

# CORPORATE GOVERNANCE REPORT

Sandvik AB has its head office in Stockholm and is the Parent Company of the Sandvik Group, with subsidiaries in about 70 countries. The Group has about 40,000 employees and revenues in more than 160 countries. Sandvik AB is a public company with its shares listed on Nasdaq Stockholm (the "Stockholm Stock Exchange").

Corporate governance within Sandvik is based on external rules such as the Swedish Companies Act, the Stockholm 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 at [corporategovernance-board.se](http://corporategovernance-board.se). In 2019 Sandvik applied the Code without deviating from any of its regulations.

### The Sandvik Way

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. It is based on four building blocks, as set forth in the model below, and describes how

common ways of working have been implemented throughout the entire organization.

### Oversight and Direction

This part outlines how the Group is led and governed from the top. The Board of Directors, elected at the Shareholders' Meeting, sets the strategic direction for the Group. The President 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 divisions, with Group functions responsible for functional policies and processes supporting the business. This part is the main focus of this Corporate Governance Report.

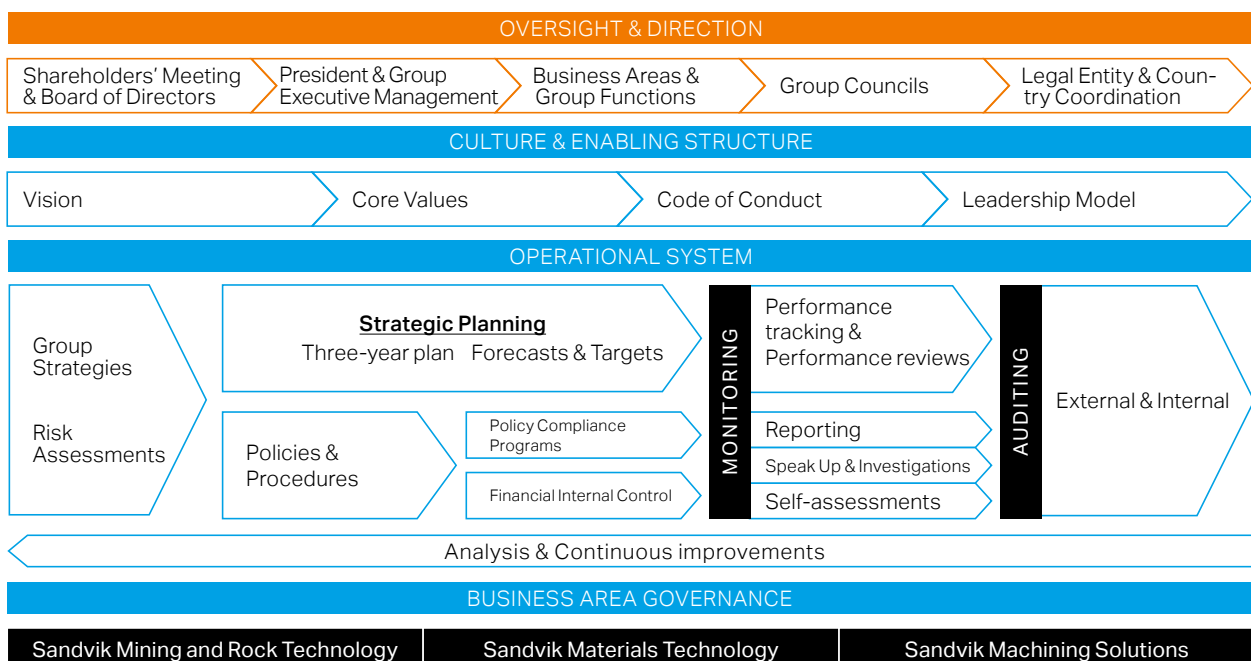
### Culture and Enabling Structure

This building block sets the foundation for how we all shape our culture in the company and enable a customer oriented and responsible business. Our operational controls and risk frameworks are underpinned by the ambitions and requirements of our vision, core values (Customer Focus, Innovation, Fair Play and Passion to Win), Code of Conduct and leadership principles.

