

# 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 Group has about 43,000 employees and sales in more than 150 countries. Sandvik AB is a public company with its shares listed on Nasdaq Stockholm (the "Stock Exchange")

Corporate governance within Sandvik is based on external rules such as the Swedish Companies Act, the Stock Exchange's Rule Book for Issuers, the Swedish Code of Corporate Governance (the "Code") and other relevant laws and regulations. The Code is available from [corporategovernance-board.se](http://corporategovernance-board.se). In 2016 Sandvik applied the Code without deviating from any of its regulations.

Sandvik's corporate governance framework, The Sandvik Way, implements these external rules and also sets out the internal rules and principles for governance that apply specifically within Sandvik. The Sandvik Way was launched in June

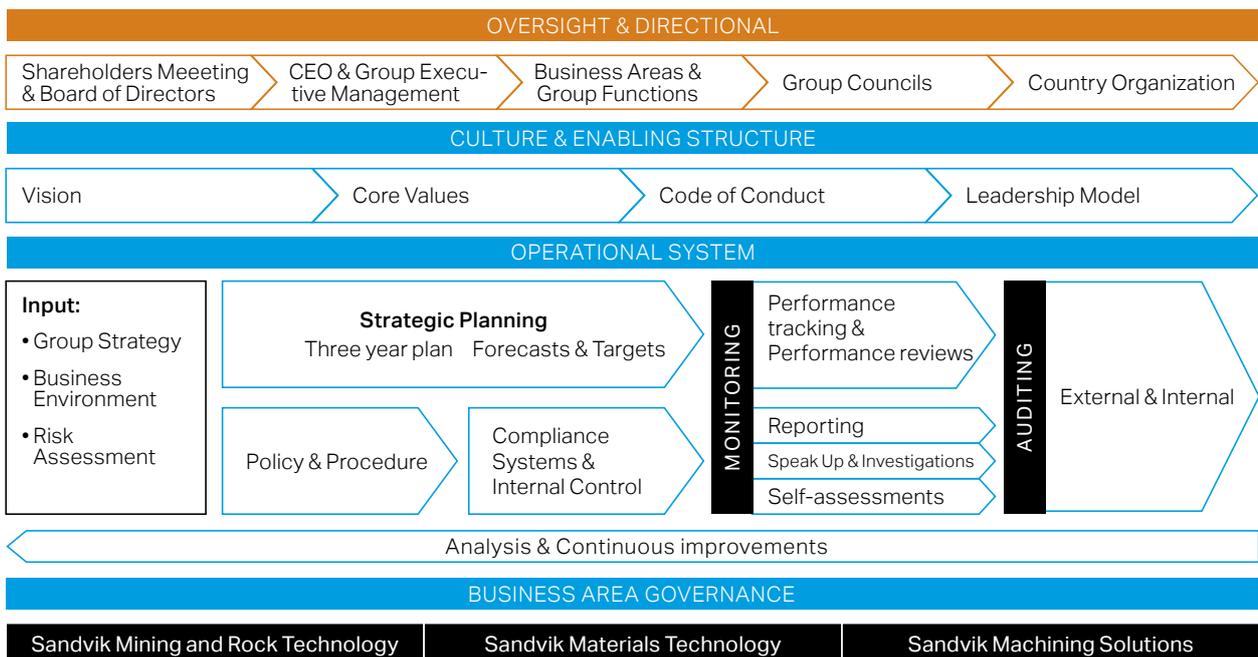
2016, thereby replacing the previous governance framework, The Power of Sandvik. It is based on four levels, as set forth in the model below, and describes how common ways of working have been implemented throughout the entire organization. Some of the parts are still under review and development. Viewing the operational system as part of the governance framework is the main difference in The Sandvik Way compared to The Power of Sandvik.

