

Sandvik

Annual Report 2012



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The formal Annual Report comprises the pages 14–101.

Cover images: Sandvik offers advanced solutions for the construction industry. Christine Nyström at Sandvik's drill steel plant in Sandviken. Underground work is an expanding area and Sandvik has the market's most complete product program. The Group is a world leader in industrial metal-cutting tools.

Forthcoming information and reports

Report on the first quarter	23 April 2013
Annual General Meeting	25 April 2013
Report on the second quarter	19 July 2013
Report on the third quarter	24 October 2013
Report on the fourth quarter	January/February 2014

Financial information may be ordered from:
info.ir@sandvik.com
or phone: +46 (0)26-26 00 00 (IR function)
www.sandvik.com

Sandvik will be faster,
more global and more
customer oriented.

This objective requires all parts of
the organization to work together
to ensure that the Group can achieve
its full potential.

Read more on pages **4–5**

Henning Eneström,
Chairman of the Albert
and Anna Göransson
Memorial Foundation:

“Change in itself is often good and
it is important to always be ready
to adapt to new circumstances in
the global marketplace.”

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Sandvik's invoiced
sales amounted to
98,529 million SEK

and profit after financial items totaled
11,516 million SEK. Order intake was
97,948 million SEK.

Read more on page **15**

Year in brief

Significant events

- Order intake $-1\%^*$, **97,948** million SEK
- Invoiced sales $+5\%^*$, **98,529** million SEK
- Profit after financial items, **11,516** million SEK
- Earnings per share, **6.51** SEK
- Proposed dividend, **3.50** SEK
- New strategy successfully implemented according to plan
- Global 150th anniversary celebrations focusing on the future
- Sandvik named one of the 100 most innovative companies in the world

* At fixed exchange rates for comparable units

Key figures

MSEK	2012	2011	2010	2009	2008	Change 2012/2011, %
Order intake	97,948	99,078	93,285	71,285	92,610	-1^*
Invoiced sales	98,529	94,084	82,654	71,937	92,654	$+5^*$
Result after financial items	11,516	8,179	9,412	$-3,472$	10,577	$+41$
Earnings per share, SEK	6.51	4.63	5.59	-2.24	6.30	$+41$
Return on capital employed, %	19.8	16.0	17.4	-1.3	19.9	—
Return on shareholders' equity, %	23.0	17.3	22.1	-7.9	24.8	—
Cash flow from operations	11,892	7,764	12,149	11,792	9,335	$+53$

* At fixed exchange rates for comparable units.

This is Sandvik

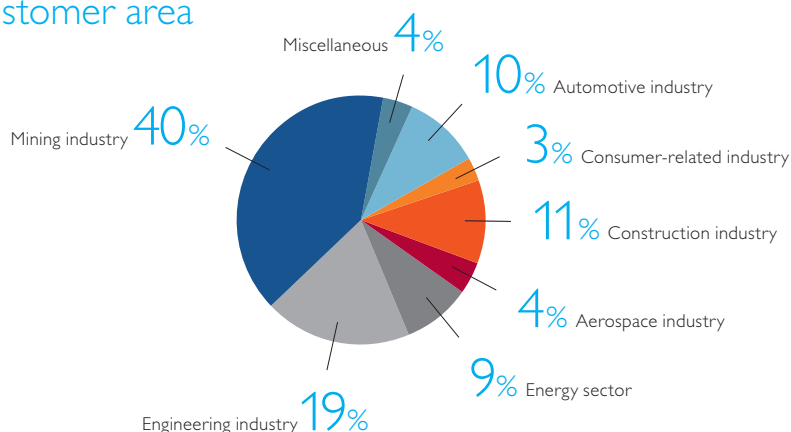
Sandvik is a global industrial Group with advanced products and world-leading positions in selected areas. In 2012, the Group had about 49,000 employees and sales of approximately 99 billion SEK in more than 130 countries.

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

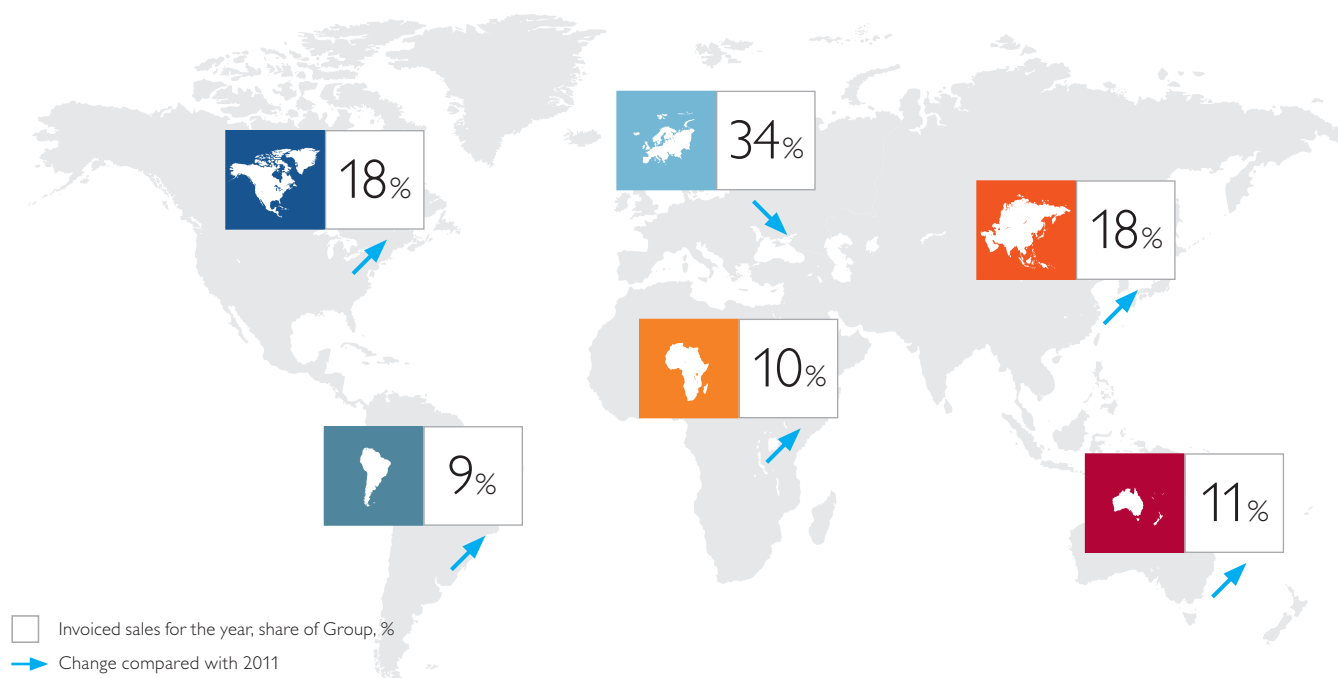
- Tools for metal cutting in cemented carbide and high-speed steel as well as components in cemented carbide and other hard materials.
- Equipment and tools for the mining and construction industries.
- High value-added products in advanced stainless steels, special alloys, titanium, metallic and ceramic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

Sandvik is focused on sustained growth and establishing market-leading positions in selected niches. To create the basis for responsible and sustainable development, operations are divided into business areas whose responsibilities include research and development, production, marketing and sales of their particular products. Group-wide processes are being conducted in different key areas within the framework of the new strategy in a bid to leverage synergies in various operations.

Invoiced sales by customer area



Invoiced sales by market area



Business areas

Sandvik Mining

Sandvik Mining is specialized in equipment, tools and service for the mining industry. The business area is active in exploration, rock drilling, rock cutting, crushing, and loading and hauling solutions for surface and underground applications.

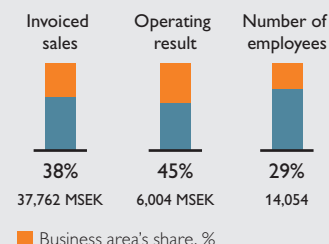
Offering

Equipment, tools, service and technical solutions for mineral exploration, mining and processing of rock and minerals in the mining industry. The business area offers the most complete product program in the market for drilling and mechanical cutting, as well as for loading and hauling, crushing and screening, demolition, recycling and handling of rock and minerals.

Market

The products are deployed primarily in mines worldwide. In 2012, the global market was valued at approximately 185 billion SEK. Average, long-term annual growth for equipment, tools and spare parts is 4–6%, with a higher growth rate for services.

Share of Group



Sandvik Machining Solutions

Sandvik Machining Solutions primarily focuses on tools and tooling systems for metal cutting. The products are sold under a number of international brands, such as Sandvik Coromant, Seco Tools, Walter, Safety, Dormer* and Carboloy*.

* From 1 January 2013.

Offering

Market leader for advanced, productivity-enhancing products and solutions for metal cutting. The focus is on increasing customer productivity by providing products, services and applications know-how.

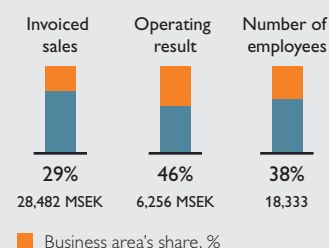
Market

Customers include companies in the general engineering, aerospace and automotive industries, the energy sector, as well as the electronics and medical technology industries.

In 2012, the global market for metal-cutting tools as well as wear parts and components in cemented carbide and other hard materials was valued at approximately 165 billion SEK.

Given the turbulence in the market in recent years, some increased degree of uncertainty surrounds estimations of the market's size. The average annual long-term growth has been 4–5%.

Share of Group



Sandvik Materials Technology

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

Offering

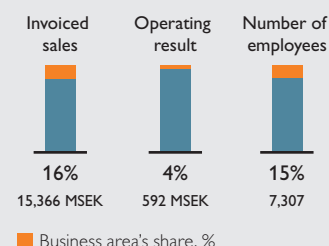
High value-added products based on advanced stainless steels, special alloys and titanium, furnace products, heating systems and resistance materials.

Market

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

In 2012, the global market was valued at more than 150 billion SEK. The underlying average annual growth is 4–6%, while growth is normally higher in such areas as the energy segment.

Share of Group



Sandvik Construction

Sandvik Construction is specialized in equipment, tools and service for niche applications in the construction industries.

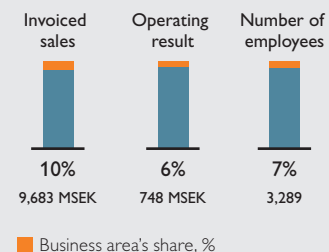
Offering

Products and solutions for niche construction industry applications, for example, breaking contracting, crushing and screening contracting, rock-drilling contracting, tunneling and underground civil engineering, surface civil engineering, road construction, aggregates and limestone quarrying as well as demolition and recycling.

Market

The products are deployed in construction operations worldwide. In 2012, the value of the global market was estimated at about 140 billion SEK. Average, long-term annual growth for equipment, tools and spare parts is 4–6%.

Share of Group



Sandvik Venture

Sandvik Venture develops opportunities for growth and profitability in small, attractive and fast-growing businesses.

Offering

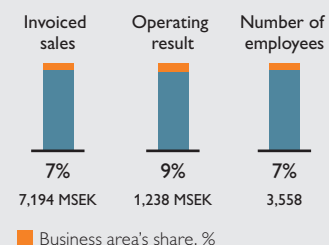
Products, solutions and materials in certain niches. Product areas include Sandvik Hard Materials, Diamond Innovations, Wolfram, Sandvik Process Systems and Dormer*.

* Until 2012, thereafter Sandvik Machining Solutions.

Market

Customers are found in a range of different branches of industry and emerging markets, with highly varying development trends and relatively high dependence on the economy.

Share of Group



An increasingly global Sandvik

In 2012, Sandvik responded to fluctuating demand by rapidly adapting its operations. By incorporating a higher degree of flexibility into the organization, the Group created opportunities for continued growth with a focus on customer needs and changing market conditions.



The economic climate in 2012 was varied. The year got off to a strong start with high demand for the majority of Sandvik's products and services. However, growth slowed progressively, the Euro crisis deepened and, in the previously highly robust mining sector, we noted a distinct decline. At the same time, implementation of the new strategy

continued with strong commitment from our employees. We adapted productivity levels and carried out savings programs to address the new market conditions. This allowed us to successfully maintain a strong cash flow and favorable profitability. We can conclude that our work to make the Group more responsive to fluctuations

has been successful and our cost-savings programs have made us more resilient.

Because of the weak performance of markets in Europe combined with our continued strong expansion in the rapidly growing regions of the world, we noted for the first time that Europe only accounted for about one-third of the Group's total sales. Our sales have therefore become more balanced in terms of where growth is taking place.

In 2012, Sandvik's invoiced sales amounted to 98,529 million SEK (94,084) and profit after financial items was 11,516 million SEK (8,179). Earnings were charged just over 1.2 billion SEK for restructuring measures and impairment losses.

“Our endeavor to make the Group more flexible has made us more resilient.”

“We will provide our customers with added value in the form of enhanced competitiveness, higher productivity and improved profitability.”

The first 150 years

In 2012, Sandvik celebrated its 150th anniversary across the globe. This gave us many occasions to feel a sense of pride in such an outstanding journey. But it was perhaps even more important that we came together to discuss the future. Sandvik is – and will continue to be – a company that creates the best solutions of today and tomorrow, while demonstrating the greatest possible consideration for people and the world in which we live.

One Sandvik

Sandvik will become faster, more global and more customer oriented. To achieve these objectives, we are working in accordance with the One Sandvik strategy. The ambition is to ensure that all parts of the organization work together so that the Group can reach its full potential. The local and regional parts of the organization must work closely with customers so that they understand their needs and can rapidly take the temperature of the market. At Group level, we are creating synergies in research and development, IT, purchasing, HR matters, production and logistics. This requires a flatter organization, simple decision-making processes and efficient performance management. Part of this is the ever-more international character of our extended Group Executive Management. Today, for example, it includes country managers for the important emerging markets of India and China. We have also strengthened our position in research and development through the inclusion of our head of R&D in the extended Group Executive Management.

The new organization, featuring five market-oriented business areas, took effect at the beginning 2012. We have noted a clearly positive development at both Sandvik Materials Technology and Sandvik Construction, where the necessary changes were greatest.

Sandvik became owner to 100% of Seco Tools. The integration has been successful and market shares have developed positively.

The divestment of Sandvik Medical Solutions, which was part of the Sandvik Venture business area, was concluded.

Increased attractiveness

Sandvik aims to be a stable and reliable company, both for customers and employees. We will provide our customers with added value in the form of enhanced competitiveness, higher productivity and improved profitability. And because it is our employees who account for Sandvik's success today and in the future, it is important that the Group is an attractive employer in respect of all of these considerations. We will offer stimulating development opportunities to attract and retain top talents. In 2012, we became involved in the Swedish project named “Battle of the numbers” with the aim of increasing the number of women in executive positions. I would like this initiative to yield some results in 2013.

Looking at production, the work environment must be safe and secure with a constant endeavor to improve. To achieve this, we are working on a broad front with significant issues ranging from brand profiling and employer branding to a large number of health and safety programs across the globe. Increased safety is by far our highest priority.

Code of Conduct

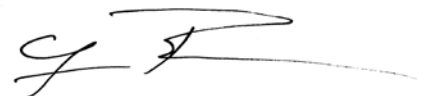
Within the scope of Sandvik's CSR activities, we shoulder our responsibility in many areas other than safety. In terms of environmental activities, we intend to economize on resources, minimize emissions and help customers to reduce their negative environmental footprint. Through the Group's Code of Conduct and the related follow-up tools, we want to assume

responsibility for suppliers and partners. In relation to financial sustainability and business ethics, we are doing all in our power to combat and prevent corruption.

Sandvik and the future

Now let me summarize. We are building one Sandvik that is open to change and receptive to the needs of customers. We must be able to respond to rapid changes in demand at the same time as we develop the products of the future, because it is these products that will keep us at the absolute cutting edge. Selecting the right research and development projects is crucial and we are continuing to invest significant resources in this field. Thomson Reuters named us as one of the world's 100 most innovative companies in 2012, which is a significant acknowledgment of our efforts. Innovation is central to the long-term development of the Group.

Another key factor is being an attractive employer for existing and prospective employees and I would like to take this opportunity to thank everybody at Sandvik for a job well done in 2012. We have built a stable platform. From being a company with a major international business, we have now taken the step to becoming a truly global company with experience and know-how from across the world. While the short term holds challenges, not least in terms of the economic development, in the longer term we see a world endeavoring to become better and more efficient. It is here Sandvik will play a key role.



Olof Faxander, February 2013
President and CEO

Business concept, goals and strategies

Sandvik offers products, services and support that improve customer productivity, profitability and safety. The Group takes a global perspective and has an advanced holistic approach encompassing financial, environmental and social responsibility.

Sandvik is a world-leading industrial group. Since its foundation back in 1862, the company has distinguished itself through high-technology development, with a focus on metallurgy and materials technology. Over the years, the direction of the company has varied depending on historical technology shifts and the needs of the industry and society at various points in time.

Sandvik manufactures advanced engineering tools for metal cutting, mining and construction equipment and products in advanced stainless steels and high-alloy materials, among other items.

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

Strengthening customer competitiveness

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

Strategy

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

role in addressing CSR issues also characterizes cooperation with customers and suppliers.

To ensure that Sandvik retains its market-leading positions in its product markets, a new strategy and organization has been initiated. The strategy is summarized in the motto "One Sandvik to be number one." The initial steps were taken in 2011 and work was intensified in 2012. The program will yield full effect in 2015.

The aim of the strategy is to capitalize on the combined strength of the Group to make the company even more global, fast-paced and customer-focused. The new direction focuses on synergies and the development of several Group-wide processes in a number of key areas. The

Core values

Open Mind

Fair Play

Team Spirit

Strategy

Ambition

- Be number one.
- Act to meet targets.

Speed

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

Focus

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

Globalization

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

Organization and governance

Group Executive Management and Group functions

- Stronger mandate to pursue Group-wide issues.

Business areas

- More distinct business focus.

Locally

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

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

Both acquisitions and divestments that strengthen the Group's principal direction and streamline the existing operations are paths that are reviewed continuously.

Long-term approach and shareholder value

The Group's long-term objective is to create value for its shareholders. Sandvik has achieved an average of about 9% annual sales growth over the past 25 years – just over half of which through organic growth and nearly half through acquisitions.

Overall financial goals

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

The long-term goal for Sandvik's annual growth is 8%.

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

Research and development

Comprehensive and goal-oriented research and development is a prerequisite for growth. Each year, Sandvik invests more than 3 billion SEK in R&D. Over 2,700 employees work in the area and activities are often pursued in close cooperation with customers. The Group has about 8,000 active patents and other intellectual property rights that are owned and managed by a separate company to maximize value creation. Environmental aspects are taken into consideration in product development.

Advanced logistics

Efficient inventory management and advanced logistics enhance the reliability of supplies and ensure first-rate customer

service. Sandvik's distribution system is based on a small number of large and strategically sited warehouses in the largest market areas. This enables the Group to 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 builds trust among Sandvik's various stakeholders and creates a distinct focus on customer and shareholder value and on the company's contribution to global sustainability. Corporate governance clearly defines the roles and responsibilities of shareholders, the Board of Directors and Group Executive Management. It also encompasses the Group's control and management systems.

Corporate social responsibility

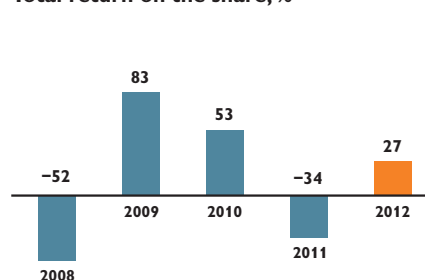
It is extremely important to Sandvik to assume financial, environmental and social responsibility in conducting its operations. Accordingly, the Group prioritizes sustainable development activities. Performance management and preventive programs are foundation pillars in efforts to achieve continuous improvements.

Sandvik's Code of Conduct includes guidelines for the environment, health, safety and social responsibility that apply to all units and all employees. The Code of Conduct forms the basis for Sandvik's management system and helps to continuously improve the

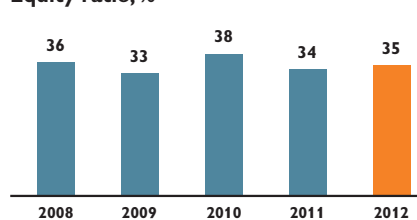
Group's financial goals

Organic growth	8%
Return on capital employed	25%
Net debt/equity ratio	<0.8
Payout ratio as a percentage of earnings per share	50%

Total return on the share, %



Equity ratio, %



Group's financial, environmental and social performance. Each manager in the Group is responsible for ensuring compliance with the Code and implementing continuous improvements.

Sandvik assumes its responsibility throughout the value chain. At the same time as the Group's products generate positive effects for customers and the world at large, it is also important that Sandvik's suppliers share its values. Accordingly, Sandvik works continuously to ensure compliance with the Code of Conduct it has prepared specifically for the Group's suppliers.

Sustainable business value

Sandvik's ambition is to be a strong contributor to the creation of global sustain-

able development. This ambition includes actively creating and developing new business opportunities and viewing CSR (Corporate Social Responsibility) as business value. To ensure success in this respect, Sandvik has decided – in dialog with stakeholders and senior executives – to prioritize those areas based on the objectives described in the table below.

In 2012, the Group established the Sandvik EHS Council (environment, health and safety) with a formal charter to advise Group Executive Management on EHS Policy and long and short-term objectives and targets. The Council also aims to harmonize the way the business areas work with EHS, enabling the entire Group to move toward the vision of "Zero Harm." During the year, a new

policy and new objectives and targets were established that will apply from 2013 to 2015. These new objectives and targets entail a change in focus. From previously being intensely concentrated on monitoring performance indicators that revealed Sandvik's outcome in various areas, they now adopt a more forward-looking approach. The new EHS objectives and targets have been divided into five focus areas: business advantage, leadership, environment, health and safety, which are described in the table below. More information on the objectives and targets is available at www.sandvik.com.

CSR strategy

Focus areas	Objectives
Employees	<ul style="list-style-type: none"> • Create a flexible and high-performing organization. • Create the conditions for extensive diversity and inclusive leadership.
EHS as business value	<ul style="list-style-type: none"> • Each business area is to develop and introduce an approved plan detailing how EHS is to be used as a business advantage.
EHS leadership	<ul style="list-style-type: none"> • Each manager and supervisor is to agree upon, officially communicate and introduce three personal leadership commitments before the end of 2015.
Environment	<ul style="list-style-type: none"> • Achieve considerable reductions in the material environment footprint arising from Sandvik's operations by establishing environmental plans that are focused on the relevant impact in each unit. • Prior to year-end 2015, all major production units are to have established plans that ensure continuous improvements in respect of energy usage, water consumption, discharges of wastewater, emissions of carbon dioxide and other greenhouse gases, use of hazardous chemicals and generation and management of waste.
Health	<ul style="list-style-type: none"> • Create a culture and work environment for employees that promotes their health and well-being.
Safety	<ul style="list-style-type: none"> • Eliminate all fatalities and accidents that lead to permanent functional disabilities by identifying and controlling potential extreme risk situations. • Have systems and a corporate culture that further reduce the number and the seriousness of occupational injuries, illnesses and other incidents.
Suppliers	<ul style="list-style-type: none"> • Ensure responsible purchasing.
Anticorruption	<ul style="list-style-type: none"> • Ensure zero tolerance. • Robust processes to minimize the risk of corruption in all business processes, thus fulfilling the requirements stipulated in relevant legislation.

The Sandvik share

Sandvik strives to generate an attractive return and value growth for investors in the Sandvik share. Communication with players in the financial market in 2012 mostly related to Sandvik's new strategy and the results it has generated to date.

Share performance in 2012

Sandvik's share price increased 23%, while the OMXS index on NASDAQ OMX Stockholm rose 12%. At year-end 2012, the Sandvik share was quoted at SEK 103.50.

The Group's market capitalization increased 30 billion SEK during the year to 130 billion SEK (100), Sandvik as the 9th (9) largest company on NASDAQ OMX Stockholm. During the year, Sandvik shares were traded for a total value of SEK 118 billion (146), making it the 5th (6) most actively traded share.

Total shareholder return and Sandvik's new strategy

The term "total shareholder return" shows the real development of a stock investment and consists of the change in share price, including reinvested dividends. During 2012, the total shareholder return for the Sandvik share was +27%. Over the past five years, the total shareholder return has averaged 2% annually.

The new strategy was formulated in the autumn of 2011 aimed at enhancing value generation through an increased and clearer focus on core operations. Much of 2012 was devoted to work on implementing and communicating the strategy.

Reliable information to investors, analysts and the media

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

Aside from daily communication, focused contacts with the financial markets are carried out in the form of presentations in conjunction with interim

reports and meetings with analysts, investors and journalists on capital market days, conferences and seminars, as well as visits to various Sandvik sites. Communication is coordinated by Sandvik's Investor Relations (IR) Group staff function.

The need for financial communication increases in times of particular financial uncertainty or an economic slowdown. While Sandvik's vertically integrated business model has proven highly successful over the years, it has also shown to be slightly sensitive to economic fluctuations. In such times, IR invests considerable time and effort into explaining Sandvik's business model, strategy and how the

company can be affected in the event of various scenarios.

IR focus in 2012

In 2012, a large number of meetings were arranged throughout the world to give Sandvik's various stakeholders in the financial markets the opportunity to have personal contact and to receive responses to questions about the Group's business and future. Work was, to a certain extent, characterized by Sandvik's 150th anniversary with a wide range of activities for major players in the capital market and private shareholders, among others.

Many of the questions at the beginning of the year surrounded Sandvik's new

Comments from one of Sandvik's stakeholders

Henning Eneström is Chairman of the Albert & Anna Göransson Memorial Foundation and spokesperson for the three Göransson'ska foundations, together holding about 2% of the shares in Sandvik.

The founding family Göransson and surviving family members have owned shares in Sandvik for 150 years, most of this time through foundations. What is your view of the holding during this period?

"It has been a fantastic journey with exceptional value growth. I sometimes wish that the people who instigated these foundations could see what they have achieved. For example, what would Ester Göransson have thought? In 1943, she invested 3 million SEK in Sandvik shares and placed these in a foundation in memory of her parents, Albert and Anna Göransson. Today, this foundation distributes an average of between 20 and 25 million SEK each year to improve living conditions for children, young people, elderly, disability pensioners and people with functional impairments who live in Sandviken. Combined, the foundations distribute about 70 million annually."

Sandvik has implemented major changes in recent years.

What is your opinion of these?

"Change in itself is often good and it is important to always be ready to adapt to new circumstances in the global marketplace. At the same time, it is important to clearly communicate changes in order to maintain a positive spirit. The single most important issue for a strong Sandvik is maintaining the focus on research and development to ensure that the Group retains its technological lead."

strategy and the direction it has brought about. As the year progressed, questions successively moved on to the world economy and Sandvik's position in various markets.

Share trading and listing

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

Sandvik is included in FTSE4Good Series, an international index for global companies that assume social responsibility.

Sandvik's owners

In 2012, the number of shareholders declined to a total of about 111,000 (113,000). Sandvik has shareholders in more than 90 countries.

At 31 December 2012, members of Sandvik's Group Executive Management owned a total of 68,009 shares in Sandvik. Members of the Board of Sandvik owned a total of 6,094,241 shares in Sandvik, corresponding to 0.5% of the capital and voting rights.

Long-term goal and dividend proposal

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

The Board has decided to propose a dividend of 3.50 SEK (3.25) per share for 2012 to the 2013 Annual General Meeting, corresponding to approximately 4.4 billion SEK and a dividend yield of 3.4% based on the share price at year-end.

Over the past five years, Sandvik's dividend has averaged 2.78 SEK per year. During the same period, an average of approximately 67% of earnings per share has been distributed to the shareholders.

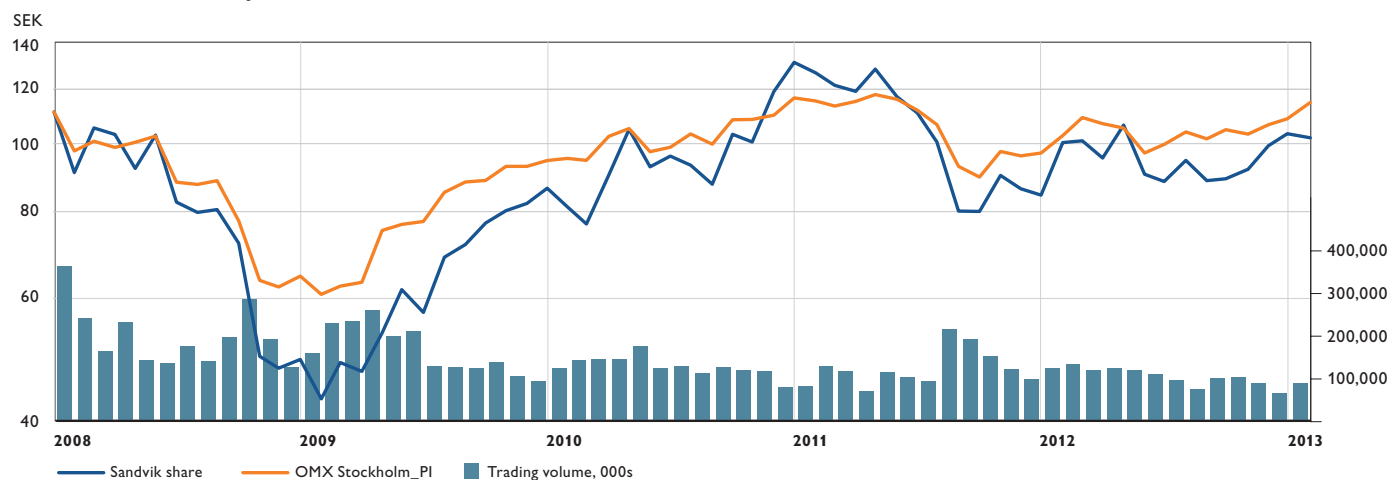
Investor Relations on the Internet

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

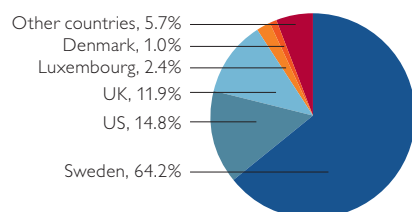
Press releases in 2012 (selection)

30 January	On 31 January, it will be 150 years to the day since Göran Fredrik Göransson's new company was formed in Sandviken, Sweden
31 January	Sandvik is offering 25 million SEK for the establishment of a foundation for the purpose of promoting, broadening and strengthening the local business community
1 February	Report on the fourth quarter 2011
1 February	Sandvik holds approximately 99.4% of the shares and 99.8% of the votes in Seco Tools following the expiry of the final acceptance period
21 February	Sandvik's corporate bond was over-subscribed after three days
24 February	Sandvik to divest Sandvik Medical Solutions
13 March	Sandvik awarded bolter miner contract in China
3 April	Sandvik AB's 2011 Annual Report
12 April	Sandvik Mining signs major materials-handling contracts with customers in Latin America and Australia
27 April	Report on the first quarter 2012
2 May	Record attendance at Sandvik's Annual General Meeting
2 May	Sandvik awarded another major order for Mining Systems
8 May	Sandvik 150th anniversary – and Capital Markets Day
25 May	Sandvik appoints new Vice President Investor Relations
29 May	New Chief Financial Officer at Sandvik Group
21 June	New Head of External Communications at Sandvik Group
3 July	Sandvik enters into long-term agreement with IBM
19 July	Sandvik signs major Mining Systems order
19 July	Report on the second quarter 2012
25 October	Report on the third quarter 2012
25 October	Sandvik resumes loan agreement from the European Investment Bank
28 November	Sandvik implements further structural measures and adjusts capacity and costs

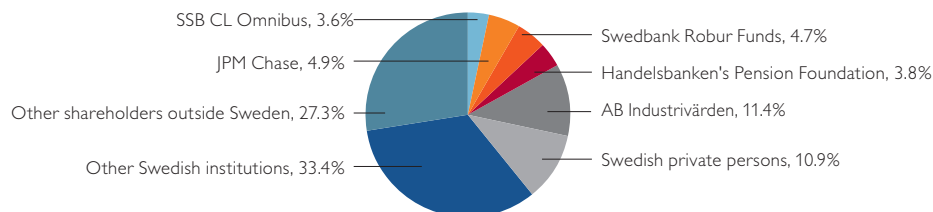
The Sandvik share, five-year trend



Distribution of shareholding by country, 31 December 2012



Shareholders in Sandvik AB, 31 December 2012



Key figures

	2012	2011	2010	2009	2008
Number of shares at year-end (millions)	1,254	1,186	1,186	1,186	1,186
Market capitalization at year-end (SEK billion)	130	100	156	102	58
Number of shareholders	110,787	112,959	112,194	109,401	104,299
Share price at year-end, SEK	103.50	84.45	131.10	86.40	49.00
Earnings per share, SEK	6.51	4.63	5.59	-2.24	6.30
P/E ratio at year-end	15.9	18.2	23.5	—	7.8
Change in share price during the year, %	+23	-36	+52	+76	-56
Regular dividend, SEK/share	3.50*	3.25	3.00	1.00	3.15
Dividend as a percentage of earnings per share	54	70	54	—	50
Total dividend yield (price increase + dividend), %	+27	-34	+53	+83	-52
Proportion of shares in Sweden, %	64	68	69	67	65
Proportion of shares owned by the ten largest shareholder groups, %	39	38	36	35	36

* Proposed dividend.

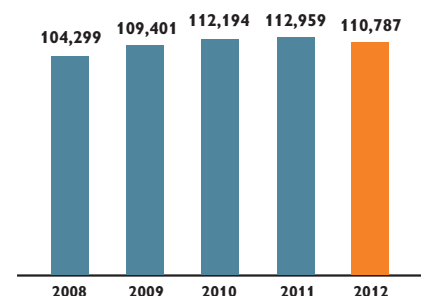
The ten largest shareholder groups, at 31 December 2012, %

	2012*	2011	2010	2009	2008
AB Industrivärden	11.4	12.2	11.7	11.4	11.5
JPM Chase**	4.9	3.6	3.6	2.8	10.5
Swedbank Robur Funds	4.7	4.6	5.0	4.7	3.4
Handelsbanken's Pension Foundation	3.8	4.1	4.0	4.0	4.0
SSB CL Omnibus**	3.6	3.3	3.0	2.5	—
Alecta Pension Insurance	2.9	3.6	3.4	2.5	3.4
L E Lundbergföretagen AB	2.2	2.3	2.0	1.2	1.2
Göranssonska Foundations	2.0	2.1	2.1	2.1	2.1
AMF - Insurance and Funds	2.0	1.5	2.0	1.8	1.3
Nordea Investment Funds	1.9	1.5	1.8	1.4	1.1

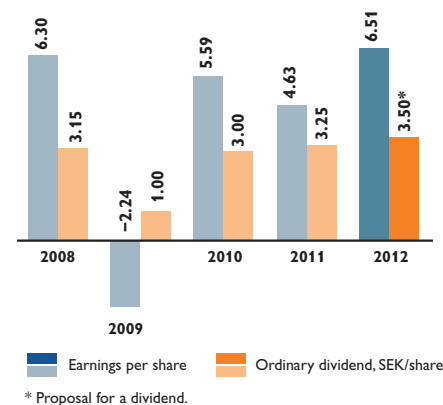
* The total number of shares in Sandvik AB increased in 2012 in conjunction with the acquisition of Seco Tools.

** Administrates shares held in trust.

Number of shareholders



Earnings and dividend per share, SEK



Sandvik's role and responsibility

The Group's long-term endeavor is to create value for its shareholders. As part of this effort, Sandvik attaches great emphasis to the company's role in society and its relationship to customers, suppliers and employees. The Group's Code of Conduct is based on the fundamental values for responsible enterprise, human rights, work conditions and the environment and those described in the OECD's Guidelines for Multinational Enterprises, as well as local and national laws and regulations.

For Sandvik, the concept of sustainability encompasses responsibility for the environment, health, safety, anti-corruption and human rights, and is part of systematic risk management activities aimed at creating new business opportunities while retaining a good reputation. A Code of Conduct and environmental, health and safety management systems form the foundation of the Group's CSR activities. This work is carried out in a decentralized manner within the business areas and is based on policies, objectives, targets and performance indicators established at Group level.

Sandvik's responsibility and influence

Sandvik has an explicit responsibility for the company's impact on society, the economy and the environment. In addition to the laws and regulations that exist in countries where the Group has operations, Sandvik respects international conventions and declarations on human rights, labor legislation, the environment and corruption adopted by the UN and the ILO.

Sandvik has committed to follow the OECD's Guidelines for Multinational Enterprises and the Group's responsibility is summarized in a Code of Conduct that was adopted by the Board in 2004. The Code describes accountability in the areas of anti-corruption, supplier inspections, employee work conditions and develop-

ment, human rights, the environment and community involvement. The Code has been translated into 14 languages and is available at www.sandvik.com.

Environment, health and safety management

As part of Sandvik's corporate responsibility in issues relating to environment, health and safety, the Group has an objective that all major production-related units (production, service/machinery rebuilding and distribution/warehouse) have to be certified in accordance with ISO 14001 and OHSAS 18001, within two years of their acquisition or establishment. The term "major" is defined as units with 25 employees or more. The total number of certified units is presented in the table below. In addition, Sandvik operates about 20 maintenance workshops within customer operations (mainly mines), all of which have also been certified. The increase in the number of production units is the result of the acquisition of Seco Tools during the year. A large proportion of these units are not certified in line with OHSAS 18001, but will be in the near future.

During the year, Sandvik Mining's unit in Bergneustadt, Germany, and Sandvik Materials Technology's unit in Sandviken, Sweden, were certified in accordance with the new ISO 50001 energy management standard.