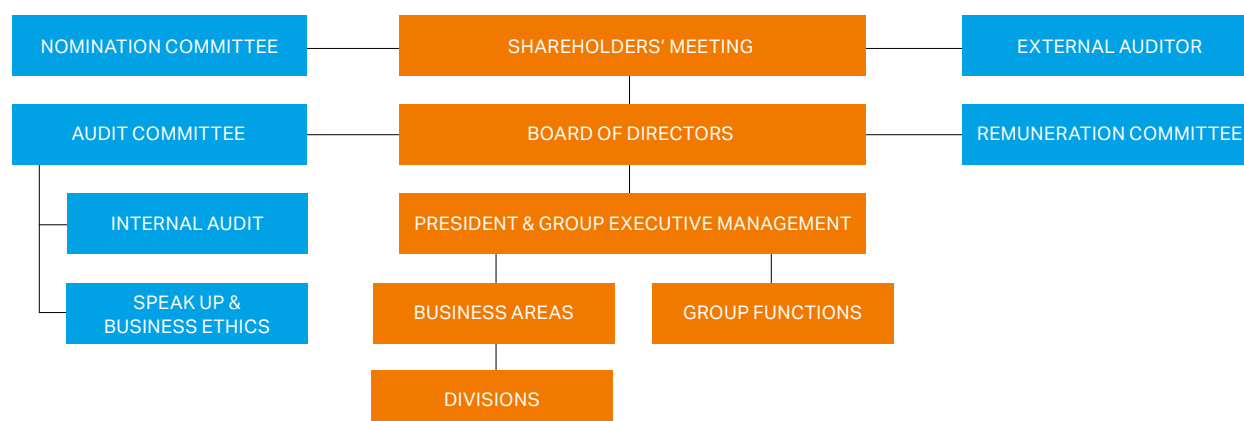
### Operational System

The detailed controls and risk frameworks common across the Group are detailed in the operational system. This includes many aspects from planning and forecasting, policies, procedures and controls to compliance, monitoring and audit. The operational system

### The Sandvik Way



## CORPORATE GOVERNANCE MODEL



represents the day-to-day controls that directly impact the work of our employees. As such, it is subject to regular review and continuous improvement.

### Business Area Governance

The final building block in the framework comprises the systems of business area governance, each reflecting the independent challenges and opportunities each business faces in its own industry sector. Customers, business cycles, supply chain and industry risk all vary across the three business areas and call for controls and management systems tailored to the business, further complementing the group-wide way of working detailed in the other building blocks. Business area governance is adopted by each business area within the overall framework of The Sandvik Way and may include specific rules and procedures for each business area, division, business unit as well as other relevant parts of the operational business structure.

### Ownership structure

As of 31 December 2019 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 101,000 shareholders as of 31 December 2019. AB Industrivärden was the largest owner with about 12.4 percent of the share capital. Of the total share capital at year-end, about 38.9 percent 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 General 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 General Meeting.

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

### 2019 Annual General Meeting

Shareholders representing 53.40 percent of the share capital and votes attended the Annual General Meeting held on 29 April 2019 in Sandviken, Sweden. Sven Unger, attorney-at-law, was elected to chair the meeting. Resolutions passed at the General Meeting included the following:

- Dividend of 4.25 SEK per share
- Re-election of Board members Jennifer Allerton, Claes Boustedt, Marika Fredriksson, Johan Karlström, Johan Molin, Björn Rosengren, Helena Stjernholm and Lars Westerberg. Re-election of Johan Molin as Chairman of the Board.
- Re-election of PricewaterhouseCoopers AB as auditor
- Guidelines for remuneration of senior executives

### Ten largest shareholders, 31 December 2019, %

AB Industrivärden	12.4
Alecta Pension Insurance	6.6
Swedbank Robur Funds	4.4
BlackRock	2.8
AMF Insurance and Funds	2.6
Vanguard <sup>1)</sup>	2.5
LE Lundbergföretagen AB	2.4
SEB Investment Management	2.3
Norges Bank	1.8
Nordea Funds	1.3

Source: Monitor by Modular Finance AB  
1) Shares held in trust.

- A long-term incentive program in the form of a performance share program for about 350 senior executives and key employees in the Group

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

### 2020 Annual General Meeting

The next Annual General Meeting will be held on 28 April 2020 in Sandviken, Sweden. More information is available at: [home.sandvik](http://home.sandvik).

### 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 a change.



Sandvik's Annual General Meeting 2019 was held at the Göransson Arena, Sandviken, Sweden.

