingent liabilities. The cost of the business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for the net assets acquired, plus any costs directly attributed to the business combination. When the cost of the business combination exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities, the excess is recognized as goodwill. If the difference is negative, such difference is immediately recognized in profit or loss for the year.

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

### Associated companies

Associated companies are those entities over which the Group commands a significant influence, but not control, over the financial and operating policies, normally a shareholding of not less than 20% and not more than 50%. Interests in associated

companies are, as from the date significant influence commences, recognized in accordance with the equity method in the consolidated financial statements. Under the equity method, the carrying amounts of interests in associated companies correspond to the recognized equity of associated companies, any goodwill and any other remaining fair value adjustments recognized at acquisition date. The consolidated profit or loss for the year includes as "Share of profit or loss of associated companies" the Group's share of the associate's income attributable to the owners of the Parent Company adjusted for dissolution of acquired surplus or deficit values. These shares in profits, less dividends received from associates, constitute the main change in the carrying amount of participations in associated companies. The Group's share of other comprehensive income of associated companies is recognized on a separate line in the Group's other comprehensive income.

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

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

### Transactions eliminated on consolidation

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

## Foreign currency

### Foreign currency transactions

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

### Financial statements of foreign operations

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

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

## Revenue

### Revenue from sales and services

Revenue from the sale of goods is recognized in profit or loss for the year when the significant risks and rewards of ownership have been transferred to the buyer, that is, normally in connection with delivery. If the



product requires installation at the buyer, and installation is a significant part of the contract, revenue is recognized when the installation is completed. Buy-back commitments may entail that sales revenue cannot be recognized if the agreement with the customer in reality implies that the customer has only rented the product for a certain period of time.

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

#### **Construction contracts**

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

#### **Other revenue**

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

#### **Government grants**

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

#### **Operating expenses and financial income and expenses**

##### **Operating lease agreements**

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

##### **Finance lease agreements**

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

##### **Financial income and expenses**

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

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

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

Foreign currency gains and losses are recognized net.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected

life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between contractual parties that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

#### **Income tax**

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

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

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

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

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

## Financial instruments

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

### Recognition and derecognition

A financial asset or a financial liability is recognized on the balance sheet when the entity becomes a party to the contractual provisions of the instrument. Trade receivables are recognized upon issuance of the invoice. A liability is recognized when the counterparty has performed under the agreement and the company is contractually obliged to settle the obligation, even if no invoice has been received. A financial asset is derecognized when the rights under the agreement are realized or have expired, or when control of the contractual rights is lost. The same applies to a portion of a financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged or otherwise expires. The same applies to a portion of a financial liability. A financial asset and a financial liability are offset and presented in a net amount in the balance sheet only if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. A regular purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting. Trade date is the date at which an entity commits itself to purchase or sell an asset.

### Classification and measurement

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

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

Financial assets and liabilities are classified as follows:

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

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

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

### *b) Loans and receivables*

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

### *c) Financial liabilities*

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

### *d) Financial assets available for sale*

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

that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are, however, measured at cost, possibly adjusted to recognize an impairment loss.

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

## Derivatives and hedge accounting

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

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

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

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

## Receivables and liabilities denominated in foreign currencies

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

### Cash-flow hedges

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

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

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

### Fair-value hedges

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

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

### Hedging of net investments

Sandvik has no derivatives to hedge net investments in foreign operations.

### Intangible assets

#### Goodwill

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

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

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

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

#### Research and development

Expenditure on research activities related to the obtaining of new scientific or technical knowledge is expensed as incurred. Expenditure on development activities, whereby the research results or other knowledge is applied to accomplish new or improved products or processes, is recognized as an intangible asset in the balance

sheet, provided the product or process is technically and commercially feasible and the company has sufficient resources to complete development, and is subsequently able to use or sell the intangible asset. The carrying amount includes the directly attributable expenditure, such as the cost of materials and services, costs of employee benefits, fees to register intellectual property rights and amortization of patents and licenses. Other expenses for development are expensed as incurred. In the balance sheet, capitalized development expenditure is stated at cost less accumulated amortization and any impairment losses.

#### Other intangible assets

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

#### Subsequent expenditure

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

#### Borrowing costs

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

#### Amortization of intangible assets

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

are amortized as from the date the asset is available for use. The estimated useful lives are as follows:

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

### Property, plant and equipment

#### Owned assets

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

#### Leased assets

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

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

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

#### Subsequent expenditure

Subsequent expenditure on an item of property, plant and equipment is capitalized only when it increases the future economic benefits. All other expenditure is expensed as incurred.

#### Borrowing costs

Borrowing costs attributable to the construction of qualifying assets are capitalized as a portion of the qualifying asset's cost. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale. Firstly, borrowing costs that arise on loans that are specific to the qualifying asset are capitalized. Secondly, borrowing costs are capitalized that arise on general loans that are

not specific to any other qualifying asset. For the Group, the capitalization of borrowing costs is mainly relevant in connection with the construction of production buildings on a proprietary basis.

#### Depreciation

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

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

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

#### Impairment and reversals of impairment

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

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

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

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

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

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

#### Inventories

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

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

#### Equity

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

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

#### Earnings per share

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

## Employee benefits

### The Group's pension plans

The Group sponsors a number of defined contribution and defined-benefit pension plans, some of which with plan assets held by separate foundations or equivalent. A number of Group entities also provide post-employment medical benefits. Whenever possible, Sandvik nowadays seeks defined-contribution pension solutions and in recent years defined-benefit plans have as far as possible been closed for new entrants in connection with negotiations about defined-contribution pension arrangements. As of October 2007, the Group's Swedish companies offer to its newly hired white-collar staff, regardless of age, the defined-contribution pension solution (ITP 1) resulting from the renegotiation of the ITP Plan between the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector.

### Defined-contribution plans

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

### Defined-benefit plans

The Group's net obligation in respect of defined-benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have vested in return for their service in the current and prior periods. This benefit is discounted to its present value. The discount rate is the yield on high-quality corporate bonds (AA credit rated bonds) – or if there is no deep market for such bonds, government bonds – that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by a qualified actuary. In addition, the fair value of any plan assets as at the balance sheet date is assessed. Sandvik applies such an accounting policy to the

Group's most significant defined-benefit plans. A number of plans, which neither individually nor in the aggregate are significant in relation to the Group's total pension obligations, are still recognized in accordance with local regulations.

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

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

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

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

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

### Termination benefits

When employment is terminated, a provision is recognized only when the entity is demonstrably committed either to terminate the employment of an employee or a group of employees before the normal re-

tirement age or provide termination benefits as a result of an offer made to encourage voluntary redundancy. In the latter case, a liability and an expense are recognized if it is probable that the offer will be accepted and the number of employees that will accept the offer can be reliably estimated.

### Share-based payments

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

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

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

### Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at

a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

#### Warranties

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

#### Restructuring

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

#### Site restoration

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

#### Onerous contracts

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

#### Contingent liabilities

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

#### Cash-flow statement

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

Changes during the year in operating assets and liabilities are adjusted for the effects of exchange rate movements. Acquisitions and divestments are recognized

within investing activities. The assets and liabilities held by acquired or divested entities at the transfer date are not included in the analysis of changes in working capital, nor in changes in balance sheet items recognized within investing and financing activities.

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

#### Parent Company's accounting policies

The Parent Company has prepared its annual report in accordance with the Annual Accounts Act (1995:1554) and the standard, RFR 2.2 Reporting by a legal entity, issued by the Swedish Financial Accounting Standards Council. Also the interpretations issued by the Council's Emerging Issues Task Force valid for listed companies have been applied. Under RFR 2.2, the Parent Company in its annual report shall apply all the IFRS and IFRIC interpretations approved by the EU to the extent possible within the framework of the Annual Accounts Act, the law on safeguarding of pension commitments, and taking into account the close tie between financial reporting and taxation. The standard specifies what exceptions from or additions to the IFRS shall be made. Taken together, this results in differences between the accounting policies applied in the consolidated financial statements and those applied by the Parent Company is specified below.

#### Changed accounting policies

Amendments to IFRS 1 *First-Time Adoption of IFRS* and IAS 27 *Consolidated and Separate Financial Statements* with respect to "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" is applied since 1 January 2009. This amendment has meant that the Parent Company now always recognizes dividends from subsidiaries in full as income in profit or loss for the year. In the past, dividends larger than profits accumulated after the acquisition reduced the carrying amount of shares in subsidiaries. The amendment has only a slight impact on the amounts of items in the financial statements of the Parent Company.

#### Classification and presentation

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

#### Shares in Group companies and associated companies

The Parent Company recognizes shares in Group companies and associated companies in accordance with the cost model. Dividends from subsidiaries are recognized in full as income in profit or loss for the year.

#### Property, plant and equipment

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

#### Leased assets

The Parent Company recognizes all lease contracts as operating leases.

#### Intangible assets

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

#### Borrowing costs

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

#### Employee benefits

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

### Income tax

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

### Group contributions and shareholders' contributions in legal entity accounts

The Parent Company recognizes Group contributions and shareholders' contributions in accordance with the pronouncement of the Swedish Financial Accounting Standard Council's task group (UFR 2). Shareholders' contributions are recognized directly in the recipient's equity whereas the contributor capitalizes the contribution among shares and participations, to the extent that the recognition of an impairment loss is not required. Group contributions are recognized in accordance with their financial substance. This means that Group contributions paid to minimize the Group's overall income tax burden are recognized directly in retained earnings net of the related tax effect.

### Anticipated dividends

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

### Financial instruments

Considering the close tie between financial reporting and taxation, rules relating to financial instruments and hedge accounting in IAS 39 are not applied in the Parent Company as a legal entity.

### Financial guarantees

Sandvik has elected not to apply the provisions of IAS 39 relating to financial guarantee contracts entered into in favor of subsidiaries and associated companies as allowed under RFR 2.2.

### Critical accounting estimates and judgments

#### Key sources of estimation uncertainty

In order to prepare the financial statements, management and the Board make various judgments and estimates that can affect the amounts recognized in the financial statements for assets, liabilities, revenues and expenses as well as information in general, including issues with regard to contingent liabilities. The judgments and estimates discussed in this section are

those deemed to be most important for an understanding of the financial statements, considering the level of significant estimations and uncertainty. The conditions under which Sandvik operates are gradually changing meaning that the judgments also change.

### Impairment tests of goodwill

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired, for example due to a changed business climate or a decision taken either to sell or close down certain operations. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present-value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. This is further described in Note 13. As can be deduced from this description, changes during 2009 in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

### Impairment tests of other fixed assets

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

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

climate in the mining industry and the risk that rental agreements may be cancelled. The carrying amount of the rental fleet at the end of 2009 was SEK 652 M (468).

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

### Pension assumptions

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

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

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

Compared with the preceding year, the average discount rate was changed from 5.7% to 5.2%. The expected weighted average return on plan assets was 6.0% in 2009 compared with 6.2% in 2008.

### 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 legis-



lation, or the outcome of the final review by tax authorities and tax courts of tax returns. At year-end 2009, Sandvik recognized deferred tax assets of SEK 2,510 M (1,277). Furthermore, the Group had additional tax loss carryforwards of about SEK 800 M (570) at year-end for which no deferred tax assets are recognized since utilization of these losses is not deemed probable. A change in the estimate of the possibility for utilization thus can affect results both positively and negatively. The expenditure recognized as a provision for ongoing tax litigations is based on management's best estimate of the outcome and at the end of 2009 amounted to SEK 3,311 M (3,201).

#### 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 page 26.

#### Key assessments in applying the Group's accounting policies

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

##### Inventory accounting

Sandvik applies IAS 2 in accounting for its inventories. Inventories are carried at the lower of cost and net realizable value. A consequence of the IAS 2 rules is that if the market value of materials and components included in Sandvik's finished goods drops, the value of the materials and components must not be reduced as long as the selling price of the finished product less selling costs still exceeds the cost of the finished product. Instead, the lesser market value of the materials and components shows itself in the form of a lower margin in future periods to the extent that Sandvik must adapt its selling price due to the changes

in market values. In periods of significant price volatility, this state of affairs should be taken into consideration when future results are being appraised.

##### Accounting for actuarial gains and losses

According to IAS 19, immediate recognition of actuarial gains and losses related to defined-benefit pension plans is not mandatory. Instead, only that portion of such gains and losses that fall outside of a corridor of plus/minus 10% of the greater of the present value of the defined-benefit obligation and fair value of the plan assets is recognized. Also any systematic method that results in faster recognition of actuarial gains and losses is possible, including immediate recognition in profit and loss. Sandvik has chosen to apply the corridor approach and to recognize gains or losses outside the corridor over the expected average remaining working lives of the employees participating in the plan. Unrecognized actuarial losses amounted to SEK 2,353 M at year-end 2008 and SEK 2,359 M at year-end 2009.

## Definitions

#### Earnings per share

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

#### Equity ratio

Shareholders' equity including minority interests in relation to total capital.

#### Net debt/equity ratio

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

#### Rate of capital turnover

Invoiced sales divided by average total capital.

#### Relative working capital

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

#### Return on capital employed

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

#### Return on shareholders' equity

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

#### Return on total capital

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

#### Working capital

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





## Notes

## TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS

(Amounts in SEK millions, unless otherwise stated)

## NOTE 1 SEGMENT INFORMATION

## 1.1 Information on business segments/business areas

	Sandvik Tooling		Sandvik Mining and Construction		Sandvik Materials Technology		Seco Tools		Corporate		Eliminations		Group total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
<b>Revenue</b>														
External revenue	19,078	25,795	32,621	38,651	15,328	21,480	4,871	6,513	39	35	—	—	71,937	92,654
Internal revenue	89	146	14	21	167	326	17	23	16	112	-303	-628		
<b>Group total</b>	<b>19,167</b>	<b>26,121</b>	<b>32,635</b>	<b>38,672</b>	<b>15,495</b>	<b>21,806</b>	<b>4,888</b>	<b>6,536</b>	<b>55</b>	<b>147</b>	<b>-303</b>	<b>-628</b>	<b>71,937</b>	<b>92,654</b>
<b>Share of results of associated companies</b>	<b>-1</b>	<b>11</b>	<b>13</b>	<b>29</b>	<b>-51</b>	<b>5</b>	<b>—</b>	<b>1</b>	<b>—</b>	<b>—</b>			<b>-39</b>	<b>46</b>
<b>Operating profit/loss by business area</b>	<b>-527</b>	<b>5,461</b>	<b>466</b>	<b>4,996</b>	<b>-1,137</b>	<b>1,187</b>	<b>307</b>	<b>1,332</b>	<b>-521</b>	<b>-182</b>			<b>-1,412</b>	<b>12,794</b>
Net financing cost													-2,060	-2,217
Income tax expense for the year													876	-2,741
<b>Profit for the year</b>													<b>-2,596</b>	<b>7,836</b>
<b>Other disclosures</b>														
Assets	25,398	27,115	27,036	32,740	18,268	21,832	4,959	5,812	2,286	2,413			77,947	89,912
Investment in associates	129	143	45	81	199	253	12	8	—	—			385	485
Segment assets	25,527	27,258	27,081	32,821	18,467	22,085	4,971	5,820	2,286	2,413			78,332	90,397
Unallocated assets													13,243	12,830
<b>Group total</b>													<b>91,575</b>	<b>103,227</b>
Liabilities	4,433	5,269	7,872	9,445	3,347	3,467	934	1,338	1,810	2,357			18,396	21,876
Unallocated liabilities													43,222	44,626
<b>Group total</b>													<b>61,618</b>	<b>66,502</b>
Capital expenditure	1,504	2,496	1,549	1,940	1,097	1,770	325	725	181	401			4,656	7,332
Depreciation/Amortization	-1,593	-1,356	-1,080	-929	-914	-722	-373	-351	-89	-86			-4,049	-3,444
Impairment losses	-202	-32	-193	—	-95	—	-2	-5	—	—			-492	-37
Other non-cash expenses	317	-16	191	25	26	41	41	-64	-94	-128			481	-142

All transactions between the business areas are on market terms. For information regarding business combinations, see Note 33.

## 1.2 Information by country

## External income per country

Group	2009	2008
USA	8,854	11,039
Australia	7,154	8,152
Germany	5,679	7,958
China	4,833	4,311
South Africa	3,567	3,955
Sweden	3,356	4,753
Italy	2,835	4,682
France	2,807	3,698
Brazil	2,345	3,567
UK	2,127	3,307
Russia	1,815	2,625
India	1,800	2,044
Canada	1,709	2,433
Japan	1,596	2,121
Norway	1,357	1,547
Other countries	20,103	26,462
<b>Total</b>	<b>71,937</b>	<b>92,654</b>

## Fixed assets by country

Group	2009	2008
Sweden	11,773	12,035
USA	5,039	5,292
UK	3,972	3,817
Germany	3,946	4,433
Austria	2,626	208
Finland	1,694	1,792
Australia	1,471	1,116
China	1,401	997
France	1,153	1,209
India	955	1,016
Brazil	917	661
Japan	823	742
Italy	587	635
Canada	575	648
Spain	469	511
Other countries	3,255	3,483
<b>Total</b>	<b>40,656</b>	<b>38,595</b>

**NOTE 1. CATEGORIES OF REVENUE**

	Group		Parent Company	
	2009	2008	2009	2008
Sale of goods	64,319	86,629	12,865	20,392
Contract revenue	4,146	3,070	630	0
Rendering of services	2,948	2,388	28	31
Rental income	524	567	4	4
<b>Total</b>	<b>71,937</b>	<b>92,654</b>	<b>13,527</b>	<b>20,427</b>

**NOTE 1 PERSONNEL INFORMATION AND REMUNERATION TO MANAGEMENT AND AUDITORS****3.1 Average number of employees <sup>1)</sup>**

	Group				Parent Company			
	2009		2008		2009		2008	
	Number	Women	Number	Women	Number	Women	Number	Women
Sweden	10,886	21	11,415	21	7,795	20	8,022	20
Rest of Europe	15,295	19	15,727	19	—	—	—	—
<b>Total Europe</b>	<b>26,181</b>	<b>20</b>	<b>27,142</b>	<b>20</b>	<b>7,795</b>	<b>20</b>	<b>8,022</b>	<b>20</b>
NAFTA	6,124	19	6,534	19	—	—	—	—
South America	2,958	15	3,292	15	2	—	1	—
Africa, Middle East	3,112	14	3,134	12	—	—	—	—
Asia	6,228	15	5,822	16	—	—	—	—
Australia	2,588	16	2,647	15	—	—	—	—
<b>Total</b>	<b>47,191</b>	<b>18</b>	<b>48,571</b>	<b>18</b>	<b>7,797</b>	<b>20</b>	<b>8,023</b>	<b>20</b>

1) Complete information by country is presented in the Annual Report that was submitted to the Swedish Companies Registration Office.

**3.2 Absence due to illness, Parent Company**

%	2009	2008
Total absence due to illness as a percentage of regular working hours	3.2	3.9
Share of total absence due to illness pertaining to sick leave for 60 consecutive days or more	37.0	39.9

**Absence due to illness as percentage of each group's regular working hours****Sick leave by gender**

Men	3.0	3.5
Women	4.4	5.2

**Sick leave by age category**

Age 29 or younger	2.8	3.3
Age 30 to 49	2.9	3.5
Age 50 or older	4.0	4.8

**3.3 Wages, salaries, other remuneration and social costs**

	Group		Parent Company	
	2009	2008	2009	2008
Wages, salaries and other remuneration	17,611	18,181	3,098	3,515
Social costs	4,830	4,881	1,530	1,647
Employee profit sharing	—	67	—	53
<b>Total</b>	<b>22,441</b>	<b>23,129</b>	<b>4,628</b>	<b>5,215</b>
of which, pension costs recognized in social costs	1,643	1,424	550	495

A total of SEK 40 M (56) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to SEK 264 M (205). Correspondingly, SEK 10 M (21) of the Parent Company's pension costs related to the Board of Directors and presidents. The Parent Company's pension liability relating to these persons amounted to SEK 90 M (92).

**Employee profit-sharing program**

To promote a performance that is favorable to the Group's long-term development and also to stimulate continued employee loyalty, Sandvik has had a profit-sharing system for all employees in wholly owned companies in Sweden since 1986. As from 2007, the system has been modified in order to increase transparency and elasticity and to better relate the system to the company's goals. Under the modified system, the maximum allocation may be higher than before, but cannot exceed SEK 250 M, and also the requirements for qualifying for maximum allocation have been raised. The Group's return during 2009 implied an allocation of SEK 0 M (67) to the profit sharing foundation.

**3.4 Wages, salaries and other remuneration by market area <sup>1)</sup>**

	Group		Parent Company	
	2009	2008	2009	2008
Sweden	4,182	4,842	3,098	3,515
Rest of Europe	6,460	6,728	—	0
<b>Total Europe</b>	<b>10,642</b>	<b>11,570</b>	<b>3,098</b>	<b>3,515</b>
NAFTA	2,867	2,919	—	—
South America	806	682	0	0
Africa, Middle East	709	663	—	—
Asia	1,095	987	—	—
Australia	1,492	1,360	—	—
<b>Total</b>	<b>17,611</b>	<b>18,181</b>	<b>3,098</b>	<b>3,515</b>

**Of which, to Boards of Directors and presidents**

Salaries and other remuneration	408	377	20	27
of which, variable salary	57	61	1	8

1) Complete information by country is presented in the Annual Report that was submitted to the Swedish Companies Registration Office.

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

The guidelines for the remuneration of Sandvik's senior executives were adopted at the Annual General Meeting in 2009. They are designed to ensure that Sandvik, from a global perspective, can offer market-related remuneration in order to attract and retain qualified members.

**Components of remuneration**

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

**Share-based remuneration**

Sandvik's share-based, long-term variable salary was discontinued in 2009 and no redemption took place during the year.

**Long-term variable salary**

In 2006, the Board decided to implement as a long-term variable salary a cash-based program. Based on a common goal perception for executives, specialists and shareholders, the program was to form a link to future performance goals aimed at the long-term enhancement of the value of the company. This was to

**NOTE 3.5 (CONT.)**

be achieved through an overall common Group and business area focus on and governing towards profitable growth. An additional purpose was to improve the possibilities to recruit and retain key employees in the Group.

A long-term variable salary program was decided for each of the years 2006, 2007, 2008 and 2009. Some 400 Sandvik employees participated in the programs on a global basis. The programs applied for a three-year period, with any settlement paid after the third year of each program. Accordingly, settlement for the 2006 program took place in 2009. Any settlement for the 2007 program will take place in 2010, for the 2008 program in 2011 and for the 2009 program in 2012.

Under these programs, there is a direct link between performance, added value, and remuneration. There is an annual maximum outcome related to the participant's fixed salary in the December of the third year. The outcome is conditional upon meeting measurable goals established by the Board for certain key ratios that create shareholder value linked to the company's growth, profitability and capital efficiency over a three-year period. For members of Group Executive Management, the maximum long-term variable salary can amount to 45–50% of the annual fixed salary.

Amounts attributable to these three programs are expensed and reserved continuously, based on assumptions regarding goal achievement. Long-term variable salary under the 2006 program encompassing the years 2006–2008 was paid in 2009. A total of SEK 3,429,360 was paid to the President and a total of SEK 7,721,374 to other senior executives. During the year, previously posted cost provisions for the programs totaling SEK 71 M were dissolved, of which SEK 4.7 M pertained to the President and other senior executives.

**Preparation and decision-making process**

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

Based on the Remuneration Committee's proposals, the Board decided on the remuneration of the President for 2009. The President decided on remuneration to other senior executives after consultation with the Remuneration Committee. Salaries for the President and other members of Group Executive Management for 2009 remained unchanged compared with levels for the preceding year. The Remuneration Committee performed its task supported by expertise on remuneration levels and structures. For information on the composition of the Committee, see page 103.

**Remuneration to the Board and senior executives****The Board**

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

**President and other senior executives**

The following guidelines approved by the Annual General Meeting for remuneration to senior executives were applied for 2009:

The Board's motion concerning guidelines for remuneration of senior executives is designed to ensure that the Sandvik Group from a global perspective can offer remuneration at the market rate and that is competitive to attract and retain skilled personnel to Sandvik's Group Executive Management. Group Executive Management's remuneration comprises fixed salary, annual variable salary and long-term variable salary. The components are intended to create a well-balanced remuneration and benefit program that reflects the individual's performance and responsibility and the Group's earnings trend. The fixed salary, which is individual and differentiated based on the individual's responsibility and performance, is determined based on market-rate principles and is reviewed annually. Payment of annual variable salary requires fulfillment of annually established goals. The goals are related to the company's earnings and to measurable goals within the individual's area of responsibility. The annual variable salary for Group Executive Management may not exceed 50–75% of fixed salary. The long-term variable salary requires fulfillment of measurable goals, set by the Board, pertaining to certain key figures that create shareholder value linked to the company's growth, profitability and capital efficiency during a three-year period. The maximum payment of long-term variable salary for Group Executive Management is 45–50% of the annual fixed salary. Group Executive Management's other benefits shall correspond to what could be considered reasonable in relation to generally accepted practice on the market. The benefits comprise pension, company car, housing, medical insurance and severance pay. The pension benefits for Group Executive Management are based on fixed salary or gross salary paid in cash and shall be defined-benefit or defined-contribution solution. Normally, retirement is at age 62. Retirement age for the President is 60. Normally, severance payment is made when

employment is terminated by the company. Any other income from employment is deducted from the severance pay, which is between 12 and 18 months for persons under 55 years of age and between 18 to 24 months for persons over 55. No severance amount is paid to employees who resign from the company. The Board shall have the right to deviate from the guidelines resolved by the Annual General Meeting, if in individual cases there is a special reason for this. The sphere of senior executives encompassed by the proposal is the President and other members of Group Executive Management.

**The Board's motion for remuneration to senior executives to be applied in 2010**

The Board proposes that for 2010 the Annual General Meeting resolve to apply the same guidelines for remuneration to senior executives as applied in 2009.

**Remuneration and other benefits during the year**

In accordance with the resolution at the Annual General Meeting, the total fee to the external directors elected at the Meeting amounts to SEK 4,500,000, which is unchanged compared with the preceding year. Of this amount, SEK 1,350,000 (on an annual basis) is payable to the Chairman of the Board (Clas Åke Hedström), SEK 900,000 to the Vice Chairman (Anders Nyrén) and SEK 450,000 to each of the other external Board members (Georg Ehrnrooth, Fredrik Lundberg, Hanne de Mora, Egil Myklebust and Simon Thompson).

In addition to these amounts, the Annual General Meeting resolved that an additional fee should be paid for the committee work to committee members not employed by the company, in the amount of SEK 275,000 to be divided between the members of the Audit Committee (Anders Nyrén SEK 150,000 and Hanne de Mora SEK 125,000) and SEK 250,000 to be divided between the members of the Remuneration Committee (Clas Åke Hedström SEK 100,000, Egil Myklebust SEK 75,000 and Georg Ehrnrooth SEK 75,000).

Apart from the pension obligations to the Chairman of the Board and the President, there are no pension obligations to other Board members. At 31 December 2009, the pension obligation to the Chairman amounted to SEK 56,379,735 and related to a defined-benefit obligation, which is not secured by an insurance policy and which refers to his period of services as President of Sandvik AB.

Effective 1 January 2009, President and CEO Lars Pettersson is paid an annual fixed salary of SEK 7,200,000 (unchanged level compared with the preceding year), and receives benefits in the form of free housing and company car. In addition, a variable salary of maximum 75% of the fixed salary is paid. The variable salary for 2009 amounts to SEK 1,625,000.

Lars Pettersson is entitled to retire with pension at age 60. His pension between the ages of 60 and 65 will amount to 65% of the fixed salary up to 30 price base amounts and 50% of fixed salary in excess of 30 price base amounts. No pension insurance policy is taken out for his pension through age 65 and at 31 December 2009 the obligation for pension vested through that date amounted to SEK 20,104,599. Until 31 December 2008, the pension from the age of 65 was arranged through the ITP Plan 2 and a supplementary defined-contribution plan. From 1 January 2009, following a change of system offered to all salaried employees at Sandvik under the ITP 2 plan, the President's pension comprises the ITP 1 plan, meaning 4.5% of salary portions up to 7.5 income base amounts and 30% of salary portions thereafter. In addition, a supplement of 5% of salary portions exceeding 7.5 income base amounts is paid. Severance pay is paid in the event that the company terminates employment. Severance pay equals 18 months' fixed salary in addition to the six-month notice period.

For other members of Group Executive Management, pension age is 62. Pension between the age of 62 and 65 will amount to 65% of fixed salary up to 30 price base amounts, 50% of fixed salary between 30–50 price base amounts, and 25% of fixed salary in the interval 50–100 price base amounts (15 years is required for full accrual). No pension insurance policies have been taken out for pensions through age 65 and at 31 December 2009 the obligation for pensions vested through that date amounted to SEK 25,340,162.

The pension from age 65 to the other members of Group Executive Management is arranged through the ITP Plan and a supplementary defined-contribution plan under which the company each year contributes 20–30% (depending on age) of fixed salary portions in excess of 20 price base amounts. Alternatively, this group may be encompassed by the ITP Plan 1 and a supplement of a maximum of 5% for salary portions exceeding 7.5 income base amounts if this solution has been chosen under the offering to all salaried employees at Sandvik under the ITP 2 plan. In such a case, the previous system with the ITP 2 plan and the supplementary plan will not apply. Of the five remaining members of Group Executive Management employed on 31 December 2009, three people are encompassed by the ITP 1 plan and two people remain in the ITP 2 plan and a supplementary plan. Severance pay is paid in the event that the company terminates employment. The severance pay equals 12–18 months' fixed salary in addition to the six-month notice period. For both the President and other members of Group Executive Management, any earned income is offset against the severance pay.

## NOTE 3.5 (CONT.)

### Remuneration and other benefits expensed during the year

SEK	Fixed salary/ Director's fee	Annual variable salary	Other benefits <sup>1)</sup>	Long term variable salary	Pension costs
Chairman of the Board Clas Åke Hedström	1,150,000 <sup>1)</sup>	—	—	—	3,551,000 <sup>2)</sup>
President and CEO Lars Pettersson	7,559,934 <sup>3)</sup>	1,625,000	269,258	1,662,343	4,599,000
Other senior executives <sup>4)</sup>	23,825,957	1,829,632	1,342,111	3,050,101	14,630,000
<b>Total</b>	<b>32,835,891</b>	<b>6,454,632</b>	<b>1,611,369</b>	<b>-4,712,444</b>	<b>22,780,000</b>

1) Amount pertaining to 2009 and expected to be paid in 2010.

2) Other benefits largely pertain to free housing and company car.

3) The amounts pertain to previously received amounts for the long term variable salary programs.

4) Expensed during 2009 and will be paid in 2010. The amount includes the regular fee of SEK 1,350,000 and a SEK 100,000 fee to members of the Remuneration Committee.

5) Pension to the Chairman is being paid under an earlier employment contract pertaining to the period when he served as President. The pension is annually indexed according to the ITP agreement.

6) Lars Pettersson's fixed salary as of 1 January 2009 amounted to SEK 7,200,000 (unchanged level compared with the preceding year).

7) Pertains to the following persons in 2009: Peter Larsson, Peter Gossas, Anders Thelin, Lars Josefsson, Per Nordberg until 31 August 2009 and Ola Samén from 1 May 2009.

### 3.6 Gender distribution in senior management

	Group		Parent Company	
Proportion of women, %	2009	2008	2009	2008
Boards and presidents	9	8	9	15
Senior management	15	13	—	—

### 3.7 Audit fees

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

	KPMG		Other auditors at Group companies		Total	
	2009	2008	2009	2008	2009	2008
<b>Audit</b>						
Parent Company	8.1	7.5	—	—	8.1	7.5
Subsidiaries (excl. Seco Tools)	57.9	50.2	6.3	3.2	64.2	53.3
Seco Tools	0.3	0.3	7.9	6.8	8.2	7.1
Group	66.3	58.0	14.2	9.9	80.5	67.9
<b>Other services</b>						
Parent Company	5.8	8.5	—	—	5.8	8.5
Subsidiaries (excl. Seco Tools)	12.3	10.2	—	—	12.3	10.2
Seco Tools	0.0	0.5	—	—	0.0	0.5
Group	18.1	19.2	—	—	18.1	19.2

Audit services comprise the examination of the financial statements, the accounting records and the administration of the business by the Board of Directors and the President, and 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.

Other services essentially comprise advice in areas closely related to the audit, such as advice on accounting issues, tax services and due-diligence services.

### RESEARCH, DEVELOPMENT AND QUALITY ASSURANCE

	Group		Parent Company	
	2009	2008	2009	2008
<b>Expenditure for research and development</b>	<b>2,325</b>	<b>2,347</b>	<b>884</b>	<b>920</b>
<b>quality assurance</b>	<b>508</b>	<b>464</b>	<b>215</b>	<b>207</b>
<b>Total</b>	<b>2,833</b>	<b>2,811</b>	<b>1,099</b>	<b>1,127</b>
of which expensed, total	2,515	2,478	1,099	1,127
of which expensed relating to research and development	2,007	2,014	884	920

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.

### OTHER OPERATING INCOME

Group	2009	2008
Gain on sale of property, plant and equipment	—	—
Gain on sale of businesses and shares	5	56
Insurance compensation	—	15
Exchange rate gains on operating receivables and liabilities	—	497
Other	77	93
<b>Total</b>	<b>82</b>	<b>661</b>

#### Parent Company

Other operating income mainly pertains to intra-Group services, capital losses attributable to sales of property, plant and equipment and currency losses on receivable and liabilities of an operational nature.

### OTHER OPERATING EXPENSES

Group	2009	2008
Loss on disposal of non-current assets	65	28
Exchange rate losses on operating receivables and payables	246	—
Impairment loss on non-current receivable	—	104
Other	162	148
<b>Total</b>	<b>-473</b>	<b>-180</b>

#### Parent Company

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

### OPERATING EXPENSES

Group	2009	2008
Employee benefit expense	22,441	23,129
Depreciation and amortization	4,049	3,444
Impairment losses, inventories	519	460
Impairment losses, property, plant and equipment	492	37
Impairment losses, trade receivables	194	228

There were no significant reversals of earlier recognized impairment losses during 2009 or 2008.

### FEES FOR FINANCE AND OPERATING LEASES

#### FINANCE LEASES

##### Finance leases with Sandvik as lessee

The Group leases plant and machinery under finance lease agreements. At 31 December 2009, the planned residual value of such leased assets was SEK 165 M (221).

Variable fees recognized as an expense were SEK 0 M (0).

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

	Minimum fee		Present value	
Group	2009	2008	2009	2008
Within one year	34	36	31	35
Between 1–5 years	117	116	92	94
Later than five years	98	118	55	68
<b>Total</b>	<b>249</b>	<b>270</b>	<b>178</b>	<b>197</b>

**NOTE 8 FEES FOR FINANCE AND OPERATING LEASES (CONT.)****Finance leases with Sandvik as lessor**

The Group's investments in finance leases at 2009 year-end amounted to SEK 484 M (642). Variable fees recognized in profit and 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	Minimum fee		Present value	
	2009	2008	2009	2008
Within one year	133	338	109	310
Between 1–5 years	260	304	220	265
Later than five years	91	0	59	0
<b>Total</b>	<b>484</b>	<b>642</b>	<b>388</b>	<b>575</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 with operating expenses in profit and loss. In 2009, the Group expensed SEK 583 M (509), including minimum lease payments of SEK 560 M (477), variable fees of SEK 23 M (35), and net of sublease income of SEK 0 M (4). The Parent Company expensed SEK 130 M (122).

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

	Group		Parent Company	
	2009	2008	2009	2008
Within one year	609	603	157	162
Between 1–5 years	1,234	1,122	452	320
Later than five years	469	483	200	165
<b>Total</b>	<b>2,312</b>	<b>2,208</b>	<b>809</b>	<b>647</b>

Future minimum lease payments under non-cancellable lease contracts that pertain to subleased items amounted to SEK 0 M (4).

**Operating leases with Sandvik as lessor**

The planned residual value of the Group's rental fleet is SEK 652 M (468). Depreciation for the year amounted to SEK 411 M (395). The future minimum lease payments under non-cancellable leases amount to SEK 230 M (250). Variable fees amounted to SEK 32 M (62).

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

	Group		Parent Company	
	2009	2008	2009	2008
Within one year	127	124	14	9
Between 1–5 years	102	125	16	9
Later than five years	1	1	—	0
<b>Total</b>	<b>230</b>	<b>250</b>	<b>30</b>	<b>18</b>

**NOTE 9 NET FINANCING COST**

Group	2009	2008
Interest income	249	352
Dividend	10	3
<b>Other investments incl. derivatives</b>		
Net gain on disposal of financial assets	0	0
Net gain on remeasurement of financial assets/ liabilities at fair value	164	16
Other financial income	15	4
Financial income	438	375
Interest expense	–2,204	–2,256
<b>Other investments incl. derivatives</b>		
Net loss on disposal of financial assets	–23	–8
Net loss on remeasurement of financial assets/liabilities	–209	–260
Net foreign-exchange losses	–25	–54
Other financial expenses	–37	–14
Financial expenses	–2,498	–2,592
<b>Net financing cost</b>	<b>–2,060</b>	<b>–2,217</b>

**NOTE 10 NET FINANCING COST (CONT.)**

Measurement of interest derivatives had a positive effect on net financing cost of SEK 32 M (–40). For further information regarding valuation policies, refer to Note 30.

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to SEK –1,983 M (–1,929). Hedging of fair values in 2009 had an effect of SEK 17 M (–8) on the result.

Parent Company	Income from shares in Group companies		Income from shares in associated companies	
	2009	2008	2009	2008
Dividend, net of withholding tax	5,753	6,754	5	5
Gain on sale of shares and participations	81	20	—	—
Impairment	0	0	—	—
<b>Total</b>	<b>5,834</b>	<b>6,774</b>	<b>5</b>	<b>5</b>

Parent Company	Income from other investments held as non-current assets		Interest income and similar items	
	2009	2008	2009	2008
Interest income, Group companies	—	—	345	601
Other interest income	—	—	2	12
Derivatives, Group companies	—	—	240	—
<b>Total</b>	<b>—</b>	<b>—</b>	<b>587</b>	<b>613</b>

Parent Company	Interest expense and similar items	
	2009	2008
Interest expense, Group companies	–319	–672
Other interest expense	–905	–723
Derivatives, Group companies	–68	–247
Other	–253	–13
<b>Total</b>	<b>–1,545</b>	<b>–1,655</b>

**NOTE 10 APPROPRIATIONS**

Parent Company	2009	2008
Changes in other untaxed reserves	8	7
<b>Total</b>	<b>8</b>	<b>7</b>

**NOTE 11 INCOME TAX****Recognized in income statement**

	Group		Parent Company	
	2009	2008	2009	2008
Income tax expense for the year	–912	–2,942	203	112
Current tax	–912	–2,942	203	112
Adjustment of taxes attributable to prior years	27	66	6	15
<b>Total current tax expense</b>	<b>–885</b>	<b>–2,876</b>	<b>209</b>	<b>127</b>
Deferred taxes relating to temporary differences and unused tax losses	1,761	135	556	274
<b>Total tax expense</b>	<b>876</b>	<b>–2,741</b>	<b>765</b>	<b>401</b>

The Group recognized tax revenue for the year of SEK 876 M or 25.2% of the result after financial items. The Group's tax expense for 2008 was SEK 2,741 M or 25.9% of the result after financial items.

## NOTE 11. INCOME TAX (CONT.)

**Reconciliation of the Group's tax expense**

The Group's weighted average tax rate, based on the tax rates in each country, is 28.7% (26.5). The nominal tax rate in Sweden is 26.3% (28.0).

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

Group	2009		2008	
	SEK M	%	SEK M	%
Profit after financial items	-3,472		10,577	
Weighted average tax based on each country's tax rate	998	-28.7	-2,805	-26.5
<b>Tax effect of</b>				
Non-deductible expenses	-214	6.2	-216	-2.0
Tax exempt income	230	-6.6	145	1.4
Adjustments relating to prior years	27	-0.8	66	0.6
Effects of unused tax losses, net	-139	4.0	30	0.3
Other	-26	0.7	39	0.4
<b>Total recognized tax expense</b>	<b>876</b>	<b>-25.2</b>	<b>-2,741</b>	<b>-25.9</b>

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

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

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

Parent Company	2009		2008	
	SEK M	%	SEK M	%
Profit before tax	2,986		5,349	
Tax based on the nominal tax rate for the Parent Company	-785	-26.3	-1,498	-28.0
<b>Tax effects of</b>				
Non-deductible expenses	-13	-0.4	-22	-0.4
Tax-exempt income	1,546	51.8	1,946	36.4
Effect of changed tax rate	—	—	-19	-0.4
Use of previously uncapitalized tax loss deductions	—	—	2	0.0
Adjustments relating to prior years	17	0.6	-8	-0.1
<b>Total recognized tax expense</b>	<b>765</b>	<b>25.6</b>	<b>401</b>	<b>7.5</b>

**Tax item attributable to other comprehensive income**

Group	2009			2008		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Translation differences for the year	-645	—	-645	4,832	—	4,832
Fair-value changes in cash-flow hedges for the year	272	-71	201	-537	142	-395
Fair-value changes in cash-flow hedges carried forward to profit/loss for the year	269	-71	198	-84	22	-62
<b>Other comprehensive income</b>	<b>-104</b>	<b>-142</b>	<b>-246</b>	<b>4,211</b>	<b>164</b>	<b>4,375</b>

**Tax items recognized directly in equity**

Parent Company	2009	2008
Current tax relating to taxable group contributions	180	85
<b>Total</b>	<b>180</b>	<b>85</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	2009			2008		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	64	-890	-826	43	-771	-728
Property, plant and equipment	95	-1,228	-1,133	98	-1,114	-1,016
Financial non-current assets	113	-2	111	93	-2	91
Inventories	1,468	-37	1,431	1,572	-64	1,508
Receivables	422	-394	28	204	-536	-332
Interest-bearing liabilities	315	-441	-126	367	-442	-75
Noninterest-bearing liabilities	943	-932	11	724	-670	54
Other	—	-11	-11	29	-50	-21
Unused tax losses	1,783	—	1,783	282	—	282
<b>Total</b>	<b>5,203</b>	<b>-3,935</b>	<b>1,268</b>	<b>3,412</b>	<b>-3,649</b>	<b>-237</b>
Offsetting within companies	-2,693	2,693	—	-2,135	2,135	—
<b>Total deferred tax assets and liabilities</b>	<b>2,510</b>	<b>-1,242</b>	<b>1,268</b>	<b>1,277</b>	<b>-1,514</b>	<b>-237</b>

Parent Company	2009			2008		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	—	-34	-34	—	-34	-34
Inventories	9	—	9	—	—	—
Provisions	49	—	49	31	—	31
Noninterest-bearing liabilities	14	-14	0	78	—	78
Unused tax losses	841	—	841	217	—	217
<b>Total</b>	<b>913</b>	<b>-48</b>	<b>865</b>	<b>326</b>	<b>-34</b>	<b>292</b>
Offsetting	-48	48	—	-34	34	—
<b>Total deferred tax assets and liabilities</b>	<b>865</b>	<b>—</b>	<b>865</b>	<b>292</b>	<b>—</b>	<b>292</b>

## INCOME TAX (CONT.)

### Unrecognized deferred tax assets

The Group has additional unused tax loss carryforwards of about SEK 800 M (570). Related deferred tax assets were not recognized since it was not deemed probable that it would be possible to utilize these deductions in the foreseeable future.

### Movements in deferred tax in temporary differences and unused tax losses

	Group		Parent Company	
	2009	2008	2009	2008
Balance at beginning of year, net	-237	-463	292	22
Recognized in income statement	1,761	135	573	270
Acquisitions/disposals of subsidiaries	-140	-10	—	—
Recognized in other comprehensive income	-142	164	—	—
Government grants	-25	—	—	—
Translation differences	51	63	—	—
Balance at end of year, net	1,268	-237	865	292

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

	Group		Parent Company	
	2009	2008	2009	2008
Other provisions for taxes	-3,311	-3,201	—	-55
Income tax liabilities	-768	-1,301	—	—
Income tax receivables	1,304	1,699	165	166
Net tax liabilities/receivables	536	398	165	166

Other provisions for taxes of SEK -3,311 M (-3,201) relate to ongoing disputes and assessed risks. The increase during 2009 (SEK 110 M) mainly reflects provisions relating to the tax dispute involving Sandvik Intellectual Property AB and Sandvik AB regarding the reorganization of ownership and managing of patents and trademarks effected in 2005. For additional information refer to the section "Integrated risk management."

## EARNINGS PER SHARE

### Basic and diluted earnings per share

SEK	Basic		Diluted	
	2009	2008	2009	2008
Earnings per share	2.24	6.30	2.24	6.29

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 2009 is based on the result for the year attributable to the equity holders of the Parent Company of SEK -2,652 M (7,472) and the weighted average number of shares (thousands) during 2009 of 1,186,287 (1,186,287). These two components have been calculated as follows:

### Profit/loss for the year attributable to the equity holders of the Parent Company, before dilution

	2009	2008
Profit/loss for the year attributable to the equity holders of the Parent Company	2,652	7,472

### Weighted average number of shares, before dilution

In thousands of shares	2009	2008
Total number of ordinary shares at 1 January	1,186,287	1,186,287
Effects of reacquisitions and redemption	—	—
Weighted average number of shares outstanding during the year, before dilution	1,186,287	1,186,287

### Diluted earnings per share

The calculation of diluted earnings per share 2009 is based on the result attributable to the equity holders of the Parent Company of SEK -2,652 M (7,472) and the weighted average number of shares (thousands) during 2009, 1,186,369 (1,187,058). The two components have been calculated as follows:

### Profit/loss for the year attributable to equity holders of the Parent Company, after dilution

	2009	2008
Profit/loss for the year attributable to equity holders of the Parent Company	2,652	7,472

### Weighted average number of shares, after dilution

In thousands of shares	2009	2008
Weighted average number of shares, before dilution	1,186,287	1,186,287
Effect of share options	82	771
Weighted average number of shares outstanding during the year, after dilution	1,186,369	1,187,058



**NOTE 11 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – GROUP****Intangible assets**

Cost	Internally generated intangible assets					Acquired intangible assets						
	Capitalized R&D expenditure	IT software	Patents, licenses, trade-marks, etc.	Other	Subtotal	Capitalized R&D expenditure	IT software	Patents, licenses, trade-marks, etc.	Goodwill	Other	Subtotal	Total
At 1 January 2008	971	471	118	46	1,606	15	278	772	8,933	1,061	11,059	12,665
Additions	333	99	25	3	460	—	20	5	—	32	57	517
Business combinations	—	—	—	—	—	—	2	120	474	6	602	602
Acquisition of minority interest	—	—	—	—	—	—	—	—	16	—	16	16
Divestments and disposals	—17	—10	—	—	—27	—	—8	—10	—	18	0	—27
Reclassifications	—100	116	54	—	70	—	14	—89	—	1	—74	—4
Translation differences during the year	40	5	23	5	73	—	37	—52	408	—17	376	449
<b>At 31 December 2008</b>	<b>1,227</b>	<b>681</b>	<b>220</b>	<b>54</b>	<b>2,182</b>	<b>15</b>	<b>343</b>	<b>746</b>	<b>9,831</b>	<b>1,101</b>	<b>12,036</b>	<b>14,218</b>
At 1 January 2009	1,227	681	220	54	2,182	15	343	746	9,831	1,101	12,036	14,218
Additions	318	88	21	—	427	—	5	22	—	30	57	484
Business combinations	—	—	—	—	—	—	3	31	1,647	554	2,235	2,235
Divestments and disposals	—7	—15	—2	—10	—34	—	—3	—	—	—73	—76	—110
Impairment losses	—	—	—	—	—	—	—	—	—154	—	—154	—154
Reclassifications	—32	35	—3	7	7	—	—	—1	—	68	67	74
Translation differences during the year	—20	—3	1	—3	—25	—	—13	10	—189	32	—160	—185
<b>At 31 December 2009</b>	<b>1,486</b>	<b>786</b>	<b>237</b>	<b>48</b>	<b>2,557</b>	<b>15</b>	<b>335</b>	<b>808</b>	<b>11,135</b>	<b>1,712</b>	<b>14,005</b>	<b>16,562</b>
<b>Accumulated amortization and impairment losses</b>												
At 1 January 2008	196	361	45	32	634	15	209	136	—	246	606	1,240
Business combinations	—	—	—	—	—	—	2	10	—	11	23	23
Divestments and disposals	—16	—12	—	—	—28	—	—12	—2	—	—1	—15	—43
Reclassifications	—	3	10	—	13	—	1	—	—	1	2	15
Amortization for the year	91	77	7	6	181	—	51	102	—	112	265	446
Translation differences for the year	5	3	9	3	20	—	27	0	—	18	45	65
<b>At 31 December 2008</b>	<b>276</b>	<b>432</b>	<b>71</b>	<b>41</b>	<b>820</b>	<b>15</b>	<b>278</b>	<b>246</b>	<b>—</b>	<b>387</b>	<b>926</b>	<b>1,746</b>
At 1 January 2009	276	432	71	41	820	15	278	246	—	387	926	1,746
Business combinations	—	—	—	—	—	—	3	—	—	42	45	45
Divestments and disposals	—25	—5	—2	—5	—37	—	—4	—1	—	—66	—71	—108
Impairment losses	28	12	—	—	40	—	—	—	—	41	41	81
Reclassifications	—	—	—	—	—	—	—	1	—	—40	—39	—39
Amortization for the year	281	91	11	7	390	—	42	116	—	154	312	702
Translation differences for the year	—5	—2	2	—4	—9	—	—11	9	—	9	7	—2
<b>At 31 December 2009</b>	<b>555</b>	<b>528</b>	<b>82</b>	<b>39</b>	<b>1,204</b>	<b>15</b>	<b>308</b>	<b>371</b>	<b>—</b>	<b>527</b>	<b>1,221</b>	<b>2,425</b>
<b>Net carrying amounts</b>												
1 January 2008	775	110	73	14	972	0	69	636	8,933	815	10,454	11,425
31 December 2008	951	249	149	13	1,362	0	65	500	9,831	714	11,110	12,472
1 January 2009	951	249	149	13	1,362	0	65	500	9,831	714	11,110	12,472
31 December 2009	931	258	155	9	1,353	0	27	437	11,135	1,185	12,784	14,137
<b>Amortization for the year is included in the following lines in the 2008 income statement</b>												
Cost of sales	—	—8	—2	—	—10	—	—1	—59	—	—74	—134	—144
Selling expenses	—6	—16	—2	—3	—27	—	—33	—44	—	—15	—92	—119
Administrative expenses	—85	—53	—3	—3	—144	0	—17	1	—	—23	—39	—183
<b>Total</b>	<b>—91</b>	<b>—77</b>	<b>—7</b>	<b>—6</b>	<b>—181</b>	<b>0</b>	<b>—51</b>	<b>—102</b>	<b>—</b>	<b>—112</b>	<b>—265</b>	<b>—446</b>
<b>Amortization for the year is included in the following lines in the 2009 income statement</b>												
Cost of sales	—39	—3	—1	—1	—44	—	—8	—3	—	—16	—27	—71
Selling expenses	—9	—3	—4	—2	—18	—	—11	—3	—	—29	—43	—61
Administrative expenses	—233	—85	—6	—4	—328	—	—23	—110	—	—109	—242	—570
<b>Total</b>	<b>—281</b>	<b>—91</b>	<b>—11</b>	<b>—7</b>	<b>—390</b>	<b>—</b>	<b>—42</b>	<b>—116</b>	<b>—</b>	<b>—154</b>	<b>—312</b>	<b>—702</b>

**NOTE 11. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – GROUP (CONT.)****Property, plant and equipment**

<b>Cost</b>	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Equipment, tools, fixtures and fittings</b>	<b>Construction in progress</b>	<b>Total</b>
At 1 January 2008	9,498	27,604	4,718	2,703	44,523
Additions	661	2,271	535	3,348	6,815
Business combinations	23	318	46	1	388
Divestments and disposals	-129	-1,544	-343	-9	-2,025
Reclassifications	448	1,695	159	-2,256	46
Translation differences for the year	904	1,850	377	259	3,390
<b>At 31 December 2008</b>	<b>11,405</b>	<b>32,194</b>	<b>5,492</b>	<b>4,046</b>	<b>53,137</b>
At 1 January 2009	11,405	32,194	5,492	4,046	53,137
Additions	863	1,682	243	1,384	4,172
Business combinations	599	656	249	99	1,603
Divestments and disposals	-318	-1,674	-449	-4	-2,445
Impairment losses	—	—	—	-26	-26
Reclassifications	875	1,607	72	-2,631	-77
Translation differences for the year	-293	-404	-79	-136	-912
<b>At 31 December 2009</b>	<b>13,131</b>	<b>34,061</b>	<b>5,528</b>	<b>2,732</b>	<b>55,452</b>
<b>Accumulated depreciation and impairment losses</b>					
At 1 January 2008	3,779	16,679	3,170	—	23,628
Business combinations	1	93	21	—	115
Divestments and disposals	-64	-1,168	-287	—	-1,519
Reclassifications	-2	65	10	—	73
Depreciation for the year	334	2,211	453	—	2,998
Impairment losses	5	32	—	—	37
Translation differences for the year	378	1,053	251	—	1,682
<b>At 31 December 2008</b>	<b>4,431</b>	<b>18,965</b>	<b>3,618</b>	<b>—</b>	<b>27,014</b>
At 1 January 2009	4,431	18,965	3,618	—	27,014
Business combinations	326	466	187	—	979
Divestments and disposals	-177	-1,581	-407	—	-2,165
Reclassifications	15	-24	-17	—	-26
Depreciation for the year	416	2,451	480	—	3,347
Impairment losses	92	128	9	—	229
Translation differences for the year	-143	-239	-63	—	-445
<b>At 31 December 2009</b>	<b>4,960</b>	<b>20,166</b>	<b>3,807</b>	<b>—</b>	<b>28,933</b>
<b>Net carrying amounts</b>					
1 January 2008	5,719	10,925	1,548	2,703	20,895
31 December 2008	6,974	13,229	1,874	4,046	26,123
1 January 2009	6,974	13,229	1,874	4,046	26,123
31 December 2009	8,171	13,895	1,721	2,732	26,519

Impairment losses are included in the following lines in the 2009 income statement	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Equipment, tools, fixtures and fittings</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Impairment losses</b>					
Administrative expenses	-6	—	—	—	-6
Cost of sales	-78	-124	-9	-26	-237
Other operating expenses	-8	-4	0	0	-12
<b>Total</b>	<b>-92</b>	<b>-128</b>	<b>-9</b>	<b>-26</b>	<b>-255</b>

## INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – GROUP (CONT.)

Ratable values	2009	2008
Buildings (in Sweden)	1,303	1,287
Land (in Sweden)	431	421

### Additional information

Items of property plant and equipment for a total of SEK 237 M (250) have been pledged as security for liabilities.

In 2009, contractual commitments for the acquisition of property, plant and equipment amounted to SEK 50 M (150).

Borrowing costs 2009	Construction in progress
Borrowing costs included in the cost of assets during the year	0
Interest rate for determining borrowing costs included in cost	3,75%

### Disclosure concerning government grants in the Group

The Group received government grants for the acquisition of property, plant and equipment during 2009 for a total of SEK 0 M (63). Grants received have reduced the stated cost by SEK 0 M (63).

### Impairment tests of goodwill

Goodwill was tested for impairment at the balance sheet date of 31 December 2009. As stated above, the carrying amount of goodwill in the consolidated balance sheet is SEK 11,135 M (9,831), essentially related to a number of major business combinations.

Goodwill by cash-generating unit	Carrying amount	
	2009	2008
<b>Sandvik Tooling</b>		
Walter Group	1,144	1,209
Diamond Innovations	761	816
Wolfram	1,588	—
Business area level	996	1,023
<b>Total</b>	<b>4,489</b>	<b>3,048</b>
<b>Sandvik Mining and Construction</b>		
Exploration	436	509
Extec/Fintec	1,102	1,086
Business area level	2,238	2,263
<b>Total</b>	<b>3,776</b>	<b>3,858</b>

Goodwill by cash-generating unit	Carrying amount	
	2009	2008
<b>Sandvik Materials Technology</b>		
Kanthal Group	1,115	1,139
MedTech	1,398	1,407
Business area level	80	85
<b>Total</b>	<b>2,593</b>	<b>2,631</b>
Seco Tools and Corporate	277	294
<b>Group total</b>	<b>11,135</b>	<b>9,831</b>

Goodwill is allocated to cash-generating units. The recoverable amount of a cash-generating unit is assessed based on estimates of value in use. These calculations are based on budgets/forecasts covering a five-year period. Cash flows for subsequent years have been extrapolated based on inflation, in no case exceeding 3%. Need of working capital beyond the five-year period is deemed to remain on the same level as in the fifth year. Cash flows have generally been discounted at a pre-tax rate of 10%.

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 acquired businesses. For such reason, the impairment tests were largely made at a higher level although in no case above segment level. At present, the activities of Walter, Diamond Innovations, Wolfram, Kanthal, MedTech, Exploration and Extec/Fintec are also conducted in such a way that it has been possible to separately test goodwill allocated to these acquisitions.

The testing of goodwill at a higher organizational level obviously lessens the probability of identifying an impairment loss. These tests have by a broad margin supported the carrying amounts. The testing did not demonstrate a need for impairment except for goodwill allocated to Exploration operations for which impairment losses of SEK 154 M were recognized and charged to profit in 2009. Accordingly, the recoverable amount of the goodwill attributable to the operation in Exploration comprises its value in use. The sensitivity in all calculations implies that no impairment loss would be required even if the discount rate were increased by 1 percentage point or if the long-term growth rate were lowered by 1 percentage point.

### Other impairment tests

Capitalized development projects that are not yet available for use were tested and resulted in an impairment loss of SEK 28 M (0).

# INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – PARENT COMPANY

Intangible assets	Patents and other intangible assets		Patents and other intangible assets
<b>Cost</b>		<b>Accumulated amortization</b>	
At 1 January 2008	99	At 1 January 2008	73
Additions	23	Amortization for the year	17
Divestments and disposals	1	<b>At 31 December 2008</b>	<b>90</b>
<b>At 31 December 2008</b>	<b>121</b>		
At 1 January 2009	121	At 1 January 2009	90
Additions	14	Amortization for the year	1
Divestments and disposals	24	<b>At 31 December 2009</b>	<b>94</b>
<b>At 31 December 2009</b>	<b>111</b>	Net carrying amount at end of year	17

Amortization for the year is included in the following lines in the income statement	<b>2009</b>	<b>2008</b>
Selling expenses	-3	-14
Administrative expenses	-1	-4
<b>Total</b>	<b>-4</b>	<b>-18</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 2008	845	8,870	1,027	1,352	12,094
Additions	9	211	30	1,264	1,514
Divestments and disposals	—	-155	-65	-3	-223
Reclassifications	25	804	57	-886	0
<b>At 31 December 2008</b>	<b>879</b>	<b>9,730</b>	<b>1,049</b>	<b>1,727</b>	<b>13,385</b>
At 1 January 2009	879	9,730	1,049	1,727	13,385
Additions	121	353	63	233	770
Acquired through business combinations	—	115	—	—	115
Divestments and disposals	-17	-256	-157	-38	-468
Reclassifications	62	430	97	-589	0
<b>At 31 December 2009</b>	<b>1,045</b>	<b>10,372</b>	<b>1,052</b>	<b>1,333</b>	<b>13,802</b>
<b>Revaluations</b>					
At 1 January 2008	41	—	—	—	41
<b>At 31 December 2008</b>	<b>41</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>41</b>
At 1 January 2009	41	—	—	—	41
<b>At 31 December 2009</b>	<b>41</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>41</b>
<b>Accumulated depreciation</b>					
At 1 January 2008	402	5,246	722	—	6,370
Divestments and disposals	—	-136	-55	—	-191
Depreciation for the year	27	532	70	—	629
<b>At 31 December 2008</b>	<b>429</b>	<b>5,642</b>	<b>737</b>	<b>—</b>	<b>6,808</b>
At 1 January 2009	429	5,642	737	—	6,808
Acquired through business combinations	—	71	—	—	71
Divestments and disposals	-7	-204	-152	—	-363
Reclassifications	—	-11	11	—	0
Depreciation for the year	26	599	80	—	705
<b>At 31 December 2009</b>	<b>448</b>	<b>6,097</b>	<b>676</b>	<b>—</b>	<b>7,221</b>
<b>Net carrying amounts</b>					
1 January 2008	484	3,624	305	1,352	5,765
31 December 2008	491	4,088	312	1,727	6,618
1 January 2009	491	4,088	312	1,727	6,618
31 December 2009	638	4,275	376	1,333	6,622

Ratable values – Parent Company	<b>2009</b>	<b>2008</b>
Buildings (in Sweden)	290	281
Land (in Sweden)	102	82

## SHARES IN GROUP COMPANIES

Shares in Group Companies	Parent Company		Shares in Group Companies	Parent Company	
	2009	2008		2009	2008
<b>Cost</b>			<b>Accumulated impairment losses</b>		
At beginning of year	14,824	14,151	At beginning of year	389	389
Additions	42	294	Impairment losses reversed during the year	0	0
Capital contributions	98	2,477	<b>Total</b>	<b>389</b>	<b>389</b>
New issues	50	1	<b>Net carrying amount at end of year</b>	<b>14,366</b>	<b>14,435</b>
Divestments	259	2,099			
<b>Total</b>	<b>14,755</b>	<b>14,824</b>			

## Sandvik AB's holdings of shares and participations in subsidiaries

### Direct holdings

	2009				2008			
According to balance sheet at 31 December: company, domicile	Corp. Reg. number	No. of shares	Holding, %	Carrying amount SEK 000s	No. of shares	Holding, %	Carrying amount SEK 000s	
SWEDEN								
C.O. Öberg & Co:s AB, Sandviken	556112-1186	2,000	100	0	2,000	100	0	
Droptier High Tech AB, Sandviken	556332-0380	1,000	100	119	1,000	100	119	
Elasis Svenska AB, Sandviken	556307-8947	100,000	100	110	100,000	100	110	
Förvaltningsbolaget Predio 4 KB, Sandviken	916624-2181	—	0 <sup>1)</sup>	0	—	0 <sup>1)</sup>	0	
Gimo Utbildningsaktiebolag, Gimo	556061-4011	1,000	91	2,591	1,000	91	2,591	
Gusab Holding AB, Sandviken	556001-9290	1,831,319	100	53,474	1,831,319	100	53,474	
Gusab Stainless AB, Mjölby	556012-1138	200,000	100	32,957	200,000	100	33,172	
Industri AB Skomab, Sandviken	556008-8345	2,000	100	100,050	2,000	100	100,050	
Malcus AB, Sandviken	556350-7903	1,000	100	100	1,000	100	100	
Rammer Svenska AB, Sandviken	556249-4004	3,000	100	851	3,000	100	851	
Tamrock Svenska AB, Sandviken	556189-1085	100	100	123	100	100	123	
AB Sandvik Antenn, Sandviken	556350-7895	1,000	100	100	1,000	100	100	
AB Sandvik Automation, Sandviken	556052-4315	1,000	100	50	1,000	100	50	
AB Sandvik Belts, Sandviken	556041-9680	25,000	100	2,500	25,000	100	2,500	
AB Sandvik Bruket, Sandviken	556028-5784	13,500	100	1,698	13,500	100	1,698	
AB Sandvik Communication, Sandviken	556257-5752	1,000	100	120	1,000	100	120	
AB Sandvik Construction Segment, Malmö <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 Export Assistance AB, Sandviken	556061-3746	80,000	100	0	80,000	100	0	
AB Sandvik Falken, Sandviken	556330-7791	1,000	100	120	1,000	100	120	
Sandvik Far East Ltd. AB, Sandviken	556043-7781	10,000	100	10,000	10,000	100	10,000	
Sandvik Försäkrings AB, Sandviken	516401-6742	1,500	100	15,000	1,500	100	15,000	
AB Sandvik Hard Materials, Stockholm <sup>1)</sup>	556234-6857	1,000	100	50	1,000	100	50	
Sandvik Hard Materials Norden AB, Stockholm	556069-1619	1,000	100	50	1,000	100	50	
Sandvik Information Technology 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	
AB Sandvik Klangberget, Sandviken	556135-6857	1,000	100	100	1,000	100	100	
Sandvik Materials Technology EMEA AB, Stockholm	556734-2026	501,000	100	50,100	1,000	100	100	
AB Sandvik Materials Technology, Sandviken <sup>1)</sup>	556234-6832	1,000	100	50	1,000	100	50	
Sandvik Mining and 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	135,000	80,000	100	135,000	
Sandvik Powdermet AB, Surahammar	556032-6760	600	100	119,554	600	100	119,554	
AB Sandvik Process Systems, Sandviken <sup>1)</sup>	556312-2992	1,000	100	100	1,000	100	100	
AB Sandvik Rock Tools, Sandviken	556081-4328	1,000	100	50	1,000	100	50	
Sandvik Rotary Tools AB, Köping	556191-8920	101,000	100	150,177	101,000	100	150,177	
AB Sandvik Service, Sandviken	556234-8010	1,000	100	50	1,000	100	50	
AB Sandvik Skogsfastigheter, Sandviken	556579-5464	1,000	100	69	1,000	100	26	
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	
Sandvik Systems Development AB, Sandviken <sup>1)</sup>	556407-4184	1,000	100	100	1,000	100	100	
Sandvik Tooling AB, Sandviken <sup>1)</sup>	556692-0038	1,000	100	100	1,000	100	100	
Sandvik Tooling Sverige AB, Sandviken <sup>1)</sup>	556692-0053	1,000	100	100	1,000	100	100	
AB Sandvik Tranan, Sandviken	556330-7817	1,000	100	9,088	1,000	100	9,088	
Sandvik Utbildnings AB, Sandviken	556304-8791	910	91	91	910	91	91	
AB Sandvik Vallhoven, Sandviken	556272-9680	6,840	100	1,800	6,840	100	1,800	

## SHARES IN GROUP COMPANIES (CONT.)

### Sandvik AB's holdings of shares and participations in subsidiaries

#### Direct holdings

	2009				2008		
	Corp. Reg. number	No. of shares	Holding, % <sup>1)</sup>	Carrying amount SEK 000s	No. of shares	Holding, %	Carrying amount SEK 000s
According to balance sheet at 31 December; company domicile							
Sandvik Västaby AB, Sandviken	556590-8075	1,000	100	100	1,000	100	100
AB Sandvik Västberga Service, Stockholm	556356-6933	1,000	100	100	1,000	100	100
Sandvik Örebro AB, Sandviken	556232-7949	10,000	100	167	10,000	100	167
AB Sandvik Önnen, Sandviken	556330-7783	1,000	100	120	1,000	100	120
Sandvikens Brukspersonals Byggnadsförening upa, Sandviken	785500-1686	—	100	0	—	100	0
Scandinavian Handtools AB, Sandviken	556093-5875	1,000	100	50	1,000	100	50
Steebide International AB, Sandviken	556048-3405	15,000	100	1,000	15,000	100	1,000
Tooling Support Halmstad AB, Halmstad	556240-8210	80,000	100	25,145	80,000	100	25,145
AB Trelbo, Sandviken	556251-6780	1,000	100	120	1,000	100	120
Walter Norden AB, Halmstad	556752-4698	15,000	100	1,500	15,000	100	1,500
Sandvik Mining and Construction Köping AB <sup>1)</sup>	556776-9525	1,000	100	100	—	—	—
Wire Sandviken AB <sup>1)</sup>	556779-3897	1,000	100	100	—	—	—
Sandvik IT Services AB <sup>1)</sup>	556788-9059	1,000	100	100	—	—	—

### Sandvik AB's holdings of shares and participations in subsidiaries

#### Direct holdings

		2009			2008		
		No. of shares	Holding, % <sup>1)</sup>	Carrying amount SEK 000s	No. of shares	Holding, % <sup>1)</sup>	Carrying amount SEK 000s
According to balance sheet at 31 December; company							
AUSTRALIA	Sandvik Australia Pty. Ltd.	—	6 <sup>3)</sup>	1,202,442	—	6 <sup>3)</sup>	1,202,442
	Sandvik Australian Ltd. Partnership	—	99	—	—	99	—
BRAZIL	Dormer Tools S.A.	2,137,623,140	100	200,000	2,137,623,140	100	200,000
	Sandvik do Brasil S.A.	1,894,797,190	100	46,072	1,894,797,190	100	46,072
BULGARIA	Sandvik Bulgaria Ltd.	—	100	0	—	100	0
CHILE	Sandvik Credit Chile S.A.	9,900	99	39,631	—	—	—
CHINA	Sandvik China Holding Co Ltd.	—	100	668,890	—	100	668,890
	Sandvik Tooling Production (Langfang) Co., Ltd.	—	—	—	—	100	190,666
	Sandvik International Trading (Shanghai) Co. Ltd.	—	—	—	—	100	17,466
	Sandvik Mining and Construction (China) Ltd.	—	—	—	—	100	44,168
	Sandvik Materials Technology (China) Ltd.	—	44 <sup>3)</sup>	207,854	—	44 <sup>3)</sup>	109,053
	Sandvik Process Systems (Shanghai) Ltd.	—	—	—	—	100	6,809
CZECH REPUBLIC	Sandvik CZ s.r.o.	—	100	0	—	100	0
GERMANY	Sandvik Materials Technology GmbH	—	1 <sup>2)</sup>	1,486	—	1 <sup>2)</sup>	1,486
	Sandvik Holding GmbH	—	1 <sup>2)</sup>	367	—	1 <sup>2)</sup>	367
GREECE	Sandvik A.E. Tools and Materials	5,529	100	1,567	5,529	100	1,567
HUNGARY	Sandvik Magyarorszag Kft.	—	100	3,258	—	100	3,258
INDIA	Sandvik Asia Ltd.	16,030,246	27 <sup>5)</sup>	277,028	16,030,246	27 <sup>5)</sup>	277,028
IRELAND	Sandvik Mining and Construction Logistics Ltd.	100	100	5,508	100	100	5,508
JAPAN	Sandvik K.K.	2,600,000	100	224,701	2,600,000	100	224,701
KENYA	Sandvik Kenya Ltd.	35,000	96	0	35,000	96	0
KOREA	Sandvik Korea Ltd.	752,730	100	46,856	752,730	100	46,856
MALI	Sandvik Mining and Construction Mali	25,000	100	3,462	25,000	100	3,462
MEXICO	Sandvik Mexicana S.A. de C.V.	406,642,873	90 <sup>4)</sup>	71,000	406,642,873	90 <sup>4)</sup>	71,000
MONGOLIA	Sandvik Mongolia LLC.	400,000	100	2,682	400,000	100	2,682
MOROCCO	Sandvik Maroc SARL	940	94	0	940	94	0
NETHERLANDS	Sandvik Finance B.V.	18,786	100	7,017,620	18,786	100	7,017,620
PERU	Sandvik del Perú S.A.	6,562,795	100	26,025	6,562,795	100	26,025
POLAND	Sandvik Polska Sp. z o.o.	3,211	100	93,197	3,211	100	93,197
SLOVAKIA	Sandvik Slovakia s.r.o.	—	100	1,238	—	100	1,238
SWITZERLAND	Sanfinanz AG	1,000	100	735	1,000	100	735
TURKEY	Sandvik Endüstriyel Mamüller Sanayi ve Ticaret A.S.	125,154,588	100	3,200	125,154,588	100	3,200
UAE	Sandvik Middle East FZE	1	100	2,096	—	—	—
ZIMBABWE	Sandvik Mining and Construction Zimbabwe (Pty) Ltd.	233,677	100	3,269	233,677	100	3,269
Total				14,366,028	14,434,781		

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 33%.

5) Shares up to an ownership interest of 97% are held by other Group companies.



## INVESTMENTS IN ASSOCIATED COMPANIES

Group	2009	2008
<b>Accumulated share of equity</b>		
At beginning of year	485	348
Acquisitions	—	91
Divestments	52	—
Share of profits for the year	39	46
Less dividend received	6	21
Translation differences during the year	3	21
<b>At end of year</b>	<b>385</b>	<b>485</b>

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

2009	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
<b>Owned directly by Sandvik AB</b>							
Balzer Sandvik Coating AB	Sweden	65	1	57	11	46	49.0
<b>Owned indirectly by Sandvik AB</b>							
Bellataire LLC	US	24	20	89	4	85	50.0
Eimco Elecon	India	232	25	262	84	178	25.1
Fagersta Stainless AB	Sweden	884	82	732	328	404	50.0
Precorp Inc.	US	102	1	105	22	83	49.0
Associates owned by Seco Tools		77	5	56	29	27	
2008	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
<b>Owned directly by Sandvik AB</b>							
Balzer Sandvik Coating AB	Sweden	111	23	77	24	53	49.0
<b>Owned indirectly by Sandvik AB</b>							
Bellataire LLC	US	69	7	126	14	112	50.0
Caterpillar Impact Products Ltd.	UK	405	56	177	79	98	40.0
Eimco Elecon	India	175	20	213	43	170	25.1
Fagersta Stainless AB	Sweden	1,964	5	991	480	511	50.0
Precorp Inc.	US	54	1	107	17	90	49.0
Associates owned by Seco Tools		46	4	45	26	19	

### Additional information

The close of the reporting period for the associate Eimco Elecon is 31 March 2009. Dividend paid in 2009 is included in the calculation of the proportion of equity. No financial statements as of a later date have been obtained.

Other associates are recognized one month in arrears.

Parent Company's shares in associated companies	2009	2008
<b>Cost</b>		
At beginning of year	4	4
<b>At end of year</b>	<b>4</b>	<b>4</b>

	Corp. Reg. No.	Share of capital and voting rights, %	Carrying amount, SEK M
<b>2009</b>			
Balzer Sandvik Coating AB, Stockholm	556098-1333	49	4
<b>2008</b>			
Balzer Sandvik Coating AB, Stockholm	556098-1333	49	4

## OTHER FINANCIAL ASSETS

Group	2009	2008
<b>Non-current financial investments</b>		
Available-for-sale investments		
Shares and participations	78	78
<b>Total</b>	<b>78</b>	<b>78</b>

### Additional information

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



**NOTE 18. NON-CURRENT RECEIVABLES AND OTHER CURRENT RECEIVABLES**

Group	2009	2008
<b>Non-current receivables</b>		
Funded pension plans	1,534	1,542
Other noninterest-bearing receivables	385	438
Other interest-bearing receivables	806	532
<b>Total</b>	<b>2,725</b>	<b>2,512</b>
<b>Other current receivables</b>		
Derivatives held as investments	6	4
Derivatives designated as hedging instruments	423	3,204
Due from customers for contract work	1,142	1,138
Other noninterest-bearing receivables	1,815	2,533
Other interest-bearing receivables	370	439
Advances to suppliers	255	441
<b>Total</b>	<b>4,011</b>	<b>7,759</b>
<b>Parent Company</b>	<b>2009</b>	<b>2008</b>
<b>Non-current receivables</b>		
Derivatives	82	6
Other noninterest-bearing receivables	19	20
<b>Total</b>	<b>101</b>	<b>26</b>
<b>Other current receivables</b>		
Derivatives	169	19
Other noninterest-bearing receivables	166	200
Other interest-bearing receivables	3	14
<b>Total</b>	<b>338</b>	<b>233</b>

**NOTE 20. TRADE RECEIVABLES**

Age analysis of trade receivables

Group	2009			2008		
	Gross	Allowance for bad debts	Net carrying amount	Gross	Allowance for bad debts	Net carrying amount
Current receivables	9,253	-47	9,206	11,878	-74	11,804
Past due receivables 0-3 months	1,784	-69	1,715	3,390	-82	3,308
Past due receivables 3-12 months	708	-255	453	1,005	-238	767
Past due receivables >12 months	555	-342	213	351	-300	51
<b>Total</b>	<b>12,300</b>	<b>-713</b>	<b>11,587</b>	<b>16,624</b>	<b>-694</b>	<b>15,930</b>

**NOTE 21. CAPITAL AND RESERVES**

Group	2009	2008
<b>Details of reserves</b>		
<b>Translation reserve</b>		
At beginning of year	5,028	288
Translation differences during the year	-611	4,740
<b>At end of year</b>	<b>4,417</b>	<b>5,028</b>
<b>Hedging reserve</b>		
At beginning of year	-377	80
Cash flow hedges recognized in equity	399	-457
<b>At end of year</b>	<b>22</b>	<b>-377</b>
<b>Total reserves</b>		
Reserves at beginning of year	4,651	368
<b>Changes in reserves:</b>		
Translation reserve	-611	4,740
Hedging reserve	399	-457
<b>Reserves at end of year</b>	<b>4,439</b>	<b>4,651</b>

	Group	
	2009	2008
Construction contracts		
Contract costs incurred and recognized profits (less recognized losses)	8,760	6,691
Advances received	1,300	885
Amounts retained by customers	29	0
Gross amount due from customers	1,142	1,138
Gross amount due to customers	281	207

**NOTE 19. INVENTORIES**

	Group		Parent Company	
	2009	2008	2009	2008
Raw materials and consumables	4,450	6,315	1,380	1,815
Work in progress	3,773	5,274	1,217	2,074
Finished goods	11,619	17,025	713	1,234
<b>Total</b>	<b>19,842</b>	<b>28,614</b>	<b>3,310</b>	<b>5,123</b>

Cost of sales of the Group includes impairment of inventories of SEK 519 M (-460) while cost of sales of the Parent Company includes impairment of SEK 150 M (154). There were no significant reversals of impairment losses during 2009 and 2008.

