



# ANNUAL REPORT 2014





Sandvik's production site for cutting tools, Gimo, Sweden.

## CONTENT

YEAR IN BRIEF .....	1
LETTER FROM THE PRESIDENT AND CEO .....	2
OUR WORLD .....	4
DRIVERS FOR GROWTH .....	8
OUR STRATEGY .....	10
OUR CUSTOMERS .....	16
RESEARCH AND DEVELOPMENT .....	26
OUR EMPLOYEES .....	30
OUR SHARE .....	34
 REPORT OF THE DIRECTORS .....	 37
Group summary .....	37
Development in business areas .....	43
Integrated risk management .....	54
Financial risk management .....	56
Corporate governance report .....	63
 CONSOLIDATED FINANCIAL STATEMENTS .....	 72
Income statement .....	73
Balance sheet .....	74
Changes in equity .....	76
Cash-flow statement .....	77
 PARENT COMPANY FINANCIAL STATEMENTS .....	 78
Income statement .....	79
Balance sheet .....	80
Changes in equity .....	82
Cash-flow statement .....	83
 SIGNIFICANT ACCOUNTING POLICIES .....	 84
NOTES .....	95
BOARD'S STATEMENT ON DIVIDEND PROPOSAL .....	123
PROPOSED APPROPRIATION OF PROFITS .....	124
AUDITOR'S REPORT .....	125
BOARD OF DIRECTORS .....	126
GROUP EXECUTIVE MANAGEMENT .....	128
ANNUAL GENERAL MEETING AND DIVIDEND .....	130
FINANCIAL KEY FIGURES .....	131
DEFINITIONS .....	132

## FORTHCOMING INFORMATION AND REPORTS

Report on the first quarter 2015	27 April 2015
Annual General Meeting 2015	7 May 2015
Report on the second quarter 2015	17 July 2015
Report on the third quarter 2015	23 October 2015
Capital Markets Day 2015	16 November 2015
Report on the fourth quarter 2015	First quarter 2016

The Annual Report is available online at [sandvik.com](http://sandvik.com), where a printed copy can also be ordered, together with our other publications, such as our Sustainable Business Report.

The formal Annual Report comprises the pages 37–124. In some cases, tables and calculations do not always agree exactly with the totals shown due to rounding.



# 2014

- Stable market demand and order intake with advances in fast-growing areas, such as aerospace and mid-market, as well as in mining aftermarket.
- Strengthened product and service offering in core businesses, resulting in 800 new patents granted in 2014.
- Efficiency programs in supply chain and Group functions progressing according to plan.
- Strong cash flow through focus on capital allocation and reduced inventories.
- Active portfolio management through completion of the acquisition of Varel International Energy Services and divestment of a number of non-core businesses.
- Lost time injury frequency rate (LTIFR) declined for the fourth consecutive year to 2.5 at year-end, the lowest in Sandvik's history.

## 85,957

MSEK  
Order intake –2%\*

## 8,264

MSEK  
Profit after financial items

## 4.79

SEK  
Earnings per share

## 88,821

MSEK  
Invoiced sales –2%\*

## 13.4

%  
Return on capital  
employed

## 3.50

SEK  
Proposed dividend

\* At fixed exchange rates for comparable units

# STRENGTHENING OUR MARKET-LEADING POSITION

**We set the industry standard. This is a good description of what I and my 47,000 colleagues across the globe strive for each day. Based on strong values and a long history of important industrial innovations, we are continuing to develop products and solutions that help our customers strengthen their competitiveness. The strategy we launched nearly three years ago, and the work that we have done, are now starting to yield results.**

During the year, sales developed successfully in a number of segments, such as aerospace and energy. We advanced in emerging markets through increased focus on localization of the product and service offerings, as well as an improved mid-market offering. In addition, our mining aftermarket business developed positively. In general, challenging macro-economic conditions prevailed during the year, however, in North America and especially the US, demand was relatively strong.

We have commenced the process of adapting our manufacturing footprint and have implemented activities to release more capital for investment in growth. The lower demand in some segments was balanced by realized cost savings and increased synergies. Our efficiency programs have developed according to plan – both the supply chain optimization program, with 11 closures initiated in 2014, and the

outsourcing and establishment of shared services in Group functions. Although these programs have required initial investments, we are now starting to realize cost savings. We have been successful in reducing inventories and in achieving a strong cash flow at year-end.

By applying a clear customer focus, we have continued to launch innovative products and strengthen our market-leading position. We have set a new standard for powerful and fuel-efficient underground mining trucks. Using new ground-breaking technology, we have developed more tools and methods that help our customers in the automotive, aerospace, oil and gas sectors to speed up their product development processes and to enhance safety and sustainability in manufacturing operations. We are also looking beyond current boundaries and examining material and production methods, such as powder technology and 3D printing, that can lead to the next big productivity boost in the industry. The investments and efficiency improvements we have carried out in R&D in recent years are now yielding results. For example, I am looking forward to the launch of the nearly 15,000 products that our largest business area, Sandvik Machining Solutions, is planning for 2015. The R&D investments in emerging markets have been significant for our business. In India, where we currently have four R&D centers with about

300 employees, we are building a new center and establishing new research collaborations to reinforce our local and global offering.

The close and strong customer relationships also play a major role in our aftermarket business. We are becoming better and better at meeting and identifying the needs of our customers throughout the product life cycle. Sales of services and spare parts is a strategically important area for Sandvik. In the Sandvik Mining business area, services and aftermarket accounted for 53% of total sales in 2014.

We are increasing exposure in the sectors we view as critical to large sections of society. One such sector is energy. With the acquisition of Varel International Energy Services, we have strengthened our offering of solutions for a growing energy market. By launching leading energy-efficient solutions for industry worldwide, we simultaneously make it possible for our customers to reduce their environmental impact and create a better world for us all.

At the same time, we will maintain our active portfolio management and our strategy to divest non-core businesses. Examples of such divestments in 2014 were Sandvik Materials Technology's distribution business in Australia and New Zealand and the power spring business in the US and Mexico.

By recruiting and developing the best talents, we are enhancing our capacity as a high-technology and

---

## "THE CLOSE AND STRONG CUSTOMER RELATIONSHIPS PLAY A MAJOR ROLE IN OUR AFTERMARKET BUSINESS."

market-leading industrial Group. Sandvik is a global, innovative and exciting workplace where people can make a difference – to companies, communities and the environment. During the year, we launched a global trainee program and introduced clear career paths for our experts. We reinforced our executive development efforts, talent evaluation process and incentive program. The purpose of all of these activities is to continue to develop the performance-based culture that is so important to a global company such as Sandvik.

One of the most important elements of our culture is safety. We are very pleased to report a further reduction in our lost time injury frequency rate, which declined for the fourth consecutive year to 2.5 in total at year-end for all operations – the lowest in Sandvik's history. There is a strong sense of awareness in the Group of the importance of always putting safety first. The task at hand now is to continue our focused work to ensure that the injury rate is maintained at this very low level for the industry.

With the robust actions of recent years, we are better positioned to address rapid changes in our operating environment and generate long-term value for our shareholders. We continue to focus on our strategic actions aimed at yielding higher returns, reduced earnings volatility and greater exposure to attractive growth areas.

Finally, I would like to thank all employees who have made, and continue to make, this possible. I have immense respect for all of the knowledge and commitment that exist within our company, which leaves me confident that we can continue to deliver and keep our promises in the years ahead.

Stockholm, February 2015



Olof Faxander  
President and CEO



# HIGH-TECH AND GLOBAL

We are a high-tech and global engineering group offering advanced products and services that enhance our customers' productivity, profitability and safety. In 2014, we had about 47,000 employees and sales of about 89 billion SEK in more than 130 countries. Our operations are based on unique expertise in materials technology and extensive insight into industrial and customer processes. We invest substantially in research and development and maintain close cooperation with our customers and suppliers. Our business is organized into five business areas: Sandvik Machining Solutions, Sandvik Mining, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture.

## WORLD-LEADING POSITIONS IN THE FOLLOWING 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\*

**19%**

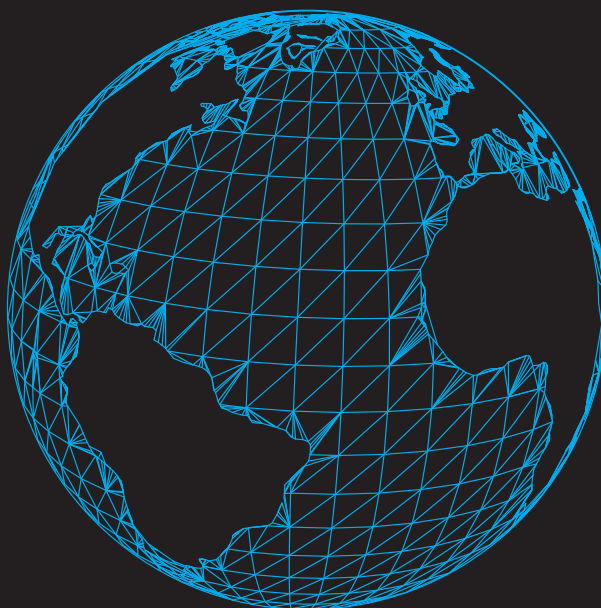
NORTH AMERICA

**8%**

SOUTH AMERICA

**9%**

AFRICA/MIDDLE EAST



**38%**

EUROPE

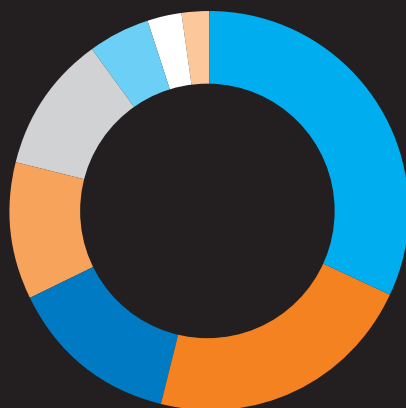
**19%**

ASIA

**7%**

AUSTRALIA

## INVOICED SALES BY CUSTOMER SEGMENT\*



- Mining industry 32%
- Engineering industry 22%
- Energy industry 14%
- Automotive industry 11%
- Construction industry 11%
- Aerospace industry 5%
- Consumer-related industry 3%
- Miscellaneous 2%

**8,000**

active patents and other  
intellectual property rights



**3** BILLION SEK

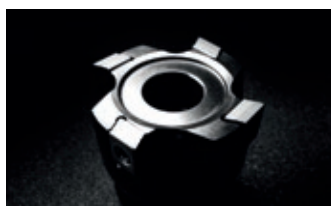
in research and development

\* Share of the Group's 2014 total invoiced sales



## BUSINESS AREA OVERVIEW

Sandvik is organized into five business areas responsible for research and development (R&D), production, marketing and sales of their respective products.



### SANDVIK MACHINING SOLUTIONS



### SANDVIK MINING

## OFFERING

A global market-leading manufacturer of tools and tooling systems for advanced industrial metal cutting. Products are manufactured in cemented carbide and other hard materials such as diamond, cubic boron nitride and special ceramics. Focus is on increasing customer productivity by providing products, solutions and applications know-how. The products are sold under well-established brands such as Sandvik Coromant, Seco, Walter, Pramet, Dormer and Carbology.

A leading global supplier offering the most complete product program in the market for the mining industry, including equipment and tools, service and technical solutions. The offering covers rock drilling, cutting and crushing, loading and hauling, recycling and materials handling of rock and minerals.

## MARKET

Customers operate in the general engineering, aerospace and automotive industries, the energy sector, as well as the electronics and medical technology industries. In 2014, the global market for metal-cutting tools was estimated to approximately 160 billion SEK. The average annual growth is expected to be 4–5% in the long term.

The products are primarily deployed in mines worldwide. In 2014, the global market was estimated to approximately 140 billion SEK. Although development is flat in the short term, the average annual growth is expected to be 4–6% in the long term.

## YEAR IN BRIEF

- Growth in key segments
- Strong cash flow
- Optimization of supply chain; two units closed

#### INVOICED SALES\*



#### OPERATING PROFIT\*\*



#### NUMBER OF EMPLOYEES\*\*\*

**18,927**

- Stable aftermarket demand, challenging market for Equipment and Mining Systems
- Savings from workforce reductions
- Optimization of supply chain; two units closed

#### INVOICED SALES\*



#### OPERATING PROFIT\*\*



#### NUMBER OF EMPLOYEES\*\*\*

**11,815**





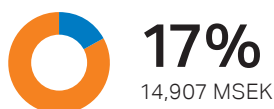
## SANDVIK MATERIALS TECHNOLOGY

A world-leading manufacturer of high value-added products made from advanced stainless steels and special alloys for the most demanding industries, such as oil and gas, nuclear and chemical. New materials are developed in close cooperation with customers, and the focus is on making the customers' processes safer and more efficient while reducing the environmental impact.

Customers are active primarily in the energy segment, but also in the chemical, aerospace, mining and automotive industries, among others. In 2014, the global market was estimated to approximately 130 billion SEK. The average annual growth is expected to be 4–6% in the long term, although growth is normally higher in the energy segment.

- Favorable demand and growth in the energy segment
- Stable profitability
- Divestment of non-core businesses

### INVOICED SALES\*



### OPERATING PROFIT\*\*



### NUMBER OF EMPLOYEES\*\*\*

**6,914**



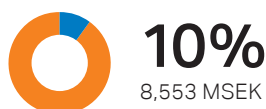
## SANDVIK CONSTRUCTION

Sandvik Construction specializes in equipment, tools and service for the breaking, drilling and crushing niches in the construction industry. Application areas include tunneling, quarrying, civil engineering, demolition and recycling. The range of products includes rock tools, drill rigs, breakers, bulk materials handling and crushing and screening machinery.

The products are deployed in construction operations worldwide. In 2014, the global market was estimated to about 140 billion SEK. The average annual growth for equipment, tools and spare parts in the construction industry is expected to be 4% in the long term.

- Stable position in a challenging market
- Improved operational efficiency
- Optimization of supply chain; one unit closed

### INVOICED SALES\*

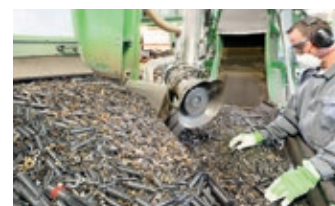


### OPERATING PROFIT\*\*



### NUMBER OF EMPLOYEES\*\*\*

**2,815**



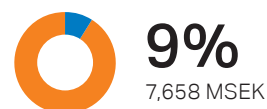
## SANDVIK VENTURE

Sandvik Venture accelerates growth of small to mid-sized businesses with further potential to expand. The product areas – Sandvik Process Systems, Sandvik Hyperion, Wolfram Bergbau und Hütten and Varel International Energy Services – are leading suppliers of products and applications in their respective niches and also serve as enablers for other Sandvik business areas.

Customers are active in oil and gas, mining, metal cutting, composites and specific consumer niches.

- Acquisition of Varel International Energy Services, Inc.
- Sandvik Hyperion operational as one product area
- Leveling capacity investment in Sandviken, Sweden, finalized

### INVOICED SALES\*



### OPERATING PROFIT\*\*



### NUMBER OF EMPLOYEES\*\*\*

**4,074**

\* Share of the Group's total invoiced sales. \*\* Share of the Group's total operating profit, excluding Group activities. \*\*\* Restated to Full Time Equivalents (FTEs) at 31 December 2014. 2,773 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.

# LEVERAGING GLOBAL DRIVERS

To remain relevant in a competitive and challenging market, we continuously monitor global trends that have implications for our business. These trends present significant challenges in areas such as energy supply and environmental protection. Accordingly, we continue to leverage rapid technological advances, focusing on innovations that boost productivity and energy efficiency, improve resource utilization and increase safety.

## DEMOGRAPHIC CHANGES

The global population is rapidly growing. Since 1970 the population has doubled to seven billion people, life expectancy is constantly increasing and the number of elderly people is growing. Demographic changes also lead to a shift in commercial attractiveness due to redistribution of the world's population.

We are shifting our geographic footprint to establish a stronger presence in fast-growing markets and regions, such as India and China.



## URBANIZATION

A substantial long-term population shift is taking place, from rural to urban areas. This increases demands for intra-urban solutions to develop housing, infrastructure and transport solutions. In connection with this trend, the automotive industry is developing significantly. Furthermore, a larger urban population entails increasing energy demands and the need to secure sustainable and efficient energy sources. Materials technology is a key factor in this development.

We have for example launched our second series of grades for steel-turning operations based on the Inveio™ technology, a breakthrough in material science that increases productivity for our automotive customers. We have also identified our new applications for our metal powder. As a result of its excellent corrosion properties, it is used in valve bodies, manifolds, swivels and headers.

## GLOBALIZATION

Advances in transportation as well as information and communication technology (ICT) facilitate the easy interchange of, for example, world views, products and ideas. Barriers blocking the flow of goods, services, capital and people have lifted and, simultaneously, these flows are growing more complex. In parallel, the mid-market segment has emerged. To remain relevant in a world that is evolving quickly, speed in R&D, product development and customer interaction is vital.

We develop and share knowledge in key technologies throughout the organization, which enables our customers to gain even greater leverage from our combined innovative solutions. We continuously increase the launch pace of our products and offerings focusing on productivity and energy efficiency.



## CLIMATE CHANGE AND SCARCITY OF RESOURCES

Climate change imposes demands on new technologies to help mitigate negative effects. In pace with population growth, energy consumption is increasing and access to energy is a strategic issue in many countries. Access to clean water is imperative both for people and industries. Accordingly, demand is growing for refined technologies, such as directional drilling, materials for deep-sea extraction and technologies for water treatment. Technologies for carbon capturing and other means to mitigate climate change, as well as identifying substitutes to critical products, are vital.

We have allocated R&D resources to strategic growth areas, such as the energy segment. We have also introduced a new generation of underground trucks and launched a new technology for combustion engines (GDI), both of which consume significantly less fuel than their counterparts.

## INFORMATION AND COMMUNICATION TECHNOLOGY DEVELOPMENT

Through sensor technology, microcomputers and networking devices, objects are becoming increasingly connected and automated. The traditional linear value chain is dissolving, paving the way for new business models where service and systems thinking are vital prerequisites, and where security matters must be given careful consideration. Businesses need to adjust their competence mix to enable development of digitized customer offerings, delivery capabilities and sales and marketing.

We have developed an automatic 3D navigation and positioning system for drilling operations and introduced Sandvik AutoMine®, a system family for mining that ensures improved working conditions and safety, increased productivity and reduced maintenance costs. Our Adveon Tool Library™ integrates cutting tool information into the customer's CAM systems to facilitate easier, faster and more accurate virtual tool assembly.



# FOUNDATION FOR CONSOLIDATING OUR LEADING POSITION

## VISION

### WE SET THE INDUSTRY STANDARD

Our vision means that we set the benchmark for others to follow. We will achieve this, not only through technology and expertise, but equally importantly, through our employees and the relationships we 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.

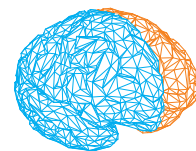
## CORE VALUES

Our core values are built on our rich heritage and support our ambitions for the future.



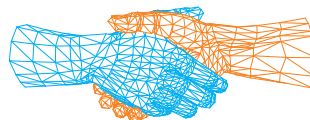
### CUSTOMER FOCUS

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.

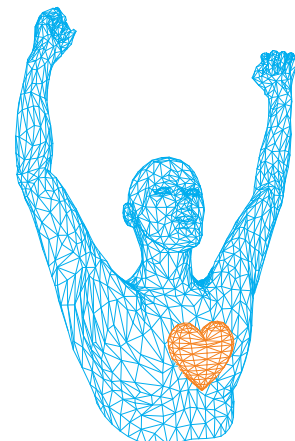


### FAIR PLAY

We conduct business in a sustainable and responsible manner.

### PASSION TO WIN

We are passionate about making our company number one.





## BRAND PROMISE

# AMPLIFYING YOUR POSSIBILITIES

We strive toward amplifying your possibilities; adding productivity, sustainability – a high level of safety and ethics, and the ability to achieve continued success and growth. This is our brand promise.

## STRATEGIC DIRECTION

We have identified five guiding principles that describe our strategic direction and how we act to set the industry standard. With a strengthened customer focus as a base, we need to be:



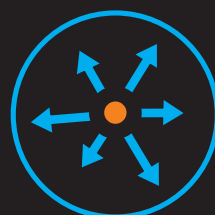
### GROWTH ORIENTED

Increase exposure to high-growth markets and segments.



### TECHNOLOGY LEADER

Supply customers with leading solutions and capitalize on new trends.



### FLEXIBLE AND AGILE

Have the ability to react quickly to market changes.



### EXCEPTIONAL PEOPLE

Attract, develop and retain the best talents, and create a culture that realizes the full potential of all our employees.



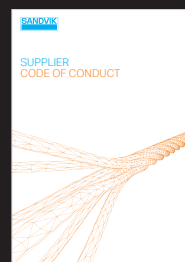
### TRULY GLOBAL

Think and act globally with a global footprint.

## CODES OF CONDUCT

Sandvik's Code of Conduct and Supplier Code of Conduct were revised during 2014. The revised Supplier Code of Conduct was issued during 2014 and the revised Code of Conduct will be launched during 2015. Our Codes confirm our strong commitment to ethical and responsible business practices and compliance with the relevant laws

and regulations in the countries where we operate. The process of revising the Code of Conduct included a multi-stakeholder approach. The Code of Conduct is supported by a global reporting tool called "Speak Up", which will be launched together with the Code of Conduct.



## HOW WE OPERATE – OUR ROLES AND RESPONSIBILITIES

### GROUP

The vision and strategic direction for Sandvik are determined by the Group Executive Management. Central enabling group functions decide on strategic plans that leverage key areas, such as strategic R&D, communications, talent development and mergers and acquisitions (M&A). They are also responsible for creating synergies by centralizing services and infrastructure.

### BUSINESS AREAS

Sandvik is organized into five business areas responsible for research and development (R&D), production, marketing and sales of their respective products. The strategic initiatives of the business areas support the vision and strategic direction of the Group.

### SANDVIK MACHINING SOLUTIONS

- strengthen the R&D portfolio
- generate growth in core markets
- more than double mid-market sales
- improve production and sales efficiency

### SANDVIK MINING

- be the industry leader by improving our customers' safety and productivity
- build a world-class supply chain addressing the areas of manufacturing footprint, sourcing, product offering and sales, including aftermarket sales

### SANDVIK MATERIALS TECHNOLOGY

- additional focus on profitable growth and capital efficiency
- continued evolution of advanced materials
- significant redirection of the portfolio toward the energy segment and energy efficiency-related applications
- implementation of a lean business model for the more standardized product program

### SANDVIK CONSTRUCTION

- restructure the supply chain
- improve operational efficiency
- generate growth in core areas focusing on service and aftermarket
- boost sales through commercial excellence



### SANDVIK VENTURE

- Accelerates the growth of small to mid-size businesses with further potential to expand, including:
- strengthening the existing portfolio
  - extending Sandvik's capabilities in high-growth segments
  - commercializing new opportunities

## FINANCIAL TARGETS DRIVING VALUE CREATION

Our financial targets are based on assessments of the company's strength and how it is positioned for the future. The targets contribute to retaining and strengthening the

Group's leading, global position and create long-term value for shareholders and other stakeholders. A main focus is the vigorous streamlining of operations to strengthen

cash flow. Thereby we secure the necessary resources to be able to increase investments in growth-promoting activities, such as R&D and sales.

### GROWTH\*

**8%**

OUTCOME 2014: 2%

### RETURN ON CAPITAL EMPLOYED\*

**25%**

OUTCOME 2014: 13.4%

### NET DEBT /EQUITY RATIO

**<0.8**

OUTCOME 2014: 0.7

### DIVIDEND PAYOUT RATIO

**50%**

OF EARNINGS PER SHARE.  
OUTCOME 2014: 73%\*\*

\* Measured over a business cycle.

\*\* Proposed dividend.

# CAPITALIZING ON OUR COMBINED STRENGTHS

To retain and consolidate our world-leading position and drive profitable growth, we are capitalizing further on the combined strengths of the businesses in the Group and developing an even more customer-focused, fast-paced, truly global and sustainable organization.

Historically, we have benefitted from a positive global economic trend and delivered stable growth. Forecasts indicate a macro-economic environment that, by itself, will not be able to drive our growth and profitability over the next few years. Therefore, we are executing on our strategic direction and consolidating our leading position in attractive areas going forward through:

## MORE CUSTOMER-FOCUSED INNOVATIONS

To be the technology leader and deliver the most effective solutions to customers across the globe, we are increasing our pace of innovation and investment in new areas. We are monitoring global trends and capturing opportunities in the development of our offering. Our R&D Centers of Excellence help us to gain greater leverage from our innovative abilities in the Group.

## STRONGER CUSTOMER RELATIONS

We are global, and in our everyday work at a local level, we build even stronger relationships with our customers by meeting and exceeding the whole needs and expectations. We work closely with them throughout the whole product life cycle and develop our service offering to grow our aftermarket business.

## HIGHER EXPOSURE TO ATTRACTIVE EMERGING MARKETS

We are strengthening our geographic presence in fast-growing markets, for example, Asia, with special focus on India and China, in our production footprint and in marketing and sales.

## FURTHER INTEGRATION OF SUSTAINABILITY INTO OUR BUSINESS

We aspire to partner with our customers in reaching both their and our sustainability goals. We regard sustainability as a prerequisite for conducting profitable and responsible business to ensure long-term growth, and we believe in the triple bottom line, i.e. to ensure a combined perspective of economic, social and environmental factors.

## REINFORCED HIGH-PERFORMANCE

In all this, we actively work to secure efficiency and profitability. Further initiatives have included improved cost control and a capital allocation investment principle based on size, growth and return. A strategy of active portfolio management with the divestment of non-core assets and acquisitions is being applied and a supply chain optimization program has been initiated to restructure our production footprint. We are continuing to ensure the development of a high-performing organization: we have increased the focus on lean working practices in our organization,

all managers have received performance management training in close alignment with our target-setting process, we have established clearer remuneration models, we are monitoring high and low performance and we have introduced improved sales incentive plans. In addition, a global talent development program has been launched.

## ACHIEVED IN 2014

- New strategic partnerships and continued advancements in after-markets and emerging markets
- Acquisition of Varel International Energy Services
- Strengthened mid-market offering with Dormer and Pramet in Sandvik Machining Solutions
- Decision to establish a global manufacturing and research and development facility in India
- Investments in new product and material areas, such as additive manufacturing and graphene
- About 800 patents granted
- Divestment of Sandvik Materials Technology's distribution business in Australia/New Zealand and power spring business in the US and Mexico; decision to close die-cutting business in China
- Launch of footprint restructuring program, 11 closures initiated
- Shared services in place in finance, IT and human resources
- Adoption of a revised Code of Conduct and Supplier Code of Conduct
- Introduction of a global diversity strategy
- Initiation of a new global trainee program

# SUSTAINABLE BUSINESS – A COMPETITIVE ADVANTAGE

**Many of our customers operate in segments with strong sustainability requirements. We aspire to partner with them to achieve both their and our goals in these areas. We are convinced that close cooperation with our customers in relation to sustainability will lead to greater competitive advantages and a higher sustainability achievement.**

Sandvik's strategy focuses on profitable growth, with ambitious targets for 2020. The goal is 8% growth over a business cycle, which requires us to become an even higher performing organization focused on improving and creating value for our customers.

Through a detailed understanding of our customers, we develop products, solutions and services

that raise their productivity and competitiveness, reduce environmental impact and improve health and safety. One example is our strong focus on solutions that increase automation in the mining industry. Automation solutions help our industry partners in relation to all of these aspects; from higher productivity to resource optimization and safe working environments. Another example is the cemented-carbide buyback program that we operate in which we buy used tools and inserts from our customers so we can make new products using recycled materials. This significantly reduces emissions and the use of raw materials, while customers receive payment for their waste, which would otherwise entail a cost for them.

## SUSTAINABILITY DRIVES GROWTH

We aspire to grow in our key priority markets and aim to become truly global. To achieve this, we have identified emerging markets as high potential markets. These often entail risks, such as corruption or poor environmental conditions, but also provide great opportunities. For example, by offering high-productivity products, implying high energy efficiency, we can offer a reduced impact on the environment. To manage these risks and to leverage the opportunities, we need to remain flexible and adjust our offering to these markets and their sustainability issues, regardless of whether these are challenges or opportunities, thereby enabling growth in a sustainable manner.

## MATERIALITY ANALYSIS

We conduct a materiality analysis on a regular basis. This analysis provides us with a clear direction for our sustainability operations and indicates the most significant matters for the company at that particular point in time. It is conducted by members of the Group Executive Management, with important input from our stakeholders and from international frameworks and institutions such as the Global Reporting Initiative (GRI), the Dow Jones Sustainability Index and the UN Global Compact. The materiality analysis is continuously updated to ensure that the most important areas for the Group are addressed.

- SANDVIK'S MATERIAL ASPECTS
- MATERIAL INSIDE SANDVIK
- MATERIAL MAINLY OUTSIDE SANDVIK (SUPPLIER AND/OR CUSTOMER)
- MATERIAL INSIDE AND OUTSIDE SANDVIK (SUPPLIER AND/OR CUSTOMER)





Continuing to integrate sustainability into our strategy, business and brand value is also vital to maintain and develop our attractiveness as an employer. We need to attract, retain and develop exceptional people and top talent to ensure long-term growth, and we know that present and future generations will not find Sandvik attractive unless we are a truly sustainable company.

By continuously enhancing our offering to customers, actively working with our suppliers, minimizing our environmental impact, providing a safe, innovative and diverse

workplace and engaging in the community, we ensure that we add value for all of our stakeholders, now and for many years to come.

#### SETTING TARGETS THAT LEAD TO BUSINESS ADVANTAGES

Targets are defined to effectively address risks and leverage opportunities that are identified. Target formulation in the various sustainability areas is determined by each function or unit. It is important that these targets drive business advantages and develop leadership in sustainability issues. Our targets should also drive behavioral

changes to achieve higher results in the long term. Examples of these types of targets include Sandvik's efforts in relation to the environment, health and safety. Our targets are complemented by key performance indicators that measure the outcomes of the different initiatives and targets.

Read more about our sustainability strategy, governance and achievements in 2014 in Sandvik Sustainable Business Report at [sandvik.com/sustainability](http://sandvik.com/sustainability).

## SAFETY MILESTONES IN THE US

Safety is our top priority at Sandvik and our safety performance across the organization continued to improve during 2014, with more than 80 of Sandvik Mining's locations reaching the milestone of lost time injury (LTI) free for more than one year. Some plant locations have achieved seven years and some smaller contract locations have gone as many as ten years without recording an LTI.

In the US, three locations – the sales areas of Brier Hill (Pennsylvania), Elko (Nevada) and Spokane (Washington) with a total of 105 employees – have been LTI free for a period of five to seven years, while the Alachua (Florida) Production Unit, with more than 100 employees, has recorded one year without an LTI and recordable injuries. These achievements demonstrate a culture and a work ethic where everyone looks after themselves and each other.

"We have been working hard throughout the country to increase focus on preventative efforts, recognizing and understanding risks, and improving our safety culture. The achievements reached this year illustrate that these efforts are worthwhile and our teams are committed," says Carolyn Nestle, EHS (environment,



Sandvik employees at Elko, Nevada, celebrating safety records.

health and safety) Area Manager, Sandvik Mining USA.

The accomplishments are not taken lightly, but are celebrated and encouraged as part of the company culture. Sandvik places high importance on training of both its employees and customers who work with equipment, since we recognize this as one of the most positive methods for helping to prevent accidents.

A safety culture based on communication and accountability has created an engaged workforce, a

safer environment for everyone and has strengthened the value of EHS as a business advantage.

---

# 2,560

**Approximately 2,560 days,  
or seven years, without a  
lost time injury.**

# DRIVEN BY CUSTOMER VALUE

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



## ENGINEERING

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.

**22%\***



## 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%\***



## 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 aircraft.

**5%\***



## ENERGY

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.

**14%\***

## 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 and systems, mobile and stationary crushers, material handling systems, load and haul machines, tunneling equipment and various solutions to increase automation.

**32%\***



## 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%\***



## CONSUMER GOODS

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.

**3%\***

\*Share of the Group's 2014 total invoiced sales; miscellaneous 2%.



# CRAFTING PERFORMANCE POWERING AMBITIONS

24 HOURS A DAY AROUND THE GLOBE



**6:15 AM**  
SPANISH FORK  
USA

Commercial aircraft represents a fast growing industry with an expected need for about 37,000 new airplanes by 2033. Read more on page 20.



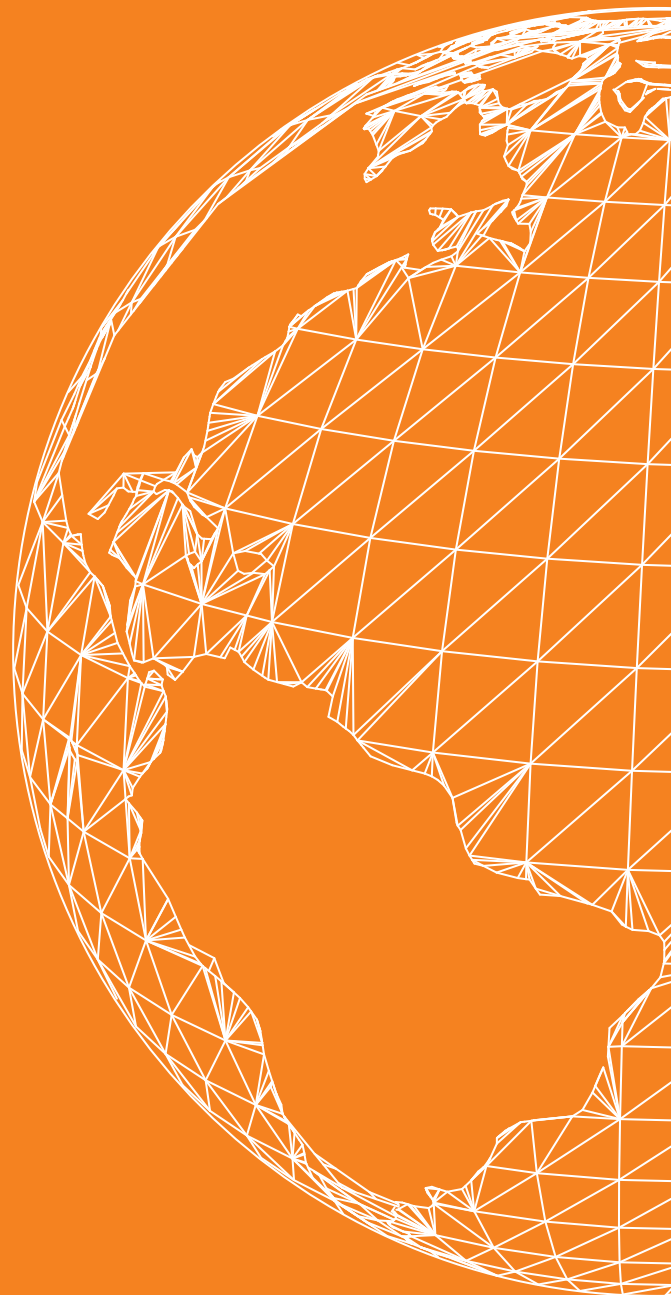
**7:45 AM**  
CHONGQING  
CHINA

Currently, the automotive industry is facing a series of challenges. Read more on page 21.



**9:15 AM**  
SUNRISE DAM  
AUSTRALIA

The mining industry is in a phase where operational efficiency is becoming increasingly important. Read more on page 22.







**11:00 AM**  
**SANDVIKEN**  
**SWEDEN**

At Sandvik, the materials evolution has been ongoing for more than 150 years. Read more on page 23.



**3:15 PM**  
**HONOLULU**  
**USA**

The Hawala quarry, is one of the biggest quarries on the O'ahu island in Hawaii. Read more on page 24.



**4:20 PM**  
**POHANG**  
**SOUTH KOREA**

FuelCell Energy of the US and the South Korean firm POSCO Energy have much in common. Read more on page 25.

# 6:15 AM SPANISH FORK USA



## THE RIGHT SOLUTION FOR A LIGHTER FLIGHT

Commercial aircraft represents a fast growing industry with an expected need for about 37,000 new airplanes by 2033. With this demand, airframe manufacturers continue to push technology to achieve lighter, more efficient aircraft to ensure their competitiveness. At the heart of this is the application of advanced material, such as carbon fiber-reinforced plastics (CFRP), titanium (Ti), and aluminum (Al). These materials present challenges in airframe assembly when it comes to drilling precision holes for fasteners. Traditional airframes consist of aluminum materials being fastened together using a "one up" process, meaning there is no post drilling preparation of the hole before fastener insertion. "One up" is much

more challenging with advanced materials, given the dissimilar properties of materials such as CFRP and Ti when being stacked and drilled, but Sandvik has the solution.

"We are constantly developing solutions for all possible drilling methods and materials used in airframe assembly. For the "one up" drilling process for advanced materials, we have developed both Polycrystalline Diamond (PCD) and solid tungsten carbide drilling solutions," says Richard Garrick, Head of Sandvik's unit Precorp in the US.

One of the tools, the patented 86 series PCD drill, is widely used in the automated drilling and fastener insertion process in one of Sandvik's largest customer's airframe program. As the program

has grown and matured, so has the success of Sandvik's cutting tools – currently at a rate of ten planes per month with an expected rate of 17 planes per month by the end of the decade. This opportunity, combined with similar airframe programs globally, indicates that Sandvik's tooling solutions have a bright future that is ready to take off.

---

# 10

**planes per month is the production rate that is achieved thanks to Sandvik's patented 86 series PCD drill.**

# 7:45 AM CHONGQING CHINA



## PARTNERING WITH CHINA'S AUTOMOTIVE INDUSTRY

Currently, the automotive industry is facing a series of challenges. In addition to adapting to greater environmental awareness, shorter life cycles require faster lead times and lower production costs.

Changan, as the fourth largest automobile group in China, has developed rapidly in recent years. To keep up with market demand and produce first-rate products every year, the company is investing significantly to improve production line technology and promote lean production. Changan ordered four new crankshaft production lines, with a total of 76 machines including the supply of tools for production of 200,000 crankshafts. Sandvik was the sole tools supplier with responsibility for the entire technical solution. We have a long history of delivering metal-cut-

ting tools to the automotive industry and, when it comes to solutions for crankshafts, we are a global leader.

"We wanted to work with Sandvik because of its good reputation and its long-term, unrelenting investment in new technology," a representative at the customer says.

He points out that Sandvik provides a unique set of products, technology and solutions. We also fulfill strict quality-control procedures and delivers on time.

"Sandvik is totally committed to the customer," he says. "They create customer value through superior service, leading metal-cutting technology and innovative solutions."

In 2014, Changan's total annual production and sales exceeded 2.5 million cars, bringing the accumulated production and sales

of its proprietary brands since the company's establishment to more than 10 million cars. Changan is the only Chinese automobile company to exceed this level.