In accordance with this instruction, the Nomination Committee shall 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 2020 AGM**

For the 2020 Annual General Meeting, the Nomination Committee consists of Fredrik Lundberg, Chairman (Industrivärden), Hans Sterte (Alecta), Marianne Nilsson (Swedbank Robur Funds), Anders Oscarsson (AMF and AMF 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. The Nomination Committee was informed of the results of the Board's own evaluation. Due to the upcoming change of President and CEO, the Committee instead met with the Presidents of Sandvik's three business areas that presented their respective business area strategy

**Nomination Committee's tasks ahead of the 2020 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

and market conditions for 2020. 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. The Nomination Committee applied rule 4.1 of the Code as the diversity policy. This rule states that the Board shall have an appropriate composition in view of the company's operations, phase of development and other relevant circumstances, display diversity and breadth in terms of qualifications, experience and background of the Board members elected by the General Meeting and that the company shall 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.

**Composition**

As of 31 December 2019 Sandvik's Board consisted of eight members elected by the Annual General Meeting. Björn Rosengren left the Board, effective 1 February 2020, in connection with leaving his position as President and CEO. The new President and CEO, Stefan Widing, is proposed to be elected as a new Board member by the 2020 Annual General Meeting.

The Nomination Committee communicated before the 2019 Annual General Meeting that the Nomination Committee had applied rule 4.1 of the Code as the diversity policy. The current Board composition is the result of the work of the Nomination Committee prior to that General Meeting. The Board consists of members with experience from different geographic areas and different industry sectors and, excluding the President, 42 percent of the Board members elected by the General Meeting are women.

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 54–55.

**Independence**

Helena Stjernholm is not regarded as independent in relation to major shareholders in the company and Björn Rosengren was 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 2019**

During the year, the Board held fourteen meetings. The Presidents of all business areas presented their goals and strategies. The Board also reviewed

the strategies and results from a number of the divisions (all divisions are reviewed in an 18 month rolling period). The Board addressed matters related to the overall Group strategy, long-term financial and sustainability targets, IT, risk management, human resources, such as incentive programs, environment, health and safety, and issues concerning investments and operational restructuring and reviewed previously made investments. Further, the Board handled matters with respect to acquisitions and divestments, such as the sale of Varel Oil & Gas and the internal separation of the Sandvik Materials Technology (SMT) business with an intention to evaluate the listing of SMT as a separate group. The Remuneration Committee, Audit Committee and the Acquisitions and Divestitures Committee reported from their respective meetings. In respect of the Audit Committee, reported matters included ERM, compliance, SpeakUp and Code of Conduct, internal control and internal audit as well as the result of the external audit. The Committees also submitted matters for resolution by the Board and the minutes and reports from these meetings were made available to the Board members. In June 2019 the Board visited Sandvik's operations in Finland.

### Remuneration of the Board

As resolved at the 2019 Annual General Meeting, the fee to the Chairman of the Board is 2,550,000 SEK and the fee to each of the non-executive Board mem-

bers elected by the General Meeting is 690,000 SEK.

In addition, 300,000 SEK was paid to the Chairman of the Audit Committee and 170,000 SEK to each of the other Committee members, in total 640,000 SEK. The Chairman of the Remuneration Committee was paid 145,000 SEK and each of the other Committee members 115,000 SEK, in total 375,000 SEK. No remuneration was paid to the members of the Acquisitions and Divestitures Committee.

For more detailed information on remuneration of the Board members, see Note 3.5.

### Evaluation of the work of the Board

To ensure the quality of the work of the Board and to identify the possible need

for further expertise and experience, the work of the Board and its members is evaluated annually. In 2019 the evaluation, which was led by the Chairman of the Board, was carried out by way of each Board member responding anonymously to an online questionnaire. The Chairman also held separate evaluation discussions with all Board members. The compiled results of the evaluations were presented to the Board as well as to 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.

