



ANNUAL REPORT 2019



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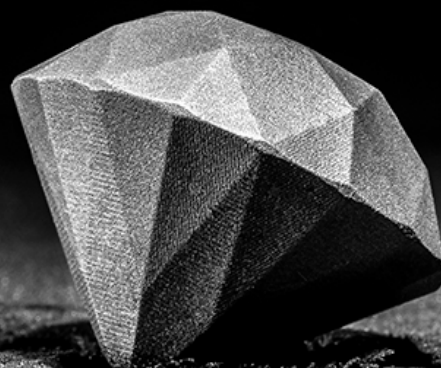
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Cover photo: The interior from the control room in the Sandvik test mine in Tampere, Finland.

The formal Annual Report comprises pages 38–121 and 135–136. The Statutory Sustainability Report and Sustainable Business Report include pages 2–3, 12–15, 44–47, 58–61 and 122–134. Unless otherwise stated, financial data is on pages 0–7, 16–37 and 42–43 refers to continuing operations, excluding Sandvik Mining Systems.

2019 HIGHLIGHTS

- New financial goals and sustainability goals
- Declining demand in the machining segment while the mining and materials technology segments remained stable
- Efficiency measures initiated to mitigate downturn
- Several strategic acquisitions completed, including companies within electric battery solutions, wireless connectivity and round tools
- Agreement to divest a majority of Drilling and Completions (Varel)
- An internal separation of Sandvik Materials Technology within the Sandvik Group initiated
- Inauguration of a greenfield titanium powder plant in Sandviken, Sweden
- Sandvik was included in the 2019 Dow Jones Sustainability Index
- Stefan Widing was appointed new President and CEO of Sandvik



In 2019, Sandvik launched the first-ever 3D printed diamond composite. This superhard material can be 3D printed in highly complex shapes and used in a wide range of applications.

2019 IN BRIEF

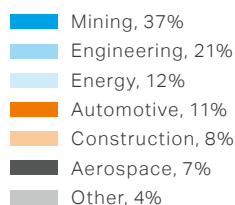
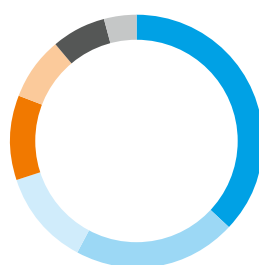
Key ratios, continuing operations	2018	2019
Order intake, MSEK	102,440	104,075
Revenues, MSEK	100,072	103,238
Operating profit, MSEK	18,655	13,386
Operating margin, %	18.6	13.0
Adjusted operating profit, MSEK ¹⁾	18,590	19,219
Adjusted operating margin, % ¹⁾	18.6	18.6
Free operating cash flow, MSEK	15,246	17,960
Return on capital employed, %	22.7	15.2
Earnings per share, SEK	10.54	6.97
Adjusted Earnings per share, SEK ¹⁾	10.39	11.12
Net debt/equity ratio	0.20	0.18
Lost Time Injury Frequency Rate, LTIFR ²⁾	1.7	1.5
Total Recordable Injury Frequency Rate, TRIFR ³⁾	3.9	3.8
Number of employees	41,670	40,235
Share of women, %	19.5	19.6

1) Adjusted for items affecting comparability.

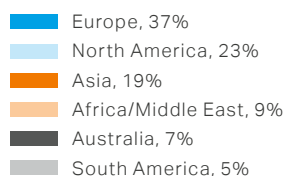
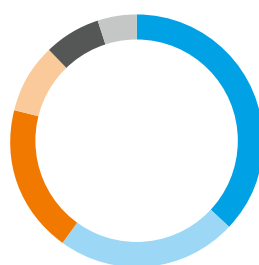
2) Injuries resulting in lost time per million hours worked.

3) Total number of injuries per million hours worked.

Revenues by customer segment



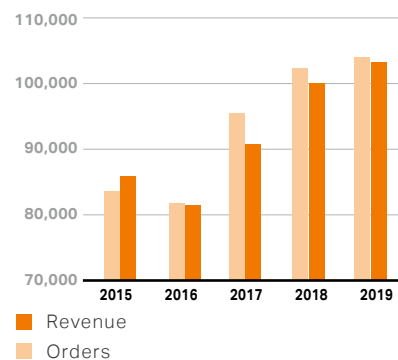
Revenues by market area



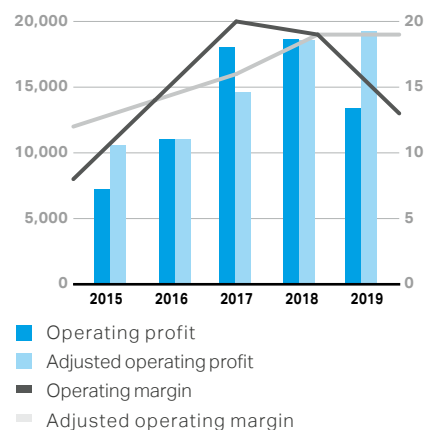
INDICES

Sandvik is included in several prestigious sustainability indices and is a signatory of the UN Global Compact (UNGC).

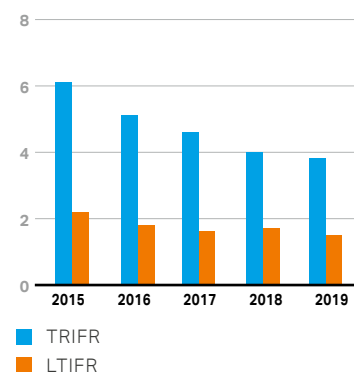
Revenues and order intake, MSEK



Operating profit, MSEK and operating margin, %



LTIFR and TRIFR



VALUE-CREATING OFFERINGS

BUSINESS AREAS

SANDVIK MACHINING SOLUTIONS



A market-leading manufacturer of tools and tooling systems for advanced metal cutting, expanding into digital and additive manufacturing.

SHARE OF REVENUES	SHARE OF ADJUSTED OPERATING PROFIT
40%	47%

SANDVIK MINING AND ROCK TECHNOLOGY



A leading supplier in equipment and tools, service and technical solutions for the mining industry and rock excavation within the construction industry.

SHARE OF REVENUES	SHARE OF ADJUSTED OPERATING PROFIT
43%	45%

SANDVIK MATERIALS TECHNOLOGY



A leading developer and manufacturer of advanced stainless steels, powder-based alloys and special alloys for the most demanding industries.

SHARE OF REVENUES	SHARE OF ADJUSTED OPERATING PROFIT
15%	9%

DIVISIONS

- Sandvik Coromant
- Seco
- Walter
- Dormer Pramet
- Wolfram
- Additive Manufacturing
- Applied Manufacturing Technologies

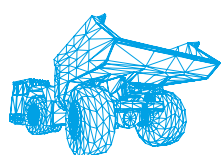
- Underground Drilling
- Loading and Hauling
- Surface Drilling and Exploration
- Crushing and Screening
- Rock Drills and Technologies
- Mechanical Cutting
- Parts and Services
- Rock Tools
- Rotary Drilling

- Tube
- Kanthal
- Strip

The remaining 2 percent of revenues and -1 percent of operating profit refer to Other Operations (page 43). Revenues and adjusted operating profit are excluding Group activities and operating profit is adjusted for items affecting comparability.

Sandvik is a global, high-tech engineering Group with approximately 40,000 employees and sales in more than 160 countries. We have a strong focus on enhancing customer productivity, profitability and sustainability.

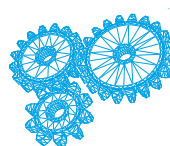
KEY CUSTOMER SEGMENTS/SHARE OF REVENUES



Mining



We deliver drill rigs, rock-drilling tools and systems, mobile and stationary crushers, load and haul machines, tunneling equipment, continuous mining and mechanical cutting equipment, as well as service and various solutions to increase automation, safety and customer productivity.



Engineering



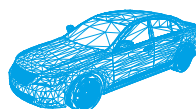
Our tools and tooling systems for metal cutting as well as advanced materials and components are used in engineering industries worldwide, improving productivity, profitability, quality and safety as well as reducing environmental impact. We are also a global leader in high-alloy metal powder.



Energy



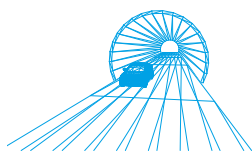
We offer solutions for all forms of energy production, including clean and renewable energy. We supply high-alloy products, such as stainless steel tubes for selected niches in the most demanding industries as well as tools and tooling systems to satisfy the industry's metal-cutting needs.



Automotive



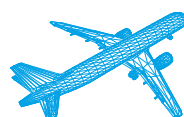
Our tools and tooling systems for turning, milling and drilling in metals increase productivity when manufacturing, for example, engines and transmissions. Our stainless and high-alloy products are found in air conditioning and air bags, among other things.



Construction



We offer products and services that increase safety and customer productivity in breaking, drilling, crushing and screening within the construction industry. Application areas include tunneling, quarrying, civil engineering, demolition and recycling.



Aerospace



We work closely with the world's aerospace companies. As they apply new materials to manufacture airplanes that are lighter, safer and more fuel efficient, advanced tooling solutions and lightweight materials are critical.

- Sandvik Machining Solutions
- Sandvik Mining and Rock Technology
- Sandvik Materials Technology

The remaining 4 percent includes mainly consumer goods, electronics and chemicals.

AN EVENTFUL YEAR



2019 was a successful and eventful year for Sandvik. We conducted several exciting acquisitions, presented new financial targets, new long-term sustainability targets and initiated the internal separation of Sandvik Materials Technology. We also noted distinct signs of a slowdown in the market and have therefore adapted our costs to ensure continued good profitability.

Sandvik entered 2019 with clear momentum from a positive economic climate. Behind us, we had a year of record sales as we, for the first time, exceeded 100 billion SEK in 2018. 2019 also ended with a record, as sales rose to 103 billion SEK, supported by a strong start to the year and the positive contribution from currency effects.

Well-prepared for a downturn

The economic slowdown, which we had planned for over a period of time, became evident during the summer. We were well-equipped for this as all operating units at Sandvik had prepared for how to act in the event of a deterioration in the market. These plans were implemented during the summer and autumn months.

The scope has varied between our different units, all of which have their unique circumstances, but all business areas have had to adapt and take cost-control measures, including redundancies. It is never

easy to take these kind of actions but they were necessary to ensure that Sandvik stands strong regardless of the prevailing market situation.

Thanks to our swift response to the slowdown, we achieved an adjusted EBIT margin of 18.6 percent for 2019. We could also look back on a record-high cash flow that offers us good flexibility moving forward.

New financial goals

The ability to deliver a good profitability level even under difficult conditions is one important part of the new financial targets that we presented during our Capital Markets Day at our test mine in Tampere in Finland. In addition to a target of 16 percent as the trough EBIT margin, we also presented targets for growth, net gearing and dividends.

Sustainable business

Sandvik has high sustainability ambitions and presented new long-term goals for 2030 at the Capital Markets Day. These comprise four areas: circularity, climate change, safety and fair play.

We see sustainability as a major business opportunity and we are convinced that we can make the best contribution to a sustainable future by working together with our customers and suppliers to provide more efficient, safer and environ-

mentally-sound solutions. Sustainability is already an integral part of our operations and our new goals will help us to take further steps.

Sandvik has continued to support the principles of the UN Global Compact and to contribute towards fulfilling the UN's Sustainable Development Goals. It is gratifying to see that we have again qualified for a place in the Dow Jones Sustainability Index.

Internal separation

One important event during the year was the Board's decision in May to begin the internal separation of the Sandvik Materials Technology business area, and to evaluate opportunities for a possible listing. The internal separation program is progressing as planned.

Acquisitions at the forefront

Acquisitions in selected areas are part of our growth agenda and we have welcomed a total of nine exciting and technology-leading companies to Sandvik during the year. They include Artisan, which manufactures battery-powered equipment for underground mines, and Newtrax, which is leading in various technologies for wireless connectivity in the mining sector. I am also referring to our share of Beam IT, a company with a strong position in additive manufacturing in metal and Summerill Tube Corporation, a manufacturer of high precision tubes.

Our position in the round tool segment has strengthened during the year through the acquisitions of Wetmore Tool & Engineering, OSK and Melin Tool Company.

In 2019, Sandvik signed a contract to divest a majority of Drilling and Completions (Varel). The divested share concerns the operations related to the oil and gas industry. Reviewing the business portfolio and ensuring that we are the right owner is work that never ends. However, the divestment of Varel is a significant step in the streamlining of our business portfolio. ►

GREAT POTENTIAL



It is with both pride and optimism that I take on the job of leading Sandvik. During my initial period as President and CEO, I have set myself the task of finding out more about our various business operations. I understand that we have a stable base and dedicated employees with substantial technical know-how in the company. I see great potential to further develop Sandvik from our already strong positions in the market.

Decentralized way of working

I am convinced that the focus towards greater decentralization that has taken place at Sandvik in recent years has been the right path to take. We will continue to move in this direction. Decisions are best and fastest when they are taken close to the customer and operative responsibility should also lie here.

Decentralized decision-making is also an important component of the ambitious financial targets set in 2019. We must be able to achieve our profitability targets in all market conditions and this requires the ability to make fast decisions.

Another focus area is the ongoing internal separation of the Sandvik Materials Technology business area, where opportunities for a possible listing will be assessed.

Technical leadership

I believe Sandvik's technical leadership and strong market positions are crucial. These factors enable us to retain our status as our customers' most important partner and create opportunities to develop new products and solutions. The Sandvik workforce has a high level of technical know-how and this provides us with a solid foundation. We will now

continue to build and capitalize on the major opportunities created by new business models, increased digitalization, automation and electrification of the industrial sector.

Sustainable business

I am impressed by the sustainability work already ongoing at Sandvik. To further integrate sustainability into our business will be increasingly important going forward if we are to remain a successful company.

Being the leader in both innovation and sustainability is key in recruiting the right talents, continuing to be our customers' preferred choice and remaining a company that is attractive to investors.

I am very much looking forward to getting to know our customers and all of my new colleagues. Together, we will continue to strengthen Sandvik.

Stockholm, February 2020

Stefan Widing

President and CEO as of
1 February 2020

Continued success

In August, I announced that I would be leaving Sandvik in February 2020. I would like to take this opportunity to thank all of my colleagues, customers and shareholders for a fantastic time. It has been a privilege to lead Sandvik

and I will look back on the years with the company as some of the best of my career. The strong culture and the commitment that exist among the workforce at Sandvik will ensure its future success.

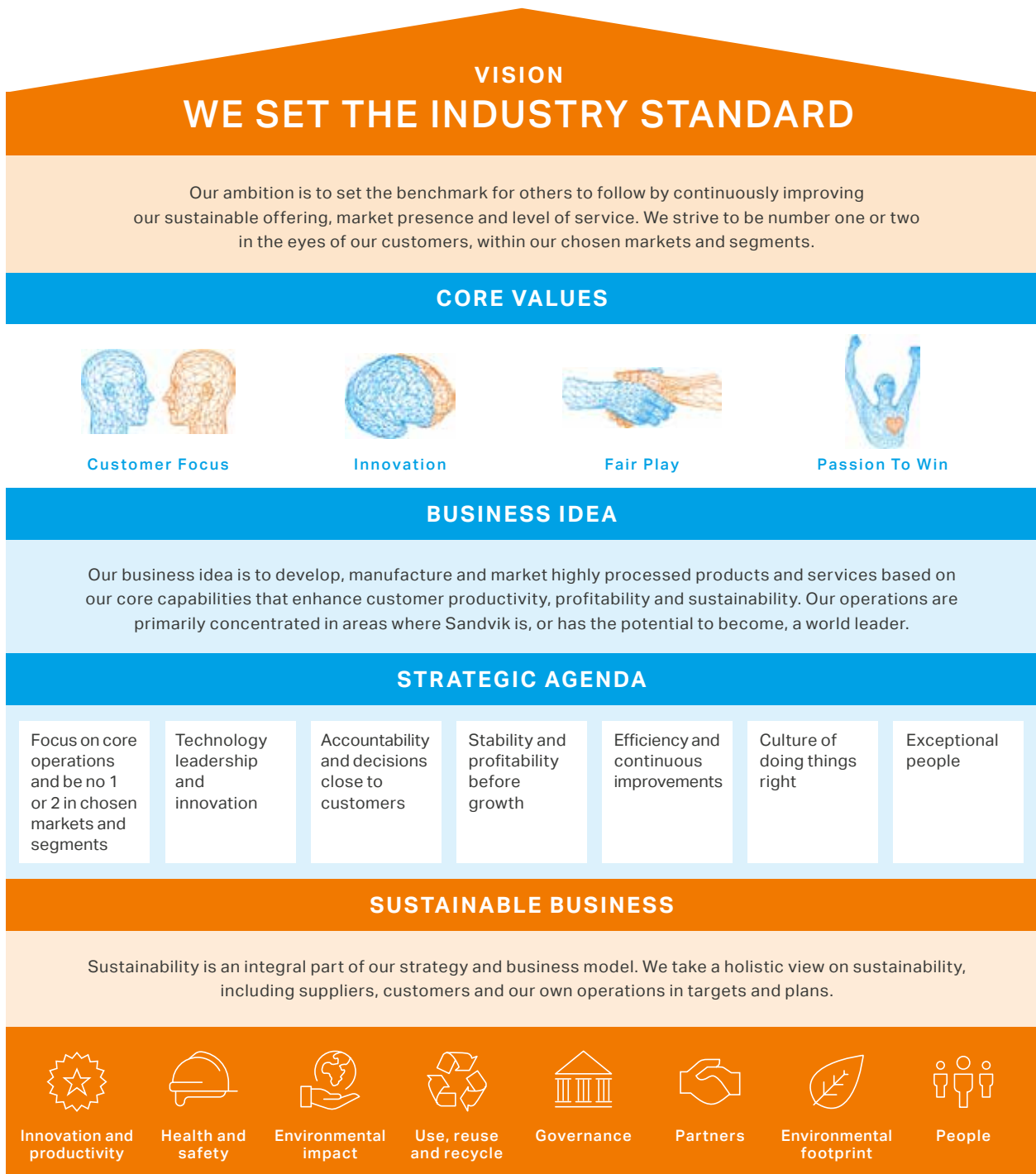
Stockholm, January 2020

Björn Rosengren

President and CEO until
1 February 2020

OUR VISION AND STRATEGY

Sandvik is creating value for its customers, shareholders, employees and other stakeholders based on its vision, strategy and core capabilities. Our core values of Customer Focus, Innovation, Fair Play and Passion to Win form the base for our corporate culture and ways of working.



STRATEGIC FOCUS AREAS AND OUTCOME

Focus on core operations and to be number one or two in chosen segments and markets

Sandvik actively worked on its business portfolio in 2019. In October, we signed an agreement to divest the majority of Sandvik Drilling and Completions (Varel). We announced nine strategic acquisitions, including digital mining technology company Newtrax, battery electric solutions provider Artisan, round tools companies OSK, Wetmore Tool & Engineering and Melin Tool Company, high precision tube company Summerill Tube Corporation and a 30 percent stake in additive manufacturing service provider Beam IT. Sandvik also initiated an internal separation of the Sandvik Materials Technology business area.

Technology leadership and innovation

Sandvik focuses on innovations that help our customers increase their productivity and energy efficiency, improve safety and leverage the opportunities that are arising with digitalization and automation. A number of new products and solutions that are keeping us at the forefront of technological innovation were launched during the year, such as CoroDrill® DS20, an indexable drill and Prism™, a computer-aided manufacturing app for machining (Sandvik Machining Solutions), three new modules for the OptiMine® platform and DT1132i, a tunneling jumbo (Sandvik Mining and Rock Technology), a Kanthal Additive Manufacturing customization service and Sanicro® 35, an austenitic stainless steel grade (Sandvik Materials Technology). Read more about innovations and product launches in the business area sections.

Accountability and decisions close to customers

Sandvik has been on a journey to decentralize its structure since 2016. The new structure enables quicker decision-making that is closer to customers, with greater product ownership and accountability for better performance and results. The model, pending on strong performance management, has proven efficient for rapid adjustments to changing market conditions.

Stability and profitability before growth

Sandvik introduced new, long-term financial goals, focusing on growth and improved economic performance throughout a business cycle, including a trough EBIT margin of 16 percent.

During the year, Sandvik saw signs of a declining market in some business segments and initiated a number of efficiency measures. We announced activities that will result in estimated savings of 1.7 billion SEK, effective mid-2020, including a reduction in personnel of about 2,500. The latter was in addition to the 450 staff redundancies in Sandvik Machining Solutions during the first half of 2019. The efficiency program improved the 2019 result by approximately 400 million SEK.

encies in Sandvik Machining Solutions during the first half of 2019. The efficiency program improved the 2019 result by approximately 400 million SEK.

Efficiency and continuous improvements

Sandvik has a target to improve productivity (revenues per employee in fixed exchange rates) by at least 3 percent annually. In 2019, productivity improved by 5 percent. Sandvik strengthened the free operating cashflow by 18 percent to 17,960 million SEK (15,246). Adjusted return on capital employed (ROCE) was 21.3 percent (22.6). Reported ROCE was 15.2 percent (22.7). Relative net working capital, calculated with 12-month average, was 25 percent (24), in line with the ambition not to exceed 25 percent.

Culture of doing things right

Our commitment to Fair Play and doing things right is long standing. Total work related injuries (TRIFR) were reduced to 3.8 (3.9) and injuries leading to lost working time (LTIFR) to 1.5 (1.7). An online self-assessment compliance tool was introduced. The internal audit function was strengthened. 96 percent (94) of Sandvik employees and long-term contractors had completed Code of Conduct training. About 3,800 employees participated in some type of compliance training.

Exceptional people

We continued programs to promote leadership and develop key competences. About 550 (600) people participated in Sandvik leadership training programs in 2019. About 2,700 (2,900) new employees were hired and a majority of the positions were posted on the open internal job market. 67 percent of top management positions were sourced internally (target 80). The new hire stay rate amounted to 89 percent (target 90). Sandvik launched a diversity and inclusion online training pilot. Brand-building activities strengthened our employer brand, resulting in several brand awards.

Sustainable business

In addition to the seven focus areas, sustainability is integrated into all aspects of our strategy. In 2019, Sandvik introduced new long-term 2030 sustainability goals, addressing climate change, circularity, safety and fair play, to integrate sustainability even further into our business operations. Further information on pages 12–15, 58–61 and 122–134.

TARGETS AND TARGET FULFILLMENT

Sandvik adopted new long-term financial targets in 2019, focusing on growth and profitability over a business cycle. Maintaining a strong financial position and dividend are also prioritized.

FINANCIAL TARGETS

GROWTH*

$\geq 5\%$

Target: A growth of ≥ 5 percent through a business cycle, organically and through acquisitions.

TROUGH EBIT MARGIN

$\geq 16\%$

Target: A trough EBIT margin of ≥ 16 percent rolling 12 months, adjusted for items affecting comparability.

DIVIDEND* PAYOUT RATIO

50%

Target: A dividend payout ratio of 50 percent of earnings per share, adjusted for items affecting comparability, through a business cycle.

NET DEBT / EQUITY RATIO

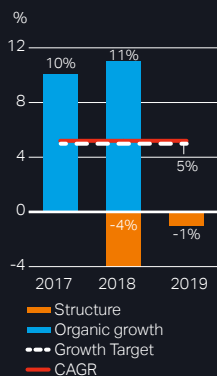
< 0.5

Target: A net debt/equity ratio below 0.5.

OUTCOME

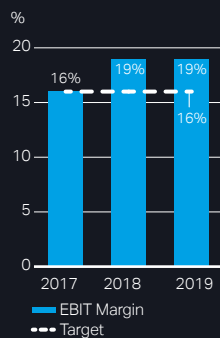
5%

Outcome: The revenue growth 2017–2019 was 5 percent. In 2019 the revenue growth was -1 percent, due to a slowdown in the short-cycle business in the second half of the year.



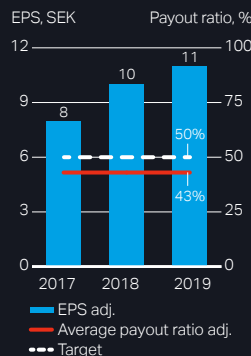
19%

Outcome: The EBIT margin adjusted for items affecting comparability amounted to 16 percent, 19 percent and 19 percent in 2017, 2018 and 2019, respectively.



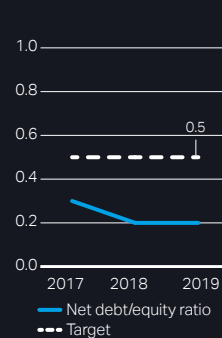
43%

Outcome: The average payout ratio in 2017–2019 amounted to 43 percent. Sandvik's strong performance in 2019 resulted in a proposed dividend of 6 billion SEK (5), corresponding to a payout ratio of 41 percent.



0.2

Outcome: The target was achieved as the net debt to equity ratio was 0.2.



*) The growth and dividend targets refer to average through a business cycle.

SUSTAINABILITY TARGETS 2019*

HEALTH AND SAFETY	CO ₂ EMISSIONS	DIVERSITY	CODE OF CONDUCT
1.4/3.6	1.3%	18.2%	100%
<p>Target: A Lost Time Injury Frequency Rate (LTIFR) of 1.4 and a Total Recordable Injury Frequency Rate (TRIFR) of 3.6.</p>	<p>Target: Reduce CO₂ emissions by 1.3 percent in 2019 through environmental improvement actions.</p>	<p>Target: Increase the share of women in managerial positions by 3 percent annually. For 2019 the target was 18.2 percent.</p>	<p>Target: Train 100 percent of employees, including long-term contractors, in our Code of Conduct.</p>

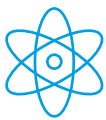
OUTCOME 2019*

1.5/3.8	2.6%	18.2%	96%
<p>Outcome: The LTIFR was reduced to 1.5 (1.7) and the TRIFR was reduced to 3.8 (3.9).</p>	<p>Outcome: The reported outcome of our environmental improvement actions resulted in a 2.6 percent decrease.</p>	<p>Outcome: The share of women in managerial positions increased to 18.2 (17.7).</p>	<p>Outcome: 96 percent (94) of employees and long-term contractors (longer than three months) were trained in the Code of Conduct.</p>

**) Sandvik reports on the sustainability goals that were set for 2019 in 2018. We will report on the new, 2030 sustainability goals as of 2020. All areas above are covered in the new sustainability goals.*

A CHANGING WORLD

Sandvik has defined some external factors and drivers that impact our company. Together with customers and other stakeholders, we will seize the opportunities they create in order to generate profitable growth, manage risks and minimize our environmental impact.



Materials development

New materials, such as innovative alloys, nanomaterials and advanced powder technologies are creating new opportunities. Lower weight, improved strength and anti-corrosion durability are examples of properties in demand.

Sandvik is a world leader in materials development and produces materials with customized properties for new applications. Metal powder can be used as a raw material in applications with high demands on hardness, strength or ability to conduct electricity and heat. Sandvik is strengthening its position in the rapidly expanding markets for metal powders and additive manufacturing (3D printing).



Resource efficiency

A growing global population and economy will require a transition to more sustainable energy and technologies as well as an increased degree of recycling.

Sandvik is contributing with new solutions, such as electric mining equipment, and is developing materials for solar panels and hydrogen-powered cars. We are developing new technologies in metal cutting that help to improve productivity and reduce environmental impact. We aim for resource efficiency in our own operations and have the ambition to achieve as high a recycling rate as possible to contribute to a circular society.



Digitalization and automation

Historically, design, machining and analysis

have been three clearly defined phases in metal cutting. New technology and digitalization are leading to the integration of the three stages to form a seamless manufacturing process.

Sandvik offers digitalized solutions and services to optimize its customers' and its own operations pertaining to costs, productivity and environmental impact. Data collection, for example in mining equipment, enables advanced analysis to optimize processes and to predict maintenance needs. Other examples include automated mines, intelligent tube systems and digital tools.



New manufacturing techniques

The manufacturing industry is experiencing

one of the greatest transformations ever, a transition often referred to as Industry 4.0, and involves a shift to digitalization and automation. Access to Big Data, sophisticated analytical tools, robotization and artificial intelligence are creating new business opportunities and resulting in better business intelligence, new ways for people to interact with machines and new opportunities to transfer digital instructions to physical products. The development contributes to reduced costs, increased productivity and improved management of fluctuations in demand.

Sandvik invests in additive manufacturing, or 3D printing, a technology that requires fewer manufacturing steps and reduces impact on the environment by producing lighter products with less raw material. Multi-axle technology, where you can machine a material from several different angles, improves efficiency and enables completely new types of products. Optimizing manufacturing processes reduces carbon emissions and costs and increases productivity.

Read about our risk management on page 44.



Economic and political developments

Macro factors such as globalization, urbanization, political governance, and cyclical conditions influence Sandvik. Changes in circumstances for trade, such as customs duties, Brexit or the EU General Data Protection Regulation (GDPR) also impact the industry. Our global presence, our decentralized work procedures and our regulatory affairs allow us to be flexible and adapt to changes in circumstances. All of our business areas have business and action plans in place to manage changes in market conditions.

UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

Sandvik is committed to the UN Sustainable Development Goals (SDGs). We have defined the goals that are most relevant to us and to which we actively contribute. Below are some examples.



SDG 3 – Good health and well-being

Exera® medical wire, used in medical applications, helps to improve people's lives. Our battery-driven mining equipment improves the air quality underground.



SDG 9 – Industry innovation

Sentusys™, our intelligent system for online monitoring of tubes, improves safety and process control.



SDG 5 – Gender equality

Sandvik has set up a 2030 sustainability goal to have at least one third women in managerial positions. Today it is 18.2 percent.



SDG 12 – Responsible production

Our goal is to drive the shift towards a circular society. We have extensive recycling schemes and buy-back programs in place. Sandvik steel is derived from 84 percent recycled material.



SDG 7 – Clean energy

We produce renewable energy at our sites in France, Poland, Germany, the US, Zimbabwe, India and Sweden.



SDG 13 – Climate action

We will halve our CO₂ impact by 2030. Gasoline direct injection (GDI) technology helps reduce fuel consumption. Our green factory concept includes reduced CO₂ emissions.



SDG 8 – Decent work

One of our long-term sustainability goals is zero harm to people. AutoMine® mining automation solution removes people from hazardous areas to a safer and healthier environment.



Read more on how we contribute to the UN SDGs at: home.sandvik/sustainablebusiness

SUSTAINABLE BUSINESS AT HEART

Sandvik is committed to using engineering and innovation to advance the world towards more sustainable business. We understand the need to make the shift to new business models and new thinking in line with the UN's Sustainable Development Goals and the Paris Climate Agreement.

The world is facing big challenges. For example, climate change is causing extreme weather events, which are costly to human life and economic stability. But there is a huge estimated upside of transitioning to a low carbon economy. The pressure on the world's finite natural resources is reaching a critical level and this is driving new thinking on a circular rather than linear economy.

The need for new solutions offers new business opportunities. With our proven track record of innovation, Sandvik is well positioned to contribute on this journey. One example is the World Economic Forum's recognition of our production unit in Gimo, Sweden as an advanced Industry 4.0 facility. We are also leading the electrification and automation transition in mining, and are developing the next generation of alloys for renewable energy solutions.

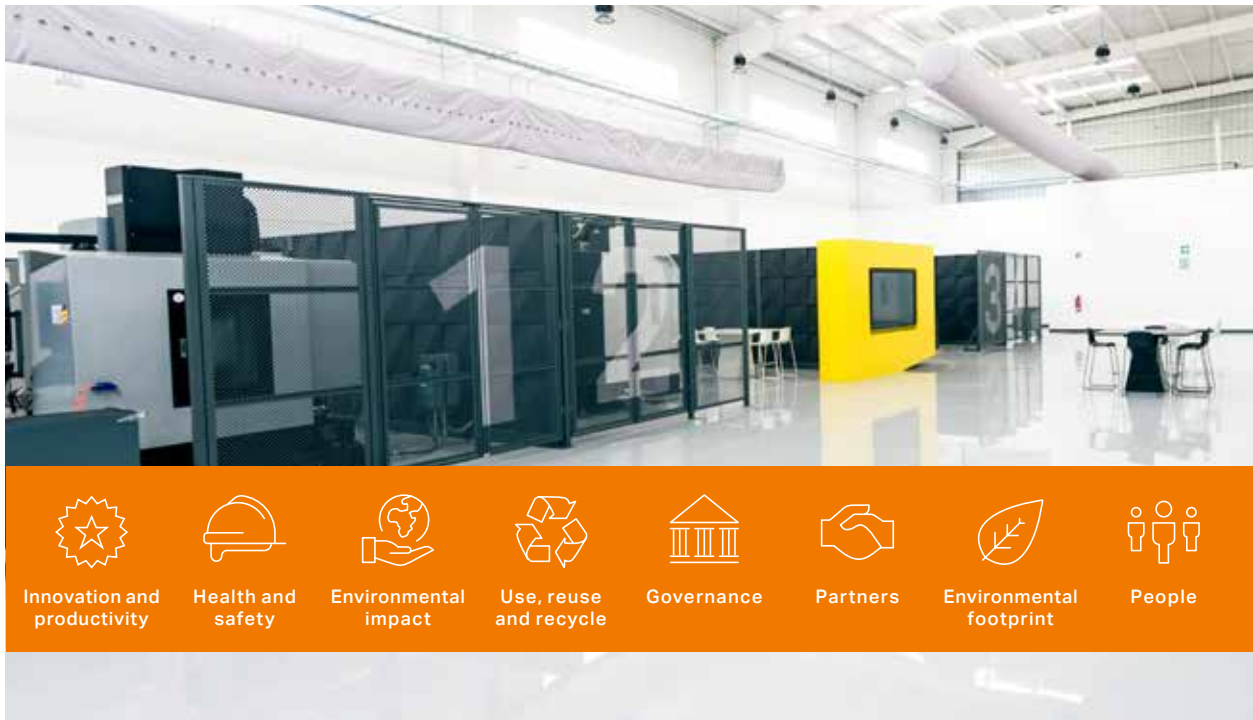
A new world trade landscape and challenges in occupational health, business ethics and supplier and customer relationships are increasingly important in today's world. Our work to set the industry standard, deliver safe and sustainable products and contribute to a sound business climate strengthens our offering to our customers, shareholders as well as current and future employees.

Going forward, there will be even more pressure on businesses, governments and NGOs to work together to create change. The UN's Sustainable Development Goals and the Paris Climate Agreement are significant examples of this unified effort.

A sustainable strategy

Sustainability is an integral part of our strategy and business model, and we are increasingly becoming the leading sustainable business partner for our customers. Our business operations incorporate sustainability into every aspect of their day-to-day work to continuously improve and do things smarter, using fewer resources. We also work with our suppliers to meet the high standards required in this emerging business climate.

Sandvik's strategic agenda rests on seven key focus areas, all connected to and supporting sustainable business. Sustainability excellence is a key differentiator in our ambition of being number one or two in chosen markets and segments. Technology leadership and innovation is closely connected to sustainability since innovations most often lead to reduced environmental impact and sustainability aspirations call for innovative solutions. Accountability and decisions close to our customers means we can quickly adapt our offerings to demands, making sure Sandvik is the most sustainable and productive choice. Efficiency and cost reductions reduce the environmental impact. Through a culture of doing things right we make sure we have policies, processes and control systems in place which together with high safety standards reduce our risk. It also includes corporate citizenship and being involved in the communities where we operate. We strive to recruit and retain exceptional people, and know that sustainability excellence is a decisive factor when the best talents choose their employer.



Sustainability – a business advantage

We see sustainability as a business advantage as our innovations help not only ourselves, but also our suppliers and customers to become more sustainable and efficient. We see opportunities for new innovations and new ways of working that will drive efficiency and productivity, open new markets, support our customers and help to sustain long-term growth. We believe that Sandvik can contribute to a better business climate in more challenging environments. Together with our customers, we innovate for improved productivity, leading to reduced cost and reduced environmental impact.

We need to make the shift towards more sustainable business since it's the only way to secure our business long term.

Our values

We work hard on ensuring that we partner with companies that share our values and belief in fair working conditions, human rights, diversity and inclusion as well as strong business ethics, expressed in our Supplier Code of Conduct. Diversity and inclusion, one of our focus areas, has been proven to be a key denominator to business development and success.

Life-cycle perspective

We apply a life-cycle perspective to our products and operations and work together with our suppliers and our customers to become more sustainable and minimize our overall environmental footprint.

We are committed to contributing to a circular society. We minimize resources and materials used, we minimize

waste, we recycle, recover and reuse. The largest impact can be made in our offerings and by innovating together with our customers, for example by reducing their emissions, enabling them to use less raw material in their production and ensuring safety in operations. We buy back used inserts and drill bits from our customers and turn them into new ones.

Make The Shift

We aim to grow and secure our business for the future by using our ingenuity and problem-solving capabilities to challenge conventional practices. By working closely with our suppliers and with our customers we widen the impact of our ambitions.

We have already taken the next big step by launching four ambitious 2030 goals, addressing a circular society, climate change, safety and fair play. These goals are presented in more detail on page 14.

In combination with our exceptional people and transparency ambition, we are convinced our approach will deliver long-term success for our business, customers, employees, society and for our shareholders.

Integrated reporting

As a reflection of our approach to sustainability, we have further integrated sustainability in the 2019 Annual Report. Policies and procedures are found in the sustainable governance section on page 58, results in the non-financial notes on page 122 and best practice examples in the business area sections.

SUSTAINABILITY GOALS 2030

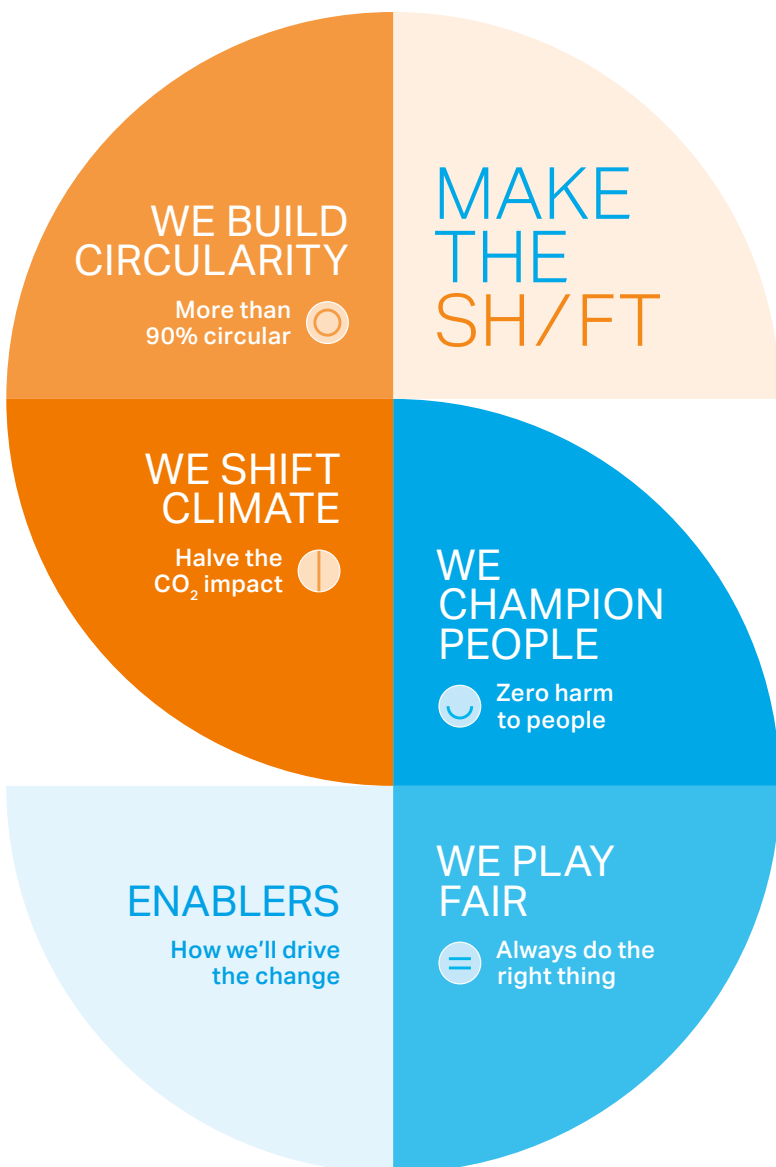
In 2019, we launched four 2030 sustainability goals. We are working to achieve our new goals through a full lifecycle approach within our customer offerings, own operations and supply chain.

We have chosen to focus on four areas we consider most relevant to our business: circularity, climate, safety and fair play.

We have also defined five enablers to help us reach these goals, including integration of sustainability tar-

gets in performance management systems and creating an ideas hub with 100,000 sustainability ideas.

Sandvik will report on the new targets in 2020.



“We will innovate for a sustainable future and we will lead the shift in our industry.”

Ulrika Wedberg,
Head of Sustainable Business, Sandvik



WE BUILD CIRCULARITY

Goal: More than 90 percent circular

We will drive the shift to more circular business models and use of resources, finding ways to close loops and generate new revenue streams from the processes and materials we use.

TARGETS

Customers

- Material and resource efficiency improvements will be a part of all development projects
- We will develop recycling/circularity business models for our customers

Operations

- All of our products and packaging material shall have at least 90 percent material circularity
- We will cut our waste in production processes by half

Suppliers

- We will require 90 percent circularity for our key suppliers

2020 KPI*

- Key suppliers identified by all divisions and discussions initiated with 80 percent



WE SHIFT CLIMATE

Goal: Halve the CO₂ impact

We will deliver on our commitments to reduce our climate impact. We are aiming to shift mindsets and outcomes in our own business, for our customers and with our suppliers to help reach our targets.

TARGETS

Customers

- CO₂ improvement will be a part of all product development projects
- Value propositions to our customers shall always include verified CO₂ reduction potential

Operations

- We will cut the CO₂ footprint from our own production and the transportation of people and products in half

Suppliers

- Our key suppliers will be required to cut their CO₂ footprint in half

2020 KPI*

- 2 percent reduction of CO₂ emissions from environmental improvements



WE CHAMPION PEOPLE

Goal: Zero harm to people

We aspire to the highest standards for people and will continue to raise these standards in line with our goal of zero harm.

TARGETS

Customers

- Ensure that health and safety risk analyses and improvements are a part of all product development projects

Operations

- We will cut occupational illnesses and the Total Recorded Injury Frequency Rate (TRIFR) in half
- All Sandvik employees to be offered health and well-being programs

Suppliers

- We will require health and safety improvement plans from our key suppliers to meet Sandvik standards

2020 KPI*

- A TRIFR rate of 3.4

*) Further actions, targets and KPIs to be developed in 2020.



WE PLAY FAIR

Goal: Always do the right thing

We will constantly aim higher in ethics and transparency, being a leader in playing fair and being open.

TARGETS

Customers

- We will increase transparency on sustainability targets and results
- Our Know Your Customer (KYC) process will lead to sustainable choices

Operations

- Our proactive and agile Compliance System will be fully embedded within business operations
- We will have a diverse and inclusive workforce with at least one-third female managers
- Engagement in community involvement with a significant positive impact on society

Suppliers

- All suppliers must be compliant with the Sandvik Supplier Code of Conduct

2020 KPI*

- Increase the share of women in managerial positions to 18.6 percent

SANDVIK MACHINING SOLUTIONS

Sandvik Machining Solutions could maintain solid margin levels in 2019 despite a weaker market in the global automotive and general engineering segments. The business area has begun a journey of expanding its offer to secure its leading position in component manufacturing in the years to come.



Sandvik Machining Solutions manufactures tools and tooling systems for engineering industries worldwide. The business area also offers digital technology for metal cutting, and advanced materials and solutions for additive manufacturing. Sandvik Machining Solutions is organized into seven divisions: Sandvik Coromant, Seco, Walter, Dormer Pramet, Wolfram, Additive Manufacturing and Applied Manufacturing Technologies. The majority of the business area's customers are in the general engineering sector (46 percent), followed by the automotive, aerospace and energy sectors.

Market 2019

Economic instability, such as trade conflicts, affected demand for products in the automotive and general engineering segments. This was felt most strongly in Asia, although the automotive sector in Europe started slowing down as well, affecting the business area's order intake and revenues negatively. Revenues remained fairly stable in North America, supported by deliveries on project orders received early in the year, but by the end of 2019, orders in the automotive and engineering sectors began to decline. The aerospace segment continued to perform well throughout our geographic regions.

Strategic focus areas

Sandvik Machining Solutions' vision is to become the world-leading solutions provider to the wider component manufacturing industry. This entails expanding into solutions, such as additive manufacturing and digital technology, while continuing to grow in the core machining area.

Focus on core

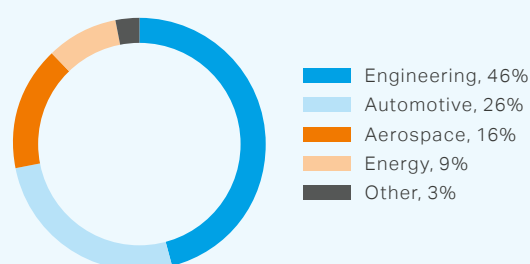
In 2019, Sandvik Machining Solutions continued its focus to grow the core machining area in an increasingly competitive cutting tool industry. During the year three acquisitions were made in round tools. Along with reinforcing the offering of tools for metal cutting, Sandvik Machining Solutions also started a journey to broaden the market and growth opportunities by expanding into design, planning, verification and evaluation (illustration on page 19). The way forward will be achieved through organic growth, along with collaborations or acquisitions that include digital solutions and additive manufacturing.

Technology leadership and innovation

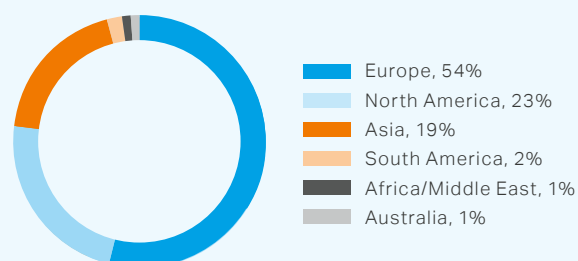
Sandvik Machining Solutions continued to invest heavily in research and development and we have one of the strongest patent portfolios in the industry. The business area is building up two recently formed divisions –

2019 IN FIGURES

Revenues by customer segment



Revenues by market area



Overview, MSEK

	2018	2019
Order intake	41,094	41,163
Revenue	40,757	41,123
Operating profit	9,922	8,380
Operating margin, %	24.3	20.4
Adjusted operating profit ¹⁾	10,361	9,310
Adjusted operating margin, %	25.4	22.6
Return on capital employed, %	36.8	25.9
Number of employees ²⁾	19,473	18,453
Gender balance (Men/Women), %	79/21	79/21
Women in managerial positions, %	17.5	17.8
Lost time injury frequency rate (LTIFR)	1.7	1.5
Total recordable injury frequency rate (TRIFR)	3.0	3.3

1) Operating profit adjusted for items affecting comparability of –439 million SEK in 2018 and –930 million SEK in 2019.

