



ANNUAL REPORT 2013



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The formal Annual Report comprises the pages 37–122.
In some cases, tables and calculations do not always agree exactly with the totals shown due to rounding.



FORTHCOMING INFORMATION AND REPORTS

Report on the first quarter 2014	25 April 2014
Annual General Meeting	13 May 2014
Report on the second quarter 2014	17 July 2014
Capital Markets Day 2014	30 September 2014
Report on the third quarter 2014	27 October 2014
Report on the fourth quarter 2014	January/February 2015

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www.sandvik.com

The Annual Report is available online at www.sandvik.com, where a printed copy can also be ordered.

Coworker Malin Björk

ORDER INTAKE -10%*

84,072

MSEK

INVOICED SALES -7%*

87,328

MSEK

* At fixed exchange rates for comparable units.

PROFIT AFTER
FINANCIAL ITEMS

6,753

MSEK

EARNINGS PER SHARE

4.00

SEK

PROPOSED DIVIDEND

3.50

SEK

- Action plans to streamline supply chain.
- Reduced investments in mining sector depresses demand.
- Strengthened cash flow and inventory reductions.
- Continued robust approach in emerging markets.
- Establishment of new research centers in India and China.
- Strategic launches of newly developed products.
- Tailored leadership program for managers at all levels.

KEY FIGURES

	2013	2012	2011	2010	2009	Change 2013/2012, %
MSEK						
Order intake	84,072	97,948	99,078	93,285	71,285	-10*
Invoiced sales	87,328	98,529	94,084	82,654	71,937	-7*
Profit/loss after financial items	6,753	11,516	8,179	9,412	-3,472	-41
Earnings per share, SEK	4.00	6.51	4.63	5.59	-2.24	-39
Return on capital employed, %	12.6	19.8	16.0	17.4	-1.3	—
Return on shareholders' equity, % ¹⁾	15.3	25.3	18.2	22.1	-7.9	—
Cash flow from operations	5,133	11,892	7,764	12,149	11,792	-57

* At fixed exchange rates for comparable units.

¹⁾ As of 2011, comparative figures adjusted due to amended accounting policies. Refer to Note 35 for further information.

SANDVIK BUILDS FOR GROWTH

We are continuing to position ourselves to meet tomorrow's challenges. Growth ambitions, innovative capacity and sustainable business are central focal points as we strengthen Sandvik's core – to deliver maximum productivity for our customers.

The change program progressed according to plan in 2013. It was particularly pleasing to observe the success achieved by Sandvik Materials Technology under its improvement program.

The demand scenario for the Group was generally stable albeit at a relatively low level. New investment figures for the international mining industry were, however, very low; a situation that Sandvik Mining addressed by implementing a far-reaching cost-savings program and continuing investments in service and aftermarket.

Our efforts to make the Group flexible and less sensitive to fluctuations continued to bear fruit. Implemented savings programs and effective control of stock levels ensured that the Group maintained a strong cash flow and achieved a good result.

In 2013, Sandvik's invoiced sales amounted to 87,328 million SEK (98,529) and profit after financial items to 6,753 million SEK (11,516). Profit was negatively impacted by 1,080 million SEK as a result of exchange rate effects and by 2,140 million SEK due to nonrecurring costs. A ruling in a tax dispute in Sweden – for which a provision was already made in the balance sheet for the potential earnings impact – yielded a negative non-recurring effect on cash flow of 5,800 million SEK.

HOW SANDVIK WILL GROW

We continued to implement the new strategy during the year. Sandvik will be faster, and more global and customer oriented. Research and development and sustainable business will be the factors that determine our success, opening new opportunities for growth and greater profitability.

In practical terms, this requires us to maintain our focus on products and solutions that boost customer productivity and that have the potential to set new industry standards. We will create synergies in the Group by deploying a flat organization, simple decision-making processes and clear performance-management framework. Production will be subject to further coordination and efficiency-enhancement measures. In 2013, we took the decision to reduce the number of facilities from 150 to 125 over the next three to four years.

R&D – EVEN CLOSER TO CUSTOMERS IN MORE MARKETS

Research and development is part of Sandvik's history and future. We have always enjoyed close cooperation with industry and the academic world. Now we are bringing development even closer to customers in the local markets where we are growing strongly. For example, we are building up new R&D centers in India and China and establishing new

research collaborations with universities in emerging economies.

In 2013, Sandvik launched a long list of products, several of which set a new industry standard. For example, Sandvik Mining launched a new modular drill rig in the Pantera series and Sandvik Machining Solutions launched a new revolutionary insert for steel-turning applications, the GC4325.

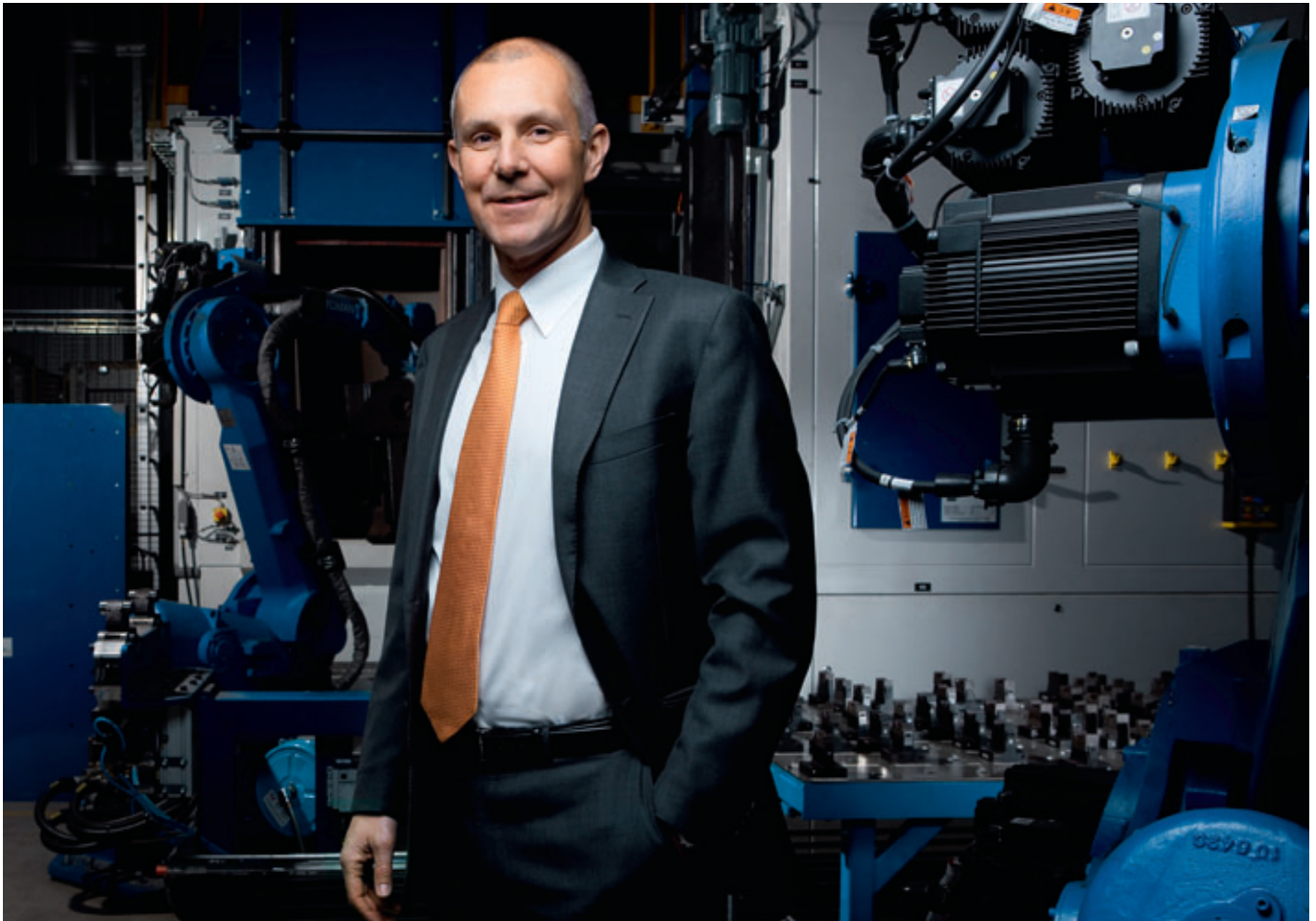
Another side of this development is Sandvik's broadening of its products and services with offerings in the mid-market segment. Since the core of our expertise has always been to deliver productivity to customers, it is natural for us to also use this know-how outside the premium segment. The expansion of the product offering and clear brand profiling enable Sandvik to capture new market shares and increase growth, primarily in the high-growth markets of Asia, Latin America and Africa.

SAFETY AND DIVERSITY FOR GREATER SUSTAINABILITY

Those who assume responsibility today will lead development tomorrow. This is the motivation behind Sandvik's ambition to rank among the top of the world's most sustainable companies in its industry, with close links between business strategy, our brands and the Group's various initiatives in the sustainability sphere.

Safety is our highest priority. The workplaces of Sandvik's approximately 47,000 employees in more than 130 countries should be safe and secure environments. The lost time injury frequency rate declined significantly at Sandvik in 2013. Regrettably, however, we also experienced misfortune during the year. I am sad to report that we had three work-related fatalities, two of whom were subcontractors and one a Sandvik employee, which is deeply tragic for their families,

"TO SUMMARIZE, WE ARE BUILDING A SANDVIK THAT IS POSITIONED TO ADDRESS RAPID CHANGES."



Olof Faxander, Sandvik's President and CEO, standing in front of the shank adapter straightening machine at Sandvik Mining Rock Tools in Sandviken, Sweden. New investments were made in the robot cell in 2013, resulting in a significant improvement in employee safety and a major reduction in lead times for customers.

relatives and colleagues. We intend to further intensify our efforts in the area of safety.

With respect to our environmental work, we are working on a broad front to conserve resources, minimize emissions and help customers to reduce their impact on the environment. We also assume responsibility for suppliers and partners through our Codes of Conduct and monitoring practices.

Today, Sandvik has a management team that better reflects the Group's diversity profile, with a more international character and a better gender balance than before. Sandvik will be a company where everybody has the same prerequisites, regardless of gender or nationality.

SANDVIK IS TOMORROW'S EMPLOYER

Each year, we carry out a number of activities worldwide for students and professionals to convey what we represent as an employer and what prospective employees can expect of Sandvik. We

have been a future-oriented company for more than 150 years and we intend to continue in this way.

I, and many along with me, want to work at a company we can be proud of. I am convinced that sustainable business, diversity, inclusion and a strong innovative capacity represent key factors that will attract tomorrow's best employees to Sandvik.

A FIRM FOUNDATION FOR THE YEARS AHEAD

To summarize the above, we are building a Sandvik that is positioned to address rapid changes. We have laid the foundation for further growth, no matter whether the economy remains weak or if there is a recovery.

We combine this favorable ability to adapt with our strong innovative capacity. In 2013, Sandvik was once again included in the analysis company Thomson Reuters' list of the 100 most innovative companies in the world and the Group was also ranked in the corre-

sponding list drawn up by the business magazine *Forbes*. This is confirmation that we are heading in the right direction.

Through growth, solid expertise, the right product offering and cost efficiency, we will continue to deliver healthy and long-term value to our shareholders.

I would also like to take this opportunity to thank all of our employees for their hard work in 2013. We will continue to move forward together toward securing our position as one of the world's leading industrial companies.

A stylized handwritten signature in black ink, consisting of a large 'O' and 'F' followed by a horizontal line.

OLOF FAXANDER, FEBRUARY 2014
PRESIDENT AND CEO

A HIGH-TECH AND GLOBAL INDUSTRIAL GROUP

Sandvik is a high-tech and global industrial Group offering products and services that enhance customer productivity, profitability and safety. In 2013, the Group had about 47,000 employees and sales of just over 87 billion SEK in more than 130 countries. The Group invests substantially in research and development and maintains close cooperation with its customers and suppliers. The business is organized into five business areas: Sandvik Mining, Sandvik Machining Solutions, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture.

WORLD-LEADING POSITION IN THE FOLLOWING CORE AREAS:



Tools and tooling systems for metal cutting as well as components in cemented carbide and other hard materials.

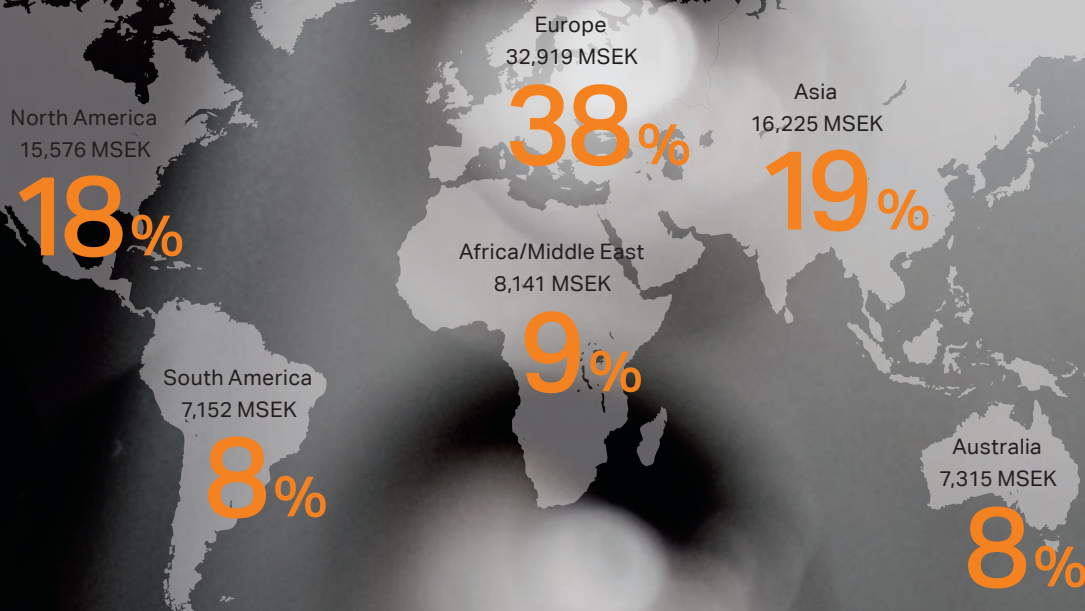


Equipment and tools for the mining and construction industries as well as various types of processing systems.

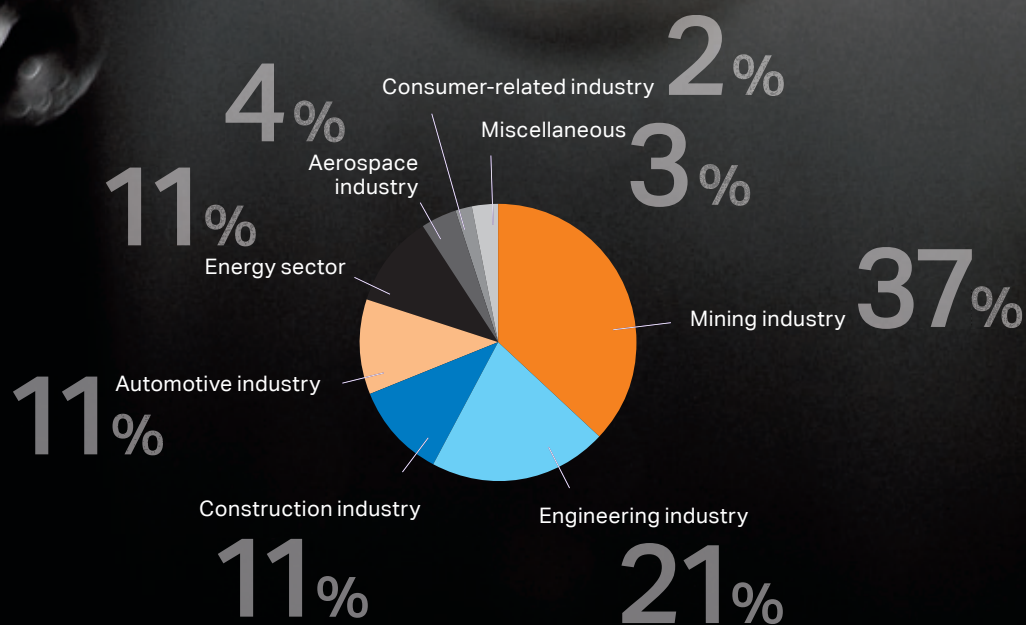


High value-added products in advanced stainless steels, special alloys and titanium as well as metallic and ceramic resistance materials.











INVOICED SALES BY MARKET AREA



INVOICED SALES BY CUSTOMER AREA



BUSINESS AREA	BUSINESS	OFFERING	MARKET
 <p>SANDVIK MINING</p>	<p>Sandvik Mining specializes 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.</p>	<p>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.</p>	<p>The products are primarily deployed in mines worldwide. In 2013, the global market was valued at approximately 185 billion SEK. The underlying average annual growth for equipment, tools and spare parts is 4–6%, while it is slightly higher for services.</p>
 <p>SANDVIK MACHINING SOLUTIONS</p>	<p>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, Walter, Pramet, Safety, Impero, Dormer and Carboloy.</p>	<p>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.</p>	<p>Customers include companies in the general engineering, aerospace and automotive industries, the energy sector, as well as the electronics and medical technology industries.</p> <p>In 2013, the global market for metal-cutting tools was valued at approximately 150 billion SEK. The underlying average annual growth is 4–5%.</p>
 <p>SANDVIK MATERIALS TECHNOLOGY</p>	<p>Sandvik Materials Technology specializes in high value-added products made from advanced stainless steel grades and special alloys for the most demanding industries. 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.</p>	<p>High value-added products based on advanced stainless steels, special alloys and titanium, furnace products, heating systems and resistance materials. The products make industrial processes safer and more efficient, while consuming less resources.</p>	<p>Customers are active in, for example, the energy, aerospace, automotive, chemical and petrochemical industries – industrial segments in which exacting demands are imposed on safety, productivity, cost efficiency and a long life-cycle.</p> <p>In 2013, the global market was valued at more than 100 billion SEK. The underlying average annual growth is 4–6%, although growth is normally higher in the energy segment.</p>
 <p>SANDVIK CONSTRUCTION</p>	<p>Sandvik Construction specializes in equipment, tools and service for the breaking, drilling and crushing niches in the construction industry.</p>	<p>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.</p>	<p>The products are deployed in construction operations worldwide. In 2013, the value of the global market was estimated at about 140 billion SEK. The underlying average annual growth for equipment, tools and spare parts in the construction industry is 4%.</p>
 <p>SANDVIK VENTURE</p>	<p>Sandvik Venture generates value by promoting profitable growth of small and medium-sized businesses of particular interest to the Sandvik Group. The product areas, which are operated as standalone companies are Sandvik Process Systems, Sandvik Hyperion* and Wolfram Bergbau und Hütten.</p> <p><small>*Operational as of 1 January 2014. Sandvik Hyperion is a merger of the previously independent product areas Diamond Innovations and Sandvik Hard Materials.</small></p>	<p>Sandvik Process Systems supplies steel belt-based processing equipment and high-performance steel belts; Sandvik Hyperion offers products and solutions based on hard and super-hard materials; and Wolfram Bergbau und Hütten manufactures tungsten-oxide, tungsten-metal and tungsten-carbide powders.</p>	<p>Customers are for example active in oil and gas, composites, metal cutting and specific consumer niches.</p>

YEAR IN BRIEF	INVOICED SALES*	OPERATING PROFIT**	NUMBER OF EMPLOYEES***
<ul style="list-style-type: none"> • Focus on R&D and improved time to market. • Adjustment to prevailing market conditions. • New long-term strategy established. 	 35% 30,744 MSEK	 32% 2,743 MSEK	12,965
<ul style="list-style-type: none"> • Stable market conditions with signs of improved demand. • Strong cash flow. • New long-term growth strategy established. 	 33% 28,543 MSEK	 60% 5,205 MSEK	19,055
<ul style="list-style-type: none"> • Step Change Program delivers results. • High activity in energy segment. • Well positioned for growth in attractive segments. 	 16% 14,035 MSEK	 15% 1,270 MSEK	7,113
<ul style="list-style-type: none"> • 37 new product launches. • Cost savings implemented and continued streamlining of the supply chain. • Volatile market with signs of stabilization toward the end of the year. 	 10% 8,601 MSEK	 1% 110 MSEK	3,147
<ul style="list-style-type: none"> • Launch of a new leading product area. • Supply chain optimization. • Acquisition of TechnoPartner Samtronic GmbH. 	 6% 5,394 MSEK	 7% 606 MSEK	2,635

* Share of the Group's total invoiced sales. ** Share of the Group's total operating profit. Group activities -15%.

*** Restated to Full Time Employees (FTEs) at 31 December 2013. 2,423 employees are involved in Group activities and are thus not employed in any of the business areas.

Read more about Sandvik's business areas in the Report of the Directors on pages 40-45.

SANDVIK'S HEART AND SOUL

Productivity, innovation and adaptability have been engrained in Sandvik's dna for more than 150 years. Now the company has taken a further step toward increased growth in a world facing many challenges.

Sandvik was founded in 1862. Early on, the company established a world-leading position in the areas of metallurgy and materials technology and has played a central role in the development of industry and society since its foundation. The focus on growth and flexibility has become embedded in Sandvik's genetic structure. This has involved maintaining the Group's position on the leading edge of technology, being where development is taking place in purely geographic terms and evolving in a sustainable manner.

A GLOBAL GROUP WITH LOCAL OFFERINGS

Sandvik's business concept is to develop, manufacture, market and sell high-tech products and services that enhance customer productivity, profitability and safety. Manufacturing includes advanced industrial tools, mining and construction equipment and products of high-alloy materials.

Sandvik should already hold, or should have the potential to establish, world-leading positions in its selected lines of business. This applies to research, technology, working methods and, not least, market presence. Sandvik works closely with its customers and local opportunities for market adaptations are continuously expanded.

All activities carried out within the company are based on a holistic approach, taking economic, environmental and social responsibility into consideration.

FOCUS ON INNOVATION TO BOOST GROWTH

Sandvik was born out of a technical innovation and has been responsible for a number of key accomplishments over the years. Conducting far-reaching and targeted research and development is key to the Group's continued growth.

This is why Sandvik invests about 3 billion SEK annually in research and development (R&D). More than

2,700 employees work in the area and activities are often pursued in close cooperation with business partners, both locally and globally. The Group has about 8,000 active patents and other intellectual property rights.

47,000 EMPLOYEES IN 130 COUNTRIES

Sandvik is a global engineering Group with employees from the majority of the world's cultures. The human resources strategy is designed to support the Group's business, with a focus on skills development and performance management. Sandvik places great importance on attracting, developing and retaining competent employees as part of its work to achieve its objectives. Diversity enables the company to engage with its customers in the right way and in the right place. All employees should feel that they are realizing their full potential and Sandvik therefore offers many different career paths and development opportunities.

SANDVIK'S STRENGTHS

To retain and strengthen its world-leading position, Sandvik works according to a long-term strategy summarized in the phrase "One Sandvik to be number one."

The Group's strengths are:

- Technologically and commercially leading in selected segments.
- Advanced and broad-based R&D activities.
- High value-added products.
- High share of in-house manufacturing.
- More rapid processes – combining robust global procedures with expanded local mandates.
- Close collaboration with customers and more distinct commercial focus.
- World-class manufacturing and logistics.
- Financial strength.
- Strengthened sustainability program, both internally and in relation to customers and suppliers.
- Harmonized corporate culture with strong core values and distinct brand as an employer.
- Highly developed HR function designed to support long-term business strategies.
- Continuous readiness to invest in new, developing areas and to streamline existing operations.
- Both organic and acquired growth.



Coworker Arashk Memarpour

COMPREHENSIVE STRATEGY PROGRAM FOR CONTINUED PROGRESS

Proceeding from the “One Sandvik to be number one” strategy launched in 2011, the Group stands on a strong foundation and has made significant progress:

Customer-centric organization:

- Implemented a new organizational structure, going from three to five business areas.
- Completed the acquisition of Seco Tools (100% shareholding).
- Completed the divestment of MedTech.

Restructuring and turnaround:

- Launched two restructuring programs targeting 2 billion SEK in total cost savings.
- Successfully completed turnaround of Sandvik Materials Technology; the business area is now performing significantly better.

Operational excellence:

- Improved coordination and utilization of Group resources (Finance, Information Technology (IT), Human Resources (HR), Communications, Indirect sourcing, Legal and Sustainability).
- Established a Group Research & Development (R&D) function.

Growth:

- Introduced new offerings targeting areas outside the premium segment:
 - Re-launched the Dormer Tools product area with the Pramet, Dormer and Carboloy brands in Sandvik Machining Solutions.
 - Sandvik Mining introduced new mid-market offering.
 - Acquired Shanbao, now part of Sandvik Construction.
- Acquired the remaining 51% stake in Precorp Inc., part of Sandvik Machining Solutions.
- Acquired TechnoPartner Samtronic GmbH, included in Sandvik Venture.



NEW VISION FOR INTENSIFIED FOCUS ON THE GROUP'S GROWTH AMBITION

Based on the 2011 strategy foundation, Sandvik has developed a long-term strategic direction for the Group, including clarification of the company's operating model. Sandvik operates through five independent business areas with a central enabling Group function. It holds a strong mandate to drive prioritized Group-wide processes aimed at supporting the business areas.

During 2013, Sandvik worked to develop the strategy in an increasingly competitive market.

The Group decided to commit a strong focus on growth, requiring Sandvik to be a high-performing organization that continuously strives to improve its offering and create unique added value for its customers.

A new vision was launched and the Group's core values were further developed, thereby building on the foundation required to enable Sandvik to fulfill its growth ambitions.

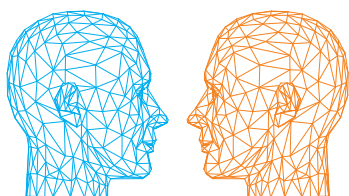
The Sandvik 160D drill rig, launched in May 2013, was specially developed for the mid-market segment in India. Engineering, sourcing and manufacturing were also carried out in India. The 160D is a first-of-its-kind drill from Sandvik's assembly center in Pune, with optimized features tailored to improve productivity, enhance safety and ensure eco-sustainability for Indian customers.

OUR VISION

WE SET THE INDUSTRY STANDARD

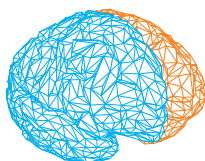
Sandvik's vision means that we set the benchmark for others to follow. Sandvik will achieve this not only through technology and expertise, but equally importantly through the people working for the Group and the relationships they build with customers and stakeholders. Setting the industry standard requires a high level of innovative thinking within the company across all processes and within how we operate in our day-to-day business. The vision reinforces and enhances the importance of constantly striving toward being the leader in the industry and in our chosen segments.

FOUR CORE VALUES BUILT ON OUR RICH HERITAGE SUPPORT SANDVIK'S AMBITIONS FOR THE FUTURE



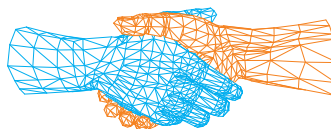
CUSTOMER FOCUS

We constantly strive to exceed our customers' expectations and enable them to excel in their business.



INNOVATION

We shape the future by creating pioneering solutions throughout our operations.



FAIR PLAY

We conduct business in a sustainable and responsible manner.



PASSION TO WIN

We are passionate about making our company number one.

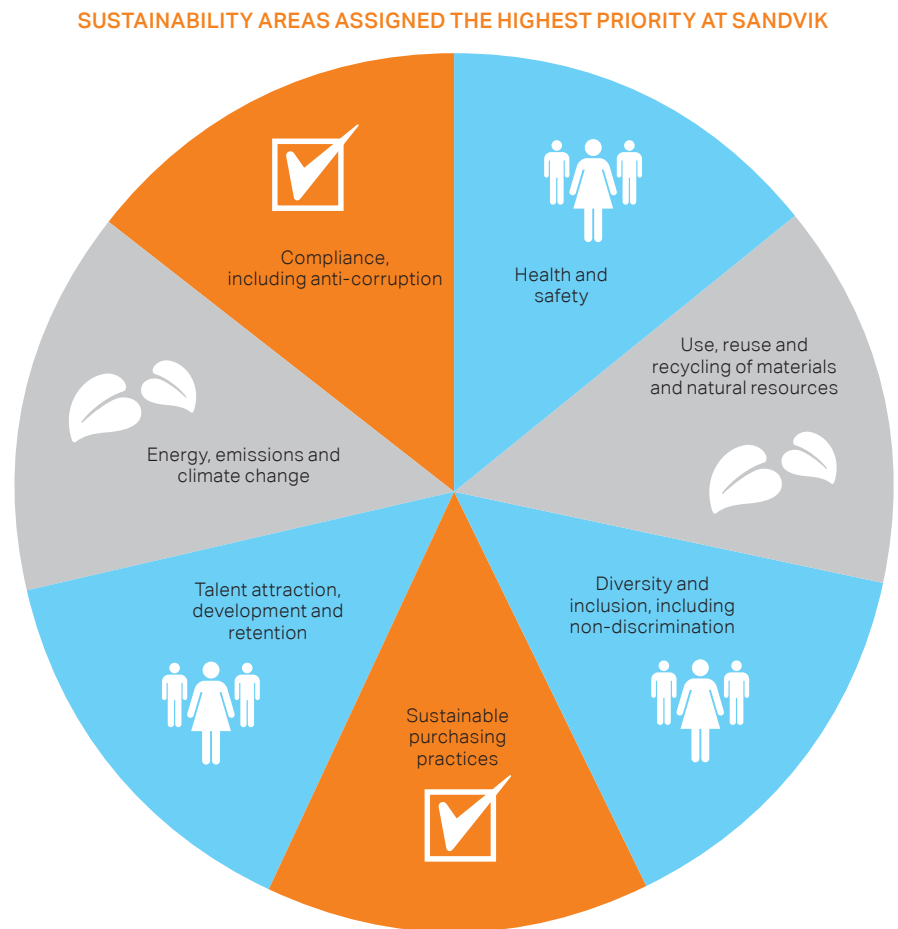
SUSTAINABLE BUSINESS IS THE FUTURE OF BUSINESS

For Sandvik, sustainable business means reducing the Group's negative economic, social and environmental impact from operations, while capitalizing on the opportunities that arise from integrating sustainability aspects into the Group's core operations.

Sandvik's ambition is to become one of the world's most sustainable companies in its industry; an ambition that is built on the conviction that this represents a key business opportunity. The Group's products and solutions should contribute to making the world a more sustainable place, where consideration is shown for people and the environment. Accordingly, sustainability activities will become an even more integrated component of Sandvik's business strategy and brand. The opportunities that are generated as a result of this work should be leveraged in, for example, research and development activities, but also as a part of Sandvik's customer offering and attractiveness as an employer.

The Group's program for sustainable business is based on the ten principles of the UN Global Compact with respect to human rights, working conditions, environment and anti-corruption, and the OECD's Guidelines for Multinational Enterprises. The ambition is to support customers to become more sustainable by offering energy-efficient and safe products. The leverage generated by the Group's sustainable offering is considerable due to the global geographic spread of its customers. It is therefore important for Sandvik to assume responsibility for the effect the Group has on stakeholders, the surrounding communities and the value chain.

At Sandvik, tools and systems are being continuously developed to satisfy requirements in the sphere of sustainable business and to live up to the high ambition the company has set. In 2013, coordination



teams were established at Group level and in certain countries (India, China, Mexico and Brazil) tasked with ensuring mutual learning and generating synergies between all elements of a complex sustainability agenda. The coordination teams therefore include representatives from for example treasury, risk management, EHS (environ-

ment, health and safety), purchasing, communication, diversity and inclusion, and anti-corruption.

Read more in Sandvik's Sustainable Business Report at www.sandvik.com/sustainability.

Sustainable business at Sandvik is...

... integrated in the Group's customer offering.

... a key driver when developing tomorrow's products.

... strongly linked to Sandvik's attractiveness as an employer.

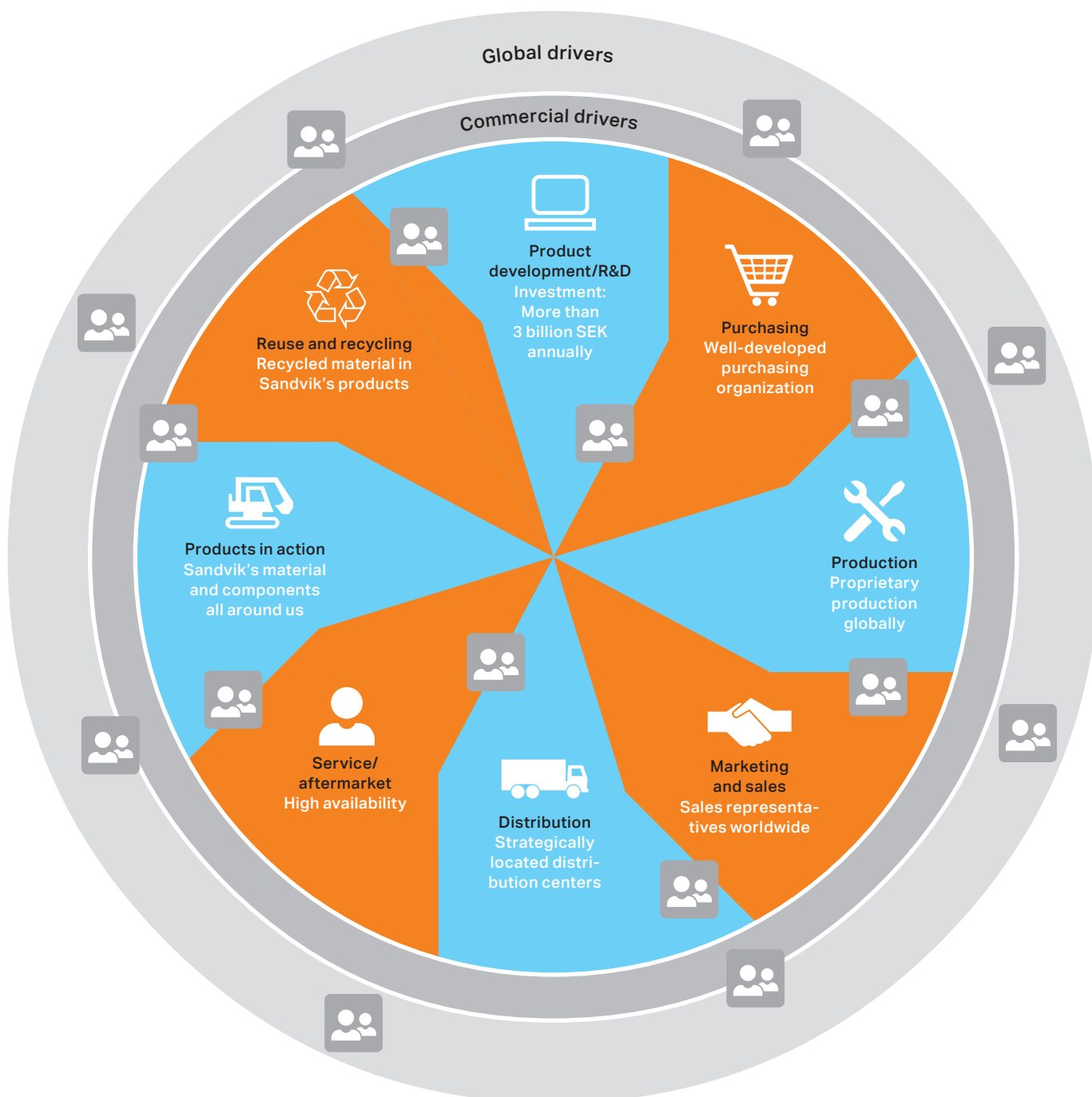
"OUR AMBITION IS TO BE AMONG THE MOST SUSTAINABLE COMPANIES IN OUR INDUSTRY, WITH CLOSE LINKS BETWEEN OUR BUSINESS STRATEGY, BRAND VALUE AND SUSTAINABILITY OPERATIONS."

OLOF FAXANDER
PRESIDENT AND CEO

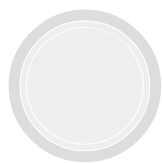


PARTICIPATION AND COLLABORATION

Sandvik is active in more than 130 countries. The Group's significance to the market and the interaction between the company and the market can be illustrated by a value chain. It encompasses all of the company's activities, from R&D and manufacturing to the daily use of products, and the subsequent reentry of the materials into the cycle of the value chain via reuse and recycling.



GLOBAL DRIVERS



Higher living standards are increasing consumption worldwide.

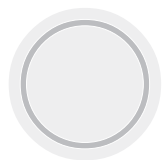
High-growth economies are driving global development.

Strong pressure to innovate.

Long-term **growth in demand** for raw materials.

Sandvik's overarching strategy for its continued business development is to leverage the various drivers that influence society. This includes globalization and higher living standards with the resulting rise in consumption and, not least, intensified focus on energy efficiency, enhanced resource management and improved safety.

COMMERCIAL DRIVERS



Demand for energy efficiency, energy-saving products and safety.

Shorter product lifecycles give rise to greater need for more efficient cutting tools.

Higher degree of automation and digitizing in mining operations for health and safety, environmental and efficiency reasons.

VALUE CHAIN



Product development/R&D Tens of thousands of new products are launched each year. Extensive and targeted R&D in close collaboration with customers. Investment: more than 3 billion SEK annually. More than 2,700 people work in the field and the Group has about 8,000 active patents and other intellectual property rights.

Purchasing Raw materials, consumables, capital and investment goods, components, service and support capabilities are procured by the business areas, product areas and local companies.

Production Proprietary manufacturing is carried out globally and is focused on high value-added products for expanding niche markets and demanding applications.

Marketing and sales Sandvik collaborates closely with customers via thousands of sales representatives worldwide. New offerings in the cemented-carbide area are introduced, supported by practical demonstrations and training of customers and internal staff. The share of direct sales in the Group, usually via digital channels, is about 80%. Selected distributors and agents serve as a complement in certain markets.

Distribution A small number of large and strategically positioned distribution centers are located in the largest market areas. Standard products in the cemented-carbide range are usually delivered within 24 hours.

Service/aftermarket Close collaboration with customers yields high availability. For example, Sandvik employees are often posted on the worksites of major mining customers to guarantee optimal service.

Products in action Material and components from Sandvik are everywhere in our daily lives. In the home and the human body as well as in cars, buses, trains, aircraft, power plants, mines and a long list of industries.