**Other paid-in capital**

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

**Reserves****Translation reserve**

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

**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow hedging instruments related to hedged transactions that have not yet occurred.

**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.

## CAPITAL AND RESERVES (CONT.)

### Repurchased shares

Repurchased shares include the acquisition cost of treasury stock held by the Parent Company.

### Management of capital

#### Sandvik's long-term financial objectives

	2009	2008
Organic growth	8%	8%
Return on capital employed	25%	25%
Dividend payout percentage	≥50%	≥50%
Debt/equity ratio	0.7–1.0	0.7–1.0

Sandvik's overall financial objective are based on the Group's position as world leading within its various fields of activities.

Sandvik's long-term organic growth goal is 8% over a sustained period of time, to be compared with the underlying average growth of the market over the same period of time, which is estimated at 4–6% within Sandvik's fields of activities. The objective is based on:

- Increased market shares in existing as well as new markets.
- New products.
- New application areas with great growth potentials.

The objective for the return on capital employed for existing operations is 25% for the Group as a whole. The circumstances for the various business areas differ and, accordingly, they also have different goals.

The business areas' goals and goal fulfillment are presented on page 13.

### Parent Company

#### Share capital

According to the Articles of Association of Sandvik AB, the share capital shall amount to a minimum of SEK 700,000,000 and a maximum of SEK 2,800,000,000. 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 during the past two years:

	No. of shares	SEK/share	Share capital SEK
Share capital at 31 December 2007	1,186,287,175	1.20	1,423,544,610
Share capital at 31 December 2008	1,186,287,175	1.20	1,423,544,610
Share capital at 31 December 2009	1,186,287,175	1.20	1,423,544,610

A dividend is proposed by the Board of Directors in accordance with the stipulations in the Swedish Companies' Act, and is approved at the Annual General Meeting. The proposed, not yet resolved, dividend for 2009 is estimated to amount to SEK 1,186 M (SEK 1.00 per share). This amount is not recognized as a liability.

No shares have been reserved for transfer under options or other agreements.

The Sandvik share is officially listed only on the Nasdaq OMX Exchange. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

#### Undistributable reserves

Undistributable reserves may not be paid to the shareholders in the form of dividends.

### 12.10.12 PARENT COMPANY'S OTHER UNTAXED RESERVES

	2009	2008
Other untaxed reserves	4	12
Total other untaxed reserves	4	12

### 12.10.13 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 postemployment benefits to employees throughout the Group. The plans are structured in accordance with local regulations and local practice. In recent years, Sandvik has sought to move more pensions toward defined-contribution solutions and to an ever-increasing extent the total pension expense comprises the costs for such plans. In principle, the plans cover all employees. The Group's most significant pension arrangements are described below.

#### Sweden

Workers are covered by the SAF/LO Plan, which is a multiemployer collectively bargained defined-contribution pension plan common for several industry sectors. Salaried employees are covered by the ITP Plan, which is also a multiemployer collectively bargained pension plan for several industry sectors. The ITP Plan was renegotiated and, as from October 2007, newly hired white-collar

#### Equity

Equity is defined as total shareholders' equity, including minority interest.

	2009	2008
Equity	1,424	1,424
Share capital	1,057	1,057
Other paid-in capital	4,439	4,651
Reserves	22,067	28,456
Retained earnings including profit for the year	28,987	35,588
Equity attributable to equity holders of the Parent	970	1,137
Minority interest	29,957	36,725
Total equity		

The Board of Directors has proposed to the 2010 Annual General Meeting a dividend of SEK 1.00 per share. Over the last five years, approximately 61% of the earnings per share has been distributed as ordinary dividend.

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.

#### Statutory reserve

The purpose of the statutory reserve has been to tie up part of the net profits that is not needed to cover an accumulated deficit. The statutory reserve amount includes amounts that before 1 January 2006 were included in the share premium reserve.

#### Distributable reserves

##### Retained earnings

Retained earnings comprise the distributable reserves recognized in the preceding year less any dividend declared. The total of such profits brought forward and the profit for the year constitute the total distributable reserves, that is the maximum amount available for distribution to the shareholders.

employees are offered the defined-contribution solution that the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector have agreed on (ITP 1). Earlier hired employees remain in the old ITP Plan. The old-age pension obligation under the old plan is of the defined-benefit kind and Sandvik mainly provides for this pension under the so-called FPG/PRI system. However, the commitment for family pension, also classified as a defined-benefit plan, is insured with Alecta. Sufficient information to use defined-benefit accounting for this plan was not available but these pension benefits insured with Alecta are accounted for as if the plan were a defined-contribution plan. At the end of 2009, Alecta reports a plan surplus of 141% (112). Such surplus reflects the fair value of Alecta's plan assets as a percentage of plan commitments, measured in accordance with Alecta's actuarial assumptions which are different from those under IAS 19. Alecta's surplus may be distributed to the policyholders and/or to the insureds.

## PROVISIONS FOR PENSION AND OTHER NON-CURRENT POST-EMPLOYMENT BENEFITS (CONT.)

In addition, the Parent Company has made supplementary defined-benefit pension commitments to a limited number of Executive Group Management members.

At 31 December 2009, the defined-benefit obligation amounted to SEK 2,351 M (2,106). The fair value of the plan assets held by the Sandvik Pension Foundation in Sweden was SEK 1,894 M (1,665).

### US

The employees of the Group's US subsidiaries have mainly been entitled to participate in the defined-benefit pension plans sponsored by their respective employer. As of 2007, these commitments have been renegotiated meaning that newly hired staff will henceforth be offered a defined-contribution solution. The defined-benefit plans were closed for new entrants.

In the US part of the Group, there are also commitments for post-retirement medical benefits. At 31 December 2009, the present value of remaining defined-benefit pension obligations was SEK 3,303 M (3,293). The fair value of plan assets was SEK 2,318 M (2,059).

### UK

Sandvik guarantees a number of defined-benefit pension plans in the UK. These plans are funded through trusts, which provide pension benefits based on a participant's salary when reaching pension age and length of service. All defined-benefit plans were closed for new entrants in September 2006. Subsequent newly hired employees are being offered participation in a defined-contribution plan.

At 31 December 2009, the present value of remaining defined-benefit pension obligations was SEK 4,328 M (3,732) and the fair value of plan assets was SEK 3,404 M (3,234).

### Finland

In Finland, Sandvik sponsors a funded defined-benefit pension plan. The benefits offered include an old-age pension and disability pension. In addition to the benefits guaranteed by the Finnish subsidiary, there is also a defined-contribution pension component.

At 31 December 2009, the present value of the defined-benefit pension obligations was SEK 2,241 M (2,101). The fair value of the plan assets held by the related Finnish pension foundation was SEK 2,715 M (2,455).

### Germany

In Germany, Sandvik has defined-benefit pension plans. Until 2008, these plans were unfunded. During 2008, Sandvik formed a foundation, a so-called Contractual Trust Agreement (CTA), which covers the current employees within most of Sandvik's German companies. The pension commitments for retirees and paid-up policyholders are still unfunded. The present value of the defined benefit obligations at 31 December 2009 was SEK 1,777 M (1,709). The fair value of the plan assets amounts to SEK 856 M (778).

### Other

The present value of defined-benefit pension obligations in other countries was SEK 1,966 M (1,882). The fair value of related plan assets was SEK 1,403 (1,230).

The total cost for the more significant defined-benefit pension plans is presented below:

	2009	2008
Pension cost		
Current service cost	-418	-414
Interest expense	-852	-734
Expected return on plan assets	717	734
Amortization of unrecognized gains and losses	-110	-10
Prior service costs	-6	-5
Employee contributions	58	55
Gains (losses) on settlements	18	15
<b>Total defined-benefit pension cost</b>	<b>-593</b>	<b>-359</b>

Total pension costs for defined-contribution and defined-benefit plans were as follows:

	2009	2008
Defined-contribution and defined-benefit plans		
Defined-contribution plans	-1,050	-1,065
Defined-benefit plans	-593	-359
<b>Total pension cost</b>	<b>-1,643</b>	<b>-1,424</b>

The cost for defined-contribution plans also includes plans recognized in accordance with local regulations and the cost for the defined-benefit commitments insured with Alecta described on the preceding page.

Actual return on plan assets during 2009 was SEK 1,500 M (-1,353).

Pension costs are included in profit and loss on the lines cost of sales, selling expenses, administrative expenses, research and development costs, and financial expense. Financial expense includes a portion, SEK 217 M (206), of the interest expense above that pertains to deficits in pension plans.

If the fair value of plan assets for a certain pension plan exceeds the present value of the obligation, an asset is recognized considering the restrictions described in the "Significant accounting policies" section above. The amounts recognized in the balance sheet are allocated between non-current financial receivables and provisions as follows:

	2009	2008
Provision for pensions		
Funded plans recognized as non-current receivables	1,534	1,542
Pension plans recognized as provisions for pensions	-2,657	-2,735
<b>Provisions for pensions, net</b>	<b>-1,123</b>	<b>-1,193</b>

Actuarial gains and losses for a specific plan are recognized over the expected average remaining working lives of the employees participating in the plan to the extent that the total gain or loss exceeds the greater of 10% of the present value of the obligations or 10% of the fair value of any plan assets.

A summary of the recognized net obligation for the most significant plans for defined-benefit pensions and medical benefits follows:

	2009	2008
Net obligation		
<b>Wholly or partly funded plans</b>		
Present value of defined-benefit obligations	-14,126	-12,940
Fair value of plan assets	12,620	11,421
<b>Net liability, funded plans</b>	<b>-1,506</b>	<b>-1,519</b>
<b>Unfunded plans</b>		
Present value of defined-benefit obligations	-1,840	-1,883
Unrecognized past service costs	28	34
Unrecognized actuarial losses (+) and gains (-), net	2,359	2,353
<b>Pension liability for plans recognized in accordance with IAS 19</b>	<b>-959</b>	<b>-1,015</b>
Pension liability for plans recognized in accordance with local regulations	-164	-178
<b>Provisions for pensions/medical benefits, net</b>	<b>-1,123</b>	<b>-1,193</b>

The consolidation ratio, that is, the value of plan assets in relation to the present value of comparable obligations, amounted at year-end 2009 to 89% (88).

	2009	2008
Composition of plan assets, %		
Shares and equity based securities	39	26
Interest-bearing securities	49	56
Other	12	18
<b>Total</b>	<b>100</b>	<b>100</b>

The fair value of plan assets at 31 December 2009 (and 31 December 2008) includes loans to Sandvik entities totaling SEK 160 M (153) and the value of properties leased to Sandvik of SEK 241 M (255).

Movements in the recognized obligations for pensions and medical benefits, and in plan assets are set out in the following tables:

	2009	2008
Movements in the obligations		
Obligations for defined-benefit plans at beginning of year	-14,823	-14,089
Current service cost and interest expense	-1,270	-1,149
Pensions paid	694	554
Effects of business combinations and settlements	-72	-161
Actuarial gains (+)/losses (-)	-959	775
Exchange-rate differences	-164	-753
<b>Obligations for defined-benefit plans at end of year</b>	<b>-15,966</b>	<b>-14,823</b>

## PROVISIONS FOR PENSION AND OTHER NON-CURRENT POST-EMPLOYMENT BENEFITS (CONT.)

Movements in plan assets	2009	2008
Fair value of plan assets at beginning of year	11,421	11,231
Expected return on plan assets	717	734
Actuarial gains(+)/losses(-)	783	-2,087
Pensions paid, net	645	-503
Contributions from employers	652	1,380
Effects of business combinations and settlements	21	195
Exchange-rate differences	-329	471
<b>Fair value of plan assets at end of year</b>	<b>12,620</b>	<b>11,421</b>

Sandvik estimates that about SEK 500 M will be paid in 2010 to existing defined-benefit pension plans.

The movements in the net pension and medical-benefit liability are presented in the following table:

	2009	2008
Net liability at beginning of year	1,193	-2,065
New plans, incl. those of newly acquired companies	-81	-7
Pension cost for the year for defined-benefit plans	-593	-359
Contributions from Group companies	652	1,380
Movement in the net liability due to exchange-rate differences	78	-135
<b>Movement in net liability for defined-benefit plans recognized in accordance with IAS 19</b>	<b>56</b>	<b>879</b>

Movement in pension plans recognized in accordance with local regulations

	2009	2008
	14	-7
<b>Provisions for pensions, net</b>	<b>-1,123</b>	<b>-1,193</b>

Key actuarial assumptions (weighted average, %)	2009	2008
Discount rate	5.2	5.7
Expected return on plan assets	6.0	6.2
Expected rate of salary increases	3.3	3.5
Expected inflation	2.4	2.7
Change in medical cost trend	10.0	9.0

Unrecognized actuarial gains (-) and losses (+)	2009	2008	2007	2006
Unrecognized gains and losses at beginning of year	2,353	932	856	778
Changed assumptions relating to obligations	882	-746	-137	318
Experience adjustments arising on plan liabilities	73	-30	167	82
Experience adjustments arising on plan assets	-783	2,087	31	-232
Amortization of actuarial gains and losses	-110	-10	-5	-15
Translation difference	-56	120	20	-75
<b>Unrecognized gains and losses at end of year</b>	<b>2,359</b>	<b>2,353</b>	<b>932</b>	<b>856</b>

### Parent Company

The Parent Company's recognized pension provision was SEK 128 M (128). The Parent Company's PRI pensions are secured through Sandvik's own pension foundation, the Sandvik Pension Foundation in Sweden. Sandvik AB and most of its Swedish subsidiaries, including Seco Tools, are members of the foundation. The total fair value of the assets held by the foundation was SEK 1,894 M (1,665), which exceeded the capital value of the pension obligations by SEK 67 M (72 lower).

The Parent Company's funded obligations mainly comprise ITP Plans, in which different lifetime assumptions were made during the year, while at the same time the consolidation reserve was reduced. In total, the changes had only a limited effect on the recognized liability.

The Swedish Financial Supervisory Authority's (Finansinspektionen) new calculation basis, FFFS 2007:31, which covers the Parent Company's unfunded obligations, became effective 1 January 2008 and means increased lifetime assumptions and reduced discount rates.

The trend in the capital value of the company's proprietary obligations.

	Funded obligations	Unfunded obligations	Total
2009			
Capital value at beginning of year	-1,348	-117	-1,465
Pension cost for the year excl. interest expense	65	-5	-70
Interest expense	-68	-1	-69
Pensions paid	-47	5	-52
+/- effects of settlements and business combinations	2	---	2
Other changes	9	2	11
<b>Capital value at end of year</b>	<b>-1,423</b>	<b>-116</b>	<b>-1,539</b>
of which insured with FPG/PRI	-1,411	-48	-1,459

	Funded obligations	Unfunded obligations	Total
2008			
Capital value at beginning of year	-1,247	-95	-1,342
Pension cost for the year excl. interest expense	-63	-12	-75
Interest expense	-52	-1	-53
Pensions paid	32	5	37
+/- effects of settlements and business combinations	0	---	0
Other changes	-18	-14	-32
<b>Capital value at end of year</b>	<b>-1,348</b>	<b>-117</b>	<b>-1,465</b>
of which insured with FPG/PRI	-1,337	-46	-1,383

Movement in the assets of the pension foundation	2009	2008
Fair value of assets at beginning of year	1,297	1,475
Actual return on assets	176	-202
Net amount refunded to employers	1	24
<b>Fair value of assets at end of year</b>	<b>1,474</b>	<b>1,297</b>

Reconciliation of the recognized pension liability	2009	2008
Capital value at end of year	-1,539	-1,465
Fair value of the assets of the foundation at end of year	1,474	1,297
Surplus/deficit value of foundation assets	-63	40
<b>Recognized net liability</b>	<b>-128</b>	<b>-128</b>

The recognized pension cost for the year comprises the following items

	2009	2008
Current service cost excl. interest expense	-70	-75
Interest expense	-69	-53
Return on separated assets	176	-202
Effects of settlements, etc.	---	---
<b>Costs for pension under own management</b>	<b>37</b>	<b>-330</b>

Defined-contribution plans		
Pension premiums for the year	-162	-397
<b>Subtotal</b>	<b>-425</b>	<b>-727</b>

Special employer's contribution	-92	-91
Premium for credit insurance policy	-1	2
<b>Total pension cost for the year</b>	<b>-518</b>	<b>-816</b>

Change in surplus value of separated assets	-37	330
<b>Net pension cost for the year</b>	<b>-555</b>	<b>-486</b>

Composition of the foundation's assets, %	2009	2008
Shares and equity based securities	34	13
Interest-bearing securities	55	77
Other	11	10
<b>Total</b>	<b>100</b>	<b>100</b>

Key actuarial assumptions, %	2009	2008
Discount rate for ITP Plan	3.84	3.84

**NOTE 24. OTHER PROVISIONS**

Group	Provisions for warranties	Provisions for restructurings	Personnel-related provisions	Other provisions	Total
Balance at 1 January 2009	414	160	421	545	1,540
Provisions made during the year	205	400	187	524	1,316
Provisions used during the year	-197	-116	-347	-322	-982
Provisions reversed during the year	-42	-24	-33	-16	-115
Translation differences	-4	-4	20	6	18
Balance at 31 December 2009	376	416	248	737	1,777
of which current	179	318	81	417	995
of which non-current	197	98	167	320	782

**Parent Company**

Balance at 1 January 2009	25	0	125	38	188
Provisions made during the year	8	—	16	1	25
Provisions used during the year	-8	—	-68	-23	-99
Provisions reversed during the year	—	—	-27	—	-27
Balance at 31 December 2009	25	0	46	16	87

**Provisions for warranties**

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

**Provisions for restructuring**

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

**Other provisions**

Other provisions include provisions not classified into the above categories, such as provisions for onerous contracts, for lease commitments relating to abandoned premises, and for environmental issues.

Provisions classified as current are expected to result in an outflow of resources within twelve months from the balance-sheet date.

Provisions carried by newly acquired companies at acquisition date amounted to some SEK 118 M (12).

**NOTE 25. NON-CURRENT INTEREST-BEARING LIABILITIES****Parent Company**

Non-current interest-bearing liabilities fall due as follows:

	2009			2008		
	Within one to five years	Later than five years	Total	Within one to five years	Later than five years	Total
Loans from financial institutions	1,431	463	1,894	1,190	463	1,653
Loans from Group companies	39	1	40	122	—	122
Other liabilities	12,222	4,923	17,145	8,168	2,423	10,591
<b>Total</b>	<b>13,692</b>	<b>5,387</b>	<b>19,079</b>	<b>9,480</b>	<b>2,886</b>	<b>12,366</b>

**NOTE 26. OTHER INTEREST-BEARING LIABILITIES**

Group	2009	2008
<b>Non-current liabilities</b>		
Bond issues	23,484	17,528
Other	573	360
<b>Total</b>	<b>24,057</b>	<b>17,888</b>
<b>Current liabilities</b>		
Bond issues	3,160	2,776
Other	983	449
<b>Total</b>	<b>4,143</b>	<b>3,225</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 27. OTHER NONINTEREST-BEARING LIABILITIES**

Group	2009	2008
<b>Other non-current liabilities</b>		
Derivatives held for trading	1	38
Derivatives designated as hedging instruments	146	296
Other	25	64
<b>Total</b>	<b>172</b>	<b>398</b>
<b>Other current liabilities</b>		
Derivatives held for trading	7	20
Derivatives designated as hedging instruments	819	1,109
Bills payable	87	185
Gross amount due to construction contract customers	281	207
Other	2,234	1,791
<b>Total</b>	<b>3,428</b>	<b>3,312</b>

**NOTE 18. ACCRUED EXPENSES AND DEFERRED INCOME**

Parent Company	2009	2008
Personnel related	970	1,159
Expenses related to finance	621	386
Other	464	635
<b>Total</b>	<b>2,055</b>	<b>2,180</b>

**NOTE 19. CONTINGENT LIABILITIES AND PLEDGED ASSETS**

From time to time, Sandvik is party to more or less significant legal proceedings in the ordinary course of business. In that context, Sandvik is also party to legal and administrative proceedings related to its responsibility for products, environment, health and safety. None of these proceedings is of a material nature.

In the US, companies that sell welding electrodes, including Sandvik's US subsidiary, Sandvik Inc., are the object of claims in which it is asserted that the exposure to welding fumes caused neurological injury. All of these cases involve multiple defendants in addition to Sandvik Inc. To obtain a favorable result against Sandvik Inc., a plaintiff would have to prove that the neurological injury was caused by welding electrodes sold by Sandvik Inc. Sandvik Inc.'s market share for welding electrodes in the US is less than 1%, and many of the cases against Sandvik Inc. have been dismissed because the plaintiff could not show that they had used Sandvik Inc.'s welding electrodes. Furthermore, Sandvik believes that there is no reliable scientific evidence to support the claims. Despite such absence of evidence, and notwithstanding Sandvik's minimal market share, Sandvik anticipates it will have to continue to defend itself against this kind of claims in lawsuits. To date, the Group has not lost a lawsuit or reached settlements pertaining to these welding electrodes claims, and the only costs that have arisen are legal expenses. A significant portion of these expenses were covered by insurance policies.

	Group		Parent Company	
	2009	2008	2009	2008
Contingent liabilities				
Bills discounted	51	22	—	—
Other surety undertakings and contingent liabilities	2,868	1,838	17,778	17,316
<b>Total</b>	<b>2,919</b>	<b>1,860</b>	<b>17,778</b>	<b>17,316</b>
of which for subsidiaries			15,969	17,122

The Parent Company's surety undertakings and contingent liabilities amounted to SEK 17,778 M (17,316), of which SEK 11,898 M (13,941) related to the Parent Company's guarantees for Sandvik Treasury AB's financial borrowings. The remainder comprised mainly indemnity bonds for commitments of Group companies to their customers and vendors, and to financial institutions relating to local borrowings, guarantees on advances received and various types of performance bonds.

The Group's surety undertakings and contingent liabilities amounted to SEK 2,919 M (1,860) and comprised mainly guarantees to financial institutions for various types of performance bonds, chiefly relating to construction contracts entered into by Sandvik Mining and Construction.

**Pledged assets**

Pledged assets for own liabilities and provisions.

Group	2009	2008
Property mortgages	237	250
Chattel mortgages	168	166
<b>Total</b>	<b>405</b>	<b>416</b>

No assets of the Parent Company had been pledged at 2009 and 2008 year-ends.

**NOTE 20. SUPPLEMENTARY INFORMATION – FINANCIAL RISK MANAGEMENT****Disclosure regarding financial instruments measured at fair value in the balance sheet.**

Under the new IFRS 7 disclosure requirements, the method applied to the valuation of financial instruments measured at fair value in the balance sheet is presented below. The valuation is divided into three levels:

Level 1: Fair value is determined according to prices listed on an active market for the same instrument.

Level 2: Fair value is determined based on either directly (as a price) or indirectly (derived from prices) observable market data that is not included in level 1.

Level 3: Fair value is determined based on input data that is not observable in the market.

All of Sandvik's financial instruments are included in Level 2.

**Measurements of fair value**

The following is a summary of the methods and assumptions primarily applied to determine the fair value of the financial instruments presented in the table below.

The fair value of listed securities is determined based on the listed average price of the asset on the balance sheet date with no supplement for transaction costs on the acquisition date.

The fair value of foreign exchange contracts is determined based on the listed price. The fair value of interest-rate swaps is based on discounting estimated future cash flows under the contractual terms and conditions and maturity dates and based on the market interest rate for similar instruments on the balance-sheet date. Where discounted cash flows are used, the future cash flows are calculated on the best assessments of company management. The discount rate applied is the market-based interest rate of similar instruments on the balance-sheet date.

All valuation techniques applied are accepted on the market and take into account all parameters that the market would consider in its pricing. These techniques are reviewed regularly so as to ensure their reliability. Applied assumptions are compared against actual outcomes to identify any needs for adjusting the measurement or forecasting tools.

For means of payment, receivables and liabilities with variable interest and current receivables and liabilities (for example, trade receivables and accounts payable), the fair value has been considered to correspond to the carrying amount.

**The Group's financial instruments measured at fair value in the balance sheet on 31 December 2009****Financial instruments measured at fair value**

<b>Financial assets</b>		
Derivatives	Foreign exchange contracts	399
	Foreign currency options	3
	Interest-rate swaps	149
	Commodity derivatives	101
	<b>Total</b>	<b>652</b>

**Financial liabilities**

Derivatives	Foreign exchange contracts	897
	Foreign currency options	2
	Interest-rate swaps	24
	Commodity derivatives	49
	<b>Total</b>	<b>972</b>

Financial assets and liabilities and financial derivatives are stated at fair value, except for current and non-current borrowings, which are measured at amortized cost. Calculation at fair value would increase the Group's non-current borrowings by SEK 2,227 M (2,475). When measuring interest-bearing liabilities, the company's Swedish and European bond loans have then been remeasured at listed market prices when available. Other non-current debt has been remeasured in accordance with the principles described above. Current loans, which include outstanding commercial papers with a fixed interest period of less than 12 months, have not been remeasured.

## SUPPLEMENTARY INFORMATION – FINANCIAL RISK MANAGEMENT (CONT.)

The table below shows the fair value of financial assets and liabilities compared with their carrying amounts. Fair value is the amount at which an asset or liability can be sold between well-informed partners who are independent in relation to each other and who have a vested interest in completing the transaction.

### Fair value of financial assets and liabilities by valuation category

Balance-sheet items	Derivatives for hedge accounting <sup>1)</sup>		Assets at fair value through profit and loss		Derivatives held for trading <sup>2)</sup>		Available-for-sale financial assets		Loans and receivables		Total carrying amount		Fair value	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Financial assets														
Financial investments	—	—	—	—	78	78	—	—	—	—	78	78	78	78
Shares in associates	—	—	—	—	385	485	—	—	—	—	385	485	385	485
Trade receivables	—	—	—	—	—	—	11,587	15,930	11,587	15,930	11,587	15,930	11,587	15,930
Other receivables <sup>3)</sup>	—	—	—	—	—	—	1,166	1,258	1,166	1,258	1,166	1,258	1,166	1,258
Derivatives <sup>4)</sup>	349	1,663	303	1,757	—	—	—	—	652	3,420	652	3,420	652	3,420
Cash and cash equivalents	—	—	—	—	—	—	7,506	4,998	7,506	4,998	7,506	4,998	7,506	4,998
<b>Total financial assets</b>	<b>349</b>	<b>1,663</b>	<b>303</b>	<b>1,757</b>	<b>463</b>	<b>563</b>	<b>20,259</b>	<b>22,186</b>	<b>21,374</b>	<b>26,169</b>	<b>21,374</b>	<b>26,169</b>	<b>21,374</b>	<b>26,169</b>
Financial liabilities														
Borrowings <sup>5)</sup>	—	—	—	—	36,724	37,128	—	—	36,724	37,128	38,952	38,219	38,952	38,219
Derivatives <sup>6)</sup>	189	790	783	727	—	—	—	—	972	1,517	972	1,517	972	1,517
Accounts payable	—	—	—	—	—	—	4,730	7,000	4,730	7,000	4,730	7,000	4,730	7,000
Due to associates	—	—	—	—	—	—	42	80	42	80	42	80	42	80
Other liabilities <sup>7)</sup>	—	—	—	—	—	—	706	657	706	657	706	657	706	657
<b>Total financial liabilities</b>	<b>189</b>	<b>790</b>	<b>783</b>	<b>727</b>	<b>36,724</b>	<b>37,128</b>	<b>5,478</b>	<b>7,737</b>	<b>43,174</b>	<b>46,382</b>	<b>45,402</b>	<b>47,473</b>	<b>45,402</b>	<b>47,473</b>

1) Fair Value Option is not applied.

2) Of which SEK +30 M (+\$11) pertains to cash flow hedges recognized in the hedging reserve in equity and SEK +130 M (+1,384) pertains to fair value hedges recognized in profit or loss.

3) Of which SEK +475 M (+1,084) pertains to financial hedges; hedge accounting is not applied.

4) Comprises parts of the Group's non-current receivables, accrued income and other receivables recognized in the balance sheet.

5) Derivatives form part of the other receivables recognized in the balance sheet.

6) Recognized in the balance sheet as non-current and current liabilities to financial institutions and other liabilities.

7) Derivatives form part of the other liabilities recognized in the balance sheet.

8) Form part of the Group's non-current liabilities, accrued expenses and other liabilities recognized in the balance sheet.

### Fair-value adjustments included in profit or loss for the year

In addition to fair value adjustment, interest and currency movement effects are included.

	2009	2008
Assets and liabilities at fair value (Derivatives)	-175	100
Loans and accounts receivables	134	645
Available-for-sale financial assets	10	3
Financial liabilities	-2,057	-2,253

The company's financial liabilities amounted to SEK 43,174 M (46,382) at year-end.

### Group's maturity structure of financial liabilities and derivatives – undiscounted cash flows

Nominal amounts		2009				2008			
		<6 months	6–12 months	1–5 years	>5 years	<6 months	6–12 months	1–5 years	>5 years
Bank loans	SEK	-2,187	-1,262	-5,012	—	-4,167	-647	-2,104	-2,476
Commercial papers	SEK	-1,560	-250	—	—	-4,279	-3,690	—	—
MTN	SEK	-1,401	-2,003	-7,545	-5,058	-1,251	-1,902	-8,523	-2,498
EMTN	EUR	-426	—	-7,890	—	—	—	—	—
Private placement	USD	-148	-148	-1,480	-6,495	-148	-148	-1,480	-6,791
Derivatives									
– Currency derivatives		-472	-30	1	5	744	228	-173	—
– Interest-rate derivatives		3	18	-41	-209	33	81	677	-460
– Commodity and electricity derivatives		-3	-4	53	4	-41	-42	-103	—
Accounts payable		-4,730	—	—	—	-7,000	—	—	—
<b>Total</b>		<b>-10,924</b>	<b>-3,679</b>	<b>-21,914</b>	<b>-11,753</b>	<b>-16,109</b>	<b>-6,120</b>	<b>-11,706</b>	<b>-11,305</b>

## SUPPLEMENTARY INFORMATION – FINANCIAL RISK MANAGEMENT (CONT.)

### Periods when hedged cash flows are expected to occur and affect earnings

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2012 and later
Currency derivatives	5	16	-16	1	4	3	4	11	3
Interest derivatives	0	0	0	0	0	0	0	0	10
Commodity and electricity derivatives	-5	-14	-12	0	8	0	5	1	58
<b>Total</b>	<b>-10</b>	<b>-30</b>	<b>-28</b>	<b>1</b>	<b>12</b>	<b>3</b>	<b>-1</b>	<b>12</b>	<b>71</b>

## RELATED PARTIES

### Related-party transactions

The Group's sales to associated companies amounted to SEK 691 M (1,756). The Group's purchases from associated companies amounted to SEK 276 M (564). Advances have been made to associated companies in the amount of SEK 0 M (0). Interest income on loans to associated companies amounted to SEK 0 M (0). Guarantees have been made for the obligations of associated companies in the amount of SEK 0 M (0). All transactions are carried out on market terms.

Sales to Group companies from the Parent Company amounted to SEK 9,851 M (15,362), or 73% (75) of total sales. The share of exports was 66% (79). The Parent Company's purchases from Group companies amounted to SEK 2,417 M (2,306), or 22% (13) 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 SEK 0 M (0). All transactions are effected on an arm's length basis.

### Transactions with key management personnel

Except as indicated in Note 3.5, information on benefits to the Board of Directors and senior executives, and in the description of the Board of Directors on page 103, no transactions took place with persons closely associated with the company.

## SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT

	2009	2008
<b>Cash and cash equivalents – Group</b>		
Cash and cash equivalents comprise:		
Cash and bank	2,722	3,112
Short-term investments	4,784	1,886
Total in the balance sheet	7,506	4,998
Total in the cash-flow statement	7,506	4,998

### Cash and cash equivalents – Parent Company

Cash and cash equivalents comprise:		
Cash and bank	9	3
Total in the balance sheet	9	3
Total in the cash-flow statement	9	3

A short-term investment is classified as 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	
	2009	2008	2009	2008
<b>Interest and dividend paid</b>				
Dividend received	10	3	5,803	6,757
Interest received	302	383	685	545
Interest paid	-1,995	-2,169	-983	-1,403
<b>Total</b>	<b>-1,683</b>	<b>-1,783</b>	<b>5,505</b>	<b>5,899</b>

## cont. SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT

	Group		Parent Company	
	2009	2008	2009	2008
<b>Adjustment for items do not require the use of cash</b>				
Changes in value of financial instruments	—	—	-528	547
Unappropriated results of associated companies	34	-24	—	—
Gains and losses on disposal of property, plant and equipment	67	-60	-23	-1
Provisions for pensions	115	-299	0	20
Appropriations	—	—	-8	-7
Unrealized exchange-rate differences	—	—	-347	-678
Other	265	241	446	-118
<b>Total</b>	<b>481</b>	<b>-142</b>	<b>-460</b>	<b>-237</b>

	2009	2008
<b>Acquisitions of subsidiaries and other business operations – Group</b>		
Net assets acquired:		
Non-current assets	2,849	865
Inventories	690	138
Operating receivables	156	116
Cash and cash equivalents	88	10
<b>Total assets</b>	<b>3,783</b>	<b>1,129</b>
Provisions	-204	-38
Operating liabilities	-66	-109
Other liabilities	-237	-155
<b>Total provisions and liabilities</b>	<b>-507</b>	<b>-302</b>
Purchase consideration recognized as a liability	-1,152	-16
Purchase consideration paid	-2,124	-811
<b>Acquisition of minority interests in subsidiaries</b>		
Purchase consideration paid	—	-153
Less cash and cash equivalents acquired	88	10
<b>Effect on cash and cash equivalents</b>	<b>-2,036</b>	<b>-954</b>



## SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT (CONT.)

	2009	2008
<b>Divestments of subsidiaries and other business operations – Group</b>		
Net assets divested:		
Non-current assets	52	-20
Inventories	---	-16
Operating receivables	---	-31
Cash and cash equivalents	---	0
Total assets	52	-97
Provisions	---	3
Operating liabilities	---	29
Other liabilities	---	---
Total provisions and liabilities	---	32
Purchase consideration received	55	111
Less cash and cash equivalents of divested operations	---	0
Effect on cash and cash equivalents	55	111

### Realization of interest-rate swaps and foreign exchange contracts

The realization of interest-rate swaps and foreign exchange contracts during the year contributed SEK 1,843 M to cash flow. Interest-rate swaps pertained to interest-rate contracts signed in conjunction with raising loans in the form of US Private Placements in 2005 and 2007 to obtain variable interest rates.

## BUSINESS COMBINATIONS

The business combinations effected during 2008 and 2009 are set out below. Annual revenue and number of employees reflect the situation at the date of the respective acquisition.

Business area	Company	Acquisition date	Annual revenue	No. of employees
Sandvik Mining and Construction	JN Precise, Canada	28 January 2008	100	70
Sandvik Materials Technology	Medtronic Inc, USA (part of)	1 February 2008	140	110
Sandvik Mining and Construction	Corstor International, South Africa	29 February 2008	70	100
Sandvik Mining and Construction	Aubema, Germany	3 April 2008	160	80
Sandvik Mining and Construction	Sanslip, Sweden	7 April 2008	15	9
Sandvik Materials Technology	Eurocut Ltd, UK	2 May 2008	60	60
Sandvik Tooling	Teeness ASA, Norway	30 May 2008	200	105
Seco Tools	ALG, Russia	5 May 2008	100	170
Sandvik Tooling	BTA Heller Drilling Systems Ltd., UK	16 January 2009	33	12
Sandvik Materials Technology	FeCrAl product line, Germany	31 January 2009	46	0
Sandvik Tooling	Wolfram Bergbau und Hütten, Austria	28 May 2009	1,800	274

In all of the business combinations during 2009, Sandvik acquired 100% of the shares. No equity instruments were issued in connection with the acquisitions.

BTA Heller Drilling Systems Ltd. specializes in advanced tooling solutions for deep-hole drilling in complex materials. The company is located in Cirencester, UK.

In January 2009, Sandvik Mining Technology acquired the FeCrAl product line in the wire manufacturing area.

Wolfram Bergbau und Hütten has plants in St. Martin and Mittersill in Austria and develops and produces tungsten metal and carbide powder.

Goodwill has been recognized as a result of synergy effects, for example in the form of improved production processes, integration of production capacity, joint research and development activities and synergies in the distribution chain arising from added products.

## NOTE 11 BUSINESS COMBINATIONS (CONT.)

Pre-acquisition carrying amounts determined under IFRS and fair value adjustments of assets and liabilities of the acquired companies are presented by business area in the following tables:

	2009			2008
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition	Recognized value on acquisition
<b>Sandvik Tooling</b>				
Intangible assets	18	493	511	28
Property, plant and equipment	486	138	624	129
Financial investments	43	—	43	8
Inventories	637	50	687	27
Current receivables	156	—	156	14
Cash and cash equivalents	88	—	88	2
Interest-bearing liabilities	-78	—	-78	-113
Noninterest-bearing liabilities	-272	-171	-443	-37
Net identifiable assets and liabilities	1,078	510	1,588	58
Goodwill	—	—	1,647	177
Purchase consideration	—	—	3,235	235
Cash and cash equivalents of acquired businesses	—	—	-88	-2
Part of consideration entered as a liability	—	—	-1,152	—
Net cash outflow	—	—	1,995	233
<b>Sandvik Mining and Construction</b>				
Intangible assets	—	—	—	51
Property, plant and equipment	—	—	—	34
Inventories	—	—	—	59
Current receivables	—	—	—	65
Cash and cash equivalents	—	—	—	7
Interest-bearing liabilities	—	—	—	-41
Noninterest-bearing liabilities	—	—	—	-96
Net identifiable assets and liabilities	—	—	—	79
Goodwill	—	—	—	222
Purchase consideration	—	—	—	301
Cash and cash equivalents of acquired businesses	—	—	—	-7
Part of consideration entered as a liability	—	—	—	-2
Net cash outflow	—	—	—	292
<b>Sandvik Materials Technology</b>				
Intangible assets	—	32	32	73
Property, plant and equipment	—	—	—	39
Inventories	5	—	5	—
Net identifiable assets and liabilities	5	32	37	112
Goodwill	—	—	—	16
Purchase consideration	—	—	37	128
Net cash outflow	—	—	37	128
<b>Seco Tools</b>				
Intangible assets	—	—	—	10
Property, plant and equipment	—	—	—	37
Inventories	—	—	—	10
Current receivables	—	—	—	32
Cash and cash equivalents	—	—	—	1
Interest-bearing liabilities	—	—	—	-21
Noninterest-bearing liabilities	—	—	—	-28
Net identifiable assets and liabilities	—	—	—	41
Goodwill	—	—	—	59
Purchase consideration	—	—	—	100
Cash and cash equivalents of acquired businesses	—	—	—	-1
Finalized purchase consideration	—	—	—	-14
Net cash outflow	—	—	—	85

During the year, purchase considerations recognized as a liability were amortized in the amount of SEK 4 M.

## BUSINESS COMBINATIONS (CONT.)

### Total fair value of assets and liabilities of acquired businesses

	Pre-acquisition carrying amounts	2009 Fair value adjustments	Recognized value on acquisition	2008 Recognized value on acquisition
Intangible assets	18	525	543	89
Property, plant and equipment	486	138	624	273
Financial investments	43	—	43	8
Inventories	642	50	692	135
Current receivables	156	—	156	111
Cash and cash equivalents	88	—	88	10
Interest-bearing liabilities	78	—	78	175
Noninterest-bearing liabilities	272	171	443	161
Net identifiable assets and liabilities	1,083	542	1,625	290
Goodwill			1,647	174
Purchase consideration			3,272	764
Cash and cash equivalents of acquired businesses			88	10
Part of consideration entered as a liability			1,152	16
Net cash outflow			2,032	738
of which directly attributable acquisition costs			11	12

No material adjustments have been made to the fair values of assets and liabilities of businesses acquired in 2008.

### Contributions from companies acquired in 2009 by business area

	Sandvik Tooling	Sandvik Mining and Construction	Sandvik Materials Technology	Seco Tools	Total
<b>Contributions as from acquisition date</b>					
Revenue	388	—	—	—	388
Profit/loss for the year	56	—	—	—	56

### Contributions as though the acquisition date had been 1 January 2009

Revenue	661	—	—	—	661
Profit/loss for the year	47	—	—	—	47

### Contributions from companies acquired during 2008 by business area

	Sandvik Tooling	Sandvik Mining and Construction	Sandvik Materials Technology	Seco Tools	Total
<b>Contributions as from acquisition date</b>					
Revenue	0	205	100	65	370
Profit/loss for the year	8	2	28	5	43

### Contributions as though the acquisition date had been 1 January 2008

Revenue	0	269	119	102	490
Profit/loss for the year	14	1	33	6	54

### Acquisition of minority interests

No minority interests were acquired in 2009.

On 15 March 2008, an additional 49% was acquired in Sandvik MGS S.A., on 23 July 2.1% in Sandvik MKTC-OAO and on 31 October 30% in Sandvik Shujun Ltd. As a result, the ownership in these companies rose to 100%. Accordingly, the Group recognizes a decline in minority interests of SEK 162 M.

## PARENT COMPANY PARTICULARS

Sandvik Aktiebolag, corporate registration number 556000-3468, is a registered Swedish limited liability company domiciled in Sandviken.

The head office address is Sandvik AB, SE-811 81 Sandviken, Sweden.

Sandvik's shares are quoted on the Nasdaq OMX Exchange. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

The 2009 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.

## INFORMATION ON SHARES, OWNERS AND RIGHTS

The following information is presented in accordance with the provisions of Chapter 6, Section 2.a. of the Swedish Annual Accounts Act.

The Parent Company has issued one series of shares and each share carries one vote. The total number of shares shall be not less than 1,000,000,000 and no more than 4,000,000,000.

At the end of 2009, 1,186,287,175 shares with a quotient value of SEK 1.20 per share had been issued. Shareholders have a preferential right to subscribe to newly issued shares issued for cash or with terms and conditions concerning rights of setoff. All shares are fully negotiable.

Shareholdings that directly and indirectly represent at least 10% of the voting rights are held by AB Industrivärden (11.4%).

Sandvik AB's Articles of Association govern such policies as the direction of the business, domicile and share capital (minimum and maximum capital). The Articles do not stipulate that the members of the Board of Directors shall be elected in any other way than at the Annual General Meeting. However, Board representatives of the employees are appointed by the trade unions under the Private Sector Employees (Board Representation) Act.

Companies in the Group entered into borrowing agreements that include conditions coming into effect should the control of the company change as a result of a public takeover bid.

There are no agreements between the companies in the Group and the Parent Company's directors or employees if those persons give notice of termination, or their services are improperly terminated, or the employment is terminated as a consequence of a public takeover bid.

## Board statement in accordance with Chap. 18, Section 4 of the Swedish Companies Act

Board statement in accordance with Chap. 18, Section 4 of the Swedish Companies Act.

The nature and extent of the company's operations are stated in the Articles of Association and issued annual reports.

Such nature and extent do not entail risks over and above those inherent, or reasonably to be expected, in the industry or otherwise inherent in business operations. The exceptional year experienced by the global economy in 2009 does not alter this assessment. For information on significant events, we refer to the Report of the Directors.

The company's financial position at 31 December 2009 is apparent from this annual report. The proposed dividend does not infringe on investments deemed to be required. In addition, the company's liquidity reserve at the end of the year in the form of unutilized credit facilities is about EUR 1,500 M, which means that the Company should reasonably be able to meet unexpected

events and temporary fluctuations in cash flows of reasonable proportions. The company's financial position supports the assessment that the company will be able to continue in business and meet its obligations in both the short and long term.

In view of the above and based on what the Board is otherwise aware, the proposed dividend in the Board's opinion is justified considering the requirements which the nature, extent and risks associated with the operations place on the size of the equity of the company, and also taking into consideration the company's need to strengthen its balance sheet, liquidity and financial position in general.

Directors Jan Kjellgren and Tomas Kärnström registered a reservation against the Board's motions in the minutes of the meeting, citing the extensive savings measures, short working weeks and salary relinquishments implemented in the company in Sweden and abroad in 2009.

Sandviken, 17 February 2010  
Sandvik Aktiebolag; (publ)  
BOARD OF DIRECTORS

# Proposed appropriation of profits

The Board of Directors and the President propose that:

the profits brought forward from the preceding year	7,820,902,241
and the profit for the year	3,751,267,492
SEK	11,572,169,733
be appropriated as follows:	
a dividend of SEK 1.00 per share	1,186,287,175
profit carried forward	10,385,882,558
SEK	11,572,169,733

The income statements and the balance sheets of the Group and of the Parent Company are subject to the adoption by the Annual General Meeting on 4 May 2010.

The Board of Directors and the President hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden, and that the consolidated financial statements have been prepared in accordance with the international financial reporting standards referred to in the regulation (EU) no. 1606/2002 of the European Parliament and Council dated 19 July 2002, pertaining to the application of international financial reporting standards, and that such financial reports give a true and fair view of the results of operations and financial position of the Parent Company and of the Group, respectively, and that the Report of the Directors pertaining to the Parent Company and the Group gives a fair view of the development of the company's and the Group's activities, financial position and results of operations, and further presents the significant risks and uncertainties facing the company and the entities that are members of the Group.

Sandviken, 17 February 2010

Clas Åke Hedström  
*Chairman*

Georg Ehrnrooth  
*Director*

Jan Kjellgren  
*Director*

Tomas Kärnström  
*Director*

Fredrik Lundberg  
*Director*

Hanne de Mora  
*Director*

Egil Myklebust  
*Director*

Anders Nyrén  
*Director*  
*Vice Chairman*

Simon Thompson  
*Director*

Lars Pettersson  
*President*

Our audit report was submitted on 18 February 2010

KPMG AB

Caj Nackstad  
*Authorized Public Accountant*

To the Annual General Meeting of the Shareholders of Sandvik AB; (publ)  
Corporate Registration Number 556000-3468

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Sandvik AB; (publ) for the year 2009. The company's annual report is included in the printed version of this document on pages 12-86. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we

examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory Report of the Directors is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of Shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Report of the Directors and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Sandviken, 18 February 2010

KPMG AB

Caj Nackstad  
*Authorized Public Accountant*

## Our commitment to sustainability

AccountAbility is an international standard for conducting sustainability assurance.

Sandvik has been conducting extensive sustainability efforts for many years and reports the results of its work in this Sustainability Report. The concept of sustainable development encompasses responsibility, risk management and improvement initiatives in the areas of environment, health and safety, business ethics and human rights. A Code of Conduct and environmental, health and safety management systems form the foundation of the Group's sustainability activities. This work is carried out on a decentralized basis within the business areas and is based on policies, objectives, targets, strategies and performance indicators established at Group level.

### Significant events during the year:

- The number of Lost Time Injuries was reduced 41% and the Lost Time Injury Frequency Rate was reduced 39% compared with 2008.
- No work-related fatalities occurred.
- The number of major production, service, machinery rebuilding and distribution units certified in accordance with ISO 14001 is 158 (95%), with 155 (93%) certified in accordance with OHSAS 18001.
- A new supplier Code of Conduct was adopted.
- Organizations established in India and China for auditing and training of suppliers. The principal focus has been on auditing suppliers in relation to Sandvik's new Code of Conduct for suppliers.
- For the second consecutive year, Sandvik was included in both of the Dow Jones' sustainability indexes: the Dow Jones World Sustainability Index and the Dow Jones STOXX Sustainability Index.
- The strong downturn in business volumes had a negative impact on environmental performance indicators, environmental investments and certifications, while energy-saving programs continued on schedule.
- Increase noted in the number of non-compliances with Sandvik's Code of Conduct.

### Sustainability Report

This is the fourth year that Sandvik has published a Sustainability Report. This report describes the Group's objectives/targets, strategies, controls, responsibilities, risks and opportunities from a sustainability perspective and also presents the Group's results from a financial, environmental and social perspective. The Sustainability Report has been independently reviewed in accordance with FAR SRS' standard "RevR 6 Assurance of Sustainability Reporting" and AccountAbility's "AA1000AS (2008)." AA1000AS

(2008) is an internationally accepted standard that provides the requirements for conducting sustainability assurance. It requires that the auditor provide assurance on the nature and extent of adherence to AccountAbility's three principles. Information regarding AccountAbility is available on the organizations website ([www.accountability21.net](http://www.accountability21.net)).

*The sustainability report comprises information sourced from the following locations:*

- The Report of the Directors (Human Resources and Sandvik's responsibility) covering requirements pertaining to non-financial performance indicators and environmental information in line with the Swedish Annual Accounts Act.
- The report in this section that summarizes objectives/targets, strategies, controls, responsibilities, risks, opportunities and results from a sustainability perspective.
- *The Sandvik World* publication that presents a number of examples concerning projects that have been completed to achieve the Group's environmental and social targets.
- Sandvik's website ([www.sandvik.com](http://www.sandvik.com)), which contains further information relating to the sustainability work being conducted in each of the business areas.
- Sandvik's website also includes complete references to Global Reporting Initiative's (GRI) G3 guidelines, which were applied when preparing this Sustainability Report.

### Content, scope and limitations of the report

This Sustainability Report refers to the 2009 fiscal year. Unless otherwise stated, the same accounting policies are applied in the Sustainability Report as in the rest of the Annual Report, and the report covers the entire operations of the Group, but excludes

Seco Tools, associated companies and joint ventures. Specific methods of measurement and assumptions are presented in connection with the respective indicators in the report. Data from units acquired during the year is included only in the indicators for 2009.

### Application of laws and recommendations

This Sustainability Report is based on the Swedish Annual Accounts Act, the Swedish Society of Financial Analysts' recommendations relating to Corporate Responsibility and the third generation of guidelines (G3) issued by the internationally recognized organization Global Reporting Initiative (GRI). Further information regarding GRI is available on the organization's website ([www.globalreporting.org](http://www.globalreporting.org)). The report corresponds with the GRI level B+, which means that at least 20 indicators are presented and that the report has been subjected to external verification.

Sandvik has adopted AccountAbility's AA1000APS (2008) principles for accountability. AccountAbility requires that Sandvik clearly acknowledges, assumes responsibility for and endeavors to be transparent with respect to the sustainability-related effects caused by its operations. This also involves working internally to involve stakeholders in identifying and understanding sustainability issues and assuming responsibility for, reporting on and explaining decisions, actions and results.

### Strategy and control of sustainability programs

Sandvik's strategy for sustainability programs entails proceeding from the company's Code of Conduct when analyzing risks and opportunities, setting objectives and targets as part of efforts to minimize risks, and utilizing the possibilities available in an efficient and effective manner. Sandvik endeavors to engage in an open dialog with all of its key stakeholders regarding how

this work is conducted, how decisions are made and what results are achieved. This is a key condition in being able to focus on the correct aspects of the sustainability work.

Sandvik's control model requires that Group Executive Management sets the company's Code of Conduct and objectives, and that each business area assumes responsibility for ensuring compliance with the Code and that the objectives are broken down in the organization. In addition, each business area is responsible for the assessment of sustainability risks (environment, health and safety, corruption, human rights issues, etc.) in its operations, and there are specific organizations appointed in each business area to coordinate issues and support the local management teams. At Group level, various councils exist (for example, for purchasing, environment, health and safety) to coordinate the work among the business areas and to draft joint policies, objectives, targets and indicators for Group Executive Management. To ensure that management systems, internal controls and the risk management function adequately and in compliance with the Code of Conduct, an independent unit (Group Assurance) continually monitors the Group's operations and reports to the Board's Audit Committee and Group Executive Management on a quarterly basis. A report on performance indicators and key figures is presented to the Board, Group Executive Management and the entire organization on a quarterly basis. Training is another key factor in Sandvik's sustainability strategy. A program is in progress to train all company employees with respect to the implications of environmental and social responsibility and business ethics. The program is followed up on a quarterly basis. By the end of 2009, 84% (81) of employees had completed the training.

#### Stakeholders

The Group's operations affect and are affected by a number of stakeholders. Sandvik assumes its responsibility in relation to these stakeholders by openly disclosing information and inviting dialog concerning its sustainability activities. An important part of the company's provision of information is the Group's Sustainability Report. Sandvik expects that all stakeholders who have an opinion regarding the direction of this work or the results generated will con-

tact the company to engage in dialog. Dialog with stakeholders is in part conducted at Group level but also, to a large degree, at local level in the companies throughout the world. The value of local stakeholder dialog is discussed as part of Sandvik's internal training relating to environmental and social responsibility.

Sandvik has identified three stakeholder groups of particular significance for the Group: shareholders, employees and customers. These are of critical importance for operations and there is regular contact with these groups at various levels in the Group. Dialog with shareholders is primarily conducted via the Board of Directors and at the Annual General Meeting, but also through a well-developed Investor Relations function.

Sandvik's employees are represented on the Parent Company's Board of Directors. Dialog is also conducted directly with employees at a local level, for example, in connection with annual formal review discussions. A cooperation project is underway in Europe between the trade unions at Sandvik (European Works Council), where the company's sustainability work is discussed.

Dialogs with the trade union organizations have revealed that employees feel that the environment, health and safety, absenteeism and discrimination are key issues, as is general training in responsibility and business ethics. Competence development and assessment of performance are other key areas.

Customer contacts are handled locally through Sandvik's worldwide sales organization. Increasing demands imposed by Sandvik's customers on sustainability programs are becoming ever-more evident as a result of customers' growing focus on sustainability issues, thus intensifying the focus on supplier audits. Many of these demands relate to workplace safety and the environment. For example, customers more often insist that Sandvik should have systems for compiling data on carbon dioxide emissions to enable them to calculate the total carbon dioxide emissions in the entire value chain. In addition, requests have been presented that Sandvik be able to report the carbon dioxide emissions generated in product manufacturing. Questions related to the new European Community Regulation on chemicals and their safe use

(REACH) are also common and many customers, notably those of Sandvik Mining and Construction, are imposing higher demands for machine safety. Customers also want to be assured that Sandvik complies with all international conventions on human rights.

During the year, stakeholder-related dialogs took place with a number of Social Responsible Investment (SRI) analysts and other stakeholder-related dialogs were conducted with the assistance of external parties. Among other aspects, these dialogs revealed that Sandvik's works with relevant sustainability aspects in a responsible manner. In addition, it emerged that Sandvik is expected to assess future environmental and social risks connected to, for example, changes in legislation regulating carbon dioxide emissions and risks associated with customers. Stakeholders also expect Sandvik to develop risk management in the supplier stage, particularly with respect to human rights issues.

#### Key sustainability issues

The basis for the sustainability work is to identify the key sustainability issues. The Group's strategy is to identify these issues through a systematic risk assessment process (see page 90). The most significant issues are communicated to stakeholders mainly through the Sustainability Report and Sandvik will willingly engage in a dialog concerning the issues, but ultimately the key sustainability issues are decided upon by the Group's management in consultation with the Board.

#### Responsibility

Sandvik has a responsibility to respect the laws and regulations that exist in countries where the company has operations and to respect international norms and declarations regarding human rights and labor legislation adopted by the UN and the ILO. Moreover, it is Sandvik's responsibility to apply the following four environmental principles:

- Environmental responsibility in excess of what is prescribed by law and regulations through actively working to improve the environmental performance in its own operations and the operations of others, in areas where Sandvik has the opportunity to exert an influence.



- Precautionary approach, which means that precautionary measures are taken as soon as there is reason to believe that an action can harm the environment or human health.
- Environmental risk management, which entails the introduction of a program derived from a risk-based and sustainable perspective to avoid, examine and reduce the environmental impact from activities, products and services.
- Polluter Pays Principle, meaning that the entity that causes the damage to the environment shall pay the social economic cost that arises.

Furthermore, Sandvik is responsible for working to combat corruption in all its forms. Sandvik has undertaken to adhere to the OECD's Guidelines for Multinational Enterprises.

Sandvik's responsibilities are summarized in the Group's Code of Conduct, which was adopted by the Board in 2004. The Code deals with responsibility in such areas as business ethics, suppliers, employee working conditions and development, human rights, environment and community involvement. The Code has been translated into 14 languages and is available on Sandvik's website ([www.sandvik.com](http://www.sandvik.com)). The Code also includes a distinct process for managing the reporting of divergences from the stated responsibilities. Employees are encouraged to report behavior that departs from the Code to their immediate supervisor in the respective unit or, if there is a feeling that such action will not have any effect, to a more senior manager, the company's human resources department or the company's General Counsel. There is a special Group forum that is responsible for dealing with all such notifications. Whistleblowers are guaranteed that there will be no reprisals for such notifications or for participation in the company's investigation of a complaint.

#### Business ethics

Sandvik's Code of Conduct includes clear guidelines on accuracy of records, the avoidance of bribes and compliance with antitrust and competition legislation in the countries in which the company is active.

#### Suppliers

Sandvik has a clear position regarding suppliers, including contractors, agents, distributors and their sub-suppliers. These groups must meet the same requirements as those imposed on Sandvik's employees, and operate in line with the Code of Conduct. In 2009, a separate Code of Conduct for suppliers was adopted (see page 91).

#### Environment, health and safety

Sandvik's vision as regards the environment, health and safety is to be recognized by its stakeholders as a company with excellent environment, health and safety performance. To achieve this, Sandvik must ensure that:

##### *At its sites, Sandvik minimizes:*

- Any potential environmental impacts, such as from the use of energy and input materials, in the most efficient way,
- Any risks to health, safety and well-being of employees.

##### *Products, services and technical solutions:*

- Provide long service life and better resource utilization,
- Have minimal environmental impact when used by a customer,
- Are fully recyclable.

#### Policy

In 2008, Group Executive Management established a new environment, health and safety policy for all Group units.

##### *Environment, health and safety policy:*

- Environment, health and safety issues are integral parts of Sandvik's total operations and the company achieves continual improvement in these areas through management by objectives. Sandvik believes that the greatest effect is achieved through preventive actions.
- The company follows an approach that results in long-term sustainable development in its operations. Consequently, Sandvik strives for high efficiency in the use of energy and natural resources, promotes systems for recycling and recovery of materials and works to prevent pollution and any work-related illness and injury.

- Sandvik strives to provide a healthy and safe work environment that stimulates employees to perform effectively to assume responsibility and to continue to develop towards their personal and professional goals.
- Sandvik complies with or exceeds applicable environmental, health and safety, legal and other requirements. The company believes that common and effective environment, health and safety requirements and standards should be established at an international level.

#### Human rights and employee conditions

Sandvik has clear policies on human rights and labor rights, which are based on the United Nations Universal Declaration of Human Rights and the International Labor Organization Declaration on Fundamental Principles and Rights at Work.

Sandvik is responsible for ensuring compliance with these policies in the company's operations as well as throughout the supply chain, in areas where Sandvik has the potential to exert influence and control.

#### Risks and opportunities

Sandvik's financial risks are described on pages 28–33. In addition to these, there are risks associated with Sandvik being active in many parts of the world where the risk of environmental pollution, violation of human rights and corruption is present. Moreover, Sandvik has a large number of production units in which environmental, health and safety risks arise. Sandvik has an established risk management process to assess these types of risks, as well as financial risks. The risk assessment not only encompasses the Group's operations, but also risks related to the geographical areas in which Sandvik is active and supplier-related risks. The risk management process is described in the section starting on page 25 in Sandvik's Annual Report.

#### Business ethics

Sandvik's risks relating to business ethics are regarded as significant, especially the risk of bribes in connection with marketing and sales, and risks related to purchasing in countries in which corruption is widespread. The use of agents and distributors represents

a particularly large risk, since monitoring of these is more difficult than the monitoring of Sandvik's own operations. The development of corruption in various countries in which Sandvik is active is continually monitored via, for example, Transparency International's website ([www.transparency.org](http://www.transparency.org)). The risk of breaches of local antitrust and competition legislation is also high. To minimize these business risks, continual training and internal audits are conducted. During the year, some 40 cases of suspected harassment, fraud and corruption were reported, representing an increase compared with the preceding year. All these cases have been investigated and corrective measures have been taken, including the dismissal of employees.

#### Suppliers

In 2009, Sandvik further intensified its focus on risks associated with the supply chain by adopting a special Code of Conduct for suppliers, which is based on Sandvik's Code of Conduct. The Code, which is available in an original English version on Sandvik's website ([www.sandvik.com](http://www.sandvik.com)), has also been translated into Mandarin, Hindi, Marathi, Gujarati, Telugu and Portuguese. The Code has been used in China and India to train about 20 suppliers. A fundamental method of assessing suppliers based on the new supplier Code of Conduct is being developed and is scheduled to be implemented in early 2010.

Sandvik has about 2,800 suppliers in China and India. Of these, 34 high-risk suppliers were audited during the year. In India, it was revealed that child labor was being used by two suppliers. In addition, several suppliers have unacceptable levels of safety and excessive working hours. Furthermore, several suppliers in India admitted that they had bribed civil servants to avoid being

audited or interaction with government agencies. These suppliers have been placed under special surveillance.

#### Environment

At year-end 2009, Sandvik had 139 manufacturing units and 28 distribution or service/rebuilding workshops worldwide with varying environmental impacts. The distribution of manufacturing units in various parts of the world is detailed in the diagram below. Most service/rebuilding workshops are located in Australia.

Environmental management systems have already been introduced at the vast majority of these sites and are currently being developed at the remaining sites. Within the framework of these systems, the Group's environmental risks have been summarized as follows:

#### *Overall environmental risks within Sandvik's own operations:*

- Use/consumption of energy, input materials, fresh water and hazardous chemicals.
- Generation of emissions and waste from production.
- Old industrial sites and waste landfills.
- Environmental liabilities in conjunction with company acquisitions.

Risks associated with emissions primarily relate to the emission of carbon dioxide and acid gases to the atmosphere. These emissions are mainly caused by the company's use of fossil fuels and indirectly from purchases of electricity produced by combustion of fossil fuel. Meanwhile, this represents a long-term business opportunity for Sandvik in its search for new carbon-neutral energy sources, as well as in the short term in the extraction of more fossil fuels whose extraction presents greater difficulties.

The Report of the Directors (page 24) presents information on licensed operations in Sweden and environmental liabilities.

#### Health and safety

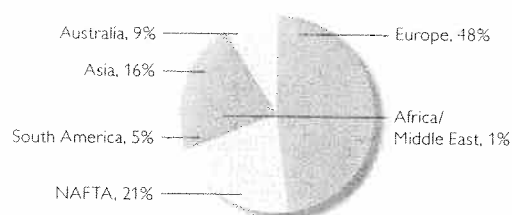
Sandvik's various production, service/rebuilding and distribution units represent potential risks of work-related illnesses and injuries. Health and safety management systems have already been introduced, or are in the process of being introduced, at most of these units. The management systems are designed to enhance the work environment and the working conditions of the company's employees. Sandvik's products may also constitute a risk when in use at customers' sites. This risk imposes major requirements on quality control in the company's own production and that of its suppliers, as well as the need for simple, clear operator manuals and product specifications.

#### Human rights and employee conditions

Any violation of Sandvik's policies in respect of human rights and employee conditions could have a major negative impact on Sandvik's credibility. Consequently, regular basic training is held covering the company's core values, policies and risks regarding human rights and labor legislation. In addition, regular internal audits are conducted at units deemed to be particularly exposed to these risks. The results of the audits are presented to local executives, country managers, Group Executive Management and the Board.

To raise the level of understanding in the organization regarding the risks relating to human rights and labor issues when Sandvik undertakes operations in high-risk countries, analyses have been conducted of a large number of countries in Asia, Africa and South America. These analyses are available on Sandvik's intranet for those active in these countries. Risks of this type

#### Geographic distribution of production units



arise not only in direct operations (such as production and purchasing) in such countries, but also indirectly (risk associated with customers).

No incidents involving human rights abuses were reported in 2009.

### Objectives/targets for sustainability programs

Sandvik's sustainability objectives/targets were approved by Group Executive Management in 2008.

#### Environment

*The Group's objectives are:*

- More efficient use of energy and input materials.
- Reduced emissions to air and water.
- Increased recovery of materials and by-products.
- Reduced environmental impact from the use of hazardous chemicals.
- Increased number of products that support sustainability principles.

*The Group's targets are:*

- Reduce the use of energy in relation to sales volume by 10% before year-end 2012 (base year: 2008).
- Reduce consumption of fresh water in relation to sales volume by 10% before year-end 2012 (base year: 2008).
- Commence reporting of wastewater discharged from sites before year-end 2009.
- Replace all chlorinated solvents, such as dichloromethane, tetrachloroethene, tetrachloromethane, trichloroethane and

trichloroethene, with other solvents or techniques before year-end 2010.

- Reduce carbon dioxide emissions from internal use of fossil fuels and electricity by 10% in relation to sales volume before year-end 2012 (base year: 2008).
- Commence reporting of carbon dioxide emissions arising from transportation before year-end 2009.
- All major production, service and distribution units shall be certified in accordance with ISO 14001 within two years of acquisition or establishment.

#### Health and safety

*The Group's objectives are to:*

- Further reduce the frequency of occupational injuries, illnesses and incidents.
- Improve health and well-being among employees.

*The Group's targets are:*

- Reduce the Lost Time Injury Frequency Rate by 50% before year-end 2012 (base year: 2008).
- All sites will introduce a health and well-being program before year-end 2010.
- All major production, service and distribution units shall be certified in accordance with OHSAS 18001 (or an equivalent standard) within two years of acquisition or establishment.

#### Employee conditions and development

*The Group's objectives are:*

- Increase equality of opportunity at workplaces.

*The Group's targets are:*

- All sites will introduce a program to improve the gender balance before year-end 2010.
- All employees shall have formal annual performance review discussions.

### Outcome of sustainability programs

The following section presents the outcome in relation to the Group's targets using the relevant performance indicators and key figures. Unless otherwise indicated, the values comprise the accumulated values for 2009 from all active reporting units (about 300). Acquisitions for the year had a slight impact on environmental and health and safety indicators, which is commented on separately for each indicator. Sandvik's adaptation of the rate of production to the prevailing market situation had a significant impact on most of the indicators.

#### Financial

Sandvik's financial progress is presented in the Report of the Directors and in the financial statements in the Annual Report. These include a presentation of the Group's financial goals and outcome in relation to these goals.

The table below shows how the value created through the Group's operations has been generated and the manner in which it was distributed among the various stakeholders.

Apart from allocations of carbon dioxide emission allowances (see page 24), Sandvik received no significant government grants during the year (see Note 13 in the Annual Report).

### Economic value generated and distributed\*

SEK M	Stakeholder	2009	2008	2007	2006
Sales	Customers	71,937	92,654	86,338	72,289
Economic value generated		71,937	92,654	86,338	72,289
Production costs	Suppliers	46,859	53,287	48,343	38,620
Employee wages and benefits	Personnel	22,441	23,129	20,562	18,825
Payments to providers of capital	Credit providers	2,060	2,217	1,397	955
Payments to providers of capital	Shareholders	3,926	5,111	4,207	3,533
Payments to governments	Public sector	885	2,876	4,167	3,151
Economic value distributed		76,171	86,620	78,676	65,084
Retained in company		-4,234	6,034	7,662	7,205

\* The table includes Seco Tools.

Raw materials consumption	2009	2008	2007	2006
Consumption of metallic raw materials (thousand metric tons)	252	350	399	405
of which recovered (%)	78	79	78	78

Water consumption	2009	2008	2007	2006
Water consumption (thousands m <sup>3</sup> )	7,100	6,600	6,800	6,800
of which purchased freshwater (thousands m <sup>3</sup> )	3,200	3,600	3,500	3,300
of which groundwater (thousands m <sup>3</sup> )	600	500	500	500
of which harvested surface water (thousands m <sup>3</sup> )*	3,300	2,500	2,800	3,000

\* Historical values have been adjusted.

Energy use	2009	2008	2007	2006
Use of energy (TJ)	7,500	8,900	8,800	8,100
of which fossil fuels (TJ) Direct energy*	2,900	3,400	3,400	3,000
of which electricity (TJ) Indirect energy**	4,600	5,500	5,400	5,100

\* Historical values have been adjusted.

\*\* Use of energy does not include the energy used by electricity producers to generate the electricity.

## Environment

### Use of raw materials

Material consumption varies across the business areas. At Sandvik Tooling and Sandvik Materials Technology, production is mainly based on metallic raw materials, while at Sandvik Mining and Construction, it is primarily based on purchased components. Sandvik's consumption of metallic raw materials is presented in the table on page 92.

Sandvik Materials Technology's sites in Sandviken and Hallstahammar are the major users of raw materials in the Group. The raw materials most important to Sandvik Materials Technology are iron, nickel, chromium, manganese and molybdenum, either in alloys or as part of scrap metal. Of these materials 78% (80) are derived from recycled scrap. The key raw materials for Sandvik Tooling are various tungsten compounds and cobalt, but more unusual elements such as tantalum are also used. Sandvik Mining and Construction uses iron and manganese raw material for the manufacture of castings. Approximately 89% (88) of these materials is derived from scrap. In total for the Group, about 78% (79) of metallic raw materials is derived from scrap.

Although the recovery level is already high today, Sandvik continuously endeavors to increase the proportion of recovered raw materials to secure a sustainable utilization of raw materials and to reduce its environmental impact. This is accomplished through buying back used products and the recycling of waste products from proprietary manufacturing plants.

Sandvik Tooling continues to increase recycling of materials from cemented-carbide products. Just over 60% of the tungsten used in the business area in 2009 was derived from recycling. This resulted in a reduced need for material purchases from mines. Sandvik Coromant's program for recycling of sold cemented carbide inserts represents an integral part of this sustainability work. Buy-backs of products from customers are gradually being introduced in other product areas, which means that the need for primary material is further reduced. During the year, Sandvik Mining and Construction continued to develop recycling of the tungsten material in drill tools.

Hazardous chemicals are used only to a limited and well-supervised extent and are handled in accordance with environmentally safe methods. The work on replacing chlorinated solvents with other less environmentally hazardous solvents is proceeding according to plan. The total annual consumption of chlorinated solvents in 2009 was about 2 cubic meters.

### Consumption of water

Water is a valuable resource and its efficient use is therefore crucial. Sandvik's target is to reduce consumption of fresh water (purchased water) relative to sales volume by 10% from 2008 to 2012. During the year, Sandvik's freshwater consumption decreased by 11%, while consumption in relation to sales volume rose 25%. This figure includes structural effects of 1 percentage point from companies acquired during the year. The table on page 92 shows the trend in fresh-

water consumption in Sandvik since 2006. It also details the consumption of ground-water and harvested surface water. This activity is conducted at 26 production units. The increase in harvested surface water compared with earlier years is attributable to acquisitions. This increase also impacts total water consumption.

One country with very limited access to water, and where Sandvik's water consumption is significant, is India. All production sites in India have introduced systems for the treatment of all waste water, which is subsequently re-used in its operations.

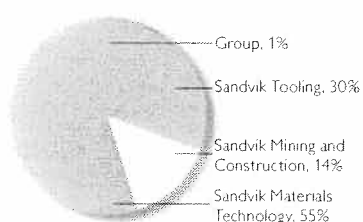
### Use of energy

The table on the previous page and the diagrams below show the trend in the use of energy at Sandvik as well as the distribution of energy use by the business areas and various markets.

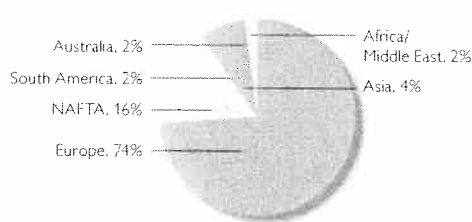
During the year, the use of energy in relation to sales volume displayed a negative trend. Sandvik's target for the period 2008 through 2012 is to reduce total energy use (electricity and fossil fuels) by 10% in relation to sales volume. However, during the year, the total use of energy in relation to sales volume increased 19%, which includes structural effects of 2 percentage points from acquired companies. The main reason for the sharp increase is that a significant portion of energy use is derived from the heating/cooling of properties that are not affected by volume downturns.

Despite the difficult economic situation with declining sales and production, energy-efficiency programs continued

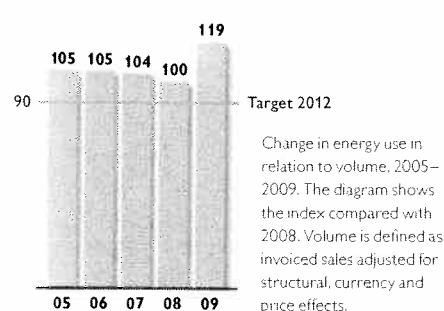
Energy use per business area



Energy use per market area



Energy use in relation to sales volume



according to plan. At Sandvik Materials Technology in Sandviken, which accounts for slightly more than 40% of the Group's energy use, energy-efficiency efforts were intensified, for example, by employing two people on a project basis to identify new efficiency opportunities.

#### Climate issues

Sandvik's impact on the climate primarily consists of emissions of carbon dioxide. The combustion of fossil fuels also generates emissions of the greenhouse gases  $N_2O$  and  $CH_4$ , corresponding to approximately 2,000 tons of carbon dioxide, although this figure represents less than 0.5% of total carbon dioxide emissions. The table on page 95 shows the trend of the Group's carbon dioxide emissions and the diagrams below show emissions in relation to sales volume and emissions per business area and market.

During the year, Sandvik's carbon dioxide emissions from the use of electricity and combustion of fossil fuels declined by 15%, but carbon dioxide emissions increased 19% in relation to sales volume, which is a negative trend if compared with the target to reduce relative emissions by 10% from 2008 through 2012. The increase was influenced by structural effects of 2 percentage points from companies acquired during the year.

As described above, the increase was mainly attributable to the fact that much of the Group's energy use is unaffected by volume changes.

In most cases when conducting calculations of carbon dioxide emissions related to the generation of electricity, factors used in the calculation of carbon dioxide emissions were obtained from the suppliers of the electricity used at the plants. Otherwise, factors from the International Energy Agency Data Services were applied.

During the year, Sandvik also commenced reporting of carbon dioxide emissions arising from passenger transports to be able to better monitor the Group's total impact on the environment and present a more comprehensive report in line with the Greenhouse Gas Protocol ([www.ghgprotocol.org](http://www.ghgprotocol.org)). The table on page 95 also presents the carbon dioxide emissions from passenger transports (air travel and rental cars). In 2010, reporting of carbon dioxide emissions from goods transports will commence.

#### Emissions and waste

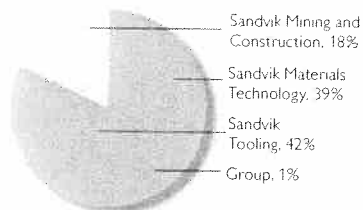
In addition to emissions of carbon dioxide to air, Sandvik has significant emissions of such acid gases as sulfur dioxide ( $SO_2$ ) and various forms of nitrogen oxides ( $NO_x$ ). Sulfur dioxide mainly originates from the combustion of oils and coke. Emissions of

$NO_x$  are derived from the smelting processes in Sandviken and Hallstahammar, and from pickling plants for the cleaning of surfaces, and the combustion of fossil fuels. The table on page 95 details emissions of  $SO_2$  and  $NO_x$  in addition to emissions of VOCs (Volatile Organic Compounds).  $SO_2$  emissions are calculated from the volume of oil and coke burned, while VOC emissions are calculated from the combustion of all fossil fuels. Estimations of emissions of  $NO_x$  from pickling plants and melting processes are based on random monitoring. Emissions from the combustion of fossil fuels are calculated using factors from the Swedish Environmental Protection Agency.

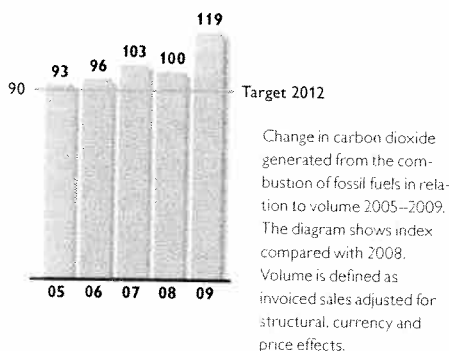
Emissions to water comprise another environmental effect in the Group, where the objective is to reduce emissions. Emissions mainly consist of fertilizers, such as phosphorous and nitrogen, in addition to metals from pickling plants. The table on page 95 shows emissions to water. To monitor total emissions to water, the volume of process water discharged following treatment is also measured. See the table on page 95.

The table on page 95 presents the waste volumes produced during 2009. The significant increase compared with earlier years is attributable to acquisitions. No major changes were noted for comparative units compared with earlier.

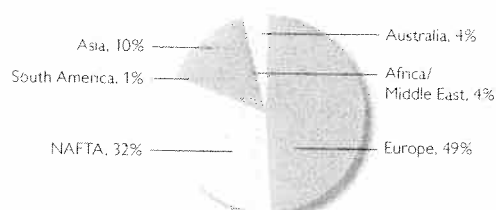
**Carbon dioxide emissions per business area**



**Carbon dioxide emissions in relation to sales volume**



**Carbon dioxide emissions per market area**



### Environmental management system

Sandvik's target is that all major production, service and distribution units shall be certified in accordance with the international standard for environmental management systems, ISO 14001, within two years of their acquisition or establishment. The term "major" is defined as sites with 25 employees or more. At year-end 2009, 158 (95%) production, service/rebuilding and distribution units were certified. These units are physically located on Sandvik's sites. In addition, Sandvik operates about 20 maintenance workshops within customer operations (mainly mines). These workshops are either part of the customers' or Sandvik's environmental management systems. Of Sandvik's 139 major production sites, 95% are certified. All major units not certified are new acquisitions or new establishments during 2008–2009.