2) Number of employees adjusted for internal reallocations.

Applied Manufacturing Technologies and Additive Manufacturing – through organic growth and acquisitions. The Applied Manufacturing Technologies division focuses on combining our industrial expertise with its digital expertise. Partnerships are also very important as we expand into new technological areas.

In 2019, we launched new products and services in both the core tooling area and in the digital area. CoroDrill® DS20 is the first indexable insert drill on the market with a depth capacity of seven times the diameter (see page 21). Double Quattromill™, a new face mill cutter for roughing and semi finishing, lowers the cutting forces / machine power consumption. Prism™ enables users to quickly create and simulate CNC programs and is the first computer-aided manufacturing app for machining (more on page 20).

During the year, the Additive Manufacturing division announced the creation of the first-ever 3D-printed diamond composite, a super-hard material that can revolutionize the way industries use the hardest natural material on the planet.

Stability, profitability, growth

Sandvik Machining Solutions continued to focus on profitable growth both organically and through acquisitions. We strengthened our position in round tools and the aerospace industry through the purchases of OSK in China, US-based Wetmore Tool & Engineering and US-based Melin Tool Company. In December, we reached an agreement to acquire the cutting tools division of Quimmco Centro Tecnológico (QCT), a privately owned Mexican company offering integral machining solutions. In line with our expansion within digital solutions, Sandvik acquired a 30 percent stake in the Italian company Beam-IT, a leading provider of metal additive manufacturing services and advanced components. We also completed the acquisition announced in 2018 of US-based Dura-Mill, a manufacturer of precision solid carbide end mills.

In October, a state-of-the-art, highly automated plant was inaugurated in Sandviken, Sweden, to supply titanium powder to the fast-growing additive manufacturing industry. With this investment, Sandvik can offer one of the widest alloy programs for additive manufacturing on the market.

Efficiency and continuous improvements

Our continuous efforts over the years with efficiency and cost measures, such as operational excellence, have proven to be invaluable for maintaining stability even in times of economic uncertainty. The business area is well-positioned to meet the economic challenges facing the global economy. In 2019, we continued to work with efficiency programs, including staff reductions. Sandvik Machining Solutions closed its insert manufacturing facility in Fondettes, France, relocating the production to other facilities to achieve cost savings. It also announced a consolidation of its distribution centers in Europe, merging the

centers in Belgium and the Netherlands into a new, highly automated facility in Schiedam, the Netherlands.

Sustainable business

Every time we develop a new customer tool or solution we raise the bar on sustainability, aiming to be even more efficient than in the previous generation. This means that with a new product, customers can cut even faster or use the tool even longer than in the past. We also continue to improve circularity for customers through recycling and buy-back programs for used tools. Sandvik Machining Solutions is a world leader at recycling cemented carbide. Going forward, we will continue to focus on raw materials and our packaging to help reduce CO₂ emissions and increase circularity.

In our own operations, continuous efforts are made to identify opportunities to increase circularity and reduce the CO₂ footprint, for example with our green factory concept. Almost half of the tungsten used in production comes from reused material such as used products from customers. Such efforts contribute to reductions in cost, energy and CO₂ emissions as well as reducing the risks associated with sourcing tungsten and cobalt. We are also reducing energy consumption and CO₂ emissions through energy reduction activities, solar panels, LED technology and manufacturing processes that offer better efficiency and less waste. Through such efforts, Sandvik Machining Solutions has reduced its energy usage by 15 percent and CO₂ emissions, in relation to sales, by 16 percent over the last three years.

Another focus area is compliance, which was on the agenda of the quarterly performance reviews of the main divisions, including target setting and follow-up on progress. Activities in 2019 included competition law training for employees in high-risk jurisdictions through a train-the-trainer concept and screening of commercial intermediaries.

Looking ahead

Sandvik Machining Solutions is well positioned to maintain its industry leadership in the future. This will be done by continuing to focus on our strong product core, while at the same time rapidly building up a solutions portfolio, particularly within our digital offering, advisory services and advanced metal powders for additive manufacturing. Sandvik Machining Solutions will continue to look for new growth opportunities by developing sustainable solutions that help customers with productivity improvements.

MEET SANDVIK PODCAST

Nikhil Dixit, Additive Manufacturing Engineer, talks about the opportunities that come with 3D printing.

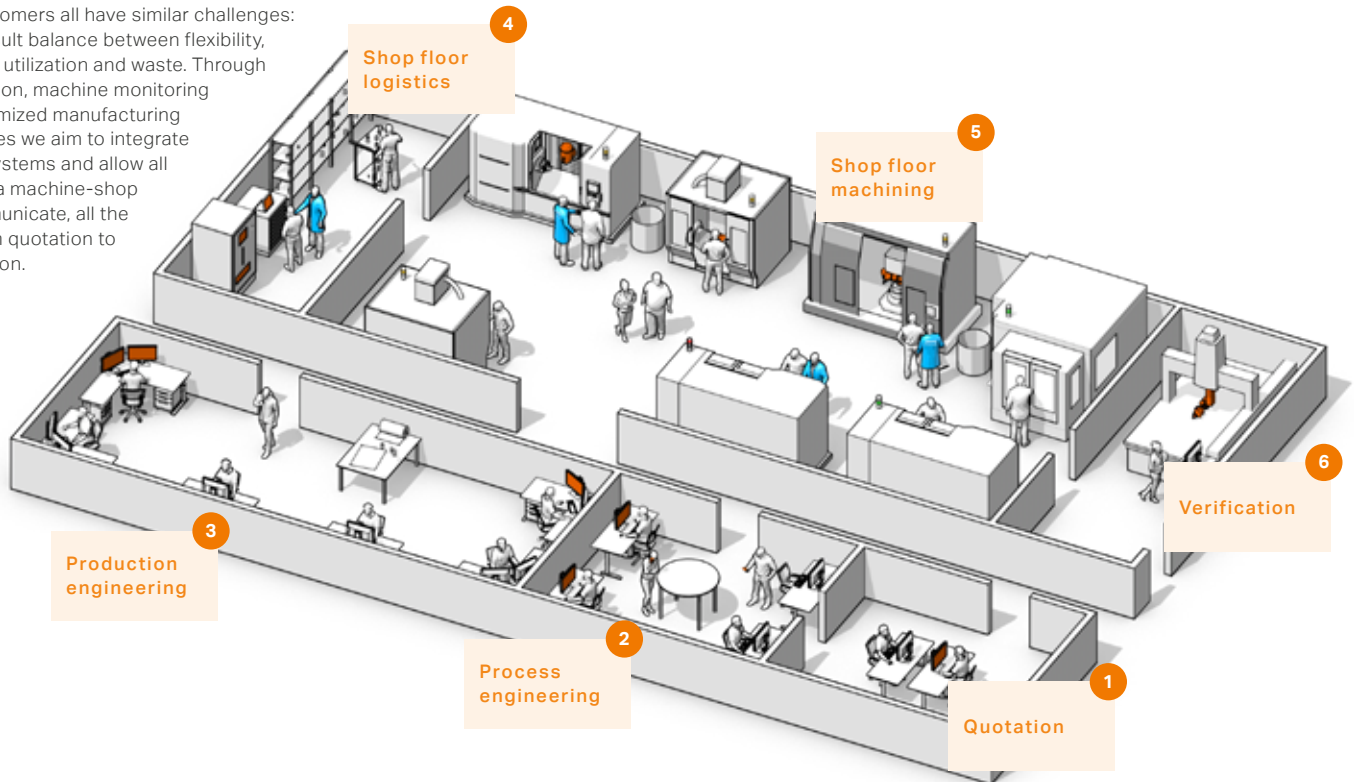


home.sandvik/stories/podcasts



MACHINE SHOP WORKFLOW

Our customers all have similar challenges: the difficult balance between flexibility, machine utilization and waste. Through automation, machine monitoring and optimized manufacturing processes we aim to integrate digital systems and allow all parts in a machine-shop to communicate, all the way from quotation to verification.



OVERVIEW

Product portfolio	Providing customers with a leading and sustainable offer within metal cutting delivered via multi divisions and brands in the form of metal cutting tools, additive manufacturing, know-how and digital solutions.
Market characteristics	Cutting tools represent a small share of the total manufacturing cost for customers, however they are significant for the productivity. Service levels and product solutions are the main differentiators for the premium offering. Lower degree of service for mid-market which is more price sensitive.
Demand drivers	<ul style="list-style-type: none"> – Global manufacturing – Material evolution – New manufacturing technologies – Complex component designs and functionalities
Competitive landscape/Major competitors	<ul style="list-style-type: none"> – Consolidated in the premium segment: IMC group (Iscar brand), Kennametal (Kennametal brand) – Fragmented in mid-market including global premium players present with their mid-market brands: Mitsubishi, IMC group (Taegutec brand), Kennametal (Widia brand), Zhuzhou
Go-to-market model	Direct sales ~55–60 percent. Distribution sales are predominant in North America whereas direct sales are predominant in Europe. In Asia, mainly distribution sales with limited service offering in the mid-market segment and direct sales, with high service level, in the premium segment.
Growth strategy	Expansion through organic growth, innovation and niche acquisitions in the core. Expansion into digital solutions and additive manufacturing supporting customer value chains.
Strategic risk management	Various forms of business environment risks with an impact on the metal cutting market in general, mainly changes in customers behavior, acquisition-related risks, structural changes in our industry, information security risks and compliance-related risks.

NEW PRODUCTS AND INNOVATIONS



BLACK SHARK

The new range of Shark Line taps from Dormer Pramet has been expanded with a new assortment for high strength steels and titanium alloys. The new taps incorporate a robust geometry which significantly increases cutting edge strength and supports problem-free, high quality thread production.

COROMILL® 390

The light-weight milling cutter from Sandvik Coromant is produced using additive manufacturing, reducing the weight of the cutter body by more than 80 percent. Combined with the new Silent Tools™ milling adaptors, it is an exceptional tooling combination for slender tooling. The solution limits the vibration tendencies, enables high productivity and good process security in demanding applications.



PRISM™

CNC (Computer Numerical Control) programming is complex and time-consuming and requires deep machining knowledge to be done right. With Prism™, machine shops can simplify, speed up and fortify their process planning workflow for 3-axis machining, gaining quality machine time. Even new shop floor employees will be programming within minutes.

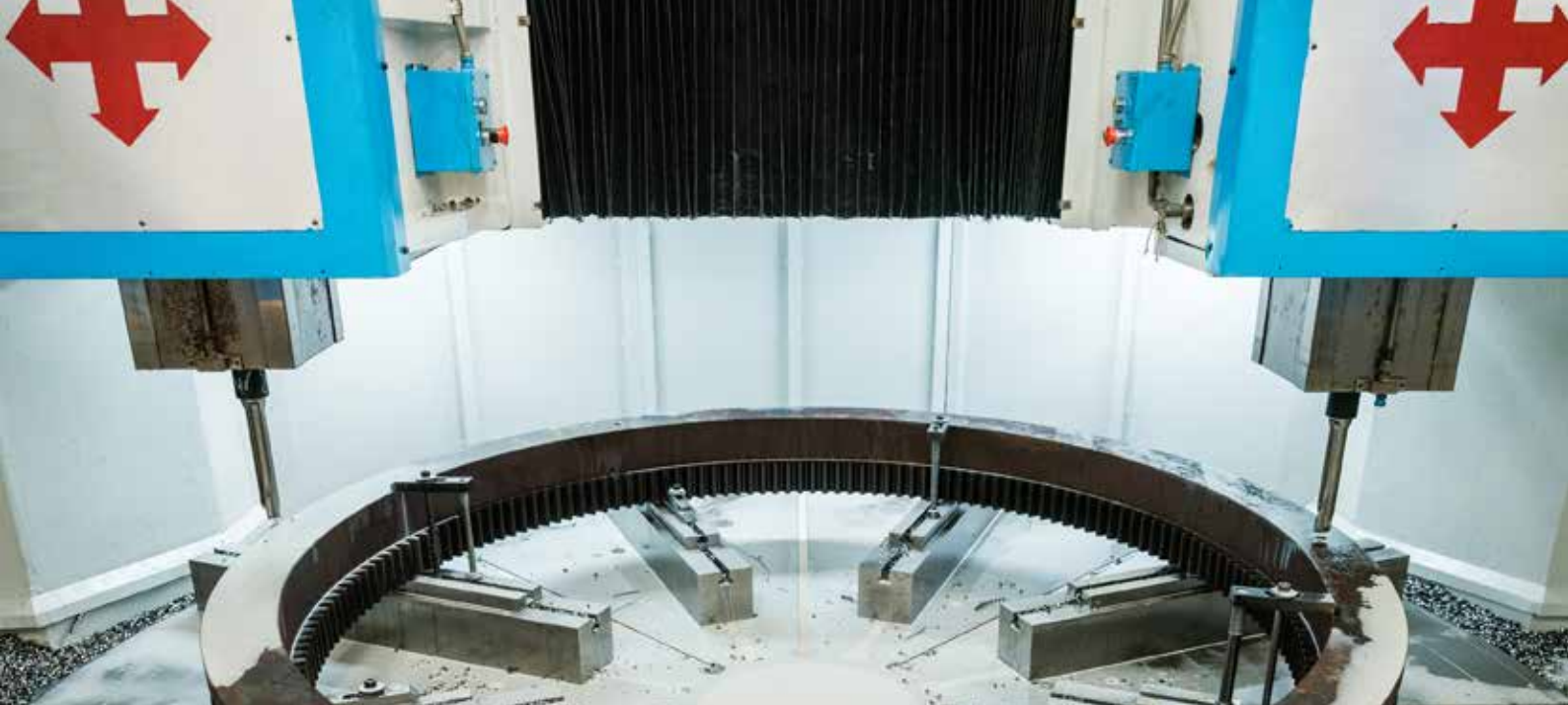
DOUBLE QUATTROMILL™

The new face mill cutter for roughing and semi finishing from Seco lowers the cutting forces / machine power consumption. The inserts featuring high-axial rake angles that makes them free cutting promote long tool life and higher productivity, making them suitable for a wide range of part materials. Improved material and resource efficiency, in combination with a reduced carbon footprint, make the cutter a sustainable and responsible choice.



X-TREME EVO

This solid carbide drill from Walter can be used universally – in all materials, for a wide variety of applications, for drilling close to the edge of the workpiece and for convex and concave surfaces. It can be used for all machine concepts, such as machining centers and transfer lines, or on lathes in both static and driven modes, radial and axial orientation.



With its expanded depth capacity, the new insert drill CoroDrill® DS20 enables industrial customers to make significant time and money savings.

GOING DEEPER WITH CORODRILL

CoroDrill® DS20 with a 4-7xD drill range took Sandvik Coromant seven years to develop but it was well worth the wait, as successful trials at SKF proved.

In October 2019, CoroDrill DS20 was launched. It is the first indexable insert drill on the market with a depth capacity of 7xD (seven times the diameter) and ranges all the way down to 4xD. In terms of diameter, the assortment starts at 15 mm up to 65 mm.

Considerable time and knowledge were invested in the new drill family, which is set to become the benchmark of indexable insert drilling in general, and with specific emphasis on deeper holes. With the extended depth capacity as compared to the market standard of 5xD, the drill enables industrial customers to make significant time and money savings.

The drill has already made a difference at SKF's Monterrey, Mexico plant where it underwent successful trials prior to its launch.

Trials with SKF

SKF has operations in more than 130 countries and the Monterrey plant specializes mainly in manufacturing bearings and slewing rings for industrial and heavy equipment, such as wind power generation. The bearing and seal manufacturing company already had a successful track record with Sandvik Coromant and was eager to participate in the trials.

SKF was in need of a solution to reduce costs while maintaining productivity at equal levels, keeping up with the demand of a wind turbine bearing with a diameter of three meters. Although the parts were produced using special custom-made 6xD drills, the tool length made the

process unstable, and production was frequently interrupted by broken inserts. There was also the uncertainty of never knowing how long the inserts were going to last, slow drilling rates and continual halts to prevent damage to the tool, the machine or the workpiece.

The economic aspects were another concern. "We're talking about very expensive parts because of their size," says the plant's engineering manager, Valdemar Garza. "We had to monitor the tool very carefully to prevent it or the workpiece from suffering any damage. So we were looking for more efficient, faster options that could give us the best cost per part."

Production up

In May 2019, SKF received 10 drill bodies, 300 center inserts and 300 peripheral inserts for a long-term field test. Since then, CoroDrill DS20 7xD has had a significant impact on SKF's business in Mexico, resulting in its highest production capacity since the company started using Sandvik Coromant drills. "This tool is giving us the opportunity to increase our cutting speed and reduce the cycle time to half the previous time," says Garza.

In addition, Garza highlights the company's new ability to schedule machine maintenance and cover operator vacations without having to use overtime. "This drill gave us flexibility to use the resources in different ways without having to depend on the product's output or having the machine operating non-stop," he says.

SANDVIK MINING AND ROCK TECHNOLOGY

2019 was another solid year for Sandvik Mining and Rock Technology, which benefited from a stable mining market. Mining equipment orders remained steady and the aftermarket performed exceptionally well.



Sandvik Mining and Rock Technology manufactures equipment and tools for the mining and construction industries and offers service and digital solutions that help customers maximize their productivity and profitability. The vast majority (82 percent) of our customers are in the mining segment and the aftermarket business accounts for 60 percent of revenues. The business area provides equipment, rock tools, wear and spare parts for rock cutting, crushing and screening, loading and hauling, tunneling, quarrying and breaking and demolition. Sandvik Mining and Rock Technology is leading the mining industry when it comes to automated loading and hauling systems in underground mines.

Market 2019

The mining market remained strong in 2019, with commodity prices holding up, despite copper volatility mainly driven by trade disputes. Australia, in particular, had excellent growth during the year, and is, along with South Africa, our largest market. Orders for both underground and surface mining equipment were healthy, but, as customers caught up on their equipment replacements, growth tapered off somewhat compared to the high levels experienced in the previous year. Equipment replacements continued to drive demand in both mining and the construction segments.

Strategic focus areas

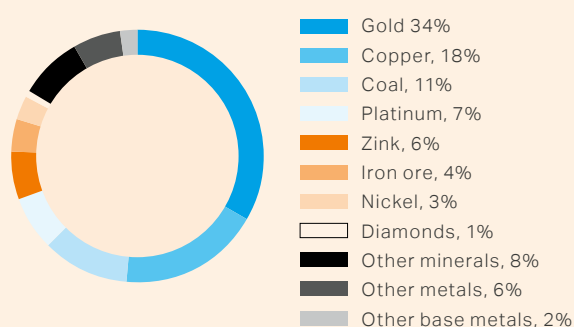
We aim to strengthen our market position and deliver profitable growth through a business cycle. To succeed, we will focus on developing safer and more sustainable solutions, delivering customer value and expertise as well as staying in the forefront of automation, digitalization and electrification. We will strengthen and grow our core business through active portfolio management.

Focus on core

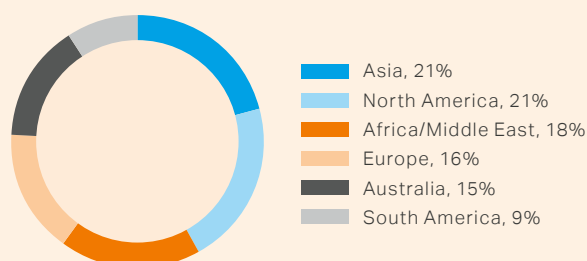
Our focus on strengthening the core business includes three main areas. First, we continue to invest in our aftermarket offering and local application expertise to deliver value for our customers. Second, we dedicate a significant share of our R&D resources to enhancing our core technologies. Third, we gradually divest product groups that fall outside of our core capabilities. In October, we signed an agreement to divest the majority of Varel's Drilling and Completions operations, which are linked to the oil and gas industry. We are retaining the mining-related part of Drilling and Completions, in line with our efforts to focus on the core business.

2019 IN FIGURES

Commodity exposure



Revenues by market area



Overview, MSEK

	2018	2019
Order intake	41,842	44,379
Revenue	41,058	44,777
Operating profit	7,452	8,602
Operating margin, %	18.2	19.2
Adjusted operating profit ¹⁾	7,542	8,911
Adjusted operating margin, %	18.4	19.9
Return on capital employed, %	33.9	32.3
Number of employees ²⁾	14,397	14,229
Gender balance (Men/Women), %	84/16	84/16
Women in managerial positions, %	16.2	17.0
Lost time injury frequency rate (LTIFR)	0.99	0.62
Total recordable injury frequency rate (TRIFR)	4.0	3.4

1) Operating profit adjusted for items affecting comparability of -90 million SEK in 2018 and -309 million SEK in 2019.

2) Number of employees adjusted for internal reallocations.

Technology leadership and innovation

We are investing heavily in research and development and shaping the mining industry eco-system when it comes to automation, digitalization and electrification. Through the automation of mining processes, such as AutoMine®, we are creating a safer working environment and increasing productivity for our customers. Digital systems, such as OptiMine®, provide customers with data to help them optimize production and pinpoint where operational improvements are needed. So far we have installed 53 AutoMine and 63 OptiMine systems. We invest in artificial intelligence (AI) to strengthen our maintenance diagnostics and services offering, as well as to optimize the performance of our rock tools. In 2019 we successfully launched several new products, for example an enhanced OptiMine platform, connected cone crushers and a heavy-duty underground drill rig.

Stability, profitability, growth

All our divisions are profitable and are in the growth phase. We completed two acquisitions in 2019 that will further grow our capabilities within digitalization and electrification. In February we acquired US-based Artisan Vehicle Systems, a manufacturer of battery electric-powered mining vehicles. With this acquisition we now have the biggest fleet of battery-operated vehicles in underground mines in the industry. In June we completed the acquisition of Canadian-based Newtrax, a supplier of technology in wireless connectivity to monitor and provide insights on underground mining operations.

Efficiency and continuous improvements

Our focus on agile and efficient execution includes driving internal efficiencies through a decentralized structure. To be agile in market upturns and downturns, we have set up a flexible manufacturing system using both inhouse and subcontracted manufacturing resources. We continue to drive efficiencies across the business area through tough performance targets and execution milestones for each performance unit.

Sustainable business

Our biggest sustainability impact is through our offering, which helps our customers increase productivity and thereby become more sustainable. We are doing this by developing products and solutions that require less fuel and electricity, automating mining equipment for better productivity and durability, and developing products and solutions that contribute to a safer and healthier work environment. In addition, we drive recycling programs, notably within cemented carbide and manganese alloys. In 2019 we continued working towards healthier mines through electrification and strengthened our offering in the area through the acquisition of Artisan Vehicle Systems.

We were able to reduce our Lost Time Injuries (LTI) in our own operations by a third, from 0.99 to 0.62 per million hours worked. The 2019 target was 0.8.

Looking ahead

The demand for productivity and sustainability improvements from mining customers will continue to grow. To optimize our customers' operations we will maintain our focus on a combination of advanced connected equipment and leading application expertise that makes it possible to maximize production output and minimize resource usage. Our leading offerings in automation and electrification will also result in further productivity and sustainability improvements within the industry.

MEET SANDVIK PODCAST

Petra Sundström, Head of Digital Business, and Pernilla Jonsson, Head of Ericsson Consumer & Industry Lab, discuss how digitalization, artificial intelligence and the internet of things are changing the landscape for manufacturing companies.



home.sandvik/stories/podcasts

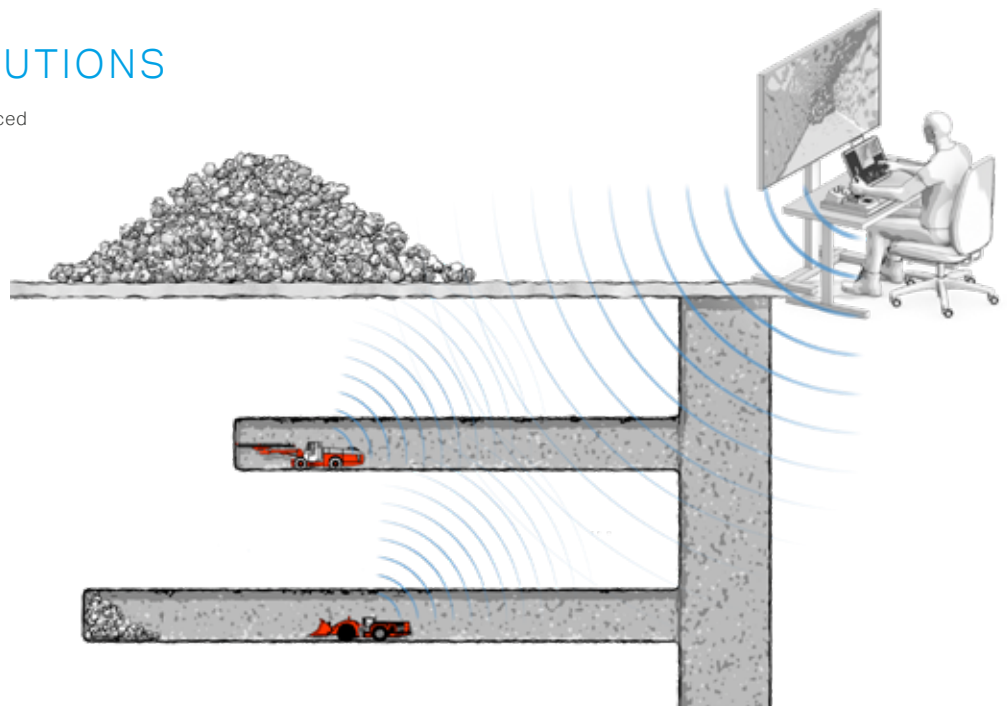


OVERVIEW

	Mining	Construction
Product portfolio	Equipment for drilling, cutting, breaking, crushing, loading and hauling. Drilling consumables (rock tools), service, spare and wear parts.	
Market characteristics	Consolidated customer base of some 200 global major and junior miners. Remote locations, decreasing ore grades as well as safety requirements drive volume output and need for semi- to fully automated solutions. Significant aftermarket business.	Sandvik is active in the niche areas of rock excavation and comminution. The customer base is fragmented with more than 25,000 individual customers. Localized offering and local competition.
Demand drivers	<ul style="list-style-type: none"> - GDP growth rate and resource intensive industry development - Metal and mineral prices - Production levels in existing mines and expansion projects (greenfield and brownfield) - Productivity improvements and new technology, for example automation and electrification - Demand in the areas of environment, health and safety 	<ul style="list-style-type: none"> - GDP growth/urbanization - Infrastructure investments and spending - Government stimulus programs - Aggregates production - Cement consumption
Competitive landscape/Major competitors	Consolidated in certain segments, i.e. underground hard-rock mining: Epiroc, Metso Minerals, Caterpillar and Komatsu Mining.	Some global competitors present in several niches and many local players: Epiroc, Terex, Metso Minerals, Caterpillar and Furukawa.
Go-to-market model	Direct sales ~95 percent with worldwide service network.	Due to a fragmented customer base, 50 percent of sales is via distributors. Global sales and service organization.
Growth strategy	Grow aftermarket business on the installed base. Climb the service ladder by data-driven productivity and advanced services. Automation, electrification and exploring complementary technologies and offerings through mergers and acquisitions.	
Strategic risk management	Various forms of business environment risks with an impact on the mining and construction market in general, such as increased market competition with new technological developments and the emergence of new competitors, fluctuations in commodity prices and compliance-related risks. Political uncertainty in some parts of the world.	

AUTOMATED SOLUTIONS

Sandvik offers the industry's most advanced automation and teleoperation systems. These solutions significantly improve productivity and safety, while lowering the total cost of ownership. The software systems also help customers to monitor their machines, giving them a full overview of their fleet and enabling them to control and optimize their operations.



NEW PRODUCTS AND INNOVATIONS

We are shaping developments in the mining industry through product innovation and our efforts in automation, digitalization and electrification. Sandvik Mining and Rock Technology's products and solutions are helping our customers work in a safer, healthier and more productive way.



DRILLING SPEED AND PRECISION

The tunneling jumbo DT1132i is the newest addition to our extensive range of heavy-duty underground drill rigs, developed with a modular design to make them highly flexible and versatile. The tunneling jumbo, which incorporates some of the latest digital solutions on the market, helps customers with fast and accurate drilling in tunneling and cavern excavations.

CONNECTED CRUSHERS OPTIMIZE PERFORMANCE

Three new models of cone crushers have been added to the 800i series of premium cone crushers. The new generation Automation and Connectivity System is a standard feature on each of these models, which are connected to the My Sandvik portal. With connectivity, the system can continuously monitor and optimize crusher performance and control the complete lubrication system, to increase uptime and reliability.

OPTIMINE ENHANCED

Sandvik Mining and Rock Technology continued to develop the OptiMine® platform, which helps mining customers improve their planning, processes, productivity and safety through real-time data information. The system identifies such things as bottlenecks and areas for operational improvements as well as providing insights into operator actions to improve safety. Three new modules were introduced in 2019, that focus on location-based analytics, 3D mine visualization and smart scheduling.

POWERFUL GRADES

For decades, Sandvik Mining and Rock Technology has been producing rock tools with cemented carbide, which is one of the most successful composite engineering materials ever produced. Now we have gathered our most powerful carbide grades under one name, PowerCarbide, to showcase the importance of carbide grades in drilling operations and offer customers tailored solutions.





To avoid mud rush hazards, New Afton installed the automation system AutoMine®, allowing operators to work from a control room on the surface instead of underground. The new solution also resulted in significant bottom-line benefits.

PRODUCTIVITY AND SAFETY IMPROVE WITH AUTOMINE

Our equipment automation system AutoMine® enabled a Canadian mine to mitigate mud rush hazards and improve productivity – and it paid for itself in less than two months.

Tonnage is closely linked to profitability at mining company New Gold's New Afton mine in south-central British Columbia. The mine has moved and milled as many as 22,000 tons of ore in a single day and routinely extracts 18,500 from Canada's only block cave.

Like other prolific block caves, New Afton enjoys enviable efficiency at extremely low operating costs. But the mine has also had to conquer one of the biggest block cave challenges: mud rush.

Mitigating mud rush hazards was the major motivation for implementing automated loading at New Afton. To ensure operator safety, New Afton had stopped manual mucking in high-risk drawpoints and implemented line-of-sight tele-remote loading, but those systems were unable to keep up with the growing production demand.

Driverless fleet

To overcome the production constraint, as well as further improve safety, the mine turned to Sandvik. Its equipment automation system AutoMine allows operators who would otherwise operate a single vehicle underground to work from a control room on the surface, and simultaneously monitor the movement of a fleet of driverless loaders or trucks underground. Sandvik loaders or trucks navigate between the load and discharge points under the control of a supervisory system, which manages traffic and monitors the machines.

Based on trials, New Afton calculated that an automated Sandvik LH410 underground loader had the potential to muck 75 more buckets each shift than the existing remote solution, a productivity increase of more than 55 percent.

"To transition from a line-of-sight solution to an automated solution, we calculated a 54-day payback period,"

says mine manager Peter Prochotsky. "If we continued using line-of-sight tele-remotes, that production loss was, essentially over 54 days, the value of a brand new Sandvik LH410. And we obviously made the choice pretty quickly that it was the right way to go."

New Afton's existing block cave extraction level layout wasn't optimized for automation so two dedicated colleagues worked to implement the system. "Sandvik provided excellent documentation that we followed 'to a T' and I picked things up along the way working with their engineers," says electrical instrumentation technician TJ Williams. "The overall process of installation was pretty straightforward. I like how simple the overall experience of mapping a drive is. You use the live scanners, you use your laptop, and there's not a lot involved."

Bottom-line benefits

Within a week of commissioning in late 2017, the first of the mine's two automated Sandvik LH410s was already proving significantly more productive than the tele-remote solution. An average 100-meter tram from a drawpoint to an ore pass was 60 percent faster with the automated system than line-of-sight.

On top of recouping the investment cost of the automated loader in less than two months of operation, New Afton has experienced equipment benefits on its bottom line. The system steers the loader with pinpoint precision and its collision avoidance features help eliminate damage while enabling high speeds that accelerate overall cycle time. "We used to do about \$10,000 of collision damage per loader per month, directly related to operating our line-of-sight loaders in a tight environment," Prochotsky says. "This cost has dropped to zero thanks to AutoMine."

SANDVIK MATERIALS TECHNOLOGY

2019 was an exciting and profitable year for Sandvik Materials Technology. We initiated an internal separation of Sandvik Materials Technology within the Sandvik Group to give the business area more flexibility for improved performance and growth.



Sandvik Materials Technology has unique expertise in materials development within advanced stainless steels and special alloys for a variety of high-demanding industries and applications. We have a broad customer offering in many segments, such as energy and engineering, as well as the chemical, medical, transportation and consumer goods segments. The business area produces tubular products, strip steel, precision medical wire, wire-based components and products for industrial heating.

Market 2019

Although there were clear indications of a market slowdown in 2019, Sandvik Materials Technology had a stable year overall, with strong demand coming from the oil and gas segment. The robust year for oil and gas had a positive effect, with orders climbing for advanced tubes such as umbilical tubes. We also strengthened our OCTG (Oil Country Tubular Goods) business. There was also a strong demand in other segments, such as aerospace and medical – areas with good growth opportunities. As the industry moves towards more electrification, we are well positioned to capture further opportunities within our industrial heating business (Kanthal). A gradual slowdown in demand in several segments had a negative effect on parts of our business in all three divisions.

Internal separation

In May we announced the initiation of an internal separation of Sandvik Materials Technology within the Sandvik Group. The purpose is to increase the business area's structural independence, enabling a stronger governance and control over the business, in line with the decentralized business structure at Sandvik. The Sandvik Board of Directors is also exploring the possibility of a separate listing on the Nasdaq Stockholm Exchange.

We began the process to separate our assets and operations within the Sandvik Group and the separation process will continue into 2020. Meanwhile, it's "business as usual" for Sandvik Materials Technology.

Strategic focus areas

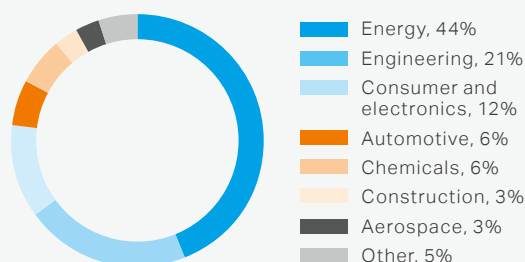
Our long-term focus is to continue being a leading materials technology innovator, providing customers with solutions that help make them safer, more energy efficient and productive. Last year we stated a short-term goal to reach a 10 percent EBIT (Earnings Before Interest and Tax) margin through portfolio optimization, improving our footprint within the Tube division, price-mix optimization and strengthen our culture of commitment and execution. By the end of 2019, we had achieved this short-term goal.

Focus on core

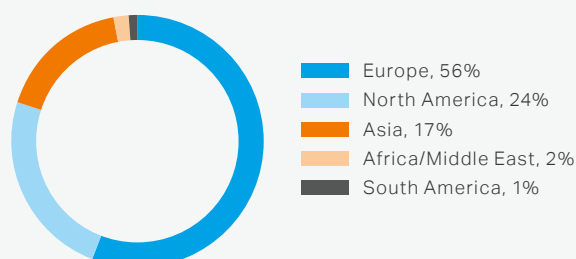
In 2019 we continued our focus on more advanced products, such as nickel-based and super alloys. One addition to our portfolio is Sanicro® 35, a new austenitic stainless steel grade that combines extreme pitting corrosion resistance and mechanical properties in a single alloy. This pioneering innovation was awarded with the internal Sandvik Innovation prize in 2019. We strengthened our position in tubular products and will continue to focus on super alloys and high

2019 IN FIGURES

Revenues by customer segment



Revenues by market area



Overview, MSEK

	2018	2019
Order intake	15,898	16,475
Revenue	14,697	15,279
Operating profit	1,307	1,444
Operating margin, %	8.9	9.4
Adjusted operating profit ¹⁾	1,331	1,787
Adjusted operating margin, %	9.1	11.7
Return on capital employed, %	10.1	11.0
Number of employees ²⁾	5,919	5,726
Gender balance (Men/Women), %	82/18	81/19
Women in managerial positions, %	18.5	19.1
Lost time injury frequency rate (LTIFR)	4.3	4.7
Total recordable injury frequency rate (TRIFR)	7.5	7.5

1) Operating profit adjusted for items affecting comparability of –24 million SEK in 2018 and –343 million SEK in 2019.

2) Number of employees adjusted for internal reallocations.

nickel alloys. We are also expanding the heating solution service offering and strengthening our position within heating systems as the market transforms from gas to electric solutions.

Technology leadership and innovation

Sandvik Materials Technology is recognized for its pioneering efforts in research and development and we continued to capture new ground. During 2019, a first commercial order was secured for Sentusys™, an intelligent tube system used for in-process, online monitoring, providing continuous information about temperature, strain and vibration. The medical segment with our Exera® range of precision fine wires and wire-based components are used in a wide range of medical applications, from the treatment of cardiovascular disorders to solutions for glucose monitoring, deep brain stimulation and hearing implants. We are also increasing our digital services and our new online shop for the Tube division is an industry first. It provides customers with a personalized dashboard overview of, among other things, stock levels, prices, orders and documentation.

With our highly innovative product offering we are in an excellent position to match market requirements for materials that are strong yet light, durable, recyclable and have anti-corrosive properties. We recently patented a hyper duplex strip steel that matches all of these requirements. Sandvik Materials Technology frequently collaborates with partners and customers to bring solutions to the market that capture material science opportunities within many different segments.

Stability, profitability, growth

After some challenging years, there has been a return to profitability in the business area. Long-term efforts to improve market positioning led to a number of large tubular orders in 2019, including one for advanced OCTG tubes. Our efforts also paid off in the strip steel business, where we saw a continued strong margin improvement during the year. Sandvik Materials Technology is now in a stronger position with a clear growth strategy for prioritized segments. In December we signed an agreement to acquire privately owned Summerill Tube Corporation, based in Pennsylvania, US, a manufacturer of high precision tubes for high demanding industries, including aerospace, transportation and petrochemical. The acquisition was finalized in January 2020 and the same month we also acquired privately owned Thermaltek Inc., a manufacturer of high temperature furnace systems and metallic heating elements, headquartered in North Carolina, US.

Efficiency and continuous improvements

During the year, Sandvik Materials Technology continued to improve price and cost efforts despite challenging market conditions. We initiated efficiency measures, carrying through with the decisions made in 2018 to consolidate in some areas, by closing a Tube production unit in Canada and a Kanthal production unit in Italy. In 2019, a decision was made to close two Tube mills in Sandviken, Sweden, and move production to our site in Chomutov, Czech Republic. We began the gradual transfer of production in 2019, which is scheduled for completion in the first half of 2021. We inaugurated a new cold finishing manufacturing line at our plant in Mehsana, India, improving quality, flexibility and regional service.

We signed a strategic agreement with German Zapp to manufacture Kanthal® wire on our behalf for further efficiencies. We continued to revise our factories and offices for higher flexibility and efficiency, which is helping us to manage our costs and adapt quicker in a volatile global environment. Today, the business area is in an improved position to simultaneously manage both periods of high growth, as well as slowdowns in our diverse market segments.

Sustainable business

Sustainability is well integrated within our business both in terms of our own operations and within our customer offering. Installations of Kanthal heating solutions, switching from gas to electric heating at our customers, helped reduce our customers' CO₂ emissions substantially. The products that we manufacture at our steel mill consist of an average of 84 percent recycled material and we keep track of how much recycled steel goes into every product. We pass on this information to our customers in the form of materials certificates. We are also active in a number of buy-back initiatives to reduce our use of virgin material, whereby reducing costs and environmental impact.

We provide solutions that make our customers more sustainable. Flapper valves made with our compressor valve steel Hiflex® are turning household refrigerators into energy-smart models. Other products, like Exera, our wire used in medical applications, are helping to improve and even save people's lives. We offer pre-coated strip steel for the production of bipolar plates and interconnects for different types of fuel cells and have a full-scale production plant in Sandviken, Sweden, ready for fuel cell and hydrogen technology to take off. Our seamless steel tubes Pressurflect® meet the higher pressure requirements for next-generation engine platforms. Gasoline direct injection (GDI) technology helps reduce fuel consumption and lowers CO₂ emissions.

Looking ahead

Our strategy will continue in the year to come. We will maintain our number 1 or 2 position on the market through our customer relationships and innovation capabilities. This will be achieved by helping our customers to improve their efficiency, sustainability and safety. We will continue to expand and promote our digital offering, for example within smart tubing which makes it easier for customers to track and trace and identify stock levels. In the coming year we will finalize our internal separation and continue the review for a possible listing on the Nasdaq Stockholm Exchange.

MEET SANDVIK PODCAST

Mats W Lundberg, Sustainable Business Manager, talks about what it takes to drive sustainability in the materials industry and reveals how hydrogen cars were his way into Sandvik.

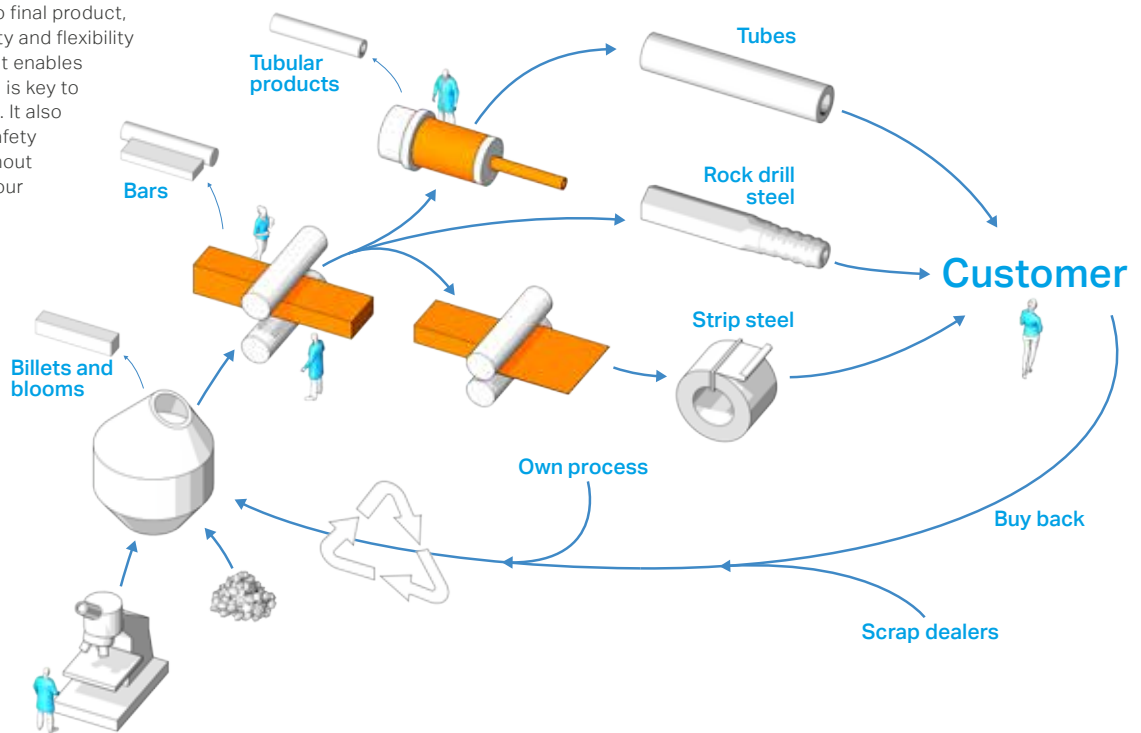


home.sandvik/stories/podcasts



HIGH-QUALITY SOLUTIONS

Supply chain control, from research and development and smelt to final product, ensures the highest quality and flexibility in our customer offering. It enables our own metallurgy, which is key to our product development. It also enables us to integrate safety and sustainability throughout our operations, increase our circularity and minimize our CO₂ footprint. Our products are made from 84 percent recycled steel, on average.



OVERVIEW

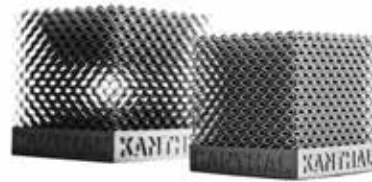
Product portfolio	Tubular products, bars, billets, strip, rock drill steel, heating systems, precision medical wire and metal powder.
Market characteristics	Selected niches in demanding industries where material requirements, as well as product quality and reliability, are extremely high. High entry barriers.
Demand drivers	<ul style="list-style-type: none"> – Energy demand – Industrial production – Environmental demands and legislation, for example, reduced emissions and energy consumption – Materials evolution i.e. advanced material requirements – Increased demand for safety, reliability and more sustainable materials
Competitive landscape/Major competitors	Nippon Steel and Sumitomo Metal (tube), Tubacex (tube), Jiuli (tube) VoestAlpine (strip), Aperam (heating elements and systems), smaller niche players.
Go-to-market model	About 80 percent direct sales.
Growth strategy	Increased focus on products and solutions improving energy efficiency and reducing emissions. Continued material evolution through focused R&D efforts and technologies based on, for example, powder metallurgy.
Strategic risk management	Fluctuating oil and gas prices. Increased competition of high-tech material from China. Local protectionism in the steel industry.

NEW PRODUCTS AND INNOVATIONS

Sandvik Materials Technology works closely with its customers to discover ways of addressing their challenges with new innovations or modified products.

KANTHAL® ADDITIVE MANUFACTURING

With the new additive manufacturing customization service, it's possible to 3D print heating elements and components in our FeCrAl alloy Kanthal® AM100. Now our customers can get heating elements and components in shapes that were previously inconceivable.



A NEW MEMBER OF THE FAMILY

Sanicro® is a family of nickel alloys and high-alloy austenitic stainless steels which are used in a wide range of tubular environments. Sanicro 35 is the newest austenitic grade, which combines extreme pitting corrosion resistance and mechanical properties in one alloy. It is a lower cost option for the process industry, oil and gas, and renewable energy segments, and gives Sandvik Materials Technology access to new markets.

RAZOR SHARP

The Strip division entered new customer segments with the launch of Sandvik 12C27™ knife steel suitable for electric shaving or animal trimmers. Another new market for our strip steel products is fruit knives, made with Sandvik Chromflex™, a range of hardened and tempered martensitic chromium steels.