Reuse and recycling 81% of the Group's metallic raw materials are derived from recovered material.

STAKEHOLDERS



Shareholders Approximately 117,000 owners in 86 countries. Nearly 30% of the owners are outside Sweden. Largest shareholder (31 December 2013): Investment company Industrivärden, 11.6% of shares.

Employees/prospective employees The number of employees is 47,338, of whom 19.1% are women (31 December 2013). Communicating the Sandvik brand and marketing the Group as a good employer is an integral part of Employer Branding activities to reach out to prospective employees.

Customers Customers in more than 130 countries. Customer areas in order of size: Mining industry, engineering industry, construction industry, automotive industry, energy sector, aerospace industry and consumer-related industry.

Suppliers Suppliers and sub-suppliers of raw materials, consumables, capital/investment goods, components,

services and support capabilities across the globe.

Society Sandvik has about 150 sites – plants, service centers, warehouses, etc. – that are highly important to the surrounding communities across the globe.

Research institutes, universities and institutes of higher education Collaboration takes place in various fields of research. Sandvik works proactively to reach out to the company's recruitment base of university students studying such subjects as economics and engineering and to contribute to the skills development of employees.

Finance market Sandvik's extensive communication with investors and analysts in the international finance market is coordinated by the Investor Relations Group function.

Business partners Sandvik maintains contact and cooperates with various private and state-owned companies. One example is the Swedish Export Credit Corporation relating to the financing of international transactions.

Media Sandvik is a global business with a strong local base in the form of large sites in many locations. This generates local, national and international media interest, also from a financial perspective.

Authorities The Group has significant contacts with authorities and institutions across the globe. These may relate to export and import activities and taxes and duties, various forms of inspection and so forth.

Organizations Stakeholder groups include employee, employer, industry and other interest organizations, local, regional and international coordinating bodies, etc.

DRIVEN BY CUSTOMER VALUE

Where business and society are evolving – that's where you'll find Sandvik. The Group's products and solutions are used by customers worldwide and by most industries. Sandvik's offering improves efficiency, productivity and safety, which in turn boost profitability for customers.



MINING

Equipment and system solutions raise productivity and safety in the mining industry, for both underground and surface mines. Sandvik delivers drill rigs, rock-drilling tools, mobile and stationary crushers, conveying systems, loaders, tunneling equipment and various solutions to increase automation.

37%*

ENGINEERING

21%*

Sandvik's tools and tooling systems for metal cutting and advanced materials and components are used in engineering industries worldwide, improving productivity and increasing profitability.



CONSTRUCTION

Machinery and process solutions from Sandvik are used for such applications as drilling, crushing, screening, materials handling, demolition and recycling. Examples of projects include roads, bridges, power plants, airports, tunnels, harbors and terminals.

11%*



ENERGY

11%*

Sandvik offers solutions for all forms of energy; from fossil fuels and nuclear power to renewable sources such as solar and wind power. These include tools and systems to satisfy the industry's metal-cutting needs as well as finished products and materials.



AUTOMOTIVE

The focus is on conserving energy and reducing emissions. Sandvik's cemented-carbide tools and systems for turning, milling and drilling in metals raise productivity in the manufacture of such items as engines and transmissions. Materials from Sandvik can be found in such items as safety belts, airbags, brakes and various instruments.

11%*



4%*

AEROSPACE

High standards are applied to safety, efficiency and environmental performance. Weight and energy usage are the focal points. Sandvik's cemented-carbide tools enhance efficiency when machining composite materials and lightweight metals. Advanced high-alloy materials from the Group are also used in many aircrafts.



CONSUMER GOODS

2%*

Cutting tools and tooling systems are used in the manufacture of consumer goods. Materials from Sandvik can also be found in such products as watches, razors, fridges, freezers, microwave ovens, computers, tablets and mobile telephones.

MISCELLANEOUS

3%*

SANDVIK'S MINING EQUIPMENT GOES FOR GOLD

Sandvik offers a world-leading range of equipment for the mining industry. Customers can choose from a broad range to meet their specific requirements for rock drilling, rock excavation, crushing, loading, transportation and aftermarket. The Australian mining industry has a world-class reputation and Sandvik has built up a strong brand there. One of the country's gold mines chose Sandvik's products when it wanted to increase extraction rates and profitability in order to become one of Australia's most cost-effective mines.

The focus of the mining industry in Australia has long been safety and high productivity, a combination that fits Sandvik like a glove. Investment in the Australian mining industry is of strategic importance for the Group, and Sandvik's own expansion has been a result of both organic growth and acquisitions.

One Australian mining company, Northern Star, has plans to become one of the country's leading gold producers in the near future. Its flagship operation is the Paulsens gold mine, located in the iron-ore mining-intensive Pilbara region of Western Australia.

Bill Beament, the Managing Director of Northern Star, is a qualified mining engineer with significant industry experience in a range of positions, from underground operator to various management

positions. One of the machines he gained experience in operating was a Sandvik jumbo drill rig, and his assessment is: "When it comes to underground drills, no-one comes close to Sandvik."

This experience stayed with him when his career eventually led him to his managerial post at Northern Star and the robust growth of Paulsens gold mine. The extraction rate from the mine had been low and it had a projected life of just six more months. However, Bill Beament saw the mine's potential and, to increase productivity and improve margins, Northern Star decided to establish its own drill fleet consisting of Sandvik equipment in preference to leasing machinery and manpower from an external supplier.

The initiative was a success. According to Bill Beament, the machine operators are extremely positive. Comfort and functionality are outstanding, allowing them to focus on their work at the rock face. Another aspect is the efficient service and maintenance Sandvik provides, ensuring that machines are always used at their maximum capacity.

Today, the mine's projected life has been extended by at least five years and the volume of gold ore extracted annually has reached record levels. Within seven months of investing in the Paulsens mine, production had doubled and the production cost had been reduced by 20%. This enabled Northern Star to quickly repay the cost of investment.



The new Sandvik RH460 hammer takes down-the-hole (DTH) drilling to new levels. It has been developed for superior productivity in variable ground conditions. Higher impact energy is achieved at lower air consumption, maximizing productivity and lowering costs.

A large, orange and grey Sandvik Pantera drill rig is shown in a mining environment. The rig is positioned on a rocky, uneven surface, likely a mine floor. It features a tall, vertical drill column and a large, orange, cylindrical component at the base. A person wearing a hard hat and safety gear is visible inside the operator's cab. The background shows a steep, rocky cliff face under a blue sky with scattered white clouds. The rig is equipped with various hoses and cables, and the name "PANTERA" is visible on the side of the cab.

Sandvik's Pantera™ is a new drill rig developed to capitalize on the ongoing shift in the mining industry toward fully autonomous operation. It features increased drilling capacity and service life, lower fuel consumption and superior safety compared to alternatives in the market.

CRANKSHAFTS WITH "SUPER" QUALITIES

Sandvik has a long history of delivering metal-cutting tools to the automotive industry. Its clear emphasis on research and development has helped the Group establish a strong position in the sector as the demands on functionality and performance have become more stringent. When it comes to crankshafts, Sandvik is a global leader.

The crankshaft is the heart of any internal combustion engine, from mopeds to heavy trucks. The performance of the crankshaft is central to the vehicle's function. The crankshaft converts the up and down motion of the piston into circular motion that ultimately turns the wheels. This places extreme requirements on the crankshaft material, which has to cope with the forces generated by violent acceleration and breaking while also dealing with significant torque. When calls for lower energy consumption drive demand for ever-lighter vehicles, the need for crankshafts with "super" qualities becomes even greater, meaning a product that combines low weight with high durability. A crankshaft's design varies depending on the purpose of the engine, and this also means that several different manufacturing tools are required in its production.

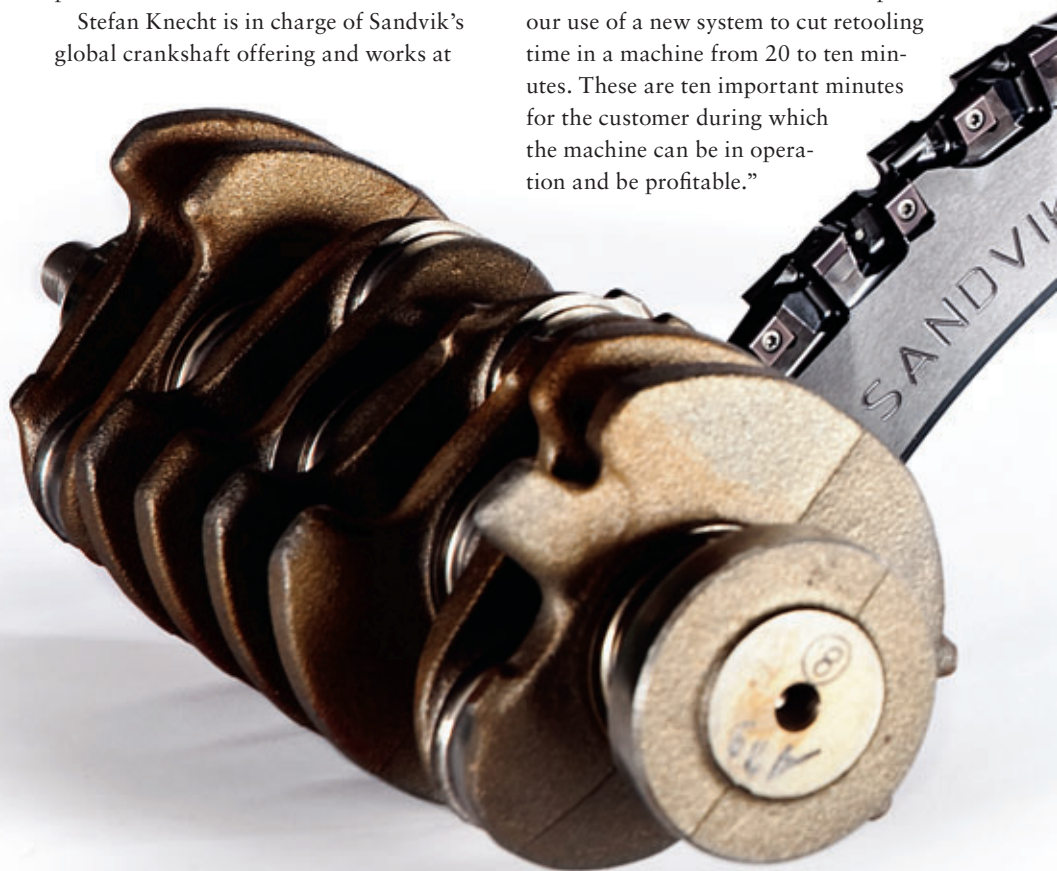
Only a handful of companies in the world have the capacity to deliver com-

plete solutions for the manufacture of crankshafts, and even fewer have the ability to be on the technological leading edge. Sandvik holds this position and its customers include global companies involved in the production of automotive components. Functionality, strength and service life are just a few of the factors in focus as these companies develop their products.

Stefan Knecht is in charge of Sandvik's global crankshaft offering and works at

the Competence Center in Düsseldorf, Germany.

"Over the past three years, we have managed major projects for end customers, such as the Chinese company Changan, which uses tools from Sandvik in its crankshaft production. In parallel, we have developed new technology in collaboration with the major machine manufacturers. One concrete example is our use of a new system to cut retooling time in a machine from 20 to ten minutes. These are ten important minutes for the customer during which the machine can be in operation and be profitable."



The Sandvik Competence Center in Düsseldorf is structured to offer customers a full range of engineering services, including design, process and application engineering, product management and commercial services – all under one roof.



SANDVIK'S BREAKTHROUGH IN METAL CUTTING

The GC4325 is a new steel-turning grade using a new, advanced technology programmed at the nano level, known as Inveio. The atoms of the coating are more tightly packed than in other grades, thereby significantly increasing the insert's wear resistance and tool life.



CONNECTING EUROPE AND ASIA BY RAIL TUNNEL

New high-speed trains will soon operate on the Ankara-Istanbul route in Turkey, cutting travel time from seven to three hours. The trains' route includes sections through new tunnels, the longest of which is approximately 10 kilometers. Sandvik's drill rigs were used in the challenging construction project.

Senbay-Özgün, a Turkish joint venture that is part of the Bayburt Group, uses seven large jumbo rigs from Sandvik to construct tunnels at various places along the more than 500-kilometer stretch of rail line between the capital Ankara and Istanbul in Turkey. Approximately 1.4 million cubic meters of rock is being excavated from the bed-rock and removed from the tunnels. It is a complicated task due to the significant variation in rock quality. The Bayburt

Group chose drill rigs from Sandvik because they are trouble-free and easy to operate and maintain.

Sandvik is working to build a stronger brand in the construction sector. In Turkey, the underlying factors driving demand for the Group's solutions have been referrals from other major projects, short delivery lead times, good customer relations and increasingly efficient management of aftermarket requirements.

The project, which connects Europe and Asia, is one of the most prestigious in Turkey's history. However, it is also an important piece of the puzzle in a larger context. Other tunnel projects are under way further east along the Silk Route, making it possible to have an uninterrupted train journey all the way from London to Beijing.



Sandvik's DD321-40 drill rig is an efficient machine for constructing tunnels in major infrastructure projects, such as rail tunnels for high-speed trains that travel up to 250 km/h.



The tunneling project will cut out a sharp bend around the city of Sakarya, making the alignment more suitable for high-speed trains and shortening the route between Ankara and Istanbul from 576 km to 533 km.

The Sandvik R32 drill bit, used in the Turkish tunneling project, offers great versatility, higher penetration rates and straighter holes than other alternatives in the market. It also features longer bit life and lower energy consumption.



THE FUTURE MAKES ITS ENTRANCE

Most people agree that the greenhouse effect must be stopped and that actions have to be taken – now. Reducing vehicle emissions is a key part of the solution. Sandvik has taken the strategic decision to pursue sustainable business activities and has spent the past few years building up a strong position in the area of fuel cells.

A fuel cell converts chemical energy into electric energy, which is subsequently used to power an electric motor, for instance. Because the conversion of energy takes the form of a chemical reaction, the degree of efficiency is higher than in combustion-based energy systems, such as regular gasoline-powered car engines. The most common example is that a fuel cell uses hydrogen and oxygen, with the resulting emissions consisting of plain water. A car can be refueled in the same way as before and can be driven as far on one tank of hydrogen gas as with one tank of gasoline. Another environmental benefit is noise – the motor of an electric car is essentially silent.

Hydrogen can be manufactured in several ways, including by electrolysis of water, which does not generate any greenhouse gases. The costly part will be

to build up the infrastructure necessary to manage the switchover from gasoline and diesel.

Sandvik has spent the past few years developing technology for the material in the plates that connect the electric cells in the fuel cells. The plates are made from stainless steel and feature a special coating that is corrosion resistant and ensures a high degree of electrical efficiency from the cells. Since the plates are connected in series, forming stacks, the technology is scalable, enabling a power output from just a few watts up to hundreds of megawatts. Sandvik can also offer a range of coatings depending on the type of fuel cell.

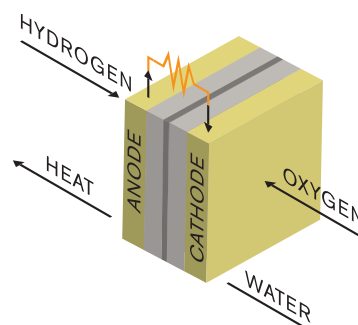
Aside from the automotive industry, fuel cells are also used for mobile and stationary electricity needs. Examples of mobile devices are chargers for mobile phones and computers. Stationary units include electricity for radio base stations,

which connect mobile networks and can be found in a large number of locations across the globe. These are currently often powered by diesel-electric generating sets.

The Group is therefore well positioned to establish a leading presence in an industry that could potentially change the world. The material is not just a product on the drawing board. Through collaboration with a number of companies in the global fuel-cell industry, test results have also shown that Sandvik's solutions deliver on their promises in practical application. Furthermore, the advantage over other possible competitors not only relates to the material concept; Sandvik can already offer large-scale production capacity.



A fuel cell largely functions in the same way as a battery that does not need to be replaced or recharged. Instead, a fuel cell uses oxygen from the air as well as hydrogen to produce energy in the form of heat and electricity. It will continue to produce electricity as long as there is a supply of oxygen and hydrogen. Because the fuel is directly converted into electricity, a fuel cell can achieve a much higher degree of efficiency than a conventional combustion-based engine. Since a single fuel cell produces a small electrical current, it is common practice to place several fuel cells in a series, so called stacks. Although there are several different types of fuel cells, all are essentially based on the same technology.





PIONEERING INNOVATION AT THE BOTTOM OF THE NORTH SEA

The demands placed on the material properties of the components used in the energy sector are extremely rigorous. Safety, durability and reliability are central themes. Sandvik has for many years been a leading manufacturer of tubes for extraction of oil and gas from below the sea floor. Drilling operations are being performed at ever greater depths and increasing pressures, thus raising the requirements for the materials used.

For the oil and gas exploration industry, Sandvik offers an extensive range of products made from corrosion-resistant alloys, such as duplex stainless steels, nickel alloys and other advanced materials for extremely critical environments. The locations where oil and gas companies operate impose increasingly rigorous demands. In addition to operating in deeper waters, it is now also possible to extract more from existing drilling sites. Locations previously considered difficult and uneconomical have suddenly become attractive and profitable. Through unique expertise in materials technology and research, combined with world-class product development, Sandvik has been able to satisfy the stringent requirements of customers for lighter and more durable products.

One of the latest in a range of applications developed by Sandvik is manufactured in a new material for the oil and gas industry. It goes under the name Sandvik SAF 3207™ and is a hyper-duplex stainless steel. The first contract was for a well site in the North Sea, where the tubes will be used downhole to enhance oil and gas recovery. The new material has also been developed to be used in the long umbilicals that control subsea oil and gas wells.

The new grade is vastly superior to previous materials. Its excellent resistance to corrosion also enables the tubes to be used to inject the wells with seawater during extraction, which significantly boosts productivity.

Sandvik has developed a new material that is now being used for the first time to extract oil and gas in the North Sea; a steel grade that offers superior benefits compared with previous materials.





TAKING AIRCRAFT TO NEW HEIGHTS

Sandvik has Application Centers worldwide for development and testing of customer solutions. Three of the centers – Fair Lawn, Birmingham and Orléans – mainly focus on aerospace components.

Technology advances have been extremely important to the aerospace industry ever since the days of the Wright brothers. Today, more than a century later, the emphasis is on fine-tuning the performance of the aircraft to reduce energy consumption and CO₂ emissions; all aimed at boosting profitability and minimizing the environmental footprint. Sandvik delivers solutions that do precisely that.



To reduce aircraft weight, it is common practice to use composite and composite metal matrix materials, as well as metals with special properties, such as titanium and aluminum. Sandvik offers complete solutions for the machining of various types of advanced materials. Examples of solutions include diamond-coated and tipped cemented-carbide tools. The products are customized depending on the type of composite material, the requirements on tool life and the proposed lifecycle of the component. Tailored solutions enable customers to better utilize their machines, maintain consistent component quality and reduce maintenance costs.

Applying customized tools for advanced materials and applications is just one of the many ways to enhance productivity for the aerospace industry. Michael Standridge is one of Sandvik's specialists at the company's Aerospace

Application Center in Fair Lawn, New Jersey, in the US, where customer solutions are tested and developed. He explained about a value-added service that supports and enhances the implementation of the cutting tool.

"To provide the most value to our customers and to ensure optimal performance within the manufacturing environment, Sandvik has packaged a combination of tooling solutions and applications know-how. This applications know-how is provided in the form of machining recommendations, machine tool specifications and fixture design solutions. To ensure safety, repeatability and quality in the manufacturing process, we need to work on all parameters."

This is exemplified by a recent project where a customer was experiencing profitability problems in connection with the production of engine casing components. The customer needed to reduce the cycle

time by 30% while still maintaining quality, but was finding it difficult to identify a solution that would meet the rigorous tolerance requirements and offer a reasonable machining time.

"Firstly, a team of our people spent several weeks familiarizing themselves with the customer's processes. In due course, we were able to propose a turnkey solution containing everything from fixture design of the component to the selection of tools and the regeneration of the CAM program. In turn, this helped to reduce the number of setups. The method was tested at the application center and when it was clear that major efficiency gains were possible, work pushed on with integrating the solution in the customer's processes. The result was a 40% reduction in production time, and we were able to meet the tolerance requirements as well as the financial conditions of the investment."

CEMENTED-CARBIDE KNIVES MAXIMIZE PRODUCTIVITY



Manufacturers of absorbent hygiene products often deal with many different types and sizes of products. It is not uncommon for a baby diaper factory to manufacture 1,000 products per minute on a single production line that runs 24/7. When switching between products and models, it is vital to have maximum flexibility and the minimum amount of downtime. The cutters must be reliable, easy to adjust and have a long service life to maximize productivity.

Kimberly-Clark has competence and design offices in Neenah, Wisconsin, for the development of healthcare and hygiene products, which are then produced across the globe at more than 30 manufacturing sites.

Kimberly-Clark manufactures baby diapers and regards ensuring that its products have a good fit as a key aspect. In intense competition with other suppliers, the company chose Sandvik as its supplier of rotary-cutting solutions fitted with cemented-carbide knives for its production. Sandvik has now supplied hundreds of units across the globe that cut the diaper sections that fit around the leg. Sandvik has trained the operators at Kimberly-Clark to run the cutting units efficiently and has been on-site at the customer's facilities before and after start-up to ensure a smooth process and reliable performance.

Greg Evers, Senior Procurement Consultant at Kimberly-Clark in Neenah, Wisconsin, in the US, explains how they chose supplier:

"When deliberating about which cutters to use, we had decided that three factors were paramount: they needed to be easy to use and maintain, robust and function at high speed. Other important aspects were that waste was to be kept to a minimum. We chose Sandvik because they outperformed the competitors in all of these areas. Sandvik's cutters are clearly superior."

Because Kimberly-Clark is a global company with 30 production plants for healthcare and hygiene products throughout the world, it is important for them to work with a partner of a similar size.

"Sandvik's network of sales and service centers allows us to tap into its expertise regardless of whether it's a matter of hardware, training or service and support. They can match our footprint across the globe, which is a major benefit for us. Another advantage is that Sandvik is always willing to take on new development challenges, providing our engineers with the opportunity to focus on product enhancements. Sandvik's products are also covered by guarantees, which reduces our overall performance risk viewed over a full lifecycle."

When asked about his experience of the people at Sandvik, Greg Evers is equally positive. He appreciates that a technical salesperson has been assigned as his account contact, thus saving a considerable amount of time and energy.



Rotary cutters from Sandvik are used for cutting out the leg openings in a baby diaper. They are also used to make other kinds of cuts in a diaper for such features as the elastic side panels and the front panels.

GLOBAL RESEARCH FOR FUTURE PROFITABILITY

Research and development (R&D) is prioritized at Sandvik and plays a key role in the Group's efforts to retain and strengthen its competitiveness. The strategy builds on collaboration, proactive patent activities and close cooperation with customers, thereby raising their productivity, reducing the environmental impact and improving the work environment.

Each business area is responsible for its own R&D activities. A Group-wide R&D Board is in charge of setting the strategic direction of Sandvik's research and development, creating synergies between the business areas and coordinating joint projects. The Group has the ambition to increase the new sales ratio (newly developed products as a percentage of total invoicing) from the current 30% to 45% in the next few years. Because new products are more competitive, this move will strengthen Sandvik's position in the market.

Sandvik is involved in a number of collaborations with universities, institutes of higher education and research institutes across the globe, covering such research areas as metallurgy, material physics, metal cutting, rock mechanics, mining processes and production technology.

R&D is carried out throughout the world. As Sandvik becomes ever more global and in parallel with its robust

growth in Asia, investments are increasing in this region in particular. One example of this is the establishment of new Group-wide R&D centers in India and China.

PATENTS SAFEGUARD PROFITABILITY

Sandvik has a very strong patent program to ensure that the Group leverages its successes and converts R&D investments into long-term profitable products and solutions. Intellectual property rights are identified at an early stage in a research project and are addressed both locally and globally to ensure that the best possible position is occupied for the future.

Confirmation of the Group's innovative excellence in 2013 was that Sandvik was once again listed as one of the world's 100 most innovative companies by the analysis firm Thomson Reuters and also by the US business magazine *Forbes*.

PRIORITIZED AREAS

- Additive manufacturing (3D printing).
- Development of new materials.
- More efficient industrial processes with reduced energy usage.
- Energy efficiency in renewable forms of energy.
- Safety in the mining sector.

SANDVIK'S R&D INVESTMENTS

- Each year, Sandvik invests more than 3 billion SEK in R&D and quality assurance.
- More than 2,700 employees are active in the area.
- The Group has about 8,000 active patents and other intellectual property rights.
- Each year, Sandvik launches tens of thousands of new products.
- There is a clear link between the number of new products offered and the Group's growth and profitability trend.
- Sandvik's largest R&D Centers are located in Sweden, Finland, Austria, Germany, the UK and the US. Other centers that are growing rapidly can be found in India and China.
- Centers of Excellence gather the Group's specialists in specific technology fields to develop competence and support the business areas.

Katarina Dahl has a Master of Science Degree. She has worked at Sandvik for 15 years, alternating between various roles. She is currently project coordinator for the Group's strategic research projects. Together with colleagues from all over the world, she works to identify tomorrow's solutions.

"I coordinate a number of R&D projects aimed at advancing Sandvik's position, but that are not part of the daily R&D activities in the business areas. Together with the R&D Board, I have also been assigned to systematically search for new technologies and strategic areas that could strengthen Sandvik's position for future products and expand its core business."



Bo Rogberg was awarded professor Gunnar Wallqvist's gold medal by KTH Royal Institute of Technology, Stockholm, Sweden, in 2013. The medal is only awarded every tenth year to an individual who has made a major contribution to engineering. Throughout his 32 years at Sandvik, Doctor Bo Rogberg has ensured the company's consistent development of new methods for continuously cast steel.

"It's a pat on the back for all my hours of hard work. My guiding principle is to combine theory with production in order to generate positive results, such as higher productivity and better products. It demonstrates that Sandvik's research is extensive and reliable, that quality is our number-one priority and that we work with systematic and tactical methods all the way to product development."





TECHNICAL EXPERTS LEAD SANDVIK'S INNOVATION

Ever since Sandvik was founded, technical experts have been invaluable to the company, and as of 2013, these individuals also have an established career path. During the year, two internationally recognized employees were appointed as Sandvik's first Group Experts. They have been tasked with developing and strengthening the R&D capabilities in Sandvik's strategic areas.

Jan-Olof Nilsson has enjoyed a long career at Sandvik as well as in the academic research community. He earned his Ph.D in 1979 and began working at Sandvik in the same year. He was also an adjunct professor at Chalmers University of Technology, Gothenburg, Sweden, for several years. He is now one of Sandvik's first Group Experts with physical metallurgy as his field of expertise.

WHAT DO PHYSICAL METALLURGISTS DO?

"Together with my colleagues, I work with fundamental research into the microstructure of the material, which

means that we try to understand the significance of microscopic components for the material's properties. Among other things, physical metallurgy helps us identify tomorrow's metal alloys."

TELL US SOMETHING YOU ARE PARTICULARLY PROUD OF

"In May 2013, I published my book –The Sandvik Handbook of Physical Metallurgy – which is being used by other similar-minded people within the Sandvik family. I am very happy and proud of my book and I am delighted to have the opportunity to pass on my knowledge of physical metallurgy."

HOW DO YOU SEE YOUR ROLE AS A GROUP EXPERT?

"I hope to be a role model – a mentor – for younger people and transfer my enthusiasm to them. I have always enjoyed working with problem-solving. When you spend a lot of time working with a problem, finding a solution gives inner satisfaction. And doing it together with others adds another dimension. Sandvik has incredible breadth and it is fantastic to be able to work with people from all of Sandvik's business areas, whose specializations, ages and backgrounds are different from my own. I consider my role as a mentor in this context to be an honor and a privilege.



Susanne Norgren holds a Ph.D in Materials Science from the Royal Institute of Technology (KTH), Stockholm, Sweden. She currently works as a Sandvik Group Expert in Carbide Hard Materials and shares her time between Sandvik, and her position as an adjunct professor in tribology at the Ångström Laboratory at Uppsala University, Sweden.

TELL US ABOUT YOUR WORLD

“My research focuses on the hard materials used for metal cutting and rock drilling. I am currently involved in an exciting project involving new, super-hard diamond materials – initiated at the request of the Sandvik R&D Board – together with people from four different business areas at the Group. Combining great minds and perspectives in a project like this gives us energy and drive. It leads to better results and greater understanding.”

HOW DO YOU SEE YOUR ROLE AS A GROUP EXPERT?

“I consider it an honor and highly enjoyable. No matter what research and development projects we are involved in, I think it’s important that we are always looking forward and thinking about the products that our results might be used for. We should know why we are involved in research. This also makes it so much more interesting and enjoyable, and helps us see the benefits of what we are doing. I hope I can contribute to even better collaboration between Sandvik’s business areas and that I can bring people together who might benefit from contact with each other.”

WHAT DO YOU ENJOY MOST ABOUT WORKING AT SANDVIK?

“We have a wonderful mix of people and expertise. I learn something new from my colleagues every day. There are so many people who know so much about various things – the combined expertise in this company is huge. The strong sense of team spirit to which everybody contributes, from interaction with customers to material and product design at atomic level, ensures high quality and value for our customers.”

OUR EMPLOYEES BUILD TOMORROW'S SANDVIK

Sandvik is preparing for the future. A global market leader must be able to attract, recruit, develop and retain the right talent. Sandvik is therefore working strategically with Employer Branding to continuously improve the company's image as an attractive employer.

Sandvik works actively to strengthen its employer brand by building relationships with motivated students and generating interest in the Group. During the year, Sandvik participated in career fairs and student events at universities and colleges across the globe. The Group also invited students to visit and experience Sandvik from the inside. A few examples are presented below:

- Italy – Career Day, Politecnico di Milano.
- India – Career Day, Maharashtra Institute of Technology, MIT College, Pune.
- Sweden – Career Days at the Royal Institute of Technology (KTH) and the Stockholm School of Economics, in addition to other universities in Sweden.
- USA – National Manufacturing Day at Sandvik's facilities in New Jersey, Illinois, California and Texas.

SPONSORING OF A PROFESSORSHIP IN INDIA

In 2013, Sandvik started to sponsor a professorship at the Indian School of Mines in Dhanbad, one of the country's leading mining institutes, where Sandvik recruits top talents. The initiative is an optimal platform for Employer Branding since it positions Sandvik as a technology leader and attracts the right talents to the organization.

A GLOBAL TRAINEE PROGRAM

A global trainee program was developed by the Group in 2013. The aim is to attract and develop new employees with the potential to assume leadership roles within Sandvik. The program, which will be launched in autumn 2014, will run for 18 months and is intended for recently graduated top students from relevant academic fields, such as engineering and economics. Candidates from India, China, the US and Sweden will be recruited for the first program.



DIVERSITY AND INCLUSION GENERATE GROWTH FOR SANDVIK IN MEXICO

By embracing diversity and promoting an inclusive work environment, Sandvik's capacity for innovation and efficiency will grow. Arturo Montiel, Sandvik's Country Manager in Mexico, explains:

"Diversity and inclusion make it possible for us to develop our already talented employees and create growth in the operations. It's about moving from 'Good to Great' through our own people and increasing everyone's accountability for our business. Let me give you an example. In the metal industry, production has

always been seen as a man's job, while customer service is for women. We started a program to increase the mix and improve communication between the areas in order to serve our customers better – in processes such as machine operation, quality control and Lean activities. The employees involved in the project have really contributed to improving Sandvik's offering, as well as their own everyday situation. This has taught us the importance of listening to different voices."

BATTLE OF THE NUMBERS – A WAY TO CAPITALIZE ON ALL TALENTS

In 2013, Sandvik participated in the Battle of the numbers project together with nine other global Swedish companies. The project develops practices aimed at increasing the number of women in operational management positions. The name "Battle of the numbers" expresses two overall objectives: to increase the number of women in the companies, and to increase profitability. At Sandvik, the project has led to ambitious targets with specific action plans. Group Executive Management has played an active role in the process, which was led by a project group comprising ten selected female managers. Their recommendations to Group Executive Management were based on their own experiences of building a career at Sandvik.

WE CHOSE SANDVIK

A safe workplace that embraces diversity and inclusion and offers a range of development opportunities. This is what Sandvik must offer to be an attractive employer, both today and tomorrow. Three employees give us their views on Sandvik and what motivates them at work.

Building a safety culture

Tony Tripi is EHS (Environment, Health and Safety) Manager at Sandvik in Palm Coast, Florida, USA. He started his career at Sandvik in 2010 and, prior to this, had gained extensive experience of environmental compliance and waste management. He also has several years' experience of health and safety compliance and training. Communication is key to success and one of several initiatives is weekly safety tips to employees.

"Our main challenge regarding safety is changing the culture from one where just a few people are responsible for safety, to one in which all employees are accountable and play a role in developing and maintaining safety programs. My approach to safety is to build relationships with employees. Through my actions I demonstrate that I genuinely care about their health and welfare and want to help them work safely as well as productively."



A developing job with potential



Johan Ekbäck is a Product Development Engineer, at the Exchangeable Drill Tips department at Sandvik in Sandviken, Sweden. He began working at Sandvik in 2012 after completing his thesis for Chalmers University of Technology at Sandvik Coromant in Fair Lawn, New Jersey, USA. His view of a developing job has several dimensions:

"First of all, I want my work to be challenging. I also want the expectations and tasks linked to my performance to require my personal development. I also want my work to be varied and offer means and incentives that inspire me to continue developing. I see good opportunities for this at Sandvik. Whether I want to grow in my present role or change departments, functions, business areas or even continents, these opportunities are available. I can also actively influence the direction of my development."

Leadership and talent development are crucial to success

Holly Wu is Corporate Communications Director at Sandvik China in Beijing. She has many years' experience in working for multinational companies as a communication expert specializing in branding, PR, internal communication, external events and sustainability. At Sandvik, she is responsible for strengthening the profile and recognition of the Sandvik brand in China, as well as for motivating employees and facilitating change through well-planned and well-executed communication activities.

"Leadership is crucial to the company's successful development and acts as a beacon for employees to focus on and follow. If the light doesn't lead clearly, the focus and momentum needed to win can easily be lost. Talent development is crucial, since a successful company needs talent that adopts the company's values and lives by them. It is also important to have well-designed programs and control measures to retain and develop talents."



TOWARD ATTRACTIVE RETURN AND VALUE GROWTH

Sandvik strives to generate an attractive return and value growth for investors in the Sandvik share. Communication with players in the financial market in 2013 mostly related to the prevailing economic climate and future rationalizations in the Group.

Sandvik's share price decreased 12%, while the OMXS index on NASDAQ OMX Stockholm rose 23%. At year-end 2013, the Sandvik share was quoted at SEK 90.70.

The Group's market capitalization decreased 16 billion SEK during the year to 114 billion SEK (130), ranking Sandvik as the 13th (9th) largest company on NASDAQ OMX Stockholm. During the year, Sandvik shares were traded for a total value of 119 billion SEK (118), making it the 7th (5th) most actively traded share.

IR FOCUS IN 2013

In 2013, more than 300 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. The prevailing economic climate and particularly the market situation in the mining industry were major topics of interest during the year. In the latter part of the year, communication was largely based on the theme "Building an even better Sandvik," which aims to describe the future-oriented actions presented by the Group in conjunction with the Capital Markets Day in September. The measures aim to, for example, streamline Sandvik's supply chain, attain additional leverage from research and

development and improve capital allocation in the company.

TOTAL SHAREHOLDER RETURN

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 2013, the total shareholder return for the Sandvik share was -9%. Over the past five years, the total shareholder return has averaged +17% annually.

SANDVIK'S OWNERS

In 2013, the number of shareholders increased to a total of about 117,000 (111,000). Sandvik has shareholders in 86 countries.

At 31 December 2013, members of Sandvik's Group Executive Management owned a total of 93,577 shares in Sandvik. Members of the Board of Sandvik, excluding the President, owned a total of 6,573,568 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 (3.50) per share to the 2014 Annual General Meeting, corresponding to approximately 4.4 billion SEK and a dividend yield of 3.9% based on the share price at year-end.

Over the past five years, Sandvik's dividend has averaged 2.85 SEK per year. During the same period, an average of approximately 77% of earnings per share has been distributed to the shareholders.

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 the FTSE4Good Series, an international index for global companies that assume social responsibility. The purpose of the index is to assist investors in their analysis of sustainability aspects in a company. Sandvik's inclusion in the index serves as confirmation of the Group's compliance with FTSE criteria in relation to environmental, financial and social responsibility issues.

RELIABLE INFORMATION TO INVESTORS, ANALYSTS AND THE MEDIA

Sandvik's ambition 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 ambition 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,

SANDVIK'S FINANCIAL TARGETS

8%

Annual growth

25%

Return on capital employed

<0.8

Net debt/equity ratio

50%

Payout ratio as a percentage of earnings per share

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

INVESTOR RELATIONS ONLINE

Further information can be found at www.sandvik.com/ir.

PRESS RELEASES IN 2013 (SELECTION)

2 January

Sandvik signs major Mining Systems order with Sasol

6 March

Sandvik to acquire Canadian drilling solutions provider

25 March

Sandvik secures major materials handling orders

11 April

Sandvik launches new delivery model for global finance transactions

12 June

Sandvik to adjust capacity and order backlog for nuclear steam generator tubing

24 September

Sandvik acquires TechnoPartner Samtronic GmbH

24 September

Sandvik acquires remaining shares in Precorp Inc., USA

24 September

Sandvik outlines positive development for the years ahead at its Capital Markets Day

24 October

Sandvik secures major materials handling order

17 December

Sandvik implements initial phase of supply chain optimization



COMMENTS FROM ONE OF SANDVIK'S STAKEHOLDERS

Jan Wäingelin, freelance journalist, working at Swedish business daily *Dagens industri* for 32 years as a reporter, London correspondent and news editor.

WHAT IS YOUR VIEW OF THE CHANGES SANDVIK HAS UNDERGONE IN RECENT YEARS?

"Tumultuous, but necessary. Sandvik was the last remaining major company in Sweden that clung on to its mill traditions and environment. The relocation of the head office to Stockholm was the definitive break with the old order."

YOU HAVE BEEN MONITORING THE MINING, STEEL AND ENGINEERING INDUSTRIES FOR A LONG TIME NOW, WHAT DOES THE FUTURE HOLD FOR THESE SECTORS?

