

CORPORATE GOVERNANCE REPORT

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

Corporate governance at Sandvik comprises the system, encompassing the principles, guidelines, structures and processes, through which the Group is managed and controlled. The aim is to ensure efficient and value-creating decision-making by clearly specifying the division of roles and responsibilities among shareholders, the Board and Group Executive Management.

Corporate governance is based on applicable legislation, the rules and regulations of the Stock Exchange, the Swedish Code of Corporate Governance (the “Code”) and internal guidelines and regulations. The Code is available from www.corporategovernanceboard.se. In 2013, Sandvik applied the Code without deviating from any of its regulations.

OWNERSHIP STRUCTURE

At 31 December 2013, Sandvik’s share capital amounted to 1,505,263,107.60 SEK represented by 1,254,385,923 shares. Each share carries one vote at General Meetings of shareholders. According to the owner register, Sandvik had about 117,000 shareholders at 31 December 2013. AB Industrivärden was the largest owner with about 11.6% of the share capital. Of the total share capital at year-end, nearly 30% was owned by investors outside Sweden.

GENERAL MEETINGS

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

The ten largest shareholder groups at 31 December 2013, %

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

* Administrates shares held in trust.

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

YEAR IN BRIEF

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

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

CORPORATE GOVERNANCE MODEL



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

2013 Annual General Meeting

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

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

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

2014 Annual General Meeting

Sandvik's 2014 Annual General Meeting will be held on 13 May in Sandviken, Sweden. More information is available at www.sandvik.com.

NOMINATION COMMITTEE

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

Nomination Committee for 2014 AGM

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

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

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

THE PRINCIPAL TASKS OF THE BOARD

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

other companies, and addressed the issue of a more even gender distribution.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for the company's organization and the management of the company's business. The Board is required to continuously monitor the company's and the Group's financial position.

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

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

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

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

In addition to financial reporting and the monitoring and follow-up of daily operations and profit trend, Board meetings address the goals and strategies for the operations, acquisitions and significant investments, as well as matters relating to the capital structure. Senior executives report business plans and strategic issues to the Board on an ongoing basis.

The respective committees prepare remuneration and audit matters.

Composition

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

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

Jürgen Geissinger, Johan Karlström, Fredrik Lundberg, Hanne de Mora, Anders Nyrén, Simon Thompson and Lars Westerberg were re-elected at the 2013 Annual General Meeting. Anders Nyrén was re-elected Chairman of the Board. The trade unions appointed Tomas Kärnström and Jan Kjellgren as Board members and Alicia Espinosa and Thomas Andersson as deputies. Sandvik's General Counsel Bo Severin served as secretary of the Board, the Remuneration and Audit Committees as well as the Nomination Committee.

The Board members are presented in more detail on pages 124–125.

Independence

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

Composition of the Board since 2013 Annual General Meeting

Name	Function	Independent in acc. with the Code	Shareholding, number ³⁾ 31 Dec 2013	Elected	Audit Committee	Remuneration Committee
Thomas Andersson	Deputy*		612	2012		
Alicia Espinosa	Deputy*		7,759	2010		
Olof Faxander	Member	No ¹⁾	32,660	2011		
Jürgen M Geissinger	Member	Yes	0	2012		
Johan Karlström	Member	Yes	5,000	2011		Member
Jan Kjellgren	Member*		570	2008		
Tomas Kärnström	Member*		2,889	2006		
Fredrik Lundberg	Member	No ²⁾	6,540,000 ⁴⁾	2006		
Hanne de Mora	Member	Yes	0	2006	Chairman	
Anders Nyrén	Chairman	No ²⁾	4,500	2002	Member	Chairman
Simon Thompson	Member	Yes	0	2008	Member	
Lars Westerberg	Member	Yes	12,000	2010		Member

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

1) Not independent in relation to the company and its executive management.

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

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

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

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

Board proceedings during 2013

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

Attendance at Board and Committee meetings in 2013

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

Remuneration of the Board

As resolved at the 2013 Annual General Meeting, the Chairman's fee is 1,650,000 SEK and the fee to each of the non-executive Board members elected by the General Meeting is 550,000 SEK.