EXERA® PRECISION MEDICAL WIRE

Exera® precision wire is a comprehensive range of high-grade fine wires and wire based components for applications in various fields of medical technology. Examples of applications are cochlear implants, deep brain implants for people with Parkinson's disease, continuous glucose monitoring (diabetes), vascular and cardiovascular sensing and stimulation.



Sandvik is playing an important role in Linde's expansion of hydrogen-fueling stations by supplying the company with tube solutions on site through a digitally connected Sandvik Mobile Service Solutions container.

PORTABLE TUBING SOLUTION SUPPORTS HYDROGEN FUEL EXPANSION

Our onsite tubing solution is making the delivery of hydrogen safer and more efficient for long-time customer Linde.

Linde is a leading industrial gases and engineering company with customers in more than 100 countries. The company has more than 20 years of experience in hydrogen mobility applications, among its activities, and in recent years has been building hydrogen stations to fuel vehicles.

As a renewable element, hydrogen (H₂) plays a fundamental role in achieving sustainability targets by providing an alternative to fossil fuels. And, as demand for greener vehicles grows, so does the need for hydrogen to power such vehicles.

Linde has built more than 160 hydrogen-fueling stations at commercial filling stations in more than 15 countries to date, and further stations are underway. Sandvik is playing an important role in Linde's expansion by supplying the company with tube solutions on site through a digitally connected Sandvik Mobile Service Solutions container. The stainless steel alloy tubes are used to transport hydrogen from a storage tank to a dispenser usually located about 40–60 meters apart.

Made to measure

Sandvik personnel arrive with the container at the station. At the station, the 150–170 meter coiled tubing is straightened through our patented technology and cut to match Linde's exact specifications at each location.

"Installations on customer sites differ from project to project so it is essential to have tube solutions which allow us to realize different dimensions and lengths to connect the necessary units on the fueling station site," explains Johannes Fritzer, Research and Development, Linde Hydrogen FuelTech.

This convenient solution is both sustainable and cost-efficient as it eliminates waste by cutting only as much as

is required, and eliminates the need for customers to keep large coils in stock. Sandvik's corrosion-resistant tubing solution also offers the highest possible level of safety.

Safety a priority

"It is essential regarding safety aspects that the tubes meet certain quality requirements which are taken into account for the pressure rating of the different ranges in use," says Fritzer. Linde's hydrogen gas is transported under both low and high pressures of up to 900 bars and the high-quality tubes from Sandvik meet the strict safety guidelines for hydrogen transportation.

Our long tubing also reduces the risk of accidents by eliminating the need for conventional fittings such as cone and thread connections or welding, which are normally used to connect shorter tubes. Eliminating connections helps reduce the risk of leakage and station shut downs, increasing safety for both the site and the surrounding neighborhood. The lack of connections also makes the burying of hydrogen transporting tubes feasible.

Johannes Fritzer highlights yet another benefit with the convenient container solution: "From a logistical point of view the Sandvik solution eases the planning of the construction site through an unproblematic direct delivery of the needed tubes, with no ordering, storage or other logistical issues," he says, adding that he is pleased with Sandvik Mobile Service Solutions thus far.

"Overall there has been a very positive response from all parties involved in the process. Sandvik has good customer service, is technically professional and provides a consistently outcome-oriented approach. We will certainly continue to rely on Sandvik's support."

OUR SHARE

During 2019, the share price increased by 45 percent, while the OMXS30 index on Nasdaq Stockholm increased by 26 percent.

Sandvik's share is listed on Nasdaq Stockholm, Sweden. At year-end 2019, the share was quoted at 182.7 SEK, corresponding to a market capitalization of 229 billion SEK, placing Sandvik as the 10th (14) largest company on Nasdaq Stockholm.

Share trading

In 2019, a total of 799 million shares (823) were traded for a total value of 125 billion SEK (125). Trading in Sandvik shares on the Nasdaq Stockholm accounted for 31 percent (37) of the total volume of shares traded. Other markets, for example, BATS Chi-X, Turquoise, etc. accounted for 69 percent (51). The Sandvik share can be traded in the US in the form of American Depositary Receipts (ADRs), a process handled by Deutsche Bank Trust Company Americas as a depository bank. In 2019, the average daily ADR trading volume was 36,450 (39,889). At the end of 2019 there were 4,192,508 ADRs outstanding (4,170,062).

Dividend and total shareholder return

Our target is that the dividend will amount to at least 50 percent of adjusted earnings per share, through an economic cycle. The Board has proposed a dividend of 4.50 SEK (4.25) per share to the 2020 Annual General Meeting, corresponding to approximately 5.6 billion SEK (5.3) and a dividend yield of 2.5 percent based on the share price at year-end. Assuming the approval of the proposed dividend for 2019 of 4.50 SEK (4.25), a 6 percent increase compared to 2018, Sandvik's dividend over the past five years has averaged 3.50 SEK. In this period a total of 44 percent of adjusted earnings per share for Continuing Operations has been distributed.

Share capital

The number of Sandvik shares amounts to 1,254,385,923. Each share has a nominal value of 1.2 SEK and the share capital amounts to 1,505,263,108 SEK. Sandvik's share capital comprises one series of shares, with each share

carrying equal voting rights and equal rights to a dividend. Sandvik does not hold any shares in treasury and the most recent occasion when new shares were issued was in conjunction with the acquisition of the shares outstanding in Seco Tools in 2012.

Sustainability indices

Sandvik is included in several sustainability indices, such as the Dow Jones Sustainability Index, FTSE4Good and Ethibel Excellence Europe. These are international indices analyzing global companies that assume their responsible business practices. Sandvik's inclusion in these indices confirms the Group's achievements in relation to sustainable business practices.

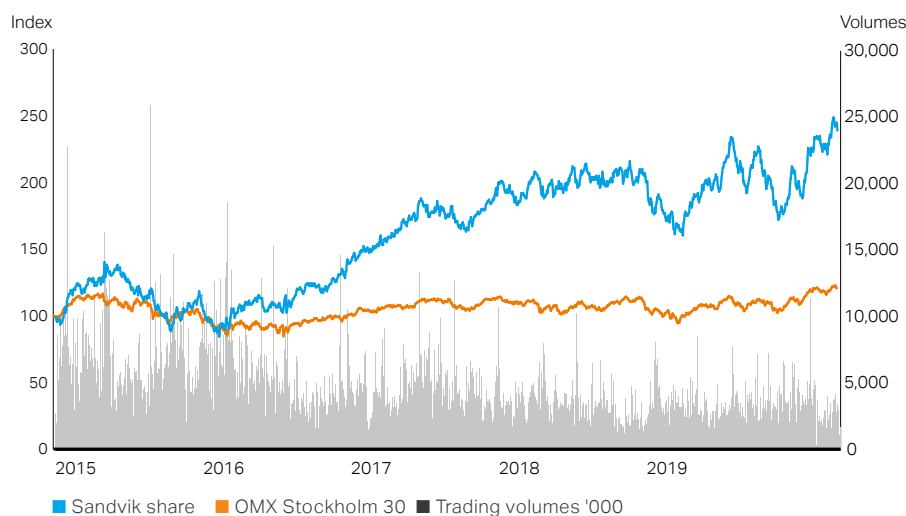
Owners

In 2019, the number of shareholders decreased to 100,768 (100,909). There are shareholders in 76 countries, and the total ownership outside of Sweden amounted to 39 percent (35) at year-end. The ten largest individual shareholders accounted for 39 percent of the share capital on the same date. As of 31 December 2019, members of Sandvik's Group Executive Management owned a total of 206,726 shares in Sandvik. Members of the Board of Sandvik owned a total of 488,949 shares in Sandvik (including deputy board members, excluding the CEO). Total ownership of Group Executive Management and the Board corresponds to about 0.05 percent of the capital and voting rights.

Proposed dividend, SEK

4.50

The Sandvik share, five-year trend



Key figures	2018	2019
Number of shares at year-end (million)	1,254	1,254
Market capitalization at year-end (billion)	158	229
Number of shareholders	100,908	100,768
Share price at year-end, SEK	126.4	182.7
Earnings per share after dilution, SEK (Group total)	10.09	6.79
Adjusted earnings per share, SEK (Group total)	9.95	10.96
P/E ratio at year-end	12.5	26.9
Change in share price during the year, %	-12	+45
Regular dividend, SEK/share	4.25	4.50 ¹⁾
Dividend as a percentage of earnings per share	42	66 ¹⁾
Total yield (price increase + dividend), %	-9.9	47
Proportion of shares in Sweden, %	65	61
Proportion of shares owned by the ten largest shareholder groups, %	38	39

1) Proposed dividend.

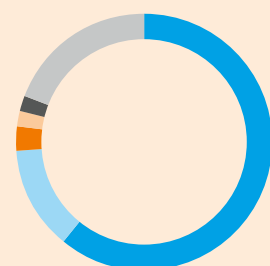
Source: Monitor by Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

The ten largest shareholder groups, as of 31 December, %	2018	2019
AB Industrivärden	12.1	12.4
Alecta Pension Insurance	6.5	6.6
Swedbank Robur Funds	3.9	4.4
BlackRock	2.4	2.8
AMF Insurance and Funds	2.7	2.6
Vanguard ¹⁾	2.4	2.5
L E Lundbergföretagen AB	2.4	2.4
SEB Investment Management	1.8	2.3
Norges Bank	1.0	1.8
Nordea Funds	1.4	1.3

1) Shares held in trust.

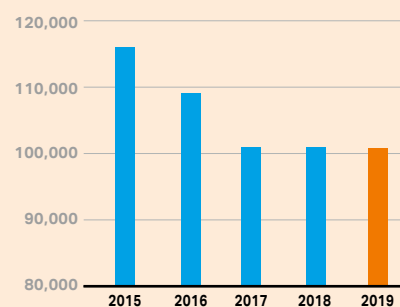
Source: Monitor by Modular Finance AB. Compiled and processed data from Euroclear, Morningstar and the Swedish Financial Supervisory Authority, among others.

Distribution of shareholding by country, 31 December 2019



Sweden, 61%
USA, 13%
Great Britain, 3%
Norway, 2%
Finland, 2%
Other countries, 19%

Number of shareholders, 31 December 2015–2019



SANDVIK AS AN INVESTMENT

We have continued to thrive on our offering of productivity and sustainability based on more than 150 years of leading materials and applications know-how.

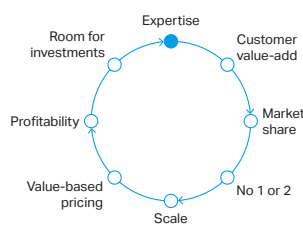
To remain relevant in the future, we are increasingly combining our core competencies with new digital technologies, enabling us to broaden our customer offering. Our strong balance sheet supports acquisitive growth.

Our world is cyclical, but we believe that our decentralized business model is increasing agility and speed in our operational decision making, helping us to reduce earnings volatility and increase predictability. We target higher margins, resulting in improved through-cycle performance going forward.

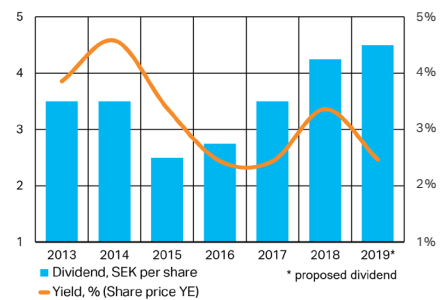
Combine core skills with new technologies



Leading position based on expertise



Shareholders rewarded



GLOBAL NO.1 OR 2

- The no. 1 or 2 supplier in most of our businesses
- High barriers to entry, resulting from leading technology position, capital intensity and materials know-how
- About 4 percent of annual revenues spent on R&D to ensure a leading product offering
- Productivity offering supports value-based pricing
- Strategic and long-term relationships with our customers enable our understanding of their current and future needs
- Provide customers with products and services that boost their sustainability, for example by improving safety and reducing environmental impact, while increasing performance

STRONG FINANCIAL PERFORMANCE

Significant improvement in profitability and returns since 2016. Our decentralized business model drives accountability and speed in operating decisions close to customers. The improved performance review system contributes to increased transparency. Combined this will help us achieve improved through-cycle performance.

ACTIVE PORTFOLIO MANAGEMENT

We continuously review our business portfolio to maximize shareholder value. Each unit is expected to deliver continuous improvements and to be or become no. 1 or 2 in its industry.

RELEVANT THROUGH CHANGE

- Building on and expanding our core competences within metal cutting, mining equipment and advanced materials
- Grow our customer offering through acquisitions and partnerships to create new digital and technology solutions to become relevant to customers on a broader spectrum and meet future commercial trends

SHAREHOLDERS REWARDED

- Target of 50 percent dividend pay-out ratio through an economic cycle
- 10-year average:
 - 68 percent dividend ratio
 - 3 percent yield
- The long-term principle is for capital to be relatively evenly split between dividend, mergers and acquisitions and debt reduction
- Well invested – capex to remain at about 4 billion SEK annually

DIALOGUE WITH ANALYSTS

Approximately 25 analysts cover Sandvik on a continuous basis. At year-end 2019, the breakdown of ratings relating to the Sandvik share was: 52 percent buy/increase, 19 percent retain/neutral and 29 percent sell/decrease, according to Factset. Below are some of the most frequent questions discussed in 2019, and our answers.

Q: You have a rather unusual operating margin target that states a trough of ≥ 16 percent. Please elaborate on, for example, assumed market conditions and how confident you feel about achieving this target.

A: The implementation of a decentralized business model, tangible contingency plans and important changes in Sandvik Mining and Rock Technology with a higher share of outsourcing, gives us the confidence to have a floor margin target. The basis for the calculation is a mining downturn with a 50 percent decrease in equipment sales and a significant (double-digit) downturn for the short-cycle part of the business (machining).

Q: A 5 percent growth target over a business cycle sounds moderate, please elaborate.

A: We want to achieve the target before increasing the ambition. Half of the target is assumed to be driven by acquisitions and half organically. We are assuming a higher share of organic growth in Sandvik Mining and Rock Technology and a higher share of mergers and acquisitions in Sandvik Machining Solutions.

Q: A new CEO was announced during the year, what will be his focus going forward?

A: Our overall strategy remains intact, with a current focus on growth and on protecting the margin in a tougher market. Stefan Widing's background in acquiring and successfully integrating software companies will be a great asset to Sandvik when developing adjacent digital product offerings, particularly for Sandvik Machining Solutions and its strategy to expand into pre- and post-machining. Furthermore, he has extensive experience from working and leading in a decentralized environment.

Q: Can you elaborate on the new sustainability targets for 2030 and how you will follow-up and report on these? What should we expect in the coming 2–3 years?

A: In 2019, we launched new long-term sustainability goals in four areas: circularity, climate change, safety and fair play. These goals will be integrated in our performance management systems and incentive programs, in order to report and follow-up. Furthermore, we will be introducing short-term goals to ensure we are on track for reaching our 2030 goals. That work has started but has not yet been finalized.

Q: You are in an almost debt-free position; have you considered an extra dividend or share buybacks?

A: Our ambition is to acquire approximately 2.5 percent topline growth per year. Accordingly, the preferred option for capital is to reinvest in our business. We are virtually in a net cash position at year-end 2019 and if we do not manage to spend it on acquisitions, we need to evaluate our options for capital distribution.

Q: After the internal separation has been finalized, what will the next step be for Sandvik Materials Technology and by when?

A: We are working towards finalization of the internal separation by mid 2020. Further decisions on how to proceed will be made by the Board and ultimately by the Annual General Meeting.

Q: Return on Capital Employed (ROCE) and Net Working Capital (NWC) moved in the wrong direction in 2019. What actions are you taking to address this? Additionally, ROCE is no longer included in your financial targets – are you less focused now?

A: We are committed to keeping NWC under control and to delivering solid returns, particularly as we become more active in acquisitions. In 2019, the market conditions for short-cycle segments deteriorated rapidly and significantly, making full control of NWC a challenge. For Sandvik Mining and Rock Technology, record order deliveries have pushed NWC up.

Q: There was a major cost-cutting program in 2019. How much have the savings supported your result in 2019 and how much is still to come? Are these structural savings?

A: Most of the targeted savings of 1.7 billion SEK will be delivered by mid 2020. Approximately 20–30 percent of the measures can be described as structural by nature, for example, the closure of production units/larger restructurings. In 2019, the result was supported by approximately 400 million SEK from the announced program.

GROUP TOTAL

Summary

Market demand for the late-cycle businesses in the mining and oil & gas industries remained stable at a high level. However, customer activity softened significantly in the early-cycle businesses during the second half of the year, primarily related to the automotive and general engineering segments. Consequently, Sandvik's order intake decreased by -2 percent (9) whilst revenues for continuing operations remained stable at 0 percent (11) at fixed rates for comparable units, as backlog was delivered.

Earnings and return

Sandvik's order intake amounted to 104,147 million SEK in 2019 (102,510), and revenue totaled 103,533 million SEK (100,924). The operating profit was 13,182 million SEK (18,103), corresponding to 12.7 percent (17.9) of revenues. While the adjusted operating profit improved to 19,219 million SEK (18,590), the adjusted operating margin remained on par with the previous year at 18.6 percent (18.6). Movements in metal prices for Sandvik Materials Technology made a positive contribution to the operating profit of 274 million SEK (255). Changes in foreign exchange rates affected earnings favorably by 1,879 million SEK (774) compared with the preceding year. Net financial items amounted to -1,238 million SEK (-788). The result after financial income and expenses for the Group was 11,945 million SEK (17,315), and 12,150 million SEK (17,860) for continuing operations. Income tax had a total impact of -3,421 million SEK (-4,646) on earnings, corresponding to 29 percent (27) of profit before taxes. Profit for the year attributable to equity holders of the Parent Company was 8,539 million SEK (12,679). Earnings per share for the Group amounted to 6.81 SEK (10.11) and 6.97 SEK (10.54) for continuing operations. Return on capital employed was 15 percent (22) and return on equity was 14 percent (23).

Working capital

Relative net working capital for the year was 25 percent (24) of revenues. In absolute terms net working capital amounted to 25,027 million SEK (23,447) at the end of the year. In terms of volume, net working capital increased by 447 million SEK (3,198) compared with the preceding year.

Changed currency rates increased net working capital by 869 million SEK (1,088) compared with the preceding year. The structural effect from acquisitions and divestments increased working capital by 264 million SEK (-1,565).

Cash flow and financing

Cash flow from operating activities increased to 17,654 million SEK (14,914). Net cash flow after investing activities was 12,171 million SEK (10,631). At the end of the year, cash and cash equivalents amounted to 16,987 million SEK (18,089). Interest-bearing liabilities including net pension liabilities, less cash and cash equivalents, yielded a net debt of 11,131 million SEK (11,557). The net debt to equity ratio was 0.18 (0.20). Sandvik's revolving credit facility of 9,000 million SEK was unutilized at year-end. Under the Swedish bond program, totaling 15,000 million SEK, bonds corresponding to a nominal amount of 5,650 million SEK were outstanding at year-end. Under the European bond program, totaling 3,000 million EUR, a nominal amount of 1,103 million EUR was outstanding at year-end. The remaining maturity of bonds averaged 1.3 years for Swedish bonds, 6.5 years for European. At year-end, the international credit rating agency Standard & Poor's had a rating of A- for Sandvik's long-term borrowings, and A-2 for short-term.

During the second quarter Sandvik made an early redemption of US private placement notes and a bilateral loan totaling 5.1 billion SEK.

Equity

Equity at year-end amounted to 61,858 million SEK (58,163), or 49.3 SEK per share (46.3). The equity ratio was 51 percent (49).

Investments

Investments in tangible and intangible assets for the full year 2019 amounted to 4,136 million SEK (3,920) corresponding to 99 percent of scheduled depreciation for continuing operations. Proceeds from sale of companies and shares, net of cash, amounted to 95 million SEK (4,052). Acquisition of companies and shares, net of cash, amounted to 1,870 million SEK (4,631). Investments in internally generated intangible assets were 533 million SEK (484).

Acquisitions and divestments

On 9 January, Sandvik announced the completion of the acquisition of the company Wetmore Tool & Engineering. Wetmore Tool & Engineering is a manufacturer of round tools for the aerospace industry. Revenues for Wetmore Tool & Engineering amounted to 160 million SEK in 2017.

On 11 February, Sandvik closed the acquisition of US-based Artisan

Earnings and return	2018	2019
Operating profit, MSEK	18,103	13,182
as a % of revenue	17.9	12.7
Adjusted operating profit, MSEK	18,038	19,015
as a % of revenue	17.9	18.4
Profit after financial income and expenses, MSEK	17,315	11,945
as a % of revenue	17.2	11.5
Return on capital employed, %	22.0	15.0
Return on total equity, %	23.3	13.9
Basic earnings per share, SEK	10.11	6.81
Diluted earnings per share, SEK	10.09	6.79
Whereof continuing operations		
Operating profit, MSEK	18,655	13,386
as a % of revenue	18.6	13.0
Adjusted operating profit	18,590	19,219
as a % of revenue	18.6	18.6
Profit after financial income and expenses, MSEK	17,860	12,150
as a % of revenue	17.8	11.8
Basic earnings per share, SEK	10.54	6.97
Capital expenditure, Group total	2018	2019
Investments in non-current assets, MSEK	3,984	4,147
as a % of revenue	3.9	4.0
as a % of scheduled depreciation	100	93

Vehicle Systems, a manufacturer of battery powered underground mining equipment. In 2017, the company's revenues were approximately 12 million USD.

On 10 April, Sandvik closed the acquisition of China-based OSK, a leading supplier of solid carbide round tools. Revenues for OSK amounted to 120 million SEK in 2017.

On 17 June, Sandvik closed the acquisition of privately owned Newtrax, a supplier of leading technology in wireless connectivity based in Canada. In 2018, Newtrax revenues amounted to 26 million CAD.

On 12 July, Sandvik announced the completion of the acquisition of a 30 percent stake in privately owned Italian company Beam IT, a leading provider of metal additive manufacturing services and advanced end-use components. Beam IT generated revenues of 70 million SEK in 2018.

On 28 October, Sandvik announced the signing of an agreement to divest the majority of Sandvik Drilling and Completions (Varel), the operations relating to the oil and gas industry, to privately owned equity firm Blue Water Energy and its co-investor, privately owned Nixon Energy Investments. Sandvik will remain a minority owner with a 30 percent stake in the company and keep a board position. The reclassification of Varel as "assets held for sale" in the financial statements triggered an impairment of -3,966 million SEK on net profit, comprising an effect on operating profit of -4,233 million SEK and an impairment of deferred tax of +267 million SEK.

On 22 December, Sandvik announced an agreement to acquire the US-based privately owned Summerill Tube Corporation. The acquisition was completed in January 2020. Summerill Tube Corporation is a manufacturer of high precision tubes for industries such as aerospace,

transportation and petrochemical. In 2018 it generated revenues of about 100 million SEK.

On 31 December, Sandvik closed the acquisition of privately owned US-based Melin Tool Company, a manufacturer of solid carbide tools. In the 12-month period ending September 2019, Melin Tool Company generated revenues of 22 million USD.

On 31 December, Sandvik closed the acquisition of the privately owned company Thermaltek Inc., a manufacturer of high temperature furnace systems and metallic heating elements based in the US. In the 12-month period ending in September 2019 Thermaltek generated 13 million USD.

Parent company¹⁾

The Parent Company's revenues for 2019 amounted to 21,038 million SEK (20,141) and the operating result was 4,224 million SEK (2,566). Income from shares in Group companies consists primarily of dividends and Group contributions from these and amounted to 11,989 million SEK (4,364). Interest-bearing liabilities, minus cash and cash equivalents and interest-bearing assets, amounted to 15,601 million SEK (15,059). The Parent Company's total assets increased by 12,868 million SEK, from 63,929 million SEK to 76,797 million SEK. Investments in non-current assets amounted to 976 million SEK (799).

The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB as of 31 December 2019 was 6,627 (6,793).

Dividend

The President and the Board of Directors propose a dividend of 4.50 SEK (4.25) per share to the 2020 Annual General Meeting, corresponding to approximately 5.6 billion SEK (5.3).

Dividend 4.50 per share	
x number of shares	1,254,385,923
	=5,644,736,653
Profit carried forward	25,804,189,279
Total, SEK	34,448,925,932

Employees

The average number of employees amounted to 41,120 (42,540), of which 19 percent (19) were women. The employee turnover rate was 10 percent (8). Wages, salaries and other remunerations for the year totaled 21,795 million SEK (21,425).

Events after the close of the period

In October 2019, Sandvik's Board of Directors appointed Stefan Widing as new President and CEO of Sandvik, succeeding Björn Rosengren. Stefan Widing took on the position as of 1 February 2020.

The divestment of the majority of Sandvik Drilling and Completion (Varel) is expected to be finalized early March 2020.

Proposal regarding guidelines for the remuneration of senior executives

The Board of Directors proposes that the Annual General Meeting resolve to adopt the following guidelines for the remuneration of senior executives. Compared to the guidelines adopted by the Annual General Meeting in 2019 these guidelines have been updated to comply with new regulations on remuneration.

Scope of the guidelines

These guidelines encompass the President and other members of the Group Executive Management. The guidelines do not apply to any remuneration decided on or approved by the General Meeting.

Financial position	2018	2019
Cash flow from operating activities, MSEK	14,914	17,654
Cash flow after investing activities, MSEK	10,631	12,171
Cash and cash equivalents and short-term investments as of 31 December, MSEK	18,089	16,987
Net debt as of 31 December, MSEK	11,557	11,131
Net financial items, MSEK	-788	-1,238
Equity ratio, %	49	51
Net debt/equity ratio, times	0.20	0.18
Equity as of 31 December, MSEK	58,163	61,858
Equity per share as of 31 December, SEK	46.4	49.3

Quarterly trend of revenue and profit after financial items

MSEK		Revenue	Profit after financial items	Net margin, %
2018	Q1	23,981	3,998	17
	Q2	26,434	4,672	18
	Q3	24,438	4,907	20
	Q4	26,070	3,738	14
2019	Q1	25,180	4,145	16
	Q2	26,567	4,625	17
	Q3	25,188	2,765	11
	Q4	26,598	409	2

1) The Parent Company includes subsidiaries operating on commission for Sandvik AB. These are presented in Note 14.

The guidelines' promotion of the Company's business strategy, long-term interests and sustainability

A prerequisite for the successful implementation of the Company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the Company is able to recruit and retain qualified personnel. To this end, it is necessary that the Company offers competitive remuneration. These guidelines enable the Company to offer senior executives a competitive total remuneration. For more information regarding the Company's business and sustainability strategy, please see the Company's website: home.sandvik.com.

Types of remuneration

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

Fixed salary

The purpose of the fixed salary is to attract and retain senior executives with the right competence for the respective positions. The salary level should be determined by comparing the salary to similarly complex positions within a defined peer group.

Variable remuneration

– **Variable share related remuneration**
The Company may offer long-term share related or share price related remuneration. Such programs are adopted by the General Meeting and are therefore not covered by these guidelines. There are currently ongoing long-term share related incentive programs for senior executives and key employees in the Group. For more information on these programs, see the Company's website: home.sandvik.com.

– Variable cash remuneration

The Company may offer short or long-term variable cash remuneration. The fulfillment of objectives for awarding such remuneration shall be measured over a period of one to three years. Such remuneration may amount to not more than 75 percent of the fixed annual salary per year.

Variable cash remuneration shall be conditional upon the fulfillment

of defined and measurable criteria. These criteria shall aim at promoting the Company's business strategy and performance as well as its long-term interests, including its sustainability. At the beginning of each year the Board of Directors and the Remuneration Committee shall establish the criteria, including key performance indicators (KPIs) and the target ranges, deemed relevant for the upcoming measurement period. The criteria may be financial, with at least three KPIs, and non-financial, and shall always be related to business performance. At least 80 percent of the variable cash remuneration shall be linked to the financial criteria. The President and Group Function heads shall be measured on Group level KPIs and the Business Area Presidents shall be measured on both Group level and Business Area level KPIs. The established KPIs shall be presented on the Company's website: home.sandvik.com. The extent to which the criteria for awarding variable cash remuneration have been fulfilled shall be determined when the measurement period has ended and will be published in the Report on Evaluation of Remuneration the following year. For financial criteria, the evaluation shall be based on the latest financial information made public by the Company.

– Special arrangements

In specific cases, the Company may offer one-off remuneration provided that such remuneration is only made on an individual basis, for the purpose of recruiting or retaining senior executives, does not exceed an amount corresponding to 100 percent of the individual's fixed annual salary and maximum variable cash remuneration, and is not paid more than once per year and individual.

– Right to withhold or reclaim remuneration

Terms and conditions for variable remuneration shall be designed so that the Board of Directors (i) has the right to limit or refrain from payment of variable remuneration if exceptional economic circumstances prevail and such a measure is considered reasonable, and (ii) has the right to withhold or reclaim variable remuneration paid to an executive based on results that afterwards were found to have been misstated because of

wrongdoing or malpractice (so called *malus* and *clawback*).

Pension benefits

For the President, the pension benefit shall be defined contribution and the pension premiums shall amount to not more than 37.5 percent of the fixed annual salary. For the other senior executives, pension benefits shall be defined contribution and amount to not more than 55 percent of the fixed annual salary, in accordance with the Swedish ITP1 pension scheme. Exceptions to this main rule may be decided on for senior executives with existing defined benefit schemes provided that the cost of such schemes does not exceed the above mentioned cap.

Other benefits

Other benefits may include, for example, life insurance, medical insurance and company car benefit. Such benefits may amount to not more than 5 percent of the fixed annual salary. For senior executives in need of double accommodation, paid accommodation, etc may be added in line with Sandvik's regulations and such benefits may amount to not more than 20 percent of the fixed annual salary.

Termination of employment

Severance pay may be paid when employment is terminated by Sandvik. The President and the other senior executives may have a period of notice of not more than 12 months, in combination with severance pay corresponding to 6–12 months fixed salary. When employment is terminated by the senior executive, the notice period may not exceed six months and no severance pay shall be paid.

In case a senior executive is not entitled to severance pay, but is covered by a non-compete undertaking, the senior executive may instead be compensated for such a non-compete undertaking. Any remuneration paid as compensation for a non-compete undertaking shall not exceed 60 percent of the fixed salary at the time of notice of termination of the employment and shall not be paid for a longer period than 18 months. Fixed salary during the notice period together with any compensation for the non-compete undertaking shall not exceed an amount equivalent to the senior executive's fixed salary for 24 months.

Consideration of remuneration to the Company's employees

When preparing the proposal for these guidelines, the employment conditions applied within the Company as a whole have been used as a benchmark, following the principle that the remuneration packages of all Sandvik employees should be based on the complexity of the position, performance and market practice. In general, the same combination of remuneration components such as fixed salary, variable remuneration, pension and other benefits are offered within Sandvik.

The decision-making process to determine, review and implement the guidelines

The Board of Directors has established a Remuneration Committee. The Committee's tasks include preparing the Board of Directors' decision to propose guidelines for senior executive remuneration. The Board of Directors shall prepare a proposal for guidelines at least every fourth year and submit it to the General Meeting. The guidelines shall be in force until new guidelines are adopted by the General Meeting. The Remuneration Committee shall also monitor and evaluate programs for variable remuneration for the executive management, the application of the guidelines for senior executive remuneration as well as the current remuneration structures and compensation levels in the Company. The members of the Remuneration Committee are independent of the Company and its executive management. The President and the other senior executives do not participate in the Board of Directors' processing of and resolutions regarding remuneration related matters to the extent that they are affected by such matters.

Decisions on remuneration to the President are taken by the Board of Directors, based on proposals from the Remuneration Committee, and decisions on remuneration to the other senior executives are taken by the Remuneration Committee.

Adjustments to local rules

Remuneration under employments subject to other rules than Swedish may be duly adjusted to comply with mandatory rules or established local practice, taking into account, to the

extent possible, the overall purpose of these guidelines.

Derogation from the guidelines

The Board of Directors may temporarily resolve to derogate from the guidelines, in whole or in part, if in a specific case there is special cause for the derogation and a derogation is necessary to serve the Company's long-term interests, including its sustainability, or to ensure the Company's financial viability. As set out above, the Remuneration Committee's tasks include preparing the Board of Directors' resolutions in remuneration-related matters. This includes any resolutions to derogate from the guidelines.

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

The guidelines adopted by the 2019 Annual General Meeting are presented in Note 3.5.

Research and development (R&D)

Each business area is responsible for its own R&D activities. Focus areas are machining materials and process development, additive manufacturing, alloys, powder metallurgy, electrification and digital solutions.

Sandvik has a portfolio of approximately 6,060 (5,900) active patents. In 2019, 964 (700) new patents were granted. Investments in R&D were 3,872 million SEK (3,727), corresponding to 3.7 percent (3.7) of Group revenues. The number of employees in R&D, including Quality Assurance, was 2,740 (2,554).

Tax

Sandvik is a multinational group with many intercompany transactions. The OECD has issued guidelines for transfer pricing of cross-border transactions in multinational groups. Sandvik adheres to these guidelines and also to the local legislation of each country to ensure that a correct pricing model is deployed and that a correct amount of tax is paid in each country. Sandvik monitors the OECD's tax reform work and the EU initiatives on tax transparency carefully and observes these standards as and when enacted. Sandvik strives to have good relations with our stakeholders, such as tax authorities, non-governmental organizations and investors.

Sandvik has initiated cooperation with tax authorities in several countries. We are convinced that an open discussion and cooperation with tax authorities around the globe will help us to reduce uncertainty about the taxes we are obliged to pay. We contribute to the local communities and countries in which we operate in the form of, for example, taxes and employment opportunities. In 2019, the Group paid 3,598 million SEK (2,978) in income taxes globally. Income tax comprises just a portion of all taxes paid by Sandvik worldwide. In addition, we pay social security contributions, environmental and energy taxes, property taxes, etc. Furthermore, Sandvik collects and pays taxes at the request of governments and authorities, including indirect taxes and withholding taxes.

Environment

In Sweden, Sandvik conducts licensed operations at eight plants and notifiable operations in one location. All of them hold a requisite environmental permit. During the year, there was a potential breach related to exceeding maximum allowed water withdrawal within a 24-hour period. It was found to be of minimal impact and the case was closed. A number of guideline values were exceeded for noise and emissions to air and water. Actions are taken to comply with the target values. No environmental permit needs renewal in 2020.

Investigations and remediation activities have been performed at production sites with ground pollution. These activities are always performed in close cooperation with environmental authorities.

Statutory sustainability report

Sandvik has, in accordance with the Annual Accounts Act, prepared the statutory sustainability report as a separate report which was approved for issue by the Board of Directors and the President and CEO. The Statutory Sustainability report and Sustainable Business Report comprise pages 2–3, 12–15, 44–47, 58–61 and 122–134.

DEVELOPMENT IN BUSINESS AREAS

Sandvik's operations consist of three business areas: Sandvik Machining Solutions, Sandvik Mining and Rock Technology and Sandvik Materials Technology.

Order intake by business area

MSEK	2018	2019	Change, %	Change, % ¹⁾
Sandvik Machining Solutions	41,094	41,163	0	-6
Sandvik Mining and Rock Technology	41,842	44,379	6	1
Sandvik Materials Technology	15,898	16,475	4	2
Other Operations	3,605	2,059	-43	4
Group activities	0	0	n/m	n/m
Continuing operations	102,440	104,075	2	-2
Discontinued operations	70	71	2	0
Group total	102,510	104,147	2	-2

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

Revenue by business area

MSEK	2018	2019	Change, %	Change, % ¹⁾
Sandvik Machining Solutions	40,757	41,123	1	-6
Sandvik Mining and Rock Technology	41,058	44,777	9	4
Sandvik Materials Technology	14,697	15,279	4	3
Other Operations	3,560	2,059	-42	4
Group activities	0	0	n/m	n/m
Continuing operations	100,072	103,238	3	0
Discontinued operations	852	295	-65	-66
Group total	100,924	103,533	3	-1

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

Operating profit by business area

MSEK	2018	% of revenue	2019	% of revenue	Change, %	Change, % ¹⁾
Sandvik Machining Solutions	9,922	24	8,380	20	-16	-17
Sandvik Mining and Rock Technology	7,452	18	8,602	19	15	7
Sandvik Materials Technology	1,307	9	1,444	9	10	16
Other Operations	659	19	-4,263	n/m	n/m	n/m
Group activities	-685	n/m	-776	0	13	0
Continuing operations	18,655	19	13,386	13	-28	-7
Discontinued operations	-552	-65	-204	-69	n/m	-57
Group total	18,103	18	13,182	13	-27	-5

1) Change compared with the preceding year, at fixed exchange rates for comparable units adjusted for items affecting comparability.

n/m=non meaningful.

Sandvik Machining Solutions

Sandvik Machining Solutions is a market-leading manufacturer of tools and tooling systems for advanced industrial metal cutting, expanding into digital and additive manufacturing. Order intake for the business area amounted to 41,163 million SEK (41,094), a decrease of -6 percent at fixed exchange rates for comparable units. Revenue totaled 41,123 million SEK (40,757), down -6 percent at fixed exchange rates for comparable units. The operating margin was 20.4 percent (24.3) of revenues and the adjusted operating margin was 22.6 percent (25.4) of revenues. The items affecting comparability of -930 SEK million was related to efficiency measures to mitigate a slower demand environment and to ensure optimized efficiency.

Financial overview, MSEK	2017	2018	2019
Order intake	36,995	41,094	41,163
Revenue	36,114	40,757	41,123
Operating profit	8,465	9,922	8,380
Operating margin, %	23.4	24.3	20.4
Adjusted operating profit ¹⁾	8,465	10,361	9,310
Adjusted operating margin, %	23.4	25.4	22.6
Return on capital employed, %	34.9	36.8	25.9
Number of employees ²⁾	18,918	19,473	18,453

1) Operating profit adjusted for items affecting comparability of -439 million SEK in 2018 and of -930 million SEK in 2019.

2) Number of employees adjusted for internal restructurings.

Sandvik Mining and Rock Technology

Sandvik Mining and Rock Technology is a leading supplier of equipment and tools, service and technical solutions for the mining industry and rock excavation within the construction industry. Order intake for the business area amounted to 44,379 million SEK (41,842), an increase of 1 percent at fixed exchange rates for comparable units. Revenue totaled 44,777 million SEK (41,058), up 4 percent at fixed exchange rates for comparable units. The operating margin was 19.2 percent (18.2) of revenues and the adjusted operating margin was 19.9 percent (18.4) of revenues. The items affecting comparability of –309 SEK million were predominantly related to efficiency measures to ensure cost efficiency.

Sandvik Mining and Rock Technology, total

Financial overview, MSEK	2017	2018	2019
Order intake	38,834	41,912	44,450
Revenue	38,136	41,910	45,072
Operating profit	5,802	6,900	8,398
Operating margin, %	15.2	16.5	18.6
Adjusted operating profit ¹⁾	5,802	6,990	8,707
Adjusted operating margin, %	15.2	16.7	19.3
Return on capital employed, %	33.0	31.3	31.6
Number of employees	14,277	14,431	14,241

Sandvik Mining and Rock Technology, continuing operations

Financial overview, MSEK	2017	2018	2019
Order intake	37,535	41,842	44,379
Revenue	35,058	41,058	44,777
Operating profit	5,864	7,452	8,602
Operating margin, %	16.7	18.2	19.2
Adjusted operating profit ¹⁾	5,864	7,542	8,911
Adjusted operating margin, %	16.7	18.4	19.9
Return on capital employed, %	32.8	33.9	32.3
Number of employees ²⁾	14,211	14,397	14,229

1) Operating profit adjusted for items affecting comparability of –90 million SEK in 2018 and of –309 million SEK in 2019.

2) Number of employees adjusted for internal restructurings.

Sandvik Materials Technology

Sandvik Materials Technology is a world-leading developer and manufacturer of high value-added products in advanced stainless steels, powder-based alloys and special alloys for the most demanding industries, as well as products for industrial heating. Order intake for the business area amounted to 16,475 million SEK (15,898), an increase of 2 percent at fixed exchange rates for comparable units. Revenue totaled 15,279 million SEK (14,697), up 3 percent at fixed exchange rates for comparable units. The operating margin was 9.4 percent (8.9) of revenues and the adjusted operating margin was 11.7 percent (9.1) of revenues. The items affecting comparability of –343 SEK million was related to efficiency measures to mitigate a slower demand environment as well as separation costs.

Financial overview, MSEK	2017	2018	2019
Order intake	14,381	15,898	16,475
Revenue	13,281	14,697	15,279
Operating profit	224	1,307	1,444
Operating margin, %	1.7	8.9	9.4
Adjusted operating profit ¹⁾	674	1,331	1,787
Adjusted operating margin, %	5.1	9.1	11.7
Return on capital employed, %	1.7	10.1	11.0
Number of employees ²⁾	6,378	5,919	5,726

1) Operating profit adjusted for items affecting comparability of –450 million SEK in 2017, –24 million SEK and –343 million SEK in 2019. In 2019, adjusted operating profit, excluding metal price effects totaling 1,513 million SEK (1,074 for 2018 and 562 for 2017). The adjusted underlying operating margin was 9.9 percent (7.3 for 2018 and 4.2 for 2017).

2) Number of employees adjusted for internal restructurings.

Other Operations

In 2019 Other Operations consisted of Sandvik Drilling and Completions (Varel). Varel is a global supplier of drilling solutions focusing on drill bits and downhole products for well construction and well completion. In 2018 Other Operations comprised of Varel and Sandvik Hyperion, Sandvik Hyperion was divested in July 2018. Order intake for Other Operations amounted to 2,059 million SEK (3,605), an increase of 4 percent at fixed exchange rates for comparable units. Revenue totaled 2,059 million SEK (3,560), up 4 percent at fixed exchange rates for comparable units. The operating margin was –207.0 percent (18.5) of revenues and the adjusted operating margin was –6.8 percent (1.1) of revenues. In 2019 Sandvik signed an agreement to divest the majority of Varel. It resulted in a reclassification as “assets held for sale” in the financial statements, which triggered an impairment of –3,966 million SEK on net profit, comprising an effect on operation profit of –4,233 million SEK and an impairment of deferred tax of +267 million SEK.

Financial overview, MSEK	2017	2018	2019
Order intake	6,534	3,605	2,059
Revenue	6,374	3,560	2,059
Operating profit	4,293	659	–4,263
Operating margin, %	67.3	18.5	n/m
Adjusted operating profit ¹⁾	382	41	–140
Adjusted operating margin, %	6.0	1.1	–6.8
Return on capital employed, %	51.9	10.3	–100.1
Number of employees ²⁾	2,602	1,089	1,081

1) Operating profit adjusted for items affecting comparability of +3,910 million SEK in 2017, in 2018 +618 million SEK in 2018 and –4,123 million SEK in 2019.

2) Number of employees adjusted for internal restructurings.

RISK MANAGEMENT

Sandvik risk management processes support our business to manage and effectively mitigate critical risks.

The ability to effectively identify and manage risk is a vital element of business success for all parts of the Sandvik business.

The Group's risk management approach follows our decentralized structure. The Sandvik Board of Directors is ultimately responsible for the governance of risk management. Sandvik's Group Executive Management ensures there is a common and efficient process in place.

All management teams are responsible for their own risk management. The teams must follow the minimum requirements outlined in The Sandvik Way.

Part of the Board's requirements are clear and transparent information about Sandvik's enterprise risks and mitigating activities.

ERM – a part of our strategic work

Sandvik has implemented an Enterprise Risk Management (ERM) program that covers all business areas, divisions and functions within the Group. The management teams

analyze risks in their operations and related to their strategic objectives at least annually. Assessment and management of sustainability risks are integrated and significant parts of the ERM program. In addition, the ERM methodology is used as a tool for decision-making, operationally and within projects, as well as in the strategy process in various levels of the Group. The Group Executive Management reviews and discusses the Sandvik Group risk appetite and decide on the Group risk profile once per year. An ERM 2019 report, summarizing key risks and mitigating activities across our business, was provided to Sandvik's Audit Committee and Board of Directors in December. The Board of Directors' and the Audit Committee's involvement in the ERM process is further described on pages 51–52.

Insurance as a risk management tool

Sandvik has tailored insurance programs that transfer the risks associated with the Group's property, cargo

and liability exposures. Insurable risks are continuously evaluated and actions are taken to reduce these insurable risks, as part of Sandvik's loss-prevention strategy. Supported by our loss-prevention guidance, risk evaluations highlight opportunities to reduce the potential for significant losses and to ensure the Group's ability to deliver to its customers. In order to ensure cost efficient and tailored insurance solutions, selected risks are reinsured through the Group's captive insurance company.

Business continuity and crisis management

The global policies for business continuity and crisis management set the requirements for local management teams to ensure their ability to successfully respond to disruptive events and continue their business operations on an acceptable level. Once a risk materializes, our crisis management priorities are to minimize harm to people, to the environment, and to minimize damage to Sandvik's business, as well

ERM PROCESS AT SANDVIK



as ensuring a swift return to normal activities and safeguarding the company brands.

Internal audit and internal control in Sandvik's risk work

The internal audit function regularly follows up the implementation of different risk management programs such as ERM, business continuity, crisis management and the insurance programs. Sandvik applies group-wide internal controls to mitigate primarily financial risks but also some of the business risks. Read more about the internal controls program at Sandvik on page 53.

Sandvik's risk universe

Sandvik's risk universe is based on risk categories that are organized in three main risk areas – strategic risks, business risks and financial risks. Each risk category can in one way or another significantly impact the Group's performance if not managed effectively. The detailed risk universe is outlined on the next page.

Strategic risks

Strategic risks are risks that can significantly impact the execution of our business strategies and our ability to achieve our objectives. At Sandvik we include external and emerging risks in this risk area, such as industry shifts, technological shifts and macroeconomic developments. These risks can all impact our business negatively long term but often also create business opportunities if managed well. Our approach to managing these risks differs from other categories as it includes evaluation of which strategic risks to take and improving the business ability to manage them by

establishing risk tolerance, predicting the impact of possible risks and monitoring key risk indicators (KRIs).

Business risks

In this risk area we include operational and commercial risks. These types of risks can often impact the financial performance of the business negatively or can have a negative reputational impact on the brands of the Group. Examples are sustainability risks, such as health and safety risks and compliance risks, and operational risks, such as cyber security risks, IT failures, information and data protection as well as talent attraction and retention. The approach to managing these risks is through active prevention and by designing and implementing mitigation actions and controls.