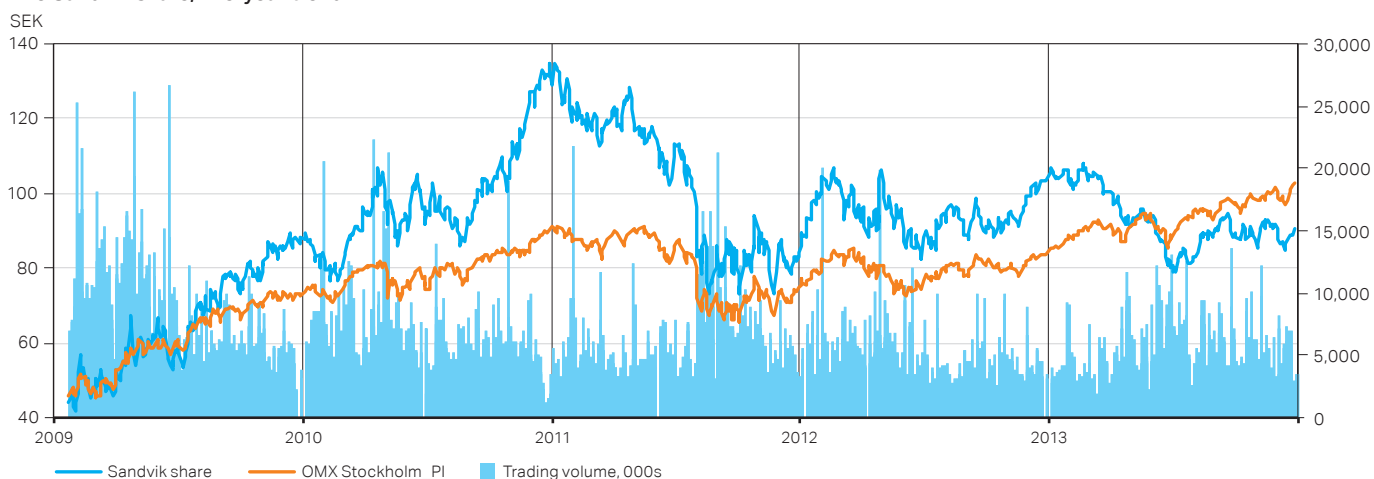
"Next year will continue to be difficult, particularly for iron-ore mines and steel producers. Capital expenditure will continue to decline in the mining sector in 2014 – by about 25% compared with the peak year of 2012, when global investments totaled approximately 210 billion USD. However, a recovery is expected already in 2015, which is expected to last until 2020, due primarily to China. Signals from across the globe are indicating an upturn for the engi-

neering industry. This signifies an improved market climate for Sandvik Machining Solutions, which completed its acquisition of the US company Precorp Inc. during the year, thereby consolidating its position in the aerospace segment. Meanwhile, Sandvik Coromant and Seco Tools continue to launch new products. Sandvik strengthened its position in another high-growth segment through the agreement to acquire Varel International Energy Services Inc. – focused on the oil and gas industry – in early 2014. The world will continue to require oil and gas for many decades to come."

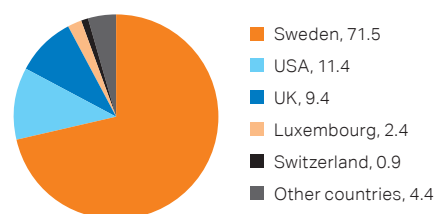
WHAT IS THE OUTLOOK FOR SANDVIK IN YOUR OPINION?

"The outlook for Sandvik is almost certainly favorable. In global terms, Sandvik is viewed as an innovative, cost-efficient and customer-oriented company. A major challenge to be addressed is the new markets in Africa, South America and Asia; markets that demand less expensive and sophisticated systems, machinery and tools for reasons related to finances and levels of expertise. This requires product developers and marketers to think in innovative ways."

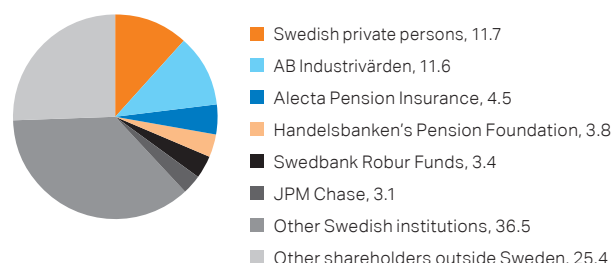
The Sandvik share, five-year trend



Distribution of shareholding by country, 31 December 2013, %



Shareholders in Sandvik AB, 31 December 2013, %

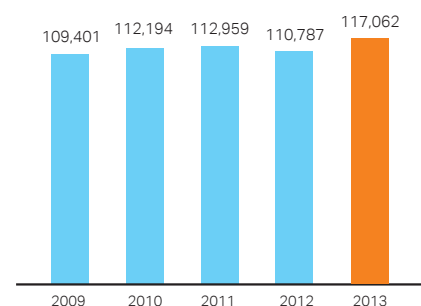


Key figures

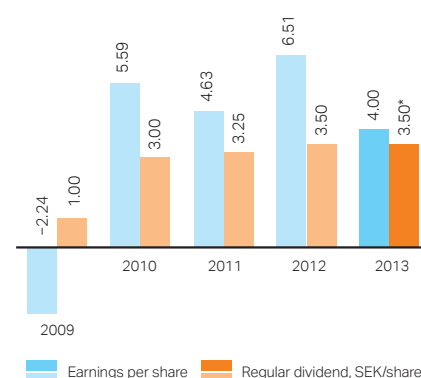
	2013	2012	2011	2010	2009
Number of shares at year-end (millions)	1,254	1,254	1,186	1,186	1,186
Market capitalization at year-end (SEK billion)	114	130	100	156	102
Number of shareholders	117,062	110,787	112,959	112,194	109,401
Share price at year-end, SEK	90.70	103.50	84.45	131.10	86.40
Earnings per share, SEK	4.00	6.51	4.63	5.59	-2.24
P/E ratio at year-end	22.7	15.9	18.2	23.5	—
Change in share price during the year, %	-12	+23	-36	+52	+76
Regular dividend, SEK/share	3.50*	3.50	3.25	3.00	1.00
Dividend as a percentage of earnings per share	88	54	70	54	—
Total dividend yield (price increase + dividend), %	-9	+27	-34	+53	+83
Proportion of shares in Sweden, %	72	64	68	69	67
Proportion of shares owned by the ten largest shareholder groups, %	39	39	38	36	35

* Proposed dividend.

Number of shareholders, 31 December 2009-2013



Earnings and dividend per share, SEK, 2009-2013



The ten largest shareholder groups, at 31 December, %

	2013	2012*	2011	2010	2009
AB Industrivärden	11.6	11.4	12.2	11.7	11.4
Alecta Pension Insurance	4.5	2.9	3.6	3.4	2.5
Handelsbanken's Pension Foundation	3.8	3.8	4.1	4.0	4.0
Swedbank Robur Funds	3.4	4.7	4.6	5.0	4.7
JPM Chase**	3.1	4.9	3.6	3.6	2.8
AMF – Insurance and Funds	3.0	2.0	1.5	2.0	1.8
SSB CL Omnibus**	2.8	3.6	3.3	3.0	2.5
Nordea Investment Funds	2.6	1.9	1.5	1.8	1.4
L E Lundbergföretagen AB	2.4	2.2	2.3	2.0	1.2
Göranssonska Foundations	2.0	2.0	2.1	2.1	2.1

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

** Administrates shares held in trust.

Source: Euroclear Sweden

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 2013.

MARKET CONDITIONS

The market environment varied across the different business areas and regions. Weaker market conditions persisted in the mining and construction industries, while growth was noted in other key areas, such as the automotive, energy and aerospace segments.

MINING INDUSTRY

Despite favorable long-term prospects for the mining industry, demand for Sandvik Mining was subdued throughout 2013. In response to low and volatile commodity prices, many customers were cautious and postponed investment projects. Weak market trends were noted across all geographic regions. However, toward the end of the year, stabilization of demand at a new, lower level was noted.

ENGINEERING INDUSTRY

While the general engineering market was bleak at the outset of 2013, it appeared to have bottomed out around mid-year. Demand for Sandvik Machining Solutions was subdued but stable for the remainder of 2013.

CONSTRUCTION INDUSTRY

The market environment was fragmented for Sandvik Construction. While conditions improved at the start of the year with increasing demand, the market dete-

riorated during the second half of 2013. Overall demand declined, although pockets of growth were noted in such regions as Russia, the former Soviet Republics and Northern Europe. The positive development was sustained throughout the year in the Middle East and Asia.

AUTOMOTIVE INDUSTRY

Although Sandvik Machining Solutions benefitted from the recovery of the automotive industry in the US, the high growth rate previously reported in the automotive industry in the BRIC countries slowed down. Market conditions in Europe remained weak for much of 2013, although there were indications of a slight improvement toward the latter part of the year.

ENERGY SECTOR

In the energy sector, high activity was recorded in the oil and gas segment throughout the year, positively impacting Sandvik Materials Technology. Sandvik

Machining Solutions also benefitted from the positive market trend. As a consequence of the Fukushima accident in Japan in 2011, market conditions in the nuclear power sector were weak for Sandvik Materials Technology.

AEROSPACE INDUSTRY

A slight improvement was noted in the aerospace industry, which positively impacted Sandvik Machining Solutions.

CONSUMER-RELATED INDUSTRIES

The petrochemical industry recovered during the year, which contributed to the positive development for Sandvik Materials Technology.

Order intake by market area

MSEK	2013	Share, %	2012	Change, %	Change, %*
Europe	32,126	38	33,680	-5	-3
NAFTA	15,397	18	16,923	-9	-5
South America	7,821	10	8,578	-9	1
Africa, Middle East	7,585	9	10,227	-26	-17
Asia	15,091	18	19,607	-23	-18
Australia	6,052	7	8,933	-32	-25
Group total	84,072	100	97,948	-14	-10

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

Invoiced sales by market area

MSEK	2013	Share, %	2012	Change, %	Change, %*
Europe	32,919	38	33,302	-1	0
NAFTA	15,576	18	17,882	-13	-9
South America	7,152	8	8,443	-15	-7
Africa, Middle East	8,141	9	9,803	-17	-7
Asia	16,225	19	18,271	-11	-6
Australia	7,315	8	10,828	-32	-25
Group total	87,328	100	98,529	-11	-7

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

GROUP SUMMARY REVIEW

The year was characterized by a weaker level of business activity compared with 2012, a trend that was most pronounced for Sandvik Mining. Sandvik's order intake declined by 10% at fixed exchange rates for comparable units, while invoiced sales were down 7% at fixed exchange rates for comparable units.

FINANCIAL TARGETS

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

TARGET FULFILLMENT

The outcome since 2004 corresponds to average annual growth of 7% and return on capital employed of 18%. The financial crisis in 2008 and the subsequent recession had a significant negative impact on average growth and return. In 2013, growth was -7% and the return on capital employed was 13%. At the end of 2013, the net debt/equity ratio was 0.7.

EARNINGS AND RETURNS

The weaker business activity during the year resulted in a decrease of 4,852 million SEK in operating profit for 2013, which was charged with 2,140 million SEK (1,200) as a result of restructuring measures and impairment losses, as well as -294 million SEK related to movements in metal prices.

The operating margin was also impacted and declined 3.8% to 9.9% of invoiced sales. Changes in foreign exchange rates since the beginning of the year negatively affected earnings by about 1,080 million SEK compared with the preceding year. Net financial items amounted to -1,885 million SEK (-1,974). Profit after financial income and expenses was 6,753 million SEK (11,516). Income tax had a total impact of -1,745 million SEK (-3,409) on earnings, or 26% (30) of

profit before taxes. Profit for the year attributable to equity holders of the Parent Company was 5,013 million SEK (8,105). Earnings per share amounted to 4.00 SEK (6.51). Return on capital employed was 12.6% (19.8) and return on equity was 15.3% (25.3).

FINANCIAL POSITION

Cash flow from operating activities amounted to 5,133 million SEK (11,892). Cash flow after investments, acquisitions and divestments was 609 million SEK (7,961). Cash flow for the year was negatively impacted by the tax payment made totaling 5,800 million SEK as a result of the ruling of the Administrative Court of Appeal in the dispute concerning the ownership and management of intellectual property rights. At the end of the year, cash and cash equivalents amounted to 5,076 million SEK (13,829). Interest-bearing liabilities, excluding net provisions for pensions, less cash and cash equivalents yielded a net debt of 25,184 million SEK (21,132). 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 6,836 million SEK were outstanding at year-end. Under the European bond program of 3,000 million EUR, a nominal amount of 1,282 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 4.6 years for Swedish bonds, 7.0

years for European bonds and 6.0 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

The volume of net working capital declined by 1,672 million SEK compared with the preceding year, primarily due to reduced accounts receivables resulting from lower invoicing levels. Inventory levels also declined, partially due to lower sales. Changed currency rates reduced net working capital by 594 million SEK compared with the preceding year. Working capital at the end of the year amounted to 23,281 million SEK (25,170). Relative working capital in the fourth quarter of 2013 was 27% (27) of invoiced sales. The carrying amount of inventories at the end of the year was 23,318 million SEK (25,508). Capital tied up in inventories was 27% (27) of invoiced sales. At year-end, trade receivables totaled 12,682 million SEK (13,579), which was 14% (14) of invoiced sales.

EQUITY¹⁾

Equity at year end amounted to 33,610 million SEK (32,536), or 26.70 SEK (25.90) per share. The equity ratio was 36% (31).

CAPITAL EXPENDITURE

On account of the tentative market situation, investment levels were adjusted accordingly. Investments in property, plant and equipment were reduced by 13% compared with the preceding year. The total purchase consideration for corporate acquisitions completed during the year (less acquired cash) was 489 million SEK (39). Proceeds from the sales of companies and shares (less cash and cash equivalents in the divested operation)

Targets and target fulfillment

Sandvik Group	Target 2013	Outcome 2013	2004–2013
Annual growth, %	8	-7	7
Return on capital employed, %	25	13	18
Net debt/equity ratio, times	<0.8	0.7	—
Payout ratio, % of earnings per share	50	88	62

amounted to 0 million SEK (692). Investments in internally generated intangible assets increased to 665 million SEK (504).

ACQUISITIONS

A number of businesses were acquired during the year. Sandvik Machining Solutions acquired the outstanding 51% of the shares in Precorp Inc., a company headquartered in Spanish Fork, Utah, in the US. The acquisition was completed on 1 October 2013 and Precorp Inc. was consolidated on the same date into the Sandvik Machining Solutions business area. Sandvik has been a minority shareholder (49%) in Precorp Inc. since 2008. In 2012, the company reported sales of approximately 230 million SEK and had about 200 employees.

Sandvik Venture acquired the German company TechnoPartner Samtronic GmbH, (TPS), a manufacturer of feed/scattering machines and double belt presses. The company's core capabilities are reinforced Teflon belt-based double belt press machines. In 2012, TPS posted sales of approximately 13 million EUR and had about 35 employees. The head office and manufacturing facilities are based in Göppingen, Germany.

Sandvik Mining acquired the drilling solutions business and operations of the

Canadian company Cubex Limited (CUBEX). In 2012, the acquired business of CUBEX reported sales of about 270 million SEK with about 110 employees. The head office and manufacturing facilities are based in Winnipeg, Canada.

FUTURE PROSPECTS

The uncertainty surrounding the market situation and economic performance continues to characterize the beginning of 2014. Over the next three to four years, the Group will focus on rapidly growing markets, a high rate of return and reduced profit volatility. In addition, Sandvik intends to increase supply chain efficiency and reduce the number of production units from the current total of 150 to about 125.

PARENT COMPANY²⁾

The Parent Company's invoicing for 2013 amounted to 15,873 million SEK (16,990) and the operating result was -687 million SEK (-483). The operating result in 2013 was negatively impacted by non-recurring items. Income from shares in Group companies consists primarily of dividends and Group contributions from these and amounted to 14,158 million SEK (11,769). Interest-bearing liabilities, less cash and cash equivalents and

interest-bearing assets, amounted to 19,462 million SEK (20,388). The Parent Company's total assets increased by 2,458 million SEK (from 66,362 million SEK to 68,820 million SEK). As a result of the Administrative Court of Appeal's ruling in the dispute concerning intellectual property rights, full-year earnings were negatively impacted by 5,787 million SEK³⁾. Investments in non-current assets amounted to 1,257 million SEK (1,338). The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB at 31 December 2013 was 7,984 (8,032).

EVENTS AFTER THE CLOSE OF THE PERIOD

In January 2014, Sandvik reached an agreement to acquire Varel International Energy Services Inc. (Varel). The acquisition price was about 740 million USD. The acquisition is subject to standard regulatory approvals and certain environmental due diligence before it can be completed.

- 1) Comparative year adjusted due to amended accounting policies. Refer to Note 35 for further information.
- 2) The Parent Company includes subsidiaries operating on commission for Sandvik AB. These are presented in Note 15.
- 3) Refer to page 55 and Note 28 for further information.

Capital expenditure	2013	2012
Investments in non-current assets, MSEK	4,185	4,820
as a % of invoiced sales	4.8	4.9
as a % of scheduled depreciation	108	121

Earnings and return	2013	2012
Operating profit, MSEK	8,638	13,490
as a % of invoiced sales	9.9	13.7
Profit after financial income and expenses, MSEK	6,753	11,516
as a % of invoiced sales	7.7	11.7
Return on capital employed, %	12.6	19.8
Return on equity, %*	15.3	25.3
Basic earnings per share, SEK	4.00	6.51
Diluted earnings per share, SEK	4.00	6.51

* Comparative year adjusted due to amended accounting policies. Refer to Note 35 for further information. Definitions, page 92.

Quarterly trend of invoiced sales and profit after financial items

MSEK		Invoiced sales	Profit after financial items	Net margin, %
2012	Q1	24,838	3,371	14
	Q2	25,939	3,667	14
	Q3	23,424	2,852	12
	Q4	24,328	1,627	7
2013	Q1	22,098	2,078	9
	Q2	23,043	2,466	11
	Q3	20,416	2,144	11
	Q4	21,770	66	0

Financial position	2013	2012
Cash flow from operating activities, MSEK	5,133	11,892
Cash flow after capital expenditures, acquisitions and divestments, MSEK	609	7,961
Cash and cash equivalents and short-term investments at 31 December, MSEK	5,076	13,829
Net debt at 31 December, MSEK*	25,184	21,132
Net financial items, MSEK	-1,885	-1,974
Equity ratio, %**	36	31
Net debt/equity ratio, times**	0.7	0.6
Equity at 31 December, MSEK**	33,610	32,536
Equity per share at 31 December, SEK**	26.70	25.90

* Comparative year adjusted due to changed definition.

** Comparative year adjusted due to amended accounting policies. Refer to Note 35 for further information. Definitions, page 92

DEVELOPMENT IN BUSINESS AREAS

Sandvik's operations in 2013 comprised five business areas: Sandvik Mining, Sandvik Machining Solutions, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture.

Sandvik's order intake totaled 84.1 billion SEK (97.9), a reduction of 10% at fixed exchange rates for comparable units. Invoiced sales amounted to 87.3 billion SEK (98.5), down 7% at fixed exchange rates for comparable units. The operating margin was 10% (14) of invoiced sales, and was impacted by lower invoiced sales, non-recurring items and unfavorable exchange rates.

In September 2013, Sandvik announced its intention to optimize the supply chain and reduce the number of

production sites over the next three to four years. Non-recurring costs had a negative impact of 2.1 billion SEK (1.2) on earnings for the year, largely due to the supply chain optimization program.

Exchange rate movements had a negative impact of 1.1 billion SEK on the operating profit in 2013, while changed metal price effects had a negative impact of 0.3 billion SEK.

Sandvik Mining and Sandvik Construction were markedly impacted by the weaker market conditions, resulting in lower

invoicing levels. Consequently, the operating profit of these business areas declined to 9% (16) and 1% (8) of invoiced sales respectively.

Although Sandvik Machining Solutions was also negatively affected by market developments at the start of 2013, growth was noted in the latter part of the year. The reported operating profit corresponded to 18% (21) of sales.

Sandvik Materials Technology on the other hand reported an improved operating margin during the year, from 6% to 11%, excluding metal price effects, mainly driven by the Step Change Program. Including the effects of metal prices, the operating margin was 9% (4).

In 2013, Sandvik Venture's operating margin declined to 11% (19).

Order intake by business area

MSEK	2013	2012	Change, %	Change, %*
Sandvik Mining	27,882	38,289	-27	-21
Sandvik Machining Solutions	28,715	29,914	-4	0
Sandvik Materials Technology	13,415	14,708	-9	-5
Sandvik Construction	8,521	9,013	-5	-1
Sandvik Venture	5,535	6,021	-8	-6
Group activities	4	3	—	—
Group total	84,072	97,948	-14	-10

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

Invoiced sales by business area

MSEK	2013	2012	Change, %	Change, %*
Sandvik Mining	30,744	37,762	-19	-12
Sandvik Machining Solutions	28,543	29,713	-4	0
Sandvik Materials Technology	14,035	15,366	-9	-6
Sandvik Construction	8,601	9,683	-11	-7
Sandvik Venture	5,394	5,963	-10	-5
Group activities	11	42	—	—
Group total	87,328	98,529	-11	-7

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

Operating profit by business area

MSEK	2013	% of invoiced sales	2012	% of invoiced sales	Change, %	Change, %
Sandvik Mining	2,743	9	6,004	16	-54	-46
Sandvik Machining Solutions	5,205	18	6,374	21	-18	-12
Sandvik Materials Technology	1,270	9	592	4	114	140
Sandvik Construction	110	1	748	8	-85	-72
Sandvik Venture	606	11	1,120	19	-46	-45
Group activities	-1,296	—	-1,348	—	—	—
Group total	8,638	10	13,490	14	-36	-28

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

SANDVIK MINING



FOCUS ON R&D AND IMPROVED
TIME TO MARKET

ADJUSTMENT TO PREVAILING
MARKET CONDITIONS

NEW LONG-TERM STRATEGY
ESTABLISHED

SHARE OF CONSOLIDATED INVOICED SALES



SHARE OF CONSOLIDATED OPERATING PROFIT



During the year, Sandvik Mining took several steps in the business area's ambition to become the industry leader and drive the development of tomorrow's mining operations. A new long-term strategy was developed that places a major focus on the customer and organizational efficiency.

MARKET CONDITIONS

Demand for new equipment from the global mining industry remained weak during the year. In September, the Sandvik Mining business area announced that production levels would be adjusted in response to the market slowdown noted in the first half of 2013. Further cost reductions of 500–700 million SEK are planned as part of the adjustment to these market conditions, with measures to be implemented by mid-2014.

KEY EVENTS

A number of large materials handling contracts were secured during the year. In March, the business area won a major materials handling contract for the design and supply of conveying systems for customers in South America and Australia, with a combined contract value in excess of 950 million SEK. In October, Sandvik Mining was awarded a materials handling contract for a surface mine in South America with a value in excess of 650 million SEK.

ACQUISITIONS

In March, an agreement was signed with drill rig manufacturer Cubex Ltd to acquire its drilling solutions business and operations, which focus on the design and manufacture of underground in-the-hole (ITH) and geotechnical drilling equipment.

TIME TO MARKET

Since the creation of the business area two years ago, one area of focus has been to speed up product development and time to market. Considerable achievements have been made in this area and examples include the two new Pantera DI6400 (DTH) and Pantera DP2000 (TH) drill rigs introduced in September, which were developed to capitalize on the ongoing shift in the mining industry toward fully autonomous operation. Development time for these machines was halved compared with previous similar products. Earlier in the year, the business area also rolled out a blasthole drill rig,

the Sandvik 160D, the first of its kind specially developed for the mid-market segment. The drill rig was engineered, sourced and manufactured in Pune, India, for the Indian market.

LONG-TERM STRATEGY

During the year, the business area completed a fundamental review, designed to develop its long-term strategy extending to 2020. The objective is to maximize performance and increase value creation. The business area will continue to focus on core geographies and applications, but will also strengthen the aftermarket business, simplify the organization, increase efficiency and develop its operations in emerging markets and for the mid-market segment. A new organizational structure went into effect on 1 October 2013, the aim of which is to improve customer service and support the long-term strategy.

Financial overview

MSEK	2013	2012	Change, %	Change, %*
Order intake	27,882	38,289	-27	-21
Invoiced sales	30,744	37,762	-19	-12
Operating profit	2,743	6,004	-54	-46
Operating profit as a % of invoiced sales	8.9	15.9	-7.0	—
Adjusted operating profit**	3,993	6,174	-35	—
Adjusted operating profit as a % of invoiced sales**	13.0	16.3	-3.3	—
Number of employees***	12,965	14,054	-8	—

* Change in relation to the preceding year at fixed exchange rates for comparable units.

** Operating profit adjusted for non-recurring costs of approximately 1,250 million SEK for 2013 and approximately 170 million SEK for 2012.

*** Restated to number of FTEs (Full Time Employees).

SANDVIK MACHINING SOLUTIONS



STABLE MARKET CONDITIONS WITH
SIGNS OF IMPROVED DEMAND

STRONG CASH FLOW

NEW LONG-TERM GROWTH
STRATEGY ESTABLISHED

SHARE OF CONSOLIDATED INVOICED SALES



SHARE OF CONSOLIDATED OPERATING PROFIT



Sandvik Machining Solutions noted a stable market during the year, with demand on a par with the preceding year, while a strong cash flow was achieved due to the successful reduction in working capital.

MARKET CONDITIONS

The Eurozone crisis continued to impact the global economy in 2013. The first half of the year was characterized by slower growth, which persisted for a slightly longer period than anticipated. While some growth was reported in the latter part of the year, this was weaker than expected, particularly in the US and Asia. The overall trend was stable or unchanged in the developed economies, with the exception of the US, which displayed weaker performance compared with 2012. In high-growth and developing markets, the trend was relatively solid.

KEY EVENTS

Effective 1 January 2013, the Dormer product area was transferred from Sandvik Venture to Sandvik Machining Solutions.

The Sandvik Coromant product area successfully launched the GC4325 steel-turning insert.

During 2013, the re-launched Carbology brand was established in China aimed at the country's mid-market segment.

During the year, processes were initiated to shutdown or reduce capacity at a number of production sites to address overcapacity, lower manufacturing costs and to better adapt the business area's supply chain geographically to global demand.

ACQUISITIONS

In September, the acquisition of the remaining 51% stake in Precorp Inc. was announced. The company is based in Spanish Fork, Utah, in the US, and offers polycrystalline diamond (PCD) and cemented-carbide tools (drills, micro tools, reamers and end mills) for high-speed metal-cutting operations. The products meet the requirements of high-speed machining of die-cast aluminum carbide parts and machining of advanced composite materials as well as many

other materials. The company serves customers worldwide, primarily in the automotive and aerospace segments.

STRATEGY AND PRIORITIES

A review was performed in the first half of 2013, resulting in a revised growth strategy for the business area, which was presented in September. The strategy highlights the following areas as pillars for future success: Leading offering and technology, leading cost and productivity, broad mid-market launch, and increased focus on portfolio and mergers and acquisitions. To enhance the cost structure and productivity, the number of production sites will be reduced over the next three to four years.

Financial overview

MSEK	2013	2012	Change, %	Change, %*
Order intake	28,715	29,914	-4	0
Invoiced sales	28,543	29,713	-4	0
Operating profit	5,205	6,374	-18	-12
Operating profit as a % of invoiced sales	18.2	21.5	-3.2	—
Adjusted operating profit**	5,695	6,457	-12	—
Adjusted operating profit as a % of invoiced sales**	20.0	21.7	-1.7	—
Number of employees***	19,055	19,223	-1	—

* Change in relation to the preceding year at fixed exchange rates for comparable units.

** Operating profit adjusted for non-recurring costs of approximately 490 million SEK for 2013 and approximately 83 million SEK for 2012.

*** Restated to number of FTEs (Full Time Employees).

SANDVIK MATERIALS TECHNOLOGY



STEP CHANGE PROGRAM DELIVERS RESULTS

HIGH ACTIVITY IN ENERGY SEGMENT

WELL POSITIONED FOR GROWTH IN ATTRACTIVE SEGMENTS

SHARE OF CONSOLIDATED INVOICED SALES



SHARE OF CONSOLIDATED OPERATING PROFIT



Sandvik Materials Technology continued to improve its profitability as a result of the Step Change Program, despite the headwinds experienced in the market. Demand was strong in strategic segments, such as oil and gas, while it remained tentative in other areas.

STEP CHANGE PROGRAM DELIVERS RESULTS

During 2013, Sandvik Materials Technology continued to improve its profitability as a result of the Step Change Program. Since the launch of the improvement program in September 2011, it has contributed an EBIT effect of 1.4 billion SEK, including a structural reduction of 1,000 employees. Net working capital has been reduced by 1.6 billion SEK. During the year, efforts to improve safety intensified, resulting in a 30% reduction in the number of lost time injuries compared with 2012.

ACTIVITIES IN THE ENERGY SEGMENT

Continued strong demand in the oil and gas segment generated several major orders during the year. As a result of weaker market conditions in the nuclear power industry, the order backlog for steam generator tubing was written down by 1.1 billion SEK in June and capacity will be adjusted in the second quarter of

2014. All contractual obligations will still be fulfilled and Sandvik will maintain its market position.

MAJOR INVESTMENTS

Several major investments were made during the year, primarily related to enhancing safety and supporting growth in strategic areas. Investments in finishing will alleviate a major bottleneck for tubular and bar products primarily for the energy segment. Restructuring of the wire and strip operations, announced in 2012, is being implemented.

NEW MATERIALS AND FIELDS OF APPLICATION

The new, high-alloy grade Sandvik SAF 3207™ for oil and gas applications gained market shares during the year, as did new applications for well intervention. During the year, Sandvik also secured major orders for powder technology-based solutions for the oil and gas segment.

STRATEGIC DIRECTION AND KEY PRIORITIZATIONS

During the year, a strategic review was carried out and, in October, a new strategic direction was announced that will establish Sandvik Materials Technology as a long-term value-creating business area with a more stable level of profitability over a business cycle. The strategy outlines three important directions: sustained strong focus on safety, continued evolution of advanced materials for the most demanding industries, and growth in the energy segment. The ambition is to achieve a share of sales to the energy segment in excess of 50%. To achieve this, the business area will accelerate the development of strategic products. A more lean and cost-efficient business model will be introduced for the standardized part of the product program. R&D resources and investments will be reallocated to strategic areas with favorable growth potential to support the anticipated expansion.

Financial overview

MSEK	2013	2012	Change, %	Change, % *
Order intake	13,415	14,708	-9	-5
Invoiced sales	14,035	15,366	-9	-6
Operating profit	1,270	592	114	140
Operating profit as a % of invoiced sales	9.0	3.9	5.2	—
Adjusted operating profit**	1,564	1,541	1	—
Adjusted operating profit as a % of invoiced sales**	11.1	10.0	1.1	—
Number of employees***	7,113	7,307	-3	—

* Change in relation to the preceding year at fixed exchange rates for comparable units.

** Operating profit adjusted for negative metal price effects totaling 294 million SEK for 2013 and negative metal price effects of 281 million SEK and approximately 667 million SEK in non-recurring costs for 2012.

*** Restated to number of FTEs (Full Time Employees).

SANDVIK CONSTRUCTION



37 NEW PRODUCT LAUNCHES

COST SAVINGS IMPLEMENTED AND
CONTINUED STREAMLINING OF THE
SUPPLY CHAIN

VOLATILE MARKET WITH SIGNS
OF STABILIZATION TOWARD
THE END OF THE YEAR

SHARE OF CONSOLIDATED INVOICED SALES



SHARE OF CONSOLIDATED OPERATING PROFIT



The demand trend for Sandvik Construction was mixed in 2013 due to the global economic slowdown and unstable market. Meanwhile, growth was noted in certain sectors.

MARKET CONDITIONS

Order intake increased by 5% in North America and 32% in Africa and the Middle East. In Europe, order intake declined 10%, partly due to a 270 million SEK impairment of the order book in the fourth quarter. Demand in South America declined by 7% mainly as a result of a decline in the construction markets of Brazil and Peru. Asia grew by 9%, primarily due to higher demand in China and a modest increase in India. There is considerable potential for further development of the business area, which can be achieved through market growth and by capturing market shares, particularly in the US, China, India, Brazil, Mexico, Russia and Africa.

PROFITABLE GROWTH

While the completion of the turnaround plan during 2012 resulted in a leaner and more efficient organization, the focus in 2013 was primarily on the implementation of a plan to ensure profitable growth.

Sandvik Construction's growth strategy is being further enhanced by increasing focus on five areas: service as a business, sales boost, operational efficiency, competitive footprint, and partnership.

The "service as a business" concept will improve capabilities, coverage and competitiveness by promoting the proactive selling of parts and services and making the combination of products and services a competitive advantage for the business area. "Sales boost" will focus on increasing global coverage, developing new distributor contracts and capitalizing on new product launches. "Operational efficiency" and "competitive footprint" will increase supply chain competitiveness and develop lean processes as a way of working, supporting the objective of aligning Sandvik Construction's global footprint with the forecast market demand. "Partnership" will facilitate an accelerated growth path in and beyond current core business areas.

PRODUCTS LAUNCHED DURING THE YEAR

During the year, Sandvik Construction launched 37 new products. The CH550 is the first cone crusher based on a new platform offering easier handling, a plastic-free crushing chamber, safer maintenance and cost-efficient operation. The product launches also included: a drill bit for drilling in softer material such as limestone, a mobile crusher with recirculation screen and a mobile jaw crusher. In addition, Sandlock™ was launched; a lifting device that makes changing of the mantle and the concave wear parts on cone crushers as simple and safe as possible. A large number of products were specifically developed for the mid-market segment. Among other items, a new range of hydraulic hammers was launched under the Bretec brand and, from the Shanbao joint venture in China, cone crushers, jaw crushers and horizontal impact breakers were launched.

IMPLEMENTED IMPROVEMENTS

By focusing on continuous improvements, Sandvik Construction has further shortened time-to-market and improved the environmental, health and safety aspects of launched products. R&D activities in China for the business area's surface drilling applications are now operational. Meanwhile, Shanbao's mid-market crushing and screening R&D team was significantly strengthened, resulting in an increase in the number of new products.

Financial overview

MSEK	2013	2012	Change, %	Change, %*
Order intake	8,521	9,013	-5	-1
Invoiced sales	8,601	9,683	-11	-7
Operating profit	110	748	-85	-72
Operating profit as a % of invoiced sales	1.3	7.7	-6.4	—
Adjusted operating profit**	310	748	-59	—
Adjusted operating profit as a % of invoiced sales**	3.6	7.7	-4.1	—
Number of employees***	3,147	3,289	-4	—

* Change in relation to the preceding year at fixed exchange rates for comparable units.

** Operating profit adjusted for non-recurring costs of approximately 200 million SEK for 2013.

*** Restated to number of FTEs (Full Time Employees).

SANDVIK VENTURE



LAUNCH OF A NEW LEADING
PRODUCT AREA

SUPPLY CHAIN OPTIMIZATION

ACQUISITION OF TECHNOPARTNER
SAMTRONIC GMBH

SHARE OF CONSOLIDATED INVOICED SALES



SHARE OF CONSOLIDATED OPERATING PROFIT



Despite challenging market conditions, Sandvik Venture's focus has been to lay a stable foundation for profitable growth. This has included new product launches, selective capacity investments and supply chain optimization.

Sandvik Venture's mission is to grow businesses that can generate value for Sandvik – both strategically and financially. The aim is to create an environment in which focus and resources can be directed toward small and mid-sized businesses while they can still benefit from being part of the Sandvik Group. Sandvik Venture will also create a platform upon which future leaders can build new businesses and expand their leadership capabilities. The product areas are managed as standalone entities, accountable for their targets and business strategies. At year-end, the business area comprised Sandvik Process Systems, Sandvik Hyperion™ and Wolfram Bergbau und Hütten.

SANDVIK PROCESS SYSTEMS

During the year, Sandvik Process Systems continued to implement its investment in leveling capacity for belt production in Sandviken. A major product launch dur-

ing the year was the Rotoform® 4G, which is a high-capacity pastillation system. In September, Sandvik Process Systems acquired TechnoPartner Samtronic GmbH, a manufacturer of feed/scattering machines and double belt presses. The acquisition is a part of the product area's strategy to grow in the attractive composites segment.

SANDVIK HYPERION

In June, a new leading product area, Sandvik Hyperion, focusing on hard and super-hard materials, was created by merging the previously independent product areas Diamond Innovations and Sandvik Hard Materials. A key product launch in 2013 was an industry diamond solution for the electronics industry. During the year, it was also decided to optimize the supply chain by closing Sandvik Hard Materials' production unit in Mayfield, Australia, and consolidate

Diamond Innovations' two production facilities to the existing unit in Worthington, Ohio, in the US.

WOLFRAM BERGBAU UND HÜTTEN

During the year, Wolfram Bergbau und Hütten continued to implement its investment in increased cemented-carbide recycling capacity in St. Martin, Austria. A milestone in this effort was the doubling of capacity for recycling of cemented-carbide scrap.

KEY PRIORITIES GOING FORWARD

Sandvik Venture's main priorities going forward are growth in identified focus segments, to determine, assess and commercialize new opportunities and continued efficiency measures.

Financial overview

MSEK	2013	2012	Change, %	Change, %*
Order intake	5,535	6,021	-8	-6
Invoiced sales	5,394	5,963	-10	-5
Operating profit	606	1,120	-46	-45
Operating profit as a % of invoiced sales	11.2	18.8	-7.6	—
Adjusted operating profit**	806	1,120	-28	—
Adjusted operating profit as a % of invoiced sales**	14.9	18.8	-3.9	—
Number of employees***	2,635	2,668	-1	—

* Change in relation to the preceding year at fixed exchange rates for comparable units.

** Operating profit adjusted for non-recurring costs of approximately 200 million SEK for 2013.

*** Restated to number of FTEs (Full Time Employees).

RESEARCH AND DEVELOPMENT

Strong innovation is driving Sandvik's research and development (R&D) forward. The strategic initiatives to boost the Group's R&D competitiveness are long-term and comprehensive. The innovative excellence is based on partnerships within R&D as well as with Sandvik's company for patents and trademarks. The subsequent difference for customers, such as higher productivity, reduced environmental impact and improved workplace health and safety, is the result of Sandvik's technical excellence in close collaboration with customers.