The future of Chinese cars is starting to gain recognition even outside China. A key underlying reason is the improvement in quality, which is a result of close collaboration with leading technology companies, such as Sandvik.

---

# 200,000

---

**Sandvik delivered tools and technical solutions for Changan's production of 200,000 crankshafts.**



## 9:45 AM SUNRISE DAM AUSTRALIA



## INCREASING THE UNDERGROUND PRODUCTIVITY

The mining industry is in a phase where operational efficiency is becoming increasingly important. The Australian underground mining contractor Barminco, which specializes in underground mining operations, is working hard to gain a competitive edge in a challenging market. Over the past year, the company has used its intense focus on cost-efficiency to defend and expand its contracts in Australia, including the Sunrise Dam gold mine. Access to increasingly efficient equipment, such as the new Sandvik TH663 underground truck, has helped drive this success.

"Sandvik has listened to its customers and learned what its customers in the mining industry need. Our intense focus on productivity

and safety means the TH663 fits our operations like a glove. We save fuel and can take larger loads. It's an optimal solution," comments Peter Stokes, Barminco CEO.

The TH663 is one of the models in Sandvik's new generation of underground trucks, which is rapidly capturing market share in Australia. The country is the world's largest market for underground mining operations. The trucks have powerful engines, high load capacities, are easily maneuvered, fast and fuel-efficient. They incorporate additional safety features as standard and an onboard weighing system ensures that the truck is neither over- nor under-loaded.

"The five TH663s that were delivered in 2014 replaced seven of our

older trucks. Another six are being delivered to the Agnew gold mine in early 2015. Put simply, the TH663 has generated a productivity increase in the mines and, accordingly, better economy for our customers," says Peter Stokes.

---

# 15%

---

lower fuel consumption per hour with a TH663 compared with its predecessor.



11:00 AM  
SANDVIKEN  
SWEDEN



## METAL POWDER BRINGS CUSTOMIZED SOLUTIONS

At Sandvik, the materials evolution has been ongoing for more than 150 years. The next generation of materials are being continuously developed in close cooperation with customers to meet current and future challenges. Powder technology has become increasingly important in this development.

"Through powder technology, we can achieve material properties and product forms that are not possible using conventional manufacturing techniques," says Magnus Nyström, Head of the Group's unit Sandvik Powder Solutions.

Powder technology includes advanced manufacturing processes to produce fine metal powder, which is subsequently consolidated into the desired shapes. It is

an area that is rapidly growing. There are numerous advantages, one of which is increased design flexibility. The ability to manufacture products with irregular shapes and complex geometries provides lighter product forms and reduces machining scrap. By eliminating critical welds, process safety is improved, for example, in the oil and gas industry.

We manufacture advanced metallic powder and finished products from its proprietary powder and related technologies. In 2014, deliveries ranged from small electronic components to large connectors, known as manifolds, for oil and gas pipelines on the seabed.

A prioritized application is additive manufacturing, or 3D printing, where

Sandvik's powder is used to print complex prototypes and other advanced shapes in a 3D printer. This new technology provides major possibilities for creating increased functionality and customer value.

"Through 3D printing, we are taking powder technology and our material know-how into the next exciting phase," says Pasi Kangas, Vice President and Head of R&D at Sandvik Materials Technology.

---

# 150

**More than 150 years of  
materials evolution.**

3:15 PM  
HONOLULU  
USA



## CRUSHER FOR BOOSTED PROFITABILITY

The Hawala quarry, owned by Hawaiian Cement, is one of the biggest quarries on the O'ahu island in Hawaii. Since the late 40's it has played a critical part in supplying materials for construction projects on the island with their cement, aggregate, ready-mix concrete and coloured concrete products. Their modern production began in the 1960's, and until recently some of the equipment in the quarry dated back to those years. However, expectations from the customers have dramatically veered towards obtaining high quality sand with tighter particle shapes for sturdier concrete; demands that the outdated technology could not satisfy. Sandvik was contacted.

With the most recent CV229 impact crusher from Sandvik

Construction, combined with a rotor with the lowest number of wear parts within a closed rotor on the market, the requirements and needs of Hawaiian Cement were met. As Jason Macy, VP Operations, Hawaiian Cement explains, "We have a high production rate per month with a crusher that is easy to run in terms of manpower needed. It also gives a reduction in the number of spare parts stocked. Both are key factors for a smooth and continuous running of a complex operation."

Before adopting the CV229, the company had been forced to import sand from British Columbia, over 2,000 miles away. Hawaiian Cement is now able to supply materials of the highest quality to a significantly reduced cost.

"Now we need to figure out how the rest of the plant has to work to keep up with the production rate. Part changes on the older models were made every month. Now, no changes have been needed for five months," says Don Matsumura, General Manager at Halawa.

---

# 80%

---

**Reduction in spare parts changes compared with the previous crusher.**

4:20 PM  
POHANG  
SOUTH KOREA



## COST-EFFICIENT OFFERING FOR ULTRA-CLEAN ENERGY

FuelCell Energy of the US and the South Korean firm POSCO Energy have much in common. They share the same vision of the increasing importance of fuel cells in creating a sustainable and green energy supply. They share production technology and collaborate in areas including the supply chain to create a cost-efficient global platform. Both companies utilize Sandvik's know-how. Today, our resource-efficient steel belt casting machines are in place in their respective fuel cell facilities in the US and South Korea and manufacture a core component of the individual fuel cell component.

"Sandvik's technology enables us to supply our customers with an affordable and efficient distributed

power generation solution for utilities and large power users worldwide," says Chip Bottone, Chief Executive Officer of FuelCell Energy.

In the South Korean government's long-term plan for increasing the share of new and renewable energy sources, fuel-cell technology has been assigned top priority, which means that the country is rapidly on its way to taking a leading position, for example, in fuel cell sites. Quite simply, in a country with a lack of domestic energy reserves, there is a substantial need for efficient, clean and safe solutions that reduce dependency on fossil fuel import. Our strong energy focus and technological know-how make us a natural partner for this development.

"We have an ambitious plan for continued growth in South Korea and in other parts of Asia. Close collaboration with leading technology companies, such as FuelCell Energy and Sandvik, are crucial to our success," says Vincent Ghim, Team Leader, Fuel Cell Division at POSCO Energy.

---

# 20

**POSCO Energy has built 20 new fuel cell sites in South Korea, totaling 145 MW.**



# PIONEERING RESEARCH AND SOLUTIONS

**With some 8,000 active patents and a steady stream of research and development activities, Sandvik is one of the world's most innovative companies. Our strategy to deliver the most high-tech product solutions to customers across the globe comprises an increased pace of innovation and investment in existing and new areas. The aim is to increase the proportion of newly developed products as a percentage of total invoicing, which will contribute to profitable growth for the Group.**

Approximately 2,700 employees at Sandvik work with research and development at approximately 60 R&D centers worldwide. Their market-leading efforts contribute to setting new industry standards and comprise everything from nano-technology to mining equipment.

Based on a deep understanding of global megatrends connected to Sandvik's operations, research is directed toward a number of priority areas, such as development of new materials and efficient industrial processes. Analysts systematically search for new technologies that could strengthen our position vis-à-vis future products and expand our core business. Collaboration, proactive patent activities and close cooperation with customers are key success factors. Through detailed understanding of customers, we can develop prod-

ucts, solutions and services that help them raise productivity, strengthen competitiveness, reduce environmental impact and improve health and safety.

The Group's ambition is to increase the ratio of newly developed products. Since new products are more competitive, this will strengthen our position in the market.

## STRONG SET-UP FOR CONTINUOUS INDUSTRIAL INNOVATIONS

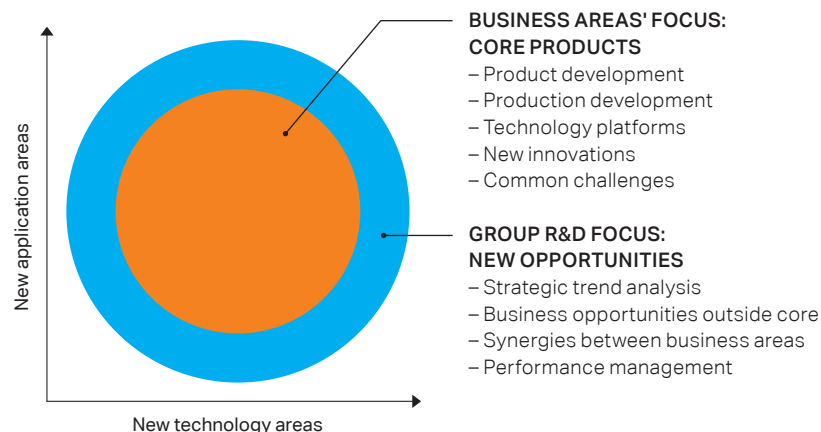
The majority of all R&D activities are managed by the business areas. Their main focus areas are development of core products, production methods, technology platforms and solutions that are adapted to their customers' needs. Group R&D strengthens Sandvik's R&D by set-

### PRIORITIZED AREAS

- Development of new materials
- Additive manufacturing (3D printing)
- Efficient industrial processes, through, for example, automation and Information and Communication Technology (ICT)
- Energy efficiency in renewable forms of energy

ting the long-term strategic research direction in collaboration with the business areas. It also creates synergies in the R&D organization, coordinates shared projects that advance positions for Sandvik beyond present core businesses, coordinates performance management and performs strategic trend analysis.

## R&D – FINDING NEW OPPORTUNITIES





## GLOBAL R&D PRESENCE



# 8,000

ACTIVE PATENTS AND  
OTHER IP RIGHTS

# 800

PATENTS  
GRANTED IN 2014

# 2,700

EMPLOYEES GLOBALLY

# 60

R&D CENTERS  
WORLDWIDE

### INCREASED FOCUS ON EMERGING MARKETS

Our R&D activities are carried out throughout the world, with an increasing focus on emerging markets. Rapid growth and a substantial need for effective solutions in areas such as energy supply, infrastructure and the environment entail business opportunities for the Group. Technology development in these emerging markets is strong and we aim to contribute to this development. We have maintained a presence in India for more than 50 years and we currently operate four business area research centers in the country with just over 300 employees.

Group-wide R&D Centers have also been established in two priority markets: India and China. They are strategically important to facilitate the adaptation of product offerings to regional customer requirements, reduce lead times and support all business areas. Group R&D Center India is located in Pune and focuses on materials and process technology, with expertise in modeling and simulation. Strategic research projects are conducted to define possible future business. The center is growing rapidly, partly through close collaboration with regional universities.

### THE RIGHT PATENT MEANS INCREASED REVENUE

Intellectual property (IP) is an important and growing part of our R&D activities. Effective IP work has considerable significance for Sandvik. Rights matters relating to patents, material and brands are identified at an early stage in the development of new products and services, and issues are addressed both locally and globally to ensure optimal positioning moving forward. The product portfolio is secured and, accordingly, the innovations and income over the full product lifecycle. We have a portfolio of more than 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.

### POOLED EXPERTISE FOR INCREASED CUSTOMER VALUE

Our global Centers of Excellence gather specialists in areas of shared interests for all parts of the Group. At present, there are three centers – Materials Characterization, Powder Metallurgy and Modeling & Simulation. They share knowledge throughout the organization, support our research units and enable customers to gain even

greater leverage from our combined innovative excellence. For example, work is carried out at the Center of Excellence for Materials Characterization to define material properties to gain further understanding of their impact on product performance.

### EXTENSIVE RESEARCH COLLABORATION

In addition to the extensive level of internal competence, we utilize a number of external collaborations worldwide to leverage our research. One example is KTH, the Royal Institute of Technology in Sweden, with which we have a long history of collaboration in education, research and innovation. In February 2014, we signed a strategic collaboration agreement to enable intensified focus on joint research activities. This provides us with the possibility to increase our recruitment base as well as continue to build on knowledge in key technical sciences. We also collaborate with universities, such as Chalmers University of Technology in Sweden, researchers at the Massachusetts Institute of Technology (MIT) in the US and Shanghai University in China.



Mirjam Lilja, research engineer at the Surface Coating Technology Department, in her laboratory in Stockholm, Sweden.

## STRONG CAREER PATHS FOR R&D EMPLOYEES

Mirjam Lilja joined Sandvik in 2008 as a research engineer at the Surface Coating Technology Department in Stockholm, Sweden. She recently received her PhD in Engineering Physics and is also Deputy Chairman in the Center of Excellence Materials Characterization at Sandvik.

### TELL US ABOUT YOUR CURRENT ROLE?

"My team and I focus on understanding the connection between different materials' properties and performance. We solve problems and develop methods for analyzing materials in an optimal manner.

Within the Center of Excellence framework, we create networks and collaborations and transfer knowledge between different business areas."

### HOW DO YOU SEE YOUR FUTURE AT SANDVIK?

"I enjoy the liberty and challenges presented by my current position, being part of a group that comprises a key link in future product development and different material solutions. I don't focus on having to achieve specific functions or roles; my expectations are more geared toward the job being challenging and having realistic targets.

Daring to try new things, having the will to continue developing, implementing changes and contributing to our success are important aspects for me."

In 2014, clear and strong career paths were established in the R&D organization, enabling staff members to develop as employees, experts or leaders. Accordingly, Sandvik is better able to secure and develop skills in key competence areas, which increases the significance of technical knowledge in the Group.

## FROM CUSTOMER STUDIES TO COMMERCIAL SUCCESS

The Finnish engineering trio of Petri Liljaranta, Tapani Sormunen and Sami Hanski from Sandvik Construction (picture) are Sandvik's Product Developers of the Year. In April 2014, they received the prestigious Wilhelm Haglund Medal for the development of the automatic top hammer drill rig series DPi. It is a new generation of surface top-hammer drill rigs used in open-pit operations. Although developed by Sandvik Construction, the drill rig is being used in the mining industry.

The prize winners' work is pioneering and significant for Sandvik's offering to mining customers – and has resulted in sales successes.

"This is a good example of a broad yet focused effort in engineering that is based on a deep understanding of market requirements," says Olle Wijk, Head of Group R&D.

Extensive customer studies lay behind the development of the successful product.

"Based on the increasing requirements for safety and productivity improvements, we saw a need for completely new control system technology in drill rigs," says Tapani Sormunen, Engineering Manager, Sandvik Construction.

Since the machine operators seldom stay long at any one location, easy and safe operation is important to maintain productivity. Accordingly, the team invested substantial resources in ensuring that the drill rigs can be operated easily despite utilizing advanced technology.

"New operators can quickly be productive because of the rig's functions, which include one-hole automatic drilling to depth and automatic feed alignment. The DPi offers smart and practical step-by-step troubleshooting instructions and a self-diagnostics system that makes fault-finding quick and easy."

Simplicity, together with improved operating costs, automation, high-frequency rock drills and enhanced hole quality, have generated an extremely positive response



from customers. Since the launch in 2009, more than 300 drill rig units have been sold worldwide at a value of 1.2 billion SEK. Moreover, there is additional annual revenue of about 200 million SEK in aftermarket business. The drill rig series also enables continued product development.

---

"It is easier for customers to describe their future needs, since they can see how automation can help their processes while operating a drill rig such as the DPi."

TAPANI SORMUNEN  
ENGINEERING MANAGER, SANDVIK CONSTRUCTION

## LOOKING BEYOND THE HORIZON WITH AM

Additive manufacturing (AM), also known as 3D printing, is a strategic and important research area for the Group. Modern manufacturing industry is controlled by economies of scale. In other words, manufacturing in large series to keep the cost per unit of output low. This requirement disappears with AM. Instead, production can be customized and limited to the exact requirements of the customer or, in other words, delivery on demand.

During the year, an AM center was established in Sandviken, Sweden. Here, engineers and designers evaluate and develop the technology to identify new business opportunities. The initiative has a broad scope and comprises applications within all business areas at Sandvik – materials research, applying the technology to our products and challenging the limits of current AM technology available in the market.

"Embarking on this new technology expedition requires us to be open to entirely new ways of thinking in terms of designing game-changing customer offerings, which is really exciting," says Mikael Schuisky, Operations Manager of the AM center.



# A PASSION FOR SANDVIK

Sandvik's success relates directly to having the right people in the right place. In 2014, the journey toward a high-performing, global organization continued, which is important for us in order to retain our market-leading position in a challenging market.

## STRONG PERFORMANCE CULTURE DRIVES GROWTH

A strong performance culture is necessary to be able to leverage the full potential of our people. To better reflect Sandvik's long-term strategy and growth objectives in an increasingly competitive market, our core values have been further developed. A new vision and strategic direction have also been established. Other initiatives to strengthen the performance

culture include a major focus on performance management within the entire Group. During the year, all managers in the organization were offered training in performance management in close alignment with our target-setting process. This, supported by clearer remuneration models, monitoring of high and low performance and improved sales incentives plans, will support even stronger performance in the Group.

The employee survey, SEmp, shows that our employees have a high level of engagement, which is also essential in achieving a strong performance culture.

## SANDVIK'S LEADERS SHOW THE WAY

The strongest ambassadors for our culture are our leaders. The Group's leadership model supports the strategic direction and states that excellent leaders are key to Sandvik's success.



Frida Fastesson and Mats Backlund at Tube Mill 1212, Sandvik's production unit for steam generator tubing in Sandviken, Sweden.



Sandvik has three Group leadership programs for managers at different levels, based on the business strategy and leadership model. These include ONE SGL (global leadership program), ONE SLP (leadership program for middle managers) and ONE ELP (executive leadership program). Participants in the leadership programs represent all business areas and group functions, geographies and experience comprise a vital part of creating a diverse and dynamic group.

Talent development programs and activities now exist at global level and in selected countries, such as China, India and the US. In addition, our global mentor pool was introduced, where senior managers mentor next-generation managers and experts.

#### LEADING TALENT DEVELOPMENT

Attracting, appointing, developing and retaining talent are key factors in securing Sandvik's performance and growth. Accordingly, the Group strives to be a leader in this area. During the year, efforts continued in relation to the development and empowerment of high-potential employees. Our way of working with talent management and succession planning has been further developed and is now aligned with

all business areas and country organizations. This has provided us with a much better position in respect of our top management and selected key positions incumbents, successors and high potentials. A more secure process also provides a higher level of transparency in the entire Group. Talent boards have been implemented in the business areas and offer an even firmer foundation for talent and succession planning activities.

We also launched our first global trainee program, an 18-month program with 13 participants from selected markets. These graduates have been appointed for their drive and innovative minds and have commenced a performance-driven career path at Sandvik.

Sandvik has defined career paths for Sandvik employees and Sandvik experts. The career paths have been implemented in the R&D organization and will provide opportunities for employees to pursue careers without having to become managers. The implementation of these career paths will also continue to be implemented in other functions throughout the organization. The ONE SGE (Global Expert program) has also been launched to support and develop the Group's specialists and experts.

#### INCREASED DIVERSITY AND INCLUSION YIELDS NEW DIMENSIONS

Diversity and inclusion are vital parts of our people strategy. For us, diversity and inclusion means respecting and leveraging employees' personal and cultural differences. Individuals with different backgrounds have a strong impact on Sandvik's creativity and capacity for innovation.

To be able to leverage different market opportunities and adjust offerings to local demand, continued diversity and inclusion efforts are a prerequisite. During the year, each business area conducted status analyses and identified improvement areas for driving and accelerating diversity and inclusion in their organization.

Globalization of the Group's key positions in terms of experience, education, nationality, gender and age are factors for long-term success. Group Executive Management is a strong diverse group with different backgrounds and experiences. In terms of nationality, in addition to Swedes, Group Executive Management now has representatives from China, the UK and the US.

#### SAFETY FIRST

Zero Harm to our people, our customers, our suppliers and the environment we live and work in is what we strive for. This means creating safer workplaces, improving the health and well-being of our colleagues and minimizing the environmental impact of our operations in the communities in which we operate. The greatest long-term challenge in terms of continuously improving safety is to improve the safety culture. Leadership and accountability are two very

important aspects in this respect. All managers are held accountable for EHS (Environment, Health and Safety) matters within their area of responsibility. They should also demonstrate, through their actions, that they genuinely care about their employees' health and want to help them work safely and productively.

Our 2020 EHS strategy is divided into five areas, with supporting objectives and targets. These areas are: EHS as a busi-

ness advantage, EHS Leadership, Environment, Health and Safety. We are striving toward creating a best-in-class EHS culture, reputation and performance, including the elimination of all fatalities and a zero vision for our lost time injury frequency rate (LTIFR).

In recent years, the LTIFR has improved significantly in all business areas. In 2014, the LTIFR declined for the fourth consecutive year to 2.5 at year-end, the lowest in Sandvik's history.



Lena Yan, Kevin Zhang and Alex Wu in front of Sandvik's main office building in Jiading, China.

#### BEING WHERE THE TALENTS ARE

Sandvik has created a structure for employer branding globally and has launched a range of supporting initiatives. One is the definition of Sandvik's global employer value proposition, with the aim to strengthen our offering in a competitive market. The next step is adapting the definition to local markets.

A key prioritization in strengthening Sandvik's employer brand comprises the efforts with personal career pages on sandvik.com and the use of social media. LinkedIn, the global networking website for professionals, is now one of the Group's main employer branding and recruitment channels. Sandvik also communicates through Facebook, Twitter and Instagram.

"Instagrammer of the week" is a popular initiative that was launched in 2014 thanks to which it is possible to follow various Sandvik employees around the world. Responsibility for the account has been allocated to a wide range of functions and regions, promoting opportunities worldwide and giving a clear meaning to the truly global concept.

#### INCREASE OF SANDVIK'S FOLLOWERS IN SOCIAL MEDIA DURING 2014



**+37 %**

[FACEBOOK.COM/SANDVIK](https://www.facebook.com/sandvik)



**+69 %**

[LINKEDIN.COM/COMPANY/SANDVIK](https://www.linkedin.com/company/sandvik)



**+162 %**

[TWITTER.COM/SANDVIKGROUP](https://twitter.com/sandvikgroup)



**+534 %**

[INSTAGRAM.COM/SANDVIKGROUP](https://www.instagram.com/sandvikgroup)

# TOMORROW'S LEADERS COME FROM ALL PARTS OF THE WORLD

A way of increasing knowledge of Sandvik while being able to attract the best talents moving forward is our new global trainee program. When recruiting to the program, the Sandvik leadership model forms the basis for our selection of candidates to secure future leaders with the capabilities to empower other employees as well as develop the business themselves to successfully execute our strategy.

In September 2014, the first global trainee program started with participants from Sweden, China and India. This will be followed by a second trainee program in 2015, with participants from Sweden, China, the US, South Africa and India.

## WHY DID YOU DECIDE TO APPLY?

**Annie:** The program looked well organized and "truly global" – we could learn and work outside our home country and gain a holistic view of the company's global operation. In addition, Sandvik is a leading company in the industry with a good reputation and long history.

**Anna:** The ability to develop, create and maintain customized products

for the most demanding applications is the reason why customers rely on Sandvik. The possibility of becoming part of this team with the vision to set the industry standard is why I chose to apply.

## GIVE AN EXAMPLE OF SOME OF THE VALUABLE LEARNING YOU GAINED FROM THE PROGRAM?

**Rishiraj:** The importance of safety at work. Safety practices in day-to-day activities not only provide an optimal and superior work environment for employees, but also result in better productivity and enable more efficient and safer industrial activities.

## HAS YOUR IMPRESSION OF SANDVIK CHANGED?

**Annie:** I thought that a manufacturing company with more than 150 years of history behind it would probably work at a slow pace and there would be few changes. However, I am very surprised by what I have seen – Sandvik is a company that is continuously evolving!

**Anna:** I have experienced the company's strong local heritage. The people of Sandvik are open and extremely passionate.

**Rishiraj:** I have witnessed how the concepts of diversity and inclusion are practiced with a high level of commitment.

## WHAT DOES SANDVIK'S VISION "WE SET THE INDUSTRY STANDARD" MEAN TO YOU?

**Annie:** The willingness to learn and change, be committed to my work and exceed customer expectations

**Rishiraj:** To set benchmarks in fields of innovation, technology leadership and in the relationship with customers.

## WHAT IS MOST IMPORTANT FOR FUTURE LEADERS AT SANDVIK?

**Anna:** To truly take pride in developing other people. To create a winning culture and never settle for less, celebrating the wins and reflecting on how we can perform even better in the future.



Julie, Kelly, Annie, Bert, Rishiraj, Sauptak, Ajit, Anshuman, Prutha, Gustav, Mikaela, Anna and Kevin – with the potential and desire to become future leaders at Sandvik.



# GENERATING LONG-TERM VALUE GROWTH

**With the continuous improvement of our operations, we aim to create attractive return and value growth for our shareholders. We are developing an increasingly customer-focused, fast-paced, global and sustainable organization to yield higher returns, reduce earnings volatility and achieve greater exposure to attractive growth areas. We work actively to secure efficiency and profitability. The supply chain optimization program, a focused R&D process for new product launches and the endeavor to sustainably achieve the 25% net working capital (NWC) to sales ratio represent important initiatives.**

Sandvik's share is listed on Nasdaq Stockholm. During 2014, the share price declined by 15.8%, while the OMXS-index on Nasdaq Stockholm improved by 9.9%. At year-end 2014, the share was quoted at 76.4 SEK, corresponding to a market capitalization of 95.8 billion SEK, placing Sandvik as the 17th (13th) largest company on Nasdaq Stockholm.

## SHARE TRADING

A total of 1,323 million shares (1,304) were traded for a total value of 115 billion SEK (118), making it the 7th (7) most actively traded share. Trading in Sandvik shares on the Nasdaq Stockholm accounted for 2.94% (2.87%) of the total vol-

ume of shares traded. The Sandvik share can be traded in the US in the form of American Depositary Receipts (ADRs), a process handled by Deutsche Bank Trust Company Americas as a depository bank. In 2014, the average daily ADR trading volume was 18,438 (27,409).

## DIVIDEND AND TOTAL SHARE-HOLDER RETURN

Our yearly target is that the dividend will amount to 50% of earnings per share. The Board has proposed a dividend of 3.50 SEK (3.50) per share to the 2015 Annual General Meeting, corresponding to approximately 4.4 billion SEK and a dividend yield of 4.6% based on the share price at year-end. Assuming the approval of the proposed dividend for 2014 of 3.50 SEK, Sandvik's dividend over the past five years has averaged 3.35 SEK annually, and a total of 66% of earnings per share has been distributed.

## SHARE CAPITAL

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

tion with the acquisition of the shares outstanding in Seco Tools in 2012.

## OWNERS

In 2014, the number of shareholders decreased to about 115,000 (117,000). There are shareholders in 91 countries, and the total ownership outside of Sweden amounted to 31% (28%) at year-end. The ten largest individual shareholders accounted for 33% of the share capital at the same date. At 31 December 2014, members of Sandvik's Group Executive Management owned a total of 184,735 shares in Sandvik. Members of the Board of Sandvik, excluding the President, owned a total of 54,919 shares in Sandvik. Total ownership of Group Executive Management and the board corresponds to 0.02% of the capital and voting rights.

## FTSE4GOOD INDEX SERIES

Sandvik was included in the FTSE4-Good Index Series for the eleventh consecutive year. It is an international index for global companies that assume their responsible business practices. 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.



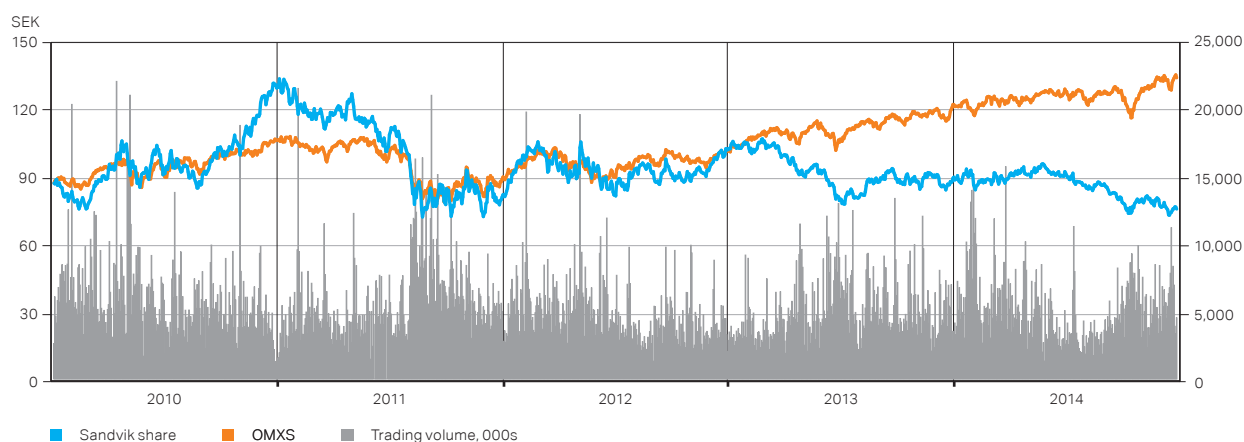
## CAPITAL MARKETS DAY IN THE US

To provide the market with in-depth information on Sandvik's performance and strategy, the annual Capital Markets Day was held on November 17 in Fair Lawn, New Jersey, in the US.

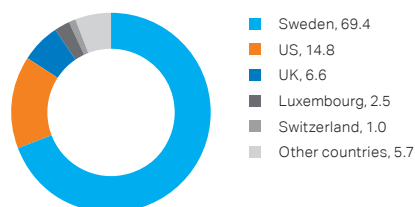
At the Capital Markets Day, President and CEO Olof Faxander reaffirmed that Sandvik will pursue an active portfolio management strategy and will evaluate further divestments within the business

areas – as well as investigate acquisitions to focus on core operations, all as part of our continuous strategy to drive efficiency and strengthen profitable growth.

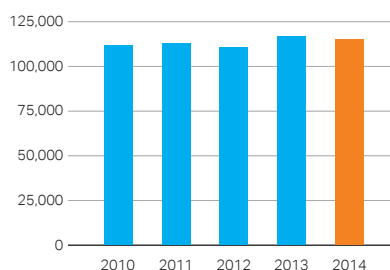
THE SANDVIK SHARE, FIVE-YEAR TREND



DISTRIBUTION OF SHAREHOLDING BY COUNTRY, 31 DECEMBER 2014, %



NUMBER OF SHAREHOLDERS, 31 DECEMBER 2010–2014



### KEY FIGURES

	2014	2013
Number of shares at year-end (millions)	1,254	1,254
Market capitalization at year-end (SEK billion)	95.8	114
Number of shareholders	115,339	117,062
Share price at year-end, SEK	76.4	90.7
Earnings per share, SEK	4.79	4.00
P/E ratio at year-end	15.9	22.7
Change in share price during the year, %	-16	-12
Regular dividend, SEK/share	3.50*	3.50
Dividend as a percentage of earnings per share	73	88
Total dividend yield (price increase + dividend), %	-12	-9
Proportion of shares in Sweden, %	69	72
Proportion of shares owned by the ten largest shareholder groups, %	33	33

\*Proposed dividend.

### THE TEN LARGEST SHAREHOLDER GROUPS, AT 31 DECEMBER, %

	2014	2013
AB Industrivärden	11.7	11.6
Alecta Pension Insurance	4.8	4.5
SSB CL Omnibus*	4.0	2.8
Handelsbanken Pension	3.8	3.8
Swedbank Robur Funds	3.2	3.4
L E Lundbergföretagen AB	2.4	2.4
AMF – Insurance and Funds	2.0	3.0
Nordea Investment Funds	1.9	2.6
Göranssonska Foundations	1.9	2.0
Pensionskassan SHB, försäkringsförening	1.5	0.6

\* Shares held in trust.

Source: Euroclear Sweden

## DIALOG WITH ANALYSTS

Approximately 30 analysts cover Sandvik on a continuous basis. At year-end 2014, the breakdown of recommendations relating to the Sandvik share was as follows: 18.5% buy/increase, 40.7% retain/neutral and 40.7% sell/decrease according to Bloomberg. Some of the most frequent topics discussed in 2014 were:

### WHAT ABOUT THE SANDVIK PORTFOLIO – WILL YOU DIVEST ANY OF THE BUSINESS AREAS?

Active portfolio management and a focus on core operations will drive efficiency within our five business areas. We continuously review all business areas to optimize our portfolio.

### WHAT WILL BE THE MAIN GROWTH DRIVER GOING FORWARD?

The key source of growth, even in a low macro-growth environment, supporting both sales and margin, is our product development. Being a technology leader and thereby enhancing our customers' productivity is the key to our success. We are also continuously evaluating acquisition opportunities, which we view as an important source of growth.

### HAVE WE REACHED THE BOTTOM FOR GLOBAL MINING INVESTMENTS? IF SO, WHEN DO YOU EXPECT INVESTMENTS TO START PICKING UP AGAIN?

Demand for mining equipment was stable in 2014, except for Mining Systems, which noted somewhat softer order intake towards the end of year. We do not expect mining expansion capital expenditure to recover significantly in the short term; however, given the already low demand for Equipment, it is most important that the still high level of output from the current mines is maintained, supporting equipment replacements. We also see great potential in developing our Mining Aftermarket business, supporting the top line and reducing the earnings volatility for Sandvik.

### WHAT ARE YOU DOING TO IMPROVE PROFITABILITY IN SANDVIK MINING AND SANDVIK CONSTRUCTION?

Both Sandvik Mining and Sandvik Construction are part of the ongoing Supply Chain Optimization program, through which we will reduce the number of units, move production closer to the customers and drive best-cost country sourcing. We should start to see benefits from these actions during 2015. In addition, we are taking actions to grow the aftermarket sales business, which is less volatile and offers good profitability, as well as boosting internal efficiency by adjusting capacity to a lower demand.

### CAN SANDVIK MACHINING SOLUTIONS IMPROVE PROFITABILITY IN A LOW-GROWTH ENVIRONMENT?

Following on from focused R&D efforts in 2014, Sandvik Machining Solutions will launch some 15,000 new products in 2015. This aims to support our sales and margin, even in a low macro-growth environment. Sandvik Machining Solutions will generate structural savings of 200 million SEK in 2015 from the Supply Chain Optimization program, in addition to generally tight cost control, supporting future profitability.

### HOW WILL SANDVIK MATERIALS TECHNOLOGY AND SANDVIK VENTURE (VAREL) BE IMPACTED BY THE LOWER OIL PRICES NOTED DURING THE SECOND HALF OF 2014?

The low and volatile price is likely to have an adverse effect on near-term demand for Sandvik Materials Technology and Sandvik Venture. On the other hand, there are multiple segments where demand may be boosted by the low oil price, for example, automotive, aerospace and general engineering.

In the long-term, the global energy challenge provides growth potential, not least for our energy efficiency and safe drilling solutions. We believe in our long-term strategy to grow our exposure to the energy segment.

### COMMENTS FROM ONE OF SANDVIK'S STAKEHOLDERS, EBBA LILLIEHÖK, SHAREHOLDER

#### WHEN DID YOU BUY YOUR FIRST SANDVIK SHARE?

It was in 2009, when I just started studying. The ongoing financial crisis had put pressure on the stock market, which appeared undervalued. I didn't know much about the stock market and wanted to start a diversified portfolio with long-term stable companies. Sandvik, with its history and importance for Swedish business, was a natural choice in my portfolio.

#### WHAT ARE YOUR EXPECTATIONS ABOUT THE FUTURE DEVELOPMENT OF THE SANDVIK SHARE?

When I bought the Sandvik shares, I mainly considered how the company would be influenced by external factors. Nowadays, I am more focused on the internal situation, how Sandvik will be able to grow by developing its organization and meeting different market challenges. The share value seems attractive. I think the Sandvik share is a good investment as

long as Sandvik continues to stand strong against the competition and meet demand with the right products and solutions.

*Ebba Lilliehöök,  
MSc student,  
Stockholm School  
of Economics*



# REPORT OF THE DIRECTORS

## GROUP SUMMARY

Overall, the year was characterized by stable market demand. The operating margin increased from 9.9% in 2013 to 11.4%, largely driven by the developments in Sandvik Machining Solutions and Sandvik Materials Technology. Operating cash flow amounted to 9.5 billion SEK.

### 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 financial targets span across a business cycle. The outcome since 2005 corresponds to average annual growth of 6% and a 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 2014, growth was 2% and the return on capital employed was 13%. At the end of 2014, the net debt/equity ratio was 0.7. The proposed dividend for 2014 corresponds to a payout ratio of 73% of earnings per share.

### EARNINGS AND RETURNS

Sandvik's order intake amounted to 85,957 million SEK in 2014 (84,072), and invoicing totaled 88,821 million SEK (87,328). The operating profit increased to 10,120 million SEK

(8,638), corresponding to 11% (10) of invoiced sales. The result includes capital gains of 71 million SEK related to the divestments in Sandvik Materials Technology of the distribution business in Australia and New Zealand and the power spring business in the US and Mexico. In addition, earnings were negatively impacted by non-recurring charges of 79 million SEK (2,140) related to the acquisition of Varel International Energy Services, Inc. (Varel). Movements in metal prices made a positive contribution to operating profit of 302 million SEK (–294). Changes in foreign exchange rates since the beginning of the year affected earnings by about –40 million SEK (–1,080) compared with the preceding year.

Net financial items amounted to –1,856 million SEK (–1,885). Profit

after financial income and expenses was 8,264 million SEK (6,753). Income tax had a total impact of –2,272 million SEK (–1,745) on earnings, or 27% (26) of profit before taxes. Profit for the year attributable to equity holders of the Parent Company was 6,011 million SEK (5,013). Earnings per share amounted to 4.79 SEK (4.00). Return on capital employed was 13% (13) and return on equity was 17% (15).

### FINANCIAL POSITION

Cash flow from operating activities increased to 9,515 million SEK (5,133). The improvement was driven by a tax payment totaling approximately 5,800 million SEK in the previous year as a result of the ruling of the Administrative Court of Appeal in the dispute concerning the ownership and management of

TARGETS AND TARGET FULFILLMENT	TARGET 2014	OUTCOME 2014	2005–2014
Annual growth over a business cycle, %	8	2	6
Return on capital employed over a business cycle, %	25	13.4	18
Net debt/equity ratio, times	<0.8	0.7	—
Payout ratio, % of earnings per share	50	73*	63

\* Proposed dividend.

intellectual property rights. Cash flow after investments, acquisitions and divestments was 2,676 million SEK (609). The total purchase consideration for Varel (less cash and cash equivalents) was 5,100 million SEK, comprising a 2,834 million SEK cash payment and 2,266 million SEK in loan settlements that are classified as financing activities in the cash flow statement. Proceeds from the two divestments in Sandvik Materials Technology amounted to 460 million SEK. At the end of the year, cash and cash equivalents amounted to 6,327 million SEK (5,076).