### Biodiversity

Twelve of Sandvik's production units are located within or close to protected areas with high value in terms of biodiversity. Four of these sites are located in the US, five in Europe, two in Brazil and one in New Zealand. Eight of these areas comprise wetlands. Sandvik demonstrates particular consideration for these areas and cooperates with authorities in relevant cases.

### Health and safety

The table on page 96 provides an overview of Sandvik's results as regards health and safety.

No work-related fatalities occurred during the year. The number of Lost Time Injuries and the Lost Time Injury Frequency Rate fell sharply during the year (41% and 39%, respectively) and have declined by 59% and 69%, respectively, since 2005. The number of Lost Days due to Lost Time Injuries declined 24% during the year. Sandvik's target is to reduce the Lost Time Injury Frequency Rate by 50% from 2008 through 2012. The diagrams on page 97 present the Lost Time Injury Frequency Rate by Sandvik's business areas and market areas. During 2009, all business areas have reduced the injury frequency rate.

The sharp decrease during the year can be attributed in part to the continued focus on improvement programs, but also to the significant fall in production. Many production units implemented shortened working hours, which was not taken into account in the calculation of the Lost Time Injury Frequency Rate.

Sandvik continues to encourage reporting of Near Misses and risks, since these provide an early indication of where the risks exist. Accordingly, risks can be managed at an early stage and accidents prevented.

From 2007, the number of reported Near Misses and risks has been introduced as a Group-wide indicator (see table on page 96). In 2009, the number of reported Near Misses and risks rose sharply. This does not indicate an actual increase in the number of Near Misses, but is rather proof of more effective reporting. The ratio between Near Misses and Lost Time Injury was 25 (9).

### Carbon dioxide emissions\*

	2009	2008	2007	2006
Carbon dioxide emissions (thousand metric tons CO <sub>2</sub> )**	479	566	547	470
of which from combustion of fossil fuels (thousand metric tons CO <sub>2</sub> ). Direct	195	224	226	202
of which use of electrical energy (thousand metric tons CO <sub>2</sub> ). Indirect***	284	342	321	268

\* Historical values have been adjusted.

\*\* Excluding emissions from the transport of raw materials and finished products as well as travel.

\*\*\* Emissions are calculated using factors from electricity suppliers or the International Energy Agency Data Services, see text. Emissions also include emissions from electricity generation.

### Carbon dioxide emissions from passenger transports\*

	2009	2008	2007	2006
Emissions from passenger transports via air travel	22	/	/	/
Emissions from passenger transports via hire car	6	/	/	/

\* Emissions based on collected data from Sandvik employees corresponding to 72% of the Group's workforce.

### Emissions of process water

	2009	2008	2007	2006
Volume of process water discharged (thousands m <sup>3</sup> )	1,400	/	/	/

### Produced waste

	2009	2008	2007	2006
Waste (thousand metric tons)*	280	166	171	150
of which, hazardous waste (thousand metric tons)	27	32	28	35
of which, to landfill (thousand metric tons)	231	109	105	95

\* Excluding scrap metal that has been internally or externally recycled.

### Emissions to water and air

Emissions to water	2009	Emissions to air	2009
Nitrogen to water (kg)	201,000	VOC to air (kg)*	65,000
Phosphorous to water (kg)	1,400	SO <sub>2</sub> to air (kg)	45,000
COD to water (kg)	172,000	NO <sub>x</sub> to air (kg)	379,000
Nickel to water (kg)	680		
Chromium to water (kg)	70		

\* Only from combustion of fossil fuels.

In certain countries, community and working life is marked by the presence of serious transmittable diseases. For example, HIV/AIDS is an extremely serious problem particularly in southern Africa. Sandvik has extensive HIV/AIDS programs in South Africa, Zimbabwe, Tanzania, Zambia, and Malawi and to some extent in Ghana and the Democratic Republic of Congo. A summary of the HIV/AIDS programs in these countries is presented in the table below.

Sandvik has implemented programs to educate and counsel employees and their families and, in some cases, the community near to Sandvik's operations, about HIV/AIDS. Training in these matters is provided daily, usually in conjunction with the safety meetings that are held prior to work commencing. Counseling is provided by private organizations with whom Sandvik cooperates and the Group's own counselors. These meetings not only address HIV/AIDS matters, but also identify other factors that may affect an individual, such as stigma. Preventive work and risk controls are conducted in connection with training and counseling. The main focus is placed on changing the attitude to partners and the use of condoms. Measures and support are offered to all employees who test HIV positive. In addition to the opportunity to receive testing and free condoms, antiretroviral drugs are offered to people who are within the scope of the program.

#### Management system for health and safety

Sandvik's target is to certify all major production, service and distribution sites in accordance with the international specification for the occupational health and safety management system OHSAS 18001 (or an equivalent standard) within two years of the acquisition or establishment. The term major is defined as sites with 25 employees or more. At year-end 2009, 155 (93%) of production, service/rebuilding and distribution units were certified. These units are physically located on Sandvik's sites. In addition, Sandvik operates about 20 maintenance workshops within customers' operations (mainly mines). All of these units have also been certified. A total of 91% of Sandvik's 139 major production units are certified. All units that are not certified comprise new acquisitions or new establishments in 2008–2009.

#### Employee conditions and development

To ensure continuous improvement of employee performance, Group Executive Management has decided to monitor five indicators: diversity (the balance between the number of men and women), mobility (internally within the company), personnel turnover, competence development days and performance review discussions. Two of these indicators have been assigned a specific Group target – that all employees shall have an annual performance review discussion and improvement in the balance between men and women in the company.

#### Employment

The average number of employees by geographical area and gender is presented in Note 3 in the Annual Report. During the year, personnel turnover was 14% (10). Mobility within the company (the proportion of positions filled internally in relation to the total number of positions filled) was 36% (15).

#### Diversity and equal opportunity

About 77% of Sandvik's employees work outside Sweden. The employees at subsidiaries in more than 60 countries have a wide variety of nationalities and collectively speak a large number of languages. This diversity in the Group is considerable and is also a prerequisite for Sandvik to be able to secure the availability of the right expertise at the right time for the needs that exist within the company. This high level of diversity is secured by offering equal rights and equal opportunities to all, irrespective of age, race, color, national origin, religion, sex or disability. Sandvik has aimed to increase the proportion of female employees to ensure access to the most competent employees in a future, when there will be increased competition for skilled labor. At year-end 2009, the proportion of women was 17.2% (16.9) of the total number of employees, 9.2% (7.8) of the total number of Board members and Presidents, 13.5% (12.8) of the total number of managers/supervisors, 27.6 (27.7) of the total number of staff positions (excluding managers) and 10.2% (10.2) of the total number of worker positions.

#### Health and safety

	2009	2008	2007	2006
Number of fatalities due to work-related injuries	0	2	1	2
Number of Lost Time Injuries*	425	717	827	980
Lost Time Injury Frequency Rate**	5.0	8.1	10.3	13.2
Number of reported Near Misses	10,556	6,346	3,179	—
Number of Near Misses per Lost Time Injury	25	9	4	—
Lost days due to Lost Time Injuries	8,523	11,286	12,603	14,897
Working Days Lost by employee due to Lost Time Injuries	0.20	0.25	0.31	0.40
Total absence (from scheduled work), %	2.3	2.3	2.6	2.7

\* Work-related injury (own employees) resulting in minimum one day's absence from work.

\*\* Lost Time Injury Frequency Rate is defined as the number of Lost Time Injuries per million work hours. Assumption: Employees are assumed to work 2,000 hours a year.

#### HIV/AIDS Assistance program

Recipients	Education	Counseling	Prevention/ Risk controls	Treatment
Employees	7	6	7	5
Families of employees	5	6	6	5
Other inhabitants	5	4	3	1

The number denotes the number of countries in which Sandvik offers programs for the respective categories.

Distribution of the average number of employees within various geographical regions and taking into account gender is presented in Note 3 to the financial statements in the Annual Report. Other relevant key figures regarding distribution by gender are shown in the diagrams on page 98.

#### Performance review discussions and competence development

During 2009, performance review discussions were conducted with 66% (56) of Sandvik's employees, which remains far below the established target of 100%. An important feature of the performance review discussion is to identify opportunities to enhance the skills and well-being of the employee and to increase satisfaction and well-being in the workplace. Advancing the employee's skills is equal to advancing Sandvik's business. The number of competence development days per employee and region during the year is presented in the diagram on page 98.

#### Social commitment

Sandvik's policy with respect to social commitment is that each Sandvik company shall strive to gain an understanding of the society in which it operates, make a constructive contribution to local matters and promote development of the region. To act in accordance with this policy, Sandvik encourages its employees to participate in community programs and initiatives that are beneficial for the inhabitants in regions where Sandvik has operations.

Sandvik does not pursue any Group-wide project in this area, but all activities are arranged locally by the various companies. Examples of the Group's commitment include:

- Collaborations with schools and universities for the purpose of offering degree projects and developing educational programs.
- Donations to schools, charity organizations, hospitals, Children's Villages, etc., sometimes in cooperation with Sandvik's customers or local NGOs.
- Sponsorship of sports clubs and local initiatives.
- Assistance to unemployed individuals to find a job or educational program.
- Donations of equipment in connection with severe natural disasters, such as earthquakes.
- Blood donations.
- HIV/AIDS program.

#### Awards and ratings

Sandvik's sustainability work is evaluated annually by a number of SRI analysts and rating agencies. In 2009, Sandvik has been included in the following indexes:

*Dow Jones World Sustainability Index and Dow Jones STOXX Sustainability Index.* The most prestigious indexes that track the financial performance of the leading sustainability-driven companies. To qualify for the DJSI World, it is necessary to be among the top 10% of companies ranked in terms of three factors: financial success, environmental performance and social responsibility. The selection is made from the 2,500 largest companies on the Dow Jones world index.

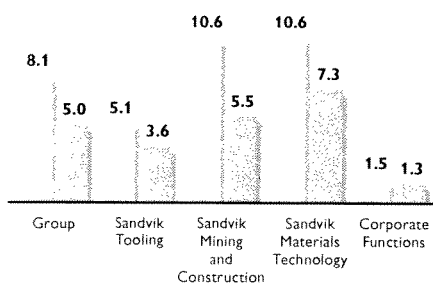
*FTSE4Good.* An internationally recognized market index that measures the results and performance of companies that comply with globally recognized corporate responsibility standards.

*ECPI Ethical Index Euro.* The index contains 150 European companies that are eligible investments according to ECPI SRI's screening methodology.

*Ethibel Excellence Investment Register.* Ethibel assesses companies throughout the world based on financial, social and environmental aspects.

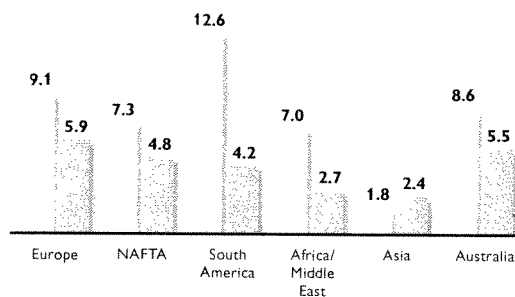
Sandvik was also acknowledged by the Carbon Disclosure Project and was included in the Carbon Disclosure Leadership Index, an index comprising companies in the Nordic region that have prepared the best carbon-emission reports. This project is backed by 475 investors worldwide.

Lost Time Injury Frequency Rate by business area



Lost Time Injury Frequency Rate by business area 2008.  
 Lost Time Injury Frequency Rate by business area 2009.

Lost Time Injury Frequency Rate by market area

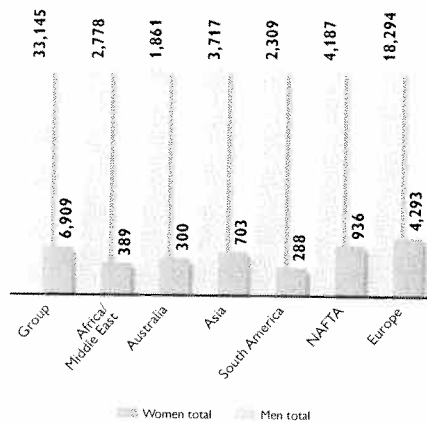


Lost Time Injury Frequency Rate by market area 2008.  
 Lost Time Injury Frequency Rate by market area 2009.

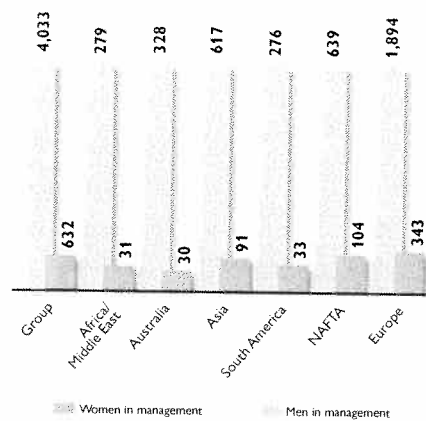


The diagrams below show the distribution between the number of women and men, broken down by geographic market and position.

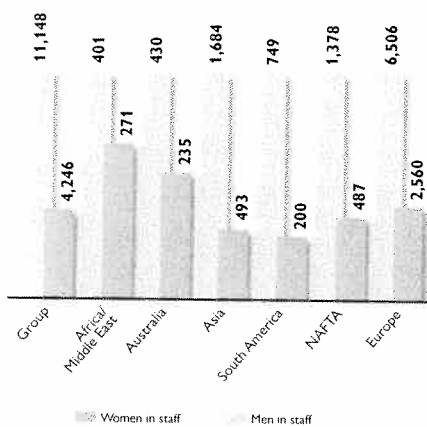
Proportion of women, all Group employees



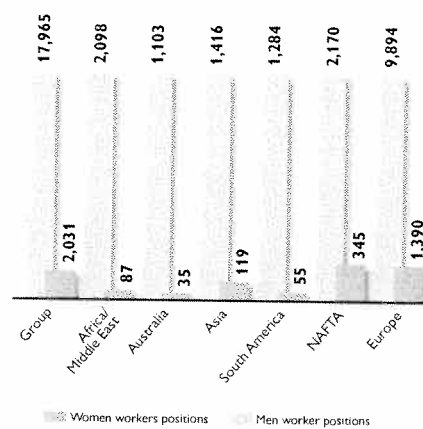
Proportion of women, managers/supervisors



Proportion of women, staff positions



Proportion of women, worker positions



Competence development, days per employee and market area



## Review report on the Sustainability Report

*To the readers of Sandvik's 2009 Sustainability Report:*

We have been engaged by Sandvik's Executive Management to perform an assurance engagement related to Sandvik's 2009 Sustainability Report. The Sustainability Report is presented on page 24 and 88–99 of Sandvik's 2009 Annual Report and on Sandvik's website [www.sandvik.com/sustainability](http://www.sandvik.com/sustainability) under the headings GRI Index and AA1000APS. It is Sandvik's Executive Management that is responsible for the continuous activities regarding sustainable development from the perspective of financial, environmental and social responsibility and for the preparation and presentation of the Sustainability Report in accordance with applicable criteria. Our responsibility is to express a conclusion on the Sustainability Report based on our review.

Our review has been performed in accordance with FAR SRS (the institute for the accountancy profession in Sweden) recommendation RevR 6 Assurance of sustainability reports and AccountAbility's AA1000AS, type 2. A review<sup>1)</sup> consists of making inquiries, primarily of persons responsible for sustainability matters and for preparing the sustainability report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing in Sweden RS and other generally accepted auditing standards. The procedures performed in a review do not enable us to obtain an assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion based on an audit.

The criteria used in the course of performing review procedures are based on applicable parts of the Sustainability Reporting Guidelines, G3 issued by the Global Reporting Initiative (GRI) suitable for the sustainability report, and specific measurement and reporting principles, Fair Play Reporting, developed and stated by Sandvik. We consider those criteria to be suitable for our engagement.

FAR SRS requires us to act in accordance with FAR SRS's Code of Ethics for professional accountants. In accordance with AA1000AS (2008), we confirm that we are independent of Sandvik. Our review has been performed by a multidisciplinary team specialized in reviewing economic, environmental and social issues in sustainability reports, and with experience from the industry Sandvik operates within.

Our review has, based on an assessment of materiality and risk, among other things included the following procedures:

- Assessment of suitability and application of criteria in respect to internal and external stakeholders' need of information.
- Interviews with certain external stakeholders to secure that Sandvik responds to important stakeholders' concerns in the sustainability report.
- Interviews with responsible management, at group level, division level and business unit level as well as review of internal and external documents with the aim to assess if the qualitative and quantitative information stated in the sustainability report is complete, correct and sufficient.
- Review of underlying documentation, on a test basis, to assess whether the information and data in the sustainability report is based on that documentation.
- Pre-announced visits to eight of Sandvik's facilities located in Chile, France, Sweden, the UK, the US and Austria.

- Review of qualitative information and statements, as well as the report on compliance with legislation, permits and conditions related to sustainability.
- Assessment of Sandvik's stated application level according to the GRI guidelines.
- Reconciliation of financial information to Sandvik's 2009 Annual Report.
- Overall impression of the sustainability report, and its format, considering the information's mutual correctness with applicable criteria.

## Conclusion

Based on our review procedures, nothing has come to our attention that causes us to believe that Sandvik's 2009 Sustainability Report has not, in all material respects, been prepared in accordance with the above stated criteria and that Sandvik has not adhered to the principles inclusivity, materiality and responsiveness to the extent reported on [www.sandvik.com/sustainability](http://www.sandvik.com/sustainability) under the heading AA1000APS.

## Other information

The following is other information that has not affected our conclusion above. The principles inclusivity, materiality and responsiveness apply to the extent reported in the description on [www.sandvik.com/sustainability](http://www.sandvik.com/sustainability) under the heading AA1000APS which includes the following points that requires further attention:

- In relation to inclusivity focus will be to increase the local awareness of AA1000APS.
- In relation to materiality activities to follow-up the suppliers will be developed further.
- In relation to responsiveness, processes for feedback to local stakeholders will be developed.

Sandviken, February 18, 2010  
KPMG AB

Caj Nackstad  
*Authorized Public Accountant*

Åse Bäckström  
*Expert Member FAR SRS*

<sup>1)</sup> A review provides a limited level of assurance which is deemed as being equal to a moderate level of assurance as defined by AA1000AS.

# Corporate Governance Report

Sandvik AB has its registered office in Sandviken, Sweden, and is the Parent Company of the Sandvik Group with subsidiaries in about 60 countries. Its operations are global with sales in more than 130 countries, and the Sandvik Group has approximately 44,000 employees. Sandvik AB is a public company listed on Nasdaq OMX Stockholm (the "Stock Exchange") and has some 109,000 shareholders.

Corporate governance within Sandvik is based on applicable legislation, the rules and regulations of the Stock Exchange, the Swedish Code of Corporate Governance ("The Code"), and internal guidelines and regulations.

The purpose of corporate governance is to clearly specify the division of roles and responsibilities among owners, the Board and executive management. Corporate governance comprises the Group's control and management systems. Another important corporate governance ingredient is the link to Sandvik's risk management, in accordance with the ERM model, and to the approved model for remuneration of senior executives.

This Corporate Governance Report is not part of the statutory Annual Report and it has not been examined by Sandvik's external auditors.

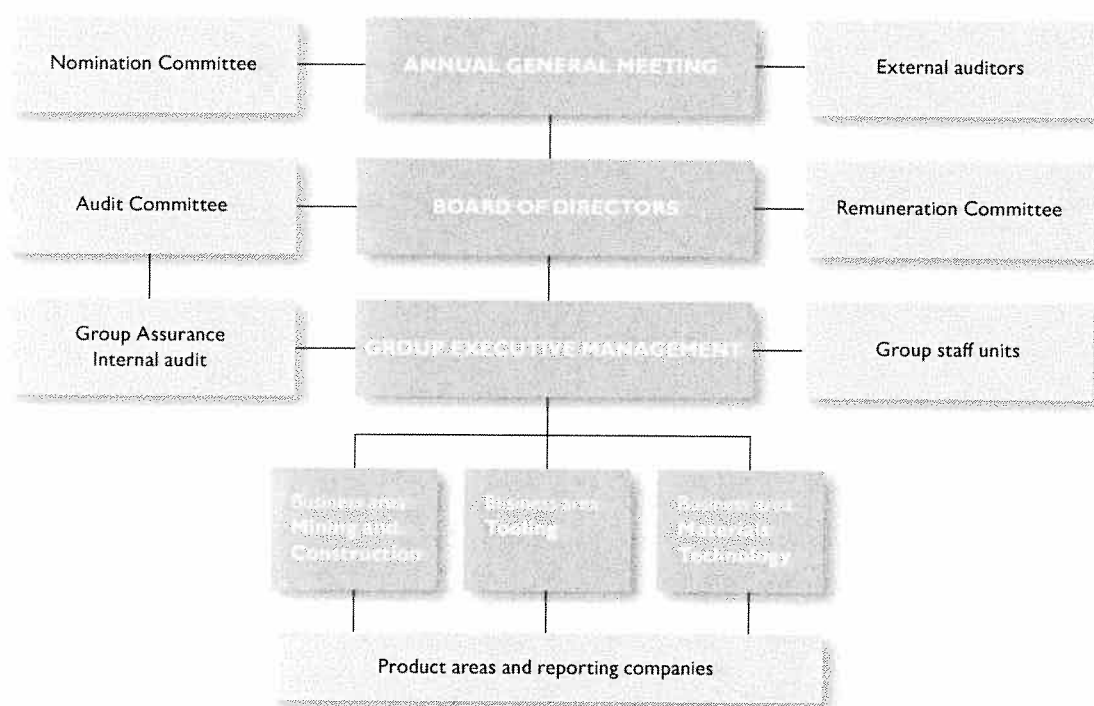
## Ownership structure

Sandvik's share capital amounts to SEK 1,423,544,610 represented by 1,186,287,175 shares. Each share carries one vote at meetings of shareholders. According to the owner register, Sandvik had about 109,000 shareholders at 31 December 2009. Industrivärden AB is the largest owner with about 11.4% of the share capital. Of the total share capital at year-end, approximately 33% was owned by foreign investors, according to SIX Ägarservice.

## Shareholder meetings

Pursuant to the Swedish Companies Act, the meeting of shareholders is the highest decision-making forum, at which the shareholders exercise their voting rights. At the Annual General Meeting, resolutions are made relating to the Annual Report, dividends, election of Board members and appointment of auditors, remuneration of Board members and auditors, and other matters stipulated in the Companies Act and the Articles of Association. Additional information concerning the Annual General Meeting and complete minutes are published on the company's website, [www.sandvik.com](http://www.sandvik.com).

## Organizational model



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

### 2009 Annual General Meeting

Shareholders representing 53.9% of the votes and share capital attended the Annual General Meeting held on 28 April 2009. Sven Unger, attorney-at-law, was elected to chair the meeting. The meeting resolved to declare a dividend of SEK 3.15 per share for the 2008 fiscal year. In his presentation, President and CEO Lars Pettersson commented on operations during the 2008 fiscal year and developments during the first quarter of 2009. He also gave an account of the Sandvik Group's development opportunities.

Georg Ehrnrooth, Clas Åke Hedström, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, Lars Pettersson and Simon Thompson were reelected as members of the Board. Clas Åke Hedström was elected Chairman of the Board. The trade union organizations had appointed Tomas Kärnström and Jan Kjellgren as permanent members of the Board, with Mette Ramberg and Bo Westin as deputies. Anders Nyrén is the Vice Chairman of the Board.

### Nomination Committee

A Nomination Committee has been established in accordance with the resolution passed at the Annual General Meeting in 2008. The four largest shareholders known to the company each appointed one member and, together with the Chairman of the Board, they formed the Nomination Committee.

### Nomination Committee for the 2009 AGM

The Nomination Committee for the 2009 Annual General Meeting, comprising Carl-Olof By, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken's Pension Foundations), Staffan Grefbäck (Alecta Pension Insurance), Marianne Nilsson (Swedbank Robur Funds), and Clas Åke Hedström (Sandvik's Chairman), held seven meetings. Through Sandvik's Board Chairman, the Nomination Committee received information concerning the Board's own evaluation of Board members' performance and of the company's operations, stage of development and overall status. The Nomination Committee discussed the general criteria that Board members should fulfill, including independence issues. The issue of more even gender distribution was addressed by the Committee. In its assessment, the Nomination Committee determined that the Board functioned effectively and that the various Board members represent a broad spectrum of experience and knowledge, which is why the Nomination Committee has proposed the re-election of all Board members.

### Nomination Committee for the 2010 AGM

For the Annual General Meeting to be held on 4 May 2010, the Nomination Committee consists of Carl-Olof By, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken's Pension Foundations), Staffan Grefbäck (Alecta Pension

### Nomination Committee's tasks

- proposals concerning the Chairman of the Meeting
- proposals concerning the number of Board members
- proposals concerning remuneration of Board members and auditors
- proposals concerning Board members and Chairman of the Board
- proposals concerning number of auditors and appointment of auditors
- proposals concerning the method of appointment of the Nomination Committee for the forthcoming AGM and its assignments.

Insurance), Marianne Nilsson (Swedbank Robur Funds), and Clas Åke Hedström (Sandvik's Chairman).

### The Board of Directors

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

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

### The ten largest shareholders at 31 December, %

	2009	2008	2007	2006	2005
AB Industrivärden	11.4	11.5	11.5	11.0	11.0
Swedbank Robur Funds	4.7	3.4	2.3	2.4	2.6
Handelsbanken's Pension Foundation	4.0	4.0	4.0	3.8	3.8
J.P. Morgan Chase Bank*	2.8	10.5	8.7	5.6	10.9
Alecta Pension Insurance	2.5	3.4	3.1	2.9	1.1
Omnibus Account W FD OM80	2.5	—	—	—	—
Handelsbanken Funds	1.9	1.4	2.1	2.0	2.2
AMF Pension Insurance	1.8	1.3	1.5	1.8	3.8
SEB Investment Management	1.7	1.9	1.5	1.7	1.6
First Swedish National Pension Fund	1.7	1.0	0.8	0.9	0.4

\* Administers shares held in trust. Capital Group's shareholding is registered in custodial accounts.

## The principal tasks of the Board are to:

- establish the overall objectives for the company's operations and the strategy for reaching these objectives,
- ensure that the company's executive management functions efficiently and is suitably remunerated,
- ensure that the company's external financial reporting is conducted transparently and objectively and provides a fair view of the company's performance, profitability, financial position and risk exposure,
- ensure that there are effective systems for the monitoring and control of the company's operations and financial position in relation to the established goals,
- monitor and evaluate the company's development and advise and support the CEO in taking necessary measures,
- ensure that there is adequate control of compliance with laws and regulations governing the company's operations,
- ensure that necessary ethical guidelines are established for the company's conduct,
- decide on acquisitions, divestments and investments,
- propose the dividend to the AGM.

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

### Procedural Guidelines

The Board's Procedural Guidelines and instruction for Work Delegation between the Board and the CEO, as well as financial reporting, are updated and approved

each year. The update is based on such aspects as the Board's evaluation of the individual and collective work that the Board performs.

In addition to financial reporting and the monitoring and follow-up of daily operations and profit trend, Board meetings address the goals and strategies for the operations, acquisitions and major investments, as well as matters relating to the financial structure. Senior executives report business plans and strategic issues

to the Board on an ongoing basis. The respective committees prepare remuneration and audit matters.

### Evaluation of the work of the Board

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

### Composition of the Board of Directors

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

In accordance with the Nomination Committee's proposal, Georg Ehrnrooth, Clas Åke Hedström, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, Lars Pettersson and Simon Thompson were reelected at the Annual General Meeting in 2009.

### Composition of the Board in 2009

Name	Function	Independent and acc. with the Code	Shareholding, number 31 Dec 2009	Elected	Audit Committee	Remuneration Committee
Georg Ehrnrooth	Member	Yes	55,000	1997		
Clas Åke Hedström	Chairman	Yes	225,000	1994		Member
Jan Kjellgren	Member*		570	2008		Chairman
Tomas Kärnström	Member*		2,865	2006		
Fredrik Lundberg	Member	No <sup>1)</sup>	5,200,000 <sup>3)</sup>	2006	Member <sup>1)</sup>	
Hanne de Mora	Member	Yes	0	2006	Member	
Egil Myklebust	Member	Yes	5,000	2003		Member
Anders Nyrén	Vice Chairman	No <sup>1)</sup>	4,500	2002	Chairman	
Lars Pettersson	Member	No <sup>2)</sup>	113,654	2002		
Simon Thompson	Member	Yes	0	2008		
Bo Westin	Deputy*		101	1999		
Mette Ramberg Frodigh	Deputy*		900	2006		

\* Employee representatives (Both members and deputy members partake in Board meetings). Jan Kjellgren (member) and Mette Ramberg (deputy) represent Unionen/Ledarna/ Swedish Association of Graduate Engineers. Tomas Kärnström (member) and Bo Westin (deputy) represent Metall.

<sup>1)</sup> Not independent in relation to major shareholders in the company.

<sup>2)</sup> Not independent in relation to the company and Group Executive Management.

<sup>3)</sup> Shareholding in Sandvik via L E Lundbergföretagen AB totals 14,000,000, and shareholding via AB Industrivärden totals 136,431,200.

<sup>4)</sup> Fredrik Lundberg was a member of the Audit Committee up to and including 28 April 2009.

Sandvik's General Counsel Bo Severin served as secretary of the Board, the Remuneration and Audit Committees as well as the Nomination Committee.

#### Independence

Anders Nyrén and Fredrik Lundberg are not independent in relation to major shareholders as defined in the Code. The remaining four members elected at the Annual General Meeting were all independent in relation to Sandvik and major shareholders. Accordingly, the composition of the Board complies with the requirements in the Code that a minimum of two of those members that are independent in relation to the company and its management shall also be independent in relation to major shareholders, and that the members that are independent in relation to the company and major shareholders have the required experience of serving public listed companies.

#### Board proceedings during 2009

During the year, the Board met on eight occasions. The Board dealt with strategic issues related to the operations of the business areas. The executive managements of all three business areas presented their goals and strategies. During the year, the Board visited the acquired company Wolfram Bergbau und Hütten in St. Martin, Austria, and Walter AG's new plant in Münsingen, Germany. In

addition, the Board addressed issues related to the downturn in the economy and its implications for the business. The Board also addressed matters related to personnel, such as succession planning and remuneration terms. Decisions were taken on investments, acquisitions and divestments.

#### Evaluation of the President

The Board continually evaluates the performance and competence of the President and CEO and Group Executive Management. When this issue is addressed – not less than once a year – no members of Group Executive Management attend.

#### Remuneration of the Board members

As resolved at the Annual General Meeting, the fee to each of the external members elected at the Annual General Meeting is SEK 450,000. The Chairman's fee is SEK 1,350,000 and the fee to the Vice Chairman is SEK 900,000. In addition, SEK 150,000 was paid to the Chairman and SEK 125,000 to each member of the Audit Committee, in total SEK 275,000. The Chairman of the Remuneration Committee was paid SEK 100,000 and each member SEK 75,000, or a total of SEK 250,000. For additional information on remuneration to the Board members, see pages 60–62.

#### Board Committees

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

#### Remuneration Committee

According to the Board's work procedures, the Remuneration Committee shall prepare matters pertaining to the remuneration of the President and other senior executives based on the guidelines resolved at the Annual General Meeting. In 2009, the members of the Remuneration Committee were the Board's Chairman Clas Åke Hedström (also Chairman of the Remuneration Committee), Georg Ehrnrooth and Egil Myklebust.

The Remuneration Committee's recommendations to the Board cover:

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

Based on the proposal by the Remuneration Committee, the Board decides the remuneration of the President and CEO. The President decides the remuneration to be paid to the other senior executives

#### Attendance at Board and Committee meetings in 2009

Member	Board	Audit Committee	Remuneration Committee
Number of meetings	8	5	2
Georg Ehrnrooth	8		1
Clas Åke Hedström	8		2
Jan Kjellgren	8		
Tomas Kärnström	8		
Fredrik Lundberg	8	3	
Hanne de Mora	8	5	
Egil Myklebust	7		2
Anders Nyrén	8	5	
Lars Pettersson	8		
Simon Thompson	8		
Bo Westin	7		
Mette Ramberg Frødigh	3		

following consultation with the Remuneration Committee. For additional information, see pages 60–62. Key guidelines relating to remuneration policies in the Group have been presented to the Remuneration Committee.

During 2009, the Remuneration Committee was convened on two occasions.

#### **Audit Committee**

Since the 2009 AGM, the members of the Audit Committee have been Anders Nyrén (Chairman) and Hanne de Mora. In 2009, the committee held five meetings at which the company's external auditors and representatives of the company's management were present.

Areas addressed by the Audit Committee mainly related to:

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

#### **External auditor**

At the 2008 Annual General Meeting, the audit firm KPMG AB was reelected auditor for the three-year period until the 2011 Annual General Meeting, with Caj Nackstad as the auditor in charge.

An account of the audit is presented to the shareholders in the audit report. This report provides a recommendation to the shareholders upon which they can base their resolutions at the Annual General Meeting regarding the adoption of the income statements and balance sheets of

the Parent Company and the Group, the appropriation of the Parent Company's profit and the discharge of the members of the Board and the CEO from liability for the fiscal year.

The audit is conducted in accordance with the Companies Act and generally accepted auditing standards, which require that the audit is planned and performed on the basis of knowledge of the Sandvik Group's operations and its development and strategies. The audit includes such activities as an examination of compliance with the Articles of Association, the Companies Act, the Annual Accounts Act, International Financial Reporting Standards (IFRS) and the disclosure standards specified by the Stock Exchange relating to information in the Annual Report, as well as issues related to the measurement of items recognized in the balance sheet and the follow-up of essential accounting processes and financial control.

The progress of the audit is reported regularly during the year to the managements of individual companies and the business areas, to Group Executive Management, the Audit Committee and to the Board of Sandvik AB.

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

In accordance with the Auditors Act, auditors are required to continually assess their independence.

For information on fees paid to auditors, see page 62.

#### **Operational management**

Information relating to the Group's operational organization and business activities is available on the company's website, [www.sandvik.com](http://www.sandvik.com).

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

#### **CEO and Group Executive Management**

In 2009, Group Executive Management comprised Lars Pettersson, President and CEO, Anders Thelin, Sandvik Tooling, Lars Josefsson, Sandvik Mining and Construction, Peter Gossas, Sandvik Materials Technology, Peter Larson, Executive Vice President, Per Nordberg, Executive Vice President and CFO (up to and including 31 August 2009) and Ola Salmén, CFO (from 1 September 2009). Group Executive Management is convened each

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

The CEO and other members of Group Executive Management are presented on page 110 of the Annual Report. For principles, remuneration and other benefits payable to Group Executive Management, see pages 60–62.

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

For each such country, a member of Group Executive Management, or another person appointed by Group Executive Management, has been assigned overall responsibility for the operations in the country concerned (Group Management

Representative). In most cases, this member is also Chairman of the local Board and, among other tasks, must ensure compliance with Group-wide guidelines aided by the Country Manager.

### Integration of acquired companies

In the most recent 10-year period, Sandvik has acquired some 50 companies. In the past two years, 11 new companies with some 1,000 employees and total sales of about SEK 3 billion (at acquisition date) have been acquired. Accordingly, a considerable part of the Sandvik Group's growth comes from acquisitions.

A swift and well-accomplished integration of new companies with Sandvik's other operations is of utmost importance. The commercial synergies of the acquisition must be ensured. The integration also comprises management and HR issues, and harmonization with Sandvik's administrative procedures and its core values: *Open Mind, Team Spirit and Fair Play*.

The integration is secured in three steps. During the initial acquisition stage, prior to the completion of negotiations and before the acquisition is finalized, the significant integration aspects are analyzed and prepared. When the acquisition is concluded, an integration group is appointed which is charged with the task of planning and implementing the integration in various areas. Finally, the company is incorporated into Sandvik's administrative procedures and its personnel are trained in Sandvik's regulations, instructions and set of values.

This includes financial reporting, which allows for early consolidation into Sandvik's financial reporting and the consolidated financial statements.

### Internal control and risk management

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

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

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

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



# Internal control regarding financial reporting

Internal control procedures were established in accordance with prevailing legislation, International Financial Reporting Standards (IFRS) and the listing agreement with the Nasdaq OMX Nordic Exchange Stockholm. This description of internal control over financial reporting is prepared in accordance with the Code, sections 10.5 and 10.6. It does not form part of the formal Annual Report and has not been examined by the external auditors.

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

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

## Control Environment

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

In the area of financial reporting, the Sandvik Financial Reporting Procedures (FRP) have been implemented. This document contains detailed instructions

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

## Risk assessment and risk management

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

## Control activities

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

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

The Group finance functions that are responsible for the consolidated Sandvik income statement, balance sheet and cash-flow statement and the internal management and external statutory reporting perform detailed reconciliation of submitted financial information from each reporting entity. Comparisons are made against targets, forecasts and previous accounting periods. Key ratios and performance indicators are reviewed and calculations tested. In-depth analysis is made of reported numbers and performance. Meetings are held with business area management to discuss performance and to agree on the outcome of financial information for the reporting period.

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

#### **Information and communication**

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

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

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

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

#### **Monitoring and follow-up**

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

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

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

#### **Group Assurance**

As assigned by the Board and the Audit Committee, the Group Assurance staff function ensures that the Group has effective corporate governance, internal control and risk management procedures.

The purpose of the activities of Group Assurance is to support the creation of value growth in the Group. It achieves this by ensuring that well-functioning risk management and appropriate internal control have been established, by ensuring the quality of internal controls and by suggesting improvements in the areas of corporate governance, internal control and risk management. Group Assurance is subordinated to the Board's Audit Committee and the head of the unit reports to the Audit Committee. In functional terms, the head of Group Assurance reports to Sandvik's CFO.

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

## Non-executive Directors and Chairmen of the Board

### Chairmen of the Board

**Clas Åke Hedström**, b. 1939.

Chairman since 2002, Director of Sandvik AB since 1994.

*Education and business experience:*

MSc. Eng. President and CEO of Sandvik AB 1994–2002. President of Sandvik Tooling business area 1980–1994 and various positions within Sandvik Coromant 1965–1980.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 225,000.

**Lars Pettersson**, b. 1954.

Director of Sandvik AB since 2002.

*Education and business experience:*

MSc. Eng., PhD Honorary. President and Chief Executive Officer of Sandvik AB since 2002. Group Executive Vice President and President of Sandvik Specialty Steels business area 2000–2002. Various positions within production and management in Sandvik 1978–1999.

*Current Board assignments:* Director of Skanska AB and Teknikföretagen.

*Shareholding in Sandvik (own and closely related persons):* 113,654.

*Not independent in relation to the company and Group Executive Management.*

**Georg Ehrnrooth**, b. 1940.

Director of Sandvik AB since 1997.

*Education and business experience:*

Graduate engineer, D.Tech. Honorary. President of Metra Oyj (currently Wärtsilä Oyj Abp) 1991–2000, President of Lohja Oyj Abp 1979–1991, various positions in production and management within Wärtsilä Oyj Abp 1965–1979.

*Current Board assignments:* Director Nokia Oyj.

*Shareholding in Sandvik (own and closely related persons):* 55,000.

**Fredrik Lundberg**, b. 1951.

Director of Sandvik AB since 2006.

*Education and business experience:*

MSc. Eng., B.Sc. (Econ.), D.Econ Honorary, D.Tech. Honorary. Active in L E Lundbergföretagen AB since 1977 and Chief Executive Officer since 1981.

*Current Board assignments:* Chairman of the Board of Cardo AB, Holmen AB, Hufvudstaden AB, Vice Chairman of Svenska Handelsbanken AB and NCC AB, Director of LE Lundbergföretagen AB and AB Industrivärden.

*Shareholding in Sandvik (own and closely related persons):* 5,240,000, via L E Lundbergföretagen AB 14,000,000 and via AB Industrivärden 135,431,200.

*Not independent in relation to major shareholders in the company.*

**Anders Nyrén**, b. 1954.

Director of Sandvik AB since 2002.

Vice Chairman of the Board.

*Education and business experience:*

B.Sc. (Econ.), MBA. President and Chief Executive Officer of AB Industrivärden since 2001, Executive Vice President and CFO of Skanska AB 1997–2001, various executive positions within AB Wilhelm Becker, STC Scandinavian Trading Co AB, STC Venture AB, OM International, Securum AB and Nordbanken 1979–1997.

*Current Board assignments:* Chairman of Association of Exchange-listed Companies and the Association for Good Practices on the Securities Market, Vice Chairman of Svenska Handelsbanken AB, Director of Ericsson AB, Industrivärden, SCA, SSAB, Volvo and Ernströmgruppen.

*Shareholding in Sandvik (own and closely related persons):* 4,500.

*Not independent in relation to major shareholders in the company.*

**Egil Myklebust**, b. 1942.

Director of Sandvik AB since 2003.

*Education and business experience:*

LLB. Chief Executive Officer of Norsk Hydro 1991–2001, President of Næringslivets hovedorganisasjon 1989–1990, President of Norsk Arbeidsgivareforening 1987–1988, various positions within Norsk Hydro 1971–1987. Consultant to the National Insurance Administration 1968–1971.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 5,000.

**Hanne de Mora**, b. 1960.

Director of Sandvik AB since 2006.

*Education and business experience:*

B.Sc. (Econ.), MBA, IESE, Barcelona. One of the founders and owners, also Chairman of the Board of the management company a-connect (group) ag since 2002, partner in McKinsey & Company Inc. 1989–2002, various positions within brand management and controlling within Procter & Gamble 1986–1989.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 0.

**Simon Thompson**, b. 1959.

Director of Sandvik AB since 2008.

*Education and business experience:*

MA Geology. Various positions with Anglo American Group 1995–2007 including director of Anglo American plc 2005–2007, Director of AngloGold Ashanti 2004–2008, Chairman of Tar-mac 2004–2007, Director of SG Warburg 1994–1995, NM Rothschild & Sons Ltd. 1984–1995.

*Current Board assignments:* Director of Newmont Mining Corporation and AMEC plc.

*Shareholding in Sandvik (own and closely related persons):* 0.

**Tomas Kärnström**, b. 1966.

Director of Sandvik AB since 2006 (employee representative).

*Education and business experience:* Principal safety representative Sandvik Materials Technology. Various positions within Sandvik since 1986.

*Current Board assignments:* —

*Shareholdings in Sandvik (own and closely related persons):* 2,865.

**Jan Kjellgren**, b. 1952.

Director of Sandvik AB since 2008 (employee representative).

*Education and business experience:* Research engineer, Sandvik Tooling Sverige AB. Various positions within Sandvik since 1981.

*Current Board assignments:*

AB Sandvik Hard Materials, Sandvik Tooling Sverige AB.

*Shareholding in Sandvik (own and closely related persons):* 570.

**Bo Westin**, b. 1950.

Director of Sandvik AB since 1999 (employee representative).

*Education and business experience:* Chairman Union Committee, Metal Workers' Union, Sandvik Rotary Tools AB, Köping. Various operator positions within Sandvik Mining and Construction since 1973. Volvo Köpingverken 1971–1972, Köpings Mekaniska Verkstad 1968–1970.

*Current Board assignments:* Director of Sandvik Rotary Tools.

*Shareholding in Sandvik (own and closely related persons):* 0.

**Mette Ramberg Frodigh**, b. 1961.

Director of Sandvik AB since 2006. Resigned 29 June 2009 (employee representative).

*Honorary Chairman*

*Percy Barnevik*, b. 1941.

*Chairman of the Board of Sandvik AB* 1983–2002.

**Caj Nackstad**, b. 1945.

Auditor in charge, Authorized Public Accountant, KPMG AB.

Other auditing assignments: LKAB, Axel Johnson AB and Wallenius.

*Shareholding in Sandvik (own and closely related persons):* 0.

**Bo Severin**, b. 1955.

Secretary to the Sandvik Board of Directors since 2000.

*Education and business experience:*

LL.B. General Counsel in Sandvik AB.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 12,806.

# Group Executive Management and Group Staff Units

## Lars Pettersson, b. 1954.

Director of Sandvik AB since 2002.

President and Chief Executive Officer of Sandvik AB since 2002.

*Education and business experience:*

MSc. Eng., PhD Honorary. Group Executive Vice President and President of Sandvik Specialty Steels business area 2000–2002, various positions within production and management in Sandvik 1978–1999.

*Current Board assignments:* Director of Skanska AB and Teknikföretagen.

*Shareholding in Sandvik (own and closely related persons):* 113,654.

## Peter Larson, b. 1949.

Executive Vice President of Sandvik AB since 2000. Responsible for Business Development and HR.

*Education and business experience:*

B.Sc. (Econ), Executive Vice President and head of IT, Sandvik AB 2004 until 15 February 2009, Executive Vice President and CFO, Sandvik AB 2000–2004, Executive Vice President of Kanthal 1992–2000, Administration Manager, Uddeholm Tooling 1989–1992, controller positions within Härnösands Grafit AB, Kanthal AB and Asea/ABB 1974–1989.

*Current Board assignments:* Director of Seco Tools AB.

*Shareholding in Sandvik (own and closely related persons):* 41,425.

## Ola Salmén, b. 1954.

CFO of Sandvik AB since 1 September 2009.

*Education and business experience:*

B.Sc. (Econ), CFO Vin & Sprit AB 2002–2009, CFO Adcore AB 2000–2001, Director of Finance Handelsbanken Markets 1997–2000, various financial manager and controller positions at the Swedish Match and STORA Groups 1984–1996.

*Current Board assignments:* Director of Svevia AB and Petersson & Wagner Fonder AB.

*Shareholding in Sandvik (own and closely related persons):* 2,000.

## Anders Thelin, b. 1950.

President of Sandvik Tooling business area since 2000.

*Education and business experience:*

MSc. Eng. Various positions within research and development and the management group of Sandvik Coromant 1976–2000.

*Current Board assignments:* Director of Haldex AB.

*Shareholding in Sandvik (own and closely related persons):* 18,891.

## Lars Josefsson, b. 1953.

President of Sandvik Mining and Construction business area since 2003.

*Education and business experience:*

MSc. Eng. Physics. President, ABB STAL/Alstom Sweden AB 1998–2003.

*Current Board assignments:* International Council of Swedish Industry

*Shareholding in Sandvik (own and closely related persons):* 40,000.

## Peter Gossas, b. 1949.

President of Sandvik Materials Technology business area since 2002.

*Education and business experience:*

MSc. Eng. Physics. General Manager Sandvik Tube 2001, business unit manager positions within Avesta Polarit, Avesta Sheffield and Avesta AB 1986–2001, production and development positions within SSAB 1974–1986.

*Current board assignments:* Director of Höganäs AB, chairman of the Employers' Association of the Steel and Metal Industry, Chairman of "Industriarbetsgivarna."

*Shareholding in Sandvik (own and closely related persons):* 604.

## Group staff units

IT	Daniel Repond	Intellectual Property	Henrik Hägglöf
Business Control	Andreas Burman	Communications	Anders Wallin
Real Estate	Carl Larsson	Investor Relations	Jan Lissåker
Financial Control	Björn Wahlborg	Legal Affairs	Bo Severin
Financial Services	Anders Örbom	HR and Business Development	Peter Larson
Group Assurance	Bernth Nilsson	Taxes and Financial Projects	Thomas B. Hjelm (until 31 August 2009) Pierre Jansson (from 1 September 2009)

Information regarding Board assignments and holdings of shares is valid as of 1 January 2010.

### Annual General Meeting

The Annual General Meeting will be held at Göransson Arena, Sättragatan 15, Sandviken on Tuesday, 4 May 2010 at 5.00 p.m.

Shareholders wishing to attend the Meeting must notify the Company either by letter to Sandvik AB, Legal Affairs, SE-811 81 Sandviken, Sweden or by fax +46 26 26 10 86, or telephone +46 26 26 09 40 from 9.00 a.m. to 12.00 noon and 1.00 p.m. to 4.00 p.m. on weekdays, or via the Internet on the Group's website ([www.sandvik.com](http://www.sandvik.com)). Such notification must reach Sandvik AB not later than Tuesday, 27 April 2010. Shareholders must also have been entered in the Share Register kept by Euroclear Sweden AB not later than Tuesday, 27 April 2010 to establish their right to attend the Meeting.

Shareholders whose shares are registered as held in trust must have them temporarily re-registered with Euroclear Sweden AB in their own names not later than Tuesday, 27 April 2010 to establish their right to attend the meeting. Note that this procedure also applies to shareholders using a bank's shareholder deposit account and/or trade via the Internet.

In notification of your intent to attend the Meeting, please state your name, personal or corporate registration number, address and telephone number, and details of any advisors. If you plan to be represented at the Meeting by proxy, notice must be given to Sandvik AB prior to the Meeting.

### Payment of dividend

The Board and the President propose that the Meeting declare a dividend of SEK 1.00 per share for 2009.

The proposed record date is Friday, 7 May 2010. If this motion is adopted by the Meeting, it is expected that dividends will be paid on Wednesday, 12 May 2010. Dividends will be sent to those who, on the record date, are entered in the Share Register or on the separate List of Assignees, etc. To facilitate the distribution of dividends, shareholders who have changed address should report their change of address to their bank in sufficient time prior to the record date.

### Sandvik's Annual Report

Sandvik's Annual Report for 2009 comprises the formal financial statements, meaning the Board of Directors' report, income statements and balance sheets, with accompanying notes, etc., and is printed separately in a reduced number of copies for the shareholders who have ordered the printed reports. In addition to descriptions of operations, financial key figures, goals, business concept, strategy and more, *The Sandvik World 2009/2010* provides an in-depth look at a number of key areas. *The Sandvik World* will be distributed to shareholders in April 2010.

The Annual Report is available on the Group's website ([www.sandvik.com](http://www.sandvik.com)) and can be ordered in a printed format.

## Key Figures

**Key Figures** (From 2004 in accordance with IFRS, earlier years in accordance with previous GAAP)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Invoiced sales, SEK M	71,937	92,654	86,338	72,289	63,370	54,610	48,810	48,700	48,900	43,750
change, %	-22	+7	+19	+14	+16	+12	0	0	+12	+11
of which organic, %	-30	+5	+18	+14	+14	+15	+5	-7	+3	+12
of which structural, %	0	+2	+3	+1	-1	-1	+2	+10	+1	-4
of which currency, %	10	0	-2	-1	+3	-2	-7	3	+8	+3
Operating result, SEK M	-1,412	12,794	14,394	12,068	9,532	7,578	4,967	5,771	6,103	6,327
as % of invoicing	-2	14	17	17	15	14	10	12	12	14
Result after financial items, SEK M	-3,472	10,577	12,997	11,113	8,819	6,877	4,187	5,063	5,606	5,804
as % of invoicing	-5	11	15	15	14	13	9	10	11	13
Consolidated net result for the year, SEK M	-2,596	7,836	9,594	8,107	6,392	5,111	2,788	3,436	3,688	3,712
Shareholders' equity, SEK M	29,957	36,725	29,823	27,198	24,507 <sup>1)</sup>	23,551 <sup>1)</sup>	21,440	23,205	23,972	23,019
Equity ratio, %	33	36	35	41	41	46	46	48	50	55
Net debt/equity ratio, multiple	1.0	0.9	1.0	0.6	0.7	0.5	0.5	0.5	0.4	0.3
Rate of capital turnover, %	73	101	112	115	112	108	98	97	102	104
Cash and cash equivalents, SEK M	7,506	4,998	2,006	1,745	1,559	1,720	1,972	2,175	2,258	2,097
Return on shareholders' equity, %	-7.9	24.8	34.4	31.8	27.4	21.7	12.8	14.9	15.5	17.3
Return on capital employed, %	-1.3	19.9	27.0	27.6	23.7	20.5	13.4	15.4	17.4	20.3
Investments in property, plant and equipment, SEK M	4,625	7,169	5,399	4,801	3,665	2,967	3,153	2,357	2,627	2,087
Total investments, SEK M	6,780	8,301	10,068	6,081	3,950	3,278	3,260	5,066	4,083	2,670
Cash flow from operations, SEK M	12,312	9,671	5,476	8,170	7,266	5,322	6,421	7,190	5,093	4,476
Cash flow, SEK M	2,470	2,764	179	357	-380	-207	-104	48	73	-334
Number of employees, 31 December	44,355	50,028	47,123	41,743	39,613	38,421	36,930	37,388	34,848	34,742

1) Total equity, including minority interest.

**Per-Share Data** (From 2004 in accordance with IFRS, earlier years in accordance with previous GAAP. All historical figures are adjusted taking into account the 5:1 split.)

SEK	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Basic earnings <sup>1)</sup>	-2.24	6.30	7.65	6.45	4.95	3.85	2.20	2.70	2.85	2.85
Diluted earnings <sup>2)</sup>	-2.24	6.29	7.65	6.45	4.90	3.75	2.15	2.70	2.85	2.80
Equity	24.4	30.00	24.10	22.00	19.80	18.30	17.20	18.60	19.10	17.80
Dividend (2009 as proposed)	1.00	3.15	4.00	3.25	2.70	2.20	2.10	2.00	1.90	1.80
Direct return <sup>3)</sup> , %	1.2	6.4	3.6	3.3	3.6	4.1	4.2	5.2	4.2	4.0
Payout percentage <sup>4)</sup> , %		50	52	50	55	57	94	73	66	63
Quoted prices, Sandvik share, highest	90	108	151	106	79	56	50	52	49	62
lowest	41	42	96	71	54	46	35	38	35	36
year-end	86	49	111	100	74	54	50	39	45	45
No. of shares at year-end, million	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,235.2	1,250.1	1,250.1	1,255.1	1,293.5
Average no. of shares, million	1,186.3	1,186.3	1,186.3	1,186.3	1,216.9	1,255.8	1,250.1	1,252.5	1,277.6	1,293.5
P/E ratio <sup>5)</sup>		7.8	14.5	15.4	15.0	13.9	22.1	14.2	15.6	15.9
Quoted price, % of equity <sup>6)</sup>	352	163	462	452	374	293	288	209	235	255

1) Profit/loss for the year per share.

2) Profit/loss for the year per share after dilution of outstanding convertible program.

3) Dividend divided by the quoted price at year-end.

4) Dividend divided by basic earnings per share.

5) Market price of share at year-end in relation to earnings per share.

6) Market price of share at year-end, as a percentage of equity per share.

Supplementary definitions on page 57.

## Development by Business Area

	Invoiced sales				Operating result and operating margin							
	2009 MSEK	2008 MSEK	2007 MSEK	2006 MSEK	2009 MSEK	%	2008 MSEK	%	2007 MSEK	%	2006 MSEK	%
Sandvik Tooling	19,078	25,975	24,732	22,477	-527	-3	5,461	21	5,989	24	5,191	23
Sandvik Mining and Construction	32,621	38,651	33,073	25,001	466	1	4,996	13	4,979	15	3,672	15
Sandvik Materials Technology	15,328	21,480	22,486	19,337	-1,137	-7	1,187	6	2,435	11	2,324	12
Seco Tools*	4,871	6,513	6,011	5,436	307	6	1,332	21	1,491	25	1,266	23

\* Seco Tools, an independent, exchange-listed group of companies that markets tools for metal cutting, is part of the Sandvik Group.





**Document 2 of 4**

**Sandvik Annual Report 2009**

Sandvik

Annual Report 2008

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In addition to the financial information in the Annual Report, the Sandvik Group is presented in Sandviks' World 2008/2009, a publication distributed to all shareholders in April 2009. In addition to descriptions of operations, financial key figures, goals, business concept, strategy and more, the Sandvik World provides an in-depth look at a number of key areas. More information is provided at [www.sandvik.com](http://www.sandvik.com).

## Forthcoming information and reports

Annual Report 2008	April 2009	Annual Report 2009	April 2010
The Sandvik World 2008/2009	April 2009	The Sandvik World 2009/2010	April 2010
Report on the first quarter	28 April 2009	Report on the first quarter	4 May 2010
Annual General Meeting	28 April 2009	Annual General Meeting	4 May 2010
Report on the second quarter	17 July 2009	Report on the second quarter	20 July 2010
Report on the third quarter	30 October 2009	Report on the third quarter	29 October 2010
Report on the fourth quarter	3 February 2010		

Financial information may be ordered from:  
Sandvik AB  
Group Staff Information  
SE-811 81 Sandviken  
Sweden  
Phone: +46 (0)26-26 10 47  
[www.sandvik.com](http://www.sandvik.com)

# Year in brief

## Financial

- Order intake up 1%\*, SEK 92,610 M.
- Invoiced sales up 5%\*, SEK 92,654 M.
- Profit after financial items –19%\*, SEK 10,577 M.
- Earnings per share down 18%, SEK 6.30.
- Proposed dividend SEK 3.15.

\* Excluding currency effects for comparable units.

## Operational

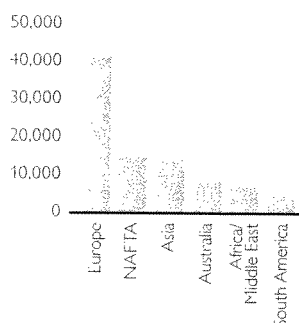
- Continuing programs in research, development and marketing.
- Improved cash flow.
- Action taken to adjust production capacity and costs to lower demand, including personnel reductions.

## Invoiced sales by customer area, SEK M



The global economic decline in the fourth quarter of 2008 was one of the most dramatic experienced by Sandvik. The downturn impacted all business areas and many markets. Order intake decreased in price and volume by 18%, while the drop in invoiced sales was 1%. The market slow down varied among customer segments and was most discernible in the automotive industry, construction and exploration industries, parts of the general engineering industry and consumer-related industries.

## Invoicing by market area, SEK M



Demand for Sandvik's products deteriorated sharply toward the end of the year. The slowdown was global, but order intake was relatively strong in South America and Africa, notably from the mining industry. The dramatic decline in the market meant that order intake in the last quarter was 14% lower than invoiced sales.

## Key figures

SEK M	2008	2007	Change
Order intake	92,610	92,059	+1%
Invoiced sales	92,654	86,338	+7%
Profit after financial items	10,577	12,997	–19%
Earnings per share, SEK	6.30	7.65	–18%
Return on capital employed, %	19.9	27.0	
Return on shareholders' equity, %	24.8	34.4	
Cash flow from operations	9,671	5,476	
Number of employees, at 31 December	50,028	47,123	

During the last quarter of 2008 a number of measures to adjust costs and production capacity to the less favorable market situation were taken and the effects of these measures will impact earnings gradually during 2009. Sandvik conducts continuous assessments of the market and acts in accordance with these.

# This is Sandvik

with advanced products and world-leading positions in selected areas. The Group is represented in 130 countries and has about 50,000 employees. Sales amounted to approximately SEK 93 billion.

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

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

Sandvik is focused on growth. Sales have almost doubled during the past five years. To create the basis for continued profitable growth, operations are divided into three business areas, with world-leading positions. Each business area is responsible for research and development, production and sales of its particular products.

Business areas	Offering	Markets
<p><b>Sandvik Tooling</b> focuses primarily on tools and tooling systems for metal cutting.</p> <p>The products are sold under a number of international brands, such as Sandvik, Sandvik Coromant, Walter, Valenite, ValeniteSafety, Dormer, Precision and Diamond Innovations.</p>	<p>Tools and tooling systems for metal cutting, as well as wear parts and components in cemented carbide.</p> <p>Highly efficient product solutions in cemented carbide and other hard materials, such as synthetic diamonds, cubic boron nitride, ceramics and high-speed steel.</p>	<p>The major customer segments are the global energy and aerospace industries as well as the automotive and general engineering industries.</p> <p>The global market for metal cutting tools is estimated to total some SEK 140 billion, with an average annual growth of 3–4%. The market potential for other components and wear parts made of hard materials is estimated at about SEK 30 billion.</p>
<p><b>Sandvik Mining and Construction</b> specializes in equipment, tools and service for the mining and construction industries.</p> <p>Effective 1 April 2009, Sandvik Mining and Construction is active in three customer segments: Underground Mining, Surface Mining and Construction.</p>	<p>Equipment, tools, service and technical solutions for mineral exploration, mining and processing of rock and minerals in the mining and construction industries.</p> <p>An extensive product program for drilling and mechanical mining, as well as for loading and transport, crushing and sorting, demolition, recovery and handling of rock and minerals.</p>	<p>The products are deployed primarily in mines and in construction operations worldwide.</p> <p>The global market is estimated to amount to more than SEK 220 billion. Average, long-term annual growth for equipment, tools and spare parts is about 4–6%, with a higher growth rate for services.</p>
<p><b>Sandvik Materials Technology</b> develops products in advanced stainless materials, special alloys, metallic and ceramic resistance materials and process systems.</p> <p>Operations are divided into six product areas – Tube, Strip, Wire, Kanthal, Process Systems and MedTech.</p>	<p>High value-added products and system solutions based on advanced metallic materials.</p> <p>Process equipment based on steel belts. Manufacturing of orthopedic implants and instruments.</p> <p>Systems for generating, controlling, measuring or protecting against heat.</p>	<p>Customers are active in most industrial segments in which exacting demands are imposed on safety, productivity, cost efficiency and a long life cycle.</p> <p>The world market is estimated at more than SEK 150 billion. The underlying average annual growth is 4–6%, while growth is higher in such segments as medical technology and energy.</p>

### The world as our local market

Invoiced sales and number of employees for the fifteen largest markets in 2008.

	SEK M	Change, %	Number of employees		SEK M	Change, %	Number of employees
US	11,039	+1	5,286	Brazil	3,567	+7	1,818
Australia	8,152	+9	2,732	UK	3,307	+1	2,004
Germany	7,958	+7	3,881	Russia	2,625	+34	768
Sweden	4,753	+6	11,487	Canada	2,433	+5	947
Italy	4,682	+7	992	Japan	2,121	0	634
China	4,311	+26	1,813	India	2,044	+16	2,187
South Africa	3,955	+12	2,237	Finland	1,657	+31	1,812
France	3,698	+4	2,223				

### Business areas' share of Group

#### Invoiced sales



SEK 25,975 M

#### Operating profit



SEK 5,461 M

#### Number of employees



16,988

42%

SEK 38,651 M

39%

SEK 4,996 M

34%

16,796

23%

SEK 21,480 M

9%

SEK 1,187 M

19%

9,281

# Consolidation to meet decline in demand and strengthen competitiveness

During 2008, Sandvik consolidated its business for the entire global economy in the wake of the financial crisis and the rapid decline in demand. Also for Sandvik, the market demand dropped during the close of the year, following three robust quarters with consistently high demand in most of the customer segments.

Although 2008 was marked by the decline in demand during the fourth quarter, Sandvik advanced its market positions in a number of ways during the year. The launch of new products, expansion into emerging markets and within product areas as well as integration of acquired companies continued as planned. The strong customer focus to constantly achieve improvements in customer productivity and profitability was further developed and the process to improve competitiveness in these areas was strengthened.

## **Weaker growth in all business areas**

Fiscal 2008 was yet another strong year for Sandvik in terms of sales and earnings. Invoicing for the year amounted in total to SEK 92,654 M (86,338), with profit for the year totaling SEK 7,836 M (9,594). During the first three quarters of the year, sales and invoicing were up from the preceding year. It was only at the end of the third quarter that weaker demand was noted and this development was accelerated by the global financial crisis. From November onwards, the slowdown in the automotive, construction and exploration industries spread to most other industries, with exception of the energy sector.

## **Focus on costs and production capacity**

As a result of the market downturn, a number of actions were taken to adapt capacity and costs to a lower demand. These have included the termination of employment for more than 3,000 employees including temporary workers and con-

sultants. Increased focus on reducing tied-up capital in inventories, account receivables as well as fixed assets is a key element to further strengthen the cash flow. In view of the prevailing uncertain conditions, continuous assessments of the market are conducted and further actions will be taken if required. Meanwhile, Sandvik's financial stability will be utilized to the greatest extent possible to retain marketing activities and R&D and thereby increase market shares and secure the long-term development.

## **Sandvik Tooling**

One of the notable events during the year included investment in a new production plant in Wuxi, China. A corporate presence in China creates proximity to customers in this expansive market and offers substantial advantages in customer service and credibility to the customers. As a result of the acquisition of the Norwegian company Teeness ASA – a market-leading company in the development and production of anti-vibration tools – the business area's offering was strengthened in the aerospace and energy industries. Order intake, invoicing and profitability weakened markedly within Sandvik Tooling during the fourth quarter of 2008 and measures were taken to adapt to lower volumes.

## **Sandvik Mining and Construction**

The business area consolidated its position in the various customer segments. At the beginning of the year, the largest order to date in soft mineral mining was received

from Canada. Sandvik strengthened positions in most markets, but notably in Eastern Europe and China. As a result of the weakening markets, a sharp decline in order intake for the business area was noted in the fourth quarter. This led to a reduction of employees and a review of the organization. Sales of service and maintenance to customers will be a focus area going forward.

#### **Sandvik Materials Technology**

Business conditions remained robust in Sandvik Materials Technology throughout the first three quarters. In the fourth quarter, market demand diminished sharply, most notably in the automotive, aerospace and engineering industries. In contrast, demand remained stable in the energy sector. The decline in order intake made a strong adaptation of capacity and costs necessary, resulting in layoff notices for 1,500 employees, primarily in Sweden. Additional acquisitions in the medical-technology area strengthened Sandvik's position as a comprehensive subsupplier of orthopedic implants and instruments.

#### **Well positioned to face future challenges**

The strong presence geographically and within product markets remains of highest importance. At the same time, Sandvik will continue the adaptation of capacity and costs to the actual conditions on the market. A competitive customer offering, a stable financial position and a strong balance sheet combined with solid market presence will be utilized in the efforts to further advance positions. Proceeding on the

basis of the business mission of improving customer productivity and profitability, the development of new products, services and solutions with significant customer value will continue. Thus, the research and development programs will continue to have priority in the period ahead.

The year 2009 will be challenging. Uncertainty remains as to how the market will move in the short term. Based on the platform laid in recent years and the actions taken during the past year, Sandvik is well positioned for the future.

Sandviken, January 2009



Lars Pettersson  
*President and CEO*

*Although 2008 was marked by the decline in demand during the fourth quarter, Sandvik advanced its market positions in a number of ways during the year."*

#### **Our strategy**

- aggressive marketing activities
- intensified cost control
- lower investments
- reduced working capital – focus on cash flow
- adjustment of production capacity through workforce reductions and other measures.



# Business concept, goals and strategies

An increasing number of stakeholders demand a holistic approach, which, in addition to the financial aspect, includes environmental and social responsibility.

## Productivity and profitability for customers as business concept

All industrial companies must enhance production efficiency to offset rising costs of, for example, raw materials, wages and energy. This calls for productivity gains in manufacturing industry. Sandvik's business concept is to develop, manufacture and market high-tech products and services that facilitate higher customer productivity and profitability.

## Management by objectives

Sandvik works in a decentralized fashion with customer-oriented, financial, social and environmental goals.

The overall financial goals are based on the Group's world-leading positions in various product areas, along with a strong global presence, a considerable commitment to R&D as well as efficient production and logistics. The goal for Sandvik's organic growth is 8% over a business cycle, compared with the underlying average market growth of 4–6% in Sandvik's business areas. The goal is based on:

- Increased market shares in current and new markets.
- New products.
- New application areas with a high growth potential.

As shown in the table, the financial goals differ among the business areas based on the business conditions in the sector.

Environmental issues have priority at Sandvik. The Group's Code of Conduct includes a policy governing environmental issues, which, among other features, highlights the significance of management by objectives and preventive programs aimed at attaining consistent improvements. In 2008, Group Executive Management set the following new environmental objectives:

- More efficient use of energy and input materials.
- Reduced emissions to air and water.

- Increased recovery of materials and by-products.
- Reduced environmental impact from the use of hazardous chemicals.
- Increased number of products that support sustainability principles.

The objectives have also been honed in the form of more detailed environmental targets for each business area.

Based on the Group's policy for social responsibility, which is a part of the Code of Conduct, Group Executive Management set a number of new social objectives in 2008:

- Further reduce the frequency of occupational injuries, illnesses and incidents.
- Improve health and well-being among employees.
- Increase equality of opportunity at workplaces.

The social objectives have also been specified in the form of social targets for each business area.

Read more about Sandvik's sustainability programs at [www.sandvik.com](http://www.sandvik.com) or in the Sustainability Report included in the Annual Report on pages 86–97.

## Strategy

Sandvik's long-term strategy builds on the interaction of a number of strength factors that include advanced and broad-based R&D, high value-added products, in-house manufacturing, primarily direct sales to end customers, own market channels and efficient logistics systems, financial strength and a strong corporate culture.

## Specialized and decentralized organization

Sandvik is a global engineering group with a decentralized organization. Decisions within operational activities are carried out within the Group's three business areas, all of which have specialist expertise in materials technology and other key technologies, as well as deep insight into customer processes.

### Significant customer value

Sandvik creates customer value by providing products and services that offer reduced costs, reliability and cost efficient processes. By means of an extensive global presence, customers worldwide gain optimum solutions that cover products, service and technical support. Sandvik aims to be an appreciated business partner and the customer's obvious first choice.

### Long-term approach and shareholder value

The Group consistently strives to create value for its shareholders. Sandvik has achieved about 10% annual growth over the past 20 years – attributable equally to organic growth and acquisitions. In the past five years, the total return for an investment in Sandvik shares averaged 11.6% annually.

### Research and development

Comprehensive and goal oriented research and development is a prerequisite for continuing profitable growth. R&D programs are customer-oriented and many of them

are often pursued in close cooperation with customers.

Each year, Sandvik invests nearly SEK 3 billion in R&D and more than 2,400 employees are active in the area. The Group has some 5,000 active patents and other intellectual property rights that are owned and managed by a separate company to gain maximum value creation.

### Advanced logistics

Efficient inventory management and advanced logistics enhance the reliability of supplies and ensure excellent customer service. Sandvik's distribution system is based on a small number of large and strategically sited warehouses in the largest market areas, providing rapid delivery and a broad product offering.

### World-class manufacturing

Sandvik's production organization is integrated with product R&D and can truly boost world-class efficiency. This creates favorable potential for the continuous launch of new products and offers the Group major competitive advantages.

### Transparent corporate governance

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

### Sustainable development

Sandvik has a strong corporate culture and believes that sustainability issues are part of the Group's business operations. The Group is working towards long-term sustainable development based on environmental and social goals for its proprietary operations. The Group has a clear Code of Conduct to guide employees in their business operations and it pursues targeted efforts using the three basic core values: *Open Mind*, *Fair Play* and *Team Spirit*.

## Goals and results

Sandvik Group	Long-term goals	Outcome 2008	Average 2007–2008
Organic growth	8%	5%	8%
Return on capital employed for existing operations	25%	20%	24%
Net debt/equity ratio	0.7–1.0	0.9	1.0
Payout ratio, % of earnings per share	≥50%	50%	51%
<b>Sandvik Tooling</b>			
Organic growth	7%	3%	6%
Return on capital employed for existing operations	30%	27%	30%
<b>Sandvik Mining and Construction</b>			
Organic growth	9%	15%	21%
Return on capital employed for existing operations	25%	24%	28%
<b>Sandvik Materials Technology</b>			
Organic growth	8%	–5%	7.5%
Return on capital employed for existing operations	20%	6%	10%

Sandvik continuously analyzes possible acquisition candidates in its various areas of operations. At the same time, assessments are made regarding the possible divestment of operations that do not comprise part of the Group's areas of core strategic directions.

To ensure that the company acts in a responsible and correct manner, Sandvik has established a Code of Conduct that

For a more detailed description of the Code of Conduct, refer to [www.sandvik.com](http://www.sandvik.com).

		Hurth-Infer (80%). Brazil	
		Bafco, Chile	
Poppe & Potthoff, Germany	BPI, Austria	Sandvik Smith (50%), Sweden/US/Italy	
Suh Jun Trading (70%), Korea	Hindrichs Auffermann, Germany	Part of Svedala Industri, Sweden	Valenite, US
MRL Industries, US	Bröyt, Norway	Walter AG, Germany	Mazda Earth Technologies, Japan
<b>Divestments</b>	<b>1999</b> Sandvik Saws and Tools business area	<b>2000</b> Guldsmedshytte Bruk, Sweden	<b>2002</b> Proceras-Sandvik (50%), Sweden

## Core values

Sandvik has a history stretching back almost 150 years – the Group was founded in 1862. In pace with the growth of operations and the internationalization of the company, it has been crucial to invest resources to maintain and develop the shared corporate approach and Sandvik's core values.

The Group works consciously with three basic core values:

*Open Mind* – to encourage all aspects of operations to seek consistently new, innovative solutions and potential routes to improvement.

*Fair Play* – which describes Sandvik's approach to sustainable development.

*Team Spirit* – that everybody at Sandvik acts as a team player through cross-border interaction, both in terms of geography and culture.

The German system technology supplier **Aubema Beteiligungs GmbH** and its subsidiaries in Germany and China. The company specializes in advanced equipment for crushing coal, limestone and other types of soft minerals and materials.

The South African company **Corstor International (Pty) Ltd.** which is a leading company in the manufacture and sale of borehole core storage and handling systems for the mining and exploration industries.

The Norwegian firm **Teeness ASA** – a market-leading manufacturer of anti-vibration tools used in the aerospace and energy segments.

The British medical technology company **Eurocut Ltd.** which manufactures medical instruments and implants for the orthopedic sector.

A minority interest (49%) of US-based **Precorp Inc.** a tool manufacturer that develops, produces and distributes polycrystalline diamond (PCD) and cemented-carbide tools for the aerospace and automotive industries.

The British company **BTA Heller Drilling Systems**, a manufacturer of deep-hole-drilling tools. To be consolidated as of 2009.

			JKB Medical Technologies, US	
			Part of Medtronic, US	
			Rexam EMD, US	
			Diamond Innovations, US	
		SDS Corporation, Australia	Shark Abrasion Systems, Australia	
		UDR Group, Australia	Hydramatic Engineering, Australia	
		Hagby-Asahi, Sweden/Japan	Extec Screens and Crushers, UK	
	Part of MGS (51%), Brazil	Implementos Mineros, Chile	Fintec Crushing and Screening, UK	
	Technical Tooling, US	Gesac (10%), China	Doncasters Medical Technologies, UK	
		Metso Powdermet, Sweden		
<b>2003</b> Eurotungstène (49%), France  Part of Eimco, US  Unit within Sandvik MGT, US	<b>2004</b> Machinery division in Walter, Germany		<b>2007</b> Sandvik Sorting Systems  Outokumpu Stainless Tubular Products (11.6%), Finland	<b>2008</b> Sandvik Tobler, France  Sandvik Calamo, Sweden  Construction division in Sandvik Nora, Sweden

# The Sandvik share

rose 56% in 2008 compared with a fall of 37% on the OMX Nordic Exchange Stockholm, measured as the OMX Stockholm All-Share Index (OMXS).

At year-end 2008, the Sandvik share was listed at SEK 49.00, corresponding to a market capitalization of SEK 58 billion (132). In terms of market capitalization, Sandvik was ranked the 8<sup>th</sup> (6<sup>th</sup>) largest company on the Nordic Exchange in Stockholm. During the year, Sandvik shares were traded for a total value of SEK 198 billion (275), making it the 7<sup>th</sup> (7<sup>th</sup>) most actively traded share.

## Long-term shareholder value

The overriding financial goal of the Sandvik Group is to generate an attractive return and value growth for investors in the Sandvik share. The goal is that the dividend shall amount to at least 50% of earnings per share over an extended period.

## Total dividend yield

The total dividend yield shows the progress of a stock investment and consists of the change in share price, including reinvested dividends. The sharp fall in the share price in 2008 meant that the total dividend yield on an investment in Sandvik shares was a minus 52% during the year. During the past five-year period, the total dividend yield averaged 11.6% annually.

At year-end 2008, the Sandvik share was valued at 7.8 times earnings per share compared with 14.5 times a year earlier.

## More than 100,000 shareholders

Sandvik is listed on the OMX Nordic Exchange Stockholm and is one of the Stockholm Stock Exchange's oldest companies, with a listing dating back to 1901.

The Sandvik share can be traded in the US in the form of ADRs (American Depositary Receipts).

Over the course of 2008, interest in the Sandvik share continued to increase, both in and outside Sweden, and the number of shareholders increased by about 15,000 to some 104,000. Sandvik has shareholders in approximately 90 countries.

US-based Capital Group Inc., which is the world's largest fund manager, became one of the largest owners in Sandvik during the year with about 10% of the share capital. Otherwise, there were no major changes in institutional ownership.

At 31 December 2008, members of Sandvik's Group Executive Management owned a total of 216,828 shares in Sandvik, corresponding to 0.02% of the capital and voting rights. Members of the Board of Sandvik owned a total of 4,683,154 shares in Sandvik, corresponding to 0.4% of the capital and voting rights.

## Dividend proposal

The Board will propose a dividend of SEK 3.15 (4.00) per share for 2008 to the Annual General Meeting, corresponding to 50% of earnings per share and a yield of 6.4% based on the share price at year-end. Overall, the proposed dividend represents some SEK 3.7 billion. Over the past five years, Sandvik's dividend has risen by an average of 8.4%. During the same period, an average of approximately 53% of earnings was distributed.