MANAGEMENT OF SANDVIK'S R&D

An R&D Board, led by the Senior Vice President and Head of Group R&D together with representatives from Sandvik's business areas, is responsible for the strategic direction of Sandvik's joint research activities. The R&D Board is also tasked with generating synergies and developing methods and processes to safeguard efficient and innovative R&D work in Group-wide projects and initiatives. Each business area is responsible for its own R&D program.

GLOBAL STRATEGY FOR EFFICIENT INNOVATION

The research and development strategy is closely aligned with Sandvik's business strategy, and aims to focus the research on priority areas for the Group. Identified global trends are carefully monitored and underlie the Group's strategic initiatives.

GROUP R&D CENTERS IN INDIA AND CHINA

One expression of the global strategy is the investment in global R&D centers in India and China, which will strengthen the Group's growth in these emerging markets. The focus of the center under development in India is on materials and process engineering, with cutting-edge expertise in modeling and simulation as well as research projects to define possible future core activities. The center being built up in China will focus on environment and energy, with an emphasis on creating a technological platform for future business opportunities in these areas. Both of these centers enable the

adaptation of product offerings to regional customer requirements that reduce time-to-market and support all business areas in each field of expertise.

CENTERS OF EXCELLENCE INCREASE SYNERGIES

During the year, three Centers of Excellence were created that gather the Group's specialists in materials characterization, powder metallurgy, and modeling and simulation to utilize the combined expertise and capabilities. They also provide a forum for sharing knowledge within the organization and support Sandvik's research units with R&D services. This enables customers to gain even greater leverage from Sandvik's combined innovative excellence.

CAREER PATHS TO SECURE TECHNICAL COMPETENCE

Technical competence is a cornerstone for Sandvik's success. To attract, retain and develop these fields of competence, career paths are being introduced for employees and experts at R&D, providing totally new opportunities to leverage technical expertise. During the year, two Group Experts at the very highest level of expertise were appointed.

INVESTMENT IN ADDITIVE MANUFACTURING – 3D PRINTING

A milestone for Sandvik's long-term research is the Group's investment in additive manufacturing – or 3D printing – where a specialized team of 12–15 engineers and designers will devote the next few years to investigating potential applications for this materials and manufacturing technology in the Group's production processes.

INTEGRATED PATENT PROCESSES

A well-developed partnership with Sandvik's company for patents and trademarks safeguards the Group's product portfolio and thus its innovations and revenue. The head of the patent company is a member of the R&D Board and patent resources have been specifically assigned to the major R&D centers as a means of support. Sandvik has a portfolio of approximately 8,000 active patents and other intellectual property rights, most of which are in the US, followed by China. The patent portfolio is continuously reviewed to optimize business advantages.

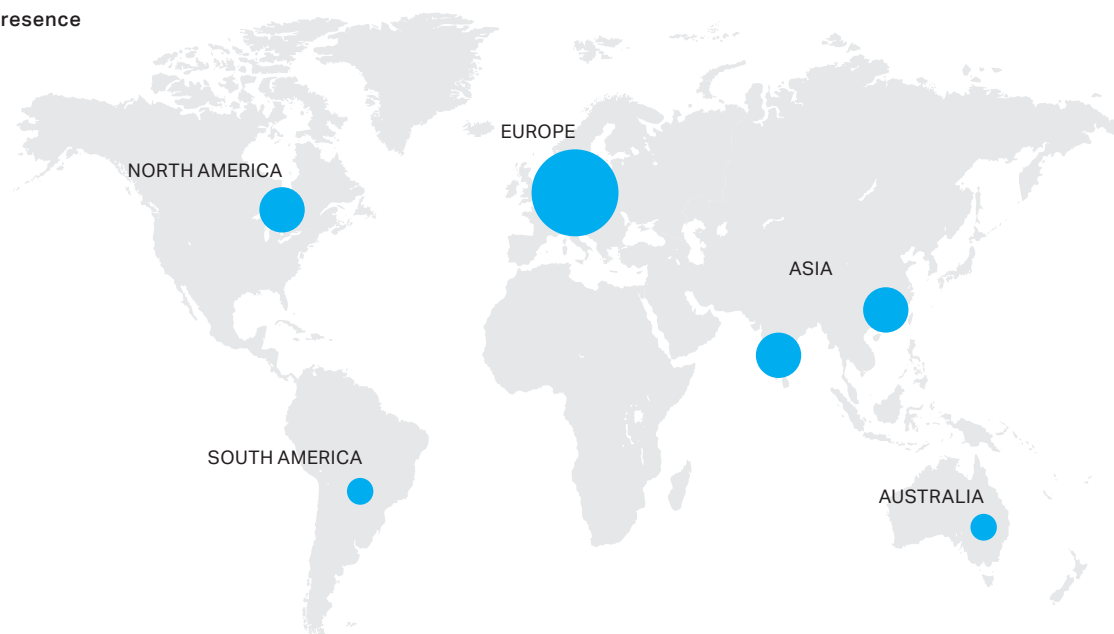
EXTERNAL PARTNERSHIPS

Since Sandvik values its close relationships with the universities, colleges and research institutes that are producing tomorrow's technical expertise, it participates in a range of research programs. Within the framework of these partnerships, the Group also sponsors postgraduate students. In addition, Sandvik has adjunct professors, for example, at Chalmers, Gothenburg, Sweden, where Bo Jönsson is an adjunct professor in high-temperature corrosion. At Uppsala University, Sweden, Susanne Norgren is an adjunct professor in tribology. The Group Head of R&D, Olle Wijk, is also a visiting professor at Shanghai University in China.

Business areas' R&D

Business area	Development and focus areas	Products
Sandvik Mining	The business area was restructured to create globally coordinated product areas for R&D with harmonized working methods, management and project models. Focus areas are automated mining solutions for enhanced safety and energy efficiency and alternative energy sources that reduce running costs for the customer.	<p>PANTERA™ – Reliable and stable automated drill platform delivering increased drilling capacity and service life, lower fuel consumption, and improved safety and work environment compared with alternatives in the market.</p> <p>DD422i AXERA™ – The first of Sandvik's Next Generation underground drill rigs. The DD422i is a precision rig offering a high degree of safety for automated mining operations and cost efficiency.</p> <p>TH551 and TH663 – High-performance trucks featuring 63 innovative safety functions that protect the operator, maintenance technicians and machine. Optimized load capacity and speed.</p>
Sandvik Machining Solutions	Enhanced productivity and delivery capacity through more intimate collaboration between product areas and production within basic research and strategic process development, as well as harmonized methods and systems for product development. The focus is in order to retain the business area's leading position in on safeguarding technical leadership in core areas.	<p>GC4325 – Sandvik Coromant's ground-breaking cemented-carbide insert for the largest application area of metal turning. The grade boosts productivity and reliability for the customer.</p> <p>BLAXX™ – High-performance and reliable milling concept from Walter that draws on unique internally developed production technology.</p> <p>MS2050 – Seco Tools' new concept for turning titanium. It increases productivity and service life for customers in the aerospace industry and the oil, gas and energy sectors.</p>
Sandvik Materials Technology	An R&D unit has been established in China to strengthen presence in Asia and enable technical support and product development to be adapted to local conditions. The business area also strengthened resources in the field of materials development by investing in a new transmission electron microscope in Sandviken, Sweden, for the advanced study of materials. Increased strategic focus on R&D of products for the energy segment and special alloys, where the business area is developing new alloys mainly for the oil and gas industry.	<p>Reverse Composite HT5/SANICRO™ 30 – Compound tube product for coal gasification that promotes increased energy efficiency from coal, greater flexibility for fuel usage and reduced CO₂ emissions per unit of energy.</p> <p>SANDVIK SPRINGFLEX™ – A duplex steel for deployment in spring applications with superior resistance to fatigue and corrosion.</p> <p>Electric process heaters – A new generation of explosion-proof electric process heaters tailor-made for customers. Especially suitable when steam of a sufficiently high temperature is unavailable or when a compact heater is required.</p>
Sandvik Construction	The focus on continuous improvements has shortened time to market and improved environmental, health and safety work. R&D is investing in the field of wear and spare parts to strengthen the aftermarket for all product areas, and a pilot facility to accelerate research in wear parts was established.	<p>CH550 – A new generation of cone crusher with significantly enhanced performance as well as easier and safer maintenance that results in a lower total operating cost.</p> <p>QS331 – A medium-sized mobile crusher that uses the CS430 cone crusher to open up a unique niche market with few competitors.</p> <p>DD311 – A single-boom tunneling jumbo; ideal as an entry-level drill rig for emerging markets.</p>
Sandvik Venture	The Sandvik Hard Materials and Diamond Innovations product areas have been merged to form the Hyperion product area and R&D was restructured to align its operations with the customer segments. The emphasis of research is on product renewal and development for growth in closely related customer segments. Processes are developed to promote enhanced product performance and cost efficiency in production.	<p>ROTOFORM® 4G – Sandvik Process Systems' new granulation system features high capacity and improvements that enhance safety and quality.</p> <p>HYPERION™ – An industrial diamond that is adapted on the basis of the customer's requirements; used for such purposes as polishing glass surfaces in the electronics industry with high surface finishing requirements.</p> <p>Process for recovery of cemented-carbide scrap – Wolfram Bergbau und Hütten's innovative processes are being introduced in an extensive investment to increase capacity for the recovery of cemented-carbide scrap.</p>

Global R&D presence



Distribution of Sandvik's approximately 60 R&D centers by market area.

PEOPLE

The global change program at Sandvik continued in 2013 with an intensified focus on concluding the human resources (HR) transformation. This was aimed at securing improved HR support for the Group's managers and employees. As a result of these efforts Sandvik has developed a global HR organization with more distinct roles, responsibilities, and governance. Staffing of the new organization has been completed. In parallel with the change program, major progress has also been made in several key focus areas: Leadership Development, Succession Planning, Talent Development, Employer Branding, Diversity, and Securing internal career paths.

HR ENABLES A HIGH-PERFORMING, GLOBAL ORGANIZATION

The HR strategy has been developed to ensure that all activities support the Group's business. Each business area has identified important initiatives and challenges in the HR area on the basis of Sandvik's long-term business strategies. These areas have been assigned priority and represent an extension of Sandvik's HR strategy. On the basis of this work five main areas have been identified, each containing a number of key initiatives. The areas are Performance Culture, Leadership, Change Management, and Talent Development. The fifth main area encompasses a number of initiatives necessary to secure quality, efficiency and productivity development in Sandvik's HR activities.

Sandvik's core values form the basis for all the Group's activities and programs aimed at training employees in the area continued during the year. In 2013, a project to update the core values also commenced, the purpose of which is to reflect Sandvik's strategy and raise growth ambitions in an increasingly competitive market.

SAFETY FIRST

Sandvik's EHS (Environment, Health & Safety) vision is Zero Harm and the Group's motto is "Safety First". This

vision will be achieved through global and local initiatives. Activities are harmonized and standardized across the entire Group. At the same time, the business areas will be empowered to implement innovative solutions for achieving Sandvik's EHS objectives. The Group has identified critical success factors for achieving its vision: an active and visible EHS leadership, a sharing and learning culture, clear EHS communication, and accountability for the implementation of EHS plans.

Sandvik's work toward achieving its Zero Harm vision is coordinated by the EHS Council, which has a formal charter to advise Group Executive Management on EHS policy as well as long and short-term targets. The Council also works to harmonize the manner in which Sandvik's business areas work with EHS. The new objectives and targets, which will apply between 2013 and 2015, focus more on preventative activities compared to earlier objectives and targets. In parallel, Sandvik will focus on monitoring the progress of performance indicators that reveal the outcome of the work performed, including Lost Time Injury Frequency Rate (LTIFR). Sandvik's LTIFR improved by 27% in 2013 and was 3.2 at year-end. The target of 3.7 was surpassed.

PERFORMANCE CULTURE

Sandvik strives to continuously develop and strengthen its Performance Culture, which is decisive if the company is to utilize the full potential of its employees and of the company.

Performance management and performance dialog

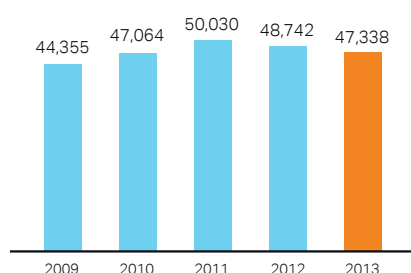
In 2013, a Group-wide framework and system support for the performance dialog process was introduced and covers all employees. The emphasis in 2014 will be on the creation of a more efficient method. This will cascade the objectives through the organization and ensure that this permeates the performance dialog process at all levels in the Group.

Within the framework of the HR strategy, initiatives will be taken to continue the work aimed at realizing a high-performing organization. This will include areas such as compensation strategy, culture and core values, diversity as a business advantage and the company's framework for performance management.

Diversity as a business advantage

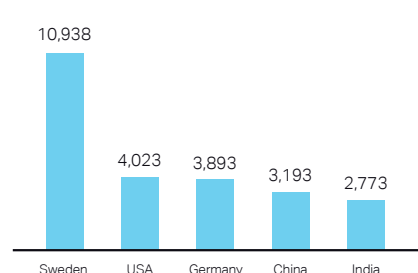
A prerequisite for succeeding with the continued globalization is the Group's dedication to its diversity and inclusion efforts. Introduction of the global diversity strategy commenced in 2012 and continued in 2013. Each business area has conducted situation analyses and identified improvement areas in relation to the Group's long-term targets for diversity and inclusion. An action plan for managing these improvement areas has been compiled for 2013–2015. The action plan is continuously monitored by each management team within the framework of the business areas' quarterly follow-up procedures.

Number of employees, 2009–2013*



* Restated to Full Time Employees (FTEs) at 31 December 2009–2013.

Number of employees, five largest countries*



* The five largest countries in terms of number of employees, restated to Full Time Employees (FTEs), at 31 December 2013.

Sandvik's diversity objectives

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.

During 2013, Sandvik continued to focus on globalization in the Group's key positions in terms of nationality, gender, and age distribution. At present, Group Executive Management includes three women, compared with one woman at the beginning of 2013. During the year, Petra Einarsson was appointed Sandvik's first female business area president when

she took over as head of Sandvik Materials Technology. In terms of nationality, in addition to Swedes, Group Executive Management now has representatives from China and the UK. Dinggui Gao, President of Sandvik Construction, is Sandvik's first business area president from Asia.

In 2013, Sandvik participated in a 12-month project called "Battle of the numbers" together with nine other Swedish companies. The project aimed to develop practices for increasing the share of women in operational management positions. The name, "Battle of the numbers", refers to increasing the share of women, as well as profitability, in the

companies. Sandvik's participation in the project during the year resulted in plans and ambitious targets for how the number of women in operational management roles within the Group will be increased. Group Executive Management played an active role in the process, which was led by a project group comprised of ten selected female managers in the Group. The project group's recommendations to Group Executive Management were based on their own experiences of building a career at Sandvik.

Within the Group, the share of women in the management teams of the business areas continued to rise and is now 21%. This represents an increase of 9% since

Group health and safety objectives and targets

Objective	Target	Due	Status	Comment
Eliminate all fatalities and permanently disabling injuries by identifying and controlling extreme potential risk situations.	Each business area is to complete a risk assessment to identify all Extreme Potential Hazards (EPH).	2013	Completed	All business areas have achieved the target.
	Implement standards to control these risks.	2015	Ongoing	Progressing according to plan.
Ensure that systems and culture are in place to further reduce the number and severity of work-related injuries, illnesses and other incidents.	All major production-related units (with more than 25 employees) will develop <i>formal safety plans</i> containing activities, which are to be approved in each business area.	2013	Completed	All business areas have achieved the target.
	Activities in the <i>formal safety plans</i> to be implemented.	2015	Ongoing	Progressing according to plan.
	All other units are to develop <i>general safety plans</i> to ensure strong safety culture throughout the company.	2013	Ongoing	All units did not have plans in place at the end of the year.
	Activities in the <i>general safety plans</i> implemented.	2015	Ongoing	Progressing according to plan.
	Achieve a Lost Time Injury Frequency Rate (LTIFR) of 3.7.	2013	Completed	The target was achieved and work toward attaining the long-term target (2015) is proceeding according to plan. LTIFR was 3.2 at the end of the year.
Establish culture and environment that support employee health and well-being.	All employees are to have continued access to a <i>health and well-being program</i> through their own Sandvik company.	2013–2015	Ongoing	Delayed. About 60% of the units indicated that they had a program that had been fully implemented or that had only some work remaining at year-end. Other units stated that they did not have a program in place or that they had initiated work in the area.
	Most employees should perceive the program available to be effective.	2013–2015	Not initiated	Planned to be included in the company's next employee survey.

2010. There was also an increase in the proportion of women in the pool of next-generation managers who are preparing for senior managerial positions in the future. The current figure is 28%. In Sweden, the share of women in managerial positions is 21%, while the share in relation to all employees is 24%, which is an increase of 2 percentage points in 2013. The ambition is to continue increasing the share of women in both managerial positions and as a percentage of all employees across the entire Group.

Sandvik's successful diversity efforts are conducted both globally and locally. In 2013, the Group created local diversity action plans in India, South Africa and Sweden. During the year, managers and employees in these countries also took part in training initiatives to highlight the business advantages of diversity. The training course focuses on how Sandvik's employees can be part of, and contribute to, a culture of inclusion that capitalizes on the potential of employees.

BENEFITS

A new Head of Compensation & Benefits was employed. Group Executive Management introduced a compensation strategy that is currently being implemented across the entire Group. During the year, work also focused on the formation of the global Compensation & Benefits team. A range of other initiatives were also carried out in parallel, the aim of which is to support Sandvik's business. The Group also initiated a re-examination of Sandvik's external benchmark position in relation to other companies in all markets where the Group conducts operations. A review of the Group's sales incentive programs has also been initiated. This marks the beginning of a global compensation and benefits agenda. This is driven by the intention to reinforce the performance-oriented business culture needed for Sandvik to achieve its business objectives.

LEADERSHIP

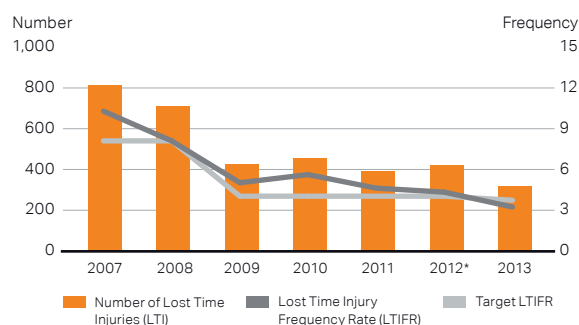
Sandvik's leadership initiatives will provide the Group with leaders who are able

to develop their operations, their employees and themselves. Sandvik's leadership model was launched in 2012 and is designed to support the Group's strategic direction. The leadership criteria for all managers are reviewed annually in performance dialog. Employees use the same criteria to evaluate their managers in the internal empowerment survey.

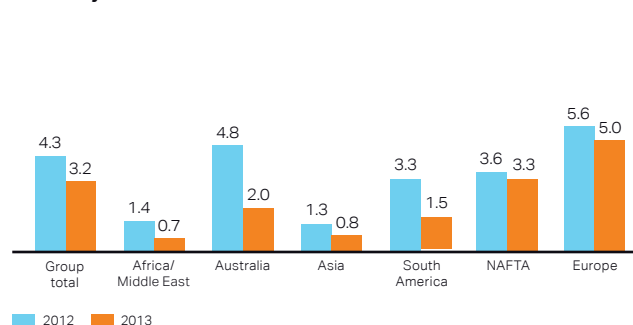
A number of leadership programs, based on Sandvik's business strategy and leadership model, were introduced in 2013. These include ONE SGL (Sandvik's global leadership program), ONE SLP (Sandvik's leadership program for middle managers) and ELP (Sandvik's executive leadership program for senior management).

ONE SGL is a global leadership program that is being introduced worldwide and is now available in many countries. The program, which is delivered in local languages, comprises three modules and runs for about three months. Just over 700 managers were trained in 2013, and more than 900 managers have been trained since the program was introduced in 2012.

LTI and LTIFR, 2007–2013



LTIFR* by market area



The ONE SLP leadership program comprises three modules that are linked to the five different parts of the leadership model. Program participants represent all business areas, a mix of functions, geographical origin, gender and level of experience is a vital part of creating a highly diverse and dynamic group. Four programs were started in 2013, and a total of 60 participants completed the program.

In 2013, Sandvik's senior managers underwent a leadership program comprising three modules. The Executive Leadership Program (ELP) mainly focuses on strategy, leadership and change management. The plan is to convert the ELP into a continuous program for the Group's 350 senior managers. The first program will be implemented at the end of March 2014, under the name of ONE ELP.

Talent development

Sandvik's ability to attract, develop and retain talent is a key factor for ensuring performance and growth. The Group strives to be a leader in this area.

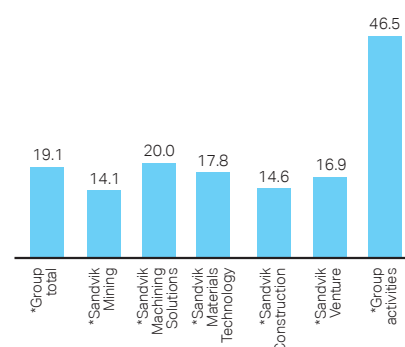
During the year, succession planning was carried out for all positions that have a direct impact on business goals and are therefore critical for the Group. People with the potential to fill these positions in both the long and short term were identified, and action plans were drawn up. During the year, a sustained focus on Group-wide staffing forums for the appointment of key positions further strengthened the conditions for internal mobility.

In 2013, various activities to develop and motivate employees with high potential were initiated. Sandvik's global mentor pool, where senior managers mentor next-generation managers and experts, was launched. A talent development program was also initiated at a global level and in selected countries.

Employer Branding

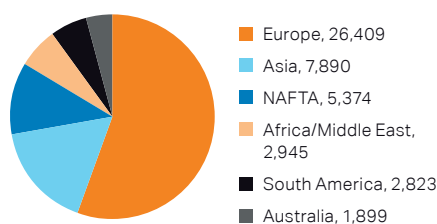
A strong employer brand is critical for Sandvik in order to meet the Group's strategy and objectives. To attract, develop, and retain the most talented people at Sandvik, the introduction of a

Share of women, total, %*



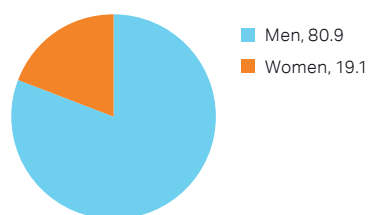
* The share is based on approximately 90% of the total number of employees.

Employees by market area*



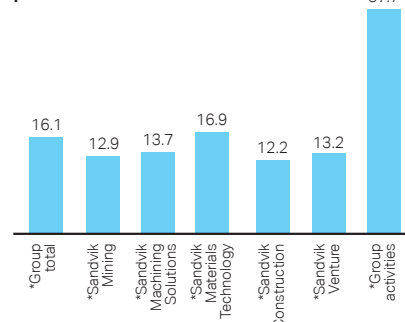
* Restated to Full Time Employees (FTEs) at 31 December 2013.

Breakdown of women and men in the Group, %*



* Calculations are based on approximately 90% of the total number of employees at 31 December 2013.

Share of women, managers per business area, %*



* The share is based on approximately 90% of the total number of employees.

global strategy to strengthen the Group's employer brand was introduced in 2013.

Several initiatives linked to Employer Branding were also initiated during the year. These included the launch of a new global career page on the Group's website sandvik.com and an increase in the use of social media. LinkedIn, the global networking website for professionals, is now one of the Group's main Employer Branding channels. The number of Sandvik's LinkedIn followers has increased by 164% over the past year. Sandvik also communicates its employer brand messages via Facebook, Twitter and Instagram.

In addition to these activities, Sandvik worked actively to continue building relationships with students at universities and institutes of higher education during the year. The Group also welcomed students to Sandvik where they could experience the company from within.

During the year, a decision was made to launch a global trainee program in autumn 2014.

EMPLOYMENT CONDITIONS

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

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 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, refer to the adjacent columns and Note 3.5.

PROPOSAL FOR RESOLUTION REGARDING GUIDELINES FOR THE REMUNERATION OF SENIOR EXECUTIVES

The Board proposes that the Annual General Meeting resolve to adopt the following guidelines for the remuneration of senior executives for the period extending until the 2015 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 60 and for other members of Group Executive Management the retirement age is 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.

ENVIRONMENT

Sandvik's operations have a significant impact on the environment. This involves everything from how raw materials are selected and used, how energy is used in production, heating and transportation, how chemicals and waste are handled, to the extent of recycling and how the company's products are used by the customer.

Sandvik respects and observes environmental legislation in all countries where it operates. 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:** Responsibility is taken for the negative environmental impact by actively working to improve the environmental performance of Sandvik's own operations, and the operations of others, in areas where the Group can exert an influence.
- **Precautionary approach:** Precautions are taken when there is reason to believe that an action could harm the environment or human health.
- **Environmental risk management:** Programs are introduced with a risk-based and sustainability perspective to mitigate the environmental impact from Sandvik's activities, products and services.
- **Polluter Pays Principle:** Those who cause the damage to the environment must pay the ensuing social economic cost.

The environmental impact from Sandvik's own operations is both direct and indirect. The significant environmental aspects are:

- Use/consumption of energy, input materials, freshwater and hazardous chemicals.
- Generation of emissions and waste.
- Recycling of primary products, materials and the use of byproducts.

Sandvik's emissions to the atmosphere comprise metal dust, organic substances, carbon dioxide and acidifying substances. These emissions are mainly caused by the company's production processes and combustion of fossil fuels in conjunction with heating and transportation, and

indirectly from purchases of electricity produced using fossil fuels.

Sandvik uses freshwater and discharges treated process wastewater. Economizing with freshwater is important, particularly in water-stressed regions. A survey has been carried out of the facilities' locations relative to various water-related stress factors. Five facilities in India and one in China will be more closely analyzed with the aim of enhancing the efficiency of water use.

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

ENVIRONMENTAL PERMITS

Sandvik has approximately 150 sites worldwide that hold various types of environmental permits where required depending on legislation. Sandvik is entirely dependent on the environmental permits granted for these sites. The environmental impact of Swedish operations is presented below.

In Sweden, Sandvik conducts licensed operations in accordance with the Environmental Code at 12 plants (Sandviken, Gimo, Stockholm - Västberga, Halmstad, Hallstahammar, Surahammar, Svedala, Köping, Fagersta, 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, the further processing of steel for bar, tube, strip and wire

products, rock-drilling products, the manufacture of ceramics, metal powder, cemented-carbide products, castings and various equipment, and tools. All plants hold the requisite environmental permits for operations. The main environmental impacts are emissions to air and water, noise, environmental impacts due to energy use, waste production and older contaminated land.

The production permit for Seco Tools' facility in Fagersta needs renewal due to the expansion of powder production. The application process for this is ongoing. In 2013, an investigation to ascertain whether mercury emissions from the steelworks in Sandviken could be reduced was presented to the Land and Environment Court. A decision is expected in 2014 at the earliest. Sandvik Mining's facility in Svedala was granted a new permit under the Environmental Code, with two deferred issues regarding wastewater and solvent emissions.

No breaches of permissible manufacturing volumes or limit values prescribed in the permit conditions under the Environmental Code occurred during the year. A number of guideline values were exceeded for noise and emissions to air and water at the plants in Hallstahammar, Sandviken, Svedala and Köping. Actions are taken to comply with these target values, often in consultation with supervisory authorities. For plants holding permits in Sweden, public environmental reports are submitted annually to supervisory authorities. The plants in Sandviken and Hallstahammar are included in the EU's carbon emissions trading scheme. For 2013, emission rights corresponding to 90,780 tons of CO₂ were assigned. In addition, the Group purchased a further 11,934 emission rights during the year.

Read more in Sandvik's Sustainable Business Report at www.sandvik.com/sustainability.

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. Sandvik has a favorable risk spread with sales in more than 130 countries in about 20 product areas and a number of different industries.

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.

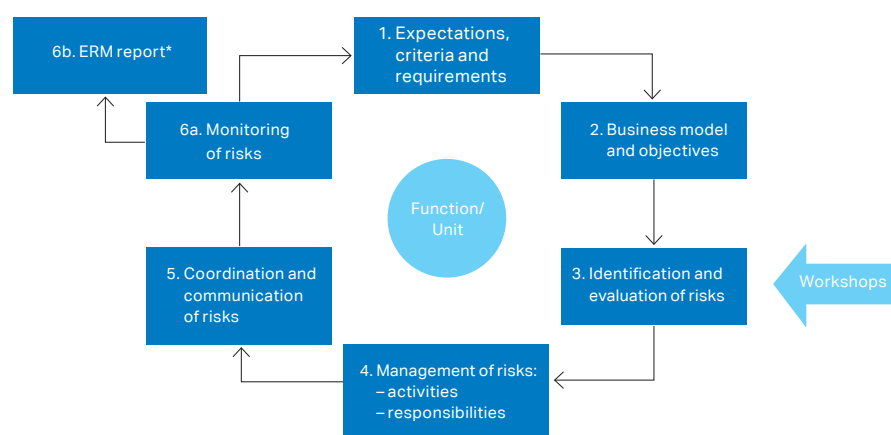
The main components of risk management are identification, evaluation, management, reporting, follow-up and control. An action plan is established for each risk to accept, reduce, eliminate or increase the risk. Also, this is now a requirement under the OECD's Guidelines for Multinational Enterprises regarding responsible business conduct. Formal procedures and processes are established for the reporting, monitoring and control of risks. A full, consolidated ERM Report is submitted to Group Executive Management twice a year and to the Board once a year.

Significant uncertainty continued to characterize Sandvik's markets in 2013. 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 sustainability responsibility, in particular supplier audits and anti-corruption.

THE PURPOSE OF INTEGRATED RISK MANAGEMENT

- 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 AREAS

BUSINESS	COMPLIANCE	FINANCIAL REPORTING	ONE-OFF RISKS
<ul style="list-style-type: none"> • Industry & Market • Commercial • Operational 	<ul style="list-style-type: none"> • Internal policies¹⁾ • Tax legislation • Local laws • Governance • International laws • International conventions and corporate responsibility <p>¹⁾ Refer to Corporate Governance Report</p>	<ul style="list-style-type: none"> • Financial closure process • Financial reporting system • Business analysis • Internal control 	<ul style="list-style-type: none"> • Acquisitions and due diligence processes, which include liability issues • Structural changes • Dramatic changes in macroeconomics

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 risks, 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

In January 2014, the Supreme Administrative Court denied Sandvik leave to appeal in the dispute from 2005 concerning the reorganization and ownership of intellectual property rights. In line with the Administrative Court of Appeal's ruling in June 2013, Sandvik AB was thus taxed for a capital gain in 2005 of 18,063 million SEK, at the same time as amortization with respect to the intellectual property rights was granted in Sandvik Intellectual Property AB. Consequently, the ruling by the Administrative Court of Appeal resulted only in minor impact on the Group's earnings, as the additional capital gains tax of approximately 5 billion SEK in Sandvik AB essentially corresponds to the tax value of the increased amortization deductible for tax purposes in Sandvik Intellectual Property AB.

However, the reduced corporate income tax rate in Sweden, from 28% to 26.3% from 2009 through 2012, and to 22% effective from 2013, has a negative impact on the tax value of the amortization corresponding to the effect of the

reduced corporate income tax rate.

Sandvik is at times involved in discussions with the tax authorities concerning transfer pricing issues, meaning the prices applied on transactions between Sandvik companies globally. The Group keeps detailed transfer pricing documentation to support the transfer prices applied. If the tax authorities' opinion in a transfer pricing matter differs from Sandvik's position, it may 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 63–68.

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 is also 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.

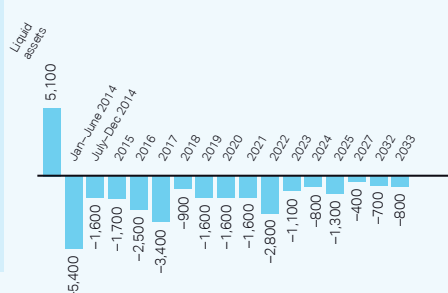
Only entities with a solid financial position and high credit ratings are accepted as Sandvik's counterparties in financial transactions.

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 profit for the year, other comprehensive income, and the company's competitive situation in various ways:</p> <p><i>Transaction exposure</i></p> <p>The profit for the year is affected when sales and purchases are made in different currencies.</p> <p><i>Translation exposure</i></p> <ul style="list-style-type: none"> • The profit for the year is affected when assets and liabilities are denominated in different currencies • The profit for the year is affected when the financial results of subsidiaries are translated to SEK • Other comprehensive income is affected when the net assets of subsidiaries are translated to SEK <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>																																
<p>TRANSACTION EXPOSURE</p> <p>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 11,800 million SEK (13,400) in 2013. The most important currencies for one year of exposure are shown in the diagram below.</p>	<p>Net flow in foreign currencies, MSEK</p>  <table border="1"> <thead> <tr> <th>Currency</th> <th>2012 (MSEK)</th> <th>2013 (MSEK)</th> </tr> </thead> <tbody> <tr> <td>EUR</td> <td>-1,100</td> <td>-800</td> </tr> <tr> <td>USD</td> <td>5,900</td> <td>5,400</td> </tr> <tr> <td>AUD</td> <td>2,500</td> <td>1,700</td> </tr> <tr> <td>CNY</td> <td>1,500</td> <td>1,800</td> </tr> <tr> <td>ZAR</td> <td>2,800</td> <td>1,500</td> </tr> <tr> <td>JPY</td> <td>700</td> <td>700</td> </tr> <tr> <td>CLP</td> <td>800</td> <td>500</td> </tr> <tr> <td>CHF</td> <td>-2,800</td> <td>-2,900</td> </tr> <tr> <td>Other</td> <td>3,100</td> <td>3,900</td> </tr> </tbody> </table>	Currency	2012 (MSEK)	2013 (MSEK)	EUR	-1,100	-800	USD	5,900	5,400	AUD	2,500	1,700	CNY	1,500	1,800	ZAR	2,800	1,500	JPY	700	700	CLP	800	500	CHF	-2,800	-2,900	Other	3,100	3,900	<p>Sandvik generally offers customers the possibility to pay in their own currencies through the global sales organization. As a result, the Group is continuously exposed to currency risks associated with 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.</p> <p>A certain portion of the anticipated net flow of sales and purchases is hedged through financial instruments in accordance with guidelines set in the Group's finance policy. In addition, major project orders are currency hedged to safeguard the gross margin. Under the finance policy, the CFO has a mandate to hedge the annual transaction exposure. At year-end, the total hedged amount was 3,470 million SEK (5,675). The average duration for the hedged volume of foreign currency was about four months (17). Unrealized gains from outstanding currency contracts for hedging of future net flows amounted to 229 million SEK (571) at year-end. Of this, 101 million SEK relates to contracts maturing in 2014 and 128 million SEK to contracts maturing in 2015 or later. Hedge accounting in line with IAS 39 is applied for the bulk of the hedge transactions. For a more detailed breakdown of the quarterly effects on cash flow of the transactions that have been recognized in the hedge reserve, see Note 29.</p>
Currency	2012 (MSEK)	2013 (MSEK)																														
EUR	-1,100	-800																														
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AUD	2,500	1,700																														
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ZAR	2,800	1,500																														
JPY	700	700																														
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Other	3,100	3,900																														