Interest-bearing liabilities, excluding net provisions for pensions, less cash and cash equivalents, yielded a net debt of 30,742 million SEK (25,184). Sandvik's two credit facilities of 650 million EUR and 5,000 million SEK were unutilized at year-end. Under the Swedish bond program of 15,000 million SEK, bonds corresponding to a nominal amount of 11,836 million SEK were outstanding at year-end. Under the European bond program of 3,000 million EUR, a nominal amount of 1,103 million EUR was outstanding at year-end. In addition, there were bonds outstanding in the US for a nominal amount of 740 million USD. The remaining maturity of bonds averaged 4.1 years for Swedish bonds, 11.5 years for European bonds and 5.0 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

Net working capital at the end of the year was 28% (27) of invoiced sales, an increase of one percentage point compared with the preceding year. Inventories at the end of the year corresponded to 26% (27) of invoiced sales, and trade receivables increased slightly to 15% (14)

of invoiced sales. The volume of net working capital changed by -487 million SEK (-1,672) compared with the preceding year, driven by lower levels of inventory and accounts receivable. Changed currency rates increased net working capital by 2,624 million SEK (-594) compared with the preceding year. The structural effect from the acquisition and divestments affected working capital by -168 million SEK (377). Net working capital amounted to 25,250 million SEK (23,281) at the end of the year.

### EQUITY

Equity at year-end amounted to 36,672 million SEK (33,610), or 29.10 SEK (26.70) per share. The equity ratio was 34% (36).

### INVESTMENT ACTIVITIES

Investments in non-current assets amounted to 4,703 million SEK, equivalent to 116% of scheduled depreciation. The total purchase consideration for corporate acquisitions completed during the year (less of cash and cash equivalents) was 5,100 million SEK (489), of which 2,834 million SEK comprised a cash payment and 2,266 million SEK loan settlements. Proceeds from the sales of companies and shares amounted to 460 million SEK (0). Investments in internally generated intangible assets increased to 772 million SEK (665).

### PORTFOLIO MANAGEMENT

Sandvik Venture acquired Varel on 21 May 2014. Varel is based in Carrollton, Texas, USA, and is a global supplier of drilling solutions focusing on drill bits, downhole products for well construction and well completion. The key customer segment is in the oil and gas industry, with some exposure to the mining and construction sectors. In 2013, Varel's revenues totaled approximately 2,200 million SEK and the total number of employees was about 1,300.

Sandvik Materials Technology divested its distribution business in Australia and New Zealand to Vulcan Steel Ltd. on 1 October 2014. The divested operations include processors and distributors of stainless steel products and other corrosion and wear-resistant products. Invoiced sales for the business amounted to about 930 million SEK in 2013 and the total number of employees was approximately 190.

Furthermore, Sandvik Materials Technology divested its power spring business in Scranton, USA, and Nogales, Mexico to Lesjöfors AB on 31 December 2014. The divested operation is a manufacturer of power spring solutions for a wide range of customer applications in consumer, industrial, construction and medical environments. Invoiced sales for the business amounted to about 100 million SEK in 2013 and the total number of employees was approximately 60.

### FUTURE PROSPECTS

The global market conditions remained stable at the beginning of 2015. Over the next three to four years, the Group will focus on its development toward fast-growing markets, generating a high rate of return and reducing earnings volatility.

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

The Parent Company's invoicing for 2014 amounted to 16,475 million SEK (15,873) and the operating result was -1,165 million SEK (-687). Income from shares in Group companies consists primarily of dividends and Group contributions from these and amounted to 8,224 million SEK (14,158). Interest-bearing liabilities, less cash and cash equivalents and interest-bearing assets, amounted to 9,561 million SEK (19,462). The Parent Company's total assets increased by 6,169 million SEK (from 68,820 million SEK to 74,989 million SEK). Invest-

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



ments in non-current assets amounted to 1,227 million SEK (1,257). The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB at 31 December 2014 was 8,024 (7,984).

## EVENTS AFTER THE CLOSE OF THE PERIOD

The Sandvik Group has no material events after the close of the period to report.

## EMPLOYEES

The average number of employees declined to 47,328 (48,040), of whom 10,760 (10,900) work in Sweden. The employee turnover rate was 10% (12%) in 2014. Wages, salaries and other remunerations for the year totaled 19,620 million SEK (18,632), of which 5,230 million SEK (5,131) was paid in Sweden.

The global HR organization aims to create value to Sandvik at the right cost. During 2014 initiatives were introduced within areas such as leadership development, compensation and benefits, succession planning, talent development,

employer branding, culture, diversity and inclusion and securing internal career paths in order to support the new Sandvik vision – We set the industry standard.

A strong performance culture is necessary to be able to leverage the full potential of our people. To better reflect Sandvik's long-term strategy and growth objectives in an increasingly competitive market, our core values have been further developed. A new vision and strategic direction have also been established. Other initiatives to strengthen the performance culture include a major focus on performance management within the entire Group.

A global remuneration strategy is in the process of being introduced throughout the Group. The focus is on creating a remuneration structure that is fair, competitive and easy to understand. An assessment is under way to determine how Sandvik's salary levels compare with other companies operating in the same markets as the Group and competing for the same talent.

The work on the performance dialog process, which encompasses all employees, follows a clear structure. In 2014, our focus was on creating a more efficient method for cascading our objectives throughout the organization and ensuring that this method permeates the performance dialog process at all levels in the Group.

Sandvik has three Group leadership programs for managers at different levels, based on the business strategy and leadership model. Participants in the leadership programs represent all business areas and group functions, geographies and experience comprise a vital part of creating a diverse and dynamic group. Talent development programs and activities now exist at global level and in selected countries, such as China, India and the US. We also launched our first global trainee program, an 18-month program with 13 participants from selected markets.

## SAFETY FIRST

Sandvik's EHS (Environment, Health & Safety) vision is Zero Harm and

## CAPITAL EXPENDITURE

	2014	2013
Investments in non-current assets, MSEK	4,703	4,185
as a % of invoiced sales	5.3	4.8
as a % of scheduled depreciation	116	108

## EARNINGS AND RETURN

	2014	2013
Operating profit, MSEK	10,120	8,638
as a % of invoiced sales	11.4	9.9
Profit after financial income and expenses, MSEK	8,264	6,753
as a % of invoiced sales	9.3	7.7
Return on capital employed, %	13.4	12.6
Return on equity, %*	17.4	15.3
Basic earnings per share, SEK	4.79	4.00
Diluted earnings per share, SEK	4.79	4.00

## QUARTERLY TREND OF INVOICED SALES AND PROFIT AFTER FINANCIAL ITEMS

MSEK		INVOICED SALES	PROFIT AFTER FINANCIAL ITEMS	NET MARGIN, %
2013	Q1	22,098	2,078	9
	Q2	23,043	2,466	11
	Q3	20,416	2,144	11
	Q4	21,770	66	0
2014	Q1	20,783	2,042	10
	Q2	22,051	2,099	10
	Q3	22,593	2,001	9
	Q4	23,394	2,121	9

## FINANCIAL POSITION

	2014	2013
Cash flow from operating activities, MSEK	9,515	5,133
Cash flow after capital expenditures, acquisitions and divestments, MSEK	2,676	609
Cash and cash equivalents and short-term investments at 31 December, MSEK	6,327	5,076
Net debt at 31 December, MSEK*	30,742	25,184
Net financial items, MSEK	-1,856	-1,885
Equity ratio, %	34	36
Net debt/equity ratio, times	0.7	0.7
Equity at 31 December, MSEK	36,672	33,610
Equity per share at 31 December, SEK	29.10	26.70

\* Comparative year adjusted due to changed definition.

the Group's motto is "Safety First". We aim to achieve this vision through globalization and localization – in other words, we strive to think globally and act locally. This involves finding ways to more efficiently coordinate and standardize various activities between the business areas, as well as driving innovation in the area.

Our 2020 EHS strategy is divided into five areas, with supporting objectives and targets. These areas are: EHS as a business advantage, EHS Leadership, Environment, Health and Safety. Sandvik's LTIFR improved by 22% in 2014 and was 2.5 at year-end.

Despite a significant improvement in the Group's lost time injury frequency rate (LTIFR) in recent years, Sandvik's safety work remains a top priority. Several campaigns were introduced in 2014 to increase employee awareness in the area. The goal is to create an industry-leading safety culture and pass this culture on to our customers and

suppliers. Given the challenges and risks facing the industries in which we operate, maintaining a safe work environment must always be a top priority – out of respect for both our employees and our customers.

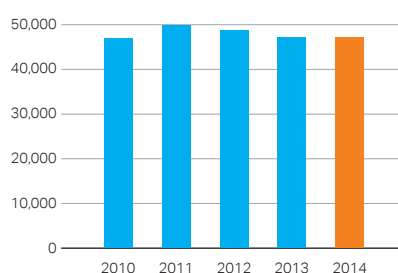
Our safety work primarily focuses on two overall areas. The aim of the first focus area is to identify the risks, even where the risk is extremely small, but with the worst consequence scenarios, and to eliminate or, if this is not possible, control these risks. All business areas conduct ongoing safety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

## DIVERSITY AND INCLUSION

Diversity and inclusion are vital parts of our people strategy. The recruitment of individuals with diverse backgrounds has a strong impact on Sandvik's creativity and capacity for innovation. Continued efforts related to diversity and inclusion are also a prerequisite for succeeding in the continued globalization of business. During the year, each business area conducted status analyses and identified improvement areas for driving and accelerating diversity and inclusion efforts. An action plan for managing these improvement areas has been compiled for 2013–2015.

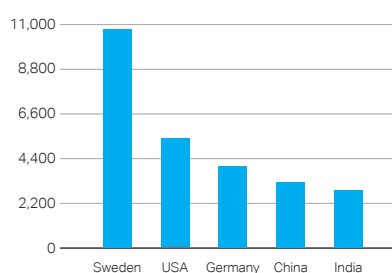
The Group Executive Management is a strong diverse group with different backgrounds and experiences. In terms of nationality, in addition to Swedes, the Group Executive Management now has representatives from China, the UK and the US.

NUMBER OF EMPLOYEES, 2010–2014\*



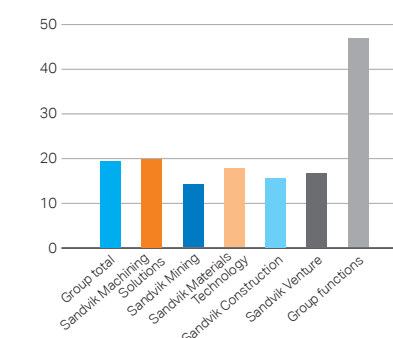
\* Restated to Full Time Equivalents (FTEs) at 31 December 2014.

NUMBER OF EMPLOYEES, FIVE LARGEST COUNTRIES\*

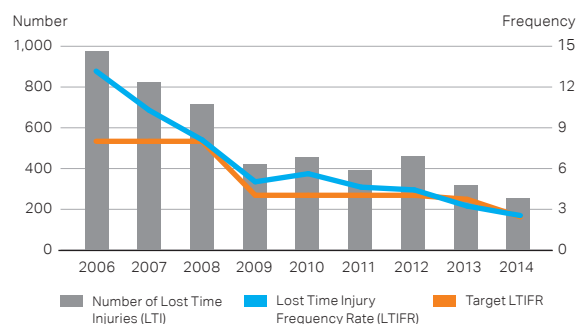


\* Restated to Full Time Equivalents (FTEs) at 31 December 2014.

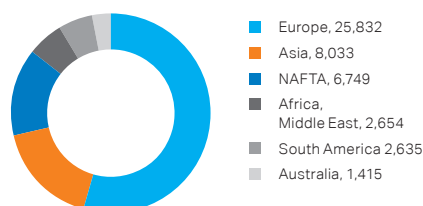
SHARE OF WOMEN, %



LTI AND LTIFR, 2006–2014



NUMBER OF EMPLOYEES BY MARKET AREA, 2014\*



\* Restated to Full Time Equivalents (FTEs) at 31 December 2014.

Within the Group, the share of women in the management teams of the business areas continued to rise and is now 23% (21%). 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 ambition is to continue increasing the share of women in both managerial positions and as a percentage of all employees across the entire Group.

## 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. All employees have the right to, if they so choose, join any union and be covered by a collective agreement. The Group has several unions represented in various countries. We always endeavor to maintain a constructive dialog with our employees and provide them with the opportunity to influence their working conditions, regardless of whether they are a member of a union or not.

## PROPOSAL REGARDING GUIDELINES FOR THE REMUNERATION OF SENIOR EXECUTIVES

The Board proposes that the Annual General Meeting resolve to adopt the following guidelines for the remuneration of senior executives for the period extending until the 2016 Annual General Meeting.

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

ments 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 minimum retirement age for the President is 60 and, for other members of the Group Executive Management, the minimum retirement age is 62.

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

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

## CODES OF CONDUCT

Our Code of Conduct and our Supplier Code of Conduct were revised during the year. Our Codes confirm our strong commitment to ethical and responsible business practices and compliance with the relevant laws and regulations in all markets where we operate. Our Code of Conduct is supported by a global reporting tool called "Speak Up".

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

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

The guidelines adopted by the 2014 Annual General Meeting are presented in Note 3.5.

## RESEARCH AND DEVELOPMENT (R&D)

An R&D Board is responsible for the strategic direction of Sandvik's joint research activities. The Board is led by the Executive Vice President and Head of Group R&D together with representatives from Sandvik's business areas and Sandvik Intellectual Property.

Each business area is responsible for its own R&D program that focuses on product and production development, technology platforms and new innovations. Group R&D focuses on identifying new business opportunities, creating synergies between business areas and performance management of R&D activities.

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. Investments in R&D declined by 1.2% to 2,629 million SEK (2,661) in 2014, corresponding to 3% (3%) of the Group's sales.

The number of employees in R&D including Quality Assurance was approximately 2,700 (2,700) during the year. The largest number of employees, 1,029 at year-end, were based in Sweden, while the most rapid employee increase was noted in Asia, notably in India. Read more about the Group's work in this area on pages 26–29 and about the work of the business areas on pages 44–53.

### ENVIRONMENT

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

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

The significant environmental aspects are:

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

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

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

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

### ENVIRONMENTAL PERMITS

Sandvik has approximately 140 production, distribution or service 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. 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). All plants hold the requisite environmental permits for operations. The environmental permits relate to such activities as the manufacturing of steel and ingots/CC-blooms/CC-billets, the further processing of steel for bar, tube, strip and wire products, rock-drilling products, the manufacture of ceramics, metal powder, cemented-carbide products, castings and various equipment, and tools. For plants holding permits in Sweden, public environmental reports are submitted annually to supervisory authorities.

### CHANGES IN SWEDEN DURING THE YEAR

The production permit for Seco Tools' facility in Fagersta was renewed during 2014. The new permit, granted in June, allows for an expansion of powder production. 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 2015.

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, Gimo and Fagersta. Actions are taken to comply with these target values, often in consultation with supervisory authorities.

### CARBON EMISSIONS

The plants in Sandviken and Hallstahammar are included in the EU's carbon emissions trading scheme. For 2014, emission rights corresponding to 89,203 tons of CO<sub>2</sub> were assigned.

For additional information, see Sandvik Sustainable Business Report at [sandvik.com/sustainability](http://sandvik.com/sustainability).



# DEVELOPMENT IN BUSINESS AREAS

**Sandvik was organized into five business areas during 2014: Sandvik Machining Solutions, Sandvik Mining, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture.**

Sandvik's order intake amounted to 86.0 billion SEK (84.1), a decrease of 2% at fixed exchange rates for comparable units. Invoiced sales totaled 88.8 billion SEK (87.3), down 2% compared with the preceding year at fixed exchange rates for comparable units. The decreases were mainly attributable to the subdued market conditions for Sandvik Mining and Sandvik Construction. All other business areas noted increases in terms of order intake and invoicing compared with the preceding year.

The operating margin improved to 11% (10) of invoiced sales in 2014. The increase was primarily due to higher profitability in Sandvik Machining Solutions and Sandvik Materials Technology, mainly driven by higher invoiced sales and favorable metal price effects respectively. In addition, non-recurring charges of 2.1 billion SEK mostly related to the first phase of the supply chain optimization program negatively impacted earnings in the preceding year. The result for the year includes 71 million SEK in capital gains from the Sandvik

Materials Technology divestments, and 79 million SEK of non-recurring charges related to the acquisition of Varel International Energy Services Inc.

Changes in foreign exchange rates since the beginning of the year affected earnings by about –40 million SEK (–1,080) compared with the preceding year, while changed metal price effects made a positive contribution of 302 million SEK.

The first phase of the supply chain optimization program announced in 2013 progressed according to plan. In 2014, the closure of two production

units in Sandvik Machining Solutions, two production units in Sandvik Mining and one production unit in Sandvik Construction was completed, resulting in annual run-rate savings of 260 million SEK at the end of 2014. During the year, the closure of five additional production units was announced for 2015.

The Group Shared Services initiatives within Finance, IT and HR, with the aim of streamlining service delivery, progressed according to plan, with savings estimated to be realized from 2015 and onwards.

## ORDER INTAKE BY BUSINESS AREA

MSEK	2014	2013	CHANGE, %	CHANGE, %*
Sandvik Machining Solutions	31,328	28,715	9	4
Sandvik Mining	23,533	27,882	–16	–15
Sandvik Materials Technology	14,713	13,415	10	10
Sandvik Construction	8,571	8,521	1	–2
Sandvik Venture	7,795	5,535	41	4
Group activities	17	4	—	—
<b>Group total</b>	<b>85,957</b>	<b>84,072</b>	<b>2</b>	<b>–2</b>

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

## INVOICED SALES BY BUSINESS AREA

MSEK	2014	2013	CHANGE, %	CHANGE, %*
Sandvik Machining Solutions	30,856	28,543	8	4
Sandvik Mining	26,831	30,744	–13	–12
Sandvik Materials Technology	14,907	14,035	6	6
Sandvik Construction	8,553	8,601	–1	–4
Sandvik Venture	7,658	5,394	42	5
Group activities	16	11	—	—
<b>Group total</b>	<b>88,821</b>	<b>87,328</b>	<b>2</b>	<b>–2</b>

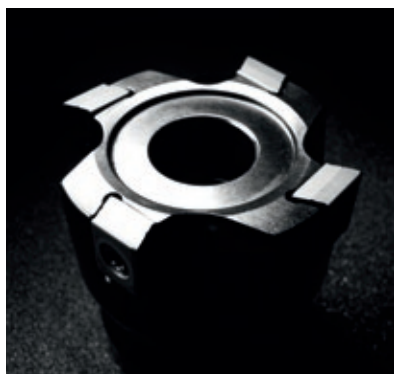
\* Change compared with the preceding year, at fixed exchange rates for comparable units.

## OPERATING PROFIT BY BUSINESS AREA

MSEK	2014	% OF INVOICED SALES	2013	% OF INVOICED SALES	CHANGE, %	CHANGE, %*
Sandvik Machining Solutions	6,159	20	5,205	18	18	15
Sandvik Mining	2,398	9	2,743	9	–13	–5
Sandvik Materials Technology	1,880	13	1,270	9	48	32
Sandvik Construction	45	1	110	1	–59	12
Sandvik Venture	888	12	606	11	47	53
Group activities	–1,250	—	–1,296	—	–4	—
<b>Group total</b>	<b>10,120</b>	<b>11</b>	<b>8,638</b>	<b>10</b>	<b>17</b>	<b>18</b>

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

# SANDVIK MACHINING SOLUTIONS



Sandvik Machining Solutions' milling products are suitable for machining almost any work material – from soft steel or easy-to-machine aluminum to difficult-to-machine super alloys.

During the year, market conditions for Sandvik Machining Solutions were favorable. The business area made strategic investments in sales, R&D and implemented activities to optimize the supply chain, which are critical to position the business area for future profitable growth.

## MARKET CONDITIONS

Demand for Sandvik Machining Solutions increased in 2014, although the trends varied across the different segments and market areas. Overall, growth was noted in Europe, and in particular the UK as a result of higher activity in the aer-

ospace sector. However, some markets, including Germany, were negatively affected by the political uncertainty in Russia and Ukraine. The positive developments in NAFTA were attributable to increased demand from the aerospace, automotive and general engineering segments. While growth was noted in Asia, mainly driven by the automotive and aerospace industries, demand in South America declined.

## SUPPLY CHAIN OPTIMIZATION

Activities to optimize the global supply chain progressed according to plan. During the year, two pro-

### SHARE OF CONSOLIDATED INVOICED SALES\*



\* Share of the Group's total invoiced sales.

### SHARE OF CONSOLIDATED OPERATING PROFIT\*\*



\*\* Share of the Group's total operating profit, excluding Group activities.

### GROWTH IN KEY SEGMENTS

### STRONG CASH FLOW

### OPTIMIZATION OF SUPPLY CHAIN – TWO UNITS CLOSED

### FINANCIAL OVERVIEW, MSEK

	2014	2013	CHANGE, %	CHANGE, %*
Order intake	31,328	28,715	9	4
Invoiced sales	30,856	28,543	8	4
Operating profit	6,159	5,205	18	15
Operating profit as a % of invoiced sales	20.0	18.2	1.8	—
Adjusted operating profit**	6,159	5,695	8	—
Adjusted operating profit as a % of invoiced sales**	20.0	20.0	0	—
Number of employees***	18,927	19,055	-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.

\*\*\* Restated to number of FTEs (full-time equivalents).

### ORDER INTAKE BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	16,983	54	15,757	8	3
NAFTA	6,831	22	5,889	16	7
South America	949	3	1,060	-10	-6
Africa, Middle East	245	1	283	-13	-13
Asia	6,092	19	5,485	11	8
Australia	229	1	241	-5	-5
<b>Group total</b>	<b>31,328</b>	<b>100</b>	<b>28,715</b>	<b>9</b>	<b>4</b>

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

### INVOICED SALES BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	16,761	54	15,639	7	3
NAFTA	6,686	22	5,877	14	6
South America	949	3	1,052	-10	-5
Africa, Middle East	240	1	284	-16	-15
Asia	5,993	19	5,447	10	7
Australia	228	1	244	-7	-6
<b>Group total</b>	<b>30,856</b>	<b>100</b>	<b>28,543</b>	<b>8</b>	<b>4</b>

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

duction units were closed as part of the first phase of a multi-year program to better align the business area's production footprint with global demand. The two production unit closures generated annual run-rate savings of approximately 120 million SEK at the end of 2014. Moreover, two additional units were announced to be closed in 2015.

#### MID-MARKET

During 2014, the Dormer Tools product area repositioned the mid-market brands Dormer and Pramet to ensure a complete product range of inserts and round tools. In addition, a shared logistics

platform was implemented to serve mid-market customers.

#### STRATEGY AND PRIORITIES

Looking ahead, Sandvik Machining Solutions will continue to execute its strategy that focuses on increasing market share and improving profitability while maintaining strong cash generation. To further strengthen the market position, approximately 15,000 new products are planned to be launched in the coming year. In addition, a key focus area will be to complete the first phase of the supply chain optimization program in 2015.

#### RESEARCH & DEVELOPMENT

To position the business area for future profitable growth, R&D investments were ramped up. In line with the strategy, R&D investments will help increase efficiency and the launch pace of core products and digital offerings.

#### NEW PRODUCTS

During the year, several important core products were launched. A selection of these is listed below:

##### GC4315

The Sandvik Coromant product area launched its second series of grades for steel-turning operations. The GC4315 is

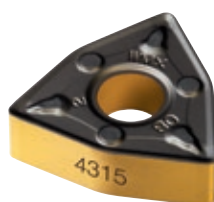
based on the Inveio™ technology, which is a breakthrough in material science. The GC4315 grades deliver real benefits for automotive and oil and gas customers through improved tool life and production reliability, as well as reduced cycle times for operations.

##### DC170

The Walter product area launched the DC170 drill featuring a unique design that provides high process reliability and drilling quality in steel and cast iron. The DC170 increases productivity by ensuring the carbide's strength is where it is needed – right behind the cutting edge, facing the cutting forces.

##### MS2050

To meet the specific needs of the aerospace industry, the Seco Tools product area launched the MS2050 – a milling grade that increases productivity when machining in titanium alloys. The MS2050 utilizes a new coating technique and substrate that is optimized for challenging conditions to ensure enhanced process reliability and higher cutting data.



GC4315



DC170



MS2050



# SANDVIK MINING



The DL431 electro-hydraulic drill rig is specially designed for production and long-hole drilling in underground mines.

During 2014, the global mining industry was characterized by declining commodity prices, continued low capital expenditure and postponed investment projects. Sandvik Mining focused on reducing the cost base, improving aftermarket sales and sales force effectiveness, and reducing the time to market of new products.

## MARKET CONDITIONS

Although the long-term prospects for the mining industry remain favorable, the market was subdued during 2014. Aftermarket demand was stable during the year, however, many customers were cautious and postponed investment projects in response to low and

volatile commodity prices that negatively affected Equipment and Mining Systems. Despite the challenging market conditions, Sandvik Mining achieved several milestones during the year. For Equipment, a breakthrough order of locally developed and produced mid-market surface drills from a customer in India was signed, and the launch of a new 60-ton underground truck allowed the business area to significantly increase its market share for this product in the important Australian market. Moreover, Mining Systems secured a materials handling contract from a customer in Australia with a value exceeding 450 million SEK, and a major crusher order from a

### SHARE OF CONSOLIDATED INVOICED SALES\*



\* Share of the Group's total invoiced sales.

### SHARE OF CONSOLIDATED OPERATING PROFIT\*\*



\*\* Share of the Group's total operating profit, excluding Group activities.

**STABLE AFTERMARKET DEMAND, CHALLENGING MARKET FOR EQUIPMENT AND MINING SYSTEMS**

**SAVINGS FROM WORK-FORCE REDUCTIONS**

**OPTIMIZATION OF SUPPLY CHAIN  
– TWO UNITS CLOSED**

## FINANCIAL OVERVIEW, MSEK

	2014	2013	CHANGE, %	CHANGE, %*
Order intake	23,533	27,882	-16	-15
Invoiced sales	26,831	30,744	-13	-12
Operating profit	2,398	2,743	-13	-5
Operating profit as a % of invoiced sales	8.9	8.9	0	—
Adjusted operating profit**	2,398	3,993	-40	—
Adjusted operating profit as a % of invoiced sales**	8.9	13.0	-4.1	—
Number of employees***	11,815	12,965	-9	—

\* 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.

\*\*\* Restated to number of FTEs (full-time equivalents).

## ORDER INTAKE BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	3,117	13	2,623	19	16
NAFTA	3,729	16	3,821	-2	-3
South America	3,056	13	5,465	-44	-42
Africa, Middle East	5,450	23	5,886	-7	-6
Asia	3,925	17	5,412	-27	-28
Australia	4,256	18	4,676	-9	-5
<b>Group total</b>	<b>23,533</b>	<b>100</b>	<b>27,882</b>	<b>-16</b>	<b>-15</b>

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

## INVOICED SALES BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	2,589	10	3,788	-32	-33
NAFTA	3,529	13	4,042	-13	-13
South America	4,688	17	4,884	-4	-1
Africa, Middle East	5,974	22	6,555	-9	-8
Asia	5,546	21	5,787	-4	-6
Australia	4,505	17	5,688	-21	-19
<b>Group total</b>	<b>26,831</b>	<b>100</b>	<b>30,744</b>	<b>-13</b>	<b>-12</b>

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

customer in Sweden with a value of about 300 million SEK.

#### PERSONNEL REDUCTIONS AND SUPPLY CHAIN OPTIMIZATION

To adjust the cost base to the lower demand, actions were implemented during the first quarter of 2014 that reduced the workforce by nearly 400, yielding annual run-rate savings of about 500 million SEK. In addition, continuous improvements were made throughout the year to ensure an efficient cost base.

Moreover, the first phase of the supply chain optimization program progressed according to plan. The program aims to realign the supply chain footprint to improve the busi-

ness area's cost structure and gain a competitive advantage by improving its ability to offer better service to its customers. Two production units were closed during the year, which generated annual run-rate savings of approximately 60 million SEK at the end of 2014. Moreover, an announcement was made that three additional units will be closed in 2015.

#### NEW MANAGEMENT

On 19 May 2014, Scot Smith was appointed President of Sandvik Mining. Prior to joining Sandvik, he held senior positions in several large industrial companies. Scot Smith succeeded Gary Hughes,

who assumed the position as Senior Vice President Sales for the business area.

#### STRATEGY AND PRIORITIES

Going forward, Sandvik Mining will continue to execute its strategy through the Excelerate program. The program aims to increase sales in the aftermarket segment and in key markets, while reducing the cost base and improving productivity and capital efficiency. In addition, a key focus area will be to complete the first phase of the supply chain optimization program in 2015.

#### RESEARCH & DEVELOPMENT

The creation of a global R&D organization, an initiative that started in 2013, continued during the year. It aims to increase efficiency, improve customer focus and reduce the lead time to market for new products.

#### NEW PRODUCTS

##### DD422i

The DD422i underground drill rig features a new drilling and boom control system and a wide range of automation levels. High-precision drilling combined with the widest range of automation options will reduce unnecessary waste rock excavation, delivering greatly increased productivity while significantly reducing waste-handling costs.

##### DD2710

Sandvik Mining's DD2710, developed for the emerging markets, is a jumbo designed for small to mid-sized underground hardrock applications. With the best drilling coverage in its size, it offers increased profitability.

##### DE130i and DE140i

The DE130i and DE140i exploration drill rigs are operated by computer systems that control drilling operations, and offer customers increased productivity, safety and information handling.



# SANDVIK MATERIALS TECHNOLOGY



Sandvik's production unit for coated strip steel, used for example in energy-efficient fuel cell technology, Sandviken, Sweden.

**Demand and profitability were stable for Sandvik Materials Technology. The transformation of the business area into an energy-focused niche player continued during the year, which resulted in the divestment of two non-core businesses and the announcement of one closure.**

## MARKET CONDITIONS

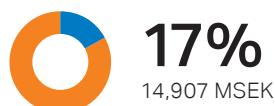
Demand from the energy segment remained favorable and several major orders totaling 1.3 billion SEK were secured from the oil and gas industry. Sandvik Materials Technology also renewed a strategic partnership with Tenaris, one of the world's largest suppliers to this

industry. Although the outlook for the oil and gas industry became more uncertain towards the end of the year, due to the drop in oil price, long-term demand remains favorable. During the year, three major orders from the nuclear power sector were also booked, amounting to more than 600 million SEK in total. The market for the more standardized product program remained uncertain and fragmented.

## DIVESTMENTS AND ANNOUNCED CLOSURE OF NON-CORE BUSINESSES

In line with the strategic direction to focus on the core business and attractive growth segments, such

### SHARE OF CONSOLIDATED INVOICED SALES\*



\* Share of the Group's total invoiced sales.

### SHARE OF CONSOLIDATED OPERATING PROFIT\*\*



\*\* Share of the Group's total operating profit, excluding Group activities.

**FAVORABLE DEMAND AND GROWTH IN THE ENERGY SEGMENT**

**STABLE PROFITABILITY**

**DIVESTMENT OF NON-CORE BUSINESSES**

## FINANCIAL OVERVIEW, MSEK

	2014	2013	CHANGE, %	CHANGE, %*
Order intake	14,713	13,415	10	10
Invoiced sales	14,907	14,035	6	6
Operating profit	1,880	1,270	48	32
Operating profit as a % of invoiced sales	12.6	9.0	3.6	—
Adjusted operating profit**	1,578	1,564	1	—
Adjusted operating profit as a % of invoiced sales**	10.6	11.1	-0.5	—
Number of employees***	6,914	7,113	-3	—

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

\*\* Operating profit adjusted for positive metal price effects totaling 302 million SEK for 2014 and negative metal price effects totaling 294 million SEK for 2013.

\*\*\* Restated to number of FTEs (full-time equivalents).

## ORDER INTAKE BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	7,040	47	7,697	-9	-9
NAFTA	3,384	23	3,307	2	-1
South America	260	2	316	-18	-15
Africa, Middle East	275	2	213	29	28
Asia	3,080	21	1,031	199	194
Australia	675	5	851	-21	4
<b>Group total</b>	<b>14,713</b>	<b>100</b>	<b>13,415</b>	<b>10</b>	<b>10</b>

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

## INVOICED SALES BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	7,290	48	7,170	2	0
NAFTA	3,864	26	3,416	13	9
South America	262	2	259	1	4
Africa, Middle East	246	2	200	23	21
Asia	2,547	17	2,128	20	17
Australia	698	5	863	-19	4
<b>Group total</b>	<b>14,907</b>	<b>100</b>	<b>14,035</b>	<b>6</b>	<b>6</b>

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



as energy and energy efficiency applications, Sandvik Materials Technology continued to exit non-core operations. During the year, the distribution business in Australia and New Zealand was divested, as well as the power spring business in the US and Mexico, accounting for total annual sales of approximately 1 billion SEK. A decision was also made to close down the die-cutting operations in China, which manufactures cutting rules for the packaging industry and reported sales of approximately 75 million SEK in 2014. The closure is expected to be finalized in 2015.

#### FOCUS ON ENERGY AND ENERGY EFFICIENCY

The implementation of the Value Creation strategy continued during the year. The strategy entails additional focus on profitable growth and capital efficiency and a significant redirection of the portfolio toward the energy segment and applications for energy efficiency. It also involves the implementation of a lean business model for the more standardized product program. As a result of the focus on a lean business model, the two product areas, Strip and Wire and Heating Technology, were merged to realize synergies.

#### STRATEGY AND PRIORITIES

Looking ahead to 2015, key priorities include a sustained strong focus on safety, continued materials evolution to meet customer requirements in the most demanding industries and profitable growth in the energy segment as well as areas related to energy efficiency. The implementation of the Value Creation strategy will continue, with an emphasis on the core business. The development of service offerings in key expertise areas within Sandvik Materials Technology, will continue in the next year. Furthermore, the long-term goal of reducing working capital levels will also be a key priority going forward.

#### RESEARCH & DEVELOPMENT

During the year, R&D resources were reallocated to strategic growth areas primarily within the energy segment. For example, a specialized oil and gas R&D unit was created to support growth within this segment. A R&D center was inaugurated in China, which was an important milestone for Sandvik Materials Technology's continued development in Asia.

#### NEW PRODUCTS

##### Safurex™ HIP for metal-powder applications

Safurex™ HIP is the next generation of Safurex™, developed to meet the severe conditions in urea production. It is a powder metallurgical duplex stain-

less steel for manufacturing components by Hot Isostatic Pressing (HIP). Thanks to powder metallurgy, optimal properties can be obtained for certain critical components. Advantages include reduced machining time and costs, a lighter product form and less machining scrap. This results in more efficient use of materials and energy.

##### Pressurfect™ tubing for gasoline direct injection (GDI) fuel systems

Sandvik Materials Technology has introduced new seamless stainless steel tubes for gasoline direct injection (GDI) fuel systems, also called Pressurfect™. The new Pressurfect™ tubes help reduce fuel consumption and lower CO<sub>2</sub> emissions in combustion

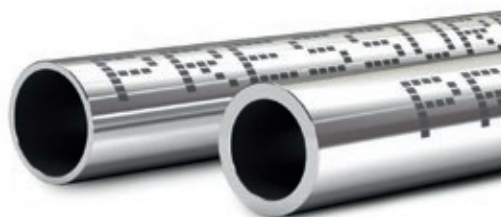
engines. GDI technology is helping reduce fuel consumption by 20% or more while still producing excellent power output and lowering emissions.

##### AquaSan Ni50 – welding electrodes for underwater welding

The AquaSan Ni50 nickel alloy electrode is a unique product capable of producing X-ray quality welds to a depth of 15 meters underwater. AquaSan Ni50 is already used for underwater wet welding in a wide range of applications in the nuclear sector and is increasingly being chosen for wet welding repairs of ocean-going vessels.



METALLIC POWDER USED FOR MANUFACTURING HIP COMPONENTS



PRESSURFECT™

# SANDVIK CONSTRUCTION



The DI550 surface down-the-hole drill rig at work.

**While the challenging market conditions continued for Sandvik Construction during 2014, sales and operational efficiency improvements and supply chain optimizations are positioning the business area for future profitable growth.**

## MARKET CONDITIONS

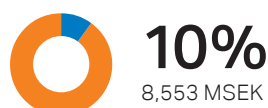
The market for Sandvik Construction during 2014 was characterized by subdued demand. However, performance was mixed across the different segments and geographical areas. In Europe, overall demand was stable. Growth in France and the UK was offset by the political uncertainty in Russia, which had a

negative impact on demand, particularly in the mobile crushers segment. While the market in NAFTA as a whole weakened, Mexico and Canada noted growth. The Middle East reported growth, while demand in Africa declined. Asia weakened compared with the preceding year, mainly due to the development in China.

## SUPPLY CHAIN OPTIMIZATION AND OPERATIONAL EFFICIENCY

The first phase of the supply chain optimization program progressed according to plan. The program aims to better align the business area's production footprint with global demand. One production

### SHARE OF CONSOLIDATED INVOICED SALES\*



\* Share of the Group's total invoiced sales.

### SHARE OF CONSOLIDATED OPERATING PROFIT\*\*



\*\* Share of the Group's total operating profit, excluding Group activities.

**STABLE POSITION  
IN A CHALLENGING  
MARKET**

**IMPROVED OPERATIONAL  
EFFICIENCY**

**OPTIMIZATION OF  
SUPPLY CHAIN – ONE  
UNIT CLOSED**

### FINANCIAL OVERVIEW, MSEK

	2014	2013	CHANGE, %	CHANGE, %*
Order intake	8,571	8,521	1	-2
Invoiced sales	8,553	8,601	-1	-4
Operating profit	45	110	-59	12
Operating profit as a % of invoiced sales	0.5	1.3	-0.8	—
Adjusted operating profit**	45	310	-85	—
Adjusted operating profit as a % of invoiced sales**	0.5	3.6	-3.1	—
Number of employees***	2,815	3,147	-11	—

\* 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 equivalents).

### ORDER INTAKE BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	3,448	41	3,004	15	9
NAFTA	1,397	16	1,440	-3	-6
South America	812	9	840	-3	-1
Africa, Middle East	1,157	13	1,076	7	5
Asia	1,589	19	1,939	-18	-20
Australia	169	2	222	-24	-20
<b>Group total</b>	<b>8,571</b>	<b>100</b>	<b>8,521</b>	<b>1</b>	<b>-2</b>

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

### INVOICED SALES BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	3,397	40	3,258	4	-1
NAFTA	1,437	17	1,331	8	4
South America	844	10	812	4	6
Africa, Middle East	1,014	12	979	4	1
Asia	1,663	19	1,769	-6	-9
Australia	199	2	453	-56	-55
<b>Group total</b>	<b>8,553</b>	<b>100</b>	<b>8,601</b>	<b>-1</b>	<b>-4</b>

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

unit was closed during the year, which generated annual run-rate savings of approximately 80 million SEK at the end of 2014. Moreover, an announcement was made that one additional unit will be closed in 2015.