## Close contact with investors and analysts

It is of the utmost importance that the value of Sandvik as a company is always assessed on the basis of relevant and correct information. To achieve this, a clear strategy for financial communications is required, along with regular contact by the company with the various players in the

financial market. This is primarily conducted through presentations in conjunction with the four interim reports, but also through meetings with analysts and investors, capital markets days, visits to various Sandvik sites and attendance at conferences and seminars. Growing uncertainty concerning the financial and market trend has increased the need of financial players to meet company representatives.

Contacts with the financial markets are coordinated by Sandvik's Investor Relations Group staff function. During the year, some 300 meetings were conducted with investors and analysts worldwide. The annual Capital Markets Day was held in Sandviken in September. In addition, the Group arranged investor visits to Sandvik's plants in countries such as Sweden, the US, India, China and Russia.

During the year, Institutional Investor awarded Sandvik the prize for best company and best Investor Relations department within the European engineering industry, based on a survey among analysts and investors.

For further information on IR activities and a list of the analysts monitoring Sandvik, refer to Sandvik's website [www.sandvik.com/ir](http://www.sandvik.com/ir)

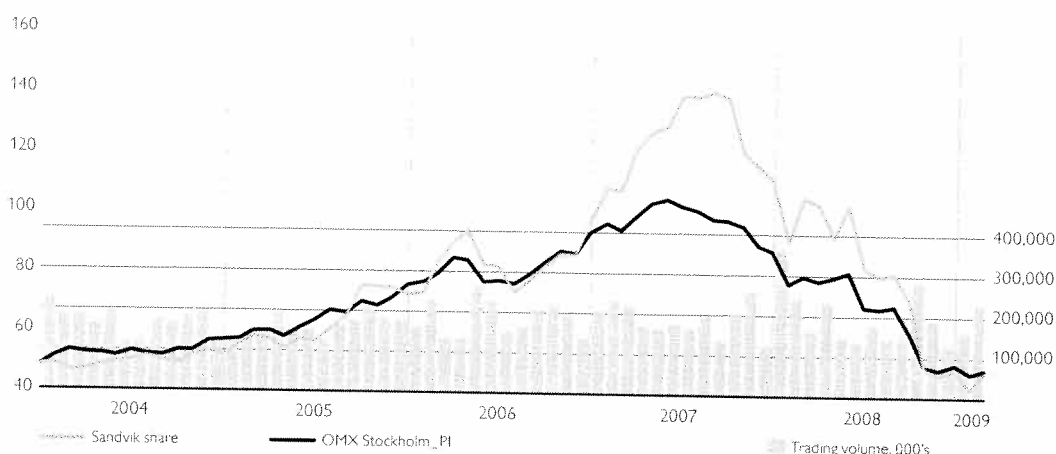
## Recognition in sustainability indices

Autumn 2008 marked the inclusion of Sandvik for the first time in both the Dow Jones Sustainability Index World (DJSI World) and in the European Dow Jones STOXX Sustainability Index (DJSI STOXX). Qualification for the DJSI World requires that a company is among the 10% highest ranked companies in terms of three factors: financial success, environmental performance and social responsibility. Selection is done among the largest 2,500 companies in the Dow Jones World Index.

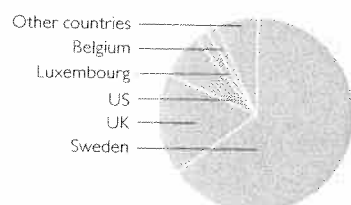
The annual process of assessing all companies ahead of the inclusion in the sustainability index involves a in-depth analysis of such factors as corporate governance, risk-management processes, the handling of climate issues, routines vis-à-vis suppliers and work-environment issues.

Sandvik is also included in the FTSE4Good Series, which is another international index focused on social responsibility.

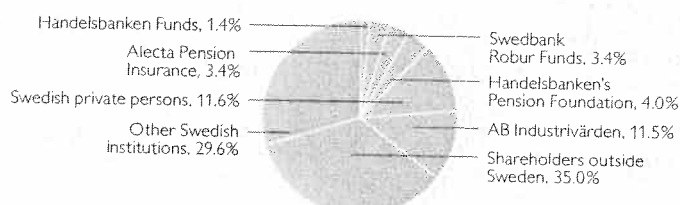
## Sandvik and the Stockholm all-share index



## Distribution of shareholdings by country



## Shareholders in Sandvik AB, 31 December 2008

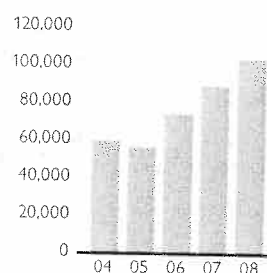


## Key figures

	2008	2007	2006	2005	2004
Number of shares at year-end (millions)	1,186	1,186	1,186	237	247
Number of shares at year-end, recalculated for split (millions)	1,186	1,186	1,186	1,186	1,235
Market capitalization at year-end (SEK billions)	58	132	118	87.8	70.6
Number of shareholders	104,299	88,950	74,124	55,966	59,382
Share price at year-end, SEK	49.00	111.25	99.50	74.00	54.00
Earnings per share, SEK	6.30	7.65	6.45	4.95	3.85
P/E ratio at year-end	7.8	14.5	15.4	15.0	13.9
Change in share price during the year, %	-56	+12	+34	+37	+8
Regular dividend, SEK/share	3.15*	4.00	3.25	2.70	2.20
Dividend as a percentage of earnings per share	50	52	50	55	57
Total return (price increase + dividend), %	-52	18	38	42	12
Proportion of shares in Sweden, %	65	63	63	61	62
Proportion of shares owned by the ten largest shareholder groups, %	36	38	35	45	41

\* Proposed dividend.

## Number of shareholders

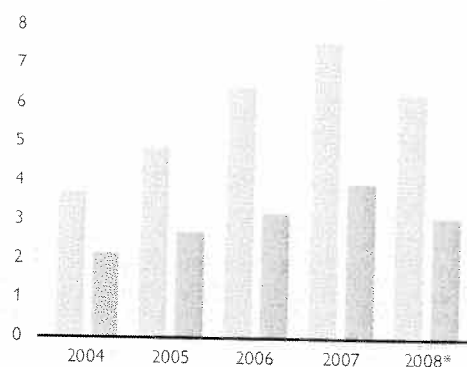


## The ten largest shareholders at 31 December, %

	2008	2007	2006	2005	2004
AB Industrivärden	11.5	11.5	11.0	11.0	10.4
JP Morgan Chase Bank*	10.5	8.7	5.6	10.9	9.8
Handelsbanken's Pension Foundation	4.0	4.0	3.8	3.8	3.4
Alecta Pension Insurance	3.4	3.1	2.9	1.1	0.6
Swedbank Robur Funds	3.4	2.3	2.4	2.6	2.4
SEB Investment Management	1.9	1.5	1.7	1.6	1.4
Handelsbanken Funds	1.4	2.1	2.0	2.2	1.9
AMF Pension Insurance	1.3	1.5	1.8	3.8	2.4
Fourth Swedish National Pension Fund	1.3	1.4	1.5	—	—
Afa Insurance	1.3	1.0	1.1	1.0	1.3

\* Administers shares held in trust. Capital Group's shareholding is registered in custodial accounts.

## Earnings and dividends per share, SEK



\* Proposed dividend.

# Market conditions

reported favorable growth throughout the first half of 2008, after which it sharply stalled. The weakening affected all regions and most of Sandvik's customer segments. Russia, China, India and Brazil were among markets that continued to develop with favorable growth for the full year, but with a downturn in the fourth quarter. The customer segments that posted continued favorable growth included oil/gas, nuclear power and medical technology.

Industrial production in the OECD countries declined 0.2% compared with the preceding year. Manufacturing industry in the EU reported slightly negative growth, down 0.9% compared with the preceding year. German manufacturing developed slightly positively, up 0.2%. Manufacturing industry in France declined by 2.5%, while its Italian counterpart fell by 3.8%. The manufacturing industry in the UK also recorded a negative trend, down 2.9% compared with the preceding year. Growth in Eastern Europe remained positive, with Russian manufacturing output advancing 3.9% and Polish manufacturing registering a 4.1% rise.

In the US, growth in the manufacturing industry contracted by 2.4% marking the first negative year-on-year trend in six years. Brazilian manufacturing industry advanced 3.0%, whereas the trend in Mexico was just slightly positive, at 0.6%.

Growth remained resilient in parts of Asia, including China, India and South

Korea. In China, industrial output rose 12.6% with an increase of 4.4% in India. In South Korea, growth in manufacturing rose 2.9%. However, in Japan growth was negative, down 3.3%. Growth slowed sharply in all markets in the fourth quarter.

## Demand in Sandvik's customer markets

Demand from the engineering industry weakened in most markets. Activity in the global automotive industry declined, with a few exceptions, such as South America and China. The downturn gained pace during the fourth quarter. In the aerospace industry, activity remained high during the first six months but subsequently fell during the latter half of the year, partly as a result of strikes in the aerospace industry.

The mining industry saw sharp growth during the first ten months of the year, before slowing significantly. Metal prices remained high for the first six months but fell sharply during the remainder of the

year. Demand for base and precious metals increased steeply during most of the year before weakening during the latter part. However, activity in the coal industry was high throughout the year, with a clear shift toward energy applications, while demand for metallurgical coal declined.

In the construction industry, activity was high throughout the first half of the year, notably in Eastern Europe and Asia, while mature markets, such as Western Europe and the US, weakened. Subsequently, a rapid weakening became evident, which continued for the remainder of the year.

Business conditions continued to be favorable for high value-added niche products for investment-related customer segments, such as energy, oil/gas, nuclear power, process industry and medical technology. Overall demand was slightly weaker from the electronics industry and consumer-related products.

# Group summary review

Order intake amounted to SEK 92,610 M (92,059), up 1% in value and down 1% for comparable units, excluding currency effects. The Sandvik Group's invoiced sales reached SEK 92,654 M (86,338), up 7% in value and up 5% for comparable units, excluding currency effects. Markets outside Sweden accounted for 95% (94) of sales.

Consolidated profit after financial income and expenses totaled SEK 10,577 M (12,997). Earnings per share amounted to SEK 6.30 (7.65). Return on capital employed was 19.9% (27.0).

The Board of Directors proposes a dividend of SEK 3.15 per share (4.00), corresponding to 50% (52) of earnings per share representing a decrease of 21% from a year earlier.

## Future prospects

Although 2008 was characterized by the decline in demand during the fourth quarter, Sandvik advanced market positions during the year. A strong presence in geo-

graphic markets and within product segments continues. At the same time, Sandvik will continue to adapt its capacity and costs to actual market conditions. Competitive customer offerings, stable finances and a strong balance sheet will be utilized along with a market presence to further strengthen positions. The business mission continues to be increasing customer productivity and profitability. To that end, Sandvik will continue to develop new products, services and solutions with significant customer value. Research and development programs will therefore have a high priority in the period ahead.

## Financial objectives

New financial objectives were published in 2006. The objectives are based on Sandvik's strong development over the last few years and assessments of the Company's strength and of how it is positioned for the future. Group and business area objectives are presented below.

## Fulfillment of the Group objectives

The result since 1998, is average annual organic growth of 6% and return on capital employed of 20%. In addition, the annual growth from acquisitions, net of divestments, has averaged 1%. During 2008, the organic growth was 5% and the return was 20%. At the end of 2008, the net debt/equity ratio was 0.9. The proposed dividend means that the payout percentage is 50%.

### Financial objectives for the group

Organic growth	+8% + acquisitions
Return on capital employed	25% for existing operations
Net debt/equity ratio	0.7-1.0
Dividend payout percentage	≥50%

### Business area

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



# Earnings, returns and financial position

## Earnings and returns

Operating profit amounted to SEK 12,794 M (14,394), a decrease by 11% compared with the preceding year. This was mainly due to the rapid downturn in the fourth quarter with lower production volumes within all business areas leading to lower gross margins. Strategic investments within R&D and the sales organizations, combined with integration costs, affected earnings negatively. Operating profit was also influenced negatively by approximately SEK 1,100 M by changed metal prices in Sandvik Materials Technology. Changes in foreign exchange rates compared to 2007 positively affected the operating profit by some SEK 700 M. The net financing cost was SEK 2,217 M (1,397). The changed outcome compared with the preceding year was mainly caused by higher average debt and higher interest rates. Profit after financial income and expenses reached SEK 10,577 M (12,997). Income tax expense was SEK 2,741 M (3,403) or 26% (26) of profit before taxes.

The profit for the year attributable to equity holders of the Parent Company was SEK 7,472 M (9,116). Earnings per share amounted to SEK 6.30 (7.65). Return on capital employed amounted to 19.9% (27.0) and return on equity was 24.8% (34.4).

## Financial position

Cash-flow from operating activities amounted to SEK 9,671 M (5,476). Cash-flow after investments, acquisitions and divestments was SEK 2,040 M (neg: 5,007). At the end of the year, cash and cash equivalents amounted to SEK 4,998 M (2,006). Interest-bearing liabilities, including net provisions of pensions, less cash and cash equivalents yielded a net debt of SEK 33,323 M (28,905).

Sandvik has a credit facility of EUR 500 M expiring in 2012 and another facility of EUR 1,000 M expiring in 2013. These facilities, which are the Group's primary liquidity reserve, were unutilized at the end of the year. Under the Swedish bond

program of SEK 15,000 M, bonds in the amount of SEK 13,200 M were outstanding. In addition, there are bonds issued in the US amounting to USD 740 M maturing over 9 and 14 years.

The international credit-rating institute Standard & Poors has an A rating for Sandvik's long-term borrowings, and A-1 for short-term borrowings.

## Working capital

Working capital at the end of the year amounted to SEK 32,571 M (28,804). Relative working capital during the fourth quarter of 2008 was 32% (31) of invoiced sales. The change in the ratio is primarily explained by increased inventories in all business areas.

The carrying value of inventories at the end of the year was SEK 28,614 M (25,302), 29% (27) of invoiced sales. Accounts receivables at year-end totaled SEK 15,930 M (15,228), which was 16% (16) relative to invoiced sales.

Capital expenditure	2008	2007
Investments in property, plant and equipment, SEK M	7,169	5,399
as a percentage of invoiced sales, %	7.7	6.3
Of these investments, SEK 535 M (588) pertained to Sandvik Mining and Construction's fleet of rental machines.		

Earnings and returns	2008	2007
Operating profit, SEK M	12,794	14,394
as a percentage of invoiced sales, %	13.8	16.7
Profit after financial income and expenses, SEK M	10,577	12,997
as a percentage of invoiced sales, %	11.4	15.1
Return on capital employed, %	19.9	27.0
Return on equity, %	24.8	34.4
Basic earnings per share, SEK	6.30	7.65
Diluted earnings per share, SEK	6.29	7.65

Definitions, page 56.

## Equity

Equity at year-end amounted to SEK 36,725 M (29,823), or SEK 30.00 (24.10) per share. The equity ratio was 36% (35).

## Investments

The purchase consideration for company acquisitions during the year (less acquired cash) was SEK 954 M (5,856). Proceeds from the sale of companies and shares amounted to SEK 111 M (363).

Investments in internally generated intangible assets amounted to SEK 460 M (431). Investments in property, plant and equipment amounted to SEK 7,169 M (5,399).

## Parent Company and subsidiaries operating on commission for Sandvik AB

The Parent Company's invoicing amounted to SEK 20,427 M (20,682) and operating loss was SEK 395 M (profit: 521). Operating earnings were influenced negatively by

changed metal prices in Sandvik Materials Technology and low utilization in certain production facilities. The total adverse effect on operating earnings amounted to approximately SEK 900 M due to effects of changed raw material prices.

At 31 December 2008, interest-bearing liabilities and provisions less cash and cash equivalents amounted to SEK 12,362 M (10,240). Capital expenditure during the year amounted to SEK 1,537 M (1,128).

The Parent Company's total assets decreased by SEK 3,284 M (from SEK 45,183 M to SEK 41,899 M). During the year, a Group contribution of SEK 3,004 M related to 2007 was paid to Sandvik Intellectual Property AB. The Parent Company has, during 2008, received dividends of SEK 6,757 M, of which SEK 2,015 M from Sandvik Finance BV, SEK 1,234 M from Sandvik Mining and Construction Logistics Limited and SEK 3,000 M from AB Sandvik Bruker.

The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB at 31 December 2008 was 8,151 (7,999).

Besides Sweden, the Parent Company operates in a number of countries, mainly through representative offices.

## Quarterly trend of profit after net financial items

		Invoiced sales, SEK M	Profit after financial items, SEK M	Net margin, %
2007	1 <sup>st</sup> Quarter	20,409	3,365	16
	2 <sup>nd</sup> Quarter	22,002	3,795	17
	3 <sup>rd</sup> Quarter	21,216	3,104	15
	4 <sup>th</sup> Quarter	22,711	2,733	12
2008	1 <sup>st</sup> Quarter	21,990	2,715	12
	2 <sup>nd</sup> Quarter	24,016	3,302	14
	3 <sup>rd</sup> Quarter	22,478	3,335	14
	4 <sup>th</sup> Quarter	24,171	1,524	6

## Financial position

	2008	2007
Cash-flow from operating activities, SEK M	9,671	5,476
Cash-flow after investments, acquisitions and divestments, SEK M	2,040	-5,007
Cash and cash equivalents at 31 December, SEK M	4,998	2,006
Net debt at 31 December, SEK M	33,323	28,905
Net financial items, SEK M	-2,217	-1,397
Equity ratio, %	36	35
Net debt/equity ratio, times	0.9	1.0
Equity at 31 December, SEK M	36,725	29,823
Equity per share at 31 December, SEK	30.00	24.10

Definitions, page 56.

# Order intake and sales

for Sandvik's products and services during 2008, with strong growth during the first three quarters and an especially difficult market situation during the fourth quarter. For the full-year 2008, growth in the EU declined, with activity sharply downward in, among others, Germany and Italy. Demand in Eastern Europe slowed considerably during the last quarter of 2008. Order intake in NAFTA was negatively impacted. The business climate in South America was more favorable during the year, with Brazil showing continued good growth, but with significant weakening during the fourth quarter. Demand was also strong in Africa and the Middle East, although weakening during the last quarter with an investment decline in the mining industry. Demand in Asia showed continued growth during the first three quarters, but weakened substantially during the fourth quarter. Asia accounted for 16% of the Group's total order intake. Demand in Australia weakened significantly.

## Sandvik Tooling

The trend in Sandvik Tooling's markets was positive until the latter part of the third quarter, but after that it was negatively influenced by the downturn in the world economy. The slowdown began in NAFTA and Europe and spread during the fourth quarter to the rest of the world. The oil and gas sector developed positively. The activity in the aerospace industry declined but was still at a high level. The automotive and general engineering industry declined gradually during the year.

## Sandvik Mining and Construction

Sandvik Mining and Construction's order intake in the mining industry developed strongly in the first ten months of the year, but subsequently stalled sharply. Metal prices remained high during the first six months, but fell steeply throughout the rest of the year. Demand for base and precious metals progressed strongly during most of the year, but weakened during the latter part.

The level of activity in the coal industry increased during 2008, with a discernable shift towards coal for energy production, while demand for metallurgical coal fell as a result of the weaker demand for steel. Overall, however, demand in the coal industry increased during the year.

Activity remained high in the construction industry throughout the first half of the year, notably in Eastern Europe and Asia, while mature markets such as Western Europe and the US weakened. Subsequent development saw a rapid slowdown that continued throughout the remainder of the year, resulting in a sharp fall in order intake in the construction area.

## Sandvik Materials Technology

Demand for high value-added niche products from Sandvik Materials Technology continued to be favorable during the first three quarters, primarily from customers in such segments as energy, oil and gas, medical technology, nuclear power and the

process industry. However, demand for consumer-oriented applications was more sluggish, as was also the case for certain standard products.

Business conditions remained robust in all regions throughout the first three quarters – with activity particularly high in Asia and Australia. As a result of the global financial crisis and recession, market growth in a number of segments turned sharply downward at the beginning of the fourth quarter, notably in the automotive, and consumer-related industries. This led to the identification of excess capacity corresponding to 1,500 people. However, activity remained high in the energy and medical technology segments.

## Order intake by market area

SEK M	2008	Share. %	2007	Change. %	Change. *
Europe	40,945	44	42,262	-3	-8
NAFTA	15,071	16	15,449	-2	-3
South America	5,839	6	5,143	+14	+13
Africa, Middle East	7,743	9	6,757	+15	+23
Asia	14,701	16	12,694	+16	+13
Australia	8,311	9	9,754	-15	-14
<b>Group total</b>	<b>92,610</b>	<b>100</b>	<b>92,059</b>	<b>+1</b>	<b>-1</b>

\* Change compared with the preceding year for comparative units, excluding currency effects and company acquisitions.

## Invoiced sales by market area

SEK M	2008	Share. %	2007	Change. %	Change. *
Europe	41,851	45	39,704	+5	+1
NAFTA	14,827	16	14,901	0	0
South America	5,982	7	5,445	+10	+7
Africa, Middle East	7,811	8	6,716	+16	+26
Asia	13,653	15	11,671	+17	+13
Australia	8,530	9	7,901	+8	+10
<b>Group total</b>	<b>92,654</b>	<b>100</b>	<b>86,338</b>	<b>+7</b>	<b>+5</b>

\* Change compared with the preceding year for comparative units, excluding currency effects and company acquisitions.

## Invoiced sales in the ten largest markets

SEK M	2008	2007	Change. %
US	11,039	11,187	-1
Australia	8,152	7,498	+9
Germany	7,958	7,467	+7
Sweden	4,753	5,082	-6
Italy	4,682	5,023	-7
China	4,311	3,434	+26
South Africa	3,955	3,547	+12
France	3,698	3,560	+4
Brazil	3,567	3,333	+7
UK	3,307	3,267	+1

# Business areas and changes in the Group

The Group's business areas are divided into three business areas: Sandvik Tooling, Sandvik Mining and Construction and Sandvik Materials Technology.

The Group's order intake and invoicing by business area are shown in separate tables. The listed company Seco Tools – in which Sandvik holds 60% of the shares and 89% of the voting rights – publishes its own annual report with comments on operations.

## Sandvik Tooling

Sandvik Tooling's order intake totaled SEK 25,798 M (25,134), unchanged from the preceding year excluding currency effects for comparable units. Invoiced sales totaled SEK 25,975 M (24,732), an increase of 3% from the preceding year for comparable units, excluding currency effects. Changes in exchange rates affected order intake and invoiced sales positively by 2%.

The increase in invoiced sales was attributable to increased market shares and positive price trend. Growth was higher for cemented-carbide tools than for high-speed steel.

Operating profit totaled SEK 5,461 M (5,989), resulting in an operating margin of 21.0%. The decline was due primarily to the sharp volume drop during the last quarter of the year and the subsequent under absorption of fixed costs. Earnings were positively affected by the business area's efficiency-enhancement programs in manufacturing and distribution as well as by changes in the customer base and the completion of product programs aimed at higher profitability.

The number of employees at 31 December totaled 16,988 (16,440).

## Sandvik Mining and Construction

Sandvik Mining and Construction's order intake grew sharply during the first three quarters of the year, but declined during the last quarter, and amounted to SEK 38,634 M (37,986), unchanged from the preceding year for comparable units, excluding currency effects.

At an early stage of the year, Sandvik Mining and Construction signed an agreement with Potash Corp in Canada covering the delivery of a fleet of Sandvik MF420 Borer Miners. This is Sandvik's

single largest order to date in operations involving the mining of soft minerals. The business continued to develop successfully during the year with delivery of four Road Header Systems to the Czech Republic and another four to Poland. In addition, a number of major project orders were received during the year for materials handling systems from Australia, Brazil, Poland and Mauritania with a total value of some SEK 2,000 M. Sandvik Mining and Construction launched a complete product series of primary crushers in 2007. In 2008, the business area unveiled the first strategic orders for these crushers, with a value of about SEK 100 M. Sandvik's new series of crushers offers a number of unique benefits that substantially enhance operational capacity in terms of maintenance, productivity and availability. The new crushers from Sandvik will support the crushing process for iron ore, copper ore and other minerals as well as primary crushing in large quarries.

During the year, the business area expanded considerably in the mining and construction industry in Eastern Europe and established a number of sales offices in the region. Sandvik's position as a leading supplier of advanced mining equipment for the coal industry was further consolidated, primarily in China, with a twofold increase in order intake from the coal industry.

Invoiced sales amounted to SEK 38,651 M (33,073), up 15% from the preceding year for comparable units, excluding currency effects. Changes in exchange rates had an adverse impact of about SEK 500 M on invoiced sales.

Operating profit totaled SEK 4,996 M (4,979), resulting in a profit margin of 13%. The number of employees at 31 December was 16,796 (15,173).

## Sandvik Materials Technology

Sandvik Materials Technology's order intake totaled SEK 21,581 M (22,733), down 6% from the preceding year excluding currency effects for comparable units. During the year, a number of major project orders were secured for steam generator tubes for the energy sector, including

two orders worth some SEK 900 M during the fourth quarter. Major orders were also received for precision wire for emission filters in the energy sector, including two from India, each valued at about SEK 100 M.

Invoiced sales totaled SEK 21,480 M (22,486), down 5% from the preceding year for comparable units, excluding currency effects. Invoicing surcharges to offset high raw materials prices impacted on invoiced sales adversely by some 13%. Operating profit totaled SEK 1,187 M (2,435), resulting in profit margin of 5.5%.

Metal prices varied during the year. As a result, metal inventories were continuously revalued to the lower of acquisition cost and net sales value. The total negative effect on earning from changes in metal prices is estimated at SEK 1,100 M for 2008.

Operating profit for the year was impacted by metal price effects and under absorption of fixed costs due to lower production volumes. The number of employees at 31 December totaled 9,281 (9,098).

## Changes in the Group

### Sandvik Tooling

At the beginning of the year, Sandvik Tooling acquired the Norwegian company Teeness, which develops and manufactures antivibration tools for milling, turning and drilling. Teeness was included in Sandvik Coromant. The acquisition will give Sandvik Tooling market leadership in this product segment in which customers are primarily found in the rapidly growing aerospace and energy segments.

Sandvik Tooling also acquired 49% of the shares in US-based Precorp, a producer of tools in polycrystalline diamond (PCD) and cemented carbide. The tools are used for machining of advanced composite materials used mainly by the aerospace and automotive industries.

Sandvik Tooling reached an agreement in December to acquire UK-based BTA Heller Drilling Systems Ltd., a producer of tools and tooling systems for deep-hole drilling. The company will be integrated in Sandvik Coromant and will strengthen the customer offer in deep-hole drilling.

Sandvik Tobler was divested at the beginning of the year.

Sandvik Coromant strengthened its brand profile further focusing on customer value. The Walter Titex Prototyp product area changed name to Walter and introduced a new uniform brand-positioning encompassing three brands – Walter, Walter Titex and Walter Prototyp. The new Walter has a broad product portfolio and application knowledge, which further strengthens the product area's attraction and growth potential. Dormer and Precision product areas were integrated into a product area named Dormer and during the year together successfully profiled their brands in the NAFTA countries. The integration of Diamond Innovations was completed during 2008. The resources for research and development of cubic boron nitride and PCD tools were reinforced.

Irrespective of business climate fluctuations, research and development remains a priority within Sandvik Tooling. A high share of new products is a prerequisite for profitable growth. A research center was established in Olofström, Sweden, supporting the tool and application knowledge within die and mold applications. The business area also opened a research technology center for composite materials, tools and application knowledge in Sheffield, in the UK.

Work to consolidate and enhance efficiency in production continued during the year. Production declined, however, due to the lower demand experienced during the fourth quarter.

The utilization of time banks and similar solutions contributed to higher capacity flexibility. The production of tungsten-carbide powder at Sandvik Hard Materials'

unit in Coventry was closed. Production of special tools at Sandvik Coromant's operations in Australia was discontinued.

Sandvik Tooling continued to develop emerging markets and strongly growing product segments. Walter and Sandvik Hard Materials invested in new production facilities in Wuxi, China. Demand for the modular tool-holding system Coromant Capto® continued to increase and production capacity investments were made in Sandviken, Sweden and in Semine, Japan. A new plant for the production of medical products was opened in Zell, Germany. A production unit for high-speed steel taps was inaugurated in Pune, India.

#### Sandvik Mining and Construction

In January, the business area acquired Corstor International (Pty) Ltd. in South Africa. Corstor is a leading company in the manufacture and delivery of rock core storage and handling systems in the mining and exploration industries. Corstor also distributes geological and survey equipment along with accessories to the mining and exploration industries in Africa. The new product range is a good complement to Sandvik's offering for the exploration industry.

Sandvik Mining and Construction also acquired Aubema Beteiligungs GmbH, a German supplier of systems technology, and its subsidiaries Aubema GmbH and Beijing Aubema Technology Co. Ltd. Aubema, with its headquarters in Bergneustadt in Germany, offers system technology in the specialized field of crushing. The company's primary focus is on the distribution of customized solutions for crushing coal, coke, limestone and other soft minerals and materials. The acquisition is in line with Sandvik's goal of being a leading supplier of crushers for soft materials.

In April, the business area divested a minor part of Hagby-Asahi AB in Nora, Sweden, which had been acquired in 2006. Hagby-Asahi, a leading supplier and manufacturer of tools and equipment for mineral extraction, the company included a construction business with equipment for drilling and grinding of concrete using diamond tools. The construction business' focus and market were involved in an area

#### Order intake by business area

SEK M	2008	2007	Change, %	Change,*
Sandvik Tooling	25,798	25,134	3	0
Sandvik Mining and Construction	38,634	37,986	2	0
Sandvik Materials Technology	21,581	22,733	-5	-6
Seco Tools	6,594	6,176	7	4
Group activities	3	30	—	—
<b>Group total</b>	<b>92,610</b>	<b>92,059</b>	<b>1</b>	<b>-1</b>

\* Change for comparable units, excluding currency effects and company acquisitions.

#### Invoiced sales by business area

SEK M	2008	2007	Change, %	Change,*
Sandvik Tooling	25,975	24,732	5	3
Sandvik Mining and Construction	38,651	33,073	17	15
Sandvik Materials Technology	21,480	22,486	-4	-5
Seco Tools	6,513	6,011	8	5
Group activities	35	36	—	—
<b>Group total</b>	<b>92,654</b>	<b>86,338</b>	<b>7</b>	<b>5</b>

\* Change for comparable units, excluding currency effects and company acquisitions.

#### Operating profit by business area

SEK M	2008	% of sales	2007	% of sales
Sandvik Tooling	5,461	21	5,989	24
Sandvik Mining and Construction	4,996	13	4,979	15
Sandvik Materials Technology	1,187	6	2,435	11
Seco Tools	1,332	20	1,491	25
Group activities	-184	—	-500	—
<b>Group total</b>	<b>12,794</b>	<b>14</b>	<b>14,394</b>	<b>17</b>

in which Sandvik is not otherwise active and thus was not viewed as a core Sandvik business.

In a bid to ensure that the business area's Construction customer segment maintains a global orientation and attains a strong market position in selected niches, a decision was made to relocate parts of the head office to Singapore. The greatest growth potential for the segment's selected niches are in Asia and thus the strengthening of the presence in the region is a logical step.

During the year, the business area continued its efforts to streamline its logistics infrastructure, which is the most important area in ensuring customer access to products and spare parts. Sandvik Mining and Construction signed a strategic five-year agreement with the logistics company DHL Global Forwarding, which will act as the business area's supplier of air/sea freight and road transport.

The business area also continued to follow customers and establish production and assembly of equipment close to them. Apart from proximity to the customer, this provides highly flexible production, cost benefits and shorter lead times. All plants are controlled and coordinated by Sandvik Mining and Construction's global production organization, which ensures a uniform product line and quality at all the business area's plants. One of the new production units built during the year is located in Santiago in Chile. This is also the location of the headquarters for Latin America. The facility is the business area's largest in the region.

#### **Sandvik Materials Technology**

During the first quarter of 2008, Sandvik Materials Technology completed two acquisitions in the strategically significant and rapidly expanding medical-technology segment, namely, JKB Medical Technologies and Medtronic's unit in Memphis Tennessee, in the US. JKB Medical Technologies is a leading manufacturer and sub-supplier of spinal implants and medical instruments. The products are made from titanium alloys and in high-alloy stainless material. Medtronic's unit in Memphis specializes in medical-technology instruments for spinal surgery. May marked the acquisition of the

medical technology company, Eurocut Ltd., which manufactures medical instruments and implants from titanium alloys and in high-alloy stainless materials. Customers are leading medical-technology companies that sell directly to healthcare institutions and medical clinics.

As a result of these three acquisitions, which are in line with Sandvik's long-term aim of becoming a strategic partner and a comprehensive sub-supplier to the leading medical-technology companies worldwide, Sandvik's position in the medical-technology segment was further strengthened. The combination of the skills of the acquired companies as manufacturers of medical implants and instruments plus Sandvik Materials Technology's core expertise in materials and surface technology, powder technology, machining processing and production, create a competitive offer in the medical-technology market. All products are now marketed under the Sandvik brand.

To meet the rising demand for medical-technology materials, a new plant was commissioned for vacuum re-melting of high-alloy stainless materials and titanium alloys in Sandviken, Sweden. The plant also melts titanium alloys for seamless tubes for applications in nuclear power and aerospace industries.

To further strengthen presence in Asia, work commenced during the year in constructing a new production unit for cold pilgering and finishing of high-alloy seamless tubes in Zhenjiang, China. The investment, which is scheduled to be commissioned during the first six months of 2009, will offer larger capacity for high-alloy seamless tubes in Asia as well as strengthened market position in this key growth area. In parallel with this capacity expansion, work is in progress in expanding and strengthening the sales organization in Asia. A new research center for advanced materials was also built in Pune, India.

A pilot research unit for powder metallurgy was placed in operation in Sandviken, Sweden.

Extensive investments were also completed to increase capacity for rock-drill steel in Sandviken.

Programs to phase out operations deemed to be outside the defined core business of

Sandvik Materials Technology resulted in the divestment of Sandvik Calamo, a supplier of electrolyte-polished tubing products primarily for the electronics industry.

As a result of the global financial crisis and recession, market growth declined sharply in a number of segments at the beginning of the fourth quarter. The sharp fall in demand compelled Sandvik Materials Technology to take action to adjust capacity. A global excess capacity equivalent to 1,500 employees was identified, of which some 1,000 are employed in Sweden. The workforce reduction is expected to be completed during the second half of 2009.

# Research, development and quality assurance

Research and development in selected niches is a prerequisite for Sandvik's growth and profitability. Research expenses in 2008 totaled SEK 2,811 M (2,739), corresponding to 3% of invoiced sales. Of these expenses, SEK 333 M (377) was capitalized in the balance sheet. More than 2,400 persons work in research, development and quality assurance. Many of them are specialists with an advanced academic background and skills.

Sandvik Tooling conducts research and development (R&D) of materials and production processes for the entire business area at several competence centers around the world. Product and application development is conducted at the respective product areas in close liaison with customers.

Sandvik Mining and Construction's main development units are located in Finland, Sweden, Austria and the US. At these sites and in close cooperation with customers, the business area develops products adapted to needs and overall solutions for the mining and construction industries.

Sandvik Materials Technology has one of Europe's largest R&D centers for advanced metallic materials and special alloys in Sandviken, Sweden. The business area also has an R&D unit in Hallstahammar, Sweden, for ceramic and metallic resistance materials.

## Sandvik Tooling

Sandvik Tooling's research and development focuses on the development of new materials and products and the improvement of production processes and production equipment. The aim is to improve tool performance and quality as well as production efficiency for customers and the business area itself. New methods are continually being developed for the production of cemented-carbide powders, as well as the manufacturing of ceramic materials, cubic boron nitride and synthetic diamonds. Development of precision pressing and coating in the production of indexable inserts has high priority.

During 2008, Sandvik Coromant introduced more than 2,500 new articles. Two tool concepts for milling were launched – CoroMill®490 and CoroMill®690. CoroMill®490 improves customer productivity in face and shoulder milling in steel and cast iron. The long-edge cutter CoroMill®690 facilitates more effective machining of titanium. In turning applications, CoroThread®266 was introduced – a threading tool with precision and stability.

The Walter product area, with the three brands Walter, Walter Titex and Walter Prototyp, offers a complete product range

for all types of metal cutting – turning, milling and drilling. During 2008, Walter introduced the Walter Xtra-tec® shoulder milling cutter for the aerospace industry, as well as further developed XD-Technology drills. Walter also developed the cemented-carbide grade WSM30 for turning stainless steel and other difficult-to-machine materials.

Diamond Innovations introduced several new products in 2008, including a composite in the Versimax™ product family. It combines wear resistance with high chemical and thermal stability. Compax 1200 is a PCD with a fine-grained microstructure that makes it ideal for applications with high demands on surface finish. Compax 1200 is highly suitable for titanium machining. Two Stratapax®PDC cutting tools were introduced for oil and gas drilling.

In 2008, ValeniteSafety successfully launched steel turning grades, expanded its range of milling cutters and added the innovative SideLok™ technology to a variety of product offerings. The product area strengthened its position as a provider of advanced engineering solutions for the automotive industry, such as air-actuated precision boring tools.

Dormer made additions to its product portfolio of solid-carbide tools. A new range of high-performance solid-carbide drills for composite materials was well received by the market.

During the year, Sandvik Hard Materials further developed its product offering. A series of wear and corrosion-resistant can tooling grades for the manufacture of aluminum cans was introduced. Sandvik Hard Materials also introduced a product for dredges. DURACORE® teeth provide increased wear resistance compared with standard products in dredging operations due to a cemented carbide core in the tooth point.

## Sandvik Mining and Construction

As a result of close collaboration with customers, Sandvik Mining and Construction continually can tailor products and total solutions to meet customer requirements.

The focus on environmental, health and safety issues represents a key driving force in development work. Customer cost trends, notably in the energy area, and their difficulty in recruiting skilled personnel are major driving forces in product development.

Sandvik's new product line of loaders transports ore from underground mines for metal extraction in a productive, safe and profitable manner. The focus is on maximum capacity optimized for the particular space available, to ensure effective processes throughout the mine. Sandvik loaders provide superior reliability and service life, as well as better service, safety and comfort.

The new electronically controlled loader series is the first in the market that fully utilizes the so-called CAN bus technology. With 400 units delivered and 1.4 million accumulated working hours, it has proved more reliable than conventional systems. The electronic control system offers built-in diagnostics, trouble shooting and a simplified user interface in an interactive screen. The cab is easier to access and offers better visibility with improved sound insulation, superior air conditioning and a low-frequency suspension in the seat to raise the comfort level for the operator.

Sandvik's loader series has been developed to offer loading with safety as the highest priority. To reduce accidents involving slipping and falling, all daily maintenance can be conducted from the ground. There is a system for preventive maintenance around the entire unit, with safe access to the machine's superstructure. Moreover, a certified fire-suppression system has been installed to further protect personnel and property.

During 2008, Sandvik introduced a new generation of intelligent tunnel drill rigs for the drilling of blast holes in hard rock. These tunnel rigs in the DTi series are all equipped with the new iSURE software to handle tunneling work. The key advantage of the intelligent DTi rig is that it produces results with the highest quality at the minimum cost. It offers a combination of precision and strength with a number of user-friendly functions.

For pull-down drilling rigs, the DR 460 drill rig was introduced with superior cost-effective productivity and ergonomics for the operator.

Sandvik also introduced the DI 150 drill rig, with the focus on operational safety, safety and an environmentally friendly system for dust control, as well as a function for fuel economy aimed at applications in emerging markets.

The focus on environmental impact has also resulted in the launch of a new crusher model with lower sound level and mobile crushers with higher productivity for construction applications. In the mining crusher segment, a new primary crusher was introduced to complement Sandvik's previous offering. The equipment provides effective energy solutions for crushing and transport, which minimizes truck transport in mines.

In the energy sector, Sandvik Mining and Construction introduced a product series for high volumes of board and pillar mining of coal and other soft rock minerals. The product series includes a high-production machine for continual mining, a diesel-driven loader and mobile roof-bolting machine.

### **Sandvik Materials Technology**

Sandvik Materials Technology develops advanced materials, products and system solutions in close cooperation with its customers to boost productivity and reduce energy consumption and environmental impact.

The business area has one of Europe's largest R&D centers for advanced metallic materials and special alloys in Sandviken, Sweden. The business area also has an R&D center in Hallstahammar, in Sweden, for ceramic and metal resistance materials. In early 2008, the business area's research operations were further extended with the addition of a research center in Pune, India.

During 2008, work commenced on a number of key R&D programs in the strategically important areas for Sandvik Materials Technology, including such areas as medical technology, powder technology and products used in connection with energy production.

As a result of acquisitions of medical-technology companies in the past two years, Sandvik's product program for this segment has been broadened to include implants and surgical instruments. The

products are manufactured from high-alloy stainless materials, titanium and cobalt-based alloys. The combination of the core capabilities of the acquired entities as manufacturers of medical implants and instruments and Sandvik Materials Technology's core expertise in materials and surface technology, processing, machining and production creates excellent conditions for the continuing development of the medical-technology product program. Moreover, the application know-how of the acquired entities offers Sandvik the potential to extend its materials offering to the medical technology segment. Thus, to take advantage of all development opportunities, the research and development resources in the medical-technology segment were increased substantially.

The business area's increased focus on the expanding area of powder technology was also supported by larger R&D resources. Development in this respect in 2008 included the building of a pilot plant for powder technology in Sandviken.

Sandvik SAF 3207 HD is a new material for the oil and gas industry. Oil extraction is now conducted at increasingly deeper depths. The greater the depth, the greater the demands imposed on the equipment and materials in order to cope with higher pressure and other stresses. Sandvik has long been a world leader in umbilical tubing, which connects the production units to the seabed. These are used for the remote control of oil wells down to a depth of more than 2.5 kilometers, where the various units may be separated by considerable distances. The new material, Sandvik SAF 3207 HD, permits the manufacture of umbilical tubes with thinner walls and thus lower weight, while the materials also offers superior wear and corrosion properties. For extremely deep sea depths, a high-strength material is necessary, which means that Sandvik SAF 3207 HD, permits the extraction of oil and gas from sources that previously could not be exploited. Due to the high corrosion resistance, Sandvik SAF 3207 HD may also be used for the newly discovered oil-rich areas off the coasts of Africa and Brazil, where temperatures are higher than in the North Sea, for example.

Sandvik Sanergy® HT is a product developed with the help of advanced surface technology and is intended for use in high-temperature fuel cells, or solidoxide fuel cells. By coating metallic precision strip with a thin metal coating, the properties

of the surface are controlled so that high electrical conductivity is combined with an efficient corrosion resistance. This extends the product's service life, while simultaneously contributing to reducing customer costs. Among other benefits, it can reduce the number of processing stages in the customers' production process.

More efficient energy conversion and increased use of renewable energy sources are significant driving forces for the Kanthal product area's product and application development. New and modified products are being introduced continually in the energy area. The launch of highly efficient industrial gas- and electricity-based heating systems under the Ecothal® and Superthal® brands continued during the year. Kanthal also strengthened its position as a leading supplier of heat-treatment ovens for the manufacture of silicon-based solar cells.

The Kanthal product area launched a new type of silicon-based heat radiator, Kanthal Global® AS and Kanthal Global® Type B. These heat radiators offer higher performance and increased flexibility for heat processes in the glass, ceramics, electronics and aluminum industries.

Sandvik Finemac® is a new material that has been specially developed for the manufacture of small watch components. It has been known for decades that lead in steel results in better machinability, but in line with the global focus on more environmentally friendly alternatives, the development of new lead-free alternatives has commenced. In close collaboration with customers, Sandvik Materials Technology has developed the lead-free steel grade Sandvik Finemac®, which has equivalent or superior properties than the materials currently available for the watch industry.

The Process Systems product area has further developed and launched broad steel belts for new applications in the pulp and paper industry, where steel belts are a crucial component in the process. The steel belt copes with speeds of up to 80 meters per second and, thus, contributes to raising customer productivity, as well as adding to the quality of the end product. The paper industry is expected to offer considerable potential for this product.



# Human Resources

and represents a strategically important, integrated element of operations. During 2008 the extensive, global transformation program in the HR area has continued, with the introduction of common processes and IT support.

## Delivery model through global processes

The Sandvik Human Resources (HR) organization is designed to provide the best HR support to all managers and employees in the Group, irrespective of geographic location or organizational affinity. The goal is to develop all employees to their full potential and have the best competence available for each job in the organization, with the purpose of ensuring that Sandvik achieves its strategic objectives and continues to be world-leading in its chosen segments.

To provide high-quality HR support to all units and to enable measurement of the performance of Sandvik's HR work, the company pursues six global processes across the entire organization to drive excellence in HR:

- **Change Management:** a systematic approach to conduct change successfully, achieving desired outcome at the optimum time and cost.
- **Competence Development & Performance Management:** to drive competence development, learning and high performance throughout the organization at all levels and in all business areas.
- **Industrial Relations:** the practices and policies which the organization seeks to apply in all business areas, to encourage high-quality working relationships, mutual trust and understanding with all its employees.
- **Resourcing:** to attract the right people by workforce and succession planning, talent management and a proactive recruitment process directly linked to the needs of the business.
- **Reward & Recognition:** building the right compensation and benefit structure to attract, motivate and retain the right people, and to ensure that all employees are fairly remunerated.

- **Workforce Administration:** to enable the HR processes access to accurate and organized data so that each process efficiently can perform their given task.

Sandvik has defined a model for the HR function that is based on business requirements and leading practices. Connect is the global transformation program implementing this model. Activities are conducted in the following areas: HR Advisor, the global HR processes, IT support and HR shared service center. The program currently covers more than 25,000 employees in seven countries and its expansion is continuing.

The Group believes that goals and measurements are key tools in ensuring continuous improvements in HR. All operations at Sandvik are covered by the goals set by the Group Executive Management. The five Key Performance Indicators are: diversity, mobility, employee turnover, competence development days and formal review discussions.

## Sustainability

Sustainability issues are an integral feature of Sandvik's operations. As part of sustainability programs, the Group works actively with Sandvik's Code of Conduct, which is included in the "The Power of Sandvik" which represents the joint platform for Sandvik's approach to doing business and includes the values referred to as *Open Mind*, *Fair Play* and *Team Spirit*. More than 81% of Sandvik's personnel have undergone training in Sandvik's Code of Conduct.

One of the Group's objectives is to increase equality of opportunity at workplaces. All sites will introduce a program to improve the gender balance before year-end 2010. Refer to the section entitled "Sustainability Report" on pages 86–97 for other objectives and more detailed information on sustainability programs.

## Number of employees

The number of employees at the end of the year was 50,028 (47,123), an increase for comparable operations of 2,307 persons (3,815) during the year. The number of employees in Sweden at 31 December 2008 totaled 11,487 (11,342). Data on personnel expenses and the average number of employees is available on page 59, Note 3.

## Employee profit-sharing program

Since 1986, Sandvik has had a profit-sharing system for all employees at wholly owned companies in Sweden. The system was modified in 2007 to achieve increased transparency and better connection with the company's objectives. The Group's earnings and return during the year entailed an allocation totaling SEK 67 M (238) to the profit-sharing foundation in 2008.

## Remuneration and compensation policy

The remuneration at Sandvik is based on a global compensation policy that supports Sandvik's business objectives, contributes to maintaining Sandvik as an attractive company in which to work and develop, stimulates internal mobility and provides increased efficiency. The compensation policy is based on four cornerstones: 1) position evaluation measuring the complexity and difficulty of the position, 2) individual performance, 3) the market situation, and 4) professional development of the employee.

As part of the total remuneration package, a share-based program was established in 2000 to offer a stock-related, long-term variable salary to some 350 international executives and specialists in the Group. The program was based on an annual allotment of personnel options on Sandvik shares with duration of five years and the right to exercise after three years, conditional on continued employment. The

allotment was based on Sandvik's return on capital employed during the preceding year. While the grant as such was free of charge, option holders must pay an exercise price for the share. The program is based on existing shares and, thus, does not require the issue of new shares. Under a financial arrangement, the effects for the company of future increases in the market value of the Sandvik share have been limited. Options under the program were granted during the years 2000–2004. During 2008, it was possible to exercise options granted in 2003 and 2004 and there are still 131,000 outstanding options at 31 December 2008, of which 20,000 to senior executives. For additional information, see pages 59–61, Note 3.5 Information on remuneration to the Board of Directors and senior executives.

The long-term variable salary program was halted for one year but starting in 2006 the Board of Directors decided to implement a cash-settled program each year for 2006, 2007 and 2008. The programs cover some 400 international executives and specialists within Sandvik and extend over a period of three years with possible payment after the third year of each program. The possible outcome of 2006 year's program is thus paid in 2009, the 2007 year's program in 2010 and the 2008 year's program in 2011. The programs have a direct connection to performance, surplus value and compensation with an annual cap value in relation to the annual salary in December year three of the participant. The possible outcome of the long-term variable salary implies fulfillment of measurable goals, outlined by the Board of Directors, with reference to certain key indicators creating shareholder value connected to the Sandvik's growth, profitability and capital efficiency during a period of three years.

### **The Board's proposal for the decision on principles for the remuneration of senior executives**

The guidelines for the remuneration of the Board and senior executives that applied during 2008 are set out in Note 3.5 on pages 59–61. The company's auditors have examined compliance with the guidelines.

The Board of Sandvik AB that the Annual General Meeting on 28 April 2009 decide on the following principles for the remuneration of senior executives in accordance with that stated in Note 3.5. The Board's proposal is designed to ensure that Sandvik from a global perspective can offer remuneration at the market rate that will attract and retain qualified members of the Group Executive Management. The remuneration package for Group Executive Management comprises fixed salary, annual variable salary and long-term variable salary and pension. It is intended that the components will form a well-balanced remuneration and benefit package that reflects the individual's performance, responsibility and the Group's earnings trend.

The fixed salary, which is individual and differentiated considering responsibility and performance, is determined taking into account market conditions and is reviewed each year.

The Board may depart from the principles established by the Annual General Meeting if, in isolated cases, there are special reasons for a departure.

Those affected by these proposed principles are the President and the other members of the Group Executive Management. For further details, refer to Note 3.5 on pages 59–61.

### **Key figures**

	2008	2007
No. of employees 31 December	50,028	47,123
<b>Average number of employees</b>		
Women	8,819	7,875
Men	39,752	36,548
<b>Total</b>	<b>48,571</b>	<b>44,423</b>

# Non-financial information

Our environmental, health and safety, human rights and business ethics represent an integral part of the business process, with focus on continual improvement in such areas as environment, health and safety, human rights and business ethics.

Sandvik has a distinct Code of Conduct that provides the platform for enhancement programs.

In addition to Sandvik's financial results, environmental and social performance is presented in the company's Sustainability Report on pages 86–97.

## Environmental objectives

In 2008, Sandvik has established new environmental objectives (See page 6):

Examples of activities conducted during the year to meet the objectives include certification in accordance with ISO 14001 for companies recently acquired, the introduction of energy saving programs (two units have introduced certified energy management systems), phasing-out of chlorinated solvents and reduction of water consumption by recirculation. Relevant key figures for the use of electricity and fossil fuel, carbon dioxide emissions and water consumption are monitored on a quarterly basis. The outcome for 2008 is presented in Sandvik's Sustainability Report.

## Licensed operations

Sandvik complies with applicable laws and regulations relating to environmental issues in the countries where the Group operates. However, Sandvik applies even stricter requirements when it is ecologically warranted, technically possible and economically reasonable. Sandvik's Swedish units conduct licensed operations in accordance with Swedish environmental legislation at the plants in Sandviken, Gimo, Stockholm, Hallstahammar, Surahammar, Svedala, Arbrå, Haparanda and Köping. The environmental permits for these sites relate to such activities as the manufacturing of ingot, bar, tube, strip and wire products, rock-drilling products, metal powder, cemented-carbide products, castings and various equipment and tools. All these units have the environmental permits that are required for their operations. The main environmental impacts from these sites are emissions to air and water, land contamination and noise. Sandvik is highly dependent on the environmental permits granted for these sites. In 2008, no new permits were received. One new appli-

cation was submitted for the production of hydrogen gas in Stockholm. No breaches of maximum permissible values or permitted manufacturing volumes within the parameters of the terms and conditions of permits occurred during the year. A number of target values were exceeded for noise and emissions to air and water at a few sites. Measures are being taken to comply with these target values, often in consultation with the relevant supervisory authority.

For the units subject to environmental permits, public environmental reports are submitted each year to the supervisory authority. In these reports, conditions and compliance with all the various requirements are presented, as are annual emissions and actions taken to lessen impacts on the environment or the consumption of resources. No unit has been issued any significant injunction, related to these requirements, from the supervisory authority in 2008.

At 22 units throughout the entire Sandvik Group, known or presumed land contamination has occurred. At 12 units, clean-up procedures have been ordered at an estimated cost of some SEK 60 M. Moreover, cleaning-up measures at additionally two sites have been decided.

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

## Emission allowances

Two of the Group's entities are involved in trading in carbon dioxide emission allowances in the EU. In 2008, the Group was allocated 109,727 emission allowances, corresponding to 109,727 tons of carbon dioxide. During the year, operations at these two facilities declared emissions corresponding to approximately 110,000 emission allowances, a slight excess that will be covered at the beginning of 2009 through the purchase of supplementary allowances. Legislation, and thus also the meaning of the term "metallurgical process" was changed with effect from 2008 to be defined as "physical changes in the material." The change means that essen-

tially all use of fossil fuel in the industrial site in Sandviken is encompassed by trading in emission allowances.

The trading in emission allowances also affects Sandvik in that the price for electricity, even such electricity not affected by emission allowances, has risen considerably.

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

## Social objectives

In 2008, Sandvik established new social objectives (See page 6):

Examples of activities pursued during the year to attain the objectives include certification of the health and safety management system in accordance with OHSAS 18001 for companies recently acquired, training, risk assessment of the workplace, more focus on reporting of incidents, improving the efficiency of safety committees, and offering stimulation to managers to employ women, in particular in regions where the proportion of female employees is very low. Relevant indicators and key figures that are monitored on a quarterly basis include the number of fatalities, injuries and incidents, absenteeism as well as the number of men and women in various positions.

Sandvik's policies relating to human rights, labor rights issues and business ethics are set out in a Code of Conduct. To emphasize the importance of compliance, training in these issues is regularly arranged. At the end of 2008, more than 81% of the employees had participated in this training.

Sandvik increased the focus on risks related to suppliers during 2008. A new supplier Code of Conduct is being developed and special supplier audit functions were established in China and India.

No incidents relating to violation of human rights were reported during 2008. A few suspected incidents of fraud and corruption were reported. All these incidents have been investigated, and when considered necessary, corrective measures were taken.

# Sandvik's risks and risk management

Sandvik is a global Group with representation in 130 countries and as such is exposed to commercial and financial risks. Accordingly, the management of risks is a process that is important to Sandvik in its efforts to achieve its objectives. Effective risk management is a continuous process conducted within the scope of the operational control system and is an integral part of the periodic monitoring of the business.

## ERM – Integrated Risk Management

For a number of years, Sandvik has applied a comprehensive program for risk management – Enterprise Risk Management (ERM). The program covers all parts of operations, business areas as well as Group Functions. Through ERM being an integral part in the control of Sandvik's operations, ERM assists Sandvik to also act when dramatic changes occur in external factors and well as market conditions. An example in this context is the specific decision regarding capacity adjustments taken late in 2008 as a result of the global decline in demand.

A full, consolidated ERM Report is submitted to Executive Group Management twice a year. The Board deals with the ERM Report once a year.

The purpose of the integrated risk management work is to:

- Create heightened risk awareness in the organization, from operational decision-makers to the Board of Directors. Transparent and consistent reporting of risks shall form a basis for a common approach to what shall be prioritized and managed.
- Support the Board of Directors and executive management in strategic decision-making through continuous identification and evaluation of strategic risks that impact the company.

- Contribute to improvements in operational decision-making by managers at various levels by ensuring that operational risks are continuously evaluated and managed.
- Ensure control of the company's exposure to risk by implementing a common model and methodology for risk management.
- Link risk management work to the company's performance management, which means that risk management work shall also be included among the targets set for individual employees.

A Group-wide risk management model has been established with common definitions, reporting formats and processes, and it also enables each business area to identify and manage their specific risks.

The main components of risk management are identification, measurement, management, reporting, monitoring and control. An action plan is established for each risk to accept, reduce, eliminate or increase the risk. Formal procedures and processes are established for the reporting, monitoring and control of risks.

## Operational risks

Each manager with operational responsibilities shall ensure that risks associated with the operations are appropriately identified, measured and managed. Opera-

tional risks include market and country risks, R&D risks, product risks, production risks, health and safety as well as environmental risks. Each unit's risks are regularly summarized in a report, which also details the measures that are being taken to manage the risks. Each risk is measured and assigned an action plan. All this information is consolidated at Group level.

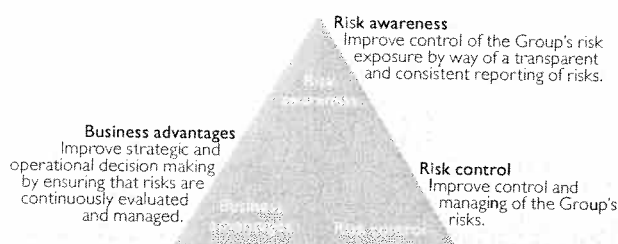
## Compliance risks

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

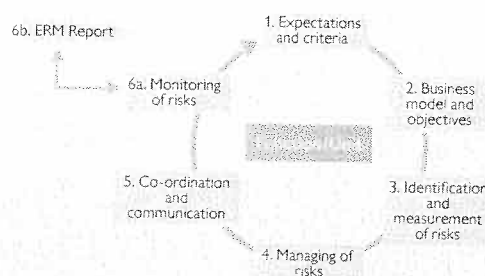
## Financial reporting risks

Sandvik's operating companies present reports on their financial position on a regular basis in accordance with internal reporting rules and the accounting policies that Sandvik applies, the International Financial Reporting Standards (IFRS). The Group's controller function validates and

Purpose of integrated risk model



ERM process – Overview



analyzes the financial information as a part of the quality control of financial reporting. See also the "Corporate Governance Report" on pages 98–103.

### Legal risks

#### Litigation

On occasion, Sandvik is party to litigation and administrative proceedings related to its operations, including responsibility for products, the environment, health and safety. However, Sandvik does not deem that any of these ongoing proceedings and processes will significantly affect the Sandvik Group. In the US, companies that sell welding electrodes, including Sandvik's US subsidiary, Sandvik Inc., are the object of claims in which it is alleged that exposure to welding fumes causes neurological damage. All of these claims involve multiple defendants in addition to Sandvik Inc. To obtain a favorable verdict against Sandvik Inc., a plaintiff would have to prove that any neurological injury was caused by Sandvik Inc.'s welding electrodes. The market share of Sandvik Inc. for welding electrodes in the US is less than 1%, and many of the cases against the company have been dismissed because the plaintiffs could not prove that they had used Sandvik Inc.'s welding electrodes. In addition, Sandvik believes that there is no reliable scientific evidence to support the claims. Despite such absence of evidence, and also considering the minimal market share, Sandvik anticipates that it will have to continue to defend itself against these types of claims in lawsuits. To date, Sandvik has not received an unfavorable verdict in any proceedings or been forced to come to a settlement in regards to injury compensation

related to welding electrodes and the only expenses it has incurred are legal costs. A significant share of these costs has been covered by insurances.

#### Protection of intellectual property rights

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

#### Tax disputes

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

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

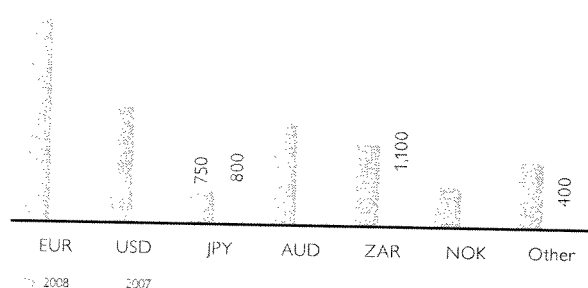
The Tax Board did not accept the tax returns for fiscal years 2005 and 2006 filed by the IP Company with respect to the claimed deductions for amortization of the transferred intellectual property rights. In November of 2008, the Tax Agency rejected the IP Company's 2007 tax returns for the same reasons.

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

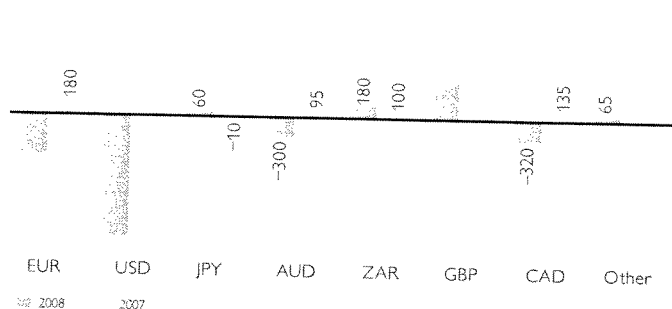
If the Court accepts Sandvik's position, the Group's tax expense would decline by about SEK 4,850 M, to be recognized as a tax benefit when such a court order gains legal force.

In Sandvik's opinion, the raised tax assessment of the IP Company by the Tax Board and the Public Commissioner's appeal as it relates to Sandvik AB are both incorrect. All transactions comply with the agreements entered into in accordance with civil law by the Group companies concerned and have been implemented entirely in accordance with such agreements. According to the advice of tax specialists engaged by Sandvik, a tax assessment in line with Sandvik AB's filed tax returns complies with prevailing laws. The raised tax assessments of the IP Company by the Tax Board and the Public Commis-

Net flows in foreign currency, SEK M



Hedged nominal foreign currencies, SEK M



sioner's claim for a raised assessment of Sandvik AB, respectively, are solely based on the grounds that the reorganization has entailed perceived unacceptable tax advantages to Sandvik.

In January and December of 2008, respectively, the IP Company appealed the decision by the Tax Board's regarding taxation for 2005, 2006 and 2007. Pending a conclusion of the legal proceedings, Sandvik has recorded a provision for the tax effects of implemented amortization in the IP Company and for accrued interest for the tax that the Public Commissioner's appeal against Sandvik AB would entail if it is approved.

#### Insurable risks

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

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

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

#### Pension commitments

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

tial pension plans in these countries and an equally efficient management of funds reserved for pension plans, Sandvik has established a separate entity for this purpose, the Sandvik Pensions Supervisory Board. In addition, local pension Boards are established in each country that are responsible for compliance with legislation and local agreements.

#### Sustainability risks

Sustainability risks entail the risk of adverse consequences concerning the environment, health and safety, human rights and business ethics due to the commercial operations conducted by Sandvik. To minimize these risks, Sandvik implements a comprehensive initiative at all levels of the company. Fair play and Code of Conduct seminars are held throughout the Group on a regular basis. These aspects also comprise key areas for Sandvik's internal assurance function, Group Assurance. In recent years, Sandvik has also developed a separate Sustainability Report, which requires a systematic analysis of the company's operations in terms of sustainability and enables the identification of risks within this area. For further information, see Sandvik's Sustainability Report on pages 86–97.

#### Financial risks

The Board of Directors is responsible for establishing the Group's finance policy, which comprises the guidelines, objectives and limits for financial management and the managing of financial risks within the Group. Sandvik Financial Services has been established to act as the functional organization responsible for the managing

of the greater part of the Group's financial risks.

The following presentation complies with the reporting requirements stated in accordance with IFRS (IFRS 7 and IAS 39).

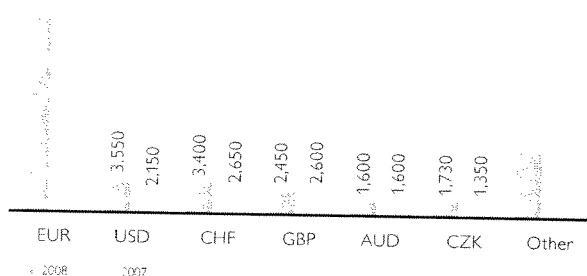
#### Sandvik Financial Services

Through its comprehensive international operations, Sandvik is exposed to currency, interest, liquidity and financing risks. Advantages exist for Sandvik's operations in the central handling of matters pertaining to financing and financial exposure. Therefore, Sandvik conducts internal banking operations within Sandvik Financial Services, which is located at its head offices in Sweden and Singapore. Sandvik Financial Services also conducts operations for payment advice, customer financing and trade finance. This activity is carried mainly through the head office in Sweden and via finance companies in the US, Germany and Chile.

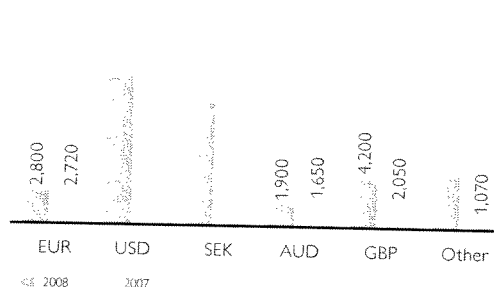
The internal bank provides service to the Group companies and the purpose of the bank is to support subsidiaries with loans, investment opportunities and currency-exchange deals, and to act as advisors in financial matters. Most receivables created through internal Group sales are transferred to the Swedish bank unit. Since internal sales largely arise in the buying company's local currency, the internal bank thereby attains adequate control over the Group's transaction exposure. The internal bank also conducts Sandvik's netting system, and is accountable for international cash management.

The primary objectives of Sandvik Financial Services is to contribute to the creation of value by minimizing the finan-

Net assets in foreign currency, SEK M



Borrowings by currency, SEK M



cial risks to which the Group is exposed in the ordinary course of business, and to optimize the Group's net financing cost. Only banks with a solid financial position and high credit ratings are accepted as Sandvik's counterparties in financial transactions. A new department within Sandvik Financial Services, designated Sandvik Credit, was established during the year. The main aim of the department is to act as advisor with regard to payment issues, arrange various forms of customer financing and to issue a global credit policy for Sandvik.

#### Currency risk

Currency risks refer to the foreign-exchange movements affecting the company's earnings, shareholders' equity and competitive situation in various ways:

- earnings are affected when sales and purchases are made in different currencies (transaction exposure),
- earnings are affected when assets and liabilities are denominated in different currencies (translation exposure),
- earnings are affected when the financial results of subsidiaries are translated to SEK (translation exposure),
- shareholders' equity is affected when the net assets of subsidiaries are translated to SEK (translation exposure).

#### Transaction exposure

In its international operations, Sandvik regularly offers customers the possibility to pay in their own currencies through the global sales organization. As a result, the Group is continuously exposed to currency risks in accounts receivable denominated in foreign currency and in future sales to foreign customers.

Since a large percentage of production is concentrated to a few countries, while sales occur in many countries, Sandvik is exposed to a large net inflow of foreign currencies, which are exposed to transaction risks.

The Group's net inflow of foreign currencies was approximately SEK 14,200 M (9,700). See diagram on page 26.

To reduce exposure to foreign currencies, currency received is used to pay for purchases in the same currency. In addition, major project orders are currency

hedged to safeguard gross margin. In addition, 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. The hedging horizon for the Group as a whole depends on the mix of currency flows in the various business areas and is normally one to four months, but may be raised by a maximum of about six months through strategic currency hedges approved by the CFO. As of 31 December 2008, the average term of the hedged currency contracts in foreign currencies was eight months.

The total hedged volume outstanding in foreign currencies at year-end are presented in the "Hedged nominal foreign currencies" diagram on page 26, which shows outstanding contracts in the most important currencies at year-end exchange rates. Unrealized losses on outstanding currency contracts for hedging of future net flows at year-end amounted to SEK 233 M (gain: 34). Of this amount, a loss of SEK 37 M pertains to contracts that mature in 2009 and a loss of SEK 147 M to contracts maturing in 2010 or later. Hedge accounting in accordance with IAS 39 is applied to the majority of these hedging transactions. For a more detailed quarterly breakdown of cash-flow effects, see page 32.

#### Translation exposure

Group subsidiaries normally should not have any translation risk in their balance

sheets. Sandvik's objective is that a subsidiary's receivables and liabilities in foreign currency shall be balanced (hedged).

As of 31 December 2008, net assets of Group subsidiaries denominated in foreign currencies amounted to approximately SEK 41,065 M (30,800).

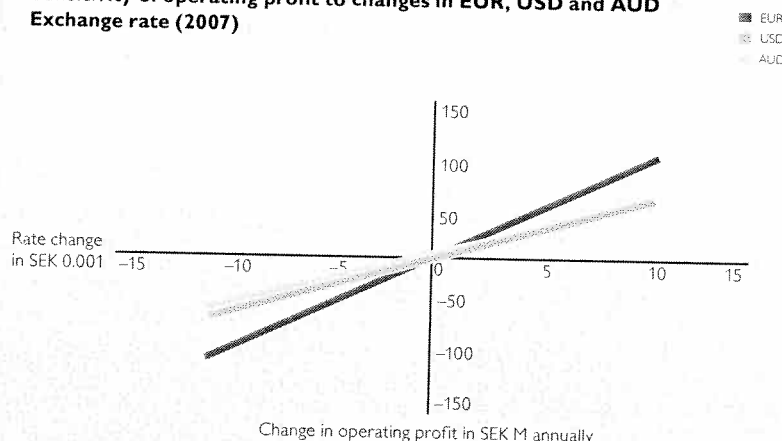
A subsidiary usually raises intra-Group borrowings denominated in its own currency. Its net assets, normally equivalent to its equity, are translated into SEK at the year-end exchange rate. The net assets are not hedged, but the differences that arise due to changes in exchange rates since the preceding year-end are recognized directly in equity.

A large share of Sandvik's borrowing is conducted to finance foreign subsidiaries' investments. Such borrowing is frequently in a particular currency, whereupon the internal bank lends to the subsidiaries requiring financing in local currencies. Furthermore, subsidiaries deposit excess cash with the internal bank. In these cases, the internal bank's deposits and loans are hedged by currency-forward contracts. The Group's borrowing in various currencies is presented in the diagram on page 27.

#### Translation exposure in the subsidiaries' earnings

The earnings of the foreign subsidiaries are translated into SEK at the average exchange rate for the period during which earnings arise.

**Sensitivity of operating profit to changes in EUR, USD and AUD Exchange rate (2007)**



### Exchange-rate sensitivity

As an estimate, it may be said that a change of plus or minus SEK 0.10 in the USD rate would change Sandvik's operating profit by plus or minus SEK 55 M (50) on an annual basis, under the conditions that prevailed at year-end 2008. A change of SEK 0.10 in the rates for EUR and AUD would have comparable effects of SEK 90 M (80) and SEK 50 M (35), respectively. In addition, there would be effects from the other group of currencies that the Group's operations give rise to. The change in earnings occurs with a delay, since a change in exchange rates does not have an impact until the hedging horizon has passed.

Accordingly, the rule of thumb should be used cautiously for a company such as Sandvik with global production and sales. Refer to the diagram on the preceding page.

### Interest risk

Interest risk is defined as the risk that changes in market interest rates will have an adverse impact on the Group's net financial items. The speed with which a change in interest rate affects net financial items depends on the fixed-interest period of the loans.

The company's exposure to interest-rate fluctuations (interest risk) is considerably less than for currency risk. Interest risk arises in two ways:

- The company may have invested in interest-bearing assets, the value of which changes when the interest rate changes.

- The cost of the company's borrowing fluctuates when the general interest-rate situation changes.

Sandvik has no long-term surplus liquidity and usually only invests any liquidity in current bank deposits/current money-market instruments with maturities of less than 90 days. Accordingly, there is no significant interest risk in the Group's short-term investments.

Changes in interest rates thus mainly affect the cost of the company's borrowings.

The Group's maturity profile and interest rates for outstanding loans as at 31 December 2008 are presented in the diagram and table below.

Sandvik has entered into a number of interest-rate swaps to affect interest duration. The nominal values of interest-rate swaps and maturities are presented in the table below.

The interest-rate swap agreements entered into had an estimated positive net market value of SEK 1,298 M (196) at year-end. Sandvik applies hedge accounting in accordance with IAS 39 to these interest-rate swaps of SEK 1,337 M, since they are directly related to specific loans.

The Group's average interest rate, including other loans and effects of interest-rate swaps, was about 4.8% (4.8).

In accordance with Group guidelines, Sandvik's average fixed-interest term for loans shall be 12 months, but may vary between 6 and 30 months following approval by the CFO. At year-end, the average term was 13 months (13) taking

into account interest derivative instruments. In order to reduce the refinancing risk, the Group strives for an adequate distribution of maturity dates. At year-end, the average payback period was 3.9 years.

Loan conditions essentially follow the normal market terms. Only under exceptional circumstance were assets pledged in connection with the raising of loans. Such pledging is disclosed in Note 29.

The fair value of the loan portfolio, including derivatives relating to borrowing, would change by some SEK 230 M (195) in connection with a change in the market interest rate of one percentage point over the entire interest-rate curve, given the same volume and fixed-interest term as at 31 December 2008.

### Liquidity and financing risk

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

In Sandvik's finance policy, the liquidity and financing risks are regulated such that the sum of guaranteed credit facilities and cash and cash equivalents must exceed the total of all borrowings that mature within the next six months. At 31 December 2008, the sum of cash and cash equivalents and credit facilities was SEK 21,415 M (16,192), compared with borrowings that mature within the next six months totaling SEK 9,271 M (9,954).

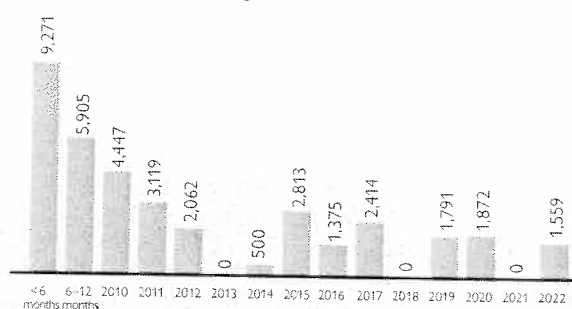
### The Group's Interest rates for outstanding loans

SEK M	Effective interest. %	Total
Bond loans	4.5	13,369
Commercial papers	5.5	7,698
Private placement	3.7	6,937
Other loans	5.5	9,124
<b>Total</b>	<b>4.8</b>	<b>37,128</b>

### Nominal values of interest-rate swaps and maturity

MSEK	2010	2011	2012	2016	2017	2018	2019	2020	2022	Total
EUR						274				274
SEK	840	450	1,300	100						2,690
USD					1,235	386	772	1,853	618	4,864
GBP						280				280
<b>Total</b>	<b>840</b>	<b>450</b>	<b>1,300</b>	<b>100</b>	<b>1,235</b>	<b>940</b>	<b>772</b>	<b>1,853</b>	<b>618</b>	<b>8,108</b>

### The Group's maturity profile for outstanding loans, SEK M





Sandvik has credit facilities of EUR 500 M maturing in 2012 and of EUR 1,000 M maturing in 2013. These credit facilities have been placed at the company's disposal by a group of banks. The constituent banks also have other dealings with Sandvik. The facilities, which are the Group's primary liquidity reserve, were unutilized at year-end. The size of the facilities is regularly reconsidered and adapted to the Group's need for a liquidity reserve.

The company has a Swedish Medium-Term Note program with a program size of SEK 15,000 M (15,472). At year-end, bonds with a nominal value of SEK 13,200 M (10,697) were outstanding, with an average fixed-interest term of 2.8 years (3.9). Sandvik has issued bonds totaling USD 740 M (740) in the US market in so-called "private placements." The duration of these bonds varies between 9 and 14 years.

Sandvik has a Swedish commercial-paper program with a program size of SEK 10,000 M (10,000). The amount outstanding at year-end was SEK 7,172 M (5,971). The commercial papers had an average remaining term of about five months.

In addition, Sandvik has a European commercial-paper program with a program size of EUR 750 M (750). At year-end, measured in SEK, the outstanding amount was SEK 526 M (910). These commercial papers had an average remaining term of about five months.

At year-end, Standard & Poor's, the international credit rating institute, had assigned an A credit rating to Sandvik's long-term borrowing and A-1 for its short-term borrowing. For continuous update on

Sandvik's rating, we refer to Sandvik's own webpage.

#### Credit risk

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

Sandvik has entered into agreements with the banks that are most important to the company covering such matters as the right to offset receivables and liabilities that arise from financial transactions, so-called ISDA agreements. This means that the company has limited exposure to the financial sector. However, the company does have a credit risk in the form of outstanding customer accounts receivable. The distribution of the respective business areas' invoicing by industry segment implies a good risk spread.

At 31 December 2008, the total nominal value of derivative instruments for purchased and sold currencies amounted to SEK 49,924 M (43,375). These derivatives form part of the Group's managing of currency risks in transaction flows and financing.

Sandvik's customers frequently wish to finance their investments in new equipment with terms that match the products' expected economic lives. Therefore, Sandvik Financial Services works in close liaison with financial institutions, such as banks and export credits guarantee boards, to be able to offer customers competitive solutions. In certain cases, Sandvik must provide 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 SEK 111 M (25). Sandvik, notably the Sandvik Mining and Construction business area, offers credits to the company's distributors and end-customers in the North- and South America countries and in Europe through its own finance companies. The value of outstanding credits in these companies was SEK 534 M (487) at year-end. In addition to the traditional financing of equipment that the customer buys, Sandvik also offers rental machines to customers that only require the use of a machine for a shorter period. At year-end, the net book value of Sandvik's global fleet of rental machines was SEK 468 M (569).