RISK	EXPOSURE	COMMENTS																																																																					
<p>TRANSLATION EXPOSURE</p> <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 35,100 million SEK (33,500).</p>	<p>Financing of subsidiaries by currency (net), MSEK</p>  <table border="1"> <thead> <tr> <th>Currency</th> <th>2012 (MSEK)</th> <th>2013 (MSEK)</th> </tr> </thead> <tbody> <tr> <td>SEK</td> <td>-16,300</td> <td>-14,600</td> </tr> <tr> <td>USD</td> <td>-5,300</td> <td>-5,200</td> </tr> <tr> <td>GBP</td> <td>-1,300</td> <td>-1,500</td> </tr> <tr> <td>BRL</td> <td>-1,000</td> <td>-1,400</td> </tr> <tr> <td>CLP</td> <td>-500</td> <td>-500</td> </tr> <tr> <td>ZAR</td> <td>-1,000</td> <td>-600</td> </tr> <tr> <td>JPY</td> <td>-400</td> <td>-200</td> </tr> <tr> <td>Other</td> <td>4,000</td> <td>5,700</td> </tr> </tbody> </table> <p>■ 2012 ■ 2013</p> <p>Group's external borrowing by currency, MSEK</p>  <table border="1"> <thead> <tr> <th>Currency</th> <th>2012 (MSEK)</th> <th>2013 (MSEK)</th> </tr> </thead> <tbody> <tr> <td>SEK</td> <td>-14,400</td> <td>-9,600</td> </tr> <tr> <td>USD</td> <td>-5,500</td> <td>-5,500</td> </tr> <tr> <td>EUR</td> <td>-11,800</td> <td>-12,800</td> </tr> <tr> <td>AUD</td> <td>-1,900</td> <td>-1,600</td> </tr> <tr> <td>Other</td> <td>-1,400</td> <td>-800</td> </tr> </tbody> </table> <p>■ 2012 ■ 2013</p> <p>Net assets by foreign currency, MSEK</p>  <table border="1"> <thead> <tr> <th>Currency</th> <th>2012 (MSEK)</th> <th>2013 (MSEK)</th> </tr> </thead> <tbody> <tr> <td>EUR</td> <td>17,200</td> <td>20,400</td> </tr> <tr> <td>USD</td> <td>2,400</td> <td>2,300</td> </tr> <tr> <td>CHF</td> <td>2,600</td> <td>2,400</td> </tr> <tr> <td>CNY</td> <td>1,700</td> <td>1,900</td> </tr> <tr> <td>AUD</td> <td>1,800</td> <td>1,000</td> </tr> <tr> <td>GBP</td> <td>1,300</td> <td>800</td> </tr> <tr> <td>Other</td> <td>6,500</td> <td>4,800</td> </tr> </tbody> </table> <p>■ 2012 ■ 2013</p>	Currency	2012 (MSEK)	2013 (MSEK)	SEK	-16,300	-14,600	USD	-5,300	-5,200	GBP	-1,300	-1,500	BRL	-1,000	-1,400	CLP	-500	-500	ZAR	-1,000	-600	JPY	-400	-200	Other	4,000	5,700	Currency	2012 (MSEK)	2013 (MSEK)	SEK	-14,400	-9,600	USD	-5,500	-5,500	EUR	-11,800	-12,800	AUD	-1,900	-1,600	Other	-1,400	-800	Currency	2012 (MSEK)	2013 (MSEK)	EUR	17,200	20,400	USD	2,400	2,300	CHF	2,600	2,400	CNY	1,700	1,900	AUD	1,800	1,000	GBP	1,300	800	Other	6,500	4,800	<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 quarter are recognized directly in other comprehensive income. The final diagram shows the distribution of net assets between various currencies.</p>
Currency	2012 (MSEK)	2013 (MSEK)																																																																					
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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 are 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, total operating profit over a 12-month period would change by approximately 1,500 million SEK (1,100), 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 1,800 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 2014, in relation to loans for which the interest rate will be reset during the coming year, net interest items would be impacted by –96 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 +174 million SEK as a result of a 1-percentage-point increase 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 (durations of up to 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 47 months (37) at year-end, with consideration given to interest-rate swap agreements entered into.</p> <p>In line with the Group's finance policy, internal lending to foreign subsidiaries is hedged. Consequently, there is an interest rate effect in currency derivatives of 1.3% between the currencies the Group borrows and the currencies the Group lends. The Group's average interest expense, including other loans and effects of various derivatives, was 5.3% (5.4).</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 29.</p> <p>Sandvik's loan conditions do not currently entail financial covenants linked to key figures. Only under exceptional circumstances are assets pledged in connection with the raising of loans. Such pledging is disclosed in Note 28.</p>																																							
<p>INTEREST RATES AND FIXED-INTEREST TERMS ON OUTSTANDING LOANS</p> <table><tr><th rowspan="2">MSEK</th><th colspan="3">Including effects of interest-rate derivatives</th></tr><tr><th>Effective rate of interest, %</th><th>Fixed-interest term, months</th><th>Recognized liability, MSEK</th></tr><tr><td>Bond loans, Swedish MTN</td><td>4.3</td><td>36</td><td>6,858</td></tr><tr><td>Bond loans, European MTN</td><td>4.6</td><td>66</td><td>10,462</td></tr><tr><td>Private placement</td><td>3.6</td><td>61</td><td>5,462</td></tr><tr><td>Commercial papers</td><td>0.0</td><td>0</td><td>0</td></tr><tr><td>Other loans from banks</td><td>2.9</td><td>22</td><td>7,477</td></tr><tr><td>Total loans</td><td>4.0</td><td>47</td><td>30,259</td></tr><tr><td>Interest effect of currency derivatives</td><td>1.3</td><td></td><td></td></tr><tr><td>Total incl. currency derivatives</td><td>5.3</td><td></td><td></td></tr></table>			MSEK	Including effects of interest-rate derivatives			Effective rate of interest, %	Fixed-interest term, months	Recognized liability, MSEK	Bond loans, Swedish MTN	4.3	36	6,858	Bond loans, European MTN	4.6	66	10,462	Private placement	3.6	61	5,462	Commercial papers	0.0	0	0	Other loans from banks	2.9	22	7,477	Total loans	4.0	47	30,259	Interest effect of currency derivatives	1.3			Total incl. currency derivatives	5.3		
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RISK	EXPOSURE	COMMENTS																																			
<p>LIQUIDITY AND REFINANCING RISK</p> <p>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>	<p>Maturity profile for borrowing and liquid assets Nominal amount, MSEK</p>  <table> <caption>Maturity profile data (MSEK)</caption> <tr><th>Period</th><th>Value</th></tr> <tr><td>Jan-June 2014</td><td>5,100</td></tr> <tr><td>July-Dec-2014</td><td>-1,600</td></tr> <tr><td>2015</td><td>-1,700</td></tr> <tr><td>2016</td><td>-2,500</td></tr> <tr><td>2017</td><td>-3,400</td></tr> <tr><td>2018</td><td>-900</td></tr> <tr><td>2019</td><td>-1,600</td></tr> <tr><td>2020</td><td>-1,600</td></tr> <tr><td>2021</td><td>-1,600</td></tr> <tr><td>2022</td><td>-2,800</td></tr> <tr><td>2023</td><td>-1,100</td></tr> <tr><td>2024</td><td>-800</td></tr> <tr><td>2025</td><td>-1,300</td></tr> <tr><td>2026</td><td>-400</td></tr> <tr><td>2027</td><td>-700</td></tr> <tr><td>2028</td><td>-800</td></tr> </table>	Period	Value	Jan-June 2014	5,100	July-Dec-2014	-1,600	2015	-1,700	2016	-2,500	2017	-3,400	2018	-900	2019	-1,600	2020	-1,600	2021	-1,600	2022	-2,800	2023	-1,100	2024	-800	2025	-1,300	2026	-400	2027	-700	2028	-800	<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 65,300 million SEK and long-term financing, including share capital, pension liabilities, long-term tax liabilities, long-term provisions and guaranteed credit facilities, amounted to 72,800 million SEK. The short-term liquidity reserve amounted to 8,600 million SEK, comprising credit facilities and accessible 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 2,700 million SEK.</p> <p>Sandvik has credit facilities totaling 650 million EUR 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 achieve a well-balanced maturity profile for liabilities to thereby reduce the refinancing risk. The share of long-term loans in relation to total borrowing was 77% at year-end 2013 compared with 92% one year earlier. The maturity structure for the Group's financial liabilities and derivatives is presented in Note 29.</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>	
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BORROWING, SIZE OF PROGRAMS AND REMAINING CREDIT PERIODS	<table> <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> <tr> <td>Bond loans, Swedish MTN</td><td>SEK</td><td>6,858</td><td>15,000</td><td>4.6</td></tr> <tr> <td>Bond loans, European MTN</td><td>EUR</td><td>10,462</td><td>26,935</td><td>7.0</td></tr> <tr> <td>Private placement</td><td>USD</td><td>5,462</td><td>—</td><td>6.0</td></tr> <tr> <td>Commercial papers</td><td>EUR, SEK</td><td>—</td><td>16,464</td><td>—</td></tr> <tr> <td>Other loans from banks</td><td>Diverse</td><td>7,477</td><td>—</td><td>3.3</td></tr> <tr> <td>Total borrowing</td><td></td><td>30,259</td><td>58,399</td><td>5.4</td></tr> </table>		Currency	Recognized liability, MSEK	Size of programs, MSEK	Average remaining credit period (years)	Bond loans, Swedish MTN	SEK	6,858	15,000	4.6	Bond loans, European MTN	EUR	10,462	26,935	7.0	Private placement	USD	5,462	—	6.0	Commercial papers	EUR, SEK	—	16,464	—	Other loans from banks	Diverse	7,477	—	3.3	Total borrowing		30,259	58,399	5.4	
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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	2013	2012
Trade receivables	12,682	13,579
Cash and cash equivalents	5,075	13,829
Unrealized gains on derivatives	911	1,353
Other receivables	542	694
Outstanding credits	824	750
Total	20,034	30,205

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 2013, the value of these amounted to 5,986 million SEK (15,182).

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 –137 million SEK (–202), which corresponds to about 0.2% of sales. The total gross value of outstanding trade receivables was 13,559 million SEK (14,419) at 31 December. Total impairment of these was –878 million SEK (–840). Age analysis of trade receivables at 31 December is presented in Note 19.

Sandvik offers short and long-term customer financing through its own financing companies and in partnership with financial institutions and banks. 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 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 was 844 million SEK (764), of which 20 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 133 million SEK (338).

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 491 million SEK (499).

RISK	EXPOSURE	COMMENTS																										
<div>RAW MATERIALS PRICE EXPOSURE</div> <div>Sandvik's financial risks related to raw materials are primarily concentrated to nickel and electricity. The price risk associated with these is partially hedged through the signing of financial contracts. Operational risks that raw materials could give rise to are managed as described in the Integrated risk management section.</div> <div>The price of nickel varied during the year, as shown in the Monthly average price of nickel during 2013 diagram on the right.</div>	<div>Monthly average price of nickel during 2013, USD/ton</div> <div><table><caption>Monthly average price of nickel during 2013, USD/ton</caption><thead><tr><th>Month</th><th>Price (USD/ton)</th></tr></thead><tbody><tr><td>Jan</td><td>17,500</td></tr><tr><td>Feb</td><td>18,000</td></tr><tr><td>Mar</td><td>17,000</td></tr><tr><td>Apr</td><td>16,000</td></tr><tr><td>May</td><td>15,000</td></tr><tr><td>Jun</td><td>14,500</td></tr><tr><td>Jul</td><td>13,500</td></tr><tr><td>Aug</td><td>14,000</td></tr><tr><td>Sep</td><td>13,500</td></tr><tr><td>Oct</td><td>14,000</td></tr><tr><td>Nov</td><td>13,500</td></tr><tr><td>Dec</td><td>13,500</td></tr></tbody></table></div>	Month	Price (USD/ton)	Jan	17,500	Feb	18,000	Mar	17,000	Apr	16,000	May	15,000	Jun	14,500	Jul	13,500	Aug	14,000	Sep	13,500	Oct	14,000	Nov	13,500	Dec	13,500	<div>Net total consumption of nickel amounted to about 14,900 metric tons during the year. When Sandvik Materials Technology obtains a customer order at a fixed price for nickel and molybdenum, the price of these materials is hedged by signing financial contracts. This means that Sandvik's operating profit is not impacted by movements in nickel and molybdenum prices relating to the aforementioned orders at a fixed price.</div> <div>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 offset hedging.</div> <div>At year-end, the volume of hedged nickel inventory was 1,791 metric tons (3,391). The market value of commodity derivatives entered into was –11 million SEK (21).</div> <div>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 20 months' (31) expected consumption. The market value of electricity derivatives was 485 million SEK (849) at year-end. The result of these derivative contracts amounted to –133 million SEK (–124). 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 2013.</div> <div>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 29.</div>
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Dec	13,500																											
<div>PENSION COMMITMENTS</div> <div>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, Canada and the US.</div>	<div>The average interest-rate duration for the Group's interest-bearing assets in the pension portfolio is 6.1 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 1,900 million SEK. A 20% movement in the stock market would change assets by about 1,050 million SEK.</div> <div>If longevity assumptions are changed by one year, the pension liability would change by about 5%, which corresponds to 650 million SEK. The risk, measured as Value at Risk (VaR), meaning the highest amount Sandvik risks losing (with a confidence interval of 95%) during one year given the market's current volatility and correlations, is approximately 3,150 million SEK.</div> <div>Trend of pension liability and managed capital</div> <div><table><caption>Trend of pension liability and managed capital</caption><thead><tr><th>Year</th><th>Liabilities (MSEK)</th><th>Assets (MSEK)</th><th>Consolidation level (%)</th></tr></thead><tbody><tr><td>2009</td><td>14,000</td><td>12,500</td><td>89.3</td></tr><tr><td>2010</td><td>13,500</td><td>12,500</td><td>92.6</td></tr><tr><td>2011</td><td>15,000</td><td>12,500</td><td>83.3</td></tr><tr><td>2012</td><td>17,000</td><td>13,500</td><td>79.4</td></tr><tr><td>2013</td><td>18,000</td><td>15,000</td><td>83.3</td></tr></tbody></table></div>	Year	Liabilities (MSEK)	Assets (MSEK)	Consolidation level (%)	2009	14,000	12,500	89.3	2010	13,500	12,500	92.6	2011	15,000	12,500	83.3	2012	17,000	13,500	79.4	2013	18,000	15,000	83.3	<div>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.</div> <div>The defined-benefit pension plans are described in Note 22.</div> <div>In 2013, managed capital totaled 15,200 million SEK and the corresponding pension commitments amounted to 17,700 million SEK, which is equal to a consolidation level of 86% (80). The return on Sandvik's pension assets was 8.6% (10.4). Unfunded pension plans amounted to 1,900 million SEK.</div>		
Year	Liabilities (MSEK)	Assets (MSEK)	Consolidation level (%)																									
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CORPORATE GOVERNANCE REPORT

Sandvik AB is domiciled in Stockholm and is the Parent Company of the Sandvik Group, with subsidiaries in more than 60 countries. Its operations are global with sales in more than 130 countries, and the Sandvik Group has about 47,000 employees. Sandvik AB is a public company listed on NASDAQ OMX Stockholm (the "Stock Exchange").

Corporate governance at Sandvik comprises the system, encompassing the principles, guidelines, structures and processes, through which the Group is managed and controlled. 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 Group 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. In 2013, Sandvik applied the Code without deviating from any of its regulations.

OWNERSHIP STRUCTURE

At 31 December 2013, 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 General Meetings of shareholders. According to the owner register, Sandvik had about 117,000 shareholders at 31 December 2013. AB Industrivärden was the largest owner with about 11.6% of the share capital. Of the total share capital at year-end, nearly 30% 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 the Board and, where applicable, appointment of auditor, and other matters stipulated in the Companies Act, the Articles of Association and, where applicable, the Code.

The ten largest shareholder groups at 31 December 2013, %

AB Industrivärden	11.6
Alecta Pension Insurance	4.5
Handelsbanken's Pension Foundation	3.8
Swedbank Robur Funds	3.4
JPM Chase*	3.1
AMF – Insurance and Funds	3.0
SSB CL Omnibus*	2.8
Nordea Investment Funds	2.6
L E Lundbergföretagen AB	2.4
Göranssonska Foundations	2.0

* Administrates shares held in trust.

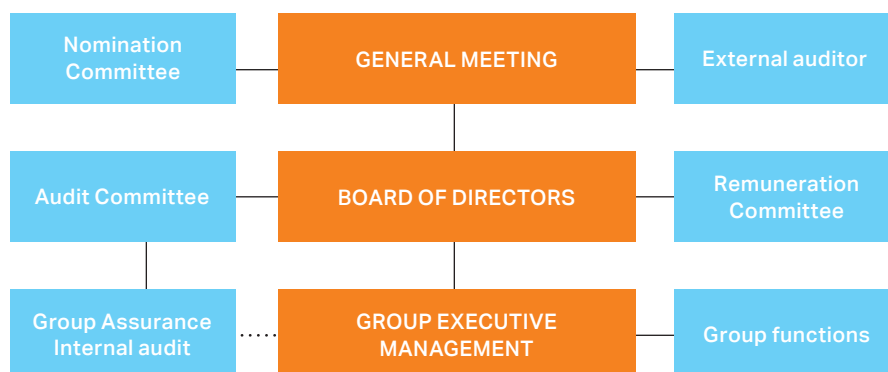
All shareholders who have been entered in the share register and have informed the company of their attendance within the time limit stated in the notice are entitled to participate at Sandvik's General Meetings and vote according to the number of shares held. Shareholders are also entitled to be represented by a proxy at the Meeting. Notice of the General Meeting is published in *Post- och Inrikes Tidningar* and on the company's website.

YEAR IN BRIEF

- Increase in the number of shareholders to about 117,000 (111,000).
- Four new members added to Group Executive Management.
- Board of Directors and Chairman re-elected at the Annual General Meeting.
- Incentive program for senior executives and key employees adopted by the Annual General Meeting.
- The position of Head of Sustainable Business was established and filled during the year.

Confirmation of the publication of the notice is published in *Svenska Dagbladet* and in a daily newspaper published in Sandviken or Gävle.

CORPORATE GOVERNANCE MODEL



As a component in the governance of the Sandvik Group, committees and other coordination and preparatory bodies have been established comprising representatives from business areas and Group functions. Examples of such bodies include the Finance Management Team, IT Board, R&D Board and Communication Management Team.

2013 Annual General Meeting

Shareholders representing 49.01% of the share capital and votes attended the Annual General Meeting held on 25 April 2013 in Sandviken, Sweden. Anders Lindblad, attorney-at-law, was elected to chair the meeting. Resolutions passed at the meeting included the following:

- Dividend of 3.50 SEK per share.
- Re-election of all Board members and the Chairman of the Board.
- Guidelines for remuneration of senior executives.
- Long-term share-based incentive program for about 350 senior executives and key employees in the Group, for the third consecutive year.

For additional information about the Annual General Meeting, including the minutes, see www.sandvik.com.

2014 Annual General Meeting

Sandvik's 2014 Annual General Meeting will be held on 13 May in Sandviken, Sweden. More information is available at 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 Chairman of the Board (convener).

Nomination Committee for 2014 AGM

For the Annual General Meeting to be held on 13 May 2014, the Nomination Committee consists of Anders Nyberg, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken AB, Handelsbanken's Pension Foundation and Handelsbanken's Pension Fund), Kaj Thorén (Alecta), Anders Oscarsson (AMF and AMF Funds), and Anders Nyrén (Sandvik's Chairman of the Board). Up to the Annual General Meeting, the Nomination Committee will have met on at least five occasions. Through Sandvik's Chairman of the Board, the Nomination Committee has received information concerning the Board's own evaluation and the company's operations, stage of development and overall status. The Nomination Committee has discussed the general criteria that Board members should fulfill, including the independence requirement, reviewed the number of Board assignments that each Board member has in

NOMINATION COMMITTEE'S TASKS AHEAD OF THE 2014 ANNUAL GENERAL MEETING

- Proposal concerning the Chairman of the Meeting.
- Proposal concerning the number of Board members.
- Proposal concerning remuneration of each Board member.
- Proposal concerning the Board and Chairman of the Board.
- 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 PRINCIPAL TASKS OF THE BOARD

- 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.

other companies, and addressed the issue of a 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.

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

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

The Board's Procedural Guidelines and instruction for work delegation between the Board and the President, as well as for financial reporting, are updated and

approved each year. The update is based on such aspects as the Board's evaluation of the individual and collective work that the Board performs.

In addition to financial reporting and the monitoring and follow-up of daily operations and profit trend, Board meetings address the goals and strategies for the operations, acquisitions and significant 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.

Composition

Sandvik's Board of Directors comprises eight members elected by the Annual General Meeting. Pursuant to Swedish legislation, trade unions are entitled to representation on the Board and they have appointed two members and two deputies.

In accordance with the Nomination Committee's proposal, Olof Faxander,

Jürgen Geissinger, Johan Karlström, Fredrik Lundberg, Hanne de Mora, Anders Nyrén, Simon Thompson and Lars Westerberg were re-elected at the 2013 Annual General Meeting. Anders Nyrén was re-elected Chairman of the Board. 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 124–125.

Independence

Anders Nyrén and Fredrik Lundberg are not regarded as independent in relation to major shareholders in the company and Olof Faxander is not regarded as independent in relation to the company and its executive management. The other five members elected by the General Meeting are all independent in relation to Sandvik and its executive management, as well as

Composition of the Board since 2013 Annual General Meeting

Name	Function	Independent in acc. with the Code	Shareholding, number ³⁾ 31 Dec 2013	Elected	Audit Committee	Remuneration Committee
Thomas Andersson	Deputy*		612	2012		
Alicia Espinosa	Deputy*		7,759	2010		
Olof Faxander	Member	No ¹⁾	32,660	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 ²⁾	6,540,000 ⁴⁾	2006		
Hanne de Mora	Member	Yes	0	2006	Chairman	
Anders Nyrén	Chairman	No ²⁾	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 the company and its executive management.

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

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

4) In addition, shareholding in Sandvik via L E Lundbergföretagen AB totals 30,000,000, and shareholding via AB Industrivärden totals 145,274,257.

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 its executive management and that a minimum of two of those members that are independent in relation to the company and its executive management are also to be independent in relation to the company's major shareholders.

Board proceedings during 2013

During the year, the Board held nine 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 human resources, such as incentive programs, succession planning and EHS (Environment, Health & Safety), and issues concerning investments and the review of previously made investments, as well as acquisitions and divestments. The Remuneration and Audit Committees submitted reports from their respective meetings. In the autumn of 2013, the Board traveled to South America, which included a visit to the energy company Petrobras in Brazil and the El Teniente copper mine in Chile.

Attendance at Board and Committee meetings in 2013

Member	Board	Audit Committee	Remuneration Committee
<i>Total number of meetings</i>	9	5	5
Thomas Andersson	8		
Alicia Espinosa	9		
Olof Faxander	9		
Jürgen M Geissinger	8		
Johan Karlström	9		5
Jan Kjellgren	9		
Tomas Kärnström	9		
Fredrik Lundberg	9		
Hanne de Mora	8	4	
Anders Nyrén	9	5	5
Simon Thompson	9	5	
Lars Westerberg	9		5

Remuneration of the Board

As resolved at the 2013 Annual General Meeting, the Chairman's fee is 1,650,000 SEK and the fee to each of the non-executive Board members elected by the General Meeting is 550,000 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, in total 325,000 SEK. For more detailed information on remuneration of the Board members, see Note 3.5.

Evaluation of the work of the Board

To ensure the quality of the work of the Board of Directors and to identify the possible need for further expertise and experience, a systematic and structured process is implemented annually to evaluate the work of the Board and its members. The evaluations, which are led by the Chairman of the Board, are performed individually and the results are discussed in a plenary meeting. The Chairman of the Board presents the results of the evaluations at a meeting with the Nomination Committee.

BOARD COMMITTEES

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

Remuneration Committee

During 2013, the members of the Remuneration Committee were the Chairman of the Board Anders Nyrén (Chairman of the Committee), Johan Karlström and Lars Westerberg. According to the instructions for the Remuneration Committee, the Committee is to undertake the tasks prescribed by the Code, which include preparing proposals regarding guidelines for remuneration of senior executives and long-term incentive programs for senior executives.

Based on the recommendations of the Remuneration Committee, the Board decides the remuneration of and terms of employment for Sandvik AB's President. 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 2013, the Remuneration Committee held five meetings. Activities included drafting a proposal for a revised incentive program for senior executives and key employees for 2014.

Audit Committee

During 2013, the members of the Audit Committee were 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 systematic processes for risk management, including legal disputes, accounting procedures, taxation, finance operations and pension issues.
- Sustainable business issues.

In 2013, the Audit Committee held five meetings at which Sandvik's external auditor and representatives of the company's management were present.

EXTERNAL AUDITOR

At the 2011 Annual General Meeting, the audit firm KPMG AB was re-elected auditor of Sandvik AB 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 the auditor, see Note 3.6.

OPERATIONAL MANAGEMENT

The five business areas – Sandvik Mining, Sandvik Machining Solutions, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture – comprise Sandvik's operational structure. 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.

Visit www.sandvik.com for more detailed information relating to the Group's operational organization and business activities.

PRESIDENT AND GROUP EXECUTIVE MANAGEMENT

In 2013, Group Executive Management comprised Olof Faxander, President and CEO; Emil Nilsson (until 30 September 2013), Executive Vice President and CFO; Mats Backman (from 1 October 2013), Executive Vice President and CFO; Gary Hughes, President of Sandvik Mining; Andreas Evertz (until 31 January 2013), President of Sandvik Machining Solutions; Jonas Gustavsson (since 1 February 2013), President of Sandvik Machining Solutions, previously President of Sandvik Materials Technology; Petra Einarsson (since 1 February 2013), President of Sandvik Materials Technology; Andy Taylor (until 30 September 2013), Acting President of Sandvik Construction; Dinggui Gao (from 1 October 2013), President of Sandvik Construction; Tomas Nordahl, Executive Vice President and Head of IT, sourcing and strategy and President of Sandvik Venture; Bo Severin, Executive Vice President and General Counsel; Anna Vikström Persson, Executive Vice President and Head of Human Resources; Jan Lissåker (until 30 June 2013), Executive Vice President Group Communications; and Jessica Alm (from 1 July 2013), Executive Vice President Group Communications. In 2013, Extended Group Executive Management included Ajay Sambrani (until 14 January 2014), Country Manager India; Zhiqiang (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 Extended Group Executive Management are presented on pages 126–127.

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 specific expertise is required.

Sandvik has established Group functions responsible for Group-wide activities such as legal affairs, communication, finance, HR and IT, strategy and sourcing. In addition to Group Executive Management, business areas and Group functions, a number of committees and other coordination and preparatory bodies 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). This individual is, among other things, responsible for ensuring compliance with Group-wide guidelines in dialog with the Country Manager.

Remuneration of senior executives

For guidelines, remuneration and other benefits payable to Group Executive Management, refer to page 52 and Note 3.5.

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 Power of Sandvik, which is a collection of documents that regulate the governance of the Sandvik Group. Its contents 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.
- The distribution of responsibility and powers in the Group.
- 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 SUSTAINABILITY ACTIVITIES

With Sandvik's Sustainable Business strategy and Code of Conduct as the basis, risks and opportunities are analyzed. Objectives and targets are set to address the risks identified by the Group and to efficiently leverage the possibilities available.

Sandvik's Board of Directors adopts the Group's Code of Conduct and Group Executive Management establishes objectives and performance indicators for sustainability activities. Each business area assumes responsibility for ensuring compliance with the Code and that the goals are cascaded down in the organization. In addition, each business area is responsible for the assessment of sustainability risks (for example, environment, health and safety, anti-corruption, human rights, working conditions and supplier responsibility) in its operations, and specific organizations are appointed in each business area to coordinate issues and support the local management teams.

In 2012, a person responsible for sustainability matters was appointed in Group Executive Management in an effort to make the connection to business benefits clearer and to strengthen sustainability issues at a strategic level. In spring 2013, this work was further boosted with the naming of a Head of Sustainable Business tasked with coordinating sustainability matters, developing the company's strate-

gic approach, establishing focus areas and setting targets for the Group's work with Sustainable Business. During the year, it was also decided to intensify efforts to ensure responsible purchasing practices.

At a Group level, the Head of Sustainable Business leads a sustainability coordination team mainly comprising representatives from various functions. The team holds regular meetings during which such activities as coordination, development of synergies, and drafting of policy documents and action programs are carried out. Equivalent coordination teams have been established in India, China Mexico and Brazil.

The various functions, such as purchasing, risk management, HR and EHS (environment, health and safety), are responsible for their respective areas, preparing policies and standards that are to be introduced in the organization. There are also a number of councils, committees and boards at Group level whose job is to coordinate the work of the business areas and draft joint policies, targets and key performance indicators for presentation to Group Executive Management.

The independent Group Assurance function monitors sustainability issues and is also in charge of ensuring the effectiveness of management systems, internal controls and risk management. Key performance indicators are reported on a quarterly basis to various Group functions, which analyze and present the results to Group Executive Management and, in certain instances, the Board. Group Assurance also examines internal compliance with the Code of Conduct.

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 integrated part of the Corporate Governance Report.

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

Power of Sandvik is the primary source of the guidelines governing management and staff, internal control and conduct at Sandvik. Power of Sandvik 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 financial reporting procedures to be

applied by all Sandvik reporting entities. In the 20 major countries where Sandvik operates, Country Financial Managers are appointed to support the local management and finance organizations and to provide a link between reporting entities and Group finance. At Group level, Group Financial Control manages the reporting process to ensure the completeness and correctness of financial reporting and its compliance with IFRS requirements. Group Business Control 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

Enterprise Risk Management (ERM) at Sandvik, which is described on pages 54–56, 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 Sandvik's Board. The Board deals with all quarterly interim reports as well as the Annual Report prior to publishing and monitors the audit of internal control and financial statements conducted by 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

Each business entity manager and their respective finance organization is ultimately responsible for continuously monitoring the financial information of the various entities. The information is also

monitored at a business area level, by Group staff functions, 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	2013	2012*
Revenue	1, 2	87,328	98,529
Cost of sales and services		-58,848	-63,826
Gross profit		28,480	34,703
Selling expenses		-11,184	-11,935
Administrative expenses		-6,290	-6,362
Research and development costs	4	-2,661	-2,572
Share of results of associated companies		1	6
Other operating income	5	531	242
Other operating expenses	6	-239	-592
Operating profit	1, 3, 7, 8	8,638	13,490
Financial income		209	435
Financial expenses		-2,094	-2,409
Net financing cost	9	-1,885	-1,974
Profit after financial items		6,753	11,516
Income tax	11	-1,745	-3,409
Profit for the year		5,008	8,107
Other comprehensive income			
<i>Items that cannot be reclassified to profit/loss for the year</i>			
Actuarial gains/losses on defined-benefit pension plans	22	1,039	-1,417
Tax relating to items that cannot be reclassified to profit/loss for the year	11	-361	348
		678	-1,069
<i>Items that can be reclassified to profit/loss for the year</i>			
Translation differences during the year		142	-1,584
Fair-value changes in cash-flow hedges		-71	9
Fair-value changes in cash-flow hedges transferred to profit/loss for the year		-134	131
Tax related to fair-value changes in cash-flow hedges	11	45	-30
		-18	-1,474
Total other comprehensive income for the year		660	-2,543
Total comprehensive income for the year		5,668	5,564
Profit for the year attributable to:			
Equity holders of the Parent		5,013	8,105
Non-controlling interests		-5	2
Total comprehensive income for the year attributable to:			
Equity holders of the Parent		5,671	6,636
Non-controlling interests		-3	-3
Basic earnings per share, SEK	12	4.00	6.51
Diluted earnings per share, SEK	12	4.00	6.51

* Comparative year adjusted due to amended accounting policies. With the exception of other comprehensive income, the effects in the consolidated income statement were immaterial and did not entail any adjustment of the income statement. Refer to Note 35 for further information.

CONSOLIDATED BALANCE SHEET

MSEK	Note	31 Dec. 2013	31 Dec. 2012*	1 Jan. 2012*
ASSETS				
Non-current assets				
<i>Intangible assets</i>				
Patents and other intangible assets	13	2,968	2,738	2,773
Goodwill	13	8,979	8,685	9,034
Total		11,947	11,423	11,807
<i>Property, plant and equipment</i>				
Land and buildings	13	8,337	8,338	8,349
Plant and machinery	13	12,363	12,687	12,613
Equipment, tools, fixtures and fittings	13	1,663	1,770	1,555
Construction in progress and advance payments	13	2,892	2,721	3,185
Total		25,255	25,516	25,702
<i>Financial assets</i>				
Investments in associated companies	1,16	211	356	456
Financial assets		80	80	80
Deferred tax assets	11	5,903	3,869	4,091
Non-current receivables	17	1,956	1,963	1,999
Total		8,150	6,268	6,626
Total non-current assets		45,352	43,207	44,135
Current assets				
<i>Inventories</i>				
	18	23,318	25,508	26,077
<i>Current receivables</i>				
Trade receivables	19	12,682	13,579	14,563
Due from associated companies		106	42	141
Income tax receivables	11	1,096	931	772
Other receivables	17	5,225	5,871	5,310
Prepaid expenses and accrued income		1,027	1,088	1,193
Total		20,136	21,511	21,979
<i>Cash and cash equivalents</i>		5,076	13,829	5,592
<i>Assets held for sale</i>		—	—	747
Total current assets		48,530	60,848	54,395
TOTAL ASSETS		93,882	104,055	98,530

*Comparative years adjusted due to amended accounting policies. Refer to Note 35 for further information.

For information on contingent liabilities and pledged assets, refer to Note 28.

CONSOLIDATED FINANCIAL STATEMENTS

MSEK	Note	31 Dec. 2013	31 Dec. 2012*	1 Jan. 2012*
EQUITY AND LIABILITIES				
Equity				
Share capital		1,505	1,505	1,424
Other paid-in capital		7,678	7,678	1,057
Reserves		361	381	1,849
Retained earnings including profit/loss for the year		23,966	22,865	25,533
Equity attributable to equity holders of the Parent		33,510	32,429	29,863
Non-controlling interests		100	107	1,401
Total equity	20	33,610	32,536	31,264
Non-current liabilities				
<i>Interest-bearing liabilities</i>				
Provisions for pensions	22	5,164	6,037	4,815
Loans from financial institutions		4,669	8,681	4,485
Other liabilities	25	18,544	23,582	20,282
Total		28,377	38,300	29,582
<i>Noninterest-bearing liabilities</i>				
Deferred tax liabilities	11	950	632	917
Provisions for taxes	11	1,070	4,529	3,941
Other provisions	23	1,060	1,075	1,381
Other non-current liabilities	26	183	184	209
Total		3,263	6,420	6,448
Total non-current liabilities		31,640	44,720	36,030
Current liabilities				
<i>Interest-bearing liabilities</i>				
Loans from financial institutions		2,633	1,008	4,095
Other liabilities	25	4,414	1,690	1,853
Total		7,047	2,698	5,948
<i>Noninterest-bearing liabilities</i>				
Advance payments from customers		1,980	2,723	2,751
Accounts payable		6,676	6,585	8,133
Due to associated companies		7	14	63
Income tax liabilities	11	1,037	1,252	1,505
Other liabilities	26	4,117	5,000	4,322
Provisions	23	1,955	1,841	1,720
Accrued expenses and deferred income		5,813	6,686	6,686
Total		21,585	24,101	25,180
<i>Liabilities directly attributed to assets held for sale</i>				108
Total current liabilities		28,632	26,799	31,236
TOTAL LIABILITIES		60,272	71,519	67,266
TOTAL EQUITY AND LIABILITIES		93,882	104,055	98,530

*Comparative years adjusted due to amended accounting policies. Refer to Note 35 for further information.

For information on contingent liabilities and pledged assets, refer to Note 28.

CONSOLIDATED CHANGES IN EQUITY

MSEK	Equity attributable to equity holders of the Parent Company						
	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit/loss for the year	Total	Non-controlling interests	Total equity
Equity at 1 January 2012	1,424	1,057	1,849	28,160	32,490	1,401	33,891
Adjustment for change in accounting policies	—	—	—	-2,627	-2,627	—	-2,627
Adjusted equity at 31 January 2012	1,424	1,057	1,849	25,533	29,863	1,401	31,264
Profit for the year	—	—	—	8,105	8,105	2	8,107
Other comprehensive income/loss	—	—	-1,468	-1,069	-2,537	-6	-2,543
Total comprehensive income/loss for the year	—	—	-1,468	7,036	5,568	-4	5,564
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	22,865	32,429	107	32,536
Equity at 1 January 2013	1,505	7,678	381	22,865	32,429	107	32,536
Profit for the year	—	—	—	5,013	5,013	-5	5,008
Other comprehensive income/loss	—	—	-20	678	658	2	660
Total comprehensive income/loss for the year	—	—	-20	5,691	5,671	-3	5,668
Share-based payment regulated by equity instruments	—	—	—	-15	-15	—	-15
Payment of options on treasury shares, hedging of options program 2013	—	—	—	-226	-226	—	-226
Dividends, hedged options program 2011	—	—	—	41	41	—	41
Dividend	—	—	—	-4,390	-4,390	-4	-4,394
Equity at 31 December 2013	1,505	7,678	361	23,966	33,510	100	33,610

CONSOLIDATED CASH-FLOW STATEMENT

MSEK	Note	2013	2012
Cash flow from operating activities			
Income after financial income and expenses		6,753	11,516
Adjustment for depreciation, amortization and impairment losses		4,690	4,322
Adjustment for non-cash items, etc.		109	251
Income tax paid		-7,816	-3,056
Cash flow from operating activities before changes in working capital		3,736	13,033
Changes in working capital			
Change in inventories		1,908	-382
Change in operating receivables		1,109	18
Change in operating liabilities		-1,345	-228
Cash flow from changes in working capital		1,672	-592
Investments in rental equipment		-499	-663
Divestments of rental equipment		224	114
Cash flow from operating activities		5,133	11,892
Cash flow from investing activities			
Acquisition of companies and shares, net of cash acquired	32	-489	-39
Acquisition of property, plant and equipment		-4,185	-4,820
Proceeds from sale of companies and shares, net of cash disposed of		—	692
Proceeds from sale of property, plant and equipment		150	236
Net cash used in investing activities		-4,524	-3,931
Net cash flow after investing activities		609	7,961
Cash flow from financing activities			
Proceeds from borrowings		3,075	10,472
Repayment of borrowings		-7,946	-5,848
Acquisition of non-controlling interests		—	-53
Dividends paid		-4,394	-4,082
Cash flow from financing activities		-9,256	489
Cash flow for the year		-8,656	8,450
Cash and cash equivalents at beginning of year		13,829	5,592
Foreign exchange differences on cash and cash equivalents		-97	-213
Cash and cash equivalents at end of year		5,076	13,829

Supplementary information, Note 31.