In 2012, Group Executive Management adopted a revised EHS (environment, health and safety) policy that applies to all units at Sandvik. The policy is available at www.sandvik.com.

Respect for stakeholders

Sandvik's operations affect, and are affected by, a number of stakeholders and the company has identified five stakeholder groups of particular significance for the Group: shareholders, employees, customers, suppliers and society at large. Sandvik endeavors to engage in an open dialog with all of these stakeholders regarding how activities are conducted, the company's priorities, decisions and what results are achieved.

Key CSR issues are communicated to stakeholders primarily through the annual report and Sandvik's website, as well as continuously as part of the daily operations. Dialog with stakeholders is often conducted at Group level but also, to a large degree, at local level in the companies throughout the world. Stakeholder dialogs provide Group Executive Management and the Board with important information when determining the Group's key CSR issues.

Shareholders – more than 35% outside Sweden

Sandvik endeavors to generate an attractive return and growth in value for inves-

Management standards

	ISO 14001						OHSAS 18001					
	2012			2011			2012			2011		
	Current number of units	Number of units certified	% certified	Current number of units	Number of units certified	% certified	Current number of units	Number of units certified	% certified	Current number of units	Number of units certified	% certified
Production units	152	145	95	137	132	96	152	127	84	137	132	96
Service, machinery rebuilding units	23	23	100	24	24	100	23	23	100	24	24	100
Distribution units	5	5	100	5	5	100	5	5	100	5	5	100
Total production-related units	180	173	96	166	161	97	180	155	86	166	161	97

tors in the Sandvik share. More than 35% of shareholders are found outside Sweden. More information about the company's ownership structure is available at www.sandvik.com. Dialogs with shareholders are primarily conducted via the Board of Directors and at the Annual General Meeting, but also through a well-developed Investor Relations function. During the year, stakeholder dialogs were carried out with a number of Socially Responsible Investment (SRI) analysts and other stakeholders.

These dialogs confirm, for example, that Sandvik works on relevant sustainability aspects in a responsible manner. Sandvik is expected to assess future environmental and social risks connected to such factors as changes in legislation regulating carbon dioxide emissions and risks associated with customers. Stakeholders also expect Sandvik to develop risk management in the supply chain, particularly with respect to human rights issues.

Customers impose CSR demands

Customer contacts are handled locally through Sandvik's worldwide sales organization. Increasing demands imposed by Sandvik's customers on CSR programs are becoming ever-more evident as a result of the customers' growing focus on CSR issues and thus intensifying focus on supplier audits. Many of these demands relate to workplace safety and the environment. For example, customers more often insist

that Sandvik should have systems in place for compiling data on carbon dioxide emissions to enable them to calculate the total carbon dioxide emissions in the entire value chain. Questions related to the European Community Regulation on chemicals and their safe use (REACH) and various requirements regarding chemicals in products (such as the EU directive RoHS, WEE, US requirements, Chinese requirements) are also common.

Many customers, notably those of Sandvik Mining and Sandvik Construction, are imposing higher demands on equipment safety. Customers also want to be assured that Sandvik complies with all international conventions with respect to, for example, human rights.

Sandvik has long pursued the strategy of offering customers products with extended service life and more effective resource utilization. These products should also contribute to reducing the environmental impact when used in customer processes and should be recyclable. Group Executive Management decided in 2009 to introduce a new long-term objective to increase the number of products that support sustainability principles. Work continued during the year on the implementation of the strategy to achieve the objective.

Employees' CSR demands

Sandvik's employees are represented on the Parent Company's Board. Dialogs are also held directly with employees at local level, for example, at annual review discussions. The trade union organizations at Sandvik in Europe work together through the European Works Council, and use the forum to discuss the company's CSR work.

It has emerged from discussions with employees and their trade unions that employees feel that the environment,

health and safety, absence due to illness and discrimination are the key issues. As a result of these dialogs, a decision was taken to develop a web-based environment, health and safety training program.

In 2012, an employee survey (SEmp) was carried out showing, among other findings, that Sandvik's employees are loyal to their employer and enjoy their work, although there were a number of indicators suggesting that the work sometimes had a negative impact on their health. However, employees rated the company highly for its health and safety work.

Economic value for various stakeholders

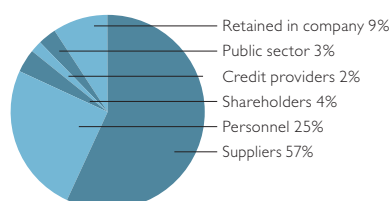
The pie chart below and the table on page 109 present how the value created through the Group's operations has been generated and distributed among the various stakeholder groups.

Awards and ratings

Sandvik's sustainability work is evaluated annually by a number of SRI analysts and rating agencies. In 2012, Sandvik was included in the following indexes:

- 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.
- Thompson Reuters 2012 Top 100 Global Innovators list – the list presents the 100 most innovative companies and institutions in the world.

Economic value generated and distributed



Report of the Directors

The Board of Directors and President of Sandvik AB hereby submit the report for the company's and Group's operations in 2012.

Market conditions

The strong demand reported in the first half of the year turned into a distinct global decline in the second half of the year. This trend was noted in all five business areas, but was particularly evident for Sandvik Mining and Sandvik Construction.

Industrial output in the OECD countries fell slightly from the levels recorded in the preceding year. The trend in the EU remained negative for the crisis-hit countries of Southern Europe and a weakening was also noted in Germany. However, in Russia, the US and Mexico, industrial output developed positively compared with the preceding year. Growth was also positive in parts of Asia, although the rate of growth was lower in China and India compared with previous years.

Demand from Sandvik's customers

Overall, demand from key customer segments reflected the general trend, with a strong first six months of the year followed by a decline in the second half of 2012.

The aerospace industry continued to perform strongly during the year, while the automotive industry recorded a mixed trend with mainly North America showing strength while Europe weakened. The trend in the mining industry initially

remained robust with high demand and investment activity, but as metal, coal and iron ore prices declined, so did new investments by customers. Order intake for products to the oil and gas industry was stable throughout the year.

Demand in Europe weakened during the year and the region's share of total order intake decreased to 34% (36). All business areas, with the exception of Sandvik Machining Solutions, reported lower demand than in the preceding year.

The situation in the North American market was mixed, with a positive trend in the aerospace and automotive industries. Primarily Sandvik Machining Solutions noted a strengthened demand in this region. The region's share of total demand remained unchanged at 17%. There was also a mixed scenario in South America, where it was mainly demand in the mining industry for Sandvik Mining that developed positively, while weaker demand was noted in other sectors. The

region's share of total demand increased marginally. Demand in Africa and the Middle East rose compared with the preceding year, driven primarily by the mining industry where demand for Sandvik Mining continued to develop positively, particularly in South Africa. Sandvik Construction also reported a rise in demand in South Africa. The region's share of total order intake increased slightly to 11% (10). A number of major orders in the mining industry accounted for the rise in Asia's share of total demand to 20% (18). Otherwise, development in the region was mixed with clear effects being felt of the slowing growth in China.

Demand in Australia was dominated by the mining industry and a decline was noted in the country during the year. The region's share of total order intake fell slightly to 9% (11).

Developments in the respective business areas are described in more detail on pages 18–22.

Order intake by market area

MSEK	2012	Share, %	2011	Change, %	Change, %*
Europe	33,680	34	35,953	–6	–4
NAFTA	16,923	17	17,238	–2	–4
South America	8,578	9	8,141	5	8
Africa, Middle East	10,227	11	9,379	9	14
Asia	19,607	20	17,967	9	4
Australia	8,933	9	10,400	–14	–18
Group total	97,948	100	99,078	–1	–1

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

Invoiced sales by market area

MSEK	2012	Share, %	2011	Change, %	Change, %*
Europe	33,302	34	35,721	–7	–4
NAFTA	17,882	18	15,593	15	13
South America	8,443	9	7,633	11	16
Africa, Middle East	9,803	10	9,677	1	6
Asia	18,271	18	16,332	12	7
Australia	10,828	11	9,128	19	13
Group total	98,529	100	94,084	5	5

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

Group summary review

Order intake amounted to 97,948 million SEK (99,078), down 1% in value and at fixed exchange rates for comparable units. The Sandvik Group's invoiced sales reached 98,529 million SEK (94,084), up 5% in value and at fixed exchange rates for comparable units.

Markets outside Sweden accounted for 96% (96) of invoiced sales. Consolidated profit after financial income and expenses totaled 11,516 million SEK (8,179). Earnings per share amounted to 6.51 SEK (4.63). Return on capital employed was 19.8% (16.0). The Board of Directors proposes a dividend of 3.50 SEK per share (3.25), corresponding to an increase of 8% from a year earlier.

Future prospects

Performance in 2012 was mixed. The start of the year was favorable and featured high demand, while the trend weakened during the second half of the year. At the beginning of 2013, much uncertainty and question marks remain regarding the market situation and the economic climate. A key sub-target of the new strategy is to make Sandvik less sensitive to sudden changes in demand levels. Accordingly, the Group is prepared for a series of different turns of events.

CSR issues are increasingly being managed at a higher strategic level due to the clear links they have to business value. A distinct trend has also been noted in which matters relating to corruption and human rights in poor countries are, to a greater degree, impacting Sandvik. In order to efficiently follow up CSR issues at a strategic level, Group Executive Management now includes a member responsible for CSR.

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 2003 corresponds to an average annual growth of 8% and a return on capital employed of 18%. The financial crisis in autumn 2008 and the

subsequent recession had a significant negative impact on average growth and return. In 2012, growth was 5% and the return on capital employed was 20%. At the end of 2012, the net debt/equity ratio was 0.6.

Since 2008, Sandvik's Lost Time Injury Frequency Rate (LTIFR) has been reduced from 8.1 to 4.3, meaning that the goal to reduce the LTIFR by 50% during the period 2008–2012 was essentially achieved.

Goals and goal fulfillment

Sandvik Group	Goal	Outcome 2012	2003-2012
Organic growth, %	8	5	8
Return on capital employed, %	25	20	18
Net debt/equity ratio, times	<0.8	0.6	—
Payout ratio, % of earnings per share	50	54	61

Earnings, returns and financial position

Earnings and returns

Operating profit for 2012 amounted to 13,490 million SEK (10,148), and was charged with slightly more than 1,200 million SEK (3,300) due to restructuring measures and impairments and just over 280 million SEK due to movements in metal prices. The operating margin was 13.7% (10.8) of invoiced sales. Changes in foreign exchange rates since the beginning of the year positively affected earnings by about 150 million SEK compared with the preceding year. Net financial items amounted to -1,974 million SEK (-1,969). Profit after financial income and expenses was 11,516 million SEK (8,179). Income tax had a total impact of -3,409 million SEK (-2,318) on earnings, or 30% (28) of profit before taxes. Profit for the year attributable to equity holders of the Parent Company was 8,105 million SEK (5,498). Earnings per share amounted to 6.51 SEK (4.63). Return on capital employed was 19.8% (16.0) and return on equity was 23.0% (17.3).

Financial position

Cash flow from operating activities amounted to 11,892 million SEK (7,764). Cash flow after investments, acquisitions

and divestments was 7,961 million SEK (2,584). At the end of the year, cash and cash equivalents amounted to 13,829 million SEK (5,592). Interest-bearing liabilities, including net provisions for pensions, less cash and cash equivalents yielded a net debt of 21,818 million SEK (25,908). Sandvik had two credit facilities of 650 million EUR and 5,000 million SEK that were unutilized at year-end. Under the Swedish bond program of 15,000 million SEK, bonds corresponding to a nominal amount of 9,841 million SEK were outstanding at year-end. Under the European bond program of 3,000 million EUR, a nominal amount of 1,127 million EUR was utilized. In addition, there were bonds issued in the US for a nominal amount of 740 million USD. The remaining maturity of bonds averaged 4.4 years for Swedish bonds, 5.3 years for European bonds and 6.9 years for US bonds. At year-end, the international credit-rating agency Standard & Poor's had a rating of BBB+ for Sandvik's long-term borrowings, and A-2 for short-term borrowings.

Working capital

Working capital at the end of the year amounted to 25,170 million SEK

(25,626). Relative working capital during the fourth quarter of 2012 was 27% (26) of invoiced sales. The carrying amount of inventories at the end of the year was 25,508 million SEK (26,077). Capital tied up in inventories was 27% (26) of invoiced sales. At year-end, trade receivables totaled 13,579 million SEK (14,563), which was 14% (14) of invoiced sales.

Equity

Equity at year-end amounted to 36,232 million SEK (33,891), or 28.80 SEK (27.40) per share. The equity ratio was 35% (34).

Capital expenditure

The purchase consideration for company acquisitions during the year (less acquired cash) was 39 million SEK (338). Proceeds from the sale of companies and shares amounted to 692 million SEK (0). Investments in internally generated intangible assets amounted to 504 million SEK (457). Investments in property, plant and equipment amounted to 4,820 million SEK (4,994).

Acquisition of Seco Tools

In November 2011, Sandvik AB submitted a public offer to minority shareholders

Capital expenditure	2012	2011
Investments in property, plant and equipment, MSEK	4,820	4,994
as a % of invoiced sales	4.9	5.3
as a % of scheduled depreciation	121	129

Results and returns	2012	2011
Operating result, MSEK	13,490	10,148
as a % of invoiced sales	13.7	10.8
Result after financial income and expenses, MSEK	11,516	8,179
as a % of invoiced sales	11.7	8.7
Return on capital employed, %	19.8	16.0
Return on equity, %	23.0	17.3
Basic earnings per share, SEK	6.51	4.63
Diluted earnings per share, SEK	6.51	4.63

Definitions, page 71.

ers in its subsidiary Seco Tools AB to acquire all the shares outstanding in Seco Tools AB in exchange for payment in Sandvik shares. At the beginning of 2012, Sandvik AB issued a total of 68,098,748 new shares, corresponding to a market value of approximately 7 billion SEK, to the minority shareholders who accepted the offer. During the spring, the Seco Tools AB share was delisted from NASDAQ OMX Stockholm. Within the framework of the compulsory acquisition procedure that was initiated, Sandvik was granted advance title in June 2012 of all shares outstanding in Seco Tools AB that had not been acquired under the public offer in return for the cash payment of the undisputed redemption price. Sandvik AB thus became the owner of 100% of the shares in Seco Tools AB. The ruling by the arbitral tribunal concerning the final redemption price for the shares in Seco Tools AB to which advance title was granted is expected during the first six months of 2013.

The fears that Sandvik would lose market shares in connection with the acquisition of Seco Tools have not materialised. Sandvik was the Parent Company of Seco Tools prior to the acquisition, and had

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

Parent Company¹⁾

The Parent Company's invoicing for 2012 amounted to 16,990 million SEK (17,460) and the operating result was -483 million SEK (-2,754). The operating result was in both 2012 and 2011 negatively impacted by impairment losses on property, plant and machinery, negative effects of metal prices and nonrecurring items.

Income from shares in Group companies consists primarily of dividends and Group contributions from these and amounted to 11,769 million SEK (2,815). Interest-bearing liabilities, less cash and cash equivalents and interest-bearing assets, amounted to 20,388 million SEK (16,990). The Parent Company's

total assets increased by 21,121 million SEK (from 45,241 million SEK to 66,362 million SEK).

The acquisition of Seco Tools impacted the Parent Company's total assets and net debt/equity ratio in 2012 as a result of an increase in indebtedness and of shareholders' equity attributable to the implemented non-cash issue.

Investments in property, plant and machinery amounted to 1,338 million SEK (1,421).

In 2012, the Parent Company received dividends totaling 9,632 million SEK, of which 2,197 million SEK from Sandvik Mining and Construction Logistics Limited and 6,891 million SEK from Sandvik Finance B.V.

The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB at 31 December 2012 was 8,032 (8,514).

¹⁾ The Parent Company includes subsidiaries operating on commission for Sandvik AB. These are presented in Note 15.

Quarterly trend of invoiced sales and result after financial items

MSEK		Invoiced sales	Result after financial items	Net margin, %
2011	1st quarter	22,030	2,855	13
	2nd quarter	23,421	3,073	13
	3rd quarter	23,528	1,110	5
	4th quarter	25,104	1,140	5
2012	1st quarter	24,838	3,371	14
	2nd quarter	25,939	3,667	14
	3rd quarter	23,424	2,852	12
	4th quarter	24,328	1,627	7

Financial position

	2012	2011
Cash flow from operating activities, MSEK	11,892	7,764
Cash flow after capital expenditures, acquisitions and divestments, MSEK	7,961	2,584
Cash and cash equivalents and short-term investments at 31 December, MSEK	13,829	5,592
Net debt at 31 December, MSEK	21,818	25,908
Net financial items, MSEK	-1,974	-1,969
Equity ratio, %	35	34
Net debt/equity ratio, times	0.6	0.8
Equity at 31 December, MSEK	36,232	33,891
Equity per share at 31 December, SEK	28.80	27.40

Definitions, page 71.

Development in business areas

Sandvik's operations in 2012 comprised five business areas: Sandvik Mining, Sandvik Machining Solutions, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture. The acquisition of Seco Tools was finalized during 2012 and the company is included as a product area of the Sandvik Machining Solutions business area.

Sandvik Mining in figures

In 2012, Sandvik Mining's order intake amounted to 38,289 million SEK (35,619), representing an increase of 7% compared with 2011 at fixed exchange rates for comparable units. Invoiced sales amounted to 37,762 million SEK (32,232), up 17% from the preceding year at fixed exchange rates for comparable units. Movements in foreign exchange rates had a marginal impact on both order intake and invoiced sales. The price trend remained stable.

Operating profit totaled 6,004 million SEK (5,189), yielding an operating margin of 16%. Earnings were positively impacted by a rise in invoicing and production volumes, increased internal efficiency and a favorable product mix. Movements in foreign exchange rates had a negative impact of 68 million SEK on the earnings. The number of employees at 31 December was 14,054 (13,298).

Performance and key events at Sandvik Mining

The business area, in its current form, has been operational since January 2012 and some adjustments of the organization took place during the year to strengthen the core business and customer services and to increase speed and flexibility. This is entirely in line with Sandvik's ambitions for the business area of increased profitability and maintained growth.

The LTIFR (Lost Time Injury Frequency Rate) for the business area remained unchanged for the first half of the year. This was followed by slow but steady improvement, with the target for 2012 subsequently being met at the end of the year. The work relating to the Sandvik International Mining School's International Mining Engineer postgraduate degree program fulfilled expectations. This specially tailored program is the only one of its kind in the world and is implemented in partnership with seven of the world's leading mining universities, spanning four continents.

Demand for new equipment from the global mining industry declined sharply during the second half of the year from the record levels noted in the first half of the year. Activity was high in Africa, while all other major markets reported declines. Announcements were made by several customers indicating reduced investments, with a negative impact on order intake for equipment and systems predominantly destined for greenfield and expansion projects.

Due to the weaker market demand, Sandvik Mining announced a restructuring plan in November aimed at addressing the situation and retaining profitability, despite harsher market conditions.

In March, Sandvik signed contracts that included orders for 21 bolter miners valued at 500 million SEK from the Chi-

Order intake by business area

MSEK	2012	2011	Change, %	Change, %*
Sandvik Mining	38,289	35,619	7	7
Sandvik Machining Solutions	28,717	28,737	0	0
Sandvik Materials Technology	14,708	16,350	-10	-11
Sandvik Construction	9,013	9,898	-9	-12
Sandvik Venture	7,218	8,473	-15	-11
Group activities	3	1		
Group total	97,948	99,078	-1	-1

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

Invoiced sales by business area

MSEK	2012	2011	Change, %	Change, %*
Sandvik Mining	37,762	32,232	17	17
Sandvik Machining Solutions	28,482	28,171	1	1
Sandvik Materials Technology	15,366	16,339	-6	-6
Sandvik Construction	9,683	9,249	5	1
Sandvik Venture	7,194	8,056	-11	-6
Group activities	43	38	12	12
Group total	98,529	94,084	5	5

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

Operating result by business area

MSEK	2012	% of invoiced sales	2011	% of invoiced sales
Sandvik Mining	6,004	16	5,189	16
Sandvik Machining Solutions	6,256	22	6,347	23
Sandvik Materials Technology	592	4	-642	-4
Sandvik Construction	748	8	58	1
Sandvik Venture	1,238	17	-21	-0
Group activities	-1,348	—	-783	—
Group total	13,490	14	10,148	11

nese company Shenhua Shendong. In October, Sandvik Mining received an order to supply the world's largest mine automation system for deployment in Rio Tinto's Argyle underground diamond mine in Australia. In December, the business area received an order from South African firm Royal Bafokeng Platinum for the delivery of 83 machines comprising mainly low-profile loaders and drill rigs.

Sandvik Mining secured a number of major mining systems contracts during the year. A large contract was signed with a customer in Asia for the design and supply of continuous mining equipment and coal handling for a value of 1,100 million SEK. An agreement with a total value of 900 million SEK was signed with a customer in South America to supply a materials-handling and crushing system for a copper mine.

At the end of March, Sandvik Mining signed three major materials-handling systems contracts with customers in Latin America and Australia. The combined value of the orders exceeded 1,600 million SEK and includes design and supply of continuous mining equipment for a fully truckless in-pit crushing and conveying system for a surface mine in Latin America. For Australia, the order includes design, supply and installation of materials-handling equipment for iron ore in a surface mine.

During the year, Sandvik Mining worked to optimize its global service footprint and several new service centers were opened around the world. The business area also introduced a comprehensive range of service products, tailored to the specific needs of the customer, and launched four completely new and unique packages named Service IQ.

One of the key priorities of the Sandvik Mining strategy is to speed up product development and improve time to market. During the year, several new products were launched, all of which had safety, productivity and peace of mind in focus. The revolutionary revolutionary Vibrocone™ crusher represents the next generation of crushing technology, combining the best of conventional crushing and grinding principles. This innovative product facilitates the use of new, eco-

efficient comminution and yields an energy saving of up to 30% in downstream processing. The Sandvik TH500 and TH600 series of trucks launched during the year feature the latest innovations in hard-rock ramp hauling, and are thus the clear forerunners of next-generation underground trucking. With in excess of 60 different safety features to protect the operator, maintenance staff and the truck itself, the TH551 and TH663 are probably the safest underground hoisting trucks ever made.

Sandvik Machining Solutions in figures

Sandvik Machining Solutions' order intake totaled 28,717 million SEK (28,737), which was on a par with the preceding year at fixed exchange rates for comparable units. Invoiced sales totaled 28,482 million SEK (28,171), an increase of 1% compared with 2011 at fixed exchange rates for comparable units. Movements in foreign exchange rates had a marginally negative impact on both order intake and invoiced sales. The price trend remained positive.

Operating profit totaled 6,256 million SEK (6,347), yielding an operating margin of 22%. Earnings were positively impacted by 118 million SEK due to movements in foreign exchange rates. The number of employees at 31 December was 18,333 (18,491).

Performance and key events at Sandvik Machining Solutions

The Eurozone crisis combined with weak development in China continued to impact the global economy during 2012. The period of slow growth was extended and growth expectations declined somewhat further, especially in the euro area.

While the general trend for 2012 was sluggish in advanced economies, with the exception of the US, it was relatively solid in many emerging and developing economies.

The weaker development in Europe was mainly due to declining growth in Central Europe. The German market slowed during the second half of the year, a trend that was particularly apparent in the automotive, wind power and machine

investment sectors, among others. The economic situation in France, Italy and Spain remained difficult and order intake in the industry segments that usually record the highest demand remained low.

North America, and particularly the US, provided ongoing strength during 2012, although a slowdown was noted in the second half of the year. The general business situation in South America remained a major cause for concern, primarily due to the negative trend in Brazil. The order levels in Asia reflected low volumes, despite the positive performance of some markets in Southeast Asia, such as Thailand, Singapore and Indonesia. However, no economic recovery was reported in China and the negative trend for Japanese exports persisted due to the economic slowdown in China and Europe and the downgraded forecasts for the US economy.

Sandvik Machining Solutions launched a new brand positioning strategy in China and India at the end of the year.

The integration of Seco Tools into the Sandvik Machining Solutions organizational structure was successful and several cost-saving activities were identified and implemented. As a result of the integration of Seco Tools, the distribution of products to customers in China was relocated from Sandvik Machining Solutions' distribution center in Singapore to Seco Tools' distribution center in Shanghai.

The Sandvik Coromant product area successfully launched the CoroDrill® 870 exchangeable tip drill and the Walter product area's new mill concept Blaxx™ with Tiger Tec® Silver inserts received considerable recognition in the market. The Seco Tools product area's new grade for cast iron machining was well received by the market, as was its unique double Octomill™ face milling cutter.

Sandvik Materials Technology in figures

Sandvik Materials Technology's order intake totaled 14,708 million SEK (16,350), down 11% from the preceding year at fixed exchange rates for comparable units. Invoiced sales totaled 15,366 million SEK (16,339), a decrease of 6% compared with 2011 at fixed exchange rates for comparable units. The effects of

movements in metal prices had a negative impact of 5% on order intake and invoiced sales. Movements in foreign exchange rates had a marginal impact on both order intake and invoiced sales. The price trend remained favorable for high value-added niche products.

Operating profit totaled 592 million SEK (–642), yielding an operating margin of 4%. Changed metal prices had a negative impact of 282 million SEK on operating profit, while nonrecurring items related to the ongoing restructuring program amounted to –667 million SEK. Profit excluding metal price effects and nonrecurring items amounted to 1,541 million SEK, or 10% of invoiced sales. Compared with the preceding year, movements in foreign exchange rates had a positive impact of 100 million SEK on operating profit. The number of employees at 31 December totaled 7,307 (8,166).

Performance and key events at Sandvik Materials Technology

Demand for Sandvik Materials Technology was fragmented during the year, particularly from segments such as the consumer goods and electronics industries and also for parts of the low value-added range. During the third and fourth quarters, the business climate deteriorated further from the already low levels recorded earlier in the year. However, order intake for products to the oil and gas industry remained stable throughout the year, despite the postponement of a number of planned projects. Activity in the nuclear power industry was low due to the nuclear power plant accident in Japan in 2011. Security reviews were initiated resulting in delays to certain existing orders for steam generator tubes from predominantly Chinese customers. During the year, demand in Europe deteriorated, with a particularly sharp decline noted in the southern part of Europe. In North America, demand shrunk somewhat, although the situation was more stable compared with Europe. The trend was mixed in Asia, where China showed signs of a slowdown in growth.

Two major orders were received in the energy segment. In the first quarter, the first large order was registered for steam generator tubes to the nuclear power industry since the nuclear power plant accident in Japan. The order was valued at approximately 400 million SEK and deliveries will commence in late 2013 and continue up to the first quarter of 2014. An order was secured in the second quarter worth 300 million SEK from a customer in the oil and gas industry in Europe. Deliveries were initiated in the fourth quarter of 2012 and will continue until the end of the second quarter of 2013.

The implementation of the comprehensive efficiency-enhancement program (The Step Change Program), launched in September 2011, continued with a strong focus in 2012. The program aims to enhance Sandvik Materials Technology's profitability to a significantly higher and sustainable level and to strengthen the leading position in strategic segments.

The main points of the program are as follows:

- Raise safety to the next level.
- Simplified and more cost-efficient organization.
- Lower cost level.
- Improved productivity and enhanced flexibility.
- More rapid shift of the product mix to more profitable and advanced products and materials.
- Selective growth to ensure a leading position in profitable key segments.

In general, the Step Change Program delivered in line with plans in 2012, despite a weak market situation for much of the year. As the most important part of the improvement activities, a comprehensive EHS (Environment, Health and Safety) program was launched at the end of March with a particularly strong focus on improving safety in operations. The program encompasses eight initiatives that have been broken down in all parts of the operation globally and that underpin the following three principles:

- All accidents are preventable.
- Working safely is a prerequisite for employment.
- Management bears the ultimate responsibility for safety.

Examples of initiatives implemented in 2012 included the completion of a tailored EHS training course by all global managers. All units identified their five most significant risks and developed action plans to eliminate or reduce the risks, and initiated execution of these action plans. Managers in all parts of the organization defined three safety commitments and also held safety workshops with their employees in which the significance of the three safety principles was discussed. The EHS program also includes such activities as improved accident investigation and chemical management processes.

During the year, the business area's largest company, AB Sandvik Materials Technology, was one of the first in its sector to be certified in accordance with the ISO 50001:2011 energy management systems standard. As a background to this, the business area has spent the past few years examining more than 150 processes with the aim of identifying energy savings and, on this basis, it carried out 60 projects yielding favorable results in term of reducing energy usage. A systematic work method has also been established for the purpose of driving continuous improvements in the energy area.

One of the objectives of the efficiency-enhancement program is to reduce the cost base by more than 1 billion SEK by year-end 2013 compared with the level in 2011, through such measures as reducing costs for staff and administration, cost optimization of the sales organization and structural measures. As a result of the program, a simplified and more cost-efficient organizational structure was introduced at the end of 2011. A new sales model was implemented in 2012 and the number of sales offices was reduced from 40 to 20. At the end of 2011, a global structural redundancy was identified corresponding to about 500 employees, of whom about 300 individuals in Sweden. The majority of those identified left the company during the first half of 2012.

A decision was made at the end of January to restructure the wire and strip operations, which will enable a shift in the product mix toward more advanced and profitable products in key segments,

such as the energy sector. The decision means that the production of wire and strip in Hallstahammar, Sweden, will be discontinued by year-end 2013, as will two plants for strip production in the UK and China. In conjunction with this, efforts were intensified to phase out wire and strip products that are not sufficiently profitable or do not form part of the core business. The manufacturing of the remaining part of the wire and strip product program will primarily be transferred from Hallstahammar to Sandviken. As a result of the planned changes, redundancy was identified corresponding to more than 100 individuals, some of whom left the company already in 2012.

Several extensive investment projects were carried out during the year, many of which aimed at improving safety. A significant investment for the Tube product area was the upgrade of the large extrusion press in Sandviken, which was carried out during an extended summer shutdown. The investment has primarily increased workplace safety at the same time as it has strengthened the position in the strategically important oil and gas segment. There has also been a significant increase in capacity and press force, enabling longer tubes to be produced in larger dimensions. In May, the new tube plant for the manufacture of steam generator tubes for the nuclear power industry was inaugurated in Sandviken. Production capacity for cladding tubes used by the nuclear power industry was also expanded in Sandviken. In September, a new raw material yard was inaugurated in Sandviken that will improve safety, the work environment and logistics and help reduce noise levels in the surrounding environment.

Based on the deteriorated business climate in the third quarter and with the ambition of further strengthening Sandvik Materials Technology as a long-term value-creating business area with more stable profitability over a business cycle, additional activities were defined in the fourth quarter within the scope of the efficiency-enhancement program. The primary focus is on additional sustainable cost savings and continued consolidation of operations, simplification of the organization and phasing-out of non-core

activities. As part of the ongoing review of the wire business, wire manufacturing at Sandvik Española in Barcelona, Spain, will be restructured. The ambition is also to divest units that do not form part of core activities in 2013. Certain units will also be adapted to the prevailing business climate and to support the ongoing strategic shift of the production mix to increasingly advanced materials and products. Overall, the changes will result in structural reductions of a further approximately 220 individuals in 2013. As a consequence of the restructuring activities, the fourth quarter 2012 was charged with nonrecurring costs of 667 million SEK, of which just over 400 million SEK was attributable to impairment of primarily property, plant and equipment.

Sandvik Construction in figures

Sandvik Construction's order intake amounted to 9,013 million SEK (9,898), down 12% compared with 2011 at fixed exchange rates for comparable units. Invoiced sales amounted to 9,683 million SEK (9,249), up 1% from the preceding year at fixed exchange rates for comparable units. Movements in foreign exchange rates had a negative impact of approximately 1% on order intake and invoiced sales. The price trend was slightly positive.

Operating profit for Sandvik Construction was 748 million SEK (58), yielding an operating margin of 8%. The increase was due primarily to the successful implementation of the ongoing turnaround program, which has generated results in the form of an increase in gross profit and a lower cost level for administration and sales. Movements in foreign exchange rates had a negative impact of approximately 54 million SEK on earnings. The number of employees at 31 December was 3,289 (3,872). There was a significant reduction in contracted workers, for example, from staffing companies.

Performance and key events at Sandvik Construction

The demand trend for Sandvik Construction was mixed in 2012 due to the global economic slowdown. However, some pockets of growth were noted. Order intake in Europe declined by 8% as a

result of the sluggish economic conditions, despite a favorable trend in Finland, Norway and Turkey. Demand in South America declined by 12% mainly as a result of a tightening of available financing for capital investments in Brazil. Asia declined 23% due primarily to the slowdown in China. In North America, demand fell by 5% despite strong growth in Mexico. Africa and the Middle East grew by 27% on account of strong growth in South Africa and Saudi Arabia.

2012 marked the first year for Sandvik Construction in operation as a separate business area. During the year, the focus was primarily on implementation of the turnaround plan, the overall objective of which was to reinforce sustainable profitable growth by becoming a leaner and more efficient organization. This included a product-segmented work approach while strengthening the direct sales teams and expanding the presence in the distributor channel.

Efficiency improvements were implemented throughout the supply chain – from purchasing to distribution – in parallel with increasing the share of end products assembled in emerging markets. The integration of Shanghai Jianshe Luqiao Machinery Co. Ltd, a joint venture with Shanghai Electric for the supply of mid-market crushing and screening businesses, continued satisfactorily. In addition, the Rammer brand was reintroduced to the market, thereby further strengthening the marketing and sales of Sandvik Construction's premium breakers through distributors.

During the year, Sandvik Construction launched more than 30 new products, including the hydraulic down-the-hole DH350 drill rig for emerging markets, the DC125R top hammer drill rig for developed markets, the DT1130JP Tunneling Jumbo mainly for Asian markets, the innovative and versatile new CI411-CI521 Horizontal Impact Crushers, the BR153 and a new mid-range Sandvik Breaker featuring the Fixed Blow Energy system. Sandvik also launched the QH440 mobile crusher and finalized the 1-series mobile crushers range with new Tier3B compliant engines and improved features. The business area introduced

several new mobile crushing and screening products mainly for markets in Asia. Shanbao launched new, more competitive cone, jaw and impactor crushers, as well as the SPS Breaker line, all of which target the mid-market segment. Activities aimed at increasing the standardization and competitiveness of the product portfolio while reducing energy usage, noise, dust and emissions intensified during the year.

Sandvik Venture in figures

Sandvik Venture's order intake totaled 7,218 million SEK (8,473), down 11% from the preceding year at fixed exchange rates for comparable units. Invoiced sales amounted to 7,194 million SEK (8,056), down 6% from the preceding year at fixed exchange rates for comparable units. Movements in foreign exchange rates had a marginal impact on both order intake and invoiced sales. The price trend was positive.

Operating profit was 1,238 million SEK (-21), corresponding to an operating margin of 17%. Earnings in the preceding year were significantly impacted by a number of negative nonrecurring items, totaling just over 1,300 million SEK, mainly related to the impairment of goodwill in Sandvik Medical Solutions. Excluding these nonrecurring items, lower volumes had a slight adverse effect on earnings while higher raw material prices were offset by price increases. The number of employees at 31 December was 3,558 (4,107).

Performance and key events at Sandvik Venture

During the year, the business area's organization and control principles were established. Sandvik Venture's strategy is to, with the appropriate support and focus, create the conditions for growth in both new and existing business enterprises and serve as a greenhouse for the product areas. Each product area is operated as a separate business independent of the others. At year-end, the Sandvik Venture business area comprised the following product areas: Sandvik Process

Systems, Sandvik Hard Materials, Diamond Innovations, Wolfram and Dormer.

The demand trend was initially positive during the year for most of the product areas, most notably for products from Sandvik Process Systems. However, as of the second quarter and for the remainder of the year, a mixed demand trend was noted for the majority of Sandvik Venture's product areas. For most product areas, the business climate was flat in Europe and North America, but declined in Asia.

The most significant drop in order intake was noted in the fourth quarter in Europe, when demand for tungsten and tungsten-based materials was negatively impacted by economic unrest and customer destocking. Production rates and inventory levels declined in all product areas in the fourth quarter, with the exception of Sandvik Process Systems. Internal efficiency made a positive contribution to earnings, but was not enough to offset the negative effect of declining sales.

Priorities and significant events

- Sandvik Medical Solutions, the medical implant and instrument unit, was sold to Orchid Orthopedic Solutions at the end of March. The unit had sales of approximately 600 million SEK and about 550 employees.
- It was decided that a major investment aimed at expanding Sandvik Process Systems' capacity for strip production in Sandviken would be implemented.
- During the year, it was decided to carry out a major investment in St. Martin, Austria, to build out the Wolfram product area's capacity for the recycling of cemented carbide.
- At the end of August, Sandvik decided to transfer the Dormer product area from Sandvik Venture to Sandvik Machining Solutions effective 1 January 2013. Because of the product area's advanced range of round tools in the mid-market segment, it is viewed as a valuable addition to the strategic mid-market initiative at Sandvik Machining Solutions.

- Tomas Nordahl, member of Group Executive Management and head of IT, Sourcing and Strategy, took over as new Business Area President in conjunction with Anders Thelin's retirement on 1 November. Tomas Nordahl retains his current areas of responsibility in parallel with his assignment as Business Area President.
- The Diamond Innovations product area was one of the parties honored with the 2012 Sandvik Innovation Prize for its role in the development of a new process platform. The platform offers one of the key technologies used in the development of PcBN (polycrystalline cubic boron nitride) and PCD (polycrystalline diamond) for Sandvik Mining and Sandvik Machining Solutions.

Events after year-end

A customer in South America cancelled a contract for a large materials-handling and crushing system for deployment in a copper mine. Consequently, the negative impact on order intake for the first quarter is estimated at approximately 600 million SEK. No material effect on earnings for the quarter is expected.