At 31 December 2008, the total gross amount of outstanding trade receivables was SEK 16,624 M (15,719). Impairment totaling a loss of SEK 694 M (loss: 491) was recognized.

An age analysis of outstanding trade receivables at 31 December is presented in the table below.

#### Raw materials price exposure

Sandvik's operations give rise to risks due to changes in the price of market-quoted raw materials, mainly nickel, tungsten, cobalt, and electricity. The nickel price varied significantly during the year. At the beginning of the year, the price was USD 26,000 per metric ton, the highest price was USD 33,000, while the price at year-end was about USD 11,000 per metric ton.

#### Age analysis of trade receivables

SEK M	2008			2007		
	Gross	Allowance for bad debts	Net book value	Gross	Allowance for bad debts	Net book value
Current receivables	11,878	-74	11,804	11,577	-64	11,513
Past due receivables 0-3 months	3,390	-82	3,308	3,139	-53	3,086
Past due receivables 3-12 months	1,005	-238	767	765	-160	605
Past due receivables >12 months	351	-300	51	238	-214	24
<b>Total</b>	<b>16,624</b>	<b>-694</b>	<b>15,930</b>	<b>15,719</b>	<b>-491</b>	<b>15,228</b>

#### Total credit risk – Financial instruments

SEK M	2008	2007
Trade receivables	15,930	15,228
Cash and cash equivalents	4,998	2,006
Unrealized gains on derivatives	3,420	982
Other receivables	710	487
<b>Total</b>	<b>25,058</b>	<b>18,703</b>

The total consumption of nickel is some 24,000 metric tons per year. When Sandvik Materials Technology obtains a significant customer order, the price of quoted materials included in the order is hedged. At year-end, the nickel inventory amounted to slightly less than 10,000 tons, of which about 1,526 metric tons was hedged. The market value of commodity derivatives entered into was a negative SEK 120 M (neg: 7). A price reduction for nickel of USD 1,000 per metric ton for current inventories is estimated to have a negative effect of SEK 80 M on Sandvik's reported results on an annual basis, based on the prevailing conditions at 31 December 2008.

For Sandvik's large production units in Sweden, the electricity price is continuously hedged through derivatives. The total electricity consumption at these units

amounts to some 900 GWh. The hedging horizon at year-end was about 18 months' expected consumption. The market value of electricity derivatives at year-end was about a negative SEK 67 M (103). A change in the electricity price of SEK 0.10 per kWh is estimated to impact Sandvik's operating profit by plus or minus SEK 90 M on an annual basis, based on the prevailing conditions at year-end 2008.

Hedge accounting in accordance with IAS 39 is applied to the majority of the raw materials and electricity derivatives.

#### Fair value of financial assets and liabilities

Fair value is based on market prices and is determined under generally accepted methods. When available, official market values at the closing date are used. Translation to SEK was conducted at the quoted currency

rate on the balance-sheet date.

Financial assets and liabilities and financial derivatives are stated at fair value, except for current and non-current borrowings, which are measured at amortized cost. Calculation at fair value would increase the Group's non-current borrowings by SEK 2,475 M (reduce 373), of which SEK 1,384 M is already recognized as the fair value hedge. When measuring interest-bearing liabilities, the company's Swedish bond loans have then been remeasured at listed market prices when available. Other non-current debt has been revalued based on the difference between the nominal interest rate and current market rate. Current loans, which include outstanding commercial papers with a fixed interest period of less than 12 months, have not been revalued.

#### Fair value of financial assets and liabilities by category

Balance-sheet items, SEK M	Derivatives designated as hedging instruments <sup>2)</sup>		Assets at fair value through profit or loss <sup>1)</sup> Derivatives held for trading <sup>3)</sup>		Available-for-sale financial assets		Loans and receivables		Total book value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Financial assets												
Financial investments	—	—	—	—	78	79	—	—	78	79	78	79
Shares in associates	—	—	—	—	485	348	—	—	485	348	485	348
Trade receivables	—	—	—	—	—	—	15,930	15,228	15,930	15,228	15,930	15,228
Other receivables <sup>4)</sup>	—	—	—	—	—	—	1,258	1,043	1,258	1,043	1,258	1,043
Derivatives <sup>5)</sup>	1,663	407	1,757	575	—	—	—	—	3,420	982	3,420	982
Cash/Cash equivalents	—	—	—	—	—	—	4,998	2,006	4,998	2,006	4,998	2,006
<b>Total financial assets</b>	<b>1,663</b>	<b>407</b>	<b>1,757</b>	<b>575</b>	<b>563</b>	<b>427</b>	<b>22,186</b>	<b>18,277</b>	<b>26,169</b>	<b>19,686</b>	<b>26,169</b>	<b>19,686</b>

Balance-sheet items, SEK M	Derivatives designated as hedging instruments <sup>2)</sup>		Assets at fair value through profit or loss <sup>1)</sup> Derivatives held for trading <sup>3)</sup>		Available-for-sale financial assets		Loans and receivables		Total book value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Financial liabilities												
Borrowings <sup>6)</sup>	—	—	—	—	37,128	28,846	—	—	37,128	28,846	38,219	28,473
Derivatives <sup>7)</sup>	790	—	727	303	—	—	—	—	1,517	303	1,517	303
Accounts payable	—	—	—	—	—	—	7,000	6,777	7,000	6,777	7,000	6,777
Due to associates	—	—	—	—	—	—	80	103	80	103	80	103
Other liabilities <sup>8)</sup>	—	—	—	—	—	—	657	539	657	539	657	539
<b>Total financial liabilities</b>	<b>790</b>	<b>—</b>	<b>727</b>	<b>303</b>	<b>37,128</b>	<b>28,846</b>	<b>7,737</b>	<b>7,419</b>	<b>46,382</b>	<b>36,568</b>	<b>47,473</b>	<b>36,195</b>

1) Fair Value Option is not applied.

2) Of which SEK -511 M (+111) pertains to cash-flow hedges reported in the hedging reserve in equity. For more detailed information, see the description of hedge accounting.

3) Of which SEK +1,084 M (+226) pertains to economic hedges; hedge accounting is not applied.

4) Comprises parts of the Group's non-current receivables, accrued income and other receivables reported in the balance sheet.

5) Derivatives form part of the other receivables reported in the balance sheet.

6) Reported in the balance sheet as non-current and current liabilities to financial institutions and other liabilities.

7) Derivatives form part of the other liabilities reported in the balance sheet.

8) Form part of the Group's non-current liabilities, accrued expenses and other liabilities reported in the balance sheet.

**Hedge accounting**

At the end of 2008, hedge accounting in accordance with IAS 39 was applied as follows:

- cash-flow hedge accounting is applied to foreign currency derivatives (hedging instruments) used to hedge future commercial payments in foreign currency (hedged item). Accordingly, all derivatives are recognized in the balance sheet at fair value and changes in forward contracts are recorded in the hedging reserve in equity. Amounts reported in the hedging reserve are reversed to the income statement at the same time as the external sale or purchase is recognized in the income statement, that is, when the delivery to the external customer or from the external supplier occurs,
- cash-flow hedge accounting is applied to commodity derivatives used to hedge future customer orders received,
- cash-flow hedge accounting is applied to electricity derivatives used to hedge the cost of future electricity consumption at the Swedish production facilities,
- fair-value hedge accounting of a few significant loans and interest-rate swaps used to obtain a desired interest term. Sandvik's external financing is conducted through various borrowing programs and to convert such borrowings to a desired structure for the interest term interest derivatives are used. These hedging relations comprise fair-value hedges in which Sandvik uses interest-rate derivatives (hedging instrument) to eliminate the risk that changes in the market interest rate shall have an effect on the value of the liabilities (hedged item). In these hedging relations, the hedging instrument (the derivative) is measured at fair value, and the hedged item (the loan) is also measured at fair value with regard

to the hedged risk. This means that the change in the fair value of the derivative instrument and in the hedged item is both recognized in net finance cost.

Sandvik has not entered into any derivatives to hedge net investments in foreign operations.

Sandvik does not apply hedge accounting to all transactions entered into for hedging purposes. In those cases when hedge accounting is not applied, the measurement of the derivatives at market value and of financial liabilities at amortized cost creates an accounting volatility in net financing cost.

Sandvik considers that such transactions offer an economic hedge and that risks have been managed in accordance with the finance policy approved by the Board.

**Net gains/losses by category for financial assets and liabilities**

SEK M	2008	2007
Assets and liabilities at fair value		
Derivatives	100	244
Loans and receivables	645	-114
Available for sale assets	3	1
Financial liabilities	-2 253	-1 516

The table shows the fair value adjustment that is included in the net result. In addition to fair value adjustment, interest and currency movement effects are included.

**Periods when hedged cash flows are expected to occur and affect earnings**

SEK M	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2011	Total
Currency derivatives	-64	-92	-16	27	-1	-26	-33	-11	-105	-321
Commodity and electricity derivatives	-15	-28	-23	-21	-20	-23	-26	-7	-27	-190
<b>Total</b>	<b>-79</b>	<b>-120</b>	<b>-39</b>	<b>6</b>	<b>-21</b>	<b>-49</b>	<b>-59</b>	<b>-18</b>	<b>-132</b>	<b>-511</b>

For additional information on Sandvik's risk areas, see the company's Corporate Governance Report pages 98–103, and Sustainability Report, pages 86–97.

# Consolidated income statement

SEK M	Note	2008	2007
Revenue	1, 2	92,654	86,338
Cost of sales and services		-61,562	-55,976
<b>Gross profit</b>		<b>31,092</b>	<b>30,362</b>
Selling expenses		-11,524	-10,334
Administrative expenses		-5,287	-4,142
Research and development costs	4	-2,014	-1,818
Share of results of associated companies		46	119
Other operating income	5	661	386
Other operating expenses	6	-180	-179
<b>Operating profit</b>	1, 3, 7, 8	<b>12,794</b>	<b>14,394</b>
Financial income		375	377
Financial expenses		-2,592	-1,774
<b>Net financing cost</b>	9	<b>-2,217</b>	<b>-1,397</b>
<b>Profit after financial items</b>		<b>10,577</b>	<b>12,997</b>
Income tax expense	11	-2,741	-3,403
<b>Profit for the year</b>		<b>7,836</b>	<b>9,594</b>
<b>Attributable to</b>			
Equity holders of the parent		7,472	9,116
Minority interest		364	478
Basic earnings per share, SEK	12	6.30	7.65
Diluted earnings per share, SEK	12	6.29	7.65

# Consolidated balance sheet

SEK M	Note	2008	2007
<b>ASSETS</b>			
<b>Non-current assets</b>			
<i>Intangible assets</i>			
Patents and other intangible assets	13	2,641	2,492
Goodwill	13	9,831	8,933
<b>Total</b>		<b>12,472</b>	<b>11,425</b>
<i>Property, plant and equipment</i>			
Land and buildings	13	6,974	5,719
Plant and machinery	13	13,229	10,925
Equipment, tools and installations	13	1,874	1,548
Construction in progress and advance payments	13	4,046	2,703
<b>Total</b>		<b>26,123</b>	<b>20,895</b>
<i>Financial assets</i>			
Investments in associated companies	1, 16	485	348
Other financial assets	17	78	79
Deferred tax assets	11	1,277	1,323
Other non-current receivables	18	2,512	2,029
<b>Total</b>		<b>4,352</b>	<b>3,779</b>
<b>Total non-current assets</b>		<b>42,947</b>	<b>36,099</b>
<b>Current assets</b>			
<i>Inventories</i>			
	19	28,614	25,301
<i>Current receivables</i>			
Trade receivables		15,930	15,228
Due from associated companies		180	186
Income tax receivables	11	1,699	1,429
Other receivables	18	7,759	4,179
Prepaid expenses and accrued income		1,100	1,007
<b>Total</b>		<b>26,668</b>	<b>22,029</b>
<i>Cash and cash equivalents</i>		4,998	2,006
<b>Total current assets</b>		<b>60,280</b>	<b>49,336</b>
<b>TOTAL ASSETS</b>	1	<b>103,227</b>	<b>85,435</b>

SEK M	Note	2008	2007
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,424	1,424
Other paid-in capital		1,057	1,057
Reserves		-1,651	368
Retained earnings including profit for the year		28,456	25,765
<b>Equity attributable to equity holders of the parent</b>		<b>35,588</b>	<b>28,614</b>
<b>Minority interest</b>		<b>1,137</b>	<b>1,209</b>
<b>Total equity</b>	20	<b>36,725</b>	<b>29,823</b>
<b>Non-current liabilities</b>			
<i>Interest-bearing liabilities</i>			
Provisions for pensions	23	2,735	3,100
Loans from financial institutions		4,691	2,682
Other liabilities	26	17,888	15,695
<b>Total</b>		<b>25,314</b>	<b>21,477</b>
<i>Noninterest-bearing liabilities</i>			
Deferred tax liabilities	11	1,514	1,786
Provisions for taxes	11	3,201	2,760
Other provisions	24	806	701
Other liabilities	27	398	129
<b>Total</b>		<b>5,919</b>	<b>5,376</b>
<b>Total non-current liabilities</b>		<b>31,233</b>	<b>26,853</b>
<b>Current liabilities</b>			
<i>Interest-bearing liabilities</i>			
Loans from financial institutions		11,324	9,158
Other liabilities	26	3,225	1,311
<b>Total</b>		<b>14,549</b>	<b>10,469</b>
<i>Noninterest-bearing liabilities</i>			
Advance payments from customers		2,368	1,795
Accounts payable		7,000	6,777
Due to associated companies		80	103
Income tax liabilities	11	1,301	1,334
Other liabilities	27	3,312	2,168
Provisions	24	734	569
Accrued expenses and deferred income		5,925	5,544
<b>Total</b>		<b>20,720</b>	<b>18,290</b>
<b>Total current liabilities</b>		<b>35,269</b>	<b>28,759</b>
<b>TOTAL LIABILITIES</b>		<b>66,502</b>	<b>55,612</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>103,227</b>	<b>85,435</b>

For information on contingent liabilities and pledged assets, see note 29.

# Consolidated statement of changes in equity

SEK M	Equity attributable to equity holders of the parent company						Total equity
	Share capital	Other paid - in capital	Reserves	Retained earnings/ Profit for the year	Total	Minority interest	
<b>Equity at 1 January 2007</b>	<b>1,424</b>	<b>1,057</b>	<b>-512</b>	<b>24,177</b>	<b>26,146</b>	<b>1,052</b>	<b>27,198</b>
Foreign currency translation difference	—	—	800	—	800	31	831
Change in hedging reserve	—	—	111	—	111	—	111
Income tax on income and expense recognized directly in equity	—	—	-31	—	-31	—	-31
Net changes recognized directly in equity, excluding transactions with equity holders	—	—	880	—	880	31	911
Profit for the year	—	—	—	9,116	9,116	478	9,594
Total changes, excluding transactions with equity holders	—	—	880	9,116	9,996	509	10,505
Dividend	—	—	—	-3,855	-3,855	-352	-4,207
Exercised share options	—	—	—	-136	-136	—	-136
Reversal of tax provision pertaining to share options	—	—	—	22	22	—	22
Redemption of shares	-712	—	—	-2,847	-3,559	—	-3,559
Stock dividend	712	—	—	-712	0	—	0
<b>Equity at 31 December 2007</b>	<b>1,424</b>	<b>1,057</b>	<b>368</b>	<b>25,765</b>	<b>28,614</b>	<b>1,209</b>	<b>29,823</b>
<b>Equity at 1 January 2008</b>	<b>1,424</b>	<b>1,057</b>	<b>368</b>	<b>25,765</b>	<b>28,614</b>	<b>1,209</b>	<b>29,823</b>
Foreign currency translation difference	—	—	4,740	—	4,740	92	4,832
Change in hedging reserve	—	—	-621	—	-621	—	-621
Purchase of minority owned shares in subsidiaries	—	—	—	—	—	-162	-162
Income tax on income and expense recognized directly in equity	—	—	164	—	164	—	164
Net changes recognized directly in equity, excluding transactions with equity holders	—	—	4,283	—	4,283	-70	4,213
Profit for the year	—	—	—	7,472	7,472	364	7,836
Total changes, excluding transactions with equity holders	—	—	4,283	7,472	11,755	294	12,049
Dividend	—	—	—	-4,745	-4,745	-366	-5,111
Stock options exercised by employees settled against equity instruments	—	—	—	-36	-36	—	-36
<b>Equity at 31 December 2008</b>	<b>1,424</b>	<b>1,057</b>	<b>4,651</b>	<b>28,456</b>	<b>35,588</b>	<b>1,137</b>	<b>36,725</b>

# Consolidated cash flow statement

SEK M	2008	2007
<b>Cash flow from operating activities</b>		
Income after financial income and expenses	10,577	12,997
Adjustment for depreciation, amortization and impairment losses	3,481	3,077
Adjustment for items that do not require the use of cash	-142	-627
Income tax paid	2,897	-3,404
<b>Cash flow from operating activities before changes in working capital</b>	<b>11,019</b>	<b>12,043</b>
<b>Changes in working capital</b>		
Change in inventories	-1,001	-5,528
Change in operating receivables	-640	-2,505
Change in operating liabilities	293	1,466
<b>Cash flow from operating activities</b>	<b>9,671</b>	<b>5,476</b>
<b>Cash flow from investing activities</b>		
Acquisition of companies and shares, net of cash acquired	-954	-5,856
Acquisition of property, plant and equipment	-7,169	-5,399
Proceeds from sale of companies and shares, net of cash disposed of	111	363
Proceeds from sale of property, plant and equipment	381	409
<b>Net cash used in investing activities</b>	<b>-7,631</b>	<b>-10,483</b>
<b>Net cash flow after investing activities</b>	<b>2,040</b>	<b>-5,007</b>
<b>Cash flow from financing activities</b>		
Proceeds from external borrowings	16,026	16,671
Repayment of external borrowings	-9,484	-3,619
Redemption of own shares	—	-3,559
Exercise of personnel options	-44	-100
Payment to new pension fund	-663	—
Dividends paid	-5,111	-4,207
<b>Cash flow from (net cash used in) financing activities</b>	<b>724</b>	<b>5,186</b>
<b>Cash flow for the year</b>	<b>2,764</b>	<b>179</b>
Cash and cash equivalents at beginning of year	2,006	1,745
Exchange-rate differences on cash and cash equivalents	228	82
<b>Cash and cash equivalents at end of year</b>	<b>4,998</b>	<b>2,006</b>

Supplementary information, Note 31.





# Parent Company income statement

SEK M	Note	2008	2007
Revenue	2	20,427	20,682
Cost of sales and services		17,007	16,111
<b>Gross profit</b>		<b>3,420</b>	<b>4,571</b>
Selling expenses		662	621
Administrative expenses		2,191	1,982
Research and development costs	4	920	1,019
Other operating income	5	788	488
Other operating expenses	6	830	916
<b>Operating profit</b>	3, 7, 8	<b>395</b>	<b>521</b>
Income from shares in group companies	9	6,774	5,997
Income from shares in associated companies	9	5	5
Interest income and similar items	9	613	638
Interest expenses and similar items	9	1,655	1,165
<b>Profit after financial items</b>		<b>5,342</b>	<b>5,996</b>
Appropriations	10	7	3,063
Income tax expense	11	401	745
<b>Profit for the year</b>		<b>5,750</b>	<b>8,314</b>

# Parent Company balance sheet

SEK M	Note	2008	2007
<b>ASSETS</b>			
<b>Non-current assets</b>			
<i>Intangible assets</i>			
Patents and similar rights	14	31	26
<b>Total</b>		<b>31</b>	<b>26</b>
<i>Property, plant and equipment</i>			
Land and buildings	14	491	484
Plant and machinery	14	4,088	3,624
Equipment, tools and installations	14	312	305
Construction in progress and advance payments	14	1,727	1,352
<b>Total</b>		<b>6,618</b>	<b>5,765</b>
<i>Financial assets</i>			
Shares in group companies	15	14,435	13,762
Advances to group companies		61	48
Investments in associated companies	16	4	4
Other investments		1	1
Non-current receivables	18	26	20
Deferred tax assets	11	292	22
<b>Total</b>		<b>14,819</b>	<b>13,857</b>
<b>Total non-current assets</b>		<b>21,468</b>	<b>19,648</b>
<b>Current assets</b>			
<i>Inventories</i>			
	19	5,123	6,242
<i>Current receivables</i>			
Trade receivables		861	1,255
Due from group companies		12,800	16,311
Due from associated companies		116	131
Income tax receivables	11	166	393
Other receivables	18	233	518
Prepaid expenses and accrued income		1,129	679
<b>Total</b>		<b>15,305</b>	<b>19,287</b>
<i>Cash and cash equivalents</i>		3	6
<b>Total current assets</b>		<b>20,431</b>	<b>25,535</b>
<b>TOTAL ASSETS</b>		<b>41,899</b>	<b>45,183</b>

SEK M	Note	2008	2007
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Non-distributable equity</i>			
Share capital		1,424	1,424
Legal reserve		1,611	1,611
<b>Total</b>		<b>3,035</b>	<b>3,035</b>
<i>Distributable equity</i>			
Profit brought forward		5,304	1,552
Profit for the year		5,750	8,314
<b>Total</b>		<b>11,054</b>	<b>9,866</b>
<b>Total equity</b>	20	<b>14,089</b>	<b>12,901</b>
<i>Untaxed reserves</i>			
Accelerated depreciation	21	—	—
Other untaxed reserves	22	12	19
<b>Total</b>		<b>12</b>	<b>19</b>
<i>Provisions</i>			
Provisions for pensions	23	128	108
Provisions for taxes	11	55	55
Other provisions	24	188	154
<b>Total</b>		<b>371</b>	<b>317</b>
<i>Non-current interest-bearing liabilities</i>			
Loans from financial institutions	25	1,653	1,718
Loans from group companies	25	122	30
Other liabilities	25	10,591	10,131
<b>Total</b>		<b>12,366</b>	<b>11,879</b>
<i>Non-current noninterest-bearing liabilities</i>			
Other liabilities		108	—
<b>Total</b>		<b>108</b>	<b>—</b>
<i>Current interest-bearing liabilities</i>			
Loans from group companies		7,074	10,902
Other liabilities		2,799	1,080
<b>Total</b>		<b>9,873</b>	<b>11,982</b>
<i>Current noninterest-bearing liabilities</i>			
Advance payments from customers		443	159
Accounts payable		1,532	1,721
Due to group companies		638	3,655
Due to associated companies		68	82
Other liabilities		219	136
Accrued expenses and deferred income	28	2,180	2,332
<b>Total</b>		<b>5,080</b>	<b>8,085</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>41,899</b>	<b>45,183</b>
Pledged assets	29	—	—
Contingent liabilities	29	17,316	16,068

# Parent Company statement of changes in equity

SEK M	Share capital	Legal reserve	Distributable equity	Total equity
<b>Equity at 1 January 2007</b>	<b>1,424</b>	<b>1,611</b>	<b>11,260</b>	<b>14,295</b>
Profit for the year	—	—	8,314	8,314
Dividend	—	—	–3,855	–3,855
Redemption of shares	–712	—	–2,847	–3,559
Stock dividend	712	—	–712	0
Group contributions	—	—	–3,012	–3,012
Tax effect of group contributions	—	—	843	843
Reversal of tax provisions pertaining to share options	—	—	11	11
Exercised share options	—	—	–136	–136
<b>Equity at 31 December 2007</b>	<b>1,424</b>	<b>1,611</b>	<b>9,866</b>	<b>12,901</b>
Profit for the year	—	—	5,750	5,750
Dividend	—	—	–4,745	–4,745
Group contributions	—	—	304	304
Tax effect of group contributions	—	—	–85	–85
Exercised share options	—	—	–36	–36
<b>Equity at 31 December 2008</b>	<b>1,424</b>	<b>1,611</b>	<b>11,054</b>	<b>14,089</b>

# Parent Company cash-flow statement

SEK M	2008	2007
<b>Cash-flow from operating activities</b>		
Profit before tax	5,349	9,059
Adjustment for depreciation	635	592
Adjustment for items that do not require the use of cash	237	-3,130
Income tax paid	269	-282
<b>Cash-flow from operating activities before changes in working capital</b>	<b>6,016</b>	<b>6,239</b>
<b>Changes in working capital</b>		
Changes in inventories	1,119	-1,643
Changes in operating receivables	819	-441
Changes in operating liabilities	-4,052	3,967
<b>Cash-flow from operating activities</b>	<b>3,902</b>	<b>8,122</b>
<b>Cash-flow from investing activities</b>		
Acquisition of companies and shares, net of cash acquired	-678	-2,036
Acquisition of property, plant and equipment	-1,537	-1,128
Proceeds from sale of companies and shares, net of cash disposed of	28	3
Proceeds from sale of property, plant and equipment	14	38
<b>Net cash used in investing activities</b>	<b>-2,173</b>	<b>-3,123</b>
<b>Net cash-flow after investing activities</b>	<b>1,729</b>	<b>4,999</b>
<b>Cash-flow from financing activities</b>		
Changes in advances/loans to/from group companies, net	-42	-1,841
Proceeds from external borrowings	3,350	8,679
Repayment of external borrowings	-564	-1,288
Redemption of own shares	—	-3,559
Exercise of personnel options	-36	-136
Dividend paid	-4,745	-3,855
Group contributions	305	-3,012
<b>Net cash used in financing activities</b>	<b>-1,732</b>	<b>-5,012</b>
<b>Cash-flow for the year</b>	<b>-3</b>	<b>-13</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>6</b>	<b>19</b>
<b>Cash and cash equivalents at end of year</b>	<b>3</b>	<b>6</b>

Supplementary information, note 31.

# 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) and interpretations of such standards by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the EU Commission. In addition, the standard RFR 1.1, Supplementary accounting standards for consolidated accounts, issued by the Swedish Financial Accounting Standards Council 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 reports are presented on pages 12–85. The Parent Company's annual report and the consolidated financial statements were approved for issuance by the Board of Directors on 3 February 2009. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual Meeting of Shareholders on 28 April 2009.

### Basis of measurement in preparation of the Parent Company and Group financial reports

Assets and liabilities are stated on a historical cost basis except for certain financial assets and liabilities, which are stated at their fair value, viz. derivative financial instruments and financial instruments available-for-sale.

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

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

The preparation of financial statements in conformity with IFRS requires management to make assessments, estimates and assumptions that affect the application of accounting policies and reported 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 reports 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 reports. Only adjusting events, that is, those that provide evidence of conditions that existed at the balance sheet date, have been considered in the preparation of the financial reports.

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 reports of all members of the Group and also in the reports of associated companies – when necessary by adaptation to Group policies – when including these entities in the consolidated financial reports.

### Changes in accounting policies

As of 2008, Sandvik has changed cost distribution between the costs of goods sold and administrative expenses to increase accuracy and clearness and thus reflect business in a better manner. Corresponding changes were made in the comparative figures, which resulted in increases in gross profit margin as well as administrative expenses rose by 1.4 percentage points (SEK 1,246 M) for full-year 2007. The reclassifications did not affect reported operating profit.

The following new standards and interpretations have been adopted in the preparation of the 2008 financial reports.

IFRIC 11 IFRS 2 Group and treasury share transactions, as well as intra-Group specifies how to account for equity-settled payments in which the company at settlement purchases equity instruments from another party or in which the owner of the company transfers the instruments as well as how to account for transactions in which the company's employees received or have rights to equity instrument of the Parent Company. The interpretation was applied as of the 2008 financial year and the transition is reported in accordance with IAS 8.

IFRIC 14 IAS 19 – The Limit on a Defined-Benefit Asset, Minimum Funding Requirements and Their Interaction, explain how the ceiling stated in IAS 19 for defined-benefit assets shall be interpreted and also states how this ceiling is affected by possible demands in the pension plan for minimum funding. The interpretation also states when requirements for minimum funding may result in a liability. The interpretation is applied as of the 2008 financial year. It is applied retroactively as from the beginning of 2007.

A number of interpretations issued by IFRIC that became effective in 2008 have been applied in the preparation of the Group's 2008 financial statements. No interpretation, however, had any significant impact on the Group's operating results or financial position.

### **New or revised IFRSs and interpretations coming into effect in future accounting periods**

A number of new or revised standards and interpretations become effective first during future financial years. New items or revisions that become effective in the 2009 financial year are not planned to be applied early. To the extent that anticipated effects on the financial reports of application of the following new or revised standards and interpretations are not described below, Sandvik has not made an assessment of these effects.

Among other effects, the revised IFRS 2 Share-based payments: Vesting conditions and cancellation clarifies what terms comprise vesting conditions, that all other terms are non-vesting conditions and how non-vesting conditions are recognized. The change becomes effective in financial years beginning 1 January 2009 or later.

Revised IFRS 3 Business Combinations and revised IAS 27 Consolidated and Separate Financial Statements results in changes in consolidated accounting and recognition of acquisitions. The revised standards become effective in financial years that start on 1 July 2009 or later. However, they have not been endorsed as yet by the EU.

IFRS 8 Operating Segments defines an operating segment and what information shall be disclosed about these segments in financial reporting. The standard, which is adopted by the EU, becomes effective for application in financial years beginning 1 January 2009 or later. The standard will not result in a change in Sandvik's identification of the Group's segments.

Revised IAS 1 Presentation of Financial Statements results in the presentation of the financial statements changing in some respects and that new, nonobligatory designations for the reports are proposed. The change does not affect the determination of the amounts reported. The revised IAS 1 shall be applied in financial years beginning 1 January 2009 or later.

Changes in IAS 23 Borrowing Costs states that borrowing costs must be capitalized that are directly attributable to purchases, design or production of assets that require substantial time to complete for the intended use or sale. The change shall be applied in financial years beginning 1 January 2009 or later. The standard is not expected to have any significant effects on Sandvik's financial reports for 2009.

Changes in IAS 27 Cost of Investment in a subsidiary, jointly controlled entity or associate. Applies in financial years beginning 1 January 2009 or later. Among other effects, the change impacts recognition of dividends received from subsidiaries, associated companies and joint-venture companies and how the formation of a new parent company should be handled.

Changes in IAS 32 Financial Instruments: Classification and IAS 1 Presentation of Financial Statements made under the designation "Puttable Financial Instruments and Obligations Arising on Liquidation" results in certain highly limited financial instruments with the character of own equity instruments but that were previously recognized as a liability shall instead be recognized as equity. The interpretation is applied in financial years beginning 1 January 2009 or later and is assessed not to have any significant effects on Sandvik's financial reports for 2009.

IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items. Changes involves specifying how the rules in IAS 39 shall be applied in two hedging cases. These cases affect a unilateral risk in a hedged item and inflation in a financial hedge item. Applies in financial year beginning 1 July 2009 or later with retroactive effect. The changes are not yet endorsed by the EU.

IFRIC 12 Service Concession Arrangements addresses the issue of accounting by private parties for assets as well as the rights and obligations inherent in con-

tracts with the national government, county councils or municipalities regarding, for example, financing, operations and development of the facility. The interpretation is applied retroactively as of the 2008 financial year. The interpretation is not endorsed as yet by the EU.

IFRIC 13 Customer Loyalty Programs addresses recognition and valuation of a company's obligation to provide free or discounted goods or services to customers qualifying for this through prior purchases. The interpretation is applied in financial years beginning 1 July 2008 or later and is assessed not to have any significant effects on Sandvik's financial reports.

IFRIC 15 Agreements for the Construction of Real Estate deals with issues covered by IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from construction of real estate is to be recognized. The interpretation is applied retroactively to financial years beginning 1 January 2009 or later. The interpretation is not endorsed as yet by the EU.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation deals with issues including that it is solely the risk in functional currencies in the parent company and respective foreign operation than can be hedged. In addition, the interpretation answers where in the Group the hedging instrument can be included if hedge accounting is applied and if the consolidation method affects the amount reclassified from equity to earnings, that is, consolidation step-by-step, or consolidation by line item. The interpretation is applied prospectively in financial years beginning 1 October 2008 or later. The interpretation is not endorsed as yet by the EU.

IFRIC 17 Distribution of Non-cash Assets to Owners deals with issues related to dividends paid with other assets than cash. In such cases, the dividend amount corresponds to the fair value and the difference between this



value and the carrying amount shall be charged against earnings. The interpretation is applied prospectively in financial years beginning 1 July 2009 or later. The interpretation is not endorsed as yet by the EU.

### Classification

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

### Segment reporting

The Group's operations are organized in a number of business areas based on products and services. The market organization also reflects this structure. The business areas therefore constitute the Group's primary segments while the market areas constitute the secondary segments. In accordance with IAS 14, 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 revenue, gains on disposal of financial investments, interest expense, losses on the disposal of financial investments, income tax expense and certain administrative expenses. Unallocated assets and liabilities include income tax receivables and payables, financial investments and financial liabilities.

### Basis of consolidation

#### Subsidiaries

Subsidiaries are entities controlled by the Parent Company. Control exists when the parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable or convertible are taken into account.

Acquisitions of subsidiaries are reported in accordance with the purchase method. Under such method, the acquisition is regarded as a transaction whereby the parent indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. The acquisition cost to the Group is established in a purchase price allocation analysis. In such analysis, the cost of the business combination is established as being the fair values of recognized identifiable assets, liabilities and contingent liabilities. The cost of the business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for the net assets acquired, plus any costs directly attributed to the business combination. When the cost of the business combination exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities, the excess is reported as goodwill. If the difference is negative, such difference is immediately recognized in the income statement.

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

### Associated companies

Associated companies are those entities in which the Group has significant influence, but not control, over the financial and operating policies, normally a shareholding of not less than 20% and not more than 50%. Interests in associated companies are, as from the date significant influence commences, reported in accordance with the equity method in the consolidated financial statements. Under the equity method, the carrying values of interests in associates correspond to the reported equity of associated companies, any goodwill and any other remaining fair value adjustments recognized at acquisition date. The consolidated income statements include as "Share of results of associated companies" the Group's share of the associate's income adjusted for any amortization impairment losses, and other adjustments arising from the purchase price allocation. Dividends received from an associated company reduce the carrying value of the investment.

Any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with IFRS 3, Business Combinations.

The application of the equity method is discontinued on the date that significant influence ceases.

### Transactions eliminated on consolidation

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

## **Foreign currency**

### **Foreign currency transactions**

Transactions in foreign currencies are translated into functional currency at the foreign exchange rate at the date of the transaction. The functional currency is the currency of the primary economic environment in which the Group entities operate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the exchange rate 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 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 to the Group's reporting currency, SEK, at foreign exchange rates ruling at the balance sheet date. Revenues and expenses of foreign operations are translated to SEK at average rates that approximate the foreign exchange rates at the transaction dates.

Exchange differences arising from the translation of the net investment in foreign operations are recognized directly in a separate component of equity, a translation reserve. Such reserve reflects cumulative translation differences arising as from 1 January 2004, the date of transition to IFRSs. Translation differences arising before that date are included in other components of equity and are not separately disclosed.

Such translation reserve relating to a foreign operation is released into the Group's income statement upon disposal.

## **Revenue**

### **Revenue from sales and services**

Revenue from the sale of goods is recognized in the income statement 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 will be carried out are included in calculating the total costs.

### **Construction contracts**

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

### **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 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 as income 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 value of the asset.

## **Operating and financial income and expenses**

### **Operating lease agreements**

Costs for operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense. Variable fees are charged to income as incurred.

### **Finance lease agreements**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Variable fees are charged to income as incurred.

### **Financial income and expenses**

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

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

Financial expenses comprise interest expense on borrowings, unwinding of the discount effect on provisions, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method, irrespective of how the borrowed funds are used (see below).

Foreign currency gains and losses are reported net.

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

### Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case the related tax effect is also recognized in equity.

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

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

A deferred tax asset relating to deductible temporary differences and net operating losses is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

### Financial instruments

Financial instruments recognized in the balance sheet include assets, cash and cash equivalents, loan and trade account receivables, financial investments and derivatives, and among liabilities, accounts payable, borrowings 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. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or otherwise expires. A financial asset and a financial liability is 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 an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. A regular purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting. Trade date is the date at which an entity commits itself to purchase or sell an asset.

### Classification and measurement

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

Cash and cash equivalents comprise cash balances and call deposits with banks and equivalent financial institutions, and short-term investments that have a maturity of no more than three

months from the date of acquisition, and are exposed only to an insignificant risk of changes in value.

Financial assets and liabilities are classified as follows:

*a) Financial assets and financial liabilities at fair value through profit or loss consisting of two subgroups;*

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

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

*b) Loans and receivables*

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

*c) Financial liabilities*

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

*d) Financial assets available for sale*

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

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

A more detailed account of such exceptions is set out in the hedge accounting section of the risk and risk management statement.

### **Derivatives and hedge accounting**

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

To meet the criteria for hedge accounting, there must be a clear-cut relation to the hedged item and the hedge must be expected to be highly effective and it must be possible to measure such effectiveness reliably. Moreover, the hedge

must be formally designated and documented. Gains and losses on hedges are recognized in the income statement at the same time that the gains and losses are recognized for the hedged items.

### **Receivables and liabilities denominated in foreign currencies**

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

### **Cash-flow hedges**

Sandvik uses foreign exchange contracts and foreign currency options to hedge future cash flows and forecast transactions denominated in foreign currencies, including intra-group transactions as defined in the amendment to IAS 39 issued by the IASB in April 2005. These derivative instruments are included in the balance sheet at fair value. The effective portion of changes in fair value is recognized directly in the hedging reserve in equity. The ineffective portion of a gain or loss is immediately recognized in the income statement. To a lesser extent, Sandvik has entered into foreign exchange contracts that are not designated as hedging instruments. The changes in fair value of these contracts are directly recognized in the income statement.

The accumulated gain or loss recognized in equity is reclassified into profit or loss in the periods during which the hedged item affects profit or loss (for instance when a forecast sale takes place). If the hedged forecast transaction subsequently results in the recognition of a non-financial asset (for instance, invento-

ries or an item of property, plant and equipment), or a non-financial liability, the hedging reserve is dissolved and the gain or loss is included in the initial cost or other carrying amount of the asset or liability.

Interest-rate swaps are used to hedge the risk in future interest rate flows of loans with floating interest rate. The swaps are measured at fair value in the balance sheet. The interest coupon on swaps is reported as interest income or interest expense in the income statement. The remaining change in fair value is recognized directly in the hedging reserve in equity until the hedged item is recognized in profit or loss, or as long as the criteria for hedge accounting and hedge effectiveness are met. Some of Sandvik's interest rate swaps do not meet the criteria for hedge accounting and the changes in fair value of these instruments are therefore recognized in profit or loss. Also the contracts that Sandvik, on account of its share option program, has concluded to limit the effect of future Sandvik share price rises are accounted for in this manner.

#### **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. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in profit or loss.

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

#### **Hedging of net investments**

Sandvik has no derivatives to hedge net investments in foreign operations.

### **Intangible assets**

#### **Goodwill**

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

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

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

If in a business combination the fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is immediately recognized in the income statement.

#### **Research and development**

Expenditure on research activities related to the obtaining of new scientific or technical knowledge is charged to income as incurred. Expenditure on development activities, whereby the research results or other knowledge is applied to accomplish new or improved products or processes, are reported 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 value includes the directly attributable expenditure such as the cost of materials and services, costs of employee benefits, fees to register a legal right and amortization of patents and licenses. Other expenses for development are charged to income 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 reported 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 under this caption. Expenditure for internally generated goodwill and trademarks is reported in the income statement as incurred.

#### **Subsequent expenditure**

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

#### **Amortization of intangible assets**

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

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

#### **Property, plant and equipment**

##### **Owned assets**

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

No borrowing costs are included in the cost of an asset but such costs are charged to income as incurred irrespective of how the borrowed funds were used.

### Leased assets

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

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

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

### Subsequent expenditure

Subsequent expenditure on an item of property, plant and equipment is capitalized only when it increases the future economic benefits. All other expenditure is expensed as incurred.

### Depreciation

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

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

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

### Impairment and reversals of impairment

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

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

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

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been deter-

mined, net of depreciation and amortization, if no impairment loss had been recognized.

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

### Inventories

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

Cost is based on the first-in/first-out 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

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

Dividends are recognized as a liability in the period in which they are declared 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, that is during periods presented options under employee equity-settled share-based payment transactions. The options are dilutive if the exercise price is less than the quoted stock price and increases with the size of the difference.

### Employee benefits

#### The Group's pension plans

The Group sponsors a number of defined contribution and defined benefit pension plans, some of which with plan assets held by separate foundations or equivalent. A number of Group entities also provide post-employment medical benefits. Whenever possible, Sandvik nowadays seeks defined contribution pension solutions and in recent years defined benefit plans have as far as possible been closed for new entrants in connection with negotiations about defined contribution pension arrangements. The Group's Swedish companies as from October 2007 offers to its newly hired white-collar staff 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 as the employee renders services to the entity and the contribution payable in exchange for that service becomes due.

#### Defined-benefit plans

The Group's net obligation in respect of defined-benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is the yield at the reporting date of AA credit rated 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. Also the fair value of any plan assets as at the balance sheet date is assessed. Sandvik applies such accounting policy to the Group's most significant defined-benefit plans. A number of plans, which neither individually, or in the aggregate are significant in relation to the Group's total pension obligations, are still reported 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 since the assumptions are changed. The corridor rule is applied which means that only the portion of the aggregate gains and losses that exceed the greater of 10% of the present value of the obligations or 10% of the fair value of plan assets are recognized in profit or loss over the remaining expected average service period of the plan participants. Actuarial gains and losses are otherwise not recognized.

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

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

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

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

#### Termination benefits

A provision is recognized relating to termination of employees 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 expect the offer can be reliably estimated.

#### Share-based payments

A share option program allows employees to acquire shares in the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value as measured at grant date is spread over the vesting period. The fair value of the options is measured using the Black & Scholes formula, taking into account the terms and conditions upon which the options were granted. Sandvik's option programs contain no other vesting condi-

tions than that the employee shall remain in the entity's employ at the end of the three-year vesting period. The amount recognized as an expense is adjusted to reflect the actual number of share options earned.

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

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

#### Warranties

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

#### Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

#### 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 the land is 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 reported 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 can not be reported as a liability because it is not probable that an outflow of resources will be required, alternatively because the amount of the obligation cannot be measured with sufficient reliability.

#### Cash-flow statement

Payments and receipts are presented by activities: operating activities, investing activities, and financing activities. Cash flows from operating activities are reported using the indirect method.

Changes during the year in operating assets and liabilities are adjusted for the effects of exchange rate movements. Acquisitions and divestments are reported with investing activities. The assets and liabilities held by acquired or divested entities at the transfer date are not included in the analysis of changes in

working capital, nor in changes in balance sheet items reported with investing and financing activities.

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

#### Parent Company's accounting policies

The Parent Company has prepared its annual report in accordance with the Annual Accounts Act (1995:1554) and the standard, RFR 2.1 Reporting by a legal entity, issued by the Swedish Financial Accounting Standards Council. Also the interpretations issued by the Council's Emerging Issues Task Force valid for listed companies have been applied.

Under RFR 2.1, the Parent Company in its annual report shall apply all the IFRSs and IFRIC interpretations approved by the EU to the extent possible within the framework of the Annual Accounts Act, the law on safeguarding of pension commitments, and also considering the close tie between financial reporting and taxation. The standard specifies what exceptions from or additions to the IFRSs shall be made. Taken together, this results in differences between the accounting policies applied in the consolidated financial statements and those applied by the Parent Company in the following areas.

#### Classification and reporting formats

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



### Shares in Group companies and associated companies

The Parent Company reports shares in Group companies and associated companies in accordance with the cost model. Revenues comprise only dividends received, provided such dividends are derived from post-acquisition earnings. Dividends in excess of such earnings are considered a recovery of part of the cost of the equity securities that reduces the carrying value.

### Property, plant and equipment

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

### Leased assets

The Parent Company reports all lease contracts as operating leases.

### Intangible assets

The Parent Company recognizes all expenditure for research and development in the income statement.

### Employee benefits

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

### Income tax

The Parent Company reports untaxed reserves including the deferred tax component. In the consolidated financial statements, untaxed reserves are reported in their equity and deferred tax components.

### Group contributions and shareholders' contributions in legal entity accounts

The Parent Company reports group contributions and shareholders' contributions in accordance with the pronouncement of the Swedish Financial Accounting Standard Council's task group (UFR 2). Shareholders' contributions are reported directly in the recipient's equity whereas the contributor capitalizes the contribution with shares and participations, to the extent that the recognition of an impairment loss is not required. Group contributions are reported in accordance with their financial substance. This means that group contributions paid to minimize the Group's overall income tax burden are reported directly in retained earnings net of the related tax effect.

### Anticipated dividends

Anticipated dividends from subsidiaries are recognized in case the Parent Company unilaterally may decide the size of the dividend and provided that the Parent Company has made such decision before it issued its financial reports.

### Financial instruments

Hedge accounting is not applied by the Parent Company.

### Financial guarantees

Sandvik has elected not to apply the provisions of IAS 39 relating to financial guarantee contracts entered into in favor of subsidiaries and associated companies as allowed under RFR 2.1.

### Critical accounting estimates and judgments

#### Key sources of estimation uncertainty

In order to prepare the financial reports, 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 estimates also change.

#### Impairment tests of goodwill

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying value of goodwill has been impaired, for example due to a changed business climate or a decision has been 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 historic results, business plans, forecasts and market data. This is further described in Note 13. As can be deduced from this description, changes during 2009 in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

#### Impairment tests of other fixed assets

Sandvik's property, plant and equipment and intangible assets – excluding goodwill – are stated at cost less accumulated depreciation/amortization and any

impairment losses. Other than goodwill, Sandvik has not identified any intangible assets with indefinite useful lives. The assets are depreciated/amortized over the 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 value of the Group's non-current assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value will not be recovered. The carrying value of intangible assets not yet available for use is tested annually. If such analysis indicates an excessive carrying value, the recoverable amount of the asset is estimated. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use. Value in use is measured as the discounted future cash flows of the asset, alternatively the cash-generating unit to which the asset belongs. The rental fleet of Sandvik Mining and Construction is particularly examined considering its dependence on the business climate in the mining industry and the risk that rental agreements may be cancelled. The carrying value of the rental fleet at the end of 2008 was SEK 468 M (569).

A call for an impairment test arises also in connection with the classification of a non-current asset as held for sale, when it shall be re-measured at the lower of its carrying amount and fair value less cost to sell.

Property, plant and equipment and intangible assets – excluding goodwill – comprise about 30% of the Group's assets (see Note 13). Impairment losses during 2007 and 2008 were not significant, but losses may arise if forecasts of future cash flows are changed due to changes in the business model and strategy, the competitive situation or legal conditions for the operations.

#### Pension assumptions

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

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

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

Considering current interest rate levels, Sandvik raised the discount rate for 2008 from a weighted average rate of 5.3% in 2007 to 5.7%. The expected weighted average return on plan assets was 6.2% in 2008 compared with 6.5% in 2007.

#### 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 then must 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 2008, Sandvik reports deferred tax assets of SEK 1,277 M (1,323). Further, the Group has additional tax loss carryforwards of about SEK 570 M (570) 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 at the end of 2008 amounts to SEK 3,201 M (2,760).

#### 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 page 26.

**Key assessments in applying the Group's accounting policies**

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

**Inventory accounting**

Sandvik applies IAS 2 in accounting for its inventories. Inventories are carried at the lower of cost and net realizable value. A consequence of the IAS 2 rules is that if the market value of materials and components included in Sandvik's finished goods drops, the value of the materials

and components must not be reduced as long as the selling price of the finished product less selling costs still is greater than the cost of the finished product. Instead, the lesser market value of the materials and components shows itself in the form of a lower margin in future periods to the extent that Sandvik must adapt its selling price due to the changes in market values. In periods of significant price volatility, this state of things should be taken into consideration when future results are being appraised.

**Accounting for actuarial gains and losses**

Under IAS 19, it is not allowed to immediately recognize actuarial gains and losses related to defined-benefit pension

plans in the income statement but to recognize only that portion of such gains and losses that fall outside of a corridor of plus/minus 10% of the greater of the present value of the defined-benefit obligation and fair value of the plan assets. Also any systematic method that results in faster recognition of actuarial gains and losses is possible, including immediate recognition in the income statement. Sandvik has chosen to apply the corridor approach and to recognize gains or losses outside the corridor over the expected average remaining working lives of the employees participating in the plan. Unrecognized actuarial losses amounted to SEK 932 M at year-end 2007 and SEK 2,353 M at year-end 2008.

## Definitions

**Earnings per share**

Net profit for the year attributable to equity holders of the parent company divided by the average number of shares outstanding during the year.

**Equity ratio**

Shareholders'equity including minority interests in relation to total capital.

**Net debt/equity ratio**

Interest-bearing current and non-current debts (including provisions for pensions) less cash and cash equivalents divided by the total

of shareholders'equity including minority interests.

**Rate of capital turnover**

Invoiced sales divided by average total capital.

**Relative working capital**

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

**Return on capital employed**

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

**Return on shareholders' equity**

Net profit for the year as a percentage of average shareholders'equity during the year.

**Return on total capital**

Profit after net financial items plus interest expenses as a percentage of average total capital.

**Working capital**

Total of inventories, accounts receivable and accounts payable.

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# Notes

## TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS

(Amounts in SEK millions, unless otherwise stated)

### NOTE 1. SEGMENT INFORMATION

#### 1.1 Information on business segments/business areas

	Sandvik Tooling		Sandvik Mining and Construction		Sandvik Materials Technology		Seco Tools		Corporate		Eliminations		Group total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Revenue</b>														
External revenue	25,795	24,732	38,651	33,073	21,480	22,486	6,513	6,011	35	36	—	—	92,654	86,338
Internal revenue	146	338	21	6	326	351	23	23	112	131	-628	-849		
<b>Group total</b>	<b>26,121</b>	<b>25,070</b>	<b>38,672</b>	<b>33,079</b>	<b>21,806</b>	<b>22,837</b>	<b>6,536</b>	<b>6,034</b>	<b>147</b>	<b>167</b>	<b>-628</b>	<b>-849</b>	<b>92,654</b>	<b>86,338</b>
<b>Share of results of associated companies</b>	<b>11</b>	<b>5</b>	<b>29</b>	<b>63</b>	<b>5</b>	<b>49</b>	<b>1</b>	<b>2</b>	<b>—</b>	<b>—</b>			<b>46</b>	<b>119</b>
<b>Operating profit by business area</b>	<b>5,461</b>	<b>5,989</b>	<b>4,996</b>	<b>4,979</b>	<b>1,187</b>	<b>2,435</b>	<b>1,332</b>	<b>1,491</b>	<b>-182</b>	<b>-500</b>			<b>12,794</b>	<b>14,394</b>
Net financing cost													-2,217	-1,397
Income tax expense													-2,741	-3,403
<b>Profit for the year</b>													<b>7,836</b>	<b>9,594</b>
<b>Other disclosures</b>														
Assets	27,115	22,375	32,740	26,678	21,832	22,440	5,812	4,795	2,413	1,931			89,912	78,219
Investment in associates	143	19	81	57	253	263	8	9	—	—			485	348
Segment assets	27,258	22,394	32,821	26,735	22,085	22,703	5,820	4,804	2,413	1,931			90,397	78,567
Unallocated assets	—	—	—	—	—	—	—	—	—	—			12,830	6,868
<b>Group total</b>													<b>103,227</b>	<b>85,435</b>
Liabilities	5,269	5,034	9,445	8,126	3,467	3,637	1,338	1,295	2,357	2,228			21,876	20,320
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—			44,626	35,293
<b>Group total</b>													<b>66,502</b>	<b>55,613</b>
Capital expenditure	2,496	2,024	1,940	1,273	1,770	1,227	725	563	401	312			7,332	5,399
Business combinations	337	1,508	320	2,842	89	1,973	106	—	—	—			852	6,323
Depreciation/Amortization	-1,356	-1,161	-929	-916	-722	-563	-351	-309	-86	-90			-3,444	-3,039
Impairment losses	-32	-5	—	—	—	—	-5	—	—	—			-37	-5
Other non-cash expenses	-16	29	25	-73	41	4	-64	0	-128	-587			-142	-627

All transactions between the business areas are on market terms.

#### 1.2 Information by market area

	Europe		NAFTA		South America		Africa, Middle East		Asia, Australia		Group total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
External income	41,851	39,704	14,827	14,901	5,982	5,145	7,811	6,716	22,183	19,572	92,654	86,338
Total assets	66,717	56,339	14,347	11,952	4,575	3,775	3,293	2,512	14,295	10,857	103,227	85,435
Direct capital expenditure	4,483	3,739	954	591	581	352	136	160	1,178	557	7,332	5,399

External segment revenue is based on the geographical location of the customers.

The reported amounts for segment assets and investments during the year are based on the location of the assets.

### NOTE 2. CATEGORIES OF REVENUE

	Group		Parent Company	
	2008	2007	2008	2007
Sale of goods	86,629	80,143	20,392	20,625
Contract revenue	3,070	2,903	0	—
Rendering of services	2,388	2,613	31	52
Rental income	567	679	4	5
<b>Total</b>	<b>92,654</b>	<b>86,338</b>	<b>20,427</b>	<b>20,682</b>

1) Reclassifications have been made compared with the annual report for the preceding year.

## NOTE 1. PERSONNEL INFORMATION AND REMUNERATION TO MANAGEMENT AND AUDITORS

### 3.1 Average number of employees

	Group				Parent Company			
	2008		2007		2008		2007	
	Number	% Women	Number	% Women	Number	% Women	Number	% Women
Sweden	11,415	21	10,964	20	8,022	20	7,707	19
Rest of Europe	15,727	19	14,645	19	—	—	—	—
<b>Total Europe</b>	<b>27,142</b>	<b>20</b>	<b>25,609</b>	<b>20</b>	<b>8,022</b>	<b>20</b>	<b>7,707</b>	<b>19</b>
NAFTA	6,534	19	5,782	19	—	—	—	—
South America	3,292	15	3,074	12	1	—	1	—
Africa, Middle East	3,134	12	2,694	11	—	—	—	—
Asia, Australia	8,469	15	7,264	14	—	—	—	—
<b>Total</b>	<b>48,571</b>	<b>18</b>	<b>44,423</b>	<b>18</b>	<b>8,023</b>	<b>20</b>	<b>7,708</b>	<b>19</b>

### 3.2 Absence due to illness, Parent company

%	2008	2007
Total absence due to illness as a percentage of regular working hours	3.9	4.5
Share of total absence due to illness pertaining to continued sick leave for 60 days or more	39.9	45.5
<i>Absence due to illness as percentage of each group's regular working hours</i>		
<i>Sick leave by gender</i>		
Men	3.5	4.0
Women	5.2	6.3
<i>Sick leave by age category</i>		
Age 29 or younger	3.3	3.5
Age 30 to 49	3.5	4.0
Age 50 or older	4.8	5.7

### 3.3 Wages, salaries, other remuneration and social costs

	Group		Parent Company	
	2008	2007	2008	2007
Wages, salaries and other remuneration	18,181	16,080	3,515	3,222
Social costs	4,881	4,244	1,647	1,495
Employee profit sharing	67	238	53	197
<b>Total</b>	<b>23,129</b>	<b>20,562</b>	<b>5,215</b>	<b>4,914</b>
of which pension costs reported with social costs	1,424	1,392	495	416

SEK 56 M (46) of the Group's pension costs relate to Boards and presidents. The Group's pension liability to these persons amounted to SEK 205 M (189). Correspondingly, SEK 21 M (7) of the Parent Company's pension costs related to the Board of Directors and presidents. The Parent Company's pension liability relating to these persons amounted to SEK 92 M (75).

### Remuneration and other benefits during the year<sup>1)</sup>

SEK	Fixed salary/ Director's fee	Annual variable salary <sup>2)</sup>	Long term variable salary <sup>3)</sup>	Other benefits <sup>4)</sup>	Pension cost	Share based remuneration <sup>5)</sup>
Chairman of the Board Clas Åke Hedström	1,450,000 <sup>6)</sup>	—	—	—	7,741,000 <sup>7)</sup>	—
President and CEO Lars Pettersson	8,805,712 <sup>8)</sup>	575,000	1,688,709	263,420	9,783,000 <sup>9)</sup>	—
Other senior executives <sup>10)</sup>	18,043,579	2,997,643	3,562,363	1,375,333	14,301,000 <sup>9)</sup>	1,594,658
<b>Total</b>	<b>28,299,291</b>	<b>3,572,643</b>	<b>5,251,072</b>	<b>1,638,753</b>	<b>31,825,000</b>	<b>1,594,658</b>

1) Expensed during 2008.

2) Amount pertaining to 2008 and expected to be paid in 2009. During 2008, annual variable salary expensed in 2007 was paid in the amount of SEK 11,432,125. SEK 3,333,000 of which to the President.

3) Reserved amount for the long term variable salary programs 2006–2008.

4) Other benefits largely pertain to free housing and company car.

5) Value of personnel options exercised during the year calculated as the difference between the exercise price and the share price at the exercise date.

6) Expensed during 2008 and will be paid in 2009. The amount includes the regular directors' fee of SEK 1,350,000 and a SEK 100,000 fee to members of the Remuneration Committee.

7) Pension to the Chairman is being paid under an earlier employment contract. The pension liability, and accordingly pension costs, were impacted by the Swedish Financial Supervisory Authority's new calculation basis FFFS 2007:31, which includes increase of life length assumptions and decreased discount rates, entailing that the accumulated pension liability, and accordingly provisions, rose to SEK 7,741,000. The new regulations came into effect on 1 January 2008.

8) Lars Pettersson's fixed salary as of 1 January 2008 amounts to SEK 7,200,000 to which is added vacation pay and cash payments for saved vacation days.

9) This year's increase in the President's and other senior executives' pension costs is to a relatively large degree (in the case of the President approximately 25%) due to the Swedish Financial Supervisory Authority's new calculation basis FFFS 2007:31, which includes increase of life length assumptions and decreased discount rates. The new calculation basis came into effect on 1 January 2008.

10) Pertains to the following persons in 2008: Peter Larson, Peter Gossis, Anders Theilm, Lars Josefsson and Per Nordberg.

### 3.4 Wages, salaries and other remuneration by market area

	Group		Parent Company	
	2008	2007	2008	2007
Sweden	4,842	4,443	3,515	3,222
Rest of Europe	6,728	6,219	0	0
<b>Total Europe</b>	<b>11,570</b>	<b>10,662</b>	<b>3,515</b>	<b>3,222</b>
NAFTA	2,919	2,476	—	—
South America	682	572	0	0
Africa Middle East	663	661	—	—
Asia, Australia	2,347	1,709	—	—
<b>Total</b>	<b>18,181</b>	<b>16,080</b>	<b>3,515</b>	<b>3,222</b>
<i>Of which, to Boards of Directors and presidents</i>				
Salaries and other remuneration	377	366	27	28
of which variable salary	61	63	8	8

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

#### Guidelines

The guidelines for the remuneration of Sandvik's senior executives were adopted at the Annual General Meeting in 2008. They are designed to ensure that Sandvik, from a global perspective, can offer market related remuneration in order to attract and retain qualified members.

#### Components of remuneration

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

#### Preparation and decision-making process

The Board's Remuneration Committee prepares issues relating to Group Executive Management's remuneration. The Committee met six times during the year. Issues dealt with included the distribution between fixed and variable salary, the magnitude of any pay increases and the long term variable salary. The

### 3.5 PERSONNEL INFORMATION AND REMUNERATION TO MANAGEMENT AND AUDITORS (CONT.)

Board has discussed the Remuneration Committee's proposals and has made a decision, using the Committee's proposal as guidance.

Based on the Remuneration Committee's proposals, the Board has decided on the remuneration of the President for 2008. 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, see page 100.

#### Remuneration to the Board and senior executives

##### The Board

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

##### President and other senior executives

The following guidelines approved by the Annual General Meeting for remuneration to senior executives were applied for 2008:

The Board's proposal of guidelines for remuneration to senior executives is designed to ensure that the Sandvik Group from a global perspective can offer remuneration at the market rate and that is competitive to attract and retain skilled personnel to Sandvik's Group Executive Management.

Group Executive Management's remuneration comprises fixed salary, annual variable salary and long-term variable salary. The components are intended to create a well-balanced remuneration and benefit program that reflects the individual's performance, responsibility and the Group's earnings development.

The fixed salary, which is individual and differentiated based on the individual's responsibility and performance, is determined based on market-rate principles and is reviewed annually.

Payment of annual variable salary requires fulfilment of annually established goals. The goals are related to the company's earnings and to measurable goals within the individual's area of responsibility. The annual variable salary for Group Executive Management may amount to a maximum of 50–75% of fixed salary.

The long-term variable salary requires fulfilment of measurable goals, set by the Board, pertaining to certain key figures that create shareholder value linked to the company's growth, profitability and capital efficiency during a three-year period. The maximum payment of long-term variable salary for Group Executive Management is 45–50% of the annual fixed salary.

Previously, the long-term variable salary comprised employee stock options. Only employee stock options from 2004 are still exercisable. The program was based on an annual allotment of employee stock options on Sandvik shares. At 29 February 2008, the number of options outstanding amounted to 20,000. The company's cost for these options is estimated to amount to SEK 2.5 M.

Group Executive Management's other benefits shall correspond to what could be considered reasonable in relation to generally accepted practice on the market. The benefits comprise pension, company car, housing, medical insurance and severance pay.

The pension benefits for Group Executive Management are based solely on fixed salary and shall be defined-benefit or defined-contribution. Normally, retirement is at age 62. Retirement age for the President is 60.

Normally, severance payment is made when employment is terminated by the company. Any other income from employment is deducted from the severance pay, which is between 12 and 18 months for persons under 55 years of age and between 18 to 24 months for persons over 55. No severance is paid to employees who resign from the company.

The Board shall have the right to deviate from the guidelines decided by the Annual General Meeting, if in individual cases there is a special reason for this.

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

##### The Board's proposal for remuneration to senior executives to be applied in 2009

The Board proposes that for 2009 the Annual General Meeting decide to apply the same guidelines for remuneration to senior executives as applied in 2008, with the exception of pension benefits, which as of 2009 are based either on fixed salary or the gross salary paid in cash.

##### Remuneration and other benefits during the year

In accordance with the decision at the Annual General Meeting, the total fee to the external directors elected at the Meeting amounts to SEK 4,500,000. Of this amount, SEK 1,350,000 (on an annual basis) is payable to the Chairman of the Board (Clas Åke Hedström), SEK 900,000 to the Vice Chairman (Anders Nyrén) and SEK 450,000 to each of the other external Board members (Georg Ehrnrooth, Simon Thompson, Egil Myklebust, Fredrik Lundberg and Hanne de Mora).

In addition to these amounts, the Annual General Meeting resolved that an additional fee should be paid for the committee work to committee members not employed by the company, in the amount of SEK 400,000 to be divided between the members of the Audit Committee (Anders Nyrén SEK 150,000, Fredrik Lundberg SEK 125,000 and Hanne de Mora SEK 125,000) and SEK 250,000 to be divided between the members of the Remuneration Committee

(Clas Åke Hedström SEK 100,000, Egil Myklebust SEK 75,000 and Georg Ehrnrooth SEK 75,000).

In addition to the pension obligations to the Chairman of the Board and the President, there are no pension obligations to other Board members. At 31 December 2008, the pension obligation to the Chairman amounted to SEK 56,355,685 and relates to a defined-benefit obligation, which is not secured by an insurance policy and which refers to his period of services as President of Sandvik AB.

Effective 1 January 2008, President and CEO Lars Pettersson is paid an annual fixed salary of SEK 7,200,000, and receives benefits in the form of free housing and company car. In addition, a variable salary of maximum 75% of the fixed salary is paid. The variable salary for 2008 amounts to SEK 575,000.

Lars Pettersson is entitled to retire with pension at age 60. His pension between age 60–65 will amount to 65% of the fixed salary up to 30 price base amounts and 50% of fixed salary in excess of 30 price base amounts. No pension insurance policy is taken out for his pension through age 65 and at 31 December 2008 the obligation for pension earned through that date amounts to SEK 19,985,374. The pension from the age of 65 is arranged through the ITP Plan and a supplementary defined-contribution plan under which the company each year contributes 40% of the fixed salary in excess of 20 price base amounts make up pension from age 65. Moreover, an agreement has been reached covering severance pay in the event that the company terminates employment. Severance pay equals 18 months' fixed salary in addition to the six-month notice period.

For other members of Group Executive Management, pension age is 62. Pension between the age of 62 and 65 will amount to 65% of fixed salary up to 30 price base amounts, 50% of fixed salary between 30–50 price base amounts, and 25% of fixed salary in the interval 50–100 price base amounts. No pension insurance policies have been taken out for pensions through age 65 and at 31 December 2008 the obligation for pensions earned through that date amounts to SEK 22,971,902.

The pension from age 65 to the other members of Group Executive Management is arranged through the ITP Plan and a supplementary defined-contribution plan under which the company each year contributes 20–30% (depending on age) of fixed salary portions in excess of 20 price base amounts. Moreover, agreements have been reached covering severance pay in the event that the company terminates employment. The severance pay equals 12–18 months' fixed salary in addition to the six-month notice period. For both the President and other members of Group Executive Management, any earned income is offset against the severance pay.

##### Profit sharing

To promote a performance that is favorable to the Group's long term development and also to stimulate continued employee loyalty, since 1986, Sandvik has a profit-sharing system for all employees in wholly-owned companies in Sweden. As from 2007, the system has been modified in order to increase transparency and elasticity and to better relate the system to the company's goals. Under the modified system, the maximum allocation may be higher than before, but cannot exceed SEK 250 M, and also the requirements for maximum allocation have been raised. The Group's return during 2008 implied an allocation of SEK 66.8 M to the profit sharing foundation.

##### Share-based remuneration

As part of the total remuneration package, a share-based program was established in the year 2000 to offer a long-term variable salary to some 350 international executives and specialists in the Group. The program was based on an annual allotment of personnel options on Sandvik shares with a lifetime of five years and the right to exercise after three years, conditional upon continued employment. The allocation was based on Sandvik's return on capital employed during the preceding year. While the grant as such was free of charge, the option holder must pay an exercise price for the shares. The program is based on existing shares and, therefore, does not require the issue of new shares.

Allotments under the program were made during years 2000–2004. During 2008, it was possible to exercise options granted in years 2003, and 2004.

Operating profit for the year was positively affected by SEK 28,211,889 for the share-based remuneration, including related social security costs. The positive effect relates to the decreased market price of the Sandvik share which has implied a lower value estimation of the exercisable options.

Under a swap agreement with a bank, the company has secured the acquisition of 9,000,000 Sandvik shares (after the 5:1 split decided at the Annual General Meeting in 2006) at a price of SEK 46.80 as a financial hedge. Of that number, 624,936 shares were acquired during 2008 (1,842,605 shares during 2007). In total, 8,537,163 shares have been acquired under the agreement. Under a call option fully utilized during 2006, additionally 270,000 shares (before the split) had been secured at a price of SEK 267.50. These measures limit the effects of future increases in the market price of the Sandvik share on the company's costs for the program and for 2008 these measures had a negative effect on results of SEK 36,265,000. Accordingly, the net effect of the share based program and related financial arrangements during 2008 reduced results by SEK 8,053,111.

### Long-term variable salary

In 2006, the Board decided to implement as a long-term variable salary a cash-based program. Based on a common goal perception for executives, specialists and shareholders, the program shall form a link to future performance goals aimed at the long-term enhancement of the value of the company. Overall common Group and business area focus on and governing towards profitable growth effect this. An additional purpose is to improve the possibilities to recruit and retain key employees in the Group.

A long-term variable salary program was decided for each of the year 2006, 2007 and 2008. Some 400 Sandvik employees participate in the programs on a global basis. The programs apply for a three-year period, with any settlement paid after the third year of each program. Accordingly, settlement for the 2006 program takes place in 2009, for the 2007 program in 2010, and for the 2008

program in 2011. Under these programs, there is a direct link between performance, value added, and remuneration. There is an annual maximum outcome related to the participant's fixed salary in the December of the third year. The outcome is conditional upon meeting measurable goals established by the Board for certain key ratios that create shareholder value linked to the company's growth, profitability and capital efficiency over a three-year period. For members of Group Executive Management, the maximum long-term variable salary can amount to 45–50% of the annual fixed salary.

Amounts attributable to these three programs are expensed and reserved amounts continuously, based on assumptions regarding actual performance goal achievement. The cost of the three programs is estimated at SEK 206 M. A total of SEK 185 M has been reserved for these programs in the 2008 accounts.

### Break-down of share-based payments (personnel options)

#### Group

Allotted and exercisable options at year-end are presented in the following table:

Option program	Date granted	Exercise period	Exercise price, SEK	Exercise price after split, SEK	Options granted	Exercisable options	Underlying shares <sup>1)</sup>	Settlement method
2004	2004-02-18	2007-02-19 – 2009-02-20	262.70	51.34	312,000	131,057	681,496	Delivery of shares

#### Parent Company

Allotted and exercisable options at year-end to employees at the Parent Company are presented in the following table:

Option program	Date granted	Exercise period	Exercise price, SEK	Exercise price after split, SEK	Options granted	Exercisable options	Underlying shares <sup>1)</sup>	Settlement method
2004	2004-02-18	2007-02-19 – 2009-02-20	262.70	51.34	155,500	74,570	387,764	Delivery of shares

<sup>1)</sup> After the share redemptions in 2005 and 2007 and the split on 8 June 2006, each option carries the right to acquire 5.2 shares.

### Options exercisable by senior executives

Option program	Other senior executives
2001	—
2002	—
2003	—
2004	20,000

### Number and weighted average exercise prices for shares under options

#### Group

Options in thousands	Weighted average exercise price 2008, SEK	Number of options, 2008	Weighted average exercise price 2007, SEK	Number of options, 2007
At beginning of year	45.16	324	46.67	757
Forfeited	39.62	–73	51.34	–49
Exercised	41.52	–120	45.32	–384
At end of year	51.34	131	45.16	324
Exercisable at end of year	51.34	131	45.16	324

#### Parent Company

Options in thousands	Weighted average exercise price 2008, SEK	Number of options, 2008	Weighted average exercise price 2007, SEK	Number of options, 2007
At beginning of year	46.38	151	46.96	396
Forfeited	39.62	–11	51.34	–45
Exercised	42.11	–65	45.55	–200
At end of year	51.34	75	46.38	151
Exercisable at end of year	51.34	75	46.38	151

For options exercised during the year, the weighted average share price during the period was SEK 97.94. The exercise price for options outstanding at 31 December 2008 amounted to SEK 51.34. Their contractual lifetime is 1.5 months.

The estimated value of options granted is calculated in accordance with the Black & Scholes option-pricing model. The contractual lifetime of the option (5 years) is used as input data in the model. Anticipated early exercise is taken into account in the Black & Scholes model.

### Total expenses for cash-settled, share-based payments, excluding social costs

Group and Parent Company, SEK	2008	2007
Expense related to cash-settled options granted 2002	—	1,170,809
Expense related to cash-settled options granted 2004	—	3,348,419
Total expense for share-based payments	—	4,519,228



## NOTES

### 3.6 Gender distribution in senior management

	Group		Parent Company	
	2008	2007	2008	2007
Proportion of women, %				
Boards and presidents	8	8	15	23
Senior management	13	13	—	—

### 3.7 Audit fees

Fees to the Group's auditors were as follows:

	KPMG		Other auditors at Group companies		Total	
	2008	2007	2008	2007	2008	2007
<b>Audit</b>						
Parent Company	7.5	5.9	—	—	7.5	5.9
Subsidiaries (excl. Seco Tools)	50.2	38.9	3.2	3.1	53.3	42.0
Seco Tools	0.3	0.3	6.8	7.2	7.1	7.5
Group	58.0	45.1	9.9	10.3	67.9	55.4
<b>Other services</b>						
Parent Company	8.5	4.2	—	—	8.5	4.2
Subsidiaries (excl. Seco Tools)	10.2	11.4	—	—	10.2	11.4
Seco Tools	0.5	0.6	—	—	0.5	0.6
Group	19.2	16.2	—	—	19.2	16.2

Audit services comprise the examination of the financial statements, the accounting records and the administration of the business by the Board of Directors and the President, and 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.

Other services essentially comprise advice in areas closely related to the audit, such as advice on accounting issues, tax services and due-diligence services.

### RESEARCH, DEVELOPMENT AND QUALITY ASSURANCE

	Group		Parent Company	
	2008	2007	2008	2007
<b>Expenditure for</b>				
research and development	2,347	2,195	920	1,019
quality assurance	164	514	207	236
<b>Total</b>	<b>2,811</b>	<b>2,739</b>	<b>1,127</b>	<b>1,255</b>
of which expensed				
of which expensed relating to research and development	2,014	1,818	920	1,019

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

### OTHER OPERATING INCOME

Group	2008	2007
Gain on sale of property, plant and equipment	—	118
Gain on sale of businesses and shares	56	26
Insurance compensation	15	144
Exchange rate gains on operating receivables and liabilities	197	—
Other	93	98
<b>Total</b>	<b>661</b>	<b>386</b>

#### Parent Company

Other operating income mainly pertains to intra-group services and currency gains on receivable and liabilities of an operational nature.

### OTHER OPERATING EXPENSES

Group	2008	2007
Loss on disposal of non-current assets	28	—
Exchange rate losses on operating receivables and payables	—	28
Impairment loss on non-current receivable	104	—
Other	48	22
<b>Total</b>	<b>180</b>	<b>179</b>

#### Parent Company

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

### OPERATING EXPENSES

Group	2008	2007
Employee benefit expense	23,129	20,562
Depreciation and amortization	3,444	3,039
Impairment losses – inventories	460	281
Impairment losses – property, plant and equipment	37	5
Impairment losses – trade receivables	228	80

The Parent Company recognized trade receivable impairment losses of SEK 29 M (25). There were no significant reversals of earlier recognized impairment losses during 2008 or 2007.

## NOTE 8. FEES FOR FINANCE AND OPERATING LEASES

### FINANCE LEASES

#### Finance leases with Sandvik as lessee

The Group leases plant and machinery under finance lease agreements.

At 31 December 2008 the net carrying amount of such leased assets was SEK 221 M (145). Variable fees recognized as an expense were SEK 0 M (0).

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

Group	Minimum fee		Present value	
	2008	2007	2008	2007
Within one year	36	25	35	25
Between 1–5 years	116	52	94	45
Later than five years	118	102	68	60
<b>Total</b>	<b>270</b>	<b>179</b>	<b>197</b>	<b>130</b>

#### Finance leases with Sandvik as lessor

The Group's investments in finance leases at 2008 year-end were SEK 642 M (572). Variable fees recognized in the income statement, 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	Minimum fee		Present value	
	2008	2007	2008	2007
Within one year	338	246	310	156
Between 1–5 years	304	326	265	200
Later than five years	0	0	0	0
<b>Total</b>	<b>642</b>	<b>572</b>	<b>575</b>	<b>356</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 with operating expenses in the income statement. The Group in 2008 expensed SEK 509 M (451), including minimum lease payments of SEK 477 M (442), variable fees of SEK 35 M (15), and net of sublease income of SEK 4 M (6). The Parent Company expensed SEK 122 M (110).

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

	Group		Parent Company	
	2008	2007	2008	2007
Within one year	603	477	162	150
Between 1–5 years	1,122	1,031	320	293
Later than five years	483	368	165	127
<b>Total</b>	<b>2,208</b>	<b>1,876</b>	<b>647</b>	<b>570</b>

Future minimum lease payments under non-cancellable lease contracts expected to be received for assets, which are subleased amount to SEK 4 M (7).

#### Operating leases with Sandvik as lessor

The net carrying value of the Group's rental fleet is SEK 468 M (569).

Depreciation for the year amounted to SEK 395 M (445). The future minimum lease payments under non-cancellable leases amount to SEK 250 M (262). Variable fees recognized as income amounted to SEK 62 M (57).

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

	Group		Parent Company	
	2008	2007	2008	2007
Within one year	124	148	9	11
Between 1–5 years	125	113	9	1
Later than five years	1	1	0	0
<b>Total</b>	<b>250</b>	<b>262</b>	<b>18</b>	<b>12</b>

## NOTE 9. NET FINANCING COST

Group	2008	2007
Interest income	352	197
Dividend	3	1

#### Other investments incl. derivatives

Net gain on disposal of financial assets	0	36
Net gain on remeasurement of financial assets/liabilities at fair value	16	143
Other financial income	4	0
Financial income	375	377
Interest expense	-2,256	-1,541

#### Other investments incl. derivatives

Net loss on disposal of financial assets	-8	-107
Net loss on remeasurement of financial assets/liabilities	-260	-89
Net foreign-exchange losses	-54	-34
Other financial expenses	-14	-3
Financial expenses	-2,592	-1,774
<b>Net financing cost</b>	<b>-2,217</b>	<b>-1,397</b>

Changes in the fair value of interest-rate swaps had a positive effect on net financing cost of SEK 40 M (4). The valuation is made by interpolation in an estimated interest curve based on current interest rates for various durations. Changes in the fair value of derivatives on equity instruments positively affected net financing cost by SEK 70 M (85). The valuation is based on quoted share prices at balance sheet date.

Financial assets and liabilities not measured at fair value through profit or loss yielded a net interest expense of SEK 1,929 M (1,486).