PARENT COMPANY FINANCIAL STATEMENTS

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PARENT COMPANY INCOME STATEMENT

MSEK	Note	2013	2012
Revenue	2	15,873	16,990
Cost of sales and services		-12,137	-13,007
Gross profit		3,736	3,983
Selling expenses		-514	-633
Administrative expenses		-2,863	-2,821
Research and development costs	4	-1,343	-1,281
Other operating income	5	1,297	971
Other operating expenses	6	-1,000	-702
Operating loss	3, 8	-687	-483
Income from shares in Group companies	9	14,158	11,769
Income from shares in associated companies	9	10	0
Interest income and similar items	9	759	782
Interest expenses and similar items	9	-2,353	-2,039
Profit after financial items		11,887	10,029
Appropriations	10	-1	6
Income tax	11	-5,310	-325
Profit for the year		6,576	9,710

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

PARENT COMPANY BALANCE SHEET

MSEK	Note	31 Dec. 2013	31 Dec. 2012
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Patents and other intangible assets	14	4	9
Total		4	9
<i>Property, plant and equipment</i>			
Land and buildings	14	809	768
Plant and machinery	14	4,634	4,684
Equipment, tools, fixtures and fittings	14	435	533
Construction in progress and advance payments	14	1,551	1,322
Total		7,429	7,307
<i>Financial assets</i>			
Shares in Group companies	15	31,834	31,834
Due from Group companies		7,442	5,325
Investments in associated companies	16	4	4
Other investments		1	1
Non-current receivables	17	256	172
Deferred tax assets	11	544	804
Total		40,081	38,140
Total non-current assets		47,514	45,456
Current assets			
<i>Inventories</i>	18	3,638	3,809
<i>Current receivables</i>			
Trade receivables		623	781
Due from Group companies		15,477	14,511
Due from associated companies		105	41
Income tax receivables	11	169	189
Other receivables	17	373	480
Prepaid expenses and accrued income		921	1,070
Total		17,668	17,072
<i>Cash and cash equivalents</i>		0	25
Total current assets		21,306	20,906
TOTAL ASSETS		68,820	66,362

MSEK	Note	31 Dec. 2013	31 Dec. 2012
EQUITY AND LIABILITIES			
Equity			
<i>Non-distributable equity</i>			
Share capital		1,505	1,505
Statutory reserve		1,611	1,611
Total		3,116	3,116
<i>Distributable equity</i>			
Share premium reserve		2,231	6,621
Profit brought forward		14,839	5,329
Profit for the year		6,576	9,710
Total		23,646	21,660
Total equity	20	26,762	24,776
<i>Untaxed reserves</i>			
Other untaxed reserves	21	4	3
Total		4	3
<i>Provisions</i>			
Provisions for pensions	22	323	324
Other provisions	23	211	234
Total		533	558
<i>Non-current interest-bearing liabilities</i>			
Loans from financial institutions	24	2,241	3,852
Loans from Group companies	24	580	361
Other liabilities	24	12,938	17,833
Total		15,759	22,046
<i>Non-current noninterest-bearing liabilities</i>			
Other liabilities		75	63
Total		75	63
<i>Current interest-bearing liabilities</i>			
Loans from financial institutions		1,575	—
Loans from Group companies		13,796	11,191
Other liabilities		4,373	1,667
Total		19,744	12,858
<i>Current noninterest-bearing liabilities</i>			
Advance payments from customers		671	779
Accounts payable		2,048	1,582
Due to Group companies		831	353
Due to associated companies		1	0
Other liabilities		314	589
Accrued expenses and deferred income	27	2,078	2,755
Total		5,943	6,058
TOTAL EQUITY AND LIABILITIES		68,820	66,362
Pledged assets	28	—	—
Contingent liabilities	28	13,339	15,265

PARENT COMPANY CHANGES IN EQUITY

MSEK	Share capital	Statutory reserve	Distributable equity	Total equity
Equity at 1 January 2012	1,424	1,611	9,481	12,516
Comprehensive income 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 option 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
Comprehensive income for the year	—	—	6,576	6,576
Dividend	—	—	-4,390	-4,390
Share-based payment regulated by equity instruments	—	—	-15	-15
Payment of options on treasury shares, hedging of options program 2013	—	—	-226	-226
Dividends, hedged options program 2011	—	—	41	41
Equity at 31 December 2013	1,505	1,611	23,646	26,762

PARENT COMPANY CASH-FLOW STATEMENT

MSEK	2013	2012
Cash flow from operating activities		
Profit before tax	11,886	10,036
Adjustment for depreciation, amortization and impairment losses	1,091	966
Adjustment for non-cash items, etc.	-749	-673
Income tax paid	-5,029	0
Cash flow from operating activities before changes in working capital	7,199	10,329
Changes in working capital		
Changes in inventories	170	214
Changes in operating receivables	-3,632	-4,362
Changes in operating liabilities	482	-706
Cash flow from operating activities	4,219	5,475
Cash flow from investing activities		
Acquisition of companies and shares, net of cash acquired	—	-9,227
Acquisition of property, plant and equipment	-1,258	-1,338
Proceeds from sale of companies and shares, net of cash disposed of	—	58
Proceeds from sale of property, plant and equipment	53	36
Change in non-current receivables	145	-144
Net cash used in investing activities	-1,060	-10,615
Net cash flow after investing activities	3,159	-5,140
Cash flow from financing activities		
Changes in advances/loans to/from Group companies, net	2,797	4,703
Proceeds from external borrowings	1,715	7,291
Repayment of external borrowings	-3,306	-2,760
Dividend paid	-4,390	-4,077
Net cash used in financing activities	-3,184	5,157
Cash flow for the year	-25	17
Cash and cash equivalents at beginning of year	25	8
Cash and cash equivalents at end of year	—	25

Supplementary information, Note 31.

SIGNIFICANT ACCOUNTING POLICIES, ASSESSMENTS AND ASSUMPTIONS FOR ACCOUNTING PURPOSES

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) 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 37–122 in the printed Annual Report. The Parent Company's Annual Report and the consolidated financial statements were approved for issuance by the Board of Directors on 20 February 2014. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on 13 May 2014.

Basis of measurement

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

The below amendments of standards and new and amended interpretations came into effect 2013 and were adopted by the EU.

Standards that have a material effect on Sandvik's accounting policies

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, refer to Note 35 for further information.

UFR 9 Recognition of Tax on Returns. Tax on returns on provisions in the balance sheet is to be recognized in profit/loss on a continuous basis as it arises.

The standard will be applied at the same time as amended IAS 19 Employee Benefits will come into effect.

Standards that do not have any material impact on Sandvik's financial statements

- Revised IAS 1 Presentation of Financial Statements.
- Amendments to IAS 12 Income Taxes.
- Revised IAS 32 Financial Instruments: Presentation.
- Revised IFRS 7 Financial Instruments: Disclosures.
- IFRS 13 Fair Value Measurement.
- Annual Improvements to IFRSs (2009–2011) – Clarification and amendments relating to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34
- Amendments to IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets. As a consequence of issuing IFRS 13, a requirement was also introduced in IAS 36 relating to the disclosure of the recoverable amount in conjunction with annual testing of goodwill. However, this requirement has been removed in IAS 36 as of 2014. Updated IAS 36 is applied prospectively.
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.

New standards published by IASB, but either not yet effective or not yet adopted by the EU

- IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement by 2016 at the earliest. The company has not yet performed any evaluation of the effects of such a change.
- IFRS 10 Consolidated Financial Statements. A new standard for consolidated accounts that will replace IAS 27 and SIC 12. The standard is not expected to have any material impact on the consolidated accounts.
- IFRS 11 Joint Arrangements. A new standard for recognizing joint ventures and joint operations. The standard is not expected to have any material impact on the consolidated accounts.

- IFRS 12 Disclosure of Interests in Other Entities. A new standard for disclosing investments in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

BASIS OF CONSOLIDATION

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

Subsidiaries

Subsidiaries are entities over which the Parent Company has a controlling influence. Controlling interest exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an entity 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.

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

Transaction costs in conjunction with acquisitions are recognized directly in profit or loss for the year.

Contingent considerations are recognized as financial liabilities and at fair

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

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

Non-controlling interests

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

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

Associated companies

Associated companies are partly owned entities over which the Group commands a significant influence, but not control, over the financial and operating policies. Normally this means a shareholding of between 20% and 50% of the voting rights. Interests in associated companies are recognized in accordance with the equity method in the consolidated financial statements. Under the equity method, the carrying amounts of interests in associated companies correspond to the recognized equity of associated companies, any goodwill and any other remaining fair value adjustments recognized at acquisition date. Sandvik's share of the associated company's income, adjusted for dissolution of acquired surplus or deficit values, is recognized as a separate item in the consolidated income statement.

FOREIGN CURRENCY

Functional currency and presentation currency

The Parent Company's functional currency is Swedish kronor (SEK), which is

also the reporting currency of the Parent Company and the Group. Accordingly, the financial statements are presented in SEK. All amounts are in million SEK unless otherwise stated.

Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at the foreign exchange rate prevailing at the date of the transaction. The functional currency is the currency of the primary economic environment in which the Group entities operate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to 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.

Net investments in foreign operations

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

FINANCIAL INSTRUMENTS

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

Recognition and derecognition

A financial asset or a financial liability is recognized on the balance sheet when the entity becomes a party to the contractual provisions of the instrument. Trade receivables are recognized upon issuance of the invoice. A liability is recognized when the counterparty has performed under the agreement and the company is contractually obliged to settle the obligation, even if no invoice has been received.

A financial asset is derecognized when the rights under the agreement are realized or have expired, or when control of the contractual rights is lost. The same applies to a portion of a financial asset.

A financial liability is derecognized when the obligation specified in the contract is discharged or otherwise expires.

A financial asset and a financial liability are offset and presented in a net amount in the balance sheet only if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Classification and measurement

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

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

Financial assets and liabilities are classified as follows:

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

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

Loans and receivables

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

Financial liabilities

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

Derivatives and hedge accounting

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

Hedge accounting

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

Cash-flow hedges

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

changes in value of the hedging instrument are reclassified to profit or loss for the year.

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

Fair-value hedges

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

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

Foreign currency gains and losses are recognized net.

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.

REPORTING OF OPERATING SEGMENTS

Sandvik's business is organized in a manner that allows the Group's chief operating decision maker, meaning the CEO, to

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

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

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

REVENUE

Revenue from sales and services

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

Revenue from service assignments is normally recognized in connection with the rendering of the service. Revenue from service and maintenance contracts

is recognized in accordance with the percentage of completion method. The stage of completion is normally determined based on the proportion of costs incurred on the balance sheet date in relation to the estimated total costs of the assignment. Only expenditures relating to work carried out or to be carried out are included in calculating the total costs.

Construction contracts

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

Other revenue

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

Government grants

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

FINANCIAL INCOME AND EXPENSES

Financial expenses consists of interest expense on borrowings, interest income and expenses on interest swaps that are recognized net as an interest expense.

Credit losses on financial assets and foreign exchange gains and losses on hedging instruments are recognized in profit or loss for the year.

INCOME TAX

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

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

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

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

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

INTANGIBLE ASSETS

Goodwill

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

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

Goodwill arising on the acquisition of an

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

Research and development

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

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

Other intangible assets

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

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

Amortization of intangible assets

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

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

Leased assets

In the consolidated financial statements, leases are classified as either finance leases or operating leases. Further details on how Sandvik recognizes leases are found below on pages 89–90.

Depreciation of tangible assets

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

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

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

IMPAIRMENT AND BORROWING COSTS

Impairment and reversals of impairment

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

of the 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.

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

Borrowing costs for intangible and tangible assets

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

INVENTORIES

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

Cost is based on the first-in/first-out (FIFO) principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufac-

tured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

EQUITY

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

Earnings per share

The calculation of basic earnings per share is based on the profit or loss attributable to ordinary equity holders of the Parent Company and the weighted average number of ordinary shares outstanding during the year. When calculating diluted earnings per share, the weighted average number of shares outstanding is adjusted for the effects of all dilutive potential ordinary shares, which during reported periods relates to 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.

Defined-benefit plans

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

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

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

Pension assumptions

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

Termination benefits

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

Share-based payments

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

In order to meet its commitments under the option program, Sandvik has entered

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

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

PROVISIONS

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

Warranties

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

RESTRUCTURING

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly.

No provision is posted for future operating costs.

Site restoration

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

Onerous contracts

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

Contingent liabilities

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

LEASING

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

Sandvik as a lessee

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

recognized in profit or loss for the year on a straight line basis following the lease term.

Sandvik as a lessor

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

PARENT COMPANY'S ACCOUNTING POLICIES

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

Changed accounting policies

Unless otherwise stated below, the Parent Company's accounting policies in 2013 changed in accordance with the amendments described above for the Group's accounting policies.

Classification and presentation

The Parent Company's income statement and balance sheet adhere to the presentation included in the Annual Accounts Act. The differences compared with IAS 1 Presentation of Financial Statements applied when presenting the consolidated financial statements mainly pertain to the

presentation of finance income and expenses, non-current assets, equity and the presentation of provisions as a separate heading in the balance sheet.

Shares in Group companies and associated companies

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

Leased assets

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

Intangible assets

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

Borrowing costs

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

Employee benefits

The Parent Company calculates expenses for defined-benefit pension plans differently from the manner prescribed in IAS 19. The Parent Company applies the Act on Income Security and regulations issued by the Swedish Financial Supervisory Authority, which is a prerequisite for income tax purposes. Compared to IAS 19, the most significant differences relate

to the determination of the discount rate, the fact that the obligation is calculated based on the current salary level disregarding assumptions about future levels.

Income tax

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

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

Group contributions and shareholders' contributions in legal entity accounts

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

Anticipated dividends

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

Financial guarantees

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

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

Impairment tests of goodwill

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

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

The carrying amount of the Group's non-current assets is tested for impairment whenever events or changes in circumstances indicate that the carrying amount will not be recovered. The carrying amount of intangible assets not yet available for use is tested annually. If such analysis indicates an excessive carrying amount, the recoverable amount of the asset is estimated. The recoverable amount is the higher of the asset's fair value less selling costs, and its value in use. Value in use is measured as the discounted future cash flows of the asset, alternatively the cash-generating unit to which the asset belongs. The rental fleets of the Sandvik Mining and Sandvik Construction business areas are subject to special examination considering their dependence on the business climate in the mining industry and the risk that rental agreements may be cancelled. The carrying amount of the rental fleets at the end of 2013 was 378 million SEK (499).

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

Income tax

Significant estimates are made to determine both current and deferred tax liabilities/ assets, not least the value of deferred tax assets. The company must then determine the possibility that deferred tax assets will be utilized and offset against future taxable profits. The actual results may differ from these estimates, for instance due to changes in the business climate, changed tax legislation, or the outcome of the final review by tax authorities and tax courts of tax returns. At year-end 2013, Sandvik recognized deferred tax assets of 5,903 million SEK (3,869). Furthermore, the Group had additional tax loss carry-forward of about 527 million SEK (498) at the end of 2013 for which no deferred tax assets are recognized since utilization of these losses is not deemed probable. A change in the estimate of the possibility for utilization thus can affect results both positively and negatively. The expenditure recognized as a provision for ongoing tax

litigations is based on management's best estimate of the outcome, and amounted to 1,070 million SEK (4,529) at the end of 2013.

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.

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 (excluding net provisions for pensions) less cash and cash equivalents divided by shareholders' equity excluding accumulated actuarial gains/losses on benefit-based pension plans after tax and 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	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Revenue																
External revenue	30,744	37,762	28,543	29,713	14,035	15,366	8,601	9,683	5,394	5,963	11	42			87,328	98,529
Internal revenue	1	2	234	166	344	410	67	113	622	669	2	17	-1,270	-1,377		
Group total	30,745	37,764	28,777	29,879	14,379	15,776	8,668	9,796	6,016	6,632	13	59	-1,270	-1,377	87,328	98,529
Share of results of associated companies	4	6	23	26	-26	-26	—	—	—	—	—	—			1	6
Operating profit/loss by business area	2,743	6,004	5,205	6,374	1,270	592	110	748	606	1,120	-1,296	-1,348			8,638	13,490
Net financing cost															-1,885	-1,974
Income tax expense for the year															-1,745	-3,409
Profit for the year															5,008	8,107
Other disclosures																
Assets	21,335	24,641	23,688	23,607	16,415	16,794	7,687	8,093	7,724	7,475	2,050	1,770			78,899	82,380
Investments in associates	44	46	38	150	129	155	—	—	—	—	—	5			211	356
Total assets	21,379	24,687	23,726	23,757	16,544	16,949	7,687	8,093	7,724	7,475	2,050	1,775			79,110	82,736
Unallocated assets															14,772	21,319
Group total															93,882	104,055
Liabilities	7,665	9,293	4,140	3,781	3,665	3,893	2,164	2,432	1,162	1,088	1,830	1,877			20,626	22,364
Unallocated liabilities															39,646	49,155
Group total															60,272	71,519
Capital expenditure	832	854	1,760	1,850	997	1,188	244	275	363	248	227	132			4,423	4,547
Depreciation/Amortization	-647	-660	-1,674	-1,643	-702	-817	-433	-420	-298	-307	-118	-123			-3,872	-3,970
Impairment losses	-278	-18	-71	-8	-251	-317	-125	-11	-94	-8	1	10			-818	-352
Other non-cash expenses	185	19	200	-104	-85	-48	27	-37	35	-5	-253	426			109	251

All transactions between the business areas are on market terms. For information regarding business combinations, see Note 32.

1.2 Information by country**External income per country**

Group	2013	2012
USA	10,956	12,296
Australia	6,913	10,337
China	6,760	7,144
Germany	6,702	6,933
South Africa	3,526	5,250
Brazil	3,513	4,315
Sweden	3,416	3,820
Russia	3,392	3,660
Italy	3,175	3,097
Canada	2,866	3,304
UK	2,619	2,504
France	2,567	2,762
India	1,759	2,098
Mexico	1,754	2,283
Japan	1,725	2,286
Other countries	25,685	26,440
Total	87,328	98,529

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

Non-current assets by country

Group	2013	2012
Sweden	13,632	13,336
USA	4,057	3,654
Germany	3,607	3,259
Austria	2,390	2,283
UK	1,998	2,110
China	1,878	1,857
Finland	1,626	1,450
Australia	1,187	1,698
India	907	917
France	874	851
Czech Republic	709	762
Brazil	538	670
Japan	512	727
Canada	485	430
Italy	448	448
Other countries	2,354	2,487
Total	37,202	36,939

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

NOTE 2. CATEGORIES OF REVENUE

	Group		Parent Company	
	2013	2012	2013	2012
Sale of goods	80,262	90,685	15,864	16,984
Contract revenue	2,773	4,709	—	—
Rendering of services	3,701	2,536	9	6
Rental income	592	599	—	—
Total	87,328	98,529	15,873	16,990

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

	Group				Parent Company			
	2013		2012		2013		2012	
	Number	Women, %	Number	Women, %	Number	Women, %	Number	Women, %
Sweden	10,900	23	11,251	24	8,007	22	8,251	22
Rest of Europe	15,289	19	15,695	19	—	—	—	—
Total Europe	26,189	21	26,946	21	8,007	22	8,251	22
NAFTA	5,327	17	5,551	17	—	—	—	—
South America	3,026	14	3,259	13	2	50	2	50
Africa, Middle East	3,030	14	3,107	20	—	—	—	—
Asia	8,385	16	8,227	16	—	—	—	—
Australia	2,083	16	2,295	15	—	—	—	—
Total	48,040	18	49,385	19	8,009	22	8,253	22

3.2 Wages, salaries, other remuneration and social costs

	Group		Parent Company	
	2013	2012	2013	2012
Wages, salaries and other remuneration	18,632	19,346	3,840	3,819
Social costs	4,938	5,311	1,755	1,789
Employee profit sharing	29	250	24	212
Total	23,599	24,907	5,619	5,820
Of which, pension costs recognized in social costs	1,700	1,739	628	569

A total of 50 million SEK (49) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to 178 million SEK (205). Correspondingly, 12 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 52 million SEK (59).

Employee profit-sharing program

To promote performance that is favorable to the Group's long-term development and also to stimulate continued employee loyalty, Sandvik has had a profit-sharing system for all employees in wholly owned companies in Sweden since 1986. The Group's return during 2013 resulted in an allocation of 29 million SEK (250) to the profit-sharing foundation.

3.3 Wages, salaries and other remuneration by market area

	Group		Parent Company	
	2013	2012	2013	2012
Sweden	5,131	5,131	3,840	3,819
Rest of Europe	6,590	6,600	—	—
Total Europe	11,721	11,731	3,840	3,819
NAFTA	2,535	2,547	—	—
South America	825	1,067	0	0
Africa, Middle East	725	852	—	—
Asia	1,504	1,423	—	—
Australia	1,322	1,726	—	—
Total	18,632	19,346	3,840	3,819
<i>Of which, to Boards of Directors and presidents</i>				
Salaries and other remuneration	490	496	45	44
of which, variable salary	73	77	3	10

3.4 Gender distribution in senior management

	Group		Parent Company	
	2013	2012	2013	2012
Proportion of women, %				
Gender distribution in senior management	11	11	9	9
Other senior executives	20	18	33	11

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

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

In accordance with the resolution of the 2013 Annual General Meeting, the total fee to the external directors elected at the Meeting amounts to 4,950,000 SEK on an annual basis. Of this amount, 1,650,000 SEK is payable to the Chairman of the Board (Anders Nyrén) and 550,000 SEK to each of the other external Board members (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 for committee work should be paid 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 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 2013:

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

cont. NOTE 3.5

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.

The motion for principles for remuneration that the Board intends to submit to the 2014 Annual General Meeting for resolution is presented in the Report of the Directors, in the "People" section.

President

Effective 1 January 2013, Sandvik's CEO and President, Olof Faxander, was paid an annual fixed salary of 10,604,880 SEK and received the fringe-benefit value of a car provided by the company. In addition, an annual variable cash-based salary of maximum 75% of the fixed salary is payable. The variable salary for 2013 amounted to 2,007,703 SEK.

Olof Faxander is entitled to retire with pension at age 60. A premium of 37.5% 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, pension age is 62. For retirement prior to age 65 for other senior executives who are Swedish citizens and who are covered by the ITP 2 plan, Sandvik AB undertakes to pay a supplement of 8% of the salary portions in excess of 20 price base amounts. For one senior executive, an individual additional premium is also paid. For other senior executives who are Swedish citizens and who are covered by the ITP 1 plan, Sandvik AB undertakes to pay a supplement of 5% of the salary portions in excess of 7.5 income base amounts.

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. In such a case, the previous system with the ITP 2 plan and the supplementary plan does not apply. Of the seven remaining members of Group Executive Management who are Swedish citizens employed on 31 December 2013, three are encompassed by the ITP 1 plan and four remain in the ITP 2 plan and a supplementary plan. Members of Group Executive Management who are not

Swedish citizens have defined-contribution plans under which the company contributes up to 15% of the fixed annual salary.

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

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

In 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 program on a global basis. The program applied for a three-year period. Under the program, 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 2012. The outcome of the LTI program is conditional upon meeting measurable goals, established by the Board, for certain key ratios that create shareholder value linked to the company's growth, profitability and capital efficiency over a three-year period. For members of Group Executive Management, the maximum payment from the LTI program is 40–50% of the annual fixed salary.

Amounts attributable to the program are expensed and reserved continuously, based on assumptions regarding target achievement. The 2010 LTI program covering the years 2010–2012 resulted in maximum payment during the year, since the performance targets set by the Board of Directors were 100% met. A total of 5,716,205 SEK was paid to Group Executive Management.

Share-based incentive program

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

The program participants have 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 has been made, these executives also received 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 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.

Remuneration and other benefits pertaining to 2013 expensed during the year

SEK	Fixed salary/ Board fee	Annual variable salary ¹⁾	Other benefits ²⁾	Long-term variable salary ³⁾	Pension costs
Chairman of the Board	1 925,000 ⁴⁾	—	—	—	—
Other Board members	3,825,000	—	—	—	—
President and CEO	11,123,015 ⁵⁾	2,007,703	125,750	578,995	4,019,558
Other senior executives ^{6) 7)}	50,084,265	5,696,815	2,463,844	3,448,108	18,818,378
Sum	66,957,280	7,704,518	2,589,594	4,027,103	22,837,936

1) Amount pertaining to 2013 and expected to be paid in 2014.

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

3) The amounts pertain to changes in provisions made for the 2011, 2012 and 2013 LTI programs.

4) Expensed during 2013 and will be paid in 2014. The amount includes a Board fee of 1,650,000 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 2013 amounts to 10,604,880 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 2013: Jessica Alm (from July 2013), Mats Backman (from October 2013), Petra Einarsson (from February 2013), Andreas Evertz (January 2013), Dinggui Gao (from October 2013), Jonas Gustavsson, Gary Hughes, Jan Lissåker (January - June 2013), Emil Nilsson (January - September 2013), Tomas Nordahl, Bo Severin 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 Machining Solutions business area, who left their positions during the year.

cont. NOTE 3.5

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, for 2012 at 97.12 and for 2013 at 92.41 SEK.

The 2011 LTI program, encompassing the years 2011–2013, did not lead to any payment from the employee stock options, since the performance targets set by the Board of Directors were not met.

The number of allotted employee stock options and acquired matching rights under the 2012 and 2013 programs for the President and other members of Group Executive Management on 31 December 2013 corresponds to the number of outstanding employee stock options and matching rights at year-end. The number of allotted matching rights under the 2011 program corresponds to the number of outstanding matching rights at 31 December 2013.

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

Costs for the programs

In accordance with IFRS 2, the total expense for the 2013 LTI program amounted to 146 million SEK excluding social costs, of which 14 million SEK for the President and other senior executives. During the year, a provision of 49

million SEK, excluding social costs, was established for the 2013 LTI program, of which 4.6 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 3.7 million SEK for the President and other senior executives. During the year, a provision of 108 million SEK, excluding social costs, was reversed for the 2011 LTI program, of which 4.2 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 five 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 2013. The President decided on remuneration to other senior executives after consultation with the Remuneration Committee. The Remuneration Committee performed its task supported by expertise on remuneration levels and structures. For information on the composition of the Committee, refer to the Corporate Governance Report.

Assumptions for determining the value based on the Black & Scholes model

	Program 2011 (on date of issue)	Program 2012 (on date of issue)	Program 2013 (on date of issue)
Share price	117 SEK	92.65 SEK	94.65 SEK
Exercise price	129/87.90 SEK	106.80/72.80 SEK	101.70/69.30 SEK
Expected volatility	32%	36.50%	35%
Expected maturity	3 years	3 years	3 years
Present value of forecasted future dividends ¹	13.10 SEK	12.17 SEK	12.22 SEK
Risk-free interest rate	2.6%	0.95%	0.91%

1) Based on analysts' combined expectations

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

	Number of employee stock options 2011	Matching rights 2011	Employee stock options 2012	Matching rights 2012	Employee stock options 2013	Matching rights 2013
Outstanding at beginning of year	10,070,250	52,394	11,131,800	131,844	—	—
Allotted during the period	—	—	—	—	11,606,280	142,835
Forfeited during the year	-10,070,250	-7,438	-416,000	-15,671	-377,000	-4,525
Outstanding at year-end	—	44,956	10,715,800	116,173	11,229,280	138,310
Theoretical value when allotted acc. to Black & Scholes, SEK	17	33.10	13	24	14.30	26.30
Exercise price, SEK	129	87.90	106.80	72.80	101.70	69.30

Parent Company

	Number of employee stock options 2011	Matching rights 2011	Employee stock options 2012	Matching rights 2012	Employee stock options 2013	Matching rights 2013
Outstanding at beginning of year	1,152,750	23,384	1,595,000	33,691	—	—
Allotted during the year	—	—	—	—	2,140,000	50,311
Forfeited during the year	-1,152,750	—	—	—	-57,000	—
Outstanding at year-end	—	23,384	1,595,000	33,691	2,083,000	50,311
Theoretical value when allotted acc. to Black & Scholes, SEK	17	33.10	13	24	14.30	26.30
Exercise price, SEK	129	87.90	106.80	72.80	101.70	69.30

3.6 Fees and remuneration to the Group's auditors

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

	KPMG		Other		Total	
	2013	2012	2013	2012	2013	2012
Audit						
Parent Company	12.0	10.3	0.0	0.0	12.0	10.3
Subsidiaries	63.4	63.7	5.0	4.4	68.4	68.1
Group	75.4	74.0	5.0	4.4	80.4	78.4
Tax consultancy services						
Parent Company	0.2	0.9				
Subsidiaries	6.9	5.6				
Group	7.1	6.5				
Other services						
Parent Company	11.6	4.6				
Subsidiaries	3.0	4.9				
Group	14.6	9.5				

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	
	2013	2012	2013	2012
Expenditure for				
research and development	3,128	2,991	1,452	1,281
quality assurance	523	549	253	242
Total	3,651	3,540	1,705	1,523
of which expensed, total	3,184	3,121	1,596	1,523
of which expensed relating to research and development	2,661	2,572	1,343	1,281

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

Other operating income amounted to 531 million SEK (242), and mainly comprised foreign exchange gains on operating receivables and payables of 317 million SEK. In 2012, this consisted of a foreign exchange loss of 264 million SEK on operating receivables and payables, which was then included in other operating expenses. In addition to this amount, the figure includes the gains/losses from step acquisitions, insurance compensation and a number of smaller items recognized under operating income.

Parent Company

The Parent Company's other operating income mainly pertains to intra-Group services and foreign exchange gains on operating receivables and payables.

NOTE 6. OTHER OPERATING EXPENSES

Other operating expenses amounted to -239 million SEK (-592), and largely related to legal expenses and legal agreements as well as a number of smaller items recognized as operating expenses.

Parent Company

The Parent Company's other operating expenses pertain mainly to royalties between Group companies, losses on the sale of non-current assets and foreign exchange losses on operating receivables and payables.

NOTE 7. OPERATING EXPENSES

Group	2013	2012
Cost of goods and material	-28,986	-34,113
Employee benefit expense	-23,599	-24,907
Depreciation and amortization	-3,872	-3,970
Impairment losses, inventories	-391	-515
Impairment losses, non-current assets	-818	-352
Impairment losses, doubtful receivables	-137	-202
Other expenses	-21,419	-21,228
Total	-79,222	-85,287

There were no significant reversals of earlier recognized impairment losses during 2013 or 2012.

Other expenses mainly relate to purchases of services and consumables.

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

The Group leases assets under finance lease agreements. At 31 December 2013, the planned residual value of such leased assets was 111 million SEK (132).

Variable fees recognized as expense were 2 million SEK (0).

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

Group	Nominal fee		Present value	
	2013	2012	2013	2012
Within one year	27	30	22	26
Between one and five years	51	59	34	42
Later than five years	38	46	19	24
Total	116	135	75	92

Finance leases with Sandvik as lessor

The Group's investments in finance leases at year-end 2013 amounted to 809 million SEK (491). 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	
	2013	2012	2013	2012
Within one year	502	277	477	261
Between one and five years	307	214	275	188
Total	809	491	752	449

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 2013, the Group expensed 803 million SEK (598), including minimum lease payments of 795 million SEK (574), variable fees of 9 million SEK (27), and net of sublease income of -1 million SEK (-4). The Parent Company expensed 169 million SEK (175).

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

	Group		Parent Company	
	2013	2012	2013	2012
Within one year	712	571	163	164
Between one and five years	1,494	1,289	577	523
Later than five years	662	596	334	235
Total	2,868	2,456	1,074	922

Future minimum lease payments under non-cancellable lease contracts that pertain to subleased items amounted to 0 million SEK (3).

Operating leases with Sandvik as lessor

The planned residual value of the Group's rental fleet is 378 million SEK (499). Depreciation for the year amounted to 354 million SEK (409). The future minimum lease payments under non-cancellable leases amount to 250 million SEK (118). Variable fees amounted to 15 million SEK (33).

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

	Group		Parent Company	
	2013	2012	2013	2012
Within one year	201	111	1	5
Between one and five years	49	6	—	5
Later than five years	—	1	—	—
Total	250	118	1	10

NOTE 9. NET FINANCING COST

Group	2013	2012
Interest income	191	236
Dividend	7	8
Other investments incl. derivatives		
Net gain on remeasurement of financial assets/ liabilities	7	180
Other financial income	4	11
Financial income	209	435
Interest expense	-2 015	-2 215
Other investments incl. derivatives		
Net loss on remeasurement of financial assets/liabilities	-41	-161
Net foreign-exchange losses	-9	-5
Other financial expenses	-29	-28
Financial expenses	-2 094	-2 409
Net financing cost	-1 885	-1 974

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to -1,678 million SEK (-1,814). Hedging of fair values in 2013 had an effect of -2 million SEK (9) 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 29.

Parent Company	Income from shares in Group companies		Income from shares in associated companies	
	2013	2012	2013	2012
Dividend, net of withholding tax	11,461	9,624	10	5
Group contributions paid/ received	2,697	2,177	—	—
Gain on sale of shares and participations	—	-1	—	-5
Impairment	—	-31	—	—
Reversed impairment	—	—	—	—
Total	14,158	11,769	10	0

Parent Company	Interest income and similar items	
	2013	2012
Interest income, Group companies	757	409
Other interest income	2	1
Derivatives, Group companies	—	371
Other	—	1
Total	759	782

Parent Company	Interest expense and similar items	
	2013	2012
Interest expense, Group companies	-710	-483
Other interest expense	-1,280	-1,271
Derivatives, Group companies	-348	-268
Other	-15	-17
Total	-2,353	-2,039

NOTES

NOTE 10. APPROPRIATIONS

Parent Company	2013	2012
Country risk reserve	-1	6
Total	-1	6

NOTE 11. INCOME TAX

Recognized in profit and loss

	Group		Parent Company	
Income tax expense for the year	2013	2012	2013	2012
Current tax	-2,236	-3,281	8	22
Adjustment of taxes attributable to prior years	-1,701	101	-5,058	-17
Total current tax expense	-3,937	-3,180	-5,050	5
Deferred taxes relating to temporary differences and tax loss carry-forward	2,192	-229	-260	-330
Total tax expense	-1,745	-3,409	-5,310	-325

The Group recognized tax expense for the year of 1,745 million SEK (3,409) or 25.8% (29.6) of profit after financial items.

Reconciliation of the Group's tax expense

The Group's weighted average tax rate, based on the tax rates in each country, is 21.9% (25.9). The tax rate in Sweden is 22% (26.3). Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

	2013		2012	
Group	MSEK	%	MSEK	%
Profit after financial items	6,753		11,516	
Weighted average tax based on each country's tax rate	-1,477	-21.9	-2,987	-25.9
Tax effect of				
Non-deductible expenses	-377	-5.6	-224	-1.9
Tax-exempt income	82	1.2	117	1.0
Adjustments relating to prior years ¹⁾	146	2.2	101	0.9
Effects of tax loss carry-forward, net	-7	-0.1	-298	-2.6
Other	-112	-1.6	-118	-1.0
Total recognized tax expense	-1,745	-25.8	-3,409	-29.6

¹⁾ The amount recognizes a net of items that are primarily attributable to the tax dispute concerning the reorganization of ownership of intellectual property rights from 2005. In the table "Recognized in profit or loss" above, relevant items are included on a gross basis under "Adjustment of taxes attributable to prior years" and "Deferred taxes relating to temporary differences and tax loss carry-forward."

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).

	2013			2012-12-31*			2012-01-01*		
Group	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	421	-666	-245	45	-562	-517	30	-517	-487
Property, plant and equipment	140	-950	-810	106	-1,210	-1,104	107	-1,279	-1,172
Financial non-current assets	169	-3	166	128	-4	124	176	-4	172
Inventories	1,320	-74	1,246	1,261	-76	1,185	1,236	-72	1,164
Receivables	275	-193	82	211	-366	-155	147	-404	-257
Interest-bearing liabilities	855	-50	805	1,599	-223	1,376	1,342	-299	1,043
Noninterest-bearing liabilities	1,103	-535	568	1,098	-445	653	1,159	-398	761
Other	37	—	37	—	-65	-65	—	-31	-31
Tax loss carry-forward	3,104	—	3,104	1,740	—	1,740	1,981	—	1,981
Total	7,424	-2,471	4,953	6,188	-2,951	3,237	6,178	-3,004	3,174
Offsetting within companies	-1,521	1,521	—	-2,319	2,319	—	-2,087	2,087	—
Total deferred tax assets and liabilities	5,903	-950	4,953	3,869	-632	3,237	4,091	-917	3,174

*Comparative years have been adjusted by the tax effects attributable to amended accounting policies introduced in connection with the transition to the updated standard for pensions, IAS 19. Refer to Note 35 for further information.

Reconciliation of the Parent Company's tax expense

The Parent Company's effective tax rate exceeds the nominal tax rate in Sweden, which is mainly an effect of the Administrative Court of Appeal's ruling in the case concerning intellectual property rights.

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

	2013		2012	
Parent Company	MSEK	%	MSEK	%
Profit before tax	11,886		10,035	
Tax based on the nominal tax rate for the Parent Company	-2,615	-22	-2,639	-26.3
Tax effects of				
Non-deductible expenses	-191	-1.6	-62	-0.6
Tax-exempt income	2,616	22	2,550	25.4
Effect of changed tax rate	—		-157	-1.6
Adjustments relating to prior years	-5,120	-43	-17	-0.2
Total recognized tax expense	-5,310	-44.6	-325	-3.2

Tax items attributable to other comprehensive income

	2013			2012*		
Group	Before tax	Tax	After tax	Before tax	Tax	After tax
Actuarial gains/losses attributable to defined-benefit pension plans	1,039	-361	678	-1,417	348	-1,069
Translation differences for the year	142	—	142	-1,584	—	-1,584
Fair-value changes in cash-flow hedges for the year	-71	16	-55	9	-2	7
Fair-value changes in cash-flow hedges carried forward to profit/loss for the year	-134	29	-105	131	-28	103
Other comprehensive income	976	-316	660	-2,861	318	-2,543

*Comparative years have been adjusted by the tax effects attributable to amended accounting policies introduced in connection with the transition to the updated standard for pensions, IAS 19. Refer to Note 35 for further information.

cont. NOTE 11

Parent Company	2013			2012		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	—	-28	-28	—	-28	-28
Inventories	5	—	5	2	—	2
Provisions	31	-16	16	32	-15	17
Noninterest-bearing assets and liabilities	16	—	16	—	-80	-80
Tax loss carry-forward	536	—	536	893	—	893
Total	588	-44	544	927	-123	804
Offsetting	-44	44	—	-123	123	—
Total deferred tax assets and liabilities	544	—	544	804	—	804

Unrecognized deferred tax assets

The Group has additional tax loss carry-forward of about 527 million SEK (498).

Related deferred tax assets were not recognized since utilization of the tax losses against future taxable profits is not deemed probable in the foreseeable future.

Change of deferred tax in temporary differences and unused tax losses

	Group			Parent Company	
	2013	2012-12-31*	2012-01-01*	2013	2012
Balance at beginning of year, net	3,237	3,174	2,078	804	1,135
Recognized in profit and loss	2,192	-229	855	-260	-331
Acquisitions/disposals of subsidiaries	-53	23	-12	—	—
Reclassification of assets held for sale	—	—	25	—	—
Recognized in other comprehensive income	-316	318	164	—	—
Government grants	—	—	-6	—	—
Translation differences	-107	-49	70	—	—
Balance at end of year, net	4,953	3,237	3,174	544	804

* Comparative years have been adjusted by the tax effects attributable to amended accounting policies introduced in connection with the transition to the updated standard for pensions, IAS 19. Refer to Note 35 for further information.

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

	Group		Parent Company	
	2013	2012	2013	2012
Other provisions for taxes	-1,070	-4,529	—	—
Income tax liabilities	-1,037	-1,252	—	—
Income tax receivables	1,096	931	169	189
Net tax liabilities/receivables	59	-321	169	189

Other provisions for taxes of -1,070 million SEK (-4,529) relate to ongoing disputes and assessed tax risks. The decrease in 2013 (-3,459 million SEK) mainly relates to reversal of items with respect to the tax disputes involving Sandvik Intellectual Property AB and Sandvik AB concerning the reorganization of ownership of intellectual property rights in 2005. As a result of the rulings in 2013, the provisions were reversed in the Group and partly offset against the tax expense in Sandvik AB. For additional information on the outcome of the disputes, refer to the section Integrated risk management.