To further enhance the operational efficiency, the business area will continue to review initiatives to stream line the organization during next year. The purpose of the initiatives will be to lower the cost base and improve competitiveness and efficiency in operations, while maintaining a close relationship with customers.

### CAPITAL EFFICIENCY IMPROVEMENTS

In 2014, Sandvik Construction focused on improving capital efficiency primarily through initiatives to reduce inventory levels and overdue receivables. During the year, the business area successfully decreased inventory volumes by approximately 300 million SEK compared with the preceding year, and accounts receivable by about 200 million SEK. As a result, relative net working capital to sales improved to below 26% (28) in 2014, just above the group target of 25%.

### STRATEGY AND PRIORITIES

To continue to improve the business area's performance, Sandvik Construction's focus will remain on implementing its strategy. The strategy aims to improve operational efficiency by reducing costs and net working capital, and to increase sales through commercial excellence initiatives and higher sales in the aftermarket and mid-market segments. In addition, the completion of the first phase of the supply chain optimization program, combined with the reorganization of the sales areas will further enhance the business area's performance.

### RESEARCH & DEVELOPMENT

Sandvik Construction continued to invest in the development of innovative new products that provide leading performance levels combined with improved safety. In line with the strategy to increase service as a business, innovative solutions for existing customers have been developed.

### NEW PRODUCTS & SERVICES

#### CH540

The new generation cone crusher CH540 was launched in 2014 and is smaller in size compared to the CH550 introduced in 2013. The CH540 can be adjusted to handle a large number of applications at any quarry that needs to increase production capacity, reduce cost and produce high-quality aggregates.



CH540

#### Tiger DG700 / DG800

The Tiger series – a new range of surface top hammer drill rigs. The Tiger DG700 and DG800 are robust machines with high-performance rock drills and well-suited for production drilling in quarries and other applications, such as road cutting and foundation drilling.

#### Inspection+, Service+, Security+

Inspection+, Service+, Security+ are new tailor-made service agreements for customers that enhance the reliability, up-time and productivity of existing equipment.



The new Tiger DG series surface top hammer drill rigs were globally launched at Bauma China trade show in November 2014 in Shanghai.

# SANDVIK VENTURE



Recycling, Wolfram Bergbau und Hütten, St. Martin, Austria.

Sandvik Venture's focus during the year has been on growth in key segments, commercialization of new business opportunities and continued efficiency measures. The business area reported positive developments, with continued expansion of the portfolio in attractive market segments. The strong performance in NAFTA and Asia more than offset the mixed trend in the European market.

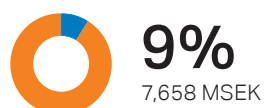
Sandvik Venture's product areas are managed as stand-alone entities, accountable for their targets and business strategies. In some cases, they also function as ena-

blers to other business areas within Sandvik.

## MARKET CONDITIONS

Market conditions for Sandvik Venture differed across the product areas. Sandvik Hyperion experienced stable market conditions, and Sandvik Process Systems delivered on its growth targets amid increased competition, while the market for Wolfram Bergbau und Hütten was influenced by the lower APT notation. The Varel International Energy Services, Inc. (Varel) business, primarily focused on oil and gas markets, was generally strong during the year. The fall

### SHARE OF CONSOLIDATED INVOICED SALES\*



\* Share of the Group's total invoiced sales.

### SHARE OF CONSOLIDATED OPERATING PROFIT\*\*



\*\* Share of the Group's total operating profit, excluding Group activities.

### ACQUISITION OF VAREL INTERNATIONAL ENERGY SERVICES INC.

### SANDVIK HYPERION OPERATIONAL AS ONE PRODUCT AREA

### LEVELING CAPACITY INVESTMENT IN SANDVIKEN FINALIZED

### FINANCIAL OVERVIEW, MSEK

	2014	2013	CHANGE, %	CHANGE, %*
Order intake	7,795	5,535	41	4
Invoiced sales	7,658	5,394	42	5
Operating profit	888	606	47	53
Operating profit as a % of invoiced sales	11.6	11.2	0.4	—
Adjusted operating profit**	967	806	20	—
Adjusted operating profit as a % of invoiced sales**	12.6	14.9	-2.3	—
Number of employees***	4,074	2,635	55	—

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

\*\* Operating profit adjusted for non-recurring costs of approximately 79 million SEK for 2014 and approximately 200 million SEK for 2013.

\*\*\* Restated to number of FTEs (full-time equivalents).

### ORDER INTAKE BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	3,429	44	3,056	12	-4
NAFTA	1,784	23	934	91	9
South America	346	4	140	146	57
Africa, Middle East	586	8	127	361	39
Asia	1,490	19	1,214	23	13
Australia	160	2	62	158	-11
<b>Group total</b>	<b>7,795</b>	<b>100</b>	<b>5,535</b>	<b>41</b>	<b>4</b>

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

### INVOICED SALES BY MARKET AREA, MSEK

	2014	SHARE, %	2013	CHANGE, %	CHANGE, %*
Europe	3,506	46	3,072	14	0
NAFTA	1,794	23	904	98	14
South America	296	4	146	103	17
Africa, Middle East	546	7	123	344	13
Asia	1,353	18	1,082	25	9
Australia	164	2	67	145	-12
<b>Group total</b>	<b>7,658</b>	<b>100</b>	<b>5,394</b>	<b>42</b>	<b>5</b>

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



in oil price during the fourth quarter had only a minor negative impact on demand, but this is expected to be greater in the first half of 2015.

#### SANDVIK HYPERION

On the first of January 2014, Sandvik Hyperion became operational as one product area following the merger of Diamond Innovations and Sandvik Hard Materials. During the year, Sandvik Hyperion continued to position itself within the electronics segment by launching new Hyperion Diamond slurries and expanding production capacity for slurry in Wuxi, China.

#### SANDVIK PROCESS SYSTEMS

During the year, Sandvik Process Systems introduced an extended sulphur offering in the market. In addition, a new production line for the leveling of steel belts was completed at the Sandvik Process Sys-

tem production site in Sandviken, Sweden. Technopartner Samtronic (TPS) GmbH, acquired in 2013, was fully integrated and provides a product range for the manufacturing of composites.

#### WOLFRAM BERGBAU UND HÜTTEN

Wolfram Bergbau und Hütten continued to drive raw materials optimization for the Sandvik Group, resulting in a substantial reduction in raw materials inventory. To increase the sourcing of additional raw materials, the product area also invested to increase recycling capacity.

#### VAREL INTERNATIONAL ENERGY SERVICES, INC.

The acquisition of Varel was completed on 21 May 2014. A light integration is ongoing in addition to a focused move to grow the oil and gas drilling services platform.

During the year, Varel continued its geographic expansion and introduced a number of new products for oil and gas drilling, well construction and well completion and mining.

#### STRATEGY AND PRIORITIES

The main focus moving forward is to accelerate the growth of Sandvik Venture's businesses through new customer-focused products and solutions, value-added technology and innovation delivery, and people development. Other priorities include a continued focus on operational excellence, execution and value creation.

As of 1 January 2015, Jim Nixon, formerly President of Varel, is President of Sandvik Venture. He succeeds Tomas Nordahl, who will leave Sandvik for a position outside the Group.

#### NEW PRODUCTS

##### Sulphur offering

Sandvik Process Systems expanded its product portfolio by purchasing the proprietary technology and know-how of the Calgary-based Brimrock Group Inc. This significantly broadens the market offering, encompassing liquid sulfur degassing, granulation, block pouring and remelting.

##### Hyperion™

Sandvik Hyperion's new industrial diamond slurries are used for lapping and polishing of sapphire in the electronics industry with high surface finishing requirements.

##### SlipStream™ RC Pro completion roller cone drill bits

Varel's SlipStream™ RC Pro is designed for the fast and effective drill out of frac plugs. The SlipStream™ RC Pro incorporates a unique, hybrid cutting structure matched specifically to the distribution of high hardness, high abrasion, and elastic or plastic materials found in such plugs.



SLIPSTREAM™ RC PRO

# INTEGRATED RISK MANAGEMENT

The aim of Sandvik's risk management activities is to manage the risks involved in achieving the company's objectives and to ensure optimal leveraging of potential opportunities. Through its global presence, Sandvik has a favorable risk spread, with sales in about 20 product areas and a variety of industries in more than 130 countries.

The Sandvik Group applies a comprehensive risk management program – Enterprise Risk Management (ERM). The program covers business areas and Group functions. ERM is an integral part of Sandvik's operational and strategic management and assists the company in taking action when it encounters change, whether triggered by internal or external factors. Refer also to the Financial Risk Management Report on pages 56–62.

The main components of risk management are identification, evaluation, treatment, monitoring and reporting. An action plan is established to accept, reduce, eliminate or transfer the risk or leverage the potential opportunities identified. Formal procedures and processes have been established for the reporting, monitoring and control of risks. During 2014, two consolidated ERM Reports were submitted to the

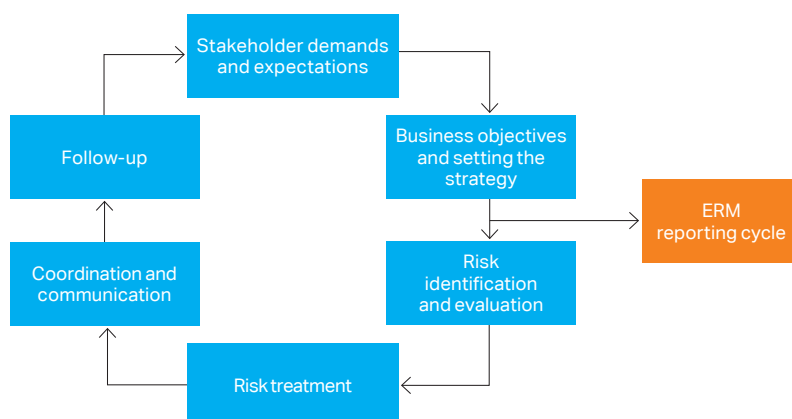
Group Executive Management. In addition, a year-end ERM report was provided to the Board Audit Committee.

Significant economic and political uncertainty continued to influence Sandvik's markets in 2014. Risk management efforts focused on the Group's business risks and on risks associated with Sandvik's sustainability commitment. Significant efforts have been made to strengthen the Group's governance and management of ethical business practices. The Code of Conduct from 2004 has been revised and will be launched during 2015. The revised Code of Conduct is underpinned by Group policies, which are all being reviewed and updated through a focused initiative. New processes and a new reporting tool to address possible breaches of the Code of Conduct will be launched together with the Code.

## 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 forms the basis for a shared approach to what is to be prioritized and managed.
- Support the Board of Directors and the 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 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 the manner in which sustainability risks affect the business and vice versa.

## ERM PROCESS, OVERVIEW



## BUSINESS RISKS

Each manager with operational responsibilities is expected to ensure that risks associated with the operations are appropriately identified, evaluated and managed. Business risks include market and country risks, R&D risks, product risks, production risks, health and safety risks, environmental risks, corruption risks and human rights risks. Refer also to the Sustainable Business Report at [sandvik.com/](http://sandvik.com/)

## RISK AREAS

1. Business	2. Compliance	3. Financial Reporting
<ul style="list-style-type: none"> <li>– Industry and Market</li> <li>– Commercial</li> <li>– Operational</li> </ul>	<ul style="list-style-type: none"> <li>– International laws, conventions and guidelines</li> <li>– Local laws</li> <li>– Governance and internal policies</li> </ul>	<ul style="list-style-type: none"> <li>– Financial closure process</li> <li>– Financial reporting system</li> <li>– Financial guidelines</li> </ul>
One-off risks		
<ul style="list-style-type: none"> <li>– M&amp;A (Mergers and Acquisitions)</li> <li>– Strategic initiatives and structural changes</li> </ul>		

sustainability. The identified business risks are evaluated regularly and assigned action plans. The risks are then summarized in reports, which provide key input information for reporting at the business area and 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 expect that any of these ongoing proceedings and processes will significantly affect the Sandvik Group.

### PROTECTION AND ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

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

### TAX DISPUTES

Sandvik is a multinational Group with many cross-border transactions. Therefore, transfer pricing and indi-

rect taxes comprise two main areas that are the subject of investigations by the tax authorities of various countries.

At times, Sandvik is involved in discussions with the tax authorities concerning transfer pricing issues, meaning the prices applied to transactions between Sandvik companies globally. The Group maintains detailed transfer pricing documentation to support the transfer prices applied. If the tax

authorities' opinion in a transfer pricing matter differs from Sandvik's position, this may have implications for the Group's revenue recognition among countries.

When deemed necessary, a provision for disputed taxes is recognized in accordance with the valid financial accounting policies.

The tax case regarding the reorganization of ownership of intellectual property rights dating back to 2005 was finally closed in January 2014 when the Swedish Supreme Administrative Court of Appeal ruled against granting an appeal. The decision carried no financial implication for 2014.

For further information on the current provision, see Note 11 Income tax on page 102.

### COMPLIANCE RISKS

Sandvik is engaged in many different areas at a global level and conducts its business within the framework of rules and regulations that apply in various countries, markets and industry sectors. The Group has an established governance framework including Group policies, Group procedures and other steering documentation. The scope of the governance framework, including the controls implemented, is partly based on legal requirements and risk exposure.

During 2014, a full review of the Group's efforts to combat corruption was performed in order to further improve Sandvik's operational anti-bribery and anti-corruption activities and strengthen the connection with the business processes and organization.

### 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 applied by Sandvik, the International Financial Reporting Standards (IFRS). The Group's Finance function validates and analyzes the financial information as part of the quality control of financial reporting.

Refer also to the Corporate Governance Report on pages 63–71.

### ONE-OFF RISKS

Through recurring updates conducted as part of the Group's ERM activities, specific changes in the business or the factors affecting the business are identified. These may relate to the acquisition of a new company, a major investment, new legislation, changes in political or market conditions, technical innovations, etc., whose implications are assessed on a case-by-case basis.

### INSURABLE RISKS

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

# FINANCIAL RISK MANAGEMENT

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 to during 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 guidelines, objectives and limits for financial management and the managing of financial risks within the Group.

Sandvik Financial Services provides services to Group companies and its task is to support subsidiaries with loans, deposits 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.

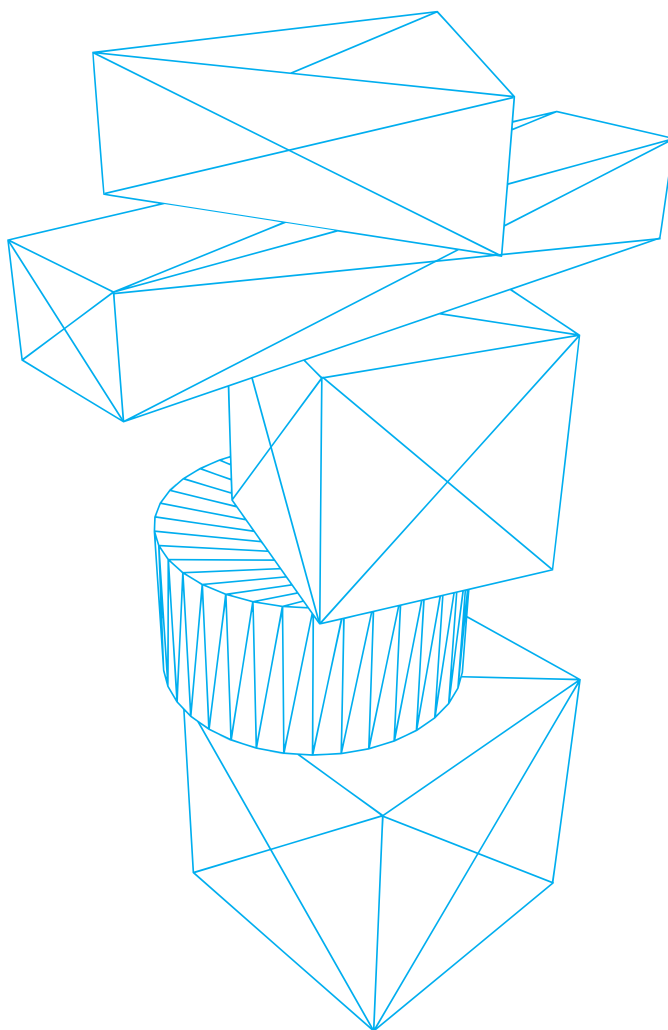
In addition, Sandvik Financial Services conducts operations for payment advice and trade finance, and is responsible for the Group's global policy for granting credit to customers in conjunction with sales. This activity is carried out mainly through the head office in Stockholm and at several locations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





## CURRENCY RISK

### RISK

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:

### TRANSACTION EXPOSURE

The profit for the year is affected when sales and purchases are made in different currencies.

### TRANSLATION EXPOSURE

- 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

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.

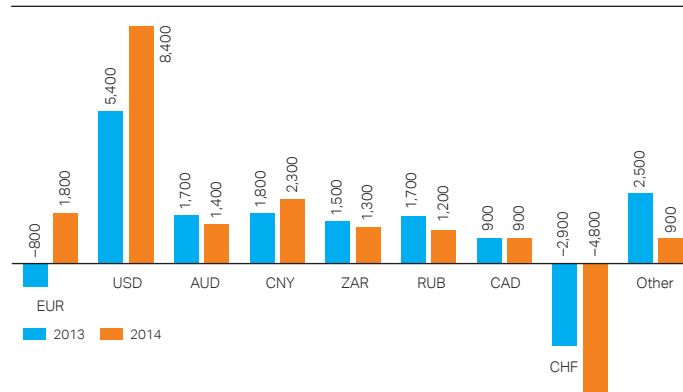
## TRANSACTION EXPOSURE

### RISK

Sandvik's annual transaction exposure, meaning the Group's net flow of currencies, after full offsetting of the countervalue in the exporting companies' local currencies, and measured at the average exchange rate, amounted to 13,400 million SEK (11,800) in 2014. The most important currencies for one year of exposure are shown in the diagram below.

### EXPOSURE

NET FLOW IN FOREIGN CURRENCIES, MSEK



### COMMENTS

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

A certain portion of the anticipated net flow of sales and purchases is hedged through financial instruments in accordance with guidelines set in the Group's finance policy. In addition, major project orders are currency hedged to safeguard the

gross margin. Under the finance policy, the CFO has a mandate to hedge the annual transaction exposure. At year-end, the total hedged amount was 3,262 million SEK (3,470). The average duration for the hedged volume of foreign currency was about 4 months (4). Unrealized loss from outstanding currency contracts for hedging of future net flows amounted to -63 million SEK (229) at year-end. Of this, -98 million SEK relates to contracts maturing in 2015 and 34 million SEK to contracts maturing in 2016 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.

## TRANSLATION EXPOSURE

## RISK

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).

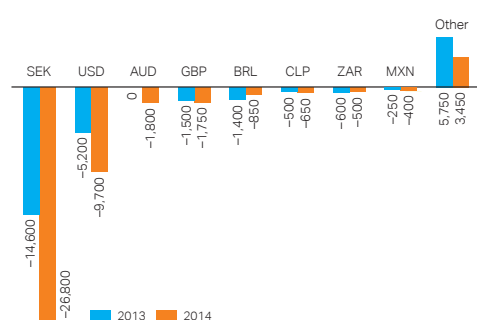
Profit/loss in a foreign subsidiary is translated to SEK based on the average rate for the period to

which the profit/loss relates, which means that the Group's earnings are exposed to a translation risk.

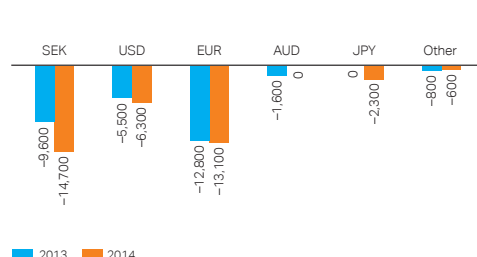
Net assets, meaning the subsidiaries' shareholders equity, are translated into SEK at the rate applying on the balance-sheet date. At 31 December, the Group's net assets in subsidiaries in foreign currency were 35,700 million SEK (35,100).

## EXPOSURE

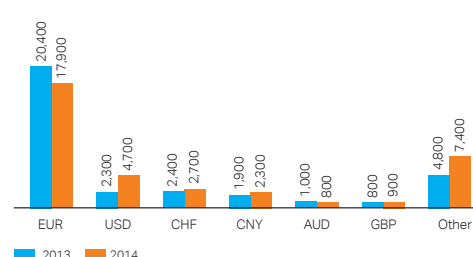
FINANCING OF SUBSIDIARIES BY CURRENCY (NET), MSEK



GROUP'S EXTERNAL BORROWING BY CURRENCY, MSEK



NET ASSETS BY FOREIGN CURRENCY, MSEK



## COMMENTS

To avoid translation risk in the balance sheets of subsidiaries, they are financed in local currency through the internal bank. The currencies required by the subsidiaries are shown in the above 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.

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.

## EXCHANGE-RATE SENSITIVITY

## RISK

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.

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.

## EXPOSURE

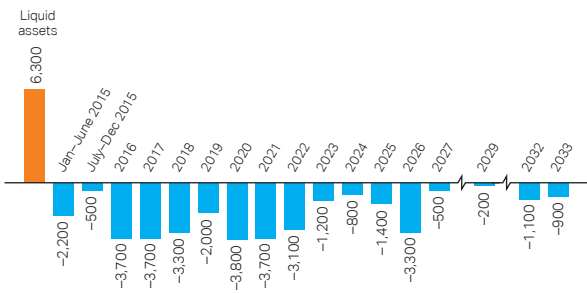
If the exchange rates for the exposure currencies were to change by 5% in an unfavorable direction, total operating profit over a 12-month period would change by approximately 1,800 million SEK (1,500), assuming that the composition is the same as it was at year-end.

The net effect on other comprehensive income of a similar change to exchange rates would be approximately 2,000 million SEK (1,800). This net effect primarily comprises translation exposure in equity.

## INTEREST-RATE RISK

RISK	<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</p>	<p>1-percentage-point change in interest rates. Interest-rate risk arises in two ways:</p> <ul style="list-style-type: none"><li>– The company may have invested in interest-bearing assets, the value of which changes when the interest rate changes.</li><li>– The cost of the company's borrowing fluctuates when the general interest-rate situation changes.</li></ul>																																								
EXPOSURE	<p>If market rates were to rise by 1 percentage point across all terms at 1 January 2015, in relation to loans for which the interest rate will be reset during the coming year, net interest items would be impacted by -113 million SEK.</p> <p><b>INTEREST RATES AND FIXED-INTEREST TERMS ON OUTSTANDING LOANS</b></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 163 million SEK as a result of a 1-percentage-point increase of the interest-rate curve.</p> <table><tr><th></th><th colspan="3">INCLUDING EFFECTS OF INTEREST-RATE DERIVATIVES</th></tr><tr><th></th><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>3.1</td><td>25</td><td>11,868</td></tr><tr><td>Bond loans, European MTN</td><td>3.6</td><td>111</td><td>10,437</td></tr><tr><td>Private placement</td><td>4.0</td><td>52</td><td>6,328</td></tr><tr><td>Commercial papers</td><td>1.2</td><td>4</td><td>692</td></tr><tr><td>Other loans from banks</td><td>2.5</td><td>18</td><td>7,747</td></tr><tr><td><b>Total loans</b></td><td><b>3.2</b></td><td><b>52</b></td><td><b>37,071</b></td></tr><tr><td>Interest effect of currency derivatives</td><td>1.6</td><td></td><td></td></tr><tr><td><b>Total incl. currency derivatives</b></td><td><b>4.8</b></td><td></td><td></td></tr></table>		INCLUDING EFFECTS OF INTEREST-RATE DERIVATIVES				EFFECTIVE RATE OF INTEREST, %	FIXED- INTEREST TERM, MONTHS	RECOGNIZED LIABILITY, MSEK	Bond loans, Swedish MTN	3.1	25	11,868	Bond loans, European MTN	3.6	111	10,437	Private placement	4.0	52	6,328	Commercial papers	1.2	4	692	Other loans from banks	2.5	18	7,747	<b>Total loans</b>	<b>3.2</b>	<b>52</b>	<b>37,071</b>	Interest effect of currency derivatives	1.6			<b>Total incl. currency derivatives</b>	<b>4.8</b>		
	INCLUDING EFFECTS OF INTEREST-RATE DERIVATIVES																																									
	EFFECTIVE RATE OF INTEREST, %	FIXED- INTEREST TERM, MONTHS	RECOGNIZED LIABILITY, MSEK																																							
Bond loans, Swedish MTN	3.1	25	11,868																																							
Bond loans, European MTN	3.6	111	10,437																																							
Private placement	4.0	52	6,328																																							
Commercial papers	1.2	4	692																																							
Other loans from banks	2.5	18	7,747																																							
<b>Total loans</b>	<b>3.2</b>	<b>52</b>	<b>37,071</b>																																							
Interest effect of currency derivatives	1.6																																									
<b>Total incl. currency derivatives</b>	<b>4.8</b>																																									
COMMENTS	<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-rate swap agreements are sometimes used to achieve the desired fixed-interest term. The Group CFO has a mandate to vary the average fixed-interest term of the Group's debt portfolio, provided that it does not exceed 60 months. The average fixed-interest term on Sandvik's borrowing was 52 months (47) 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 1.6% between the currencies the Group borrows and the currencies the Group lends.</p>	<p>The Group's average interest expense, including other loans and effects of various derivatives, was 4.8% (5.3).</p> <p>Hedge accounting is applied when an effective link exists between hedged loans and interest-rate swaps. Accordingly, changed market interest rates could also impact other comprehensive income, since the Group has interest-rate swap agreements to which it applies cash-flow hedging. This means that changes in the market values of these swaps are recognized directly in other comprehensive income instead of in profit for the year. A presentation of all interest-rate swap agreements entered into, and information regarding their duration, can be found in Note 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>																																								

## LIQUIDITY AND REFINANCING RISK

RISK	Liquidity and refinancing risk is defined as the risk that financing possibilities will be limited when loans must be refinanced, and that payment commitments cannot be met as a result of insufficient liquidity.																																																																																																			
EXPOSURE	<div>MATURITY PROFILE FOR BORROWING AND LIQUID ASSETS Nominal amount, MSEK</div> <div><table><thead><tr><th>Period</th><th>Liquid assets</th><th>Borrowing</th></tr></thead><tbody><tr><td>Jan-June 2015</td><td>6,300</td><td>-2,200</td></tr><tr><td>July-Dec 2015</td><td></td><td>-500</td></tr><tr><td>2016</td><td></td><td>-3,700</td></tr><tr><td>2017</td><td></td><td>-3,700</td></tr><tr><td>2018</td><td></td><td>-3,300</td></tr><tr><td>2019</td><td></td><td>-2,000</td></tr><tr><td>2020</td><td></td><td>-3,800</td></tr><tr><td>2021</td><td></td><td>-3,700</td></tr><tr><td>2022</td><td></td><td>-3,100</td></tr><tr><td>2023</td><td></td><td>-1,200</td></tr><tr><td>2024</td><td></td><td>-800</td></tr><tr><td>2025</td><td></td><td>-1,400</td></tr><tr><td>2026</td><td></td><td>-3,300</td></tr><tr><td>2027</td><td></td><td>-500</td></tr><tr><td>2028</td><td></td><td>-200</td></tr><tr><td>2029</td><td></td><td>-</td></tr><tr><td>2030</td><td></td><td>-</td></tr><tr><td>2031</td><td></td><td>-1,100</td></tr><tr><td>2032</td><td></td><td>-</td></tr><tr><td>2033</td><td></td><td>-900</td></tr></tbody></table></div> <div>BORROWING, SIZE OF PROGRAMS AND REMAINING CREDIT PERIODS</div> <table><thead><tr><th></th><th>CURRENCY</th><th>RECOGNIZED LIABILITY, MSEK</th><th>SIZE OF PROGRAMS, MSEK</th><th>AVERAGE REMAINING CREDIT PERIOD (YEARS)</th></tr></thead><tbody><tr><td>Bond loans, Swedish MTN</td><td>SEK</td><td>11,868</td><td>15,000</td><td>4.1</td></tr><tr><td>Bond loans, European MTN</td><td>EUR</td><td>10,437</td><td>28,558</td><td>11.5</td></tr><tr><td>Private placement</td><td>USD</td><td>6,328</td><td>—</td><td>5.0</td></tr><tr><td>Commercial papers</td><td>EUR, SEK</td><td>692</td><td>17,140</td><td>0.3</td></tr><tr><td>Other loans from banks</td><td>Others</td><td>7,747</td><td>—</td><td>3.9</td></tr><tr><td><b>Total borrowing</b></td><td></td><td><b>37,071</b></td><td><b>60,698</b></td><td><b>6.2</b></td></tr></tbody></table>		Period	Liquid assets	Borrowing	Jan-June 2015	6,300	-2,200	July-Dec 2015		-500	2016		-3,700	2017		-3,700	2018		-3,300	2019		-2,000	2020		-3,800	2021		-3,700	2022		-3,100	2023		-1,200	2024		-800	2025		-1,400	2026		-3,300	2027		-500	2028		-200	2029		-	2030		-	2031		-1,100	2032		-	2033		-900		CURRENCY	RECOGNIZED LIABILITY, MSEK	SIZE OF PROGRAMS, MSEK	AVERAGE REMAINING CREDIT PERIOD (YEARS)	Bond loans, Swedish MTN	SEK	11,868	15,000	4.1	Bond loans, European MTN	EUR	10,437	28,558	11.5	Private placement	USD	6,328	—	5.0	Commercial papers	EUR, SEK	692	17,140	0.3	Other loans from banks	Others	7,747	—	3.9	<b>Total borrowing</b>		<b>37,071</b>	<b>60,698</b>	<b>6.2</b>
Period	Liquid assets	Borrowing																																																																																																		
Jan-June 2015	6,300	-2,200																																																																																																		
July-Dec 2015		-500																																																																																																		
2016		-3,700																																																																																																		
2017		-3,700																																																																																																		
2018		-3,300																																																																																																		
2019		-2,000																																																																																																		
2020		-3,800																																																																																																		
2021		-3,700																																																																																																		
2022		-3,100																																																																																																		
2023		-1,200																																																																																																		
2024		-800																																																																																																		
2025		-1,400																																																																																																		
2026		-3,300																																																																																																		
2027		-500																																																																																																		
2028		-200																																																																																																		
2029		-																																																																																																		
2030		-																																																																																																		
2031		-1,100																																																																																																		
2032		-																																																																																																		
2033		-900																																																																																																		
	CURRENCY	RECOGNIZED LIABILITY, MSEK	SIZE OF PROGRAMS, MSEK	AVERAGE REMAINING CREDIT PERIOD (YEARS)																																																																																																
Bond loans, Swedish MTN	SEK	11,868	15,000	4.1																																																																																																
Bond loans, European MTN	EUR	10,437	28,558	11.5																																																																																																
Private placement	USD	6,328	—	5.0																																																																																																
Commercial papers	EUR, SEK	692	17,140	0.3																																																																																																
Other loans from banks	Others	7,747	—	3.9																																																																																																
<b>Total borrowing</b>		<b>37,071</b>	<b>60,698</b>	<b>6.2</b>																																																																																																
COMMENTS	<div>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 76,800 million SEK and long-term financing, including share capital, pension liabilities, long-term tax liabilities, long-term provisions and guaranteed credit facilities, amounted to 89,300 million SEK. The short-term liquidity reserve amounted to 13,300 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.</div> <div>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.</div> <div>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 93% at year-end 2014 compared with 77% one year earlier. The maturity structure for the Group's financial liabilities and derivatives is presented in Note 29.</div> <div>At year-end, Standard &amp; Poor's, the international credit rating agency, had assigned a BBB credit rating to Sandvik's long-term borrowing and A-2 for its short-term borrowing. For a continuous update on Sandvik's credit rating, refer to <a href="http://www.sandvik.com">www.sandvik.com</a>.</div>																																																																																																			



## CREDIT RISK

RISK

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

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

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

EXPOSURE

TOTAL CREDIT RISK – FINANCIAL INSTRUMENTS

MSEK	2014	2013
Trade receivables	13,840	12,682
Cash and cash equivalents	6,327	5,075
Unrealized gains on derivatives	963	911
Other receivables	428	542
Outstanding credits	1,088	824
Total	22,646	20,034

COMMENTS

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 2014, the value of these amounted to 7,290 million SEK (5,986).

The Sandvik companies are exposed to the credit risk associated with outstanding trade receivables from ongoing sales. 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 –133 million SEK (–137), which corresponds to about 0.1% of sales. The total gross

value of outstanding trade receivables was 14,753 million SEK (13,559) at 31 December. Total impairment of these was –913 million SEK (–878). 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. At year-end, the value of outstanding credits was 1,126 million SEK (844), of which –39 million SEK (–20) 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 94 million SEK (133).

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 573 million SEK (491).

## RAW MATERIALS PRICE EXPOSURE

RISK	<p>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.</p>
EXPOSURE	<p>When Sandvik Materials Technology obtains a customer order at a fixed price for nickel, molybdenum or copper, the price of these materials is hedged by signing financial contracts. This means that Sandvik's operating profit is not impacted by movements in the price of these raw materials, relating to the aforementioned orders at a fixed price.</p> <p>The Group pursues hedging 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 hedging.</p> <p>Changes in metal prices impact the result as a consequence of the rules regarding revaluation of inventory. The net effect is presented in the "Development in business areas" section.</p> <p>For Sandvik's large production units in Sweden, the electricity price is continuously hedged through derivatives. Electricity consumption at these units normally totals some 800 GWh. The hedging horizon at year-end was about 17 months' (20) expected consumption.</p>

## RAW MATERIALS PRICE EXPOSURE (CONTINUED)

## COMMENTS

Net total consumption of nickel amounted to about 14,500 metric tons during the year.

At year-end, the volume of hedged nickel inventory was 1,306 metric tons (1,791). The market value of commodity derivatives entered into was -12 million SEK (-11).

The market value of electricity derivatives was 424 million SEK (485) at year-end. The result of these derivative contracts amounted to -86 million SEK (-133). A change in the electricity price of SEK 0.1

per kWh is estimated to impact Sandvik's operating profit and other comprehensive income by plus or minus 80 million SEK on an annual basis, based on the prevailing conditions at year-end 2014.

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.

## PENSION COMMITMENTS

## RISK

Sandvik has comprehensive pension obligations for its employees in the countries in which it operates. The pension solutions vary depending on leg-

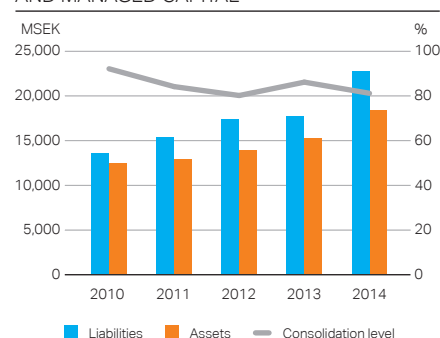
islation and local agreements. The most comprehensive agreements are found in Sweden, Finland, Germany, the UK, Canada and the US.

## EXPOSURE

The average interest-rate duration for the Group's interest-bearing assets in the pension portfolio is 6.5 years, and 17.8 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 2,650 million SEK. A 20% movement in the stock market would change assets by about 1,200 million SEK.

If longevity assumptions are changed by one year, the pension liability would change by about 3%, 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 4,200 million SEK.

TREND OF PENSION LIABILITY AND MANAGED CAPITAL



## COMMENTS

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

The defined-benefit pension plans are described in Note 22.

In 2014, managed capital totaled 18,400 million SEK (15,200) and the corresponding pension commitments amounted to 22,700 million SEK (17,700), which is equal to a consolidation level of 81% (86). The return on Sandvik's pension assets was 11.7% (8.6). Unfunded pension plans amounted to 2,300 million SEK (1,900).

# CORPORATE GOVERNANCE REPORT

Sandvik AB has its head office in Stockholm and is the Parent Company of the Sandvik Group, with subsidiaries in more than 60 countries. The Sandvik Group has about 47,000 employees and its operations are global with sales in more than 130 countries. Sandvik AB is a public company with its shares listed on Nasdaq 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 the Group Executive Management.

Corporate governance is based on the Swedish Companies Act, the Stock Exchange's Rule book for issuers and the Swedish Code of

Corporate Governance (the "Code"), as well as other relevant laws and regulations. The Code is available from [www.corporategovernanceboard.se](http://www.corporategovernanceboard.se). In 2014, Sandvik applied the Code without deviating from any of its regulations.

## OWNERSHIP STRUCTURE

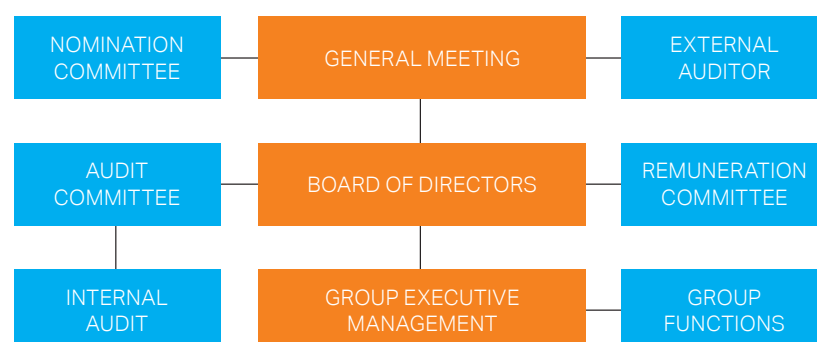
At 31 December 2014, Sandvik's share capital amounted to 1,505,263,107.60 SEK represented by 1,254,385,923 shares. Each share carries one vote at General Meetings of shareholders. According to the share register, Sandvik

had about 115,000 shareholders at 31 December 2014. AB Industrivärden was the largest owner with about 11.7% of the share capital. Of the total share capital at year-end, nearly 31% was owned by investors outside Sweden.

## GENERAL MEETING

Pursuant to the Swedish Companies Act, the General Meeting of shareholders is the highest decision-making body. At the Annual General Meeting, the shareholders are given the possibility to exercise their voting rights in relation to, for

## 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.

## YEAR IN BRIEF

- Four new members added to the Group Executive Management.
- Re-election of all Board members (except Fredrik Lundberg, who declined re-election) and the Chairman of the Board.
- New incentive program for senior executives and key employees adopted by the Annual General Meeting.
- Adoption of revised Code of Conduct, which will be launched during 2015.



Well-attended Annual General Meeting on 13 May 2014 at the Göransson Arena in Sandviken, Sweden.

example, 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.

All shareholders who have been entered in the share register and have informed the company of their attendance within the time limit stated in the notice of the meeting are entitled to participate at Sandvik's General Meetings and vote according to the number of shares held. Shareholders are also entitled to be represented by a proxy at the Meeting.

**2014 ANNUAL GENERAL MEETING**  
Shareholders representing 55.15% of the share capital and votes attended the Annual General Meet-

ing held on 13 May 2014 in Sandviken, Sweden. Sven Unger, 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 (with the exception of Fredrik Lundberg who had declined re-election) and the Chairman of the Board.
- Guidelines for remuneration of senior executives.
- A new long-term incentive program in the form of a performance share program for about 350 senior executives and key employees in the Group.