Jonas Gustavsson took office as President of Sandvik Machining Solutions on 1 February 2013. He succeeds Andreas Evertz who left the company.

Petra Einarsson took office as President of Sandvik Materials Technology on 1 February 2013, succeeding Jonas Gustavsson.

Research and development

The aim of Sandvik's research and development (R&D) activities is to enhance customers' productivity, reduce their environmental footprint and improve their work environment. R&D projects are assigned high priority in the Group, have a strong product focus and include metallurgical research, metal cutting and development of production equipment and technology, production processes and IT systems.

The Sandvik R&D Board was established in 2012 to capitalize on synergies, develop methods and processes, and enhance transparency in the company for the purpose of ensuring a high level of efficiency and innovation in R&D activities.

The Sandvik R&D Board, consisting of the Senior Vice President and Head of Group R&D and business area R&D representatives, has a mandate, budget and responsibility to initiate and control joint research projects, optimize the Group's global presence and monitor new technology to meet future challenges. A vital part of this work is the creation of synergies in the R&D organization.

Sandvik invests more than 3 billion SEK each year in R&D and quality assurance and over 2,700 employees are active in this area. The Group has about 8,000 active patents and other intellectual property rights. A focused and continuous effort to seek, protect and monitor patents is of the utmost importance to safeguard the product portfolio.

Areas that are being increasingly prioritized by Sandvik and its customers include safety, lifecycle assessment, health and the environment. This provides a strong emphasis on increased energy efficiency and product safety, reduced carbon dioxide emissions and greater use of recycled materials. Examples in 2012 include enhanced product safety through extended collaboration between Sandvik Mining and its key customers and reduced carbon dioxide emissions through the use of tubes made from the Sanicro™ 25 alloy in the next generation of coal-fired plants.

R&D activities are conducted in a decentralized manner in each of the business areas in close cooperation with customers. The largest R&D units in the Group are based in Sweden,

Finland, Austria, Germany, the UK and the US. Other sites under development are situated in India and China.

Significant events during the year include the expansion of Sandvik Materials Technology's R&D Center in Pune, India, the inauguration of the Sandvik Machining Solutions Application Center in Pune, India, and the inauguration of Sandvik Hard Materials' new R&D center in Wuxi, China.

Sandvik also pursues long-term research projects within the framework of various national and international research programs, thus establishing important contacts with universities, colleges and research institutes. These partnerships are ongoing worldwide and cover such research areas as metallurgy, material physics, metal cutting, rock mechanics, mining processes and production technology. The Group also engages in continuous dialog with universities to ensure that education and research match Sandvik's current and future requirements.

R&D at Sandvik Mining

• Focus

Development of solutions for automated mining operations in the areas of drilling, crushing and rock cutting. The focus of product development is on safety, energy utilization and cost efficiency.

• Driving forces

Shorter product development cycle, reduced cost and energy usage, enhanced safety, environmental and health conditions, operational reliability and expanded offering to new market segments outside the premium area.

R&D at Sandvik Machining Solutions

• Focus

Development of new tool materials and products in addition to improved production methods and production equipment. Tool performance and quality are enhanced while production efficiency is streamlined for customers and the business area. The aim of research and development activities is to increase the customers' productivity, reduce their environmental footprint and improve the work environment.

• Driving forces

Strong focus on customers to increase their productivity through advanced technology, low environmental impact and favorable total production economy.

R&D at Sandvik Materials Technology

• Focus

Development of advanced metallic and ceramic materials for demanding fields of application. The energy segment is an important market and major resources are invested in research and product development to continuously create new materials, products and production processes to meet future demands.

• Driving forces

Increase customer productivity, reduce energy usage, reduce the environmental footprint and achieve a safer work environment.

R&D at Sandvik Construction• **Focus**

Product development through a combination of in-depth understanding of customer needs and an innovative work method focused on crushing, drilling, breaking and demolition.

• **Driving forces**

Reduced production cost, increased reliability, higher performance, simplified and safer operations and maintenance, lower energy usage, and extended offering to new market segments outside the premium area.

R&D at Sandvik Venture• **Focus**

In the broad product offering, the development of technically advanced products takes place in close collaboration with key customers. New production technology and processes are developed focusing on quality and cost efficiency as well as opportunities for improved product performance.

• **Driving forces**

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

Examples of successful product development during 2012

Business area	Product	Description
Sandvik Mining	Sandvik AutoMine™	AutoMine products are based on a new global control system platform that increases operational safety and contributes to higher efficiency.
Sandvik Machining Solutions	CoroTurn®HP, tools with nozzle technology	Sandvik Coromant's unique nozzle technology directs the coolant in the most precise and efficient way to achieve better performance in terms of chip control, productivity and tool life.
Sandvik Machining Solutions	Blaxx™ milling system	A milling system from Walter that combines the benefits of tangential milling systems with the performance of Tiger Tec® Silver.
Sandvik Machining Solutions	Minimaster® Plus	Seco Tools' end mills with replaceable fluted inserts.
Sandvik Materials Technology	Sanicro™ 25	New alloy for boiler tubes in the next generation of coal-fired power plants.
Sandvik Materials Technology	HT5/Sanicro 30	Reversed composite tubes for coal gasification applications.
Sandvik Construction	CI411–CI521	A versatile new impact crusher for quarries and recycling of building material.
Sandvik Construction	DH350	A surface drill rig developed in China for the Chinese market.
Sandvik Construction	BR1533	A mid-range hydraulic breaker featuring the Fixed Blow Energy system.
Sandvik Venture	A turnkey solution for fertilizer production	Sandvik Process Systems' complete turnkey process from liquid/solid mixing and treatment down to solidification and storage of Urea Ammonium Sulfate.
Sandvik Venture	High-performance diamond cutters	Diamond Innovation's new high-toughness polycrystalline diamond compact cutter for oil and gas drilling.

People

A change process is under way at Sandvik and, for the Group's employees, 2012 was a challenging year. As a result of the new Sandvik business strategy, three business areas became five on 1 January 2012. In parallel with this change, delayering of the organization took place aimed at shortening decision-making paths and speeding up processes. The changes in 2012 were largely structural and their purpose was exclusively to strengthen the Group for the future. Leadership development, performance management and diversity and inclusion comprise integral parts of Sandvik's continued work.

Sandvik completed the structural downsizing initiated in the fourth quarter of 2011 that was required under the new strategy. These cutbacks were the result of redefined operations and new working procedures, rather than volume adaptations. Sandvik has always endeavored to handle workforce cutbacks in the most responsible and efficient manner possible, with voluntary solutions being the method most commonly deployed.

The number of employees at the end of 2012 was 48,742 (50,030), a decrease for comparable operations of 1,288 during the year. The number of employees in Sweden on 31 December 2012 totaled 10,965 (11,537). Information relating to the average number of employees and personnel expenses is available in Notes 3.1 and 3.2.

Sandvik People Strategy

The Sandvik People Strategy was presented in conjunction with the new business strategy. The People Strategy supports the Sandvik strategy by enabling a flexible, high-performing organization with empowered employees based on the Sandvik core values of Fair Play, Open Mind and Team Spirit. The following areas have been identified as focus points in 2012 and subsequent years:

Safety First

The Group's highest priority is to provide a safe work environment and to achieve its vision of Zero Harm. Sandvik continued its strong focus aimed at reducing the frequency of occupational injuries, illnesses and incidents, and at improving the

health and well-being of its employees.

The Group's objective for the period 2008 to 2012 is described in the table below.

Sandvik's various production-related units present potential risks for occupational illnesses and injuries. The risk of injury is also significant for employees involved in sales, for example, in conjunction with travel to and from customers' plants or facilities. One work-related fatality occurred in Sweden in conjunction with a business trip.

During the year, each of the business areas undertook a wide range of activities specific to their individual needs to improve the health and safety of the workforce.

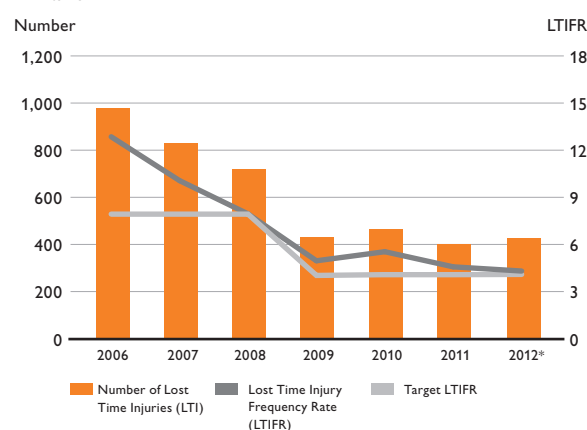
Since 2008, Sandvik's Lost Time Injury Frequency Rate (LTIFR) has improved

Group health and safety objectives and targets 2008–2012

Objective	Target
Further reduce the frequency of occupational injuries, illnesses and incidents.	• Reduce the Lost Time Injury Frequency Rate by 50% before year-end 2012 (base year: 2008).
Improve health and well-being among employees.	• All units will introduce a health and well-being program before year-end 2012.

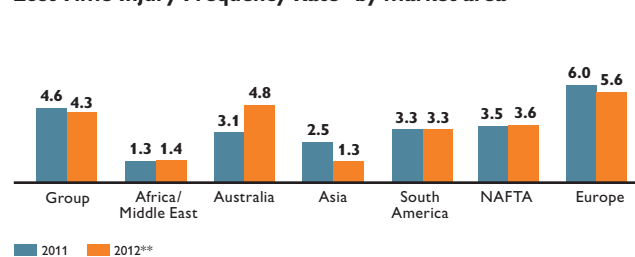
All major production, service, and distribution units are to be certified in accordance with OHSAS 18001 (or an equivalent standard) within two years of acquisition or establishment.

LTI and LTIFR



* Seco Tools is included as of 2012.

Lost Time Injury Frequency Rate* by market area



* The number of Lost Time Injuries per million work hours.

** Seco Tools is included as of 2012.

significantly (by 47%) to 4.3 (compared with the target of a 50% reduction to 4.0). However, the LTIFR results in 2012 leveled off and demonstrated only a marginal improvement during the latter part of the year. Benchmarking with industry and customer peers indicated that a plateau should be interpreted as a signal that the Group must now focus more directly on activities for improving the safety and health culture. Meanwhile, the drive to implement strong systems and processes is continuing.

Diversity and inclusion

Diversity and inclusion represent key pillars of Sandvik's strategy. The issue of diversity has become increasingly central to Sandvik, which works with diversity in the broadest sense of the word, namely gender, background, nationality, competencies, professional experience and people with disabilities. Priorities for 2012 were to deliver a global strategy and roadmap and to increase knowledge and awareness of diversity and inclusion among top management.

During the year, a global diversity and inclusion plan was developed in line with

Sandvik's strategy and involved representatives from all parts of the business and from many countries.

The following long-term objectives were established:

Workplace

A culture of inclusion.

Workforce

A diverse workforce at all levels and in all functions.

Marketplace

A high-performing organization, capitalizing on diversity and inclusion to remain competitive in the global market.

Distribution of women/ men	2012	2011
No. of employees 31 December*	48,742	50,030
Average number of employees		
Women	9,223	8,978
Men	40,152	39,569
Total	49,375	48,547

* Restated to number of FTEs.

Sandvik's 380 top managers were trained in line with this strategy and action plans for each business were established.

In the new business area management teams, the share of women has increased from 9% to 18% since 2011. Sandvik also succeeded in increasing diversity in terms of nationality and age spread in these management teams. In total, the share of women in the company is 19% and the share of women in managerial positions is 16%. In Sweden, the share of women in managerial positions equals the share of women in total in the company. To leverage all competencies in the company, Sandvik is participating in the Swedish project "Battle of the numbers", which aims to have more women advance to operational management positions. The share of women in the various business areas is presented in the table below.

Empowered employees

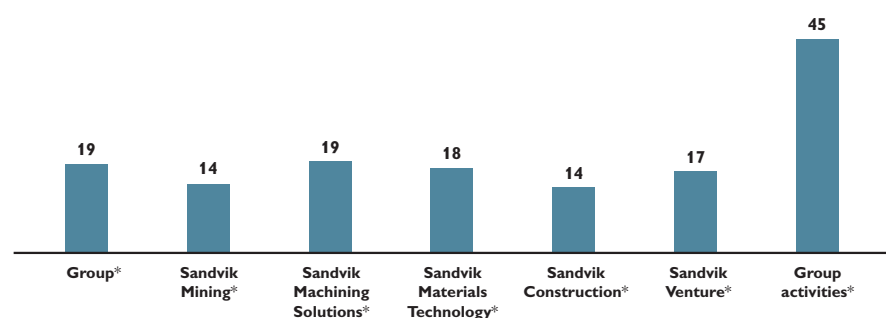
Sandvik's employees, the company's closest contact with the market and the customer, will be given more responsibility and freedom to act. This will both empower employees and increase speed in the organization. A Group-wide employee empowerment survey, SEMP, was conducted and the results will serve as a base for improving the Group's human capital and driving continuous improvements.

The employee empowerment survey will be conducted annually.

A leadership module has been developed and added to SEMP in order to evaluate all Sandvik leaders in relation to Sandvik's new leadership model. The survey questions were translated into 25 different languages.

The survey extended from mid-September to mid-October 2012 and 87.9% of all Sandvik employees responded. Seco Tools conducted its own SEMP process since the company was not fully integrated into

Share of women per business area



* The share is based on about 85% of the total number of employees (Seco Tools and a number of other units are not included).

Sandvik at the time of implementation. On completion of the survey each manager planned a workshop where the results were discussed and improvement activities agreed. Human Resources Advisors supported the manager and the group by presiding over these meetings. All agreed improvement actions will be followed up on a quarterly basis at a minimum.

Innovation

Sandvik's business and history are based on innovation and innovative capacity will also play a critical role in the future. The Sandvik corporate culture supports innovation and entrepreneurial spirit.

Long-term global success, innovation and growth will require change and adaptation. Sandvik can only achieve these goals by adhering to and living up to the values that make the company unique. Sandvik's core values are the soul of the company. All employees live by them and the values should provide direction in day-to-day activities. Technology and the world may change, but the Group's values remain unchanged. This is essential as Sandvik's people and operations become increasingly geographically diverse.

During the year, a revision of the core values was carried out involving representatives from all businesses and regions. More emphasis was placed on Open Mind and Team Spirit, since considerable focus over the past year has been devoted to Fair Play. The new version is supported by a training tool.

Talent Management

To become a leader in attracting, developing and retaining the best people, Sandvik will deploy a clear strategy to strengthen the Sandvik brand and become the employer of choice in prioritized markets. The concept One Sandvik and internal mobility will form a key theme and tool to position the Sandvik employer brand. A joint approach to attracting future employees will be implemented, which will support the extensive need for recruiting in emerging markets. This will be supported by competitive remuneration frameworks and clearly established and communicated career progression paths for specialists and leaders, as well as structured succession planning.

To ensure the continued growth and success of Sandvik, the focus in 2012 was

on identifying, developing and retaining candidates to fill the key positions at Sandvik in the future. The aim was to identify "high potentials" as early as possible in their career and to motivate and support these individuals to ensure that they reach their full potential. Succession planning was carried out for all managerial and expert positions that directly impact business goals and are therefore critical for the Group. The identification of high potentials and succession planning in the organization was followed up by the Sandvik CEO and Head of HR. Demographics in these groups were monitored and action plans were set accordingly to address any identified gap.

In 2012, a global strategy was developed to manage the Sandvik employer brand and involved representation from all parts of the business and various regions. The Sandvik Employee Value Proposition was formulated to support the Sandvik strategy of becoming the employer of choice.

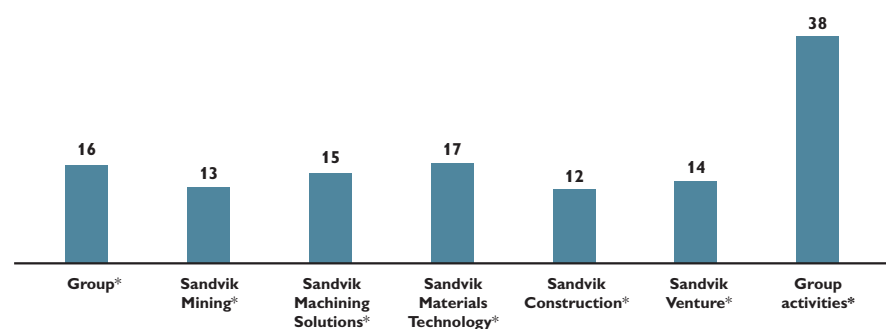
Many activities were also initiated to strengthen the employer brand with special focus on social media, career pages at www.sandvik.com and the development of various communication tools in the area.

A model illustrating Sandvik's career paths was launched visualizing how to build a career within Sandvik as an employee, leaders or expert, and this will initially be implemented in Research and Development.

Performance Management

Performance management is fundamental in following-up the business and individuals at all levels. Sandvik's managers are responsible for conducting annual performance dialogues, including preparing individual objectives and development plans.

Share of women, leaders per business area



*The share is based on about 85% of the total number of employees (Seco Tools and a number of other units are not included).

The performance dialog is fundamental in driving and following up the business and employees' goals and linking these to individual development plans. It aligns employee contribution with business strategy to improve productivity and business performance. Performance dialogues benefit both the employee and Sandvik as a Group.

A common format for performance dialogues was developed during the year in order to enhance control and monitoring of the business and employees. The focus was to create uniformity and a closer link to succession planning and identification of high-potential employees.

Sandvik is now endeavoring to enhance the quality of performance dialogs while emphasizing the importance of improving earnings for the business through this process. The individual objectives must be aligned with the organizational objectives and strategies. There has also been a focus on development opportunities for all Sandvik employees to ensure maximum individual development. Performance dialogues enable the Group to develop all employees to their full potential and ensure that the Group has the

best competence available for each job in the organization. Performance dialogs also enable Sandvik to achieve its strategic objectives and to remain a world leader in its selected segments.

Excellent leaders

The Sandvik Leadership Model was launched in 2012 for the purpose of ensuring the implementation of the strategy. The Leadership Model provides clear expectations and forms the basis to identify, appoint, develop and, occasionally, dismiss leaders. The model will serve as a foundation for leadership development and form the basis for annual reviews of managers.

The following criteria now form the foundation for all Sandvik leaders: drives One Sandvik, delivers results, drives improvements, develops people and demonstrates self-awareness.

All managers will be reviewed annually based on these criteria in performance dialogues and all employees can evaluate their manager based on the same criteria that can be found in the annual employee empowerment survey.

All Sandvik leadership programs and tools have been aligned with the Sandvik

Leadership Model. One example is the ONE Sandvik Global Leadership (ONE SGL), a Group-wide program that is implemented locally in all Sandvik countries/regions. It targets all managers who have personnel responsibility, with emphasis on newly appointed managers and experienced managers recently employed by Sandvik. In 2012, ONE SGL was implemented in China, Finland, India, Russia, South East Asia and Sweden. Local facilitators were trained in Argentina, Brazil, Chile and Mexico.

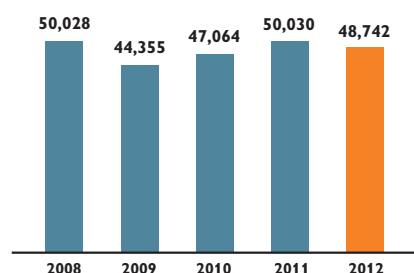
Employment conditions

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

Remuneration and compensation

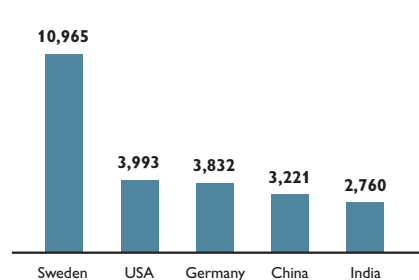
Sandvik's performance management is also reflected in the strategy for remuneration and compensation, which aims to support Sandvik's business objectives and contribute to maintaining Sandvik's status as an attractive company in which to work and develop. The Group's remuneration model comprises fixed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

Number of employees*



* Restated to FTEs.

Number of employees*



* The five largest countries in terms of number of employees.

Group's remuneration policy, fixed salary is based on four cornerstones: the complexity and difficulty of the position, individual performance, the salary situation in the relevant market and stimulation of the individual's professional development. Some of Sandvik's personnel 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.

Guidelines for the remuneration of senior executives

The Board proposes that the 2013 Annual General Meeting resolve on the following guidelines for the remuneration of senior executives for the period extending until the 2014 Annual General Meeting.

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

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

circumstances prevail, has the option of limiting or refraining from payment of variable salary if such a measure is considered reasonable.

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

Pension benefits should either be defined benefit or defined contribution, or a combination thereof. The retirement age for the President is a minimum of 60 and for other members of Group Executive Management the retirement age is a minimum of 62.

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

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

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

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

During the year, the Board decided to exercise its right to depart from the guidelines resolved on by the 2012 Annual General Meeting as follows. With the aim of facilitating recruitment, the Board approved one-off cash remuneration to two members of Group Executive Management, which was expensed in 2012.

The guidelines adopted by the 2012 Annual General Meeting are presented in Note 3.5.

Environment

Sandvik's operations have a significant impact on the environment. This ranges from how the raw materials are selected and processed and how energy is used in production, heating and transportation, to how chemicals and waste are handled and how Sandvik's products are used by customers.

Sandvik respects and complies with the relevant legislation in all of the countries where it conducts operations. Moreover, the following four basic environmental principles that are detailed in the UN Global Compact, the OECD's Guidelines for Multinational Enterprises and ISO 26000 are fully integrated into Sandvik's work procedures:

- **Environmental responsibility:** Involves assuming responsibility for the negative impact by actively working to improve the environmental performance of its own operations, and the operations of others, in areas where Sandvik has the opportunity to exert an influence.
- **Precautionary approach:** Meaning that precautionary measures are taken as soon as there is reason to believe that an action could harm the environment or human health.
- **Environmental risk management:** Requires the introduction of a program derived from a risk-based and sustainable perspective to reduce or minimize the environmental impact from Sandvik's activities, products and services.
- **Polluter Pays Principle:** Meaning that the entity that causes the damage to the environment is to pay the social economic cost that arises.

Sandvik's environmental footprint is broken down into two parts: its direct impact, from its own operations, and its indirect impact. The direct environmental impact is primarily the result of the Group's production in various countries. Sandvik's key environmental aspects are summarized below:

- Use/consumption of energy, input materials, fresh water and hazardous chemicals.
- Generation of emissions and waste from production.
- Old industrial sites and waste landfills.
- Environmental liabilities in conjunction with company acquisitions.

Sandvik's own environmental effects associated with emissions to air primarily relate to emissions of carbon dioxide and acid gases to the atmosphere. These emissions are mainly caused by the company's use of fossil fuels in conjunction with production, heating and transportation, and indirectly from purchases of electricity produced by combustion of fossil fuel. Environmental effects related to water concern the use of freshwater in water-stressed regions and the discharge of treated wastewater from processes containing, for example, residues of nutrients, metals and oxygen-consuming substances.

Sandvik's indirect environmental footprint consists of the environmental impact that occurs in the parts of the value chain that are not owned by Sandvik, meaning in the supplier stage, distribution stage, customer user stage and in connection with the phasing out or recycling of the Group's products. It is therefore vital to take the entire value chain into account in order to describe the actual changes that take place with respect to the Group's environmental footprint.

Environmental permits

Sandvik owns 180 production-related units worldwide that hold various types of environmental permits depending on legislation. Sandvik is entirely dependent on the environmental permits granted for these sites. To comply with Swedish accounting legislation, the environmental impact of Swedish operations is presented below.

In Sweden, Sandvik conducts licensed operations in accordance with environmental legislation at 13 plants (Sandviken, Gimo, Stockholm, Halmstad, Hallstahammar, Surahammar, Svedala, Köping, Fagersta, Nora, Arboga, Norrköping and Ludvika). The environmental permits for these sites relate to such activities as the manufacturing of steel and ingots/CC-blooms/CC-billets, and the further processing of steel for bar, tube, strip and wire products, rock-drilling products and the manufacture

of ceramics, metal powder, cemented-carbide products, castings and various equipment and tools. All units have the environmental permits that are required for their operations. The main environmental impacts are emissions to air and water, energy use, waste production, older contaminated land areas and noise.

During the year, Sandvik Construction's unit in Svedala renewed its operating license. The production permit for Seco Tools' facility in Fagersta needs to be renewed due to the expansion of powder production and the application process for this has been initiated. The Environmental Court of Appeal has directed Sandvik in Sandviken to carry out investigations into mercury emissions and a report on this must be submitted by 1 September 2013. These investigations will analyze the possibility of reducing mercury emissions to air from the steel-works using technology to clean flue gases. No breaches of permissible manufacturing volumes or limit values within the parameters of the terms and conditions of permits issued under the Environmental Code occurred during the year. A number of guideline values were exceeded for noise and emissions to air and water at the sites in Hallstahammar and Sandviken. Actions are being taken to comply with these target values, often in consultation with the relevant supervisory authority. Noise-reducing measures were taken in Västberga aimed at complying with the noise limit values exceeded in 2011. Both environmental cases at Sandvik Materials Technology that were handed over to the public prosecution office in 2011 for examination were dropped in 2012. For the units subject to environmental permits in Sweden, public environmental reports are submitted each year to the supervisory authorities.

For more information about Sandvik's sustainability activities, visit www.sandvik.com.

Integrated risk management

The aim of Sandvik's risk management is to minimize risks within the company and also to ensure that opportunities are leveraged in the best possible manner. The uncertainty in the financial markets and the uneven trend in the global product market have meant that Sandvik's work on restricting and controlling risk-taking was particularly important once again in 2012. Sandvik has a favorable risk spread with sales in more than 130 countries in about 20 product areas and a number of different industries.

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. ERM is an integral part of the control of Sandvik's operations and assists the company in taking action when changes occur in the external environment and market conditions.

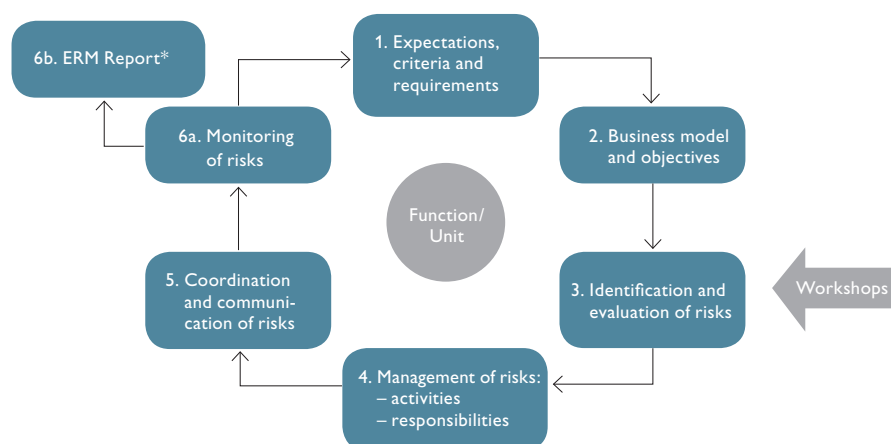
The main components of risk management are identification, evaluation, management, reporting, follow-up and control. An action plan is established for each risk to accept, reduce, eliminate or increase the risk. Also, this is now a requirement under the OECD's Guidelines for Multinational Enterprises regarding CSR. 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.

Uncertainty increased in Sandvik's markets in 2012. Risk management was focused on the Group's business risks in order to efficiently retain and balance capacity and personnel during periods of both economic upturn and downturn, and on risks associated with Sandvik's corporate social responsibility, in particular supplier audits and anti-corruption.

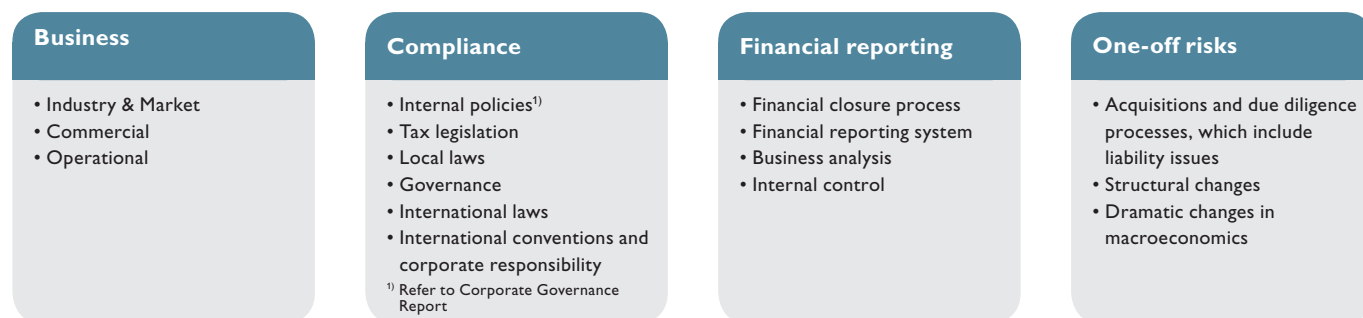
The purpose of the integrated risk management work

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

ERM process, Overview



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

Sandvik's risk area**Operational risks**

Each manager with operational responsibilities is to ensure that risks associated with the operations are appropriately identified, evaluated and managed. Operational risks include market and country risks, R&D risks, product risks, production risks, health and safety risk, environmental risks, anti-corruption risks and human rights 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 evaluated and assigned an action plan. All this information is consolidated at Group level.

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.

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 Tax Agency performed tax audits of Sandvik AB and Sandvik Intellectual Property AB (the "IP Company"), and in this connection, reviewed the organization of ownership and management of intellectual property rights that took place in 2005. As a result of the reorganization, Swedish-owned patents and trademarks were transferred to the IP Company. The reasons for this reorganization were the need to gather the activities relating to intellectual property rights into one company to visualize the considerable worth of the intellectual rights and to gain operational advantages.

The Tax Agency 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 Agency approved the tax returns filed by Sandvik AB for the 2005 fiscal year. Subsequently, the Tax Agency, 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 was to be removed should the appeal concerning Sandvik AB's tax returns be approved. If the Commissioner's appeals are approved, the resulting additional tax expense of some 5,050 million SEK 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 and to 22% effective 2013, the tax value of the taxable amortization would be affected negatively by about 590 million SEK. If the Court accepts Sandvik's position, the Group's tax expense would decline by about 4,460 million SEK, which would 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 Agency regarding taxation for 2005, 2006 and 2007. For subsequent years of assessment, both the Tax Agency and Sandvik have dealt with tax returns and appeals in the same manner as previously. In June 2010, the Administrative Court in Falun approved the Public Commissioner's appeal pertaining to additional taxation of Sandvik for 2005. Sandvik subsequently appealed the decision and was granted a respite for its tax payments. Pending a conclusion of the legal proceedings, Sandvik has established a provision for the tax effects of implemented amortization in the IP Company and for accrued interest for the tax that the Public Commissioner's appeal against Sandvik AB would entail if approved.

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

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 is obliged to comply with laws governing environmental and labor issues, the operation of the business, taxation, terms of employment, marketing regulations, and so forth. The Group also 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 part of the quality control of financial reporting. See also the Corporate Governance Report on pages 40–45.

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.

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 implemented continuously, often in cooperation with Sandvik's external insurance advisors.

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

Financial risk management

Sandvik Financial Services is the functional organization responsible for managing the greater part of the Group's financial risks. The primary objective of the function is to contribute to the creation of value by managing the financial risks to which the Group is exposed in the ordinary course of business, and to optimize the Group's financial net.

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

Sandvik Financial Services provides service to Group companies and its task is to support subsidiaries with loans, investment opportunities and foreign exchange deals, and to act as advisors in financial matters.

The function conducts internal banking operations and is based at the head office in Stockholm. The internal bank also operates Sandvik's netting system, and is responsible for the Group's cash management.

In addition, Sandvik Financial Services conducts operations for payment advice and trade finance, and is responsible for the Group's global policy for granting credit to customers in conjunction with sales. This activity is carried out mainly through the head office in Stockholm and at several locations worldwide.

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

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

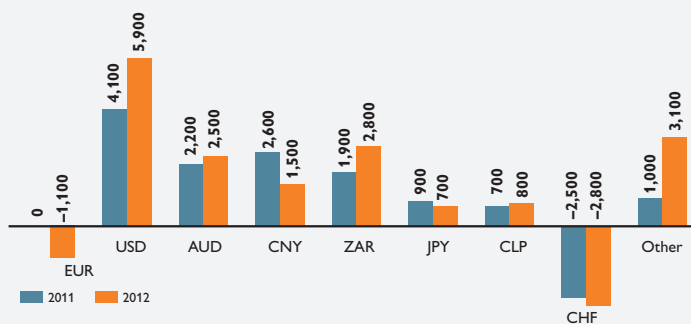
The presentations comply with the reporting requirements stated in IFRS (IFRS 7 and IAS 39).

Risk	Exposure	Comments
<p>Currency risk</p> <p>Currency risks refer to the foreign-exchange movements affecting the company's result for the year, other comprehensive income, and the company's competitive situation in various ways:</p> <ul style="list-style-type: none"> • The result for the year is affected when sales and purchases are made in different currencies (transaction exposure). • The result for the year is affected when assets and liabilities are denominated in different currencies (translation exposure). • The result for the year is affected when the financial results of subsidiaries are translated to SEK (translation exposure). • Other comprehensive income is affected when the net assets of subsidiaries are translated to SEK (translation exposure). <p>Sandvik manages the currency risks that arise in the manner described in the following section. The manner in which the currency risk is managed has not been changed compared with the preceding year.</p>		

Transaction exposure

Sandvik's annual transaction exposure, meaning the Group's net flow of currencies, after full offsetting of the counter-value in the exporting companies' local currencies, and measured at the average exchange rate, amounted to 13,400 million SEK (10,900) in 2012. The most important currencies for one year of exposure are shown in the diagram below.

Net flow in foreign currencies, MSEK



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

A certain portion of the anticipated net flow of sales and purchases is hedged through financial instruments in accordance with guidelines set in the Group's finance policy. In addition, major project orders are currency hedged to safeguard the gross margin. The CFO establishes how much of the Group's transaction exposure needs to be hedged. Under the finance policy, the CFO has a mandate to hedge the annual transaction exposure. At year-end, the total hedged amount was 5,675 million SEK (6,337). The average duration for the hedged volume of foreign currency was about 1.4 years (2). Unrealized gains from outstanding currency contracts for hedging of future net flows amounted to 571 million SEK (243) at year-end. Of this, 237 million SEK relates to contracts maturing in 2013 and 334 million SEK to contracts maturing in 2014 or later. Hedge accounting in line with IAS 39 is applied for the most significant portion of the hedge transactions. For a more detailed breakdown of the quarterly effects on cash flow of the transactions that have been recognized in the hedge reserve, see Note 30.