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

SEK	Basic		Diluted	
	2013	2012	2013	2012
Earnings per share	4.00	6.51	4.00	6.51

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 2013 is based on the profit for the year attributable to the equity holders of the Parent Company of 5,013 million SEK (8,105) and the weighted average number of shares (thousands) during 2013 of 1,254,386 (1,245,874). These two components have been calculated as follows:

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

	2013	2012
Profit for the year attributable to the equity holders of the Parent Company	5,013	8,105

Weighted average number of shares, basic

In thousands of shares	2013	2012
Total number of ordinary shares at 1 January	1,254,386	1,186,287
Effects of reacquisitions and redemption	—	—
Weighted average number of shares outstanding during the year, basic	1,254,386	1,245,874

Diluted earnings per share

The calculation of diluted earnings per share for 2013 is based on the profit attributable to the equity holders of the Parent Company of 5,013 million SEK (8,105) and the weighted average number of shares (thousands) during 2013 of 1,254,386 (1,245,874). The two components have been calculated as follows:

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

	2013	2012
Profit for the year attributable to equity holders of the Parent Company	5,013	8,105

Weighted average number of shares, diluted

In thousands of shares	2013	2012
Weighted average number of shares, basic	1,254,386	1,245,874
Effect of share options	—	—
Weighted average number of shares outstanding during the year, diluted	1,254,386	1,245,874

The 2012 and 2013 Annual General Meetings approved a share-based LTI program. This could entail future dilution effects. For information about the program, refer to Note 3.5.

NOTES

NOTE 13. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, GROUP

Intangible assets

Cost	Internally generated intangible assets					Acquired intangible assets						Total
	Capitalized R&D expenditure	IT software	Patents, licenses, trade-marks, etc.	Other	Subtotal	Capitalized R&D expenditure	IT software	Patents, licenses, trade-marks, etc.	Goodwill	Other	Subtotal	
At 1 January 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
At 1 January 2013	1,966	1,215	246	92	3,519	8	406	631	8,685	1,334	11,064	14,583
Additions	466	182	9	8	665	2	28	8	—	1	39	704
Business combinations	—	—	—	—	—	—	2	103	415	—	520	520
Divestments and disposals	-40	-8	—	-14	-62	—	-1	-32	—	-8	-41	-103
Impairment losses	—	—	—	—	—	—	—	—	-108	—	-108	-108
Reclassifications	-79	67	-31	47	4	15	39	41	—	-71	24	28
Translation differences for the year	24	4	3	3	34	1	10	21	-13	32	51	85
At 31 December 2013	2,337	1,460	227	136	4,160	26	484	772	8,979	1,288	11,549	15,709
Accumulated amortization and impairment losses												
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
At 1 January 2013	836	875	88	79	1,878	0	362	302	—	618	1,282	3,160
Divestments and disposals	-25	-5	—	-14	-44	—	-1	-32	—	-2	-35	-79
Impairment losses	3	—	—	1	4	—	—	4	—	28	32	36
Reclassifications	-9	-1	-33	0	-43	15	28	30	—	-6	67	24
Amortization for the year	213	117	14	32	376	1	21	72	—	110	204	580
Translation differences for the year	11	2	—	1	14	—	9	14	—	3	26	40
At 31 December 2013	1,028	988	69	99	2,185	16	421	389	—	751	1,576	3,761
Net carrying amounts												
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
1 January 2013	1,130	340	158	13	1,641	8	44	329	8,685	716	9,782	11,423
31 December 2013	1,309	472	158	37	1,975	10	63	383	8,979	538	9,973	11,948
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
Amortization for the year is included in the following lines in the 2013 income statement												
Cost of sales	-13	-7	—	-2	-22	—	-14	-60	—	-101	-175	-197
Selling expenses	—	—	-5	-4	-9	—	-2	-7	—	-8	-17	-26
Administrative expenses	-200	-110	-9	-26	-345	-1	-5	-5	—	-1	-12	-357
Total	-213	-117	-14	-32	-376	-1	-21	-72	—	-110	-204	-580

Impairment losses per line in the income statement

Impairment losses												
Selling expenses	—	—	—	—	—	—	—	—	-108	-28	-136	-136
Administration expenses	-3	—	—	-1	-4	—	—	-4	—	—	-4	-8
Total	-3	—	—	-1	-4	—	—	-4	-108	-28	-140	-144

See page 104 for further information.

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 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
At 1 January 2013	13,931	36,018	5,779	2,835	58,563
Additions	402	1,415	273	2,036	4,126
Business combinations	18	202	6	10	236
Divestments and disposals	-104	-1,324	-344	-26	-1,798
Reclassifications	395	901	191	-1,972	-485
Translation differences for the year	-80	-230	-29	-4	-344
At 31 December 2013	14,562	36,982	5,876	2,879	60,299
Depreciation and impairment losses					
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
At 1 January 2013	5,593	23,330	4,009	114	33,045
Business combinations	4	88	2	—	94
Divestments and disposals	-52	-1,052	-316	—	-1,420
Reclassifications	-10	-308	-24	-114	-456
Depreciation for the year	467	2,387	439	—	3,293
Impairment losses	204	364	123	7	698
Reversal of earlier impairment losses	—	-3	—	-20	-23
Translation differences for the year	19	-188	-19	—	-188
At 31 December 2013	6,225	24,618	4,214	-13	35,044
Net carrying amounts					
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
1 January 2013	8,338	12,688	1,770	2,721	25,517
31 December 2013	8,337	12,363	1,663	2,892	25,255
Impairment losses/reversals of impairment losses per line in the income statement	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Impairment losses					
Administrative expenses	-3	—	-8	—	-11
Cost of sales	-201	-361	-115	13	-664
Other operating expenses	—	—	—	—	—
Total	-204	-361	-123	13	-675

The most significant impairments losses relate to:

- The co-location of production to a joint facility in Sandvik Venture, where the decision was taken in April to consolidate the two production facilities of the Diamond Innovations product area to the existing unit in Worthington, US. The impairment loss in connection with the co-location amounted to 75 million SEK.
- Adaptation of manufacturing capacity through the discontinuation of production of steam generator tubing at Sandvik Materials Technology, which amounted to 269 million SEK.
- Sandvik Mining's impairment losses of 153 million SEK related to measures within the scope of the restructuring activities, approved in the fourth quarter, to streamline the supply chain by reducing the number of production units.

NOTES

cont. NOTE 13

Additional information

Items of property, plant and equipment for a total of 201 million SEK (193) have been pledged as security for liabilities. In 2013, contractual commitments for the acquisition of property, plant and equipment amounted to 315 million SEK (124).

Borrowing costs 2013	Machinery
Borrowing costs included in the cost of assets during the year	—
Interest rate for determining borrowing costs included in costs	—
Borrowing costs 2012	Machinery
Borrowing costs included in the cost of assets during the year	2
Interest rate for determining borrowing costs included in cost	3.84 %

Disclosure regarding government grants in the Group

Government grants during the year amounted to 35 million SEK.

Impairment tests of goodwill

Goodwill was impairment tested on the balance sheet date of 31 December 2013. As stated below, the carrying amount of goodwill in the consolidated balance sheet is 8,979 million SEK (8,685), essentially related to a number of major business combinations.

Goodwill by cash-generating unit	Carrying amount	
	2013	2012
Sandvik Mining		
Exploration	296	447
Business area level	1,645	1,509
Total	1,941	1,956
Sandvik Machining Solutions		
Walter Group	995	956
Seco Tools	239	254
Business area level	1,054	836
Total	2,288	2,046
Sandvik Materials Technology		
Business area level	1,052	1,065
Total	1,052	1,065
Sandvik Construction		
Extec/Fintec	1,143	1,116
Shanghai Jianshe Luqiao	82	80
Business area level	312	314
Total	1,537	1,510
Sandvik Venture		
Diamond Innovations	691	689
Wolfram	1,372	1,317
Business area level	64	64
Total	2,127	2,070
Other	34	38
Group total	8,979	8,685

Consolidated goodwill is allocated to the cash-generating units stated above. The recoverable amount of all of the cash-generating units has been assessed based on estimates of value in use. Calculations of value in use are based on the estimated future cash flows using forecasts covering a 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 forecasts form the basis for how the values of the material assumptions are established.

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, Extec/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 attributable to Exploration was impaired and 108 million SEK was charged to selling expenses in 2013. The recoverable amount for Exploration amounted to 1,096 million SEK. The discount rate applied in calculations of the impairment loss was 10%. Exploration is a product area within Sandvik and its drill line includes surface and underground diamond core and multi-purpose drills. Sandvik Exploration also offers a complete range of tools and consumables for the exploration industry, including geological supplies for every stage of the project. Impairment of this goodwill was the result of declining demand in the markets in which Exploration's customers operate.

Other testing of goodwill values did not indicate any impairment requirement. Sensitivity in the calculations where impairment was not carried out implies that the goodwill value would be maintained even if the discount rate was increased by 2 percentage points or if the long-term growth rate was lowered by 2 percentage points.

Other impairment tests

Capitalized development projects that are not yet available for use were tested and resulted in an impairment loss of 3 million SEK (27).

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 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
At 1 January 2013	106	At 1 January 2013	97
Additions	0	Reclassifications	—
Divestments and disposals	−5	Divestments and disposals	0
At 31 December 2013	101	Amortization for the year	0
		At 31 December 2013	97
		Net carrying amount at end of year	4
		Amortization for the year is included in the following lines in the income statement	
			2013 2012
		Administrative expenses	0 −1
		Total	0 −1

Property, plant and equipment	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost					
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
At 1 January 2013	1,274	12,816	1,355	1,322	16,767
Additions	10	235	19	993	1,257
Divestments and disposals	-5	-346	-77	0	-428
Reclassifications	69	600	95	-764	0
At 31 December 2013	1,348	13,305	1,392	1,551	17,596
Revaluations					
At 1 January 2012	41	—	—	—	41
At 31 December 2012	41	—	—	—	41
At 1 January 2013	41	—	—	—	41
At 31 December 2013	41	—	—	—	41
Depreciation					
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
At 1 January 2013	547	8,132	822	—	9,501
Divestments and disposals	-5	-298	-70	—	-373
Reclassifications	0	0	0	—	0
Depreciation for the year	38	823	205	—	1,066
Impairment losses	—	14	—	—	14
At 31 December 2013	580	8,671	957	—	10,208
Net carrying amounts					
1 January 2012	750	4,110	353	1,779	6,992
31 December 2012	768	4,684	533	1,322	7,307
1 January 2013	768	4,684	533	1,322	7,307
31 December 2013	809	4,634	435	1,551	7,429

NOTES

NOTE 15. SHARES IN GROUP COMPANIES

	Parent Company	
Shares in Group Companies	2013	2012
Cost		
At beginning of year	32,240	16,315
Additions	0	9,198
Capital contributions	2	103
Non-cash issue incl. share premium reserve	—	6,703
Divestments	-2	-79
Total	32,240	32,240

	Parent Company	
Shares in Group Companies	2013	2012
Accumulated impairment losses		
At beginning of year	-422	-394
Impairment losses for the year	—	-31
Impairment reversed during the year	—	3
Total	-422	-422
Accumulated revaluations		
At beginning of year	16	16
Total	16	16
Carrying amount at year-end	31,834	31,834

Sandvik AB's holdings of shares and participations in subsidiaries

Direct holdings

Direct holdings	Corp. Reg. number	2013			2012		
		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	23,788
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 Besöksservice 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 Powder Solutions AB, Surahammar	556032-6760	600	100	143,051	600	100	143,051
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	2,725
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

According to balance sheet at 31 December; company, domicile	Corp. Reg. number	2013			2012		
		No. of shares	Holding, % ²⁾	Carrying amount 000s SEK	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK
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 Brukspersonal 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	145,467,690	100	15,658,859
Svensk Export Flyg AB	556934-7452	100,000	100	100	—	—	—

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

Direct holdings

According to balance sheet at 31 December; company		2013			2012		
		No. of shares	Holding, % ²⁾	Carrying amount 000s SEK	No. of shares	Holding, % ²⁾	Carrying amount 000s SEK
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	116,677
	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	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	—	58 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	66	9,990	100	—
GERMANY	Sandvik Materials Technology Deutschland GmbH	—	—	—	—	1 ³⁾	1,486
	Sandvik Holding GmbH	—	—	—	—	1 ³⁾	367
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.	2,780,000	100	224,701	2,600,000	100	224,701
KENYA	Sandvik Kenya Ltd.	—	—	—	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	7,093,582	18,788	100	7,091,729
PERU	Sandvik del Perú S.A.	6,562,795	90 ³⁾	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				31,833,762			31,833,596

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.

NOTES

cont. NOTE 15

Sandvik AB's holdings of shares and participations in subsidiaries. Indirect holdings in operating Group companies

Group holding, %		2013 ¹⁾	2012 ¹⁾
SWEDEN	Sandvik Heating Technology AB	100	100
	Sandvik SRP AB	100	100
	Sandvik Treasury AB	100	100
	Alfa Tool International 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	100
AUSTRIA	Walter Austria GmbH	100	100
	Wolfram Bergbau und Hütten AG	100	100
	Sandvik in Austria Ges.m.b.H.	100	100
	Sandvik Mining and Construction GmbH	100	100
	Sandvik Mining and Construction Materials Handling GmbH & Co. KG	100	100
	Seco Tools Gesellschaft m.b.H.	100	100
BELGIUM	Walter Benelux N.V./S.A.	100	100
	S.A. Seco Tools Benelux N.V.	100	100
	Seco Tools Indústria e Comércio Ltda	100	100
BRAZIL	Sandvik Canada Inc.	100	100
CANADA	Sandvik Chile S.A.	100	100
CHILE	Sandvik Mining and Construction Chile S.A.	100	100
CHINA	Sandvik International Trading (Shanghai) Co. Ltd.	100	100
	Sandvik Mining and Construction (China) Co. Ltd.	100	100
	Sandvik Mining and Construction Trading (Shanghai) Co. Ltd.	100	100
	Sandvik 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 Coromant Cutting Tools (Shanghai) Ltd.	100	100
	Sandvik (Qingdao) Ltd.	100	100
	Walter Wuxi Co. Ltd.	100	100
	Shanghai Jianshe Luqiao Machinery Co. Ltd	80	80
	Shandong Energy Machinery Group ZhongRui Mining Equipment Manufacturing Co., Ltd.	50 ²	50 ²
	Seco Tools (Shanghai) Co. Ltd.	100	100
COLOMBIA	Sandvik Colombia S.A.S.	70	70
CZECH REPUBLIC	Sandvik Chomutov Precision Tubes s.r.o.	100	100
	Walter CZ s.r.o.	100	100
	Seco Tools CZ s.r.o.	100	100
	Pramet Tools s.r.o.	100	100
DENMARK	Sandvik A/S	100	100
	Seco Tools A/S	100	100
FINLAND	Sandvik Mining and Construction Finland Oy	100	100
	Sandvik Mining and Construction Oy	100	100
	Seco Tools Oy	100	100
FRANCE	Sandvik Mining and Construction Chauny S.A.S.	100	100
	Sandvik 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	100
	SECO – E.P.B S.A.S.	100	100
GERMANY	Sandvik Mining and Construction Crushing Technology GmbH	100	100
	Prototyp-Werke GmbH	100	100
	Sandvik Materials Technology Deutschland GmbH	100	100
	Sandvik Mining and Construction Europe GmbH	100	100
	Sandvik Mining and Construction Supply GmbH	100	100
	Sandvik Tooling Deutschland GmbH	100	100
	TDM Systems GmbH	100	100
	Walter AG	100	100
	Walter Deutschland GmbH	100	100
	Werner Schmitt PKD-Werkzeug GmbH	100	100
	Seco Tools GmbH	100	100
	Pramet GmbH	100	100
GHANA	Sandvik Mining and Construction Ghana Ltd.	100	100
HONG KONG	Sandvik Hong Kong Ltd.	100	100
HUNGARY	Walter Hungaria Kft.	100	100
	Seco Tools Kft.	100	100
INDIA	Walter Tools India Pvt. Ltd.	100	100
	Seco Tools India Private Limited	100	100
INDONESIA	PT Sandvik Indonesia	100	100
	PT Sandvik Mining and Construction Indonesia	100	100
	PT Sandvik SMC	100	100
IRELAND	Diamond Innovations International Sales	100	100
ITALY	Sandvik Italia S.p.A.	100	100
	Walter Italia S.R.L.	100	100
	Seco Tools Italia S.p.A.	100	100
JAPAN	Sandvik Tooling Supply Japan K.K.	100	100
	Walter Tooling Japan K.K.	100	100
	Seco Tools Japan K.K.	100	100

cont. NOTE 15

Sandvik AB's holdings of shares and participations in subsidiaries. Indirect holdings in operating Group companies

Group holding, %		2013 ¹⁾	2012 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	100
MALAYSIA	Sandvik Malaysia Sdn. Bhd.	100	100
	Sandvik Mining and Construction (Malaysia) Sdn. Bhd.	100	100
	Sandvik de México S.A. de C.V.	100	100
MEXICO	Sandvik Mining and Construction de México S.A. de C.V.	100	100
	Walter Tools S.A. de C.V.	100	100
	Sandvik Hard Materials de Mexico S.A. de C.V.	100	100
NAMIBIA	Sandvik Namibia Pty Ltd	100	100
NETHERLANDS	Sandvik Benelux B.V.	100	100
	Jabro Tools B.V.	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
NEW ZEALAND	Seco Tools AS	100	100
	Sandvik New Zealand Ltd.	100	100
	Sandvik Tamrock (Philippines) Inc.	100	100
PHILIPPINES	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	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	100	99
	LLC Pramet	100	100
SINGAPORE	LLC "Seco Tools"	100	100
	Sandvik Mining and Construction S.E. Asia Pte. Ltd.	100	100
	Sandvik South East Asia Pte. Ltd.	100	100
SOUTH AFRICA	Walter AG Singapore Pte. Ltd.	100	100
	Seco Tools (SEA) Pte. Ltd.	100	100
	Sandvik Mining and Construction RSA (Pty) Ltd.	100	100
	Sandvik (Pty) Ltd.	100	100
	Sandvik Mining and Construction Delmas (Pty) Ltd.	100	100
	Seco Tools South Africa (Pty) Ltd.	100	100
SPAIN	Sandvik Española S.A.	100	100
	Walter Tools Iberica S.A.U.	100	100
	Seco Tools España S.A.	100	100
SWITZERLAND	Sandvik AG	100	100
	Santrade Ltd.	100	100
	Walter (Schweiz) AG	100	100
TAIWAN	Seco Tools AG	100	100
	Sandvik Hard Materials Taiwan Pty. Ltd.	100	100
	Sandvik Taiwan Ltd.	100	100
TANZANIA	Sandvik Mining and Construction Tanzania Ltd.	100	100
THAILAND	Sandvik Thailand Ltd.	100	100
	Walter (Thailand) Co. Ltd.	100	100
	Walter Cutting Tools Industry and Trade LLC	100	100
TURKEY	Dormer Tools Ltd.	100	100
UK	Sandvik Construction Mobile Crushers and Screens Ltd.	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	100
UKRAINE	Sandvik Mining and Construction Ltd.	100	100
	Sandvik Ukraine	100	100
	Diamond Innovations Inc.	100	100
US	Sandvik Wire and Heating Technology Corporation	100	100
	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	100
	Niagara Cutter, LLC	100	100
ZAMBIA	Precorp Inc.	100	—
	Sandvik Mining and Construction Zambia Ltd.	100	100

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

2) Share of votes 60% (60).

NOTES

NOTE 16. INVESTMENTS IN ASSOCIATED COMPANIES

Group	2013	2012
Accumulated share of equity		
At beginning of year	356	456
Divestment of associates	-128	-73
Share of profits for the year	1	6
Less dividend received	-11	-15
Translation differences during the year	-7	-18
Carrying amount at end of year	211	356

Parent Company's shares in associated companies	2013	2012
Accumulated cost		
At beginning of year	4	66
Divestments of associated companies	—	-62
Carrying amount at end of year	4	4

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

2013	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB							
Oerlikon Balzers Sandvik Coating AB	Sweden	91	21	75	9	66	49.0
Owned indirectly by Sandvik AB							
Eimco Elecon	India	177	16	206	26	176	25.1
Fagersta Stainless AB	Sweden	1,203	-48	651	389	263	50.0
Fagersta Seco AB	Sweden	0	0	3	2	1	50.0
Fagerstahälsan AB	Sweden	7	1	10	8	2	50.0
S.C.I. Le Palatinat	France	1	0	2	1	1	49.0
Shanghai Innovatools Co. Ltd.	China	11	1	11	2	9	40.0
Bromma Business Jet AB	Sweden	—	—	—	—	—	45.0
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	USA	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.	USA	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

Additional information

The close of the reporting period for the associate Eimco Elecon is 31 March 2013. Dividend paid in 2013 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 outstanding shares in the associated company Precorp Inc. were acquired in 2013.

	Corp. Reg. No.	Share of capital and voting rights, %
2013		
Oerlikon Balzers Sandvik Coating AB, Stockholm	556098-1333	49
2012		
Oerlikon Balzers Sandvik Coating AB, Stockholm	556098-1333	49

NOTE 17. NON-CURRENT RECEIVABLES AND OTHER CURRENT RECEIVABLES

Group	2013	2012
Non-current receivables		
Derivatives designated as hedging instruments	186	403
Funded pension plans	603	359
Other noninterest-bearing receivables	455	773
Other interest-bearing receivables	712	428
Total	1,956	1,963
Other current receivables		
Derivatives held as investments	—	1
Derivatives designated as hedging instruments	725	949
Due from customers for contract work	1,301	1,520
Other noninterest-bearing receivables	1,954	2,446
Other interest-bearing receivables	672	423
Advances to suppliers	573	532
Total	5,225	5,871
Parent Company	2013	2012
Non-current receivables		
Derivatives	7	—
Other noninterest-bearing receivables	—	145
Other interest-bearing receivables	249	27
Total	256	172
Other current receivables		
Derivatives	58	294
Other noninterest-bearing receivables	204	184
Other interest-bearing receivables	111	2
Total	373	480

NOTE 19. TRADE RECEIVABLES

Age analysis of trade receivables

Group	2013			2012		
	Gross	Allowance for bad debts	Net carrying amount	Gross	Allowance for bad debts	Net carrying amount
Current receivables	9,908	-75	9,833	10,395	-39	10,355
Past due receivables 0-3 months	2,248	-53	2,195	2,677	-103	2,574
Past due receivables 3-12 months	743	-164	579	857	-207	650
Past due receivables >12 months	661	-586	75	490	-490	0
Total	13,560	-878	12,682	14,419	-840	13,579

NOTE 20. CAPITAL AND RESERVES

Group		
Details of reserves	2013	2012
Translation reserve		
At beginning of year	254	1,832
Translation differences during the year	140	-1,578
At end of year	394	254
Hedging reserve		
At beginning of year	127	17
Cash-flow hedges recognized in other comprehensive income	-160	110
At end of year	-33	127
Total reserves		
Reserves at beginning of year	381	1,849
Changes in reserves:		
Translation reserve	140	-1,578
Hedging reserve	-160	110
Reserves at end of year	361	381

Construction contracts	Group	
	2013	2012
Contract costs incurred and recognized profits (less recognized losses)	10,399	9,780
Advances received	3,245	1,525
Amounts retained by customers	99	71
Gross amount due from customers	1,320	1,520
Gross amount due to customers	1,705	2,407

Funded pension plans and other noninterest-bearing receivables for the Group relating to 2012 were adjusted to take into consideration the effects of changed accounting policies in connection with the transition to the updated standard for pensions, IAS 19. The updated standard is applied as of 1 January 2013, with full retroactive application. Refer to Note 35 for further information.

NOTE 18. INVENTORIES

	Group		Parent Company	
	2013	2012	2013	2012
Raw materials and consumables	5,790	6,493	1,357	1,518
Work in progress	4,263	4,883	1,620	1,530
Finished goods	13,265	14,132	661	761
Total	23,318	25,508	3,638	3,809

Cost of sales of the Group includes impairment of inventories of 391 million SEK (515) while cost of sales of the Parent Company includes impairment of 203 million SEK (219). There were no significant reversals of impairment losses during 2013 and 2012.

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 2013 and 2012.

NOTES

cont. NOTE 20

Retained earnings including profit or loss for the year

Retained earnings including profit or loss for the year comprises the earned profit of the Parent Company and its subsidiaries and associated companies.

Management of capital

Financial goals

The Group's financial goals are as follows:

	2014	2013
Growth, total	8%	8%
Return on capital employed	25%	25%
Net debt/equity ratio	<0,8	<0,8
Dividend payout percentage	50%	50%

Equity

Equity is defined as total shareholders' equity, including non-controlling interests.

Equity	2013	2012
Share capital	1,505	1,505
Other paid-in capital	7,678	7,678
Reserves	361	381
Retained earnings including profit for the year	23,966	26,561
Equity attributable to equity holders of the Parent	33,510	36,125
Non-controlling interests	100	107
Total equity	33,610	36,232

The Board of Directors has proposed to the 2014 Annual General Meeting a dividend of 3.50 SEK per share (3.50). The proposal corresponds to approximately 88% of the recognized earnings per share.

No changes were made to the processes for managing capital during the year.

Neither the Parent Company nor any of its subsidiaries have to comply with externally imposed capital requirements.

Parent Company

Share capital

According to the Articles of Association of Sandvik AB, the share capital shall amount to a minimum of 700,000,000 SEK and a maximum of 2,800,000,000 SEK. All issued shares are fully paid, have the same voting rights and are equally entitled to the company's assets.

Share capital has changed as follows over the past two years:

	No. of shares	Quotient value SEK/share	Share capital SEK
Share capital at 31 December 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
Share capital at 31 December 2013	1,254,385,923	1.20	1,505,263,108

A dividend is proposed by the Board of Directors in accordance with the stipulations in the Swedish Companies' Act, and is approved at the Annual General Meeting. The proposed, not yet resolved, dividend for 2013 is estimated to amount to 4,390 million SEK (3.50 SEK per share). This amount has not been recognized as a liability.

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

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

Undistributable equity

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

NOTE 21. PARENT COMPANY'S OTHER UNTAXED RESERVES

	2013	2012
Country risk reserve	4	3
Total other untaxed reserves	4	3

NOTE 22. PROVISIONS FOR PENSION AND OTHER NON-CURRENT POST-EMPLOYMENT BENEFITS

Sandvik provides direct pension solutions and otherwise participates in a number of defined-benefit, defined-contribution and other plans for long-term post-employment benefits to employees throughout the Group. The plans are structured in accordance with local regulations and practices. In recent years, Sandvik has sought to move from defined-benefit based plans to pension solutions that are defined-contribution plans and, to an ever increasing extent, the total pension expense comprises the costs for such plans. In principle, the plans cover all employees. The Group's most significant defined-benefit pension plans are described below.

Sweden

The Swedish pension plan is funded through a foundation and is based on salary at the time of retirement and is partly closed for new participants, meaning that only new employees born prior to 1979 have the option of joining the plan. Employees born after 1979 are encompassed by a defined-contribution plan.

Statutory reserve

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

Distributable

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.

There are no funding requirements for the defined-benefit plan. Pension payments to retirees are made directly from Sandvik.

The commitment for family pension, also a defined-benefit plan, is insured with Alecta. Sufficient information to use defined-benefit accounting for this plan was not available, which is why these commitments are recognized as a defined-contribution plan. At the end of 2013, Alecta reported a preliminary plan surplus of 149% (129%).

UK

The main pension plan in the UK is funded through a foundation, which is closed for new participants and the pension is based on salary at the time of retirement. The funding level is revalued every three years, and if this valuation indicates a requirement to increase the funding, the company pays money into the plan over a certain period of time. The plan is governed by Trustees who make investment decisions after having consulted with the company. Pension payments to retirees are made from the plan.

cont. NOTE 22

US

There are a number of pension plans in the US, including commitments for medical benefits. The largest pension plan covers approximately 75% of the total commitment in the US. The pension is based on salary at the time of retirement and is closed for new participants. The funding level is revalued every year with a target of restoring the funding level over a seven-year period. Pension payments to retirees are primarily made from the plan. In 2013, a lump sum of approximately 24 million USD was paid to about 1,000 paid-up policyholders who chose to accept the offer provided by the company.

Finland

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

Germany

In Germany, Sandvik has defined-benefit pension plans. A few years ago, Sandvik formed a foundation, a Contractual Trust Agreement (CTA), which covers the current employees in most of Sandvik's German companies. The pension commitments for retirees and paid-up policyholders remain unfunded. The pension is based on salary at the time of retirement and other parameters. There are no funding requirements and employees in the plan are required to contribute a certain percentage of their salary to the plan. Pension payments to retirees are mainly made from the company.

Canada

There are a number of pension plans in Canada. The pension is based on average salary at the time of retirement and is closed for new participants for non-bargaining unit plans starting 2008. The funding level is revalued every year or up to every three years for the plans, and is based on the solvency ratio determined by actuaries. Pension payments to retirees are mainly made from the company. Employees who joined the company after 1 January 2008 are included in a defined-contribution plan.

Information by country, 31 December 2013

	Sweden	UK	US	Finland	Germany	Canada	Other	Total
Amount in the balance sheet								
Present value of funded and unfunded pension obligations	3,531	5,225	4,225	2,462	2,044	530	1,560	19,577
Plan assets	2,077	4,388	3,471	2,778	1,018	540	905	15,177
Total surplus/(deficit)	-1,454	-837	-754	316	-1,026	10	-655	-4,400
Funding level, %	59%	84%	82%	113%	50%	102%	58%	78%
Pension plans recognized according to local rules								
Duration (remaining term of pension obligation), years	22	15	15	16	10	12	—	—
Amount in income statement/other comprehensive income								
Current service cost	-138	-67	-120	-41	-36	-18	-41	-461
Net interest	-53	-33	-50	11	-38	-3	-21	-187
Actuarial gains/(losses)	204	12	680	26	-1	75	43	1,039
Total cost of defined-benefit pension plans before tax	13	-88	510	-4	-75	54	-19	391
Amount in cash flow								
Employer contributions to pension plans	—	-124	-281	-11	-25	-33	-79	-553
Pension payments directly from the company	-97	—	-17	—	-64	-2	-38	-218
Key assumptions used in the valuation of the pension liability								
Life expectancy, years ¹	20	22	20	19	20	22	—	—
Inflation, %	2.00%	3.50%	2.47%	2.00%	2.00%	2.00%	—	2.51%
Discount rate, % (weighted average)	4.00%	4.50%	4.66%	3.40%	3.50%	4.79%	—	4.12%
Future salary increases	3.00%	3.66%	3.10%	2.50%	3.00%	3.00%	—	3.13%

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

Information by country, 31 December 2012

	Sweden	UK	US	Finland	Germany	Canada	Other	Total
Amount in the balance sheet								
Present value of funded and unfunded pension obligations	3,556	4,950	4,643	2,199	1,870	574	1,575	19,367
Plan assets	1,990	4,095	3,084	2,495	871	491	856	13,882
Total surplus/(deficit)	-1,566	-855	-1,559	296	-999	-83	-719	-5,485
Funding level, %	56%	83%	66%	113%	47%	86%	54%	72%
Pension plans recognized according to local rules								
Duration (remaining term of pension obligation), years	22	15	15	16	10	12	—	—
Amount in income statement/other comprehensive income								
Current service cost	-131	-57	-119	-34	-27	-18	-53	-439
Net interest	-38	-30	-53	19	-43	-3	-29	-177
Actuarial gains/(losses)	-355	-276	-172	-93	-252	-50	-219	-1,417
Total cost of defined-benefit pension plans before tax	-524	-363	-344	-108	-322	-71	-301	-2,033
Amount in cash flow								
Employer contributions to pension plans	—	-124	-288	-3	-45	-36	-95	-591
Pension payments directly from the company	-103	—	-20	—	-65	-2	-29	-219
Key assumptions used in the valuation of the pension liability								
Life expectancy, years ¹	20	22	20	19	20	21	—	—
Inflation, %	2.00%	2.95%	2.47%	2.00%	2.00%	2.00%	—	2.34%
Discount rate, % (weighted average)	3.50%	4.31%	3.88%	3.80%	3.71%	4.32%	—	3.85%
Future salary increases	3.00%	3.16%	3.10%	3.50%	3.00%	3.00%	—	3.10%

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

NOTES

cont. NOTE 22

Present value of funded and unfunded pension obligations	2013	2012
At 1 January	19,367	16,951
Current service cost	461	439
Settlements	-23	0
Interest expense	731	759
Employee contributions	24	23
Pension payments	-833	-660
Actuarial gains/(losses) attributable to:		
- Financial assumptions	-718	1,759
- Demographic assumptions	48	132
- Experience adjustments	276	265
Other	-14	9
Foreign exchange differences	258	-310
At 31 December	19,577	19,367

	2013	2012
Plan assets		
At 1 January	13,882	12,836
Interest income	544	581
Settlements	-23	0
Employer contributions to pension plans	553	591
Pension payments directly from the company	218	219
Employee contributions	24	23
Pension payments	-833	-660
Return on plan assets, excluding amount included in interest income	645	739
Other	-14	-23
Foreign exchange differences	181	-424
At 31 December	15,177	13,882

Amended accounting policies regarding IAS 19 impacted comparative figures for 2012 in the note. Refer to Note 35 for further information.

An asset is recognized if the value of the plan assets for a certain plan exceeds the liability. Funded pension plans are recognized as an asset in the amount of 603 million SEK (359) in the item non-current receivables. Provisions for pensions include pension plans of 5,164 million SEK (6,037).

Risks and cash flows

Three main categories of risks are associated with the company's defined-benefit pension plans. The first category is linked to future pension payments. Greater life expectancy, increased inflation assumptions and higher salaries can increase future pension payments and thus also the liability for the pension obligation. The second category refers to the assets in the foundations that are funded. Low returns may, in the future, lead to the assets being insufficient for covering future pension payments. The third and final category pertains to the measurement methods and accounting of defined-benefit pension plans, primarily regarding the discount rate utilized in the measurement of the present value of the pension obligations. This rate can fluctuate, leading to major changes in the recognized pension liability. The discount rate also affects the interest rate component of the pension liability and that is recognized in net financial items.

To determine the discount rate, AA credit rated corporate bonds are used that correspond to the duration of the pension obligation. If there is no deep market for corporate bonds, government bonds are instead used as the basis for determining the discount rate. Mortgage bonds are used in Sweden and Norway to determine the discount rate.

A sensitivity analysis of the most important assumptions affecting the recognized pension liability is provided below. Note that this sensitivity analysis is not intended to be the expression of an opinion by the company regarding the probability of such events occurring.

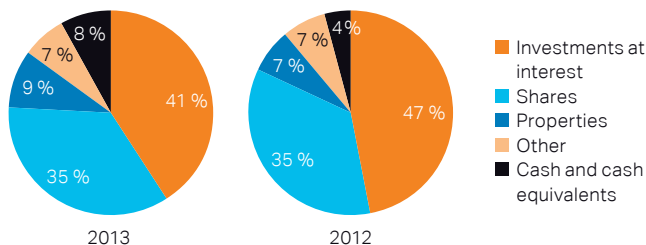
Sensitivity analysis, change in pension provision (net)	Sweden	UK	US	Finland	Germany	Canada	Total
Life expectancy, +1 year	139	209	153	98	44	19	662
Inflation, +1.0%	103	418	14	10	17	5	567
Discount rate, -1%	789	212	404	386	70	47	1,908
Shares -20%	90	243	388	202	54	71	1,048
	1,121	1,082	959	696	185	142	4,185

Sandvik estimates that approximately 650 MSEK (650) will be paid into existing defined-benefit plans in 2014.

Plan assets

Plan assets amounted to 15,177 million SEK (13,882). Actual return on plan assets in 2013 was 1,189 million SEK (1,320). The consolidation ratio for funded plans was 86% (80).

Class of assets



Assets without quoted prices amounted to approximately 10% of the total plan assets of 15,177 million SEK.

The fair value of plan assets on 31 December 2013 included loans of 21 million SEK (41) to Sandvik companies and the value of properties leased to Sandvik of 221 million SEK (233).

Governance

The defined-benefit and defined-contribution plans are governed through Sandvik's Pension Supervisory Board (PSB). PSB meets twice a year and has the following areas of responsibility:

- Implement policies and directives
- Ensure efficient administration of the major pension plans and efficient management of reserved plan assets
- Approve establishment of new plans, material changes or closure of existing plan
- Approve guidelines for management of assets

The Group Pension Committee (GPC) is another operating body, which is also preparatory to the PSB, that has representatives from countries with large defined-benefit plans and the relevant Group functions. The GPC's task is to monitor developments in countries, submit proposals on changes to pension plans to the PSB and approve the principle of how actuarial assumptions are established. GPC meets twice a year.

Investment strategy

The aims of the investment decisions made in the foundations managing plan assets are as follows:

- Ensure that the plan assets are sufficient to cover the foundation's future pension commitments
 - Achieve optimal returns while taking into account a reasonable level of risk
- Each foundation is to have a written investment policy approved by GPC. Reviews are performed annually. The foundation makes its own decisions on its investment strategy and takes into consideration the composition of the pension commitments, requirements of cash and cash equivalents and available investment opportunities. The investment strategy is to be long term and in line with the guidelines established by PSB. An investment committee is to be created.

Parent Company

The Parent Company's recognized pension provision was 323 million SEK (324). The Parent Company's PRI pensions are secured through Sandvik's own pension foundation, the Sandvik Pension Foundation in Sweden. Sandvik AB and most of its Swedish subsidiaries are members of the foundation. The total value of the assets held by the foundation was 2,077 million SEK (1,990), which was 292 million SEK lower than the capital value of the corresponding pension obligations for the entire foundation. The deficit was recognized as a liability in the companies. The Parent Company's funded obligations mainly comprise ITP Plans.

Present value of funded and unfunded pension obligations	2013	2012
Amount in the balance sheet		
Present value of funded and unfunded pension obligations	1,911	1,849
Plan assets	1,615	1,548
Deficit in the assets of the pension foundation	-27	-23
Net amount recognized for pension obligations	-323	-324

NOTE 23. 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 2012	503	695	496	290	111	840	2,935
Provisions made during the year	395	1,197	407	32	23	536	2,590
Provisions used during the year	-316	-698	-548	-32	-49	-530	-2,173
Unutilized provisions reversed during the year	-84	-91	-24	-1	—	-82	-282
Reclassifications	11	24	20	66	14	-135	—
Translation differences	1	0	-9	-5	-11	-31	-55
Balance at 31 December 2013	510	1,127	342	350	88	598	3,015
of which current	331	971	186	101	50	316	1,955
of which non-current	179	156	156	249	38	282	1,060
Parent Company							
Balance at 31 December 2012	22	17	177	11	—	7	234
Provisions made during the year	3	142	59	11	—	0	215
Provisions used during the year	-1	-90	-129	-12	—	-4	-236
Unutilized provisions reversed during the year	-2	—	—	—	—	0	-2
Reclassifications	—	0	2	—	—	-2	0
Balance at 31 December 2013	22	69	109	10	—	1	211

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 2013, the insurance business had provisions of 189 million SEK, of which 141 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.