### OVERSIGHT AND DIRECTIONAL

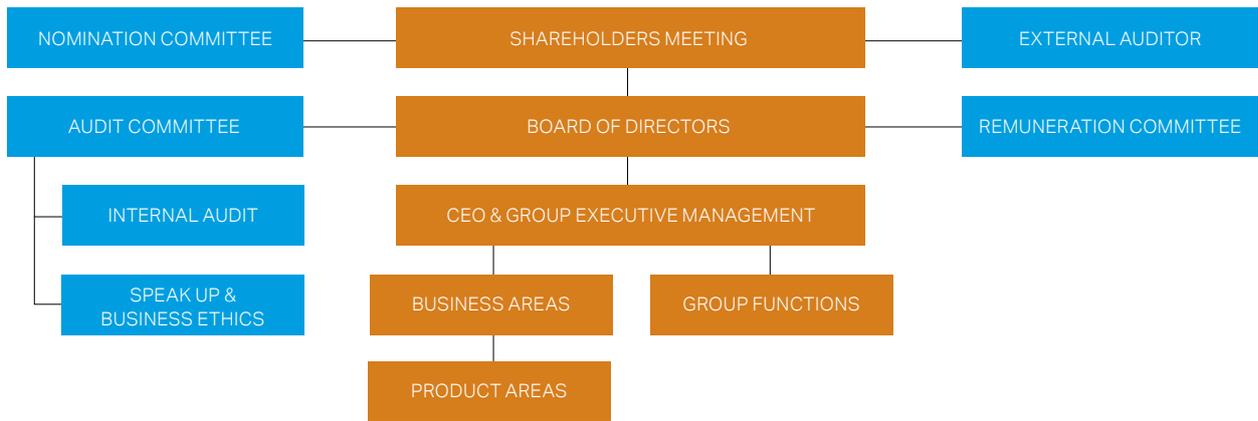
The Board of Directors, elected by the Shareholders' Meeting, sets the strategic direction for the Group. The

President and CEO of the Sandvik Group carries this out through the Group Executive Management whose members manage and oversee the operations of the Group. The main operational responsibility in the Group lies with the business areas and product areas, with Group functions responsible for functional policies and processes supporting the business. These are assisted by Group Councils and the network of country organizations that support operations on a local level. The country organization is currently being decentralized into the business area structure, which will adjust the model slightly.

## THE SANDVIK WAY



CORPORATE GOVERNANCE MODEL



**OWNERSHIP STRUCTURE**

At 31 December 2016, Sandvik’s share capital amounted to 1,505,263,107.60 SEK represented by 1,254,385,923 shares. According to the share register, Sandvik had about 109,000 shareholders at 31 December 2016. AB Industrivärden was the largest owner with about 11.8% of the share capital. Of the total share capital at year-end, about 33% was owned by investors outside Sweden.

**SHAREHOLDERS MEETING**

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 example, the Annual Report, dividends, election of the Board and 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.

All shares in Sandvik carry equal voting rights, namely one vote per share.

**2016 ANNUAL GENERAL MEETING**

Shareholders representing 51.03% of the share capital and votes attended the Annual General Meeting held on 28 April 2016 in Sandviken, Sweden. Sven Unger, attorney-at-law, was elected to chair the meeting. Resolutions passed at the Meeting included the following:

- Dividend of 2.50 SEK per share
- Election of Björn Rosengren and Helena Stjernholm as new members of the Board and re-election of Board members Jennifer Allerton, Claes Boustedt, Jürgen Geissinger, Johan Karlström, Johan Molin and Lars Westerberg. Re-election of Johan Molin as Chairman of the Board.
- Guidelines for remuneration of senior executives
- A long-term incentive program in the form of a performance share program for about 350 senior executives and key employees in the Group
- Re-election of KPMG AB as auditor

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

**2017 ANNUAL GENERAL MEETING**

The next Annual General Meeting will be held on 27 April 2017 in Sandviken, Sweden. More information is available at [home.sandvik](http://home.sandvik).