Risk	Exposure	Comments																																																																					
<h3>Translation exposure</h3> <p>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 are to be balanced (currency hedged).</p> <p>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 earnings are exposed to a translation risk.</p> <p>Net assets, meaning the subsidiaries' shareholders equity, are translated into SEK at the rate applying on the balance-sheet date. At 31 December, the Group's net assets in subsidiaries in foreign currency were 33,500 million SEK (33,200).</p>	<h3>Subsidiary financing by currency (net), MSEK</h3> <table><thead><tr><th>Currency</th><th>2011</th><th>2012</th></tr></thead><tbody><tr><td>SEK</td><td>-21,400</td><td>-16,300</td></tr><tr><td>USD</td><td>-6,600</td><td>-5,300</td></tr><tr><td>GBP</td><td>-1,400</td><td>-1,300</td></tr><tr><td>BRL</td><td>-1,100</td><td>-1,000</td></tr><tr><td>CLP</td><td>-600</td><td>-500</td></tr><tr><td>ZAR</td><td>-500</td><td>-1,000</td></tr><tr><td>JPY</td><td>-300</td><td>-400</td></tr><tr><td>Other</td><td>-2,200</td><td>4,000</td></tr></tbody></table> <h3>Group's external borrowing by currency, MSEK</h3> <table><thead><tr><th>Currency</th><th>2011</th><th>2012</th></tr></thead><tbody><tr><td>SEK</td><td>-15,600</td><td>-14,400</td></tr><tr><td>USD</td><td>-6,000</td><td>-5,500</td></tr><tr><td>EUR</td><td>-5,700</td><td>-11,800</td></tr><tr><td>AUD</td><td>-2,000</td><td>-1,900</td></tr><tr><td>Other</td><td>-1,400</td><td>-1,400</td></tr></tbody></table> <h3>Net assets by foreign currency, MSEK</h3> <table><thead><tr><th>Currency</th><th>2011</th><th>2012</th></tr></thead><tbody><tr><td>EUR</td><td>17,400</td><td>17,200</td></tr><tr><td>USD</td><td>2,200</td><td>2,400</td></tr><tr><td>CHF</td><td>2,000</td><td>2,600</td></tr><tr><td>CNY</td><td>1,900</td><td>1,700</td></tr><tr><td>AUD</td><td>1,800</td><td>1,800</td></tr><tr><td>GBP</td><td>1,300</td><td>1,300</td></tr><tr><td>Other</td><td>6,600</td><td>6,500</td></tr></tbody></table>	Currency	2011	2012	SEK	-21,400	-16,300	USD	-6,600	-5,300	GBP	-1,400	-1,300	BRL	-1,100	-1,000	CLP	-600	-500	ZAR	-500	-1,000	JPY	-300	-400	Other	-2,200	4,000	Currency	2011	2012	SEK	-15,600	-14,400	USD	-6,000	-5,500	EUR	-5,700	-11,800	AUD	-2,000	-1,900	Other	-1,400	-1,400	Currency	2011	2012	EUR	17,400	17,200	USD	2,200	2,400	CHF	2,000	2,600	CNY	1,900	1,700	AUD	1,800	1,800	GBP	1,300	1,300	Other	6,600	6,500	<p>To avoid translation risk in the balance sheets of subsidiaries, they are financed in local currency through the internal bank. The currencies required by the subsidiaries are shown in the adjacent diagram. External borrowing often takes place in a specific currency, as shown in the following diagram. The currency risk that arises in the internal bank as a result of this is managed using various derivatives, thus minimizing the translation risk.</p> <p>Sandvik has chosen not to hedge future profits in foreign subsidiaries. Net assets are also not hedged, but the differences that arise due to changes in exchange rates since the preceding year-end are recognized directly in other comprehensive income. The final diagram shows the distribution of net assets between various currencies.</p>
Currency	2011	2012																																																																					
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Risk	Exposure	Comments
<p>Exchange-rate sensitivity</p> <p>To gain a comprehensive understanding of how exchange-rate fluctuations impact the Group's operating profit, consideration must be given to the transaction exposure, the operating profit of the subsidiaries in their respective currencies and implemented hedges.</p> <p>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 unrealized changes in the market value of these contracts is recognized directly in other comprehensive income instead of in profit for the year.</p>	<p>If the exchange rates for the exposure currencies were to change by 5% in an unfavorable direction for the company, total operating profit over a 12-month period would change by approximately 1,100 million SEK (1,200), assuming that the composition is the same as it was at year-end.</p> <p>The net effect on other comprehensive income of a similar change to exchange rates would be approximately 1,900 million SEK (1,900). This net effect primarily comprises translation exposure in equity.</p>	

<p>Interest rate risk</p> <p>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 impact on net interest items of a change in interest rates depends on the interest terms of assets or liabilities. Sandvik measures interest rate risk as the change over the forthcoming 12 months given a 1 percentage point change in interest rates. Interest rate risk arises in two ways:</p> <ul style="list-style-type: none"> • 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. 	<p>If market rates were to rise by 1 percentage point across all terms at 1 January 2013, in relation to loans for which the interest rate will be reset during the coming year, net interest items would be impacted by –123 million SEK.</p> <p>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 +212 million SEK as a result of a 1-percentage-point parallel shift of the interest-rate curve.</p>	<p>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-rate risk (the risk of a change in value) is low.</p> <p>The Group's interest-rate risk arises mainly in connection with borrowing. Interest-swap agreements are sometimes used to achieve the desired fixed-interest term. The Group CFO has a mandate to vary the average fixed-interest term of the Group's debt portfolio, provided that it does not exceed 48 months. The average fixed-interest term on Sandvik's borrowing was 37 months (27) at year-end, with consideration given to interest-rate swap agreements entered into.</p> <p>As described in a previous section (translation exposure), internal lending to foreign subsidiaries is often hedged. If market interest rates are higher abroad than in Sweden, the foreign exchange contracts entail an interest expense. The Group's average interest expense, including other loans and effects of various derivatives, was 5.4% (5.6).</p> <p>Hedge accounting is applied when an effective link exists between hedged loans and interest-rate swaps. Accordingly, changed market interest rates could also impact other comprehensive income, since the Group has interest-rate swap agreements to which it applies cash-flow hedging. This means that changes in the market values of these swaps are recognized directly in other comprehensive income instead of in profit for the year. A presentation of all interest-swap agreements entered into, and information regarding their duration, can be found in Note 30.</p> <p>Sandvik's loan conditions do not currently entail financial covenants. Only under exceptional circumstances are assets pledged in connection with the raising of loans. Such pledging is disclosed in Note 29.</p>
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Interest rates and fixed-interest terms on outstanding loans

MSEK	Including effects of interest-rate derivatives		
	Effective rate of interest, %	Fixed-interest term, months	Recognized liability, MSEK
Bond loans, Swedish MTN	4.4	29	9,841
Bond loans, European MTN	4.9	45	9,707
Private placement	3.6	69	5,547
Commercial papers	0.0	0	0
Other loans from banks	3.2	20	9,866
Total	4.1	37	34,961
Interest effect of currency derivatives	1.3		
Total incl. currency derivatives	5.4		

Risk	Exposure	Comments																																						
Liquidity and refinancing risk Liquidity and refinancing risk is defined as the risk that financing possibilities will be limited when loans must be refinanced, and that payment commitments cannot be met as a result of insufficient liquidity.	<p>Maturity profile for borrowing and liquid assets Nominal amount, MSEK</p> <table><caption>Maturity profile for borrowing and liquid assets (MSEK)</caption><thead><tr><th>Period</th><th>Value (MSEK)</th></tr></thead><tbody><tr><td>Liquid assets</td><td>13,800</td></tr><tr><td>Jan-Jun 2013</td><td>-2,700</td></tr><tr><td>Jul-Dec 2013</td><td>-400</td></tr><tr><td>2014</td><td>-7,200</td></tr><tr><td>2015</td><td>-3,300</td></tr><tr><td>2016</td><td>-3,700</td></tr><tr><td>2017</td><td>-3,300</td></tr><tr><td>2018</td><td>-900</td></tr><tr><td>2019</td><td>-1,600</td></tr><tr><td>2020</td><td>-1,500</td></tr><tr><td>2021</td><td>-1,400</td></tr><tr><td>2022</td><td>-2,700</td></tr><tr><td>2023</td><td>-1,100</td></tr><tr><td>2024</td><td>-800</td></tr><tr><td>2025</td><td>-900</td></tr><tr><td>2026</td><td>-400</td></tr><tr><td>2027</td><td>-400</td></tr><tr><td>2028</td><td>-600</td></tr></tbody></table>	Period	Value (MSEK)	Liquid assets	13,800	Jan-Jun 2013	-2,700	Jul-Dec 2013	-400	2014	-7,200	2015	-3,300	2016	-3,700	2017	-3,300	2018	-900	2019	-1,600	2020	-1,500	2021	-1,400	2022	-2,700	2023	-1,100	2024	-800	2025	-900	2026	-400	2027	-400	2028	-600	<p>According to the finance policy, the Group's capital employed excluding cash and cash equivalents should be financed on a long-term basis and the short-term liquidity reserve should correspond to at least two weeks' operating expenses. At year-end, the Group's capital employed, excluding cash and cash equivalents, was 67,800 million SEK and long-term financing, including share capital, pension liabilities, long-term tax liabilities, long-term provisions and guaranteed credit facilities, amounted to 81,300 million SEK. The short-term liquidity reserve amounted to about 18,900 million SEK, comprising credit facilities and the Parent Company's cash and cash equivalents less loans that mature for payment over the next six months. This amount should be compared with two weeks' estimated operating expenses of 3,000 million SEK.</p> <p>Sandvik has credit facilities totaling 650 MEUR and 5,000 million SEK. The facilities, which are the Group's primary liquidity reserve, were unutilized at year-end.</p> <p>The aim of Sandvik's financing strategy is to maintain a well-balanced maturity profile for liabilities to thereby reduce the refinancing risk. The share of long-term loans in relation to total borrowing was 92% at year-end 2012 compared with 81% one year earlier. The maturity structure for the Group's financial liabilities and derivatives is presented in Note 30.</p> <p>At year-end, Standard & Poor's, the international credit rating agency, had assigned a BBB+ credit rating to Sandvik's long-term borrowing and A-2 for its short-term borrowing. For a continuous update on Sandvik's credit rating, refer to www.sandvik.com.</p>
Period	Value (MSEK)																																							
Liquid assets	13,800																																							
Jan-Jun 2013	-2,700																																							
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Borrowing, size of programs and remaining credit periods	<table><thead><tr><th></th><th>Currency</th><th>Recognized liability, MSEK</th><th>Size of programs, MSEK</th><th>Average remaining credit period (years)</th></tr></thead><tbody><tr><td>Bond loans, Swedish MTN</td><td>SEK</td><td>9,841</td><td>15,000</td><td>4.4</td></tr><tr><td>Bond loans, European MTN</td><td>EUR</td><td>9,707</td><td>25,847</td><td>5.3</td></tr><tr><td>Private placement</td><td>USD</td><td>5,547</td><td>—</td><td>6.9</td></tr><tr><td>Commercial papers</td><td>SEK</td><td>—</td><td>16,462</td><td>—</td></tr><tr><td>Other loans from banks</td><td>Diverse</td><td>9,866</td><td>—</td><td>3.3</td></tr><tr><td>Total borrowing</td><td></td><td>34,961</td><td>57,309</td><td>4.7</td></tr></tbody></table>		Currency	Recognized liability, MSEK	Size of programs, MSEK	Average remaining credit period (years)	Bond loans, Swedish MTN	SEK	9,841	15,000	4.4	Bond loans, European MTN	EUR	9,707	25,847	5.3	Private placement	USD	5,547	—	6.9	Commercial papers	SEK	—	16,462	—	Other loans from banks	Diverse	9,866	—	3.3	Total borrowing		34,961	57,309	4.7				
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Credit risk

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

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

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

Total credit risk – Financial instruments

MSEK	2012	2011
Trade receivables	13,579	14,563
Cash and cash equivalents	13,829	5,592
Unrealized gains on derivatives	1,353	983
Other receivables	694	753
Total	29,455	21,891

Sandvik has entered into agreements with the banks that are most important to the company covering such matters as the right to offset receivables and liabilities that arise from financial derivative transactions, so-called ISDA agreements. This means that the company's counterparty exposure to the financial sector is limited to the unrealized positive results that arise in derivative agreements, and investments and bank balances. At 31 December 2012, the value of these amounted to 15,182 million SEK (6,575).

The Sandvik companies are exposed to the credit risk associated with outstanding trade receivables from ongoing sales. The use of payment terms and risk management are regulated in Sandvik's Group-wide credit policy. Credit risk is diversified over a large number of customers in all business areas and satisfactorily reflects the spread of sales. The credit quality of the trade receivables that have not fallen due for payment is good. Sandvik's customer bad debts amounted to –202 million SEK (–37), which corresponds to about 0.2% of sales. The total gross value of outstanding trade receivables was 14,419 million SEK (15,240) at 31 December. Total impairment of these was –840 million SEK (–677). Age analysis of trade receivables at 31 December is presented in Note 20.

Sandvik offers short and long-term customer financing through its own financing companies and in partnership with financial institutions and banks. Customer financing usually takes place in conjunction with the sale of products from Sandvik Mining and Sandvik Construction, with the aim of supporting and promoting sales and enhancing competitiveness in the market. Customer financing at Sandvik is being strongly developed by expanding the partnership with the Swedish National Export Credits Guarantee Board (EKN) and other financial institutions. At year-end, the value of outstanding credits in financing companies was 698 million SEK (640), of which 14 million SEK was reserved for doubtful receivables.

Sandvik regularly provides buyback guarantees, that is, a promise to repurchase a machine at a price established in advance. At year-end, the outstanding buyback guarantees amounted to 338 million SEK (354).

In addition to the traditional financing of equipment, Sandvik also offers short-lease machinery. At year-end, the net carrying amount of this short-lease machinery was 499 million SEK (427).

Risk	Exposure	Comments																										
Raw materials price exposure <p>Sandvik's financial risks related to raw materials are primarily concentrated to nickel, molybdenum and electricity. The price risk associated with these is partially hedged through the signing of financial contracts. Other risks that raw materials could give rise to are managed as described in the Integrated risk management management section. The price of nickel varied during the year, as shown in the diagram on the right.</p>	Monthly average price of nickel during 2012, USD  <table><caption>Monthly average price of nickel during 2012, USD</caption><thead><tr><th>Month</th><th>Price (USD)</th></tr></thead><tbody><tr><td>Jan</td><td>20,000</td></tr><tr><td>Feb</td><td>20,500</td></tr><tr><td>Mar</td><td>19,000</td></tr><tr><td>Apr</td><td>18,500</td></tr><tr><td>May</td><td>17,500</td></tr><tr><td>Jun</td><td>17,000</td></tr><tr><td>Jul</td><td>16,500</td></tr><tr><td>Aug</td><td>16,000</td></tr><tr><td>Sep</td><td>17,000</td></tr><tr><td>Oct</td><td>17,000</td></tr><tr><td>Nov</td><td>16,500</td></tr><tr><td>Dec</td><td>17,000</td></tr></tbody></table>	Month	Price (USD)	Jan	20,000	Feb	20,500	Mar	19,000	Apr	18,500	May	17,500	Jun	17,000	Jul	16,500	Aug	16,000	Sep	17,000	Oct	17,000	Nov	16,500	Dec	17,000	<p>Net total consumption of nickel amounted to about 12,800 metric tons during the year. When Sandvik Materials Technology obtains a significant customer order with a fixed price for nickel and molybdenum, the price of these materials is hedged by signing financial contracts.</p> <p>The Group pursues an offset hedging strategy aimed at eliminating the metal price risk in connection with transactions conducted at a variable metal price. The measurement of inventory is not affected by off-set hedging.</p> <p>At year-end, the volume of hedged nickel inventory was 3,391 metric tons (3,324). The market value of commodity derivatives entered into was 21 million SEK (47).</p> <p>For Sandvik's large production units in Sweden, the electricity price is continuously hedged through derivatives. Electricity consumption at these units normally totals some 900 GWh. The hedging horizon at year-end was about 31 months' (19) expected consumption. The market value of electricity derivatives was 849 million SEK (567) at year end. The result of these derivative contracts amounted to -124 million SEK (-101). A change in the electricity price of SEK 0.10 per kWh is estimated to impact Sandvik's operating profit and other comprehensive income by plus or minus 90 million SEK on an annual basis, based on the prevailing conditions at year-end 2012.</p> <p>Hedge accounting in accordance with IAS 39 is applied to the majority of the raw materials and electricity derivatives. To see how recognized hedging transactions will impact profit for the year, refer to Note 30.</p>
Month	Price (USD)																											
Jan	20,000																											
Feb	20,500																											
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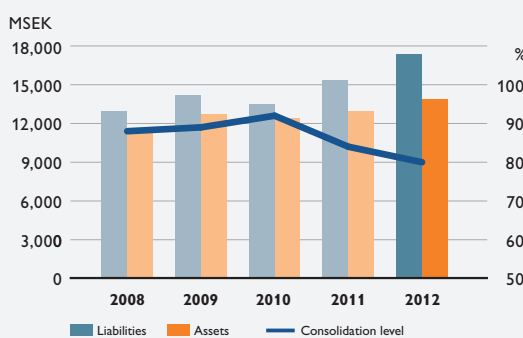
Pension commitments

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

The average interest-rate duration for the Group's interest-bearing assets in the pension portfolio is 5.4 years, and 16.4 years for pension commitments. Since the durations of the assets and liabilities differ, a change in interest rates of 1 percentage point would have a net impact of approximately 1,600 million SEK. A 20% movement in the stock market would change assets by about 960 million SEK.

If longevity assumptions are changed by one year, the pension liability would change by about 4%, which corresponds to 700 million SEK. The risk, measured as Value at Risk (VaR), meaning the highest amount the Group risks losing (with a 95% confidence interval) during one year given the market's current volatility and correlations, is approximately 2,900 million SEK.

Trend of pension liability and managed capital



Year	Liabilities (MSEK)	Assets (MSEK)	Consolidation level (%)
2008	12,500	11,500	92
2009	14,000	12,000	86
2010	13,500	12,500	93
2011	15,000	13,000	87
2012	17,300	13,900	80

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

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

In 2012, managed capital totaled 13,900 million SEK and the corresponding pension commitments amounted to 17,300 million SEK, which is equal to a consolidation level of 80% (84). The return on the Sandvik's Group pension assets was 10.4% (2.5). Unfunded pension plans amounted to 1,800 million SEK.

Corporate Governance Report

Sandvik AB is domiciled in Stockholm 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 49,000 employees. Sandvik AB is a public company listed on NASDAQ OMX Stockholm (the "Stock Exchange").

Corporate governance within Sandvik comprises the Group's control and management systems. The aim is to ensure efficient and value-creating decision-making by clearly specifying the division of roles and responsibilities among shareholders, the Board and Executive Management. Corporate governance 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 Code is available from www.corporategovernanceboard.se. Sandvik applied the Code in 2012 without deviating from any of its regulations.

Ownership structure

At 31 December 2012, Sandvik's share capital amounted to 1,505,263,107.60 SEK represented by 1,254,385,923 shares. Each share carries one vote at meetings of shareholders. According to the owner register, Sandvik had about 111,000 shareholders at 31 December 2012. AB Industrivärden was the largest owner with about 11.4% of the share capital. Of the total share capital at year-end, more than 35% was owned by investors outside Sweden.

General meetings

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

All shareholders who have been entered in the share register and have informed the company of their attendance within

the correct time limit stated in the notice are entitled to participate at Sandvik's General Meetings and vote according to the number of shares held. Shareholders are also entitled to be represented by a proxy at the Meeting. Notice of the General Meeting is published in Post- och Inrikes Tidningar and on the company's website. Confirmation of the publication of the notice is published in Svenska Dagbladet and in a daily newspaper published in Sandviken or Gävle.

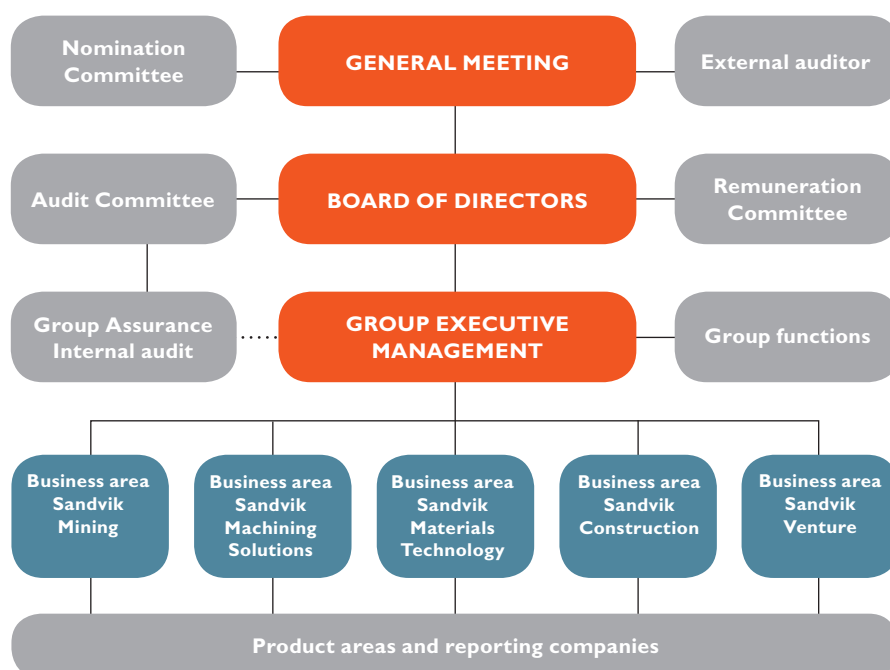
2012 Annual General Meeting

Shareholders representing 55.7% of the share capital and votes attended the Annual General Meeting held on 2 May 2012 in Sandviken. Sven Unger, attorney-at-law, was elected to chair the meeting. The meeting resolved to pay a dividend of 3.25 SEK per share.

Important events

- A new organization, with five instead of three business areas, came into effect from 1 January 2012.
- Five new members joined Group Executive Management.
- A new, extended Group Executive Management team was established.
- Jürgen M Geissinger was elected new Board member at the Annual General Meeting.
- The Group's new headquarters in Stockholm were inaugurated in October 2012.

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 Board, R&D Board and Cross Management Team.

Jürgen M Geissinger was elected new member of the Board, and Olof Faxander, Johan Karlström, Fredrik Lundberg, Hanne de Mora, Anders Nyrén, Simon Thompson and Lars Westerberg were re-elected members of the Board. Anders Nyrén was re-elected Chairman of the Board. The Meeting resolved on a procedure for appointing the Nomination Committee, valid until a General Meeting resolves on a change, and approved the Board's proposal regarding guidelines for remuneration of senior executives. The Meeting also resolved to implement a long-term share-based incentive program for the second consecutive year for about 350 senior executives and key employees in the Group.

Additional information about the Annual General Meeting, including the minutes, is available from www.sandvik.com.

2013 Annual General Meeting

Sandvik's 2013 Annual General Meeting will be held on 25 April in Sandviken. More information is available from www.sandvik.com.

Nomination Committee

The Nomination Committee is a preparatory body that prepares proposals for, among other things, the Board of Directors,

auditors (where necessary) and fees for adoption at the General Meeting. The 2012 Annual General Meeting adopted an instruction for the Nomination Committee, which included a procedure for appointing the Nomination Committee, valid until a General Meeting resolves on a change. In accordance with this instruction, the Nomination Committee should comprise representatives of the four largest shareholders, in terms of the number of votes, on the final business day in August plus the Board Chairman (convener).

Nomination Committee for 2013 AGM

For the Annual General Meeting to be held on 25 April 2013, the Nomination Committee consists of Anders Nyberg, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken's Pension Foundations), Kaj Thorén (Alecta), Marianne Nilsson (Swedbank Robur Funds), and Anders Nyrén (Sandvik's Chairman of the Board). Up to the Annual General Meeting, the Nomination Committee will have met on three occasions. Through Sandvik's Board Chairman, the Nomination Committee received information concerning the Board's own evaluation and the company's operations, stage of development and overall status. The Nomination Committee discussed the general criteria that Board members should fulfill, including the independence requirement, took into account the number of Board assignments that each Board member has in other companies, and addressed the issue of more even gender distribution.

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 is required to continuously monitor the company's and the Group's financial position.

Nomination Committee's tasks ahead of the 2013 Annual General Meeting

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

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

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

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

The ten largest shareholder groups at 31 December 2012, %

AB Industrivärden	11.4
JPM Chase*	4.9
Swedbank Robur Funds	4.7
Handelsbanken's Pension Foundation	3.8
SSB CL Omnibus*	3.6
Alecta Pension Insurance	2.9
L E Lundbergföretagen AB	2.2
Göranssonska Foundations	2.0
AMF - Insurance and Funds	2.0
Nordea Investment Funds	1.9

* Administrates shares held in trust.

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 capital 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 performs as well as its members. The evaluation 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, trade unions are

entitled to representation on the Board and they have appointed two members and two deputies.

In accordance with the Nomination Committee's proposal, Olof Faxander, Johan Karlström, Fredrik Lundberg, Hanne de Mora, Anders Nyrén, Simon Thompson and Lars Westerberg were re-elected at the 2012 Annual General Meeting. Jürgen M Geissinger was elected new Board member. Anders Nyrén was re-elected Board Chairman. The trade unions appointed Tomas Kärnström and Jan Kjellgren as Board members and Alicia Espinosa and Thomas Andersson as deputies. Sandvik's General Counsel Bo Severin served as secretary of the Board, the Remuneration and Audit Committees as well as the Nomination Committee. The Board members are presented in more detail on pages 103–104.

Independence

Anders Nyrén and Fredrik Lundberg are not independent in relation to major shareholders in the company and Olof Faxander is not independent in relation to the company and Group Executive Management.

The other five members elected by the General Meeting are all independent in relation to Sandvik, Group Executive Management, and the company's major shareholders.

Accordingly, the composition of the Board complies with the requirements of the Code that the majority of the members elected by the General Meeting be independent in relation to the company and Group Executive Management and that a minimum of two of those members that are independent in relation to the company and its management are also to be independent in relation to the company's major shareholders.

Board proceedings during 2012

During the year, the Board held twelve meetings. The Board addressed strategic issues. The executive managements of all five business areas presented their goals and strategies. The Board also addressed matters related to personnel, such as remuneration terms, and matters relating to investments, acquisitions, divestments and follow-ups of the new strategy. Furthermore, the Board decided on issues of new shares comprising compensation to the minority shareholders of Seco Tools who accepted the public offer that Sandvik presented in November 2011.

Composition of the Board since 2012 Annual General Meeting

Name	Function	Independent in acc. with the Code	Shareholding, number ³ 31 Dec 2012	Elected	Audit Committee	Remuneration Committee
Thomas Andersson	Deputy*		612	2012		
Alicia Espinosa	Deputy*		7,627	2010		
Olof Faxander	Member	No ²⁾	21,043	2011		
Jürgen M Geissinger	Member	Yes	0	2012		
Johan Karlström	Member	Yes	5,000	2011		Member
Jan Kjellgren	Member*		570	2008		
Tomas Kärnström	Member*		2,889	2006		
Fredrik Lundberg	Member	No ¹⁾	6,040,000 ⁴⁾	2006		
Hanne de Mora	Member	Yes	0	2006	Chairman	
Anders Nyrén	Chairman	No ¹⁾	4,500	2002	Member	Chairman
Simon Thompson	Member	Yes	0	2008	Member	
Lars Westerberg	Member	Yes	12,000	2010		Member

* Employee representatives (both members and deputy members partake in Board meetings). Jan Kjellgren (member) and Alicia Espinosa (deputy) represent Unionen/Ledarna/ Swedish Association of Graduate Engineers.

Tomas Kärnström (member) and Thomas Andersson (deputy) represent IF Metall.

1) Not independent in relation to major shareholders in the company.

2) Not independent in relation to the company and Group Executive Management.

3) Pertains to own and closely related persons' shareholdings.

4) In addition, shareholding in Sandvik via L E Lundbergföretagen AB totals 28,000,000, and shareholding via AB Industrivärden totals 142,617,757.

Remuneration of the Board

As resolved at the 2012 Annual General Meeting, the Chairman's fee is 1,575,000 SEK and the fee to each of the external members elected at the Annual General Meeting is 525,000 SEK.

In addition, 175,000 SEK was paid to the Chairman of the Audit Committee and 150,000 SEK to each of the other Committee members, in total 475,000 SEK. The Chairman of the Remuneration Committee was paid 125,000 SEK and each of the other Committee members 100,000 SEK, or a total of 325,000 SEK. For more detailed information on remuneration of the Board members, see Note 3.5.

Board Committees

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

Remuneration Committee

Since the 2012 Annual General Meeting, the members of the Remuneration Committee have been the Board's Chairman Anders Nyrén (Chairman of the Committee), Johan Karlström and Lars Westberg. According to the instructions for the Remuneration Committee, the Committee is to undertake the tasks prescribed by the Code, which include preparing proposals to the Board of Directors regarding proposed guidelines for remuneration of senior executives and proposed long-term incentive programs for senior executives.

Based on the recommendations of the Remuneration Committee, the Board decides the remuneration of and terms of employment for the President and CEO. The President decides on the remuneration to be paid to the other senior executives following consultation with the Remuneration Committee. For additional information, see Note 3.5.

During 2012, the Remuneration Committee has held six meetings.

Audit Committee

Since the 2012 Annual General Meeting, the members of the Audit Committee have been Hanne de Mora (Chairman of the Committee), Anders Nyrén and Simon Thompson. Areas addressed by the Audit Committee mainly related to:

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

In 2012, the Audit Committee held six meetings at which the company's external auditor and representatives of the company's management were present.

External auditor

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

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

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

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

Attendance at Board and Committee meetings in 2012

Member	Board	Audit Committee	Remuneration Committee
Total number of meetings	12	6	6
Thomas Andersson ¹	7		
Alicia Espinosa	11		
Olof Faxander	12		
Johan Karlström	12		4
Jan Kjellgren	11		
Tomas Kärnström	12		
Fredrik Lundberg	12		
Hanne de Mora	12	6	
Egil Myklebust ²	5		2
Anders Nyrén	12	6	6
Jürgen M Geissinger ³	4		
Simon Thompson	12	6	
Lars Westberg	12		6
Bo Westin ⁴	5		

1) Joined the Board in capacity as union deputy in conjunction with the Annual General Meeting on 2 May 2012.

2) Left the Board in conjunction with the Annual General Meeting on 2 maj 2012.

3) Elected as Board member at the Annual General Meeting on 2 maj 2012.

4) Left the Board in capacity as union deputy in conjunction with the Annual General Meeting on 2 May 2012.

Operational management

The five business areas Sandvik Mining, Sandvik Machining Solutions, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture have comprised Sandvik's operational structure since 1 January 2012. The presidents of the business areas report directly to the President of Sandvik AB and are responsible for the business activities of their respective areas. In turn, the business areas are organized into various product areas or customer segments.

More detailed information relating to the Group's operational organization and business activities is available from www.sandvik.com.

President and Group Executive Management

In 2012, Group Executive Management comprised Olof Faxander, President and CEO; Ola Salmén (until 31 August 2012), CFO; Emil Nilsson (from 1 September 2012), Executive Vice President and CFO; Gary Hughes, President of Sandvik Mining; Andreas Evertz, President of Sandvik Machining Solutions; Jonas

Gustavsson, President of Sandvik Materials Technology; Thomas Schulz (until 3 December 2012), President of Sandvik Construction; Andy Taylor (from 3 December 2012), Acting President of Sandvik Construction; Anders Thelin (until 31 October 2012), President of Sandvik Venture; Tomas Nordahl, Executive Vice President and Head of IT, sourcing and strategy and (from 1 November 2012) President of Sandvik Venture; Bo Severin, Executive Vice President and General Counsel; Anna Vikström Persson, Executive Vice President and Head of Human Resources, and Jan Lissåker (from 7 January 2012), Executive Vice President Group Communications. In addition, the Group Executive Management team was extended to include Ajay Sambrani, Country Manager India; ZZ Zhang, Country Manager China; and Olle Wijk, Senior Vice President and Head of Group R&D. The President, other members of Group Executive Management and the Extended Group Executive Management are presented on pages 105–106.

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 members of Extended Group Executive Management participate at the meetings at which general strategic issues are discussed and additional expertise is required.

The Group has established Group functions responsible for such Group-wide activities as financial reporting, strategy, treasury, IT, communications, internal control, legal affairs, HR, taxes, investor relations, CSR issues, and intellectual rights, 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.

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

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

Remuneration of senior executives

For guidelines, remuneration and other benefits payable to Group Executive Management, refer to pages 28–29 and Note 3.5.

The principal tasks of the Board are to:

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

Internal control and risk management

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

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

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

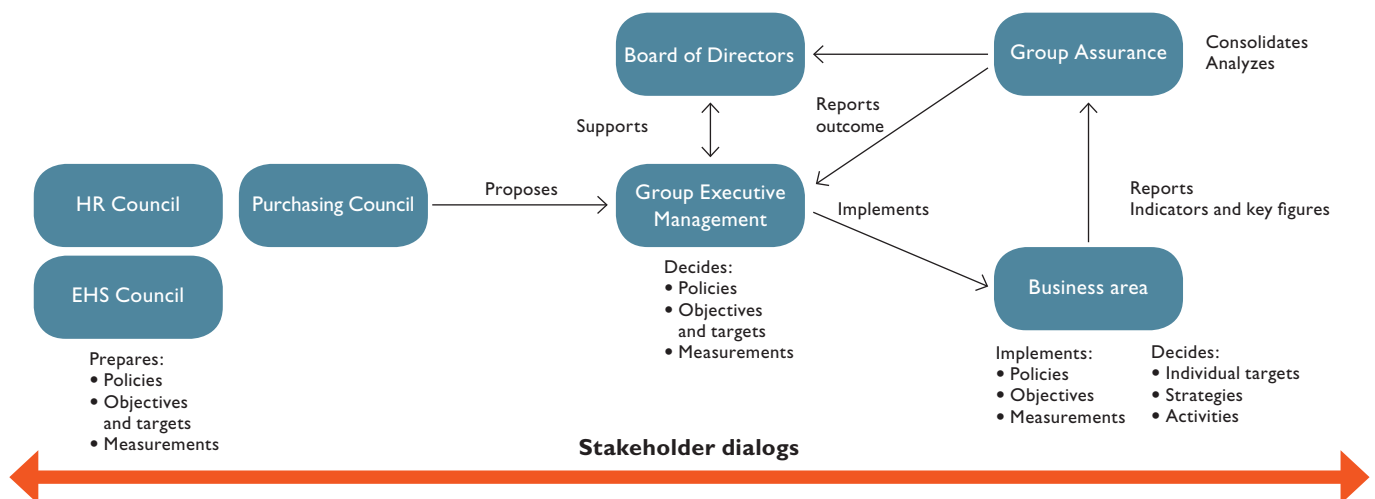
The Group's risk management complies with the ERM model that is integrated with the daily planning, monitoring and control within the framework of strategic and operational management. Effective risk management unites operational business development with demands from shareholders and other stakeholders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

Governance of CSR work

Proceeding from Sandvik's CSR strategy and Code of Conduct, risks and opportunities are analyzed. Objectives and targets are set as part of efforts to minimize risks and leverage the possibilities avail-

able in an efficient and effective manner. Group Executive Management, supported by the Board, establishes Sandvik's Code of Conduct, goals and performance indicators, and each business area assumes responsibility for ensuring compliance with the Code and that the goals are cascaded down and achieved in the organization. In addition, each business area is responsible for the assessment of sustainability risks (environment, health and safety, anti-corruption, human rights) in its operations, and specific organizations are appointed in each business area to coordinate issues and support the local management teams.

Management process for CSR program



A Vice President CSR has been appointed to Group Executive Management and various councils exist at Group level, for example, for HR, purchasing and EHS (Environment, Health and Safety) to coordinate the work among the business areas and to draft Group-wide policies, objectives, targets and indicators for Group Executive Management. The diagram above shows the management process for CSR activities. The various councils have representatives from each business area and the relevant Group staff functions. Indicators and key figures are

reported on a quarterly basis to various Group functions that analyze and report to management, and annually to Group Assurance, which analyzes the results and presents them to the Board and Group Executive Management. Training is another key factor in Sandvik's CSR strategy. A program is in progress to train all company employees in the implications of environmental and social responsibility and anti-corruption. Sandvik has an established risk-management process for evaluating both financial and non-financial risks. The evaluation process does not only encompass

the company's own operations but also risks related to the geographic locations in which it conducts business and the risks associated with its suppliers. The independent Group Assurance function is also responsible for ensuring the adequate functionality of management systems, internal control and risk management as well as compliance with the Code of Conduct. This unit continuously monitors the Group's operations, mainly by way of internal audits, and reports to the Board's Audit Committee and Group Executive Management on a quarterly basis.

Internal control of financial reporting

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

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

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

Control environment

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

In the area of financial reporting, the Sandvik Financial Reporting Policies and Procedures have been implemented. These documents contain detailed instructions regarding accounting policies and finan-

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

Risk assessment and risk management

The ERM work at Sandvik, which is described on pages 31–33, also includes the area of financial reporting. This means that risk management is a natural element of the daily work on and responsibility for financial reporting. Specific activities have been established with the purpose of identifying risks, weaknesses and any changes needed to the financial reporting process to minimize risks. The combination of roles and responsibilities, work descriptions, IT systems, skills and expertise creates an environment that is monitored continuously to identify and manage potential risks.

Control activities

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

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

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

Information and communication

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

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

Steering documents, such as policies and 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. The information is also 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 various aspects thereof.