Financial risks

Through its complex and international operations, Sandvik is exposed to multiple financial risks such as currency risks, interest risks, liquidity and refinancing risk. Sandvik's Group Treasury is functionally responsible for managing the greater part of the Group's financial risks. The Board of Directors establishes the principles for the Group's financial risk management, which comprises guidelines, objectives, and limits for financial management as well as the management of financial risks.

Operating entities within the Sandvik Group present reports on their financial performance and economic status on a regular basis in accordance with internal reporting rules and the accounting policies applied by Sandvik and the Interna-

tional Financial Reporting Standards (IFRS). The Group's Finance function validates and analyzes the financial information as part of the quality control of financial reporting. More information is available in the Corporate Governance Report on page 48.

For information about currency risks, interest risks, liquidity and refinancing risks, credit risks, raw material price risks and pension commitments, please see note 27 on page 112.

SANDVIK RISK UNIVERSE

Our risk universe has been developed through analysis and stakeholder dialogue of material risks for our industry, our different businesses, critical laws and regulations and critical operational, commercial, sustainability and financial requirements. It is a comprehensive library of risks which management teams apply to better understand, evaluate and aggregate risk within the business. The risk categories highlighted below refer to the Sandvik Group's identified key risks assessed during 2019.

Strategic risks

- S1. Industry shifts and market developments
- S2. Macroeconomic developments
- S3. Technological change/shifts
- S4. Regulatory change
- S5. Emerging and complex market developments
- S6. Sustainability expectations or requirements
- S7. Geopolitical developments
- S8. Portfolio management/M&A strategy

Financial risks

- F1. Liquidity and refinancing risk
- F2. Currency risk
- F3. Taxation risk
- F4. Credit and counterparty risk
- F5. Pension commitments
- F6. Financial regulatory reporting risk
- F7. Commodity price risk
- F8. Interest rate risk
- F9. Fraudulent activities
- F10. Forecasting and planning
- F11. Management estimates/assumption risk
- F12. Accounting information risk

Business risks

- B1. Noncompliance with laws and regulations
- B2. Health and safety
- B3. Increased competition
- B4. Product development and product support
- B5. Intellectual property management
- B6. Talent attraction and employee retention
- B7. IT failures
- B8. Insufficient IT security
- B9. IT capacity or capabilities
- B10. Information and data protection
- B11. Data accuracy
- B12. Cost flexibility and control
- B13. Change management/demand/readiness
- B14. Sales and distribution channels
- B15. Business interruptions
- B16. Product liability requirements
- B17. Environmental demands/climate change effects
- B18. Aftermarket developments and management
- B19. Customer retention
- B20. Pricing models and management
- B21. Bottleneck processes/inefficient ways of working
- B22. Governance and internal controls
- B23. Sandvik values and ethics compliance developments
- B24. Employee competence development and leadership development
- B25. Contract management
- B26. Technology development and innovation demand – internal operations
- B27. Third-party liabilities, litigation and dispute resolution
- B28. Contractor/short-term staff management
- B29. Partners/agents /third-party management
- B30. Measurement and operational reporting
- B31. Insurable risk
- B32. Security situation
- B33. Project-related risk
- B34. Communications (internal and external)
- B35. Joint ventures and other partnership risks
- B36. M&A transaction or integration
- B37. Supplier and sourcing management

Sandvik Group key risks 2019

Risk category	Identified key risk	Risk consequence	Risk mitigation
S1. Industry shifts and market developments	Changing competitive landscape with decreased demands for certain products or segments and an increased demand for a sustainable offering.	The inability to reach strategic objectives long term, leading to lower growth or lower financial performance.	The business areas are working with proactive business development and M&As. There is a strong focus on product segmentation (multi-company development/strategies, midmarket), aiming to diversify the product portfolio and reduce dependence on individual customer segments. There is also strong cost control in all our businesses.
S2. Macroeconomic developments	Our ability to adapt to macroeconomic developments.	The inability to plan long term, leading to less agile business, higher costs or price models not being profitable, causing lower financial performance long term.	All businesses are working with strong cost control and cost flexibility. All businesses are closely monitoring relevant Key Risk Indicators (capex investment in mining, raw material prices, GDP, oil rig count, daily order rates, etc.). They all have up to date contingency plans, including different scenarios, ready to activate at a first sign of a downturn.
B13. Change management/ demand/readiness			
S3. Technological change/ shifts	New and evolving technologies or technological demands leads to the need attract new talent in key competence areas (digitalization, sustainability, etc.)	The inability to reach strategic objectives long term, leading to lower growth or financial performance. A general risk of losing competitiveness and business position on the market with a special risk focus if not being able to take a strong position in the digital area fast enough.	There is a strong focus on R&D in all our businesses as well as proactive business development and M&A activities where growth is a priority. The business is closely monitoring the development of new technologies and customer segments. Partnerships have been formed with key partners and research centers to advance knowledge and capabilities in areas currently not core business. The business has also invested in additive manufacturing, powder technology, digitalization and automation. Sandvik has, across the business areas, focused on developing the Sandvik employer brand. One key area is to use new, digital channels to attract and recruit competence for the future. Succession planning has been strengthened for top management positions.
S4. Regulatory change	Changes in trade laws or chemical legislations. Stricter sustainability requirements.	The inability to quickly respond to new regulations leading to higher costs, fines or the inability to continue manufacturing certain products. Can have a negative reputational impact.	All parts of Sandvik work with the monitoring of different initiatives and continually evaluate their impact on our business. We are active in business associations and other organizations, such as Jernkontoret, Svenskt Näringsliv, the Cobalt Institute and the International Tungsten Industry Association to name a few, to monitor regulatory development to benefit long-term sustainable business.
S6. Sustainability expectations and/or requirements	Lack of focus on sustainability targets, due to conflicting short-term versus long-term priorities, leading to loss of competitiveness and customer satisfaction.	Being slower than competitors with new business models built on sustainability. Negative reputational impact and not meeting customer expectations could lead to a loss of business. Negative impact on the share's attraction as an investment as well as on the attraction and retention of future or current employees.	The Group Executive Management has the overall responsibility for Sandvik's sustainability strategy and agenda while the business areas / divisions are responsible for the implementation and follow-up. The business areas / divisions are also responsible for the assessment and management of sustainability risks in their operations. KPIs are consolidated and reported to follow up on goals at Group and business area / division levels. Each year we evaluate our performance, set targets and focus actions for the coming year to ensure delivery on our sustainable business strategy.
B1. Noncompliance with laws and regulations	Breach of anti bribery, anticorruption, competition or anti trust laws, General data Protection Regulations (GDPR) or trade compliance.	Worst-case scenarios show high financial impact due to fines in multiple markets. Can have a major negative reputational impact if risk were to materialize.	The Group has a governance framework, The Sandvik Way, including Group policies, Group procedures and other steering documentation. The scope of the governance framework, including the controls implemented, is based on legal requirements and risk exposure. Sandvik's formal compliance programs of anti-bribery and anti-corruption, competition law, customs and export controls and data privacy are managed by the business with oversight through a Group functional council.
B7. IT failures	Major IT incident (causing downtime of one week or more) in critical operational IT systems.	Inability to deliver products or services on time to customers or timely information to other stakeholders, leading to lower financial performance or negative financial impact due to fines.	A cyber security improvement program across the Sandvik Group is ongoing. Each business area is running an IT security improvement program, including risk review of critical business applications and risk-based network segmentation.
B8. Insufficient IT security	Lack of security in digital offering lifecycle.	Risk of compromising data and automation systems with negative reputational and financial impact. Risk of exposure to Sandvik internal IT systems.	All business areas / divisions are identifying the risks associated with their digital offering and taking appropriate actions to mitigate these risks.
B10. Information and data protection	Leakage of confidential information and unstructured content management for internal systems as well as external platforms, for example, social media.	Can lead to business critical information being made available to unauthorized individuals or organizations.	Increased authentication to prevent unauthorized access has been implemented. All business areas have strengthened their IT security management. Review of key processes for information release and overall communication channels initiated.
B15. Business interruptions	Unforeseen major disturbance or failure in production or supply chain, caused by, for example, weather events, machinery break-downs or fires.	Inability to deliver products or services on time to customers or timely information to other stakeholders, leading to lower financial performance or negative financial impact due to fines.	The Group's Crisis Management Policy is continuously updated and a Group policy for development of Business Continuity was approved by Group Executive Management in 2019. The business areas / divisions have performed risk scenario planning for some of the most critical production entities, supply chain vulnerabilities and IT system dependencies.

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. 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.

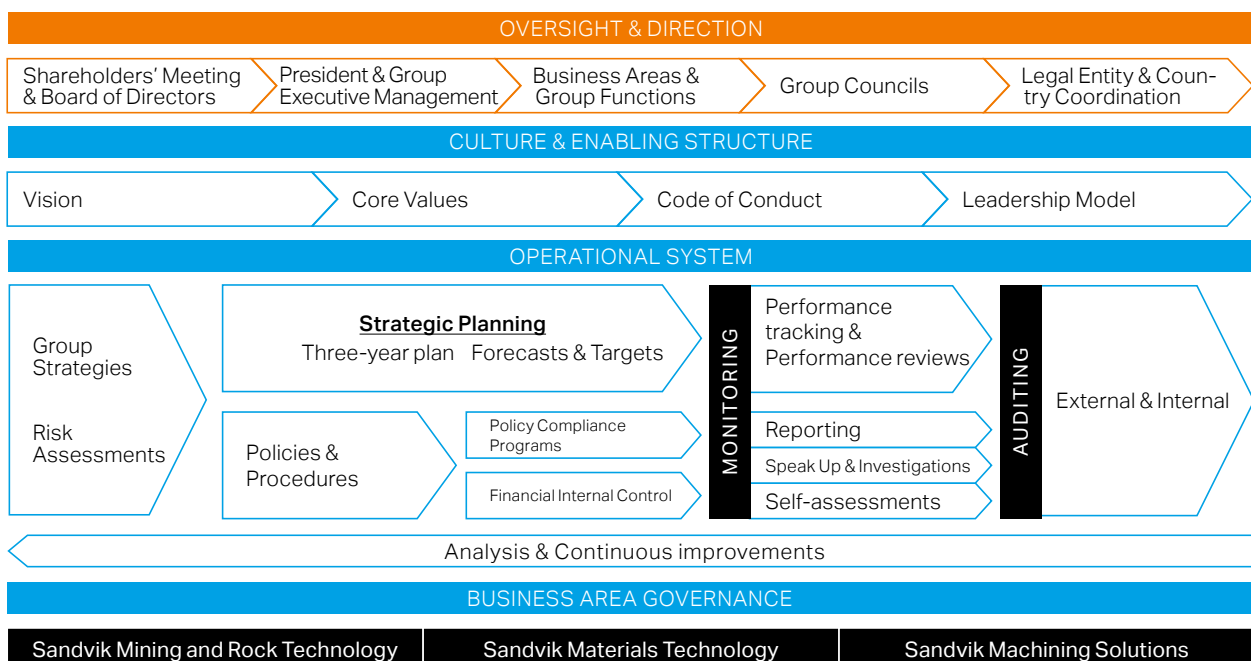
Culture and Enabling Structure

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.

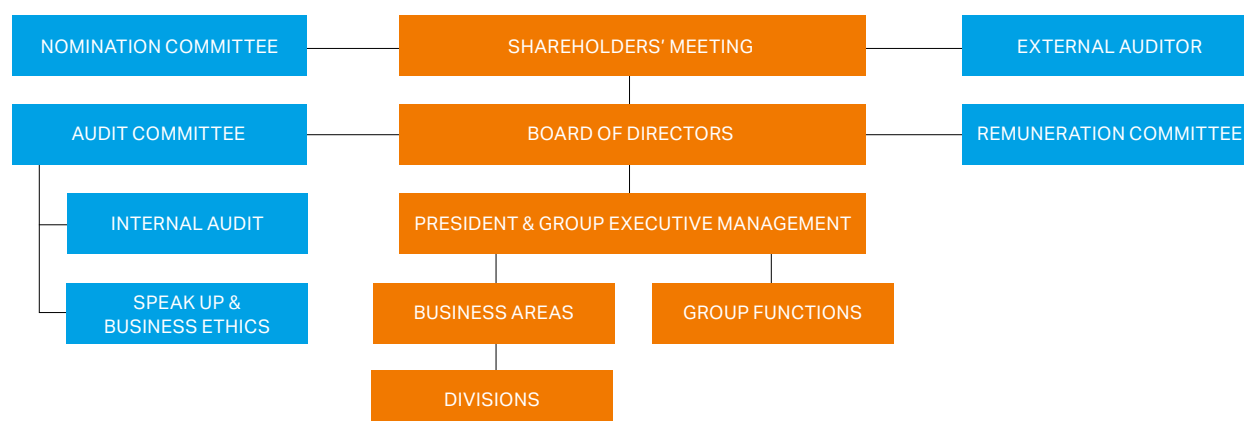
Operational System

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 ¹⁾	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.

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.

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 ¹⁾	14	5	2	5
Lars Westerberg ¹⁾	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 ¹⁾ 31 Dec 2019	Elected	Audit Committee	Remuneration Committee	Acquisitions and Divestitures Committee
Jennifer Allerton	Member	Yes	10,000	2015			
Thomas Andersson	Deputy ²⁾		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 ²⁾		2,889	2006			
Thomas Lilja	Member ²⁾		3,560	2016			
Mats W Lundberg	Deputy ²⁾		0	2015			
Johan Molin	Chairman	Yes	260,000 ³⁾	2015		Chairman	Chairman
Björn Rosengren ⁴⁾	Member	No ⁵⁾	119,181	2016			
Helena Stjernholm	Member	No ⁵⁾	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 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.

BOARD OF DIRECTORS



JOHAN MOLIN

Born 1959. Chairman of the Board since 2015. Chairman of the Remuneration Committee and Acquisitions and Divestitures Committee.
Education and business experience: M.Sc. in Business and Economics, Stockholm School of Economics. President and CEO of ASSA ABLOY 2005–2018. President and CEO of Nilfisk-Advance 2001–2005 and various positions within Atlas Copco 1983–2001.
Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 260,000 as well as 1,000,000 call options.



JENNIFER ALLERTON

Born 1951. Board member since 2015.
Education and business experience: M.Sc. in Physics and B.Sc. in Mathematics, Physical Sciences and Geosciences. Chief Information Officer at F. Hoffmann-La Roche Ltd 2002–2012. Technology Director at Barclaycard 1999–2002 and various positions at ServiceNet, USA, BOC (now Linde), Cable & Wireless Business Networks and Unilever plc.
Current Board assignments: Board member of Iron Mountain Inc., AVEVA Group plc. and Barclays Bank Ireland plc.
Shareholding in Sandvik (own and closely related persons): 10,000.



CLAES BOUSTEDT

Born 1962. Board member since 2015. Chairman of the Audit Committee and member of the Acquisitions and Divestitures Committee.
Education and business experience: M.Sc. in Business and Economics, Stockholm School of Economics. Executive Vice President of L E Lundbergföretagen AB since 1997 and President of L E Lundberg Kapitalförvaltning AB since 1995.
Current Board assignments: Board member of Hufvudstaden AB and Förvaltnings AB Lunden.
Shareholding in Sandvik (own and closely related persons): 20,000.



MARIKA FREDRIKSSON

Born 1963. Board member since 2017.
Education and business experience: Master of Business Administration. CFO and Group Executive Vice President of Vestas Wind Systems A/S since 2013. CFO of Gambro AB 2009–2012, CFO of Autoliv Inc. 2008–2009 and various positions within Volvo 1996–2008, including CFO and Senior Vice President Finance and Strategy at Volvo Construction Equipment Corporation.
Current Board assignments: Board member of SSAB AB.
Shareholding in Sandvik (own and closely related persons): 2,500.



JOHAN KARLSTRÖM

Born 1957. Board member since 2011. Member of the Remuneration Committee.
Education and business experience: M.Sc. in Engineering. President of Skanska AB 2008–2017, various positions within Skanska 2001–2008 and various senior positions within BPA (currently Bravida) 1995–2000.
Current Board assignments: Board member of CRH plc.
Shareholding in Sandvik (own and closely related persons): 5,000.



HELENA STJERNHOLM

Born 1970. Board member since 2016. Member of the Audit Committee, Remuneration Committee and Acquisitions and Divestitures Committee.
Education and business experience: M.Sc. in Business Administration. President and CEO of AB Industrivärden since 2015. Investment manager and subsequently partner at IK Investment Partners 1998–2015 and consultant at Bain & Company 1997–1998.
Current Board assignments: Board member of AB Industrivärden, AB Volvo and Telefonaktiebolaget LM Ericsson.
Shareholding in Sandvik (own and closely related persons): 5,000.

Changes in the Board of Directors

Björn Rosengren was a member of the Board during 2019 but left the Board, effective 1 February 2020.

Information regarding Board assignments and holdings of shares as of 31 December 2019. Current Board assignments refer to assignments in companies or organizations outside the Sandvik Group.



LARS WESTERBERG

Born 1948. Board member since 2010. Member of the Audit Committee.

Education and business experience: M.Sc. in Engineering and B.Sc. in Business Administration. President and CEO of Autoliv Inc. 1999–2007, Gränges AB 1994–1999 and ESAB 1991–1994, and various positions within ESAB and ASEA 1972–1991.

Current Board assignments: Board member of Stena AB.

Shareholding in Sandvik (own and closely related persons): 180,000.



TOMAS KÄRNSTRÖM

Born 1966. Board member since 2006 (employee representative, IF Metall).

Education and business experience: Chairman of the Union Committee, Metal Worker's Union, Sandvik Materials Technology. Various positions within Sandvik since 1986.

Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 2,889.



THOMAS LILJA

Born 1975. Board member since 2016 (employee representative, Unionen/Ledarna/Swedish Association of Graduate Engineers).

Education and business experience: Technical College Graduate – Mechanical Engineering. Chairman Trade Union, Unionen Sandvik Sweden and Unionen Coromant and Machining Solutions. Various purchasing positions within Sandvik 2000–2010 and production and logistics positions within Scania 1995–2000.

Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 3,560.



THOMAS ANDERSSON

Born 1962. Deputy Board member since 2012 (employee representative, IF Metall).

Education and business experience: Chairman of the Union Committee, Metal Workers' Union, Sandvik Coromant, Gimo. Various operator positions at Gimoverken, Sandvik Coromant, since 1984. Construction firm Anders Diös 1980–1984.

Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 0.



MATS W LUNDBERG

Born 1974. Deputy Board member since 2015 (employee representative, Unionen/Ledarna/Swedish Association of Graduate Engineers).

Education and business experience: M.Sc. and PhD in Chemical Engineering. Sustainable Business Manager, Sandvik Materials Technology, since 2019. Sustainability Specialist and R&D positions within Sandvik Materials Technology 2010–2018. Scientist and postdoctoral researcher at Risø DTU, Denmark, 2007–2010 and Technical Sales Specialist at Spectral Solutions AB 2005–2007.

Current Board assignments: Board member of Metacon AB.
Shareholding in Sandvik (own and closely related persons): 0.

HONORARY CHAIRMAN

PERCY BARNEVIK

Born 1941. Chairman of the Board of Sandvik AB 1983–2002.

BOARD SECRETARY

ÅSA THUNMAN

Born 1969. Secretary to the Board since 2014. Executive Vice President and General Counsel, Sandvik AB, since 2014.

AUDITOR

PRICEWATERHOUSE-COOPERS AB

Auditor-in-charge: Peter Nyllinge, Authorized Public Accountant.
Other auditing assignments: Fagerhult and Svensk Exportkredit.

GROUP EXECUTIVE MANAGEMENT



STEFAN WIDING

Born 1977. President and CEO, Sandvik AB, since 1 February 2020.

Education and business experience:

M.Sc. Applied Physics and Electrical Engineering and B.Sc. Business Administration.

Various positions within the Assa Abloy Group 2006–2020, including Executive Vice President HID Global division 2015–2020, Director of Product Management and General Manager of Shared Technologies Unit. Various positions in the Saab Group 2001–2006.

Current Board assignments: –

Shareholding in Sandvik (own and closely related persons): –



HENRIK AGER

Born 1969. President of the Sandvik Mining and Rock Technology business area since 2019.

Education and business experience:

M.Sc. Accounting and Finance.

Various positions within Sandvik since 2014, including President for the Rock Tools division, President for the Global Equipment division and Vice President for Strategy within Sandvik Mining and Rock Technology. Previously leading positions at McKinsey, Ericsson and several high-tech start-ups.

Current Board assignments: –

Shareholding in Sandvik (own and closely related persons): 5,883



JESSICA ALM

Born 1977. Executive Vice President and Head of Group Communications, Sandvik AB, since 2013.

Education and business experience:

M.Sc. in Geological and Earth Sciences/Geosciences, and Journalism. Various positions within Sandvik since 2006, including Vice President Communication and Marketing at Sandvik Coromant.

Current Board assignments: –

Shareholding in Sandvik (own and closely related persons): 4,398.



LARS BERGSTRÖM

Born 1958. Acting President of the Sandvik Machining Solutions business area since 2019.

Education and business experience:

M.Sc. in Mechanical Engineering and MBA in International Management.

Senior Strategy Advisor and Vice President Sandvik Machining Solutions 2018–2019, President of Seco Tools 2011–2018, President and CEO of BE Group 2009–2010 and President and CEO of KMT Group 2003–2008. Previously various senior positions within ABB.

Current Board assignments: Ejendals AB

Shareholding in Sandvik (own and closely related persons): 34,407.



GÖRAN BJÖRKMAN

Born 1965. President of the Sandvik Materials Technology business area since 2017.

Education and business experience: M.Sc. in Mechanical Engineering. Various positions within Sandvik since 1990, including Head of Business Development, Vice President Production Strategy and Vice President Production at Sandvik Coromant and Head of Primary Products at Sandvik Materials Technology.
Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 6,168.



TOMAS ELIASSON

Born 1962. Executive Vice President and Chief Financial Officer, Sandvik AB, since 2016.

Education and business experience: B.Sc. in Business Administration and Economics. CFO of AB Electrolux 2012–2016, CFO and Executive Vice President of ASSA ABLOY AB 2006–2012, CFO of Seco Tools AB 2002–2006 and various positions within ABB 1987–2002.
Current Board assignments: Board member of Millicom International Cellular S.A.
Shareholding in Sandvik (own and closely related persons): 20,191.



JOHAN KERSTELL

Born 1970. Executive Vice President and Head of Human Resources, Sandvik AB, since 2016.

Education and business experience: M.Sc. in Business and Economics. Various positions in Human Resources and Organizational Development within Sandvik since 2004 and consultant at Cap Gemini 1999–2003.
Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 9,730.



ÅSA THUNMAN

Born 1969. Executive Vice President and General Counsel, Sandvik AB, since 2014.

Education and business experience: Master of Laws (LL.M), Sweden and the Netherlands. Various positions within Securitas 2009–2014, including General Counsel, Elektro AB 1999–2009, including General Counsel, and Lagerlöf & Leman law firm 1996–1999.
Current Board assignments: –
Shareholding in Sandvik (own and closely related persons): 6,768.

Changes in the Group Executive Management

Björn Rosengren was President and CEO during 2019 but left the company, effective 1 February 2020, when he was succeeded by Stefan Widing. Klas Forsström and Lars Engström left the company in 2019 and were replaced by Lars Bergström and Henrik Ager, respectively.

Information regarding board assignments and holdings of shares as of 31 December 2019. Current board assignments refer to assignments in companies or organizations outside the Sandvik Group.

SUSTAINABILITY GOVERNANCE

Sandvik's business strategy, business model and the 2030 sustainability Goals (see page 14) form the basis for the company's sustainable business governance. Relevant goals are set to address material areas and efficiently manage related risks and opportunities. Policies and management systems have been set to ensure financial, environmental and social compliance.

The Group Executive Management has the overall responsibility for Sandvik's sustainability strategy and agenda while the business areas and divisions are responsible for the implementation and follow-up. The business areas are also responsible for the assessment and management of sustainability risks in their operations. KPIs are consolidated and reported to follow up on goals at Group and business area levels. Each year we evaluate our performance, set targets and focus actions for the coming year.

The Sustainability Council is a forum for cooperation and best practice sharing across Sandvik. The Council comprises representatives from the business areas and group functions. The Sustainable Business function coordinates the sustainability agenda together with the business areas.

Code of Conduct

Sandvik's Code of Conduct is based on our Core Values, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the United Nations International bill of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention against Corruption, as outlined in the ten principles of the United Nations Global Compact. It confirms our strong commitment to ethical and responsible business practices and compliance with relevant laws and regulations in all markets where we operate. The Code of Conduct describes the principles of behavior that our employees should adhere to and provides guidance in our actions and everyday business decisions. The Code of Conduct is a vital component in The Sandvik Way governance model, which encompasses common steering documents and processes. The Sandvik Way also describes a common culture and ways of working and is an important enabler for achieving our 2030 goals.

Speak Up

Employees and external parties who witness a violation of the Code of Conduct, laws or our policies can report the violation, anonymously, through the global reporting tool Speak Up. All reports are assigned an investigator from the business area that conducts the investigation. The Ethics Office oversees the effectiveness of the Speak Up process. Reports, investigations and remediation are recorded, monitored and included in reporting to the Audit Committee.

No retaliation may be taken against an employee or business partner who, in good faith, voices their concern, as is outlined in Sandvik's Speak Up Policy.

Compliance

Sandvik's Compliance System includes four areas: anti-bribery and corruption, competition law, trade compliance and data privacy. To emphasize the importance of a fully embedded and agile Compliance System within the business, the Compliance System is part of Sandvik's 2030 goals (see page 14). The purpose is to ensure a well-functioning structure with control over Sandvik's international business and to manage

compliance risks in all countries in which Sandvik operates. Compliance programs, including risk identification, policies, training, controls, etc., are implemented by each business area and overseen by the Sandvik Compliance Functional Council which sets requirements, reviews performance and provides assurance of satisfaction to the Board of Directors through the Audit Committee. The Council comprises business area and group Compliance Officers and the Head of Business Integrity.

Human rights and fair labor conditions

Our commitment to human rights is confirmed in our Code of Conduct as well as in our Supplier Code of Conduct in which we support, amongst others, the Bill of Human Rights and UN Guiding Principles on Business and Human Rights. The Codes also provide guidance in identifying, preventing and mitigating risks related to human rights.

To mitigate human rights risks, we continuously work to ensure compliance with national legislation and internationally agreed human rights standards and regulations. We regularly evaluate our standards and procedures for identifying, preventing

and mitigating adverse human rights impacts in the Group's operations and in our value chain. Our work on human rights is integrated in our regular processes and procedures in different ways, for example, in our Sustainable Supplier Management, our safety work and in our diversity and inclusion scheme. We have zero tolerance for forced or slave labor and child labor.

We support children's rights and the right to education through our community involvement initiatives in, for example, India and China. All employees have the right, if they choose, to join a union and be covered by a collective agreement. We do not accept any form of harassment or bullying and believe in a diverse workforce without any form of discrimination based on gender identity, ethnicity, national origin, age, disability, marital status, social group or any other characteristics.

Employees

Sandvik offers a diverse and inclusive workplace, fair remuneration and working terms that respect the needs of the individual. Sandvik has a People Policy that reflects Sandvik's commitment to our employees and outlines what employees can expect

from us in relation to how we attract, develop and retain our employees and where appropriate, manage their exit from the business.

Leadership development

Our 5,300 managers play a crucial role in enabling teams to grow and deliver results. Our leadership model and our global leadership programs set clear expectations on both leadership capabilities and behaviors.

Young talent

Through our Global Graduate Program, we attract and train young professionals at various parts of the Sandvik organization. One of the main purposes with the program is to develop and prepare graduates for future key positions, and after the program they are deployed into different roles within our business.

Diversity and inclusion

Diversity and inclusion are vital aspects of our people strategy and part of Sandvik's 2030 goals (see page 14).

The responsibility for implementation and communication of the 2030 goals lies within the business, including securing resource needs and taking appropriate measures to

ensure goal achievement. Sandvik has a diversity and inclusion forum with representatives from business areas and the Group with the purpose to work collaboratively to develop a diverse organization and a culture of inclusion. The forum collaborates on joint initiatives and shares best practices and experiences.

Environment, Health and Safety (EHS)

Sandvik has a zero-harm vision for our people, the environment we work in, our customers and our suppliers. All explicitly included in our 2030 goals (see page 14). Sandvik's EHS Policy, Groups EHS Objectives and the 2030 Goals drive our health and safety activities. Each business area works to meet these objectives according to their own plans. Targets are set year on year to drive performance on all organizational levels towards the 2030 goals. In addition to our own internal operations, our EHS Policy includes a commitment to external relationships that Sandvik has in the market.

The Sandvik EHS Council consists of representatives from all business areas with its primary aim being to facilitate collaboration across the company that will enhance our progress towards our EHS vision. While EHS activities are decentralized within the business areas, the EHS

Council is the forum for identifying, reaching consensus on and implementing common initiatives and procedures. In addition, the Council drafts documents, such as the EHS Policy and objectives and targets, for the Group Executive Management to consider and approve. The council can appoint working groups to work on specific EHS issues, for example environmental working groups.

Our EHS Management systems are based on ISO 14001, ISO 45001, OHSAS 18001 or equivalent standards. Management of individual topics follows the criteria of these frameworks but can go beyond. We have a common EHS Policy for the company and Group Procedures in areas where Sandvik wants to set standards that go above and beyond the requirements of our certified management systems. These procedures handle hazard identification and risk management; incident reporting, investigation and injury management; EHS performance measurement and monitoring; Training and competence; Small sites and offices procedure. Sites with a lower risk profile do not have to go through the process of external certification. However, these sites will be covered by the requirements in the Group procedure for Small sites and offices.

Any specific issues of a more local nature, for example, effluent

discharge limits or environmental permits, if not covered in legal requirements, certifications or Group procedures, will be local initiatives adapted to the specific needs at each production unit or business division. The scope of the EHS Management systems includes relationships also outside the company boundaries, and a responsibility to ensure high standards where Sandvik is in control of the work environment. This includes working with risk identification and mitigation in order to prevent any incidents of work-related injuries or occupational illnesses.

Environmental criteria are included in the process for sustainable supplier management and environmental and safety criteria are part of the product development process.

Each Sandvik-controlled location will implement and maintain formal systems and processes for risk assessments. All employees can and are encouraged to report the hazards they observe. The system supports a process for handling all hazards adequately and following them through to completion. The most senior Sandvik manager at each location is responsible for correct handling of the registered hazard.

Each business area/location has an Incident Reporting and Investigation system and is responsible for ensuring the findings from incident

investigations are shared within the organization. All employees have access to a colleague in their immediate workplace or as part of their organization who is representing the EHS function within Sandvik.

Health and safety committees are organized depending on the nature of the local organization and the issues within that region. Typically, representatives are from local management and from workers and EHS professionals.

Training is provided as part of the induction for all employees and in more depth to EHS professionals. Furthermore, EHS issues are integrated in any training for certain roles. Our training packages vary from classroom training in-house to external training and self-learning, for example, e-learning.

Access to medical and healthcare services is designed based on local needs. It varies from having professional healthcare on site or agreements with external parties where our employees have access to vaccinations, health checks, etc. Health and Well-being programs are offered and maintained for all employees. Enrollment is voluntary. The programs are adapted to local needs and address a wide range of issues such as fitness, nutrition, mental health and disease prevention.

Sustainable supplier management

Sandvik is committed to sustainable procurement practices that minimize our negative societal and environmental impacts, improve the sustainability performance of our suppliers and create value for business, our customers and society at large. It is important for us to partner with suppliers who understand and embrace our sustainability standards in areas such as environment, labor, human rights, anti-corruption, circularity of materials and carbon footprint. Our requirements are part of our 2030 Sustainability goals and are outlined in our Supplier Code of Conduct, which will be updated in 2020. The responsibility of development and implementation of sustainable supplier management is decentralized and lies within each division.

Community involvement

Sandvik is involved in a wide variety of community relations projects around the world. Our platform for sponsorship and community involvement projects comprises four areas: Innovation – projects with a clear link to our daily work, products and solutions, Education and skills – projects that demonstrate our role as an employer and provide long-term

employer branding value, Health and safety – projects contributing to improved health and safety in society, and Local enabler – projects creating joint value for our stakeholders and our employees.

We view our community projects as investments, for which we require contracts, clear target groups and objectives with measurable results. All activities must conform to our Code of Conduct, which means that we do not engage in any activities of a political or religious nature, or in projects that may be viewed as hazardous to health or the environment. All of our project partners must sign the Sandvik Supplier Code of Conduct and undergo the same screening process as our suppliers. As part of our 2030 Sustainability goals, we encourage our sites to be engaged in community activities with a positive impact on society.

FINANCIAL STATEMENTS

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Parent Company

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CONSOLIDATED INCOME STATEMENT

MSEK	Note	2018	2019
Continuing operations			
Revenue	1,2	100,072	103,238
Cost of sales and services		-59,094	-61,662
Gross profit		40,978	41,576
Selling expenses		-13,377	-14,946
Administrative expenses		-6,180	-6,643
Research and development costs	4	-3,535	-3,674
Share of results of associated companies		45	9
Other operating income	5	1,337	1,184
Other operating expenses	6	-613	-4,119
Operating profit	1,3,7,8	18,655	13,386
Financial income		374	492
Financial expenses		-1,169	-1,729
Net financing costs	9	-795	-1,237
Profit after financial items		17,860	12,150
Income tax	10	-4,645	-3,421
Profit for the year, continuing operations		13,214	8,728
Discontinued operations			
Revenue		852	295
Operating profit		-552	-204
Profit after financial items		-545	-205
Profit for the year, discontinued operations	30	-545	-205
Group total			
Revenue		100,924	103,533
Operating profit		18,103	13,182
Profit after financial items		17,315	11,945
Profit for the year, Group total		12,669	8,523
Profit for the year attributable to:			
Equity holders of the Parent		12,679	8,539
Non-controlling interests		-10	-16
Basic earnings per share, SEK			
	11		
Continuing operations		10,54	6,97
Discontinued operations		-0,43	-0,16
Group total		10,11	6,81
Diluted earnings per share, SEK			
	11		
Continuing operations		10,52	6,96
Discontinued operations		-0,43	-0,17
Group total		10,09	6,79
Consolidated statement of comprehensive income			
Profit for the year		12,669	8,523
Other comprehensive income			
Items that cannot be reclassified to profit/loss for the year			
Actuarial gains/losses on defined-benefit pension plans	20	-684	-1,638
Tax relating to items that cannot be reclassified to profit/loss for the year	10	163	323
		-522	-1,315
Items that can be reclassified to profit/loss for the year			
Translation differences during the year		1,752	1,880
Fair-value changes in cash flow hedges		3	30
Fair-value changes in cash flow hedges transferred to profit/loss for the year		15	-2
Tax related to fair-value changes in cash-flow hedges	10	-4	-8
		1,766	1,900
Total other comprehensive income for the year		1,244	585
Total comprehensive income		13,914	9,108
Total comprehensive income for the year attributable to:			
Equity holders of the Parent		13,924	9,124
Non-controlling interests		-10	-16

CONSOLIDATED BALANCE SHEET

MSEK	Note	31 Dec. 2018	31 Dec. 2019
Assets			
Non-current assets			
Intangible assets			
Patents and other intangible assets	12	6,645	5,694
Goodwill	12	15,605	14,380
Total		22,250	20,074
Property, plant and equipment			
Land and buildings	12	9,118	9,012
Plant and machinery	12	11,879	12,221
Equipment, tools, fixtures and fittings	12	1,580	1,752
Construction in progress and advance payments	12	2,785	2,657
Total		25,362	25,643
Right-of use assets	8	0	3,172
Financial assets			
Investments in associated companies	1,15	100	292
Financial assets		119	83
Deferred tax assets	10	3,150	3,797
Non-current receivables	16	2,295	2,390
Total		5,664	6,562
Total non-current assets		53,276	55,450
Current assets			
Inventories	17	24,393	24,243
Contract assets		143	77
Current receivables			
Trade receivables	18	15,255	14,878
Due from associated companies		0	0
Income tax receivables	10	740	1,403
Other receivables	16	4,667	4,708
Prepaid expenses and accrued income		808	896
Total		21,470	21,885
Cash and cash equivalents		18,089	16,953 ¹⁾
Assets held for sale	30	641	1,815
Total current assets		64,736	64,973
Total assets		118,011	120,423

1) Not including Assets held for sale of 34 million SEK

CONSOLIDATED BALANCE SHEET (CONTINUED)

MSEK	Note	31 Dec. 2018	31 Dec. 2019
Equity and liabilities			
Equity			
Share capital		1,505	1,505
Other paid-in capital		7,678	7,678
Reserves		5,110	7,010
Retained earnings incl. profit/loss for the period		43,827	45,651
Equity attributable to equity holders of the Parent		58,120	61,844
Non-controlling interest		42	14
Total equity	19	58,163	61,858
Non-current liabilities			
Interest-bearing liabilities			
Provision for pensions	20	6,234	7,765
Loans from financial institutions		1,123	22
Lease liabilities	27	0	2,448
Other liabilities	23	20,431	15,148
Total		27,788	25,383
Non-interest-bearing liabilities			
Deferred tax liabilities	10	2,385	2,299
Provision for taxes	10	1,457	-0
Other provisions	21	1,149	1,193
Other non-current liabilities	24	303	298
Total		5,294	3,790
Total non-current liabilities		33,082	29,174
Current liabilities			
Interest-bearing liabilities			
Loans from financial institutions		2,348	172
Lease liabilities	27	0	792
Other liabilities	23	27	2,062
Total		2,375	3,026
Non-interest-bearing liabilities			
Advance payments from customers		2,447	1,871
Accounts payable		7,792	7,598
Contract liabilities		275	278
Due to associated companies		1	1
Income tax liabilities	10	1,252	3,744
Other liabilities	24	2,467	2,357
Other provisions	21	2,126	2,693
Accrued expenses and deferred income		7,420	6,944
Total		23,780	25,486
Liabilities directly attributed to assets held for sale	30	612	880
Total current liabilities		26,768	29,391
Total liabilities		59,850	58,564
Total equity and liabilities		118,011	120,423

For information on contingent liabilities and pledged assets, refer to Note 26.

CONSOLIDATED CHANGES IN EQUITY

MSEK	Equity attributable to equity holders						Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit/loss for the year	Total			
Equity at 1 January 2018	1,505	7,678	3,344	36,167	48,694	28	48,722	
Net working capital adjustment				-312	-312		-312	
Changes due to IFRS 9	-	-	-	-71	-71		-71	
Adjusted equity at 1 January 2018	1,505	7,678	3,344	35,784	48,311	28	48,339	
Profit for the year	-	-	-	12,679	12,679	-10	12,669	
Other comprehensive income/loss	-	-	1,766	-531	1,235	-	1,235	
Total comprehensive income/loss for the year	0	0	1,766	12,148	13,914	-10	13,904	
Transaction with owners								
Acquired non-controlling interest				-24	-24	24	0	
Share-based payment settled by equity instruments	-	-	-	151	151	-	151	
Payments on exercise of options program	-	-	-	20	20	-	20	
Reduction of hedge options programs	-	-	-	1	1	-	1	
Other options	-	-	-	0	0	-	0	
Dividends, hedged options program	-	-	-	137	137	-	137	
Dividend	-	-	-	-4,390	-4,390	-	-4,390	
Equity at 31 December 2018	1,505	7,678	5,110	43,827	58,120	42	58,162	
Equity at 1 January 2019	1,505	7,678	5,110	43,827	58,120	42	58,162	
Profit for the year				8,539	8,539	-16	8,523	
Other comprehensive income/loss			1,900	-1,315	585		585	
Total comprehensive income/loss for the year	0	0	1,900	7,224	9,124	-16	9,108	
Transaction with owners								
Acquired non-controlling interest				3	3	-3	0	
Share-based payment settled by equity instruments	-	-	-	97	97	-	97	
Payments on exercise of options program	-	-	-	20	20	-	20	
Reduction of hedge options programs	-	-	-	-189	-189	-	-189	
Other options	-	-	-	0	0	-	0	
Dividends, hedged options program	-	-	-	0	0	-	0	
Dividend	-	-	-	-5,331	-5,331	-9	-5,340	
Equity at 31 December 2019	1,505	7,678	7,010	45,651	61,844	14	61,858	

CONSOLIDATED CASH FLOW STATEMENT

MSEK	Note	2018	2019
Group total			
Cash flow from operating activities			
Income after financial income and expenses		17,315	11,945
Adjustment for depreciation, amortization and impairment losses		4,408	10,077
Other adjustment for non-cash items, etc.	29	46	441
Income tax paid		-2,978	-3,598
Cash flow from operating activities before changes in working capital		18,791	18,865
Changes in working capital			
Change in inventories		-2,119	474
Change in operating receivables		-1,013	1,168
Change in operating liabilities		-66	-2,090
Cash flow from changes in working capital		-3,198	-447
Investments in rental equipment		-825	-911
Divestments of rental equipment		146	147
Cash flow from operating activities		14,914	17,654
Cash flow from investing activities			
Acquisition of companies and shares, net of cash acquired	30	-4,631	-1,870
Proceeds from sale of companies and shares, net of cash disposed	30	4,052	95
Acquisition of tangible assets		-3,310	-3,472
Proceeds from sale of tangible assets		209	397
Acquisition of intangible assets		-611	-664
Proceeds from sale of intangible assets		70	42
Other investments, net		-62	-11
Net cash used in investing activities		-4,283	-5,484
Net cash flow after investing activities		10,631	12,171
Cash flow from financing activities			
Change in borrowing	29	-859	-7,073
Dividends paid		-4,390	-5,340
Amortization, lease liabilities	29	-	-945
Cash flow from financing activities		-5,249	-13,358
Cash flow for the year		5,382	-1,188
Cash and cash equivalents at beginning of year		12,724	18,089
Foreign exchange differences on cash and cash equivalents		-17	86
Cash and cash equivalents at the end of year	29	18,089	16,987¹⁾
Continuing operations			
Cash flow from operations		15,353	17,807
Cash flow from investing activities		-4,286	-5,500
Cash flow from financing activities		-5,247	-13,356
Cash flow from continuing operations		5,820	-1,050

1) Included assets held for sale of 34 million SEK

PARENT COMPANY INCOME STATEMENT

MSEK	Note	2018	2019
Revenue	2	20,141	21,038
Cost of sales and services		-11,103	-10,038
Gross profit		9,038	11,000
Selling expenses		-1,321	-1,259
Administrative expenses		-2,393	-2,724
Research and development costs	4	-1,492	-1,588
Other operating income	5	26	44
Other operating expenses	6	-1,291	-1,249
Operating profit	3, 8	2,567	4,224
Result from shares in Group companies	9	4,364	11,989
Result from shares in associated companies	9	0	0
Interest income and similar items	9	541	485
Interest expenses and similar items	9	-1,117	-795
Profit after financial items		6,355	15,903
Appropriations		-3,138	-82
Income tax	10	-1,481	-684
Profit for the year		1,736	15,137

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

PARENT COMPANY BALANCE SHEET

MSEK	Note	31 Dec. 2018	31 Dec. 2019
Assets			
Non-current assets			
Intangible assets			
Patents and other intangible assets	13	26	32
Goodwill	13	81	53
Total		107	85
Property, plant and equipment			
Land and buildings	13	985	972
Plant and machinery	13	4,158	4,444
Equipment, tools, fixtures and fittings	13	373	441
Construction in progress and advance payments	13	1,537	1,232
Total		7,053	7,089
Financial assets			
Shares in Group companies	14	30,777	42,573
Due from Group companies		11,505	11,648
Investments in associated companies	15	0	0
Other investments		2	2
Non-current receivables	16	109	35
Deferred tax assets	10	–	80
Total		42,393	54,338
Total non-current assets		49,553	61,512
Current assets			
Current receivables			
Inventories	17	3,065	3,229
Current receivables			
Trade receivables		747	798
Due from Group companies		9,160	10,112
Income tax receivables	10	81	–
Other receivables	16	684	451
Prepaid expenses and accrued income		636	695
Total		11,308	12,056
Cash and cash equivalents		3	0
Total current assets		14,376	15,285
Total assets		63,929	76,797

PARENT COMPANY BALANCE SHEET (CONTINUED)

MSEK	Note	31 Dec. 2018	31 Dec. 2019
Equity and liabilities			
Equity			
Non-distributable equity			
Share capital		1,505	1,505
Statutory reserve		1,611	1,611
Total		3,116	3,116
Distributable equity			
Profit brought forward		19,979	16,312
Profit for the year		1,736	15,137
Total		21,715	31,449
Total equity	19	24,831	34,565
Untaxed reserves			
Other untaxed reserves		3,140	3,222
Total		3,140	3,222
Provisions			
Provisions for pensions	20	376	337
Other provisions	21	215	433
Total		591	770
Non-current interest-bearing liabilities			
Loans from Group companies	22	1	1
Other liabilities	22	16,962	15,123
Total		16,963	15,124
Non-current non-interest-bearing liabilities			
Deferred tax liabilities	10	649	–
Other liabilities		258	245
Total		907	245
Current interest-bearing liabilities			
Loans from financial institutions		93	99
Loans from Group companies		10,730	13,144
Other liabilities		–	1,995
Total		10,823	15,238
Current non-interest-bearing liabilities			
Advance payments from customers		342	325
Accounts payable		1,844	1,819
Due to Group companies		1,541	2,226
Income tax liabilities	10	–	604
Other liabilities		248	291
Accrued expenses and deferred income	25	2,699	2,368
Total		6,674	7,633
Equity and liabilities		63,929	76,797

For information on contingent liabilities and pledged assets, refer to Note 26.