### Attendance at board and committee meetings in 2019

Member	Board	Audit Committee	Remuneration Committee	Acquisitions and Divestitures Committee
<i>Total number of meetings</i>	14	5	3	5
Jennifer Allerton	14			
Thomas Andersson	13			
Claes Boustedt	14	5		5
Marika Fredriksson	14			
Johan Karlström	14		3	
Tomas Kärnström	14			
Thomas Lilja	14			
Mats W Lundberg	14			
Johan Molin	14		3	5
Björn Rosengren	14			
Helena Stjernholm <sup>1)</sup>	14	5	2	5
Lars Westerberg <sup>1)</sup>	14	5	1	

*1) Helena Stjernholm replaced Lars Westerberg as member of the Remuneration Committee on 29 April 2019.*

### Composition of the Board as of 31 December 2019

Name	Function	Independent in acc. with the Code	Shareholding, number <sup>1)</sup> 31 Dec 2019	Elected	Audit Committee	Remuneration Committee	Acquisitions and Divestitures Committee
Jennifer Allerton	Member	Yes	10,000	2015			
Thomas Andersson	Deputy <sup>2)</sup>		0	2012			
Claes Boustedt	Member	Yes	20,000	2015	Chairman		Member
Marika Fredriksson	Member	Yes	2,500	2017			
Johan Karlström	Member	Yes	5,000	2011		Member	
Tomas Kärnström	Member <sup>2)</sup>		2,889	2006			
Thomas Lilja	Member <sup>2)</sup>		3,560	2016			
Mats W Lundberg	Deputy <sup>2)</sup>		0	2015			
Johan Molin	Chairman	Yes	260,000 <sup>3)</sup>	2015		Chairman	Chairman
Björn Rosengren <sup>4)</sup>	Member	No <sup>5)</sup>	119,181	2016			
Helena Stjernholm	Member	No <sup>5)</sup>	5,000	2016	Member	Member	Member
Lars Westerberg	Member	Yes	180,000	2010	Member		

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

*2) 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.*

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

*4) Left the Board, effective 1 February 2020.*

*5) 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.*

### Remuneration Committee

As from the 2019 Annual General Meeting the members of the Remuneration Committee are Johan Molin (Chairman of the Committee), Johan Karlström and Helena Stjernholm. 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 39 and Note 3.5.

During 2019 the Remuneration Committee held three meetings but also worked substantially between these meetings to prepare the appointment of a new President and CEO of Sandvik. At an extra Board meeting held in October 2019 the Committee presented its proposal for the Board to appoint Stefan Widing as the new President and CEO of Sandvik.

### Audit Committee

During 2019 the members of the Audit Committee were Claes Boustedt (Chairman of the Committee), Helena Stjernholm and Lars Westerberg. Areas addressed by the Audit Committee mainly related to:

- Monitoring the financial reporting and ensuring its reliability
- Effectiveness of the system of internal control and internal audit
- Planning, scope and follow-up of the internal and external audit for the year
- Assistance to the Nomination Committee with regards to proposal for auditor
- Monitoring of the external auditor's independence and objectivity vis-à-vis the company, including the extent to which the auditor provides other services than auditing services to the company
- The Group's systematic processes for overall corporate risk management (ERM), as well as more detailed

- risk management matters including legal disputes, compliance, corporate investigations, IT security, accounting procedures, taxation, treasury, finance operations, insurance coverage and pension issues
- The development and effectiveness of compliance processes, with special focus on the roll-out of a new compliance program, the Compliance House
- Sandvik's Code of Conduct, some specific cases managed through SpeakUp, Sandvik's global whistleblowing system, as well as the overall effectiveness of the system
- Sandvik's sustainable business strategy and materiality analysis

During 2019 the Audit Committee held five meetings at which Sandvik's external auditor and representatives of the company's management were present.

### Acquisitions and Divestitures Committee

During 2019 the members of the Acquisitions and Divestitures Committee were Johan Molin (Chairman of the Committee), Claes Boustedt and Helena Stjernholm. The Committee was established in 2018 to provide a better process for preparing major or strategically important acquisitions and divestitures for Board decisions. The Committee meets on an ad hoc basis, at the request of the President and CEO in consultation with the Chairman of the Board.

During 2019 the Acquisitions and Divestitures Committee held five meetings and reviewed matters mostly related to the project to internally separate and evaluate a listing of Sandvik Materials Technology.