Hedging of fair values had a negative SEK 8 M (neg: 0.4) result effect, that is from the fair value measurement of hedged positions and related hedging instruments.

Parent Company	Income from shares in Group companies		Income from shares in associated companies	
	2008	2007	2008	2007
Dividend, net of withholding tax	6,754	6,003	5	5
Gain on sale of shares and participations	20	-17	—	—
Impairment	0	—	—	—
Reversal of earlier impairment losses	—	11	—	—
<b>Total</b>	<b>6,774</b>	<b>5,997</b>	<b>5</b>	<b>5</b>

Parent Company	Income from other investments held as non-current assets		Interest income and similar items	
	2008	2007	2008	2007
Interest income, Group companies	—	—	601	619
Other interest income	—	—	12	19
<b>Total</b>	<b>—</b>	<b>—</b>	<b>613</b>	<b>638</b>

Parent Company	Interest expense and similar items	
	2008	2007
Interest expense, Group companies	-672	-607
Other interest expense	-723	-476
Derivatives, Group companies	-247	-65
Other	-13	-17
<b>Total</b>	<b>-1,655</b>	<b>-1,165</b>

## NOTE 10. APPROPRIATIONS

Parent Company	2008	2007
Accelerated depreciation	—	2,429
Change in tax allocation reserves	—	638
Changes in other untaxed reserves	7	-4
<b>Total</b>	<b>7</b>	<b>3,063</b>

## NOTES

### INCOME TAX

#### Reported in income statement

	Group		Parent Company	
	2008	2007	2008	2007
Income tax expense				
Current tax	2,942	-4,396	112	-829
Adjustment of taxes attributable to prior years	66	229	15	67
<b>Total current tax expense</b>	<b>-2,876</b>	<b>-4,166</b>	<b>127</b>	<b>-762</b>
Deferred taxes relating to temporary differences and unused tax losses	135	763	274	17
<b>Total tax expense</b>	<b>-2,741</b>	<b>-3,403</b>	<b>401</b>	<b>-745</b>

The Group's tax expense for the year was SEK 2,741 M (3,403) or 25.9% (26.2) of the profit after financial items.

#### Reconciliation of the Group's tax expense

The Group's weighted average tax rate, based on the tax rates in each country, is 26.5% (29.6). The nominal tax rate in Sweden is 28.0% (28.0).

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

	2008		2007	
	SEK M	%	SEK M	%
Group				
Profit after financial items	10,577		12,997	
Weighted average tax based on each country's tax rate	-2,805	-26.5	-3,849	-29.6
<b>Tax effect of</b>				
Non-deductible expenses	-216	-2.0	-195	-1.5
Tax exempt income	145	1.4	199	1.5
Adjustments relating to prior years	66	0.6	229	1.8
Effects of unused tax losses, net	30	0.3	75	0.6
Other	39	0.4	138	1.1
<b>Total reported tax expense</b>	<b>-2,741</b>	<b>-25.9</b>	<b>-3,403</b>	<b>-26.2</b>

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

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

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

	2008		2007	
	SEK M	%	SEK M	%
Parent Company				
Profit before tax	5,349		9,059	
Tax based on the nominal tax rate for the Parent Company	-1,498	-28.0	-2,537	-28.0
<b>Tax effects of</b>				
Non-deductible expenses	-22	-0.4	-33	-0.4
Tax-exempt income	1,946	36.4	1,758	19.4
Adjustments relating to prior years	-19	-0.4	—	—
Effect of changed tax rate	2	0.0	—	—
Use of previously uncapitalized tax loss deductions	-8	-0.1	67	0.7
<b>Total reported tax expense</b>	<b>401</b>	<b>7.5</b>	<b>-745</b>	<b>-8.2</b>

#### Tax items recognized directly in equity

	2008	2007
Group		
Deferred tax relating to hedging reserve	164	31
<b>Total</b>	<b>-164</b>	<b>31</b>
Parent Company		
Current tax relating to taxable group contributions	85	843
<b>Total</b>	<b>85</b>	<b>843</b>

#### Reported in the balance sheet

##### Deferred tax assets and liabilities

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

	2008			2007		
Group	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	43	-771	-728	34	-666	-632
Property, plant and equipment	98	-1,114	-1,016	96	-965	-869
Financial non-current assets	93	-2	91	58	-2	56
Inventories	1,572	-64	1,508	1,445	-62	1,383
Receivables	204	-536	-332	66	-335	-269
Interest-bearing liabilities	367	-442	-75	325	-263	62
Noninterest-bearing liabilities	724	-670	54	513	-761	-248
Other	29	-50	-21	19	-49	-30
Unused tax losses	282	—	282	84	—	84
<b>Total</b>	<b>3,412</b>	<b>-3,649</b>	<b>-237</b>	<b>2,640</b>	<b>-3,103</b>	<b>-463</b>
Offsetting within companies	-2,135	2,135	—	-1,317	1,317	—
<b>Total deferred tax assets and liabilities</b>	<b>1,277</b>	<b>-1,514</b>	<b>-237</b>	<b>1,323</b>	<b>-1,786</b>	<b>-463</b>
Parent Company	2008			2007		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	—	-34	-34	—	-37	-37
Provisions	31	—	31	27	—	27
Noninterest-bearing liabilities	295	—	295	32	—	32
<b>Total</b>	<b>326</b>	<b>-34</b>	<b>292</b>	<b>59</b>	<b>-37</b>	<b>22</b>
Offsetting	-34	34	—	-37	37	—
<b>Total deferred tax assets and liabilities</b>	<b>292</b>	<b>—</b>	<b>292</b>	<b>22</b>	<b>—</b>	<b>22</b>

## INCOME TAX (CONT.)

### Unrecognized deferred tax assets

The Group has additional unused tax losses of about SEK 570 M (570). Related deferred tax assets were not recognized since it was not deemed probable that it would be possible to utilize these deductions in the foreseeable future.

### Movements in deferred tax in temporary differences and unused tax losses

	Group		Parent Company	
	2008	2007	2008	2007
Balance at beginning of year, net	-463	-691	22	17
Recognized in income statement	135	763	270	5
Acquisitions/Disposals of subsidiaries	-10	-489	---	---
Recognized in equity	164	-31	---	---
Government grants	---	32	---	---
Translation differences	-63	-47	---	---
Balance at end of year, net	-237	-463	292	22

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

	Group		Parent Company	
	2008	2007	2008	2007
Other provisions for taxes	-3,201	-2,760	-55	-55
Income tax liabilities	-1,301	-1,334	---	---
Income tax receivables	1,699	1,429	166	393
Net tax liabilities/receivables	398	95	166	393

Other provisions for taxes of SEK 3,201 (2,760) relate to ongoing disputes and assessed risks. The increase during 2008 (SEK 441 M) mainly reflects provisions relating to the tax dispute as regards Sandvik Intellectual Property AB and Sandvik AB regarding the reorganization of ownership and managing of patents and trademarks effected in 2005. For additional information refer to the section "Sandvik's risks and risk management."

## EARNINGS PER SHARE

### Basic and diluted earnings per share

SEK	Basic		Diluted	
	2008	2007	2008	2007
Earnings per share	6.30	7.65	6.29	7.65

The calculation of the numerators and denominators used in the above calculations of earnings per share (rounded down to the nearest SEK 0.05) is shown below.

### Basic earnings per share

The calculation of earnings per share 2008 is based on the profit for the year attributable to the equity holders of the parent of SEK 7,472 M (9,116) and the weighted average number of shares (thousands) during 2008 of 1,186,287 (1,186,287). These two components have been calculated as follows:

### Profit for the year attributable to the equity holders of the parent

	2008	2007
Profit for the year attributable to the equity holders of the parent	7,472	9,116

### Weighted average number of shares

In thousands of shares	2008	2007
Total number of ordinary shares at 1 January	1,186,287	1,186,287
Effects of reacquisitions and redemption	---	---
Weighted average number of shares outstanding during the year	1,186,287	1,186,287

### Diluted earnings per share

The calculation of diluted earnings per share 2008 is based on the profit attributable to the equity holders of the parent of SEK 7,472 M (9,116) and the weighted average number of shares (thousands) during 2008, 1,187,058 (1,188,397). The two components have been calculated as follows:

### Profit for the year attributable to equity holders of the parent

	2008	2007
Profit for the year attributable to equity holders of the parent	7,472	9,116

### Weighted average number of shares

In thousands of shares	2008	2007
Weighted average number of shares as calculated above	1,186,287	1,186,287
Additional shares assuming full exercise of options	771	2,110
Weighted average number of shares outstanding during the year, as adjusted	1,187,058	1,188,397

**INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – GROUP****Intangible assets**

Cost	Internally generated intangible assets					Acquired intangible assets						Total
	Capitalized R&D expenditure	IT Software	Patents, licenses, trade-marks, etc.	Other	Subtotal	Capitalized R&D expenditure	IT Software	Patents, licenses, trade-marks, etc.	Goodwill	Other	Subtotal	
At 1 January 2007	633	450	69	72	1,224	15	251	205	5,156	225	5,852	7,076
Additions	377	37	15	2	431	—	13	38	—	11	62	493
Business combinations	—	—	—	—	—	—	—	552	3,886	839	5,277	5,277
Divestments and disposals	9	13	—	—	22	—	4	16	—	15	35	57
Reclassifications	37	4	28	29	42	—	7	4	58	36	11	53
Translation differences during the year	7	1	6	1	15	—	11	11	51	35	86	71
<b>At 31 December 2007</b>	<b>971</b>	<b>471</b>	<b>118</b>	<b>46</b>	<b>1,606</b>	<b>15</b>	<b>278</b>	<b>772</b>	<b>8,933</b>	<b>1,061</b>	<b>11,059</b>	<b>12,665</b>
At 1 January 2008	971	471	118	46	1,606	15	278	772	8,933	1,061	11,059	12,665
Additions	333	99	25	3	460	—	20	5	—	32	57	517
Business combinations	—	—	—	—	—	—	2	120	474	6	602	602
Acquisition of minority interest	—	—	—	—	—	—	—	—	16	—	16	16
Divestments and disposals	17	10	—	—	27	—	8	10	—	18	0	27
Reclassifications	100	116	54	—	70	—	14	89	—	1	74	4
Translation differences during the year	40	5	23	5	73	—	37	52	408	17	376	449
<b>At 31 December 2008</b>	<b>1,227</b>	<b>681</b>	<b>220</b>	<b>54</b>	<b>2,182</b>	<b>15</b>	<b>343</b>	<b>746</b>	<b>9,831</b>	<b>1,101</b>	<b>12,036</b>	<b>14,218</b>
<b>Accumulated amortization and impairment losses</b>												
At 1 January 2007	139	263	39	30	471	15	167	99	—	72	353	824
Divestments and disposals	4	6	—	—	10	—	4	1	—	—	5	15
Reclassifications	—	1	5	6	2	—	2	11	—	48	35	33
Amortization for the year	60	107	13	8	188	—	40	46	—	134	220	408
Translation differences for the year	1	2	12	—	13	—	8	3	—	8	3	10
<b>At 31 December 2007</b>	<b>196</b>	<b>361</b>	<b>45</b>	<b>32</b>	<b>634</b>	<b>15</b>	<b>209</b>	<b>136</b>	<b>—</b>	<b>246</b>	<b>606</b>	<b>1,240</b>
At 1 January 2008	196	361	45	32	634	15	209	136	—	246	606	1,240
Business combinations	—	—	—	—	—	—	2	10	—	11	23	23
Divestments and disposals	16	12	—	—	28	—	12	2	—	1	15	43
Reclassifications	—	3	10	—	13	—	1	—	—	1	2	15
Amortization for the year	91	77	7	6	181	—	51	102	—	112	265	446
Translation differences for the year	5	3	9	3	20	—	27	0	—	18	45	65
<b>At 31 December 2008</b>	<b>276</b>	<b>432</b>	<b>71</b>	<b>41</b>	<b>820</b>	<b>15</b>	<b>278</b>	<b>246</b>	<b>—</b>	<b>387</b>	<b>926</b>	<b>1,746</b>
<b>Net book values</b>												
1 January 2007	494	187	30	42	753	0	84	106	5,156	153	5,499	6,252
31 December 2007	775	110	73	14	972	0	69	636	8,933	815	10,454	11,425
1 January 2008	775	110	73	14	972	0	69	636	8,933	815	10,454	11,425
31 December 2008	951	249	149	13	1,362	0	65	500	9,831	714	11,110	12,472
<b>Amortization for the year is included in the following lines in the 2007 income statement</b>												
Cost of sales	—	11	—	—	11	—	1	1	—	44	46	57
Selling expenses	—	10	—	3	13	—	27	—	—	48	75	88
Administrative expenses	60	86	13	5	164	—	12	45	—	42	99	263
<b>Total</b>	<b>60</b>	<b>107</b>	<b>13</b>	<b>8</b>	<b>188</b>	<b>—</b>	<b>40</b>	<b>46</b>	<b>—</b>	<b>134</b>	<b>220</b>	<b>408</b>
<b>Amortization for the year is included in the following lines in the 2008 income statement</b>												
Cost of sales	—	8	2	—	10	—	1	59	—	74	134	144
Selling expenses	6	16	2	3	27	—	33	44	—	15	92	119
Administrative expenses	85	53	3	3	144	0	17	1	—	23	39	183
<b>Total</b>	<b>91</b>	<b>77</b>	<b>7</b>	<b>6</b>	<b>181</b>	<b>0</b>	<b>51</b>	<b>102</b>	<b>—</b>	<b>112</b>	<b>265</b>	<b>446</b>

## INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – GROUP (CONT.)

### Property, plant and equipment

	Land and buildings	Plant and machinery	Equipment, tools and installations	Construction in progress	Total
<b>Cost</b>					
At 1 January 2007	8,358	24,995	4,342	2,169	39,864
Additions	500	1,882	424	2,102	4,908
Business combinations	419	704	117	15	1,255
Divestments and disposals	-238	-1,502	364	-17	-2,121
Reclassifications	365	1,228	124	-1,591	126
Translation differences for the year	94	297	75	25	491
<b>At 31 December 2007</b>	<b>9,498</b>	<b>27,604</b>	<b>4,718</b>	<b>2,703</b>	<b>44,523</b>
At 1 January 2008	9,498	27,604	4,718	2,703	44,523
Additions	661	2,271	535	3,348	6,815
Business combinations	23	318	46	1	388
Divestments and disposals	-129	1,544	-343	9	-2,025
Reclassifications	448	1,695	159	-2,256	46
Translation differences for the year	904	1,850	377	259	3,390
<b>At 31 December 2008</b>	<b>11,405</b>	<b>32,194</b>	<b>5,492</b>	<b>4,046</b>	<b>53,137</b>
<b>Accumulated depreciation and impairment losses</b>					
At 1 January 2007	3,560	15,651	2,976		22,187
Business combinations	53	113	43		209
Divestments and disposals	-148	-1,193	-357		-1,698
Reclassifications	-1	13	31		43
Depreciation for the year	275	1,926	430		2,631
Impairment losses	2	3	—		5
Translation differences for the year	38	166	47		251
<b>At 31 December 2007</b>	<b>3,779</b>	<b>16,679</b>	<b>3,170</b>		<b>23,628</b>
At 1 January 2008	3,779	16,679	3,170		23,628
Business combinations	1	93	21		115
Divestments and disposals	-64	-1,168	-287		-1,519
Reclassifications	-2	65	10		73
Depreciation for the year	334	2,211	453		2,998
Impairment losses	5	32	—		37
Translation differences for the year	378	1,053	251		1,682
<b>At 31 December 2008</b>	<b>4,431</b>	<b>18,965</b>	<b>3,618</b>		<b>27,014</b>
<b>Net book values</b>					
1 January 2007	4,798	9,344	1,366	2,169	17,677
31 December 2007	5,719	10,925	1,548	2,703	20,895
1 January 2008	5,719	10,925	1,548	2,703	20,895
31 December 2008	6,974	13,229	1,874	4,046	26,123

Impairment losses are included in the following lines in the 2007 income statement

	Land and buildings	Plant and machinery	Equipment, tools and installations	Total
<b>Impairment losses</b>				
Administrative expenses	-5	—	—	-5
Cost of sales	—	-32	—	-32

Ratable values	<b>2008</b>	<b>2007</b>
Buildings (in Sweden)	1,287	1,059
Land (in Sweden)	421	253

### Additional information

Items of property plant and equipment for a total of SEK 250 M (217) have been pledged as security for liabilities.

Contractual commitments for the acquisition of property, plant and equipment amount to SEK 150 M (110).

### Government grants

The Group received government grants for the acquisition of property, plant and equipment during 2008 for a total of SEK 63 M (6). Grants received have reduced the stated cost by SEK 63 M (2).

### NOTE 10 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – GROUP (CONT.)

#### Impairment tests of goodwill

Goodwill was tested for impairment at balance sheet date 31 December 2008. As appears above, the carrying value of goodwill in the consolidated balance sheet is SEK 9,831 M (8,933), essentially related to a number of more significant business combinations.

Goodwill by cash generating unit	Carrying value	
	2008	2007
<b>Sandvik Tooling</b>		
Walter Group	1,209	1,056
Diamond Innovations	816	674
Business area level	1,023	719
<b>Total</b>	<b>3,048</b>	<b>2,449</b>
<b>Sandvik Mining and Construction</b>		
Exploration	402	424
Exttec/Fintec	1,086	1,372
Business area level	2,370	1,834
<b>Total</b>	<b>3,858</b>	<b>3,630</b>
<b>Sandvik Materials Technology</b>		
Kanthal Group	1,139	1,041
MedTech	1,407	1,498
Business area level	85	81
<b>Total</b>	<b>2,631</b>	<b>2,620</b>
Seco Tools and Corporate	294	234
<b>Group total</b>	<b>9,831</b>	<b>8,933</b>

Goodwill is allocated to cash-generating units. The recoverable amount of a cash-generating unit is assessed based on estimates of value in use. These calculations are based on budgets/forecasts covering a five-year period. Cash flows for subsequent years have been extrapolated based on inflation, in no case exceeding 2%. Need of working capital beyond the five-year period is deemed to remain on the same level as in the fifth year. Cash flows have generally been discounted at a pre-tax rate of 10%.

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 acquired businesses. For such reason, the impairment tests were largely made at a higher level although in no case above segment level. At present, the activities of Walter, Diamond Innovations, Kanthal, MedTech, Exploration and Exttec/Fintec are also conducted in such a way that it has been possible to separately test goodwill allocated to these acquisitions.

The testing of goodwill at a higher organizational level obviously lessens the probability of identifying an impairment loss. These tests have with large margins supported the carrying values. Nor have the testing of goodwill allocated to the Walter Group, Kanthal and Exploration demonstrated impairment. The sensitivity of the calculations implies that no impairment loss would be identified even if the discount rate were increased by 1 percentage point or if the long term growth were lowered by 1 percentage point.

#### Other impairment tests

Capitalized development projects that are not yet available for use have been tested without any impairment being recognized.

### NOTE 11 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – PARENT COMPANY

#### Intangible assets

	Patents and similar rights	
<b>Cost</b>		
At 1 January 2007		102
Additions		7
Divestments and disposals		-10
<b>At 31 December 2007</b>		<b>99</b>
At 1 January 2008		99
Additions		23
Divestments and disposals		-1
<b>At 31 December 2008</b>		<b>121</b>
<b>Accumulated amortization</b>		
At 1 January 2007		51
Amortization for the year		22
<b>At 31 December 2007</b>		<b>73</b>
At 1 January 2008		73
Amortization for the year		17
<b>At 31 December 2008</b>		<b>90</b>
Net book value at end of year		31
Amortization for the year is included in the following lines in the income statement	2008	2007
Selling expenses	-14	-14
Administrative expenses	-4	-8
<b>Total</b>	<b>-18</b>	<b>-22</b>

## INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – PARENT COMPANY (CONT.)

### Property, plant and equipment

	Land and buildings	Plant and machinery	Equipment, tools and installations	Construction in progress	Total
<b>Cost</b>					
At 1 January 2007	811	8,361	993	974	11,139
Additions	6	149	24	942	1,121
Divestments and disposals	-2	-126	-38	—	-166
Reclassifications	30	-186	-18	-564	0
<b>At 31 December 2007</b>	<b>845</b>	<b>8,870</b>	<b>1,027</b>	<b>1,352</b>	<b>12,094</b>
At 1 January 2008	845	8,870	1,027	1,352	12,094
Additions	9	211	30	1,264	1,514
Divestments and disposals	—	-155	-65	-3	-223
Reclassifications	25	804	57	-886	0
<b>At 31 December 2008</b>	<b>879</b>	<b>9,730</b>	<b>1,049</b>	<b>1,727</b>	<b>13,385</b>
<b>Revaluations</b>					
At 1 January 2007	-11	—	—	—	-11
<b>At 31 December 2007</b>	<b>41</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>41</b>
At 1 January 2008	41	—	—	—	41
<b>At 31 December 2008</b>	<b>41</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>41</b>
<b>Accumulated depreciation</b>					
At 1 January 2007	379	4,869	684	—	5,932
Divestments and disposals	-1	-104	-34	—	-139
Depreciation for the year	24	481	72	—	577
<b>At 31 December 2007</b>	<b>402</b>	<b>5,246</b>	<b>722</b>	<b>—</b>	<b>6,370</b>
At 1 January 2008	402	5,246	722	—	6,370
Divestments and disposals	—	-136	-55	—	-191
Depreciation for the year	27	532	70	—	629
<b>At 31 December 2008</b>	<b>429</b>	<b>5,642</b>	<b>737</b>	<b>—</b>	<b>6,808</b>
<b>Net book values</b>					
1 January 2007	473	3,492	309	974	5,248
31 December 2007	484	3,624	305	1,352	5,765
1 January 2008	484	3,624	305	1,352	5,765
31 December 2008	491	4,088	312	1,727	6,618
<b>Rateable values – Parent Company</b>	<b>2008</b>	<b>2007</b>			
Buildings (in Sweden)	281	280			
Land (in Sweden)	82	82			

### SHARES IN GROUP COMPANIES

	Parent Company	
	2008	2007
<b>Shares in Group Companies</b>		
<b>Cost</b>	<b>14,151</b>	
At beginning of year	294	12,123
Additions	2,477	1,888
Capital contributions	1	148
New issues	-2,099	-8
Divestments	14,824	14,151
<b>Accumulated impairment losses</b>		
At beginning of year	-389	-400
Impairment losses reversed during the year	0	11
	-389	-389
<b>Net book value at end of year</b>	<b>14,435</b>	<b>13,762</b>



## SHARES IN GROUP COMPANIES (CONT.)

Sandvik AB's holdings of shares and participations in subsidiaries  
Direct holdings

According to balance sheet at 31 December: company, domicile	Corp. Reg. number	2008			2007		
		No. of shares	Holding, %	Book value SEK 000's	No. of shares	Holding, %	Book value SEK 000's
SWEDEN							
C.O. Öberg & Co:s AB, Sandviken	556112-1186	2,000	100	0	2,000	100	0
Dropler High Tech AB, Sandviken	556332-0380	1,000	100	119	1,000	100	119
Elasis Svenska AB, Sandviken	556307-8947	100,000	100	110	100,000	100	110
Förvaltningsbolaget Predio 4 KB, Sandviken	916624-2181	—	0 <sup>1)</sup>	0	—	0 <sup>1)</sup>	0
Gimo Utbildningsaktiebolag, Gimo	556061-4041	1,000	91	2,591	1,000	91	2,591
Gusab Holding AB, Sandviken	556001-9290	1,831,319	100	53,474	1,831,319	100	53,474
Gusab Stainless AB, Mjölby	556012-1138	200,000	100	33,172	200,000	100	33,212
Industri AB Skomab, Sandviken	556008-8345	2,000	100	100,050	2,000	100	100,050
Malcus AB, Sandviken	556350-7903	1,000	100	100	1,000	100	100
Rammer Svenska AB, Sandviken	556249-4004	3,000	100	851	3,000	100	851
Tamrock Svenska AB, Sandviken	556189-1085	100	100	123	100	100	123
AB Sandvik Antenn, Sandviken	556350-7895	1,000	100	100	1,000	100	100
AB Sandvik Automation, Sandviken	556052-4315	1,000	100	50	1,000	100	50
AB Sandvik Belts, Sandviken	556041-9680	25,000	100	2,500	25,000	100	2,500
AB Sandvik Bruket, Sandviken	556028-5784	13,500	100	1,698	13,500	100	1,698
AB Sandvik Calamo, Molkom	556190-2569	—	—	—	50,000	100	5,000
AB Sandvik Communication, Sandviken	556257-5752	1,000	100	120	1,000	100	120
AB Sandvik Construction Segment, Malmö <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 Export Assistance AB, Sandviken	556061-3746	80,000	100	0	80,000	100	0
AB Sandvik Falken, Sandviken	556330-7791	1,000	100	120	1,000	100	120
Sandvik Far East Ltd. AB, Sandviken	556043-7781	10,000	100	10,000	10,000	100	10,000
Sandvik Försäkrings AB, Sandviken	516401-6742	15,000	100	15,000	15,000	100	15,000
AB Sandvik Hard Materials, Stockholm <sup>1)</sup>	556234-6857	1,000	100	50	1,000	100	50
Sandvik Hard Materials Norden AB, Stockholm	556069-1619	1,000	100	50	1,000	100	50
Sandvik Information Technology 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
AB Sandvik Klangberget, Sandviken	556135-6857	1,000	100	100	1,000	100	100
Sandvik Materials Technology EMEA AB, Stockholm	556734-2026	1,000	100	100	1,000	100	100
AB Sandvik Materials Technology, Sandviken <sup>1)</sup>	556234-6832	1,000	100	50	1,000	100	50
Sandvik Mining and 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	135,000	80,000	100	135,000
Sandvik Powdermet AB, Surahammar	556032-6760	600	100	119,554	600	100	119,554
AB Sandvik Process Systems, Sandviken <sup>1)</sup>	556312-2992	1,000	100	100	1,000	100	100
AB Sandvik Rock Tools, Sandviken	556081-4328	1,000	100	50	1,000	100	50
Sandvik Rotary Tools AB, Köping	556191-8920	101,000	100	150,177	101,000	100	150,177
AB Sandvik Service, Sandviken	556234-8010	1,000	100	50	1,000	100	50
AB Sandvik Skogsfastigheter, Sandviken	556579-5464	1,000	100	26	1,000	100	100
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
Sandvik Systems Development AB, Sandviken <sup>1)</sup>	556407-4184	1,000	100	100	1,000	100	100
Sandvik Tooling AB, Sandviken <sup>1)</sup>	556692-0038	1,000	100	100	1,000	100	100
Sandvik Tooling Sverige AB, Sandviken <sup>1)</sup>	556692-0053	1,000	100	100	1,000	100	100
AB Sandvik Tranan, Sandviken	556330-7817	1,000	100	9,088	1,000	100	9,088
Sandvik Utbildnings AB, Sandviken	556304-8791	910	91	91	910	91	91
AB Sandvik Vallhoven, Sandviken	556272-9680	6,840	100	1,800	6,840	100	1,800
Sandvik Västaby AB, Sandviken	556590-8075	1,000	100	100	1,000	100	100
AB Sandvik Västberga Service, Stockholm	556356-6933	1,000	100	100	1,000	100	100
Sandvik Örebro AB, Sandviken	556232-7949	10,000	100	167	10,000	100	167
AB Sandvik Önnen, Sandviken	556330-7783	1,000	100	120	1,000	100	120
Sandvikens Brukspersonals Byggnadsförening upa, Sandviken	785500-1686	—	100	0	—	100	0
Scandinavian Handtools AB, Sandviken	556093-5875	1,000	100	50	1,000	100	50
Steebide International AB, Sandviken	556048-3405	15,000	100	1,000	15,000	100	1,000
Tooling Support Halmstad AB, Halmstad	556240-8210	80,000	100	25,145	80,000	100	25,145
AB Trellebo, Sandviken	556251-6780	1,000	100	120	1,000	100	120
Walter Norden AB, Halmstad	556752-4698	15,000	100	1,500	—	—	100

## SHARES IN GROUP COMPANIES (CONT.)

### Sandvik AB's holdings of shares and participations in subsidiaries Direct holdings

		2008			2007		
According to the balance sheet at 31 December:	Company	No. of shares	Holding, %	Book value SEK 000's	No. of shares	Holding, %	Book value SEK 000's
AUSTRALIA	Sandvik Australia Pty. Ltd.	---	6 <sup>1)</sup>	1,202,442	---	6 <sup>1)</sup>	1,202,442
	Sandvik Australian Ltd. Partnership	---	99	---	---	99	---
BRAZIL	Dormer Tools S.A.	2,137,623,140	100	200,000	2,137,623,140	100	200,000
	Sandvik do Brasil S.A.	1,894,797,190	100	46,072	1,894,797,190	100	46,072
BULGARIA	Sandvik Bulgaria Ltd.	---	100	0	---	100	0
CHINA	Sandvik China Holding Co Ltd.	---	100	668,890	---	100	327,915
	Sandvik China Ltd.	---	100	190,666	---	100	190,666
	Sandvik International Trading (Shanghai) Co. Ltd.	---	100	17,466	---	100	17,466
	Sandvik Mining and Construction (China) Ltd.	---	100	44,468	---	100	44,468
	Sandvik Materials Technology (China) Ltd.	---	44 <sup>2)</sup>	109,053	---	44 <sup>2)</sup>	66,870
	Sandvik Process Systems (Shanghai) Ltd.	---	100	6,809	---	100	6,809
CZECH REPUBLIC	Sandvik CZ s.r.o.	---	100	0	---	100	0
GERMANY	Sandvik Materials Technology GmbH	---	1 <sup>3)</sup>	1,486	---	1 <sup>3)</sup>	1,486
	Sandvik Holding GmbH	---	1 <sup>3)</sup>	367	---	1 <sup>3)</sup>	367
GREECE	Sandvik A.E. Tools and Materials	5,529	100	1,567	5,529	100	1,567
HUNGARY	Sandvik Magyarorszag Kft.	---	100	3,258	---	100	3,258
INDIA	Sandvik Asia Ltd.	16,030,246	27 <sup>3)</sup>	277,028	16,030,246	27 <sup>3)</sup>	277,028
IRELAND	Sandvik Mining and Construction Logistics Ltd.	100	100	5,508	100	100	5,508
ITALY	Sandvik Sorting Systems S.p.A.	---	---	---	---	---	---
JAPAN	Sandvik K.K.	2,600,000	100	224,701	2,600,000	100	224,701
KENYA	Sandvik Kenya Ltd.	35,000	96	0	35,000	96	0
KOREA	Sandvik Korea Ltd.	752,730	100	46,856	752,730	100	46,856
MALI	Sandvik Mining and Construction Mali	25,000	100	3,462	25,000	100	3,462
MEXICO	Sandvik Mexicana S.A. de C.V.	406,642,873	90 <sup>3)</sup>	71,000	406,642,873	90 <sup>3)</sup>	71,000
MONGOLIA	Sandvik Mongolia LLC.	400,000	100	2,682	400,000	100	2,682
MOROCCO	Sandvik Maroc SARL	940	94	0	940	94	0
NETHERLANDS	Sandvik Finance B.V.	18,786	100	7,017,620	18,786	100	4,923,930
PERU	Sandvik del Perú S.A.	6,562,795	100	26,025	6,562,795	100	26,025
POLAND	Sandvik Baildonit S.A.	---	100	---	---	100	---
	Sandvik Polska Sp. z o.o.	3,211	100	93,197	3,211	100	93,197
SLOVAKIA	Sandvik Slovakia s.r.o.	---	100	1,238	---	100	1,238
SWITZERLAND	Sanfinanz AG	1,000	100	735	1,000	100	735
TURKEY	Sandvik Endüstriyel Mamüller Sanayi ve Ticaret A.Ş.	125,154,588	100	3,200	125,154,588	100	3,200
UK	Inhoco 3367 Ltd.	---	---	---	97,001	100	861,486
	Sandvik Medical Solutions Ltd.	---	---	---	1,320,714	100	938,385
ZIMBABWE	Sandvik Mining and Construction Zimbabwe (Pty) Ltd.	233,677	100	3,269	233,677	100	3,269
				<b>14,434,781</b>	<b>13,761,518</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 33%.

5) Shares up to an ownership interest of 97% are held by other Group companies.

### Sandvik AB's holdings of shares and participations in subsidiaries

#### Indirect holdings in operating Group companies

Group holding, %		2008 <sup>1)</sup>	2007 <sup>1)</sup>	Group holding, %		2008 <sup>1)</sup>	2007 <sup>1)</sup>
SWEDEN	Kanthal AB	100	100		Sandvik Mining and Construction Pty. Ltd. Australia	100	100
	Sandvik Mining and Construction Haparanda AB	100	100		Sandvik Mining and Construction Tomago Pty. Ltd.	100	100
	Sandvik Invest AB	100	100		Sandvik RC Tools Australia Pty. Ltd.	100	100
	Sandvik SRP AB	100	100		Sandvik Rotary Tools Australia Pty. Ltd.	100	100
	Sandvik SRP (Arbrå) AB	100	100		Walter Australia Pty. Ltd.	100	100
	Sandvik Treasury AB	100	100		Walter Austria GmbH	100	100
	Seco Tools AB	60 <sup>2)</sup>	60 <sup>2)</sup>	AUSTRIA	Sandvik BPI Bohrttechnik GmbH & Co. KG	100	100
ALGERIA	Sandvik Mining and Construction Algeria SpA	100	100		Sandvik in Austria Ges.m.b.H.	100	100
ARGENTINA	Sandvik Argentina S.A.	100	100		Sandvik Mining and Construction GmbH	100	100
	Walter Argentina S.A.	100	100		Sandvik Mining and Construction Materials Handling GmbH & Co. KG	100	100
AUSTRALIA	Hydramatic Engineering Pty. Ltd.	100	100	BELGIUM	Walter Benelux N.V./S.A.	100	100
	Sandvik Australia Pty. Ltd.	100	100	BRAZIL	Diamond Innovations Brasil	100	100
	Sandvik Shark Pty. Ltd.	100	100		Comércio E Importação Ltda.	100	100
	Sandvik Mining and Construction Perth Pty. Ltd.	100	100		Sandvik MGS S.A.	100	51
	Sandvik Mining and Construction Adelaide Pty. Ltd.	100	100				

# NOTES SHARES IN GROUP COMPANIES (CONT.)

## Sandvik AB's holdings of shares and participations in subsidiaries

Indirect holdings in operating Group companies

Group holding, %	2008 <sup>1)</sup>	2007 <sup>2)</sup>
CANADA		
Sandvik Mining and Construction do Brasil S.A.	100	100
Walter do Brasil Ltda.	100	100
Dormer Tools Inc.	100	100
Sandvik Canada Inc.	100	100
Sandvik Mining and Construction Canada Inc.	100	100
Valenite-Modco Ltd.	100	100
CHILE		
Sandvik Chile S.A.	100	100
Sandvik Exploration Equipment	100	100
CHINA		
Beijing Aubema Technology Company Ltd.	100	—
Sandvik Hard Materials (Wuxi) Co. Ltd.	100	100
Sandvik Round Tools Production Co. Ltd.	100	100
Sandvik Tooling Sales and Trade (Shanghai) Ltd.	100	100
Sandvik (Qingdao) Ltd.	100	100
Walter Wuxi Co. Ltd.	100	100
CROATIA		
Sandvik, za trgovinu d.o.o.	100	100
CZECH REPUBLIC		
Sandvik Chomutov Precision Tubes s.r.o.	100	100
Walter CZ s.r.o.	100	100
DENMARK		
Sandvik A/S	100	100
FINLAND		
Sandvik Mining and Construction Finland Corp.	100	100
Sandvik Mining and Construction Oy	100	100
FRANCE		
Safety S.A.S.	100	100
Sandvik CFBK S.A.S.	100	100
Sandvik Hard Materials France	100	100
Sandvik Materials Technology France S.A.S.	100	—
Sandvik Mining and Construction Lyon S.A.S.	100	100
Sandvik Mining and Construction France S.A.S.	100	100
Sandvik S.A.S.	100	100
Sandvik Tooling France S.A.S.	100	—
GERMANY		
ARO Hydramatic Europe GmbH	100	100
Aubema Crushing Technology GmbH	100	—
J&M Mining Supply GmbH	100	100
Prototyp-Werke GmbH	100	100
Safety Deutschland GmbH	100	100
Sandvik Customer Financing Europe GmbH	100	100
Sandvik Materials Technology Deutschland GmbH	100	100
Sandvik Mining and Construction		
Central Europe GmbH	100	100
Sandvik Mining and Construction Supply GmbH	100	100
Sandvik Tooling Deutschland GmbH	100	100
TDM Systems GmbH	75	75
Walter AG	100	100
Walter Deutschland GmbH	100	100
Werner Schmitt PKD-Werkzeug GmbH	100	100
GHANA		
Sandvik Mining and Construction Ghana Ltd.	100	100
HONG KONG		
Sandvik Hong Kong Ltd.	100	100
HUNGARY		
Walter Hungaria Kft.	100	100
INDIA		
Sandvik Mining and Construction Tools India Ltd.	97	97
Walter Tools India Pvt. Ltd.	100	100
INDONESIA		
PT Sandvik Indonesia	100	100
PT Sandvik Mining and Construction Indonesia	100	100
PT Sandvik SMC	100	100
IRELAND		
Diamond Innovations International Sales	100	100
Sandvik Ireland Ltd.	100	100
ITALY		
Dormer Italia S.p.A.	100	100
Impero S.p.A.	100	100
Sandvik Italia S.R.L.	100	100
SSC Holding Italia S.R.L.	100	100
Walter Italia S.R.L.	100	100
JAPAN		
Sandvik Mining and Construction Japan K.K.	100	100
Sandvik Tooling Supply Japan K.K.	100	100
Walter Tooling Japan K.K.	100	—
KAZAKHSTAN		
Sandvik Mining and Construction Kazakhstan	100	100
KOREA		
Sandvik Suhjun Ltd.	100	70
Walter Korea Ltd.	100	100
MALAYSIA		
Sandvik Malaysia Sdn. Bhd.	100	100
Sandvik Malaysia Wood Technology Sdn. Bhd.	100	100
Sandvik Mining and Construction (Malaysia) Sdn. Bhd.	100	100
Walter Malaysia Sdn. Bhd.	100	100
MEXICO		
Sandvik de México S.A. de C.V.	100	100
Valenite de México S.A. de C.V.	100	100
Sandvik Mining and Construction de México S.A. de C.V.	100	100
Walter Tools S.A. de C.V.	100	100
NETHERLANDS		
Sandvik Benelux B.V.	100	100
Sandvik DC Venlo B.V.	100	100
Sandvik Intellectual Property B.V.	100	100

Group holding, %	2008 <sup>1)</sup>	2007 <sup>2)</sup>
NFW		
ZEALAND		
Sandvik New Zealand Ltd.	100	100
Walter New Zealand Ltd.	100	100
NIGERIA		
Sandvik Mining and Construction Nigeria Ltd.	100	100
NORWAY		
Sandvik Norge A/S	100	100
Sandvik Riser Technology A/S	100	100
Teenness ASA	100	—
Sandvik Tamrock A/S	100	100
PERU		
Sandvik del Peru S.A.	100	100
PHILIPPINES		
Sandvik Philippines Inc.	100	100
Sandvik Tamrock (Philippines) Inc.	100	100
POLAND		
Walter Polska Sp. z o.o.	100	100
Sandvik Mining and Construction Sp. z o.o.	100	100
ROMANIA		
Sandvik SRL	100	100
RUSSIA		
LLC Sandvik	100	100
OOO Walter	100	100
Sandvik Mining and Construction CIS LLC	100	100
Sandvik-MKTC OAO	100	98
SERBIA/MONTENEGRO		
Sandvik Serbia/Montenegro d.o.o.	100	100
SINGAPORE		
Kanthal Electroheat (SEA) Pte. Ltd.	100	100
Sandvik Mining and Construction S.E. Asia Pte. Ltd.	100	100
Sandvik South East Asia Pte. Ltd.	100	100
Walter AG Singapore Pte. Ltd.	100	100
Sandvik d.o.o.	100	100
SLOVENIA		
SOUTH AFRICA		
ARO Mining (Pty) Ltd.	100	100
Sandvik Mining and Construction RSA (Pty) Ltd.	100	100
Sandvik (Pty) Ltd.	100	100
Sandvik Mining and Construction Delmas (Pty) Ltd.	100	100
SDS Mining Supplies (Africa) (Pty) Ltd.	100	100
SPAIN		
Sandvik Española S.A.	100	100
Walter Tools Iberica S.A.U.	100	100
SWITZERLAND		
Sandvik AG	100	100
Sansafe AG	100	100
Santrade Ltd.	100	100
Walter (Schweiz) AG	100	100
TAIWAN		
Sandvik Hard Materials Taiwan Pty. Ltd.	100	100
Sandvik Taiwan Ltd.	100	100
Walter 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
UK		
Dormer Tools Ltd.	100	100
Extec Screens and Crushers Ltd.	100	100
Fintec Crushing and Screening Ltd.	100	100
Kanthal Ltd.	100	100
Prototyp UK Ltd.	100	100
Safety Cutting Tools UK Ltd.	100	100
Sandvik Ltd.	100	100
Sandvik Medical Solutions Ltd.	100	100
Sandvik Mining and Construction Ltd.	100	100
Sandvik Osprey Ltd.	100	100
Walter GB Ltd.	100	100
UKRAINE		
Sandvik Ukraine	100	100
US		
Diamond Innovations Inc.	100	100
Diamond Innovations International Inc.	100	100
Extec Inc.	100	100
Kanthal Corp.	100	100
MRL Industries Inc.	100	100
Pennsylvania Extruded Tube Co.	70	70
Precision Twist Drill Co.	100	100
Sandvik Customer Finance LLC	100	100
Sandvik Inc.	100	100
Sandvik Medical Solutions Alabama LLC	100	100
Sandvik Medical Solutions Oregon Inc.	100	100
Sandvik Mining and Construction USA LLC	100	100
Sandvik Process Systems LLC	100	100
Sandvik Special Metals LLC	100	100
TDM Systems Inc.	100	100
Valenite LLC	100	100
Walter USA 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 89% (89).

## INVESTMENTS IN ASSOCIATED COMPANIES

Group	2008	2007
<b>Accumulated share of equity</b>		
At beginning of year	318	543
Acquisitions	91	6
Divestments	--	234
Share of profits for the year	16	119
Less dividend received	21	85
Translation differences during the year	21	1
<b>At end of year</b>	<b>485</b>	<b>348</b>

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

2008	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
<b>Owned directly by Sandvik AB</b>							
Balzer Sandvik Coating AB	Sweden	111	23	77	24	53	49.0
<b>Owned indirectly by Sandvik AB</b>							
AvestaPolarit Stainless Tube AB1)	Sweden	69	7	126	14	112	50.0
Caterpillar Impact Products Ltd.	UK	405	56	177	79	98	40.0
Eimco Elecon	India	175	20	213	43	170	25.1
Fagersta Stainless AB	Sweden	1,964	5	991	180	511	50.0
Fintec Crushing & Screening Ltd.	UK	54	1	107	17	90	49.0
Associates owned by Seco Tools		46	4	45	26	19	
<b>2007</b>							
<b>Owned directly by Sandvik AB</b>							
Balzer Sandvik Coating AB	Sweden	102	20	59	20	39	49.00
<b>Owned indirectly by Sandvik AB</b>							
Bellataire LLC	US	62	8	68	18	50	50.00
Caterpillar Impact Products Ltd.	UK	479	91	123	75	48	40.00
Eimco Elecon	India	157	14	223	71	152	25.10
Fagersta Stainless AB	Sweden	2,540	52	1,050	528	522	50.00
Associates owned by Seco Tools		78	4	48	30	18	

## Additional information

The reporting date of the financial statements of Eimco Elecon is 31 March 2008. Dividend paid in 2008 is included in reported results. No financial reports as of a later date have been obtainable.

Parent Company's shares in associated companies	2008	2007
<b>Cost</b>		
At beginning of year	4	4
<b>At end of year</b>	<b>4</b>	<b>4</b>

	Corp. Reg. No.	Share of capital and voting rights, %	Carrying value, SEK M
<b>2008</b>			
Balzer Sandvik Coating AB, Stockholm	556098-1333	49	4
<b>2007</b>			
Balzer Sandvik Coating AB, Stockholm	556098-1333	49	4

## OTHER FINANCIAL ASSETS

Group	2008	2007
<b>Non-current financial investments</b>		
Available-for-sale investments		
Shares and participations	78	79
<b>Total</b>	<b>78</b>	<b>79</b>

## Additional information

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

**NOTE 18. NON-CURRENT RECEIVABLES AND OTHER CURRENT RECEIVABLES**

Group	2008	2007
<b>Non-current receivables</b>		
Funded pension plans	1,542	1,035
Other noninterest-bearing receivables	438	525
Other interest-bearing receivables	532	469
<b>Total</b>	<b>2,512</b>	<b>2,029</b>
<b>Other current receivables</b>		
Derivatives held as investments	4	29
Derivatives designated as hedging instruments	3,204	571
Due from customers for contract work	1,138	1,129
Other noninterest-bearing receivables	2,533	1,919
Other interest-bearing receivables	439	280
Advances to suppliers	441	251
<b>Total</b>	<b>7,759</b>	<b>4,179</b>
Parent Company	2008	2007
<b>Non-current receivables</b>		
Derivatives	6	—
Other noninterest-bearing receivables	20	20
<b>Total</b>	<b>26</b>	<b>20</b>
<b>Other current receivables</b>		
Derivatives	19	103
Other noninterest-bearing receivables	200	407
Other interest-bearing receivables	14	8
<b>Total</b>	<b>233</b>	<b>518</b>
Group	2008	2007
Construction contracts		
Contract costs incurred and recognized profits (less recognized losses)	6,691	6,622
Advances received	885	770
Amounts retained by customers	0	0
Gross amount due from customers	1,138	1,129
Gross amount due to customers	207	414

**NOTE 19. INVENTORIES**

	Group		Parent Company	
	2008	2007	2008	2007
Raw materials and consumables	6,315	6,964	1,815	3,639
Work in progress	5,274	5,157	2,074	1,873
Finished goods	17,025	13,180	1,234	730
<b>Total</b>	<b>28,614</b>	<b>25,301</b>	<b>5,123</b>	<b>6,242</b>

Cost of sales of the Group includes write-downs of inventories of SEK 460 M (281) while cost of sales of the Parent Company includes write-downs of SEK 154 M (113). There were no significant reversals of write-downs during 2008 and 2007.

**NOTE 20. CAPITAL AND RESERVES**

	Group	
	2008	2007
Details of reserves		
<b>Translation reserve</b>		
At beginning of year	288	—512
Translation differences during the year	4,740	800
<b>At end of year</b>	<b>5,028</b>	<b>288</b>
<b>Hedging reserve</b>		
At beginning of year	80	0
Cash flow hedges reported in equity	—457	80
<b>At end of year</b>	<b>—377</b>	<b>80</b>
<b>Total reserves</b>		
Reserves at beginning of year	368	—512
<b>Changes in reserves:</b>		
Translation reserve	4,740	800
Hedging reserve	—457	80
<b>Reserves at end of year</b>	<b>4,651</b>	<b>368</b>

**Other paid-in capital**

Relates to payments made by owners and includes share premium reserve transferred to the legal reserve at 31 December 2006. Any share premium as from 1 January 2007 and onwards is also reported as paid-in capital.

**Reserves****Translation reserve**

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

**Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow hedging instruments related to hedged transactions that have not yet occurred.

**Retained earnings including profit for the year**

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

**Repurchased shares**

Repurchased shares include the acquisition cost for own shares (treasury stock) held by the Parent Company.

**Managing of capital****Sandvik's long-term financial objectives**

	2008	2007
Organic growth	8%	8%
Return on capital employed	25%	25%
Debt/Equity ratio	≥50%	0.7–1.0
Dividend payout percentage	0.7–1.0	≥50%

New financial objectives were announced in 2006. The objectives are based on Sandvik's strong development in recent years and assessments of the company's strengths and positioning in future. Sandvik's overall financial objectives are aggressive and based on the Group's position as world leading within its various product areas, a strong global presence, strong research and development efforts, and effective production and logistics.

Sandvik's organic growth goal is 8% per year to be compared with the underlying average growth of the market of 3–5% within Sandvik's fields of activities. The higher goal is based on:

- increased market shares in existing as well as new markets
- New products
- New application areas with great growth potentials.

**Equity**

Equity is defined to include total shareholders' equity and minority interest.

	2008	2007
Equity		
Share capital	1,424	1,424
Other paid-in capital	1,057	1,057
Reserves	4,651	368
Retained earnings including profit for the year	28,456	25,765
<b>Equity attributable to equity holders of the parent</b>	<b>35,588</b>	<b>28,614</b>
<b>Minority interest</b>	<b>1,137</b>	<b>1,209</b>
<b>Total equity</b>	<b>36,725</b>	<b>29,823</b>

The Board of Directors has proposed to the Annual General Meeting of Shareholders a dividend of SEK 3.15 per share. Over the last five years, slightly more than half of the earnings per share has been distributed as ordinary dividend. Thus, slightly more than half of the annual earnings per share has been distributed as ordinary dividends.

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.

## CAPITAL AND RESERVES (CONT.)

### Parent Company

#### Share capital

According to the Articles of Association of Sandvik AB the share capital shall amount to a minimum of SEK 700,000,000 and a maximum of SEK 2,800,000,000. All issued shares are fully paid, have the same voting rights and are equally entitled to the Company's assets.

Share capital during the last two years has changed as follows:

	No. of shares	SEK/share	Share capital SEK
Share capital at 31 December 2006	1,186,287,175	1.20	1,423,544,610
Share split at 22 May 2007, 2:1	1,186,287,175	—	—
Stock dividend 14 June 2007	—	0.60	711,772,305
Cancellation of redemption 20 June 2007	-1,186,287,175	-0.60	-711,772,305
Share capital 31 December 2007	1,186,287,175	1.20	1,423,544,610
Share capital 31 December 2008	1,186,287,175	1.20	1,423,544,610

A dividend is in accordance with the stipulations in the Swedish Companies' Act proposed by the Board of Directors and shall be approved at the Annual Meeting of Shareholders. The proposed not yet resolved dividend for 2008 is estimated to amount to SEK 3,737 M (SEK 3.15 per share). This amount is not reported as a liability.

No shares have been reserved for transfer under options or other agreements.

The Sandvik share is officially listed only on the Stockholm Stock Exchange. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

#### Undistributable reserves

Undistributable reserves may not be paid to the shareholders in the form of dividends.

#### Legal reserve

The purpose of the legal reserve has been to tie up part of the profits unless needed to cover an accumulated deficit. The legal reserve amount includes amounts that before 1 January 2006 were included in the share premium reserve.

#### Distributable reserves

##### Retained earnings

Retained earnings comprise the distributable reserves reported in the prior 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.

## PARENT COMPANY'S ACCELERATED DEPRECIATION

	Land and buildings	Plant and machinery	Equipment, tools and installations	Patents and similar rights	Total
Balance at 1 January 2007	1	2,202	195	32	2,430
Accelerated depreciation for the year	-1	-2,202	-195	-32	-2,430
Balance at 31 December 2007	—	—	—	—	—
Balance at 1 January 2008	—	—	—	—	—
Balance at 31 December 2008	—	—	—	—	—

## PARENT COMPANY'S OTHER UNTAXED RESERVES

	2008	2007
Tax allocation reserves	—	—
Other untaxed reserves	12	19
<b>Total other untaxed reserves</b>	<b>12</b>	<b>19</b>

## PROVISIONS FOR PENSION AND OTHER LONG-TERM POST-EMPLOYMENT BENEFITS

Sandvik provides direct pension solutions and otherwise participates in a number of defined benefit, defined contribution and other plans for long-term post-employment benefits to employees throughout the group. The plans are structured in accordance with local regulations and local practice. In recent years, Sandvik has sought defined contribution solutions and to an ever increasing extent the total pension expense is made up by the costs for such plans. In principle, the plans cover all employees. The Group's most significant pension arrangements are described below.

### Sweden

Workers are covered by the SAF/LO Plan which is a multiemployer collectively bargained defined contribution pension plan common for several industry sectors. Salaried employees are covered by the ITP Plan, which is also a multiemployer collectively bargained pension plan for several industry sectors. The ITP Plan was renegotiated and, as from October 2007, newly hired white-collar employees are offered the defined contribution solution that the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector agreed on (ITP 1). Earlier hired employees

remain in the old ITP Plan. The old-age pension obligation under the old plan is of the defined benefit kind and Sandvik mainly provides for this pension under the so-called FPG/PRI system. However, the commitment for family pension, also classified as a defined benefit plan, is insured with Alecta. Sufficient information to use defined benefit accounting for this plan has not been available but these pension benefits insured with Alecta are accounted for as if the plan were a defined contribution plan. At the end of 2008, Alecta reports a plan surplus of 112% (152). Such surplus reflects the fair value of Alecta's plan assets as a percentage of plan commitments, then measured in accordance with Alecta's actuarial assumptions which are different from those under IAS 19. Alecta's surplus may be distributed to the members of the plan and/or to the plan participants.

In addition, the Parent Company has made supplementary defined benefit pension commitments to a limited number of Executive Group Management members.

At 31 December 2008, the defined benefit obligation amounted to SEK 2,106 M (1,900). The fair value of the plan assets held by the Sandvik Pension Foundation in Sweden was SEK 1,665 M (1,895).

**NOTE 11. PROVISIONS FOR PENSION AND OTHER LONG-TERM POST-EMPLOYMENT BENEFITS (CONT.)****US**

The major part of the employees of the Group's US subsidiaries have been entitled to participate in the defined benefit pension plans sponsored by their respective employer. As of the preceding year, these commitments have been renegotiated meaning that newly hired staff will henceforth be offered a defined contribution solution. The defined benefit plans were closed for new entrants.

In the US part of the Group, there are also commitments for post-retirement medical benefits.

At 31 December 2008, the present value of remaining defined benefit pension obligations amounted to SEK 3,293 M (2,448). The fair value of plan assets was SEK 2,059 M (2,028).

**UK**

Sandvik guarantees a number of defined benefit pension plans in the UK. These plans are funded through trusts, which provide pension benefits based on a participant's salary when reaching pension age and length of service. All defined benefit plans were closed for new entrants in September 2006. Newly hired employees since then are being offered to participate in a defined contribution plan.

At 31 December 2008, the present value of remaining defined benefit pension obligations amounted to SEK 3,732 M (4,441) and the fair value of plan assets was SEK 3,234 M (3,776).

**Finland**

In Finland, Sandvik sponsors a funded defined benefit pension plan. The benefits offered include an old-age pension and disability pension. In addition to the benefits guaranteed by the Finnish subsidiary, there is also a defined contribution pension component.

At 31 December 2008, the present value of the defined benefit pension obligations was SEK 2,101 M (2,077). The fair value of the plan assets held by the related Finnish pension foundation was SEK 2,455 M (2,466).

**Germany**

In Germany, Sandvik has defined benefit pension plans. Until 2008, these plans were unfunded. During 2008, Sandvik formed a foundation, a so-called Contractual Trust Agreement (CTA), which covers the current employees within most of Sandvik's German companies. The pension commitments for retirees and paid-up policyholders are still unfunded. The present value of the defined benefit obligations amounted at 31 December 2008 to SEK 1,709 M (1,578). The fair value of the plan assets amounts to SEK 778 M (0).

**Other**

The present value of defined benefit pension obligations in other countries was SEK 1,882 M (1,645). The fair value of related plan assets was SEK 1,230 (1,066).

The total cost for the more significant defined benefit pension plans is presented below:

	2008	2007
Pension cost		
Current service cost	-414	-407
Interest cost	-734	-658
Expected return on plan assets	734	638
Amortization of unrecognized gains and losses	-10	-5
Prior service costs	-5	-1
Employee contributions	55	47
Gains (losses) on settlements	15	23
<b>Total defined benefit pension cost</b>	<b>-359</b>	<b>-363</b>

Total pension costs for defined contribution and defined benefit plans were as follows:

	2008	2007
Defined contribution and defined benefit plans		
Defined contribution plans	-1,065	-1,029
Defined benefit plans	-359	-363
<b>Total pension cost</b>	<b>-1,424</b>	<b>-1,392</b>

The cost for defined contribution plans includes also plans reported in accordance with local regulations and the cost for the defined benefit commitments insured with Alecta described to the left.

Actual return on plan assets during 2008 was a negative SEK 1,353 M (pos: 607).

Pension costs are included in the income statement lines cost of sales, selling expenses, administrative expenses, research and development costs, and financial expense. Financial expense includes a portion, SEK 206 M (170), of the interest cost above that pertains to deficits in pension plans.

If the fair value of plan assets for a certain pension plan exceeds the present value of the obligation, an asset is recognized considering the restrictions described in the "Significant accounting principles" section above. The amounts recognized in the balance sheet are distributed between non-current financial receivables and provisions as follows:

	2008	2007
Provision for pensions		
Funded plans reported as non-current receivables	1,542	1,035
Pension plans reported as provisions for pensions	-2,735	-3,100
<b>Provisions for pensions, net</b>	<b>-1,193</b>	<b>-2,065</b>

Actuarial gains and losses for a specific plan are recognized over the expected average remaining working lives of the employees participating in the plan to the extent that the total gain or loss exceeds the greater of 10% of the present value of the obligations or 10% of the fair value of any plan assets.

A summary of the reported net obligation for the most significant plans for defined benefit pensions and medical benefits follows:

	2008	2007
Net obligation		
<b>Wholly or partly funded plans</b>		
Present value of defined benefit obligations	-12,940	-11,758
Fair value of plan assets	11,421	11,231
<b>Net liability, funded plans</b>	<b>-1,519</b>	<b>-527</b>

**Unfunded plans**

	2008	2007
Present value of defined benefit obligations	-1,883	-2,331
Unrecognized past service costs	34	32
Unrecognized actuarial losses (+) and gains (-), net	2,353	932
Pension liability for plans reported in accordance with IAS 19	-1,015	-1,894
Pension liability for plans reported in accordance with local regulations	-178	-171
<b>Provisions for pensions/medical benefits, net</b>	<b>-1,193</b>	<b>-2,065</b>

The consolidation ratio, that is, the value of plan assets in relation to the present value of comparable obligations, amounted at year-end 2008 to 88% (96).

	2008	2007
Composition of plan assets, %		
Shares and equity based securities	26	38
Interest-bearing securities	56	48
Other	18	14
<b>Total</b>	<b>100</b>	<b>100</b>

The fair value of plan assets at 31 December 2008 (and 31 December 2007) includes loans to Sandvik entities totaling SEK 153 M (154) and the value of properties leased to Sandvik of SEK 255 M (200).

Movements in the reported obligations for pensions and medical benefits, and in plan assets are set out in the following tables:

	2008	2007
Movements in the obligations		
Obligations for defined benefit plans at beginning of year	-14,089	-13,417
Current service cost and interest cost	-1,149	-1,065
Pensions paid	554	548
Effects of business combinations and settlements	-161	-253
Actuarial gains(+)/losses(-)	775	-83
Translation differences	-753	181
<b>Obligations for defined benefit plans at end of year</b>	<b>-14,823</b>	<b>-14,089</b>

## PROVISIONS FOR PENSION AND OTHER LONG-TERM POST-EMPLOYMENT BENEFITS (CONT.)

	2008	2007
Movements in plan assets		
Fair value of plan assets at beginning of year	11,231	10,417
Expected return on plan assets	734	638
Actuarial gains(+) / losses(-)	-2,087	31
Pensions paid, net	503	501
Contributions from employers	1,380	625
Effects of business combinations and settlements	195	250
Translation differences	-471	-167
<b>Fair value of plan assets at end of year</b>	<b>11,421</b>	<b>11,231</b>

Sandvik estimates that about SEK 700 M will be paid in 2009 to existing defined benefit pension plans.

The movements in the net pension and medical-benefit liability is presented in the following table:

	2008	2007
Net liability at beginning of year	-2,065	-2,286
New plans, incl. those of newly acquired companies	-7	-44
Pension cost for the year for defined benefit plans	-359	-363
Contributions from Group companies	1,380	625
Translation differences	-135	32
<b>Movement in net liability for defined benefit plans reported in accordance with IAS 19</b>	<b>879</b>	<b>250</b>

Movement in pension plans reported in accordance with local regulations	-7	-29
<b>Provisions for pensions, net</b>	<b>-1,193</b>	<b>-2,065</b>

Key actuarial assumptions (weighted average, %)	2008	2007
Discount rate	5.7	5.3
Expected return on plan assets	6.2	6.5
Expected rate of salary increases	3.5	3.6
Expected inflation	2.7	2.5
Change in medical cost trend	9.0	9.0

	2008	2007	2006
Unrecognized actuarial gains (-) and losses (+)			
Unrecognized gains and losses at beginning of year	932	856	778
Changed assumptions relating to obligations	-746	-137	318
Experience adjustments arising on plan liabilities	-30	167	82
Experience adjustments arising on plan assets	2,087	31	-232
Amortization of actuarial gains and losses	-10	-5	-45
Translation difference	120	20	-75
<b>Unrecognized gains and losses at end of year</b>	<b>2,353</b>	<b>932</b>	<b>856</b>

### Parent Company

The Parent Company's reported pension provision was SEK 128 M (108). The Parent Company's PRI pensions are secured through Sandvik's own pension foundation, the Sandvik Pension Foundation in Sweden. Sandvik AB and most of its Swedish subsidiaries, including Seco Tools, are members of the foundation. The fair value of the assets held by the foundation was SEK 1,665 M (1,895), which was below the capital value of the pension obligations by SEK 72 M (exceeded by 366).

The Parent Company's funded obligations are mainly the ITP plans, in which different lifetime assumptions were made during the year, while at the same time the consolidation reserve was reduced. In total, the changes had only a limited effect on the reported liability.

The Swedish Financial Supervisory Authority's (Finansinspektionen) new calculation basis, FFS 2007:31, which covers the Parent Company's unfunded obligations, became effective 1 January 2008 and means increased lifetime assumptions and reduced discount rates.

The development of the Parent Company's pension obligations appears in the following table:

	Funded obligations	Unfunded obligations	Total
<b>2008</b>			
Capital value at beginning of year	-1,247	95	-1,342
Pension cost for the year excl. interest cost	-63	-12	75
Interest cost	-52	-1	-53
Pensions paid	32	5	37
+/- effects of settlements and business combinations	0	—	0
Other changes	-18	-14	-32
<b>Capital value at end of year</b>	<b>-1,348</b>	<b>-117</b>	<b>-1,465</b>
of which insured with FPG/PRI	-1,337	-46	-1,383

	Funded obligations	Unfunded obligations	Total
<b>2007</b>			
Capital value at beginning of year	-1,163	-93	-1,256
Pension cost for the year excl. interest cost	-53	-6	-59
Interest cost	-41	-2	-43
Pensions paid	34	6	40
+/- effects of settlements and business combinations	-6	—	-6
Other changes	-18	—	-18
<b>Capital value at end of year</b>	<b>-1,247</b>	<b>-95</b>	<b>-1,342</b>
of which insured with FPG/PRI	-1,234	-28	-1,262

	2008	2007
Movement in the assets of the pension foundation		
Fair value of assets at beginning of year	1,475	1,452
Actual return on assets	-202	23
Net amount refunded to employers	24	—
<b>Fair value of assets at end of year</b>	<b>1,297</b>	<b>1,475</b>
Reconciliation of the reported pension liability:		
Capital value at end of year	-1,465	-1,342
Fair value of the assets of the foundation at end of year	1,297	1,475
Surplus/deficit value of foundation assets	-40	-241
<b>Reported net liability</b>	<b>-128</b>	<b>-108</b>

The reported pension cost for the year comprises the following:

	2008	2007
Current service cost excl. interest cost	-75	-59
Interest cost	-53	-43
Return on separated assets	-202	23
Effects of settlements, etc.	—	—
<b>Costs for pension under own management</b>	<b>-330</b>	<b>-79</b>
Defined contribution plans		
Pension premiums for the year	-397	-320
<b>Subtotal</b>	<b>-727</b>	<b>-399</b>

	2008	2007
Special employer's contribution	-91	-79
Premium for credit insurance policy	2	-1
<b>Total pension cost for the year</b>	<b>-816</b>	<b>-479</b>
Change in surplus value of separated assets	330	79
<b>Net pension cost for the year</b>	<b>-486</b>	<b>-400</b>

Composition of the foundation's assets, %	2008	2007
Shares and equity based securities	13	20
Interest-bearing securities	77	76
Other	10	4
<b>Total</b>	<b>100</b>	<b>100</b>

Key actuarial assumptions %	2008	2007
Discount rate for ITP plan	3.84	3.64



**OTHER PROVISIONS**

Group	Provisions for warranties	Provisions for restructurings	Personnel related provisions	Other provisions	Total
Balance at 1 January 2008	379	190	370	331	1 270
Provisions made during the year	220	64	189	181	954
Provisions used during the year	206	104	142	279	731
Provisions reversed during the year	12	1	1	6	20
Translation differences	33	11	5	18	67
Balance at 31 December 2008	414	160	421	515	1 510
of which current	211	31	136	356	734
of which non-current	203	129	285	189	806
Parent Company					
Balance at 1 January 2008	27	0	114	13	154
Provisions made during the year	2	—	50	25	77
Provisions used during the year	4	—	34	—	38
Provisions reversed during the year	—	—	5	—	5
Balance at 31 December 2008	25	0	125	38	188

**Provisions for warranties**

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

**Provisions for restructuring**

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

**Personnel related provisions**

The provisions include, among other things, provisions for long-term variable salary, social costs, outstanding personnel options and the special employer's contribution relating to unsecured pensions.

**Other provisions**

Other provisions include provisions not classified into the above categories, such as provisions for onerous contracts, for lease commitments relating to abandoned premises, and for environmental issues.

Provisions classified as current are expected to result in an outflow of resources within twelve months from the balance sheet date.

Provisions earned by newly acquired companies at acquisition date amounted to some SEK 12 M (35).

**NON-CURRENT INTEREST-BEARING LIABILITIES****Parent Company**

Non-current interest-bearing liabilities fall due as follows:

Group	2008		Total	2007		Total
	Within 1–5 years	Later than five years		Within 1–5 years	Later than five years	
Loans from financial institutions	1,190	463	1,653	1,255	463	1,718
Loans from Group companies	122	—	122	30	—	30
Other liabilities	8,168	2,423	10,591	7,707	2,424	10,131
<b>Total</b>	<b>9,480</b>	<b>2,886</b>	<b>12,366</b>	<b>8,992</b>	<b>2,887</b>	<b>11,879</b>

**OTHER INTEREST-BEARING LIABILITIES**

Group	2008	2007
<b>Non-current liabilities</b>		
Bond issues	17,528	15,203
Other	360	492
<b>Total</b>	<b>17,888</b>	<b>15,695</b>
<b>Current liabilities</b>		
Bond issues	2,776	1,025
Other	149	286
<b>Total</b>	<b>3,225</b>	<b>1,311</b>

For information on contractual terms, scheduled repayments and the exposure to interest risk and foreign-currency risk, refer to the section "Sandvik's risks and risk management".

**OTHER NONINTEREST-BEARING LIABILITIES**

Group	2008	2007
<b>Other non-current liabilities</b>		
Derivatives held for trading	38	1
Derivatives designated as hedging instruments	296	54
Other	64	74
<b>Total</b>	<b>398</b>	<b>129</b>
<b>Other current liabilities</b>		
Derivatives held for trading	20	3
Derivatives designated as hedging instruments	1,109	224
Bills payable	185	131
Gross amount due to construction contract customers	207	414
Other	1,791	1,396
<b>Total</b>	<b>3,312</b>	<b>2,168</b>

**ACCRUED EXPENSES AND DEFERRED INCOME**

Parent Company	2008	2007
Personnel related	1,159	1,344
Expenses related to finance	386	404
Other	635	988
<b>Total</b>	<b>2,180</b>	<b>2,336</b>

## CONTINGENT LIABILITIES AND PLEDGED ASSETS

From time to time, Sandvik is party to more or less significant legal proceedings in the ordinary course of business. In that context, Sandvik is also party to legal and administrative proceedings related to its responsibility for products, environment, health and safety. None of these proceedings is of a material nature.

As with a large number of other companies that market and sell welding electrodes in the US, Sandvik's US subsidiary, Sandvik Inc., is the object of claims in which it is asserted that the exposure to welding fumes caused neurological injury. All of these cases involve multiple defendants in addition to Sandvik Inc. The Company has not lost any lawsuit or settled any such claims, and the only costs incurred have been the costs of defending the lawsuits, which have been covered by insurance.

To obtain a favorable result against Sandvik Inc., a plaintiff would have to prove that the neurological injury was caused by welding electrodes sold by Sandvik Inc. Sandvik Inc.'s market share for welding electrodes in the US is low, less than 1%.

Many of the cases against Sandvik Inc. have been dismissed because the plaintiff could not show that they had used Sandvik Inc.'s welding electrodes. Sandvik believes that there is no reliable scientific evidence to support the claims but – despite such absence of evidence, and considering also the minimal market share anticipates that Sandvik Inc. will have to continue to defend itself against this kind of claims in lawsuits and that the possibility that Sandvik Inc. in future will incur costs for this kind of legal proceedings cannot be ruled out.

	Group		Parent Company	
	2008	2007	2008	2007
Contingent liabilities				
Bills discounted	22	65	—	—
Other surety undertakings and contingent liabilities	1 838	2 392	17 316	16 068
<b>Total</b>	<b>1 860</b>	<b>2 457</b>	<b>17 316</b>	<b>16 068</b>
of which for subsidiaries			17 122	15 762

The Parent Company's surety undertakings and contingent liabilities amounted to SEK 17,316 M, SEK 13,941 M of which related to the Parent Company's guarantees for Sandvik Treasury AB's financial borrowings. The remainder comprised mainly indemnity bonds for commitments of Group companies to their customers and vendors, and to financial institutions relating to local borrowings, guarantees on advances received and various types of performance bonds.

The Group's surety undertakings and contingent liabilities amounted to SEK 1,860 M and comprised mainly guarantees to financial institutions for various types of performance bonds, chiefly relating to construction contracts entered into by Sandvik Mining and Construction.

### Pledged assets

Pledged assets for own liabilities and provisions.

	2008	2007
Group		
Property mortgages	250	217
Chattel mortgages	166	42
<b>Total</b>	<b>416</b>	<b>259</b>

No assets of the Parent Company had been pledged at 2008 and 2007 year-ends.

## RELATED PARTIES

The Group's sales to associated companies amounted to SEK 1,756 M (2,131). The Group's purchases from associated companies amounted to SEK 564 M (803). Advances have been made to associated companies in the amount of SEK 0 M (0). Interest income on loans to associated companies amounted to SEK 0 M (1). Guarantees have been made for the obligations of associated companies in the amount of SEK 0 M (0). All transactions are carried out on market terms.

Sales to Group companies from the Parent Company amounted to SEK 15,362 M (14,791), or 75% (72) of total sales. The share of exports was 79% (83). The Parent Company's purchases from Group companies amounted to SEK 2,306 M (2,610), or 13% (13) of total purchases. The Parent Company had not made any advances to associated companies. Guarantees have been made for obligations of associated companies in the amount of SEK 0 M (0). All transactions are effected on an arm's length basis.

### Transactions with key management personnel

Except as indicated in Note 3.5, Information on benefits to the Board of Directors and senior executives, and in the description of the Board of Directors on page 96, no transactions with related natural persons have taken place.

## SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENTS

	2008	2007
<b>Cash and cash equivalents – Group</b>		
Cash and cash equivalents comprise:		
Cash and bank	3,112	1,927
Short-term investments	1,886	79
Total in the balance sheet	4,998	2,006
Total in the cash-flow statement	4,998	2,006

### Cash and cash equivalents – Parent Company

Cash and cash equivalents comprise:		
Cash and bank	3	6
Total in the balance sheet	3	6
Total in the cash-flow statement	3	6

A short-term investment is classified as 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	
	2008	2007	2008	2007
<b>Interest and dividend paid</b>				
Dividend received	3	1	6,757	6,005
Interest received	383	257	545	529
Interest paid	-2,169	-1,381	-1,403	-1,029
<b>Total</b>	<b>-1,783</b>	<b>-1,123</b>	<b>5,899</b>	<b>5,505</b>

### Adjustment for items do not require the use of cash

Amortization, depreciation and impairment losses	3,481	3,077	635	581
Changes in fair value of financial instruments	—	—	547	-178
Unappropriated results of associated companies	-24	-37	—	—
Gains and losses on disposal of property, plant and equipment	-60	-152	-1	15
Provisions for pensions	-299	-253	20	2
Appropriations	—	—	-7	-3,063
Unrealized exchange-rate differences	—	—	-678	30
Other	241	-185	-118	75
<b>Total</b>	<b>3,339</b>	<b>2,450</b>	<b>398</b>	<b>-2,538</b>

	2008	2007
<b>Acquisitions of subsidiaries and other business operations – Group</b>		
Net assets acquired:		
Non-current assets	865	6,323
Inventories	138	935
Operating receivables	116	641
Cash and cash equivalents	10	385
Total assets	1,129	8,284
Provisions	-38	-44
Operating liabilities	-109	-919
Other liabilities	-155	-772
Total provisions and liabilities	-302	-1,735
Purchase consideration recognized as a liability	-16	-308
Purchase consideration paid	-811	-6,241

### SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT (CONT.)

	2008	2007
<b>Acquisition of minority interests in subsidiaries</b>		
Purchase consideration paid	153	---
Less cash and cash equivalents acquired	10	385
Effect on cash and cash equivalents	-954	-5,856

	2008	2007
<b>Divestments of subsidiaries and other business operations – Group</b>		
Net assets divested:		
Non-current assets	-20	94
Inventories	-46	-43
Operating receivables	-31	363
Cash and cash equivalents	0	-41
Total assets	-97	-541
Provisions	3	77
Operating liabilities	29	261
Other liabilities	---	70
Total provisions and liabilities	32	408
Purchase consideration received	111	404
Less cash and cash equivalents of divested operations	0	-41
Effect on cash and cash equivalents	111	363

### BUSINESS ACQUISITIONS

The business acquisitions effected during 2007 and 2008 are set out below. Annual revenue and number of employees reflect the situation at the time of the respective acquisition.

#### Annual revenue and number of employees

Business area	Company	Acquisition date	Annual revenue	No. of employees
Sandvik Mining and Construction	Shark Abrasion Systems, Australien	17 January 2007	70	10
Sandvik Mining and Construction	Hydramatic Engineering, Australien	28 February 2007	330	290
Sandvik Tooling	Diamond Innovations, USA	15 March 2007	>1 000	600
Sandvik Mining and Construction	Extec Screens and Crushers Ltd., Storbritannien	31 May 2007	1 800	450
Sandvik Mining and Construction	Fintec Crushing and Screening Ltd., Storbritannien	31 May 2007	560	325
Sandvik Materials Technology	Doncasters Medical Technologies, Storbritannien	13 July 2007	500	430
Sandvik Materials Technology	JKB Medical Technologies, USA	14 December 2007	90	90
Sandvik Mining and Construction	JN Precise, Kanada	28 January 2008	100	70
Sandvik Materials Technology	Medtronic Inc, USA (del av)	1 February 2008	140	110
Sandvik Mining and Construction	Corstor International, Sydafrika	29 February 2008	70	100
Sandvik Mining and Construction	Aubema, Tyskland	3 April 2008	160	80
Sandvik Mining and Construction	Sanslip, Sverige	7 April 2008	15	9
Sandvik Materials Technology	Eurocut Ltd., Storbritannien	2 May 2008	60	60
Sandvik Tooling	Teeness ASA, Norge	30 May 2008	200	105
Seco Tools	ALG, Ryssland	5 May 2008	100	170
Sandvik Tooling	BTA Heller Drilling Systems Ltd.	16 January 2009	33	12

In all of the business combinations during 2008, Sandvik acquired 100% of the shares. No equity instruments have been issued in connection with the acquisitions.

JN Precise is a supplier of tools and components for exploration drilling. The unit is based in Canada.

Sandvik reached an agreement at the end of 2007 with Medtronic Inc to acquire a production unit specialized in medical instruments for spinal surgery. The unit is based in Memphis, Tennessee in the US.

Corstor International is a company that manufactures and sells systems for borehole core storage and handling for the mining exploration industries.

Aubema offers advanced solutions for crushing of coal, limestone and other types of industrial minerals, salt, fertilizing agents and other types of soft minerals. The head office and largest production unit is in Bergneustadt, Germany.

Sanslip manufactures machines for regrinding drill bits. Operations are conducted in Sandviken, Sweden.

Eurocut Ltd. manufactures medical instruments and implants of the orthopedic sector. The customers are leading medical-technology companies that sell directly to hospitals and medical clinics. Operations are carried out from Sheffield, UK.

Teeness ASA is a market leader in development and production of vibration-dampening tools. The acquisition strengthens Sandvik Tooling's offering to the aerospace, energy and other industries. The unit is based in Trondheim, Norway.

On 5 May 2008, Seco Tools acquired 100% of the shares in the Russian tool manufacturer ALG based on Moscow. The acquisition is part of Seco Tools' aim to be actively present in the large industrial markets in the world. With its focus on customers in metal cutting and wear parts, ALG is considered a strong brand on the Russian market and is one of the three leading producers in the country.