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

THE TEN LARGEST SHAREHOLDER GROUPS AT 31 DECEMBER 2014, %	
AB Industrivärden	11.7
Alecta Pension Insurance	4.8
SSB CL Omnibus*	4.0
Handelsbanken Pension	3.8
Swedbank Robur Funds	3.2
L E Lundbergföretagen AB	2.4
AMF – Insurance and Funds	2.0
Nordea Investment Funds	1.9
Göranssonska Foundations	1.9
Pensionskassan SHB, försäkringsförening	1.5

\* Shares held in trust.



## 2015 ANNUAL GENERAL MEETING

The next Annual General Meeting will be held on 7 May 2015 in Sandviken, Sweden. More information is available at sandvik.com.

## NOMINATION COMMITTEE

The Nomination Committee is a preparatory body that prepares proposals for, among other things, election of the Board of Directors and the Chairman of the Board, election of auditors (where necessary) and fees for adoption at the General Meeting. The Annual General Meeting has adopted an instruction for the Nomination Committee, which includes a procedure for appointing the Nomination Committee, valid until a General Meeting resolves on a change. In accordance with this instruction, the Nomination Committee should 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 2015 AGM

For the 2015 Annual General Meeting, 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), Tomas Hedberg (Swedbank Robur Funds) and Anders Nyrén (Sandvik's Chairman of the Board). Up to the date of the Annual General Meeting, the Nomination Committee will have met on at least four 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, and has reviewed the number of Board assignments that each Board member has in other companies. Furthermore, the Nomination Committee has paid special attention to the requirements relating to diversity and breadth as well as the requirement to strive for even gender distribution.

## NOMINATION COMMITTEE'S TASKS AHEAD OF THE 2015 ANNUAL GENERAL MEETING

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

## 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 finan-

## COMPOSITION OF THE BOARD SINCE 2014 ANNUAL GENERAL MEETING

NAME	FUNCTION	INDEPENDENT IN ACC. WITH THE CODE	SHAREHOLDING, NUMBER <sup>3)</sup> 31 DEC 2014	ELECTED	AUDIT COMMITTEE	REMUNERATION COMMITTEE
Thomas Andersson	Deputy*		612	2012		
Alicia Espinosa	Deputy*		7,848	2010		
Olof Faxander	Member	No <sup>1)</sup>	81,874	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		
Hanne de Mora	Member	Yes	16,000	2006	Chairman	
Anders Nyrén	Chairman	No <sup>2)</sup>	10,000	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 participate 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.

cial statements, the management of assets and the company's financial condition in general are controlled in a reassuring manner.

The President is appointed by the Board and is responsible for the daily operations pursuant to guidelines and instructions issued by the Board. The distribution of responsibilities between the Board and the President is laid down in 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 reviewed and adopted each year. The review is based on such aspects as the Board's evaluation of the individual and collective work that the Board performs.

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

## COMPOSITION

Sandvik's Board comprises seven 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, Hanne de Mora, Anders Nyrén, Simon Thompson and Lars Westerberg were re-elected at the 2014 Annual General Meeting. Anders Nyrén was re-elected Chairman of the Board. Fredrik Lundberg had declined re-election. 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 up until 30 September 2014 and thereafter Åsa Thunman) served as secretary of the Board, and the Remuneration and Audit Committees.

The Board members are presented in more detail on pages 126–127.

## INDEPENDENCE

Anders Nyrén is 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 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 2014

During the year, the Board held ten 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 environment, health and safety, and issues concerning investments and the review of previously made investments, as well as acquisitions, such as the acquisition of Varel International Energy Services, Inc., and divestments. The Remuneration and Audit Committees submitted reports from their respective meetings. In the autumn of 2014, the Board traveled to the US, which included visits to several of Sandvik's production facilities and the Aerospace Application

## ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2014

MEMBER	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE
<i>Total number of meetings</i>	10	5	4
Thomas Andersson	10		
Alicia Espinosa	8		
Olof Faxander	10		
Jürgen M Geissinger	9		
Johan Karlström	10		4
Jan Kjellgren	10		
Tomas Kärnström	10		
Fredrik Lundberg <sup>1)</sup>	3		
Hanne de Mora	10	5	
Anders Nyrén	10	5	4
Simon Thompson	10	5	
Lars Westerberg	9		4

<sup>1)</sup> Resigned as Board member at the Annual General Meeting on 13 May 2014.

## 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.

Center in the new Sandvik facility in Fair Lawn, as well as a visit to Rolls-Royce's Crosspointe facility.

### REMUNERATION OF THE BOARD

As resolved at the 2014 Annual General Meeting, the Chairman's fee is 1,700,000 SEK and the fee to each of the non-executive Board members elected by the General Meeting is 600,000 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 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 2014, the members of the Remuneration Committee were the Chairman of the Board Anders Nyrén (Chairman of the Committee), Johan Karlström and Lars Westberg. According to the instructions for the Remuneration Committee, the Committee is to undertake the tasks prescribed by the Code, which include preparing proposals 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 Sand-

vik 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 2014, the Remuneration Committee held four meetings.

#### AUDIT COMMITTEE

During 2014, 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.
- Effectiveness of the system of internal control.
- Planning, scope and follow-up of the internal and external audit for the year.
- The Group's systematic processes for risk management, including legal disputes, accounting procedures, taxation, finance operations and pension issues.
- The development and effectiveness of compliance processes.

In 2014, 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 management teams of individual companies and the business areas, to the Group Executive Management, the Audit Committee and to the Board of Sandvik AB. The auditor meets with the Board at least once a year without the President or any other member of the Group Executive Management attending.

The independence of the external auditor is 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 Machining Solutions, Sandvik Mining, 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 [sandvik.com](http://sandvik.com) for more detailed information relating to the Group's operational organization and business activities.

### PRESIDENT AND GROUP EXECUTIVE MANAGEMENT

In 2014, the Group Executive Management comprised Olof Faxander, President and CEO; Mats Backman, Executive Vice President and CFO; Gary Hughes (until 18 May 2014), President of Sandvik Mining; Scot Smith (from 19 May 2014), President of Sandvik Mining; Jonas Gustavsson, President of Sandvik Machining Solutions; Petra Einarsson, President of Sandvik Materials Technology; Dinggui Gao, President of Sandvik Construction; Tomas Nordahl (until 31 December 2014), Executive Vice President and Head of IT, sourcing and strategy and President of Sandvik Venture; Bo Severin (until 30 September 2014), Executive Vice President and General Counsel; Åsa Thunman (from 1 October 2014), Executive Vice President and General Counsel; Anna Vikström Persson, Executive Vice President and Head of Human Resources; and Jessica Alm, Executive Vice President Group Communications. In April 2014, Zhiqiang (ZZ) Zhang, Executive Vice President and Head of Emerging Markets, and Olle Wijk, Executive Vice President and Head of Group R&D (previously members of the Extended Group Executive Management) were made members of the Group Executive Management. Jim Nixon was appointed President of Sandvik Venture, and thereby also a member of the Group Executive Management, as of 1 January 2015. The President and other members of the Group Executive Management are presented on pages 128–129.

The Group Executive Management meet each month and deal with the Group's financial development, Group-wide development

projects, leadership and competence sourcing, and other strategic issues.

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 the 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.

In all countries where Sandvik has registered sales, a Group Management Representative (GMR) has been appointed by the President and CEO to ensure that Sandvik, in the country or region to which the GMR is assigned, has an adequate country or regional organization to drive synergies and safeguard compliance and efficient coordination and performance of support activities in the country. The GMR should act as chairman in the country boards of his/her assignment or delegate this to a Deputy GMR and, if so, lead the regional country management team.

Each country in which Sandvik has a subsidiary has a Country Manager who acts as the representative of the Group Executive Management for a country/region, with an overall responsibility for Sandvik ownership-related matters and overall business activities. The Country Manager acts as a counterpart to the GMR or Deputy GMR and is responsible for promoting the wider Sandvik Group interest and initiating activities that should increase the efficiency of business operations and leverage the synergy opportunities within the Group.



## REMUNERATION OF SENIOR EXECUTIVES

For guidelines, remuneration and other benefits payable to the Group Executive Management, refer to *Proposal regarding guidelines for the remuneration of senior executives* and Note 3.5.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has the overall responsibility to ensure that the Group's system for risk management and internal control is effective. The Group applies a comprehensive risk management program, Enterprise Risk Management (ERM). ERM is an integral part of Sandvik's operational and strategic management and assists the company in taking action when change occurs, whether triggered by internal or external factors.

The guidelines for Sandvik's operations are assembled in Power of Sandvik, which is the governance framework incorporating the Group's strategy, Code of Conduct and policies that regulate the governance of the Sandvik Group.

## GOVERNANCE OF SUSTAINABILITY ACTIVITIES

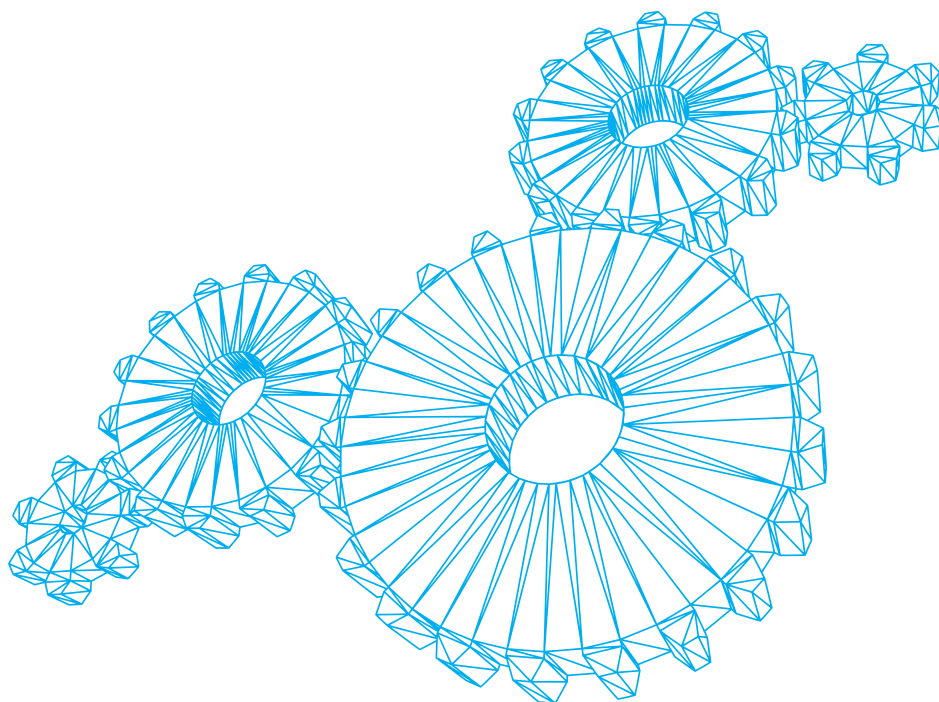
With Sandvik's Sustainable Business strategy and Code of Conduct as the basis, risks and opportunities are analyzed. Objectives and targets are set to address the risks identified by the Group and to efficiently leverage the opportunities available.

The Board adopts the Group's Code of Conduct and the Group Executive Management establishes objectives and performance indicators for sustainability activities. At the end of 2014, the Board adopted a revised Code of Conduct, which will be launched at the beginning of 2015. Each business area assumes responsibility for ensuring compliance with the Code and that the goals are cascaded down in the organization. The business areas are also responsible for the assessment of sustainability risks (for example, environment, health and safety, 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.

At Group level, the Head of Sustainable Business leads a sustainability coordination team comprising representatives from various functions and business areas. 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 are established in India, China, Mexico, South Africa 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 the Group Executive Management.



# INTERNAL CONTROL OF FINANCIAL REPORTING

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

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

The internal control system aligns with the conceptual framework of COSO, which is based on five key components that jointly facilitate good internal control. The five components are Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring and follow-up.

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

## CONTROL ENVIRONMENT

The Power of Sandvik regulates the governance of the Sandvik Group. It includes the Sandvik Code of Conduct, delegation of responsibilities, including signatory and authorization principles for decision making and cost approvals, and request

and approval procedures in respect of investments and acquisitions, among other items.

The Sandvik Financial Reporting Policies and Procedures govern control over financial reporting. These documents contain detailed 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 Finance Managers are appointed to support 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 accuracy of financial reporting and compliance with IFRS requirements. Group Business Control performs business analysis and compiles reports on operational performance. Both statutory and management reporting is conducted in close cooperation with business areas and specialist functions such as tax, financial services and legal to ensure the correct reporting of the income statement, balance sheet, equity and cash flow.

## RISK ASSESSMENT AND RISK MANAGEMENT

The Enterprise Risk Management (ERM) process at Sandvik, which is described in the Integrated Risk Management Report on pages 54–55, encompasses the area of financial reporting. Risk management is a normal component of the daily work on financial reporting. Specific activities have been established with the purpose of identifying risks, weaknesses and any changes needed to the financial reporting process to minimize risks. The amalgamation of roles and responsibilities, work descriptions, IT systems, skills and expertise creates an environment that is monitored continuously to identify and manage potential risks.

## CONTROL ACTIVITIES

Internal Control activities have been effected in all areas that impact upon financial reporting. The internal control activities follow the logic of the reporting process and the finance organization. In each reporting entity, the finance staff is responsible for accurate accounting and the closing of books. Finance staff adheres to the Sandvik Financial Reporting Poli-

cies and Procedures and validate and reconcile local accounts before submitting them to business area management and Group finance for consolidation.

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

Group Financial Control and Group Business Control 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 Internal Audit and the external auditors.

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

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

Information to external parties is communicated regularly on Sandvik's website, which contains news and press releases. Quarterly interim reports are published externally and are supplemented by investor meetings attended by the Group Executive Management. In addition, there is an established agenda for communicating information on shareholder meetings and other information to investors. The Annual Report is made available to shareholders and the general public, both as a printed version and on Sandvik's website.

#### **MONITORING AND FOLLOW-UP**

Each business entity manager and their respective finance organization is ultimately responsible for continuously monitoring the financial information of the various entities. The information is also monitored at a business area level, by Group staff functions, the Group Executive Management and by the Board. The Audit Committee at Sandvik is 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. The Sandvik internal audit function independently reviews the internal control system of financial reporting as part of its audit plan.

The external auditors continuously examine the level of internal control over financial reporting. They review the third-quarter interim report and study the financial reports prepared for the other quarters. In conjunction with the close of the third quarter, the external auditors perform a more detailed examination of the operations, as part of a hard-close audit, which includes an assessment of the Parent Company's reporting and internal control

over financial reporting in the business areas, subsidiaries and Group functions. Finally, the external auditors perform a standard examination of the annual accounts and the Annual Report.

#### **INTERNAL AUDIT**

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

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

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

# CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT .....	73
BALANCE SHEET .....	74
CHANGES IN EQUITY .....	76
CASH-FLOW STATEMENT .....	77



# CONSOLIDATED INCOME STATEMENT

MSEK	NOTE	2014	2013
Revenue	1, 2	88,821	87,328
Cost of sales and services		-57,218	-58,848
<b>Gross profit</b>		<b>31,603</b>	<b>28,480</b>
Selling expenses		-11,867	-11,184
Administrative expenses		-6,719	-6,290
Research and development costs	4	-2,629	-2,661
Share of results of associated companies		24	1
Other operating income	5	177	531
Other operating expenses	6	-469	-239
<b>Operating profit</b>	<b>1, 3, 7, 8</b>	<b>10,120</b>	<b>8,638</b>
Financial income		163	209
Financial expenses		-2,019	-2,094
<b>Net financing cost</b>	<b>9</b>	<b>-1,856</b>	<b>-1,885</b>
<b>Profit after financial items</b>		<b>8,264</b>	<b>6,753</b>
Income tax	11	-2,272	-1,745
<b>Profit for the year</b>		<b>5,992</b>	<b>5,008</b>
<b>Other comprehensive income</b>			
<i>Items that cannot be reclassified to profit/loss for the year</i>			
Actuarial gains/losses on defined-benefit pension plans	22	-1,847	1,039
Tax relating to items that cannot be reclassified to profit/loss for the year	11	452	-361
		<b>-1,395</b>	<b>678</b>
<i>Items that can be reclassified to profit/loss for the year</i>			
Translation differences during the year		3,120	142
Fair-value changes in cash-flow hedges		-391	-71
Fair-value changes in cash-flow hedges transferred to profit/loss for the year		10	-134
Tax related to fair-value changes in cash-flow hedges	11	78	45
		<b>2,817</b>	<b>-18</b>
<b>Total other comprehensive income for the year</b>		<b>1,422</b>	<b>660</b>
<b>Total comprehensive income for the year</b>		<b>7,414</b>	<b>5,668</b>
<b>Profit for the year attributable to:</b>			
Equity holders of the Parent		6,011	5,013
Non-controlling interests		-19	-5
<b>Total comprehensive income for the year attributable to:</b>			
Equity holders of the Parent		7,432	5,671
Non-controlling interests		-17	-3
Basic earnings per share, SEK	12	4.79	4.00
Diluted earnings per share, SEK	12	4.79	4.00

# CONSOLIDATED BALANCE SHEET

MSEK	NOTE	31 DEC. 2014	31 DEC. 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
<i>Intangible assets</i>			
Patents and other intangible assets	13	5,580	2,968
Goodwill	13	12,743	8,979
<b>Total</b>		<b>18,323</b>	<b>11,947</b>
<i>Property, plant and equipment</i>			
Land and buildings	13	9,240	8,337
Plant and machinery	13	13,331	12,363
Equipment, tools, fixtures and fittings	13	1,822	1,663
Construction in progress and advance payments	13	3,216	2,892
<b>Total</b>		<b>27,609</b>	<b>25,255</b>
<i>Financial assets</i>			
Investments in associated companies	1,16	239	211
Financial assets		80	80
Deferred tax assets	11	6,245	5,903
Non-current receivables	17	1,715	1,956
<b>Total</b>		<b>8,279</b>	<b>8,150</b>
<b>Total non-current assets</b>		<b>54,211</b>	<b>45,352</b>
<b>Current assets</b>			
<i>Inventories</i>	18	24,056	23,318
<i>Current receivables</i>			
Trade receivables	19	13,840	12,682
Due from associated companies		115	106
Income tax receivables	11	1,162	1,096
Other receivables	17	5,626	5,225
Prepaid expenses and accrued income		982	1,027
<b>Total</b>		<b>21,725</b>	<b>20,136</b>
<i>Cash and cash equivalents</i>		6,327	5,076
<b>Total current assets</b>		<b>52,108</b>	<b>48,530</b>
<b>TOTAL ASSETS</b>		<b>106,319</b>	<b>93,882</b>

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

# CONSOLIDATED BALANCE SHEET (CONTINUED)

MSEK	NOTE	31 DEC. 2014	31 DEC. 2013
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,505	1,505
Other paid-in capital		7,678	7,678
Reserves		3,178	361
Retained earnings including profit/loss for the year		24,177	23,966
<b>Equity attributable to equity holders of the Parent</b>		<b>36,538</b>	<b>33,510</b>
<b>Non-controlling interests</b>		<b>134</b>	<b>100</b>
<b>TOTAL EQUITY</b>	<b>20</b>	<b>36,672</b>	<b>33,610</b>
<b>Non-current liabilities</b>			
<i>Interest-bearing liabilities</i>			
Provisions for pensions	22	7,036	5,164
Loans from financial institutions		4,094	4,669
Other liabilities	25	30,296	18,544
<b>Total</b>		<b>41,426</b>	<b>28,377</b>
<i>Non-interest-bearing liabilities</i>			
Deferred tax liabilities	11	1,665	950
Provisions for taxes	11	916	1,070
Other provisions	23	855	1,060
Other non-current liabilities	26	148	183
<b>Total</b>		<b>3,584</b>	<b>3,263</b>
<b>Total non-current liabilities</b>		<b>45,010</b>	<b>31,640</b>
<b>Current liabilities</b>			
<i>Interest-bearing liabilities</i>			
Loans from financial institutions		1,798	2,633
Other liabilities	25	881	4,414
<b>Total</b>		<b>2,679</b>	<b>7,047</b>
<i>Non-interest-bearing liabilities</i>			
Advance payments from customers		2,004	1,980
Accounts payable		6,762	6,676
Due to associated companies		8	7
Income tax liabilities	11	1,194	1,037
Other liabilities	26	4,365	4,117
Provisions	23	1,165	1,955
Accrued expenses and deferred income		6,460	5,813
<b>Total</b>		<b>21,958</b>	<b>21,585</b>
<b>Total current liabilities</b>		<b>24,637</b>	<b>28,632</b>
<b>TOTAL LIABILITIES</b>		<b>69,647</b>	<b>60,272</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>106,319</b>	<b>93,882</b>

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						TOTAL EQUITY
	SHARE CAPITAL	OTHER PAID-IN CAPITAL	RESERVES	RETAINED EARNINGS INCL. PROFIT/ LOSS FOR THE YEAR	TOTAL	NON- CONTROLLING INTERESTS	
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
<b>Total comprehensive income/loss for the year</b>	<b>—</b>	<b>—</b>	<b>—20</b>	<b>5,691</b>	<b>5,671</b>	<b>—3</b>	<b>5,668</b>
Share-based payment settled 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
<b>Equity at 31 December 2013</b>	<b>1,505</b>	<b>7,678</b>	<b>361</b>	<b>23,966</b>	<b>33,510</b>	<b>100</b>	<b>33,610</b>
<b>Equity at 1 January 2014</b>	<b>1,505</b>	<b>7,678</b>	<b>361</b>	<b>23,966</b>	<b>33,510</b>	<b>100</b>	<b>33,610</b>
Profit for the year	—	—	—	6,011	6,011	—19	5,992
Other comprehensive income/loss	—	—	2,817	—1,395	1,422	2	1,424
<b>Total comprehensive income/loss for the year</b>	<b>—</b>	<b>—</b>	<b>2,817</b>	<b>4,616</b>	<b>7,433</b>	<b>—17</b>	<b>7,416</b>
Acquisition of non-controlling interest	—	—	—	—	—	33	33
New stock issue to non-controlling interest	—	—	—	—	—	23	23
Share-based payment settled by equity instruments	—	—	—	—81	—81	—	—81
Payment of options on treasury shares, hedging of options program 2012	—	—	—	12	12	—	12
Other options	—	—	—	13	13	—	13
Dividends, hedged options program 2011	—	—	—	41	41	—	41
Dividend	—	—	—	—4,390	—4,390	—5	—4,395
<b>Equity at 31 December 2014</b>	<b>1,505</b>	<b>7,678</b>	<b>3,178</b>	<b>24,177</b>	<b>36,538</b>	<b>134</b>	<b>36,672</b>



# CONSOLIDATED CASH-FLOW STATEMENT

MSEK	NOTE	2014	2013
<b>Cash flow from operating activities</b>			
Income after financial income and expenses		8,264	6,753
Adjustment for depreciation, amortization and impairment losses		4,145	4,690
Adjustment for non-cash items, etc.		-1,114	109
Income tax paid		-1,899	-7,816
<b>Cash flow from operating activities before changes in working capital</b>		<b>9,396</b>	<b>3,736</b>
<b>Changes in working capital</b>			
Change in inventories		1,464	1,908
Change in operating receivables		778	1,109
Change in operating liabilities		-1,755	-1,345
<b>Cash flow from changes in working capital</b>		<b>487</b>	<b>1,672</b>
Investments in rental equipment		-561	-499
Divestments of rental equipment		193	224
<b>Cash flow from operating activities</b>		<b>9,515</b>	<b>5,133</b>
<b>Cash flow from investing activities</b>			
Acquisition of companies and shares, net of cash acquired	32	-2,834	-489
Disposal of discontinued operations		460	—
Acquisition of tangible assets		-3,820	-3,627
Proceeds from sale of tangible assets		230	141
Acquisition of intangible assets		-839	-796
Proceeds from sale of intangible assets		8	9
Other investments, net		-44	238
<b>Net cash used in investing activities</b>		<b>-6,839</b>	<b>-4,524</b>
<b>Net cash flow after investing activities</b>		<b>2,676</b>	<b>609</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		12,683	3,075
Repayment of borrowings		-9,925	-7,946
Dividends paid		-4,395	-4,394
<b>Cash flow from financing activities</b>		<b>-1,637</b>	<b>-9,265</b>
<b>Cash flow for the year</b>		<b>1,039</b>	<b>-8,656</b>
Cash and cash equivalents at beginning of year		5,076	13,829
Foreign exchange differences on cash and cash equivalents		212	-97
<b>Cash and cash equivalents at end of year</b>		<b>6,327</b>	<b>5,076</b>

For supplementary information, refer to note 31.

# PARENT COMPANY FINANCIAL STATEMENTS

INCOME STATEMENT .....	79
BALANCE SHEET .....	80
CHANGES IN EQUITY .....	82
CASH-FLOW STATEMENT .....	83

# PARENT COMPANY INCOME STATEMENT

MSEK	NOTE	2014	2013
Revenue	2	16,475	15,873
Cost of sales and services		-12,042	-12,137
<b>Gross profit</b>		<b>4,433</b>	<b>3,736</b>
Selling expenses		-662	-514
Administrative expenses		-3,174	-2,863
Research and development costs	4	-1,335	-1,343
Other operating income	5	1,074	1,297
Other operating expenses	6	-1,501	-1,000
<b>Operating loss</b>	<b>3, 8</b>	<b>-1,165</b>	<b>-687</b>
Income from shares in Group companies	9	8,224	14,158
Income from shares in associated companies	9	10	10
Interest income and similar items	9	998	759
Interest expenses and similar items	9	-1,978	-2,353
<b>Profit after financial items</b>		<b>6,089</b>	<b>11,887</b>
Appropriations	10	0	-1
Income tax	11	-237	-5,310
<b>Profit for the year</b>		<b>5,852</b>	<b>6,576</b>

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

## PARENT COMPANY BALANCE SHEET

MSEK	NOTE	31 DEC. 2014	31 DEC. 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
<i>Intangible assets</i>			
Patents and other intangible assets	14	8	4
<b>Total</b>		<b>8</b>	<b>4</b>
<i>Property, plant and equipment</i>			
Land and buildings	14	961	809
Plant and machinery	14	4,612	4,634
Equipment, tools, fixtures and fittings	14	434	435
Construction in progress and advance payments	14	1,733	1,551
<b>Total</b>		<b>7,740</b>	<b>7,429</b>
<i>Financial assets</i>			
Shares in Group companies	15	32,241	31,834
Due from Group companies		13,762	7,442
Investments in associated companies	16	4	4
Other investments		1	1
Non-current receivables	17	30	256
Deferred tax assets	11	332	544
<b>Total</b>		<b>46,370</b>	<b>40,081</b>
<b>Total non-current assets</b>		<b>54,118</b>	<b>47,514</b>
<b>Current assets</b>			
<i>Inventories</i>	18	3,591	3,638
<i>Current receivables</i>			
Trade receivables		631	623
Due from Group companies		15,162	15,477
Due from associated companies		114	105
Income tax receivables	11	180	169
Other receivables	17	362	373
Prepaid expenses and accrued income		830	921
<b>Total</b>		<b>17,279</b>	<b>17,668</b>
<i>Cash and cash equivalents</i>		1	0
<b>Total current assets</b>		<b>20,871</b>	<b>21,306</b>
<b>TOTAL ASSETS</b>		<b>74,989</b>	<b>68,820</b>



# PARENT COMPANY BALANCE SHEET (CONTINUED)

MSEK	NOTE	31 DEC. 2014	31 DEC. 2013
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<i>Non-distributable equity</i>			
Share capital		1,505	1,505
Statutory reserve		1,611	1,611
<b>Total</b>		<b>3,116</b>	<b>3,116</b>
<i>Distributable equity</i>			
Share premium reserve		0	2,231
Profit brought forward		19,228	14,839
Profit for the year		5,852	6,576
<b>Total</b>		<b>25,080</b>	<b>23,646</b>
<b>TOTAL EQUITY</b>	20	<b>28,196</b>	<b>26,762</b>
<i>Untaxed reserves</i>			
Other untaxed reserves	21	4	4
<b>Total</b>		<b>4</b>	<b>4</b>
<i>Provisions</i>			
Provisions for pensions	22	362	323
Other provisions	23	238	211
<b>Total</b>		<b>600</b>	<b>533</b>
<i>Non-current interest-bearing liabilities</i>			
Loans from financial institutions	24	3,926	2,241
Loans from Group companies	24	363	580
Other liabilities	24	21,472	12,938
<b>Total</b>		<b>25,761</b>	<b>15,759</b>
<i>Non-current non-interest-bearing liabilities</i>			
Other liabilities		47	75
<b>Total</b>		<b>47</b>	<b>75</b>
<i>Current interest-bearing liabilities</i>			
Loans from financial institutions		541	1,575
Loans from Group companies		7,112	13,796
Other liabilities		825	4,373
<b>Total</b>		<b>8,478</b>	<b>19,744</b>
<i>Current non-interest-bearing liabilities</i>			
Advance payments from customers		589	671
Accounts payable		1,499	2,048
Due to Group companies		6,970	831
Due to associated companies		0	1
Other liabilities		524	314
Accrued expenses and deferred income	27	2,321	2,078
<b>Total</b>		<b>11,903</b>	<b>5,943</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>74,989</b>	<b>68,820</b>
Pledged assets	28	—	—
Contingent liabilities	28	15,938	13,339

## PARENT COMPANY CHANGES IN EQUITY

MSEK	SHARE CAPITAL	STATUTORY RESERVE	DISTRIBUTABLE EQUITY	TOTAL EQUITY
Equity at 1 January 2013	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 settled by equity instruments	—	—	-15	-15
Payment of options on treasury shares, hedging of options program 2013	—	—	-226	-226
Dividends, hedged option program 2011	—	—	41	41
Equity at 31 December 2013	1,505	1,611	23,646	26,762
Comprehensive income for the year	—	—	5,852	5,852
Dividend	—	—	-4,390	-4,390
Share-based payment settled by equity instruments	—	—	-81	-81
Payment of options on treasury shares, hedging of options program 2012	—	—	12	12
Dividends, hedged options program 2011	—	—	41	41
Equity at 31 December 2014	1,505	1,611	25,080	28,196

# PARENT COMPANY CASH-FLOW STATEMENT

MSEK	2014	2013
<b>Cash flow from operating activities</b>		
Profit before tax	6,089	11,886
Adjustment for depreciation, amortization and impairment losses	819	1,091
Adjustment for non-cash items, etc.	758	-749
Income tax paid	-36	-5,029
<b>Cash flow from operating activities before changes in working capital</b>	<b>7,630</b>	<b>7,199</b>
<b>Changes in working capital</b>		
Changes in inventories	47	170
Changes in operating receivables	-6,206	-3,632
Changes in operating liabilities	5,924	482
<b>Cash flow from operating activities</b>	<b>7,395</b>	<b>4,219</b>
<b>Cash flow from investing activities</b>		
Acquisition of companies and shares, net of cash acquired	-600	—
Acquisition of property, plant and equipment	-1,227	-1,258
Proceeds from sale of companies and shares, net of cash disposed of	22	—
Proceeds from sale of property, plant and equipment	86	53
Change in non-current receivables	—	145
<b>Net cash used in investing activities</b>	<b>-1,719</b>	<b>-1,060</b>
<b>Net cash flow after investing activities</b>	<b>5,676</b>	<b>3,159</b>
<b>Cash flow from financing activities</b>		
Changes in advances/loans to/from Group companies, net	-6,550	2,797
Proceeds from external borrowings	11,471	1,715
Repayment of external borrowings	-6,206	-3,306
Dividend paid	-4,390	-4,390
<b>Net cash used in financing activities</b>	<b>-5,675</b>	<b>-3,184</b>
Cash flow for the year	1	-25
Cash and cash equivalents at beginning of year	—	25
<b>Cash and cash equivalents at end of year</b>	<b>1</b>	<b>—</b>

Supplementary information, Note 31.

# SIGNIFICANT ACCOUNTING POLICIES

## – ASSESSMENTS AND ASSUMPTIONS FOR ACCOUNTING PURPOSES

### STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) 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 37–124 in the printed Annual Report. The Parent Company's Annual Report and the consolidated financial statements were approved for issuance by the Board of Directors on 26 February 2015. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on 7 May 2015.

### BASIS OF MEASUREMENT

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

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

Judgments made by management in the application of IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are further discussed below. Events after the balance sheet date refer to both favorable and unfavorable events that have occurred after the balance sheet date but before the date the financial statements were authorized for issue by the Board of Directors.

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

### CHANGES IN ACCOUNTING POLICIES

The below amendments of standards and new and amended interpretations came into effect in 2014 and were adopted by the EU. None of these standards had any material impact on Sandvik's financial statements.

- IFRS 10 Consolidated Financial Statements. A new standard for consolidated accounts that will replace IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation-Special Purpose Entities. The standard did not have any material impact on the consolidated accounts.
- IFRS 11 Joint Arrangements. A new standard for recognizing joint ventures and joint operations. The standard did not 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.
- Amendment to IAS 27 Separate Financial Statements. The element concerning consolidation has been superseded by IFRS 10, see above.
- Amendment of IAS 28 Investments in Associates and Joint Ventures. The amendment concerns the accounting of changes in possession and when dominant or joint dominant influence ceases or not.
- Amendments to IAS 32 Financial Statements: Presentation concerning Offsetting Financial Assets and Financial Liabilities.
- 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.

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

- IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement by 1 January 2018. The standard has not yet been adopted by the EU. The company has not yet performed any evaluation of the effects of such a change.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interest in Joint Operations.
- IFRS 15 Revenue from Contracts with Customers. The standard will be effective from 1 January 2017 and is expected to be adopted by the EU in the second quarter of 2015. The standard is not expected to have any material impact on Sandvik's financial statements, but it will require more extensive disclosures. There are three alternative ways of implementing the new standard: Full retroactivity, Partial retroactivity and Accumulated effect method, whereby equity is adjusted per 1 January 2017 with the contracts still open according to the previous standards IAS 11 and IAS 18.
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization.
- Amendments to IAS 19 Employee Benefits: Defined Benefit Plans - Employee Contributions. The amendment eases the disclosure of Defined Benefit Plans where fees to such a Plan come from employees or third parties.
- Amendments to IAS 27 Equity Method in Separate Financial Statements.
- IFRIC 21 Levies. The ruling contains a clarification on levies authorities appoint companies and at what point such an obligation should be acknowledged as a liability.
- Annual Improvements to IFRSs (2010–2012), (2011–2013) and (2012–2014).

#### **BASIS OF CONSOLIDATION**

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

#### **SUBSIDIARIES**

Subsidiaries are entities over which the Parent Company has a controlling influence. Controlling influence exists if the Parent Company has the power over the investee, meaning the investor has existing rights that give it the ability to direct the relevant activities, is exposed to or has the rights to variable return from its involvement in the investee and can, through its influence, affect the return from the involvement in the investee. In assessing controlling interest, de facto control, potential voting rights that are currently exercisable or convertible are taken into account.

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

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

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

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

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

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

#### **NON-CONTROLLING INTERESTS**

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

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

#### **ASSOCIATED COMPANIES**

Associated companies are partly owned entities over which the Group commands a significant influence, but not control, over the financial and operating policies. Normally this means a shareholding of between 20% and 50% of the voting rights. Interests in associated companies are recognized in accordance with the equity method in the consolidated



financial statements. Under the equity method, the carrying amounts of interests in associated companies correspond to the recognized equity of associated companies, any goodwill and any other remaining fair value adjustments recognized at acquisition date. Sandvik's share of the associated company's income, adjusted for dissolution of acquired surplus or deficit values, is recognized as a separate item in the consolidated income statement.

### FOREIGN CURRENCY

#### FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

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

#### FOREIGN CURRENCY TRANSACTIONS

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

#### FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

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

the proportionate share of accumulated translation differences from other comprehensive income is transferred to non-controlling interests.

#### NET INVESTMENTS IN FOREIGN OPERATIONS

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

### FINANCIAL INSTRUMENTS

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

#### RECOGNITION AND DERECOGNITION

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

A financial asset is derecognized when the rights under the agreement are realized or have expired, or when control of the contractual rights is lost. The same applies to a portion of a financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged or otherwise expires.

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

#### CLASSIFICATION AND MEASUREMENT

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

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

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

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

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

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

#### **LOANS AND RECEIVABLES**

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

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

#### **FINANCIAL LIABILITIES**

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

#### **DERIVATIVES AND HEDGE ACCOUNTING**

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

#### **HEDGE ACCOUNTING**

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

##### **Cash-flow hedges**

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

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

##### **Fair-value hedges**

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

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

relationship is discontinued, the carrying amount of the hedged item is adjusted with the accumulated amount referring to the hedge relationship.

Foreign currency gains and losses are recognized net.

### REPORTING OF OPERATING SEGMENTS

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

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

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

### REVENUE

#### REVENUE FROM SALES AND SERVICES

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

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

### CONSTRUCTION CONTRACTS

Construction contracts exist to some extent, mainly in the business areas Sandvik Mining and 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, customer relationships and other rights. They are split between acquired and internally generated intangible assets.

## **AMORTIZATION OF INTANGIBLE ASSETS**

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

The estimated useful lives are as follows:

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

## **PROPERTY, PLANT AND EQUIPMENT**

### **OWNED ASSETS**

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

### **LEASED ASSETS**

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

## **DEPRECIATION OF TANGIBLE ASSETS**

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

- Plant and machinery is generally depreciated on a straight-line basis over 5–10 years,
- Rental assets over 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 relating to intangibles is mainly relevant for capitalized expenditure for the development of new data systems. For tangibles it relates to the construction of production buildings on a proprietary basis.

### INVENTORIES

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

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

### EQUITY

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

### EARNINGS PER SHARE

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

potential ordinary shares, which during reported periods relates to 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

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

Share option programs allow employees to acquire shares in the company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value as measured at the grant date is spread over the vesting period. The fair value of the options is measured using the Black & Scholes formula, tak-

ing into account the terms and conditions upon which the options were granted. The share-based program for 2014 includes two types of rights. Matching share rights provide entitlement to shares in Sandvik if the participant remains employed and retains the saving share that has been purchased initially. Performance share rights provide entitlement to shares subject to the same conditions and if goals relating to operating performance are achieved.

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

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

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

### PROVISIONS

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

### WARRANTIES

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

### RESTRUCTURING

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

### SITE RESTORATION

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

### ONEROUS CONTRACTS

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

### CONTINGENT LIABILITIES

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

### LEASING

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

### SANDVIK AS A LESSEE

Under a finance lease, the 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.

### 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 2014 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 2014 was 573 million SEK (378).

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 2014, Sandvik recognized deferred tax assets of 6,245 million SEK (5,903). Furthermore, the Group had additional tax loss carry-forward of about 762 million SEK (527) at the end of 2014 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 916 million SEK (1,070) at the end of 2014.