PARENT COMPANY CHANGES IN EQUITY

MSEK	Share capital	Statutory reserve	Distributable equity	Total equity
Equity at 1 January 2018	1,505	1,611	24,063	27,179
Comprehensive income for the year	-	-	1,735	1,735
Adjustment due to IFRS 9	-	-	-2	-2
Dividend	-	-	-4,390	-4,390
Share-based payment settled by equity instruments	-	-	151	151
Reduction of hedge options programs	-	-	137	137
Payments on exercise of options program 2013	-	-	1	1
Dividends, hedged options program	-	-	20	20
Equity at 31 December 2018	1,505	1,611	21,715	24,831
Comprehensive income for the year	-	-	15,137	15,137
Dividend	-	-	-5,331	-5,331
Share-based payment settled by equity instruments	-	-	97	97
Reduction of hedge options programs	-	-	-189	-189
Dividends, hedged options program	-	-	20	20
Equity at 31 December 2019	1,505	1,611	31,449	34,565

PARENT COMPANY CASH FLOW STATEMENT

MSEK	2018	2019
Cash flow from operating activities		
Profit before tax	3,217	15,821
Adjustment for depreciation, amortization and impairment losses	948	1 163
Adjustment for non-cash items, etc.	6,127	-222
Income tax paid	-58	-728
Cash flow from operating activities before changes in working capital	10,234	16,034
Changes in working capital		
Changes in inventories	-139	-164
Changes in operating receivables	-4,648	795
Changes in operating liabilities	-4,033	706
Cash flow from operating activities	1,414	17,371
Cash flow from investing activities		
Acquisition of companies and shares, net of cash acquired	-2,930	-11,893
Acquisition of property, plant and equipment	-799	-976
Proceeds from sale of companies and shares, net of cash disposed of	2,791	115
Proceeds from sale of property, plant and equipment	183	136
Net cash used in investing activities	-755	-12,618
Net cash flow after investing activities	659	4,753
Cash flow from financing activities		
Changes in advances/loans to Group companies	-650	-1 853
Changes in advances/loans from Group companies	4,872	2,414
Proceeds from external borrowings	93	99
Repayment of external borrowings	-581	-85
Dividend paid	-4,390	-5,331
Net cash used in financing activities	-656	-4,756
Cash flow for the year	3	-3
Cash and cash equivalents at beginning of year	0	3
Cash and cash equivalents at end of year	3	0

SIGNIFICANT ACCOUNTING POLICIES – ASSESSMENTS AND ASSUMPTIONS FOR ACCOUNTING PURPOSES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) as endorsed by the EU. In addition, the recommendation RFR 1 Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied.

The Parent Company has applied the same accounting policies as those applied in the consolidated financial statements except as set out below in the section "Parent Company's accounting policies."

The financial statements are presented on pages 38–121 and 135–136 in the printed Annual Report. The Parent Company's Annual Report and the consolidated financial statements were approved for issuance by the Board of Directors on 1 March 2020. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on 28 April 2020.

Basis of measurement

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

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

Judgments made by management in the application of IFRS that have had a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed further below. Events after the balance sheet date refer to both favorable and unfavorable events that have occurred after the balance sheet date but before the date the financial statements were authorized for issue by the Board of Directors. Significant non-adjusting events, that is, events indicative of conditions that arose after the balance sheet date, are disclosed in the financial statements. Only adjusting events, that is, those that provide evidence of conditions that existed at the balance sheet date, have been considered in the final establishment of the financial statements. The most significant accounting policies for the Group, as set out below, have been applied consistently to all periods presented in these consolidated financial statements except as specifically described. Moreover, the Group's accounting policies have been consistently applied in the Group reporting by all members of the Group and in the Group reporting of associated companies, where necessary, by adaptation to Group policies.

Changes in accounting policies

The below amendments of standards and new and amended interpretations came into effect 1 January 2019. None of these standards had any material impact on Sandvik's financial statements.

–IFRS 16 Leases. The standard is effective from 1 January 2019. The lease portfolio included almost 10,000 contracts at the transition date and covers mainly operational leases for offices, produc-

tion and warehouse facilities, production, office and IT equipment. Existing finance leases measured previously under IAS 17 Leases are reclassified to IFRS 16 to the amounts recognized immediately before the date of application of the new standard. Sandvik has chosen to perform the transition in line with the Cumulative catch-up approach and has applied the expedient not to restate any comparative information. Right-of-use assets have been determined as an amount equal to the lease liabilities as identified at initial application. A single discount rate has been applied per country, per lease term and asset classes Land and Buildings respectively Other assets such as machinery, equipment, vehicles and IT. Implicit rate has been applied when it has been recognized in a contract. Hindsight has been used to determine the lease terms when an option to terminate or extend has been available. Lease contracts shorter than 12 months or ending within 12 months at the date of application are considered short-term and hence not recognized as lease liability or right-of-use asset. In addition, low value contracts are also excluded from being recognized as lease liability or right-of-use asset. The Group's activities as a lessor are not material and hence the impact on Group financial statements is not significant. However, some additional disclosures will be required. The effect on the Group financial reports transiting to IFRS 16 as per 1 January 2019 is summarized below.

MSEK	Closing balance 31 Dec 2018 before transition to IFRS 16	Reclassification of finance leases due to IFRS 16 transition	Estimated adjustments due to IFRS 16 transition	Estimated adjusted opening balance 1 Jan 2019
Property, plant and equipment	25,362	–30	—	25,332
Right-of-use assets	—	30	3,359	3,389
Other liabilities	20,431	–30	—	20,401
Long-term lease liabilities	—	30	2,639	2,669
Short-term lease liabilities	—	—	720	720

Sandvik has identified many contracts concerning premises with open-ended contracts. In many countries local law provides protection to the lessee from being given notice. This requires Sandvik as a lessee to determine the contract period instead of considering the termination clause. The lessee then determines the length of the contract period based on factors such as the importance of the building to the business, any planned or made leasehold investments and the market situation for premises. As a consequence, these contracts have in many cases had the contract period extended.

MSEK	Movement
Minimum lease payments for operating leases IAS 17	4,237
Discounted by Incremental borrowing rate (3.48%)	–517
Addition of financial lease liabilities	30
Deduction of short-term and low value contracts	–441
Deduction of contracts reassessed as service agreements	–5
Changes due to extension and termination options	85
Other changes	0
OB adjustment according to IFRS 16	3,389

The lease contracts included in comparative year 2018 in the Annual Report are presented applying the accounting standard IAS 17 Leases under which a finance lease, the lessee recognizes the leased asset measured at the lower end of its fair value and the present value of future lease payments. Simultaneously, a liability corresponding to future lease expenses is recognized. The asset is depreciated according to the proper accounting policy valid for the type of asset. However, depreciation may never exceed the lease term. The lease payments are recognized against the lease liability. Operating leases are not recognized in the balance sheet. Expenses attributable to an operating lease are recognized in profit or loss for the year on a straight-line basis following the lease term.

– IFRIC 23 Uncertainty over Income Tax Treatments. Sandvik has applied the amendment from 1 January 2019. The amendment addresses how uncertainty regarding amounts for income taxation shall be reported, how a tax receivable shall be reported when the amount is appealed, and discussions are held with tax authorities. IFRIC 23 is expected to have very limited impact on the financial reports. The opening balance for 2019 has been adjusted by reclassifying the provision for taxes, 1,457 MSEK to Income tax liabilities.

Other changes

Other new or amended accounting standards and interpretations implemented during 2019, have not had any or immaterial impact on Sandvik's financial statements.

Basis of consolidation

The consolidated accounts are prepared in accordance with the Group's accounting principles and include the accounts of the Parent Company and all Group companies.

Group companies are consolidated from the date the Group exercises control or influence over the company. Divested companies are included in the consolidated accounts until the date the Group ceases to control or exercise influence over them.

In preparing Sandvik's consolidated financial statements, any Intra-Group transactions have been eliminated.

Subsidiaries

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

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

For cases in which the subsidiary's accounting policies do not coincide with the Group's accounting policies, adjustments were made to comply with the Group's accounting policies. The consolidated financial statements are prepared in accordance with the purchase method. In business combinations, acquired assets and assumed liabilities are identified and classified, and measured at fair value on the date of acquisition (also known as a purchase price allocation).

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

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

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

Non-controlling interests

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

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

Associated companies

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

Foreign currency

Functional currency and presentation currency

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

Foreign currency transactions

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

Financial statements of foreign operations

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

Net investments in foreign operations

Monetary non-current receivables or monetary non-current liabilities to a foreign operation for which no settlement is planned or is not likely to take place in the foreseeable future are, in practice,

part of the company's net investment in foreign operations. A foreign exchange difference arising on the monetary non-current receivable or monetary non-current liability is recognized in other comprehensive income and accumulated in a separate component of shareholders' equity, entitled translation reserve. When a foreign operation is divested, the accumulated foreign exchange differences attributable to monetary non-current receivables or monetary non-current liabilities are included in the accumulated translation differences reclassified from the translation reserve in equity to profit or loss for the year.

Financial instruments

Financial instruments recognized in the balance sheet include assets, such as account receivables, financial investments and derivatives, and liabilities such as loan liabilities, account payables, and derivatives.

Recognition and nonrecognition

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

At initial recognition, the Group measures financial assets and liabilities at its fair value plus or minus, in the case of a financial asset or liability not at fair value through profit or loss (FVPL), transaction costs including all fees, premiums and discounts that are directly attributable to the acquisition or issue of the financial asset and liability. Transaction costs of financial assets and liabilities carried at FVPL are expensed in profit or loss.

A financial asset is derecognized when the rights to receive cash flows under the agreement have expired, or have been transferred and the group has substantially transferred all of the risks and rewards. The same applies to a portion of a financial asset. A financial liability is derecognized when the obligation specified in the contract is discharged or otherwise expires.

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

Classification and measurement

Financial assets excluding derivatives

Financial assets excluding derivatives, include equity and debt instruments. The Group classifies its financial assets as those to be measured at fair value, and those to be measured at amortized cost.

Equity instruments are measured at fair value, and gains and losses are recorded in profit or loss. For those that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

For debt instruments, which includes accounts receivables, the classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows: Amortized Cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Fair Value through profit and loss: Assets that do not meet the criteria for amortized cost are measured as fair value through profit and loss.

Impairment and expected credit losses

Bad debt provisions are based on the full lifetime expected credit loss model with a provision matrix where fixed provision rates are applied depending on the number of days outstanding. The entities consider reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring the expected credit losses. Impairment losses are presented in a separate line item in the statement of profit or loss.

Financial liabilities excluding derivatives

Financial liabilities excluding derivatives include loans and accounts payables. These instruments are classified and subsequently measured at amortized cost. Any difference between the loan amount, net of transaction costs, and the repayable amount is allocated to profit or loss for the year over the term of the loan using the effective interest method.

Derivatives

Derivatives are classified at fair value through profit and loss, with the exception, of those that are designated as hedging instruments in a cash flow hedge.

Hedge accounting

Hedge accounting is applied in accordance with IAS 39 and to meet the criteria there must be a clear relationship between the hedging instrument and the hedged item. The relationship is expected to be highly effective and it must be possible to reliably measure such effectiveness. Moreover, the hedge must be formally designated and documented. Gains and losses on re-measurement of derivatives used for hedging purposes are recognized as described below under cash flow hedges.

Cash flow hedges

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

Reporting of operating segments

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

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

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

Revenue

Revenue from goods and services

The revenue standard has established a five step model for recognizing revenue from customer contracts. It requires revenue to be recognized when control of goods and services are transferred to the customer. The supply of goods and services comprises metal cutting tools, mining equipment, stainless steels, furnaces, installation, support and maintenance.

Customer contracts can include variable considerations such as cash discounts, rebates or right of returns. When Sandvik identifies such components the company determines if the identified portion of revenue and any related cost of goods sold should be deferred to a later period. This is established by determining if a significant revenue reversal might not take place, by applying the expected value method or the most likely amount method with the threshold of being highly probable.

If a customer contract is including a buy-back clause, exercised at the customer discretion and a significant transfer of control has not taken place, the transaction is then accounted for as an operational lease in accordance with IFRS 16 Leases. If the customer is not considered to have a significant economic incentive to exercise the option, the contract is then accounted for by applying the principles of right of return in IFRS 15.

Sandvik receives advances from customers. If a significant financing component is identified in the contract the company applies the practical expedient of not recognizing any time value of money for advances being performed upon within 12 months. Sandvik also applies the practical expedient of not recognizing a contract asset for costs to obtain a contract, if the customer contract has a duration equal to or shorter than 12 months. Sandvik allocates the transaction price to each identified performance obligation on a relative stand-alone selling price basis. This means that each performance obligation will be allocated its share of revenue based on its stand-alone selling price put in relation to the sum of all performance obligation's stand-alone selling price. Sandvik usually applies the methods Adjusted market assessment approach and Expected cost plus a margin approach, to determine the stand-alone selling price if not observable for one or more of the performance obligations. Variable consideration is generally allocated proportionally to all performance obligations unless there is evidence that the entire discount does not relate to all performance obligations in the contract.

Sandvik recognizes revenue over time when any of the three over time indicators are identified as being fulfilled: the customer simultaneously receives and consumes all the benefits provided by the entity as the entity performs; the entity's performance creates or enhances an asset that the customer controls as the asset is created; or the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. Goods are recognized over time most often under the criteria the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date. Service contracts recognized over time are identified under the criteria the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs. Sandvik applies both the Input and Output method to determine the progress and when revenue should be recognized. The output method is only applied to service contracts by applying the expedient allowing revenue to be recognized in line with amounts that correspond directly with the value to the customer and to which the entity has the right to invoice. The majority of Sandvik's revenues are recognized at a point in time. The transfer of control is identified taking place by considering indicators such as, but not limited to: significant risks and rewards of ownership, transferred physical possession, the customer has accepted the asset, present right to payment and legal title of goods and services. For sale of goods the transfer of control occurs usually according to the risk and reward criteria by applying Incoterms. For sale of services the transfer of control usually occurs when the customer has accepted the performed service.

Other revenue

Revenue from royalty/licenses based on sales or usage promised in exchange for a license or intellectual property only when the latter of the following criteria are fulfilled: the subsequent sale or usage occurs; and the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied.

Government grants

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

Financial income and expenses

Financial expenses consist of interest expense on borrowings, interest income and expenses on interest swaps that are recognized net as an interest expense. Credit losses on financial assets and foreign exchange gains and losses on hedging instruments are recognized in profit or loss for the year.

Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect to previous years. Current tax liabilities are offset against current tax receivables and deferred tax assets are offset against deferred tax liabilities when the entity has a legal right to offset these items and intends to do so.

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

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

Intangible assets

Goodwill

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

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

Research and development

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

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

Other intangible assets

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

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

Amortization of intangible assets

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

- The estimated useful lives are as follows:
- Patents and trademarks 10–20 years
- Customer relationships 10 years
- Capitalized development costs 3–7 years
- Software for IT operations 3 years

Property, plant and equipment

Owned assets

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

Right-of-Use assets

In the consolidated financial statements, leases when Sandvik being a lessee are recognized as Right-of-Use assets and when being a lessor either as a Finance lease or an Operational lease, further explained in the section Leasing further down.

Depreciation of Property, plant and equipment and Right-of-Use assets

Depreciation is based on cost less estimated residual value. Property, plant and equipment are depreciated over the estimated useful lives. Right-of-Use assets are depreciated over the estimated useful life or the contract period, whichever is the shortest.

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

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

Impairment and borrowing costs

Impairment and reversals of impairment

Assets with an indefinite useful life are not amortized but tested annually for impairment. Assets that are amortized or depreciated are tested for impairment whenever events or changed circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the carrying amount of an asset exceeds its recoverable amount, which is the greater of the fair value less selling costs and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a rate that reflects current

market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

Borrowing costs for intangible and tangible assets

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

Inventories

Inventories are stated at the lowest end of cost and net realizable value, with due consideration of obsolescence. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is based on the first-in/first-out (FIFO) principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Equity

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

Earnings per share

The calculation of basic earnings per share is based on the profit or loss attributable to ordinary equity holders of the Parent Company and the weighted average number of ordinary shares outstanding during the year. When calculating diluted earnings per share, the weighted average number of shares outstanding is adjusted for the effects of all dilutive potential ordinary shares, which during reported periods relates to share-based payment arrangements issued to employees. The shared-based awards are dilutive if the exercise price is less than the quoted stock price and increases with the size of the difference.

Employee benefits

The Group's pension plans

The Group sponsors a number of defined-contribution and defined-benefit pension plans, some of which have plan assets held by separate foundations or equivalent. A number of Group entities also provide post-employment medical benefits. Whenever possible, Sandvik nowadays seeks defined contribution pension solutions and in recent years defined-benefit plans have as far as possible been closed for new entrants in connection with negotiations about defined-contribution pension arrangements.

Defined-contribution plans

A defined-contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The size of the pension that the employee will ultimately receive in such cases depends on the size of the contributions that the entity pays to the plan or an insurance company and the return that the contributions yield. Obligations for contributions to defined-contribution pension plans are recognized as an employee benefit expense in profit or loss for the year as the employee renders services to the entity.

Defined-benefit plans

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

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

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

Pension assumptions

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

Termination benefits

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

Share-based payments

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

The share-based programs include two types of rights. Matching share rights provide entitlement to shares in Sandvik if the participant remains employed and retains the saving share that has been purchased initially. Performance share rights provide entitlement to shares subject to the same conditions and if goals relating to operating performance are achieved. The amount recognized as an expense is adjusted to reflect the actual number of share vested.

In order to meet its commitments under the share saving program, Sandvik has entered into an equity swap agreement with a financial institution. Under the agreement, the financial institution undertakes to distribute Sandvik shares to participants in the program when the date for allotment occurs in accordance with the terms and conditions of the program.

The fair value of the Sandvik share when the swap agreement was signed is recognized as a financial liability and as a reduction

of equity in accordance with IAS 32. Social costs relating to share-based payments to employees are expensed over the accounting periods during which the services are provided. The charge is based on the fair value of the options at the reporting date. The fair value is calculated using the same formula as that used when the options were granted.

Provisions

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

Contingent liabilities

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

Assets held for sale and discontinued operations**Disposal groups held for sale**

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. The disposal group is measured at the lower of the carrying amount and fair value less costs to sell.

An impairment loss is recognized for any initial or subsequent write-down of the disposal group to fair value less costs to sell.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Discontinued operations

To qualify as Discontinued operations, a component of the Sandvik Group must, in addition to having been classified as a disposal group held for sale, also represent a separate major line of business or be a part of a single coordinated plan to dispose of a separate major line of business.

Loss of control of a wholly-owned subsidiary with an interest retained

When the Group disposes of a significant part of its interest, and therefore loses control, of a subsidiary, the Group de-consolidates the subsidiary. If the retained interest in the entity fulfills the criteria of being an associate, it is accounted for at fair value at the disposal date, and subsequently accounted for using the equity method. The gain or loss of the transaction is the difference between the fair value of the consideration received as well as the fair value of the retained interest, and the carrying value of the former subsidiary's net assets (including any related goodwill), and is recorded in the income statement. Any portion of the gain or loss related to the re-measurement of the retained interest to fair value is disclosed separately.

Leasing

Sandvik as a lessee under IFRS 16, for the fiscal year 2019

Sandvik, when being a lessee identifies if a contract contains a lease by testing if Sandvik has the right to obtain substantially all of the economic benefits from use of the identified assets and has the right to direct the use of the identified asset and that the supplier has no substantial rights of substitution.

Sandvik has decided to separate non-lease components from the lease components in contracts concerning buildings. The non-lease component cost should then be recognized as an expense and not be included in the calculation of a right-of-use asset and lease liability for asset class buildings. For all other asset classes non-lease components are included in the calculation of a right-of-use asset and lease liability.

The lease contracts are assessed at the commencement date whether the lessee is reasonably certain to exercise an option to extend the lease; or to exercise an option to purchase the underlying asset; or not to exercise an option to terminate the lease. In cases of open-ended contracts local law can provide protection to the lessee from being given notice. This requires the Sandvik lessee to determine the contract period instead of considering the termination clause. The lessee then determines the length of the contract period based on factors such as the importance of building to the business, any planned or made leasehold investments and the market situation for premises.

The leasing liability and right-of-use asset is calculated by using the implicit rate in the contract. If the implicit rate cannot be identified the incremental borrowing rate is instead applied, which is the interest rate the company had been given if the investment had been financed through a loan from a financial institute. The measurement of the Right-of-Use asset includes amount of initial measurement of lease liability, lease payments at or before the commencement date, any initial direct cost and restoration costs. Sandvik depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the Right-of-Use asset or the end of the lease term.

After commencement date the carrying amount of the lease liability and the Right-of-Use asset is remeasured to reflect any modification or reassessment of a lease contract.

Sandvik has chosen to apply the two expedients concerning leases shorter than one year and low value assets that need to be taken into consideration when a lease contract is recognized.

Sandvik as a lessee under IAS 17, for the fiscal year 2018

Under a finance lease, the lessee recognizes the leased asset measured at the lower end of its fair value and the present value of future lease payments. Simultaneously, a liability corresponding to future lease expenses is recognized. The asset is depreciated according to the proper accounting policy valid for the type of asset. However, depreciation may never exceed the lease term. The lease payments are recognized against the lease liability.

Operating leases are not recognized in the balance sheet. Expenses attributable to an operating lease are recognized in profit or loss for the year on a straight-line basis following the lease term.

Sandvik as a lessor

As a lessor, Sandvik classifies each of its leases as either an operating lease or a financial lease. The substance of the transaction rather than the form of the contract determines if it is a finance or operating lease. This also includes contracts identified under IFRS 15 Revenue from Contracts with customers containing buy-back clauses, which means under certain circumstances that control hasn't transferred to the customer and instead lease accounting under IFRS 16 Leases apply.

A finance lease is a lease that transfers substantially all the risks and rewards resulting from ownership of an underlying asset to the lessee. An operating lease is a lease that does not transfer substantially all the risks and rewards as a result from ownership of an underlying asset. A sublease should also be classified as finance or operational lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset, for example, an item of property, plant or equipment.

Parent company's accounting policies

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

Changed accounting policies

Unless otherwise stated below, the Parent Company's accounting policies in 2019 changed in accordance with the amendments described above for the Group's accounting policies.

Classification and presentation

The Parent Company's income statement and balance sheet adhere to the presentation included in the Annual Accounts Act. The differences compared with IAS 1 Presentation of Financial Statements applied when presenting the consolidated financial statements mainly pertain to the presentation of finance income and expenses, non-current assets, equity and the presentation of provisions as a separate heading in the balance sheet.

Shares in Group companies and associated companies

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

Leased assets

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

Intangible assets

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

Borrowing costs

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

Employee benefits

The Parent Company calculates expenses for defined-benefit pension plans differently from the manner prescribed in IAS 19. The Parent Company applies the Act on Income Security and regulations issued by the Swedish Financial Supervisory Authority, which is a prerequisite for income tax purposes. Compared to IAS 19, the most significant differences relate to the determination of the discount rate and the fact that the obligation is calculated based on the current salary level disregarding assumptions about future levels.

Income tax

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

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

Group contributions and shareholders' contributions in legal entity accounts

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

Anticipated dividends

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

Financial guarantees

The Parent Company applies a relaxation rule permitted by the Swedish Financial Reporting Board to the reporting of financial guarantees as opposed to the rules stipulated by IFRS 9. This relaxation rule pertains to financial guarantee agreements issued for the benefit of subsidiaries, associated companies and joint ventures. The Parent Company recognizes financial guarantees as a provision in the balance sheet when the company has an obligation for which payment is probably necessary to settle the commitment.

Critical accounting estimates and judgments

Key sources of estimation uncertainty

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

Impairment tests of goodwill

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of goodwill has been impaired, for example due to a changed business climate or a decision taken either to sell or close down certain operations. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present value techniques. When applying this valuation technique, the Company relies on a number of factors, including historical results, business plans, forecasts and market data. This is further described in Note 12. As can be deduced from this description, changes in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Impairment tests of other non-current assets

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

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

industry and the risk that rental agreements may be canceled. The carrying amount of the rental fleets at the end of 2019 was 1,071 million SEK (943).

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

Income tax

Significant estimates are made to determine both current and deferred tax liabilities/assets, not least the value of deferred tax assets. The company must then determine the possibility that deferred tax assets will be utilized and offset against future taxable profits. The actual results may differ from these estimates, for instance due to changes in the business climate, changed tax legislation, or the outcome of the final review by tax authorities and tax courts of tax returns. At year-end 2019, Sandvik recognized deferred tax assets of 3,797 million SEK (3,150). Furthermore, the Group had additional tax loss carry-forward of about 2,595 million SEK (3,038) at the end of 2019 for which no deferred tax assets are recognized since utilization of these losses is not deemed probable. A change in the estimate of the possibility for utilization thus can affect results both positively and negatively. The expenditure recognized as a provision for ongoing tax litigations and other uncertainties amounted to 1,457 million SEK last year. Due to the new standard IFRIC 23 the opening balance of this provision was reclassified to income tax liabilities. The provision this year amounted to 1,454 million SEK and is as previously based on management's best estimate of the outcome.

Post-employment benefits

Sandvik provides pension solutions and other post-employment benefits to employees throughout the Group. In certain countries defined-benefit plans are provided and the accounting for these plans is complex because actuarial assumptions are required to determine the obligation and the expense. Life expectancy, inflation and discount rate are examples of assumptions used for the calculations. Furthermore, the obligations are measured on a discounted basis since they may be settled many years after the employment. The applied actuarial assumptions as well as a sensitivity analysis are presented in Note 20. Some of the defined-benefit plans are funded, with plan assets held by separate foundations or the equivalent. The financial risk management associated with the defined-benefit plans are presented in the Directors' Report in the section Financial Risk Management.

Disputes

Sandvik is besides the tax litigation cases set out above – party to a number of disputes and legal proceedings in the ordinary course of business. Management consults with legal experts on issues related to legal disputes and with other experts internal or external to the Company on issues related to the ordinary course of business. It is management's best estimate that neither the Parent Company, nor any subsidiary, is involved in legal proceedings or arbitration that may be deemed to have a materially negative effect on the business, the financial position or results of operations.

For additional information on risks related to disputes, refer to the Enterprise Risk Management section.

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NOTES

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

NOTE 1. SEGMENT INFORMATION

1.1 Information on business segments/business areas, continuing operations

MSEK	Sandvik Machining Solutions		Sandvik Mining and Rock Technology		Sandvik Materials Technology		Other operations		Group activities		Eliminations		Group Total	
	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
Revenue														
External revenue	40,757	41,123	41,058	44,777	14,697	15,279	3,560	2,059	—	—			100,072	103,238
Internal revenue	723	399	30	16	449	486	149	-0	—	—	-1,351	-901	-0	-0
Total	41,479	41,522	41,088	44,793	15,146	15,766	3,709	2,059	—	—	-1,350	-901	100,072	103,238
Share of results of associated companies	—	0	6	9	39	—	—	—	—	—			45	9
Operating profit/loss by associated areas	9,922	8,380	7,452	8,602	1,307	1,444	659	-4,263	-685	-776			18,655	13,386
Net financing items	—	—	—	—	—	—	—	—	—	—			-795	-1,237
Income tax expense for the year	—	—	—	—	—	—	—	—	—	—			-4,646	-3,421
Profit for the year	9,922	8,318	7,503	8,617	1,307	1,436	659	-4,268	-685	-780			13,214	8,728
Other disclosures														
Assets	36,825	39,167	33,930	37,472	16,366	16,830	5,406	1,565	1,489	1,600			94,017	96,634
Investments in associates	5	189	94	103	—	—	—	—	—	—			100	292
Total assets	36,831	39,356	34,024	37,575	16,366	16,830	5,406	1,565	1,489	1,600			94,116	96,926
Unallocated assets	—	—	—	—	—	—	—	—	—	—			23,254	23,240
Total													117,370	120,166
Liabilities	7,441	8,911	10,136	11,061	3,862	4,016	701	606	1,162	1,476			23,301	26,070
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—			35,936	32,187
Total													59,237	58,258
Capital expenditure	2,339	-2,284	677	-857	694	-687	76	-75	133	-233			3,920	4,136
Depreciation/Amortization	-2,003	-2,646	-1,289	-1,694	-776	-861	-350	-300	-129	-203			-4,546	-5,704
Impairment losses	-57	-35	-41	-66	132	-142	124	-4,121	-8	0			150	-4,364
Other non-cash expenses	140	481	122	-504	37	-32	-691	-81	-90	129			108	499

All transactions between the business areas are on market terms. For information regarding business combinations, see Note 30.

1.2 Information by country, continuing operations

Revenue by country, Group	2018	2019	Non-current assets by country, Group	2018	2019
USA	14,302	15,792	Sweden	13,549	13,331
Germany	7,916	7,104	USA	9,848	6,963
China	7,299	6,943	France	4,442	4,440
Australia	6,415	6,756	Germany	3,833	3,902
Russia	3,921	4,679	Austria	2,565	2,556
Canada	3,653	4,351	Finland	2,062	2,137
UK	3,180	3,889	UK	1,874	2,003
Italy	3,817	3,827	China	1,595	1,854
Sweden	3,951	3,596	India	774	1,328
Mexico	3,588	3,458	Canada	1,180	1,200
South Africa	3,102	3,356	Czech Republic	823	905
France	3,299	3,295	Australia	622	588
India	3,019	3,025	Italy	617	589
Japan	2,273	2,242	Japan	532	582
Indonesia	1,730	2,111	Switzerland	423	405
Brazil	1,628	1,713	Other countries	2,872	2,935
Chile	1,231	1,545	Total	47,612	45,717
Poland	1,319	1,389			
Norway	1,504	1,275			
Spain	1,194	1,270			
Austria	1,140	1,238			
Korea	1,237	1,144			
Finland	1,030	1,078			
Czech Republic	988	953			
Other countries	17,338	17,209			
Total	100,072	103,238			

Non-current assets include intangible assets and property, plant and equipment, and are specified by country based on where the customers are.

Income is specified by country based on where customers are.

NOTE 2. CATEGORIES OF REVENUE**Information on revenue, continuing operations**

Primary geographical markets	2018					2019				
	Group	Sandvik Machining Solutions	Sandvik Mining and Rock Technology	Sandvik Materials Technology	Other Opera- tions	Group	Sandvik Machining Solutions	Sandvik Mining and Rock Technology	Sandvik Materials Technology	Other Opera- tions
Europe	38,322	22,657	6,547	8,158	960	37,928	22,102	6,989	8,562	275
North America	21,543	8,420	8,576	3,318	1,227	23,601	9,571	9,617	3,601	812
South America	4,918	828	3,759	202	129	5,267	838	4,154	205	71
Africa and Middle East	9,099	325	7,789	326	660	9,595	341	8,181	311	761
Asia	19,649	8,245	8,224	2,631	548	19,855	8,002	9,188	2,531	135
Australia and New Zealand	6,541	281	6,163	62	35	6,992	269	6,648	69	6
Total	100,072	40,757	41,058	14,697	3,560	103,238	41,123	44,777	15,279	2,059
Major goods/service lines										
Sale of goods	95,279	40,331	37,094	14,629	3,224	98,185	40,460	40,835	15,219	1,671
Rendering of services	3,667	414	3,185	68	—	3,941	652	3,231	58	—
Rental income	1,112	—	779	—	333	1,099	4	707	—	388
Other non product-related revenue	14	11	—	0	2	11	6	4	0	—
Total	100,072	40,757	41,058	14,697	3,560	103,238	41,123	44,777	15,279	2,059
Major goods/service lines										
Order backlog to be recognized as revenue after 2020 until 2021	2,301	0	648	1,653	N/A	1,782	0	300	1,482	N/A

Contract assets

Contract assets movements, from an opening balance of 127 MSEK (62) to a closing balance of 22 MSEK (127), is due to the following:

The contract assets have been reduced with –5 MSEK (–3) relating to catch up effects from contracts satisfied in previous periods.

Acquisitions represents an increase of contract asset balances of 0 MSEK (1) and divestments represents a decrease of 0 MSEK (0).

The majority of the movements of contract assets relates to accruals during the period and reversals of existing and added contract assets to be invoiced.

Currency translation effects represent only minor changes to the contract asset balances.

Contract liabilities

Contract liability movements, from an opening balance of 169 MSEK (111) to a closing balance of 153 MSEK (169), is due to the following:

Contract liabilities in the opening balance recognized as revenue in this period amounts to 118 MSEK (156).

Acquisitions represents an increase of contract liability balances of 1 MSEK (1) and divestments represents a decrease of 0 MSEK (–4).

The majority of the movements of contract liabilities relates to deferrals during the period and reversals of existing and added contract liabilities to be recognized as revenue.

Currency translation effects represent only minor changes to the contract liability balances.

Parent Company	2018	2019
Primary geographical markets		
Europe	16,393	17,431
North America	1,671	1,410
South America	161	201
Africa and Middle East	47	81
Asia	1,792	1,809
Australia and New Zealand	77	106
Total	20,141	21,038

Parent Company	2018	2019
Major goods/service lines		
Sale of goods	20,073	20,962
Rendering of services	63	66
Rental income	6	10
Other non product related revenue	—	—
Total	20,141	21,038

Contract asset and contract liability balances are not disclosed for parent company, due to the small balances and corresponding small movements.

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

	Group				Parent Company			
	2018		2019		2018		2019	
	Number	Women %	Number	Women %	Number	Women, %	Number	Women, %
Sweden	9,293	24	8,997	24	7,000	23	6,711	23
Rest of Europe	14,439	19	14,041	19	—	—	—	—
Total Europe	23,732	21	23,038	21	7,000	23	6,711	23
North America	5,638	15	5,343	17	—	—	—	—
South America	1,883	16	1,782	16	—	—	—	—
Africa, Middle East	2,280	17	2,173	17	—	—	—	—
Asia	8,077	15	7,851	14	—	—	—	—
Australia	930	16	934	17	—	—	—	—
Total	42,540	19	41,120	19	7,000	23	6,711	23
Whereof discontinued operations	100	0	23	0				
Continuing operations	42,440	0	41,097	0				

3.2 Wages, salaries other remuneration and social costs

	Group		Parent Company	
	2018	2019	2018	2019
Wages, salaries and other remuneration	21,425	21,770	4,196	4,196
Social costs	5,419	5,613	1,900	1,862
Employee profit sharing	173	—	118	38
Total	27,017	27,383	6,214	6,096
Whereof discontinued operations	65	30	—	—
Continuing operations	26,952	27,354	6,214	6,096
Of which, pension costs recognized in social costs	1,596	1,612	677	571

A total of 62 million SEK (66) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to 105 million SEK (161). Correspondingly, 23 million SEK (23) of the Parent Company's pension costs related to the Boards and presidents. The Parent Company's pension liability relating to these persons amounted to 4 million SEK (4).

Employee profit-sharing program

To promote performance that is favorable to the Group's long-term development and also to stimulate continued employee loyalty, Sandvik has historically had a profit-sharing system for all employees in wholly-owned companies in Sweden since 1986.

From January 2019 the Board of Directors has decided to decentralize the profit sharing scheme to Sandvik's business areas and to the group functions. The responsibility of this variable salary model will be entirely handled by Sandvik's business areas and when applicable by divisions. The decision on the design of the future arrangements will be implemented based on local business decisions. Therefore the profit shares will, from 2019 and onwards, not be reported in Sandvik's annual report.

Sandvik's Board of Directors has also decided that employees with an individual variable salary, STI (short-term incentive), will not be covered by any other short-term schemes that are based on the company's results, and are therefore exempted from the profit-sharing scheme from 2019.

3.3 Wages, salaries and other remuneration by market area

	Group		Parent Company	
	2018	2019	2018	2019
Sweden	5,561	5,533	4,196	4,196
Rest of Europe	8,115	8,351	—	—
Total Europe	13,676	13,884	4,196	4,196
North America	3,278	3,621	—	—
South America	564	401	—	—
Africa, Middle East	926	798	—	—
Asia	2,190	2,226	—	—
Australia	791	840	—	—
Total	21,425	21,770	4,196	4,196
Whereof discontinued operations	48	22	—	—
Continuing operations	21,377	21,748	4,196	4,196
Of which, to Boards of Directors and presidents				
Salaries and other remuneration	791	675	51	45
Of which, variable salary	127	111	14	6

3.4 Gender distribution in senior management

	Group		Parent Company	
	2018	2019	2018	2019
Proportion of women, %				
Gender distribution in senior management	16	16	27	27
Other senior executives	22	25	29	29

Note 3, continued

3.5 Remuneration of the board of directors and senior executives

The Board

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

In accordance with the resolution of the 2019 Annual General Meeting, the total fee to the external Board members elected at the Meeting amounts to in total 6,690,000 SEK on an annual basis. Of this amount 2,550,000 SEK is payable to the Chairman of the Board (Johan Molin) and 690,000 SEK to each of the other external Board members (Jennifer Allerton, Claes Boustedt, Johan Karlström, Helena Stjernholm, Lars Westerberg and Marika Fredriksson).

In addition to these amounts, the Annual General Meeting resolved that a fee for committee work should be paid to Board members elected by the Meeting, in an amount totaling 640,000 SEK to the members of the Audit Committee (Claes Boustedt 300,000 SEK, Helena Stjernholm 170,000 SEK and Lars Westerberg 170,000 SEK) and in an amount totaling 375,000 SEK to the members of the Remuneration Committee (Johan Molin 145,000 SEK, Johan Karlström 115,000 and Helena Stjernholm 115,000 SEK).

The long-term asset manager and largest shareholder of Sandvik shares, Industrivärden, granted in 2019 the Chairman of the Board one million call options over Sandvik shares with a five-year term and an exercise price of 177 SEK. The options were purchased at market price.

President and other senior executives

Principles of remuneration

The following guidelines approved by the Annual General Meeting for remuneration of senior executives have been applied since the Annual General Meeting in 2019:

The remuneration of the Group Executive Management is to comprise fixed salary, variable salary, pension and other bene-

fits. The total remuneration package should be based on market terms, be competitive and reflect the individual's performance and responsibilities as well as the Group's earnings trend.

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

In specific cases, agreements may be reached regarding one-off remuneration amounts provided that such remuneration does not exceed an amount corresponding to the individual's annual fixed salary and maximum variable salary in cash and is not paid more than once per year and individual. Pension benefits should be defined contribution.

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

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

Remuneration and other benefits pertaining to 2019 expensed during the year, SEK

Position	Fixed salary/ Board fee	Annual variable salary ¹⁾	Other benefits ²⁾	Long-term variable salary ³⁾	Pension costs
Chairman of the Board	2,695,000 ⁴⁾				
Other Board members	5,010,000 ⁴⁾				
President and CEO	15,621,896 ⁵⁾	3,397,275	104,352	7,929,919	5,662,488
Other senior executives ⁶⁾	28,675,299	5,582,713	451,757	9,489,645	10,816,536
Total	52,002,195	8,979,988	556,109	17,419,564	16,479,024

1) Amount pertaining to 2019 and expected to be paid in 2020.

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

3) The amounts pertain to changes in provisions made for the 2017, 2018 and 2019 LTI programs for the members of the Senior Management at year-end.

4) Expensed during 2019.

5) Björn Rosengren's fixed salary 2019 amounts to 15,099,000 SEK, the remaining amount relates to vacation pay, etc. Board fees are not payable to executive Board members.

6) Pertains to the following persons in 2019: Johan Kerstell, Tomas Eliasson, Jessica Alm, Åsa Thunman, Göran Björkman, Henrik Ager (Apr–Dec), Lars Bergström (Jul–Dec), Klas Forsström (Jan–Jun), Lars Engström (Jan–Mar).

Remuneration and other benefits pertaining to 2018 expensed during the year, SEK

Position	Fixed salary/ Board fee	Annual variable salary ¹⁾	Other benefits ²⁾	Long-term variable salary ³⁾	Pension costs
Chairman of the Board	2,535,000 ⁴⁾				
Other Board members	4,785,000 ⁴⁾				
President and CEO Björn Rosengren	14,843,245 ⁵⁾	8,546,623	135,672	9,697,244	5,342,004
Other senior executives ⁶⁾	27,631,023	12,733,694	502,334	14,108,164	12,392,179
Total	49,794,268	21,280,317	638,006	23,805,408	17,734,183

1) Amount pertaining to 2018 and expected to be paid in 2019.

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

3) The amounts pertain to changes in provisions made for the 2016, 2017 and 2018 LTI programs.

4) Expensed during 2018.

5) Björn Rosengren's fixed salary 2018 amounts to 14,244,372 SEK, the remaining amount relates to vacation pay, etc. Board fees are not payable to Executive Board members.

6) Pertains to the following persons in 2018: Göran Björkman, Jessica Alm, Johan Kerstell, Klas Forsström, Lars Engström, Tomas Eliasson, Åsa Thunman.

Note 3, continued

President and CEO

Sandvik's President and CEO, Björn Rosengren, was paid an annual fixed salary of 15,099,000 SEK and received the fringe-benefit value of a car provided by the company. In addition, an annual variable cash based salary of maximum 75 percent of the fixed salary is payable. The variable salary for 2019 amounted to 3,397,275 SEK.

Björn Rosengren is entitled to retire at age 65. A pension premium of 37.5 percent of his annual fixed salary is reserved annually.

In the event of termination of employment by the company, Björn Rosengren has a notice period of 12 months and 12 months' severance pay.

An agreement has been signed with the incoming President and CEO Stefan Widing on partial redemption of his existing long-term incentive program and for partially lost annual variable salary from his previous employer. Payment of SEK 10.3 million was made in 2019. The agreement also states that if Stefan Widing decides to leave Sandvik, on his own initiative, before 31 December 2021 there is an obligation to reimburse 90 percent of the amount for the months remaining between his last working day and December 31, 2021.

Other senior executives

For other members of the Group Executive Management who are covered by a Swedish pension plan (ITP1 or ITP2), the retirement age is minimum 62.

For members that are covered by the ITP plan 1 (defined contribution) a supplement of 5 percent of the salary portions in excess of 7.5 income base amounts may apply.

For members that are covered by the ITP Plan 2 (defined benefit), a supplementary defined-contribution plan under which the company each year contributes 25–33 percent (depending on age and employment start in GEM) of fixed salary portions in excess of 20 price base amounts applies. Members of the Group Executive Management employed as per 31 December 2019 are covered either by the ITP 1- or by the ITP2 occupational pension plans.

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

Long-term incentive programs.

Share-based incentive program 2016–2019

The 2016, 2017, 2018 and 2019 Annual General Meetings approved the Board's proposal to introduce a performance share program for each year for about 350 senior executives and key individuals in the Sandvik Group, divided into four categories. For all participants, a personal investment is required in each separate program and the programs encompass at Grant a maximum total of 6,318,250 shares.

All program participants have invested in Sandvik shares ("investment shares"), up to an amount corresponding to 10 percent of their fixed annual pre-tax salary at the time of the investment.

In the LTI 2016 and 2017 each acquired investment share entitles participants to be allotted, free of charge, after a period of three years, one Sandvik share ("matching share"). In the LTI 2016, 2017, 2018 and 2019 provided certain performance targets are met Sandvik shares ("performance shares") may be allotted. The maximum number of performance shares that may be allotted for each acquired investment share depends on the category to which the participant belongs.

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

In January 2016, 2017, 2018 and 2019 respectively the Board of Directors established the levels regarding adjusted EPS for the performance year in question that had to be attained for allotment of a certain number of performance shares.

Performance outcome 2016–2019

The 2016 LTI program: Matching shares were allotted during 2019. Performance shares were also allotted since the performance targets set by the Board of Directors were essentially met. Adjusted EPS for the financial year 2016 amounted to 5.48 SEK.

The 2017 LTI program: Matching shares will be allotted during 2020 if all the prerequisites for allotment are met. Performance shares will also be allotted since the performance targets set by the Board of Directors were met. Adjusted EPS for the financial year 2017 amounted to 7.99 SEK.

The 2018 LTI program: Performance shares will be allotted since the performance targets set by the Board of Directors were met. Adjusted EPS for the financial year 2018 amounted to 10.58 SEK.

The 2019 LTI Program: Performance shares will partly be allotted since the performance targets set by the Board of Directors were partly met. Adjusted EPS for the financial year 2019 amounted to 11.31 SEK. This means that no later than June 2022, and if all the prerequisites for allotment are met, one performance share per one investment share will be allotted and an additional 18.87 percent of the remaining shares within the range of 5–15 percent EPS 2019 increase in relation to adjusted EPS 2018 will be allotted. The allotment of performance shares requires continuous employment and that all investment shares are held during a period of three years from the acquisition of the investment shares.

The number of allotted shares (matching shares under the 2016–2017 LTI programs and performance shares under the 2016–2019 LTI programs) for the President and other members of the Group Executive Management on 31 December 2019, corresponds to the number of outstanding performance shares and matching shares at year-end.

Costs for the programs

The following IFRS2 provisions were established during the year: 14.6 million SEK, excluding social costs for the 2019 LTI program, of which 2.2 million SEK for the President and other senior executives; 52.9 million SEK, excluding social costs for the 2018 LTI program, of which 7.7 million SEK for the President and other senior executives; 34.0 million SEK, excluding social costs for the 2017 LTI program, of which 7.7 million SEK for the President and other senior executives.

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

Preparation and decision-making process

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

The Board discussed the Remuneration Committee's proposals and made a decision, using the Committee's proposal as a basis. Based on the Remuneration Committee's proposals, the Board decided on the remuneration of the President for 2019. The President decided on remuneration to other senior executives after consultation with the Remuneration Committee. The Remuneration Committee performed its task supported by expertise on remuneration levels and structures. For information on the composition of the Committee, refer to the Corporate Governance Report.

Note 3, continued

Assumptions for determining the value, 2016 – 2019 LTI Programs

Assumptions	Program 2016 (on date of issue)	Program 2017 (on date of issue)	Program 2018 (on date of issue)	Program 2019 (on date of issue)
Share price, SEK	82.70	137.00	162.90	153.00
Present value of forecasted future dividends, SEK ¹⁾	8.74	10.55	12.70	14.81
Risk-free interest rate, %	-0.41	-0.46	-0.41	-0.49

1) Based on analysts' 3 year combined expectations.