In December 2008, Sandvik reached an agreement to acquire the British company BTA Heller Drilling Systems Ltd. The company specializes in advanced tooling solutions for deep-hole drilling in complex materials. Annual revenues amount to about SEK 33 M, with 12 employees. The company is located in Cirencester, UK.

Goodwill has been recognized as a result of synergy effects, for example in the form of improved production processes, integration of production capacity, joint research and development activities and synergies in the distribution chain arising from added products.

## BUSINESS ACQUISITIONS (CONT.)

Pre-acquisition carrying amounts determined under IFRS and fair value adjustments of assets and liabilities of the acquired companies are presented by business area in the following tables:

### Sandvik Tooling

	2008		2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition
Intangible assets	—	28	132
Property, plant and equipment	129	—	647
Financial investments	8	—	59
Inventories	27	—	319
Current receivables	14	—	211
Cash and cash equivalents	2	—	149
Interest-bearing liabilities	-113	—	-39
Noninterest-bearing liabilities	30	7	-133
Net identifiable assets and liabilities	37	21	1,045
Goodwill			729
Purchase consideration			1,774
Cash and cash equivalents of acquired businesses			-149
Net cash outflow			1,625

### Sandvik Mining and Construction

	2008		2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition
Intangible assets	51	—	975
Property, plant and equipment	32	2	280
Financial investments	—	—	23
Inventories	59	—	562
Current receivables	65	—	345
Cash and cash equivalents	7	—	182
Interest-bearing liabilities	-41	—	-238
Noninterest-bearing liabilities	-96	—	-902
Net identifiable assets and liabilities	77	2	1,227
Earlier investment in associated company			-61
Goodwill			1,587
Purchase consideration			2,753
Cash and cash equivalents of acquired businesses			-182
Part of consideration entered as a liability			-308
Net cash outflow			2,263

### Sandvik Materials Technology

	2008		2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition
Intangible assets	—	—	284
Property, plant and equipment	71	2	119
Financial investments	—	—	13
Inventories	39	—	58
Current receivables	—	—	97
Cash and cash equivalents	—	—	54
Interest-bearing liabilities	—	—	-1
Noninterest-bearing liabilities	—	—	-172
Net identifiable assets and liabilities	110	2	452
Goodwill			1,570
Purchase consideration			2,022
Cash and cash equivalents of acquired businesses			-54
Net cash outflow			1,968

**BUSINESS ACQUISITIONS (CONT.)****Seco Tools**

		2008		2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition	Recognized value on acquisition
Intangible assets	—	10	10	—
Property, plant and equipment	40	3	37	—
Inventories	9	1	10	—
Current receivables	32	—	32	—
Cash and cash equivalents	1	—	1	—
Interest-bearing liabilities	-21	—	-21	—
Noninterest-bearing liabilities	-19	9	-28	—
Net identifiable assets and liabilities	42	-1	41	—
Goodwill	—	—	59	—
Purchase consideration	—	—	100	—
Cash and cash equivalents of acquired businesses	—	—	-1	—
Finalized purchase consideration	—	—	-14	—
Net cash outflow	—	—	85	—

**Total fair value of assets and liabilities of acquired businesses**

		2008		2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition	Recognized value on acquisition
Intangible assets	51	38	89	1,391
Property, plant and equipment	272	1	273	1,046
Financial investments	8	—	8	95
Inventories	134	1	135	939
Current receivables	111	—	111	653
Cash and cash equivalents	10	—	10	385
Interest-bearing liabilities	-175	—	-175	-278
Noninterest-bearing liabilities	-145	-16	-161	-1,507
Net identifiable assets and liabilities	266	24	290	2,724
Earlier investment in associated company	—	—	—	-61
Goodwill	—	—	474	3,886
Purchase consideration	—	—	764	6,549
Cash and cash equivalents of acquired businesses	—	—	-10	-385
Part of consideration entered as a liability	—	—	-16	-308
Net cash outflow	—	—	738	5,856
of which directly attributable acquisition costs	—	—	12	-49

No material adjustments have been made to the fair values of assets and liabilities of businesses acquired during 2007.

**Contributions from companies  
acquired during 2008 by business area**

	Sandvik Tooling	Sandvik Mining and Construction	Sandvik Materials	Seco Tools	Total
<b>Contributions as from acquisition date</b>					
Revenue	0	205	100	65	370
Net profit (loss)	8	-2	-28	5	-17
<b>Contributions as though the acquisition date had been 1 January 2008</b>					
Revenue	0	269	119	102	490
Net profit (loss)	14	1	-33	6	-12

**Contributions from companies  
acquired during 2007 by business area**

	Sandvik Tooling	Sandvik Mining and Construction	Sandvik Materials	Total
<b>Contributions as from acquisition date</b>				
Revenue	836	1,673	263	2,772
Net profit (loss)	-33	40	16	23
<b>Contributions as though the acquisition date had been 1 January 2007</b>				
Revenue	1,056	2,758	572	4,386
Net profit (loss)	-31	98	35	102

**Acquisition of minority interests**

On 15 May 2008, an additional 49% was acquired in Sandvik MGS S.A., on 23 July 2.1% in Sandvik MKTC-OAO and on 31 October 30% in Sandvik Shujun Ltd. As a result, the ownership in these companies rose to 100%. Accordingly, the Group reports a decline in minority interests of SEK 162 M.

## PARENT COMPANY PARTICULARS

Sandvik Aktiebolag, corporate registration number 556000-3468, is a registered Swedish limited liability company domiciled in Sandviken. The head office address is Sandvik AB, SE-811 81 Sandviken, Sweden.

Sandvik's shares are quoted on the Stockholm Stock Exchange. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

The 2008 consolidated financial statements comprise the Parent Company and all its subsidiaries, together the Group. The Group also includes the owned share of investments in associated companies.

## INFORMATION ON SHARES, OWNERS AND RIGHTS

The Parent Company has issued one series of shares and each share carries one vote. The total number of shares shall be not less than 1,000,000,000 and no more than 1,000,000,000.

At the end of 2008, 1,186,287,175 shares with a quota value of SEK 1.20 per share had been issued. Shareholders have a preferential right to subscribe to newly issued shares issued for cash or with terms and conditions concerning rights of setoff. All shares are fully negotiable.

Shareholdings that directly and indirectly represent at least 10% of the voting rights are held by AB Industrivärden (11.50%). At year-end, Capital Group Inc. was one of the largest shareholders in Sandvik, with about 10% of the share capital. Since these shares are trustee registered, Sandvik does not have full insight into their total holdings.

Sandvik AB's Articles of Association among other things govern the direction of the business, domicile and share capital. The articles further stipulate that the members of the Board of Directors shall be elected at the Annual Meeting of Shareholders. Board representatives of the employees are appointed by the trade unions under the Private Sector Employees (Board Representation) Act.

Borrowing agreements entered into by Sandvik AB include conditions coming into effect should the control of the Company change as a result of a public takeover bid.

There are no agreements between the Company and its directors or employees if those persons give notice of termination, or their services are improperly terminated, or the employment is terminated as a consequence of a public takeover bid.

# Board statement on dividend proposal

Board statement in accordance with Chap. 18, Section 4 and Chap. 20, section 8 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. The company's sensitivity to economic fluctuations is not different from that of other companies in the industry. For information on significant events, we refer to the Report of the Directors.

The company's financial position at 31 December 2008 appears from this annual report which shows a net debt/equity ratio of 0.9 (1.0). Such ratio is no different from what is frequently displayed in the industry. The proposed dividend does not infringe on investments deemed to be required. In addition, the

company's liquidity reserve at the end of the year in the form of unutilized credit facilities is about EUR 1,500 M, which means that the Company should reasonably be able to meet unexpected events and temporary fluctuations in cash flows of reasonable proportions. The company's financial position supports the assessment that the company will be able to continue in business and meet its obligations in both the short and long term.

In view of the above and based on what the Board is otherwise aware, the proposed dividend in the Board's opinion is justified considering the requirements which the nature, extent and risks associated with the operations place on the size of the equity of the company, and also taking into consideration the company's need to strengthen its balance sheet, liquidity and financial position in general.

Sandviken, 3 February 2009  
Sandvik Aktiebolag; (publ)  
Board of Directors

# Proposed appropriation of profits

The Board of Directors and the President propose that

the profits brought forward from the preceding year	5,303,563,706
and the profit for the year	5,749,736,652
SEK	11,053,300,358

be appropriated as follows:

a dividend of SEK 3.15 per share	3,736,804,601
profit carried forward	7,316,495,757
SEK	11,053,300,358

The income statements and the balance sheets of the Group and of the Parent Company are subject to the adoption by the Annual General Meeting on 28 April 2009.

The Board of Directors and the President hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden, and that the consolidated financial statements have been prepared in accordance with the international financial reporting standards referred to in the regulation (EU) no. 1606/2002 of the European Parliament and Council dated 19 July 2002, pertaining to the application of international financial reporting standards, and that such financial reports give a true and fair view of the results of operations and financial position of the Parent Company and of the Group, respectively, and that the Report of the Directors pertaining to the Parent Company and the Group gives a fair view of the development of the company's and the Group's activities, financial position and results of operations, and further presents the significant risks and uncertainties facing the company and the entities that are members of the Group.

Sandviken, 3 February 2009

Clas Åke Hedström  
Chairman

Georg Ehrnrooth  
Director

Jan Kjellgren  
Director

Tomas Kärnström  
Director

Fredrik Lundberg  
Director

Hanne de Mora  
Director

Egil Myklebust  
Director

Anders Nyrén  
Director  
Vice Chairman

Simon Thompson  
Director

Lars Pettersson  
President

Our audit report was submitted on 19 February 2009

KPMG Bohlins AB

Caj Nackstad  
Authorized Public Accountant

# Significant events

After the Board of Directors approved the 2008 Annual Report, some significant business transactions were carried out in the Sandvik Group.

In conjunction with assuming loans in the form of US Private Placements in 2005 and 2007, Sandvik secured interest-rate swap contracts to attain floating interest. Through closing the swap contracts in the first quarter of 2009, Sandvik will report a cash flow contribution of about SEK 1,200 M. The corresponding earnings effect will be distributed over the remaining term of the loans of about 11 years. After closing of the contracts, Sandvik will have a more balanced distribution between fixed and floating rates on loans outstanding.

On 17 February 2009, it was announced that Sandvik signed an agreement to acquire Wolfram Bergbau- und Hütten-GmbH Nfg. KG (WBH). The acquisition is expected to be completed during the second quarter of 2009, after approval by relevant anti-trust authorities. Headquartered in St. Martin, Austria,

WBH has been active since 1975 as a producer and supplier of tungsten products. The company also operates a refining plant for producing tungsten carbide, including a chemical plant for recycling tungsten material, in St. Martin, Austria, where the headquarter is located. WBH also operates a mine and ore dressing plant in Mittersill, Austria. The product offering includes tungsten carbide and tungsten metal powders. Through its research and development, WBH has achieved market-leading product quality. Sales in 2008 amounted to approximately SEK 1,800 M, with some 300 employees. The acquisition is of major strategic importance for Sandvik.

In February, Sandvik issued a Eurobond loan amounting to EUR 600 M, slightly more than SEK 6 billion. The loan matures in February 2014 and carries an interest rate of 6.8%. The loan strengthens Sandvik's financing and provides for a favorable balance between mid- and long-term borrowing.

## Audit Report

To the Annual General Meeting of the Shareholders of Sandvik AB; (publ)  
Corporate registration number 556000-3468

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Sandvik AB; (publ) for the year 2008. The company's annual report is included in printed version of this document on pages 12–85. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability,

we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of Shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Sandviken, 19 February 2009

KPMG Bohlins AB

Caj Nackstad  
Authorized Public Accountant



# Sustainability report

Sustainability is an important part of the company's business activities. Sandvik has been conducting extensive sustainability efforts for many years and reports the results of these efforts in this sustainability report. The concept of sustainable development encompasses environment, health and safety, business ethics and human rights issues. A Code of Conduct and an environmental, health and safety management system form the foundation of Sandvik's sustainability work. This work is carried out decentralized within the business areas, but is guided by Group established policies, strategies, objectives, targets and performance indicators.

## 1. Significant events during the year:

- A 50% reduction in the Lost Time Injury Frequency Rate compared with the 2005 figure was attained.
- The use of trichloroethylene (TCE) was phased out as of year end.
- The number of major production, service, machinery rebuilding and distribution units certified in accordance with ISO 14001 is 147 (82%), with 159 (89%) certified in accordance with OHSAS 18001.
- Group Executive Management set new sustainability objectives and targets in November.
- In December, Group Executive Management established a new environment, health and safety policy.
- An organization was established to review suppliers in India and China.
- Sandvik was included in the Dow Jones World Sustainability Index and the Dow Jones STOXX Sustainability Index.
- Sandvik was awarded the prize for Sweden's best sustainability report for listed companies, by FAR SRS (the Institute for the accountancy profession in Sweden).

## 2. Sustainability report

This is the third year that Sandvik has published a sustainability report. This report describes the Group's strategies, controls, responsibilities, risks and opportunities together with its sustainability objectives and targets and also presents the Group's results from a financial, environmental and social perspective. The sustainability report has been independently reviewed in accordance with the proposed

FAR SRS' standard "RevR 6 Assurance of Sustainability Reporting" and AccountAbility's "AA1000AS (2008)." AA1000AS (2008) is an internationally accepted standard that provides the requirements for conducting sustainability assurance. It requires the assurance provider to provide assurance on the nature and extent of adherence to the AA1000's accountability principles. Information regarding AccountAbility is available on the organizations website ([www.accountability21.net](http://www.accountability21.net)).

*The sustainability report is comprised of information in the following locations:*

- The Board of Directors' report covering requirements pertaining to non-financial performance indicators and environmental information in line with the Swedish Annual Accounts Act.
- The report in this section that summarizes strategies, controls, responsibilities, risks, opportunities and the Group's objectives, targets and results from a sustainability perspective.
- *The Sandvik World* publication that presents a number of examples concerning work that has been conducted to achieve the Group's environmental and social targets.
- Sandvik's website ([www.sandvik.com](http://www.sandvik.com)), which contains further information relating to the sustainability work being conducted in each of the business areas.
- Sandvik's website also includes complete references to Global Reporting Initiative's (GRI) G3 guidelines, which were applied when preparing this sustainability report.

## 2.1 Content, scope and limitations of the report

This sustainability report refers to the 2008 financial year. Unless otherwise stated, the same accounting policies are applied in the sustainability report as in the rest of the Annual Report, and the report covers the entire operations of the Group, but excludes Seco Tools, associated companies and joint ventures. Specific methods of measurement and assumptions are presented in connection with the respective indicators in the report. Data from units acquired during the year is included only in the indicators for 2008.

## 2.2 Application of laws and recommendations

This sustainability report is based on the Swedish Annual Accounts Act, the Swedish Society of Financial Analysts' recommendations relating to Corporate Responsibility and the third generation of guidelines (G3) issued by the internationally recognized organization GRI. Further information regarding GRI is available on the organization's website ([www.globalreporting.org](http://www.globalreporting.org)). The report corresponds with the GRI level B+, which means that at least 20 indicators are presented and that the report has been subjected to an independent verification. A complete GRI index and comments on all of the indicators are available on Sandvik's website [www.sandvik.com](http://www.sandvik.com).

Sandvik has adopted AccountAbility's AA1000APS (2008) principles for accountability that were introduced in October 2008. Accountability means that Sandvik is acknowledging, assuming, taking responsibility for and trying to be transparent about the sustainability related effects caused by its operations.

This also involves working to involve stakeholders in identifying and understanding sustainability issues and concerns, and to report, explain and be answerable to stakeholders for decisions, actions and performance.

Accountability means that Sandvik will systematically incorporate AccountAbility's three principles in relations with Sandvik's various stakeholders:

- Inclusivity
- Materiality
- Responsiveness

The ambition is to begin mapping the extent to which the principles are incorporated in the Group and based on the result establish goals and actions for the future work that aims to develop sustainability reporting.

### **3. Strategy and control of sustainability programs**

A prerequisite for Sandvik remaining a successful company and attaining sustainable development is that the company takes its environmental and social responsibility, and that all its employees work in an ethically responsible manner. Sandvik's strategy for sustainability programs entails proceeding from the company's Code of Conduct when analyzing risks and opportunities, setting objectives and targets as part of efforts to minimize risks, and utilizing the possibilities available in an efficient and effective manner. Sandvik will always seek an open dialog with all of its key stakeholders regarding how this work is conducted and the results achieved. This is a key condition in being able to focus on the correct features for continual improvements.

Sandvik's control model entails that Group Executive Management sets the company's Code of Conduct and objectives, and that each business area assumes responsibility for ensuring compliance with the Code and that the objectives are broken down in the organization. In addition, each business area is responsible for the assessment of sustainability-related risks (environment, health and safety, corruption, human rights issues, etc.) in its

operations, and in each business area, specific organizations have been appointed to coordinate issues and support the local management teams. At the Group level, various councils exist (such as for environment, health and safety) to coordinate the work among the business areas and to draft policies, objectives, targets and indicators for Group Executive Management. To ensure that management systems, internal controls and risk management function adequately, an independent unit (Group Assurance) continually monitors the organization's operations and reports to the Board's Audit Committee and Group Executive Management on a quarterly basis. Moreover, a report on performance indicators and key figures is presented to the Board, Group Executive Management and the entire organization on a quarterly basis. Training is also a key factor in Sandvik's sustainability strategy. A program is in progress to train all company employees as regards the implications of environmental and social responsibility and business ethics. By the end of 2008, 81% (90) of employees had completed the training. The decline is attributable primarily to personnel turnover.

#### **3.1 Stakeholders**

A number of stakeholders influence and/or are influenced by the Group's operations. Sandvik has identified three stakeholder groups of particular significance: shareholders, employees and customers. These are of critical importance for operations and there is regular contact with these groups at various levels in the Group. During the year, stakeholder-related dialogs took place with a number of Social Responsible Investment (SRI) analysts and other stakeholder-related dialogs were conducted with the assistance of external parties. Among other aspects, these dialogs reveal that Sandvik's business operations are viewed as being exposed to significant risks from an environmental and social perspective (for example in terms of human rights issues) especially in relation to suppliers and customers. An example of what stakeholders expect include more information on Sandvik's long-term strat-

egy on climate change. The dialogs also revealed that Sandvik works with relevant sustainability aspects and that reporting contains relevant information as regards the results of Sandvik's programs. This was further confirmed during the year when Sandvik was awarded the prize for Sweden's best sustainability report, listed companies by FAR SRS.

##### **3.1.1 Shareholders**

Dialog with shareholders is primarily conducted through the Board and at the Annual General Meeting, but also through a well-developed Investor Relations function, which regularly enters into dialog with specific SRI analysts. These dialogs have indicated that shareholders require more information regarding the risks that Sandvik identifies and how they are managed, especially regarding human rights issues in the supply chain.

##### **3.1.2 Employees**

Sandvik's employees are represented on the Board of the Parent Company. When requested, information is shared and discussed with the employees. Furthermore, negotiations are conducted with employee representatives at a local level in connection with such events as organizational changes. Dialogs with the trade union organizations have revealed that employees feel that health and safety, absenteeism, discrimination and the environment are key issues, as well as general training in responsibility and business ethics. Competence development and assessment of performance are other key areas.

##### **3.1.3 Customers**

Customer contacts are handled locally through Sandvik's worldwide sales organization. Increasing demands by customers regarding Sandvik's sustainability programs are becoming ever more evident. Many of these demands relate to workplace safety and the environment, for example customers more often insist that Sandvik should have systems for compiling data on carbon dioxide emissions. In addition, requests have been presented that Sandvik be able to report the carbon diox-

ide emissions generated in product manufacturing. Questions related to the new European Community Regulation on chemicals and their safe use (REACH) are also common and many customers, notably those of Sandvik Mining and Construction, are imposing higher requirements on machine safety. Customers also want to be assured that Sandvik complies with all international conventions on human rights.

#### 3.1.4 Other stakeholders

Discussions are maintained on an ongoing basis with authorities, educational bodies, Non-Governmental Organizations (NGOs), the general public and other stakeholders as necessary.

### 4. Responsibility

Sandvik's responsibilities are summarized in the Group's Code of Conduct, which was set by the Board in 2004. The Code deals with responsibility in such areas as business ethics, suppliers, employee working conditions and development, human rights, environment and community involvement. The Code has been translated into 13 languages and is available at Sandvik's website ([www.sandvik.com](http://www.sandvik.com)). The Code also includes a distinct process for managing the reporting of divergences from the stated responsibilities. Employees are encouraged to report behavior that diverges from the Code to their immediate supervisor in the respective unit or, if there is a feeling that such action will not have any effect, to a more senior manager, the company's human resources department or Sandvik's General counsel. There is a Group unit that is responsible for dealing with all such notifications. 'Whistleblowers' are guaranteed that there will be no reprisals for such notifications or for participation in the company's investigation of a complaint.

#### 4.1 Business ethics

Sandvik's Code of Conduct includes clear guidelines on accuracy of records, the avoidance of bribes as well as compliance with antitrust and competition legislation in the countries in which Sandvik is active.

#### 4.2 Suppliers

Sandvik has a clear position regarding suppliers, including contractors, agents, distributors and their sub-suppliers. These groups must meet the same requirements as those imposed on Sandvik's employees, and operate in line with the Code of Conduct.

#### 4.3 Environment, health and safety

Sandvik's vision as regards the environment, health and safety is to be recognized by its stakeholders as a company with excellent environment, health and safety performance. To achieve this Sandvik must ensure that:

*At its sites Sandvik minimizes:*

- any potential environmental impacts such as energy use and input materials in the most efficient way,
- any risks to health, safety and well-being of employees.

*Products, services and technical solutions:*

- provide a long service lifetime and better resource utilization,
- have minimal environmental impact when used by a customer,
- are fully recyclable.

#### 4.3.1 Policy

In December, Group Executive Management established a new environment, health and safety policy for all Group units.

*Environment, health and safety policy:*

- Environment, health and safety issues are integral parts of Sandvik's total operations and the company achieves continual improvement in these areas through management by objectives. Sandvik believes that the greatest effect is achieved through preventive actions.
- The company follows an approach that results in long-term sustainable development in its operations. Consequently, Sandvik strives for high efficiency in the use of energy and natural resources, promote systems for recycling and

recovery of materials and work to prevent pollution and any work-related illness and injury.

- Sandvik strives to provide a healthy and safe work environment that stimulates employees to perform effectively, to assume responsibility and to continue to develop towards their personal and professional goals.
- Sandvik complies with or exceeds applicable environmental, health and safety, legal and other requirements. The company believes that common and effective environment, health and safety requirements and standards should be established at an international level.

#### 4.4 Human rights and employee conditions

Sandvik has clear policies on human rights and labor rights, which are based on the United Nation's declaration on human rights and the International Labor Organization's declaration regarding basic principles and rights in the workplace.

Sandvik is responsible for ensuring that these policies are complied with in the company's operations as well as throughout the supply chain where Sandvik has the potential to exert influence and control.

### 5. Risks and opportunities

Sandvik's financial risks are described on pages 27–32. In addition to these, there are risks associated with the fact that Sandvik is active in many parts of the world where the risk of environmental pollution, violation of human rights and corruption is present. Moreover, Sandvik has a large number of production units in which environmental, health and safety risks arise. Sandvik has an established risk management process to assess these types of risks, as well as financial risks. The risk assessment not only encompasses the Group's operations, but also risks related to the geographical areas in which Sandvik is active and supplier-related risks. The risk management process is described in the section starting on page 25 in Sandvik's Annual Report.

### 5.1 Business ethics

Risks relating to business ethics are regarded as significant, especially the risk of bribes in connection with marketing and sales in countries in which corruption is widespread. The use of agents represents a particularly major risk. The development of corruption in various countries in which Sandvik is active is continually monitored via, for example, Transparency International's website ([www.transparency.org](http://www.transparency.org)). The risk of breaches of local antitrust and competition legislation is also high. To minimize these business risks, continual training and internal audits are conducted. During the year a few isolated cases of suspected corruption were reported. All these cases have been investigated and corrective measures have been taken, such as the immediate dismissal of employees found to be behaving inappropriately.

### 5.2 Suppliers

During 2008, Sandvik sharpened its focus on risks relating to the supply chain by establishing guidelines and internal practice for the future. The fundamental methodology for evaluating suppliers is being developed and is scheduled to be implemented during 2009. A special supplier Code of Conduct is also being developed and is scheduled to be implemented during 2009. The Code contains the same fundamental requirements as Sandvik's Code of Conduct, but also contains additional specific material relating to the supply chain. To minimize risk exposure, a special organization has been established to increase the control of suppliers in China and India, where the supplier risk is deemed to be significant and where Sandvik is increasing its purchases of materials and components.

### 5.3 Environment

At year-end 2008, Sandvik had 144 manufacturing units and 35 distribution or service/rebuilding workshops worldwide, many of which present a potential environmental impact.

Environmental management systems have already been introduced at the vast majority of these sites and are currently being developed at the remaining sites. Within the framework of these systems, the Group's environmental risks have been summarized as follows:

*Overall environmental risks at Sandvik's own operations:*

- Use/consumption of energy, input materials, fresh water and hazardous chemicals.
- Generation of emissions and waste from production.
- Old industrial sites and waste landfills.
- Environmental liabilities in conjunction with company acquisitions.

Risks relating to emissions are primarily related to the emission of carbon dioxide to the atmosphere. These emissions are caused by the company's use of fossil fuels for power and transport and indirectly from purchase of electricity produced by combustion of fossil fuel. Meanwhile, there is a long-term business opportunity for Sandvik in its search for new carbon neutral energy sources, as well as in the short term in the extraction of more fossil fuels whose extraction presents greater difficulties.

Page 24 in the Board of Directors' Report present information on licensed operations and environmental liabilities.

### 5.4 Health and safety

Sandvik's various production, service/rebuild and distribution units present potential risks of work-related illnesses and injuries. Health and safety management systems have already been introduced at the vast majority of these units and are currently being developed at the remaining sites. The management systems are also designed to enhance the work environment and the work conditions of the company's employees. Sandvik's products may also constitute a risk when in use at customers' sites. This risk imposes major requirements on quality control for the company

and its suppliers, as well as the need for simple, clear operator manuals and product specifications.

### 5.5 Human rights and employee conditions

Any violation of Sandvik's policies in respect of human rights and employee conditions could have a major negative impact on Sandvik's credibility. Consequently, regular basic training is held covering the company's basic values, policies and risks regarding human rights and labor legislation. In addition, regular internal audits are conducted at units deemed to be particularly exposed to these risks. The results of the audits are presented to local executives, country managers, Group Executive Management and the Board.

To raise the level of understanding in the organization regarding the risks relating to human rights and labor legislation when Sandvik undertakes operations in high-risk countries, analyses have been conducted of countries in Asia, Africa and South America. These analyses are available on Sandvik's intranet for those active in these countries. Risks of this type arise not only in direct operations (such as production and procurement) in such countries, but also indirectly (risk associated with customers).

No incidents involving human rights abuses were reported in 2008.

## 6. Goals for sustainability programs

Sandvik's Group Executive Management set new or modified sustainability objectives and targets in November 2008.

### 6.1 Environment

#### 6.1.1 The Group's objectives are:

- More efficient use of energy and input materials.
- Reduced emissions to air and water.
- Increased recovery of materials and by-products.
- Reduced environmental impact from the use of hazardous chemicals.
- Increased number of products that support sustainability principles.

**6.1.2 The Group's targets are:**

- Reduce the use of energy in relation to sales volume by 10% before year-end 2012 (base year: 2008).
- Reduce consumption of fresh water in relation to sales volume by 10% before year-end 2012 (base year: 2008).
- Commence reporting of wastewater discharged from sites before year-end 2009.
- Replace all chlorinated solvents, such as dichloromethane, tetrachloroethene, tetrachloromethane, trichloroethane and trichloroethene, with other solvents or techniques before year-end 2010.
- Reduce carbon dioxide emission from internal use of fossil fuels and electricity by 10% in relation to sales volume before year-end 2012 (base year: 2008).
- Commence reporting of carbon dioxide emission arising from transportation before year-end 2009.
- All major production, service and distribution units shall be certified in accordance with ISO14001 within two years of acquisition or establishment.

**6.2 Health and safety****6.2.1 The Group's objectives are to:**

- Further reduce the frequency of occupational injuries, illnesses and incidents.
- Improve health and well-being among employees.

**6.2.2 The Group's targets are:**

- Reduce the Lost Time Injury Frequency Rate by 50% before year-end 2012 (base year: 2008).
- All sites will introduce a health and well-being program before year-end 2010.
- All major production, service and distribution units shall be certified in accordance with OHSAS 18001 (or an equivalent standard) within two years of acquisition or establishment.

**6.3 Employee conditions and development****6.3.1 The Group's objectives are:**

- Increase equality of opportunity at workplaces.

**6.3.2 The Group's targets are:**

- All sites will introduce a program to improve the gender balance before year-end 2010.
- All employees shall have formal annual performance review discussions.

**7. Outcome of sustainability programs**

The following section presents the outcome in relation to the Group's targets using the relevant performance indicators and key figures. Acquisitions and divestments have not had any material impact during the year. Sandvik's adaptation to the rate of production as a result of the prevailing market situation had a marked impact on the majority of the environmental and safety indicators.

**7.1 Financial**

Sandvik's financial progress is presented in the Report of the Board of Directors and in the financial statements in the Annual Report. These include a presentation of the Group's financial goals and outcome in relation to these goals.

The table to the right shows how the value created through the Group's operations has been generated and the manner in which it was distributed among the various stakeholders.

Apart from allocations of carbon dioxide emission allowances, Sandvik has not received any significant Government grants during the year (see Note 13 in the Annual Report).

**7.2 Environment****7.2.1 Use of raw materials**

Material consumption varies across the business areas. At Sandvik Tooling and Sandvik Materials Technology, production is mainly based on metallic raw materials, while at Sandvik Mining and Construction, it is primarily based on purchased components. Sandvik's consumption of

metallic raw materials is presented in the table to the right.

Sandvik Materials Technology's sites in Sandviken and Hallstahammar, Sweden, are the major users of raw materials in the Group. The raw materials most important to Sandvik Materials Technology are iron, nickel, chromium, manganese and molybdenum, either in alloys or as part of scrap metal. Of these materials 80% are derived from recycled scrap. The key raw materials for Sandvik Tooling are various tungsten compounds and cobalt, but more unusual elements such as tantalum are also used. Sandvik Mining and Construction uses iron and manganese raw material for the manufacture of castings. Approximately 88% of these materials are derived from scrap. In total for the Group, about 79% of metallic raw materials are derived from scrap.

Although the recovery level is already high today, Sandvik continuously endeavors to increase the proportion of recovered raw materials to secure a sustainable utilization of raw materials and to reduce its environmental impact. This is accomplished through buying back used products and the recycling of waste products from proprietary manufacturing plants. Sandvik Tooling's recycling program for the recycling of cemented carbide at the Chiplun plant in India is continuing. In 2008, nearly 40% of the cemented carbide inserts sold by Sandvik Coromant were recycled. Other product areas at Sandvik Tooling also commenced recycling activities during the year. Moreover, in 2008 Sandvik Mining and Construction commissioned a new plant in Chiplun to separate cemented carbide and steel in drill cores. The cemented carbide is subsequently included in the same recycling process as Sandvik Tooling's cemented carbide inserts. The steel is sold to local steel mills for recycling.

The recycling of cemented carbide is based on what is referred to as the zinc method in which used cemented carbide inserts are converted into a hard metal powder, which after adjustment and quality control can be used as a raw material. This method is a highly favorable comple-

inent to the more energy intensive processes involving ore as the original material. The total energy use in manufacturing cemented carbide inserts is therefore reduced by about 75%, which means a decline in carbon dioxide emissions during the production process of about 40% per cemented carbide insert produced. Nitrous oxide emissions are also reduced.

Hazardous chemicals are used only to a limited and well-supervised extent and are handled in accordance with environmentally safe methods. The target of replacing trichloroethylene with other less environmentally hazardous solvents or techniques has essentially been attained. A few sites that continue to use a limited amount of the substance will complete their adjustment in early 2009. The total annual consumption in 2008 was about 14 (16) cubic meters.

### 7.2.2 Use of energy

The table and diagrams to the right show the trend in use of energy in Sandvik as well as the distribution of energy use by the business areas and various markets.

Use of energy in relation to sales volume indicates that the Group continues its improvement in regard to energy efficiency. Total use of energy in relation to sales volume declined by 4.3% and electricity consumption in relation to sales volume fell by 3.4%. Compared with the base year 2004 (index = 100), electricity consumption in relation to sales volume has declined by 14%, that is, a greater decrease than the Group target of 10%.

Although the final date for attaining the target has not yet arrived (2010), Group Executive Management has set a new target for the period 2008 to 2012, namely, to reduce total energy use (electricity and fossil fuel) by 10% in relation to sales volume. The new target was established because the values for electricity consumption for the base year 2004 were somewhat uncertain as well as to include the consumption of fossil fuel in the target.

Examples of measures to decrease the use of energy are presented in *The Sandvik World*.

### Financial value generated and distributed\*

Amounts in SEK M	Stakeholder	2008	2007	2006	2005
Sales	Customers	92,654	86,338	72,289	63,370
Financial value generated		92,654	86,338	72,289	63,370
Production costs	Suppliers	53,287	48,343	38,620**	33,895
Employee wages and benefits	Personnel	23,129	20,562	18,825**	17,281
Payments to providers of capital	Credit providers	2,217	1,397	955	713
Payments to providers of capital	Shareholders	5,111	4,207	3,533	6,976
Payments to governments**	Public sector	2,876	4,167	3,151	2,306
Financial value distributed		86,620	78,676	65,084	61,171
Retained in company		6,034	7,662	7,205	2,199

\* The table includes Seco Tools.

\*\* Value adjusted since preceding reporting.

### Raw materials consumption

	2008	2007	2006	2005
Consumption of metallic raw materials (thousand tons)	350	399	405	372
of which, recovered, %	79	78	78	80

### The development of energy use

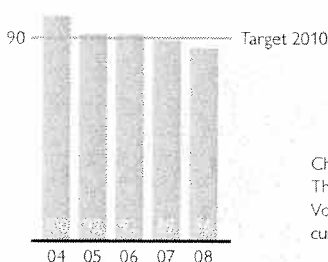
	2008	2007	2006	2005
Use of energy (TJ)*	8,800	8,600	8,000	7,400
of which fossil fuels (TJ) Direct energy**	3,300	3,200	2,900	2,700
of which electricity (TJ) Indirect energy***	5,500	5,400	5,100	4,700

\* Use of energy is reported in TeraJoule (TJ).

\*\* Values 2005–2007 adjusted since preceding reporting.

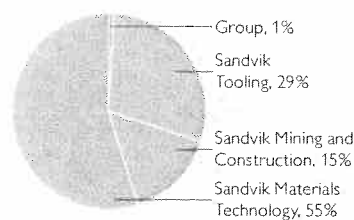
\*\*\* Use of energy does not include the energy used by electricity producers to generate the electricity.

### Electricity use in relation to volume

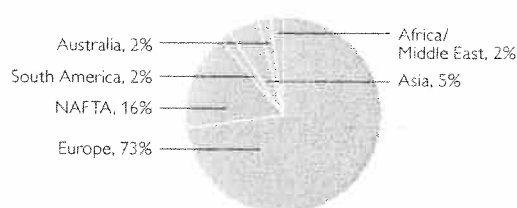


Change in electricity use in relation to volume, 2004–2008. The diagram shows the index compared with 2004. Volume is defined as invoiced sales adjusted for structural, currency and price effects.

### Energy use per Business Area



### Energy use per Market Area



### 7.2.3 Consumption of fresh water

Fresh water is a valuable resource and its efficient use is therefore crucial. During 2008, Sandvik's Group Executive Management set a target to reduce consumption of fresh water relative to sales volume by 10% from 2008 to 2012. The table on the right shows the trend in freshwater consumption in Sandvik since 2005.

Of the countries where Sandvik has significant fresh water consumption only India, has very limited access to fresh water.

All production sites in India have introduced systems for the treatment of all waste water, which is subsequently re-used in its operations. Similar systems also exist in Sandvik's facilities in, for example, Sandviken, Sweden and Sao Paulo, Brazil.

### 7.2.4 Biodiversity

13 of Sandvik's production units are located within or close to protected areas with high value in terms of biodiversity. Five of these sites are located in the US, five in Europe, two in Brazil and one in New Zealand. Approximately half of these areas comprise wetlands. Sandvik demonstrates particular consideration for these areas and cooperates with authorities in relevant cases.

### 7.2.5 Emissions and waste

Emissions from Sandvik's operations vary in nature. However, the primary substance emitted is carbon dioxide to the atmosphere. These emissions are a key focus for Sandvik's environmental management systems and are closely monitored. The table to the right shows the trend of the company's carbon dioxide emissions. The figures show the carbon dioxide emissions in relation to sales volume and the emissions by business area and market area.

Carbon dioxide emissions from the use of fossil fuels declined in relation to sales volumes by 4%, which is same percentage decline compared with the base year (2004), but does not quite meet the target that stipulates a reduction of 10% by the end of 2010.

To increase the quality of the values reported for carbon dioxide emissions related to the generation of electricity, factors used in the calculation of carbon dioxide emissions have been obtained from the

suppliers of the electricity used in the plants that account for 80% of Sandvik's electricity consumption. For the remainder of the units, the country factors (from the International Energy Agency Data Service) were used, which were previously used for all sites. All emissions from earlier years have been recalculated on the assumption that all sites have had the same supplier during this period. The aim is to use supplier-specific factors for all sites to further enhance data quality from 2009.

Although the final date for the target has not yet arrived (2010), Group Executive Management has set a new target to reduce carbon dioxide emissions by 10% from internal use of fossil fuels and electricity in relation to sales volume during the period 2008 to 2012. The new target was established because the values for carbon dioxide emissions for the base year (2004) were somewhat uncertain, and to include carbon dioxide emissions from the generation of electric power.

During the year, Group Executive Management also set a new target to commence reporting of carbon dioxide emissions arising from transportation (passenger and freight) by the end of 2009. As a result, Sandvik will be able to present a more comprehensive report in line with the Greenhouse Gas Protocol ([www.ghgprotocol.org](http://www.ghgprotocol.org)).

The table to the right presents the waste volumes produced by Sandvik during 2008. No major changes compared to previous years are noted.

### 7.2.6 Environmental management system

Sandvik's target is that all major production, service and distribution units shall be certified in accordance with the international standard for environmental management systems, ISO 14001, within two years of their acquisition or establishment. The term "major" is defined as sites with 25 employees or more. At year-end 2008, 147 (82%) production, service/rebuilding and distribution units were certified. These units are physically located on Sandvik's sites. In addition, there are about 25 maintenance workshops that Sandvik operates within customer operations (mainly mines). These workshops are part of the customers' environmental management systems. Of Sandvik's 144 major pro-

Use of fresh water	2008	2007	2006	2005
Fresh water use (thousand m <sup>3</sup> )	4,500	4,500	4,600	3,800
of which, purchased (thousand m <sup>3</sup> )	3,600	3,500	3,300	3,300
of which, from own wells (thousand m <sup>3</sup> )	500	500	500	400
of which, collected rain water (thousand m <sup>3</sup> )	400	500	800	100

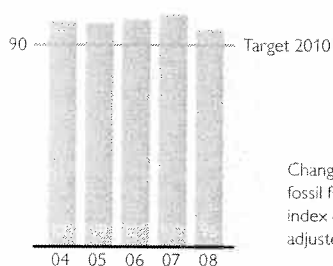
The development of carbon dioxide emission	2008	2007	2006	2005
Carbon dioxide emissions (thousand tons CO <sub>2</sub> )*	534	511	439	391
of which from combustion of fossil fuels (thousand tons CO <sub>2</sub> ). Direct	218	221***	198	180
of which use of electrical energy (thousand tons CO <sub>2</sub> ). Indirect**	316	290	241	211

\* Excluding emissions from the transport of raw materials and finished products as well as travel.

\*\* Emissions are calculated with conversion factors (from electricity suppliers or International Energy Agency Data Service) which take in to account the type of primary energy used for electricity production.

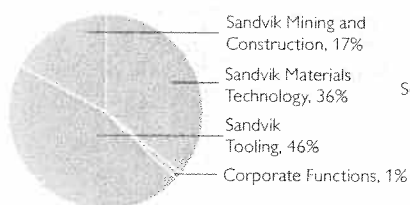
\*\*\* Adjusted since preceding reporting.

#### Carbon dioxide emissions in relation to volume

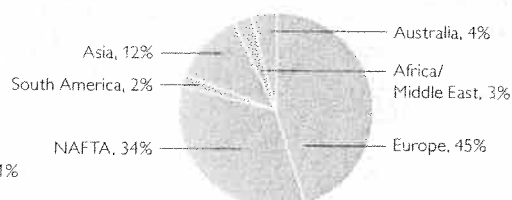


Change in carbon dioxide generated from the combustion of fossil fuels in relation to volume 2004–2008. The diagram shows index compared with 2004. Volume is defined as invoiced sales adjusted for structural, currency and price effects.

#### Carbon dioxide emission per Business Area



#### Carbon dioxide emission per geographical Market Area



Produced waste	2008	2007	2006	2005
Waste (thousand tons)*	166	171	150	140
of which, hazardous waste (thousand tons)	32	28	35	24
of which, landfilled (thousand tons)	109	105	95	90

\* Excluding scrap metal that has been internally or externally recycled.



duction sites, 92% are certified. All major units not certified are of new acquisitions during 2007–2008.

### 7.3 Health and safety

The table to the right provides an overview of Sandvik's results as regards health and safety.

Regrettably, two fatalities occurred during the year. One was a result of a motor vehicle incident in Zimbabwe, while the other took place during service and maintenance work in an underground mine in South Africa.

The number of Lost Time Injuries and the Lost Time Injury Frequency Rate have declined by 30% and 50%, respectively, since 2005, and the number of Lost Days due to Lost Time Injuries declined by 10%. Accordingly, the target of a reduction of 50% in the Lost Time Injury Frequency Rate before the end of 2008 has been fulfilled.

The sick leave ratio has declined by 44% since 2005. The target is a 50% reduction by the end of 2010. Since the term sick leave is interpreted differently in various countries, it is difficult to monitor it in a satisfactory manner. Therefore, Group Executive Management has decided to amend the target of a reduction of 50% in sick leave by the end of 2010 to "All sites will introduce a health and well-being program before year-end 2010." The target will be monitored by measuring total absenteeism, as well as keeping track of the implementation of the well-being programs.

The diagrams to the right present the Lost Time Injury Frequency Rate by business areas and market areas. During 2008, all business areas have reduced the injury frequency rate. Sandvik Mining and Construction and Sandvik Materials Technology have succeeded in reducing this figure by around 25% and Sandvik Tooling by 11% from an already low level. An important factor behind the reduction is the progressive introduction of a health and safety management system that include an increased focus on safety leadership and accountability, structured incident reporting and investigation. Other important factors are communication with, and involvement of employees through, for

example, local safety committees and systematic risk assessments and internal audits as a basis for implementing preventive measures.

Sandvik encourages reporting of health and safety incidents, for example, by establishing targets for the reporting of a specified number of Near Misses in relation to one Lost Time Injury. From 2007, the number of reported Near Misses has been introduced as a Group-wide indicator (see adjacent table). In 2008, the number of reported Near Misses rose sharply. This is not indicating an actual increase in the number of Near Misses, but is rather proof of a broader base and more comprehensive reporting. The number of reported Near Misses in relation to one Lost Time Injury was 8.9.

In certain countries, community and working life is marked by the presence of serious transmittable diseases. For example, HIV/AIDS is an extremely serious problem particularly in southern Africa. Sandvik has extensive HIV/AIDS programs in South Africa, Zimbabwe, Tanzania, Zambia, and Malawi and to some extent in Ghana and the Democratic Republic of Congo. A summary of the HIV/AIDS programs in these countries is presented in the table to the right.

Sandvik has implemented programs to educate and counsel employees and their families and, in some cases, other inhabitants near to Sandvik operations, about HIV/AIDS. Training in these matters is provided daily, usually in conjunction with the safety meetings that are held prior to work commencing. Counseling is provided by private organizations with whom Sandvik cooperates and the Group's own counselors. These meetings not only address HIV/AIDS matters, but take a more holistic approach to address other factors that may affect an individual, such as stigma. Preventive work and risk controls are conducted in connection with training and counseling. The main focus is placed on changing the attitude to partners and the use of condoms. Measures and support are offered to all employees who test HIV positive. In addition to the opportunity to receive testing and free condoms, antiretroviral drugs are offered to people who are within the scope of the program.

#### 7.3.1 Management system for health and safety

Sandvik's target is to certify all major production, service and distribution sites in accordance with the international specification for the occupational health and safety management system OHSAS 18001 (or a comparable standard) within two years of the acquisition or establishment. The term major is defined as sites with 25 employees or more. At year-end 2008, 159 (89%) production, service/rebuilding and distribution units were certified. These units are physically located on Sandvik's sites. In addition, there are about 25 maintenance workshops that Sandvik operates within customers' operations (mainly mines). 70% of these units have also been certified. 90% of Sandvik's 144 major production units are certified. All but one of the units not certified consist of new acquisitions during 2007–2008.

### 7.4 Employee conditions and development

To ensure continuous improvement of employee performance, Group Executive Management has decided to monitor five indicators: diversity (the balance between the number of men and women), mobility (internally within the company), personnel turnover, competence development days and performance review discussions. Two of these indicators have a specific Group target – that all employees shall have an annual performance review discussion and improvement in the balance between men and women in the company.

#### 7.4.1 Employment

The average number of employees by geographical area and gender is presented in Note 3 in the Annual Report. During the year, 4,503 employees terminated employment at Sandvik, leading to a personnel turnover of 10.2% (9.7). Mobility within the company (the proportion of positions filled internally in relation to the total number of positions filled) was 14.8% (14.1). The average number of employees in the companies covered by the sustainability report was 44,330 (40,291) at year-end.

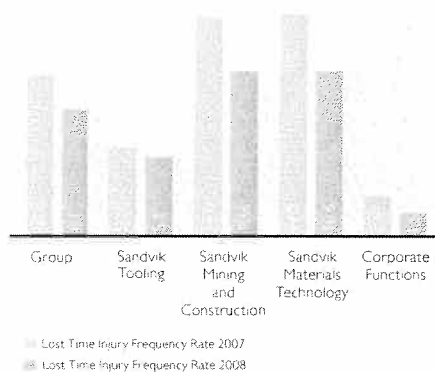
### Health and safety

	2008	2007	2006	2005
Number of fatalities due to work-related injuries	2	1	2	0
Number of Lost Time Injuries*	717	827	980	1,030
Lost Time Injury Frequency Rate**	8.1	10.3	13.2	16.1
Number of reported Near Misses	6,346	3,179	—	—
Lost days due to Lost Time Injuries	11,286	12,603	14,897	12,715
Working Days Lost by employee due to Lost Time Injuries	0.25	0.31	0.40	0.40
Total absence (from scheduled work), %	2.3	2.6	2.7	3.3
Total sick leave (whether work-related or not), %	2.2	2.4	2.5	4.0

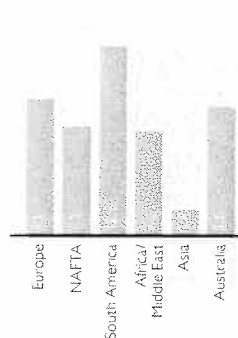
\*Work-related injury (own employees) resulting in minimum one day's absence from work.

\*\*Lost Time Injury Frequency Rate is defined as the number of Lost Time Injuries per million work hours. Assumption: Employees are assumed to work 2,000 hours a year.

### Lost Time Injury Frequency Rate per Business Area



### Lost Time Injury Frequency Rate per Market Area



### HIV/AIDS Assistance program

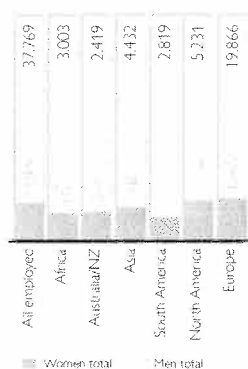
Recipients	Education	Counseling	Prevention/ Risk controls	Treatment
Employees	6	5	6	4
Families of employees	4	5	5	4
Other inhabitants	5	4	4	2

The number denotes the number of countries in which Sandvik offers programs for the respective categories.

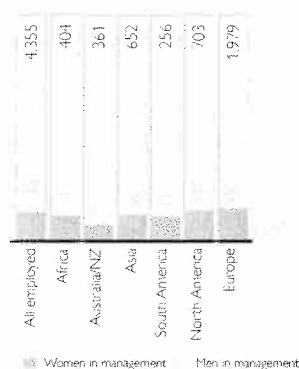
### Proportion of women, %

	2008	2007	2006	2005
All employees	16.9	17.0	17.0	17.0
Internal Board members and Presidents	7.8	8.0	6.0	6.0
Managers/supervisors	12.8	12.1	11.9	10.5
Staff positions (excluding managers/supervisors)	27.7	28.0	28.7	30.4
Worker positions	10.2	10.7	10.8	10.8

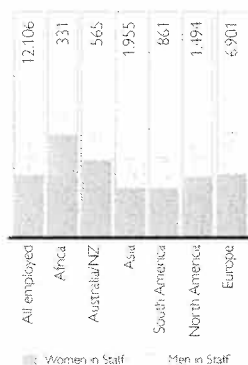
### Proportion of women, all employees



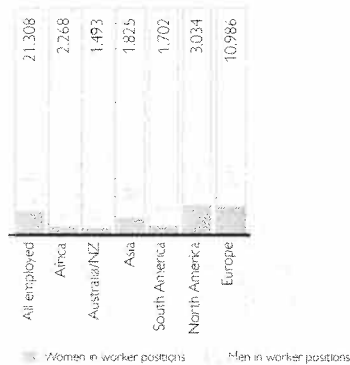
### Proportion of women, managers/supervisors



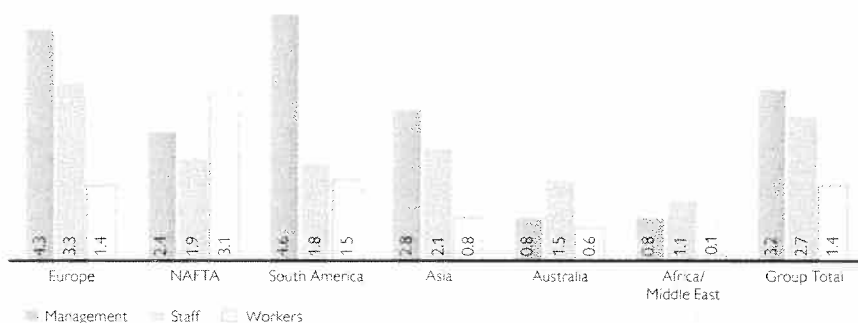
### Proportion of women, staff positions



### Proportion of women, worker positions



### Competence development days per employee and Market Area



### 7.4.2 Diversity and equal opportunity

About 75% of Sandvik's employees work outside Sweden. The employees at subsidiaries in more than 60 countries have a wide variety of nationalities and collectively speak a large number of languages. This diversity in the Group is considerable and this is also a prerequisite for Sandvik to be able to secure the availability of the right expertise at the right time for the needs that exist within the company. This high level of diversity is secured by offering equal rights and equal opportunities to all, irrespective of age, race, color, national origin, religion, sex or disability. Sandvik has aimed to increase the proportion of female employees to 25% before year-end 2010, to ensure access to the most competent employees in a future with increased competition for skilled labor. However, as shown by the table to the left, the proportion has remained at 17% over the past four years. Thus, Group Executive Management has decided to refocus its efforts and reformulate the target as follows:

All sites will introduce a program to improve the gender balance before year-end 2010.

Distribution of the average number of employees within various geographical regions and taking into account gender is presented in Note 3 to the financial statements in the Annual Report. Other relevant key figures regarding distribution by gender are shown in the accompanying diagrams.

### 7.4.3 Performance review discussions and competence development

During 2008, performance review discussions were conducted with 56% of Sandvik's employees, which is far below the established target of 100%. An important part of the performance review discussion is to identify opportunities to enhance the skills and well-being of the employee as well as increase satisfaction and well-being in the workplace. Advancing the employee's skills is equal to advancing Sandvik's business. The number of competence development days per employee and region during the year is presented in the diagram to the left.

### Limited assurance report

*To the readers of Sandvik's 2008 Sustainability Report:*

We have performed a review of Sandvik's 2008 Sustainability Report. The Sustainability Report is presented on page 86–97 of Sandvik's 2008 Annual Report and on Sandvik's website [www.sandvik.com/sustainability](http://www.sandvik.com/sustainability) under the heading GRI Index in the form of complete references to Global Reporting Initiatives's (GRI) Sustainability Reporting Guidelines, G3. It is Sandvik's Executive Management that is responsible for the continuous activities regarding sustainable development from the perspective of financial, environmental and social responsibility and for the preparation and presentation of the Sustainability Report in accordance with applicable criteria. Our responsibility is to express a conclusion on the Sustainability Report based on our review.

Our review has been performed in accordance with FAR SRS (the institute for the accountancy profession in Sweden) draft recommendation "RevR 6 Assurance of sustainability reports" and AccountAbility's AA1000AS (2008). A limited review consists of making inquiries, primarily of persons responsible for sustainability matters and for preparing the sustainability report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing in Sweden RS and other generally accepted auditing standards. The procedures performed in a limited review do not enable us to obtain an assurance

that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In accordance with the AA1000AS (2008), we confirm that we are independent of Sandvik AB and impartial to Sandvik's stakeholders.

The criteria used in the course of performing review procedures are based on applicable parts of the Sustainability Reporting Guidelines, G3 issued by the Global Reporting Initiative (GRI) suitable for the sustainability report, and specific measurement and reporting principles, Fair Play Reporting, developed and stated by Sandvik. We consider those criteria to be suitable for our engagement.

Our limited review has, based on an assessment of materiality and risk, among other things included the following procedures:

- Interviews with certain external stakeholders to secure that Sandvik responds to important stakeholders' concerns in the sustainability report.
- Interviews with responsible management, at group level, division level and at selected business units with the aim to assess if the qualitative and quantitative information stated in the sustainability report is complete, correct and sufficient.
- Share internal and external documents to assess if the information stated in the sustainability report is complete, correct and sufficient.
- Assessment of suitability and application of criteria in respect to internal and external stakeholders' need of information.

- Evaluation of the design of systems and processes used to obtain, manage and validate sustainability information.
- Review of underlying documentation, on a test basis, to assess whether the information and data in the sustainability report is based on that documentation.
- Pre-announced visits to ten of Sandvik's facilities located in Brazil, Finland, Spain, Sweden, Germany and the US. Interviews with management and key personnel in order to ensure that sustainability performance data are reported, in all material respects, in a uniform manner and in accordance with applicable criteria.
- Review of qualitative information and statements, as well as the report on compliance with legislation, permits and conditions related to sustainability.
- Assessment of Sandvik's stated application level according to AccountAbility's AA1000APS (2008).
- Assessment of the Sandvik's stated application level according to GRI's guidelines.
- Reconciliation of financial information against Sandvik's Annual Report 2008.
- Overall impression of the Sustainability Report, and its format, considering the information's mutual correctness with applicable criteria.

Based on our review procedures, nothing has come to our attention that causes us to believe that Sandvik's 2008 sustainability report has not, in all material aspects, been prepared in accordance with the above stated criteria.

Sandviken, February 19, 2009  
KPMG AB

Caj Nackstad  
*Authorized Public Accountant*

Åse Bäckström  
*Expert Member FAR SRS*

# Corporate Governance Report

Effective and transparent corporate governance enhances the confidence in Sandvik and also promotes business value and shareholder value in the company.

## General

Sandvik Aktiebolag is a public company listed on Nasdaq OMX Stockholm (the "Stock Exchange"). Sandvik Aktiebolag has some 104,000 shareholders. Sandvik AB has its registered office in Sandviken, Sweden, and is the Parent Company of the Sandvik Group with subsidiaries in more than 60 countries. Its operations are global with representation in 130 countries, and the Sandvik Group has approximately 50,000 employees. Sandvik shall be the customers' obvious first choice and create the best added value for its stakeholders – in particular, customers, shareholders and personnel. At the same time, Sandvik shall act as a good corporate citizen that assumes long-term responsibility. The purpose of corporate governance is to clearly specify the division of roles and responsibilities among owners, the Board and executive management. Corporate governance comprises the Group's control and management system. Another important corporate governance ingredient is the link to Sandvik's risk management, which is conducted in accordance with the ERM model and to the model for remuneration of senior executives. This Corporate Governance Report is not part of the statutory Annual Report and it has not been examined by Sandvik's external auditors.

Corporate governance within Sandvik is based on applicable legislation, the rules and regulations of the Stock Exchange, the Swedish Code of Corporate Governance ("The Code"), and internal guidelines and regulations.

For additional information regarding the Swedish Code of Corporate Governance, the Annual General Meeting of shareholders, and so forth, refer to the website of The Swedish Corporate Governance Board, [www.bolagsstyrningskollegiet.se](http://www.bolagsstyrningskollegiet.se).

## Ownership structure

Information on shareholders and shareholdings is presented on pages 10–11 (the section on the Sandvik share).

## Articles of Association

According to Sandvik Aktiebolag's Articles of Association, the company's name is Sandvik Aktiebolag. Its share capital amounts to SEK 1,423,544,610 represented by 1,186,287,175 shares. Each share carries one vote at meetings of shareholders. The Board of Directors, to the extent elected at the Annual General Meeting, shall comprise not less than five and not more than eight members, with not more than five deputies. In addition, not less than two and not more than three auditors and the same number of deputies shall be appointed. The Annual General Meeting may also appoint one auditor only, with no deputy, if a registered auditing firm is appointed. The company's financial year is the calendar year. The Annual General Meeting shall be convened in Sandviken or Stockholm, Sweden.

The Articles of Association in full are available on the company's website, [www.sandvik.se](http://www.sandvik.se).

## Shareholder meetings

Pursuant to the Swedish Companies Act, the meeting of shareholders is the highest decision-making forum, at which the shareholders exercise their voting rights. At the Annual General Meeting, decisions are made relating to the Annual Report, dividends, election of Board members and appointment of auditors, remuneration of Board members and auditors, and other matters set out in the Companies Act and the Articles of Association. Additional information concerning the Annual General Meeting and complete minutes are published on the company's website, [www.sandvik.se](http://www.sandvik.se).

## 2008 Annual General Meeting

Shareholders representing 53.1% of the votes and capital attended the Annual General Meeting held on 29 April 2008. Sven Unger, attorney-at-law, was elected to chair the meeting. The meeting resolved to declare a dividend of SEK 4 per share for the 2007 financial year. In his presentation, President and CEO Lars

Pettersson commented on operations during the 2007 financial year and developments during the first quarter of 2008. He also gave an account of the Sandvik Group's development opportunities.

Georg Ehrnrooth, Clas Åke Hedström, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, and Lars Pettersson were all reelected as permanent members of the Board. Simon Thompson was elected as a new Board member, replacing Sigrun Hjelmquist, who declined reelection. Clas Åke Hedström was elected Chairman of the Board. The trade union organizations had appointed Tomas Kärnström and Jan Kjellgren as permanent members of the Board, with Mette Ramberg Frodigh and Bo Westin as deputies. Anders Nyrén is the Vice Chairman of the Board.

## Nomination Committee

A Nomination Committee has been established in accordance with the resolution reached at the Annual General Meeting in 2007. The four largest shareholders known to the company each appointed one member and together with the Chairman of the Board, they made up the Nomination Committee. Prior to the 2008 *Annual General Meeting*, the Nomination Committee submitted proposals for the Chairman of the Meeting, the number of Board members, fees for Board members and auditors, Board members and Chairman, the number of auditors and the election of auditors, and how the Nomination Committee will be appointed prior to the 2009 *Annual General Meeting* and what its assignment shall be.

The Nomination Committee, which for the 2008 *Annual General Meeting* comprised Carl-Olof By, Chairman (Industrivärden), Curt Källströmer (Handelsbanken's Pension Foundations), Staffan Grefbäck (Alecta Pension Insurance), Marianne Nilsson (Swedbank Robur Funds), and Clas Åke Hedström (Sandvik's Chairman), held five meetings. Through Sandvik's Board Chairman, the Nomination Committee received information concerning the Board's own eval-

uation of Board members' performance. The Nomination Committee discussed the general criteria that Board members should fulfill, including independence issues.

The Nomination Committee concluded that the current size of the Board, with its eight members, is what best serves Sandvik, and that the proposed Board fulfills the demands that will be imposed on Sandvik Aktiebolag with regard to its position and future direction.

#### **Nomination Committee prior to the 2009 Annual General Meeting**

*Prior to the Annual General Meeting to be held on 28 April 2009, the Nomination Committee consists of Carl-Olof By, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken's Pension Foundations), Staffan Grefbäck (Alecta Pension Insurance), Marianne Nilsson (Swedbank Robur Funds), and Clas Åke Hedström (Sandvik's Chairman).*

The Nomination Committee shall submit proposals for the Chairman of the Meeting, the number of Board members, fees for each of the Board members and auditors, Board members and Chairman, and how the Nomination Committee will be appointed prior to the 2010 *Annual General Meeting* and what its assignment shall be.

#### **The Board of Directors**

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

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

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

#### *The principal tasks of the Board are to:*

- establish the overall objectives for the company's operations and the strategy for reaching these objectives,
- ensure that the company's executive management functions efficiently and is suitably remunerated,
- ensure that the company's external financial reporting is conducted transparently and objectively and provides a fair view of the company's performance, profitability, financial position and risk exposure,
- ensure that there are effective systems for monitoring and control of the company's operations and financial position in relation to the established goals,
- monitor and evaluate the company's development and advise and support the CEO in taking necessary measures,
- ensure that there is adequate control of compliance with laws and regulations governing the company's operations,
- ensure that necessary ethical guidelines are established for the company's behavior,
- decide on acquisitions, divestments and investments,
- propose dividends to the Annual General Meeting.

#### **Composition of the Board of Directors**

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

In accordance with the Nomination Committee's proposal, Georg Ehrnrooth, Clas Åke Hedström, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén and Lars Pettersson were reelected at the Annual General Meeting in 2008. Simon Thompson was elected as a new member of the Board.

Clas Åke Hedström, who was elected Chairman of the Board, has earlier held the position of President and CEO in the company (1994–2002). President and

CEO Lars Pettersson is employed by the company. Anders Nyrén is the President of Industrivärden. Fredrik Lundberg is a member of the Board of Industrivärden. Industrivärden owns shares representing 11% of the voting rights in Sandvik. Anders Nyrén and Fredrik Lundberg are thus not independent in relation to major shareholders as defined in the Code. The remaining four members elected at the Annual General Meeting were all independent in relation to Sandvik and major shareholders. Accordingly, the composition of the Board complies with the requirements in the Code that a minimum of two of those members that are independent in relation to the company and its management shall also be independent in relation to major shareholders, and that the members that are independent in relation to the company and major shareholders have the required experience to serve public listed companies.

Sandvik's General Counsel Bo Severin served as secretary of the Board, the Remuneration and Audit Committees as well as the Nomination Committee.

For additional information on the members of the Board, see pages 104–105.

#### **Procedural Guidelines**

The Board's Procedural Guidelines and instruction for Work Delegation between the Board and the CEO, as well as financial reporting, are updated and approved each year. The update is based on such aspects as the Board's evaluation of the individual and collective work that the Board performs.

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

**Board proceedings during 2008**

During the year, the Board met on seven occasions. The Board dealt with strategic issues related to the operations of the business areas. The executive managements of all three business areas presented their goals and strategies and the Board visited Sandvik Materials Technology's medical applications operations in the UK and the US.

The Board addressed matters related to personnel, such as planning for replacements and remuneration terms. Decisions were taken on investments, acquisitions and divestments. Other areas dealt with include the Group's work on risk management and the company's strategy for capital structure and borrowings.

**Remuneration to the Board members**

As decided at the Annual General Meeting, the fee to each of the external members elected at the Annual General Meeting is SEK 450,000. The Chairman's fee is SEK 1,350,000 and the fee to the Vice Chairman is SEK 900,000. In addition, SEK 150,000 was paid to the Chairman and SEK 125,000 to each member of the Audit Committee, in total SEK 400,000. The Chairman of the Remuneration Committee was paid SEK 100,000 and each member SEK 75,000, or a total of SEK 250,000. For additional information on remuneration to the Board members, see pages 59–61.

**Evaluation of the Board members**

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

**Evaluation of the President**

The Board continually evaluates the performance of the President and CEO. When this issue is addressed – not less than once a year – no members of Group Executive Management attend.

**Committees**

The tasks of the committees and their work procedures are set out in written instructions issued by the Board. The committees shall draft issues and present them to the entire Board for resolution.

**Remuneration Committee**

According to the Board's work procedures, the Remuneration Committee shall prepare remuneration to the President and other senior executives based on the guidelines decided at the Annual General Meeting. In 2008, the members of the Remuneration Committee were the Board's Chairman Clas Åke Hedström (also Chairman of the Remuneration Committee), Georg Ehrnrooth and Egil Myklebust.

The committee's proposals to the Board cover the principles for remuneration, the distribution between fixed and variable salary, pension terms, principles for severance pay, and other benefits to senior executive management.

Based on the proposal by the Remuneration Committee, the Board decides the remuneration to the President and CEO. The President decides remunerations to the other senior executives following consultation with the Remuneration Committee. For additional information, see pages 59–61.

During 2008, the Remuneration Committee was convened six times.

**Audit Committee**

The members of the Audit Committee are Anders Nyrén (Chairman), Hanne de Mora and Fredrik Lundberg. The committee held six meetings in 2008 at which the company's external auditors and representatives of the company's management were present. Areas addressed by the committee mainly covered financial reporting and the planning, scope and follow-up of the internal and external audit. The committee also dealt with the Group's implementation of systematic processes for risk management, accounting procedures, taxation and finance operations, as well as insurance and pension issues.

**External auditors**

At the 2008 Annual General Meeting, the audit firm KPMG AB was reappointed auditor for the three-year period until the 2011 Annual General Meeting, with Caj Nackstad as the auditor in charge.

An account of the audit is presented to the shareholders in the audit report. This report provides a recommendation to the shareholders upon which they can base their decisions at the Annual General Meeting regarding the adoption of the income statements and balance sheets of the Parent Company and the Group, the appropriation of the Parent Company's

profit and the discharge of the members of the Board and the CEO of liability for the financial year.

The audit is conducted in accordance with the Companies Act and generally accepted auditing standards, which require that the audit is planned and performed on the basis of knowledge of the Sandvik Group's operations and its development and strategies. The audit includes such activities as an examination of compliance with the Articles of Association, the Companies Act, the Annual Accounts Act, International Financial Reporting Standards (IFRS) and the disclosure standards specified by the Stock Exchange relating to information in the Annual Report, as well as issues related to the valuation of items reported in the balance sheet and the follow-up of essential accounting processes and financial control. The audit includes that the company has followed the principles of remuneration to the Group Executive Management approved by the Annual General Meeting.

The progress of the audit is regularly reported during the year to the managements of individual companies and the business areas, to Group Executive Management, the Audit Committee and to the Board of Sandvik AB.

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

In accordance with the Auditors Act, auditors are required to continually assess their independence.

For information on fees paid to auditors, see page 62.

**Operational management**

Information relating to the Group's operational organization and business activities is available on the company's website, [www.sandvik.com](http://www.sandvik.com).

The three business areas, Sandvik Tooling, Sandvik Mining and Construction and Sandvik Materials Technology, comprise Sandvik's operational structure. The presidents of the business areas report directly to the CEO of Sandvik AB and are responsible for the business activities of their respective areas. In turn, the business areas are organized in various product areas or customer segments. Internal Board meetings are held at the business area level. Sandvik's CEO chairs these meetings. In addition to the president and the financial manager of the business area, Sandvik AB's two Execu-

utive Vice Presidents, the Group's Business Controller and the General Counsel normally attend these meetings. Executive Vice President Peter Larsson is a Board member of Seco Tools AB and thus does not participate in Sandvik Tooling's Board meetings.

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

The CEO and other members of Group Executive Management are presented on page 106. For principles, remuneration and other benefits to the Group Executive Management, see pages 59–61.

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

For each such country, a member of Group Executive Management, or another person appointed by Group Executive Management, has been assigned overall responsibility for the operations in the country concerned (Group Management Representative). In most cases, this member is also Chairman of the local Board and, among other tasks, must ensure compliance with Group-wide guidelines aided by the Country Manager.

### Integration of acquired companies

Sandvik has actively acquired companies. In the most recent 10-year period, some 50 companies have been acquired. In the past two years, 15 new companies with

some 2,900 employees and total sales of more than SEK 5 billion (at acquisition date) have been acquired. Accordingly, a considerable part of the Sandvik Group's growth comes from acquisitions.

Swift and well-accomplished integration of new companies with Sandvik's other operations is of utmost importance. The commercial synergies of the acquisition must be ensured. The integration also comprises management and HR issues, and harmonization with Sandvik's administrative procedures and its core values: *Open Mind*, *Team Spirit* and *Fair Play*.

The integration is secured in three steps. During the initial acquisition stage, prior to the completion of negotiations and before the acquisition is finalized, the significant integration aspects are analyzed and prepared. As soon as the acquisition is concluded, an integration group is appointed which is charged with the task of planning and implementing the integration in various areas. Finally, the company is incorporated into Sandvik's administrative procedures and its personnel are trained in Sandvik's regulations and set of values. This includes financial reporting, which allows for early consolidation into Sandvik's financial reporting and the consolidated accounts.

### Violation of listing agreement

In May 2006, Sandvik divested all of its shares in the wholly owned company Edmeston AB to Edmeston Holding AB for slightly more than SEK 8 M. All shares in the aforementioned company were owned by the 24-year-old daughter of Edmeston AB's President. In February 2008, the Swedish Securities Council issued a statement (Statement 2008:06) that in its overall assessment, Sandvik had breached the code of generally accepted practices in the securities market, since the sale of the shares in Edmeston AB could be construed as circumventing the so-called Leo regulations.

As a result of the Swedish Securities Council's statement, the Stock Exchange requested that disciplinary measures be taken by the stock market's Disciplinary Committee. In May 2008, the Disciplinary Committee ruled that Sandvik had violated its listing agreement and issued a fine corresponding to one annual fee. In the ruling, the Disciplinary Committee noted that the transactions concerned relatively limited values and that nothing indicated anything else than that the transaction was to the benefit of the shareholders of Sandvik Aktiebolag.

### Internal control and risk management

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

#### Control environment

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

- the Group's business concept, strategies, objectives and values,
- organizational structure and job descriptions,
- Sandvik's Code of Conduct including business ethics, human rights, equal opportunity, health and safety, external environment and community involvement,
- administrative procedures, guidelines and instructions (authority, authorization manual, financial reporting, risk management, personnel policy, health and safety, etc.); in some markets, such guidelines have also been adapted to local legislation.

*The Power of Sandvik* is the platform for the Group's processes for internal control, risk management, and information and communication, with the exception of Seco Tools, which has corresponding documentation.

All employees shall comply with the guidelines in *The Power of Sandvik*. Every manager within the Group is responsible for ensuring compliance with the Code of Conduct, guidelines and instructions. The Code of Conduct covers Sandvik's internal activities, the company's role in society and its attitude to customers, employees, suppliers, and shareholders. The Code of Conduct is based on fundamental values for responsible business behavior, human rights, conditions at work and the environment as described in the OECD's guidelines for multinational companies and applicable laws and regulations. To ensure that these guidelines and values are mirrored in Sandvik's actual behavior, monitoring and control is exercised through self-assessments, reporting of key data as well as quarterly reporting to Group Executive Management and the Board. A committee with members from Group Executive Management regularly arranges seminars attended by managers from throughout the world. At such seminars, the Code of Conduct is described, discussed and transformed into local action plans.



**Risk management**

Effective risk management unites operational business development with the demand for control and sustainable value creation by shareholders and other stakeholders. Risk management also aims to minimize risks while also ensuring that opportunities are utilized in the best possible way. One example of active risk management was the implementation of the Sandvik Pensions Supervisory Board, which is responsible for monitoring the exposure of the Group's pension commitments and the related reserved assets.

The Group's risk management complies with the ERM model and is integrated with the daily planning, monitoring and control within the framework of strategic and operational management. Goals established for integrated risk management include:

- the creation of heightened risk awareness in the entire organization, from operational decision-makers to the Board of Directors. Transparent and consistent reporting of risks shall form the basis for a common approach to what shall be prioritized and resolved,
- the support of the Board and executive management in the strategic decision-making by continuous identification and evaluation of strategic risks,
- improved operational decision-making by managers at various levels by securing the continuous evaluation and management of operational risks,
- enhanced control of the company's risk exposure by implementing a common model and methodology for risk management.

**The Board of Director's description of internal control over financial reporting for 2008**

Sandvik's financial reporting was established in accordance with prevailing legislation, International Financial Reporting Standards (IFRS) and the listing agreement with the Nasdaq OMX Nordic Exchange Stockholm. This description of internal control over financial reporting is prepared in accordance with the Code, sections 10.5 and 10.6. It does not form part of the formal Annual Report and has not been examined by the external auditors.

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

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

**Control Environment**

As described above in the Annual Report, The Power of Sandvik (PoS) is the primary source for the guidelines governing

management and staff, internal control and conduct at Sandvik. The PoS contains the Sandvik Code of Conduct, delegation instruments with signatory and authorization principles for decision-making and cost approvals, request and approval procedures regarding investments and acquisitions, instructions regarding funding and the placement of capital and more.

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

**Risk assessment and risk management**

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

**Attendance at Board and Committee meetings 2008**

Member	Board	Audit Committee	Remuneration Committee
No. of meetings	7	6	6
Georg Ehrnrooth	7		6
Clas Åke Hedström	7		6
Sigrun Hjemlquist	2	2	
Jan Kjellgren	5		
Fredrik Lundberg	7	6	
Hanne de Mora	6	4	
Egil Myklebust	7		5
Anders Nyren	7	6	
Lars Pettersson	7		
Simon Thompson	5		
Tomas Kärnström	6		
Göran Lindstedt	2		
Mette Ramberg Frodigh	5		
Bo Westin	6		

#### *Control activities*

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

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

Group finance functions responsible for the consolidated Sandvik income statement, balance sheet and cash-flow statement and the internal management and external statutory reporting, perform detailed reconciliation of submitted financial data from each reporting entity. Comparisons are made against budgets, forecasts and previous accounting periods. Key ratios and performance indicators are reviewed and calculations tested. In-depth analysis is made of reported numbers and performance. Meetings are held with business area management to discuss performance and to agree on the outcome of financial information for the reporting period. Group Financial Control, Group Business Control and Group Assurance all have key responsibilities for control activities regarding financial reporting.

#### *Information and Communication*

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

In the business areas and in major countries there is also a system with internal Board meetings with a formal agenda, including financial information, monitoring and decisions related to financial matters.

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

#### *Monitoring and follow-up*

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

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

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

#### *Group Assurance*

As assigned by the Board and the Audit Committee, the Group Assurance staff function ensures that the Group has effective corporate governance, internal control and risk management procedures. The purpose of the activities of Group Assurance is to support the creation of value growth in the Group. It achieves this by ensuring that well-functioning risk management and internal control have been established, by ensuring the quality of internal controls and by suggesting improvements in the areas of corporate governance, internal control and risk management. The independence of the Group Assurance function is ensured by its reporting to the Audit Committee. In practical terms, the head of Group Assurance reports to Sandvik's Executive Vice President and CFO. The internal audits are based on the Group's guidelines and policies for corporate governance, risk management and internal control with regard to such aspects as financial reporting, compliance with the Code of Conduct and IT. The examination results in actions and programs for improvement. The teams report to Group Executive Management and business area management and to the Audit Committee.

# Board of Directors auditors

## Members of the Board

### **Clas Åke Hedström**, b. 1939.

Chairman since 2002, Director of Sandvik AB since 1994.

#### *Education and business experience:*

MSc. Eng. President and CEO of Sandvik AB 1994–2002. President of Sandvik Tooling business area 1980–1994 and various positions within Sandvik Coromant 1965–1980.

*Current Board assignments:* Director of AB SKF.

*Shareholding in Sandvik (own and closely related persons):* 225,000.

### **Lars Pettersson**, b. 1954.

Director of Sandvik AB since 2002.

#### *Education and business experience:*

MSc. Eng., PhD Honorary. President and Chief Executive Officer of Sandvik AB since 2002. Group Executive Vice President and President of Sandvik Specialty Steels business area 2000–2002. Various positions within production and management in Sandvik 1978–1999.

*Current Board assignments:* Director of Skanska AB and Teknikföretagen.

*Shareholding in Sandvik (own and closely related persons):* 113,654.

### **Georg Ehrnrooth**, b. 1940.

Director of Sandvik AB since 1997.

#### *Education and business experience:*

Graduate engineer, D.Tech. Honorary. President of Metra Oyj (currently Wärtsilä Oyj Abp) 1991–2000, President of Lohja Oyj Abp 1979–1991, various positions in production and management within Wärtsilä Oyj Abp 1965–1979.