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

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

Group Assurance

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

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

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

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Consolidated income statement

MSEK	Note	2012	2011
Revenue	1, 2	98,529	94,084
Cost of sales and services		-63,826	-61,704
Gross profit		34,703	32,380
Selling expenses		-11,935	-13,095
Administrative expenses		-6,362	-6,416
Research and development costs	4	-2,572	-2,421
Share of results of associated companies		6	7
Other operating income	5	242	347
Other operating expenses	6	-592	-654
Operating profit	1, 3, 7, 8	13,490	10,148
Financial income		435	265
Financial expenses		-2,409	-2,234
Net financing cost	9	-1,974	-1,969
Profit after financial items		11,516	8,179
Income tax	11	-3,409	-2,318
Profit for the year		8,107	5,861
Other comprehensive income			
Translation differences during the year		-1,584	-270
Fair-value changes in cash-flow hedges		9	-451
Fair-value changes in cash-flow hedges transferred to profit/loss for the year		131	-171
Tax related to fair-value changes in cash-flow hedges	11	-30	164
Other total comprehensive loss for the year, net after tax		-1,474	-728
Total comprehensive income for the year		6,633	5,133
Profit for the year attributable to:			
Equity holders of the Parent		8,105	5,498
Non-controlling interests		2	363
Total comprehensive income for the year attributable to:			
Equity holders of the Parent		6,636	4,773
Non-controlling interests		-3	360
Basic earnings per share, SEK	12	6.51	4.63
Diluted earnings per share, SEK	12	6.51	4.63

Consolidated balance sheet

MSEK	Note	2012	2011
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Patents and other intangible assets	13	2,738	2,773
Goodwill	13	8,685	9,034
Total		11,423	11,807
<i>Property, plant and equipment</i>			
Land and buildings	13	8,338	8,349
Plant and machinery	13	12,687	12,613
Equipment, tools, fixtures and fittings	13	1,770	1,555
Construction in progress and advance payments	13	2,721	3,185
Total		25,516	25,702
<i>Financial assets</i>			
Investments in associated companies	1, 16	356	456
Financial assets	17	80	80
Deferred tax assets	11	2,544	3,070
Non-current receivables	18	3,285	3,229
Total		6,265	6,835
Total non-current assets		43,204	44,344
Current assets			
<i>Inventories</i>	19	25,508	26,077
<i>Current receivables</i>			
Trade receivables	20	13,579	14,563
Due from associated companies		42	141
Income tax receivables	11	931	772
Other receivables	18	5,871	5,310
Prepaid expenses and accrued income		1,088	1,193
Total		21,511	21,979
<i>Cash and cash equivalents</i>		13,829	5,592
<i>Assets held for sale</i>	33	—	747
Total current assets		60,848	54,395
TOTAL ASSETS	1	104,052	98,739

MSEK	Note	2012	2011
EQUITY AND LIABILITIES			
Equity			
Share capital		1,505	1,424
Other paid-in capital		7,678	1,057
Reserves		381	1,849
Retained earnings including profit/loss for the year		26,561	28,160
Equity attributable to equity holders of the Parent		36,125	32,490
Non-controlling interests		107	1,401
Total equity	21	36,232	33,891
Non-current liabilities			
<i>Interest-bearing liabilities</i>			
Provisions for pensions	23	2,242	2,358
Loans from financial institutions		8,681	4,485
Other liabilities	26	23,582	20,282
Total		34,505	27,125
<i>Noninterest-bearing liabilities</i>			
Deferred tax liabilities	11	709	956
Provisions for taxes	11	4,529	3,941
Other provisions	24	1,094	1,381
Other non-current liabilities	27	184	209
Total		6,516	6,487
Total non-current liabilities		41,021	33,612
Current liabilities			
<i>Interest-bearing liabilities</i>			
Loans from financial institutions		1,008	4,095
Other liabilities	26	1,690	1,853
Total		2,698	5,948
<i>Noninterest-bearing liabilities</i>			
Advance payments from customers		2,723	2,751
Accounts payable		6,585	8,133
Due to associated companies		14	63
Income tax liabilities	11	1,252	1,505
Other liabilities	27	5,000	4,322
Provisions	24	1,841	1,720
Accrued expenses and deferred income		6,686	6,686
Total		24,101	25,180
<i>Liabilities directly attributed to assets held for sale</i>	33	—	108
Total current liabilities		26,799	31,236
TOTAL LIABILITIES	1	67,820	64,848
TOTAL EQUITY AND LIABILITIES		104,052	98,739

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

Consolidated changes in equity

	Equity attributable to equity holders of the Parent Company						
MSEK	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit/ loss for the year	Total	Non-controlling interests	Total equity
Equity at 1 January 2011	1,424	1,057	2,574	27,525	32,580	1,233	33,813
Profit for the year	—	—	—	5,498	5,498	363	5,861
Other comprehensive income/loss	—	—	-725	—	-725	-3	-728
Total comprehensive income/loss for the year	—	—	-725	5,498	4,773	360	5,133
Acquisition of non-controlling interests, controlling interest previously held	—	—	—	-18	-18	-5	-23
Acquisition of non-controlling interests, controlling interest not previously held	—	—	—	—	—	61	61
Share-based payment regulated by equity instruments	—	—	—	67	67	—	67
Hedging of options program through equity swaps	—	—	—	-1,353	-1,353	—	-1,353
Dividends	—	—	—	-3,559	-3,559	-248	-3,807
Equity at 31 December 2011	1,424	1,057	1,849	28,160	32,490	1,401	33,891
Equity at 1 January 2012	1,424	1,057	1,849	28,160	32,490	1,401	33,891
Profit for the year	—	—	—	8,105	8,105	2	8,107
Other comprehensive income/loss	—	—	-1,468	—	-1,468	-6	-1,474
Total comprehensive income/loss for the year	—	—	-1,468	8,105	6,637	-4	6,633
Non-cash issue	81	6,621	—	—	6,702	—	6,702
Acquisition of non-controlling interests, controlling interest previously held	—	—	—	-5,552	-5,552	-1,285	-6,837
Share-based payment regulated by equity instruments	—	—	—	86	86	—	86
Payment of options on treasury shares, hedging of options program 2012	—	—	—	-199	-199	—	-199
Dividends, hedged options program 2011	—	—	—	38	38	—	38
Dividend	—	—	—	-4,077	-4,077	-5	-4,082
Equity at 31 December 2012	1,505	7,678	381	26,561	36,125	107	36,232

Consolidated cash-flow statement

MSEK	2012	2011
Cash flow from operating activities		
Income after financial income and expenses	11,516	8,179
Adjustment for depreciation, amortization and impairment losses	4,322	5,823
Adjustment for non-cash items, etc.	251	1,359
Income tax paid	-3,056	-2,587
Cash flow from operating activities before changes in working capital	13,033	12,774
Changes in working capital		
Change in inventories	-382	-4,699
Change in operating receivables	18	-2,598
Change in operating liabilities	-228	2,567
Cash flow from changes in working capital	-592	-4,730
Investments in rental equipment	-663	-440
Divestments of rental equipment	114	160
Cash flow from operating activities	11,892	7,764
Cash flow from investing activities		
Acquisition of companies and shares, net of cash acquired	-39	-338
Acquisition of property, plant and equipment	-4,820	-4,994
Proceeds from sale of companies and shares, net of cash disposed of	692	0
Proceeds from sale of property, plant and equipment	236	152
Net cash used in investing activities	-3,931	-5,180
Net cash flow after investing activities	7,961	2,584
Cash flow from financing activities		
Proceeds from borrowings	10,472	3,576
Repayment of borrowings	-5,848	-1,423
Acquisition of non-controlling interests	-53	-23
Dividends paid	-4,082	-3,807
Cash flow from financing activities	489	-1,677
Cash flow for the year	8,450	907
Cash and cash equivalents at beginning of year	5,592	4,783
Foreign exchange differences on cash and cash equivalents	-213	-98
Cash and cash equivalents at end of year	13,829	5,592

Supplementary information, Note 32.

Parent Company financial statements

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Parent Company income statement

MSEK	Note	2012	2011
Revenue	2	16,990	17,460
Cost of sales and services		-13,007	-15,207
Gross profit		3,983	2,253
Selling expenses		-633	-748
Administrative expenses		-2,821	-3,725
Research and development costs	4	-1,281	-1,150
Other operating income	5	971	1,415
Other operating expenses	6	-702	-799
Operating profit/loss	3, 8	-483	-2,754
Income from shares in Group companies	9	11,769	2,815
Income from shares in associated companies	9	0	10
Interest income and similar items	9	782	611
Interest expenses and similar items	9	-2,039	-1,679
Profit/loss after financial items		10,029	-997
Appropriations	10	6	-8
Income tax	11	-325	625
Profit/loss for the year		9,710	-380

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

Parent Company balance sheet

MSEK	Note	2012	2011
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Patents and other intangible assets	14	9	17
Total		9	17
<i>Property, plant and equipment</i>			
Land and buildings	14	768	750
Plant and machinery	14	4,684	4,110
Equipment, tools, fixtures and fittings	14	533	353
Construction in progress and advance payments	14	1,322	1,779
Total		7,307	6,992
<i>Financial assets</i>			
Shares in Group companies	15	31,834	15,937
Due from Group companies		5,325	1,336
Investments in associated companies	16	4	66
Other investments		1	1
Non-current receivables	18	172	27
Deferred tax assets	11	804	1,135
Total		38,140	18,502
Total non-current assets		45,456	25,511
Current assets			
<i>Inventories</i>	19	3,809	4,023
<i>Current receivables</i>			
Trade receivables		781	631
Due from Group companies		14,511	13,122
Due from associated companies		41	129
Income tax receivables	11	189	239
Other receivables	18	480	368
Prepaid expenses and accrued income		1,070	1,210
Total		17,072	15,699
<i>Cash and cash equivalents</i>		25	8
Total current assets		20,906	19,730
TOTAL ASSETS		66,362	45,241

MSEK	Note	2012	2011
EQUITY AND LIABILITIES			
Equity			
<i>Non-distributable equity</i>			
Share capital		1,505	1,424
Statutory reserve		1,611	1,611
Total		3,116	3,035
<i>Distributable equity</i>			
Share premium reserve		6,621	—
Profit brought forward		5,329	9,861
Profit/loss for the year		9,710	–380
Total		21,660	9,481
Total equity	21	24,776	12,516
<i>Untaxed reserves</i>			
Other untaxed reserves	22	3	10
Total		3	10
<i>Provisions</i>			
Provisions for pensions	23	324	368
Other provisions	24	234	329
Total		558	697
<i>Non-current interest-bearing liabilities</i>			
Loans from Financial institutions	25	3,852	1,816
Loans from Group companies	25	361	301
Other liabilities	25	17,833	13,955
Total		22,046	16,072
<i>Non-current noninterest-bearing liabilities</i>			
Other liabilities		63	33
Total		63	33
<i>Current interest-bearing liabilities</i>			
Loans from Financial institutions		—	1,910
Loans from Group companies		11,191	5,727
Other liabilities		1,667	1,395
Total		12,858	9,032
<i>Current noninterest-bearing liabilities</i>			
Advance payments from customers		779	577
Accounts payable		1,582	2,032
Due to Group companies		353	702
Due to associated companies		0	1
Other liabilities		589	453
Accrued expenses and deferred income	28	2,755	3,116
Total		6,058	6,881
TOTAL EQUITY AND LIABILITIES		66,362	45,241
Pledged assets	29	—	—
Contingent liabilities	29	15,265	12,006

Parent Company statement of changes in equity

MSEK	Share capital	Statutory reserve	Distributable equity ¹	Total equity
Equity at 1 January 2011	1,424	1,611	14,705	17,740
Profit/loss for the year	—	—	–380	–380
Dividend	—	—	–3,559	–3,559
Share-based payment regulated by equity instruments	—	—	67	67
Hedging of options program through equity swaps	—	—	–1,352	–1,352
Equity at 31 December 2011	1,424	1,611	9,481	12,516
Profit for the year	—	—	9,710	9,710
Dividend	—	—	–4,077	–4,077
Share-based payment regulated by equity instruments	—	—	86	86
Payment of options on treasury shares, hedging of options program 2012	—	—	–199	–199
Dividends, hedged options program 2011	—	—	38	38
Non-cash issues (remuneration received in the form of shares in Seco Tools AB), including share premium reserve	81	—	6,621	6,702
Equity at 31 December 2012	1,505	1,611	21,660	24,776

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

¹ Share premium reserve included in the amount of 6,621 million SEK as of 2012.

Parent Company cash-flow statement

MSEK	2012	2011
Cash flow from operating activities		
Profit/loss before tax	10,036	-1,004
Adjustment for depreciation, amortization and impairment losses	966	1,164
Adjustment for non-cash items, etc.	-673	700
Income tax paid	0	-29
Cash flow from operating activities before changes in working capital	10,329	831
Changes in working capital		
Changes in inventories	214	-348
Changes in operating receivables	-4,362	-604
Changes in operating liabilities	-706	1,098
Cash flow from operating activities	5,475	977
Cash flow from investing activities		
Acquisition of companies and shares, net of cash acquired	-9,227	-887
Acquisition of property, plant and equipment	-1,338	-1,421
Proceeds from sale of companies and shares, net of cash disposed of	58	2
Proceeds from sale of property, plant and equipment	36	6
Change in non-current receivables	-144	—
Net cash used in investing activities	-10,615	-2,300
Net cash flow after investing activities	-5,140	-1,323
Cash flow from financing activities		
Changes in advances/loans to/from Group companies, net	4,703	3,609
Proceeds from external borrowings	7,291	1,651
Repayment of external borrowings	-2,760	-382
Dividend paid	-4,077	-3,559
Net cash used in financing activities	5,157	1,319
Cash flow for the year	17	-4
Cash and cash equivalents at beginning of year	8	12
Cash and cash equivalents at end of year	25	8

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) as endorsed by the EU. In addition, the recommendation RFR 1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied.

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

The financial statements are presented on pages 14–101 in the printed Annual Report. The Parent Company's annual report and the consolidated financial statements were approved for issuance by the Board of Directors on 18 February 2013. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on 25 April 2013.

Basis of measurement when preparing the Parent Company and consolidated 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 million SEK unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires management to make assessments, estimates and assumptions that affect the application of accounting policies and recognized amounts of assets and liabilities, income and expenses. Actual results may differ from these assessments. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which

the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

Changes in accounting policies

No changes to accounting policies with application as of 1 January 2012 took place.

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

A number of new or revised standards and interpretations will not become effective until future financial years and were not applied in advance in the preparation of these financial statements. New items or revisions that become effective in the years ahead are not planned to be applied in advance. Unless otherwise stated below, the amendments will take effect on fiscal years beginning on 1 January 2013 and be applied retrospectively.

IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement not later than 2015. The company has not yet per-

formed any evaluation of the effects of such a change.

Revised IAS 19 Employee Benefits. The amendment entails discontinuation of the corridor method. Actuarial gains and losses are to be recognized in other comprehensive income. The return calculated on plan assets is to be based on the discount rate used for calculating the pension obligation. The difference between the actual and estimated return on plan assets is to be recognized in other comprehensive income.

These changes to IAS 19 are expected to have a material impact on the consolidated financial statements. For 2012, the changes would have increased the net pension liability by approximately 5.0 billion SEK and reduced equity by about 3.7 billion SEK (after deductions for deferred tax assets).

Amendments to accounting policies that are not deemed to have any material impact on the Group's financial statements are described below:

Revised IAS 1 Presentation of Financial Statements (presentation of other comprehensive income). This change refers to how items in other comprehensive income are to be presented. The items are to be divided into two categories: items that will be reclassified to profit for the year and items that will not be reclassified. Examples of items to be reclassified are translation differences and gains/losses on cash-flow hedges. Examples of items not to be reclassified are actuarial gains and losses, and remeasurements according to the revaluation model for intangible assets and property, plant and equipment.

Revised IAS 32 Financial Instruments: Presentation. The amendment provides clarification of the rules for when offsetting of financial assets and financial liabilities is permitted. The amendment will be applied retroactively from fiscal years beginning 1 January 2014.

Revised IFRS 7 Financial Instruments: Disclosures. The amendment relates to new disclosure requirements for offsetting of financial assets and financial liabilities.

IFRS 10 Consolidated Financial Statements. A new standard for consolidated accounts that replaces IAS 27 and SIC 12. Compared with the currently applicable IAS 27, the standard contains no amendments in respect of rules for consolidation of acquisitions and disposals. IFRS 10 con-

tains a model to be used when assessing whether or not a controlling influence exists for all investments a company has included in what is currently referred to as an SPE and is regulated in SIC 12. The standard will be applied retroactively as of the fiscal year beginning 1 January 2014. Special transition rules exist.

IFRS 11 Joint Arrangements. A new standard for recognizing joint ventures and joint operations. The new standard will mainly entail two changes compared with IAS 31 Interests in Joint Ventures. The first of these relates to whether an investment is considered to be a joint operation or a joint venture. Depending on the type of investment in question, different accounting rules apply. The second change requires joint ventures to be recognized in accordance with the equity method and that the proportional method will not be permitted. The standard will be applied as of the fiscal year beginning 1 January 2014. It will be applied retroactively using special transitional rules.

IFRS 12 Disclosure of Interests in Other Entities. A new standard for disclosing investments in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard will be applied retroactively as of the fiscal year beginning 1 January 2014.

Revised IAS 27 Consolidated and Separate Financial Statements. The revised standard includes only regulations for legal entities. There are primarily no changes regarding recognition and disclosures for separate financial statements. Recognition and disclosures of associates and joint ventures have been included in IAS 27. The amendments will be applied retroactively to fiscal years beginning 1 January 2014 or later.

Revised IAS 28 Investments in Associates. The revised standard is largely the same as the previous IAS 28. The amendments pertain to the recognition of changes in holdings and the loss of significant influence or joint control. The amendment will be applied retroactively to fiscal years beginning 1 January 2014 or later.

IFRS 13 Fair Value Measurement. A new uniform standard for measuring fair value, as well as improved disclosure requirements.

Annual Improvements to IFRSs (2009–2011) – Clarification and amendments relating to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. The amendment is expected to be endorsed by the EU in the first quarter of 2013.

UFR 9 Recognition of Tax on Returns. In September 2012, the Swedish Financial Reporting Board issued a statement on the recognition of tax on returns. It contends that tax on returns that is deducted from provisions must be recognized on an ongoing basis as an expense in profit or loss. The statement will be applied at the same date as the application of amended IAS 19 Employee Benefits.

Classification

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

Reporting of operating segments

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

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

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

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

Basis of consolidation

Subsidiaries

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

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

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

Acquisitions on 1 January 2010 or later

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

For business combinations in which the consideration transferred, any non-controlling interests and the fair value of previously held equity interests (for step acquisitions) exceeds the fair value of separately recognized acquired assets and assumed liabilities, the difference is recognized as

goodwill. When the difference is negative, known as a bargain purchase, it is directly recognized in profit or loss for the year.

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

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

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

For business combinations achieved in stages (step acquisitions), goodwill is determined on the date on which the controlling interest arises. Former interests are measured at fair value and the change in value recognized in profit or loss for the year. In conjunction with divestments resulting in the loss of a non-controlling interest but where a residual interest exists, this holding is measured at fair value and the change in value recognized in profit or loss for the year.

Acquisitions made between 1 January 2004 and 31 December 2009

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

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

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

For acquisitions made prior to 1 January 2004, impaired goodwill is recognized at

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

Acquisitions of non-controlling interests

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

Sales to non-controlling interests

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

Associated companies

Associated companies are those entities over which the Group commands a significant influence, but not control, over the financial and operating policies, normally a shareholding of not less than 20% and not more than 50%. Interests in associated companies are, as from the date significant influence commences, recognized in accordance with the equity method in the consolidated financial statements. Under the equity method, the carrying amounts of interests in associated companies correspond to the recognized equity of associated companies, any goodwill and any other remaining fair value adjustments recognized at acquisition date. 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 recog-

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

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

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

Transactions eliminated on consolidation

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

Foreign currency

Foreign currency transactions

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

currency are translated using the exchange rate prevailing at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are retranslated to the functional currency at the exchange rate prevailing at the date that the fair value was determined.

Financial statements of foreign operations

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

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

Net investments in foreign operations

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

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

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

Other revenue

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

Government grants

Government grants are recognized as deferred income in the balance sheet when

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

Operating expenses and financial income and expenses

Operating lease agreements

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

Finance lease agreements

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

Financial income and expenses

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

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

Financial expenses comprise interest expense on borrowings, interest income and expenses on interest swaps that are recognized net as an interest expense, 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 profit

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 fair value plus any transaction costs. The Group classifies its financial instruments based on the purpose for its acquisition. Management decides its classification on initial recognition. The classification of a financial asset determines how it is measured after initial recognition, as described below.

Cash and cash equivalents comprise cash balances and 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 to which hedge accounting is not applied. Derivative agreements are entered mainly to hedge the Group's foreign exchange and interest-rate risks. Derivatives with positive fair values are recognized as other current or non-current receivables (unrealized profits), while derivatives with negative fair values are recognized as other current or non-current liabilities (unrealized losses).

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

b) Loans and trade receivables

Non-current receivables and among noncurrent 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 customer or loan 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 for the year over the term of the loan using the effective interest method. Borrowings are classified as current unless the company has an unconditional right to postpone payment for at least 12 months after the balance sheet date.

d) Financial assets available for sale

Investments in shares and participations reflect holdings that are not traded on an active market and are classified as financial

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

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

Derivatives and hedge accounting

All of the Group's derivative agreements have been entered into 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 excluding any transaction costs. 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 financial hedging transactions. When hedge accounting is not applied, the different handling of derivatives, which are measured at market value, and liabilities, measured at amortized cost, result in volatility in the financial net in the terms of accounting.

Receivables and liabilities denominated in foreign currencies

Sandvik uses foreign exchange contracts to hedge the foreign exchange risk inherent in its assets and liabilities. Hedge accounting is not applied when hedging the foreign exchange risk in recognized assets and

liabilities in foreign currencies since the financial hedge is reflected in the accounts insofar as both the underlying receivable or liability and the hedging instrument are recognized at the exchange rate ruling on the balance sheet date and exchange-rate fluctuations are recognized in profit or loss for the year.

Cash-flow hedges

Hedge accounting is applied when hedging future cash flows and forecast transactions denominated in foreign currencies, including intra-Group transactions. Hedging instruments in the form of foreign exchange contracts and foreign currency options 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 nonfinancial 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 uncertainty 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 expense in profit or loss for the year. The remaining change in fair value is recognized in other comprehensive income and accumulated 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 derivatives 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 asset/liability and the change for the period 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 in foreign currencies. 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 that are used to hedge net investments in foreign operations.

Intangible assets

Goodwill

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

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

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

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

Research and development

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

Other intangible assets

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

Subsequent expenditure

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

Borrowing costs

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

Amortization of intangible assets

Amortization is charged to profit or loss for the year on a straight-line basis over the

estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment annually or as soon as there is an indication that the asset may be impaired. Intangible assets with a finite useful life are amortized as from the date the asset is available for use.

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

Property, plant and equipment

Owned assets

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

Leased assets

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

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

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

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

Subsequent expenditure

Subsequent expenditure is added to the cost if the expenditure pertains to the replacement of identified components or parts of such components. The expenditure is also added to the cost when a new component is created. Any non-depreciated carrying amounts for replaced components, or parts

of components, are eliminated and expensed in conjunction with the replacement. Repairs are expensed continuously.

Borrowing costs

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

Depreciation of tangible assets

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

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

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

Impairment and reversals of impairment

Assets with an indefinite useful life are not amortized but tested for impairment annually. Assets that are amortized or depreciated are tested for impairment whenever events or changed circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which 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 post-employment, benefit fund and deferred tax assets, is tested in accordance with the respective standard.

Inventories

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

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

Assets held for sale

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

Equity

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

Earnings per share

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

Employee benefits

The Group's pension plans

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

Defined-contribution plans

A defined-contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The size of the pension that the employee will ultimately receive in such case depends on the size of the contributions that the entity pays to the plan or an insurance company and the return that the contributions yield. Obligations for contributions to defined-contribution pension plans are recognized as an employee benefit expense in profit or loss for the year as the employee renders services to the entity 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, mortgage bonds – or if there is no deep market for such bonds, government bonds – that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by a qualified actuary. In addition, the fair value of any plan assets is assessed on the balance sheet date. Sandvik applies such an accounting policy to the Group's most significant defined-benefit plans. A number of plans, which neither individually nor in the aggregate are significant in relation to the Group's total pension obligations, are still recognized in accordance with local regulations.

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

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

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

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

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

Termination benefits

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

Share-based payments

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

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

In order to meet its commitments under the option program, Sandvik has entered into an equity swap agreement with a

financial institution. Under the agreement, the financial institution undertakes to distribute Sandvik shares to participants in the program when the date for allotment occurs in accordance with the terms and conditions of the program. The fair value of the Sandvik share when the swap agreement was signed is recognized as a financial liability and as a reduction of equity in accordance with IAS 32.

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

Provisions

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

Warranties

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

Restructuring

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

Site restoration

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

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group are lower than the

unavoidable cost of meeting its obligations under the contract.

Contingent liabilities

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

Cash-flow statement

Payments and receipts have been divided into the following categories: operating activities, investing activities, and financing activities. Cash flows from operating activities are recognized using the indirect method. Changes during the year in operating assets and liabilities are adjusted for the effects of exchange rate movements. Acquisitions and divestments are recognized within investing activities. The assets and liabilities held by acquired or divested entities at the transfer date are not included in the analysis of changes in working capital, nor in changes in balance sheet items recognized within investing and financing activities.

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

Parent Company's accounting policies

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

The standard specifies what exceptions from or additions to the IFRS shall be made.

Changed accounting policies

Unless otherwise stated below, the Parent Company's accounting policies in 2012 changed in accordance with the amendments described above for the Group's accounting policies.

Classification and presentation

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

Shares in Group companies and associated companies

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

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

Property, plant and equipment

The Parent Company recognizes items of property, plant and equipment at cost less accumulated depreciation and any impairment losses in the same manner as in the consolidated financial statements, but with additions for any revaluation.

Leased assets

The Parent Company recognizes all lease contracts as operating leases.

Intangible assets

The Parent Company recognizes all expenditure for research and development

conducted on a proprietary basis as an expense in profit or loss.

Borrowing costs

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

Employee benefits

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

Income tax

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

Group contributions and shareholders' contributions in legal entity accounts

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

Anticipated dividends

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

Financial instruments

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

Financial guarantees

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

Critical accounting estimates and judgments

Key sources of estimation uncertainty

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

Impairment tests of goodwill

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

Impairment tests of other fixed assets

Sandvik's property, plant and equipment and intangible assets – excluding goodwill – are stated at cost less accumulated depreciation/amortization and any impairment

losses. Other than goodwill, Sandvik has not identified any intangible assets with indefinite useful lives. The assets are depreciated/amortized over their estimated useful lives to their estimated residual values. Both the estimated useful life and the residual value are reviewed at least at each financial year-end.

The carrying amount of the Group's noncurrent 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 Sandvik 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 2012 was 499 million SEK (427).

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

Pension assumptions

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

The discount rate is used to measure the present value of future cash flows at the measurement date. This rate shall be determined by reference to market yields at the

balance sheet date on high-quality corporate or mortgage bonds or, if there is no deep market for such bonds, the market yields on government bonds. A lower discount rate increases the present value of the pension obligation and the annual pension cost.

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

Compared with the preceding year, the average discount rate changed from 4.6% to 3.9%. The expected weighted average return on plan assets in 2012 was 4.1% (6.1).

Income tax

Significant estimates are made to determine both current and deferred tax liabilities/assets, not least the value of deferred tax assets. The company must then determine the possibility that deferred tax assets will be utilized and offset against future taxable profits. The actual results may differ from these estimates, for instance due to changes in the business climate, changed tax legislation, or the outcome of the final review by tax authorities and tax courts of tax returns. At year-end 2012, Sandvik recognized deferred tax assets of 2,544 million SEK (3,070). Furthermore, the Group had additional tax loss carryforwards of about 498 million SEK (588) at year-end for which no deferred tax assets are recognized since utilization of these losses is not deemed probable. A change in the estimate of the possibility for utilization thus can affect results both positively and negatively. The expenditure recognized as a provision for ongoing tax litigations based on management's best estimate of the outcome, and amounted to 4,529 million SEK (3,941) at the end of 2012.

Disputes

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

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

Key assessments in applying the Group's accounting policies

The company refers to its description above of the accounting policies that the company has chosen to apply. Management would like to draw attention to the following items in particular:

Accounting for actuarial gains and losses

IAS 19 entails – for the last time in conjunction with the 2012 accounts – that 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. Any systematic method that results in faster recognition of actuarial gains and losses is also possible, including immediate recognition in profit or loss. Sandvik has chosen to apply the corridor approach and to recognize gains or losses outside the corridor over the expected average remaining working lives of the employees participating in the plan.

Definitions

Earnings per share

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

Equity ratio

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

Net debt/equity ratio

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

Rate of capital turnover

Invoiced sales divided by average total capital.

Relative working capital

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

Return on capital employed

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

Return on shareholders' equity

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

Return on total capital

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

Working capital

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

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CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS

(Amounts in tables in MSEK, unless otherwise stated)

NOTE 1. SEGMENT INFORMATION

1.1 Information on business segments/business areas

	Sandvik Mining		Sandvik Machining Solutions		Sandvik Materials Technology		Sandvik Construction		Sandvik Venture		Corporate		Eliminations		Group total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Revenue																
External revenue	37,762	32,232	28,482	28,171	15,366	16,339	9,683	9,249	7,194	8,056	42	37			98,529	94,084
Internal revenue	2	3	166	136	410	391	113	1	669	1,039	17	17	-1,377	-795		
Group total	37,764	32,235	28,648	28,307	15,776	16,730	9,796	9,350	7,863	9,095	59	54	-1,377	-795	98,529	94,084
Share of results of associated companies	6	5	26	24	-26	-22	—	—	—	—	—	—			6	7
Operating profit/loss by business area	6,004	5,189	6,256	6,347	592	-642	748	58	1,238	-21	-1,348	-783			13,490	10,148
Net financing cost															-1,974	-1,969
Income tax expense for the year															-3,409	-2,318
Profit/loss for the year															8,107	5,861
Other disclosures																
Assets	25,134	23,404	22,644	23,614	16,859	17,970	8,166	9,050	8,677	8,941	4,165	2,668			85,645	85,647
Investments in associates	46	45	150	160	155	251	—	—	—	—	5	—			356	456
Total assets	25,180	23,449	22,794	23,774	17,014	18,221	8,166	9,050	8,677	8,941	4,170	2,668			86,001	86,103
Unallocated assets															18,051	12,636
Group total															104,052	98,739
Liabilities	9,698	8,952	4,669	5,447	4,162	4,534	2,503	3,129	1,672	1,880	4,680	3,182			27,384	27,124
Unallocated liabilities															40,436	37,724
Group total															67,820	64,848
Capital expenditure	854	848	1,834	1,597	1,188	1,604	275	315	264	419	132	151			4,547	4,934
Depreciation/Amortization	-660	-578	-1,592	-1,531	-817	-798	-420	-417	-358	-438	-123	-106			-3,970	-3,868
Impairment losses	-18	-43	-8	-48	-317	-534	-11	-164	-8	-1,167	10	—			-352	-1,955
Other non-cash expenses	19	155	-104	66	-48	832	-37	202	-5	-6	426	104			251	1,359

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	2012	2011
USA	12,296	11,066
Australia	10,337	8,606
China	7,144	6,561
Germany	6,933	7,678
South Africa	5,250	4,806
Brazil	4,315	4,571
Sweden	3,820	4,233
Russia	3,660	2,990
Canada	3,304	2,745
Italy	3,097	3,355
France	2,762	3,008
UK	2,504	2,567
Japan	2,286	2,277
Mexico	2,283	1,786
India	2,098	2,220
Other countries	26,440	25,615
Total	98,529	94,084

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

Fixed assets by country

Group	2012	2011
Sweden	13,336	12,682
USA	3,654	4,317
Germany	3,259	3,216
Austria	2,283	2,416
UK	2,110	1,917
China	1,857	1,948
Australia	1,698	1,768
Finland	1,450	1,501
India	917	892
France	851	885
Czech Republic	762	777
Japan	727	870
Brazil	670	786
Italy	448	464
Canada	430	511
Other countries	2,487	2,559
Total	36,939	37,509

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

NOTE 2. CATEGORIES OF REVENUE

	Group		Parent Company	
	2012	2011	2012	2011
Sale of goods	90,685	87,000	16,984	17,427
Contract revenue	4,709	3,342	—	3
Rendering of services	2,536	3,231	6	26
Rental income	599	511	—	4
Total	98,529	94,084	16,990	17,460

NOTE 3. PERSONNEL INFORMATION AND REMUNERATION OF MANAGEMENT AND AUDITORS**3.1 Average number of employees**

	Group				Parent Company			
	2012		2011		2012		2011	
	Number	Women %	Number	Women %	Number	Women %	Number	Women %
Sweden	11,251	24	11,293	23	8,251	22	8,227	22
Rest of Europe	15,695	19	15,433	19	—	—	—	—
Total Europe	26,946	21	26,726	21	8,251	22	8,227	22
NAFTA	5,551	17	5,741	17	—	—	—	—
South America	3,259	13	3,169	12	2	50	—	—
Africa, Middle East	3,107	20	3,046	18	—	—	—	—
Asia	8,227	16	7,529	16	—	—	—	—
Australia	2,295	15	2,336	15	—	—	—	—
Total	49,385	19	48,547	18	8,253	22	8,227	22

3.2 Wages, salaries, other remuneration and social costs

	Group		Parent Company	
	2012	2011	2012	2011
Wages, salaries and other remuneration	19,346	18,860	3,819	3,896
Social costs	5,311	4,938	1,789	2,142
Employee profit sharing	250	216	212	183
Total	24,907	24,014	5,820	6,221
Of which, pension costs recognized in social costs	1,739	1,747	569	938

A total of 49 million SEK (57) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to 205 million SEK (184). Correspondingly, 8 million SEK (8) of the Parent Company's pension costs related to the Boards and presidents. The Parent Company's pension liability relating to these persons amounted to 59 million SEK (60).

Employee profit-sharing program

To promote a performance that is favorable to the Group's long-term development and also to stimulate continued employee loyalty, Sandvik has had a profit-sharing system for all employees in wholly owned companies in Sweden since 1986. The Group's return during 2012 implied an allocation of 250 million SEK (216) to the profit-sharing foundation.

3.3 Wages, salaries and other remuneration by market area

	Group		Parent Company	
	2012	2011	2012	2011
Sweden	5,131	5,210	3,819	3,896
Rest of Europe	6,600	6,426	—	—
Total Europe	11,731	11,636	3,819	3,896
NAFTA	2,547	2,671	—	—
South America	1,067	1,001	0	0
Africa, Middle East	852	824	—	—
Asia	1,423	1,253	—	—
Australia	1,726	1,475	—	—
Total	19,346	18,860	3,819	3,896
<i>Of which, to Boards of Directors and presidents</i>				
Salaries and other remuneration	496	447	44	43
of which, variable salary	77	66	10	3

3.4 Gender distribution in senior management

	Group		Parent Company	
	2012	2011	2012	2011
Proportion of women, %				
Gender distribution in senior management	11	11	9	9
Other senior executives	18	18	11	11

3.5 Remuneration of the Board of Directors and senior executives**The Board**

Fees to the Chairman and other non-executive directors are paid in accordance with the resolution at the Annual General Meeting. No Board fees are paid to the President and the employee representatives.

In accordance with the resolution of the 2012 Annual General Meeting, the total fee to the non-executive directors elected at the Meeting amounts to 4,725,000 SEK on an annual basis. Of this amount, 1,575,000 SEK is payable to the Chairman of the Board (Anders Nyrén) and 525,000 SEK to each of the other non-executive directors (Jürgen M Geissinger, Johan Karlström, Fredrik Lundberg, Hanne de Mora, Simon Thompson and Lars Westerberg).

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

President and other senior executives**Principles of remuneration**

The following guidelines approved by the Annual General Meeting for remuneration of senior executives have been applied since the Annual General Meeting in 2012:

The Board's motion for approval of principles of remuneration for senior executives is designed to ensure that the Sandvik Group, from a global perspective, can offer market-based and competitive remuneration that will attract and retain qualified members of Group Executive Management. Group Executive Management's remuneration comprises fixed salary, annual variable salary and long-term variable salary in the form of salary and/or shares in Sandvik AB. The components are intended to create a well-balanced remuneration and benefit program that reflects the individual's performance and responsibility as well as the Group's earnings trend. The fixed salary, which is individual and differentiated based on the individual's responsibility and performance, is determined taking into account market conditions and is reviewed annually. Payment of annual variable salary requires fulfillment of annually established goals. The goals are mainly related to the company's earnings and to measurable goals within the individual's area of responsibility. The annual variable salary may not exceed 75% of annual fixed salary. The long-term variable cash-based 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

cont. NOTE 3.5

and capital efficiency – Sandvik Value Added (SVA) – over a three-year period. The maximum payment of long-term variable cash-based salary is 50% of the annual fixed salary. Long-term variable remuneration may also be provided in the form of shares in Sandvik AB by participating in a share-based incentive program that includes the right to be allotted employee stock options and matching rights. The program, which has to have been adopted by the Annual General Meeting, is to contain the principal conditions that certain categories of top-level senior executives are required to have invested personally in the Sandvik share, that the vesting period is three years subject to the requirement that the individual remain an employee for this entire period and that the allotment of shares be related to performance criteria linked to SVA. Group Executive Management's other benefits are to correspond to what could be considered reasonable in relation to generally accepted practice in the market. The benefits comprise pension, company car, housing, medical insurance and severance pay. The pension benefits for Group Executive Management are based on fixed salary or gross cash-based salary and are to be defined-benefit or defined-contribution solutions. Normally, retirement is at age 62. Retirement age for the President is 60. For other members of Group Executive Management who are not Swedish citizens, the retirement age follows local rules and practice. Normally, a severance payment is made when employment is terminated by the company. The President has a notice period of 24 months with no severance pay. For other members of Group Executive Management, a notice period of 12 months generally applies. Severance pay for members of Group Executive Management who are Swedish citizens is six months' salary for individuals under 55 years of age and 12 months for individuals aged 55 and over. Other members of Group Executive Management generally receive 12 months' salary in severance pay. For all other benefits, local market practice applies in each specific country. Any other income from employment is deducted from the severance pay. No severance payment is made to employees who resign from the company. The Board is to be entitled 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 motion for principles for remuneration that the Board intends to submit to the 2013 Annual General Meeting for resolution is presented in the Report of the Directors, in the "People" section.

President and CEO

Effective 1 January 2012, Sandvik's CEO and President, Olof Faxander, is paid an annual fixed salary of 10,296,000 SEK and receives the fringe-benefit value of housing (January 2012) and car provided by the company. In addition, an annual variable cash-based salary of maximum 75% of the fixed salary is payable. The variable salary for 2012 amounted to 4,299,030 SEK.

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

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

Other senior executives

For other members of Group Executive Management who are Swedish citizens, the 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). Pension insurance policies have not been taken out for pensions before age 65 and, at 31 December 2012, the obligation for pensions vested through that date amounted to 6,722,133 SEK.

The pension from age 65 to the other members of Group Executive Management who are Swedish citizens 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 was chosen in 2008 under the offering to all salaried employees at Sandvik who were covered by the ITP 2 plan at the time. In such a case, the previous system with the ITP 2 plan and the supplementary plan does not apply. Of the six remaining members of Group Executive Management who are Swedish citizens employed on 31 December 2012, three are encompassed by the ITP 1 plan and three remain in the ITP 2 plan and supplementary plan. Members of Group Executive Management who are not Swedish citizens have defined-contribution plans under which the company contributes up to 25% of the fixed annual salary.

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

Long-term incentive program**Cash-based incentive program**

In both 2009 and 2010, the Board decided to implement a cash-based program for long-term variable salary (LTI – Long-Term Incentive). 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.

Under these programs, there is a direct link between performance, added value, and remuneration. There is an annual maximum outcome related to the participant's fixed salary in December of the third year. The outcome of the LTI program is conditional upon meeting measurable goals, established by the Board, for certain key performance indicators 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 payment ceiling from the LTI program is 40–50% of the annual fixed salary.

Amounts attributable to these programs are expensed and reserved continuously, based on assumptions regarding target achievement. The 2009 LTI program covering the years 2009–2011 resulted in no payment during the year, since the performance targets set by the Board of Directors were not met. During the year, a provision of 34 million SEK was made for the 2010 cash-based LTI program, of which 3.6 million SEK pertained to Group Executive Management.