Number of shares, Group (including Parent Company), 2016 – 2019 LTI programs

	Performance shares 2016	Matching shares 2016	Performance shares 2017	Matching shares 2017	Performance shares 2018	Performance shares 2019
Outstanding at beginning of year	1,241,629	293,576	1,183,237	259,842	1,347,116	-
Allotted during the period	-	-	-	-	-	1,296,902
Vested during the year	-1,225,012	-291,851	-	-	-	-
Forfeited during the year	-16,617	-1,725	-175,543	-36,370	-144,588	-868,089
Outstanding at year-end	-	-	1,007,694	223,472	1,202,528	428,813
Theoretical value when allotted acc. to Black-Scholes, SEK	74.00	74.00	126.40	126.40	150.10	138.19

Number of shares, Parent Company, 2016 – 2019 LTI programs

	Performance shares 2016	Matching shares 2016	Performance shares 2017	Matching shares 2017	Performance shares 2018	Performance shares 2019
Outstanding at beginning of year	241,981	46,079	231,604	41,802	194,341	-
Allotted during the period	-	-	-	-	-	196,780
Vested during the year	-232,304	-43,432	-	-	-	-
Forfeited during the year	-9,677	-2,647	-40,222	-6,704	-	-135,272
Transferred during the year	-	-	-	-	-	-
Outstanding at year-end	-	-	191,382	35,098	194,341	61,508
Theoretical value when allotted acc. to Black-Scholes, SEK	74.00	74.00	126.40	126.40	150.10	138.19

3.6 Fees and remuneration to the Group's auditors

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

	PwC		Other		Total	
	2018	2019	2018	2019	2018	2019
Audit fee						
Parent Company	12.4	18.0	0.0	0.2	12.4	18.2
Subsidiaries	56.1	64.5	20.4	10.2	76.5	74.7
Group	68.5	82.4	20.4	10.4	88.9	92.9
Audit activities other than the audit assignment						
Parent Company	-	0.3				
Subsidiaries	-	-				
Group		0.3				
Tax consultancy services						
Parent Company	3.1	0.1				
Subsidiaries	9.9	5.7				
Group	13.0	5.8				
Other services						
Parent Company	17.6	19.8				
Subsidiaries	8.0	3.1				
Group	25.6	22.8				

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

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

NOTE 4. RESEARCH, DEVELOPMENT AND QUALITY ASSURANCE

	Group		Parent Company	
	2018	2019	2018	2019
Expenditure for				
Research and development	-3,727	-3,872	-1,544	-1,655
Quality assurance	-423	-475	-252	-269
Total	-4,150	-4,347	-1,796	-1,924
of which expensed, total	-3,958	-4,149	-1,744	-1,858
of which expensed relating to research and development	-3,535	-3,674	-1,492	-1,588

Research and quality assurance expenditures are expensed as incurred. Expenditure for development is recognized as an intangible asset if it meets the criteria for recognition as an asset in the balance sheet.

NOTE 5. OTHER OPERATING INCOME

Continuing operations

Other operating income amounted to 1,184 million SEK (1,337). The amount is mainly related to currency exchange gain from operating receivables and liabilities of 550 million SEK and legal settlements/penalties of 100 million SEK.

Parent Company

The Parent Company's other operating income mainly pertains to profit from sale of assets, revaluation of unrealized hedges and foreign exchange profit on bank accounts.

NOTE 6. OTHER OPERATING EXPENSES**Continuing Operations**

Other operating expenses amounted to –4,119 million SEK (–613). The main parts are impairment on goodwill related to Varel of –2,776 million SEK and currency exchange loss from derivatives and other items with currency components of –800 million SEK.

Parent Company

The Parent Company's other operating expenses mainly pertains to royalties between Group companies, realized hedges and losses on foreign exchange on operating receivables and payables.

NOTE 7. OPERATING EXPENSES

Group	2018	2019
Cost of goods and material	–31,783	–33,104
Employee benefit expense	–26,952	–27,354
Depreciation and amortization	–4,546	–5,704
Impairment losses, inventories	–297	–215
Impairment losses and reversal impairment losses, non-current assets	150	–4,364
Impairment losses, doubtful receivables	–78	–74
Other expenses	–19,293	–20,231
Total	–82,799	–91,045

Other expenses mainly relate to purchases of services and consumables.

NOTE 8. LEASES

Sandvik implemented IFRS 16 from January 1 2019. During 2018 Sandvik applied IAS 17. Contracts not yet commenced amounted to 27 MSEK. For maturity analysis of the lease liability, see Note 27.

Leases with Sandvik as lessee according to IFRS 16**Right-of-use assets**

Group	Land and buildings	Plant and machinery	Fixture and fittings	Total
MSEK				
Opening balance adjustment at 1 January 2019	2,539	295	554	3,389
Additions	351	83	297	730
Remeasurements	66	10	9	86
Business combinations	21	—	—	21
Divestments and disposals	–49	–1	–11	–61
Reclassifications	–11	3	3	–5
Translation differences for the year	58	3	13	72
Transfer asset held for sale	–73	–19	–2	–94
At 31 December 2019	2,902	374	864	4,137
Depreciation for the year	608	106	275	989
Impairment losses	17	6	0	23
Business combinations	0	—	—	0
Divestments and disposals	–2	1	–6	–7
Reclassifications	–3	–1	9	5
Translation differences for the year	–4	–1	–3	–7
Transfer asset held for sale	–27	–8	–1	–36
At 31 December 2019	589	103	274	966
Net carrying amount				
At 1 January 2019	2,539	295	554	3,389
At 31 December 2019	2,313	271	590	3,172

Impairment losses/reversal of impairment losses per line in the 2019 income statement

Cost of goods sold	17	6	0	23
Selling expenses	—	—	—	—
Administrative expenses	—	—	—	—
Research and Development expenses	—	—	—	—
Total	17	6	0	23

Note 8. continued

Amounts recognized in the income statement

Group, MSEK	2019
Depreciations for the year	-989
Impairment losses/reversal of impairment losses	-23
Interest expenses related to lease liabilities	-111
Expenses for low value assets	-80
Expenses for short-term leases	-42
Expenses related to variable lease expenses not included in the lease liability	-4
Gains/losses related to sale and leaseback transactions	-0
Total amounts recognized in the income statement	-1,249
The total cash outflow for leases during the year	-1,071

Operating leases with Sandvik as lessee according to IAS 17

No comparable figures for 2019, for the Group, as Sandvik implemented IFRS 16.

	Group		Parent Company	
	2018	2019	2018	2019
Within one year	1,143	—	186	135
Between one and five years	2,265	—	479	374
Later than five years	829	—	333	223
Net carrying amount	4,237	—	998	732

Financial leases with Sandvik as lessor

The Group's investments in financial leases amounted to 3,413 million SEK (2,880) at year-end 2019. Finance income was 93 million SEK (—). Variable fees recognized in profit/loss, and unguaranteed residual values accruing to the benefit of the lessor, were minor. The gross investment and the present value of minimum lease payments fall due as follows:

Group	Nominal fee		Present value	
	2018	2019	2018	2019
Within one year	1,517	1,883	1,431	1,763
Between one and five years	1,347	1,529	1,291	1,763
Later than five years	16	1	4	0
Net carrying amount	2,880	3,413	2,726	3,527

Operating leases with Sandvik as lessor

The planned residual value of the Group's rental fleet is 1,071 million SEK (943). Depreciation for the year amounted to 472 million SEK (609). Loss on disposed assets was -14 million SEK (-27). The future minimum lease payments under non-cancellable leases amount to 782 million SEK (824). Variable fees amounted to 10 million SEK (17). Future minimum lease payments under non-cancellable cancel operating lease contracts fall due as follows:

	Group		Parent Company	
	2018	2019	2018	2019
Within one year	459	384	—	—
Between one and five years	361	398	—	—
Later than five years	4	0	—	—
Net carrying amount	824	782	—	—

NOTE 9. NET FINANCING COST

Group	2018	2019
Interest income	281	356
Dividend	15	20
Other investments incl. derivatives		
Net gain on remeasurements of financial assets/liabilities	43	80
Foreign-exchange gains	—	—
Other financial income	35	37
Financial income	374	492
Interest expense	-1,089	-1,405
Other investments incl. derivatives		
Net loss on remeasurements of financial assets/liabilities	-14	-236
Foreign-exchange losses	-6	-4
Other financial expenses	-59	-85
Financial expenses	-1,169	-1,729
Net financing cost	-795	-1,237

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to -1,049 million SEK (-801). Hedging of fair values in 2019 had an effect of 0 million SEK (0) on the result. No inefficiencies in cash flow hedges impacted profit for the year (0). For further information regarding valuation policies for financial instruments, refer to Note 27.

Parent Company	Income from shares in Group companies		Income from shares in associated companies	
	2018	2019	2018	2019
Dividend, net of withholding tax	3,129	10,036	—	—
Group contributions paid/received	3,072	1,937	—	—
Gain or loss on sale of shares and participations	-1,824	16	0	—
Impairment	-13	—	—	—
Total	4,364	11,989	0	0

Interest income and similar items

Parent Company	2018	2019
Interest income, Group companies	491	482
Other interest income	0	0
Derivatives, Group companies	50	—
Other	—	3
Total	541	485

Interest expense and similar items

Parent Company	2018	2019
Interest expense, Group companies	-301	-154
Other interest expense	-550	-564
Derivatives, Group companies	-238	-65
Other	-28	-12
Total	-1,117	-795

NOTE 10. INCOME TAX

Recognized in profit and loss

	Group		Parent Company	
	2018	2019	2018	2019
Income tax expense for the year				
Current tax	-2,651	-4,112	-120	-1,326
Adjustment of taxes attributable to prior years	-290	95	—	-87
Total current tax expense	-2,941	-4,017	-120	-1,413
Deferred taxes relating to temporary differences and unused tax loss carry-forward	-1,704	596	-1,361	729
Total tax expense	-4,645	-3,421	-1,481	-684

The Group's recognized tax expense for the continuing operations for the year amounted to 3,421 million SEK (4,645) or 28.2 percent (26) of profit after financial items. The major part of the deferred tax is related to the reversal of the deferred tax liabilities due to the ongoing divestment of Varel.

Reconciliation of the Group's tax expense

The Group's weighted average tax rate for the continuing operations, calculated in accordance with the statutory tax rates in each country, is 22.6 percent (22.3). The tax rate in Sweden is 21.4 percent (22). Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

	2018		2019	
	MSEK	%	MSEK	%
Continuing operations				
Profit after financial items	17,860		12,150	
Weighted average tax based on each country's tax rate	-3,985	-22.3	-2,744	-22.6
Tax effect of				
Non-deductible expenses	-465	-2.6	-767	-6.3
Tax-exempt income	395	2.2	31	0.3
Adjustments relating to prior years	-290	-1.6	95	0.8
Effects of tax loss carry-forward, net	-207	-1.2	13	0.1
Other	-93	-0.5	-49	-0.4
Total recognized tax expense	-4,645	-26.0	-3,421	-28.2

Tax items attributable to other comprehensive income

Group	2018			2019		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Actuarial gains/losses attributable to defined-benefit pension plans	-684	163	-522	-1,638	323	-1,315
Translation differences for the year	1,752	—	1,752	1,880	—	1,880
Fair-value changes in cash flow hedges for the year	3	-1	2	30	-9	21
Fair-value changes in cash flow hedges carried forward to profit/loss for the year	15	-3	12	-2	1	-1
Other comprehensive income	1,086	159	1,244	270	315	585

The weighted average tax rate for Group total, based on the statutory tax rates in each country, is 23 percent (23).

	2018		2019	
	MSEK	%	MSEK	%
Group total				
Profit after financial items	17,315		11,945	
Weighted average tax based on each country's tax rate	-3,985	-23.0	-2,744	-23.0
Tax effect of				
Non-deductible expenses	-465	-2.7	-767	-6.4
Tax-exempt income	395	2.3	31	0.3
Adjustments relating to prior years	-290	-1.7	95	0.8
Effects of tax loss carry-forward, net	-207	-1.2	13	0.1
Other	-93	-0.5	-49	-0.4
Total recognized tax expense	-4,645	-26.8	-3,421	-28.6

Reconciliation of the Parent Company's tax expense

The Parent Company's effective tax rate is lower than the nominal tax rate in Sweden, mainly due to received dividends from shares in Group companies which are non-taxable incomes.

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

	2018		2019	
	MSEK	%	MSEK	%
Parent Company				
Profit after financial items	6,337		15,821	
Tax based on the nominal tax rate for the Parent company	-1,394	-22.0	-3,386	-21.4
Tax effect of				
Non-deductible expenses	-513	-8.1	-68	-0.4
Tax-exempt income	671	10.6	2,797	17.7
Adjustments relating to prior years	-245	-3.9	-27	-0.2
Total recognized tax expense	-1,481	-23.4	-684	-4.3

Note 10. continued

Recognized in the balance sheet

Deferred tax assets and liabilities

The deferred tax assets and liabilities recognized in the balance sheet are attributable to the following assets and liabilities.

Group	2018			2019		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	53	-1,588	-1,535	184	-1,466	-1,282
Property, plant and equipment	160	-1,487	-1,327	261	-1,612	-1,351
Financial non-current assets	70	-128	-58	184	-150	34
Inventories	848	-85	763	964	-94	870
Receivables	168	-36	132	174	-107	67
Interest-bearing liabilities	1,292	0	1,292	1,641	0	1,641
Non-interest-bearing liabilities	1,126	-16	1,110	1,305	-26	1,279
Other	1	-9	-8	17	—	17
Tax loss carry-forward	396	—	396	258	—	258
Total	4,114	-3,349	765	4,988	-3,455	1,533
Offsetting within companies	-964	964	—	-1,155	1,155	—
Transfer asset held for sale	—	—	—	-36	—	-36
Total deferred tax assets and liabilities	3,150	-2,385	765	3,797	-2,299	1,498

Parent Company	2018			2019		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	—	-669	-669	—	-24	-24
Inventories	9	—	9	6	—	6
Provisions	30	-24	6	76	-21	55
Non-interest-bearing assets and liabilities	5	—	5	43	—	43
Total	44	-693	-649	125	-45	80
Offsetting	-44	44	—	-125	125	0
Total deferred tax assets and liabilities	—	-649	-649	—	80	80

Unrecognized deferred tax assets

The Group has additional tax loss carry-forward of 2,595 million SEK (3,038). The main part of the change for 2019 relates to revaluation and expiry of tax losses in prior years in Brazil and Chile. No deferred tax asset was recognized for these losses.

The expiry dates of these tax loss carry-forwards are distributed as follows:

Year	MSEK
2020	111
2021	116
2022	121
2023 and later	23
No expiry date	2,224
Total	2,595

Related deferred tax assets were not recognized since utilization of the tax losses against future taxable profits is not deemed probable in the foreseeable future. The tax value of the unrecognized tax loss carry-forwards amounted to 750 million SEK (826).

Change of deferred tax in temporary differences and unused tax losses

	Group		Parent Company	
	2018	2019	2018	2019
Balance at the beginning of the year, net	2,739	765	712	-649
Recognized in profit and loss	-1,704	596	-1,361	729
Acquisitions/disposals of subsidiaries	-364	-146	—	—
Recognized in other comprehensive income	159	315	—	—
Translation differences	-65	44	—	—
Reclassifications	—	-41	—	—
Transfer asset held for sale	—	-36	—	—
Balance at end of year, net	765	1,498	-649	80

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

	Group		Parent Company	
	2018	2019	2018	2019
Provisions for taxes	-1,457	—	—	—
Income tax liabilities	-1,252	-3,744	—	-604
Income tax receivables	740	1,403	81	—
Net tax liabilities/receivables	-512	-2,341	81	-604

Provisions for taxes reported last year is reclassified to income tax liabilities due to the new standard, IFRIC 23.

NOTE 11. EARNINGS PER SHARE**Basic and diluted earnings per share. SEK**

	Basic		Diluted	
	2018	2019	2018	2019
Earnings per share. Group total	10.11	6.81	10.09	6.79
Earnings per share, continuing operations	10.54	6.97	10.52	6.96

The calculation of the numerators and denominators used in the above calculations of earnings per share is presented below.

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

	2018	2019
Profit for the year attributable to the equity holders of the Parent Company. Group total	12,679	8,539
Profit for the year attributable to the equity holders of the Parent Company, continuing operations	13,225	8,744

Basic earnings per share

The calculation of earnings per share for 2019 is based on the profit for the year attributable to the equity holders of the Parent Company, Group total, continuing operations and the weighted average number of shares (thousands) of 1,254,386 (1,254,386) during 2019.

Weighted average number of shares. basic

In thousands of shares	2018	2019
Total number of ordinary shares at 1 January	1,254,386	1,254,386
Weighted average number of shares outstanding during the year, basic	1,254,386	1,254,386

Diluted earnings per share

The calculation of diluted earnings per share for 2019 is based on the profit attributable to the equity holders of the Parent Company. Group total, continuing operations and the weighted average number of shares (thousands) of 1,256,614 (1,257,527) during 2019 calculated as follows:

Weighted average number of shares. diluted

In thousands of shares	2018	2019
Total number of ordinary shares at 1 January	1,254,386	1,254,386
Effect of share options	3,141	2,229
Weighted average number of shares outstanding during the year, diluted	1,257,527	1,256,614

Diluted earnings per share is related to outstanding share-based LTI programs. Information about these programs is found in Note 3.5.

NOTE 12. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, GROUP**Intangible assets**

	Internally generated intangible assets					Acquired intangible assets					Total	
	Capitalized R&D expenditure	IT software	Patents, licenses, trade-marks etc	Other	Subtotal	Capitalized R&D expenditure	IT software	Patents, licenses, trade-marks etc	Goodwill	Other		Subtotal
Cost												
At 1 January 2018	3,779	2,744	231	162	6,916	151	799	2,064	11,911	2,376	17,301	24,217
Additions	192	274	9	9	484	45	80	—	—	1	127	611
Business combinations	—	—	—	—	—	254	34	129	3,198	967	4,582	4,582
Divestments and disposals	-53	-74	-63	-41	-231	—	-44	-7	-1,016	-216	-1,284	-1,514
Reclassifications	16	37	44	-8	89	19	45	-18	909	137	1,093	1,181
Translation differences for the year	74	41	7	10	132	7	24	128	602	147	908	1,039
At 31 December 2018	4,009	3,022	227	132	7,389	476	937	2,296	15,605	3,412	22,727	30,116
At 1 January 2019	4,009	3,022	227	132	7,389	476	937	2,296	15,605	3,412	22,727	30,116
Additions	203	313	9	7	533	29	81	20	156	2	289	822
Business combinations	—	—	15	—	15	-6	0	312	917	464	1,687	1,703
Divestments and disposals	-108	-320	4	-3	-427	-23	-126	-6	-5	—	-160	-588
Reclassifications	-8	-1	4	23	19	0	19	0	0	-4	15	34
Translation differences for the year	27	25	4	3	59	7	10	81	561	97	756	815
At 31 December 2019	4,123	3,038	264	163	7,587	483	922	2,705	17,233	3,971	25,314	32,901
Accumulated amortizations and impairment losses												
At 1 January 2018	2,317	1,448	111	126	4,002	59	549	821	0	1,410	2,839	6,841
Business combinations	—	—	—	—	—	—	22	—	—	—	22	22
Divestments and disposals	-44	-71	-13	-40	-167	—	-42	-7	—	-122	-171	-338
Impairment losses	30	—	—	8	38	—	—	1	—	—	1	39
Reversal of impairment losses	—	—	—	—	—	—	-1	—	—	—	-1	-1
Reclassifications	—	-10	-8	—	-17	—	39	-14	—	140	165	147
Amortization for the year	317	263	12	3	594	49	48	106	—	168	371	965
Translation differences for the year	40	7	4	9	59	2	21	43	—	65	131	190
At 31 December 2018	2,660	1,637	106	106	4,508	110	637	950	0	1,661	3,357	7,866
At 1 January 2019	2,660	1,637	106	106	4,508	110	637	950	0	1,661	3,357	7,866
Business combinations	—	—	3	—	3	—	0	—	—	5	5	9
Divestments and disposals	-102	-312	4	-3	-413	-9	-108	-6	—	—	-123	-535
Impairment losses	52	10	—	—	62	—	10	839	2,853	436	4,138	4,200
Reversal of impairment losses	—	—	—	—	—	—	0	—	—	—	0	0
Reclassifications	0	—	14	4	17	0	7	0	0	-11	-4	14
Amortization for the year	333	321	14	5	673	58	75	120	—	281	534	1,208
Translation differences for the year	14	6	2	3	25	1	8	-6	—	39	42	67
At 31 December 2019	2,956	1,662	142	116	4,876	160	629	1,897	2,853	2,411	7,950	12,827
Net carrying amount												
At 1 January 2018	1,462	1,295	120	37	2,914	92	250	1,243	11,911	966	14,462	17,376
At 31 December 2018	1,349	1,384	121	26	2,880	366	300	1,345	15,605	1,753	19,370	22,250
At 1 January 2019	1,349	1,384	121	26	2,880	366	300	1,345	15,605	1,753	19,370	22,250
At 31 December 2019	1,167	1,376	122	47	2,711	323	293	808	14,380	1,560	17,363	20,074
Amortization for the year is included in the following lines in the 2018 income statement												
Cost of sales	—	-84	—	-1	-85	-7	-26	-102	—	-32	-167	-252
Selling expenses	—	-8	—	-2	-10	-37	-7	-2	—	-134	-180	-190
Administrative expenses	-317	-171	-12	—	-500	-5	-15	-2	—	-2	-24	-524
Total	-317	-263	-12	-3	-595	-49	-48	-106	—	-168	-371	-966
Amortization for the year is included in the following lines in the 2019 income statement												
Cost of sales	-1	-81	0	-4	-86	-7	-31	0	—	-15	-53	-140
Selling expenses	-4	-14	-4	—	-22	-19	-4	-2	—	-1	-26	-47
Administrative expenses	-328	-227	-6	-4	-565	-32	-40	-117	—	-265	-454	-1,019
Total	-333	-321	-11	-7	-673	-58	-75	-120	—	-281	-534	-1,207

NOTES

Note 12, continued

	Internally generated intangible assets					Acquired intangible assets					Total
	Capital- ized R&D expenditure	IT software	Patents, licenses, trademarks etc	Other	Sub- total	Capitalized R&D expenditure	IT software	Patents, licenses, trademarks etc	Goodwill	Other	
Impairment losses/Reversal of impairment losses per line in the 2018 income statement											
Cost of sales	—	—	—	—	—	—	—	—	—	—	—
Selling expenses	—	—	—	8	8	—	—	—	—	—	8
Administrative expenses	30	—	—	—	30	—	—	1	—	—	31
Total	30	—	—	8	38	—	—	1	—	—	39
Impairment losses/Reversal of impairment losses per line in the 2019 income statement											
Cost of sales	—	10	—	—	10	—	6	—	—	—	16
Selling expenses	—	—	—	—	—	—	1	839	2,853	436	4,129
Administrative expenses	52	—	—	—	52	—	2	—	—	—	54
Total	52	10	—	—	62	—	10	839	2,853	436	4,200

For 2019, the impairment losses/reversal of impairment losses amounted to –4,200 million SEK (39), of which 4,051 million SEK was related to the ongoing divestment of Varel. Other impairment was related to the business area Sandvik Mining and Rock Technology.

Property, plant and equipment

	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2018	16,411	39,660	6,287	2,376	64,734
Additions	373	1,421	274	2,035	4,103
Business combinations	7	232	25	—	264
Divestments and disposals	–493	–3,213	–585	–237	–4,528
Reclassifications	753	3,038	439	–1,432	2,798
Translation differences for the year	489	929	154	42	1,613
At 31 December 2018	17,541	42,067	6,591	2,786	68,984
Opening adjustment IFRS 16	–123	—	—	—	–123
At 1 January 2019	17,418	42,067	6,591	2,786	68,862
Additions	208	1,692	349	2,082	4,332
Business combinations	4	178	14	—	196
Divestments and disposals	–430	–1,975	–479	–130	–3,013
Reclassifications	252	1,303	288	–2,084	–240
Translation differences for the year	278	637	109	24	1,048
Transfer asset held for sale	–124	–734	–9	–23	–890
At 31 December 2019	17,605	43,169	6,865	2,657	70,296
Accumulated depreciations and impairment losses					
At 1 January 2018	7,599	27,942	4,793	—	40,335
Additions	—	—	—	—	—
Business combinations	2	130	19	—	150
Divestments and disposals	–243	–2,395	–532	—	–3,170
Impairment losses	45	80	4	—	129
Reversal of impairment losses	–109	–83	0	—	–192
Reclassifications	346	1,197	193	—	1,736
Depreciation for the year	540	2,635	417	—	3,592
Translation differences for the year	242	685	118	—	1,046
At 31 December 2018	8,423	30,188	5,012	—	43,622
Opening adjustment IFRS 16	–93	—	—	—	–93
At 1 January 2019	8,330	30,188	5,012	—	43,529
Additions	—	—	—	—	—
Business combinations	1	104	10	—	115
Divestments and disposals	–339	–1,740	–439	—	–2,518
Impairment losses	25	310	1	—	335
Reversal of impairment losses	–15	–14	0	—	–29
Reclassifications	–9	–365	17	—	–357
Depreciation for the year	545	2,575	435	—	3,554
Translation differences for the year	127	452	84	—	664
Transfer asset held for sale	–71	–563	–7	—	–641
At 31 December 2019	8,593	30,947	5,113	—	44,653
Net carrying amount					
At 1 January 2018	8,811	11,718	1,493	2,376	24,398
At 31 December 2018	9,118	11,879	1,578	2,788	25,363
At 1 January 2019	9,118	11,879	1,578	2,788	25,363
At 31 December 2019	9,012	12,221	1,752	2,657	25,643

Note 12, continued

Impairment losses/Reversal of impairment losses per line in the income statement

	Land and buildings	Plant & Machinery	Equip., tools etc	Construction in progress	Total
2018					
Cost of sales	-63	5	4	-2	-56
Selling expenses	—	—	—	—	—
Administrative expenses	—	-8	—	—	-8
Total	-63	-3	4	-2	-64
2019					
Cost of sales	9	296	1	0	306
Selling expenses	—	—	—	—	—
Administrative expenses	—	—	—	0	0
Total	9	296	1	0	306

Impairment losses/Reversal of impairment losses per business area

	Land and Buildings	Plant & Machinery	Equip., tools etc	Construction in progress	Group
2018					
Sandvik Machining Solutions	35	19	4	—	58
Sandvik Mining and Rock Technology	—	1	0	—	1
Sandvik Materials Technology	-106	-22	—	—	-127
Other Operations	8	-1	0	—	6
Total	-63	-3	4	—	-62
2019					
Sandvik Machining Solutions	-15	40	0	—	25
Sandvik Mining and Rock Technology	—	0	0	—	0
Sandvik Materials Technology	—	105	—	—	105
Other Operations	25	151	1	—	176
Total	9	295	1	—	306

Impairment tests

Property, plant and equipment and intangible assets with a definite useful life were tested for impairment when an indication for impairment was identified. The tests resulted in impairment losses of 4,506 million SEK (-25) for 2019. For property, plant and equipment the amount was 306 million SEK (-64) where of 203 million SEK is related to the ongoing divestment of Varel. For intangible assets 4,200 million SEK (39), including the impairment related to the ongoing divestment of Varel of 4,051 million SEK.

Additional information

Items of property, plant and equipment totaling 234 million SEK (293) have been pledged as security for liabilities. In 2019, contractual commitments for the acquisition of property, plant and equipment amounted to 385 million SEK (222).

Borrowing costs included in the cost of assets during the year amounted to zero for 2019 and 2018.

Disclosure regarding government grants in the Group

Government grants during the year amounted to 48 million SEK (8).

Goodwill by cash-generating unit	Carrying amount	
	2018	2019
Sandvik Machining Solutions		
Walter group	1,141	1,124
Seco Tools	239	423
Wolfram	1,574	1,595
Metrologic	2,606	2,544
Business area level	1,583	1,887
Total	7,143	7,573
Sandvik Mining and Rock Technology		
Business area level	4,643	5,441
Total	4,643	5,441
Sandvik Materials Technology		
Business area level	1,224	1,324
Total	1,224	1,324
Other operations		
Varel	2,554	—
Total	2,554	—
Other	41	42
Group total	15,605	14,380

Impairment tests of goodwill

Goodwill was impairment tested in the fourth quarter 2019. As stated below, the carrying amount of goodwill in the consolidated balance sheet is 14,380 million SEK (15,605), essentially related to a number of major business combinations and the ongoing divestment of Sandvik Drilling and Completions (Varel).

Note 12, continued

Consolidated goodwill is allocated to the cash-generating units stated above. The recoverable amount of all of the cash-generating units has been assessed based on estimates of value in use. Calculations of value in use are based on the estimated future cash flows using forecasts covering a four-year period, which are in turn based on the three-year plans prepared annually by each of the business areas and approved by Sandvik Group Executive Management.

These plans are founded on the business areas' strategies and an analysis of the current and anticipated business climate, and the impact this is expected to have on the market in which the business area operates. A range of economic indicators, which differ for each market, and external and internal studies of these, are used in the analysis of the business situation. The forecasts form the basis for how the values of the material assumptions are established.

The assumptions mentioned below reflect past experience and are consistent with external information. The most material assumptions when determining the value in use include anticipated demand, growth rate, operating margin, working capital requirements and the discount rate.

The factor used to calculate growth in the terminal period after four years was 2 percent for Walter (2), Seco Tools (2), Wolfram (2), Sandvik Machining Solutions business area level (2), Sandvik Materials Technology business area level (2) and 3 percent for Sandvik Mining and Rock Technology business area level (3). Need of

working capital beyond the four-year period is deemed to increase approximately as the expected growth in the terminal period. The discount rate consists of a weighted average cost of capital for borrowed capital and shareholders' equity and was assumed to amount to 10 percent (10) before tax. These assumptions apply to all cash-generating units. The specific risks of the cash-generating units have been adjusted for in the future cash flow forecasts. Goodwill attributable to Varel OAG was impaired in October 2019 following the fair value assessment taking place when the business was classified as Disposal group for sale and also moved from the business area Sandvik Mining and Rock Technology to Other operations. The impairment of Goodwill amounted to 2,776 million SEK and the impairment of patents, licenses and trademark related to the ongoing divestment of Varel amounted to 1,275 million SEK. Varel OAG is expected to be divested early March 2020. For more information, see Note 30.

The testing of Goodwill did not indicate any other impairment requirement. Sensitivity in the calculations where impairment was not carried out implies that the goodwill value would be maintained even if the discount rate was increased by 2 percentage points or if the long-term growth rate was lowered by 2 percentage points. The goodwill value would also be maintained, given an operating margin drop by 2 percentage points.

NOTE 13. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT, PARENT COMPANY

	Patents and other intangible assets	Goodwill	Total
Cost			
At 1 January 2018	112	139	251
Additions	19	—	19
Divestments and disposals	-8	—	-8
At 31 December 2018	123	139	262
At 1 January 2019	123	139	262
Additions	17	—	17
Divestments and disposals	-20	—	-20
At 31 December 2019	120	139	259
Accumulated amortization			
At 1 January 2018	90	30	120
Amortization for the year	7	28	35
At 31 December 2018	97	58	155
Net carrying amount at end of year	26	81	107
At 1 January 2019	97	58	155
Divestments and disposals	-20	—	-20
Amortization for the year	11	28	39
At 31 December 2019	88	86	174
Net carrying amount at end of year	32	53	85

Amortization for the year is included in the following lines in 2019 income statement

	2018	2019
Administrative expenses	35	39
Total	35	39

Note 13, continued

Property, plant and equipment

	Land and buildings	Plant and machinery	Equipment, fixtures and fittings	Construction in progress	Total
Cost					
At 1 January 2018	1,711	14,511	1,566	1,436	19,224
Additions	5	167	19	616	807
Divestments and disposals	-13	-746	-134	-4	-897
Reclassifications	21	433	57	-511	0
At 31 December 2018	1,724	14,365	1,508	1,537	19,134
At 1 January 2019	1,724	14,365	1,508	1,537	19,134
Additions	14	178	61	706	959
Divestments and disposals	-13	-496	-105	-66	-680
Reclassifications	31	813	101	-945	—
At 31 December 2019	1,756	14,860	1,565	1,232	19,413
Revaluations					
At 1 January 2018	39	—	—	—	39
Divestments and disposals	0	—	—	—	0
At 31 December 2018	39	—	—	—	39
At 1 January 2019	39	—	—	—	39
Divestments and disposals	-3	—	—	—	-3
At 31 December 2019	36	—	—	—	36
Depreciation					
At 1 January 2018	729	10,113	1,181	—	12,023
Divestments and disposals	-10	-574	-128	—	-712
Reclassifications	—	2	-2	—	—
Depreciation for the year	51	666	84	—	801
Impairment losses	8	—	0	—	8
At 31 December 2018	778	10,207	1,135	—	12,120
At 1 January 2019	778	10,207	1,135	—	12,120
Divestments and disposals	-9	-471	-103	—	-583
Reclassifications	0	0	—	—	0
Depreciation for the year	51	680	92	—	823
At 31 December 2019	820	10,416	1,124	—	12,360
Net carrying amount					
At 1 January 2018	1,021	4,398	385	1,436	7,240
At 31 December 2018	985	4,158	373	1,537	7,053
At 1 January 2019	985	4,158	373	1,537	7,053
At 31 December 2019	972	4,444	441	1,232	7,089

NOTE 14. SHARES IN GROUP COMPANIES

	Parent Company	
	2018	2019
Cost		
At the beginning of the year	34,083	31,528
Additions	4,793	5,825
Capital contributions	93	6,068
Capital reductions	—	-27
Divestment	-7,441	-350
Total	31,528	43,044
Accumulated impairment losses		
At the beginning of the year	-1,541	-751
Impairment losses for the year	-13	—
Impairment reversed for the year	803	280
Total	-751	-471
Accumulated revaluations		
At the beginning of the year	16	0
Revaluations reversed for the year	-16	—
Total	0	0
Carrying amount at year-end	30,777	42,573

Sandvik AB's holdings of shares and participations in subsidiaries, direct holdings, according to balance sheet at 31 December

Company, domicile	2018				2019		
	Corp. Reg. number	No. of shares	Holding, % ²⁾	Carrying amount 000s,SEK	No. of shares	Holding, % ²⁾	Carrying amount 000s,SEK
SWEDEN							
Gimo Utbildningsaktiebolag, Gimo	556061-4041	1,000	91	—	1,000	91	3,656
Industri AB Skomab, Sandviken	556008-8345	2,000	100	21,946	2,000	100	21,946
Sandvik Global Purchasing AB, Stockholm	556052-4315	1,000	100	50	1,000	100	50
Sandvik Mining AB, Sandviken ¹⁾	556659-6952	1,000	100	100	—	—	—
AB Sandvik Coromant, Sandviken ¹⁾	556234-6865	1,000	100	50	1,000	100	50
Sandvik Coromant Sverige AB, Stockholm ¹⁾	556350-7846	1,000	100	100	1,000	100	100
Sandvik Far East Ltd. AB, Sandviken	556043-7781	10,000	100	10,000	10,000	100	10,000
Sandvik Försäkrings AB, Sandviken	516401-6742	1,500	100	81,000	1,500	100	81,000
Sandvik Besökservice AB, Sandviken ¹⁾	556235-3838	1,000	100	50	1,000	100	50
Sandvik Intellectual Property AB, Sandviken	556288-9401	1,000,000	100	3,499,950	1,000,000	100	3,499,950
AB Sandvik International, Sandviken ¹⁾	556147-2977	1,000	100	50	1,000	100	50
Sandvik Materials Technology EMEA AB, Stockholm	556734-2026	501,000	100	50,100	501,000	100	5,782,350
AB Sandvik Materials Technology, Sandviken ¹⁾	556234-6832	1,000	100	2,050	—	—	—
Sandvik Construction AB, Sandviken ¹⁾	556664-9983	1,000	100	100	1,000	100	100
Sandvik Mining and Construction Sverige AB, Sandviken ¹⁾	556288-9443	1,000	100	50	1,000	100	50
Sandvik Mining and Construction Tools AB, Sandviken ¹⁾	556234-7343	1,000	100	50	1,000	100	50
Sandvik Nora AB, Nora	556075-0506	80,000	100	8,000	—	—	—
Sandvik Powder Solutions AB, Surahammar	556032-6760	600	100	60,000	—	—	—
Sandvik Rotary Tools AB, Köping	556191-8920	101,000	100	103,231	101,000	100	103,231
AB Sandvik Skogsfastigheter, Sandviken	556579-5464	1,000	100	51	1,000	100	51
AB Sandvik Steel Investment, Sandviken	556350-7853	1,000	100	100	1,000	100	100
Sandvik Stål Försäljnings AB, Stockholm ¹⁾	556251-5386	1,000	100	50	1,000	100	50
Sanrip AB, Sandviken ¹⁾	556692-0038	1,000	100	100	1,000	100	100
Sandvik Machining Solutions AB, Sandviken ¹⁾	556692-0053	1,000	100	100	1,000	100	100
Sandvik Utbildnings AB, Sandviken	556304-8791	910	91	18,355	910	91	28,342
Sandvikens Brukspersonals Byggnadsförening upa, Sandviken	785500-1686	—	100	0	—	100	0
Dormer Pramet AB, Halmstad	556240-8210	80,000	100	46,145	80,000	100	46,145
Walter Norden AB, Halmstad	556752-4698	15,000	100	5,139	15,000	100	5,139
Sandvik Mining and Construction Köping AB, Köping ¹⁾	556776-9525	1,000	100	100	1,000	100	100
Wire Sandviken AB, Sandviken ¹⁾	556779-3897	1,000	100	100	1,000	100	100
Sandvik IT Services AB, Sandviken ¹⁾	556788-9059	1,000	100	100	1,000	100	100
Sandvik Venture AB, Stockholm ¹⁾	556868-7155	1,000	100	100	1,000	100	100
Sandvik Credit AB, Stockholm	556843-7296	10,000	100	75,000	10,000	100	75,000
Seco Tools AB, Fagersta	556071-1060	145,467,690	100	15,658,859	145,467,690	100	15,658,859
Sandvik PT AB, Sandviken	556207-5191	—	—	—	2,500	100	4,740,600

1) Subsidiaries conducting business on behalf of the Parent Company.

2) Refers to voting rights, which also equals share of capital unless otherwise indicated.

3) Remaining shares are held by other Group companies.

4) Share of capital 76%.

5) Shares up to an ownership interest of 100% are held by other Group companies.

Note 14, continued

Sandvik AB's holdings of shares and participations in foreign subsidiaries, direct holdings, according to balance sheet at 31 December

Country/Location	Company	2018			2019		
		No. of shares	Holding, % ²⁾	Carrying amount 000s,SEK	No. of shares	Holding, % ²⁾	Carrying amount 000s,SEK
Australia	Sandvik Australia Pty. Ltd.	—	25 ^{3, 4)}	235,382	—	25 ^{3, 4)}	235,382
	Sandvik Australian Ltd. Partnership	—	99	—	—	99	—
Brazil	Sandvik Holding Do Brasil Ltda	339,135,756	100	790,695	339,135,756	100	790,695
Bulgaria	Sandvik Bulgaria Ltd.	—	100	0	—	100	0
Chile	Sandvik Credit Chile S.A.	9,900	99	165,331	9,900	99	165,331
China	Sandvik China Holding Co Ltd.	—	100	1,263,072	—	100	1,579,078
	Sandvik Materials Technology (China) Ltd.	—	58 ³⁾	282,749	—	58 ³⁾	282,749
Czech Republic	Sandvik CZ s.r.o.	—	100	0	—	100	0
Democratic Republic of Congo	Sandvik Mining and Construction DRC S.P.R.L.	9,990	100	—	9,990	100	4,898
Hungary	Sandvik Magyarország Kft.	—	100	3,258	—	100	3,258
India	Sandvik Asia Ltd.	1,801,241	75 ⁵⁾	252,481	1,801,241	75 ⁵⁾	252,481
Ireland	Sandvik Mining and Construction Logistics Ltd.	100	100	5,508	100	100	5,508
Japan	Sandvik K.K.	2,780,000	100	224,701	2,780,000	100	224,701
Korea	Sandvik Korea Ltd.	752,730	100	46,856	752,730	100	20,185
Mali	Sandvik Mining and Construction Mali	25,000	100	3,462	25,000	100	3,462
Mexico	Sandvik Mexicana S.A. de C.V.	406,642,873	90 ³⁾	712,312	406,642,873	90 ³⁾	712,312
Mongolia	Sandvik Mongolia LLC.	400,000	100	2,682	400,000	100	2,682
	Sandvik Finance B.V.	18,788	100	7,093,582	18,788	100	7,093,582
Netherlands	Frost Holding B.V.	1	100	0	1	100	1,105
	Sandvik del Perú S.A.	6,562,795	90 ³⁾	26,025	6,562,795	90 ³⁾	26,025
Slovakia	Sandvik Slovakia s.r.o.	—	100	1,238	—	100	1,238
South Africa	Sandvik Holding Southern Africa (Pty) Ltd	—	—	—	1,107,501	100	1,084,567
Türkey	Sandvik Endüstriyel Mamüller Sanayi ve Ticaret A.S.	125,154,588	100	3,200	125,154,588	100	3,200
UAE	Sandvik Middle East FZE.	1	100	19,886	1	100	19,886
Zimbabwe	Sandvik Mining and Construction Zimbabwe (Pty) Ltd.	233,677	100	3,269	233,677	100	3,269
Total				30,776,865			42,573,113

1) Subsidiaries conducting business on behalf of the Parent Company.

2) Refers to voting rights, which also equals share of capital unless otherwise indicated.

3) Remaining shares are held by other Group companies.

4) Share of capital 76%.

5) Shares up to an ownership interest of 100% are held by other Group companies.