In conjunction with Sandvik's introduction of reporting provisions in several categories, items were recategorized from the group Other provisions during the year.

NOTE 24. NON-CURRENT INTEREST-BEARING LIABILITIES**Parent Company**

Non-current interest-bearing liabilities fall due as follows:

	2013			2012		
	Within one to five years	Later than five years	Total	Within one to five years	Later than five years	Total
Loans from financial institutions	2,241	—	2,241	3,852	—	3,852
Loans from Group companies	580	—	580	59	302	361
Other liabilities	5,181	7,757	12,938 ¹⁾	9,830	8,003	17,833
Total	8,002	7,757	15,759	13,741	8,305	22,046

¹⁾ Other liabilities mainly comprise bond loans.

NOTE 25. OTHER INTEREST-BEARING LIABILITIES

Group	2013	2012
Non-current liabilities		
Bond issues	18,401	23,380
Other	143	202
Total	18,544	23,582
Current liabilities		
Bond issues	4,375	1,667
Other	39	23
Total	4,414	1,690

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 26. OTHER NONINTEREST-BEARING LIABILITIES

Group	2013	2012
Other non-current liabilities		
Derivatives designated as hedging instruments	114	118
Other	69	66
Total	183	184
Other current liabilities		
Derivatives designated as hedging instruments	607	809
Bills payable	70	72
Gross amount due to construction contract customers	1,705	2,407
Other	1,735	1,712
Total	4,117	5,000

NOTES

NOTE 27. ACCRUED EXPENSES AND DEFERRED INCOME

Parent Company	2013	2012
Personnel related	1,280	1,473
Expenses related to finance	562	925
Other	236	357
Total	2,078	2,755

NOTE 28. 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. An appeal regarding the decision was lodged with the Administrative Court of Appeal. In June 2013, the Administrative Court of Appeal issued its ruling and ordered that Sandvik be taxed for a capital gain in 2005 totaling 18,063 million SEK at the same time as it approved the amortization of the intellectual property rights. As a result of this ruling, Sandvik paid approximately 5,800 million SEK, including interest, to the Swedish Tax Agency in September 2013. A significant part of this amount will be recovered through reduced tax payments related to increased amortization in the IP Company. The ruling was appealed to the Supreme Administrative Court, but the appeal for reconsideration was rejected and, accordingly, the Administrative Court of Appeal's decision is definitive. For further details, refer to the Integrated risk management section.

	Group		Parent Company	
	2013	2012	2013	2012
Contingent liabilities	17	19	—	—
Bills discounted	634	1,333	13,339	15,265
Other surety undertakings and contingent liabilities	651	1,352	13,339	15,265
Total	651	1,352	13,339	15,265
of which for subsidiaries			12,690	14,721

The Parent Company's surety undertakings and contingent liabilities amounted to 13,339 million SEK (15,265), of which 7,616 million SEK (9,515) 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 651 million SEK (1,352) and comprised mainly guarantees to financial institutions.

Pledged assets

Pledged assets for own liabilities and provisions.

Group	2013	2012
Property mortgages	201	193
Chattel mortgages	100	104
Total	301	297

No assets of the Parent Company had been pledged in 2013 and 2012.

NOTE 29. 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 measured according to Level 2, except for 34 million SEK related to a contingent purchase consideration, refer to Note 32, which is measured according to level 3.

Information on financial risks is also presented in the financial risk section of the Report of the Directors.

Measurements of fair value

The following is a summary of the methods and assumptions primarily applied to determine the fair value of the financial instruments presented in the table below.

The fair value of 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 2013

Financial instruments measured at fair value		2013	2012
Financial assets			
Derivatives	Foreign exchange contracts	731	950
	Foreign currency options	105	80
	Interest-rate swaps	57	294
	Commodity and electricity derivatives	18	29
Total		911	1,353
Financial liabilities			
Derivatives	Foreign exchange contracts	451	393
	Foreign currency options	—	—
	Interest-rate swaps	102	399
	Commodity and electricity derivatives	168	134
Total		721	926

Financial assets and liabilities are not offset in the balance sheet. Derivative contracts are subject to framework agreements governing offsetting, and the carrying amounts of assets not offset in the balance sheet amounted to 911 million SEK. The carrying amount of corresponding liabilities was -721 million SEK. No collateral has been received or pledged. In the event of a default by a derivative counterparty, assets and liabilities for a total value of 507 million SEK would be offset in accordance with the framework agreement governing offsetting.

cont. NOTE 29

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 1,275 million SEK (1,696). 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		Available-for-sale financial assets		Loans and receivables		Total carrying amount		Fair value	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Financial assets												
Financial investments	—	—	—	—	80	79	—	—	80	79	80	79
Trade receivables	—	—	—	—	—	—	12,682	13,579	12,682	13,579	12,682	13,579
Other receivables ³⁾	—	—	—	—	—	—	1,509	908	1,509	908	1,509	908
Derivatives ⁴⁾	308	720	603	633	—	—	—	—	911	1,353	911	1,353
Cash and cash equivalents	—	—	—	—	—	—	4,967	13,829	4,967	13,829	4,967	13,829
Total financial assets	308	720	603	633	80	79	19,158	28,316	20,149	29,748	20,149	29,748

Financial liabilities	Derivatives for hedge accounting ¹⁾		Liabilities at fair value through profit and loss		Other financial liabilities		Total carrying amount		Fair value	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Borrowings ⁵⁾	—	—	—	—	30,259	34,961	30,259	34,961	31,534	36,657
Derivatives ⁶⁾	321	462	400	464	—	—	721	926	721	926
Accounts payable	—	—	—	—	6,676	6,585	6,676	6,585	6,676	6,585
Due to associates	—	—	—	—	7	14	7	14	7	14
Other liabilities ⁷⁾	—	—	—	—	70	72	70	72	70	72
Total financial liabilities	321	462	400	464	37,012	41,632	37,733	42,558	39,008	44,254

1) Of which –43 million SEK (163) pertains to cash-flow hedges recognized in the hedging reserve in equity and 33 million SEK (96) pertains to fair-value hedges recognized in profit or loss.

2) Of which 203 million SEK (169) pertains to financial hedges; hedge accounting is not applied.

3) Comprises parts of the Group's non-current receivables, accrued income and other receivables recognized in the balance sheet.

4) Derivatives form part of the other receivables recognized in the balance sheet.

5) Recognized in the balance sheet as non-current and current liabilities to financial institutions and other liabilities.

6) Derivatives form part of the other liabilities recognized in the balance sheet.

7) Form part of the Group's non-current liabilities, accrued expenses and other liabilities recognized in the balance sheet.

Net result per valuation category

In addition to fair value adjustment, interest and currency movement effects are included.

	2013	2012
Assets and liabilities at fair value (Derivatives)	385	223
Loans and accounts receivables	91	–233
Available-for-sale financial assets	7	8
Financial liabilities	–1,836	–2,042

The company's financial liabilities amounted to 37,733 million SEK (42,558) at year-end.

Group's maturity structure relating to undiscounted cash flows for financial liabilities and derivatives

		2013				2012			
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	–1,097	–1,625	–2,367	–1,327	–1,100	–68	–6,494	–1,301
Commercial papers	SEK	—	—	—	—	—	—	—	—
Medium Term Notes	SEK	–115	–130	–5,934	–1,866	–2,201	–66	–7,184	–1,638
European Medium Term Notes	EUR	–4,789	–127	–1,244	–7,768	–422	–93	–6,296	–6,316
Private placement	USD	–138	–138	–2,262	–3,786	–138	–138	–2,431	–3,878
Derivatives									
– Currency derivatives		57	20	127	—	97	105	326	—
– Interest-rate derivatives		116	–13	–176	–141	83	–72	–10	–147
– Commodity and electricity derivatives		–48	–31	–68	—	–32	–24	–48	—
Finance leases		–14	–13	–51	–38	–15	–15	–59	–46
Accounts payable		–6,676	—	—	—	–6,585	—	—	—
Total		–12,704	–2,057	–11,975	–14,926	–10,313	–371	–22,196	–13,326

NOTES

cont. NOTE 29

Periods when hedged cash flows are expected to occur and affect earnings

	Q 1 2014	Q 2 2014	Q 3 2014	Q 4 2014	Q 1 2015	Q 2 2015	Q 3 2015	Q 4 2015	2016 and later
Currency derivatives	10	42	5	10	18	16	3	17	62
Interest derivatives	—	—	—	—	—	—	—	—	-78
Commodity and electricity derivatives	-24	-23	-20	-10	-4	-11	-12	-6	-38
Total	-14	19	-15	0	14	5	-9	11	-54

NOTE 30. RELATED PARTIES

Related-party transactions

The Group's sales to associated companies amounted to 697 million SEK (729). The Group's purchases from associated companies amounted to 326 million SEK (383). 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 12,618 million SEK (14,861), or 79% (87) of total sales. The share of exports was 75% (62). The Parent Company's purchases from Group companies amounted to 2,181 million SEK (1,589), or 14% (10) of total purchases. The Parent Company granted no loans to associated companies. Guarantees have been made for obligations of associated companies in the amount of 0 million SEK (0). All transactions are effected on an arm's length basis.

Transactions with key management personnel

Except as indicated in Note 3.5, Remuneration of the Board of Directors and senior executives, and in the description of the Board of Directors on page 66, no transactions took place with persons closely associated with the company.

NOTE 31. SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT

	2013	2012
Cash and cash equivalents – Group		
Cash and cash equivalents comprise:		
Cash and bank	3,812	5,620
Short-term investments comparable to cash and cash equivalents	1,264	8,209
Total in the balance sheet	5,076	13,829
Total in the cash-flow statement	5,076	13,829
Cash and cash equivalents – Parent Company		
Cash and cash equivalents comprise:		
Cash and bank	0	25
Total in the balance sheet	0	25
Total in the cash-flow statement	0	25

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	
	2013	2012	2013	2012
Interest and dividend paid				
Dividend received	7	8	11,470	9,636
Interest received	185	265	870	349
Interest paid	-2,377	-2,031	-2,351	-1,576
Total	-2,185	-1,758	9,989	8,409

cont. NOTE 31. SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT

	Group		Parent Company	
	2013	2012	2013	2012
Adjustment for non-cash items, etc.				
Changes in value of financial instruments	—	—	377	52
Unappropriated results of associated companies	-10	5	—	—
Gains and losses on disposal of non-current assets	-13	-34	-7	21
Provisions for pensions	—	183	-1	-44
Other provisions	134	-89	-18	-81
Appropriations	—	—	1	-6
Unrealized foreign exchange differences	—	—	-860	-255
Other	-2	186	-241	-360
Total	109	251	-749	-673

	2013	2012
Acquisitions of subsidiaries and other business operations – Group		
Net assets acquired:		
Non-current assets	250	27
Inventories	87	15
Operating receivables	73	-52
Cash and cash equivalents	16	13
Total assets	426	3
Provisions	60	27
Operating liabilities	44	-8
Other liabilities	13	-3
Total provisions and liabilities	117	16
Purchase consideration recognized as a liability	-34	-5
Purchase consideration paid	-505	-44
Less cash and cash equivalents of divested operations	16	5
Effect on cash and cash equivalents	-489	-39

Acquired assets and liabilities in 2012 include the effects of the final acquisition balance relating to the acquisition of SJL, China, which took place in 2011.

	2013	2012
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 32. ACQUISITION AND DIVESTMENT OF OPERATIONS

The business combinations effected during 2012 and 2013 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	Precorp Inc.	1 October 2013	230	200
Sandvik Machining Solutions	Alfa Tool International AB, Sweden	21 December 2012	92	20
Sandvik Mining	Cubex Ltd	1 April 2013	270	110
Sandvik Venture	TechoPartner Samtronic GmbH	1 October 2013	112	35

Precorp Inc

On 12 June 2008, shares corresponding to 49% of the equity in Precorp Inc. were acquired. On 1 October 2013, shares corresponding to 51% of the equity in the company were acquired, at which time a controlling interest was established. A cash payment of 205 million SEK was made for the shares. The company serves customers worldwide, primarily within the aerospace and automotive segments. The product portfolio comprises a full line of polycrystalline diamond (PCD) and cemented-carbide tools (drills, reamers, end mills, port tools, and micro tools) to meet the requirements of high-speed machining of die-cast aluminum, carbide parts and the machining of advanced composite materials. Through the acquisition, Sandvik intends to further develop and strengthen the global business for engineered special diamond and cemented carbide-based cutting tools, particularly to meet the demands of the attractive aerospace segment.

Cubex Ltd

On 1 April 2013, Sandvik acquired Cubex Ltd, a supplier of drilling solutions, by way of an asset-transfer arrangement. Sandvik made a cash payment of 267 million SEK for the business and its assets. CUBEX is an industry-leading drilling solutions provider focused on design and manufacturing of a wide range of underground in-the-hole (ITH) and geotechnical drilling equipment. CUBEX products are distributed globally and the main markets are the US, Canada, Africa, South America and Australia. The acquisition is a natural step to further develop the strong cooperation between the companies. Since 2009, Sandvik has served as global distributor responsible for sales and service of CUBEX products worldwide. CUBEX's knowledge of the ITH drilling method complements Sandvik's already extensive offering in underground drilling.

TechnoPartner Samtronic GmbH

On 1 October 2013, TechnoPartner Samtronic GmbH was acquired by way of an asset-transfer arrangement. Sandvik made a cash payment of 28 million SEK and a further payment of 34 million SEK comprises a contingent purchase consideration for the business and its assets. The company manufactures feed/scattering machines and double belt presses. The company's core capabilities are reinforced Teflon belt-based double belt press machines. The aim of the acquisition is to further reinforce Sandvik's position in the advanced composites segment, both in terms of its product and service offering.

The fair value of assets and liabilities in acquired companies is presented in the tables below.

Total fair value of assets and liabilities of acquired businesses in 2013

	Sandvik Machining Solutions	Sandvik Mining	Sandvik Venture	Fair value recognized in the Group
Intangible assets	54	—	51	105
Property, plant and equipment	133	3	7	142
Financial assets	3	—	—	3
Inventories	9	57	20	87
Current receivables	26	47	—	73
Cash and cash equivalents	16	0	—	16
Interest-bearing liabilities	-0	—	—	-0
Noninterest-bearing liabilities	-66	-27	-24	-117
Net identifiable assets and liabilities	174	80	55	309
Non-controlling interests	—	—	—	—
Goodwill	228	187	—	415
Fair value of previously owned share	197	—	—	197
Purchase consideration	205	267	62	533

The value of acquired assets and assumed liabilities in Precorp Inc., Cubex Ltd and TechnoPartner Samtronic GmbH was determined preliminarily pending a final valuation. A fair-value measurement increased the value of net assets recognized as intangible items in the form of patents. The fair value of former holdings in Precorp Inc. amounted to 197 million SEK and entailed a gain of 68 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 in the case of Precorp Inc. For the two other acquisitions, which were carried out in the form of asset-transfer arrangements, goodwill is expected to be tax deductible. For more detailed information about goodwill, refer to Note 13.

Acquisition-related expenses

Acquisition-related expenses amounted to 4.6 million SEK and relate to consultant fees in conjunction with due diligence. These expenses were recognized as other operating expenses in profit or loss and other comprehensive income.

Contingent purchase consideration

The acquisition agreement covering TechnoPartner Samtronic GmbH states that a contingent purchase consideration will be paid to the seller if sales exceed a specified amount. The additional purchase consideration cannot exceed 34 million SEK and this represents the amount recognized in the Group.

Transferred compensation

Cash and cash equivalents	499
Contingent purchase consideration	34
	533

Total fair value of assets and liabilities of acquired businesses in 2012

The value of acquired assets and assumed liabilities has been finalized for the acquisition of Alfa Tool International AB, which was implemented in 2012. No adjustment was made to the preliminary acquisition values.

NOTES

cont. NOTE 32

Contributions from companies acquired in 2013 by business area

	Sandvik Machining Solutions	Sandvik Construction	Sandvik Mining	Sandvik Materials Technology	Sandvik Venture	Total
Contributions as of acquisition date						
Revenue	48	—	116	—	56	220
Profit/loss for the year	3	—	-22	—	12	-7
Contributions as though the acquisition date had been 1 January 2013						
Revenue	234	—	197	—	186	617
Profit/loss for the year	37	—	-11	—	15	41

Contributions from companies acquired during 2012 by business area

Sandvik Machining Solutions' acquisition in 2012 of Alfa Tool International AB would have contributed income of 92 million SEK and annual profit of 7 million SEK had the transaction been implemented on 1 January 2012. The income and profit contribution from the date on which a controlling interest was established was 0 million SEK.

NOTE 33. PARENT COMPANY PARTICULARS

Sandvik Aktiebolag, corporate registration number 556000-3468, is a Swedish limited liability company. The registered office of its Board of Directors is in Stockholm, Sweden. The address of the head office is PO Box 510, SE-101 30 Stockholm, Sweden.

The 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 2013 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 34. INFORMATION ON SHARES, OWNERS AND RIGHTS

The following information is presented in accordance with the provisions of Chapter 6, Section 2.a. of the Swedish Annual Accounts Act.

The Parent Company has issued one series of shares and each share carries one vote. The total number of shares shall be no less than 1,000,000,000 and no more than 4,000,000,000.

At the end of 2013, 1,254,385,923 shares (1,254,385,923) with a quotient value of 1.20 SEK per share had been issued. Shareholders have a preferential right to subscribe to newly issued shares issued for cash or with terms and conditions concerning rights of setoff. All shares are fully negotiable.

Shareholdings that directly and indirectly represent at least 10% of the voting rights are held by AB Industrivärden (11.6%).

Sandvik AB's Articles of Association govern such policies as the direction of the business, domicile and share capital (minimum and maximum capital). The

cont. NOTE 34. INFORMATION ON SHARES, OWNERS AND RIGHTS

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.

NOTE 35. EFFECTS OF AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS

Up until 31 December 2012, Sandvik applied the corridor approach in connection with the recognition of the Group's pension liability. The updated IAS 19 standard no longer permits this method. As a result, changes in actuarial assumptions are recognized directly in other comprehensive income. In addition, the standard requires the company to use the same interest rate when determining the return on plan assets as that applied when discounting pension obligations.

The updated standard is applied as of 1 January 2013 with full retroactive application. For Sandvik, this entails an increase in the net pension obligation and a corresponding reduction, with due consideration of the tax effects, in retained earnings.

Had the standard been applied as of 31 December 2012, the net pension obligation would have been approximately 5.0 billion SEK higher. On taking deferred tax into account, the effects of the updated standard on retained earnings would have been 3.7 billion SEK lower. The effects in the consolidated income statement, aside from those impacting other comprehensive income, are immaterial and did not entail any adjustment in profit or loss. The full-year effect in other comprehensive income totaled -1,069 million SEK.

The effects in their entirety are presented in the table below:

	1 Jan. 2012			31 Dec. 2012		
	Outcome	IAS 19 adjustment	Restated value	Outcome	IAS 19 adjustment	Restated value
Deferred tax assets	3,070	1,021	4,091	2,544	1,325	3,869
Non-current receivables	3,229	-1,230	1,999	3,285	-1,322	1,963
of which pension plans recognized as an asset	1,573	-1,086	487	1,555	-1,195	360
Other assets	92,440		92,440	98,223		98,223
Total assets	98,739	-209	98,530	104,052	3	104,055
Equity	33,891	-2,627	31,264	36,232	-3,696	32,536
Provisions for pensions	2,358	2,457	4,815	2,242	3,795	6,037
Non-current interest-bearing liabilities	6,487	-39	6,448	6,516	-96	6,420
Other liabilities	56,003		56,003	59,062		59,062
Total liabilities	64,848	2,418	67,266	67,820	3,699	71,519
Total equity and liabilities	98,739	-209	98,530	104,052	3	104,055

BOARD STATEMENT ON DIVIDEND PROPOSAL

Board statement in accordance with Chapter 18, Section 4 of the Swedish Companies Act.

The nature and extent of the company's operations are stated in the Articles of Association and issued annual reports.

Such nature and extent do not entail risks over and above those inherent, or reasonably to be expected, in the industry or otherwise inherent in business operations. For information on significant events, reference is made to the Report of the Directors.

The company's financial position at 31 December 2013 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 its business and meet its obligations in both the short and long term.

In view of the above and based on what the Board is otherwise aware, the proposed dividend in the Board's opinion is justified considering the requirements which the nature, extent and risks associated with the operations place on the size of the equity of the company, and also taking into consideration the company's need to strengthen its balance sheet, liquidity and financial position in general.

Stockholm, 20 February 2014
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	2,230,579,927
profits carried forward	14,838,724,425
and profit for the year	6,575,854,466
SEK	23,645,158,818

be appropriated as follows:

a dividend of 3.50 SEK per share to the shareholders	4,390,350,731
profits carried forward	19,254,808,087
SEK	23,645,158,818

The proposed record date for dividends is Friday, 16 May 2014.

The income statements and the balance sheets of the Group and of the Parent Company are subject to adoption by the Annual General Meeting on 13 May 2014.

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, 20 February 2014

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 26 February 2014

KPMG AB

George Pettersson
Authorized Public Accountant

AUDITOR'S REPORT

TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF SANDVIK AB
(PUBL), CORP. ID. 556000-3468

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Sandvik AB (publ) for the year 2013. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 37–122.

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 2013 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 2013 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 2013.

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 26 February 2014

KPMG AB

George Pettersson
Authorized Public Accountant

BOARD OF DIRECTORS AND AUDITOR

MEMBERS OF THE BOARD



Anders Nyrén



Olof Faxander



Jürgen M Geissinger



Johan Karlström



Fredrik Lundberg



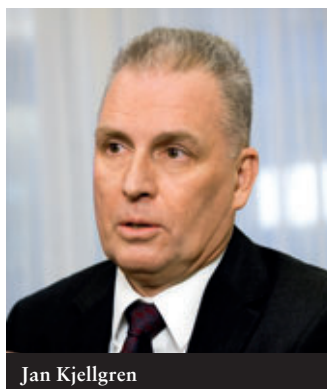
Hanne de Mora



Simon Thompson



Lars Westerberg



Jan Kjellgren



Tomas Kärnström

DEPUTY MEMBERS



Thomas Andersson



Alicia Espinosa

MEMBERS OF THE BOARD**Anders Nyrén, b. 1954.**

Chairman of the Board since 2010.

Board member since 2002, Vice Chairman of the Board 2006–2010. Chairman of the Remuneration Committee and member of the Audit Committee.

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 at AB Wilhelm Becker, STC Scandinavian Trading Co AB, STC Venture AB, OM International AB, Securum AB and Nordbanken 1979–1997. *Current Board assignments:* Chairman of Svenska Handelsbanken AB, Board member of AB Industrivärden, SCA, AB Volvo, Ernström & C:o AB, 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.

Board member 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: — *Shareholding in Sandvik (own and closely related persons):* 32,660.

Not independent in relation to the company and its executive management.

Jürgen M Geissinger, b. 1959.

Board member since 2012.

Education and business experience: PhD in Mechanical Engineering. President and CEO of Schaeffler AG 1998–2013, various senior positions at ITT Automotive 1992–1998.

Current Board assignments: Member of the Supervisory Board of MTU Aero Engines AG. *Shareholding in Sandvik (own and closely related persons):* 0.

Johan Karlström, b. 1957.

Board member since 2011. Member of the Remuneration Committee.

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: Board member of Skanska AB.

Shareholding in Sandvik (own and closely related persons): 5,000.

Fredrik Lundberg, b. 1951.

Board member 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, Hufvudstaden AB and Indutrade AB, Vice Chairman of Svenska Handelsbanken AB, Board member of L E Lundbergföretagen AB, AB Industrivärden and Skanska AB. *Shareholding in Sandvik (own and closely related persons):* 6,540,000, via L E Lundbergföretagen AB 30,000,000 and via AB Industrivärden 145,274,257.

Not independent in relation to major shareholders in the company.

Hanne de Mora, b. 1960.

Board member since 2006. Chairman of the Audit Committee.

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 at Procter & Gamble 1986–1989.

Current Board assignments: Board member of AB Volvo and IMD Foundation Board.

Shareholding in Sandvik (own and closely related persons): 0.

Simon Thompson, b. 1959.

Board member since 2008. Member of the Audit Committee.

Education and business experience: M.A. (Geology). Various positions at Anglo American Group 1995–2007 including Board member of Anglo American plc 2005–2007, AngloGold Ashanti 2004–2008, Chairman of Tarmac 2004–2007, Board member of SG Warburg 1994–1995, NM Rothschild & Sons Ltd. 1984–1995.

Current Board assignments: Chairman of Tullow Oil plc., Board member of Newmont Mining Corporation and AMEC plc.

Shareholding in Sandvik (own and closely related persons): 0.

Lars Westerberg, b. 1948.

Board member since 2010. Member of the Remuneration Committee.

Education and business experience: M.Sc. (Eng.) and B.Sc. (Econ.). President and CEO of Autoliv Inc. 1999–2007, Gränges AB 1994–1999 and ESAB 1991–1994. Various positions at ESAB and ASEA from 1972.

Current Board assignments: Chairman of Husqvarna AB, Board member of SSAB, AB Volvo, Stena AB and Meda AB.

Shareholding in Sandvik (own and closely related persons): 12,000.

Jan Kjellgren, b. 1952.

Board member since 2008 (Employee representative).

Education and business experience: Senior R&D engineer, AB Sandvik Coromant. Various positions at Sandvik since 1981.

Current Board assignments: — *Shareholding in Sandvik (own and closely related persons):* 570.

Tomas Kärnström, b. 1966.

Board member since 2006 (Employee representative).

Education and business experience: Principal safety representative Sandvik Materials Technology. Various positions at Sandvik since 1986.

Current Board assignments: — *Shareholding in Sandvik (own and closely related persons):* 2,889.

DEPUTY MEMBERS**Thomas Andersson, b. 1962.**

Deputy Board member since 2012 (Employee representative).

Education and business experience: Chairman of the Union Committee, Metal Workers' Union, Sandvik Coromant, Gimo. Various operator positions at Gimoverken since 1984.

Current Board assignments: — *Shareholding in Sandvik (own and closely related persons):* 612.

Alicia Espinosa, b. 1967.

Deputy Board member since 2010 (Employee representative).

Education and business experience: M.Sc. (Eng.). EHS Manager at the Oil and Gas Sandviken product unit, various positions within Sandvik since 2000, including Flow Manager, Sandvik Materials Technology.

Current Board assignments: — *Shareholding in Sandvik (own and closely related persons):* 7,759.

HONORARY CHAIRMAN**Percy Barnevik, b. 1941.**

Chairman of the Board of Sandvik AB 1983–2002.

BOARD SECRETARY**Bo Severin, b. 1955.**

Secretary to the Sandvik Board of Directors since 2000.

Education and business experience: Master of Laws. General Counsel at Sandvik AB.

Current Board assignments: Board member of International Council of Swedish Industry. *Shareholding in Sandvik (own and closely related persons):* 9,454.

AUDITOR**KPMG AB**

Auditor-in-charge:

George Pettersson, b. 1964.

Authorized Public Accountant.

Other auditing assignments: Auditor in charge for B&B Tools AB, Holmen AB, Hufvudstaden AB, LE Lundbergföretagen AB and Skanska AB, among others.

Shareholding in Sandvik (own and closely related persons): 0.

GROUP EXECUTIVE MANAGEMENT



Olof Faxander



Jessica Alm



Mats Backman



Petra Einarsson



Dinggui Gao



Jonas Gustavsson



Gary Hughes



Tomas Nordahl



Bo Severin



Anna Vikström Persson

MEMBERS OF EXTENDED GROUP EXECUTIVE MANAGEMENT IN 2013



Ajay Sambrani



Olle Wijk



Zhiqiang (ZZ) Zhang

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: —
Shareholding in Sandvik (own and closely related persons): 32,660.

Jessica Alm, b. 1977.

Executive Vice President and Head of Group Communications, Sandvik AB, since 1 July 2013.
Education and business experience: M.Sc. in Geological and Earth Sciences/Geosciences, and Journalism. Employed at Sandvik since 2006. Various senior positions, including Vice President Communication and Marketing at Sandvik Coromant (2012–2013) and Internal Communication Manager at Sandvik Coromant (2010–2012).
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 332.

Mats Backman, b. 1968.

Chief Financial Officer and Executive Vice President, Sandvik AB, since 1 October 2013.
Education and business experience: B.Sc. in Business Administration and Economics. Various senior positions at Sandvik since 2007. Outokumpu Oy 2001–2007, Nordea 1999–2001, Boliden 1996–1999.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 5,943.

Petra Einarsson, b. 1967.

President of the Sandvik Materials Technology business area since 1 February 2013.
Education and business experience: B.Sc. in Business Administration and Economics. Employed at Sandvik since 1990. Various senior positions, including Financial Manager at Sandvik Materials Technology (2004–2007), President of the Strip product area (2007–2011) and President of the Tube product area (2011–2013).
Current Board assignments: Board member of the Swedish Association of Industrial Employers and member of the council of the Swedish Steel Producers' Association.
Shareholding in Sandvik (own and closely related persons): 4,295.

Dinggui Gao, b. 1964.

President of the Sandvik Construction business area since 1 October 2013.
Education and business experience: MBA and B.Sc. in Mechanical Engineering. Various senior positions at Bosch, Eagle Ottawa China, Honeywell Automotive Parts and Sinotruk Hong Kong 1991–2013.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 0.

Jonas Gustavsson, b. 1967.

President of the Sandvik Materials Technology business area until 31 January 2013, thereafter President of the Sandvik Machining Solutions business area.
Education and business experience: M.Sc. (Eng.) Various senior positions at Sandvik since 2008, Vice President Operations at Rotax 2002–2007, various positions at Bombardier 1997–2002 and ABB 1995–1997.
Current Board assignments: Board member of the Steel and Metal Employers Association.
Shareholding in Sandvik (own and closely related persons): 11,007.

Gary Hughes, b. 1958.

President of the Sandvik Mining business area since 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 at Sandvik in Africa 1997–2003.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 11,519.

Tomas Nordahl, b. 1968.

President of the Sandvik Venture business area since 2012 and 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): 7,925.

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: Board member of International Council of Swedish Industry.
Shareholding in Sandvik (own and closely related persons): 9,454.

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 Human Resources at SSAB 2006–2011. Head of Human Resources for Ericsson's Swedish operations 2004–2006. Various senior positions in Human Resources and Organizational Development for the Ericsson Group 1998–2006.
Current Board assignments: Board member of Know IT.
Shareholding in Sandvik (own and closely related persons): 10,442.

MEMBERS WHO LEFT GROUP EXECUTIVE MANAGEMENT DURING 2013:**Emil Nilsson**, b. 1971.

Chief Financial Officer and Executive Vice President of Sandvik AB until 30 September 2013.

Andy Taylor, b. 1969.

Acting President of the Sandvik Construction business area until 30 September 2013.

Jan Lissåker, b. 1958.

Executive Vice President Group Communications of Sandvik AB, until 30 June 2013.

Andreas Evertz, b. 1969.

President of the Sandvik Machining Solutions business area until 31 January 2013.

MEMBERS OF EXTENDED GROUP EXECUTIVE MANAGEMENT IN 2013:**Ajay Sambrani**, b. 1966.

Country Manager India and Managing Director Sandvik Asia Private Ltd from 2011 until 14 January 2014.
Education and business experience: Bachelor in Industrial Engineering and Management Diploma, ABB University. Employed 2006–2014.
 Ajay Sambrani left the company, and thus also Extended Group Executive Management, on 14 January 2014.

Olle Wijk, b. 1951.

Senior Vice President and Head of Group R&D. Chairman of Sandvik's R&D Board since 2012.
Education and business experience: Metallurgical engineer. Professor in process metallurgy, KTH Royal Institute of Technology, Stockholm, 1987–1996. Visiting 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 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. Employed since 2012.

Group functions

Communications	Jessica Alm
Finance	Mats Backman
HR	Anna Vikström Persson
IT, sourcing and strategy	Tomas Nordahl
Legal	Bo Severin

ANNUAL GENERAL MEETING AND DIVIDEND

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Tuesday, 13 May 2014 at 5:00 p.m. at the Göransson Arena, Sättagatan 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, 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 Wednesday, 7 May 2014. Shareholders must also have been entered in the share register kept by Euroclear Sweden AB on Wednesday, 7 May 2014 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 Wednesday, 7 May 2014 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 2014 Annual General Meeting declare a dividend of 3.50 SEK per share.

The proposed record date is Friday, 16 May 2014. If this proposal is adopted by the Annual General Meeting, it is expected that dividends will be paid on

Wednesday, 21 May 2014. 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

The Annual Report is available at www.sandvik.com, where a printed copy can also be ordered.

FINANCIAL KEY FIGURES

Key figures

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Invoiced sales, MSEK	87,328	98,529	94,084	82,654	71,937	92,654	86,338	72,289	63,370	54,610
Change, %	-11	+5	+14	+15	-22	+7	+19	+14	+16	+12
of which organic, %	-7	+5	+20	+17	-30	+5	+18	+14	+14	+15
of which structural, %	0	0	0	+1	0	+2	+3	+1	-1	-1
of which currency, %	-5	0	-5	-2	+10	0	-2	-1	+3	-2
Operating profit/loss, MSEK	8,638	13,490	10,148	11,029	-1,412	12,794	14,394	12,068	9,532	7,578
as % of invoicing	10	14	11	13	-2	14	17	17	15	14
Profit/loss after financial items, MSEK	6,753	11,516	8,179	9,412	-3,472	10,577	12,997	11,113	8,819	6,877
as % of invoicing	8	12	9	11	-5	11	15	15	14	13
Consolidated net profit for the year, MSEK	5,008	8,107	5,861	6,943	-2,596	7,836	9,594	8,107	6,392	5,111
Shareholders' equity ¹ , MSEK	33,610	32,536	31,264	33,813	29,957	36,725	29,823	27,198	24,507 ²⁾	23,551 ²⁾
Equity ratio ¹ , %	36	31	32	38	33	36	35	41	41	46
Net debt/equity ratio ³ , multiple	0.7	0.6	0.7	0.7	1.0	0.9	1.0	0.6	0.7	0.5
Rate of capital turnover ³ , %	89	97	100	92	73	101	112	115	112	108
Cash and cash equivalents, MSEK	5,076	13,829	5,592	4,783	7,506	4,998	2,006	1,745	1,559	1,720
Return on shareholders' equity ¹ , %	15.3	25.3	18.5	22.1	-7.9	24.8	34.4	31.8	27.4	21.7
Return on capital employed ¹ , %	12.6	19.8	16.0	17.4	-1.3	19.9	27.0	27.6	23.7	20.5
Investments in non-current assets ⁴ , MSEK	4,185	4,820	4,994	3,378	4,006	6,634	4,811	4,175	3,665	2,967
Total investments ⁴ , MSEK	4,674	4,859	5,332	4,493	6,161	7,766	9,480	5,455	3,950	3,278
Cash flow from operations ⁴ , MSEK	5,133	11,892	7,764	12,149	11,792	9,335	5,076	7,741	7,266	5,322
Cash flow, MSEK	-8,656	8,450	907	-2,642	2,471	2,764	179	357	-380	-207
Number of employees, 31 December	47,338	48,742	50,030	47,064	44,355	50,028	47,123	41,743	39,613	38,421

¹⁾ As of 2011, comparative figures adjusted due to amended accounting policies. Refer to Note 35 for further information.

²⁾ Total equity, including minority interest.

³⁾ As of 2011, comparative figures adjusted due to changed definition. For definitions, refer to page 92.

⁴⁾ As of 2006, excluding rental fleet.

Per-share data

(All historical figures are adjusted taking into account the 5:1 split.)

SEK	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Basic earnings ¹⁾	4.00	6.51	4.63	5.59	-2.24	6.30	7.65	6.45	4.95	3.85
Diluted earnings ²⁾	4.00	6.51	4.63	5.59	-2.24	6.29	7.65	6.45	4.90	3.75
Equity ³⁾	26.7	25.9	25.2	27.5	24.4	30.00	24.10	22.00	19.80	18.30
Dividend (2013 as proposed)	3.50	3.50	3.25	3.00	1.00	3.15	4.00	3.25	2.70	2.20
Direct return ⁴⁾ , %	3.9	3.4	3.8	2.3	1.2	6.4	3.6	3.3	3.6	4.1
Payout percentage ⁵⁾ , %	88	54	70	54	—	50	52	50	55	57
Quoted prices, Sandvik share, highest	108	107	135	133	90	108	151	106	79	56
lowest	79	82	73	76	41	42	96	71	54	46
year-end	90.70	103.50	84	131	86	49	111	100	74	54
No. of shares at year-end, million	1,254.4	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
Average no. of shares, million	1,254.4	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
P/E ratio ⁶⁾	22.7	15.9	18.2	23.5	—	7.8	14.5	15.4	15.0	13.9
Quoted price, % of equity ^{2) 7)}	340	400	333	476	352	163	462	452	374	293

¹⁾ Profit/loss for the year per share.²⁾ Profit/loss for the year per share after dilution of outstanding convertible program.³⁾ As of 2011, comparative figures adjusted due to amended accounting policies. Refer to Note 35 for further information.⁴⁾ Dividend divided by the quoted price at year-end.⁵⁾ Dividend divided by basic earnings per share.⁶⁾ Market price of share at year-end in relation to earnings per share.⁷⁾ Market price of share at year-end, as a percentage of equity per share.

Supplementary definitions, see page 92.

Development by business area

	Invoiced sales				Operating profit and operating margin							
	2013 MSEK	2012 MSEK	2011 MSEK	2010 MSEK	2013 MSEK	%	2012 MSEK	%	2011 MSEK	%	2010 MSEK	%
Sandvik Mining	30,744	37,762	32,232	27,160	2,743	9	6,004	16	5,189	16	4,096	15
Sandvik Machining Solutions	28,543	28,482	28,171	24,457	5,205	18	6,256	22	6,347	23	4,850	20
Sandvik Materials Technology	14,035	15,366	16,339	15,703	1,270	9	592	4	-642	-4	1,233	8
Sandvik Construction	8,601	9,683	9,249	8,023	110	1	748	8	58	1	570	7
Sandvik Venture	5,394	7,194	8,056	7,275	606	11	1,238	17	-21	-0	850	12