### 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.

# NOTES

1. Segment information	96
1.1 Information on business segments/business areas	96
1.2 Information by country	96
2. Categories of revenue	97
3. Personnel information and remuneration of management and auditors	97
3.1 Average number of employees	97
3.2 Wages, salaries, other remuneration and social costs	97
3.3 Wages, salaries and other remuneration by market area	97
3.4 Gender distribution in senior management	97
3.5 Remuneration of the Board of Directors and senior executives	97
3.6 Fees and remuneration to the Group's auditors	100
4. Research, development and quality assurance	100
5. Other operating income	100
6. Other operating expenses	100
7. Operating expenses	100
8. Fees for finance and operating leases	101
9. Net financing cost	101
10. Appropriations	102
11. Income tax	102
12. Earnings per share	103
13. Intangible assets and property, plant and equipment, Group	104
14. Intangible assets and property, plant and equipment, Parent Company	107
15. Shares in Group companies	108
16. Investments in associated companies	112
17. Non-current receivables and other current receivables	113
18. Inventories	113
19. Trade receivables	113
20. Capital and reserves	113
21. Parent Company's other untaxed reserves	114
22. Provisions for pension and other non-current post-employment benefits	114
23. Other provisions	117
24. Non-current interest-bearing liabilities	117
25. Other interest-bearing liabilities	117
26. Other non-interest-bearing liabilities	117
27. Accrued expenses and deferred income	118
28. Contingent liabilities and pledged assets	118
29. Supplementary information – financial risk management	118
30. Related parties	120
31. Supplementary information to the cash-flow statement	120
32. Acquisition and divestment of operations	121
33. Parent Company particulars	122
34. Information on shares, owners and rights	122



# NOTES

Consolidated and Parent Company financial statements  
(Amounts in tables in MSEK, unless otherwise stated)

## NOTE 1 SEGMENT INFORMATION

### 1.1 INFORMATION ON BUSINESS SEGMENTS/BUSINESS AREAS

	SANDVIK MACHINING SOLUTIONS		SANDVIK MINING		SANDVIK MATERIALS TECHNOLOGY		SANDVIK CONSTRUC- TION		SANDVIK VENTURE		CORPORATE		ELIMINATIONS		GROUP TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<b>Revenue</b>																
External revenue	30,856	28,543	26,831	30,744	14,907	14,035	8,553	8,601	7,658	5,394	16	11			88,821	87,328
Internal revenue	250	234	33	1	329	344	72	67	817	622	2	2	-1,503	-1,270		
<b>Group total</b>	<b>31,106</b>	<b>28,777</b>	<b>26,864</b>	<b>30,745</b>	<b>15,236</b>	<b>14,379</b>	<b>8,625</b>	<b>8,668</b>	<b>8,475</b>	<b>6,016</b>	<b>18</b>	<b>13</b>	<b>-1,503</b>	<b>-1,270</b>	<b>88,821</b>	<b>87,328</b>
<b>Share of results of associated companies</b>	<b>11</b>	<b>23</b>	<b>6</b>	<b>4</b>	<b>15</b>	<b>-26</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>-8</b>	<b>—</b>			<b>24</b>	<b>1</b>
<b>Operating profit/loss by business area</b>	<b>6,159</b>	<b>5,205</b>	<b>2,398</b>	<b>2,743</b>	<b>1,880</b>	<b>1,270</b>	<b>45</b>	<b>110</b>	<b>888</b>	<b>606</b>	<b>-1,250</b>	<b>-1,296</b>			<b>10,120</b>	<b>8,638</b>
Net financing cost															-1,856	-1,885
Income tax expense for the year															-2,272	-1,745
<b>Profit for the year</b>															<b>5,992</b>	<b>5,008</b>
<b>Other disclosures</b>																
Assets	26,408	23,688	20,833	21,335	17,093	16,415	8,019	7,687	15,305	7,724	2,127	2,050			89,785	78,899
Investments in associates	40	38	57	44	143	129	—	—	—	—	-1	—			239	211
Total assets	26,448	23,726	20,890	21,379	17,236	16,544	8,019	7,687	15,305	7,724	2,126	2,050			90,024	79,110
Unallocated assets															16,295	14,772
<b>Group total</b>															<b>106,319</b>	<b>93,882</b>
Liabilities	4,438	4,140	6,342	7,665	3,397	3,665	2,402	2,164	1,738	1,162	1,656	1,830			19,973	20,626
Unallocated liabilities															49,674	39,646
<b>Group total</b>															<b>69,647</b>	<b>60,272</b>
Capital expenditure	2,106	1,760	654	832	890	997	211	244	618	363	180	227			4,659	4,423
Depreciation/Amortization	-1,720	-1,674	-619	-647	-736	-702	-392	-433	-469	-298	-109	-118			-4,045	-3,872
Impairment losses	29	-71	-20	-278	2	-251	41	-125	—	-94	-27	1			25	-818
Other non-cash expenses	-251	200	-235	185	-276	-85	-151	27	-3	35	-198	-253			-1,114	109

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

COUNTRY	2014	2013
USA	12,908	10,956
Germany	6,883	6,702
China	6,634	6,760
Australia	5,436	6,913
Sweden	3,461	3,416
Brazil	3,428	3,513
South Africa	3,342	3,526
Italy	3,249	3,175
France	3,146	2,567
UK	3,065	2,619
Canada	2,628	2,866
Russia	2,545	3,392
India	1,937	1,759
Japan	1,797	1,725
Mexico	1,774	1,754
Other countries	26,588	25,685
<b>Total</b>	<b>88,821</b>	<b>87,328</b>

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

#### Non-current assets by country, Group

COUNTRY	2014	2013
Sweden	14,045	13,632
USA	10,434	4,057
Germany	3,773	3,607
Austria	2,664	2,390
China	2,251	1,878
UK	2,063	1,998
Finland	1,883	1,626
Australia	1,190	1,187
India	1,138	907
France	955	874
Czech Republic	739	709
Japan	587	512
Brazil	513	538
Canada	506	485
Italy	446	448
Other countries	2,745	2,354
<b>Total</b>	<b>45,932</b>	<b>37,202</b>

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

## NOTE 2 CATEGORIES OF REVENUE

	GROUP		PARENT COMPANY	
	2014	2013 <sup>1</sup>	2014	2013
Sale of goods	81,659	79,894	16,467	15,864
Contract revenue	4,349	4,586	—	—
Rendering of services	1,921	2,256	8	9
Rental income	892	592	—	—
<b>Total</b>	<b>88,821</b>	<b>87,328</b>	<b>16,475</b>	<b>15,873</b>

1) Comparative figures have been adjusted.

## NOTE 3 PERSONNEL INFORMATION AND REMUNERATION OF MANAGEMENT AND AUDITORS

### 3.1 AVERAGE NUMBER OF EMPLOYEES

	GROUP				PARENT COMPANY			
	2014		2013		2014		2013	
	NUMBER	WOMEN, %	NUMBER	WOMEN, %	NUMBER	WOMEN, %	NUMBER	WOMEN, %
Sweden	10,760	24	10,900	23	8,003	22	8,007	22
Rest of Europe	14,966	20	15,289	19	—	—	—	—
<b>Total Europe</b>	<b>25,726</b>	<b>21</b>	<b>26,189</b>	<b>21</b>	<b>8,003</b>	<b>22</b>	<b>8,007</b>	<b>22</b>
NAFTA	5,882	18	5,327	17	2	50	—	—
South America	2,736	14	3,026	14	—	—	2	50
Africa, Middle East	2,833	16	3,030	14	—	—	—	—
Asia	8,490	16	8,385	16	—	—	—	—
Australia	1,661	17	2,083	16	—	—	—	—
<b>Total</b>	<b>47,328</b>	<b>19</b>	<b>48,040</b>	<b>18</b>	<b>8,005</b>	<b>22</b>	<b>8,009</b>	<b>22</b>

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

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Wages, salaries and other remuneration	19,620	18,632	3,948	3,840
Social costs	5,231	4,938	1,882	1,755
Employee profit sharing	113	29	96	24
<b>Total</b>	<b>24,964</b>	<b>23,599</b>	<b>5,926</b>	<b>5,619</b>
Of which, pension costs recognized in social costs	1,703	1,700	661	628

A total of 63 million SEK (50) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to 207 million SEK (178). Correspondingly, 13 million SEK (12) 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 50 million SEK (52).

#### 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 2014 resulted in an allocation of 113 million SEK (29) to the profit-sharing foundation.

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

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Sweden	5,230	5,131	3,948	3,840
Rest of Europe	7,235	6,590	—	—
<b>Total Europe</b>	<b>12,465</b>	<b>11,721</b>	<b>3,948</b>	<b>3,840</b>
NAFTA	2,957	2,535	0	—
South America	835	825	—	0
Africa, Middle East	701	725	—	—
Asia	1,495	1,504	—	—
Australia	1,167	1,322	—	—
<b>Total</b>	<b>19,620</b>	<b>18,632</b>	<b>3,948</b>	<b>3,840</b>
<b>Of which, to Boards of Directors and presidents</b>				
Salaries and other remuneration	478	490	46	45
of which, variable salary	53	73	9	3

### 3.4 GENDER DISTRIBUTION IN SENIOR MANAGEMENT

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
PROPORTION OF WOMEN, %				
Gender distribution in senior management	12	11	10	9
Other senior executives	20	20	36	33

### 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 2014 Annual General Meeting, the total fee to the external Board members elected at the Meeting amounts to 4,700,000 SEK on an annual basis. Of this amount, 1,700,000 SEK is payable to the Chairman of the Board (Anders Nyrén) and 600,000 SEK to each of the other external Board members (Jürgen M Geissinger, Johan Karlström, 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 Board members elected by the Meeting in an amount totaling 475,000 SEK to 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 the members of the Remuneration Committee (Anders Nyrén 125,000 SEK, Johan Karlström 100,000 SEK and Lars Westerberg 100,000 SEK).

#### PRESIDENT AND OTHER SENIOR EXECUTIVES

##### PRINCIPLES OF REMUNERATION

The following guidelines approved by the Annual General Meeting for remuneration of senior executives have been applied since the Annual General Meeting in 2014:

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

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

## cont. NOTE 3.5

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 the Group Executive Management the retirement age is 62.

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

The Board is to have the right to depart from the guidelines resolved on by the Annual General Meeting if, in an individual case, there are special reasons for this. The sphere of senior executives encompassed by the guidelines comprises the President and other members of the Group Executive Management.

The motion for principles for remuneration that the Board intends to submit to the 2015 Annual General Meeting for resolution is presented in the Report of the Directors, in the "People" section.

**PRESIDENT AND CEO**

During 2014, Sandvik's President and CEO, Olof Faxander, was paid an annual fixed salary of 10,923,026 SEK and received the fringe-benefit value of a car provided by the company. In addition, an annual variable cash-based salary of not more than 75% of the fixed salary is payable. The variable salary for 2014 amounted to 4,276,717 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 the Group Executive Management who are covered by a Swedish pension plan (ITP1 or ITP2), the pension age is 62. For members that are covered by the ITP 1 plan (defined contribution) a supplement of 5% of the salary portions in excess of 7.5 income base amounts applies. For members that are covered by the ITP 2 plan (defined benefit), a supplementary defined-contribution plan under which the company each year contributes 28–38% (depending on age) of fixed salary portions in excess of 20 price base amounts applies. Of the eight members of the Group Executive Management who are covered by a Swedish pension plan and were employed as of 31 December 2014, four are encompassed by the ITP 1 plan and four are encompassed by the ITP 2 plan. Members of the Group Executive Management who are not covered by a Swedish pension plan have defined-contribution plans under which the company contributes up to 15% of the fixed annual salary.

Severance pay is due 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****SHARE-BASED INCENTIVE PROGRAM 2011–2013**

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

The program participants have been allotted employee stock options that entitle the employee to acquire Sandvik shares after three years at a set exercise

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

Each employee stock option entitles the employee to acquire one performance share not earlier than three years and not later than five years following allocation of the employee stock option. The number of the allotted employee stock options that will eventually provide entitlement to the acquisition of performance shares depends on the development of SVA over the three fiscal years following approval of the program by the Annual General Meeting. The exercise of the employee stock options to acquire performance shares requires continued employment at Sandvik. For those executives investing personally in Sandvik shares, exercise requires that all acquired saving shares are held for a three-year period after allotment of the employee stock options.

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

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

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

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

The number of allotted employee stock options and acquired matching rights under the 2012 and 2013 programs for the President and other members of the Group Executive Management on 31 December 2014 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 2014.

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

**SHARE-BASED INCENTIVE PROGRAM 2014**

The 2014 Annual General Meeting approved the Board proposal to introduce a performance share program for about 350 senior executives and key individuals in the Sandvik Group, divided into four categories. For all participants, a personal investment is required and the program encompasses a maximum total of 2,273,534 shares. All program participants have invested in Sandvik shares ("investment shares"), up to an amount corresponding to 10% of their fixed annual pre-tax salary at the time of the investment.

**REMUNERATION AND OTHER BENEFITS PERTAINING TO 2014  
EXPENSED DURING THE YEAR, SEK**

POSITION	FIXED SALARY/ BOARD FEE	ANNUAL VARIABLE SALARY <sup>1)</sup>	OTHER BENEFITS <sup>2)</sup>	LONG-TERM VARIABLE SALARY <sup>3)</sup>	PENSION COSTS
Chairman of the Board	1,975,000 <sup>4)</sup>				
Other Board members	3,525,000 <sup>4)</sup>				
President and CEO	11,353,796 <sup>5)</sup>	4,276,717	127,052	–801,203	4,115,999
Other senior executives <sup>6)</sup>	43,061,828	14,294,672	3,322,439	–5,394,929	14,454,939
<b>Sum</b>	<b>59,915,624</b>	<b>18,571,389</b>	<b>3,449,491</b>	<b>–6,196,132</b>	<b>18,570,938</b>

1) Amount pertaining to 2014 and expected to be paid in 2015.

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

3) The amounts pertain to changes in provisions made for the 2012, 2013 and 2014 LTI programs.

4) Expensed during 2014 and will be paid in 2015.

5) Olof Faxander's fixed salary as of 1 January 2014 amounts to 10,923,026 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 2014: Jessica Alm, Mats Backman, Petra Einarsson, Dinggui Gao, Jonas Gustavsson, Gary Hughes (January–May 2014), Tomas Nordahl, Bo Severin (January–September 2014), Scot Smith (from May 2014), Åsa Thunman (from October 2014), Anna Vikström Persson, Olle Wijk (from May 2014) and ZZ Zhang (from May 2014).

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

The number of performance shares that will finally be allotted to the participant for each acquired investment share is dependent on the development of the Sandvik Group adjusted Earnings Per Share ("EPS") during the 2014 fiscal year, compared to adjusted EPS for the 2013 fiscal year.

In January 2014, the Board of Directors established the levels regarding adjusted EPS for 2014 that must be attained for allotment of a certain number of performance shares. In order for any performance shares to be allotted, adjusted EPS growth for the 2014 fiscal year must exceed 5% in relation to adjusted EPS for the 2013 fiscal year. For 50% of the maximum number of performance shares to be allotted, adjusted EPS growth for the 2014 fiscal year must attain 18% in relation to adjusted EPS for the 2013 fiscal year. For 100% of the maximum number of performance shares to be allotted, adjusted EPS growth for the 2014 fiscal year must attain 55% in relation to adjusted EPS for the 2013 fiscal year. Within the two ranges, a proportional linear number of performance shares will be allotted.

Adjusted EPS for the 2013 fiscal year amounted to 4.72 SEK. For the 2014 fiscal year, adjusted EPS amounted to 4.83 SEK, which means that the performance targets were not met and no performance shares will be vested.

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

The right to be allotted matching shares presupposes that the 2015 Annual General Meeting decides to issue a dividend for the 2014 fiscal year. Whether there is a decision to issue a dividend or not does not impact a participant's right to be allotted performance shares.

If all the prerequisites for allotment are met, allotment of matching and performance shares, respectively, will take place during 2017, and no later than 30 June 2017.

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

The expected volatility was determined by analyzing the historical volatility of Sandvik AB and some comparable listed companies.

### COSTS FOR THE PROGRAMS

In accordance with IFRS 2, the total expense for the 2014 LTI program amounted to 32 million SEK excluding social costs, of which 4.6 million SEK for the President and other senior executives. During the year, a provision of 11 million SEK, excluding social costs, was established for the 2014 LTI program, of which 1.5 million SEK for the President and other senior executives.

During the year, a provision of 46 million SEK, excluding social costs, was reversed for the 2013 LTI program, of which 4.4 million SEK for the President and other senior executives.

During the year, a provision of 44 million SEK, excluding social costs, was reversed for the 2012 LTI program, of which 3.3 million SEK for the President and other senior executives.

The employee stock options, matching rights, matching shares and performance shares are expensed as an employee expense (excluding social costs) over the vesting period and are recognized directly against equity. The amount recognized is continuously revised throughout the vesting period of each program. Social costs are expensed during the vesting period of each program based on the change in value of the employee stock options, matching rights, matching shares and performance shares.

### PREPARATION AND DECISION-MAKING PROCESS

The Board's Remuneration Committee prepares issues relating to the Group Executive Management's remuneration. The Committee met four times during the year. Issues dealt with included the remuneration level in connection with completed recruitments, distribution between fixed and variable salary, the magnitude of any pay increases and the long-term variable incentive program.

The Board discussed the Remuneration Committee's proposals and made a decision, using the Committee's proposal as a basis. Based on the Remuneration Committee's proposals, the Board decided on the remuneration of the President for 2014. 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, 2011–2013 LTI PROGRAMS

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

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

### NUMBER AND EXERCISE PRICE, GROUP (INCLUDING PARENT COMPANY), 2011–2013 LTI PROGRAMS

	EMPLOYEE STOCK OPTIONS 2011	MATCHING RIGHTS 2011	EMPLOYEE STOCK OPTIONS 2012	MATCHING RIGHTS 2012	EMPLOYEE STOCK OPTIONS 2013	MATCHING RIGHTS 2013
Outstanding at beginning of year	—	52,394	10,715,800	116,173	11,229,280	138,310
Allotted during the period	—	—	—	—	—	—
Exercised during the year	—	—	—	—	—	—
Forfeited during the year	—	–7,438	–7,308,472	–14,967	–11,229,280	–19,006
Outstanding at year-end	—	44,956	3,407,328	101,206	—	119,304
Theoretical value when allotted acc. to Black & Scholes, SEK	17	33.10	13	24	14.30	26.30
Exercise price, SEK	129	87.90	106.80	72.80	101.70	69.30

### NUMBER AND EXERCISE PRICE, PARENT COMPANY, 2011–2013 LTI PROGRAMS

	EMPLOYEE STOCK OPTIONS 2011	MATCHING RIGHTS 2011	EMPLOYEE STOCK OPTIONS 2012	MATCHING RIGHTS 2012	EMPLOYEE STOCK OPTIONS 2013	MATCHING RIGHTS 2013
Outstanding at beginning of year	—	23,384	1,595,000	33,691	2,083,000	50,311
Allotted during the year	—	—	—	—	—	—
Exercised during the year	—	—	—	—	—	—
Forfeited during the year	—	—	–1,091,720	–5,426	–2,083,000	–12,442
Outstanding at year-end	—	23,384	503,280	28,265	—	37,869
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

## NOTES

### ASSUMPTIONS FOR DETERMINING THE VALUE, 2014 LTI PROGRAM

ASSUMPTIONS	PROGRAM 2014 (ON DATE OF ISSUE)
Share price	96.45 SEK
Present value of forecasted future dividends <sup>1</sup>	11.58 SEK
Risk-free interest rate	0.71%

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

### NUMBER OF SHARES, GROUP (INCLUDING PARENT COMPANY), 2014 LTI PROGRAM

	PERFORMANCE SHARES 2014	MATCHING SHARES 2014
Outstanding at beginning of year	—	—
Allotted during the year	1,893,531	380,004
Forfeited during the year	-1,893,531	-6,141
Outstanding at year-end	—	373,863
Theoretical value when allotted, SEK	84.90	84.90

### NUMBER OF SHARES, PARENT COMPANY, 2014 LTI PROGRAM

	PERFORMANCE SHARES 2014	MATCHING SHARES 2014
Outstanding at beginning of year	—	—
Allotted during the year	385,046	69,153
Forfeited during the year	-385,046	-6,141
Outstanding at year-end	—	63,012
Theoretical value when allotted, SEK	84.90	84.90

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

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

	KPMG	OTHER	TOTAL	
	2014	2013	2014	2013
<b>AUDIT</b>				
Parent Company	13.9	12.0	0.0	0.0
Subsidiaries	70.9	63.4	4.0	5.0
<b>Group</b>	<b>84.8</b>	<b>75.4</b>	<b>4.0</b>	<b>5.0</b>
<b>TAX CONSUL- TANCY SERVICES</b>				
Parent Company	0.0	0.2		
Subsidiaries	10.3	6.9		
<b>Group</b>	<b>10.3</b>	<b>7.1</b>		
<b>OTHER SERVICES</b>				
Parent Company	4.5	11.6		
Subsidiaries	3.2	3.0		
<b>Group</b>	<b>7.7</b>	<b>14.6</b>		

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

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

### NOTE 4 RESEARCH, DEVELOPMENT AND QUALITY ASSURANCE

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
<b>EXPENDITURE FOR</b>				
research and development	3,096	3,128	1,490	1,452
quality assurance	569	523	262	253
<b>Total</b>	<b>3,665</b>	<b>3,651</b>	<b>1,752</b>	<b>1,705</b>
of which expensed, total	3,198	3,184	1,596	1,596
of which expensed relating to research and development	2,629	2,661	1,335	1,343

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 177 million SEK (531). In the preceding year, the item comprised foreign exchange gains on operating receivables and payables of 317 million SEK. The 2014 amount totaling 177 million SEK includes gains on the divestment of operations and non-current assets, in addition to 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 -468 million SEK (-239). Of this amount, -223 million SEK comprised foreign exchange losses on operating receivables and payables, in addition to acquisition-related costs, 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 divestment of non-current assets and foreign exchange losses on operating receivables and payables.

### NOTE 7 OPERATING EXPENSES

GROUP	2014	2013
Cost of goods and material	-31,919	-28,986
Employee benefit expense	-24,964	-23,599
Depreciation and amortization	-4,045	-3,872
Impairment losses, inventories	-463	-391
Impairment losses, non-current assets	-39	-841
Reversal of impairment losses, non-current assets	63	23
Impairment losses, doubtful receivables	-133	-137
Other expenses	-17,402	-21,419
<b>Total</b>	<b>-78,902</b>	<b>-79,222</b>

Other expenses mainly relate to purchases of services and consumables.



## NOTE 8 FEES FOR FINANCE AND OPERATING LEASES

### FINANCE LEASES

#### FINANCE LEASES WITH SANDVIK AS LESSEE

The Group leases assets under finance lease agreements. At 31 December 2014, the planned residual value of such leased assets was 76 million SEK (111). Variable fees recognized as expenses totaled 1 million SEK (2).

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

GROUP	NOMINAL FEE		PRESENT VALUE	
	2014	2013	2014	2013
Within one year	18	27	13	22
Between one and five years	50	51	30	34
Later than five years	31	38	15	19
<b>Total</b>	<b>99</b>	<b>116</b>	<b>58</b>	<b>75</b>

#### FINANCE LEASES WITH SANDVIK AS LESSOR

The Group's investments in finance leases amounted to 1,045 million SEK (809) at year-end 2014. 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	
	2014	2013	2014	2013
Within one year	566	502	533	477
Between one and five years	478	307	447	275
More than five years	1	—	1	—
<b>Total</b>	<b>1,045</b>	<b>809</b>	<b>981</b>	<b>752</b>

### OPERATING LEASES

#### OPERATING LEASES WITH SANDVIK AS LESSEE

Leasing fees for assets under operating leases, such as leased premises, machinery and major items of computer and office equipment, are recognized within operating expenses. In 2014, the Group expensed 780 million SEK (803), including minimum lease payments of 760 million SEK (795), variable fees of 24 million SEK (9), and net of sublease income of -4 million SEK (-1). The Parent Company expensed 191 million SEK (169).

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

GROUP	PARENT COMPANY	
	2014	2013
Within one year	683	712
Between one and five years	1,465	1,494
Later than five years	590	662
<b>Total</b>	<b>2,738</b>	<b>2,868</b>

Future minimum lease payments under non-cancellable lease contracts that pertain to subleased items amounted to 20 million SEK (0).

#### OPERATING LEASES WITH SANDVIK AS LESSOR

The planned residual value of the Group's rental fleet is 573 million SEK (378). Depreciation for the year amounted to 280 million SEK (354). The future minimum lease payments under non-cancellable leases amount to 377 million SEK (250). Variable fees amounted to 13 million SEK (15).

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

GROUP	PARENT COMPANY	
	2014	2013
Within one year	237	201
Between one and five years	140	49
Later than five years	—	—
<b>Total</b>	<b>377</b>	<b>250</b>

## NOTE 9 NET FINANCING COST

GROUP	2014	2013
Interest income	129	191
Dividend	3	7
<b>OTHER INVESTMENTS INCL. DERIVATIVES</b>		
Net gain on remeasurement of financial assets/liabilities	12	7
Net foreign-exchange gains	14	—
Other financial income	5	4
<b>Financial income</b>	<b>163</b>	<b>209</b>
Interest expense	-1,935	-2,015
<b>OTHER INVESTMENTS INCL. DERIVATIVES</b>		
Net loss on remeasurement of financial assets/liabilities	-44	-41
Net foreign-exchange losses	—	-9
Other financial expenses	-40	-29
<b>Financial expenses</b>	<b>-2,019</b>	<b>-2,094</b>
<b>Net financing cost</b>	<b>-1,856</b>	<b>-1,885</b>

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to -1,775 million SEK (-1,678). In 2014, the hedging of fair values resulting from the valuation of hedged items had an effect of -15 million SEK (243) on the result, while the valuation of hedged instruments affected the result by 15 million SEK (-244). 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	
	2014	2013	2014	2013
Dividend, net of withholding tax	5,254	11,461	10	10
Group contributions paid/received	3,141	2,697	—	—
Gain on sale of shares and participations	12	—	—	—
Impairment	-183	—	—	—
Reversed impairment	—	—	—	—
<b>Total</b>	<b>8,224</b>	<b>14,158</b>	<b>10</b>	<b>10</b>

PARENT COMPANY	INTEREST INCOME AND SIMILAR ITEMS	
	2014	2013
Interest income, Group companies	995	757
Other interest income	3	2
Derivatives, Group companies	—	—
Other	0	—
<b>Total</b>	<b>998</b>	<b>759</b>

PARENT COMPANY	INTEREST EXPENSE AND SIMILAR ITEMS	
	2014	2013
Interest expense, Group companies	-638	-710
Other interest expense	-1,182	-1,280
Derivatives, Group companies	-143	-348
Other	-15	-15
<b>Total</b>	<b>-1,978</b>	<b>-2,353</b>

## NOTES

### NOTE 10 APPROPRIATIONS

PARENT COMPANY	2014	2013
Country risk reserve	0	-1
<b>Total</b>	<b>0</b>	<b>-1</b>

### NOTE 11 INCOME TAX

#### RECOGNIZED IN PROFIT AND LOSS

INCOME TAX EXPENSE FOR THE YEAR	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Current tax	-1,768	-2,236	-26	8
Adjustment of taxes attributable to prior years	-29	-1,701	—	-5,058
<b>Total current tax expense</b>	<b>-1,797</b>	<b>-3,937</b>	<b>-26</b>	<b>-5,050</b>
Deferred taxes relating to temporary differences and tax loss carry-forward	-475	2,192	-211	-260
<b>Total tax expense</b>	<b>-2,272</b>	<b>-1,745</b>	<b>-237</b>	<b>-5,310</b>

The Group recognized tax expense for the year of 2,272 million SEK (1,745) or 27.5% (25.8) 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 20.7% (21.9). The tax rate in Sweden is 22% (22). Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

GROUP	2014		2013	
	MSEK	%	MSEK	%
Profit after financial items	8,264		6,753	
Weighted average tax based on each country's tax rate	-1,710	-20.7	-1,477	-21.9
<b>TAX EFFECT OF</b>				
Non-deductible expenses	-336	-4.1	-377	-5.6
Tax-exempt income	44	0.5	82	1.2
Adjustments relating to prior years	-29	-0.4	146 <sup>1</sup>	2.2
Effects of tax loss carry-forward, net	-152	-1.8	-7	-0.1
Other	-89	-1.1	-112	-1.6
<b>Total recognized tax expense</b>	<b>-2,272</b>	<b>-27.5</b>	<b>-1,745</b>	<b>-25.8</b>

<sup>1)</sup> 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."

#### RECONCILIATION OF THE PARENT COMPANY'S TAX EXPENSE

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

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

PARENT COMPANY	2014		2013	
	MSEK	%	MSEK	%
Profit before tax	6,089		11,886	
Tax based on the nominal tax rate for the Parent Company	-1,340	-22	-2,615	-22
<b>TAX EFFECTS OF</b>				
Non-deductible expenses	-54	-0.9	-191	-1.6
Tax-exempt income	1,187	19	2,616	22
Adjustments relating to prior years	-30	-0.5	-5,120	-43
<b>Total recognized tax expense</b>	<b>-237</b>	<b>-4.4</b>	<b>-5,310</b>	<b>-44.6</b>

#### TAX ITEMS ATTRIBUTABLE TO OTHER COMPREHENSIVE INCOME

GROUP	2014			2013		
	BEFORE TAX	TAX	AFTER TAX	BEFORE TAX	TAX	AFTER TAX
Actuarial gains/losses attributable to defined-benefit pension plans	-1,847	452	-1,395	1,039	-361	678
Translation differences for the year	3,120	—	3,120	142	—	142
Fair-value changes in cash-flow hedges for the year	-391	80	-311	-71	16	-55
Fair-value changes in cash-flow hedges carried forward to profit/loss for the year	10	-2	8	-134	29	-105
<b>Other comprehensive income</b>	<b>892</b>	<b>530</b>	<b>1,422</b>	<b>976</b>	<b>-316</b>	<b>660</b>

#### RECOGNIZED IN THE BALANCE SHEET

##### DEFERRED TAX ASSETS AND LIABILITIES

The deferred tax assets and liabilities recognized in the balance sheet are attributable to the following assets and liabilities (liabilities shown with a minus sign).

GROUP	2014			2013		
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET
Intangible assets	2,370	-1,390	980	421	-666	-245
Property, plant and equipment	122	-1,091	-969	140	-950	-810
Financial non-current assets	97	-81	16	169	-3	166
Inventories	1,165	-105	1,060	1,320	-74	1,246
Receivables	331	-129	202	275	-193	82
Interest-bearing liabilities	1,522	0	1,522	855	-50	805
Non-interest-bearing liabilities	987	-585	402	1,103	-535	568
Other	32	—	32	37	—	37
Tax loss carry-forward	1,335	—	1,335	3,104	—	3,104
<b>Total</b>	<b>7,961</b>	<b>-3,381</b>	<b>4,580</b>	<b>7,424</b>	<b>-2,471</b>	<b>4,953</b>
Offsetting within companies	-1,716	1,716	—	-1,521	1,521	—
<b>Total deferred tax assets and liabilities</b>	<b>6,245</b>	<b>-1,665</b>	<b>4,580</b>	<b>5,903</b>	<b>-950</b>	<b>4,953</b>

	2014			2013		
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	NET
<b>PARENT COMPANY</b>						
Property, plant and equipment	—	-28	-28	—	-28	-28
Inventories	—	-4	-4	5	—	5
Provisions	33	-6	27	31	-16	16
Non-interest-bearing assets and liabilities	13	—	13	16	—	16
Tax loss carry-forward	324	—	324	536	—	536
<b>Total</b>	<b>370</b>	<b>-38</b>	<b>332</b>	<b>588</b>	<b>-44</b>	<b>544</b>
Offsetting	-38	38	—	-44	44	—
<b>Total deferred tax assets and liabilities</b>	<b>332</b>	<b>—</b>	<b>332</b>	<b>544</b>	<b>—</b>	<b>544</b>

**UNRECOGNIZED DEFERRED TAX ASSETS**

The Group has additional tax loss carry-forward of about 762 million SEK (527).

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	
	2014	2013	2014	2013
Balance at beginning of year, net	4,953	3,237	544	804
Recognized in profit and loss	-475	2,192	-212	-260
Acquisitions/disposals of subsidiaries	-468	-53	—	—
Recognized in other comprehensive income	530	-316	—	—
Translation differences	40	-107	—	—
<b>Balance at end of year, net</b>	<b>4,580</b>	<b>4,953</b>	<b>332</b>	<b>544</b>

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

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Other provisions for taxes	-916	-1,070	—	—
Income tax liabilities	-1,194	-1,037	—	—
Income tax receivables	1,162	1,096	180	169
<b>Net tax liabilities/receivables</b>	<b>-32</b>	<b>59</b>	<b>180</b>	<b>169</b>

Other provisions for taxes of -916 million SEK (-1,070) relate to ongoing disputes and assessed tax risks.

**NOTE 12 EARNINGS PER SHARE****BASIC AND DILUTED EARNINGS PER SHARE, SEK**

	BASIC		DILUTED	
	2014	2013	2014	2013
Earnings per share	4.79	4.00	4.79	4.00

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 2014 is based on the profit for the year attributable to the equity holders of the Parent Company of 6,011 million SEK (5,013) and the weighted average number of shares (thousands) of 1,254,386 (1,254,386) during 2014. These two components have been calculated as follows:

**PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY, BASIC**

	2014	2013
Profit for the year attributable to the equity holders of the Parent Company	6,011	5,013

**WEIGHTED AVERAGE NUMBER OF SHARES, BASIC**

IN THOUSANDS OF SHARES	2014	2013
Total number of ordinary shares at 1 January	1,254,386	1,254,386
Effects of reacquisitions and redemption	—	—
Weighted average number of shares outstanding during the year, basic	1,254,386	1,254,386

**DILUTED EARNINGS PER SHARE**

The calculation of diluted earnings per share for 2014 is based on the profit attributable to the equity holders of the Parent Company of 6,011 million SEK (5,013) and the weighted average number of shares (thousands) of 1,254,386 (1,254,386) during 2014. The two components have been calculated as follows:

**PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY, DILUTED**

	2014	2013
Profit for the year attributable to equity holders of the Parent Company	6,011	5,013

**WEIGHTED AVERAGE NUMBER OF SHARES, DILUTED**

IN THOUSANDS OF SHARES	2014	2013
Weighted average number of shares, basic	1,254,386	1,254,386
Effect of share options	—	—
Weighted average number of shares outstanding during the year, diluted	1,254,386	1,254,386

The 2013 and 2014 Annual General Meetings approved a share-based LTI program. This could entail future dilution effects. For information about the program, refer to Note 3.5.

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

## INTANGIBLE ASSETS

COST	INTERNALLY GENERATED INTANGIBLE ASSETS					ACQUIRED INTANGIBLE ASSETS						TOTAL
	CAPITAL- IZED R&D EXPENDI- TURE	IT SOFT- WARE	PATENTS, LICENSES, TRADE- MARKS, ETC.	OTHER	SUB- TOTAL	CAPITAL- IZED R&D EXPENDI- TURE	IT SOFT- WARE	PATENTS, LICENSES, TRADE- MARKS, ETC.	GOOD- WILL	OTHER	SUB- TOTAL	
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
<b>At 31 December 2013</b>	<b>2,337</b>	<b>1,460</b>	<b>227</b>	<b>136</b>	<b>4,160</b>	<b>26</b>	<b>484</b>	<b>772</b>	<b>8,979</b>	<b>1,288</b>	<b>11,549</b>	<b>15,709</b>
At 1 January 2014	2,337	1,460	227	136	4,160	26	484	772	8,979	1,288	11,549	15,709
Additions	467	296	10	—	772	—	23	2	—	40	65	837
Business combinations	—	—	—	—	—	—	-2	1,051	2,439	880	4,368	4,368
Divestments and disposals	-89	-5	—	-1	-95	—	-13	—	—	-5	-18	-113
Reclassifications	-46	50	-6	—	-1	—	17	7	—	45	69	68
Translation differences for the year	53	11	27	20	111	1	34	268	1,325	328	1,956	2,067
<b>At 31 December 2014</b>	<b>2,722</b>	<b>1,812</b>	<b>258</b>	<b>155</b>	<b>4,947</b>	<b>27</b>	<b>543</b>	<b>2,100</b>	<b>12,743</b>	<b>2,576</b>	<b>17,989</b>	<b>22,936</b>
<b>ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES</b>												
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
<b>At 31 December 2013</b>	<b>1,028</b>	<b>988</b>	<b>69</b>	<b>99</b>	<b>2,185</b>	<b>16</b>	<b>421</b>	<b>389</b>	<b>—</b>	<b>751</b>	<b>1,576</b>	<b>3,761</b>
At 1 January 2014	1,028	988	69	99	2,185	16	421	389	—	751	1,576	3,761
Divestments and disposals	-51	-5	—	-1	-57	—	-12	—	—	—	-12	-69
Impairment losses	38	—	—	1	39	—	—	—	—	—	—	39
Reclassifications	—	22	-7	-22	-7	—	1	-2	—	-28	-29	-36
Amortization for the year	225	128	12	18	383	1	33	124	—	165	323	706
Translation differences for the year	24	5	6	14	49	—	27	40	—	96	163	212
<b>At 31 December 2014</b>	<b>1,264</b>	<b>1,138</b>	<b>80</b>	<b>109</b>	<b>2,591</b>	<b>17</b>	<b>470</b>	<b>551</b>	<b>—</b>	<b>984</b>	<b>2,022</b>	<b>4,613</b>
<b>NET CARRYING AMOUNTS</b>												
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
1 January 2014	1,309	472	158	37	1,975	10	63	383	8,979	538	9,973	11,948
31 December 2014	1,458	674	178	46	2,356	10	73	1,549	12,743	1,592	15,967	18,323
<b>AMORTIZATION FOR THE YEAR IS INCLUDED IN THE FOLLOWING LINES IN THE 2013 INCOME STATEMENT</b>												
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
<b>Total</b>	<b>-213</b>	<b>-117</b>	<b>-14</b>	<b>-32</b>	<b>-376</b>	<b>-1</b>	<b>-21</b>	<b>-72</b>	<b>—</b>	<b>-110</b>	<b>-204</b>	<b>-580</b>
<b>AMORTIZATION FOR THE YEAR IS INCLUDED IN THE FOLLOWING LINES IN THE 2014 INCOME STATEMENT</b>												
Cost of sales	—	-8	—	—	-8	—	-20	-64	—	-35	-119	-127
Selling expenses	—	-2	-1	-2	-5	—	-5	-53	—	-123	-181	-186
Administrative expenses	-225	-118	-11	-16	-370	-1	-8	-7	—	-7	-23	-393
<b>Total</b>	<b>-225</b>	<b>-128</b>	<b>-12</b>	<b>-18</b>	<b>-383</b>	<b>-1</b>	<b>-33</b>	<b>-124</b>	<b>—</b>	<b>-165</b>	<b>-323</b>	<b>-706</b>

For 2014, impairment losses amounted to 39 million SEK and were mainly related to capitalized R&D expenditure included in administrative expenses. In 2013, impairment losses amounted to 144 million SEK, mainly related to goodwill included in selling expenses.