Note 14, continued

**Sandvik AB's holdings of shares and participations in subsidiaries.
Indirect holdings in operating Group companies Group holding, %¹⁾**

Country/Location	Company	2018	2019
Sweden	Sandvik Treasury AB	100	100
	Sandvik Materials Technology Treasury AB	—	100
	Metrolog Services Nordic AB	100	100
	SETP Invest AB	100	100
	Sandvik Invest Aktiebolag	100	100
	Seco AB	100	100
	Pramet Scandinavia AB	—	100
	AB Sandvik KPS	100	—
	Sandvik Heating Technology AB	100	100
	Sandvik Mining and Construction Haparanda AB	100	100
	Sandvik SRP AB	100	100
Argentina	ESIP Energy S.A.	50	50
	Seco Tools Argentina S.A.	100	100
	Sandvik Argentina S.A.	100	100
	Sandvik Mining and Construction Argentina S.A.	100	100
Armenia	Sandvik Mining and Rock Technology AM LLC	100	100
Australia	Sandvik Australia Pty Ltd	—	100
	Sandvik Credit Pty Ltd	100	100
	Sandvik Australian Limited Partnership	100	100
	Sandvik Mining and Construction Australia (Production/Supply) Pty Ltd	100	100
	NTX Australia Pty Ltd	—	100
	Varel International (Australia) Pty Ltd	—	100
	Seco Tools Australia Pty Ltd	100	100
	Sandvik Australia Holdings Pty Ltd	100	100
	Sandvik Mining and Construction Australia Pty Ltd	100	100
Austria	Sandvik in Austria Gesellschaft GmbH	100	100
	Walter Austria GmbH	100	100
	Wolfram Bergbau und Hütten AG	100	100
	Seco Tools Gesellschaft GmbH	100	100
	Sandvik Mining and Construction G.m.b.H.	100	100
	Sandvik Mining and Construction Materials Handling GmbH & Co KG	100	100
	Sandvik Mining and Construction Materials Handling GmbH	100	100
Belgium	Walter Benelux N.V./S.A.	100	100
	S.A. Seco Tools Benelux N.V.	100	100
Botswana	Sandvik Botswana (Pty) Ltd	100	100
Brazil	Sandvik Coromant Do Brasil Industria e Comercio de Ferramentas Ltda	100	100
	Walter do Brazil Ltda	100	100
	Dormer Pramet Solucoes Para Usinagem Ltda	100	100
	Sandvik Materials Technology do Brasil Industria e Comercio Ltda	100	100
	Sandvik Holding do Brazil Ltda	100	100
	Seco Tools Indústria e Comércio Ltda.	100	100
	Sandvik MGS S.A.	100	100
	Sandvik Mining and Rock Technology do Brasil Ltda	100	100
Burkina Faso	Sandvik Mining and Rock Technology Burkina Faso SARL	100	100
Canada	Système Guardian Inc.	—	100
	Sandvik Canada, Inc.	100	100
	Newtrax Holdings Inc	—	100
	Inrock Ltd.	100	100
	Newtrax Technologies Inc	—	100
	Varel Rock Bits Canada Inc	100	100
Chile	Sandvik Chile S.A.	100	100
	NTX Chile SpA	—	100
	Sandvik Credit Chile S.A.	100	100
	Sandvik Mining and Construction Chile S.A.	100	100
China	Sandvik Tooling Production (Langfang) Co. Ltd	100	100
	Sandvik Materials Technology (China) Co., Ltd	100	100
	Sandvik International Trading (Shanghai) Co Ltd	100	100
	Walter Wuxi Co. Ltd.	100	100
	Sandvik Coromant Cutting Tools (Shanghai) Ltd	100	100
	Sandvik Rock Tools Technology (Wuxi) Co., Ltd	100	100

Note 14, continued

Country/Location	Company	2018	2019
China	Varel Beijing Trading Co Ltd	100	100
	Dormer Tools (Shanghai) Co Ltd	100	100
	Sandvik Logistics (Shanghai) Co. Ltd	100	100
	Seco Tools (Shanghai) Co Ltd	100	100
	Kunshan Ousike Precision Tools Co., Ltd	—	100
	Seco Tools Manufacturing (Shanghai) Co Ltd	100	100
	Pramet Tools (Shanghai) Co Ltd	100	100
	Sandvik Mining and Construction Trading (Shanghai) Co.	100	100
	Shanghai Jianshe Luqiao Machinery Co. Ltd	80	80
	Shandong Energy Machinery Group ZhongRui Minig Equipment	50	50
	Sandvik Mining and Construction (China) Co Ltd	100	100
	Sandvik Mining and Construction (Luoyang) Co Ltd	100	100
	Jinan Lingong Mining and Rock Technology Co Ltd	65	65
Colombia	Sandvik Colombia S.A.S.	100	100
Czech Republic	WALTER CZ s.r.o.	100	100
	Seco Tools CZ s.r.o.	100	100
	Dormer Pramet s.r.o.	100	100
Denmark	Sandvik A/S	100	100
	Seco Tools A/S	100	100
DR Congo	Sandvik Mining & Construction DRC S.P.R.L	100	100
Finland	Seco Tools Oy	100	100
	Sandvik Mining and Construction Oy	100	100
	Sandvik Mining and Construction Finland OY	100	100
	Tamrock Oy	100	100
	Oy Tampella Ab	—	100
	Sandvik Coromant Finland Oy	100	100
	Tammerfors Linne och Jern Ab	—	100
France	Sandvik Holding France S.A.S	100	100
	Sandvik Tooling France S.A.S	100	100
	Sandvik Materials Technology France SAS	100	100
	Walter France S.A.S.	100	100
	Gunther Tools	100	100
	Varel Europe S.A.S.	100	100
	Sandvik Coromant Inserts France S.A.S	100	100
	Sandvik Mining and Construction Lyon S.A.S	100	100
	Sandvik Mining and Construction France S.A.S	100	100
	Financiere Metrolog SAS	100	100
	Metrologic Group SAS	100	100
	Metrologic Services SAS	100	100
	A.O.B. S.A.S	100	100
	Seco Tools France S.A.S.	100	100
	SECO Tools tooling systems SAS	100	100
Seco Ressources et Finances SA	100	100	
Seco Tools Reaming SAS	100	100	
Gabon	Varel Gabon SARL	100	100
Germany	Sandvik Materials Technology Deutschland GmbH	100	100
	Walter Deutschland GmbH	100	100
	Sandvik Tooling Deutschland GmbH	100	100
	Walter AG	100	100
	TDM Systems GmbH	100	100
	Comara GmbH	100	100
	Werner Schmitt PKD-Werkzeug GmbH	100	100
	Prototyp-Werke GmbH	100	100
	Metrologic Group GmbH	100	100
	Protomedical GmbH	100	100
	Sandvik Mining and Construction Deutschland GmbH	100	100
	Sandvik Mining and Construction Central Europe GmbH	100	100
	Sandvik Mining and Construction Crushing Technology GmbH	100	100
	Seco Tools GmbH	100	100
	Sandvik Holding GmbH	100	100
Ghana	Sandvik Mining & Construction Ghana Limited	100	100

NOTES

Note 14, continued

Country/Location	Company	2018	2019
Hong Kong	Smooth Team Investments Limited	100	100
	Sandvik Hongkong Ltd BA SMC	100	100
Hungary	Walter Hungaria Kft	100	100
	Seco Tools Kft	100	100
	Pramet Kft	100	100
India	Sandvik Asia Private Limited	100	100
	Walter Tools India Private Limited	100	100
	Seco Tools India Private Limited	100	100
	Dormer Tools India Private Limited	100	100
Indonesia	PT Sandvik Indonesia	100	100
	PT Sandvik Mining and Construction Indonesia	100	100
	PT Seco Tools Indonesia	100	100
	PT Sandvik SMC	100	100
Italy	Sandvik Italia S.p.A.	100	100
	SSC Holding Italia SRL	100	100
	Walter Italia SRL	100	100
	Metrologic Group Italia S.R.L.	100	100
	Seco Tools Italia S.p.A SU	100	100
Japan	Walter Japan K.K.	100	100
	Seco Tools Japan K.K.	100	100
	Sandvik Tooling Supply Japan K.K.	100	100
Kazakhstan	Sandvik Mining and Construction Kazakhstan Ltd	100	100
Korea	Walter Korea Ltd	100	100
	Seco Tools Korea Ltd	100	100
	Sandvik SuhJun Ltd	100	100
Malaysia	Sandvik Malaysia Sdn Bhd	100	100
	Seco Tools Sdn Bhd	100	100
	Walter Malaysia Sdn Bhd	100	100
	Downhole Products Asia Sdn Bhd	100	100
	Sandvik Mining And Construction (M) Sdn Bhd	100	100
Mexico	NTX Mining Services S de RL de CV	—	100
	Sandvik SA de CV	100	100
	Sandvik Hard Materials de Mexico S.A. de C.V.	100	100
	Walter Tools S.A. de C.V.	100	100
	Sandvik de Mexicana S.A.	100	100
	Varel de Mexico S.A. de C.V.	100	100
	Varel International de Mexico S.A. de C.V.	100	100
	Valenite de Mexico	100	100
	Seco Tools de Mexico S.A. de C.V.	100	100
Sandvik Mining and Construction de Mexico S.A. de C.V.	100	100	
Morocco	Seco Tools S.A.	100	100
Mozambique	Sandvik Mining & Construction Mozambique Lda	100	100
Namibia	Sandvik Namibia (Pty) Ltd	100	100
Netherlands	Sandvik Benelux B.V.	100	100
	Sandvik DC Venlo BV	100	100
	Jabro Tools BV	100	100
	Sandvik Mining and Construction B.V.	100	100
New Zealand	Sandvik New Zealand Ltd	100	100
Nigeria	Sandvik Mining & Construction Nigeria Limited	100	100
	Varel International Nigeria Limited	75	75
Norway	Sandvik Teeness AS	100	100
	Seco Tools AS	100	100
	Sandvik Norge AS	100	100
Papua New Guinea	Sandvik Mining and Construction PNG Limited	100	100
Peru	Sandvik del Peru S.A.	100	100
	Newtrax Peru Sociedad Anonima Cerrada	—	100
	Sandvik Forestal S.A.	100	100
	Varel International Industries L.P Sucursal Del Peru	100	100
Philippines	Sandvik Philippines Inc	100	100
	Sandvik Tamrock Philippines Inc	100	100

Country/Location	Company	2018	2019	
Poland	Sandvik Polska Sp. Z.o.o.	100	100	1
	Walter Polska SP. Z.o.o.	100	100	2
	Seco Tools Sp Z.o.o.	100	100	3
	Pramet Sp. Z.o.o.	100	100	4
Portugal	Seco Tools Portugal Lda	100	100	5
Romania	Sandvik SRL	100	100	6
	Walter Tools SRL	100	100	7
	Seco Tools Romania SRL	100	100	7
Russia	Newtrax Rus LLC	—	100	8
	LLC Walter	100	100	9
	Sandvik MKTC OAO	100	100	10
	LLC Sandvik	100	100	11
	Varel NTS, LLC	100	100	11
	LLC Pramet	100	100	12
	LLC Seco Tools	100	100	13
	Sandvik Mining and Construction CIS LLC	100	100	14
Saudi Arabia	Varel Arabia Company Limited	75	75	15
Serbia	Seco Tools SRB d.o.o.	100	100	15
Singapore	Walter AG Singapore Pte Ltd	100	100	16
	Sandvik South East Asia Ptd Ltd	100	100	17
	Seco Tools (SEA) Pte Ltd	100	100	18
	Sandvik Mining and Construction S.E. Asia Pte Ltd	—	100	19
Slovakia	PRAMET Slovakia spol sro	100	100	20
	Walter Slovakia s.r.o.	100	100	20
	Seco Tools SK, s.r.o.	100	100	21
Slovenia	Sandvik D.o.o.	100	100	22
	Walter Tools, d.o.o.	—	100	23
	Seco Tools SI d.o.o.	100	100	23
South Africa	Sandvik (Pty) Ltd	100	100	24
	Sandvik Credit South Africa (Pty) Ltd	100	100	25
	Seco Tools South Africa (Pty) Ltd	100	100	26
	Sandvik Mining RSA (Pty) Ltd	75	75	27
	Sandvik Mining & Construction Delmas (Pty) Ltd	100	100	27
Spain	Sandvik Espanola	100	100	28
	Walter Tools Iberica S.A.U.	100	100	29
	Metrologic Group Spain S.L.	100	100	30
	Seco Tools Espana S.A.	100	100	31
Switzerland	Sandvik Holding AG	100	100	32
	Sandvik AG	100	100	32
	Walter (Schweiz) AG	100	100	33
	Santrade Ltd	100	100	34
	Varel International Engineering Resources SA	100	100	35
	Seco Tools AG	100	100	35
Taiwan	Sandvik Taiwan Ltd	100	100	36
	Seco Tools (S.E.A.) Taiwan Branch	100	100	37
Tanzania	Sandvik Mining & Construction Tanzania Limited	98	98	38
Thailand	Sandvik Thailand Limited	91	91	39
	Walter (Thailand) Co Ltd	100	100	39
	Seco Tools (Thailand) Co Ltd	100	100	40
Turkey	Walter Cutting Tools Industry and Trade LLC	100	100	41
	Seco Tools Kesici Takimlar Makina San.Tic.A.S.	100	100	42
Ukraine	Sandvik Ukraine	100	100	43
	LLC Seco Tools Ukraine	100	100	43
United Arab Emirates	Downhole Products Middle East Fze	100	100	44
United Kingdom	Sandvik Holdings Ltd	100	100	45
	Sandvik Materials Limited	100	100	46
	Sandvik Ltd	100	100	47
	Walter GB Ltd	100	100	47
	Dormer Tools Ltd	100	100	47
	BTA Heller Drilling Systems Ltd	100	100	47
	Inrock Ltd. (UK)	100	100	47

	Country/Location	Company	2018	2019
1	United Kingdom	Varel (UK) Limited	100	100
2		Downhole Products UK Holdco II Limited	100	100
3		Downhole Products UK Holdco Limited	100	100
4		Downhole Products Limited	100	100
5		Ian Hay (Engineering) Ltd	100	100
6		Seco Tools (UK) Limited	100	100
7		Tamrock Great Britain Holdings Ltd	100	100
8		Fintec Crushing and Screening Limited	100	100
9	USA	Sandvik Special Metals LLC	100	100
10		PennPower Inc	100	100
11		Sandvik, Inc.	100	100
12		Sandvik Customer Finance LLC	100	100
13		Walter USA LLC	100	100
14		TDM Systems Inc	100	100
15		Sandvik Machining Solutions USA LLC	100	100
16		Dura-Mill, Inc.	100	100
17		Advanced Theodolite Technology, Inc.	100	100
18		Metrologic Group Services, Inc.	100	100
19		MG USA Properties, Inc.	100	100
20		Precorp Inc	100	100
21		uFab LLC	100	100
22		Dormer Pramet LLC	100	100
23		Varel Group	100	100
24		Varel International Energy Services Inc.	100	100
25		Varel International Holdings Inc	100	100
26		Valenite LLC	100	100
27		Sandvik Materials Technology LLC	100	100
28		Varel International Ind. LLC	100	100
29		Downhole Products Holdings USA Inc.	100	100
30		Aberdeen Products, Inc.	100	100
31		Varel Newtech Holdings Inc	50	50
32		Wetmore Tool and Engineering Company	—	100
33		Artisan Vehicle Systems, Inc.	—	100
34		Tamcorp Inc USA	100	100
35		Thermaltek, LLC	—	100
36		Inrock Drilling Systems, inc.	100	100
37		Inrock Acquisitions, Inc.	100	100
38		Pennsylvania Extruded Tube Co. (PEXCO)	70	70
39	Diamond Tool Coating, LLC	100	100	
40	Niagara Cutter LLC	100	100	
41	Seco Tools, LLC	100	100	
42	Sandvik Wire and Heating Technology Corporation	100	100	
43	Sandvik Thermal Process Inc.	100	100	
44	Sandvik Mining and Construction USA LLC	100	100	
45	Melin Tool Company, Inc.	—	100	
46	Custom Electric Manufacturing LLC	100	100	
47	Artisan Vehicle, Inc.	—	100	
	Vietnam	Sandvik Vietnam Company Ltd	100	100
		Seco Tools Vietnam Co Ltd	100	100
	Zambia	Sandvik Mining & Construction Zambia Limited	100	100

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

NOTE 15. INVESTMENTS IN ASSOCIATED COMPANIES

Group shares in associated companies	2018	2019	Parent Company's shares in associated companies	2018	2019
Accumulated share of equity			Accumulated cost		
At the beginning of the year	269	100	At the beginning of the year	0	0
Acquisition of associates	—	190	Carrying amount at the end of year	0	0
Divestment of associates	-214	—			
Share of profits for the year	46	9			
Less dividend received	-1	-1			
Translation differences during the year	-0	-5			
Carrying amount at the end of year	100	292			

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

2019	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB	—	—	—	—	—	—	—
Owned indirectly by Sandvik AB							
Eimco Elecon	India	259	31	461	50	410	25.1
Fagersta Seco AB	Sweden	—	—	3	2	1	50.0
Fagerstahälsan AB	Sweden	8	-0	8	6	2	50.0
Beam IT Spa (acquired in July 2019)	Italy	16	2	361	89	272	30.0
STC Rental Co. Ltd. (acquired in July 2019)	Japan	2	-0	1	0	1	14.5
3C Metrologic	Mexico	13	0	10	7	3	40.0
Shanghai Innovatools Co. Ltd.	China	5	-1	11	2	8	40.0
2018	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB	—	—	—	—	—	—	—
Owned indirectly by Sandvik AB							
Eimco Elecon	India	188	20	431	56	375	25.1
Fagersta Stainless AB (sold in June 2018)	Sweden	1,054	69	—	—	—	—
Fagersta Seco AB	Sweden	—	—	3	2	1	50.0
Fagerstahälsan AB	Sweden	7	—	9	6	2	50.0
3C Metrologic (acquired in July 2018)	Mexico	—	—	—	—	—	40.0
Shanghai Innovatools Co. Ltd.	China	6	0	12	3	9	40.0

Additional information

The close of the reporting period for the associate Eimco Elecon is 31 March 2019. The dividend paid in 2019 is included in the calculation of the proportion of equity. No financial statements as of a later date have been obtained. Other associates are recognized one

month in arrears with an exception for STC Rental Co. Ltd. that is recognized with a quarter in arrears. The associated companies Beam IT Spa and STC Rental Co. Ltd. were acquired in 2019.

NOTE 16. NON-CURRENT RECEIVABLES AND OTHER CURRENT RECEIVABLES

Group	2018	2019	Parent Company	2018	2019
Non-current receivables			Non-current receivables		
Derivatives designated as hedging instruments	140	70	Derivatives	91	19
Funded pension plans	516	417	Other interest-bearing receivables	18	16
Other non-interest-bearing receivables	397	465	Total	109	35
Other interest-bearing receivables	1,318	1,513	Other current receivables		
Total	2,372	2,465	Derivatives	138	26
Whereof assets held for sale	77	75	Other non-interest-bearing receivables	511	418
Continued operations	2,295	2,390	Other interest-bearing receivables	35	7
Other current receivables			Total	684	451
Derivatives designated as hedging instruments	414	339			
Other non-interest-bearing receivables	2,464	2,476			
Other interest-bearing receivables	1,621	1,801			
Advances to suppliers	283	257			
Total	4,782	4,874			
Whereof assets held for sale	115	166			
Continued operations	4,667	4,708			

NOTE 17. INVENTORIES

	Group		Parent Company	
	2018	2019	2018	2019
Raw materials and consumables	5,649	5,680	1,340	1,095
Work in progress	4,771	4,785	1,356	1,301
Finished goods	14,045	14,349	369	833
Total	24,465	24,813	3,065	3,229
Whereof assets held for sale	72	571	—	—
Continuing operations	24,393	24,243	3,065	3,229

Cost of sales of the Group includes impairment of inventories of 215 million SEK (297) while cost of sales of the Parent Company includes impairment of 119 million SEK (98). There were no significant reversals of impairment losses during 2019 and 2018.

NOTE 18. TRADE RECEIVABLES

Age analysis of trade receivables and contract assets, Group

2018

	Current	1–30 days past due	31–60 days past due	61–90 days past due	91–180 days past due	181–360 days past due	More than 360 days past due	Total
Loss reserve								
Expected loss rate, %	0.5	1.8	5.0	16.1	16.2	45.5	90.2	4.7
Gross carrying amount – trade receivables	12,257	1,595	496	257	308	219	480	15,613
Gross carrying amount – contract assets	362	9	3	1	1	0	22	399
	12,619	1,605	499	258	309	219	502	16,012
Loss allowance	–59	–29	–25	–41	–50	–100	–453	–757
Reported value	12,560	1,575	474	217	259	120	49	15,255

2019

	Current	1–30 days past due	31–60 days past due	61–90 days past due	91–180 days past due	181–360 days past due	More than 360 days past due	Total
Loss reserve								
Expected loss rate, %	–1.2	1.9	4.5	8.5	19.9	40.4	89.7	4.2
Gross carrying amount – trade receivables	11,609	1,583	510	284	345	210	613	15,154
Gross carrying amount – contract assets	356	3	1	0	0	0	18	379
	11,965	1,586	511	284	346	210	632	15,533
Loss allowance	143	–31	–23	–24	–69	–85	–567	–655
Reported value	12,108	1,555	488	260	277	125	65	14,878

Sandvik evaluates its trade receivables, contract assets and financial leases on a collective basis for its categories respectively. Each reporting entity classifies their receivables in suitable risk categories according to Group policy. The Group's assessment is that the aggregated credit risk has not increased during the reporting period.

Sandvik's principles for the writing off of receivables are based on several prerequisites, such as proof of write-off, insolvency or failed legal and other collection processes. An assessment is made whether one or several of these prerequisites are fulfilled before the write-off takes place.

Credit risks are classified based on credit information provided by credit agencies, identified payment behavior of the customer and other relevant information available, such as lost contracts, changes in company management and other customer specific information. Additionally, a macroeconomic evaluation is conducted on the outlook of industries and countries relevant for our customers.

Regarding credit securities, the Group selectively utilizes different forms of credit securities, such as letters of credit, retention of title or credit insurance.

NOTE 19. CAPITAL AND RESERVES**Group**

Details of reserves	2018	2019
Translation reserve		
At the beginning of the year	3,481	5,233
Translation differences during the year	1,752	1,880
At the end of the year	5,233	7,113
Hedging reserve		
At the beginning of the year	-137	-123
Translation differences during the year	14	20
At the end of the year	-123	-103
Total reserves		
Reserves at the beginning of the year	3,344	5,110
Changes in reserves:		
Translation reserve	1,752	1,880
Hedging reserve	14	20
Reserves at the end of the year	5,110	7,010

Other paid-in capital

Relates to payments made by owners and includes share premium reserve transferred to the statutory reserve at 31 December 2005. Any share premium as from 1 January 2006 and onwards is also recognized as paid-in capital.

Reserves*Translation reserve*

The translation reserve comprises all foreign exchange differences arising on the translation of the financial statements of foreign operations stated in a currency different from the Group's presentation currency. Translation reserves relating to divested assets are not material.

The Parent Company's and the Group's presentation and functional currency is Swedish kronor (SEK).

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. The change in cash flow hedges that was transferred to profit/loss for the year amounted to 20 million SEK (14).

Retained earnings including profit or loss for the year

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

Management of capital*Financial goals*

Revenue growth, organically and through acquisitions ¹⁾	≥ 5%
EBIT margin rolling 12 months ²⁾	≥ 16%
Net debt / equity ratio	< 0,5
Dividend pay-out ratio of adjusted earnings per share ^{1,2)}	50%

1) Through a business cycle

2) Adjusted for items affecting comparability

Equity

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

Equity	2018	2019
Share capital	1,505	1,505
Other paid-in capital	7,678	7,678
Reserves	5,110	7,010
Retained earnings including profit for the year	43,827	45,651
Equity attributable to equity holders of the Parent Company	58,120	61,844
Non-controlling interest	42	14
Total equity	58,162	61,858

The Board of Directors has proposed to the 2020 Annual General Meeting a dividend of 4.50 SEK per share (4.25). The proposal corresponds to approximately 41 percent of the recognized earnings per share. No changes were made to the processes for managing capital during the year. Neither the Parent Company nor any of its subsidiaries have to comply with externally imposed capital requirements.

Parent Company*Share capital*

According to the Articles of Association of Sandvik AB, the share capital shall amount to a minimum of 700,000,000 SEK and a maximum of 2,800,000,000 SEK.

All issued shares are fully paid, have the same voting rights and are equally entitled to the company's assets.

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

	No. of shares	Quotient value SEK/share	Share capital SEK
Share capital at 31 December 2017	1,254,385,923	1.20	1,505,263,108
Share capital at 31 December 2018	1,254,385,923	1.20	1,505,263,108
Share capital at 31 December 2019	1,254,385,923	1.20	1,505,263,108

A dividend is proposed by the Board of Directors in accordance with the stipulations in the Swedish Companies' Act, and is approved at the Annual General Meeting. The proposed, not yet resolved, dividend for 2019 is estimated to amount to 5,645 million SEK (4.50 SEK per share). This amount has not been recognized as a liability.

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

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

Undistributable equity

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

Statutory reserve

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

Distributable equity*Share premium reserve*

Comprises the value of shares that have been issued at a premium, meaning the price paid was in excess of the share's quotient value. The amount received in excess of the quotient value was transferred to the share premium reserve.

Retained earnings

Retained earnings comprise the distributable reserves recognized in the preceding year less any dividend declared. The total of such profits brought forward and the profit for the year constitute the total distributable reserves, that is the maximum amount available for distribution to the shareholders.

NOTE 20. PROVISIONS FOR PENSION AND OTHER NON-CURRENT POST-EMPLOYMENT BENEFITS

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

Sweden

The Swedish pension plan is funded through a foundation and is based on salary at the time of retirement and is partly closed for new participants, meaning that only new employees born prior to 1979 have the option of joining the plan. Employees born after 1979 are encompassed by a defined contribution plan. There are no funding requirements for the defined benefit plan. Pension payments to retirees are made directly from Sandvik.

The commitment for family pension, also a defined-benefit plan, is insured with Alecta. Sufficient information to use defined-benefit accounting for this plan was not available, which is why these commitments are recognized as a defined-contribution plan. At the end of 2019, Alecta reported a preliminary plan surplus of 148 percent (142).

The Group's share of Alecta's saving premiums is 0.2 percent, the total share of active members in Alecta is 0.7 percent. For 2020, the expected contribution to Alecta is 39 million SEK.

UK

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

US

There are a number of pension plans in the US, including commitments for medical benefits. The largest pension plan covers 92 percent of the total commitment in the US. The pension is based on salary at the time of retirement and is closed for new participants. The funding level is revalued every year with a target of restoring the funding level over a seven-year period. Pension payments to retirees are primarily made from the plan. Those eligible for the pension plan are also eligible for the medical plan in retirement. The retiree medical plan offers a dollar amount for each service year based on the age at which someone retires.

Finland

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

Germany

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

Canada

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

Information by country, 31 December 2018	Sweden	UK	US	Finland	Germany	Canada	Other	Total
Amounts included in the balance sheet								
Present value of funded and unfunded obligations	5,772	6,605	6,801	3,443	2,655	543	1,217	27,036
– of which for actives	2,866	1,375	3,005	968	1,245	280	982	10,721
– of which for vested deferreds	1,485	1,930	946	794	227	20	36	5,438
– of which for retirees	1,421	3,300	2,850	1,681	1,183	243	199	10,877
Plan assets	2,574	6,417	6,176	3,612	1,456	526	756	21,517
Total surplus/(deficit)	–3,198	–188	–625	169	–1,199	–17	–461	–5,519
Funding level, %	45	97	91	105	55	97	62	80
Pension plans recognized according to local rules	—	—	—	—	—	—	—	–198
Average duration of the obligation, years	23	17	13	16	10	12	N/A	16
Amounts included in the income statement								
Current service cost	–194	–114	–158	–95	–44	–43	–48	–696
Net interest	–62	–8	–20	7	–21	1	–22	–125
Remeasurements	–700	181	–36	–100	–10	–11	–8	–684
Total expense for defined benefits (pretax)	–956	59	–214	–188	–75	–53	–78	–1,505
Amounts included in the cash flow statement								
Contributions by the employer	—	–143	–184	–28	–44	–15	–41	–455
Benefits paid	–110	—	–30	—	–64	–3	–31	–238
Settlements paid	—	—	—	—	–7	—	—	–7
Major assumptions for the valuation of the liability								
Longevity, years ¹⁾	23	22	22	21	22	23	N/A	N/A
Inflation, %	1.75	3.10	2.27	1.85	2.00	2.00	N/A	2.24
Discount rate, % (weighted average)	2.50	2.90	4.20	2.10	1.75	3.76	N/A	2.92
Future salary increase (weighted average)	3.00	2.64	3.00	2.50	3.00	3.00	N/A	2.87

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

Note 20, continued

Information by country, 31 December 2019	Sweden	UK	US	Finland	Germany	Canada	Other	Total
Amounts included in the balance sheet								
Present value of funded and unfunded obligations	7,535	7,943	7,865	3,790	2,891	580	1,242	31,846
– of which for actives	3,962	1,744	3,549	1,193	1,315	188	995	12,946
– of which for vested deferreds	2,008	2,380	919	858	289	90	45	6,589
– of which for retirees	1,565	3,819	3,398	1,738	1,287	302	202	12,311
Plan assets	2,904	7,634	7,427	3,856	1,598	567	771	24,757
Total surplus/(deficit)	-4,631	-309	-438	66	-1,293	-13	-471	-7,089
Funding level, %	39	96	94	102	55	98	62	78
Pension plans recognized according to local rules	—	—	—	—	—	—	—	-260
Average duration of the obligation, years	24.5	17.7	14.1	17.5	11.7	12.2	N/A	14.5
Amounts included in the income statement								
Current service cost	-231	-65	-34	-100	-41	-41	-21	-533
Net interest	-79	-3	-26	4	-21	—	-34	-160
Remeasurements	-1,240	-254	51	-45	-128	15	-7	-1,608
Total expense for defined benefits (pretax)	-1,550	-322	-9	-141	-190	-27	-62	-2,301
Amounts included in the cash flow statement								
Contributions by the employer	—	-218	-194	-35	-47	-3	-17	-514
Benefits paid	-117	—	-26	—	-64	-3	-36	-246
Settlements paid	—	—	—	—	0	—	—	0
Major assumptions for the valuation of the liability								
Longevity, years ¹⁾	23	22	22	21	22	23	N/A	N/A
Inflation, %	1.75	3.05	2.27	1.30	2.00	2.00	N/A	2.19
Discount rate, % (weighted average)	1.75	2.05	3.19	1.20	1.30	3.06	N/A	2.10
Future salary increase, % (weighted average)	3.00	2.53	3.00	2.50	3.00	3.00	N/A	2.81

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

Reconciliation of change in present value of defined benefit obligation for funded and unfunded plans

	2018	2019
Opening balance, January 1	26,127	27,036
Service cost	696	532
Settlements	-55	-102
Interest cost	728	814
Contributions by plan participants	34	32
Benefits paid	-1,073	-1,110
Remeasurements loss/(gain) arising from:		
– Financial assumptions	-501	3,802
– Demographic assumptions	-96	-117
– Experience adjustments	248	298
Other	-163	-205
Exchange differences	1,091	865
Closing balance, December 31	27,036	31,845

Reconciliation of change in the fair value of plan assets

	2018	2019
Opening balance, January 1	21,404	21,517
Interest income	603	654
Settlements	-55	-102
Contribution by the employer	455	514
Benefits paid directly by employer	238	246
Settlements paid by employer	7	0
Contributions by plan participants	34	32
Benefits paid	-1,073	-1,110
Return on plan assets, excl amount included in interest	-1,033	2,345
Other	-43	-157
Exchange differences	980	818
Closing balance, December 31	21,517	24,757

An asset is recognized if the value of the plan assets for a certain plan exceeds the liability. Funded pension plans are recognized as an asset in the amount of 417 million SEK (516) in the item non-current receivables. Provisions for pensions include pension plans of 7,765 million SEK (6,234). The total net liability is 7,348 million SEK (5,717).

Risks and cash flows

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

To determine the discount rate, AA credit rated corporate bonds are used that correspond to the duration of the pension obligation. If there is no deep market for corporate bonds, government bonds are instead used as the basis for determining the discount rate. Mortgage bonds are used in Sweden to determine the discount rate.

A sensitivity analysis of the most important assumptions affecting the recognized pension liability is provided below. Note that this sensitivity analysis is not intended to be the expression of an opinion by the company regarding the probability of such events occurring.

Sensitivity analysis, change in pension provision

(Net)	SE	UK	US	FI	DE	CA	Total
Life expectancy, +1 year	362	285	232	147	92	16	1,134
Discount rate -50 bps	993	275	1	19	71	6	1,365
Inflation rate +50 bps	993	732	581	351	177	33	2,867
Equities -20%	147	208	441	299	47	17	1,159

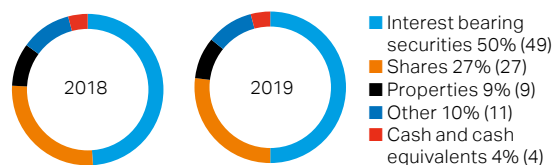
Sandvik estimates that approximately 400 million SEK (656) will be paid into existing defined benefit plans in 2020.

Note 20, continued

Plan assets

Plan assets amounted to 24,757 million SEK (21,517). Actual return on plan assets was 2,999 million SEK (–430). The consolidation ratio for funded plans is 83 percent (86). For all plans including unfunded plans, the consolidation ratio is 78 percent (80).

Class of assets



Assets without quoted prices amounted to approximately 9 percent (9) of the total plan assets of 24,757 million SEK.

The fair value of plan assets on 31 December 2019 included loans of 0 million SEK (0) to Sandvik companies and the value of properties leased to Sandvik of 209 million SEK (219).

Governance

The defined benefit and defined contribution plans are governed through Sandvik's Pension Supervisory Board (PSB). PSB meets twice a year and has the following areas of responsibility:

- Implement policies and directives
- Ensure efficient administration of the major pension plans and efficient management of reserved plan assets
- Approve establishment of new plans, material changes or closure of existing plan
- Approve guidelines for management of assets

The Group Pension Committee (GPC) is another operating body, which is also preparatory to the PSB, that has representatives from countries with large defined-benefit plans and the relevant Group functions. The GPC's task is to monitor developments in countries, submit proposals on changes to pension plans to the PSB and approve the principle of how actuarial assumptions are established. The GPC meets twice a year.

Investment strategy

The aims of the investment decisions made in the foundations managing plan assets are as follows:

- Ensure that the plan assets are sufficient to cover the foundation's future pension commitments
- Achieve optimal returns while taking into account a reasonable level of risk

Each foundation is to have a written investment policy approved by GPC. Reviews are performed annually. The foundation makes its own decisions on its investment strategy and takes into consideration the composition of the pension commitments, requirements of cash and cash equivalents and available investment opportunities. The investment strategy is to be long term and in line with the guidelines established by PSB. An investment committee is to be in place.

Parent Company

The Parent Company's recognized pension provision was 337 million SEK (376). The Parent Company's PRI pensions are secured through Sandvik's own pension foundation, the Sandvik Pension Foundation in Sweden. Sandvik AB and most of its Swedish subsidiaries are members of the foundation. The total value of the assets held by the foundation was 2,904 million SEK (2,574), which was 300 million SEK (442) lower than the capital value of the corresponding pension obligations for the entire foundation. The deficit was recognized as a liability in the companies. The Parent Company's funded obligations mainly comprise ITP Plans.

Present value of funded and unfunded pension obligations

	2018	2019
Present value of funded and unfunded pension obligations	2,323	2,489
Plan assets	2,201	2,482
Deficit in the assets of the pension foundation	–254	–330
Net amount recognized for pension obligations	–376	–337

NOTE 21. OTHER PROVISIONS

	Warranties	Restructuring	Employee benefits	Environmental obligations	Legal disputes	Other obligations	Total
Group							
Balance at 31 December 2018	458	1,188	571	359	295	404	3,275
Provisions made during the year	85	1,681	355	100	–40	574	2,756
Provisions used during the year	–116	–945	–318	–59	–27	–195	–1,659
Unutilized provisions reversed during the year	–59	–177	–17	–5	–29	–136	–422
Provision disposed through divestment	—	–0	0	—	—	1	1
Reclassifications	46	–156	55	–2	3	–4	–58
Translation differences	30	3	–23	5	6	–27	–7
Balance at 31 December 2019	445	1,595	622	398	208	618	3,885
of which current	374	1,442	221	60	171	425	2,693
of which non-current	71	154	401	338	37	192	1,193
Parent Company							
Balance at 31 December 2018	9	36	143	27	—	—	215
Provisions made during the year	1	265	56	25	—	—	347
Provisions used during the year	2	–75	–52	—	—	—	–125
Unutilized provisions reversed during the year	—	–4	—	—	—	—	–4
Reclassifications	–0	—	–0	—	—	0	0
Balance at 31 December 2019	12	222	147	52	—	0	433

Note 21, continued

Warranties

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

Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Employee benefits

A provision for personnel-related benefits is recognized in accordance with agreements entered for long-term incentive programs, local bonus programs, part-time pensions and other personnel obligations.

Environmental obligations

An environmental provision is recognized when there is a legal obligation for a clean up.

Legal disputes

Legal disputes include provisions for claims which, at the balance sheet date, had not been closed.

Site restoration

Provision for costs for restoring contaminated land is made in accordance with the Group's published environmental principles when there is a legal requirement or other binding commitment to restore established contaminated land and when the cost can be measured with reasonable precision.

Other obligations

Other obligations include provisions for onerous contracts and obligations within the scope of Sandvik Försäkring AB's operations. Provisions classified as current are expected to result in an outflow of resources within twelve months from the balance sheet date.

NOTE 22. NON-CURRENT INTEREST-BEARING LIABILITIES

Parent Company

Non-current interest-bearing liabilities fall due as follows:

	2018			2019		
	Within one to five years	Later than five years	Total	Within one to five years	Later than five years	Total
Loans from Group companies	1	—	1	1	—	1
Other liabilities ¹⁾	8,153	8,809	16,962	6,977	8,146	15,123
Total	8,154	8,809	16,963	6,978	8,146	15,124

1) Other liabilities mainly comprise bond loans.

NOTE 23. OTHER INTEREST-BEARING LIABILITIES

Group	2018	2019
Non-current liabilities		
Bond issues	20,308	15,123
Other	123	26
Total	20,431	15,148
Current liabilities		
Bond issues	0	1,995
Other	27	67
Total	27	2,062

For information on contractual terms, scheduled repayments and the exposure to interest risk and foreign-currency risk, refer to the section "Financial risk management."

NOTE 24. OTHER NON-INTEREST-BEARING LIABILITIES

Group	2018	2019
Other non-current liabilities		
Derivatives designated as hedging instruments	258	263
Other	45	36
Total	303	298
Other current liabilities		
Derivatives designated as hedging instruments	238	270
Bills payable	104	88
Other	2,145	2,109
Total	2,487	2,466
Whereof assets held for sale	20	109
Continuing operations	2,467	2,357

NOTE 25. ACCRUED EXPENSES AND DEFERRED INCOME

Parent Company	2018	2019
Personnel related	1,782	1,767
Expenses related to finance	298	304
Other	619	297
Total	2,699	2,368

NOTE 26. CONTINGENT LIABILITIES AND PLEDGED ASSETS

On occasion, Sandvik is party to litigation and administrative proceedings related to its operations, including responsibility for products, the environment, health and safety. However, Sandvik does not deem that any of these ongoing proceedings and processes will significantly affect the Sandvik Group.

Continuing operations

	Group		Parent Company	
	2018	2019	2018	2019
Contingent liabilities				
Bills discounted	13	5	—	—
Other surety undertakings and contingent liabilities	2,318	1,826	10,798	4,577
Total	2,331	1,831	10,798	4,577
of which for subsidiaries			10,700	4,570

Note 26, continued

The Parent Company's surety undertakings and contingent liabilities amounted to 4,577 million SEK (10,798), of which 1 million SEK (6,492) related to the Parent Company's guarantees for Sandvik Treasury AB's financial borrowings. The remainder comprised mainly indemnity bonds for commitments of Group companies to their customers and vendors on advances received and various types of performance bonds and guarantees to financial institutions relating to local borrowings, and guarantee facilities as well as to pension commitments.

The Group's surety undertakings and contingent liabilities amounted to 1,826 million SEK (2,318) and mainly comprised of bank guarantees and ongoing proceedings.

Pledged assets

Pledged assets for own liabilities and provisions.

Group	2018	2019
Property mortgages	231	234
Chattel mortgages	62	—
Total	293	234

No assets of the Parent Company had been pledged in 2019 and 2018.

NOTE 27. SUPPLEMENTARY INFORMATION – FINANCIAL RISK MANAGEMENT

Financial risk management

Through its comprehensive international operations, Sandvik is exposed to financial risks.

Group Treasury is the function responsible for managing most of the Group's financial risks. The primary objectives of the function are to contribute to the creation of value by managing the financial risks to which the Group is exposed to during the ordinary course of business, and to optimize the Group's financial net.

The Board of Directors is responsible for establishing the Group's finance policy, which comprises guidelines, objectives, and limits for financial management within Group Treasury as well as the management of financial risks within the Group.

Group Treasury supports Group companies and its tasks are to support subsidiaries with loans, deposits, foreign exchange deals, and banking solutions, as well as to act as an advisor in financial matters. The function conducts internal banking operations and is based at the head office in Stockholm. It is also responsible for the Group's bank account set-up.

In addition, Group Treasury conducts operations for payment advisory and trade finance, and is responsible for the Group's global policy for granting credit to customers in conjunction with sales. The customer finance activity is carried out through the Business Area Sandvik Mining and Rock Technology through selected locations worldwide.

Finally, Group Treasury also manages the financial risks associated with the company's defined-benefit pension plans.

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

The presentations comply with the reporting requirements stated in IFRS under IFRS 7, IFRS 9, and IAS 39 for Hedge Accounting.

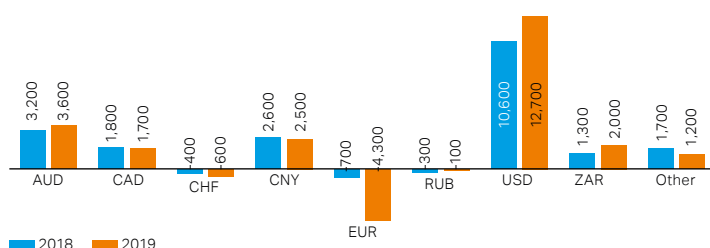
Currency risk – Transaction exposure Risk

Transaction exposure occurs when sales and purchases are made in two different currencies which affect profit for the year.

Sandvik's annual transaction exposure, meaning the Group's net flow of currencies, after full offsetting of the countervalue in the exporting companies' local currencies, and measured at the average exchange rate, amounted to 20,266 million SEK (19,468) in 2019. The most important currencies for one year of exposure are shown in the following diagram.

Exposure

Net flow in foreign currencies, MSEK



Comments

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

In order to mitigate the currency risk, pricing is adjusted against both customers and suppliers in circumstances where Sandvik is affected negatively by currency movements. To further reduce exposure to foreign currencies, currencies received are used to pay for purchases in the same currency via a netting structure.

A certain portion of the anticipated net flow of sales and purchases is hedged through financial instruments and bank account balances in accordance with guidelines set in the Group's finance policy. In addition, major project orders are currency hedged to safeguard the gross margin. Under the finance policy, the CFO has a mandate to hedge the annual transaction exposure. At year-end, the total hedged amount was 2,136 million SEK (2,521). The average duration for the hedged volume of foreign currency was 3 months (2). Unrealized gains from outstanding currency contracts for hedging of future net flows amounted to 18 million SEK (0.2) at year-end. This amount consists of 28 million SEK in gains related to contracts maturing in 2020 and -10 million SEK in losses related to contracts maturing in 2021 or later. For a more detailed breakdown of the quarterly effects on cash flow of the transactions that have been recognized in the hedge reserve, see the table at the end of Note 27.

If all exchange rates for the exposure currencies were to change by 5 percent in an unfavorable direction, total operating profit over a 12-month period would change by approximately -1,360 million SEK (-1,126), assuming that the composition is the same as it was at year-end.

Sensitivity analysis by currency, MSEK

AUD	CAD	CHF	CNY	EUR	USD	ZAR	Other	Total
-117	-81	-28	-124	-143	-558	-90	-219	-1,360

Note 27, continued

Currency risk – Translation exposure

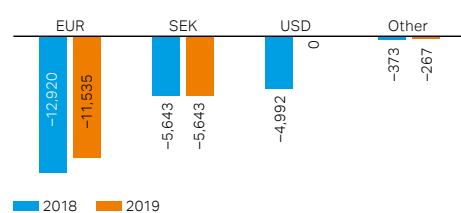
Risk

Translation exposure occurs when assets and liabilities are denominated in different currencies.

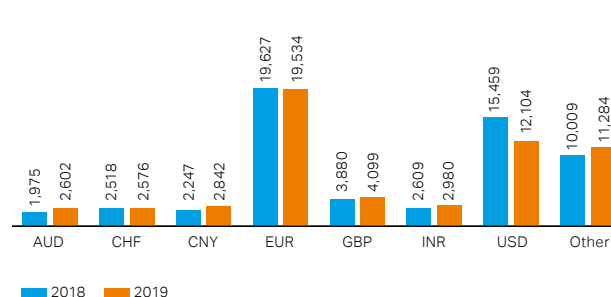
Since the Swedish krona (SEK) is Sandvik's base currency, a translation risk related to the valuation of the net assets in foreign subsidiaries and the profit/loss in foreign currency achieved during the period occurs. The net assets, which usually consist of the foreign subsidiaries' shareholders equity, are translated to SEK at the rates applied at the balance sheet date. At 31 December, the Group's net assets in subsidiaries in local currencies amounted to 58,021 million SEK (58,324).

Exposure

Group's external borrowing by currency, MSEK



Net assets by foreign currency, MSEK



Comments

To avoid translation risk in the balance sheets of subsidiaries, they are financed in their functional currency through the internal bank. External borrowing often takes place in a specific currency, as shown in the first diagram. The currency risk that arises in the internal bank as a result of this is managed using various derivatives to minimize the translation risk.

Sandvik has chosen not to hedge future profits in foreign subsidiaries. Net assets are also not hedged, but the differences that arise due to changes in exchange rates since the preceding quarter are recognized directly in other comprehensive income. The second diagram shows the distribution of net assets among various currencies.

If exchange rates were to change by 5 percent in an unfavorable direction the net effect on other comprehensive income would be approximately -2,904 million SEK (-2,921). This net effect primarily comprises translation exposure in equity.

Sensitivity analysis by currency, MSEK

AUD	CHF	CNY	EUR	GBP	INR	USD	Other	Total
-130	-129	-142	-977	-205	-149	-605	-567	-2,904

Interest rate risk

Risk

Interest-rate risk is defined as the risk that changes in market interest rates will have on the Group's net interest items. The impact on net interest items of a change in interest rates depends on the interest terms of assets and liabilities. Sandvik measures interest-rate risk as the change over the forthcoming 12 months given a 1 percentage point change in interest rates.

Interest-rate risk arises in two ways:

- The company may have invested in interest-bearing assets, the value of which changes when the interest rate changes.
- The cost of the company's borrowing fluctuates when the general interest-rate situation changes.

Exposure

If market rates were to rise by 1 percentage point across all terms, in relation to loans for which the interest rate will be reset during the coming year, interest costs would be impacted by -36 million SEK (-38).

An interest-rate sensitivity analysis of interest-rate swap agreements valid at year-end, and to which hedge accounting was applied, shows that other comprehensive income would change by 50 million SEK (65) as a result of a 1 percentage point shift in the interest-rate curve.

Interest rates and fixed-interest terms on outstanding loans

Including effect of interest-rate derivatives	Effective rate of interest, %	Fixed-interest term, months	Recognized liability, MSEK
Bond loans, Swedish MTN	2.7	12	5,650
Bond loans, European MTN	3.6	68	11,469
Commercial papers	—	—	—
Other loans from banks	5.4	7	335
Total loans	3.3	49	17,454
Interest effect of currency derivatives	1.0		
Total incl. currency derivatives	4.4		

Comments

The Group's interest-rate risk arises mainly in connection with borrowing. Interest-rate swap agreements are sometimes used to achieve the desired fixed-interest term. The Group CFO has a mandate to vary the average fixed-interest term of the Group's debt portfolio, provided that it does not exceed 60 months. The average fixed-interest term on Sandvik's borrowing was 49 months (47) at year-end, with consideration given to interest-rate swap agreements entered into.

In line with the Group's finance policy, internal lending to foreign subsidiaries is hedged. Consequently, there is an interest-rate effect in currency derivatives of 1.0 percent between the currencies the Group borrows and the currencies the Group lends. The Group's average interest expense, including other loans and effects of various derivatives, was 4.4 percent (3.8).

Hedge accounting is applied when an effective link exists between hedged loans and interest-rate swaps. Accordingly, changed market interest rates could also impact other comprehensive income, since the Group has interest-rate swap agreements that are 100 percent effective and with a notional amount of 1,500 million SEK, to which it applies cash-flow hedging. This means that changes in the market values of these swaps are recognized directly in other comprehensive income instead of in profit for the year. A presentation of all interest-rate swap agreements entered into, and information regarding their duration, can be found at the end of Note 27.

Sandvik's loan conditions do not currently entail financial covenants linked to key figures. Only under exceptional circumstances are assets pledged in connection with the raising of loans. Such pledging is disclosed in Note 26.

In the event that Sandvik has surplus liquidity, it is placed in bank deposits or in short-term money market instruments (durations of up to 90 days), which means that the interest-rate risk (the risk of a change in value) is low.

Note 27, continued

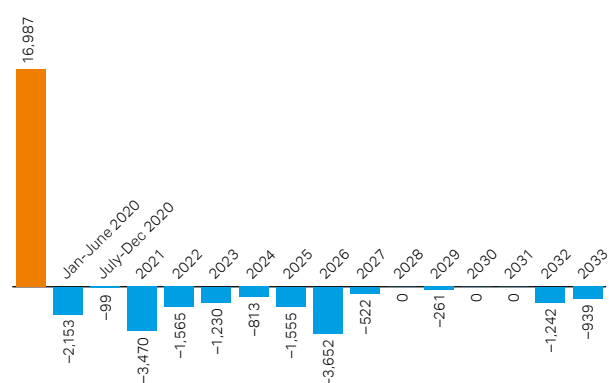
Liquidity and refinancing risk**Risk**

Liquidity and refinancing risk is defined as the risk that financing possibilities will be limited when loans are to be refinanced, and that payment commitments cannot be met as a result of insufficient liquidity.

Exposure**Maturity profile for borrowing and liquid assets**

Nominal amount, MSEK

Cash and cash equivalents

**Borrowing, size of programs, and remaining credit periods**

	Currency	Recognized liability, MSEK	Size of programs, MSEK	Average remaining credit periods, years
Bond loans, Swedish MTN	SEK	5,650	15,000	1.3
Bond loans, European MTN	EUR	11,469	31,306	6.5
Commercial papers	EUR, SEK	—	17,826	—
Other loans from banks	EUR, Other	335	—	0.5
Total borrowings		17,454	64,132	4.7

Comments

According to the finance policy, the Group's capital employed excluding cash and cash equivalents should be financed on a long-term basis. At year-end, the Group's capital employed, excluding cash and cash equivalents, was 73,406 million SEK and long-term financing, including share capital, pension liabilities, long-term tax liabilities, long-term provisions and the guaranteed long-term credit facility, amounted to 96,431 million SEK. The short-term liquidity reserve, comprising committed credit facilities and accessible cash and cash equivalents was 22,364 million SEK. This reserve should at a minimum correspond to loans that mature for payment over the next six months and two weeks operating expenses, calculated to 5,350 million SEK.

Sandvik has a revolving credit facility totaling 9,000 million SEK maturing in 2023. The facility, which is the Group's primary liquidity reserve, was unutilized at year-end.

The aim of Sandvik's financing strategy is to achieve a well-balanced maturity profile for liabilities to thereby reduce the refinancing risk. The share of long-term loans in relation to total borrowing was 87 percent at year-end 2019 compared with 90 percent one year earlier. The maturity structure for the Group's financial liabilities and derivatives is presented further down in Note 27.