**YEAR IN BRIEF**

- Two new members joined the Group Executive Management: Tomas Eliasson as CFO and Johan Kerstell as Head of Human Resources
- Björn Rosengren and Helena Stjernholm were elected new members of the Board in April 2016
- A new organizational model, with three instead of five business areas, came into effect from 1 July 2016
- Sandvik’s revised Sustainable Business strategy was adopted in March 2016 and launched throughout the year
- Sandvik’s new governance framework, The Sandvik Way, was launched in June 2016

**TEN LARGEST SHAREHOLDERS, 31 DECEMBER 2016, %**

AB Industrivärden	11.8
Alecta Pension Insurance	5.9
Handelsbanken Pension	3.2
Swedbank Robur Funds	2.8
AMF Insurance and Funds	2.8
L E Lundbergföretagen AB	2.4
Nordea Investment Funds	2.2
Göranssonska Stiftelserna	1.7
SEB Investment Management	1.6
Pensionskassan SHB	
Försäkringsförening	1.5

Source: Euroclear



Sandvik's Annual General Meeting 2016 was held at the Göransson Arena, Sandviken, Sweden.

**NOMINATION COMMITTEE**

The Nomination Committee is a preparatory body that prepares proposals for, among other things, the election of the Board of Directors, the Chairman of the Board and auditors as well as 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 consist of 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 2017 AGM**

For the 2017 Annual General Meeting, the Nomination Committee consists of Fredrik Lundberg, Chairman (Industrivärden), Kaj Thorén (Alecta), Pär Boman (Handelsbanken Pension), Marianne Nilsson (Swedbank Robur Funds) and Johan Molin (Sandvik's Chairman of the Board).

Up to the date of the Annual General Meeting, the Nomination Committee met on three occasions and held separate sessions to interview potential candidates for the Board. Through Sandvik's Chairman of the Board, the Nomination Committee was informed of the results of the Board's own evaluation. The Committee also met with Sandvik's President to review the company's operations, stage of development and overall strategy. The Nomination Committee discussed the general criteria that Board members should fulfill, including the independence requirement, and reviewed the number of Board assignments that each Board member has in other companies. Furthermore, the Nomination Committee paid special attention to the requirements relating to diversity and breadth as well as the requirement to strive for gender balance.

**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 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 the Board's Procedural Guidelines which 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, significant acquisitions and 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.

**NOMINATION COMMITTEE'S TASKS AHEAD OF THE 2017 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 of the auditor
- If deemed necessary, proposal for changes to the Nomination Committee's instruction concerning the procedure for appointment of the Nomination Committee for the forthcoming Annual General Meeting and its assignment

**COMPOSITION**

As per 31 December 2016, Sandvik's Board consisted of 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.

The Board members are presented on pages 146–147.

**INDEPENDENCE**

Helena Stjernholm is not regarded as independent in relation to major shareholders in the company and Björn Rosengren is not regarded as independent in relation to the company and its executive management. The other six Board 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 independence requirements of the Code.

**BOARD PROCEEDINGS DURING 2016**

During the year, the Board held 11 meetings. The Board addressed strategic issues. The executive managements of all business areas presented their goals and strategies. The Board also addressed matters related to human resources, such as incentive programs, environment, health and 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 2016, the Board visited Walter's operations in Germany, which included visits to the sites in Tübingen and Münsingen, as well as several customer visits.

**REMUNERATION OF THE BOARD**

As resolved at the 2016 Annual General Meeting, the Chairman's fee is 2,000,000 SEK and the fee to each of the non-executive Board members elected by the General Meeting is 600,000 SEK.