## PROPERTY, PLANT AND EQUIPMENT

COST	LAND AND BUILDINGS	PLANT AND MACHINERY	EQUIPMENT, TOOLS, FIXTURES AND FITTINGS	CONSTRUCTION IN PROGRESS	TOTAL
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
<b>At 31 December 2013</b>	<b>14,562</b>	<b>36,982</b>	<b>5,876</b>	<b>2,879</b>	<b>60,299</b>
At 1 January 2014	14,562	36,982	5,876	2,879	60,299
Additions	315	1,531	314	2,221	4,381
Business combinations	48	240	3	—	291
Divestments and disposals	-265	-1,655	-314	-59	-2,293
Reclassifications	455	681	226	-1,990	-628
Translation differences for the year	983	2,112	331	162	3,588
<b>At 31 December 2014</b>	<b>16,098</b>	<b>39,891</b>	<b>6,436</b>	<b>3,213</b>	<b>65,638</b>
<b>DEPRECIATION AND IMPAIRMENT LOSSES</b>					
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
<b>At 31 December 2013</b>	<b>6,225</b>	<b>24,618</b>	<b>4,214</b>	<b>-13</b>	<b>35,044</b>
At 1 January 2014	6,225	24,618	4,214	-13	35,044
Business combinations	-157	-1,330	-276	—	-1,763
Reclassifications	-96	-464	-3	13	-550
Depreciation for the year	493	2,397	449	—	3,339
Impairment losses	34	29	1	2	66
Reversal of earlier impairment losses	-40	-72	-12	-6	-130
Translation differences for the year	399	1,382	242	—	2,023
<b>At 31 December 2014</b>	<b>6,858</b>	<b>26,560</b>	<b>4,615</b>	<b>-4</b>	<b>38,029</b>
<b>NET CARRYING AMOUNTS</b>					
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
1 January 2014	8,337	12,363	1,663	2,892	25,255
31 December 2014	9,240	13,331	1,822	3,216	27,609

In 2014, restructuring activities implemented gave rise to a net reversal of impairment of 63 million SEK mainly attributable to Sandvik Machining Solutions and Sandvik Mining. Reversal of impairment totaling 87 million SEK was included in cost of goods sold and impairment losses amounting to 24 million SEK were included in other operating expenses.

In 2013, the total impairment losses/reversal of impairment losses amounted of 675 million SEK, mainly included in cost of sales. The most significant impairment losses in 2013 related to:

- The co-location of production to a joint facility in Sandvik Venture, which was the result of a decision 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 totaling 153 million SEK related to remeasurements within the scope of the restructuring activities aimed at streamlining 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 213 million SEK (201) have been pledged as security for liabilities. In 2014, contractual commitments for the acquisition of property, plant and equipment amounted to 277 million SEK (315).

Borrowing costs included in the cost of assets during the year amounted to zero for 2014 and 2013.

### DISCLOSURE REGARDING GOVERNMENT GRANTS IN THE GROUP

Government grants during the year amounted to 18 million SEK (35).

### IMPAIRMENT TESTS OF GOODWILL

Goodwill was impairment tested on the balance sheet date of 31 December 2014. As stated below, the carrying amount of goodwill in the consolidated balance sheet is 12,743 million SEK (8,979), essentially related to a number of major business combinations.

GOODWILL BY CASH-GENERATING UNIT	CARRYING AMOUNT	
	2014	2013
<b>SANDVIK MACHINING SOLUTIONS</b>		
Walter Group	1,056	995
Seco Tools	244	239
Business area level	1,221	1,054
<b>Total</b>	<b>2,521</b>	<b>2,288</b>
<b>SANDVIK MINING</b>		
Business area level	2,094	1,941
<b>Total</b>	<b>2,094</b>	<b>1,941</b>
<b>SANDVIK MATERIALS TECHNOLOGY</b>		
Business area level	1,114	1,052
<b>Total</b>	<b>1,114</b>	<b>1,052</b>
<b>SANDVIK CONSTRUCTION</b>		
Extec/Fintec	1,292	1,143
Shanghai Jianshe Luqiao	96	82
Business area level	329	312
<b>Total</b>	<b>1,717</b>	<b>1,537</b>
<b>SANDVIK VENTURE</b>		
Diamond Innovations	829	691
Wolfram	1,455	1,372
Varel	2,899	—
Business area level	75	64
<b>Total</b>	<b>5,258</b>	<b>2,127</b>
Other	39	34
<b>Group total</b>	<b>12,743</b>	<b>8,979</b>

Consolidated goodwill is allocated to the cash-generating units stated above. The recoverable amount of all of the cash-generating units has been assessed based on estimates of value in use. Calculations of value in use are based on the estimated future cash flows using forecasts covering a four-year period, which are in turn based on the three-year plans prepared annually by each of the business areas. 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 four-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 four years is 3% (3). Need of working capital beyond the four-year period is deemed to increase approximately as the expected growth in the terminal period. The discount rate consists of a weighted average cost of capital for borrowed capital and shareholders' equity and was assumed to amount to 10% (10) before tax. These assumptions apply to all cash-generating units.

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 Walter, Seco Tools, Extec/Fintec, Shanghai Jianshe Luqiao, Diamond Innovations, Wolfram and Varel are conducted in such a way that it has been possible to separately test goodwill allocated to these acquisitions.

Goodwill testing did not indicate any impairment requirement. Sensitivity in the calculations of Extec/Fintec implies that the goodwill value would not be maintained if the discount rate was increased by 1 percentage point or if the long-term growth rate was lowered by 1 percentage point. Sensitivity in calculations of all other cash-generating units 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**

	PATENTS AND OTHER INTANGIBLE ASSETS		PATENTS AND OTHER INTANGIBLE ASSETS
INTANGIBLE ASSETS		ACCUMULATED AMORTIZATION	
COST			
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
At 1 January 2014	101	At 1 January 2014	97
Additions	9	Reclassifications	—
Divestments and disposals	–5	Divestments and disposals	0
At 31 December 2014	105	Amortization for the year	0
		At 31 December 2014	97
		Net carrying amount at end of year	8

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

	2014	2013
Administrative expenses	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

PROPERTY, PLANT AND EQUIPMENT	LAND AND BUILDINGS	PLANT AND MACHINERY	EQUIPMENT, TOOLS, FIXTURES AND FITTINGS	CONSTRUCTION IN PROGRESS	TOTAL
<b>COST</b>					
At 1 January 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
<b>At 31 December 2013</b>	<b>1,348</b>	<b>13,305</b>	<b>1,392</b>	<b>1,551</b>	<b>17,596</b>
At 1 January 2014	1,348	13,305	1,392	1,551	17,596
Additions	24	163	31	1,000	1,218
Divestments and disposals	-12	-344	-29	—	-385
Reclassifications	174	575	69	-818	0
<b>At 31 December 2014</b>	<b>1,534</b>	<b>13,699</b>	<b>1,463</b>	<b>1,733</b>	<b>18,429</b>
<b>REVALUATIONS</b>					
At 1 January 2013	41	—	—	—	41
<b>At 31 December 2013</b>	<b>41</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>41</b>
At 1 January 2014	41	—	—	—	41
<b>At 31 December 2014</b>	<b>41</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>41</b>
<b>DEPRECIATION</b>					
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
<b>At 31 December 2013</b>	<b>580</b>	<b>8,671</b>	<b>957</b>	<b>—</b>	<b>10,208</b>
At 1 January 2014	580	8,671	957	—	10,208
Divestments and disposals	-5	-263	-29	—	-297
Reclassifications	0	0	0	—	0
Depreciation for the year	39	675	101	—	815
Impairment losses	—	18	—	—	18
Reversal of impairment losses	—	-14	—	—	-14
<b>At 31 December 2014</b>	<b>614</b>	<b>9,087</b>	<b>1,029</b>	<b>—</b>	<b>10,730</b>
<b>NET CARRYING AMOUNTS</b>					
1 January 2013	768	4,684	533	1,322	7,307
31 December 2013	809	4,634	435	1,551	7,429
1 January 2014	809	4,634	435	1,551	7,429
31 December 2014	961	4,612	434	1,733	7,740

## NOTES

### NOTE 15 SHARES IN GROUP COMPANIES

	PARENT COMPANY		PARENT COMPANY	
	2014	2013	2014	2013
<b>COST</b>				
At beginning of year	32,240	32,240		
Additions	—	0		
Capital contributions	600	2		
Divestments	-96	-2		
<b>Total</b>	<b>32,744</b>	<b>32,240</b>		
			<b>ACCUMULATED IMPAIRMENT LOSSES</b>	
			At beginning of year	-422
			Impairment losses for the year	-183
			Impairment reversed during the year	86
			<b>Total</b>	<b>-519</b>
			<b>ACCUMULATED REVALUATIONS</b>	
			At beginning of year	16
			<b>Total</b>	<b>16</b>
			<b>Carrying amount at year-end</b>	<b>31,834</b>

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

COMPANY, DOMICILE	CORP. REG. NUMBER	2014			2013		
		NO. OF SHARES	HOLDING, % <sup>2)</sup>	CARRYING AMOUNT 000S SEK	NO. OF SHARES	HOLDING, % <sup>2)</sup>	CARRYING AMOUNT 000S SEK
SWEDEN							
C.O. Öberg & Co:s AB, Sandviken	556112-1186	—	—	—	2,000	100	0
Dropler High Tech AB, Sandviken	556332-0380	—	—	—	1,000	100	119
Elasis Svenska AB, Sandviken	556307-8947	—	—	—	100,000	100	110
Förvaltningsbolaget Predio 4 KB, Sandviken	916624-2181	—	0 <sup>3)</sup>	0	—	0 <sup>3)</sup>	0
Gimo Utbildningsaktiebolag, Gimo	556061-4041	1,000	91	2,591	1,000	91	2,591
Gusab Holding AB, Sandviken	556001-9290	1,831,319	100	53,474	1,831,319	100	53,474
Gusab Stainless AB, Mjölby	556012-1138	200,000	100	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
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
Sandvik Global Purchasing AB, Stockholm	556052-4315	1,000	100	50	1,000	100	50
AB Sandvik Belts, Sandviken	556041-9680	—	—	—	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
AB Sandvik Construction Segment, Malmö <sup>1)</sup>	556659-6952	1,000	100	100	1,000	100	100
AB Sandvik Coromant, Sandviken <sup>1)</sup>	556234-6865	1,000	100	50	1,000	100	50
Sandvik Coromant Sverige AB, Stockholm <sup>1)</sup>	556350-7846	1,000	100	100	1,000	100	100
Sandvik Export Assistance AB, Sandviken	556061-3746	—	—	—	80,000	100	0
AB Sandvik Falken, Sandviken	556330-7791	—	—	—	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
Sandvik Hyperion AB, Stockholm <sup>1)</sup>	556234-6857	1,000	100	50	1,000	100	50
Sandvik Hard Materials Norden AB, Stockholm	556069-1619	—	—	—	1,000	100	50
Sandvik Besökservice AB, Sandviken <sup>1)</sup>	556235-3838	1,000	100	50	1,000	100	50
Sandvik Intellectual Property AB, Sandviken	556288-9401	1,000,000	100	3,499,950	1,000,000	100	3,499,950
AB Sandvik International, Sandviken <sup>1)</sup>	556147-2977	1,000	100	50	1,000	100	50
AB Sandvik Klangberget, Sandviken	556135-6857	—	—	—	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 <sup>1)</sup>	556234-6832	1,000	100	50	1,000	100	50
Sandvik Construction AB, Sandviken <sup>1)</sup>	556664-9983	1,000	100	100	1,000	100	100
Sandvik Mining and Construction Sverige AB, Sandviken <sup>1)</sup>	556288-9443	1,000	100	50	1,000	100	50
Sandvik Mining and Construction Tools AB, Sandviken <sup>1)</sup>	556234-7343	1,000	100	50	1,000	100	50
Sandvik Nora AB, Nora	556075-0506	80,000	100	34,923	80,000	100	135,000
Sandvik Powder Solutions AB, Surahammar	556032-6760	600	100	60,000	600	100	143,051
AB Sandvik Process Systems, Sandviken <sup>1)</sup>	556312-2992	1,000	100	100	1,000	100	100
AB Sandvik Rock Tools, Sandviken	556081-4328	—	—	—	1,000	100	50
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
AB Sandvik Skogsfastigheter, Sandviken	556579-5464	1,000	100	51	1,000	100	51
AB Sandvik Steel Investment, Sandviken	556350-7853	1,000	100	100	1,000	100	100
Sandvik Stål Försäljnings AB, Stockholm <sup>1)</sup>	556251-5386	1,000	100	50	1,000	100	50
Sandvik Systems Development AB, Sandviken <sup>1)</sup>	556407-4184	1,000	100	100	1,000	100	100
Sanrip AB, Sandviken <sup>1)</sup>	556692-0038	1,000	100	100	1,000	100	100
Sandvik Machining Solutions AB, Sandviken <sup>1)</sup>	556692-0053	1,000	100	100	1,000	100	100
AB Sandvik Tranan, Sandviken	556330-7817	—	—	—	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	2014			2013		
		NO. OF SHARES	HOLDING, % <sup>2)</sup>	CARRYING AMOUNT 000S SEK	NO. OF SHARES	HOLDING, % <sup>2)</sup>	CARRYING AMOUNT 000S SEK
AB Sandvik Vallhoven, Sandviken	556272-9680	—	—	—	6,840	100	1,800
Sandvik Västaby AB, Sandviken	556590-8075	—	—	—	1,000	100	100
AB Sandvik Västberga Service, Stockholm	556356-6933	—	—	—	1,000	100	100
Sandvik Örebro AB, Sandviken	556232-7949	—	—	—	10,000	100	167
AB Sandvik Örn, Sandviken	556330-7783	—	—	—	1,000	100	120
Sandvikens Brukspersonals Byggnadsförening upa, Sandviken	785500-1686	—	100	0	—	100	0
Scandinavian Handtools AB, Sandviken	556093-5875	—	—	—	1,000	100	50
Steebide International AB, Sandviken	556048-3405	—	—	—	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
Walter Norden AB, Halmstad	556752-4698	15,000	100	5,139	15,000	100	1,500
Sandvik Mining and Construction Köping AB <sup>1)</sup>	556776-9525	1,000	100	100	1,000	100	100
Wire Sandviken AB <sup>1)</sup>	556779-3897	1,000	100	100	1,000	100	100
Sandvik IT Services AB <sup>1)</sup>	556788-9059	1,000	100	100	1,000	100	100
AB Ascet, Sandviken	556285-0882	—	—	—	1,000	100	120
Sandvik Venture AB <sup>1)</sup>	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	100,000	100	100

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

COUNTRY	COMPANY	2014			2013		
		NO. OF SHARES	HOLDING, % <sup>2)</sup>	CARRYING AMOUNT 000S SEK	NO. OF SHARES	HOLDING, % <sup>2)</sup>	CARRYING AMOUNT 000S SEK
AUSTRALIA	Sandvik Australia Pty. Ltd.	—	18 <sup>3,4)</sup>	1,539,205	—	18 <sup>3,4)</sup>	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	458,423	14,999,998	100	198,290
	Sandvik Mining and Construction do Brasil S.A.	85,329,996	100	749,696	85,329,996	100	438,649
	Walter do Brasil Ltda	1,809,999	100	65,464	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 <sup>3)</sup>	207,854	—	58 <sup>3)</sup>	207,854
CZECH REPUBLIC	Sandvik CZ s.r.o.	—	100	0	—	100	0
DEMOCRATIC REPUBLIC OF CONGO	Sandvik Mining and Construction DRC S.P.R.L.	9,990	100	66	9,990	100	66
HUNGARY	Sandvik Magyarorszag Kft.	—	100	3,258	—	100	3,258
INDIA	Sandvik Asia Ltd.	16,030,246	17 <sup>5)</sup>	277,028	16,030,246	17 <sup>5)</sup>	277,028
IRELAND	Sandvik Mining and Construction Logistics Ltd.	100	100	5,508	100	100	5,508
JAPAN	Sandvik K.K.	2,780,000	100	224,701	2,780,000	100	224,701
KOREA	Sandvik Korea Ltd.	752,730	100	46,856	752,730	100	46,856
MALI	Sandvik Mining and Construction Mali	25,000	100	3,462	25,000	100	3,462
MEXICO	Sandvik Mexicana S.A. de C.V.	406,642,873	90 <sup>3)</sup>	71,000	406,642,873	90 <sup>3)</sup>	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	7,093,582
PERU	Sandvik del Perú S.A.	6,562,795	90 <sup>3)</sup>	26,025	6,562,795	90 <sup>3)</sup>	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
<b>Total</b>				<b>32,241,322</b>			<b>31,833,762</b>

1) Subsidiaries conducting business on behalf of the Parent Company.

2) Refers to voting rights, which also equals share of capital unless otherwise indicated.

3) Remaining shares are held by other Group companies.

4) Share of capital 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, %

COUNTRY	COMPANY	2014 <sup>1)</sup>	2013 <sup>1)</sup>
SWEDEN	Sandvik Heating Technology AB	100	100
	Sandvik SRP AB	100	100
	Sandvik Treasury AB	100	100
	Alfa Tool International AB	100	100
	AB Sandvik Materials Technology (fastighetsbolaget)	100	—
ARGENTINA	Sandvik Argentina S.A.	100	100
	Sandvik Mining and Construction Argentina S.A.	100	100
AUSTRALIA	Sandvik Mining and Construction Pty. Ltd. Australia	100	100
	Sandvik Mining and Construction Australia (Production Supply) Pty. Ltd	100	100
	Seco Tools Australia Pty. Ltd.	100	100
AUSTRIA	Walter Austria GmbH	100	100
	Wolfram Bergbau und Hütten AG	100	100
	Sandvik in Austria Ges.m.b.H.	100	100
	Sandvik Mining and Construction GmbH	100	100
	Sandvik Mining and Construction Materials Handling GmbH & Co. KG	100	100
	Seco Tools Gesellschaft m.b.H.	100	100
BELGIUM	Walter Benelux N.V./S.A.	100	100
	S.A. Seco Tools Benelux N.V.	100	100
BOTSWANA	Sandvik Botswana Pty Ltd.	100	—
BRAZIL	Seco Tools Indústria e Comércio Ltda	100	100
CANADA	Sandvik Canada Inc.	100	100
CHILE	Sandvik Chile S.A.	100	100
	Sandvik Mining and Construction Chile S.A.	100	100
CHINA	Sandvik International Trading (Shanghai) Co. Ltd.	100	100
	Sandvik Mining and Construction (China) Co. Ltd.	100	100
	Sandvik Mining and Construction Trading (Shanghai) Co. Ltd.	100	100
	Sandvik Hyperion (Wuxi) Co., Ltd.	100	100
	Sandvik Process Systems (Shanghai) Co. Ltd.	100	100
	Sandvik Tooling Round Tools Langfang Co., Ltd.	100	100
	Sandvik Tooling Production (Langfang) Co. Ltd.	100	100
	Sandvik Coromant Cutting Tools (Shanghai) Ltd.	100	100
	Sandvik (Qingdao) Ltd.	100	100
	Walter Wuxi Co. Ltd.	100	100
	Shanghai Jianshe Luqiao Machinery Co. Ltd	80	80
	Shandong Energy Machinery Group ZhongRui Mining Equipment Manufacturing Co., Ltd.	50 <sup>2)</sup>	50 <sup>2)</sup>
	Seco Tools (Shanghai) Co. Ltd.	100	100
	Pramet Tools (Shanghai) Co. Ltd.	100	—
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
GERMANY	SECO – E.P.B.S.A.S.	100	100
	Sandvik Mining and Construction Crushing Technology GmbH	100	100
	Prototyp-Werke GmbH	100	100
	Sandvik Materials Technology Deutschland GmbH	100	100
	Sandvik Mining and Construction Europe GmbH	100	100
	Sandvik Mining and Construction Supply GmbH	100	100
	Sandvik Tooling Deutschland GmbH	100	100
	TDM Systems GmbH	100	100
	Walter AG	100	100
	Walter Deutschland GmbH	100	100
	Werner Schmitt PKD-Werkzeug GmbH	100	100
	Seco Tools GmbH	100	100
	Pramet GmbH	100	100
	Sandvik Mining & Construction Central Europe GmbH	100	—
	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



cont. **NOTE 15**

**SANDVIK AB'S HOLDINGS OF SHARES AND PARTICIPATIONS IN SUBSIDIARIES. INDIRECT HOLDINGS IN OPERATING GROUP COMPANIES**  
**GROUP HOLDING, %**

COUNTRY	COMPANY	2014 <sup>1)</sup>	2013 <sup>1)</sup>
JAPAN	Sandvik Tooling Supply Japan K.K.	100	100
	Walter Tooling Japan K.K.	100	100
	Seco Tools Japan K.K.	100	100
KAZAKHSTAN	Sandvik Mining and Construction Kazakhstan Ltd	100	100
KOREA	Sandvik SuhJun Ltd.	100	100
	Walter Korea Ltd.	100	100
	Seco Tools Korea Ltd.	100	100
MALAYSIA	Sandvik Malaysia Sdn. Bhd.	100	100
	Sandvik Mining and Construction (Malaysia) Sdn. Bhd.	100	100
MEXICO	Sandvik de México S.A. de C.V.	100	100
	Sandvik Mining and Construction de México S.A. de C.V.	100	100
	Walter Tools S.A. de C.V.	100	100
	Sandvik Hard Materials de Mexico S.A. de C.V.	100	100
NAMIBIA	Sandvik Namibia Pty Ltd	100	100
NETHERLANDS	Sandvik Benelux B.V.	100	100
	Jabro Tools B.V.	100	100
NIGERIA	Sandvik Mining and Construction Nigeria Ltd.	100	100
NORWAY	Teeness ASA	100	100
	Sandvik Norge AS	100	100
	Seco Tools AS	100	100
NEW ZEALAND	Sandvik New Zealand Ltd.	100	100
PHILIPPINES	Sandvik Tamrock (Philippines) Inc.	100	100
POLAND	Walter Polska Sp. z o.o.	100	100
	Sandvik Mining and Construction Sp. z o.o.	100	100
	Seco Tools (Poland) Sp. z o.o.	100	100
ROMANIA	Sandvik SRL	100	100
	Walter Tools SRL	100	—
RUSSIA	LLC Sandvik	100	100
	OOO Walter	100	100
	Sandvik Mining and Construction CIS LLC	100	100
	Sandvik-MKTC OAO	100	100
	Firma ALG LLC	100	100
	LLC Pramet	100	100
	LLC "Seco Tools"	100	100
SINGAPORE	Sandvik Mining and Construction S.E. Asia Pte. Ltd.	100	100
	Sandvik South East Asia Pte. Ltd.	100	100
	Walter AG Singapore Pte. Ltd.	100	100
	Seco Tools (SEA) Pte. Ltd.	100	100
SOUTH AFRICA	Sandvik Mining RSA (Pty) Ltd.	100	100
	Sandvik (Pty) Ltd.	100	100
	Seco Tools South Africa (Pty) Ltd.	100	100
SPAIN	Sandvik Española S.A.	100	100
	Walter Tools Iberica S.A.U.	100	100
	Seco Tools España S.A.	100	100
SWITZERLAND	Sandvik AG	100	100
	Santrade Ltd.	100	100
	Walter (Schweiz) AG	100	100
	Seco Tools AG	100	100
TAIWAN	Sandvik Hyperion Taiwan Limited	100	100
	Sandvik Taiwan Ltd.	100	100
TANZANIA	Sandvik Mining and Construction Tanzania Ltd.	100	100
THAILAND	Sandvik Thailand Ltd.	100	100
	Walter (Thailand) Co. Ltd.	100	100
TURKEY	Walter Cutting Tools Industry and Trade LLC	100	100
UK	Dormer Tools Ltd.	100	100
	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
	Sandvik Mining and Construction Ltd.	100	100
	Sandvik Ukraine	100	100
US	Diamond Innovations Inc.	100	100
	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
	Precorp Inc.	100	100
	Varel International Energy Services Inc.	100	—
ZAMBIA	Sandvik Mining and Construction Zambia Ltd.	100	100

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

2) Share of votes 60% (60).

## NOTES

### NOTE 16 INVESTMENTS IN ASSOCIATED COMPANIES

GROUP SHARES IN ASSOCIATED COMPANIES			PARENT COMPANY'S SHARES IN ASSOCIATED COMPANIES		
	2014	2013		2014	2013
<b>ACCUMULATED SHARE OF EQUITY</b>			<b>ACCUMULATED COST</b>		
At beginning of year	211	356	At beginning of year	4	4
Acquisition of associates	6	—	Carrying amount at end of year	4	4
Divestment of associates	—	–128			
Share of profits for the year	24	1			
Less dividend received	–11	–11			
Translation differences during the year	9	–7			
<b>Carrying amount at end of year</b>	<b>239</b>	<b>211</b>			

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

2014	COUNTRY	REVENUE	PROFIT	ASSETS	LIABILITIES	EQUITY	GROUP'S SHARE, %
<b>OWNED DIRECTLY BY SANDVIK AB</b>							
Oerlikon Balzers Sandvik Coating AB	Sweden	92	20	101	35	66	49.0
<b>OWNED INDIRECTLY BY SANDVIK AB</b>							
Eimco Elecon	India	225	23	276	46	227	25.1
Fagersta Stainless AB	Sweden	1,392	40	875	582	292	50.0
Fagersta Seco AB	Sweden	0	0	3	2	1	50.0
Fagerstahälsan AB	Sweden	7	0	9	7	2	50.0
S.C.I. Le Palatinat	France	1	1	2	0	2	49.0
Shanghai Innovatools Co. Ltd.	China	15	1	17	5	12	40.0
Bromma Business Jet AB	Sweden	141	6	499	483	16	45.0
2013	COUNTRY	REVENUE	PROFIT	ASSETS	LIABILITIES	EQUITY	GROUP'S SHARE, %
<b>OWNED DIRECTLY BY SANDVIK AB</b>							
Oerlikon Balzers Sandvik Coating AB	Sweden	91	21	75	9	66	49.0
<b>OWNED INDIRECTLY BY SANDVIK AB</b>							
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

### ADDITIONAL INFORMATION

The close of the reporting period for the associate Eimco Elecon is 31 March 2014. The dividend paid in 2014 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.

	CORP. REG. NO.	SHARE OF CAPITAL AND VOTING RIGHTS, %
<b>2014</b>		
Oerlikon Balzers Sandvik Coating AB, Stockholm	556098-1333	49
<b>2013</b>		
Oerlikon Balzers Sandvik Coating AB, Stockholm	556098-1333	49

## NOTE 17 NON-CURRENT RECEIVABLES AND OTHER CURRENT RECEIVABLES

GROUP	2014	2013
<b>NON-CURRENT RECEIVABLES</b>		
Derivatives designated as hedging instruments	110	186
Funded pension plans	301	603
Other non-interest-bearing receivables	488	455
Other interest-bearing receivables	816	712
<b>Total</b>	<b>1,715</b>	<b>1,956</b>
<b>OTHER CURRENT RECEIVABLES</b>		
Derivatives held as investments	—	—
Derivatives designated as hedging instruments	853	725
Due from customers for contract work	1,300	1,301
Other non-interest-bearing receivables	2,285	1,954
Other interest-bearing receivables	675	672
Advances to suppliers	513	573
<b>Total</b>	<b>5,626</b>	<b>5,225</b>
<b>PARENT COMPANY</b>	<b>2014</b>	<b>2013</b>
<b>NON-CURRENT RECEIVABLES</b>		
Derivatives	1	7
Other non-interest-bearing receivables	0	—
Other interest-bearing receivables	29	249
<b>Total</b>	<b>30</b>	<b>256</b>
<b>OTHER CURRENT RECEIVABLES</b>		
Derivatives	38	58
Other non-interest-bearing receivables	315	204
Other interest-bearing receivables	9	111
<b>Total</b>	<b>362</b>	<b>373</b>

## NOTE 19 TRADE RECEIVABLES

### AGE ANALYSIS OF TRADE RECEIVABLES, GROUP

	2014			2013		
	GROSS	ALLOWANCE FOR BAD DEBTS	NET CARRYING AMOUNT	GROSS	ALLOWANCE FOR BAD DEBTS	NET CARRYING AMOUNT
Current receivables	11,099	-149	10,950	9,908	-75	9,833
Past due receivables 0-3 months	2,268	-53	2,216	2,248	-53	2,195
Past due receivables 3-12 months	658	-201	457	743	-164	579
Past due receivables >12 months	728	-511	217	661	-586	75
<b>Total</b>	<b>14,753</b>	<b>-913</b>	<b>13,840</b>	<b>13,560</b>	<b>-878</b>	<b>12,682</b>

## NOTE 20 CAPITAL AND RESERVES

<b>GROUP</b>		
<b>DETAILS OF RESERVES</b>	<b>2014</b>	<b>2013</b>
<b>TRANSLATION RESERVE</b>		
At beginning of year	394	254
Translation differences during the year	3,120	140
<b>At end of year</b>	<b>3,514</b>	<b>394</b>
<b>HEDGING RESERVE</b>		
At beginning of year	-33	127
Cash-flow hedges recognized in other comprehensive income	-303	-160
<b>At end of year</b>	<b>-336</b>	<b>-33</b>
<b>TOTAL RESERVES</b>		
Reserves at beginning of year	361	381
<b>CHANGES IN RESERVES:</b>		
Translation reserve	3,120	140
Hedging reserve	-303	-160
<b>Reserves at end of year</b>	<b>3,178</b>	<b>361</b>

<b>CONSTRUCTION CONTRACTS, GROUP</b>	<b>2014</b>	<b>2013</b>
Contract costs incurred and recognized profits (less recognized losses)	13,156	10,399
Advances received	1,778	3,245
Amounts retained by customers	120	99
Gross amount due from customers	1,300	1,320
Gross amount due to customers	1,000	1,705

## NOTE 18 INVENTORIES

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
Raw materials and consumables	6,570	5,790	1,430	1,357
Work in progress	3,949	4,263	1,204	1,620
Finished goods	13,537	13,265	957	661
<b>Total</b>	<b>24,056</b>	<b>23,318</b>	<b>3,591</b>	<b>3,638</b>

Cost of sales of the Group includes impairment of inventories of 463 million SEK (391) while cost of sales of the Parent Company includes impairment of 80 million SEK (203). There were no significant reversals of impairment losses during 2014 and 2013.

## 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

	2015	2014
Growth, total, over a business cycle	8%	8%
Return on capital employed, over a business cycle	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	2014	2013
Share capital	1,505	1,505
Other paid-in capital	7,678	7,678
Reserves	3,178	361
Retained earnings including profit for the year	24,177	23,966
<b>Equity attributable to equity holders of the Parent</b>	<b>36,538</b>	<b>33,510</b>
<b>Non-controlling interests</b>	<b>134</b>	<b>100</b>
<b>Total equity</b>	<b>36,672</b>	<b>33,610</b>

The Board of Directors has proposed to the 2015 Annual General Meeting a dividend of 3.50 SEK per share (3.50). The proposal corresponds to approximately 73% 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 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
Share capital at 31 December 2014	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 2014 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 Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

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.

### UNDISTRIBUTABLE EQUITY

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

#### STATUTORY RESERVE

The purpose of the statutory reserve has been to tie up part of the net profit that is not needed to cover an accumulated deficit. The statutory reserve

### RETAINED EARNINGS

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

### NOTE 21 PARENT COMPANY'S OTHER UNTAXED RESERVES

	2014	2013
Country risk reserve	4	4
<b>Total other untaxed reserves</b>	<b>4</b>	<b>4</b>

### 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.

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 2014, Alecta reported a preliminary plan surplus of 144% (149).

#### 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.

**US**

There are a number of pension plans in the US, including commitments for medical benefits. The largest pension plan covers approximately 75% of the total commitment in the US. The pension is based on salary at the time of retirement and is closed for new participants. The funding level is revalued every year with a target of restoring the funding level over a seven-year period. Pension payments to retirees are primarily made from the plan.

**FINLAND**

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

**GERMANY**

In Germany, Sandvik has defined-benefit pension plans. A few years ago, Sandvik formed a foundation, a Contractual Trust Agreement (CTA), which covers

the current employees in most of Sandvik's German companies. The pension commitments for retirees and paid-up policyholders remain unfunded. The pension is based on salary at the time of retirement and other parameters. There are no funding requirements and employees in the plan are required to contribute a certain percentage of their salary to the plan. Pension payments to retirees are mainly made from the company. In 2014, a lump sum of approximately 9 million EUR was paid to paid-up policyholders who chose to accept the offer provided by 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 2014	SWEDEN	UK	US	FINLAND	GERMANY	CANADA	OTHER	TOTAL
<b>Amount in the balance sheet</b>								
Present value of funded and unfunded pension obligations	4,668	6,241	5,884	3,190	2,405	597	1,973	24,958
- of which for actives	2,389	1,540	3,159	833	1,209	309	1,232	10,671
- of which for vested deferreds	901	1,749	798	961	195	29	439	5,072
- of which for retirees	1,378	2,952	1,927	1,396	1,001	259	302	9,215
Plan assets	2,228	5,805	4,601	2,935	1,171	613	1,083	18,436
Total surplus/(deficit)	-2,440	-436	-1,283	-255	-1,234	16	-890	-6,522
Funding level, %	48%	93%	78%	92%	49%	103%	55%	74%
<i>Pension plans recognized according to local rules</i>	—	—	—	—	—	—	—	-213
Duration (remaining term of pension obligation), years	23	18	15	18	10	18	—	17
<b>Amount in income statement/other comprehensive income</b>								
Current service cost	-133	-78	-136	-51	-16	-16	-36	-466
Net interest	-56	-36	-34	10	-32	1	-20	-167
Actuarial gains/(losses)	-899	453	-366	-518	-277	-9	-231	-1,847
Total cost of defined-benefit pension plans before tax	-1,088	339	-536	-559	-325	-24	-287	-2,480
<b>Amount in cash flow</b>								
Employer contributions to pension plans	—	-134	-185	6	-33	-27	-64	-437
Pension payments directly from the company	-103	—	-21	—	-66	-2	-48	-240
Settlements paid	—	—	—	—	-86	—	—	-86
<b>Key assumptions used in the valuation of the pension liability</b>								
Life expectancy, years <sup>1</sup>	22	22	21	19	19	21	—	—
Inflation, %	1.50%	3.20%	2.50%	2.00%	2.00%	2.00%	—	2.32%
Discount rate, % (weighted average)	2.65%	3.90%	3.96%	2.25%	1.90%	4.00%	—	3.15%
Future salary increases (weighted average)	3.00%	3.36%	3.00%	2.50%	3.00%	3.00%	—	3.05%

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

INFORMATION BY COUNTRY, 31 DECEMBER 2013	SWEDEN	UK	US	FINLAND	GERMANY	CANADA	OTHER	TOTAL
<b>Amount in the balance sheet</b>								
Present value of funded and unfunded pension obligations	3,531	5,225	4,225	2,462	2,044	530	1,560	19,577
- of which for actives	1,817	1,397	2,224	579	955	306	1,028	8,306
- of which for vested deferreds	614	1,561	664	748	155	24	299	4,065
- of which for retirees	1,100	2,267	1,337	1,135	934	200	233	7,206
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%
<i>Pension plans recognized according to local rules</i>	—	—	—	—	—	—	—	-161
Duration (remaining term of pension obligation), years	22	15	15	16	10	12	—	16
<b>Amount in income statement/other comprehensive income</b>								
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
<b>Amount in cash flow</b>								
Employer contributions to pension plans	—	-124	-281	-11	-25	-33	-79	-553
Pension payments directly from the company	-97	—	-17	—	-64	-2	-38	-218
<b>Key assumptions used in the valuation of the pension liability</b>								
Life expectancy, years <sup>1</sup>	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%

<sup>1</sup> 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

	2014	2013
<b>At 1 January</b>	<b>19,577</b>	<b>19,367</b>
Current service cost	466	461
Settlements	-86	-23
Interest expense	805	731
Employee contributions	23	24
Pension payments	-863	-833
Actuarial gains/(losses) attributable to:		
- Financial assumptions	3,012	-718
- Demographic assumptions	224	48
- Experience adjustments	-248	276
Other	-77	-14
Foreign exchange differences	2,125	258
<b>At 31 December</b>	<b>24,958</b>	<b>19,577</b>

### PLAN ASSETS

	2014	2013
<b>At 1 January</b>	<b>15,177</b>	<b>13,882</b>
Interest income	638	544
Settlements	-86	-23
Employer contributions to pension plans	437	553
Pension payments directly from the company	240	218
Settlements paid by employer	86	—
Employee contributions	23	24
Pension payments	-863	-833
Return on plan assets, excluding amount included in interest income	1,141	645
Other	-84	-14
Foreign exchange differences	1,727	181
<b>At 31 December</b>	<b>18,436</b>	<b>15,177</b>

An asset is recognized if the value of the plan assets for a certain plan exceeds the liability. Funded pension plans are recognized as an asset in the amount of 301 million SEK (603) in the item non-current receivables. Provisions for pensions include pension plans of 7,036 million SEK (5,164). The total net liability is 6,735 million SEK (4,561).

### 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

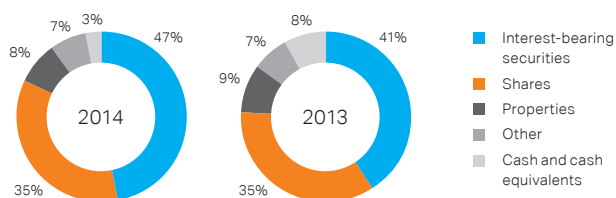
(NET)	SE	UK	US	FI	DE	CA	TOTAL
Life expectancy, +1 year	179	205	130	135	8	16	673
Inflation, +1.0%	139	418	73	17	24	13	684
Discount rate, -1%	1,027	336	624	552	88	46	2,673
Shares -20%	108	341	481	192	62	24	1,208
	<b>1,453</b>	<b>1,300</b>	<b>1,308</b>	<b>896</b>	<b>182</b>	<b>99</b>	<b>5,238</b>

Sandvik estimates that approximately 800 MSEK (650) will be paid into existing defined-benefit plans in 2015.

### PLAN ASSETS

Plan assets amounted to 18,436 million SEK (15,177). Actual return on plan assets was 1,779 million SEK (1,189) in 2014. The consolidation ratio for funded plans is 81% (86). For all plans including unfunded plans, the consolidation ratio is 74% (78).