Share-based incentive program

The 2011 and 2012 Annual General Meetings approved the Board proposals to introduce a share-based LTI program for each year. The programs are aimed at about 400 senior executives and key individuals in the Sandvik Group and encompass a maximum total of 23,375,763 Sandvik shares.

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

Each employee stock option entitles the employee to acquire one performance share not earlier than three years and not later than five years following allocation of the employee stock option. The amount of the allotted employee stock options that will eventually provide entitlement to the acquisition of performance shares

Remuneration and other benefits pertaining to 2012 expensed during the year

SEK	Fixed salary/ Director's fee	Annual variable salary ¹⁾	Other benefits ²⁾	Long-term variable salary ³⁾	Pension costs
Chairman of the Board	1,850,000 ⁴⁾	—	—	—	—
Other Board members	3,675,000	—	—	—	—
President and CEO	10,507,500 ⁵⁾	4,299,030	147,887	1,637,999	3,721,941
Other senior executives ^{6) 7)}	50,122,493	11,422,726	3,613,896	10,082,478	16,182,109
Total	66,154,993	15,721,756	3,761,783	11,720,477	19,904,050

1) Amount pertaining to 2012 and expected to be paid in 2013.

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

3) The amounts pertain to provisions made for the 2010, 2011 and 2012 LTI programs.

4) Expensed during 2012 and will be paid in 2013. The amount includes a Board fee of 1,575,000 SEK, a Remuneration Committee fee of 125,000 SEK and an Audit Committee fee of 150,000 SEK.

5) Olof Faxander's fixed salary as of 1 January 2012 amounts to 10,296,000 SEK, the remaining amount relates to vacation pay, etc. Board fees are not payable to executive Board members.

6) Pertains to the following persons in 2012: Andreas Evertz, Jonas Gustavsson, Gary Hughes, Jan Lissåker, Emil Nilsson (from September 2012), Tomas Nordahl, Ola Salmén (Jan–Aug 2012), Thomas Schulz (Jan–Nov 2012), Bo Severin, Anders Thelin (Jan–Oct 2012) and Anna Vikström Persson.

7) The amounts also include severance pay for the former CFO of Sandvik AB and for the former President of the Sandvik Construction business area, who left their positions during the year.

cont. NOTE 3.5

depends on the trend in SVA over the three fiscal years following approval of the program by the Annual General Meeting.

The exercise of the employee stock options to acquire performance shares requires continued employment at Sandvik. For those executives investing personally in Sandvik shares, exercise requires that all acquired saving shares are held for a three-year period after allotment of the employee stock options.

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

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

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

Assumptions for determining the value based on the Black & Scholes model	Program 2011 (on date of issue)	Program 2012 (on date of issue)
Share price	117 SEK	92,65 SEK
Exercise price	129/87,90 SEK	106,80/72,80 SEK
Expected volatility	32 %	36,50 %
Expected maturity	3 years	3 years
Present value of forecasted future dividends ¹	13,10 SEK	12,17 SEK
Risk-free interest rate	2,6 %	0,95 %

1) Based on analysts' combined expectations

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

Costs for the programs

In accordance with IFRS 2, the total expense of the 2012 LTI program amounted to 131 million SEK excluding social costs, of which 11 million SEK for the President and other senior executives. During the year, a provision of 44 million SEK, excluding social costs, was established for the 2012 LTI program, of which 3.8 million SEK for the President and other senior executives. During the year, a provision of 42 million SEK, excluding social costs, was established for the 2011 LTI program, of which 4.4 million SEK for the President and other senior executives. The employee stock options and matching rights are expensed as an employee expense (excluding social costs) over the vesting period and are recognized directly against equity. The amount recognized is continuously revised throughout the vesting period of the employee stock options and matching rights. Social costs are expensed during the vesting period of the employee stock options and matching rights based on the change in value of the employee stock options and matching rights.

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 remuneration level in connection with completed recruitments, distribution between fixed and variable salary, the magnitude of any pay increases and the long-term variable incentive program. The Board discussed the Remuneration Committee's proposals and made a decision, using the Committee's proposal as a basis.

Based on the Remuneration Committee's proposals, the Board decided on the remuneration of the President for 2012. The President decided on remuneration to other senior executives after consultation with the Remuneration Committee. The Remuneration Committee called on expertise on remuneration levels and structures in the performance of its duties. For information on the composition of the Committee, refer to the Corporate Governance Report.

Number and exercise price**Group (Including Parent Company)**

	Number of employee stock options 2011	Matching rights 2011	Employee stock options 2012	Matching rights 2012
Outstanding at beginning of year	11,241,300	62,314	—	—
Allotted during the period	—	—	11,515,800	140,273
Forfeited during the year	-1,171,050	-9,920	-384,000	-8,429
Outstanding at year-end	10,070,250	52,394	11,131,800	131,844
Theoretical value when allotted acc. to Black & Scholes, SEK	17	33.10	13	24
Exercise price, SEK	129	87.90	106.80	72.80

Parent Company

	Number of employee stock options 2011	Matching rights 2011	Employee stock options 2012	Matching rights 2012
Outstanding at beginning of year	1,225,250	23,384	—	—
Allotted during the year	—	—	1,682,000	38,026
Forfeited during the year	-72,500	—	-87,000	-4,335
Outstanding at year-end	1,152,750	23,384	1,595,000	33,691
Theoretical value when allotted acc. to Black & Scholes, SEK	17	33.10	13	24
Exercise price, SEK	129	87.90	106.80	72.80

3.6 Fees and remuneration to the Group's auditors

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

	KPMG		Other		Total	
	2012	2011	2012	2011	2012	2011
Audit						
Parent Company	10.3	10.8	0.0	0.0	10.3	10.8
Subsidiaries	63.7	60.7	4.4	5.3	68.1	66
Group	74.0	71.5	4.4	5.3	78.4	76.8
Tax consultancy services						
Parent Company	0.9	0.8				
Subsidiaries	5.6	8.1				
Group	6.5	8.9				
Other services						
Parent Company	4.6	5.7				
Subsidiaries	4.9	6.4				
Group	9.5	12.1				

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

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

NOTE 4. RESEARCH, DEVELOPMENT AND QUALITY ASSURANCE

	Group		Parent Company	
	2012	2011	2012	2011
Expenditure for				
research and development	2,991	2,712	1,281	1,150
quality assurance	549	613	242	309
Total	3,540	3,325	1,523	1,459
of which expensed, total	3,121	3,034	1,523	1,459
of which expensed relating to research and development	2,572	2,421	1,281	1,150

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

NOTE 5. OTHER OPERATING INCOME

Group	2012	2011
Gain on sale of businesses and shares	12	9
Insurance compensation	2	181
Other	228	157
Total	242	347

Parent Company

Other operating income mainly pertains to intra-Group services and foreign exchange gains on operating receivables and payables.

NOTE 6. OTHER OPERATING EXPENSES

Group	2012	2011
Loss on disposal of non-current assets	-14	-140
Loss on sale of operations and shares	-50	-4
Foreign exchange losses on operating receivables and payables	-264	-44
Other	-264	-466
Total	-592	-654

Parent Company

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

NOTE 7. OPERATING EXPENSES

Group	2012	2011
Employee benefit expense	-24,907	-24,014
Depreciation and amortization	-3,970	-3,868
Impairment losses, inventories	-515	-379
Impairment losses, property, plant and equipment	-352	-1,955
Impairment losses, doubtful receivables	-202	-37

There were no significant reversals of earlier recognized impairment losses during 2012 or 2011.

NOTE 8. FEES FOR FINANCE AND OPERATING LEASES**FINANCE LEASES****Finance leases with Sandvik as lessee**

The Group leases assets under finance lease agreements. At 31 December 2012, the planned residual value of such leased assets was 132 MSEK (155).

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

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

Group	Nominal fee		Present value	
	2012	2011	2012	2011
Within one year	30	30	26	27
Between one and five years	59	76	42	57
Later than five years	46	59	24	31
Total	135	165	92	115

Finance leases with Sandvik as lessor

The Group's investments in finance leases at year-end 2012 amounted to 491 MSEK (499). Variable fees recognized in profit/loss, and unguaranteed residual values accruing to the benefit of the lessor, were minor.

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

Group	Nominal fee		Present value	
	2012	2011	2012	2011
Within one year	277	271	261	251
Between one and five years	214	228	188	191
Total	491	499	449	442

OPERATING LEASES**Operating leases with Sandvik as lessee**

Leasing fees for assets under operating leases, such as leased premises, machinery and major items of computer and office equipment, are recognized within operating expenses. In 2012, the Group expensed 598 MSEK (696), including minimum lease payments of 574 MSEK (670), variable fees of 27 MSEK (26), and net of sublease income of -4 MSEK (0). The Parent Company expensed 175 MSEK (169).

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

	Group		Parent Company	
	2012	2011	2012	2011
Within one year	571	690	164	163
Between one and five years	1,289	1,458	523	477
Later than five years	596	675	235	200
Total	2,456	2,823	922	840

Future minimum lease payments under non-cancellable lease contracts that pertain to subleased items amounted to 3 MSEK (7).

Operating leases with Sandvik as lessor

The planned residual value of the Group's rental fleet is 499 MSEK (427). Depreciation for the year amounted to 409 MSEK (381). The future minimum lease payments under non-cancellable leases amount to 118 MSEK (245). Variable fees amounted to 33 MSEK (20).

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

	Group		Parent Company	
	2012	2011	2012	2011
Within one year	111	177	5	9
Between one and five years	6	67	5	5
Later than five years	1	1	—	—
Total	118	245	10	14

NOTE 9. NET FINANCING COST

Group	2012	2011
Interest income	236	191
Dividend	8	0

Other investments incl. derivatives

Net gain on remeasurement of financial assets/ liabilities	180	71
Other financial income	11	3
Financial income	435	265

Interest expense	-2,215	-1,971
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Other investments incl. derivatives

Net loss on remeasurement of financial assets/liabilities	-161	-222
Net foreign-exchange losses	-5	-28
Other financial expenses	-28	-13
Financial expenses	-2,409	-2,234
Net financing cost	-1,974	-1,969

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to -1,814 million SEK (-1,562). Hedging of fair values in 2012 had an effect of 9 million SEK (-3) on the result. No inefficiencies in cash-flow hedges impacted profit for the year (0). For further information regarding valuation policies for financial instruments, refer to Note 30.

Parent Company	Income from shares in Group companies		Income from shares in associated companies	
	2012	2011	2012	2011
Dividend, net of withholding tax	9,624	1,701	5	10
Group contributions paid/ received	2,177	1,100	—	—
Gain on sale of shares and participations	-1	1	-5	—
Impairment	-31	-3	—	—
Reversed impairment	—	16	—	—
Total	11,769	2,815	0	10

Parent Company	Interest income and similar items	
	2012	2011
Interest income, Group companies	409	450
Other interest income	1	2
Derivatives, Group companies	371	159
Other	1	—
Total	782	611

Parent Company	Interest income and similar items	
	2012	2011
Interest expense, Group companies	-483	-206
Other interest expense	-1,271	-1,278
Derivatives, Group companies	-268	-183
Other	-17	-12
Total	-2,039	-1,679

NOTE 10. APPROPRIATIONS

Parent Company	2012	2011
Country risk reserve	6	-8
Total	6	-8

NOTE 11. INCOME TAX**Recognized in profit and loss**

	Group		Parent Company	
	2012	2011	2012	2011
Income tax expense for the year				
Current tax	-3,281	-3,248	22	12
Adjustment of taxes attributable to prior years	101	75	-17	-6
Total current tax expense	-3,180	-3,173	5	6
Deferred taxes relating to temporary differences and tax losses carry forward	-229	855	-330	619
Total tax expense	-3,409	-2,318	-325	625

The Group recognized tax expense for the year of 3,409 million SEK (2,318) or 29.6% (28.3) of the profit after financial items. The Swedish corporate tax rate has been reduced from 26.3% to 22%, yielding a negative nonrecurring effect on deferred tax for the year of approximately 500 million SEK.

Reconciliation of the Group's tax expense

The Group's weighted average tax rate, based on the tax rates in each country, is 25.9% (26.0). The nominal tax rate in Sweden is 26.3% (26.3). As of 1 January 2013, the tax rate was changed to 22%. Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

	2012		2011	
Group	MSEK	%	MSEK	%
Profit after financial items	11,516		8,179	
Weighted average tax based on each country's tax rate	-2,987	-25.9	-2,123	-26.0

Tax effect of

Non-deductible expenses	-224	-1.9	-330	-4.0
Tax exempt income	117	1.0	131	1.6
Adjustments relating to prior years	101	0.9	75	0.9
Effects of tax losses carry forward, net	-298	-2.6	20	0.2
Other	-118	-1.0	-91	-1.0
Total recognized tax expense	-3,409	-29.6	-2,318	-28.3

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:

	2012		2011	
Parent Company	MSEK	%	MSEK	%
Profit/loss before tax	10,035		-1,005	
Tax based on the nominal tax rate for the Parent Company	-2,639	-26.3	264	-26.3

Tax effects of

Non-deductible expenses	-62	-0.6	-104	-10.3
Tax-exempt income	2,550	25.4	471	46.9
Effect of changed tax rate	-157	-1.6	—	—
Adjustments relating to prior years	-17	-0.2	-6	-0.6
Total recognized tax expense	-325	-3.2	625	62.2

Tax item attributable to other comprehensive income

	2012			2011		
Group	Before tax	Tax	After tax	Before tax	Tax	After tax
Translation differences for the year	-1,584	—	-1,584	-270	—	-270
Fair-value changes in cash-flow hedges for the year	9	-2	7	-451	119	-332
Fair-value changes in cash-flow hedges carried forward to profit/loss for the year	131	-28	103	-171	45	-126
Other comprehensive income	-1,444	-30	-1,474	-892	164	-728

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).

	2012			2011		
Group	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	45	-562	-517	30	-517	-487
Property, plant and equipment	106	-1,210	-1,104	107	-1,279	-1,172
Financial non-current assets	128	-4	124	176	-4	172
Inventories	1,261	-76	1,185	1,236	-72	1,164
Receivables	211	-366	-155	147	-404	-257
Interest-bearing liabilities	274	-300	-26	321	-338	-17
Noninterest-bearing liabilities	1,098	-445	653	1,159	-398	761
Other	—	-65	-65	—	-31	-31
Tax losses carry forward	1,740	—	1,740	1,981	—	1,981
Total	4,863	-3,028	1,835	5,157	-3,043	2,114
Offsetting within companies	-2,319	2,319	—	-2,087	2,087	—
Total deferred tax assets and liabilities	2,544	-709	1,835	3,070	-956	2,114

	2012			2011		
Parent Company	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	—	-28	-28	—	-33	-33
Inventories	2	—	2	3	—	3
Provisions	32	-15	17	45	-6	39
Noninterest-bearing liabilities	—	-80	-80	—	-107	-107
Tax losses carry forward	893	—	893	1,233	—	1,233
Total	927	-123	804	1,281	-146	1,135
Offsetting	-123	123	—	-146	146	—
Total deferred tax assets and liabilities	804	—	804	1,135	—	1,135

cont. NOTE 11

Unrecognized deferred tax assets

The Group has additional tax losses carryforward of about 498 million SEK (588).

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	
	2012	2011	2012	2011
Balance at beginning of year, net	2,114	1,018	1,135	518
Recognized in profit and loss	-229	855	-331	617
Acquisitions/disposals of subsidiaries	23	-12	—	—
Reclassification of assets held for sale	—	25	—	—
Recognized in other comprehensive income	-30	164	—	—
Government grants	—	-6	—	—
Translation differences	-43	70	—	—
Balance at end of year, net	1,835	2,114	804	1,135

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

	Group		Parent Company	
	2012	2011	2012	2011
Other provisions for taxes	-4,529	-3,941	—	—
Income tax liabilities	-1,252	-1,505	—	—
Income tax receivables	931	772	189	239
Net tax liabilities/receivables	-321	-733	189	239

Other provisions for taxes of -4,529 million SEK (-3,941) relate to ongoing disputes and assessed risks. The increase during 2012 (588 million SEK) 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.

NOTE 12. EARNINGS PER SHARE**Basic and diluted earnings per share**

SEK	Basic		Diluted	
	2012	2011	2012	2011
Earnings per share	6.51	4.63	6.51	4.63

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

Basic earnings per share

The calculation of earnings per share for 2012 is based on the profit for the year attributable to the equity holders of the Parent Company of 8,105 million SEK (5,498) and the weighted average number of shares (thousands) during 2012 of 1,245,874 (1,186,287). These two components have been calculated as follows:

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

	2012	2011
Profit for the year attributable to the equity holders of the Parent Company	8,105	5,498

Weighted average number of shares, basic

In thousands of shares	2012	2011
Total number of ordinary shares at 1 January	1,186,287	1,186,287
Effects of reacquisitions and redemption	—	—
Weighted average number of shares outstanding during the year, basic	1,245,874	1,186,287

Diluted earnings per share

The calculation of diluted earnings per share for 2012 is based on the profit attributable to the equity holders of the Parent Company of 8,105 million SEK (5,498) and the weighted average number of shares (thousands) during 2012 of 1,245,874 (1,186,287). The two components have been calculated as follows:

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

	2012	2011
Profit for the year attributable to equity holders of the Parent Company	8,105	5,498

Weighted average number of shares, diluted

In thousands of shares	2012	2011
Weighted average number of shares, basic	1,245,874	1,186,287
Effect of share options	—	—
Weighted average number of shares outstanding during the year, diluted	1,245,874	1,186,287

The 2012 Annual General Meeting approved a share-based LTI program. This could entail future dilution effects. For information about the program, refer to Note 3.5.

NOTE 13. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, GROUP**Intangible assets**

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 2011	1,563	956	236	59	2,814	15	312	768	10,334	1,663	13,092	15,906
Additions	291	158	8	—	457	—	10	30	—	22	62	519
Business combinations	—	—	—	—	—	—	—	14	172	136	322	322
Divestments and disposals	-72	-14	—	—	-86	-15	-7	-86	—	-82	-190	-276
Impairment losses	—	—	—	—	—	—	—	-24	-125	-237	-386	-386
Reclassifications	—	—	—	—	—	—	—	—	-1,240	—	-1,240	-1,240
Reclassification to assets held for sale	—	8	-4	6	10	—	17	5	—	2	24	34
Translation differences for the year	-4	-2	-4	-8	-18	—	—	2	-107	-12	-117	-135
At 31 December 2011	1,778	1,106	236	57	3,177	0	332	709	9,034	1,492	11,567	14,744
At 1 January 2012	1,778	1,106	236	57	3,177	0	332	709	9,034	1,492	11,567	14,744
Additions	419	73	12	—	504	—	10	8	—	24	42	546
Business combinations	—	—	—	—	—	—	—	8	14	1	23	23
Divestments and disposals	-199	-9	-4	—	-212	—	-1	-16	-3	-24	-44	-256
Reclassifications	-12	47	9	42	86	8	76	-60	—	-124	-100	-14
Translation differences for the year	-20	-2	-7	-7	-36	—	-11	-18	-360	-35	-424	-460
At 31 December 2012	1,966	1,215	246	92	3,519	8	406	631	8,685	1,334	11,064	14,583
Accumulated amortization and impairment losses												
At 1 January 2011	655	639	87	46	1,427	15	291	415	—	565	1,286	2,713
Divestments and disposals	-49	-14	—	—	-63	-15	-4	-87	—	-66	-172	-234
Reclassification to assets held for sale	—	—	—	—	—	—	—	-11	—	-104	-115	-115
Impairment losses	10	1	2	—	13	—	—	—	—	22	22	35
Reclassifications	—	—	-2	-5	-7	—	1	9	—	-4	6	-1
Amortization for the year	196	125	8	15	344	—	12	54	—	128	194	538
Translation differences for the year	-3	-1	-2	1	-5	—	-1	2	—	6	7	2
At 31 December 2011	809	750	93	57	1,709	0	299	382	—	547	1,228	2,937
At 1 January 2012	809	750	93	57	1,709	0	299	382	—	547	1,228	2,937
Divestments and disposals	-180	-9	-2	—	-191	—	-1	-104	—	-15	-120	-311
Impairment losses	27	—	—	—	27	—	—	—	—	—	—	27
Reclassifications	1	17	-12	-1	5	—	55	-46	—	-21	-12	-7
Amortization for the year	186	119	9	27	341	—	19	75	—	122	216	557
Translation differences for the year	-7	-2	0	-4	-13	—	-10	-5	—	-15	-30	-43
At 31 December 2012	836	875	88	79	1,878	0	362	302	—	618	1,282	3,160
Net carrying amounts												
1 January 2011	908	317	149	13	1,387	0	21	353	10,334	1,098	11,806	13,193
31 December 2011	969	356	143	0	1,468	0	33	327	9,034	945	10,339	11,807
1 January 2012	969	356	143	0	1,468	0	33	327	9,034	945	10,339	11,807
31 December 2012	1,130	340	158	13	1,641	8	44	329	8,685	716	9,782	11,423
Amortization for the year is included in the following lines in the 2011 income statement.												
Cost of sales	—	-5	—	-10	-15	—	-3	-2	—	-51	-56	-71
Selling expenses	—	-7	-1	—	-8	—	-1	-51	—	-67	-119	-127
Administrative expenses	-196	-113	-7	-5	-321	—	-8	-1	—	-10	-19	-340
Total	-196	-125	-8	-15	-344	—	-12	-54	—	-128	-194	-538
Amortization for the year is included in the following lines in the 2012 income statement												
Cost of sales	—	-13	—	-16	-29	—	-9	-69	—	-78	-156	-185
Selling expenses	—	-10	—	-3	-13	—	-3	-2	—	-43	-48	-61
Administrative expenses	-186	-96	-9	-8	-299	—	-7	-4	—	-1	-12	-311
Total	-186	-119	-9	-27	-341	—	-19	-75	—	-122	-216	-557

Impairment losses amounting to 27 million SEK relate in their entirety to the function administrative expenses in profit or loss.

cont. NOTE 13

Property, plant and equipment

Cost	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
At 1 January 2011	12,823	34,283	5,384	2,467	54,957
Additions	739	1,289	367	2,460	4,855
Business combinations	192	209	10	3	414
Divestments and disposals	-197	-1,373	-317	-13	-1,900
Reclassifications to assets held for sale	-47	-325	-9	-31	-412
Reclassifications	266	1,194	159	-1,569	50
Translation differences for the year	-41	-429	-58	-18	-546
At 31 December 2011	13,735	34,848	5,536	3,299	57,418
At 1 January 2012	13,735	34,848	5,536	3,299	57,418
Additions	334	1,796	361	2,174	4,665
Business combinations	-4	-15	—	—	-19
Divestments and disposals	-156	-1,383	-352	-5	-1,896
Reclassifications	471	1,766	395	-2,617	15
Translation differences for the year	-449	-994	-161	-16	-1,620
At 31 December 2012	13,931	36,018	5,779	2,835	58,563
Depreciation and impairment losses					
At 1 January 2011	5,012	20,854	3,839	—	29,705
Business combinations	13	76	4	—	93
Divestments and disposals	-142	-1,043	-272	—	-1,457
Reclassifications	—	-24	21	—	-3
Depreciation for the year	442	2,465	423	—	3,330
Impairment losses	107	449	11	114	681
Reclassification to assets held for sale	-7	-147	-4	—	-158
Translation differences for the year	-39	-394	-41	—	-474
At 31 December 2011	5,386	22,235	3,981	114	31,716
At 1 January 2012	5,386	22,235	3,981	114	31,716
Divestments and disposals	-78	-1,084	-330	—	-1,492
Reclassifications	-12	-17	22	—	-7
Depreciation for the year	454	2,512	448	—	3,414
Impairment losses	22	284	3	—	309
Reversal of earlier impairment losses	—	16	—	—	16
Translation differences for the year	-179	-616	-115	—	-910
At 31 December 2012	5,593	23,330	4,009	114	33,045
Net carrying amounts					
1 January 2011	7,811	13,430	1,544	2,467	25,252
31 December 2011	8,349	12,613	1,555	3,185	25,702
1 January 2012	8,349	12,613	1,555	3,185	25,702
31 December 2012	8,338	12,688	1,770	2,721	25,517
Impairment losses/reversals of impairment losses per line in the income statement					
Impairment losses					
Administrative expenses	-20	-19	-2	—	-41
Cost of sales	-2	-251	—	—	-253
Other operating expenses	—	-14	-1	—	-15
Total	-22	-284	-3	—	-309

Restructuring activities implemented gave rise to an impairment loss of 309 million SEK attributable to Sandvik Materials Technology and Sandvik Construction. Impairment was made to the estimated value in use.

cont. **NOTE 13****Additional information**

Items of property, plant and equipment for a total of 193 million SEK (206) have been pledged as security for liabilities.

In 2012, contractual commitments for the acquisition of property, plant and equipment amounted to 124 million SEK (404).

Borrowing costs 2012	Machinery
Borrowing costs included in the cost of assets during the year	2
Interest rate for determining borrowing costs included in costs	3.84 %

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

Impairment tests of goodwill

Goodwill was tested for impairment at the balance sheet date of 31 December 2012. As stated below, the carrying amount of goodwill in the consolidated balance sheet is 8,685 million SEK (9,034), essentially related to a number of major business combinations.

Goodwill by cash-generating unit	Carrying amount	
	2012	2011
Sandvik Mining		
Exploration	447	464
Business area level	1,509	1,651
Total	1,956	2,115
Sandvik Machining Solutions		
Walter Group	956	992
Seco Tools	254	241
Business area level	836	870
Total	2,046	2,103
Sandvik Materials Technology		
Business area level	1,065	1,152
Total	1,065	1,152
Sandvik Construction		
Exttec/Fintec	1,116	1,028
Shanghai Jianshe Luqiao	80	95
Business area level	314	333
Total	1,510	1,456
Sandvik Venture		
Diamond Innovations	689	730
Wolfram	1,317	1,366
Business area level	64	70
Total	2,070	2,166
Other	38	42
Group total	8,685	9,034

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

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

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

Goodwill testing did not indicate any impairment requirement. Sensitivity in all calculations implies that the goodwill value would be maintained 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 27 million SEK (10).

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

Intangible assets	Patents and other intangible assets	Patents and other intangible assets	
Cost		Accumulated amortization	
At 1 January 2011	120	At 1 January 2011	95
Additions	16	Amortization for the year	1
Divestments and disposals	–23	At 31 December 2011	96
At 31 December 2011	113	Net carrying amount at end of year	17
At 1 January 2012	113	At 1 January 2012	96
Additions	8	Reclassifications	0
Divestments and disposals	–15	Amortization for the year	1
At 31 December 2012	106	At 31 December 2012	97
		Net carrying amount at end of year	9
		Amortization for the year is included in the following lines in the income statement	2012 2011
		Administrative expenses	–1 –1
		Total	–1 –1

Property, plant and equipment	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2011	1,114	11,034	1,105	1,276	14,529
Additions	43	234	53	1,075	1,405
Divestments and disposals	-4	-152	-60	—	-216
Reclassifications	67	485	20	-572	0
At 31 December 2011	1,220	11,601	1,118	1,779	15,718
At 1 January 2012	1,220	11,601	1,118	1,779	15,718
Additions	31	365	63	871	1,330
Divestments and disposals	-1	-227	-43	-10	-281
Reclassifications	24	1,077	217	-1,318	0
At 31 December 2012	1,274	12,816	1,355	1,322	16,767
Revaluations					
At 1 January 2011	41	—	—	—	41
At 31 December 2011	41	—	—	—	41
At 1 January 2012	41	—	—	—	41
At 31 December 2012	41	—	—	—	41
Accumulated depreciation					
At 1 January 2011	480	6,591	731	—	7,802
Divestments and disposals	-1	-125	-59	—	-185
Depreciation for the year	32	666	82	—	780
Impairment losses	—	359	11	—	370
At 31 December 2011	511	7,491	765	—	8,767
At 1 January 2012	511	7,491	765	—	8,767
Divestments and disposals	0	-191	-43	—	-234
Reclassifications	0	—	0	—	0
Depreciation for the year	36	679	100	—	815
Impairment losses	—	153	—	—	153
At 31 December 2012	547	8,132	822	—	9,501
Net carrying amounts					
1 January 2011	675	4,443	374	1,276	6,768
31 December 2011	750	4,110	353	1,779	6,992
1 January 2012	750	4,110	353	1,779	6,992
31 December 2012	768	4,684	533	1,322	7,307

NOTE 15. SHARES IN GROUP COMPANIES

	Parent Company	
Shares in Group Companies	2012	2011
Cost		
At beginning of year	16,315	15,428
Additions	9,198	338
Capital contributions	103	500
New issues	—	50
Non-cash issue incl. share premium reserve	6,703	—
Divestments	-79	-1
Total	32,240	16,315

	Parent Company	
Shares in Group Companies	2012	2011
Accumulated impairment losses		
At beginning of year	-394	-391
Impairment losses for the year	-31	-3
Impairment reversed during the year	3	—
Total	-422	-394
Accumulated revaluations		
At beginning of year	16	—
Revaluations for the year	—	16
Total	16	16
Carrying amount at year-end	31,834	15,937

Sandvik AB's holdings of shares and participations in subsidiaries**Direct holdings**

Direct holdings	2012				2011		
	Corp. Reg. number	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK
According to balance sheet at 31 December; company, domicile							
SWEDEN							
C.O. Öberg & Co:s AB, Sandviken	556112-1186	2,000	100	0	2,000	100	0
Dropler High Tech AB, Sandviken	556332-0380	1,000	100	119	1,000	100	119
Elasis Svenska AB, Sandviken	556307-8947	100,000	100	110	100,000	100	110
Förvaltningsbolaget Predio 4 KB, Sandviken	916624-2181	—	0, ³⁾	0	—	0, ³⁾	0
Gimo Utbildningsaktiebolag, Gimo	556061-4041	1,000	91	2,591	1,000	91	2,591
Gusab Holding AB, Sandviken	556001-9290	1,831,319	100	53,474	1,831,319	100	53,474
Gusab Stainless AB, Mjölby	556012-1138	200,000	100	23,788	200,000	100	32,474
Industri AB Skomab, Sandviken	556008-8345	2,000	100	99,346	2,000	100	99,346
Malcus AB, Sandviken	556350-7903	1,000	100	100	1,000	100	100
Rammer Svenska AB, Sandviken	556249-4004	3,000	100	851	3,000	100	851
Tamrock Svenska AB, Sandviken	556189-1085	100	100	123	100	100	123
AB Sandvik Antenn, Sandviken	556350-7895	1,000	100	100	1,000	100	100
AB Sandvik Automation, Sandviken	556052-4315	1,000	100	50	1,000	100	50
AB Sandvik Belts, Sandviken	556041-9680	25,000	100	2,500	25,000	100	2,500
AB Sandvik Bruket, Sandviken	556028-5784	13,500	100	1,698	13,500	100	1,698
AB Sandvik Communication, Sandviken	556257-5752	1,000	100	120	1,000	100	120
AB Sandvik Construction Segment, Malmö ¹⁾	556659-6952	1,000	100	100	1,000	100	100
AB Sandvik Coromant, Sandviken ¹⁾	556234-6865	1,000	100	50	1,000	100	50
Sandvik Coromant Sverige AB, Stockholm ¹⁾	556350-7846	1,000	100	100	1,000	100	100
Sandvik Export Assistance AB, Sandviken	556061-3746	80,000	100	0	80,000	100	0
AB Sandvik Falken, Sandviken	556330-7791	1,000	100	120	1,000	100	120
Sandvik Far East Ltd. AB, Sandviken	556043-7781	10,000	100	10,000	10,000	100	10,000
Sandvik Försäkrings AB, Sandviken	516401-6742	1,500	100	15,000	1,500	100	15,000
AB Sandvik Hard Materials, Stockholm ¹⁾	556234-6857	1,000	100	50	1,000	100	50
Sandvik Hard Materials Norden AB, Stockholm	556069-1619	1,000	100	50	1,000	100	50
Sandvik Besökservice AB, Sandviken ¹⁾	556235-3838	1,000	100	50	1,000	100	50
Sandvik Intellectual Property AB, Sandviken	556288-9401	1,000,000	100	3,499,950	1,000,000	100	3,499,950
AB Sandvik International, Sandviken ¹⁾	556147-2977	1,000	100	50	1,000	100	50
AB Sandvik Klangberget, Sandviken	556135-6857	1,000	100	100	1,000	100	100
Sandvik Materials Technology EMEA AB, Stockholm	556734-2026	501,000	100	50,100	501,000	100	50,100
AB Sandvik Materials Technology, Sandviken ¹⁾	556234-6832	1,000	100	50	1,000	100	50
Sandvik Construction AB, Sandviken ¹⁾	556664-9983	1,000	100	100	1,000	100	100
Sandvik Mining and Construction Sverige AB, Sandviken ¹⁾	556288-9443	1,000	100	50	1,000	100	50
Sandvik Mining and Construction Tools AB, Sandviken ¹⁾	556234-7343	1,000	100	50	1,000	100	50
Sandvik Nora AB, Nora	556075-0506	80,000	100	135,000	80,000	100	135,000
Sandvik Powdermet AB, Surahammar	556032-6760	600	100	143,051	360	60	71,732
AB Sandvik Process Systems, Sandviken ¹⁾	556312-2992	1,000	100	100	1,000	100	100
AB Sandvik Rock Tools, Sandviken	556081-4328	1,000	100	50	1,000	100	50
Sandvik Rotary Tools AB, Köping	556191-8920	101,000	100	150,177	101,000	100	150,177
AB Sandvik Service, Sandviken	556234-8010	1,000	100	50	1,000	100	50
AB Sandvik Skogsfastigheter, Sandviken	556579-5464	1,000	100	51	1,000	100	51
AB Sandvik Steel Investment, Sandviken	556350-7853	1,000	100	100	1,000	100	100
Sandvik Stål Försäljnings AB, Stockholm ¹⁾	556251-5386	1,000	100	50	1,000	100	50
Sandvik Systems Development AB, Sandviken ¹⁾	556407-4184	1,000	100	100	1,000	100	100
Sandvik Machining Solutions AB, Sandviken ¹⁾	556692-0038	1,000	100	100	1,000	100	100
Sandvik Machining Solutions Sverige AB, Sandviken ¹⁾	556692-0053	1,000	100	100	1,000	100	100
AB Sandvik Tranan, Sandviken	556330-7817	1,000	100	2,725	1,000	100	24,610
Sandvik Utbildnings AB, Sandviken	556304-8791	910	91	91	910	91	91

cont. NOTE 15

Sandvik AB's holdings of shares and participations in subsidiaries

Direct holdings	2012				2011		
	Corp. Reg. number	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK
According to balance sheet at 31 December; company, domicile							
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 Örnén, Sandviken	556330-7783	1,000	100	120	1,000	100	120
Sandvikens Brukspersonals Byggnadsförening upa, Sandviken	785500-1686	—	100	0	—	100	0
Scandinavian Handtools AB, Sandviken	556093-5875	1,000	100	50	1,000	100	50
Steebide International AB, Sandviken	556048-3405	15,000	100	1,000	15,000	100	1,000
Dormer Tools AB, Halmstad	556240-8210	80,000	100	25,145	80,000	100	25,145
AB 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 ¹⁾	556776-9525	1,000	100	100	1,000	100	100
Wire Sandviken AB ¹⁾	556779-3897	1,000	100	100	1,000	100	100
Sandvik IT Services AB ¹⁾	556788-9059	1,000	100	100	1,000	100	100
AB Ascet, Sandviken	556285-0882	1,000	100	120	1,000	100	120
Sandvik Venture AB ¹⁾	556868-7155	1,000	100	100	1,000	100	100
Sandvik Credit AB	556843-7296	10,000	100	50,000	10,000	100	50,000
Seco Tools AB	556071-1060	145.467.690	100	15.658.859	—	—	—

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

Direct holdings		2012			2011		
		No. of shares	Holding, % ²⁾	Carrying amount 000s SEK	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK
According to balance sheet at 31 December; company							
AUSTRALIA	Sandvik Australia Pty. Ltd.	—	18 ^{3,4)}	1,539,205	—	18 ^{3,4)}	1,539,205
	Sandvik Australian Ltd. Partnership	—	99	—	—	99	—
BRAZIL	Dormer Tools S.A.	2,137,623,140	100	200,000	2,137,623,140	100	200,000
	Sandvik do Brasil S.A.	1,894,797,190	100	577,468	1,894,797,190	100	577,468
	Sandvik Materials Technology do Brasil S.A.	10,877,380	100	116,677	10,877,380	100	31,489
	Sandvik MGS S.A.	14,999,998	100	198,290	14,999,998	100	198,290
	Sandvik Mining and Construction do Brasil S.A.	85,329,996	100	438,649	85,329,996	100	438,649
	Walter do Brasil Ltda	1,809,999	100	39,874	—	—	—
BULGARIA	Sandvik Bulgaria Ltd.	—	100	0	—	100	0
CHILE	Sandvik Credit Chile S.A.	9,900	99	39,631	9,900	99	39,631
CHINA	Sandvik China Holding Co Ltd.	—	100	668,890	—	100	668,890
	Sandvik Materials Technology (China) Ltd.	—	58 ³⁾	207,854	—	44 ³⁾	207,854
CZECH REPUBLIC	Sandvik CZ s.r.o.	—	100	0	—	100	0
DEMOCRATIC REPUBLIC OF CONGO	Sandvik Mining and Construction DRC S.P.R.L.	9,990	100	—	9,990	100	—
GERMANY	Sandvik Materials Technology Deutschland GmbH	—	1 ³⁾	1,486	—	1 ³⁾	1,486
	Sandvik Holding GmbH	—	1 ³⁾	367	—	1 ³⁾	367
GREECE	Sandvik A.E. Tools and Materials	—	—	—	5,529	100	1,867
HUNGARY	Sandvik Magyarorszag Kft.	—	100	3,258	—	100	3,258
INDIA	Sandvik Asia Ltd.	16,030,246	17 ⁵⁾	277,028	16,030,246	17 ⁵⁾	277,028
IRELAND	Sandvik Mining and Construction Logistics Ltd.	100	100	5,508	100	100	5,508
JAPAN	Sandvik K.K.	2,600,000	100	224,701	2,600,000	100	224,701
KENYA	Sandvik Kenya Ltd.	35,000	96	0	35,000	96	0
KOREA	Sandvik Korea Ltd.	752,730	100	46,856	752,730	100	46,856
MALI	Sandvik Mining and Construction Mali	25,000	100	3,462	25,000	100	3,462
MEXICO	Sandvik Mexicana S.A. de C.V.	406,642,873	90 ³⁾	71,000	406,642,873	90 ³⁾	71,000
MONGOLIA	Sandvik Mongolia LLC.	400,000	100	2,682	400,000	100	2,682
NETHERLANDS	Sandvik Finance B.V.	18,788	100	7,091,729	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
TURKEY	Sandvik Endüstriyel Mamüller Sanayi ve Ticaret A.S.	125,154,588	100	3,200	125,154,588	100	3,200
UAE	Sandvik Middle East FZE.	1	100	19,886	1	100	19,886
ZIMBABWE	Sandvik Mining and Construction Zimbabwe (Pty) Ltd.	233,677	100	3,269	233,677	100	3,269
Total				31,833,596			15,936,685

1) Subsidiaries conducting business on behalf of the Parent Company.