In addition, 225,000 SEK was paid to the Chairman of the Audit Committee and 150,000 SEK to each of the other Committee members, in total

**ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2016**

Member	Board	Audit Committee	Remuneration Committee
<i>Total number of meetings</i>	11	5	4
Jennifer Allerton	11		
Thomas Andersson	11		
Claes Boustedt	11	5	
Jürgen M Geissinger	6		
Johan Karlström	10		4
Jan Kjellgren <sup>1)</sup>	4		
Tomas Kärnström	11		
Thomas Lilja <sup>2)</sup>	5		
Mats W Lundberg	11		
Johan Molin <sup>3)</sup>	11	2	4
Hanne de Mora <sup>4)</sup>	3	2	
Björn Rosengren <sup>5)</sup>	11		
Helena Stjernholm <sup>6)</sup>	7	3	
Lars Westerberg <sup>7)</sup>	11	3	4

1) Left the Board in capacity as employee representative in conjunction with the Annual General Meeting 2016.

2) Joined the Board in capacity as employee representative in conjunction with the Annual General Meeting 2016.

3) Left the Audit Committee in conjunction with the Annual General Meeting 2016.

4) Left the Board, and thereby also the Audit Committee, in conjunction with the Annual General Meeting 2016.

5) At 4 of 11 meetings he participated in his capacity as President, before being elected new Board member at the Annual General Meeting 2016.

6) Elected new Board member at the Annual General Meeting 2016 and joined the Audit Committee.

7) Joined the Audit Committee in conjunction with the Annual General Meeting 2016.

**COMPOSITION OF THE BOARD AT 31 DECEMBER 2016**

Name	Function	Independent in acc. with the Code	Shareholding, number <sup>1)</sup> 31 Dec 2016	Elected	Audit Committee	Remuneration Committee
Jennifer Allerton	Member	Yes	10,000	2015		
Thomas Andersson	Deputy*		612	2012		
Claes Boustedt	Member	Yes	20,000	2015	Chairman	
Jürgen M Geissinger	Member	Yes	0	2012		
Johan Karlström	Member	Yes	5,000	2011		Member
Tomas Kärnström	Member*		2,889	2006		
Thomas Lilja	Member*		3,414	2016		
Mats W Lundberg	Deputy*		0	2015		
Johan Molin	Chairman	Yes	260,000 <sup>2)</sup>	2015		Chairman
Björn Rosengren	Member	No	80,214	2016		
Helena Stjernholm	Member	No	0	2016	Member	
Lars Westerberg	Member	Yes	80,000	2010	Member	Member

\* Employee representatives (both members and deputy members participate in Board meetings). Thomas Lilja (member) and Mats W Lundberg (deputy) represent Unionen/Ledarna/Swedish Association of Graduate Engineers. Tomas Kärnström (member) and Thomas Andersson (deputy) represent IF Metall.

1) Pertains to own and closely related persons' shareholdings in Sandvik AB.

2) In addition 1,000,000 call options in Sandvik AB.

## REPORT OF THE DIRECTORS

525,000 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 possible need for further expertise and experience, the work of the Board and its members is evaluated annually. In 2016, the evaluations, which were led by the Chairman of the Board, were carried out by way of each Board member responding to an online questionnaire. The compiled results were presented to the Board at the final Board meeting of the year. The Chairman of the Board also presented 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 2016, the members of the Remuneration Committee were the Chairman of the Board Johan Molin (Chairman of the Committee), Johan Karlström and Lars Westerberg. The tasks of the Remuneration Committee are, among others, those 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 and terms of employment for the President, who in turn decides on the remuneration to be paid to the Group Executive Management in consultation with the Remuneration Committee.

For guidelines, remuneration and other benefits payable to the Group Executive Management, refer to Proposal regarding guidelines for the

remuneration of senior executives on page 46 and Note 3.5.

During 2016, the Remuneration Committee held four meetings.

### AUDIT COMMITTEE

Since the 2016 Annual General Meeting, the members of the Audit Committee are Claes Boustedt (Chairman of the Committee), Helena Stjernholm and Lars Westerberg. 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 and Speak Up, Sandvik's global whistleblowing system
- Sandvik's sustainable business strategy and materiality analysis

In 2016, 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 2016 Annual General Meeting, the audit firm KPMG AB was re-elected auditor of Sandvik AB for the period until the 2017 Annual General Meeting, with George Pettersson as the auditor-in-charge. Following George's tragic passing beginning of January 2017, Joakim Thilstedt was appointed auditor-in-charge.