### President and Group Executive Management

The President 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 2019 the Group Executive Management consisted of:
- Björn Rosengren, President and CEO (succeeded by Stefan Widing on 1 February 2020)

- Tomas Eliasson, Executive Vice President and CFO
- Klas Forsström, President of Sandvik Machining Solutions (until 30 June 2019)
- Lars Bergström, Acting President of Sandvik Machining Solutions (from 1 July 2019)
- Lars Engström, President of Sandvik Mining and Rock Technology (until 31 March 2019)
- Henrik Ager, President of Sandvik Mining and Rock Technology (from 1 April 2019)
- Göran Björkman, 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
- Åsa Thunman, Executive Vice President and General Counsel

The President and other members of the Group Executive Management are presented further on pages 56–57.

### 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.

Each of the three business areas is organized in a number of divisions based on product offering or brand. The division is the highest operational level in the Sandvik organizational structure. Certain divisions that are based on a product offering are also divided into business units representing a defined part 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 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.

### External auditor

At the 2019 Annual General Meeting, the audit firm PricewaterhouseCoopers AB was re-elected auditor of Sandvik AB for the period until the 2020 Annual General Meeting. Peter Nyllinge is the auditor-in-charge.

The auditor continuously audits and monitors 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, the Audit Committee and the Board. 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 the Audit Committee having determined the principles for allowing non-audit services to be provided by the auditor and, in some cases, pre-approving non-audit services.

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.

### Internal control over financial reporting

The Sandvik 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 provide an effective framework for describing and designing the internal control system implemented in the organization. The five components are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring and Follow-up. The application of the COSO framework is described below.

Sandvik's Board of Directors is ultimately responsible for the governance of risk management including internal control over financial reporting.

### Control environment

Sandvik internal control over financial reporting forms an integral part of the operational system described in The Sandvik Way on page 48 which also

includes risk assessments, policies, procedures and compliance.

The Sandvik Financial Reporting Policies and Procedures govern control over financial reporting. These documents contain detailed instructions regarding accounting policies and financial reporting procedures to be applied by all Sandvik reporting entities.

A Sandvik Financial Internal Control Framework has been developed and includes key components such as well-defined roles and responsibilities, internal control procedures and the risk and control matrix which defines a mandatory minimum of control activities that contribute to the mitigation of risks to acceptable levels. The process of rolling-out the common framework to the Sandvik entities is completed in Group Functions and Sandvik Mining and Rock Technology and is expected to be completed in 2020 in the other business areas.

### Risk assessment and risk management

The Enterprise Risk Management (ERM) process at Sandvik includes the area of financial reporting. Read more about the Enterprise Risk Management (ERM) program on page 44. Key risks noted in local assessments and observations made by Internal and External Audit are also taken into consideration to ensure that adequate controls exist to mitigate these risks.

### Control activities

Mandatory control activities include business process controls, IT controls and corporate governance controls focusing on compliance with policies and procedures. Internal controls are tailored per each operational entity based on risks and applicability. Entity management and process owners are responsible for ensuring that internal controls are operated as per agreed design.

At Group level, Group Control manages the reporting process to ensure the completeness and accuracy of financial reporting and compliance with IFRS requirements.

Controllers in the divisions and business areas perform analytical reviews and investigations, conduct business trend analyses and update forecasts.

### Information and communication

Policies and procedures related to financial reporting are updated and

communicated on a regular basis to all entities.

Results of monitoring and status of improvement activities related to internal controls are included in the CFO report which is part of the agenda for the Audit Committee meetings.

Quarterly interim reports are published externally and are supplemented by investor meetings attended by members of the Group Executive Management.

### Monitoring and follow-up

Entity management as well as local and global process owners are responsible for testing the effectiveness of internal controls through self-assessments on a quarterly basis and according to the requirements in the Sandvik Internal Control Framework. Results of the self-assessment testing of controls including test evidence are reported and consolidated in a Governance, Risk and Compliance IT tool. The tool also requires reporting of action plans with the purpose to remediate ineffective controls.

Business areas and divisions are to monitor the remediation of ineffective controls. The Audit Committee monitors the effectiveness of internal controls related to financial reporting presented by management with potential deficiencies and suggested actions.

The Board reviews all quarterly interim reports as well as the Annual Report prior to publishing. The Audit Committee reports to the Board regarding internal controls matters including matters for resolution. Minutes from Audit Committee meetings are made available to Board members.

### Internal audit

Internal Audit is subordinated to the Audit Committee and the Head of Internal Audit reports to the Audit Committee.