2) Refers to voting rights, which also equals share of capital unless otherwise indicated.

3) Remaining shares are held by other Group companies.

4) Share of capital 94%.

5) Shares up to an ownership interest of 100% are held by other Group companies.

cont. NOTE 15

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

Group holding, %		2012 ¹⁾	2011 ¹⁾
SWEDEN	Sandvik Heating Technology AB	100	100
	Sandvik SRP AB	100	100
	Sandvik Treasury AB	100	100
ARGENTINA	Sandvik Argentina S.A.	100	100
	Sandvik Mining and Construction Argentina S.A.	100	100
AUSTRALIA	Sandvik Australia Pty. Ltd.	100	100
	Sandvik Mining and Construction Pty. Ltd. Australia	100	100
	Sandvik Mining and Construction Australia (Production Supply) Pty. Ltd	100	100
	Seco Tools Australia Pty. Ltd.	100	—
AUSTRIA	Walter Austria GmbH	100	100
	Wolfram Bergbau und Hütten AG	100	100
	Sandvik in Austria Ges.m.b.H.	100	100
	Sandvik Mining and Construction GmbH	100	100
	Sandvik Mining and Construction Materials Handling GmbH & Co. KG	100	100
	Seco Tools Gesellschaft m.b.H.	100	—
BELGIUM	Walter Benelux N.V./S.A.	100	100
	S.A. Seco Tools Benelux N.V.	100	—
BRAZIL	Seco Tools Indústria e Comércio Ltda	100	—
CANADA	Sandvik Canada Inc.	100	100
CHILE	Sandvik Chile S.A.	100	100
CHINA	Sandvik Mining and Construction Chile S.A.	100	100
	Sandvik International Trading (Shanghai) Co. Ltd.	100	100
	Sandvik Mining and Construction (China) Co. Ltd.	100	100
	Sandvik Mining and Construction Trading (Shanghai) Co. Ltd.	100	100
	Sandvik Hard Materials (Wuxi) Co. Ltd.	100	100
	Sandvik Process Systems (Shanghai) Co. Ltd.	100	100
	Sandvik Tooling Round Tools Langfang Co., Ltd.	100	100
	Sandvik Tooling Production (Langfang) Co. Ltd.	100	100
	Sandvik Tooling Sales and Trade (Shanghai) Ltd.	100	100
	Sandvik (Qingdao) Ltd.	100	100
	Walter Wuxi Co. Ltd.	100	100
	Shanghai Jianshe Luqiao Machinery Co. Ltd	80	80
	Shandong Energy Machinery Group ZhongRui Mining Equipment Manufacturing Co., Ltd.	50 ²⁾	50 ²⁾
	Seco Tools (Shanghai) Co. Ltd.	100	—
	Sandvik Colombia S.A.S.	70	70
COLOMBIA	Sandvik Chomutov Precision Tubes s.r.o.	100	100
CZECH REPUBLIC	Walter CZ s.r.o.	100	100
	Seco Tools CZ s.r.o.	100	—
	Pramet Tools s.r.o.	100	—
DENMARK	Sandvik A/S	100	100
	Seco Tools A/S	100	—
FINLAND	Sandvik Mining and Construction Finland Oy	100	100
	Sandvik Mining and Construction Oy	100	100
	Seco Tools Oy	100	—
FRANCE	Sandvik Mining and Construction Chauny S.A.S.	100	100
	Sandvik Hard Materials S.A.S.	100	100
	Sandvik Materials Technology France S.A.S.	100	100
	Sandvik Mining and Construction Lyon S.A.S.	100	100
	Sandvik Mining and Construction France S.A.S.	100	100
	Sandvik Tooling France S.A.S.	100	100
	Gunther Tools S.A.S.	100	100
	Safety Production S.A.S.	100	100
	Walter France S.A.S.	100	100
	Seco Tools France S.A.S.	100	—
GERMANY	Sandvik Mining and Construction Crushing Technology GmbH	100	100
	Prototyp-Werke GmbH	100	100
	Sandvik Materials Technology Deutschland GmbH	100	100
	Sandvik Mining and Construction Europe GmbH	100	100
	Sandvik Mining and Construction Supply GmbH	100	100
	Sandvik Tooling Deutschland GmbH	100	100
	TDM Systems GmbH	100	100
	Walter AG	100	100
	Walter Deutschland GmbH	100	100
	Werner Schmitt PKD-Werkzeug GmbH	100	100
	Seco Tools GmbH	100	—
	Pramet GmbH	100	—
	Sandvik Mining and Construction Ghana Ltd.	100	100
GHANA	Sandvik Hong Kong Ltd.	100	100
HONG KONG	Walter Hungaria Kft.	100	100
HUNGARY	Seco Tools Kft.	100	—
	Walter Tools India Pvt. Ltd.	100	100
INDIA	Seco Tools India Private Limited	100	—
INDONESIA	PT Sandvik Indonesia	100	100
	PT Sandvik Mining and Construction Indonesia	100	100
	PT Sandvik SMC	100	100
IRELAND	Diamond Innovations International Sales	100	100
ITALY	Sandvik Italia S.p.A.	100	100
	Walter Italia S.R.L.	100	100
JAPAN	Seco Tools Italia S.p.A.	100	—
	Sandvik Mining and Construction Japan K.K.	100	100
	Sandvik Tooling Supply Japan K.K.	100	100
	Walter Tooling Japan K.K.	100	100
	Seco Tools Japan K.K.	100	—

cont. NOTE 15

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

Group holding, %		2012 ¹⁾	2011 ¹⁾
KAZAKHSTAN	Sandvik Mining and Construction Kazakhstan Ltd	100	100
KOREA	Sandvik SuhJun Ltd.	100	100
	Walter Korea Ltd.	100	100
	Seco Tools Korea Ltd.	100	—
MALAYSIA	Sandvik Malaysia Sdn. Bhd.	100	100
	Sandvik Mining and Construction (Malaysia) Sdn. Bhd.	100	100
MEXICO	Sandvik de México S.A. de C.V.	100	100
	Sandvik Mining and Construction de México S.A. de C.V.	100	100
	Walter Tools S.A. de C.V.	100	100
NETHERLANDS	Sandvik Benelux B.V.	100	100
NEW ZEALAND	Sandvik New Zealand Ltd.	100	100
NIGERIA	Sandvik Mining and Construction Nigeria Ltd.	100	100
NORWAY	Sandvik Coromant Norge AS	100	100
	Teeness ASA	100	100
	Sandvik Mining and Construction Norge AS	100	100
	Seco Tools AS	100	—
PHILIPPINES	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
	Seco Tools (Poland) Sp. z o.o.	100	—
ROMANIA	Sandvik SRL	100	100
RUSSIA	LLC Sandvik	100	100
	OOO Walter	100	100
	Sandvik Mining and Construction CIS LLC	100	100
	Sandvik-MKTC OAO	100	100
	Firma ALG LLC	99	—
	LLC Pramet	100	—
	LLC "Seco Tools"	100	—
	Sandvik Mining and Construction S.E. Asia Pte. Ltd.	100	100
SINGAPORE	Sandvik South East Asia Pte. Ltd.	100	100
	Walter AG Singapore Pte. Ltd.	100	100
	Seco Tools (SEA) Pte. Ltd.	100	—
	Sandvik Mining and Construction RSA (Pty) Ltd.	100	100
SOUTH AFRICA	Sandvik (Pty) Ltd.	100	100
	Sandvik Mining and Construction Delmas (Pty) Ltd.	100	100
	Seco Tools South Africa (Pty) Ltd.	100	—
	Sandvik Española S.A.	100	100
SPAIN	Walter Tools Iberica S.A.U.	100	100
	Seco Tools España S.A.	100	—
	Sandvik AG	100	100
SWITZERLAND	Santrade Ltd.	100	100
	Walter (Schweiz) AG	100	100
	Seco Tools AG	100	—
	Sandvik Hard Materials Taiwan Pty. Ltd.	100	100
TAIWAN	Sandvik Taiwan Ltd.	100	100
TANZANIA	Sandvik Mining and Construction Tanzania Ltd.	100	100
THAILAND	Sandvik Thailand Ltd.	100	100
	Walter (Thailand) Co. Ltd.	100	100
TURKEY	Walter Cutting Tools Industry and Trade LLC	100	100
UK	Dormer Tools Ltd.	100	100
	SMC Mobile Crushers and Screens Swadlincote	100	100
	Sandvik Materials Technology UK Ltd.	100	100
	Sandvik Ltd.	100	100
	Sandvik Osprey Ltd.	100	100
	Walter GB Ltd.	100	100
	Seco Tools (U.K) Ltd.	100	—
	Sandvik Ukraine	100	100
	Diamond Innovations Inc.	100	100
	Sandvik Wire and Heating Technology Corporation	100	100
US	Sandvik Thermal Process Inc.	100	100
	Pennsylvania Extruded Tube Co.	70	70
	Precision Dormer LLC	100	100
	Sandvik Customer Finance LLC	100	100
	Sandvik Inc.	100	100
	Sandvik Mining and Construction USA LLC	100	100
	Sandvik Process Systems LLC	100	100
	Sandvik Special Metals LLC	100	100
	Walter USA LLC	100	100
	Seco Tools Inc	100	—
	Niagara Cutter, LLC	100	—
	Sandvik Mining and Construction Zambia Ltd.	100	100
ZAMBIA			

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

2) Share of votes 60% (60).

NOTE 16. INVESTMENTS IN ASSOCIATED COMPANIES

Group	2012	2011
Accumulated share of equity		
At beginning of year	456	467
Divestment of associates	-73	—
Share of profits for the year	6	7
Less dividend received	-15	-12
Translation differences during the year	-18	-6
Carrying amount at end of year	356	456

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

2012	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB							
Oerlikon Balzers Sandvik Coating AB	Sweden	108	23	80	16	64	49.0
Carpenter Powder Products AB	Sweden	168	11	—	—	—	—
Owned indirectly by Sandvik AB							
Bellataire LLC	US	1	0	—	—	—	—
Eimco Elecon	India	213	24	219	32	184	25.1
Fagersta Stainless AB	Sweden	1,415	-62	628	313	315	50.0
Precorp Inc.	US	181	18	188	65	123	49.0
Fagersta Seco AB	Sweden	0	0	3	2	1	50.0
Fagerstahälsan AB	Sweden	7	0	10	8	2	50.0
S.C.I Le Palatinat	France	1	1	3	2	1	49.0
Alfa Tool International AB	Sweden	92	7	—	—	—	—
Shanghai Innovatools Co. Ltd.	China	5	4	10	2	8	40.0
2011	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB							
Oerlikon Balzers Sandvik Coating AB	Sweden	116	25	70	20	50	49.0
Carpenter Powder Products AB	Sweden	230	13	196	35	161	40.0
Owned indirectly by Sandvik AB							
Bellataire LLC	US	36	0	73	7	66	50.0
Eimco Elecon	India	256	19	184	2	178	25.1
Fagersta Stainless AB	Sweden	1,827	-43	850	473	377	50.0
Precorp Inc.	US	162	12	174	61	113	49.0
Associates owned by Seco Tools		107	12	65	25	40	

Additional information

The close of the reporting period for the associate Eimco Elecon is 31 March 2012. Dividend paid in 2012 is included in the calculation of the proportion of equity. No financial statements as of a later date have been obtained. Other associates are recognized one month in arrears. The associated company Bellataire LLC and Carpenter Powder Products AB were divested in 2012. The earnings and profits for divested companies were recognized up to the date of sale. The outstanding shares in the associated company Alfa Tool International AB were acquired in 2012. Earnings and profits were recognized up to the date of acquisition.

Parent Company's shares in associated companies	2012	2011
Cost		
At beginning of year	66	66
Acquisitions of associated companies	—	—
Divestments of associated companies	-62	—
Carrying amount at end of year	4	66

	Corp. Reg. No.	Share of capital and voting rights, %
2012		
Oerlikon Balzers Sandvik Coating AB, Stockholm	556098-1333	49
2011		
Oerlikon Balzers Sandvik Coating AB, Stockholm	556098-1333	49
Carpenter Powder Products AB, Torshälla	556223-2594	40

NOTE 17. FINANCIAL INVESTMENTS

Group	2012	2011
Non-current financial investments		
Shares and participations	80	80
Total	80	80

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	2012	2011
Non-current receivables		
Derivatives designated as hedging instruments	403	491
Funded pension plans	1,555	1,573
Other noninterest-bearing receivables	899	736
Other interest-bearing receivables	428	429
Total	3,285	3,229
Other current receivables		
Derivatives held as investments	1	1
Derivatives designated as hedging instruments	949	490
Due from customers for contract work	1,520	1,261
Other noninterest-bearing receivables	2,446	2,647
Other interest-bearing receivables	423	455
Advances to suppliers	532	456
Total	5,871	5,310
Parent Company	2012	2011
Non-current receivables		
Derivatives	—	5
Other noninterest-bearing receivables	145	1
Other interest-bearing receivables	27	21
Total	172	27
Other current receivables		
Derivatives	294	153
Other noninterest-bearing receivables	184	213
Other interest-bearing receivables	2	2
Total	480	368

NOTE 20. TRADE RECEIVABLES

Age analysis of trade receivables

Group	2012			2011		
	Gross	Allowance for bad debts	Net carrying amount	Gross	Allowance for bad debts	Net carrying amount
Current receivables	10,395	–39	10,355	11,679	–102	11,577
Past due receivables 0–3 months	2,677	–103	2,574	2,406	–61	2,345
Past due receivables 3–12 months	857	–207	650	749	–143	606
Past due receivables >12 months	490	–490	0	406	–371	35
Total	14,419	–840	13,579	15,240	–677	14,563

NOTE 21. CAPITAL AND RESERVES

Group		
Details of reserves	2012	2011
Translation reserve		
At beginning of year	1,832	2,099
Translation differences during the year	–1,578	–267
At end of year	254	1,832
Hedging reserve		
At beginning of year	17	475
Cash-flow hedges recognized in other comprehensive income	110	–458
At end of year	127	17
Total reserves		
Reserves at beginning of year	1,849	2,574
Changes in reserves:		
Translation reserve	–1,578	–267
Hedging reserve	110	–458
Reserves at end of year	381	1,849

Group

Construction contracts	2012	2011
Contract costs incurred and recognized profits (less recognized losses)	9,780	9,958
Advances received	1,525	1,247
Amounts retained by customers	71	50
Gross amount due from customers	1,520	1,261
Gross amount due to customers	2,407	1,616

NOTE 19. INVENTORIES

	Group		Parent Company	
	2012	2011	2012	2011
Raw materials and consumables	6,493	6,659	1,518	1,587
Work in progress	4,883	5,543	1,530	1,729
Finished goods	14,132	13,875	761	707
Total	25,508	26,077	3,809	4,023

Cost of sales of the Group includes impairment of inventories of 515 million SEK (379) while cost of sales of the Parent Company includes impairment of 219 million SEK (181). There were no significant reversals of impairment losses during 2012 and 2011.

Other paid-in capital

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

Reserves**Translation reserve**

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

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow hedging instruments related to hedged transactions that have not yet occurred. The entire change in cash-flow hedges transferred to profit/loss for the year is attributable to operating profit for both 2012 and 2011.

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.

cont. NOTE 21

Management of capital**Financial goals**

The Group's financial goals are as follows:

	2013	2012
Growth, total	8%	8%
Return on capital employed	25%	25%
Net debt/equity ratio	<0.8	<0.8
Dividend payout percentage	50%	50%

Parent Company**Share capital**

According to the Articles of Association of Sandvik AB, the share capital shall amount to a minimum of 700,000,000 SEK and a maximum of 2,800,000,000 SEK. All issued shares are fully paid, have the same voting rights and are equally entitled to the company's assets.

Share capital has changed as follows over the past two years:

	No. of shares	Quotient value SEK/share	Share capital SEK
Share capital at 31 December 2010	1,186,287,175	1.20	1,423,544,610
Share capital at 31 December 2011	1,186,287,175	1.20	1,423,544,610
Non-cash issue, 17 January 2012	66,889,974	1.20	80,267,969
Non-cash issue, 6 February 2012	1,208,774	1.20	1,450,529
Share capital at 31 December 2012	1,254,385,923	1.20	1,505,263,108

In 2012, two non-cash issues were carried out in conjunction with the public offer to shareholders of Seco Tools AB. Consequently, the number of shares and votes increased by 68,098,748. Following the non-cash issues, the total number of shares and votes amounts to 1,254,385,923 and the share capital to 1,505,263,108.

A dividend is proposed by the Board of Directors in accordance with the stipulations in the Swedish Companies' Act, and is approved at the Annual General Meeting. The proposed, not yet resolved, dividend for 2012 is estimated to amount to 4,390 million SEK (3.50 SEK per share). This amount is not recognized as a liability.

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

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

NOTE 22. PARENT COMPANY'S OTHER UNTAXED RESERVES

	2012	2011
Country risk reserve	3	10
Total other untaxed reserves	3	10

NOTE 23. PROVISIONS FOR PENSION AND OTHER NON-CURRENT POST-EMPLOYMENT BENEFITS

Sandvik provides direct pension solutions and otherwise participates in a number of defined-benefit, defined-contribution and other plans for long-term post-employment benefits to employees throughout the Group. The plans are structured in accordance with local regulations and local practice. In recent years, Sandvik has sought to move more pensions toward defined-contribution solutions and to an ever-increasing extent the total pension expense comprises the costs for such plans. In principle, the plans cover all employees. The Group's most significant pension arrangements are described below.

Sweden

Workers are covered by the SAF/LO Plan, which is a multiemployer collectively bargained defined-contribution pension plan common for several industry sectors. Salaried employees are covered by the ITP Plan, which is also a multi-employer collectively bargained pension plan for several industry sectors. The ITP Plan applies to all white-collar employees, of which newly hired are offered the defined contribution solution that the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector have agreed on (ITP 1). Earlier hired employees remain in the old ITP

Equity

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

	2012	2011
Equity		
Share capital	1,505	1,424
Other paid-in capital	7,678	1,057
Reserves	381	1,849
Retained earnings including profit for the year	26,561	28,160
Equity attributable to equity holders of the Parent	36,125	32,490
Non-controlling interests	107	1,401
Total equity	36,232	33,891

The Board of Directors has proposed to the 2013 Annual General Meeting a dividend of 3.50 SEK per share (3.25). The proposal corresponds to approximately 54% of the recognized earnings per share.

No changes were made to the processes for managing capital during the year. Neither the Parent Company nor any of its subsidiaries have to comply with externally imposed capital requirements.

Undistributable reserves

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

Statutory reserve

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

Distributable**Share premium reserve**

Comprises the value of shares that have been issued at a premium, meaning the price paid was in excess of the share's quotient value. The amount received in excess of the quotient value was transferred to the share premium reserve.

Retained earnings

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

Plan (ITP 2). The old-age pension obligation under the ITP 2 Plan is of the defined-benefit kind and Sandvik mainly provides for this pension under the so-called FPG/PR1 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 2012, Alecta reports a plan surplus of 129% (113). 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.

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

At 31 December 2012, the defined-benefit obligation amounted to 3,332 million SEK (2,837). Plan assets held by the Sandvik Pension Foundation in Sweden was 1,990 million SEK (1,847).

cont. NOTE 23

US

The employees of the Group's US subsidiaries have mainly been entitled to participate in the defined-benefit pension plans sponsored by their respective employer. These plans are closed for new entrants and new employees are instead offered a defined-contribution solution.

In the US part of the Group, there are also commitments for post-retirement medical benefits. At 31 December 2012, the present value of remaining defined-benefit pension obligations was 4,643 million SEK (4,011). The value of plan assets was 3,084 million SEK (2,718).

UK

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

At 31 December 2012, the present value of remaining defined-benefit pension obligations was 4,950 million SEK (4,485). The value of the corresponding plan assets was 4,095 million SEK (3,863).

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 2012, the present value of the defined-benefit pension obligations was 2,200 million SEK (1,978). The value of the plan assets held by the Finnish pension foundation was 2,495 million SEK (2,392).

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 2012 was SEK 1,870 million SEK (1,611). The value of the plan assets held by the German pension foundation was 871 million SEK (786).

Other

The present value of defined-benefit pension obligations in other countries was 2,145 million SEK (1,907). The value of related plan assets was 1,346 million SEK (1,230).

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

Pension cost	2012	2011
Current service cost	-441	-329
Interest expense	-757	-734
Expected return on plan assets	692	734
Amortization of unrecognized gains and losses	-223	-55
Past service cost	-7	-23
Employee contributions	—	—
Gains (losses) on settlements	19	-10
Total defined-benefit pension cost	-717	-417

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

Defined-contribution and defined-benefit plans	2012	2011
Defined-contribution plans	-1,022	-1,330
Defined-benefit plans	-717	-417
Total pension cost	-1,739	-1,747

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

Actual return on plan assets during 2012 was 1,320 million SEK (310).

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, 195 million SEK (140), of the interest expense above that pertains to deficits in pension plans.

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

Provision for pensions/medical benefits	2012	2011
Funded plans recognized as non-current receivables	1,555	1,573
Pension plans recognized as provisions for pensions	-2,242	-2,358
Provisions for pensions/medical benefits, net	-687	-785

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

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

Net obligation	2012	2011
Wholly or partly funded plans		
Present value of defined-benefit obligations	-17,345	-15,331
Fair value of plan assets	13,882	12,836
Net liability, funded plans	-3,463	-2,495

Unfunded plans

Present value of defined-benefit obligations	-1,795	-1,498
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Funded and unfunded plans

Unrecognized past service costs	22	18
Unrecognized actuarial losses (+) and gains (-), net	4,741	3,384

Pension liability for plans recognized in accordance with IAS 19

Pension liability for plans recognized in accordance with local regulations	-192	-194
Provisions for pensions/medical benefits, net	-687	-785

The consolidation ratio, that is, the value of plan assets in relation to the present value of comparable obligations, amounted at year-end 2012 to 80% (84).

Composition of plan assets, %	2012	2011
Shares and equity-based securities	35	35
Interest-bearing securities	47	49
Other	18	16
Total	100	100

The fair value of plan assets at 31 December 2012 includes loans to Sandvik entities totaling 41 million SEK (70) and the value of properties leased to Sandvik of 233 million SEK (206).

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

Movements in the obligations	2012	2011
Obligations for defined-benefit plans at beginning of year	-16,829	-15,014
Current service cost and interest expense	-1,197	-1,062
Pensions paid	660	618
Effects of business combinations and settlements	-13	-52
Actuarial gains (+)/losses (-)	-2,321	-1,181
Foreign exchange differences	560	-138
Obligations for defined-benefit plans at end of year	-19,140	-16,829

cont. NOTE 23

Movements in plan assets	2012	2011
Fair value of plan assets at beginning of year	12,836	12,447
Expected return on plan assets	691	734
Actuarial gains(+)/losses(-)	629	-424
Pensions paid, net	-660	-609
Contributions from employers	834	558
Effects of business combinations and settlements	-24	31
Foreign exchange differences	-424	99
Fair value of plan assets at end of year	13,882	12,836

Sandvik estimates that about 650 million SEK (500) will be paid in 2013 to existing defined-benefit pension plans.

The movements in the net pension and medical-benefit liability are presented in the following table:

	2012	2011
Net liability at beginning of year	-785	-780
New plans, incl. those of newly acquired companies	—	—
Pension cost for the year for defined-benefit plans	-717	-417
Contributions from Group companies	834	558
Movement in the net liability due to foreign exchange differences	-21	8
Movement in net liability for defined-benefit plans recognized in accordance with IAS 19	96	149

Movement in pension plans recognized in accordance with local regulations	2	-154
Provisions for pensions, net	-687	-785

Key actuarial assumptions (weighted average, %)	2012	2011
Discount rate	3.9	4.6
Expected return on plan assets	4.1	6.1
Expected rate of salary increases	3.1	3.1
Expected inflation	2.3	2.4
Change in medical cost trend	7.3	8.5

To determine the discount rate, AA credit rated corporate bonds are used that correspond to the duration of the pension obligation. If there is no deep market for corporate bonds, government bonds are instead used as the basis for determining the discount rate. Mortgage bonds have been used for the past number of years in Sweden to determine the discount rate.

Unrecognized actuarial gains (-) and losses (+)	2012	2011	2010	2009	2008
Unrecognized gains and losses at beginning of year	3,384	1,789	2,359	2,353	932
Changed assumptions relating to obligations	1,907*	1,082*	-82	882	-746
Experience adjustments arising on plan liabilities	414	99	-25	73	-30
Difference between anticipated and actual return on plan assets	-629	424	-372	-783	2,087
Amortization of actuarial gains and losses	-223	-55	-80	-110	-10
Translation difference	-112	45	-11	-56	120
Unrecognized gains and losses at end of year	4,741	3,384	1,789	2,359	2,353

* The change is mainly due to assumptions regarding a reduction in the discount rate.

Parent Company

The Parent Company's recognized pension provision was 325 million SEK (368). 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 value of the assets held by the foundation was 1,990 million SEK (1,847), which was 282 million SEK lower than the capital value of the pension obligations, compared with 325 million SEK higher in 2011. The deficit was recognized as a liability in the companies.

The Parent Company's funded obligations mainly comprise ITP Plans.

The trend in the capital value of the company's proprietary obligations.

2012	Funded obligations	Unfunded obligations	Total
Capital value at beginning of year	-1,693	-88	-1,781
Pension cost for the year excl. interest expense	-88	0	-88
Interest expense	-77	-2	-79
Pensions paid	67	19	86
+/- effects of settlements and business combinations	1	—	1
Other changes	13	-1	12
Capital value at end of year	-1,777	-72	-1,849
of which insured with FPG/PRI	-1,767	-56	-1,823

2011	Funded obligations	Unfunded obligations	Total
Capital value at beginning of year	-1,500	-88	-1,588
Pension cost for the year excl. interest expense	-76	-12	-88
Interest expense	-63	-1	-64
Pensions paid	59	6	65
+/- effects of settlements and business combinations	1	—	1
Other changes	-114	7	-107
Capital value at end of year	-1,693	-88	-1,781
of which insured with FPG/PRI	-1,682	-67	-1,749

Movement in the assets of the pension foundation	2012	2011
Fair value of assets at beginning of year	1,437	1,511
Actual return on assets	111	-74
Net amount refunded to employers	—	—
Fair value of assets at end of year	1,548	1,437

Reconciliation of the recognized pension liability	2012	2011
Capital value at end of year	-1,849	-1,781
Fair value of the assets of the foundation at end of year	1,548	1,437
Surplus/deficit value of foundation assets	-24	-24
Recognized net liability	-325	-368

The recognized pension cost for the year comprises the following items	2012	2011
Current service cost excl. interest expense	-88	-88
Interest expense	-79	-64
Return on separated assets	111	-74
Effects of settlements, etc.	12	-107
Costs for pension under own management	-44	-333

Defined-contribution plans		
Pension premiums for the year	-476	-522
Subtotal	-520	-855

Special employer's contribution	-101	-160
Premium for credit insurance policy	—	—
Total pension cost for the year	-621	-1,015

Change in surplus value of separated assets	64	65
Net pension cost for the year	-557	-950

Composition of the foundation's assets, %	2012	2011
Shares and equity-based securities	15	15
Interest-bearing securities	64	64
Other	21	21
Total	100	100

Key actuarial assumptions, %	2012	2011
Discount rate for the ITP Plan	3.84	3.84

NOTE 24. OTHER PROVISIONS

Group	Provisions for warranties	Provisions for restructuring	Provisions for employee benefits	Provisions for environmental obligations	Provisions for legal disputes	Provisions for other obligations	Total
Balance at 31 December 2011	519	468	262	301	53	1,498	3,101
Provisions made during the year	304	653	394	150	66	443	2,010
Provision taken over by acquisition	—	—	—	—	—	—	—
Provisions used during the year	-238	-421	-136	-149	-1	-963	-1,908
Provisions reversed during the year	-64	-1	-13	—	—	-113	-191
Translation differences	-18	-4	-11	-12	-7	-25	-77
Balance at 31 December 2012	503	695	496	290	111	840	2,935
of which current	334	597	334	92	49	435	1,841
of which non-current	169	98	162	198	62	405	1,094

Parent Company

Balance at 31 December 2011	27	110	167	14	—	11	329
Provisions made during the year	6	7	59	11	—	3	86
Provisions used during the year	-11	-100	-45	-14	—	-6	-176
Unutilized provisions reversed during the year	—	—	-4	—	—	-1	-5
Balance at 31 December 2012	22	17	177	11	—	7	234

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 benefits

A provision for personnel-related benefits is recognized in accordance with agreements entered for long-term incentive programs, local bonus programs, part-time pensions and other personnel obligations.

Environment-related provisions

Environment-related provisions include provisions for environmental remediation measures related to the Group's sites.

Legal disputes

Legal disputes include provisions for claims which, at the balance sheet date, had not been closed.

Other provisions

Other provisions include provisions for onerous contracts and obligations within the scope of Sandvik Försäkring AB's operations. At 1 January 2012, the insurance business had provisions of 701 million SEK, of which 511 million SEK was utilized during the year. Provisions classified as current are expected to result in an outflow of resources within twelve months from the balance sheet date.

NOTE 25. NON-CURRENT INTEREST-BEARING LIABILITIES**Parent Company**

Non-current interest-bearing liabilities fall due as follows:

	2012			2011		
	Within one to five years	Later than five years	Total	Within one to five years	Later than five years	Total
Loans from financial institutions	3,852	—	3,852	1,816	—	1,816
Loans from Group companies	59	302	361	150	151	301
Other liabilities	9,830	8,003	17,833	11,100	2,855	13,955
Total	13,741	8,305	22,046	13,066	3,006	16,072

NOTE 26. OTHER INTEREST-BEARING LIABILITIES

Group	2012	2011
Non-current liabilities		
Bond issues	23,380	19,901
Other	202	381
Total	23,582	20,282
Current liabilities		
Bond issues	1,667	1,395
Other	23	458
Total	1,690	1,853

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	2012	2011
Other non-current liabilities		
Derivatives designated as hedging instruments	118	176
Other	66	33
Total	184	209
Other current liabilities		
Derivatives held for trading	—	1
Derivatives designated as hedging instruments	809	700
Bills payable	72	123
Gross amount due to construction contract customers	2,407	1,616
Other	1,712	1,882
Total	5,000	4,322

NOTE 28. ACCRUED EXPENSES AND DEFERRED INCOME

Parent Company	2012	2011
Personnel related	1,473	1,672
Expenses related to finance	925	749
Other	357	695
Total	2,755	3,116

NOTE 29. CONTINGENT LIABILITIES AND PLEDGED ASSETS

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

In 2005, Sandvik AB implemented a reorganization of ownership and management of intellectual property rights. All Swedish-owned patents and trademarks were transferred to Sandvik Intellectual Property AB (IP Company). As a result of the reorganization, the Swedish National Tax Board did not approve the IP company's tax returns and the Public Commissioner filed an appeal against the Tax Board's decision relating to Sandvik AB.

The Public Commissioner requested that Sandvik AB be taxed in 2005 for a capital gain of 18,097 million SEK, which arose in the Group in conjunction with the reorganization. In June 2010, the Administrative Court approved the Public Commissioner's appeal pertaining to additional taxation of Sandvik AB for 2005. The decision has been appealed to the Administrative Court of Appeal. The decision, if it gains legal force, entails that Sandvik AB will be taxed for additional earnings of 18,097 million SEK for 2005. For further details, refer to the Integrated risk management section.

	Group		Parent Company	
	2012	2011	2012	2011
Contingent liabilities				
Bills discounted	19	39	—	—
Other surety undertakings and contingent liabilities	1,342	1,577	15,265	12,006
Total	1,361	1,616	15,265	12,006
of which for subsidiaries			14,721	11,526

The Parent Company's surety undertakings and contingent liabilities amounted to 15,265 million SEK (12,006), of which 9,515 million SEK (7,850) related to the Parent Company's guarantees for Sandvik Treasury AB's financial borrowings. The remainder comprised mainly indemnity bonds for commitments of Group companies to their customers and vendors, and to financial institutions relating to local borrowings, guarantees on advances received and various types of performance bonds.

The Group's surety undertakings and contingent liabilities amounted to 1,361 million SEK (1,616) and comprised mainly guarantees to financial institutions for various types of performance bonds, chiefly relating to construction contracts entered into by Sandvik Mining and Sandvik Construction.

Pledged assets

Pledged assets for own liabilities and provisions.

Group	2012	2011
Property mortgages	193	206
Chattel mortgages	104	108
Total	297	314

No assets of the Parent Company had been pledged in 2012 and 2011.

**NOTE 30. SUPPLEMENTARY INFORMATION
– FINANCIAL RISK MANAGEMENT****Disclosure regarding financial instruments measured at fair value in the balance sheet**

Under the IFRS 7 disclosure requirements, the method applied to the valuation of financial instruments measured at fair value in the balance sheet is presented below. The valuation is divided into three levels:

Level 1: Fair value is determined according to prices listed on an active market for the same instrument.

Level 2: Fair value is determined based on either directly (as a price) or indirectly (derived from prices) observable market data that is not included in level 1.

Level 3: Fair value is determined based on input data that is not observable in the market.

All of Sandvik's financial instruments are included in Level 2.

Measurements of fair value

The following is a summary of the methods and assumptions primarily applied to determine the fair value of the financial instruments presented in the table below.

The fair value of listed securities is determined based on the listed average price of the asset on the balance sheet date with no supplement for transaction costs on the acquisition date.

The fair value of foreign exchange contracts is determined based on the listed price. The fair value of interest-rate swaps is based on discounting estimated future cash flows under the contractual terms and conditions and maturity dates and based on the market interest rate for similar instruments on the balance sheet date. Where discounted cash flows are used, the future cash flows are calculated on the best assessments of company management. The discount rate applied is the market-based interest rate of similar instruments on the balance sheet date.

All valuation techniques applied are accepted in the market and take into account all parameters that the market would consider in its pricing. These techniques are reviewed regularly so as to ensure their reliability. Applied assumptions are compared against actual outcomes to identify any needs for adjusting the measurement or forecasting tools.

For means of payment, receivables and liabilities with variable interest and current receivables and liabilities (for example, trade receivables and accounts payable), the fair value has been considered to correspond to the carrying amount.

The Group's financial instruments measured at fair value in the balance sheet on 31 December 2012

Financial instruments measured at fair value		2012	2011
Financial assets			
Derivatives	Foreign exchange contracts	950	749
	Foreign currency options	80	16
	Interest-rate swaps	294	153
	Commodity and electricity derivatives	29	64
	Total	1,353	982
Financial liabilities			
Derivatives	Foreign exchange contracts	393	560
	Foreign currency options	—	—
	Interest-rate swaps	399	201
	Commodity and electricity derivatives	134	117
	Total	926	878

cont. NOTE 30

Financial assets and liabilities and financial derivatives are stated at fair value, except for current and non-current borrowings, which are measured at amortized cost. Calculation at fair value would increase the Group's non-current borrowings by 1,696 million SEK (1,276). When measuring interest-bearing liabilities, the company's Swedish and European bond loans have then been remeasured at listed market prices when available. Other non-current debt has been remeasured in accordance with the principles described above. Current

loans, which include outstanding commercial papers with a fixed interest period of less than 12 months, have not been remeasured.

The table below shows the fair value of financial assets and liabilities compared with their carrying amounts. Fair value is the amount at which an asset or liability can be sold between well-informed partners who are independent in relation to each other and who have a vested interest in completing the transaction.