The auditors continuously audit and monitor the company's general accounting and the execution by the Board and the President of their respective responsibilities.

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 guaranteed by a requirement that the Audit Committee pre-approves non-audit services to be provided by the auditors.

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

### CEO AND GROUP EXECUTIVE MANAGEMENT

The President and CEO is accountable for Group decision-making in all areas delegated by the Board. In order to ensure a full Group perspective in these matters, the President has appointed the Group Executive Management as an advisory forum, focusing on how to achieve Group targets, strategies, structure and organization. The Group Executive Management meets each month and its members are accountable for implementing the President's decisions.

In 2016 the Group Executive Management consisted of:

- Björn Rosengren, President and CEO
- Tomas Eliasson, Executive Vice President and CFO, from 1 April 2016
- Jonas Gustavsson, President of Sandvik Machining Solutions
- Lars Engström, President of Sandvik Mining and Rock Technology, from 1 July 2016 (previously President of Sandvik Mining)
- Petra Einarsson, President of Sandvik Materials Technology
- Jessica Alm, Executive Vice President and Head of Group Communications
- Johan Kerstell, Executive Vice President and Head of Human Resources, from 1 June 2016
- Åsa Thunman, Executive Vice President and General Counsel
- Mats Backman, Executive Vice President and CFO, until 31 March 2016
- Anna Vikström Persson, Executive Vice President and Head of Human Resources, until 31 May 2016
- Jim Nixon, President of Sandvik Venture, until 30 June 2016

- Dingui Gao, President of Sandvik Construction, until 30 June 2016
- Zhqiang (ZZ) Zhang, Executive Vice President and Head of Emerging Markets, left his position as member of the Group Executive Management on 30 June 2016

The President and other members of the Group Executive Management are further presented on pages 148–149.

### BUSINESS AREAS

The Sandvik organization model is based on a decentralized business model with three separate business areas – Sandvik Machining Solutions, Sandvik Mining and Rock Technology and Sandvik Materials Technology – based on distinct product offerings. Each business area has full responsibility and accountability for its respective business results. The business area Presidents are responsible for the business area's income statement and capital employed and is accountable for business area targets.

Each of the three business areas is organized in a number of product areas based on product offering or brand. The product area is the highest operational level in the Sandvik organizational structure. Where the product area structure is based on the product offering, each product area is organized in business units representing defined parts of the product offering.

Visit [home.sandvik](http://home.sandvik) for more detailed information relating to the Group's business activities and product portfolios.

### GROUP FUNCTIONS

There are currently four Group functions within Sandvik: Communications, Finance, HR and Legal. Group Functions specifically focus on setting the appropriate enabling structures and processes that are common for the Group or cover a specific area for which the Group is responsible.

### CULTURE AND ENABLING STRUCTURE

Our business philosophy is shaped by our Vision to excel, guided by our Core Values – Customer Focus, Innovation, Fair Play and Passion to

Win – translated into the behaviors we outline in our Code of Conduct, and motivated through the qualities outlined in Sandvik's Leadership Model.

### OPERATIONAL SYSTEM

The operational system of The Sandvik Way is the core of how we work on a day-to-day basis in the Sandvik Group. Some parts in the operational system are still under development and are expected to be in place during 2017. Once fully completed it will contain information and ways of working for the whole Sandvik Group related to strategic planning, risk management, internal controls and compliance, as well as Sandvik's monitoring activities, including performance tracking and compliance self-assessment for the business units. This is also where all of our group wide policies and procedures are collected. These policies are mandatory for all Sandvik units globally. We currently have a policy portfolio of around 30 policies concerning areas such as finance, HR, compliance and risk management.