Internal audits include, as a basis, the Group's policies for corporate governance, risk management and internal control regarding 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 business area management and to the Audit Committee.

# AUDITOR'S REPORT

## Unofficial translation

To the general meeting of the shareholders of Sandvik AB (publ), corporate identity number 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 2019. The annual accounts and consolidated accounts of the company are included on pages 38–122 and pages 135–136 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 parent company and the group as of 31 December 2019 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 2019 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 and is in agreement with the Annual Accounts Act. 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 general meeting of shareholders adopts the income statement and balance sheet for the parent company and the Group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### 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. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

### Our audit approach

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Sandvik performs its business via its subsidiaries in a large number of territories. Operationally, the business is organized in divisions that are aligned in the Group's three Business Areas. There are joint functions at various levels of the Group to support the operational activities of the divisions.

In order to tailor our overall audit approach, we have updated our understanding of how the Group's business is organized, about important systems and processes as well as the internal controls put in place to provide comfort to management and the directors of the precision of the financial reporting. For this purpose, we have held many interviews with management at various levels of the Group and heads of Group functions on the business and the Group strategy. We have also obtained and read management reports, policies, instructions as well as planning and governing documents. In addition, we have had a close dialogue with both Group Internal Audit and Group Internal Controls in order to share knowledge and coordinate activities when relevant.

With all of this as a starting point and for the purpose of expressing an opinion on the consolidated accounts as a whole, we decided that approximately 80 reporting units were the most important and should be in scope for the Group audit. Financial reporting from less significant units were covered through analytical procedures that were used to conclude whether extended audit procedures were necessary. Most subsidiaries of the Group are also subject to statutory audit requirements. The central team was responsible for the audit of significant IT systems, processes, transaction flows and functions including the consolidation and the parent company accounts. The local teams were responsible for auditing items related to the operations in each reporting unit that emanates from local production and sales activities.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

### 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.

**Key audit matter*****Revenue recognition in the appropriate period***

The Group manufactures and sells a number of products and services to its customers globally, mainly through its own distribution network. Sales contracts contain various performance obligations and other terms and the determination of when significant performance obligations have been met varies albeit a specific point in time can often be established.

The Group has analyzed its various sales contracts and concluded on the principles for deciding in which period or periods the Group's sales transactions should be recognized as revenue.

Disclosures in note 2 and the accounting policies provide additional information on how the Group accounts for its revenue.

***Measurement of acquired intangible assets***

The majority of Sandvik's intangible assets have been acquired externally, mostly through acquiring businesses, representing significant amounts. Assets with indefinite useful life such as goodwill are not subject to yearly depreciation. Instead, an annual test will show whether the carrying amount for the cash generating unit can still be supported. Sandvik has acquired and divested several businesses containing intangible assets during 2019.

There are a number of instances where management's judgment is decisive for the accounting treatment in connection with acquiring and divesting of businesses. Management's estimates of the intangible assets' potential to generate future cash flows and other assumptions are also decisive when preparing the annual impairment tests.

Note 12 contains additional information on the Group's intangible assets and the significant assumptions applied in the annual impairment tests.

***Measurement of inventory***

Sandvik keep significant stock of raw materials, spare parts and work-in-progress at its production units and stores of finished goods mostly at its sales units and distribution centers. Measurement of inventory is important for a fair presentation of gross margin.

A due process is required to prepare accurate reporting of the acquisition cost when procurement, production and logistical processes are complex. Establishing product costing requires many instances of management judgment with effect on the reported values. This includes considering normal production levels, foreign currency, prices of raw materials and allocation of other direct and indirect costs. For finished goods, assessment is needed of obsolescence and how sellable the products are. Finally, there is a complexity in monitoring and measuring volumes particularly for some raw materials and work in progress as well as eliminating effects from intra group transactions.

The accounting policies include the Group's accounting principles for measuring inventory and note 17 provides additional information on the line item.

**How our audit addressed the Key audit matter**

Our audit included but was not limited to the following activities:

- Mapped and evaluated selected systems and processes for revenue recognition and tested a sample of key controls.
- Evaluated whether the Group accounting principles for revenue recognition comply with IFRS.
- Tested a sample of sales transactions for compliance with the Group accounting principles.
- Performed data analytical procedures to identify and evaluate a sample of manual and automatic journal entries.
- Traced disclosure information to accounting records and other supporting documentation.