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

Evaluation of the work of the Board

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

BOARD COMMITTEES

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

Remuneration Committee

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

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

During 2013, the Remuneration Committee held five meetings. Activities included drafting a proposal for a revised incentive program for senior executives and key employees for 2014.

Audit Committee

During 2013, the members of the Audit Committee were Hanne de Mora (Chairman of the Committee), Anders Nyrén and Simon Thompson. Areas addressed by the Audit Committee mainly related to:

- Financial reporting.
- Planning, scope and follow-up of the internal and external audit for the year.

- The Group's systematic processes for risk management, including legal disputes, accounting procedures, taxation, finance operations and pension issues.
- Sustainable business issues.

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

EXTERNAL AUDITOR

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

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

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

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

OPERATIONAL MANAGEMENT

The five business areas – Sandvik Mining, Sandvik Machining Solutions, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture – comprise Sandvik's operational structure. The presidents of the business areas report directly to the President of Sandvik AB

and are responsible for the business activities of their respective areas. In turn, the business areas are organized into various product areas or customer segments.

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

PRESIDENT AND GROUP EXECUTIVE MANAGEMENT

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

Olle Wijk, Senior Vice President and Head of Group R&D. The President, other members of Group Executive Management and Extended Group Executive Management are presented on pages 126–127.

Group Executive Management is convened each month and deals with the Group's financial development, Group-wide development projects, leadership and competence sourcing, and other strategic issues. The members of Extended Group Executive Management participate at the meetings at which general strategic issues are discussed and specific expertise is required.

Sandvik has established Group functions responsible for Group-wide activities such as legal affairs, communication, finance, HR and IT, strategy and sourcing. In addition to Group Executive Management, business areas and Group functions, a number of committees and other coordination and preparatory bodies are commissioned to coordinate Group-wide strategic areas, such as environment, health and safety, research and development, purchasing, IT, finance and HR.

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

For each country, a member of Group Executive Management, or another individual appointed by Group Executive Management, has been given the overriding responsibility for the business (Group Management Representative). This individual is, among other things, responsible for ensuring compliance with Group-wide guidelines in dialog with the Country Manager.

Remuneration of senior executives

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

The guidelines for Sandvik's operations are assembled in Power of Sandvik, which is a collection of documents that regulate the governance of the Sandvik Group. Its contents include:

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

The Group's risk management complies with the ERM model that is integrated with the daily planning, monitoring and control within the framework of strategic and operational management. Effective risk management unites operational business development with demands from shareholders and other stakeholders for control and sustainable value creation.

Risk management also aims to minimize risks while ensuring that opportunities are leveraged in the best possible way.

GOVERNANCE OF SUSTAINABILITY ACTIVITIES

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

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

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

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

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

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

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

INTERNAL CONTROL OF FINANCIAL REPORTING

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

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

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

CONTROL ENVIRONMENT

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

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

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

RISK ASSESSMENT AND RISK MANAGEMENT

Enterprise Risk Management (ERM) at Sandvik, which is described on pages 54–56, also includes the area of financial reporting. This means that risk management is a natural element of the daily work on and responsibility for financial reporting. Specific activities have been established with the purpose of identifying risks, weaknesses and any changes needed to the financial reporting process to minimize risks. The combination of roles and responsibilities, work descriptions, IT systems, skills and expertise creates an environment that is monitored continuously to identify and manage potential risks.

CONTROL ACTIVITIES

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

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

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

INFORMATION AND COMMUNICATION

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

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

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

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

MONITORING AND FOLLOW-UP

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

monitored at a business area level, by Group staff functions, Group Executive Management and by the Board. The Audit Committee at Sandvik is a key body in the monitoring of financial reporting and various aspects thereof.

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

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

GROUP ASSURANCE

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

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

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

AUDITOR'S REPORT

TO THE ANNUAL MEETING OF THE SHAREHOLDERS OF SANDVIK AB
(PUBL), CORP. ID. 556000-3468

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

We have audited the annual accounts and consolidated accounts of Sandvik AB (publ) for the year 2013. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 37–122.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with

the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Sandvik AB (publ) for the year 2013.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm 26 February 2014

KPMG AB

George Pettersson
Authorized Public Accountant