### INTERNAL CONTROL AND RISK MANAGEMENT

As outlined in the chapter on Enterprise Risk Management on pages 52–53, 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. During the year the embedment of risk management and internal control in The Sandvik Way was strengthened in order to assist the company in strategic decision making and to manage change demands more effectively.

### BUSINESS AREA GOVERNANCE

The three top levels of The Sandvik Way – Oversight and Directional, Culture and Enabling Structure, and Operational System – set the group-wide way of working that applies across all of the business areas and Group functions. Due to the varied nature of business in each of the business areas, further controls and management systems tailored to the business need to be detailed and implemented within the business areas to ensure appropriate control by

the business area Presidents. These specific rules and procedures for each business area, product area, business unit as well as other relevant parts of the operational business structure form the business area governance systems and are currently under review or development.

### SUSTAINABLE BUSINESS GOVERNANCE

With Sandvik's Sustainable Business strategy, Code of Conduct and Supplier Code of Conduct as the basis, risks and opportunities are analyzed and managed. Objectives and targets are set to address the material areas identified by the Group and business areas and to efficiently manage related risks and leverage opportunities.

The Board adopts the Group's Code of Conduct and the Group Executive Management establishes objectives and performance indicators for sustainability operations. At the end of 2014, a revised Code of Conduct was adopted and launched in 2015. During 2016 a vast training program was concluded with 91% completion rate. Each business area assumes responsibility for ensuring compliance with the Code of Conduct. The Group Executive Management adopts the Sandvik Sustainable Business strategy and the business areas are responsible for its implementation, including target setting and reporting thereof. The business areas are also responsible for the assessment and management of sustainability risks (for example environment, health, safety, corruption, human rights, working conditions and supplier responsibility) in their operations.

Sandvik conducts a materiality analysis on a regular basis. The following aspects were identified as material for 2013–2016: Compliance; sustainable supplier management; use, reuse and recycling of materials and natural resources; energy, emissions and climate change; health and safety; diversity and inclusion; and talent attraction and development.

# 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 Sandvik Way 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 instruc-

tions regarding accounting policies and financial reporting procedures to be applied by all Sandvik reporting entities. At Group level, Group Control manages the reporting process to ensure the completeness and accuracy of financial reporting and compliance with IFRS requirements. Group Control also 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.

Internal Control, reporting to CFO, is a new function from 1 September 2016. Its main responsibilities include the establishment and maintenance of the internal control framework for all reporting entities in the Group and the set-up of global monitoring and reporting of internal control effectiveness worldwide.

## RISK ASSESSMENT AND RISK MANAGEMENT

The Enterprise Risk Management (ERM) process at Sandvik, which is described in the Enterprise Risk Management Report on pages 52–53, 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 Policies 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.

In addition, Internal Control and Group Control 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, as well as 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 communi-

cating 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 to ensure that the company's financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies. The Audit Committee prepares issues and presents them to the Board for resolution.

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 an examination of the annual accounts and the Annual Report.

## INTERNAL AUDIT

The Internal Audit 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.

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.

# 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

### Opinions

We have audited the annual accounts and consolidated accounts of Sandvik AB (publ) for the year 2016. The annual accounts and consolidated accounts of the company are included on pages 42–124 in this document.

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 2016 and its financial performance and cash flow 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 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), 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, and the corporate governance statement is in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the Group.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. These matters refer to consolidated accounts unless otherwise stated.

### Valuation of acquired intangible assets and the parent company's shares in Group companies

See disclosure [12] and [14] respectively and accounting principles on pages 85–88 in the annual accounts and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

The carrying value of acquired intangible assets of goodwill, patents, licenses, trademarks, etc. is 19,240 million SEK as at 31 December 2016, which represents approximately 19% of total assets. Annually, or if certain indicators of impairment exist, goodwill is subject to an impairment test which is complex and contains significant elements of judgment. An impairment test must be performed for each identified cash-generating unit.

The impairment test as required by IFRS is to be performed taking into account both forecasted internal and external assumptions and plans. Examples of such judgments are future cash flows and the discount rate to be used considering that estimated future payments are subject to risk.