Our audit included but was not limited to the following activities:

- Assessed the model used by the Group for impairment testing and evaluated the significant assumptions for establishing forecasted cash flows and discount interest rates used for calculating the value-in-use of the cash generating units. In our evaluation, we have compared with the historic business performance and the Group's forecasts and strategic planning as well as with external data sources when possible and relevant.
- Evaluated that the purchase price allocations of the significant acquisitions made during the year meet the requirements of IFRS and have been prepared according to generally accepted practices. Assessed that significant assumptions used to measure values of acquired assets are reasonable.
- Tested that previously acquired intangible assets belonging to groups of assets held for sale or discontinued operations have been identified, measured correctly according to the Group accounting policy and derecognized from the balance sheet at the appropriate point in time.

Our audit included but was not limited to the following activities:

- Mapped and evaluated selected systems and processes for inventory and tested a sample of key controls for establishing cost.
- Tested, on a sample basis, stocks of raw materials to actual prices. Assessed the reasonableness of the product costing for work in progress and finished goods.
- Participated in stock takes at a great number of locations and tested the cut-off of deliveries in or out of inventory.
- Obtained the Group's monitoring controls of slow movers and assessments of obsolescence as well as net selling prices.



**Key audit matter****Accounting for non-current assets held for sale**

Accounting for sales of non-current assets and liabilities and presentation of discontinued operations contain several judgments that affects timing, presentation of the income statement and measurement of balance sheet items. These judgments may, as an example, have an effect on reported EBITDA for the continuing operations and other KPIs.

Divestments of businesses are complicated transactions that often run over an extended period of time from when a sales process is initiated until it has been finalized and agreed commitments have expired. Sandvik has completed several divestments that have been presented as discontinued operations during the last few years.

During Q4 2019 Sandvik reached an agreement to sell Varel Oil and Gas requiring an impairment test of the assets held for sale.

There is additional information in the income statement and in note 30 regarding non-current assets held for sale and discontinued operations.

**How our audit addressed the Key audit matter**

Our audit included but was not limited to the following activities:

- Read the sale agreements for divested businesses and assessed whether the classification was in accordance with accounting standards.
- Obtained and evaluated the forecasts prepared by the group of future revenue and expenses from outstanding Mining Systems customer contracts.
- Assessed management's valuation of other assets, liabilities and contingent liabilities relating to disposed businesses.
- Traced disclosure information to accounting records and other supporting documentation.

**Costs for efficiency measures**

Following a softer market activity in its short cycle businesses, Sandvik announced a program to increase efficiency and reduce cost in the Q2 Interim report. The program has been executed during the second half of the year. Both the costs for executing the efficiency measures and the expected reduction of cost for running the business going forward are significant.

An accurate reporting of an efficiency program involves management estimates on the timing and measurement of costs for reducing staff, exiting agreements and the other costs that the efficiency measures give rise to as well as the presentation of the effects on the business going forward.

The accounting policies include the Group's accounting principles for measuring restructuring costs and note 21 provides additional information on the line item.

Our audit included but was not limited to the following activities:

- Read the detailed plan for efficiency measures presented to the board as documentation to support the decision.
- Obtained evidence on a sample basis that the criteria for recording provisions were met in Q3 and Q4.
- Assessed management's measurement of provisions through evaluation of a sample of supporting documentation.
- Tested actual costs to contracts, payments and other evidence on a sample basis.
- Traced disclosure information to accounting records and other supporting documentation and read the presentation of the effects of the program for efficiency measures in the annual report.

**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 1–37 and 142–144. The Board of Directors and the Managing Director are 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 Director's 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.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisorsansvar](http://www.revisorsinspektionen.se/revisorsansvar). This description is part of the 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 Director's and the Managing Director of Sandvik AB (publ) for the year 2019 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 Director's 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 Director's 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' 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.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed auditor of Sandvik AB (publ) by the general meeting of the shareholders on the 29 April 2019 and has been the company's auditor since the general meeting of the shareholders on 27 April 2018.

Stockholm 6 March 2020

PricewaterhouseCoopers AB

Peter Nyllinge  
Auditor-in-charge  
Authorized Public Accountant

Magnus Svensson Henryrson  
Authorized Public Accountant