Fair value of financial assets and liabilities by valuation category

Balance-sheet items	Derivatives for hedge accounting ¹⁾		Assets at fair value through profit and loss Derivatives held for trading ²⁾		Available-for-sale financial assets		Loans and receivables		Total carrying amount		Fair value	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Financial assets												
Financial investments	—	—	—	—	79	80	—	—	79	80	79	80
Trade receivables	—	—	—	—	—	—	13,579	14,418	13,579	14,418	13,579	14,418
Other receivables ³⁾	—	—	—	—	—	—	908	1,023	908	1,023	908	1,023
Derivatives ⁴⁾	720	701	633	281	—	—	—	—	1,353	982	1,353	982
Cash and cash equivalents	—	—	—	—	—	—	13,829	5,591	13,829	5,591	13,829	5,591
Total financial assets	720	701	633	281	79	80	28,316	21,032	29,748	22,094	29,748	22,094

Financial liabilities	Derivatives for hedge accounting ¹⁾		Liabilities at fair value through profit and loss Derivatives held for trading ²⁾		Other financial liabilities		Total carrying amount		Fair value	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Borrowings ⁵⁾	—	—	—	—	34,961	30,715	34,961	30,715	36,657	31,991
Derivatives ⁶⁾	462	575	464	303	—	—	926	878	926	878
Accounts payable	—	—	—	—	6,585	8,133	6,585	8,133	6,585	8,133
Due to associates	—	—	—	—	14	63	14	63	14	63
Other liabilities ⁷⁾	—	—	—	—	72	123	72	123	72	123
Total financial liabilities	462	575	464	303	41,632	39,034	42,558	39,912	44,254	41,188

- 1) Of which 163 million SEK (23) pertains to cash-flow hedges recognized in the hedging reserve in equity and 96 million SEK (103) pertains to fair-value hedges recognized in profit or loss.
2) Of which 169 million SEK (–27) pertains to financial hedges; hedge accounting is not applied.
3) Comprises parts of the Group's non-current receivables, accrued income and other receivables recognized in the balance sheet.
4) Derivatives form part of the other receivables recognized in the balance sheet.
5) Recognized in the balance sheet as non-current and current liabilities to financial institutions and other liabilities.
6) Derivatives form part of the other liabilities recognized in the balance sheet.
7) Form part of the Group's non-current liabilities, accrued expenses and other liabilities recognized in the balance sheet.

Net result per valuation category

In addition to fair value adjustment, interest and currency movement effects are included.

	2012	2011
Assets and liabilities at fair value (Derivatives)	223	–473
Loans and accounts receivables	–233	470
Available-for-sale financial assets	8	0
Financial liabilities	–2,042	–1,870

The company's financial liabilities amounted to 42,558 million SEK (39,912) at year-end.

Group's maturity structure relating to undiscounted cash flows for financial liabilities and derivatives

		2012				2011			
Nominal amounts		<6 months	6–12 months	1–5 years	>5 years	<6 months	6–12 months	1–5 years	>5 years
Bank loans	SEK	–1,100	–68	–6,494	–1,301	–2,495	–2,451	–4,674	—
Commercial papers	SEK	—	—	—	—	–200	—	—	—
MTN	SEK	–2,201	–66	–7,184	–1,638	–831	–923	–7,571	–3,433
EMTN	EUR	–422	–93	–6,296	–6,316	–349	—	–5,968	—
Private placement	USD	–138	–138	–2,431	–3,878	–142	–142	–1,140	–5,798
Derivatives									
– Currency derivatives		97	105	326	—	–154	52	279	—
– Interest-rate derivatives		83	–72	–10	–147	118	–58	137	–49
– Commodity and electricity derivatives		–32	–24	–48	—	–49	–18	10	—
Finance leases		–15	–15	–59	–46	–15	–15	–76	–59
Accounts payable		–6,585	—	—	—	–8,133	—	—	—
Total		–10,313	–371	–22,196	–13,326	–12,250	–3,555	–19,004	–9,339

The maturity structure of the Group's financial liabilities is also presented in the Report of the Directors in the financial risk section.

cont. NOTE 30

Periods when hedged cash flows are expected to occur and affect earnings

	Q 1, 2013	Q 2, 2013	Q 3, 2013	Q 4, 2013	Q 1, 2014	Q 2, 2014	Q 3, 2014	Q 4, 2014	2015 and later
Currency derivatives	46	49	49	46	37	50	52	34	124
Interest derivatives	—	—	—	—	—	—	—	—	-221
Commodity and electricity derivatives	-13	-18	-17	-9	-1	-12	-13	-2	-19
Total	33	31	32	37	36	38	39	32	-116

NOTE 31. RELATED PARTIES

Related-party transactions

The Group's sales to associated companies amounted to 729 million SEK (1,127). The Group's purchases from associated companies amounted to 383 million SEK (496). Advances have been made to associated companies in the amount of 0 million SEK (0). Interest income on loans to associated companies amounted to 0 million SEK (0). Guarantees have been made for the obligations of associated companies in the amount of 0 million SEK (0). All transactions are carried out on market terms.

Sales to Group companies from the Parent Company amounted to 14,861 million SEK (13,944), or 87% (80) of total sales. The share of exports was 62% (73). The Parent Company's purchases from Group companies amounted to 1,589 million SEK (2,357), or 10% (14) of total purchases. The Parent Company granted no loans to associated companies. Guarantees have been made for obligations of associated companies in the amount of 0 million SEK (0). All transactions are effected on an arm's length basis.

Transactions with key management personnel

Except as indicated in Note 3.5, Information on benefits to the Board of Directors and senior executives, and in the description of the Board of Directors on page 42, no transactions took place with persons closely associated with the company.

NOTE 32. SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT

	2012	2011
Cash and cash equivalents – Group		
Cash and cash equivalents comprise:		
Cash and bank	5,620	3,109
Short-term investments comparable to cash and cash equivalents	8,209	2,483
Total in the balance sheet	13,829	5,592
Total in the cash-flow statement	13,829	5,592
Cash and cash equivalents – Parent Company		
Cash and cash equivalents comprise:		
Cash and bank	25	8
Total in the balance sheet	25	8
Total in the cash-flow statement	25	8

A short-term investment is classified as a cash and cash equivalent if:

- The risk of changes in value is insignificant.
- It is readily convertible into cash.
- It has a maturity of no more than three months from the date of acquisition.

	Group		Parent Company	
	2012	2011	2012	2011
Interest and dividend paid				
Dividend received	8	—	9,636	1,710
Interest received	265	189	349	70
Interest paid	-2,031	-1,837	-1,576	-1,401
Total	-1,758	-1,648	8,409	379

cont. NOTE 32. SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT

	Group		Parent Company	
	2012	2011	2012	2011
Adjustment for non-cash items, etc.				
Changes in value of financial instruments	—	—	52	431
Unappropriated results of associated companies	5	9	—	—
Gains and losses on disposal of property, plant and equipment	-34	97	21	9
Provisions for pensions	183	106	-44	269
Other provisions	-89	1,348	-81	163
Appropriations	—	—	-6	8
Unrealized foreign exchange differences	—	—	-255	-8
Other	186	-201	-360	-172
Total	251	1,359	-673	700

	2012	2011
Acquisitions of subsidiaries and other business operations – Group		
Net assets acquired:		
Non-current assets	27	495
Inventories	15	185
Operating receivables	-52	264
Cash and cash equivalents	13	93
Total assets	3	1,037
Provisions	27	-93
Operating liabilities	-8	-604
Other liabilities	-3	-257
Total provisions and liabilities	16	-954
Purchase consideration recognized as a liability	-5	-72
Purchase consideration paid	-44	-431
Less cash and cash equivalents of divested operations	5	93
Effect on cash and cash equivalents	-39	-338

Acquired assets and liabilities include the effects of the final acquisition balance relating to the acquisition of SJL, China, which took place in 2011.

	2012	2011
Divestments of subsidiaries and other business units – Group		
Divested assets and liabilities:		
Non-current assets	599	—
Inventories	117	—
Operating receivables	96	—
Cash and cash equivalents	3	—
Total assets	815	—
Provisions	-27	—
Operating liabilities	-65	—
Total provisions and liabilities	-92	—
Purchase consideration received	695	—
Less cash and cash equivalents in the divested operation	-3	—
Effect on cash and cash equivalents	692	—

NOTE 33. ACQUISITION AND DIVESTMENT OF OPERATIONS

The business combinations effected during 2011 and 2012 are set out below. Annual revenue and number of employees reflect the situation at the date of the respective acquisition.

Business area	Company	Acquisition date	Annual revenue	No. of employees
Sandvik Machining Solutions	Alfa Tool International AB, Sweden	21 December 2012	92	20
Sandvik Construction	SJL, China	9 October 2011	500	500

On 28 February 2002, shares corresponding to 30% of equity in the Swedish company Alfa Tool International AB were acquired, with a subsequent supplementary acquisition of 16.15% of equity being made on 9 November 2007. On 21 December 2012, the remaining shares corresponding to 53.85% of the equity in Alfa Tool International AB were acquired for 18 million SEK, of which 13 million SEK comprised a cash payment and 5 million SEK comprised a contingent purchase consideration, at which time controlling influence was estab-

lished. The company is a distributor of end mills in the Nordic market; mainly products under the Seco-Jabro brand. The aim of the acquisition is to strengthen the Group's presence in the Nordic market and to develop expertise in the end mill product area. The Group also see the potential for synergies by expanding Alfa Tools' range with Sandvik products.

The fair value of assets and liabilities in acquired companies are presented in the tables below.

Total fair value of assets and liabilities of acquired businesses in 2012

Sandvik Machining Solutions	
Intangible assets	—
Property, plant and equipment	—
Financial assets	—
Inventories	4
Current receivables	12
Cash and cash equivalents	5
Interest-bearing liabilities	—
Noninterest-bearing liabilities	-12
Net identifiable assets and liabilities	9
Non-controlling interests	—
Goodwill	23
Fair value of previously owned share	15
Purchase consideration	18
Cash and cash equivalents in acquired businesses	-5
Part of consideration entered as a liability	-5
Net cash outflow	8

The value of acquired assets and assumed liabilities in Alfa Tools International AB were determined preliminarily pending a final valuation. A fair-value measurement did not impact the value of net assets. The fair value of former holdings in the company amounted to 15 million SEK and entailed a gain of 9 million SEK in the Group, which was recognized under other operating income.

Goodwill

Goodwill arose as a result of synergy effects. Goodwill is not expected to be tax deductible. For more detailed information about goodwill, refer to Note 13.

Consideration transferred

Cash and cash equivalents	13
Contingent purchase consideration	5
	18

Total fair value of assets and liabilities of acquired businesses in 2011

The value of acquired assets and assumed liabilities has been finalized for the acquisition of SJL, China, which was implemented in 2011.

	Final	Preliminary	Difference
Intangible assets	179	170	9
Property, plant and equipment	283	302	-19
Financial assets	62	23	39
Inventories	196	185	11
Current receivables	200	264	-64
Cash and cash equivalents	101	93	8
Interest-bearing liabilities	-264	-264	0
Noninterest-bearing liabilities	-662	-690	28
Net identifiable assets and liabilities	95	83	12
Non-controlling interests	-19	-17	-2
Goodwill	163	172	-9
Purchase consideration	239	239	0
Cash and cash equivalents in acquired businesses	-101	-93	-8
Part of consideration entered as a liability	-73	-73	0
Net cash outflow	65	73	-8

Non-controlling interests

The value of non-controlling interests was calculated as the proportionate share of the company's net assets and was finally established at 19 million SEK (17) on the acquisition date.

Acquired receivables

The fair value of trade receivables was finally established at 179 million SEK (233).

cont. NOTE 33

Contributions from companies acquired in 2012 by business area

	Sandvik Machining Solutions	Sandvik Construction	Sandvik Mining	Sandvik Materials Technology	Sandvik Venture	Total
<i>Contributions as of acquisition date</i>						
Revenue	0	—	—	—	—	0
Profit for the year	0	—	—	—	—	0

Contributions as though the acquisition date had been 1 January 2012

Revenue	92	—	—	—	—	92
Profit for the year	7	—	—	—	—	7

Contributions from companies acquired during 2011 by business area

	Sandvik Machining Solutions	Sandvik Construction	Sandvik Mining	Sandvik Materials Technology	Sandvik Venture	Total
<i>Contributions as of acquisition date</i>						
Revenue	—	105	—	—	—	105
Loss for the year	—	–33	—	—	—	–33

Contributions as though the acquisition date had been 1 January 2011

Revenue	—	632	—	—	—	632
Loss for the year	—	–68	—	—	—	–68

Acquisition of non-controlling interests

In February 2012, the remaining 39.4% of the shares in Seco Tools AB, Sweden, was acquired for 6,702 million SEK. The acquisition was paid for by newly issued shares and the holding subsequently amounted to 99.4%. The outstanding 0.6% of the shares was acquired through a compulsory redemption procedure using cash funds totaling 94 million SEK, a process that was completed in July 2012. Consequently, the holding amounted to 100%. The Group recognized a reduction in non-controlling interests of 1,262 million SEK and a reduction in capitalized funds of 5,346 million SEK and an increase of other paid-in capital of 6,621 million SEK.

In November 2012, the remaining 40% of the shares in Powdermet AB, Sweden, was acquired for 53 million SEK. The acquisition was paid for using cash funds and the holding subsequently amounted to 100%. The Group recognized a reduction in non-controlling interests of 35 million SEK and a reduction in capitalized funds of 18 million SEK.

In December 2012, an additional purchase consideration of 33 million SEK was paid concerning the acquisition of Niagara Cutter, USA. In conjunction with the acquisition in December 2010, the additional purchase consideration was valued at 23 million SEK based on forecast earnings. In 2012, the additional purchase consideration was revalued to the maximum amount of 33 million SEK based on the company's actual earnings.

Divestments

MedTech's assets and liabilities were recognized in 2011 as "Assets held for sale" and "Liabilities directly attributed to assets held for sale." In March 2012, Sandvik divested the instrument and implant division of MedTech included in Sandvik Venture to Orchid Orthopedic Solutions. The purchase consideration received totaled 621 million SEK, which was paid in full.

In 2011, the operations in the US and the UK recorded sales of approximately 600 million SEK with about 550 employees.

Assets and liabilities included in divestments

MSEK	Sandvik Machining Solutions	Sandvik Mining	Sandvik Construction	Sandvik Materials Technology	Sandvik Venture	Fair value recognized in the Group
Intangible assets					269	269
Property, plant and equipment					257	257
Inventories					117	117
Current receivables					96	96
Cash and cash equivalents					3	3
Provisions					–27	–27
Noninterest-bearing liabilities					–65	–65
Gain/loss on sale excl. reversal to profit or loss of realized translation differences in the divested company.					–29	–29
Compensation received after divestment costs					621	621
Less						
Cash and cash equivalents in the divested company					–3	–3
Impact on the Group's cash and cash equivalents, divested operations					618	618
Divestment of operations during the year excl. transferred net loan debt (Group's operating cash flow statement)					618	618

NOTE 34. PARENT COMPANY PARTICULARS

Sandvik Aktiebolag, corporate registration number 556000-3468, is a Swedish limited liability company, with the registered address of SE-811 81 Sandviken, Sweden. The address of the head office is PO Box 510, SE-101 30 Stockholm, Sweden. The registered office of the Board of Directors is in Stockholm, Sweden.

The Parent Company's shares are quoted on NASDAQ OMX Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

The 2012 consolidated financial statements comprise the Parent Company and all its subsidiaries, jointly the Group. The Group also includes the owned share of investments in associated companies.

NOTE 35. 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 2012, 1,254,385,923 shares (1,186,287,175) with a quotient value of 1.20 SEK per share had been issued. The change for the year was attributable to the implemented non-cash issue for which payment received comprised shares in Seco Tools AB. 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 on dividend proposal

Board statement in accordance with Chap. 18, Section 4 of the Swedish Companies Act.

The nature and extent of the company's operations are stated in the Articles of Association and issued annual reports.

Such nature and extent do not entail risks over and above those inherent, or reasonably to be expected, in the industry or otherwise inherent in business operations. For information on significant events, we refer to the Report of the Directors.

The company's financial position at 31 December 2012 is apparent from this Annual Report. The proposed dividend does not infringe on investments deemed to be required. In addition, the company's liquidity reserve is in the form of two unutilized credit facilities amounting to 650 million EUR and 5,000 million

SEK, respectively, which means that the company should reasonably be able to meet unexpected events and temporary fluctuations in cash flows of reasonable proportions. The company's financial position supports the assessment that the company will be able to continue in business and meet its obligations in both the short and long term.

In view of the above and based on what the Board is otherwise aware, the proposed dividend in the Board's opinion is justified considering the requirements which the nature, extent and risks associated with the operations place on the size of the equity of the company, and also taking into consideration the company's need to strengthen its balance sheet, liquidity and financial position in general.

Stockholm, 18 February 2013
Sandvik Aktiebolag (publ)
BOARD OF DIRECTORS

Proposed appropriation of profits

The Board of Directors proposes that the profits at the disposal of the Annual General Meeting:

premium fund	6,620,930,658
profits carried forward	5,328,726,405
and result for the year	9,710,056,917
SEK	21,659,713,980

be appropriated as follows:

a dividend of 3.50 SEK per share	4,390,350,731
profits carried forward	17,269,363,249
SEK	21,659,713,980

The proposed record date for dividends is Tuesday, 30 April 2013.

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 25 April 2013.

The Board of Directors and the President hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden, and that the consolidated financial statements have been prepared in accordance with the international financial reporting standards referred to in the regulation (EU) no. 1606/2002 of the European Parliament and Council dated 19 July 2002, pertaining to the application of international financial reporting standards. The Annual Report and the consolidated financial statements give a fair view of the Parent Company's and the Group's financial position and results. The Report of the Directors pertaining to the Parent Company and the Group gives a fair overview of the development of the Parent Company's and the Group's operations, financial position and results, and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 18 February 2013

Anders Nyrén
Chairman

Jürgen M Geissinger
Board member

Johan Karlström
Board member

Jan Kjellgren
Board member

Tomas Kärnström
Board member

Fredrik Lundberg
Board member

Hanne de Mora
Board member

Simon Thompson
Board member

Lars Westerberg
Board member

Olof Faxander
President, CEO and Board member

Our audit report was issued on 28 February 2013

KPMG AB

George Pettersson
Authorized Public Accountant

Audit Report

TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF SANDVIK AB (PUBL), CORP. ID. 556000-3468

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Sandvik AB (publ) for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 14–101.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with International

Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Sandvik AB (publ) for the year 2012.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm 28 February 2013

KPMG AB

George Pettersson
Authorized Public Accountant

Board of Directors and auditors

Members of the Board

Anders Nyrén, b. 1954.

Chairman of the Board since 2010.

Director since 2002, Vice Chairman of the Board 2006–2010.

Education and business experience:

B.Sc. (Econ.), MBA. President and CEO of AB Industrivärden since 2001, Executive Vice President and CFO of Skanska AB 1997–2001, various executive positions within AB Wilhelm Becker, STC Scandinavian Trading Co AB, STC Venture AB, OM International AB, Securum AB and Nordbanken 1979–1997.

Current Board assignments: Vice Chairman of Svenska Handelsbanken AB, Director of Telefonaktiebolaget LM Ericsson, AB Industrivärden, SCA, SSAB AB, AB Volvo, Ernströmgruppen, Stockholm School of Economics and Stockholm School of Economics Association.

Shareholding in Sandvik (own and closely related persons): 4,500.

Not independent in relation to major shareholders in the company.

Olof Faxander, b. 1970.

Director since 2011.

Education and business experience:

M.Sc. (Materials Science) and B.Sc. (Business Administration). President and CEO of SSAB 2006–2010, Executive Vice President of Outokumpu Oy 2004–2006.

Current Board assignments: Chairman of the Board of Industrierbetsgivarna i Sverige Service AB, Director of Confederation of Swedish Enterprise and the Steel and Metal Employers Association.

Shareholding in Sandvik (own and closely related persons): 21,043.

Not independent in relation to the company and Group Executive Management.

Jürgen M Geissinger, b. 1959.

Director since 2012.

Education and business experience: PhD in Mechanical Engineering. President and CEO of Schaeffler AG since 1998 and various senior positions at ITT Automotive 1992–1998.

Current Board assignments: Director of the Supervisory Board of MTU Aero Engines AG and Continental AG.

Shareholding in Sandvik (own and closely related persons): 0.

Johan Karlström, b. 1957.

Director since 2011.

Education and business experience:

M.Sc. (Eng.) President of Skanska AB since 2008, various senior positions at BPA (currently Bravida) 1995–2000.

Current Board assignments: Director of Skanska AB.

Shareholding in Sandvik (own and closely related persons): 5,000.

Fredrik Lundberg, b. 1951.

Director since 2006.

Education and business experience:

M.Sc. (Eng.), B.Sc. (Econ.), D.Econ Honorary, D.Tech. Honorary. Active in L E Lundbergföretagen AB since 1977 and CEO since 1981.

Current Board assignments: Chairman of the Board of Holmen AB and Hufvudstaden AB, Vice Chairman of Svenska Handelsbanken AB, Director of L E Lundbergföretagen AB, AB Industrivärden and Skanska AB.

Shareholding in Sandvik (own and closely related persons): 6,040,000, via L E Lundbergföretagen AB 28,000,000 and via AB Industrivärden 142,617,757.

Not independent in relation to major shareholders in the company.

Hanne de Mora, b. 1960.

Director since 2006.

Education and business experience: B.Sc. (Econ.), MBA, IESE, Barcelona. One of the founders and owners, also Chairman of the Board of the management company a-connect (group) ag since 2002, partner in McKinsey & Company Inc. 1989–2002, various positions within brand management and controlling within Procter & Gamble 1986–1989.

Current Board assignments: Director of AB Volvo and IMD Foundation Board.

Shareholding in Sandvik (own and closely related persons): 0.

Simon Thompson, b. 1959.

Director since 2008.

Education and business experience:

M.A. (Geology). Various positions with Anglo American Group 1995–2007 including Director of Anglo American plc 2005–2007, Director of AngloGold Ashanti 2004–2008, Chairman of Tarmac 2004–2007, Director of SG Warburg 1994–1995, NM Rothschild & Sons Ltd. 1984–1995.

Current Board assignments: Chairman of Tullow Oil plc., Director of Newmont Mining Corporation and AMEC plc.

Shareholding in Sandvik (own and closely related persons): 0.

Lars Westerberg, b. 1948.

Director since 2010.

Education and business experience:

M.Sc. (Eng.) and B.Sc. (Econ.), CEO and President of Autoliv Inc. 1999–2007, Gränges AB 1994–1999 and ESAB 1991–1994.

Various positions in ESAB and ASEA from 1972.

Current Board assignments: Chairman of Husqvarna AB, Director of SSAB AB, AB Volvo, Stena AB and Meda AB.

Shareholding in Sandvik (own and closely related persons): 12,000.

Jan Kjellgren, b. 1952.

Director since 2008

(Employee representative).

Education and business experience:

Senior R&D engineer, AB Sandvik Coromant. Various positions within Sandvik since 1981.

Current Board assignments: —

Shareholding in Sandvik (own and closely related persons): 570.

Tomas Kärnström, b. 1966.

Director since 2006

(Employee representative).

Education and business experience: Principal safety representative Sandvik Materials Technology. Various positions within Sandvik since 1986.

Current Board assignments: —

Shareholding in Sandvik (own and closely related persons): 2,889.

Deputy members

Thomas Andersson, b. 1962.

Director since 2012

(Employee representative).

Education and business experience:

Chairman of the Union Committee, Metal Workers' Union, Sandvik Coromant, Gimo. Various operator positions within Gimoverken since 1984. Construction firm Anders Diös 1980–1984.

Current Board assignments: —

Shareholding in Sandvik (own and closely related persons): 612.

Alicia Espinosa, b. 1967.

Director since 2010

(Employee representative).

Education and business experience:

M.Sc. (Eng.), Flow Manager at Sandvik Materials Technology, various positions within Sandvik since 2000.

Current Board assignments: —

Shareholding in Sandvik (own and closely related persons): 7,627.

Honorary Chairman

Percy Barnevik, b. 1941.

Chairman of the Board of Sandvik AB 1983–2002.

Auditor

KMPG AB

Auditor in charge:

George Pettersson, b. 1964.

Authorized Public Accountant.

Other auditing assignments: Auditor in charge for e.g. B&B Tools AB, Holmen AB, Hufvudstaden AB, LE Lundbergföretagen AB and Skanska AB.

Shareholding in Sandvik (own and closely related persons): 0.

Board Secretary

Bo Severin, b. 1955.

Secretary to the Sandvik Board of Directors since 2000.

Education and business experience:

Master of Laws. General Counsel in Sandvik AB.

Current Board assignments:

Director of International Council of Swedish Industry.

Shareholding in Sandvik (own and closely related persons): 9,192.

Group Executive Management

Olof Faxander, b. 1970.

President and CEO of Sandvik AB since 2011.

Education and business experience:

M.Sc. (Materials Science) and B.Sc. (Business Administration). President and CEO of SSAB 2006–2010, Executive Vice President of Outokumpu Oy 2004–2006.

Current Board assignments: Chairman of the Board of Industrierbetsgivarna i Sverige Service AB, Director of the Confederation of Swedish Enterprise and the Steel and Metal Employers Association.

Shareholding in Sandvik (own and closely related persons): 21,043.

Andreas Evertz, b. 1969.

President of Sandvik Machining Solutions business area, 1 January 2012–31 January 2013.

Education and business experience:

M.Sc. Mechanical Engineering (Dipl. Ing. (Univ.)). President of Walter AG 2010–2012, Executive Vice President of Walter AG 2008–2010, CEO of Flender Tübingen GmbH 2002–2008, various positions at Flender AG 1997–2002, officer of the German Federal Armed Forces 1988–1997.

Current board assignments: —

Shareholding in Sandvik (own and closely related persons): 6,313.

Jonas Gustavsson, b. 1967.

President of Sandvik Materials Technology business area, 2011–31 January 2013, thereafter President of Sandvik Machining Solutions business area.

Education and business experience:

M.Sc. (Eng.) Various senior positions at Sandvik since 2008, Vice President Operations Rotax 2002–2007, various positions at Bombardier 1997–2002 and ABB 1995–1997.

Current board assignments: Director of the Steel and Metal Employers Association.

Shareholding in Sandvik (own and closely related persons): 6,406.

Gary Hughes, b. 1958.

President of Sandvik Mining business area since 1 January 2012.

Education and business experience:

Dip. Mining. President Underground Mining, Sandvik Mining and Construction 2010–2012, President Region Latin America, Sandvik Mining and Construction 2003–2010, Vice President Business Development Region Africa, Sandvik Mining and Construction and various positions in Africa for Sandvik 1997–2003.

Current board assignments: —

Shareholding in Sandvik (own and closely related persons): 7,355.

Jan Lissåker, b. 1958.

Executive Vice President Group Communications since 7 January 2012.

Education and business experience:

B.Sc. in Business Administration and Economics. Various senior positions at Sandvik since 1984, for example, Vice President Investor Relations, Sandvik AB, 2001–2012 and Head of Business Control Sandvik Coromant 1995–2001.

Current board assignments: —

Shareholding in Sandvik (own and closely related persons): 5,489.

Emil Nilsson, b. 1971.

Executive Vice President and CFO of Sandvik AB since 1 September 2012.

Education and business experience:

B.Sc. in Business Administration and Economics. President of Ericsson Central Europe 2011–2012, CFO/COO Ericsson North America 2008–2011, CFO Ericsson Brazil 2004–2008, various finance-related positions at Ericsson 1996–2004.

Current board assignments: Director of Gemina Trade AB.

Shareholding in Sandvik (own and closely related persons): 0.

Tomas Nordahl, b. 1968.

President of Sandvik Venture business area since 1 November 2012. Head of IT, sourcing and strategy since 2011.

Education and business experience:

M.Sc. in Business Administration and Economics. Various positions at The Boston Consulting Group 1994–2011.

Current Board assignments: —

Shareholding in Sandvik (own and closely related persons): 3,544.

Bo Severin, b. 1955.

Executive Vice President and General Counsel of Sandvik AB since 2000.

Education and business experience:

Master of Laws. Legal Counsel of Sandvik AB since 1988.

Current Board assignments: Director of International Council of Swedish Industry.

Shareholding in Sandvik (own and closely related persons): 9,192.

Andy Taylor, b. 1969.

Acting President of Sandvik Construction business area since 3 December 2012 and Vice President Finance Sandvik Construction since 1 January 2012.

Education and business experience:

Fellow of Chartered Institute of Management Accountants. Various positions within the Sandvik Group since 1994, for example, CFO Sandvik Tooling Supply 2010–2011.

Current board assignments: —

Shareholding in Sandvik (own and closely related persons): 2,174.

Anna Vikström Persson, b. 1970.

Executive Vice President and Head of Human Resources of Sandvik AB since 2011.

Education and business experience:

Master of Laws. Executive Vice President and Head of Group Human Resources at SSAB 2006–2011. Head of Human Resources for Ericsson's Swedish operations 2004–2006. Prior various leading positions within Human Resources and Organization for Ericsson Group 1998–2006.

Current Board assignments: Director of Know IT.

Shareholding in Sandvik (own and closely related persons): 6,493.

Ola Salmén, b. 1954.

Senior Executive Vice President of Sandvik AB 2010–12 November 2012. CFO of Sandvik AB 2009–31 August 2012.

Thomas Schulz, b. 1965.

President of Sandvik Construction business area 1 January–3 December 2012.

Anders Thelin, b. 1950.

President of Sandvik Venture business area 1 January–31 October 2012. President of Sandvik Tooling 2000–2011.

Members of the Extended Group Executive Management:

Ajay Sambrani, b. 1966.

Country Manager India and Managing Director Sandvik Asia Pvt. Ltd since 2011.

Education and business experience:

Bachelor in Industrial Engineering and Management Diploma, ABB University. Employed since 2006.

Olle Wijk, b. 1951.

Senior Vice President and Head of Group R&D. Chairman of Sandvik's R&D Board since 1 January 2012.

Education and business experience:

Metallurgical engineer. Professor in process metallurgy, KTH Royal Institute of Technology, Stockholm, 1987–1996. Guest professor at Shanghai University, China. Employed since 1980.

Zhiqiang (ZZ) Zhang, b. 1961.

Country Manager China and Managing Director Sandvik China Holding Co. Ltd since 1 May 2012.

Education and business experience:

MBA, Bachelor of Electronic Engineering. Various senior positions at the Siemens Group 1987–2012, including President Siemens VDO China 1999–2005 and President Nokia Siemens Networks China 2007–2012.

Group functions

Legal	Bo Severin
Communications	Jan Lissåker
Finance	Emil Nilsson
HR	Anna Vikström Persson
IT, sourcing and strategy	Tomas Nordahl

Changes in Group Executive

Management after 31 December 2012:

Jonas Gustavsson took office as President of Sandvik Machining Solutions on 1 February 2013. He succeeds Andreas Evertz who left the company.

Petra Einarsson took office as President of Sandvik Materials Technology on 1 February 2013.

Annual General Meeting and dividend

Annual General Meeting

The Annual General Meeting will be held on Thursday, 25 April 2013 at 5.00 p.m. at the Göransson Arena, Sättragatan 15, Sandviken, Sweden.

Shareholders who wish to participate in the Meeting must notify the company either by letter to Sandvik AB, c/o Computershare AB, Box 610, SE-182 16 Danderyd, Sweden or by telephone +46 26 26 09 40 from 9.00 a.m. to 4.00 p.m. on weekdays, or at www.sandvik.com. Such notification must reach Sandvik AB not later than Friday, 19 April 2013. Shareholders must also have been entered in the share register kept by Euroclear Sweden AB on Friday, 19 April 2013 to be entitled to participate in the Meeting.

Shareholders whose shares are registered in the name of a nominee must have them temporarily re-registered with Euroclear Sweden AB in their own name

on Friday, 19 April 2013 to be entitled to participate in the Meeting. Note that this procedure also applies to shareholders using a bank's shareholder deposit account and/or trading via the Internet.

When providing notification, please state your name, personal or corporate registration number, address and telephone number, and details of any assistants. If you plan to be represented at the Meeting by proxy, such proxy must be sent to Sandvik AB prior to the Meeting.

Dividend

The Board proposes that the 2013 Annual General Meeting declare a dividend of 3.50 SEK per share.

The proposed record date is Tuesday, 30 April 2013. If this proposal is adopted by the Meeting, it is expected that dividends will be paid on Monday, 6 May 2013. 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 2012 comprises the formal financial statements, meaning the Report of the Directors, income statements and balance sheets, with accompanying notes, etc., and is printed separately in a reduced number of copies for the shareholders who have ordered the printed reports.

The Sandvik Group is also presented in the publication *The Sandvik World*, which is distributed to shareholders in April 2013.

The Annual Report is available at www.sandvik.com and can be ordered in a printed format.

Financial key figures

Key figures

(From 2004 in accordance with IFRS, earlier years in accordance with previous GAAP.)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Invoiced sales, MSEK	98,529	94,084	82,654	71,937	92,654	86,338	72,289	63,370	54,610	48,810
change, %	+5	+14	+15	-22	+7	+19	+14	+16	+12	0
of which organic, %	+5	+20	+17	-30	+5	+18	+14	+14	+15	+5
of which structural, %	0	0	+1	0	+2	+3	+1	-1	-1	+2
of which currency, %	0	-5	-2	+10	0	-2	-1	+3	-2	-7
Operating result, MSEK	13,490	10,148	11,029	-1,412	12,794	14,394	12,068	9,532	7,578	4,967
as % of invoicing	14	11	13	-2	14	17	17	15	14	10
Result after financial items, MSEK	11,516	8,179	9,412	-3,472	10,577	12,997	11,113	8,819	6,877	4,187
as % of invoicing	12	9	11	-5	11	15	15	14	13	9
Consolidated net result for the year, MSEK	8,107	5,861	6,943	-2,596	7,836	9,594	8,107	6,392	5,111	2,788
Shareholders' equity, MSEK	36,232	33,891	33,813	29,957	36,725	29,823	27,198	24,507 ¹⁾	23,551 ¹⁾	21,440
Equity ratio, %	35	34	38	33	36	35	41	41	46	46
Net debt/equity ratio, multiple	0.6	0.8	0.7	1.0	0.9	1.0	0.6	0.7	0.5	0.5
Rate of capital turnover, %	97	100	92	73	101	112	115	112	108	98
Cash and cash equivalents, MSEK	13,829	5,592	4,783	7,506	4,998	2,006	1,745	1,559	1,720	1,972
Return on shareholders' equity, %	23.0	17.3	22.1	-7.9	24.8	34.4	31.8	27.4	21.7	12.8
Return on capital employed, %	19.8	16.0	17.4	-1.3	19.9	27.0	27.6	23.7	20.5	13.4
Investments in property, plant and equipment ²⁾ , MSEK	4,820	4,994	3,378	4,006	6,634	4,811	4,175	3,665	2,967	3,153
Total investments ²⁾ , MSEK	4,859	5,332	4,493	6,161	7,766	9,480	5,455	3,950	3,278	3,260
Cash flow from operations ²⁾ , MSEK	11,892	7,764	12,149	11,792	9,335	5,076	7,741	7,266	5,322	6,421
Cash flow, MSEK	8,450	907	-2,642	2,471	2,764	179	357	-380	-207	-104
Number of employees, 31 December	48,742	50,030	47,064	44,355	50,028	47,123	41,743	39,613	38,421	36,930

1) Total equity, including minority interest. 2) As of 2006 excluding rental fleet.

Per-share data

(From 2004 in accordance with IFRS. Earlier years in accordance with previous GAAP. All historical figures are adjusted taking into account the 5:1 split.)

SEK	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Basic earnings ¹⁾	6.51	4.63	5.59	-2.24	6.30	7.65	6.45	4.95	3.85	2.20
Diluted earnings ²⁾	6.51	4.63	5.59	-2.24	6.29	7.65	6.45	4.90	3.75	2.15
Equity	28.8	27.4	27.5	24.4	30.00	24.10	22.00	19.80	18.30	17.20
Dividend (2012 as proposed)	3.50	3.25	3.00	1.00	3.15	4.00	3.25	2.70	2.20	2.10
Direct return ³⁾ , %	3.4	3.8	2.3	1.2	6.4	3.6	3.3	3.6	4.1	4.2
Payout percentage ⁴⁾ , %	54	70	54	—	50	52	50	55	57	94
Quoted prices, Sandvik share, highest	107	135	133	90	108	151	106	79	56	50
lowest	82	73	76	41	42	96	71	54	46	35
year-end	103.5	84	131	86	49	111	100	74	54	50
No. of shares at year-end, million	1,254.4	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,235.2	1,250.1
Average no. of shares, million	1,245.9	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,186.3	1,216.9	1,255.8	1,250.1
P/E ratio ⁵⁾	15.9	18.2	23.5	—	7.8	14.5	15.4	15.0	13.9	22.1
Quoted price, % of equity ⁶⁾	359	307	476	352	163	462	452	374	293	288

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, see page 71.

Development by Business Area

	Invoiced sales				Operating result and operating margin							
	2012 MSEK	2011 MSEK	2010 MSEK	2009 MSEK	2012 MSEK	%	2011 MSEK	%	2010 MSEK	%	2009 MSEK	%
Sandvik Mining	37,762	32,232	27,160	25,010	6,004	16	5,189	16	4,096	15	849	3
Sandvik Machining Solutions	28,482	28,171	24,457	20,165	6,256	22	6,347	23	4,850	20	708	4
Sandvik Materials Technology	15,366	16,339	15,703	13,367	592	4	-642	-4	1,233	8	-1,253	-9
Sandvik Construction	9,683	9,249	8,023	7,611	748	8	58	1	570	7	-383	-5
Sandvik Venture	7,194	8,056	7,275	5,746	1,238	17	-21	-0	850	12	-812	-14

Economic value, generated and distributed

MSEK	Stakeholder	2012	2011	2010	2009
Sales	Customers	98,529	94,084	82,654	71,937
Economic value generated		98,529	94,084	82,654	71,937
Production costs	Suppliers	56,161	56,054	44,758	46,859
Employee wages and benefits ¹⁾	Employees	24,907	24,014	22,885	22,441
Payments to providers of capital	Credit providers	1,974	1,969	1,617	2,060
Payments to providers of capital	Shareholders	4,082	3,807	1,188	3,926
Payments to governments	Public sector	3,180	3,173	2,391	885
Economic value distributed		90,304	89,017	72,839	76,171
Retained in company		8,225	5,067	9,815	-4,234

1) Employee wages and benefits comprise wages to employees including amounts paid to the public sector (employer's contributions and unemployment benefit funds) on behalf of employees.