The parent company holds shares in Group companies of 33,111 million SEK as at 31 December 2016. If the book value of the shares exceeds the equity in a given Group company, a similar type of impairment test is performed using the same methodology and assumptions as is done in respect of goodwill in the Group.

#### Response in the audit

We have obtained and assessed the Group's impairment tests to ascertain whether they are carried out in accordance with the techniques prescribed by IFRS.

In addition, we have assessed the reasonableness of future cash flows and discount rate by obtaining and evaluating the Group's written documentation and plans. We have also had discussions with Group management and performed retrospective review over prior period estimates.

We have involved our internal valuation specialists in the audit team to ensure appropriate experience and expertise is applied in the assessment of methodology used. An important part of our work has been to evaluate how changes in assumptions may affect the valuation.

We have assessed the reasonableness of the re-allocation of goodwill to new cash-generating units during the year due to the reorganisation of operations carried out by the Group. The assessment was conducted through interviews with Group management and evaluation of the Group's documentation of the new allocation.

We have reviewed the Annual Report disclosures for completeness, assessed whether the disclosures are in line with the assumptions used by management in their valuation and that they are, in all material respects, in accordance with disclosures required by IFRS.

### Provisions for pensions

See disclosure [20] and accounting principles on pages 86 and 88-89 in the annual accounts and consolidated accounts for detailed information and description of the matter.

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#### Description of key audit matter

The Group has a pension obligation that mainly concerns the United Kingdom, the United States, Sweden, Finland and Germany. Before reduction by the fair value of plan assets, this pension obligation is valued at 26,600 million SEK as at 31 December 2016.

Estimation of the value of the pension obligation relies upon a number of assumptions, including mortality, inflation, and discount rates that are applied to estimate the present value of future pension payments. The Group engages external actuaries to perform these complex calculations.

Changes to the assumptions which the calculations are based on could have a significant impact on total comprehensive income as well as on the balance of the pension obligation.

#### Response in the audit

We have examined the external actuarial report that is used by the Group for valuation of its pension obligation. We have, with input from our internal specialists, critically assessed the key assumptions used for discount rate, inflation, salary increases and mortality within the calculations against assumptions used by other comparative companies and externally obtained market data.

We have also reviewed the Annual Report disclosures for completeness and assessed whether they are in line with the assumptions and sensitivity analysis used.

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### Accounting for discontinued operations

See disclosure [30] and accounting principles on page 87 in the annual accounts and consolidated accounts for detailed information and description of the matter.

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#### Description of key audit matter

The Group has presented product area Mining Systems as a discontinued operation in the income statement and as a disposal Group held for sale within the balance sheet. The result of the discontinued operations amounts to -1,370 million SEK for 2016.

Accounting treatments for discontinued operations require specific conditions to be met and judgments made by Group management. There are also detailed related disclosure requirements.

The Mining Systems business as such involves complex estimates on the projected financial results of ongoing projects.

#### Response in the audit

We have assessed the assumptions applied by the Group for presenting Mining Systems as a discontinued operation by obtaining and reviewing minutes and other relevant documentation of the ongoing sales process as well as holding discussions with Group management.

We have evaluated the internal control of the business in relation to monitoring of projects. Assessment have been made through sampling of project estimates for which we have evaluated the underlying assumptions used by the business for revenue recognition and provisions if any.

We have assessed whether the assets and liabilities presented as held for sale have been accurately identified and appropriately measured at the balances sheet date.

We have also reviewed the Annual Report disclosures for completeness.

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### Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–41, 129–144 and 146–152. The Managing Director is responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts the Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

### Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to

fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director. Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern.
- If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## AUDITOR'S REPORT

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

#### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Sandvik AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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.

#### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

#### 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. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions

and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

#### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a 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.

Stockholm, 6 March 2017  
KPMG AB

Joakim Thilstedt  
Authorized Public Accountant