*Current Board assignments:* Chairman of the Board of Sampo plc, Director of Oy Karl Fazer Ab and Nokia Oyj.

*Shareholding in Sandvik (own and closely related persons):* 55,000.

### **Fredrik Lundberg**, b. 1951.

Director of Sandvik AB since 2006.

#### *Education and business experience:*

MSc. Eng., B.Sc. (Econ.), D.Econ Honorary, D.Tech. Honorary. Active in L E Lundbergföretagen AB since 1977 and Chief Executive Officer since 1981.

*Current Board assignments:* Chairman of the Board of Cardo AB, Holmen AB, Hufvudstaden AB, Vice Chairman of Svenska Handelsbanken AB and NCC AB, Director of LE Lundbergföretagen AB and Industrivärden AB. *Shareholding in Sandvik (own and closely related persons):* 4,280,000, via L E Lundbergföretagen AB 14,000,000 and via AB Industrivärden 136,431,200.

### **Anders Nyrén**, b. 1954.

Director of Sandvik AB since 2002.

Vice Chairman of the Board.

#### *Education and business experience:*

B.Sc. (Econ.), MBA. President and Chief Executive Officer of AB Industrivärden since 2001, Executive Vice President and CFO of Skanska AB 1997–2001, various executive positions within AB Wilhelm Becker, STC Scandinavian Trading Co AB, STC Venture AB, OM International, Securum AB and Nordbanken 1979–1997.

*Current Board assignments:* Chairman of Association of Exchange-listed Companies and the Association for Good Practices on the Securities Market, Vice Chairman of Svenska Handelsbanken AB, Director of Ericsson, Industrivärden, SCA, SSAB, and Ernströmgruppen. *Shareholding in Sandvik (own and closely related persons):* 4,500.

### **Egil Myklebust**, b. 1942.

Director of Sandvik AB since 2003.

#### *Education and business experience:*

I.L.B. Chief Executive Officer of Norsk Hydro 1991–2001, President of Næringslivets hovedorganisasjon 1989–1990, President of Norsk Arbeidsgivareforening 1987–1988, various positions within Norsk Hydro 1971–1987. Consultant to the National Insurance Administration 1968–1971.

#### *Current Board assignments:*

Director of University Board (University of Oslo). *Shareholding in Sandvik (own and closely related persons):* 5,000.

### **Hanne de Mora**, b. 1960.

Director of Sandvik AB since 2006.

#### *Education and business experience:*

B.Sc. (Econ.), Bachelor's degree of Business Administration IESE, Barcelona. One of the founders and owners, also Chairman of the Board of the management company a-connect (group) ag since 2002, partner in McKinsey & Company Inc. 1989–2002, various positions within brand management and controlling within Procter & Gamble 1986–1989.

*Current Board Assignments:* — *Shareholding in Sandvik (own and closely related persons):* 0.

### **Simon Thompson**, b. 1959.

Director of Sandvik AB since 2008.

#### *Education and business experience:*

MA Geology. Various positions with Anglo American Group 1995–2007 including director of Anglo American plc 2005–2007, Director of AngloGold Ashanti 2004–2008, chairman Tarmac 2004–2007, Director of SG Warburg 1994–1995, NM Rothschild & Sons Ltd. 1984–1995.

*Current Board assignments:* Director of UC Rusal, Newmont Mining Corporation and AMEC plc.

*Shareholding in Sandvik (own and closely related persons):* 0.

**Tomas Kärnström**, b. 1966.

Director of Sandvik AB since 2006  
(Employee representative).

*Education and business experience:*

Principal safety representative Sandvik Materials Technology. Various positions within Sandvik since 1986.

*Current Board assignments:* —

*Shareholdings in Sandvik (own and closely related persons):* 2,865.

**Jan Kjellgren**, b. 1952.

Director of Sandvik AB since 2008  
(Employee representative).

*Education and business experience:*

Research engineer, Sandvik Tooling Sverige AB. Various positions within Sandvik since 1981.

*Current Board assignments:* AB Sandvik Hard Materials, Sandvik Tooling Sverige AB.

*Shareholding in Sandvik (own and closely related persons):* 570.

#### Deputy members

**Bo Westin**, b. 1950.

Director of Sandvik AB since 1999  
(Employee representative).

*Education and business experience:*

Chairman Union Committee, Metal Workers' Union, Sandvik Rotary Tools AB, Köping. Various operator positions within Sandvik Mining and Construction since 1973. Volvo Köpingverken 1971–1972, Köpings Mekaniska Verkstad 1968–1970.

*Current Board assignments:* Director of Sandvik Rotary Tools.

*Shareholding in Sandvik (own and closely related persons):* 101.

**Mette Ramberg Frodigh**, b. 1961.

Director of Sandvik since 2006  
(Employee representative).

*Education and business experience:*

Master of Engineering NTH Norway, research engineer since 1997.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 900.

#### Honorary Chairman

**Percy Barnevik**, b. 1941.

Chairman of the Board of Sandvik AB  
1983–2002.

#### Auditors

**Caj Nackstad**, b. 1945.

Auditor in charge, Authorized Public Accountant, KPMG AB.

*Other auditing assignments:* Billerud, Skanska, LKAB, Axel Johnson AB and Wallenius.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 0.

#### Board Secretary

**Bo Severin**, b. 1955.

Secretary to the Sandvik Board of Directors since 2000.

*Education and business experience:* LLB. General Counsel in Sandvik AB.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 12,544.

# Group Executive Management and Group staff units

## Lars Pettersson, b. 1954.

Director of Sandvik AB since 2002.  
President and Chief Executive Officer of Sandvik AB since 2002.

### *Education and business experience:*

MSc. Eng., PhD Honorary. Group Executive Vice President and President of Sandvik Specialty Steels business area 2000–2002, various positions within production and management in Sandvik 1978–1999.

*Current Board assignments:* Director of Skanska AB and Teknikföretagen.

*Shareholding in Sandvik (own and closely related persons):* 113,654.

*Employee stock options:* —

## Peter Larson, b. 1949.

Executive Vice President of Sandvik AB since 2000. Responsible for Business Development and HR.

### *Education and business experience:*

B.Sc. (Econ), Executive Vice President and head of IT, Sandvik AB 2004 until 15 February 2009, Executive Vice President and CFO, Sandvik AB 2000–2004, Executive Vice President of Kanthal 1992–2000, Administration Manager, Uddeholm Tooling 1989–1992, controller positions within Härnösands Grafit AB, Kanthal AB and Asea/ABB 1974–1989.

*Current Board assignments:* Director of Seco Tools AB.

*Shareholding in Sandvik (own and closely related persons):* 46,425.

*Employee stock options:* 5,000.

## Per Nordberg, b. 1956.

Executive Vice President and CFO of Sandvik AB since 2004 until 31 August 2009.

### *Education and business experience:*

B.Sc. (Econ). CFO, OMX 2002–2004, Group Treasurer, AstraZeneca Plc 1999–2002, Group Treasurer, Astra 1995–1999, other senior finance positions within Atlas Copco 1981–1994.

*Current Board assignments:* Director of Första AP-fonden.

*Shareholding in Sandvik (own and closely related persons):* 500.

*Employee stock options:* —

## Ola Salmén, b. 1954.

CFO of Sandvik AB from 1 September 2009.

## Anders Thelin, b. 1950.

President of Sandvik Tooling business area since 2000.

### *Education and business experience:*

MSc. Eng. Various positions within research and development and the management group of Sandvik Coromant 1976–2000.

*Current Board assignments:* Director of Haldex AB.

*Shareholding in Sandvik (own and closely related persons):* 16,129.

*Employee stock options:* 5,000.

## Lars Josefsson, b. 1953.

President of Sandvik Mining and Construction business area since 2003.

### *Education and business experience:*

MSc. Eng. Physics. President, ABB STAL/ALSTOM 1998–2003.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 40,000.

*Employee stock options:* 5,000.

## Peter Gossas, b. 1949.

President of Sandvik Materials Technology business area since 2002.

### *Education and business experience:*

MSc. Eng. Physics. General Manager Sandvik Tube 2001, business unit manager positions within Avesta Polarit, Avesta Sheffield and Avesta AB 1986–2001, production and development positions within SSAB 1974–1986.

*Current board assignments:* Director of Höganäs AB, chairman of "Stål och Metall Arbetsgivareförbundet".

*Shareholding in Sandvik (own and closely related persons):* 120.

*Employee stock options:* 5,000.

## Group staff units

IT	Peter Larson (until 15 February 2009) Daniel Repond (from 16 February 2009)	Intellectual Property Communications	Henrik Hägglöf Anders Wallin
Business Control	Andreas Burman	Investor Relations	Jan Lissåker
Real Estate	Carl Larsson	Legal Affairs	Bo Severin
Financial Control	Björn Wahlborg	Personnel and Business Development	Peter Larson
Financial Services	Anders Örbom	Taxes and Financial Projects	Thomas B. Hjelm
Group Assurance	Heléne Gunnarson (until 31 March 2009) Bernth Nilsson (from 1 April 2009)		

Information regarding Board assignments and holdings of shares and employee stock options is as of 1 January 2009.

# Financial key figures

## Key Figures (From 2004 in accordance with IFRS, earlier years in accordance with previous GAAP)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Invoiced sales, SEK M	92,654	86,338	72,289	63,370	54,610	48,810	48,700	48,900	43,750	39,300
change, %	+7	+19	+14	+16	+12	0	0	+12	+11	-7
of which organic, %	+5	+18	+14	+14	+15	+5	-7	+3	+12	-8
of which structural, %	+2	+3	+1	-1	-1	+2	+10	+1	-4	-1
of which currency, %	0	-2	-1	+3	-2	-7	-3	+8	+3	+2
Operating profit, SEK M	12,794	14,394	12,068	9,532	7,578	4,967	5,771	6,103	6,327	4,425
as % of invoicing	14	17	17	15	14	10	12	12	14	11
Profit after financial items, SEK M	10,577	12,997	11,113	8,819	6,877	4,187	5,063	5,606	5,804	5,465
as % of invoicing	11	15	15	14	13	9	10	11	13	14
Consolidated net profit for the year, SEK M	7,836	9,594	8,107	6,392	5,111	2,788	3,436	3,688	3,712	3,620
Shareholders' equity, SEK M	36,725	29,823	27,198	24,507 <sup>1)</sup>	23,551 <sup>1)</sup>	21,440	23,205	23,972	23,019	20,109
Equity ratio, %	36	35	41	41	46	46	48	50	55	52
Net debt/equity ratio, multiple	0.9	1.0	0.6	0.7	0.5	0.5	0.5	0.4	0.3	0.3
Rate of capital turnover, %	101	112	115	112	108	98	97	102	104	95
Cash and cash equivalents, SEK M	4,998	2,006	1,745	1,559	1,720	1,972	2,175	2,258	2,097	2,369
Return on shareholders' equity, %	24.8	34.4	31.8	27.4	21.7	12.8	14.9	15.5	17.3	12.4 <sup>2)</sup>
Return on capital employed, %	19.9	27.0	27.6	23.7	20.5	13.4	15.4	17.4	20.3	15.1 <sup>2)</sup>
Investments in property, plant and equipment, SEK M	7,169	5,399	4,801	3,665	2,967	3,153	2,357	2,627	2,087	1,875
Total investments, SEK M	8,301	10,068	6,081	3,950	3,278	3,260	5,066	4,083	2,670	2,233
Cash flow from operations, SEK M	9,671	5,476	8,170	7,266	5,322	6,421	7,190	5,093	4,476	3,394
Cash flow, SEK M	2,764	179	357	-380	-207	-104	48	73	-334	577
Number of employees, 31 December	50,028	47,123	41,743	39,613	38,421	36,930	37,388	34,848	34,742	33,870

1) Total equity, including minority interest. 2) Excluding items affecting comparability.

## Per-Share Data (From 2004 in accordance with IFRS. Earlier years in accordance with previous GAAP. All historical figures are adjusted taking into account the 5:1 split.)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Basic earnings <sup>1)</sup>	6.30	7.65	6.45	4.95	3.85	2.20	2.70	2.85	2.85	2.80
Diluted earnings <sup>2)</sup>	6.29	7.65	6.45	4.90	3.75	2.15	2.70	2.85	2.80	2.75
Equity	30.00	24.10	22.00	19.80	18.30	17.20	18.60	19.10	17.80	15.50
Dividend (2008 as proposed)	3.15	4.00	3.25	2.70	2.20	2.10	2.00	1.90	1.80	1.60
Direct return <sup>3)</sup> , %	6.4	3.6	3.3	3.6	4.1	4.2	5.2	4.2	4.0	3.0
Payout percentage <sup>4)</sup> , %	50	52	50	55	57	94	73	66	63	57
Quoted prices, Sandvik share, highest	108	151	106	79	56	50	52	49	62	56
lowest	42	96	71	54	46	35	38	35	36	27
year-end	49	111	100	74	54	50	39	45	45	54
No. of shares at year-end, million	1,186.3	1,186.3	1,186.3	1,186.3	1,235.2	1,250.1	1,250.1	1,255.1	1,293.5	1,293.5
Average no. of shares, million	1,186.3	1,186.3	1,186.3	1,216.9	1,255.8	1,250.1	1,252.5	1,277.6	1,293.5	1,293.5
P/E ratio <sup>5)</sup>	7.8	14.5	15.4	15.0	13.9	22.1	14.2	15.6	15.9	19.1
Quoted price, % of equity <sup>6)</sup>	163	462	452	374	293	288	209	235	255	344

1) Profit for the year per share.

2) Profit for the year per share after dilution.

3) Dividend divided by the quoted price at year-end.

4) Dividend divided by basic earnings per share.

5) Market price of share at year-end in relation to earnings per share.

6) Market price of share at year-end, as a percentage of equity per share.

Definitions, page 56.

## Development by Business Area

	Invoiced sales				Operating profit and operating margin							
	2008 SEK M	2007 SEK M	2006 SEK M	2005 SEK M	2008 SEK M	%	2007 SEK M	%	2006 SEK M	%	2005 SEK M	%
Sandvik Tooling	25,975	24,732	22,477	20,847	5,461	21	5,989	24	5,191	23	4,420	21
Sandvik Mining and Construction	38,651	33,073	25,001	20,560	4,996	13	4,979	15	3,672	15	2,654	13
Sandvik Materials Technology	21,480	22,486	19,337	17,003	1,187	6	2,435	11	2,324	12	1,729	10
Seco Tools*	6,513	6,011	5,436	4,919	1,332	21	1,491	25	1,266	23	1,100	22

\* Seco Tools, an independent, exchange-listed group of companies that markets tools for metal cutting, is part of the Sandvik Group.

# Annual Meeting, payment of dividend

## Annual Meeting

The Annual Meeting will be held at Jernvallen, Sandviken, Sweden on Tuesday, 28 April 2009 at 5.00 p.m.

Shareholders wishing to attend the Meeting must notify the Company either by letter to Sandvik AB, Legal Affairs, SE-811 81 Sandviken, Sweden or by telefax +46 26 26 10 86, or telephone +46 26 26 09 40 from 9.00 a.m. to 12.00 noon and 1.00 p.m. to 4.00 p.m. on weekdays, or via the Internet on the Group's website ([www.sandvik.se](http://www.sandvik.se)). Notification must reach Sandvik AB not later than Wednesday, 22 April 2009. In order to qualify for attendance, shareholders must also have been entered in the Share Register kept by VPC AB not later than Wednesday, 22 April 2009 to establish their right to attend the Meeting.

Shareholders whose shares are registered as held in trust must have them temporarily re-registered with the VPC in their own names not later than Wednesday, 22 April 2009 to establish their right to attend the meeting. Note that this procedure also applies to shareholders using a bank's shareholder deposit account and/or trade via the Internet.

In notification of your intent to attend the Meeting, please state your name, personal or corporate registration number, address and telephone number, and details of any advisors.

If you plan to be represented at the Meeting by proxy, notice must be given to Sandvik AB prior to the Meeting.

## Payment of dividend

The Board and the President propose that the Meeting declare a dividend of SEK 3.15 per share for 2008.

The proposed record date is Monday, 4 May 2009. If this motion is adopted by the Meeting, it is expected that dividends will be paid on Thursday, 7 May 2009. Dividends will be sent to those who, on the record date, are entered in the Share Register or on the separate List of Assignees, etc. To facilitate the distribution of dividends, shareholders who have changed address should report their change of address to their bank in sufficient time prior to the record date.

## Sandvik's Annual Report

Sandvik's Annual Report for 2008 comprises the formal financial reporting, meaning the Board of Directors' report, income statements and balance sheets, with accompanying notes, etc., and is printed separately in a reduced number of copies for the shareholders who have ordered the printed reports. In addition to descriptions of operations, financial key figures, goals, business concept, strategy and more, The Sandvik World provides an in-depth look at a number of key areas. The Sandvik World is distributed to all shareholders.

The formal Annual Report is available on the Group's website ([www.sandvik.com](http://www.sandvik.com)) and can be ordered in printed form.





**Document 3 of 4**

**Sandvik Interim Report for the Third Quarter of  
2010**

# Sandvik Q3

PRESS RELEASE 29 October 2010

Interim report on the third quarter 2010

## CEO's comment:

"The market situation continued to improve sequentially. Adjusted for seasonal effects, both order intake and invoiced sales rose. A high level of demand was noted in the energy sector and the improvement continued primarily in the automotive, mining and process industries. Order intake exceeded invoiced sales, resulting in a further strengthening of the order book. Order intake and invoiced sales increased by 23% and 21%, respectively, at fixed exchange rates, compared with the preceding year. Of the order intake of nearly SEK 22 billion, major project orders from the nuclear power industry accounted for SEK 700 M. The operating result amounted to SEK 2.5 billion, or 13% of

invoiced sales," says Sandvik's President and CEO Lars Pettersson.

"The seasonal weakening, which adversely impacts sales and earnings, was offset by a continued improvement in demand in most markets. However, earnings were negatively affected by the strengthening of the SEK, particularly in relation to the EUR and USD. Furthermore, earnings were affected by a provision for variable compensation and certain nonrecurring costs. Capital efficiency was further improved and net working capital neared the target level of 25% of invoicing. Combined with a low investment level, this contributed to continued strong cash flow."

## FINANCIAL HIGHLIGHTS

	Q3	Q3	Change	Q1-3	Q1-3	Change
SEK M	2010	2009	%	2010	2009	%
Order intake*	21 523	17 241	+23 *	66 972	51 498	+32 *
Invoiced sales *	20 241	16 578	+21 *	59 378	53 725	+12 *
Gross profit	7 296	4 105	+78	21 481	12 229	+76
% of invoiced sales	36.0	24.8		36.2	22.8	
Operating profit	2 532	51		7 900	-1 820	
% of invoiced sales	12.5	0.3		13.3	-3.4	
Profit after financial items	2 120	-523		6 658	-3 395	
% of invoiced sales	10.5	-3.2		11.2	-6.3	
Profit for the period	1 560	-180		4 757	-2 494	
% of invoiced sales	7.7	-1.1		8.0	-4.6	
of which shareholders' interest	1 575	-181		4 540	-2 522	
Earnings per share, SEK <sup>1)</sup>	1.33	-0.15		3.83	-2.13	
Return on capital employed <sup>2)</sup>	12.9	1.3		12.9	1.3	
Cash flow from operations	+3 978	+3 521	+13	+8 891	+7 909	+12
Number of employees	46 224	44 960	+3	46 224	44 960	+3

\* At fixed exchange rates for comparable units.

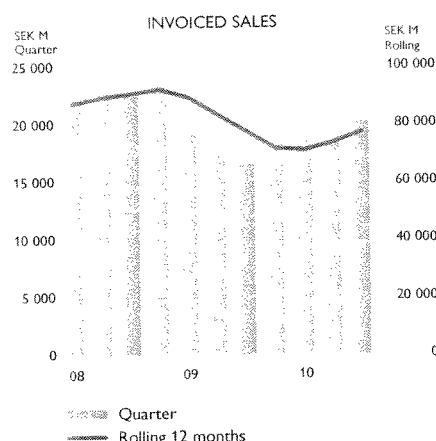
1) Calculated on the basis of the shareholders' share of profit for the period. No dilutive impact.

2) 12 months rolling.

For additional information please call Sandvik Investor Relations +46 26 26 10 23 or visit [www.sandvik.com](http://www.sandvik.com)



## Market and Sales



The global market situation improved in the third quarter. Order intake and invoiced sales rose by 23% and 21%, respectively, at fixed exchange rates compared with the preceding year, although they were largely in line with the preceding quarter. Adjusted for a normal seasonal weakening, mainly in Europe and the US, the sequential development for order intake and invoiced sales was positive in most markets.

A continued increase in global industrial production entailed a marked increase in demand for Sandvik's products in all markets compared with the third quarter of 2009. Demand was particularly strong for high value-added products for industrial production and aftermarket, while the improvement for investment-related products is occurring with a some delay.

A high level of activity was noted in the energy sector and demand increased from, among others, the automotive, mining and engineering industries. Growth in order intake in the mining industry was most notable in the aftermarket segment, although the continued high price of metal meant that the willingness to invest in new equipment also gradually increased. Demand from the construction industry increased in Asia and South America, but remained weak in Europe and slowed slightly in the US compared with the preceding quarter. Order intake from the aerospace industry remained stable.

Demand remained strong in Asia, and most markets – primarily in Europe and the US – reported high rates of increase. Order intake in South America and Africa declined somewhat as a result of fewer project orders compared with the

Q3	Order intake	Invoiced sales
Price/volume, %	+23	+21
Structure, %	0	0
Currency, %	+1	+1
Total, %	+25	+22

The table is multiplicative, i.e. the different components must be multiplied to determine the total effect.

preceding year. However, the rate of increase was about 25% excluding major project orders.

The product mix displayed a positive trend in the quarter, mainly because the share of cutting tools was relatively high, which was also the case for aftermarket within Sandvik Mining and Construction.

Sandvik's strong position as a supplier to the international nuclear power industry was consolidated during the quarter and three additional orders for steam generator tubes to China were received for a combined value of nearly SEK 700 M. Delivery is scheduled for 2012.

Order intake amounted to SEK 21,523 M (17,241), up 25% in total and 23% at fixed exchange rates for comparable units. Of the total order intake, SEK 700 M comprised major project orders. The increase at fixed exchange rates for comparable units was 39% for Sandvik Tooling and 8% for Sandvik Mining and Construction. For Sandvik Materials Technology, the increase was 35%, including a positive effect of about 8 percentage points related to movements in metal prices.

Invoiced sales in the third quarter amounted to SEK 20,241 M (16,578), up 22% in total and 21% at fixed exchange rates for comparable units compared with the third quarter in the preceding year. The increase in invoiced sales for Sandvik Tooling was 39%. The corresponding increase for Sandvik Mining and Construction was 8% and for Sandvik Materials Technology 25%, including a positive effect of about 8 percentage points related to movements in metal prices.

## Earnings and Return

Earnings and return for the third quarter displayed a significant improvement compared with the corresponding quarter in the preceding year. Still earnings were lower than the preceding quarter because of a normal seasonal weakening combined with negative exchange rate effects and certain costs of a nonrecurring nature. The operating result amounted to SEK 2,532 M (51) and the operating margin was 12.5% of invoiced sales (0.3). Return on capital employed totaled 12.9% for the most recent 12-month period. The improvement is attributable to higher volumes, increased capacity utilization, a lower cost level and a favorable product mix. Nonrecurring costs and a provision for variable compensation had a negative impact of about SEK 200 M on earnings. The negative impact of movements in exchange rates was about SEK 280 M compared to the third quarter 2009.

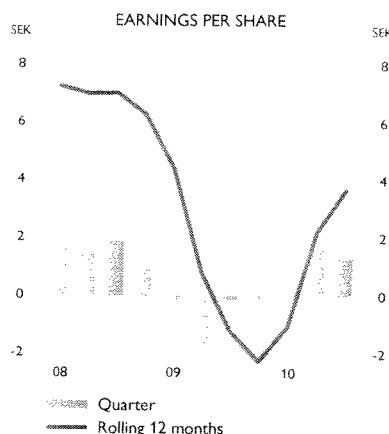
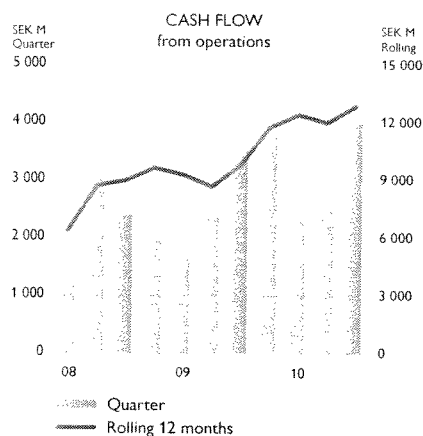
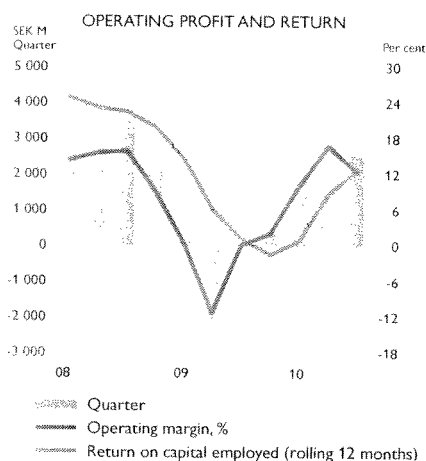
The earnings improvement compared with the preceding year was mainly generated by increased sales and production volumes combined with implemented efficiency-enhancement measures and a product mix with a higher average level of profitability. The improvement programs implemented are gradually increasing efficiency in all business areas and thus the underlying profitability. Compared with the preceding quarter, earnings declined due to seasonally lower invoicing and production volumes combined with negative exchange-rate effects as a result of a strengthening of the SEK. The result was also negatively impacted in the amount of approximately SEK 100 M due to a provision for variable salaries and profit-sharing and by about SEK 100 M related to a nonrecurring cost for such measures as the clo-

sure of the production unit in Crystal Lake in the US. Movements in metal prices had a marginal effect on the result.

Net financial items amounted to SEK -412 M (-574) and the result after net financial items was SEK 2,120 M (-523), or 10.5% of invoiced sales. Income tax was SEK -560 M (+343) and the net result for the period amounted to SEK 1,560 M (-180), or 7.7% of invoicing. Earnings per share amounted to SEK 1.33 (-0.15) in the quarter.

Capital efficiency improved further during the quarter and working capital amounted to 27% (40) of invoiced sales. Cash flow from operations was SEK +3,978 M (+3,521). Investments amounted to SEK 1,131 M (1,320), of which company acquisitions accounted for SEK 258 M (491). Cash flow after investments was SEK +2,886 M (+2,283) for the quarter.

Return on capital employed for the recent 12 months amounted to 12.9% (1.3) and the return on shareholders' equity was 15.2% (-4.0).



# Sandvik Tooling

- Increased demand
- Positive underlying earnings trend
- Strong cash flow
- Negative currency effects

The demand trend for Sandvik Tooling remained positive during the third quarter, both in relation to the preceding year and quarter. Order intake and invoiced sales improved substantially in all markets compared with 2009, and were largely in line with the preceding quarter despite a seasonal weakening. In the third quarter, order intake and invoiced sales rose by 39% at fixed exchange rates for comparable units. The operating result was SEK 961 M (-247), or 16.1% of invoiced sales. Currency effects, nonrecurring costs and a provision for variable compensation had a negative impact on earnings of about SEK 230 M.

The market situation continued to improve in all markets. Intensified global activity in many areas resulted in growth in industrial production and thus higher demand. In Europe, North America and Asia, order intake and invoicing rose by more than 40%. Demand from the energy sector remained strong, while the automotive, aerospace and general engineering industries demonstrated a stable trend. A stronger trend was noted for cemented-carbide products and super-hard materials than for high-speed steel products.

Order intake volume for the quarter was about

Q3	Order intake	Invoiced sales
Price/volume, %	+39	+39
Structure, %	-1	-1
Currency, %	-2	-2
Total, %	+36	+36

The table is multiplicative, i.e. the different components must be multiplied to determine the total effect.

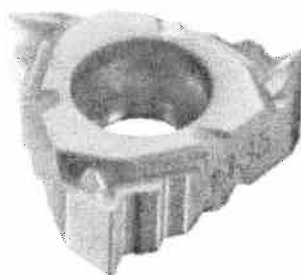
15% below the level recorded in 2008. A long-term focus in strategic areas has boosted Sandvik Tooling's competitiveness, and market shares grew in most markets. The price trend remained positive.

The trend in working capital was continued positive and declined to 26% (42) of invoiced sales and, combined with a low level of investment, led to a continued strong cash flow.

Compared with 2009, the operating result improved and amounted to SEK 961 M (-247). In seasonal terms, the third quarter is weaker than the other quarters with respect to order intake,

invoicing and profitability, which is why earnings were lower than the figure posted in the preceding quarter. Excluding seasonal and exchange-rate effects, the underlying profitability displayed a positive trend. Earnings were negatively impacted by about SEK 130 M due to movements in exchange rates, and by approximately SEK 100 M for a provision for variable salaries and profit-sharing together with

nonrecurring costs, including the closure of the production unit in Crystal Lake in the US. The operating margin was SEK 16.1% (-5.6). Return on capital employed for the most recent 12-month period amounted to 13.6% (1.6).



	Q3 2010	Q3 2009	Change %	Q1-3 2010	Q1-3 2009	Change %
SEK M						
Order intake	5 998	4 408	+39 *	18 192	13 906	+35 *
Invoiced sales	5 966	4 384	+39 *	17 639	14 119	+29 *
Operating profit	961	-247		3 077	-443	
%	16.1	-5.6		17.4	-3.1	
Return on capital employed	13.6	1.6		13.6	1.6	
Number of employees	15 296	15 521	-1	15 296	15 521	-1

\* At fixed exchange rates for comparable units.

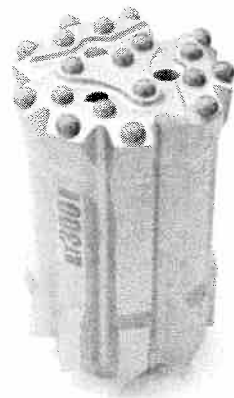
Sandvik

# Mining and Construction

- Strong aftermarket trend
- Continued earnings improvement
- Negative currency effects in EBIT
- Improved capital efficiency
- Strong cash flow

Demand from the global mining industry continued to improve in the third quarter, both in relation to the preceding year and quarter. Most notable was the improvement in the aftermarket segment, while the increase for machinery and equipment is at a slightly lower pace. Activity in the construction industry was lower than in the mining industry. Demand for major material-handling projects remained low during the quarter. Order intake and invoiced sales increased by 8% at fixed exchange rates. Excluding major project orders order intake increased by 28%.

Activity in the mining industry, particularly in underground mines, continued to develop positively during the quarter in line with the trend in earlier quarters. The growth in demand was more evident from the mining industry than from the construction industry and the trend was more pronounced for the aftermarket segment than for the equipment segment. However, higher metal prices meant that the willingness to invest in new equipment gradually increased. Major project orders represented a relatively low share of both order intake and invoiced sales, although deliveries of projects on order will increase in the forthcoming quarters. Of invoiced sales, the aftermarket business accounted for 57% while equipment and projects accounted for 36% and



Q3	Order intake	Invoiced sales
Price/volume, %	+8	+8
Structure, %	0	0
Currency, %	+4	+3
Total, %	+13	+12

The table is multiplicative, i.e. the different components must be multiplied to determine the total effect.

7%, respectively. The invoicing volume for the quarter was about 15% lower than the peak year 2008, and while the aftermarket volume has returned to the same level, equipment and project volumes remain lower. Although the increase in demand was high in all markets, it was strongest in Europe and North America, which together account for about 30% of the business area's sales.

The number of employees increased slightly on account of an expansion of the sales organization in Asia and Eastern Europe and a growing need for personnel to production and service to ensure a high delivery and service level. Capital efficiency continued to develop in a positive direction and net working capital reached 25% of invoiced sales for the first time. Combined with a low investment level, this was one of the contributing factors behind a continued strong cash flow.

The third-quarter operating result amounted to SEK 1,257 M (332) or 14.5% (4.3) of invoiced sales.

The result was positively impacted by increased invoicing and production volumes, increased internal efficiency and a favorable product mix. Movements in exchange rates had a negative impact of approximately SEK 100 M on the result. Return on capital employed for the most recent 12-month period was 19.2% (5.1).

	Q3 2010	Q3 2009	Change %	Q1-3 2010	Q1-3 2009	Change %
SEK M						
Order intake	9 163	8 134	+8 *	28 698	21 885	+30 *
Invoiced sales	8 676	7 762	+8 *	24 639	24 580	-1 *
Operating profit	1 257	332		3 162	54	
%	14.5	4.3		12.8	0.2	
Return on capital employed	19.2	5.1		19.2	5.1	
Number of employees	15 116	14 661	+3	15 116	14 661	+3

\* At fixed exchange rates for comparable units.

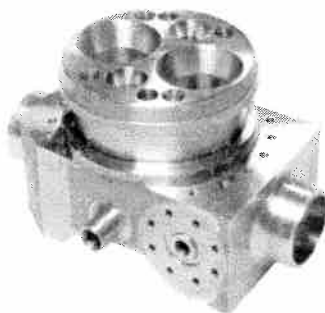
Sandvik

## Materials Technology

- Increased demand
- Major project orders to China
- Seasonal downturn
- Consolidation of product portfolio

Demand developed positively for Sandvik Materials Technology during the quarter. Order intake rose by 35% and invoiced sales by 25% at fixed exchange rates. Order intake for products to the energy sector and mining industry remained strong. During the quarter, the business area received three major project orders with a combined value of SEK 700 M from the Chinese nuclear power industry within the framework of previously signed agreements.

The market situation gradually improved during the quarter, primarily in North America, Europe and Asia. The market for advanced products to the nuclear power industry was extremely robust and a further three orders were registered for deliveries of steam generator tubes to Chinese nuclear power plants to the value of SEK 700 M. Demand remained favorable for products to, for example, the oil and gas industry and the electronics and consumer goods industries. A favorable trend was noted in most customer segments – in line with recent quarters – although a flat development was observed for major projects for the process industry. A conscious focus on high value-added products meant that order intake for low value-added products was retained at a low level. Movements in metal prices had a positive impact of 8 per-



Q3	Order intake	Invoiced sales
Price/volume, %	+35	+25
Structure, %	0	0
Currency, %	+1	+1
Total, %	+37	+26

The table is multiplicative, i.e. the different components must be multiplied to determine the total effect.

centage points on order intake and invoicing.

Further actions to strengthen the business area's strategic position were taken during the quarter. These included the establishment of a strategic partnership with Carpenter Technology Corporation relating to the development and production of products based on powder technology. Furthermore, the decision was taken to discontinue the production and sale of bimetal products in the Wire and Heating Technology product area.

The number of employees increased to strengthen the sales organization in Asia and to ensure the implementation of expansion projects in the nuclear power area.

During the quarter, scheduled maintenance measures were conducted, which limited the delivery capacity. Some complications connected to the restart

caused a slight increase in delivery times and had a negative impact on the operating margin. Working capital amounted to 33% (38) of invoiced sales. The operating result amounted to SEK 203 M (-2), or 4.9% (-0.1) of invoiced sales. Nonrecurring costs and a provision for variable salaries and profit-sharing adversely affected the operating margin by about 1 percentage point. Movements in metal prices and exchange rates had no material impact on earnings. Return on capital employed for the recent 12 months was 8.5% (-6.9).

	Q3 2010	Q3 2009	Change %	Q1-3 2010	Q1-3 2009	Change %
SEK M						
Order intake	4 896	3 578	+35 *	15 689	12 036	+33 *
Invoiced sales	4 170	3 299	+25 *	12 808	11 352	+15 *
Operating profit	203	-2		1 214	-1 273	
%	4.9	-0.1		9.5	-11.2	
Return on capital employed	8.5	-6.9		8.5	-6.9	
Number of employees	8 915	8 397	+6	8 915	8 397	+6

\* At fixed exchange rates for comparable units.

## First Nine Months of 2010

Order intake for the January-September 2010 period was positively impacted by the global economic recovery and amounted to SEK 66,972 M (51,498), up 30% in total and 32% at fixed exchange rates for comparable units. Invoicing was SEK 59,378 M (53,725), up 11% in total and 12% at fixed exchange rates for comparable units.

The operating result for the January-September period improved significantly primarily due to higher volumes, greater cost efficiency and a favorable product mix and amounted to SEK 7,900 M (-1,820). The operating margin was 13.3% (-3.4) of invoicing. Movements in exchange rates had a negative impact on the result of about SEK 470 M since the beginning

of the year and movements in metal prices had a positive impact of SEK 390 M.

Financial net amounted to SEK -1,242 M (-1,575) and the result after financial items was SEK 6,658 M (-3,395). The tax rate was 29%, and the net result for the period amounted to SEK 4,757 M (-2,494). Earnings per share amounted to SEK 3.83 (-2.13).

Cash flow from operating activities amounted to SEK +8,891 M (+7,909). The Group's investments in fixed assets totaled SEK 2,079 M (3,425). Company acquisitions accounted for SEK 726 M (1,542). After investments, acquisitions and divestments, cash flow amounted to SEK +6,249 M (+3,118).

## Significant Events

- During the quarter, Sandvik Tooling decided to discontinue production at Crystal Lake in the US. Manufacturing at the unit primarily focuses on high-speed steel drills. The plant closure affects about 150 employees and is expected to be completed by the end of 2010. The cost of the closure is estimated to be SEK 50 M, which corresponds to the estimated annual savings.
- In September, Sandvik Materials Technology received three orders for steam generator tubes to China to a total value of nearly SEK 700 M. Deliveries are expected to commence in 2012.
- To strengthen its market position, improve cost efficiency and specialize the product program in Wire and Heating Technology (formerly the Wire and Kanthal product areas), the decision was taken during the quarter to discontinue the bimetal operation. With this move, the product area has phased-out operations to a sales value of SEK 250 M through a range of structural measures, including the closure of two heating element plants in Europe and the phasing-out of the spring and welding rod range.
- In October, it was announced that Sandvik Materials Technology and Carpenter Technology Corporation intend to establish a strategic partnership to further strengthen its position in the field of powder technology and advanced materials. As part of the arrangement, Sandvik AB will acquire 40% of the shares in Carpenter Powder Products AB and Carpenter Technology Corporation will acquire 40% of the shares in Sandvik Powdermet AB. Carpenter Powder Products AB manufactures high-alloy powder and is already one of Sandvik Powdermet AB's suppliers. The partnership, which will also provide the opportunity for strategic product development collaboration, makes the combination of Sandvik and Carpenter Technology into a leading player in the powder technology area.
- As of 1 October Göran Westberg is appointed Senior Vice President Human Resources and member of Group Executive Management at Sandvik AB. Göran Westberg also holds the position as Executive Vice President Human Resources within Sandvik Materials Technology and has a background within Outokumpu, Uddeholm, Ericsson, Spencer Stuart and Korn Ferry. Peter Larson, who has been responsible for Group HR, remains as Executive Vice president and member of Group Executive Management at Sandvik AB with responsibility for Group IT and purchasing. Bo Severin, Sandvik's General Counsel since 2000, was also appointed member of Group Executive Management at Sandvik AB from 1 October 2010. As of 28 October 2010 Ola Salmén, Sandvik's CFO, is appointed Executive Vice President of Sandvik AB.

## Annual General Meeting 2011

The Board of Directors has decided that the 2011 Annual General Meeting will be held in Sandviken

on 3 May 2011 at 5:00 p.m. The notice to convene the AGM will be made in the usual manner.



## Parent Company

The Parent Company's invoicing for the third quarter of 2010 amounted to SEK 3,917 M (2,700) and the operating result was SEK -13 M (-362). For the period January-September 2010, invoicing amounted to SEK 12,754 M (9,632) and the operating result was SEK 283 M (-1,815). The operating result was positively impacted by an improved market climate with subsequent increased sales and production volumes. An additional contributing factor

was positive metal price effects and, compared with 2009, the absence of costs for restructuring programs. Income from shares in Group companies consists primarily of dividends from these and amounted to SEK 203 M (3,676) after the third quarter. Interest-bearing liabilities, less cash and cash equivalents and interest-bearing assets, amounted to SEK 13,170 M (11,319 at 31 December 2009). Investments in fixed assets amounted to SEK 845 M (800).

## Acquisitions and Divestments

A further part payment was made during the quarter relating to the acquisition of Wolfram, which had a negative impact of SEK 230 M on

cash flow after investments. Seco Tools acquired the French company AOB during the third quarter.

### Acquisitions during the most recent 18-month period

Business area	Company/unit	Closing date	Annual revenue SEK M	No. of employees
Sandvik Tooling	Wolfram, Austria	28 May 09	1 800	274
Seco Tools	AOB, France	23 July 10	40	37

No divestments were made during the most recent 18-month period.

## Accounting Policies

This interim report was prepared in accordance with IFRS, applying IAS 34, Interim Financial Reporting. The same accounting and valuation policies were applied as in the most recent annual report. New standards and interpretations effective from 1 January 2010 have not had any significant impact on Sandvik's financial statements.

The phrase "Minority interest" has been changed in the financial statements to the new designation "Non-controlling interest" according to revised IFRS 3 Business Combinations and amended IAS 27 Consolidated and Separate Financial Statements.

From 2010, Sandvik recognizes cash flows related to investments in rental machinery and sales of these as cash flows from operating activities. In the past, these cash flows were recognized as a component in investing activities. Comparative periods have been adjusted to comply with the new presentation. This change only affects the cash-flow statement.

The interim report for the Parent Company was prepared in accordance with the Annual Accounts Act and Securities Market Act, which is in line with standard RFR 2.3 Reporting by a legal entity, issued by the Swedish Financial Reporting Board.

## Risk and Uncertainty Factors

Sandvik is a global group represented in 130 countries and is as such exposed to a number of commercial and financial risks. Accordingly, risk management is an important process for Sandvik in its work to achieve established targets. Efficient risk management is an ongoing process conducted within the framework of business control, and is part of the ongoing review of operations and forward-looking assessment of operations.

Sandvik's future risk exposure is assumed not to deviate from the inherent exposure associated with Sandvik's ongoing business operations. The dramatic developments in the global economy in 2008 and 2009 have caused a higher level of general uncertainty, which remains to a certain extent in 2010. For a more in-depth analysis of risks, refer to Sandvik's Annual Report for 2009.

# Financial Reports Summary

## The Group

### INCOME STATEMENT

	Q3	Q3	Change	Q1-3	Q1-3	Change
SEK M	2010	2009	%	2010	2009	%
Revenue	20 241	16 578	+22	59 378	53 725	+11
Cost of sales and services	-12 945	-12 473	+4	-37 897	-41 496	-9
Gross profit	7 296	4 105	+78	21 481	12 229	+76
% of revenues	36.0	24.8		36.2	22.8	
Selling expenses	-2 630	-2 516	+5	-7 950	-8 315	-4
Administrative expenses	-1 238	-1 029	+20	-3 800	-3 754	+1
Research and development costs	-483	-406	+19	-1 539	-1 491	+3
Other operating income and expenses	-413	-103		-292	-489	-40
Operating profit	2 532	51		7 900	-1 820	
% of revenues	12.5	0.3		13.3	-3.4	
Financial net	-412	-574	-28	-1 242	-1 575	-21
Profit after financial items	2 120	-523		6 658	-3 395	
% of revenues	10.5	-3.2		11.2	-6.3	
Income tax	-560	343		-1 901	901	
Profit for the period	1 560	-180		4 757	-2 494	
% of revenues	7.7	-1.1		8.0	-4.6	
<b>Other comprehensive income</b>						
Foreign currency translation differences	-2 026	-2 190		-2 476	-1 233	
Cash-flow hedges	475	186		521	543	
Tax related to other comprehensive income	-125	-49		-137	-143	
Other comprehensive income for the period, net after tax	-1 676	-2 053		-2 092	-833	
Total comprehensive income for the period	-116	-2 233		2 665	-3 327	
<b>Profit for the period attributable to:</b>						
Owners of the parent	1 575	-181		4 540	-2 522	
Non-controlling interests	-15	1		217	28	
<b>Total comprehensive income attributable to:</b>						
Owners of the parent	-52	-2 194		2 520	-3 314	
Non-controlling interests	-64	-39		145	-13	
Earnings per share, before dilution, SEK	1.33	-0.15		3.83	-2.13	

# Financial Reports Summary

## The Group

### BALANCE SHEET

SEK M	30 Sept 2010	30 Sept 2009	Change %	31 Dec 2009
Intangible assets	13 138	13 882	-5	14 137
Property, plant and equipment	24 749	26 713	-7	26 519
Financial assets	6 121	5 592	+9	5 698
Inventories	20 565	21 539	-5	19 842
Current receivables	18 864	18 882	0	17 873
Cash and cash equivalents	4 642	8 040	-42	7 506
Total assets	88 079	94 648	-7	91 575
Total equity	31 428	29 472	+7	29 957
Non-current interest-bearing liabilities	28 405	30 859	-8	31 807
Non-current non-interest-bearing liabilities	5 787	5 457	+6	5 507
Current interest-bearing liabilities	2 616	11 891	-78	7 574
Current non-interest-bearing liabilities	19 843	16 969	+17	16 730
Total equity and liabilities	88 079	94 648	-7	91 575
Net working capital*	20 259	24 047	-16	22 122
Loans	28 295	39 823	-29	36 388
Net debt**	24 909	33 235	-25	30 342
Non-controlling interests in total equity	1 107	935	+18	970

\* Inventories plus trade receivables excl. prepaid income taxes, reduced by non-interest-bearing liabilities excl. tax liabilities.

\*\* Current and non-current interest-bearing liabilities including net provisions for pensions, less cash and cash equivalents.

### CHANGE IN TOTAL EQUITY

SEK M	Equity related to owners of the parent	Non-controlling interest	Total equity
Opening equity, 1 January 2009	35 588	1 137	36 725
Total comprehensive income for the period	-2 864	22	-2 842
Dividends	-3 737	-189	-3 926
Closing equity, 31 December 2009	28 987	970	29 957
Opening equity, 1 January 2010	28 987	970	29 957
Total comprehensive income for the period	2 520	145	2 665
Acquisition of non-controlling interests	-	-7	-7
Dividends	-1 186	-1	-1 187
Closing equity, 30 September 2010	30 321	1 107	31 428
Opening equity, 1 January 2009	35 588	1 137	36 725
Total comprehensive income for the period	-3 314	-13	-3 327
Dividends	-3 737	-189	-3 926
Closing equity, 30 September 2009	28 537	935	29 472

# Financial Reports Summary

## The Group

### CASH-FLOW STATEMENT

SEK M	Q3 2010	Q3 2009	Q1-3 2010	Q1-3 2009
<i>Cash flow from operating activities</i>				
Income after financial income and expenses	+2 120	-523	+6 658	-3 395
Adjustment for depreciation, amortization and impairment losses	+993	+982	+2 998	+3 318
Adjustment for items that do not require the use of cash etc.	+61	+227	-61	+233
Income tax paid	-232	-381	-983	-1 068
Cash flow from operating activities before changes in working capital	+2 942	+305	+8 612	-912
<i>Changes in working capital</i>				
Change in inventories	-634	+2 254	-1 718	+7 347
Change in operating receivables	+450	+701	-2 058	+5 362
Change in operating liabilities	+1 210	+370	+4 047	-3 493
Cash flow from operating activities	+1 026	+3 325	+271	+9 216
Investments in rental equipment	-30	-140	-130	-524
Divestments of rental equipment	+40	+31	+138	+129
Cash flow from operations	+3 978	+3 521	+8 891	+7 909
<i>Cash flow from investing activities</i>				
Acquisitions of companies and shares, net of cash acquired	-258	-491	-726	-1 542
Acquisitions of property, plant and equipment	-873	-829	-2 079	-3 425
Proceeds from sale of companies and shares, net of cash disposed of	0		0	+48
Proceeds from sale of property, plant and equipment	+39	+82	+163	+128
Cash flow from investing activities	-1 092	-1 238	-2 642	-4 791
Net cash flow after investing activities	+2 886	+2 283	+6 249	+3 118
<i>Cash flow from financing activities</i>				
Change in interest bearing debt	-2 370	-484	-7 802	+2 053
Closure of interest swap and currency hedge		+419		+1 843
Dividends paid		-1	-1 187	-3 926
Cash flow from financing activities	-2 370	-66	-8 989	-30
Cash flow for the period	+516	+2 217	-2 740	+3 088
Cash and cash equivalents at beginning of the period	+4 330	6 023	+7 506	4 998
Exchange-rate differences in cash and cash equivalents	-204	-200	-124	-46
Cash and cash equivalents at the end of the period	4 642	8 040	+4 642	8 040

### KEY FIGURES

	Q3 2010	Q3 2009	Full-year 2009
No. of shares outstanding at end of period ('000) <sup>1)</sup>	1 186 287	1 186 287	1 186 287
Average no. of shares ('000) <sup>1)</sup>	1 186 287	1 186 287	1 186 287
Tax rate, %	26.4	65.7	25.2
Return on capital employed, % <sup>2)</sup>	12.9	1.3	-1.3
Return on total equity, % <sup>2)</sup>	15.2	-4.0	-7.9
Return on total capital, % <sup>2)</sup>	9.5	1.0	-1.0
Shareholders' equity per share, SEK	25.60	24.10	24.40
Net debt/equity ratio	0.8	1.1	1.0
Equity/assets ratio, %	36	31	33
Net working capital, %	27	40	32
Earnings per share, SEK	1.33	-0.15	-2.24
Cash flow from operating activities, SEK M	+3 978	+3 521	+11 792
Number of employees	46 224	44 960	44 355

1) After dilution.

2) Rolling 12 months.

# Financial Reports Summary

## The parent company

### INCOME STATEMENT

	Q3	Q3	Change	Q1-3	Q1-3	Change
SEK M	2010	2009	%	2010	2009	%
Revenue	3 917	2 700	+45	12 754	9 632	+32
Cost of sales and services	-3 079	-2 330	+32	-9 558	-8 999	+6
Gross profit	838	370	+126	3 196	633	+405
Selling expenses	-140	-115	+22	-412	-402	+2
Administrative expenses	-629	-519	+21	-1 955	-1 778	+10
Research and development costs	-214	-186	+15	-668	-658	+2
Other operating income and expenses	132	88	+50	122	390	-69
Operating profit	-13	-362	-	283	-1 815	-
Income from shares in group companies	141	48	+194	203	3 676	-
Income from shares in associated companies	-	-	-	5	2	+150
Interest income and similar items	413	306	+35	652	589	+11
Interest expenses and similar items	-361	-333	+8	-1 034	-1 199	-14
Profit after financial items	180	-341	-	109	1 253	-
Appropriations	-	-	-	-	-	-
Income tax expense	-236	746	-	-235	614	-
Profit for the period	-56	405	-	-126	1 867	-

### BALANCE SHEET

	30 Sep	30 Sep	Change	31 Dec
SEK M	2010	2009	%	2009
Intangible assets	24	17	+41	17
Property, plant and equipment	6 870	6 802	+1	6 622
Financial assets	15 922	15 525	+3	15 489
Inventories	3 775	3 755	+1	3 310
Current receivables	20 333	19 030	+7	22 269
Cash and cash equivalents	10	13	-23	9
Total assets	46 934	45 142	+4	47 716
Total equity	13 287	12 211	+9	14 607
Untaxed reserves	4	12	-67	4
Provisions	230	273	-16	215
Non-current interest-bearing liabilities	17 069	17 986	-5	19 079
Non-current non-interest-bearing liabilities	18	51	-65	22
Current interest-bearing liabilities	11 335	10 635	+7	9 686
Current non-interest-bearing liabilities	4 991	3 974	+26	4 103
Total equity and liabilities	46 934	45 142	+4	47 716
Pledged assets	-	-	-	-
Contingent liabilities	11 893	17 818	-33	17 778
Interest-bearing liabilities and provisions minus cash and cash equivalents and interest-bearing assets	13 170	13 876	-5	11 319
Investments in fixed assets	845	800	+6	910

# Market Overview and Key Figures

## The Group

### ORDER INTAKE OCH INVOICED SALES PER MARKET AREA Q3 2010

#### The Group

Market area	Order intake	Change*		Share	Invoiced sales	Change*	
	SEK M	%	% <sup>1)</sup>		SEK M	%	%
Europe	7 226	+36	+36	34	7 202	+20	37
NAFTA	3 497	+46	+46	16	3 535	+35	17
South America	1 506	-12	+26	7	1 431	+27	7
Africa/Middle East	2 452	-10	+25	11	2 124	+30	10
Asia	4 790	+44	+32	22	3 892	+32	19
Australia	2 052	+18	+18	10	2 057	-5	10
Total	21 523	+23	+30	100	20 241	+21	100

#### Sandvik Tooling

Europe	3 020	+43	+43	51	3 009	+41	51
NAFTA	1 153	+42	+42	19	1 133	+41	19
South America	309	+35	+35	5	300	+37	5
Africa/Middle East	104	+31	+31	2	122	+62	2
Asia	1 335	+43	+43	22	1 327	+47	22
Australia	77	+8	+8	1	75	+6	1
Total	5 998	+39	+39	100	5 966	+39	100

#### Sandvik Mining and Construction

Europe	1 431	+34	+34	16	1 474	-12	17
NAFTA	1 158	+43	+43	13	1 178	+20	14
South America	954	-24	+26	10	907	+27	10
Africa/Middle East	2 271	-9	+32	25	1 891	+29	22
Asia	1 677	+28	+28	18	1 537	+24	18
Australia	1 672	+21	+21	18	1 689	-6	19
Total	9 163	+8	+28	100	8 676	+8	100

#### Sandvik Materials Technology

Europe	1 945	+27	+27	40	1 908	+23	45
NAFTA	934	+56	+56	19	987	+49	24
South America	156	+3	+3	3	130	-3	3
Africa/Middle East	54	-53	-53	1	88	+82	2
Asia	1 525	+67	+22	31	785	+24	19
Australia	282	+7	+7	6	272	+2	7
Total	4 896	+35	+23	100	4 170	+25	100

\* At fixed exchange rates for comparable units.

1) Excluding major orders.

**Document 4 of 4**

**Terms and Conditions of the Notes**

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Final Terms, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.*

### 1. Introduction

- (a) *Programme:* Sandvik AB (publ) (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to €3,000,000,000 in aggregate principal amount of notes (the "**Notes**").
- (b) *Final Terms:* Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a final terms (the "**Final Terms**") which supplements these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.
- (c) *Agency Agreement:* The Bearer Notes and the Registered Notes are the subject of an issue and paying agency agreement dated 13 February 2009 (the "**Agency Agreement**") between the Issuer, Citibank N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), Citibank N.A., London Branch as registrar, and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions, references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.
- (d) *Swedish Agency Agreement:* The Swedish Registered Notes are the subject of an agreement between the Issuer and the Swedish Issuing and Paying Agent to be entered into by the Issuer on or prior to the date the first Swedish Registered Notes are issued, pursuant to which the Issuer will appoint the Swedish Issuing and Paying Agent (the "**Swedish Agency Agreement**"). The Issuer will furthermore enter into agreements with Euroclear Sweden, applicable to a relevant issue of Swedish Registered Notes, which will set out the terms and conditions for connecting any Swedish Registered Notes to the Swedish clearing and settlement system maintained by Euroclear Sweden (each a "**Euroclear Sweden Agreement**").
- (e) *Deed of Covenant:* The Notes may be issued in bearer form ("**Bearer Notes**"), in registered form ("**Registered Notes**") or in registered form in accordance with the SFIA Act ("**Swedish Registered Notes**"). The Registered Notes are constituted by a deed of covenant dated 13 February 2009 (the "**Deed of Covenant**") entered into by the Issuer.
- (f) *The Notes:* All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for viewing at the Specified Office of the Fiscal Agent, the initial Specified Office of which is set out below, and at [www.londonstockexchange.com](http://www.londonstockexchange.com).
- (g) *Summaries:* Certain provisions of these Conditions are a summary of the Agency Agreement, the Swedish Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have



notice of, all the provisions of the Agency Agreement, the Swedish Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below. A copy of the Swedish Agency Agreement will be available for inspection by Noteholders during normal business hours at the Specified Office of the Swedish Issuing and Paying Agent.

## 2. Interpretation

(a) *Definitions:* In these Conditions the following expressions have the following meanings:

“**Accrual Yield**” has the meaning given in the relevant Final Terms;

“**Additional Business Centre(s)**” means the city or cities specified as such in the relevant Final Terms;

“**Additional Financial Centre(s)**” means the city or cities specified as such in the relevant Final Terms;

“**Business Day**” means:

- (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;
- (ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and
- (iii) in relation to Swedish Registered Notes, the meaning ascribed to such term by the then applicable rules and procedures of Euroclear Sweden.

“**Business Day Convention**”, in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) “**Following Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) “**Preceding Business Day Convention**” means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (iv) “**FRN Convention**”, “**Floating Rate Convention**” or “**Eurodollar Convention**” means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that:*
  - (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the

next calendar month, in which case it will be the first preceding day which is a Business Day; and

- (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) “**No Adjustment**” means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“**Calculation Agent**” means the Fiscal Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

“**Calculation Amount**” has the meaning given in the relevant Final Terms;

“**Coupon Sheet**” means, in respect of a Note, a coupon sheet relating to the Note;

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (the “**Calculation Period**”), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (i) if “**Actual/Actual (ICMA)**” is so specified, means:
  - (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
  - (b) where the Calculation Period is longer than one Regular Period, the sum of:
    - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
    - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iii) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;
- (iv) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
- (v) if “**30/360**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y<sub>1</sub>**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30”;

- (vi) if “**30E/360**” or “**Eurobond Basis**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

“D<sub>2</sub>” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

- (vii) if “**30E/360 (ISDA)**” is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y<sub>1</sub>” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y<sub>2</sub>” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M<sub>1</sub>” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M<sub>2</sub>” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D<sub>1</sub>” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

“**D<sub>2</sub>**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30,

*provided, however, that* in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

“**Early Redemption Amount (Tax)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“**Early Termination Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Final Terms;

“**Extraordinary Resolution**” has the meaning given in the Agency Agreement;

“**Final Redemption Amount**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“**First Interest Payment Date**” means the date specified in the relevant Final Terms;

“**Fixed Coupon Amount**” has the meaning given in the relevant Final Terms;

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness;

“**Holder**”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Notes*), in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Notes*) and, in the case of Swedish Registered Notes, has the meaning given in Condition 3 (e) (*Form, Denomination, Title and Transfer - Title to Swedish Registered Notes*);

“**Indebtedness**” means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (i) amounts raised by acceptance under any acceptance credit facility;
- (ii) amounts raised under any note purchase facility;
- (iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“**Interest Amount**” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“**Interest Commencement Date**” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

“**Interest Determination Date**” has the meaning given in the relevant Final Terms;

“**Interest Payment Date**” means the First Interest Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“**Interest Period**” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“**ISDA Definitions**” means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) as published by the International Swaps and Derivatives Association, Inc.);

“**Issue Date**” has the meaning given in the relevant Final Terms;

“**Margin**” has the meaning given in the relevant Final Terms;

“**Maturity Date**” has the meaning given in the relevant Final Terms;

“**Maximum Redemption Amount**” has the meaning given in the relevant Final Terms;

“**Minimum Redemption Amount**” has the meaning given in the relevant Final Terms;

“**Noteholder**”, in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer - Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer - Title to Registered Notes*);

“**Optional Redemption Amount (Call)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“**Optional Redemption Amount (Put)**” means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

“**Optional Redemption Date (Call)**” has the meaning given in the relevant Final Terms;

“**Optional Redemption Date (Put)**” has the meaning given in the relevant Final Terms;

“**Participating Member State**” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

“**Payment Business Day**” means:

- (i) if the currency of payment is euro, any day which is:
  - (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

- (B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (ii) if the currency of payment is not euro, any day which is:
  - (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

**“Person”** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**“Principal Financial Centre”** means, in relation to any currency, the principal financial centre for that currency *provided, however, that:*

- (iii) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and
- (iv) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

**“Principal Subsidiary”** means at any time, any Subsidiary whose total assets, consolidated in the case of a Subsidiary which itself has subsidiaries (to the extent attributable to the consolidated total assets of the Group), as shown by its latest audited balance sheet, represent ten per cent. or more of the consolidated total assets of the Group, as shown by the latest published audited consolidated balance sheet of the Group;

**“Put Option Notice”** means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**“Put Option Receipt”** means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

**“Rate of Interest”** means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

**“Redemption Amount”** means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

**“Reference Banks”** has the meaning given in the relevant Final Terms or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

**“Reference Price”** has the meaning given in the relevant Final Terms;

**“Reference Rate”** has the meaning given in the relevant Final Terms;

**“Registrar”** means, in relation to any series of Registered Notes, Citibank N.A. London Branch (which includes any successor registrar appointed from time to time in connection with the Registered

Notes) or in respect of any Series of Swedish Registered Notes, Euroclear Sweden in accordance with the SFIA Act;

**“Regular Period”** means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **“Regular Date”** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

**“Relevant Date”** means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent or in respect of Swedish Registered Notes, by the Swedish Issuing and Paying Agent, on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

**“Relevant Financial Centre”** has the meaning given in the relevant Final Terms;

**“Relevant Indebtedness”** means any Indebtedness which is in the form of or represented by any bond, note, debenture, stock, loan stock, certificate or other debt securities which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

**“Relevant Screen Page”** means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

**“Relevant Time”** has the meaning given in the relevant Final Terms;

**“Reserved Matter”** means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

**“Security Interest”** means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

**“SFIA Act”** means the Swedish Financial Instruments Accounts Act (*Sw. lag (1998:1479) om kontoföring av finansiella instrument*) as amended;

**“Specified Currency”** has the meaning given in the relevant Final Terms;

**“Specified Denomination(s)”** has the meaning given in the relevant Final Terms;

“**Specified Office**” has the meaning given in the Agency Agreement or in relation to Swedish Registered Notes, the Swedish Agency Agreement;

“**Specified Period**” has the meaning given in the relevant Final Terms;

“**Subsidiary**” means a subsidiary company or corporation (the “**First Company**”) of another company or corporation (the “**Holding Company**”), where

- (i) the First Company is controlled, directly or indirectly, by the Holding Company;
- (ii) more than half the issued share capital of the First Company is beneficially owned, directly or indirectly, by the Holding Company; or
- (iii) the First Company is a subsidiary of another subsidiary of the Holding Company,

and, for the purpose of this definition, a company or corporation shall be treated as being controlled by another if that other company or corporation is able to direct its affairs and/or to control the composition of its board of directors or equivalent body;

“**Talon**” means a talon for further Coupons;

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“**TARGET Settlement Day**” means any day on which TARGET2 is open for the settlement of payments in euro;

“**Treaty**” means the Treaty establishing the European Communities, as amended;

“**Euroclear Sweden**” means the Swedish Central Securities Depository and Clearing Organisation Euroclear Sweden AB, incorporated in Sweden with Reg. No. 556112-8074;

“**Euroclear Sweden Register**” means in respect of Swedish Registered Notes the computerised register maintained by Euroclear Sweden for the Issuer consisting of accounts for the holders of financial instruments registered pursuant to the SFIA Act; and

“**Zero Coupon Note**” means a Note specified as such in the relevant Final Terms.

(b) *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 13 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 13 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being “outstanding” shall be construed in accordance with the Agency Agreement or in respect of Swedish Registered Notes, the relevant Euroclear Sweden Agreement or Swedish Agency Agreement;



- (vii) if an expression is stated in Condition 2(a) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes;
- (viii) as Swedish Registered Notes are in dematerialised form, any reference in those Conditions to Receipts, Coupons and Talons shall not apply to Swedish Registered Notes; and
- (ix) any reference to the Agency Agreement shall be construed as a reference to the Agency Agreement as amended and/or supplemented up to and including the Issue Date of the Notes.

### 3. **Form, Denomination, Title and Transfer**

- (a) *Bearer Notes:* Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue and, in the case of Definitive Notes, serially numbered, in the Specified Currency. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.
- (b) *Title to Bearer Notes:* Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, “**Holder**” means the holder of such Bearer Note and “**Noteholder**” and “**Couponholder**” shall be construed accordingly.
- (c) *Registered Notes and Swedish Registered Notes:* Registered Notes and Swedish Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.
- (d) *Title to Registered Notes:* The Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a “**Note Certificate**”) will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, “**Holder**” means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.
- (e) *Title to Swedish Registered Notes:* The holder of a Swedish Registered Note will be the person appearing as such in the Euroclear Sweden Register. In the case of Swedish Registered Notes the term “**Holder**” shall be construed accordingly. Where a nominee (*Sw. förvaltare*) in accordance with the SFIA Act is so evidenced it shall be treated by the Issuer as the holder of the relevant Swedish Registered Notes.
- (f) *Ownership:* The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999. This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.
- (g) *Transfers of Registered Notes:* Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Registered Note may not be transferred unless the principal amount of Registered Notes transferred

and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

- (h) *Transfers of Swedish Registered Notes:* Title to Swedish Registered Notes will pass by transfer in the register that the Issuer will procure to be kept by Euroclear Sweden on behalf of the Issuer. Where a nominee is so evidenced it shall be treated as the holder of the relevant Swedish Registered Notes.
- (i) *Registration and delivery of Note Certificates:* Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
- (j) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer. For the avoidance of doubt, the provisions of this Condition 3(j) do not apply to Swedish Registered Notes.
- (k) *Closed periods:* Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes. No Holder of Swedish Registered Notes may require the transfer of a Swedish Registered Note to be registered during a period which is the equivalent of any such closed period pursuant to the then applicable rules and procedures of Euroclear Sweden.
- (l) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations. All transfers of Swedish Registered Notes are subject to any cut-off dates applicable to such Swedish Registered Notes and are subject to any other rules and procedures for the time being of Euroclear Sweden. Euroclear Sweden’s rules and regulations may be downloaded from its website: <http://www.ncsd.eu>

#### 4. **Status**

The Notes constitute direct, general and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

#### 5. **Negative Pledge**

So long as any Note remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Principal Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness of the Issuer or any of its Principal Subsidiaries or Guarantee of Relevant Indebtedness of the Issuer or any of its Principal Subsidiaries without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders *provided that* for the

purposes of this Condition 5 (*Negative Pledge*) Principal Subsidiaries shall not include Seco Tools AB.

**6. Fixed Rate Note Provisions**

- (a) *Application:* This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments - Bearer Notes*) and Condition 12 (*Payments - Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is five days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such fifth day (except to the extent that there is any subsequent default in payment).
- (c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a “sub-unit” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

**7. Floating Rate Note and Index-Linked Interest Note Provisions**

- (a) *Application:* This Condition 7 (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments - Bearer Notes*) and Condition 12 (*Payments - Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is five days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such fifth day (except to the extent that there is any subsequent default in payment).
- (c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
  - (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

- (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
  - (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
  - (B) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided, however, that* if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (d) *ISDA Determination:* If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
  - (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
  - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
  - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Final Terms.
- (e) *Index-Linked Interest:* If the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Final Terms.
- (f) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

- (g) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.
- (h) *Calculation of other amounts:* If the relevant Final Terms specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.
- (i) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents, the Swedish Issuing and Paying Agent (in respect of Swedish Registered Notes) and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (j) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

#### 8. **Zero Coupon Note Provisions**

- (a) *Application:* This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is five days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such fifth day (except to the extent that there is any subsequent default in payment).

9. **Dual Currency Note Provisions**

- (a) *Application:* This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Rate of Interest:* If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

10. **Redemption and Purchase**

- (a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments - Bearer Notes*) and Condition 12 (*Payments - Registered Notes*).
- (b) *Redemption for tax reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part:
  - (i) at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable); or
  - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

- (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Sweden or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes; and
- (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

*provided, however, that no such notice of redemption shall be given earlier than:*

- (1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or
- (2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent (or in the case of Swedish Registered Notes to the Swedish Issuing and Paying Agent) (A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred of and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

- (c) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 15 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date). In respect of Swedish Registered Notes, the notice shall furthermore specify the Closed Period.
- (d) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and, in the case of Swedish Registered Notes, the then applicable rules and procedures of Euroclear Sweden and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers or, in the case of Swedish Registered Notes, otherwise specify the Notes or amounts of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (e) *Redemption at the option of Noteholders:* If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 10(e), the holder of a Note must, not less than 15 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. In the case of Swedish Registered Notes, a Put Option Notice will not take effect against the Issuer before the date of which the relevant Swedish Registered Notes have been transferred to the account designated by the Swedish Issuing and Paying Agent and blocked for further transfer by such Swedish Issuing and Paying Agent (such date will be the first date of a Closed Period). No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

Notwithstanding the above, in the case of Swedish Registered Notes, the right to require redemption of such Notes in accordance with this Condition 10 (e) must be exercised in accordance with the rules and procedures of Euroclear Sweden and where there is any inconsistency between the foregoing and the rules and procedures of Euroclear Sweden, the rules and procedures of Euroclear Sweden shall prevail.

- (f) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (e) above.

- (g) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

- (h) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmatured Coupons are purchased therewith. Such Notes so purchased may be held, reissued, resold or, at the option of the Issuer or the relevant Subsidiary surrendered to any Paying Agent and/or the Registrar for cancellation.
- (i) *Cancellation:* All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them that are not held, reissued or resold shall be cancelled.

#### 11. **Payments - Bearer Notes**

This Condition 11 is only applicable to Bearer Notes.

- (a) *Principal:* Payments of principal shall be made only against presentation and (provided that payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).
- (b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (provided that payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) *Payments subject to fiscal laws:* All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) *Deductions for unmatured Coupons:* If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:
  - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted



from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

- (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
  - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
  - (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (provided that payment is made in full) surrender of the relevant missing Coupons.

- (f) *Unmatured Coupons void:* If the relevant Final Terms specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*), Condition 10(e) (*Redemption at the option of Noteholders*), Condition 10(c) (*Redemption at the option of the Issuer*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) *Payments on business days:* If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

## 12. Payments - Registered Notes

Items (a) to (f) of this Condition 12 are only applicable to Registered Notes. Item (g) of this Condition 12 is only applicable to Swedish Registered Notes.

- (a) *Principal:* Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest:* Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Fiscal Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 13 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on business days:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.
- (e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.
- (g) *Payment- Swedish Registered Notes:* Payments of principal and/or interest in respect of Swedish Registered Notes shall be made to the persons shown as the Holders of Swedish Registered Notes on the fifth Business Day (or in accordance with the rules and procedure applied by Euroclear Sweden from time to time) before the due date for such payment, or such other Business Day falling closer to

the due date as may be stipulated in the current rules and procedures of Euroclear Sweden. Such day will be the “**Record Date**” in respect of Swedish Registered Notes.

### 13. **Taxation**

- (a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Sweden or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:
  - (i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
  - (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or
  - (iii) held by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or
  - (iv) where the relevant Note or Coupon or Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.
- (b) *Taxing jurisdiction:* If the Issuer becomes subject at any time to any taxing jurisdiction other than the Kingdom of Sweden references in these Conditions to the Kingdom of Sweden shall be construed as references to the Kingdom of Sweden and/or such other jurisdiction.

### 14. **Events of Default**

If any of the following events occurs and is continuing:

- (a) *Non-payment:* if default is made in the payment of any principal or interest in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal and 14 days in the case of interest; or
- (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes and such default remains unremedied for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or
- (c) *Cross-default of Issuer or Principal Subsidiary:*
  - (i) any Indebtedness of the Issuer or any of its Principal Subsidiaries is not paid when due or (as the case may be) within any applicable grace period;

- (ii) any such Indebtedness becomes due and payable prior to its stated maturity (otherwise than at the option of the Issuer or (as the case may be) the relevant Principal Subsidiary) by reason of an event of default (however described); or
- (iii) the Issuer or any of its Principal Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness as extended by any applicable grace period; or
- (iv) any security given by the Issuer or any of its Principal Subsidiaries for any Indebtedness becomes enforceable by reason of default, or
- (v) one or more judgment(s) or order(s) for the payment is rendered against the Issuer or any of its Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 45 days after the date(s) thereof or, if later, the date therein specified for payment,

*provided that* no event referred to in this Condition 14(c) shall constitute an Event of Default, first, unless the relative Indebtedness either alone or when aggregated with other Indebtedness relative to all (if any) other such events which shall have occurred shall amount to at least €50,000,000 (or its equivalent in any other currency); or

- (d) *Insolvency, etc:* (i) the Issuer or any of its Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer or any of its Principal Subsidiaries for all or substantially all of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries is appointed and such appointment is not discharged within 45 days, (iii) the Issuer or any of its Principal Subsidiaries makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any guarantee or indemnity of any Indebtedness given by it, save for the purposes of an amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) in the case of a Principal Subsidiary not involving or arising out of the insolvency of such Principal Subsidiary and under which all or substantially all of its assets are transferred to the Issuer or any of its other Subsidiaries, or (B) in the case of a Principal Subsidiary under which all or substantially all of its assets are transferred to a third party or parties (whether associated or not) for consideration received by the Issuer or a Principal Subsidiary on an arm's length basis, or (C) in the case of a Principal Subsidiary under which all or substantially all of its assets are transferred and the transferee is or immediately upon such transfer becomes a Principal Subsidiary, or (D) on terms previously approved by an Extraordinary Resolution of the Noteholders; or
- (e) *Winding up, etc:* an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of an amalgamation, merger, consolidation, reorganisation, reconstruction or other similar arrangement (A) in the case of a Principal Subsidiary not involving or arising out of the insolvency of such Principal Subsidiary and under which all or substantially all of its assets are transferred to the Issuer or any of its Principal Subsidiaries, or (B) in the case of a Principal Subsidiary under which all or substantially all of its assets are transferred to a third party or parties (whether associated or not) for consideration received by the Issuer or a Principal Subsidiary on an arm's length basis, or (C) in the case of a Principal Subsidiary under which all or substantially all of its assets are transferred and the transferee is or immediately upon such transfer becomes a Principal Subsidiary, or (D) on terms previously approved by an Extraordinary Resolution of the Noteholders; or
- (f) *Unlawfulness:* it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes,

then any Note may, by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately (or, in the case of Swedish Registered Notes, such later date on which the relevant Swedish Registered Notes have been transferred to the account designated by the Swedish Issuing and Paying Agent and blocked for further transfer by such Swedish Issuing and Paying Agent) due and payable, whereupon it shall become immediately due and payable at its Early Termination Amount together with accrued interest (if any) without further action or formality.

**15. Prescription**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

**16. Replacement of Notes and Coupons**

If any Note, Coupon or Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Note Certificates must be surrendered before replacements will be issued. For the avoidance of doubt, this Condition 16 shall not apply to the Swedish Registered Notes.

**17. Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor paying agents; *provided, however, that:*

- (a) the Issuer shall at all times maintain a fiscal agent, a registrar in respect of Registered Notes or, as the case may be, the Swedish Registered Notes, which in the latter case shall be Euroclear Sweden; and
- (b) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC; and
- (c) the Issuer shall at all times maintain a Swedish Issuing and Paying Agent provided that such Swedish Issuing and Paying Agent is duly authorised by Euroclear Sweden; and
- (d) if a Calculation Agent is specified in the relevant Final Terms, the Issuer shall at all times maintain a Calculation Agent; and
- (e) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

**18. Meetings of Noteholders; Modification and Waiver**

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than two-thirds or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

- (b) *Modification:* The Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

**19. Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

**20. Notices**

- (a) *Bearer Notes:* Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.
- (b) *Registered Notes:* Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.
- (c) *Swedish Registered Notes:* Notices to the Holders of Swedish Registered Notes shall be valid if sent by mail (if posted to an overseas address) by airmail to their registered addresses appearing in the Euroclear Sweden Register. Any such notice shall be deemed to have been given on the fourth Business Day after the day of which it was mailed.

## 21. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the “**first currency**”) in which the same is payable under these Conditions or such order or judgment into another currency (the “**second currency**”) for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

## 22. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

## 23. **Governing Law and Jurisdiction**

- (a) *Governing law:* The Notes and all non-contractual obligations arising out of or in connection with the Notes are governed by English law. In addition, the Swedish Registered Notes must comply with the SFIA Act.
- (b) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a “Dispute”) arising from or connected with the Notes including a Dispute relating to any non-contractual obligation arising out of or in connection with the Notes.
- (c) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Rights of the Noteholders to take proceedings outside England:* Condition 23(b) (English courts) is for the benefit of the Noteholders only. As a result, save in respect of the limited exception set out in Condition 23(e) (*Proceedings in respect of Swedish Registered Notes*), nothing in this Condition 23 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) *Proceedings in respect of Swedish Registered Notes:* Notwithstanding that, under the SFIA Act or the operating procedures, rules and regulations of Euroclear Sweden (together, the “**Swedish Remedies**”), Holders of Swedish Registered Notes may have remedies against the Issuer for non-payment or non-performance under the Conditions applicable to such Swedish Registered Notes, a Swedish Registered Note Holder must first exhaust all available remedies under English law for non-payment or non-performance before any Proceedings may be brought against the Issuer in Sweden in respect of the Swedish Remedies. Notwithstanding Condition 23 (d), and in this limited respect only,

a Registered Holder of Swedish Registered Notes may therefore not take concurrent Proceedings in Sweden.

- (f) *Service of process:* The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Sandvik Limited at Manor Way, Halesowen, West Midlands, B62 8QZ or at any address of the Group's in Great Britain at which service of process may be served on it in accordance with Part XXIII of the Companies Act 1985. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.