### CLASS OF ASSETS



Assets without quoted prices amounted to approximately 9% (10) of the total plan assets of 18,436 million SEK.

The fair value of plan assets on 31 December 2014 included loans of 32 million SEK (21) to Sandvik companies and the value of properties leased to Sandvik of 245 million SEK (221).

### GOVERNANCE

The defined-benefit and defined-contribution plans are governed through Sandvik's Pension Supervisory Board (PSB). PSB meets twice a year and has the following areas of responsibility:

- Implement policies and directives
- Ensure efficient administration of the major pension plans and efficient management of reserved plan assets
- Approve establishment of new plans, material changes or closure of existing plan
- Approve guidelines for management of assets

The Group Pension Committee (GPC) is another operating body, which is also preparatory to the PSB, that has representatives from countries with large defined-benefit plans and the relevant Group functions. The GPC's task is to monitor developments in countries, submit proposals on changes to pension plans to the PSB and approve the principle of how actuarial assumptions are established. GPC meets twice a year.

### INVESTMENT STRATEGY

The aims of the investment decisions made in the foundations managing plan assets are as follows:

- Ensure that the plan assets are sufficient to cover the foundation's future pension commitments
  - Achieve optimal returns while taking into account a reasonable level of risk
- Each foundation is to have a written investment policy approved by GPC. Reviews are performed annually. The foundation makes its own decisions on its investment strategy and takes into consideration the composition of the pension commitments, requirements of cash and cash equivalents and available investment opportunities. The investment strategy is to be long term and in line with the guidelines established by PSB. An investment committee is to be in place.

### PARENT COMPANY

The Parent Company's recognized pension provision was 362 million SEK (323). 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 2,228 million SEK (2,077), which was 306 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

	2014	2013
Present value of funded and unfunded pension obligations	1,967	1,911
Plan assets	1,733	1,615
Deficit in the assets of the pension foundation	-128	-27
<b>Net amount recognized for pension obligations</b>	<b>-362</b>	<b>-323</b>

## 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 2013	510	1,127	342	350	88	598	3,015
Provisions made during the year	290	479	170	37	44	103	1,123
Provisions used during the year	-251	-1,127	-171	-46	-33	-360	-1,988
Unutilized provisions reversed during the year	-91	-55	-20	-1	-6	-56	-229
Reclassifications	0	80	-10	-1	10	-79	0
Translation differences	40	18	14	10	4	13	96
Balance at 31 December 2014	498	522	325	349	107	219	2,020
of which current	341	383	157	74	54	156	1,165
of which non-current	157	139	168	275	53	63	855

### PARENT COMPANY

Balance at 31 December 2013	22	69	109	10	—	1	211
Provisions made during the year	1	147	34	12	—	0	194
Provisions used during the year	-6	-94	-55	-11	—	0	-166
Unutilized provisions reversed during the year	—	—	—	—	—	—	—
Reclassifications	—	—	0	—	—	—	0
Balance at 31 December 2014	17	122	88	11	—	1	238

### 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. 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:

	2014			2013		
	WITHIN ONE TO FIVE YEARS	LATER THAN FIVE YEARS	TOTAL	WITHIN ONE TO FIVE YEARS	LATER THAN FIVE YEARS	TOTAL
Loans from financial institutions	—	3,926	3,926	2,241	—	2,241
Loans from Group companies	—	363	363	580	—	580
Other liabilities	5,397	16,075	21,472 <sup>1)</sup>	5,181	7,757	12,938 <sup>1)</sup>
<b>Total</b>	<b>5,397</b>	<b>20,364</b>	<b>25,761</b>	<b>8,002</b>	<b>7,757</b>	<b>15,759</b>

<sup>1)</sup> Other liabilities mainly comprise bond loans.

## NOTE 25 OTHER INTEREST-BEARING LIABILITIES

GROUP	2014	2013
<b>NON-CURRENT LIABILITIES</b>		
Bond issues	27,800	18,401
Other	2,496	143
<b>Total</b>	<b>30,296</b>	<b>18,544</b>
<b>CURRENT LIABILITIES</b>		
Bond issues	826	4,375
Other	55	39
<b>Total</b>	<b>881</b>	<b>4,414</b>

For information on contractual terms, scheduled repayments and the exposure to interest risk and foreign-currency risk, refer to the section "Financial risk management."

## NOTE 26 OTHER NON-INTEREST-BEARING LIABILITIES

GROUP	2014	2013
<b>OTHER NON-CURRENT LIABILITIES</b>		
Derivatives designated as hedging instruments	100	114
Other	48	69
<b>Total</b>	<b>148</b>	<b>183</b>
<b>OTHER CURRENT LIABILITIES</b>		
Derivatives designated as hedging instruments	1,478	607
Bills payable	110	70
Gross amount due to construction contract customers	1,002	1,705
Other	1,775	1,735
<b>Total</b>	<b>4,365</b>	<b>4,117</b>

**NOTE 27 ACCRUED EXPENSES AND DEFERRED INCOME**

PARENT COMPANY	2014	2013
Personnel related	1,811	1,280
Expenses related to finance	383	562
Other	127	236
<b>Total</b>	<b>2,321</b>	<b>2,078</b>

**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.

	GROUP		PARENT COMPANY	
CONTINGENT LIABILITIES	2014	2013 <sup>1</sup>	2014	2013
Bills discounted	11	17	—	—
Other surety undertakings and contingent liabilities	408	340	15,937	13,339
<b>Total</b>	<b>419</b>	<b>357</b>	<b>15,937</b>	<b>13,339</b>
of which for subsidiaries			15,488	12,690

1) Comparative figures have been adjusted.

The Parent Company's surety undertakings and contingent liabilities amounted to 15,937 million SEK (13,339), of which 8,930 million SEK (7,616) 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 419 million SEK (357) and mainly comprised pension guarantees and ongoing proceedings.

**PLEDGED ASSETS**

Pledged assets for own liabilities and provisions.

GROUP	2014	2013
Property mortgages	213	201
Chattel mortgages	101	100
<b>Total</b>	<b>314</b>	<b>301</b>

No assets of the Parent Company had been pledged in 2014 and 2013.

**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 38 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 foreign exchange contracts is determined based on observable market prices. The fair value of interest-rate swaps is based on discounting estimated future cash flows under the contractual terms and conditions and maturity dates and based on the market interest rate for similar instruments on the balance sheet date. Where discounted cash flows are used, the future cash flows are calculated on the best assessments of company management. The discount rate applied is the market-based interest rate of similar instruments on the balance sheet date.

All valuation techniques applied are accepted in the market and take into account all parameters that the market would consider in its pricing. These techniques are reviewed regularly so as to ensure their reliability. Applied assumptions are compared against actual outcomes to identify any needs for adjusting the measurement or forecasting tools.

For means of payment, receivables and 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**

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE		2014	2013
<b>Financial assets</b>			
Derivatives	Foreign exchange contracts	837	731
	Foreign currency options	23	105
	Interest-rate swaps	37	57
	Commodity and electricity derivatives	67	18
<b>Total</b>		<b>964</b>	<b>911</b>
<b>Financial liabilities</b>			
Derivatives	Foreign exchange contracts	1,135	451
	Foreign currency options	—	—
	Interest-rate swaps	327	102
	Commodity and electricity derivatives	116	168
<b>Total</b>		<b>1,578</b>	<b>721</b>

Financial assets and liabilities are not offset in the balance sheet. Derivative contracts are subject to framework agreements governing offsetting, and the carrying amounts of assets not offset in the balance sheet amounted to 964 million SEK. The carrying amount of corresponding liabilities was -1,578 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 812 million SEK would be offset in accordance with the framework agreement governing offsetting.

Financial assets and liabilities, except financial derivatives, are measured at amortized cost. Calculation at fair value would increase the Group's non-current borrowings by 2,975 million SEK (1,275). When measuring interest-bearing liabilities, the company's Swedish and European bond loans have then been remeasured using observable market prices for identical securities to value the Group's marketable debt instruments. Other non-current debt has been remeasured in accordance with the principles described above. For short-term

loans and deposits, no remeasurement was carried out, given that the carrying amount is considered to represent a good approximation of the fair value due to the short duration.

The table below shows the fair value of financial assets and liabilities compared with their carrying amounts. Fair value is the amount at which an asset or liability can be sold between well-informed partners who are independent in relation to each other and who have a vested interest in completing the transaction.

#### FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES BY VALUATION CATEGORY

ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS												
BALANCE-SHEET ITEMS	DERIVATIVES FOR HEDGE ACCOUNTING <sup>1)</sup>		DERIVATIVES HELD FOR TRADING <sup>2)</sup>		AVAILABLE- FOR-SALE FINANCIAL ASSETS		LOANS AND RECEIVABLES		TOTAL CARRYING AMOUNT		FAIR VALUE	
FINANCIAL ASSETS	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Financial investments	—	—	—	—	80	80	—	—	80	80	80	80
Trade receivables	—	—	—	—	—	—	13,840	12,682	13,840	12,682	13,840	12,682
Other receivables <sup>3)</sup>	—	—	—	—	—	—	1,646	1,509	1,646	1,509	1,646	1,509
Derivatives <sup>4)</sup>	178	308	786	603	—	—	—	—	964	911	964	911
Cash and cash equivalents	—	—	—	—	—	—	6,183	4,967	6,183	4,967	6,183	4,967
<b>Total financial assets</b>	<b>178</b>	<b>308</b>	<b>786</b>	<b>603</b>	<b>80</b>	<b>80</b>	<b>21,669</b>	<b>19,158</b>	<b>22,713</b>	<b>20,149</b>	<b>22,713</b>	<b>20,149</b>

LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS												
BALANCE-SHEET ITEMS	DERIVATIVES FOR HEDGE ACCOUNTING <sup>1)</sup>		DERIVATIVES HELD FOR TRADING <sup>2)</sup>		OTHER FINANCIAL LIABILITIES				TOTAL CARRYING AMOUNT		FAIR VALUE	
FINANCIAL LIABILITIES	2014	2013	2014	2013	2014	2013			2014	2013	2014	2013
Borrowings <sup>5)</sup>	—	—	—	—	37,070	30,259			37,070	30,259	40,045	31,534
Derivatives <sup>6)</sup>	565	321	1,013	400	—	—			1,578	721	1,578	721
Accounts payable	—	—	—	—	6,762	6,676			6,762	6,676	6,762	6,676
Due to associates	—	—	—	—	8	7			8	7	8	7
Other liabilities <sup>7)</sup>	—	—	—	—	110	70			110	70	110	70
<b>Total financial liabilities</b>	<b>565</b>	<b>321</b>	<b>1,013</b>	<b>400</b>	<b>43,950</b>	<b>37,012</b>			<b>45,528</b>	<b>37,733</b>	<b>48,503</b>	<b>39,008</b>

1) Of which –424 million SEK (–43) pertains to cash-flow hedges recognized in the hedging reserve in equity and 21 million SEK (33) pertains to fair-value hedges recognized in profit or loss.

2) Of which –227 million SEK (203) 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.

	2014	2013
Assets and liabilities at fair value (Derivatives)	–1,083	385
Loans and accounts receivables	959	91
Available-for-sale financial assets	3	7
Financial liabilities	–1,813	–1,836

The company's financial liabilities amounted to 45,528 million SEK (37,733) at year-end.

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

		2014				2013			
		<6 MONTHS	6–12 MONTHS	1–5 YEARS	>5 YEARS	<6 MONTHS	6–12 MONTHS	1–5 YEARS	>5 YEARS
Bank loans	SEK	–1,924	–45	–4,802	–703	–1,097	–1,625	–2,367	–1,327
Commercial papers	SEK	—	—	—	—	—	—	—	—
Medium Term Notes	SEK	–458	–543	–7,992	–3,729	–115	–130	–5,934	–1,866
European Medium Term Notes	EUR	–254	–123	–1,886	–12,806	–4,789	–127	–1,244	–7,768
Private placement	USD	–166	–166	–5,505	–1,429	–138	–138	–2,262	–3,786
Derivatives									
– Currency derivatives		–45	–17	41	—	57	20	127	—
– Interest-rate derivatives		–48	–24	–231	–144	116	–13	–176	–141
– Commodity and electricity derivatives		–17	–40	–47	—	–48	–31	–68	—
Finance leases		–9	–9	–50	–31	–14	–13	–51	–38
Accounts payable		–6,762	—	—	—	–6,676	—	—	—
<b>Total</b>		<b>–9,683</b>	<b>–967</b>	<b>–20,472</b>	<b>–18,842</b>	<b>–12,704</b>	<b>–2,057</b>	<b>–11,975</b>	<b>–14,926</b>

## NOTES

cont. **NOTE 29**

### PERIODS WHEN HEDGED CASH FLOWS ARE EXPECTED TO OCCUR AND AFFECT EARNINGS

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2017 AND LATER	
Currency derivatives	-31	-4	11	-10	-6	18	7	17	0	
Interest derivatives	—	—	—	—	—	—	—	61	262	
Commodity and electricity derivatives	-15	-2	-2	-38	0	0	0	-24	-22	
<b>Total</b>	<b>-46</b>	<b>-6</b>	<b>9</b>	<b>-48</b>	<b>-6</b>	<b>18</b>	<b>-7</b>	<b>54</b>	<b>240</b>	

### NOTE 30 RELATED PARTIES

#### RELATED-PARTY TRANSACTIONS

The Group's sales to associated companies amounted to 860 million SEK (697). The Group's purchases from associated companies amounted to 260 million SEK (326). 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 13,277 million SEK (12,618), or 81% (79) of total sales. The share of exports was 72% (75). The Parent Company's purchases from Group companies amounted to 1,942 million SEK (2,181), or 12% (14) of total purchases. The Parent Company granted no loans to associated companies. Guarantees have been made for obligations of associated companies in the amount of 0 million SEK (0). All transactions are effected on an arm's length basis.

#### TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Except as indicated in Note 3.5, Remuneration of the Board of Directors and senior executives, and in the description of the Board of Directors, no transactions took place with persons closely associated with the company.

### NOTE 31 SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT

#### CASH AND CASH EQUIVALENTS

	2014	2013
<b>GROUP</b>		
Cash and cash equivalents comprise:		
Cash and bank	4,100	3,812
Short-term investments comparable to cash and cash equivalents	2,227	1,264
Total in the balance sheet	6,327	5,076
Total in the cash-flow statement	6,327	5,076
<b>PARENT COMPANY</b>		
Cash and cash equivalents comprise:		
Cash and bank	1	0
Total in the balance sheet	1	0
Total in the cash-flow statement	1	0

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	
	2014	2013	2014	2013
<b>INTEREST AND DIVIDEND PAID AND RECEIVED</b>				
Dividend received	3	7	5,264	11,470
Interest received	128	185	1,083	870
Interest paid	-1,944	-2,377	-2,001	-2,351
<b>Total</b>	<b>-1,813</b>	<b>-2,185</b>	<b>4,346</b>	<b>9,989</b>

### cont. **NOTE 31** SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENT

	GROUP		PARENT COMPANY	
	2014	2013	2014	2013
<b>ADJUSTMENT FOR NON-CASH ITEMS, ETC.</b>				
Changes in value of financial instruments	—	—	235	377
Unappropriated results of associated companies	-14	-10	—	—
Gains and losses on disposal of non-current assets	-38	-13	1	-7
Provisions for pensions	—	—	34	-1
Other provisions	-1,089	134	38	-18
Appropriations	—	—	—	1
Unrealized foreign exchange differences	—	—	384	-860
Other	27	-2	66	-241
<b>Total</b>	<b>-1,114</b>	<b>109</b>	<b>758</b>	<b>-749</b>

	2014	2013
<b>ACQUISITIONS OF SUBSIDIARIES AND OTHER BUSINESS OPERATIONS – GROUP</b>		
Net assets acquired:		
Intangible assets	1,929	105
Property, plant and equipment	291	142
Financial assets	242	3
Inventories	725	87
Current receivables	568	73
Cash and cash equivalents	118	16
Total assets	3,873	426
Interest-bearing liabilities	-2,279	-0
Non-interest-bearing liabilities	-1,081	-117
Total provisions and liabilities	-3,360	-117
Net identifiable assets and liabilities	513	309

In 2014, acquired assets and liabilities refer to the acquisition of Varel International Energy Services Inc.

	2014	2013
<b>DIVESTMENTS OF SUBSIDIARIES AND OTHER BUSINESS UNITS – GROUP</b>		
Divested assets and liabilities:		
Property, plant and equipment	106	—
Inventories	310	—
Current receivables	1	—
Cash and cash equivalents	—	—
Total assets	417	—
Non-interest-bearing liabilities	-28	—
Total liabilities	-28	—
Net identifiable assets and liabilities	389	—
Purchase consideration received	460	—



## NOTE 32 ACQUISITION AND DIVESTMENT OF OPERATIONS

The business combinations effected during 2013 and 2014 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 Mining	Cubex Ltd	1 April 2013	270	110
Sandvik Venture	TechnoPartner Samtronic GmbH	1 October 2013	112	35
Sandvik Venture	Varel International Energy Services Inc.	21 May 2014	2,300	1,300

On 21 May 2014, Sandvik acquired 100% of the shares in Varel International Energy Services Inc. The final consideration, following adjustments under the agreement, included settlements of loans totaling 2,265 million SEK and a cash payment of 2,834 million SEK. Varel is a global supplier of drilling solutions focusing on drill bits and downhole products for well construction and well completion. The key customer segment can be found in the unconventional oil and gas sector, with some exposure to the mining and construction industries.

The fair value of assets and liabilities in Varel International Energy Services Inc. is presented in the table below.

### TOTAL FAIR VALUE OF ASSETS AND LIABILITIES OF ACQUIRED BUSINESSES IN 2014

	FAIR VALUE RECOGNIZED IN THE GROUP
Intangible assets	1,929
Property, plant and equipment	291
Financial assets	242
Inventories	725
Current receivables	568
Cash and cash equivalents	118
Interest-bearing liabilities	-2,279
Non-interest-bearing liabilities	-1,081
Net identifiable assets and liabilities	513
Goodwill	2,439
Purchase consideration	2,952

The value of acquired assets and assumed liabilities has been finalized for the acquisition of Varel International Energy Services Inc. A fair-value measurement increased the value of net assets by 1,650 million SEK.

### GOODWILL

Goodwill arose as a result of synergy effects. Goodwill is not expected to be tax deductible. For more detailed information about goodwill, refer to Note 13.

### ACQUISITION-RELATED EXPENSES

Acquisition-related expenses amounted to 79 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 from 2013 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 is expected to be paid out in full in April 2015. The fair value of the purchase consideration is 38 million SEK.

### TRANSFERRED COMPENSATION

Cash and cash equivalents	2,952
Contingent purchase consideration	—
	2,952

### TOTAL FAIR VALUE OF ASSETS AND LIABILITIES OF ACQUIRED BUSINESSES IN 2013

The value of acquired assets and assumed liabilities has been finalized for the acquisitions of Precorp Inc, Cubex Ltd and TechnoPartner Samtronic GmbH, which were implemented in 2013. No adjustments were made to the preliminary acquisition values of Precorp Inc and Cubex Ltd. The adjustments made to TechnoPartner Samtronic GmbH are listed below.

	FINAL	PRELIMINARY	DIFFERENCE
Intangible assets	55	51	4
Property, plant and equipment	7	7	—
Financial assets	—	—	—
Inventories	7	20	-13
Current receivables	9	—	9
Cash and cash equivalents	—	—	—
Interest-bearing liabilities	—	—	—
Non-interest-bearing liabilities	-16	-24	7
Net identifiable assets and liabilities	62	55	7
Goodwill	—	—	—
Purchase consideration	62	62	—

### CONTRIBUTIONS FROM COMPANIES ACQUIRED IN 2014 BY BUSINESS AREA

	SANDVIK MACHINING SOLUTIONS	SANDVIK MINING	SANDVIK MATERIALS TECHNOLOGY	SANDVIK CONSTRUCTION	SANDVIK VENTURE	TOTAL
<b>CONTRIBUTIONS AS OF ACQUISITION DATE</b>						
Revenue	—	—	—	—	1,547	1,547
Profit/loss for the year	—	—	—	—	100	100
<b>CONTRIBUTIONS AS THOUGH THE ACQUISITION DATE HAD BEEN 1 JANUARY 2014</b>						
Revenue	—	—	—	—	2,457	2,457
Profit/loss for the year	—	—	—	—	145	145

## NOTES

cont. [NOTE 32](#)

### CONTRIBUTIONS FROM COMPANIES ACQUIRED IN 2013 BY BUSINESS AREA

	SANDVIK MACHINING SOLUTIONS	SANDVIK MINING	SANDVIK MATERIALS TECHNOLOGY	SANDVIK CONSTRUCTION	SANDVIK VENTURE	TOTAL
<b>CONTRIBUTIONS AS OF ACQUISITION DATE</b>						
Revenue	48	116	—	—	56	220
Profit/loss for the year	3	-22	—	—	12	-7
<b>CONTRIBUTIONS AS THOUGH THE ACQUISITION DATE HAD BEEN 1 JANUARY 2013</b>						
Revenue	234	197	—	—	186	617
Profit/loss for the year	37	-11	—	—	15	41

### DIVESTMENTS

In October 2014, Sandvik Materials Technology divested its distribution business in Australia and New Zealand to Vulcan Street Ltd. The purchase consideration received totaled 345 million SEK, which was paid in full. In 2013 the business recorded sales of 930 million SEK with about 190 employees.

In December 2014, Sandvik Inc divested the Power Spring business in the US and Mexico, included in Sandvik Materials Technology, to Lesjöfors AB. The purchase consideration received totaled 115 million SEK, which was paid in full. In 2014, the business recorded sales of 105 million SEK with about 60 employees.

### ASSETS AND LIABILITIES INCLUDED IN DIVESTMENTS

	SANDVIK MATERIALS TECHNOLOGY
Intangible assets	—
Property, plant and equipment	106
Financial assets	—
Inventories	310
Current receivables	1
Cash and cash equivalents	—
Interest-bearing liabilities	—
Non-interest-bearing liabilities	-28
Gain/loss on sale excl. reversal to profit or loss of realized translation differences in the divested company	71
Compensation received after divestment costs	460
Less:	
Cash and cash equivalents in the divested company	—
Impact on the Group's cash and cash equivalents, divested operations	460
Divestment of operations during the year excl. transferred net loan debt (Group's operating cash flow statement)	460

### 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 visiting address is World Trade Center, Kungsbron 1, section G, floor 6.

The Parent Company's shares are quoted on Nasdaq Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

The 2014 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 2014, 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 (11.7%).

Sandvik AB's Articles of Association govern such policies as the direction of the business, domicile and share capital (minimum and maximum capital). The Articles do not stipulate that the members of the Board of Directors shall be elected in any other way than at the Annual General Meeting. However, Board representatives of the employees are appointed by the trade unions under the Private Sector Employees (Board Representation) Act.

Companies in the Group entered into borrowing agreements that include conditions coming into effect should the control of the company change as a result of a public takeover bid.

There are no agreements between the companies in the Group and the Parent Company's directors or employees if those persons give notice of termination, or their services are improperly terminated, or the employment is terminated as a consequence of a public takeover bid.

# BOARD STATEMENT ON DIVIDEND PROPOSAL

Board statement in accordance with 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 2014 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, 26 February 2015  
Sandvik Aktiebolag (publ)  
BOARD OF DIRECTORS

# PROPOSED APPROPRIATION OF PROFITS

The Board of Directors proposes that the profits at the disposal of the Annual General Meeting:

profits carried forward	19,228,580,888
and result for the year	5,851,472,948
SEK	25,080,053,836

be appropriated as follows:

a dividend of 3.50 SEK per share

to the shareholders	4,390,350,731
profits carried forward	20,689,703,105
SEK	25,080,053,836

The proposed record date for dividends is Monday, 11 May 2015.

The income statements and the balance sheets of the Group and of the Parent Company are subject to the adoption by the Annual General Meeting on 7 May 2015.

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, 26 February 2015

Anders Nyrén  
Chairman

Jürgen M Geissinger  
Board member

Johan Karlström  
Board member

Jan Kjellgren  
Board member

Tomas Kärnström  
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 submitted on 6 March 2015

KPMG AB

George Pettersson  
Authorized Public Accountant

# AUDITOR'S REPORT

## REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Sandvik AB (publ) for the year 2014. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 37–124.

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO FOR THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

The Board of Directors and the President and CEO 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 President and CEO 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 President and CEO, 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 2014 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

## TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF SANDVIK AB (PUBL), CORP. ID. 556000-3468

Act and present fairly, in all material respects, the financial position of the group as of 31 December 2014 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 President and CEO of Sandvik AB (publ) for the year 2014.

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO

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 President and CEO 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 President and CEO is liable to the company. We also examined whether any member of the Board of Directors or the President and CEO 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 President and CEO be discharged from liability for the financial year.

Stockholm, 6 March 2015

KPMG AB

George Pettersson  
Authorized Public Accountant



## BOARD OF DIRECTORS



ANDERS NYSTRÖM



OLOF FAXANDER



JÜRGEN M. GEISSINGER



JOHAN KARLSTRÖM



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, Ekon dr h c. 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, Stockholm School of Economics and Stockholm School of Economics Association, Vice preses IVA. *Shareholding in Sandvik (own and closely related persons):* 10,000. 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 Sandvik AB since 2011, 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):* 81,874. 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.

### 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):* 16,000.

### 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, Director of SG Warburg 1994–1995, NM Rothschild & Sons Ltd. 1984–1995. *Current Board assignments:* Chairman of Tullow Oil plc., Board member of Amec Foster Wheeler plc. and Rio Tinto 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. Construction firm Anders Diös 1980–1984. *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):* 7,848.

## HONORARY CHAIRMAN

### PERCY BARNEVIK, b. 1941.

Chairman of the Board of Sandvik AB 1983–2002.

## BOARD SECRETARY

### ÅSA THUNMAN, b. 1969.

Secretary to the Sandvik Board of Directors since 1 October 2014. *Education and business experience:* Master of Laws (LL.M). Securitas Group 2009–2014, general counsel from 2011, Elekta AB 1999–2009, several senior positions, including general counsel. Lagerlöf & Leman law firm 1996–1999. *Current Board assignments:* – *Shareholding in Sandvik (own and closely related persons):* 0.

## AUDITOR

### KPMG AB

Auditor-in-charge: George Pettersson, b. 1964. Authorized Public Accountant. *Other auditing assignments:* Auditor in charge for Skanska AB, Nobia AB, Kungsleden AB and Addtech AB, among others. *Shareholding in Sandvik (own and closely related persons):* 0.

Information regarding Board assignments and holdings of shares as of 31 December 2014. Current Board assignments refers to assignments in companies outside the Sandvik Group.

# GROUP EXECUTIVE MANAGEMENT



OLOF FAXANDER



JESSICA ALM



MATS BACKMAN



PETRA EINARSSON



DINGGUI GAO



JONAS GUSTAVSSON



JIM NIXON AS OF 1 JANUARY 2015



SCOT SMITH



ÅSA THUNMAN



ANNA VIKSTRÖM PERSSON



OLLE WIJK



ZHIQIANG (ZZ) ZHANG



**OLOF FAXANDER**, b. 1970.

President and CEO, Board member, 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):* 81,874.

**JESSICA ALM**, b. 1977.

Executive Vice President and Head of Group Communications, Sandvik AB, since 2013.

*Education and business experience:* M.Sc. in Geological and Earth Sciences/Geosciences, and Journalism. Employed at Sandvik since 2006. Various senior positions, including Vice President Communication and Marketing at Sandvik Coromant (2012–2013) and Internal Communication Manager at Sandvik Coromant (2010–2012).

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 2,102.

**MATS BACKMAN**, b. 1968.

Executive Vice President and Chief Financial Officer, Sandvik AB, since 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):* 19,697.

**PETRA EINARSSON**, b. 1967.

President of the Sandvik Materials Technology business area since 2013.

*Education and business experience:* B.Sc. in Business Administration and Economics. Employed at Sandvik since 1990. Various senior positions, including 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 SSAB, the Swedish Association of Industrial Employers and the Council of the Swedish Steel Producers' Association.

*Shareholding in Sandvik (own and closely related persons):* 7,995.

**DINGGUI GAO**, b. 1964.

President of the Sandvik Construction business area since 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):* 4,826.

**JONAS GUSTAVSSON**, b. 1967.

President of the Sandvik Machining Solutions business area since 2013.

*Education and business experience:* M.Sc. (Eng.) Various senior positions at Sandvik since 2008, 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):* 23,962.

**JIM NIXON**, b. 1956.

President of the Sandvik Venture business area since 1 January 2015.

*Education and business experience:* ONC in Mechanical Engineering and The City and Guilds of London Institute full technician's certificate in production engineering. President and CEO of Varel International Energy Services (1998–2014). Various positions at the Dresser Industries Group (1990–1998).

*Current Board assignments:* Board member of Federal Flange Holding Company Inc., and Advisory Board member of Ecoserv, LLC.

*Shareholding in Sandvik (own and closely related persons):* 0.

**SCOT SMITH**, b. 1962.

President of the Sandvik Mining business area since 19 May 2014.

*Education and business experience:* MBA (International Business). President of the Sulzer Pump Division 2012–2014, Head of the Weir Group's Minerals Division 2012–2001, senior positions at Schefenacker, Britax Vision Systems, General Motors and the Van Dresser Corporation.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 0.

**ÅSA THUNMAN**, b. 1969.

Executive Vice President and General Counsel, Sandvik AB, since 1 October 2014.

*Education and business experience:* Master of Laws (LL.M.). Securitas Group 2009–2014, general counsel from 2011, Elekta AB 1999–2009, several senior positions, including general counsel. Lagerlöf & Leman law firm 1996–1999.

*Current Board assignments:* —

*Shareholding in Sandvik (own and closely related persons):* 0.

**ANNA VIKSTRÖM PERSSON**, b. 1970.

Executive Vice President and Head of Human Resources, 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):* 14,424.

**OLLE WIJK**, b. 1951.

Executive Vice President and Head of Group R&D, Sandvik AB. Chairman of Sandvik's R&D Board. Joined the Group Executive Management in April 2014.

*Education and business experience:* Metallurgical engineer. Employed at Sandvik since 1980.

Professor in process metallurgy, KTH Royal Institute of Technology, Stockholm, 1987–1996. Visiting professor at Shanghai University, China.

*Current Board assignments:* Chairman of the council of the Swedish Steel Producers' Association, Board member of The Foundation for Swedish Steel and Metals Research and Swerea. *Shareholding in Sandvik (own and closely related persons):* 15,665.

**ZHIQIANG (ZZ) ZHANG**, b. 1961.

Executive Vice President and Head of Emerging Markets, Sandvik AB. Country Manager China and Managing Director Sandvik China Holding Co. Ltd. Joined the Group Executive Management in April 2014.

*Education and business experience:* MBA, Bachelor of Electronic Engineering. Employed at Sandvik since 2012. Various senior positions at the Siemens Group 1987–2012, including President Siemens VDO China 1998–2005 and President Nokia Siemens Networks China 2007–2012.

*Current Board assignments:* Board member of Georg Fischer AG.

*Shareholding in Sandvik (own and closely related persons):* 14,190.

**MEMBERS WHO LEFT THE GROUP EXECUTIVE MANAGEMENT DURING 2014:****BO SEVERIN**, b. 1955.

Executive Vice President and General Counsel of Sandvik AB until 30 September 2014.

**GARY HUGHES**, b. 1958.

President of the Sandvik Mining business area until 18 May 2014.

**CHANGES TO THE GROUP EXECUTIVE MANAGEMENT AFTER 31 DECEMBER 2014:****TOMAS NORDAHL**, b. 1968.

President of the Sandvik Venture business area and Head of IT, Sourcing and Strategy until 31 December 2014.

**JIM NIXON**, b. 1956.

President of the Sandvik Venture business area since 1 January 2015.

Information regarding Board assignments and holdings of shares as of 31 December 2014. Current Board assignments refer to assignments in companies outside the Sandvik Group.

# ANNUAL GENERAL MEETING AND DIVIDEND

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Thursday, 7 May 2015 at 5:00 p.m. at the Göransson Arena, Sätorgatan 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 [sandvik.com](http://sandvik.com). Such notification must reach Sandvik AB not later than Thursday, 30 April 2015. Shareholders must also have been entered in the share register kept by Euroclear Sweden AB on Thursday, 30 April 2015 to be entitled to participate in the Meeting.

Shareholders whose shares are registered in the name of a nominee must have the shares temporarily

re-registered with Euroclear Sweden AB in their own name on Thursday, 30 April 2015 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 2015 Annual General Meeting declare a dividend of 3.50 SEK per share.

The proposed record date is Monday, 11 May 2015. If this proposal is adopted by the Annual General Meeting, it is expected that dividends will be paid on Friday, 15 May 2015. 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.

## ANNUAL REPORT

The Annual Report is available at [sandvik.com](http://sandvik.com), where a printed copy can also be ordered.



# FINANCIAL KEY FIGURES

## KEY FIGURES

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Invoiced sales, MSEK	88,821	87,328	98,529	94,084	82,654	71,937	92,654	86,338	72,289	63,370
Change, %	+2	-11	+5	+14	+15	-22	+7	+19	+14	+16
of which organic, %	-2	-7	+5	+20	+17	-30	+5	+18	+14	+14
of which structural, %	+2	0	0	0	+1	0	+2	+3	+1	-1
of which currency, %	+2	-5	0	-5	-2	+10	0	-2	-1	+3
Operating profit/loss, MSEK	10,120	8,638	13,490	10,148	11,029	-1,412	12,794	14,394	12,068	9,532
as % of invoicing	11	10	14	11	13	-2	14	17	17	15
Profit/loss after financial items, MSEK	8,264	6,753	11,516	8,179	9,412	-3,472	10,577	12,997	11,113	8,819
as % of invoicing	9	8	12	9	11	-5	11	15	15	14
Consolidated net profit for the year, MSEK	5,992	5,008	8,107	5,861	6,943	-2,596	7,836	9,594	8,107	6,392
Shareholders' equity <sup>1</sup> , MSEK	36,672	33,610	32,536	31,264	33,813	29,957	36,725	29,823	27,198	24,507 <sup>2)</sup>
Equity ratio <sup>1</sup> , %	34	36	31	32	38	33	36	35	41	41
Net debt/equity ratio <sup>3</sup> , multiple	0.7	0.7	0.6	0.7	0.7	1.0	0.9	1.0	0.6	0.7
Rate of capital turnover <sup>3</sup> , %	89	89	97	100	92	73	101	112	115	112
Cash and cash equivalents, MSEK	6,327	5,076	13,829	5,592	4,783	7,506	4,998	2,006	1,745	1,559
Return on shareholders' equity <sup>1</sup> , %	17.4	15.3	25.3	18.5	22.1	-7.9	24.8	34.4	31.8	27.4
Return on capital employed <sup>1</sup> , %	13.4	12.6	19.8	16.0	17.4	-1.3	19.9	27.0	27.6	23.7
Investments in non-current assets <sup>4</sup> , MSEK	4,703	4,185	4,820	4,994	3,378	4,006	6,634	4,811	4,175	3,665
Total investments <sup>4</sup> , MSEK	7,537	4,674	4,859	5,332	4,493	6,161	7,766	9,480	5,455	3,950
Cash flow from operations <sup>4</sup> , MSEK	9,515	5,133	11,892	7,764	12,149	11,792	9,335	5,076	7,741	7,266
Cash flow, MSEK	1,039	-8,656	8,450	907	-2,642	2,471	2,764	179	357	-380
Number of employees, 31 December	47,318	47,338	48,742	50,030	47,064	44,355	50,028	47,123	41,743	39,613

<sup>1)</sup> As of 2011, comparative figures adjusted due to amended accounting policies.

<sup>2)</sup> Total equity, including minority interest.

<sup>3)</sup> As of 2011, comparative figures adjusted due to changed definition. For definitions, see page 132.

<sup>4)</sup> As of 2006, excluding rental fleet.

## PER-SHARE DATA

(All historical figures are adjusted taking into account the 5:1 split.)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Basic earnings <sup>1)</sup>	4.79	4.00	6.51	4.63	5.59	-2.24	6.30	7.65	6.45	4.95
Diluted earnings <sup>2)</sup>	4.79	4.00	6.51	4.63	5.59	-2.24	6.29	7.65	6.45	4.90
Equity <sup>3)</sup>	29.1	26.7	25.9	25.2	27.5	24.4	30.00	24.10	22.00	19.80
Dividend (2014 as proposed)	3.50	3.50	3.50	3.25	3.00	1.00	3.15	4.00	3.25	2.70
Direct return <sup>4)</sup> , %	4.6	3.9	3.4	3.8	2.3	1.2	6.4	3.6	3.3	3.6
Payout percentage <sup>5)</sup> , %	73	88	54	70	54	—	50	52	50	55
Quoted prices, Sandvik share, highest	97	108	107	135	133	90	108	151	106	79
lowest	74	79	82	73	76	41	42	96	71	54
year-end	76.40	90.70	103.50	84	131	86	49	111	100	74
No. of shares at year-end, million	1,254.4	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
Average no. of shares, million	1,254.4	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
P/E ratio <sup>6)</sup>	15.9	22.7	15.9	18.2	23.5	—	7.8	14.5	15.4	15.0
Quoted price, % of equity <sup>7) 7)</sup>	261	340	400	333	476	352	163	462	452	374

<sup>1)</sup> Profit/loss for the year per share.

<sup>2)</sup> Profit/loss for the year per share after dilution of outstanding convertible program.

<sup>3)</sup> As of 2011, comparative figures adjusted due to amended accounting policies.

<sup>4)</sup> Dividend by the quoted price at year-end.

<sup>5)</sup> Dividend by basic earnings per share.

<sup>6)</sup> Market price of share at year-end in relation to earnings per share.

<sup>7)</sup> Market price of share at year-end, as a percentage of equity per share.

Supplementary definitions, see page 132.

## DEVELOPMENT BY BUSINESS AREA

	INVOICED SALES				OPERATING PROFIT AND OPERATING MARGIN							
	2014 MSEK	2013 MSEK	2012 MSEK	2011 MSEK	2014 MSEK	%	2013 MSEK	%	2012 MSEK	%	2011 MSEK	%
Sandvik Machining Solutions	30,856	28,543	28,482	28,171	6,159	20	5,205	18	6,256	22	6,347	23
Sandvik Mining	26,831	30,744	37,762	32,232	2,398	9	2,743	9	6,004	16	5,189	16
Sandvik Materials Technology	14,907	14,035	15,366	16,339	1,880	13	1,270	9	592	4	-642	-4
Sandvik Construction	8,553	8,601	9,683	9,249	45	1	110	1	748	8	58	1
Sandvik Venture	7,658	5,394	7,194	8,056	888	12	606	11	1,238	17	-21	-0

## 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.

Do you have any comments on our Annual Report, please contact us at Group Communications, +46 8 456 11 00 or [info@sandvik.com](mailto:info@sandvik.com).