At year-end, Standard & Poor's, the international credit rating agency, had assigned a A- credit rating to Sandvik's long-term borrowing and A-2 for its short-term borrowing. For a continuous update on Sandvik's credit rating, refer to home.sandvik.

Credit risk**Risk**

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

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

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

Exposure

Total credit risk MSEK	2018	2019
Trade receivables ¹⁾	15,255	14,878
Cash and cash equivalents	18,089	16,987
Unrealized net gains on derivatives	554	409
Other receivables	277	433
Outstanding credits	3,244	3,770
Total	37,418	36,478

1) Excludes assets held for sales

Comments

Sandvik has entered into agreements with the banks that are most important to the company, covering such matters as the right to offset assets and liabilities that arise from financial derivative transactions, so-called ISDA agreements. This means that the company's counterparty exposure to the financial sector is limited to the unrealized net gains that arise in derivative agreements, and investments and bank balances. At 31 December 2019, the value of these amounted to 17,396 million SEK (18,643).

Sandvik companies are exposed to credit risk associated with outstanding trade receivables from ongoing sales. The credit risk is spread over a large number of customers in the business areas, and this year's credit losses are limited on a consolidated level. In 2019, Sandvik's credit losses, defined as the sum of receivables written off and change in bad debt reserve, amounted to –24 million SEK (–61), equivalent to 0.02 percent of sales. The gross value of trade receivables was 15,535 million SEK (16,006) at 31 December. Total impairment of these was –657 million SEK (–751). An age analysis of trade receivables at 31 December is presented in Note 18.

Sandvik offers short- and long-term customer financing through its own financing companies and in partnership with financial institutions and banks. At year-end, the value of outstanding credits was 3,858 million SEK (3,310), of which –88 million SEK (–66) was reserved for doubtful receivables.

In addition to the traditional financing of equipment, Sandvik also offers short-lease machinery. At year-end, the net carrying amount of this short-lease machinery was 447 million SEK (370).

Raw materials price risk**Risk**

Sandvik's financial risks related to raw materials are primarily concentrated to nickel and electricity. The price risks associated with these are partially hedged through the signing of financial contracts. A change in the electricity price of 0.1 SEK per kWh is estimated to affect Sandvik's operating profit by plus or minus 85 million SEK (85) on an annual basis, based on the prevailing conditions at year-end 2019.

Exposure

When Sandvik Materials Technology obtains a customer order containing a fixed price for nickel, molybdenum or copper, the prices of these materials are hedged by signing financial contracts. This means that Sandvik's operating profit is not impacted by movements in the price of these raw materials, relating to the aforementioned orders at a fixed price.

The Group applies a hedging strategy in order to minimize the metal price risk in connection with transactions conducted at a variable metal price. The measurement of inventory is not affected by hedging.

Note 27, continued

Changes in metal prices affect the profit and loss statement as a consequence of the lead time between the purchase of raw material and delivery of the finished product. The effect can be estimated through the rules regarding valuation of inventory. The net effect is presented in the "Development in business areas" section.

For Sandvik's large production units in Sweden and Finland, the electricity price is continuously hedged through derivatives. Electricity consumption at these units normally totals around 850 GWh. The hedging horizon at year-end was about 18 months' (18) expected consumption.

Comments

Net total consumption of nickel amounted to about 14,900 metric tons during the year.

At year-end, the volume of hedged nickel inventory was 2,184 metric tons (1,626). The market value of commodity derivatives entered into was -33 million SEK (-26).

The volume of electricity hedged with derivatives was 1,239 GWh (1,292) at year-end. The market value of these derivative contracts amounted to 14 million SEK (202).

For a more detailed breakdown of the quarterly effects on cash flow of the transactions that have been recognized in the hedge reserve, see the table at the end of Note 27.

Pension commitments

Risk

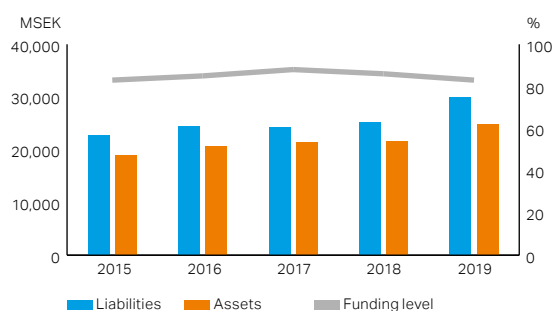
Sandvik has comprehensive pension obligations in the countries in which it operates. The pension solutions and funding requirements vary depending on legislation and local agreements. The largest funded pension plans are found in the US, UK, Finland, Sweden, Germany, and Canada. Three main risks are associated with Sandvik's pension obligations; interest rate fluctuations, capital market volatility, and changes in life expectancy.

Exposure

The group funded pension liability has an average duration of 18.0 years. The average duration of the group's interest-bearing assets in the pension portfolio is 15.2 years. The allocation to interest-bearing assets is 54 percent of the pension portfolio. Due to the asset allocation and differences in duration between the interest-bearing assets and the liability, Sandvik is exposed to interest rate fluctuations, both when discounting the liability but also as market values change in the bond portfolio. If the average discount rate falls by -50 basis points the pension liability would increase by 2,867 million SEK.

25 percent of the pension portfolio is invested in equities. A 20 percent movement in the equity portfolio would result in a change in market value of 1,159 million SEK. If the life expectancy assumptions increase by one year, the pension liability would rise by 3.6 percent which corresponds to 1,134 million SEK. The calculated total loss potential for one year (Pension risk), based on stress tests, is on aggregate 4,690 million SEK.

Development of pension liability and assets



Comments

In 2019, the pension assets totalled 24,788 million SEK (21,544) and the corresponding pension liability amounted to 29,899 million SEK (25,136), which is equal to a funding level of 83 percent (86). The

return on Sandvik's pension assets was 14.0 percent during the year (-2.0). In addition, Sandvik has unfunded pension commitments of 1,946 million SEK (1,900).

The pension plans are governed through Sandvik's Pension Supervisory Board (PSB). PSB is responsible for implementing policies and directives, approving new plans or material changes and closure of existing plans. The pension plans and governance are further described in Note 20.

Disclosure regarding financial instruments measured at fair value in the balance sheet

Fair value is the amount at which an asset or liability can be sold between well-informed partners who are independent in relation to each other and who have a vested interest in completing the transaction. Under the IFRS 13 disclosure requirements, the method applied to the valuation of assets and liabilities measured at fair value in the balance sheet is presented below. The valuation is divided into three levels:

Level 1: Fair value is determined according to prices listed on an active market for the same instrument.

Level 2: Fair value is determined based on either directly (as a price) or indirectly (derived from prices) observable market data that is not included in level 1.

Level 3: Fair value is determined based on input data that is not observable in the market.

All of Sandvik's financial instruments measured at fair value are measured according to Level 2.

Measurements of fair value

The following is a summary of the methods and assumptions primarily applied to determine the fair value of the financial instruments presented on the following page.

The fair value of foreign exchange contracts is determined based on observable market prices. The fair value of interest-rate swaps is based on discounting estimated future cash flows under the contractual terms and conditions and maturity dates and based on the market interest rate for similar instruments on the balance sheet date. Where discounted cash flows are used, the future cash flows are calculated on the best assessments of company management. The discount rate applied is the market-based interest rate of similar instruments at the balance sheet date.

All valuation techniques applied are accepted in the market and take into account all parameters that the market would consider in its pricing. These techniques are reviewed regularly so as to ensure their reliability. Applied assumptions are compared against actual outcomes to identify any needs for adjusting the measurement or forecasting tools.

For means of payment, receivables and payables with variable interest and current receivables and payables (for example, trade receivables and accounts payable), the fair value has been considered to correspond to the carrying amount.

The Group's financial instruments measured at fair value in the balance sheet

	2018	2019
Financial assets		
Derivatives		
Foreign exchange contracts	324	365
Interest-rate swaps	0	—
Commodity and electricity derivatives	230	44
Total	554	409
Financial liabilities		
Derivatives		
Foreign exchange contracts	230	288
Interest-rate swaps	212	181
Commodity and electricity derivatives	54	63
Total	496	532

Note 27, continued

Financial assets and liabilities are not offset in the balance sheet. Derivative contracts are subject to framework agreements governing offsetting, and the carrying amounts of assets not offset in the balance sheet amounted to 409 million SEK. The carrying amount of corresponding liabilities was –532 million SEK. No collateral has been received or pledged. In the event of a default by a derivative counterparty, assets and liabilities for a total value of 202 million SEK would be offset in accordance with the framework agreement governing offsetting.

Financial assets and liabilities are measured in accordance with IFRS 9. Calculation at fair value of the Group's non-current borrowings would increase the total carrying amount by 2,276 million SEK

(1,778). When measuring interest-bearing liabilities, the company's Swedish and European bond loans have been remeasured using observable market prices for identical securities to value the Group's marketable debt instruments. Other non-current debt has been remeasured in accordance with the principles described above. For short-term loans and deposits, no remeasurement was carried out, given that the carrying amount is considered to represent a good approximation of the fair value due to the short duration.

The table below shows the valuation of financial assets and liabilities.

Financial assets and liabilities by valuation category

	Fair value through profit or loss		Amortized costs		Hedge Accounting		Total carrying amount	
	2018	2019	2018	2019	2018	2019	2018	2019
Balance sheet items								
Financial assets								
Financial investments	119	82					119	82
Trade receivables ¹⁾			15,255	14,878			15,255	14,878
Other receivables ²⁾			3,193	3,413			3,193	3,413
Derivatives ³⁾	550	409			4	0	554	409
Cash and cash equivalents			18,089	16,987			18,089	16,987
Total financial assets	668	491	36,537	35,279	4	0	37,209	35,770
Financial liabilities								
Borrowings ⁴⁾			23,928	17,453			23,928	17,453
Derivatives ⁵⁾	333	401			163	131	496	532
Accounts payable ¹⁾			7,792	7,598			7,792	7,598
Due to associates			1	1			1	1
Other liabilities ⁶⁾			451	3,732			451	3,732
Total financial liabilities	333	401	32,172	28,784	163	131	32,668	29,316

1) Excludes assets held for sales

2) Comprises parts of the Group's other receivables and accrued income from contract assets, financial leasing, and customer financing recognized in the balance sheet.

3) Derivatives form part of the other receivables recognized in the balance sheet.

4) Recognized in the balance sheet as non-current and current liabilities to financial institutions and other liabilities.

5) Derivatives form part of the other liabilities recognized in the balance sheet.

6) Form part of the Group's other liabilities and accrued expenses from leasing recognized in the balance sheet.

Net result per valuation category

	2018	2019
Fair value through profit or loss	–909	–608
Amortized costs	–119	–585
Hedge accounting	14	20

The company's financial liabilities amounted to 29,316 million SEK (32,668) at year-end.

Note 27, continued

Group's maturity structure relating to undiscounted cash flows for financial liabilities and derivatives, nominal amounts

		2018				2019			
		<6 months	6–12 months	1–5 years	>5 years	<6 months	6–12 months	1–5 years	>5 years
Bank loans	EUR, Other	-147	-478	-1,296	—	-156	-99	-89	—
Commercial papers	SEK	—	—	—	—	—	—	—	—
Medium Term Notes	SEK	-66	-37	-5,363	-504	-2,071	-37	-3,784	—
European Medium Term Notes	EUR	-275	-133	-4,501	-9,764	-279	-135	-4,756	-9,282
Private Placements	USD	-1,921	-91	-3,539	—	—	—	—	—
Derivatives									
– Currency derivatives		73	0	-11	-3	90	-2	-15	-21
whereof outflow		-181	-11	-11	-3	-204	-11	-24	-21
whereof inflow		254	11	—	—	294	9	9	—
– Interest rate derivatives		-44	-5	-183	-34	-41	-2	-154	—
– Commodity and electricity derivatives		-3	120	60	—	-17	5	-8	—
Leases ¹⁾		—	—	—	—	-374	-418	-1,873	-575
Finance leases ²⁾		-2	-2	-42	—	—	—	—	—
Accounts payable ³⁾		-7,792	—	—	—	-7,598	—	—	—
Total		-10,177	-626	-14,875	-10,305	-10,446	-688	-10,679	-9,878

1) Discounted values from 2019 based on IFRS 16.

2) Only applicable for 2018 when applying IAS 17. As of 2019, Sandvik applies IFRS 16.

3) Excludes assets held for sales

Periods when hedged cash flows in the hedge reserve are expected to occur and affect earnings

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2022 and later
Currency derivatives	—	0	—	—	—	—	—	—	—
Interest rate derivatives	—	—	—	—	—	—	—	-23	-108
Commodity and electricity derivatives	—	0	0	—	—	—	—	—	—
Total	0	0	0	0	0	0	0	-23	-108

Derivative financial instruments**– interest rate swaps (cash-flow hedges)**

	2018	2019
Carrying amount (included in other liabilities)	-161	-131
Notional amount	1,500	1,500
Change in fair value of outstanding hedging instruments since 1 January	49	31

NOTE 28. RELATED PARTIES**Related-party transactions**

The Group's sales to associated companies amounted to 5 million SEK (506). The Group's purchases from associated companies amounted to 5 million SEK (107). Loans to associated companies amounted to 0 million SEK (0). Interest income on loans to associated companies amounted to 0 million SEK (0). Guarantees have been made for the obligations of associated companies in the amount of 0 million SEK (0). All transactions are carried out on market terms.

Sales to Group companies from the Parent Company amounted to 16,966 million SEK (16,157), or 81 percent (80) of total sales. The share of exports was 58 percent (87). The Parent Company's purchases from Group companies amounted to 1,875 million SEK (1,926), or 11 percent (11) of total purchases. The Parent Company granted no loans to associated companies. Guarantees have been made for obligations of associated companies in the amount of 0 million SEK (0). All transactions are effected on an arm's length basis.

Transactions with key management personnel

Except as indicated in Note 3.5, Remuneration of the Board of Directors and senior executives, and in the description of the Board of Directors, no transactions took place with persons closely associated with the company.

**NOTE 29. SUPPLEMENTARY INFORMATION
TO THE CASH FLOW STATEMENT**

Cash and cash equivalents	2018	2019
Group		
Cash and cash equivalents comprise:		
Cash and bank	6,859	4,970
Short-term investments comparable to cash and cash equivalents	11,230	12,017
Total in the balance sheet	18,089	16,987
Total in the cash flow statement	18,089	16,987
Parent Company		
Cash and cash equivalents comprise:		
Cash and bank	3	0
Total in the balance sheet	3	0
Total in the cash flow statement	3	0

A short-term investment is classified as a cash and cash equivalent if:

- The risk of changes in value is insignificant
- It is readily convertible into cash
- It has a maturity of no more than three months from the date of acquisition

	Group		Parent Company	
	2018	2019	2018	2019
Cash and cash equivalents				
Interest and dividend paid and received				
Dividend received	15	20	3,129	10,036
Interest received	271	252	502	489
Interest paid	-1,080	-1,314	-558	-572
Total	-794	-1,042	3,073	9,953

	Group		Parent Company	
	2018	2019	2018	2019
Other adjustments for non-cash items, etc				
Changes in value of financial instruments	—	—	-70	180
Unappropriated results of associated companies	-44	-8	—	—
Gains and losses on disposal of non-current assets	-28	-69	-17	-327
Gains and losses on disposal of companies and shares	-879	—	1,824	-18
Provisions for pensions	—	—	62	-36
Other provisions	393	584	-31	214
Other	604	-66	4,359	-235
Total	46	441	6,127	-222

Reconciliation of items included in financing activities – Group

	2017 –12 –31	Cash flow effects	Non-cash flow effects	Foreign exchange differences	2018 –12 –31
Loans including net pension liabilities	28,671	-228	977	166	29,586
Other interest bearing receivables	-2,182	-447	—	-58	-2,688
Other financing items	315	-184	-26	1	106
Total	26,803	-859	951	109	27,005

	2018 –12 –31	Cash flow effects	Non-cash flow effects	Foreign exchange differences	2019 –12 –31
Loans	23,870	-6,647	60	170	17,453
Funded pension plans	-516	0	121	-22	-417
Provision for pensions	6,234	-760	2,222	69	7,765
Other interest bearing receivables	-2,688	292	-820	-100	-3,315
Lease liabilities	3,331	-945	851	81	3,317
Other financing items	107	42	-107	0	42
Total	30,337	-8,018	2,327	198	24,845

Group	2018	2019
Acquisitions of subsidiaries and other business operations		
<i>Acquired assets and liabilities:</i>		
Intangible assets	4,642	1,866
Property, plant and equipment	114	75
Inventories	80	114
Current receivables	464	293
Cash and cash equivalents	314	38
Total assets	5,614	2,386
Interest-bearing liabilities	-7	-273
Other provisions and liabilities	-2,824	-205
Total liabilities	-2,831	-478
Net identifiable assets and liabilities	2,782	1,908

Group	2018	2019
Divestments of subsidiaries and other business operations		
<i>Divested assets and liabilities:</i>		
Intangible assets	1,007	—
Property, plant and equipment	1,006	—
Financial assets	200	—
Deferred tax assets	31	—
Inventories	1,189	—
Current receivables	859	—
Cash and cash equivalents	90	—
Total assets	4,381	—
Provisions	-7	—
Interest-bearing liabilities	-633	—
Non-interest-bearing liabilities	-932	—
Total provision and liabilities	-1,572	—
Net identifiable assets and liabilities	2,809	—
Hyperion	3,577	—
Other	475	—
Purchase consideration received	4,052	—

NOTE 30. ACQUISITION AND DIVESTMENT OF OPERATIONS, DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The acquisitions and divestments of business combinations executed in 2019 are set out below. Annual revenue and number of employees reflect the situation at the date of the respective transaction. Goodwill is not tax deductible.

Business area	Company	Acquisition date	Annual revenue	No. of employees
Sandvik Machining Solutions	Wetmore Tool & Engineering ¹⁾	9 January 2019	160 MSEK in 2017	170
Sandvik Mining and Rock Technology	Artisan	11 February 2019	12 MUSD in 2017	60
Sandvik Machining Solutions	OSK ²⁾	10 April 2019	120 MSEK in 2017	90
Sandvik Mining and Rock Technology	Newtrax	17 June 2019	26 MCAD in 2018	120
Sandvik Machining Solutions	BeamIT, 30% stake ¹⁾	12 July 2019	70 MSEK in 2018	38
Sandvik Materials Technology	Thermaltek	31 December 2019	13 MUSD in 2018	30
Sandvik Machining Solutions	Melin Tool Company ³⁾	31 December 2019	22 MUSD in 2018	100

1) Belongs to cash generating unit Business area level SMS

2) Belongs to cash generating unit Seco Tools

3) Belongs to cash generating unit Walter Group

Total fair value of assets and liabilities of acquired businesses in 2019

The fair value of acquired assets and assessed liabilities has been preliminarily established for the acquisitions of Newtrax, Melin Tool and Thermaltek. Only minor IFRS adjustments were made to the acquisition values.

Fair value recognized in the Group during 2019

	Sandvik Machining Solutions	Sandvik Mining and Rock Technology	Sandvik Materials Technology	Total
Intangible assets	—	23	—	23
Property, plant and equipment	47	29	—	76
Inventories	52	61	—	113
Current receivables	89	204	—	293
Cash and cash equivalents	3	38	—	41
Provisions	—	-22	—	-22
Interest-bearing liabilities	-28	-245	—	-273
Non-interest-bearing liabilities	-94	-178	—	-272
Net identifiable assets and liabilities	69	-90	—	-21
Goodwill and surplus values	730	930	154	1 814
Purchase consideration	-799	-840	-154	-1,793
Cash and cash equivalents in the acquired business	3	38	—	41
Repayment of loans	—	—	—	—
Transaction expenses	-46	-74	—	-120
Net cash outflow	-842	-876	-154	-1,872

Contributions from companies acquired in 2019 by business area

	Sandvik Machining Solutions	Sandvik Mining and Rock Technology	Sandvik Materials Technology	Total
Contributions as of acquisition date				
Revenue	211	83	—	294
Profit/loss for the year	-26	-124	—	-150
Contributions if the acquisition date would have been 1 January 2019				
Revenue	447	293	126	866
Profit/loss for the year	-9	-147	27	-129

Note 30, continued

Change of total fair value recognized in the Group from businesses acquired during 2018

	Machining Solutions						Mining and Rock Technology		
	Metrologic			Dura-Mill			Inrock		
	2018	2019	Change	2018	2019	Change	2018	2019	Change
Intangible assets	1 463	1 463	—	—	4	4	—	—	—
Property, plant and equipment	29	49	20	—	11	11	84	93	9
Inventories	7	7	—	—	16	16	65	65	—
Current receivables	282	282	—	—	7	7	172	172	—
Cash and cash equivalents	314	314	—	—	6	6	—	—	—
Provisions	-10	-10	—	—	—	—	—	—	—
Interest-bearing liabilities	-2	-2	—	—	-1	-1	-5	-8	-3
Non-interest-bearing liabilities	-2 147	-2 147	—	—	-2	-2	-325	-325	0
Net identifiable assets and liabilities	-64	-44	20	-	42	42	-9	-3	6
Goodwill and surplus values	1 966	1 882	-84	146	104	-42	681	665	-16
Purchase consideration	-1 902	-1 838	64	-146	-146	1	-672	-662	10
Cash and cash equivalents in the acquired business	314	314	—	—	—	—	—	—	—
Repayment of loans	-1 924	-1 924	—	-0	-0	0	-171	-171	—
Transaction expenses	-68	-68	—	—	—	—	—	—	—
Net cash outflow	-3 580	-3 516	64	-146	-146	1	-843	-833	10

Discontinued operations

The Mining Systems business was divested to FLSmidth and NEPEAN already in 2017, however a number of ongoing projects were kept to be delivered by Sandvik in 2017–2019, though an operational agreement with FLSmidth. The majority of the projects were completed by the end of 2019, however Mining Systems still has some personnel and guarantees that expire in 2020 and 2021.

Income statement for discontinued operations

	2018	2019
Revenue	852	295
Cost of sales and services	-1,174	-385
Gross profit	-322	-90
Selling expenses	-42	-29
Administrative expenses	-110	-45
Research and development costs	-6	0
Other operating income	12	4
Other operating expenses	-84	-44
Operating loss	-552	-204
Financial income	—	—
Financial expenses	8	-1
Net financing costs	8	-1
Loss after financial items	-545	-205
Income tax	—	—
Loss for the year	-545	-205

Cash flow statement from discontinued operations

	2018	2019
Cash flow from operating activities	-439	-152
Cash flow from investing activities	2	16
Cash flow from financing activities	-2	-2
Cash flow from discontinued activities	-439	-138

Assets held for sale

During October 2019 Sandvik signed an agreement to divest the segment Oil and Gas which is the majority of Drilling and Completions (Varel) to the private equity firm Blue Water Energy and its co-investor, the privately owned Nixon Energy Investments. Sandvik will remain as minority owner of 30 percent of the company and hold a position on the board. Since the recovery of the investment is principally through sale the assets and liabilities were classified as a disposal group held for sale. The disposal group was measured at fair value less costs to sell. The transaction triggered a write-down of goodwill and other intangible assets with an effect on net result of 3.9 million SEK. Goodwill is not tax deductible. The foreign currency translation differences relating to the Varel disposal group amounts to -428 million SEK at the balance sheet date. At the disposal date, Sandvik, will recognize the remaining 30 percent of Drilling and Completion (Varel) as an associated company. The associate will be measured at fair value at disposal date (closing date) and is subsequently accounted for using the equity method. Closing of the transaction is expected during the first quarter of 2020.

Assets and liabilities held for sale

	2018	2019
Intangible assets	—	18
Property, plant and equipment	26	249
Right of Use Assets	—	57
Financial assets	4	111
Inventories	72	571
Trade receivables	234	535
Other current assets	305	273
Total assets	641	1,815
Provisions	4	312
Interest-bearing liabilities	0	88
Accounts payable	138	171
Accrued expenses and deferred income	85	110
Other non-interest-bearing liabilities	385	199
Total liabilities	612	880

Divestments

No divestments during 2019. Some minor adjustments were made to the final values of previous years divestments.

NOTE 31. PARENT COMPANY PARTICULARS

Sandvik Aktiebolag, corporate registration number 556000–3468, is a Swedish limited liability company. The registered office of its Board of Directors is in Stockholm, Sweden. The address of the head office is PO Box 510, SE–101 30 Stockholm, Sweden. The visiting address is World Trade Center, Kungsbron 1, section G, floor 6, Stockholm.

The Parent Company's shares are quoted on Nasdaq Stockholm. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

The 2019 consolidated financial statements comprise the Parent Company and all its subsidiaries, jointly the Group. The Group also includes the owned share of investments in associated companies.

NOTE 32. INFORMATION ON SHARES, OWNERS AND RIGHTS

The following information is presented in accordance with the provisions of Chapter 6, Section 2.a. of the Swedish Annual Accounts Act.

The Parent Company has issued one series of shares and each share carries one vote. The total number of shares shall be no less than 1,000,000,000 and no more than 4,000,000,000.

At the end of 2019, 1,254,385,923 shares (1,254,385,923) with a quotient value of 1.20 SEK per share had been issued. Shareholders have a preferential right to subscribe to newly issued shares issued for cash or with terms and conditions concerning rights of setoff. All shares are fully negotiable.

Shareholdings that directly and indirectly represent at least 10 percent (12.4) of the voting rights are held by AB Industrivärden.

Sandvik AB's Articles of Association govern such policies as the direction of the business, domicile and share capital (minimum and maximum capital). The Articles do not stipulate that the members of the Board of Directors shall be elected in any other way than at the Annual General Meeting. However, Board representatives of the employees are appointed by the trade unions under the Private Sector Employees (Board Representation) Act.

Companies in the Group entered into borrowing agreements that include conditions coming into effect should the control of the company change as a result of a public takeover bid.

There are no employment agreements between the companies in the Group and the Parent Company's directors or employees who provide compensation if those persons give notice of termination, or their services are terminated on a reasonable basis, or the employment is terminated as a consequence of a public takeover bid.

NOTE 33. PROPOSED APPROPRIATION OF PROFITS

The Board of Directors proposes a dividend of 4.50 SEK (4.25) per share to the 2020 Annual General Meeting, corresponding to approximately 5.6 billion SEK (5.3).

Dividend 4.50 per share	
x number of shares 1,254,385,923=	5,644,736,653
Profit carried forward	25,804,189,279
Total, SEK	31,448,925,932

NOTE 34. EVENTS AFTER THE CLOSE OF THE PERIOD

On 14 January 2020, Sandvik completed the previously announced acquisition of Summerill Tube Corporation, a manufacturer of high precision tubes. Summerill Tube Corporation is headquartered in Pennsylvania, USA, and generated revenues of about 100 million SEK with 45 employees in 2018. The deal has a limited impact on earnings per share from the start.

On 1 February 2020, Stefan Widing assumed the position as CEO and President of Sandvik.

The divestment of the majority of Sandvik Drilling and Completion (Varel) is expected to be finalized early March 2020.

NON-FINANCIAL NOTES

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REPORTING PRINCIPLES

Report scope, boundary and calculation methods

The Group material aspects were decided in a materiality analysis by the Group Executive Management in 2016. The material aspects are reported in accordance with GRI Standards. In addition, Sandvik reports on emissions and energy. No significant changes of material topics or topic boundaries has occurred from previous reporting periods.

The sustainability information in the Annual Report refers to the 2019 fiscal year. See pages 98–104 for a list of entities included in the figures, unless otherwise stated.

Human Resources Data

Employee statistics regarding the number of FTEs (Full Time Equivalents) is derived from the financial reporting system (BPC). We have revised our figures for the total number of employees (FTE) for the years 2014–2017 as we now report on continuous operations to be more aligned with financial reporting. All other employee statistics (age, turnover, new employees, part time/full time, gender, performance dialogues) are derived from the Group's common HR system (Workday), which covers 98 percent of Sandvik employees. These figures are compiled annually. Sandvik does not have a significant portion of workers who are not employees.

Environment, Health and Safety (EHS) Data

EHS data is derived from our EHS reporting system in which reporting is conducted on a monthly basis for safety-related indicators and on a quarterly basis for the areas relating to environmental key figures. Supplementary data is collected and compiled outside of the EHS database once a year, and that data is thus subject to a higher level of uncertainty. These figures are rounded to a greater degree to manage this higher level of uncertainty. In the event of further limitations in the report, these are indicated in the text. The key figures compiled are based on information available at the date of the most recent year-end accounts, which may entail that historical figures have been adjusted. The Group's results in relation to its objectives are measured using relevant performance indicators and key figures. The figures presented are the accumulated figures for 2019 for all active reporting units, unless otherwise stated. For the EHS data an operational control approach was used for consolidation. That means that all our locations are included in our numbers to 100 percent, also joint ventures where Sandvik has operational control. We are also present at some customer locations in our service-related business. In these cases we include data when data of our usage can be obtained.

The calculations of CO₂ emissions do not include CO₂ equivalents from other greenhouse gases in the reported fuel data. Calculations show that they constitute less than one percent of the total reported data. The conversion factors are uploaded in our EHS database where the calculation of all carbon emissions is performed. For the majority of the European sites, the emission factor for electricity is zero in the market-based approach, with reference to the purchase of certificates for carbon-free electricity.

Emissions to air is a combination of calculations of fossil fuel use and sample measurements from the steel mill. The emissions based on sample measurements have been constant since 2012. If the samples would indicate a significant change of emissions, the constants would be amended based on the new results. For NO_x, roughly a third of the reported volume comes from the steel production. More than 80 percent of SO₂ derives from the steel mill.

In the data presented for Water Discharged, the split of data per GRI Standard 303-4 has been performed by applying allocation keys, where such could be obtained from the locations. The allocation specified how the water withdrawal was discharged after use. An allocation key was requested from major production sites. Each of these sites have returned an estimated split of their discharge per the required split in the standard. Where no such split could be specified, the reported water withdrawal was all included as "discharged as fresh water to a third party". For inclusion in the water-stress category, the major production sites were asked to verify in accordance with the definition as outlined in the GRI Standard 303 if they fulfill the criteria of a water stressed location. All water is deemed freshwater when drawn in to our production processes, which is why the category "other water" is not listed in the section for water withdrawal.

In the tables that illustrate reduction of energy, GHG emissions, water and waste, Environmental Improvement Actions was derived from what was registered at the end of the year from the sites that had committed to implement such actions and had stated that they were completed. The remaining difference between 2018 and 2019, whether positive or negative, are grouped and named Other impacts. Other impacts refers to other contributing factors such as those related to weather or production, as well as other items that have an impact but lie outside the control of the activities directly aiming to reduce environmental impact.

Worked hours is defined as exposure hours, which means all hours exposed to risk by employees, contractors and sub-contractors. The exposure hours are collected and entered into the EHS database on a monthly basis.

The reported data for occupational illnesses and frequency rates are part of our monthly reporting process. The term used in GRI called "high-consequence injury/illness" is incorporated in the key figures for Lost Time cases. In the past two years we have had one incident on record meeting the six months absence criteria. Our approach to mitigate these high severity incidents and illnesses is a key part of our management system and is handled within the processes for serious potential incidents, for example in our work with critical control management. The illness data is a more recent addition to the reporting than the injury data and therefore at a less mature stage. As a consequence, the level of uncertainty is deemed higher for the illness data. Illness is defined as an occurrence of physical or mental harm or disease that develops over time in the course of work not as the result of a single instantaneous event. Establishing that an illness is occupational can be a complicated process and could span over a long period of time. An illness must meet the criteria of "under Sandvik control" to be included in our data. The primary criterion for making this decision is: "could and/or should the Sandvik EHS Management System have realistically prevented this incident from occurring?". Only if this is the case, the incident will be considered under Sandvik control and recorded as such.

The percentage of sites certified according to ISO 14001 and ISO 45001 or equivalent standards is based on the status of our major production-related companies. At year-end, 99 locations were asked to provide their certification status. Smaller locations can also choose to go for certification, but these are not included in the calculation. No previous certifications were abandoned compared to last year.

NOTE 35. ABOUT THIS REPORT

This is the fourteenth consecutive year of sustainable business reporting for Sandvik. We aim to continue reporting the same way on an annual basis. Sandvik's most recent Sustainable Business Report was published in March 2019. In the non-financial notes, information on strategy, management approach, stakeholder dialogues, materiality analysis and sustainability data are presented.

Information meeting the Swedish legal requirements on sustainability reporting, the Statutory Sustainability report, and Sandvik's Sustainable Business Report, is found on pages 2–3, 12–15, 44–47, 58–61 and 122–134. This report has been prepared in accordance with the Global Reporting Initiative, GRI Standards, Core option, and has been reviewed by an external party. The assurance provider was engaged by the Board of Directors and the CEO of Sandvik to undertake a limited assurance engagement of Sandvik's Sustainability Report for the year 2019. The assurance provider is independent to Sandvik. Sandvik is a signatory to the UN Global Compact (UNGC) and reports on the ten principles in accordance with the UNGC Advanced level criteria.

NOTE 36. STAKEHOLDER DIALOGUES

We have defined a number of stakeholders who can be expected to be affected by Sandvik or have an effect on Sandvik, of which the most significant are customers, employees and investors.

We engage in an open dialogue with our stakeholders. As an example, structured dialogues are being held as part of the materiality analysis, on which we base our reporting in accordance with the GRI Standards. Some of the dialogues held in 2019 include: Group or individual meetings with analysts, investors and shareholders discussing issues like strategy implementation, the relevance of the 2030 Goals to Sandvik's business, targets and target outcome and contribution to the UN Sustainable Development Goals. Customer dialogues are held continuously, including issues such as product development for improved safety and energy efficiency of the products. We have an ongoing dialogue with suppliers relating to the Supplier Code of Conduct. There are continuous dialogues with employees through meetings, employee surveys and performance dialogues. Sandvik regularly meets with unions and discusses the sustainability agenda.

Membership in organizations

Sandvik is a member of the UN Global Compact. Sandvik is also part of the industry associations Jernkontoret (steel producers), Svemin (mines, minerals and metal producers), the Cobolt Institute and the International Tungsten Industry Association, where a number of initiatives and actions to communicate with legislators have been taken, particularly in relation to the UN Sustainable Development Goals.

NOTE 37. MATERIALITY ANALYSIS

The Group Executive Management conducts a materiality analysis on a regular basis. The starting point is the sustainability agenda for the Group derived from international frameworks and institutions such as the Global Reporting Initiative (GRI), the UN Global Compact, media reports, global trends, stakeholder dialogues and our own assessment.

In late 2016, a materiality analysis was conducted for the years 2017–2019. In 2019, we developed new long-term sustainability goals that focus on our most material sustainability areas (see page 14). The process involved the Group Executive Management, the business areas and divisions and was based on input from stakeholders, such as customers, shareholders and investors.

In 2020, we will undertake a new materiality analysis.

NOTE 38. CODE OF CONDUCT

Sandvik's Code of Conduct is based on our Core Values and confirms our strong commitment to ethical and responsible business practices and compliance with relevant laws and regulations in all markets where we operate. The Code of Conduct describes the principles of behavior that our employees should adhere to and provides guidance

in our actions and everyday business decisions. The Code of Conduct is a vital component in The Sandvik Way governance model, which encompasses common steering documents and processes. The Sandvik Way also describes a common culture and ways of working.

Sandvik has set up a target to train 100 percent of employees and long-term contractors hired for more than 90 days in the Code of Conduct. The training includes sections dedicated to anti-bribery and corruption. Every month a training report is generated to monitor this target. By the end of 2019, 96 percent (94) of employees and long-term contractors had completed the Code of Conduct training. All members of the Board of Directors as well as the Group Executive Management have undergone training in the Code. A target has also been set for onboarding of new employees, whereby 90 percent of new employees should be trained within three months. The outcome by the end of 2019 was 65 percent.

NOTE 39. SPEAK UP

Employees and external parties who witness a violation of the Code of Conduct, laws or our policies can report the violation, anonymously, through the global reporting tool Speak Up. They can also ask questions related to the Code of Conduct through Speak Up. 83 percent of the respondents in Sandvik's 2018 Employee Engagement Survey said they were aware of the whistle blowing process and 74 percent said they trust the system. To increase the awareness and trust in Speak Up, a new Speak Up intranet site, including a toolbox dedicated to awareness material, was launched in 2019. A Speak Up nano-learning was also developed, which will be released in 2020 to follow up on the 2018 survey.

Speak Up is available through Sandvik's internet and intranet portals, as well as through telephone hotlines 24 hours a day, 7 days a week, in all major countries where Sandvik operates. Speak Up reports are screened, and each case is then assigned an investigator from the business area that conducts the investigation, supported by a specialist investigation function.

In 2019, 142 (206) Speak Up incidents were reported (see distribution in chart below). It took on average 85 days to close a Speak Up case and the substantiation rate amounted to 38 (62) percent. In 2019 the Speak Up process was reviewed by an internal audit, including closing of old cases which affected this year's figures. Four percent of all Speak Up reports related to human rights matters.

Speak Up Reports	Number		%	
	2018	2019	2018	2019
Human Relations	82	47	40	33
Compliance	54	26	26	18
Theft and misappropriation	19	13	9	9
Business records and information	19	6	9	4
EHS	8	12	4	8
Inquiries		21		15
Other	24	17	12	12
Total	206	142	100	100

NOTE 40. COMPLIANCE

Sandvik manages risks in four compliance areas: anti-bribery and corruption, competition law, trade compliance and data privacy. During 2019, the strategic work mainly focused on developing a new compliance tool, the Compliance House. The Compliance House is a tool which the business can use to get an overview of the requirements in the four compliance programs that are relevant to them, the respective risk levels and the current status of their compliance activities. The purpose of the Compliance House is to further embed compliance into the business and allow entity level monitoring of risks and compliance status. Our 2020 target is to implement the Compliance House at 25–50 percent of Sandvik entities.

Compliance training was offered to employees in different formats, including e-learning, webinars and classroom training. A total of 3,800 participants received training.

There were extensive activities in the trade compliance program area in 2019 due to Brexit preparations, as well as a number of

changes in customs tariffs and international sanctions imposed by the US government and other countries. For data privacy, implementation of the GDPR requirements continued during 2019. Specific focus is now on building a sustainable and effective governance structure.

Sandvik has zero tolerance for bribery and corruption. In 2019, the implementation of anti-bribery and anti-corruption internal controls was in focus, as well as the adjustment of our processes and systems to handle risks related to administrative intermediaries, such as customs agents.

We have a competition law compliance program in place to mitigate risks associated with competition or antitrust laws in all countries where Sandvik operates. The program relies on frequent e-learning and in-person training for employees who may be exposed to competition law risks in their work. In 2019, about 1,500 employees received training in competition law. Training in this area is repeated and updated every second year. Comprehensive competition law guidelines are available for all employees who are also encouraged to seek advice from Sandvik Legal Support teams in case of doubts about the legality of a business activity.

Sandvik received no (no) significant fines or non-monetary sanctions for non-compliance with laws or regulations related to our four areas.

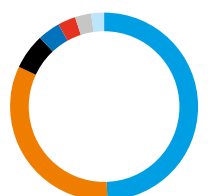
NOTE 41. EMPLOYEES

At year-end 2019 the number of employees amounted to 40,235 (41,670).

Competence development

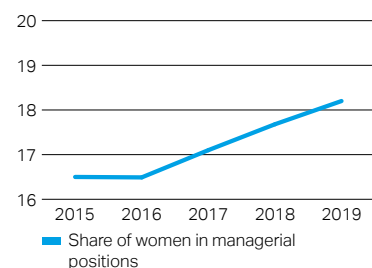
Sandvik provides employee development opportunities through on-the-job-training, virtual learning channels and classroom training. We offer our employees leadership programs, learning academies, digital workshops, mentoring, and other opportunities to

Top 300 managers, nationalities



- Sweden, 50%
- Europe excl. Sweden, 33%
- North America, 6%
- Asia, 4%
- Australia, 3%
- South America, 3%
- Africa/Middle East, 2%

Share of women in managerial positions, %



Total number of employees by employment contract and gender*

FTE	Female		Male		Total	
	2018	2019	2018	2019	2018	2019
Permanent	7,336	7,502	30,717	31,130	38,053	38,632
Temporary	816	461	2,812	1,423	3,628	1,885
Total	8,152	7,963	33,529	32,553	41,681	40,516

Total number of employees by employment type and gender*

FTE	Female		Male		Total	
	2018	2019	2018	2019	2018	2019
Full time	7,376	7,217	32,924	31,982	40,300	39,199
Part time	777	743	605	574	1,382	1,317
Total	8,153	7,960	33,529	32,556	41,682	40,516

* Differences in the total number of employed due to insufficient data for age and gender.

acquire new skills and knowledge. In 2019, 549 (622) employees participated in a leadership program. Their feedback in follow-up surveys indicates that these programs support the development of leadership capabilities and managers' contribution to business.

Global Graduate Program

The Global Graduate Program is Sandvik's global trainee program that offers young professionals the opportunity to explore various parts of our operations during 18 months. In 2019, the fourth program started. To secure a truly global team that mirrors our business presence, our ten graduates come from different geographies: China, India, Finland, Sweden and the US.

Internal job market

As a Sandvik employee you are responsible for your own career development. Sandvik offers a wide range of career opportunities. Our internal job market enables our employees to move to other parts of Sandvik or other countries and to grow and develop as individuals and professionals. In 2019 about 2,700 (2,900) employees were hired and a vast majority of the positions were posted on the open internal job market.

Diversity and inclusion

The share of women in managerial positions increased to 18.2 percent (17.7), the share of women in division management teams amounted to 19 percent (17) and the share of women in our talent pool was 25 percent (28). 21 percent (19) of the members in division management teams were non-Europeans. Our sustainability goals include a one third share of female managers by 2030.

We offer training in diversity and inclusion by offering a leadership workshop and a toolbox that includes e-learning workshops and exercises. In December, we rolled out an online diversity and inclusion training pilot for 900 employees, including tools to help nurture a diverse and inclusive mindset. After evaluation, training will be rolled out globally in 2020. Our Bridge program focuses on leading across boundaries and all our internal global leadership programs include training on how managers can work with diversity and inclusion.

Employee engagement

We conduct a global Sandvik employee engagement survey biannually. The survey provides a starting point for team performance dialogues and development activities, and measures both how engaged our employees are and whether we, as a company, have put in place all we need to achieve high organizational results. In 2018, 87 percent of our employees participated in the survey and we made progress in both areas mentioned above.

Every employee at Sandvik is offered at least one individual performance dialogue annually with their manager, that focuses on previous performance, new goals as well as development plans for the coming years. In 2019, 97 percent of employees participated in performance dialogues.

In 2019, 61 percent (55) of employees were covered by collective bargaining agreements.

Total workforce by employment contract and region*

FTE	Permanent		Temporary		Total	
	2018	2019	2018	2019	2018	2019
Europe	23,623	23,340	1,377	710	25,000	24,050
North America	4,432	4,545	20	26	4,452	4,571
South America	1,834	1,745	61	29	1,895	1,774
Africa & Middle East	2,069	1,922	166	214	2,235	2,136
Asia	5,181	6,200	2,076	891	7,257	7,091
Australia	899	928	44	20	943	948
Total	38,038	38,680	3,744	1,890	41,782	40,570

* Differences in the total number of employed due to insufficient data for age and gender.

Note 41, continued

Total number and rates of new employee hires and employee turnover by age group, gender, and area*)

Total number and rate of new employee hires by age

	2018		2019	
	Hired	%	Hired	%
Under 30	883	36	859	35
30-50	1,364	56	1,379	57
Over 50	190	8	187	8
Total	2,437	100	2,425	100

Total number and rate of new employee turnover by age

	2018		2019	
	Left	%	Left	%
Under 30	564	11	501	9
30-50	1,864	7	1,990	8
Over 50	969	8	1,492	14
Total	3,397	8	3,983	10

Total number and rate of new employee hires by gender

	2018		2019	
	Hired	%	Hired	%
Female	650	23	607	22
Male	2,232	77	2,120	78
Total	2,915	100	2,727	100

Total number and rate of new employee turnover by gender

	2018		2019	
	Left	%	Left	%
Female	749	9	832	10
Male	2,642	8	3,151	10
Total	3,391	8	3,983	10

Total number and rate of new employee hires by region

	2018		2019	
	Hired	%	Hired	%
Europe	1,350	46	1,249	46
North America	634	22	627	23
South America	218	8	222	8
Africa & Middle East	120	4	113	4
Asia	473	16	355	13
Australia	120	4	161	6
Total	2,915	100	2,727	

Total number and rate of new employee turnover by region

	2018		2019	
	Left	%	Left	%
Europe	1,620	7	1,993	8
North America	645	12	861	19
South America	306	16	280	15
Africa & Middle East	337	15	233	11
Asia	520	7	528	7
Australia	140	15	151	16
Total	3,568	8	4,046	10

*) Differences in the total number of employed due to insufficient data for age and gender.

Diversity of governance bodies and breakdown of other employees

	Share of women, %	Age structure, %		
		Under 30	30-50	Above 50
Board of Directors	31	0	31	69
Group Executive Management	25	0	50	50
Management	18	1	69	30
Other employees	20	14	59	27

All employees by gender and employee category

	Female (%)		Male (%)		Total (%)	
	2018	2019	2018	2019	2018	2019
Staff	26	26	74	74	53	54
Workers	12	12	88	87	47	46
Total	20	20	80	80	100	100

All employees by age group and employee category

	Under 30 (%)		30-50 (%)		Over 50 (%)		Total (%)	
	2018	2019	2018	2019	2018	2019	2018	2019
Staff	10	9	64	64	26	27	53	54
Workers	18	16	55	56	27	28	47	46
Total	14	12	60	60	27	27	100	100

NOTE 42. ENVIRONMENT, HEALTH AND SAFETY (EHS)

Management systems

Our EHS management systems are audited by external agencies to ensure that they meet internationally accepted standards (ISO 14001, ISO 45001, OHSAS 18001 or equivalent) and are regularly audited internally to continually improve our operating practices. Every non-administrative Sandvik location with more than 25 people is required to have external certification within two years of commencement or acquisition. At the end of 2019, 97 percent of sites in scope were certified.

Health and Safety metrics

We utilize a wide range of leading and lagging indicators to measure safety and health performance in every Sandvik location, including Lost Time Injury Frequency Rate (LTIFR) and Total Recordable Injury Frequency Rate (TRIFR). Both of these indicators show long-term positive trends. In 2019, the LTIFR (LTIs per million hours worked) decreased to 1.5 (1.7), and the TRIFR (total number of injuries per million hours worked) was reduced to 3.8 (3.9). As the LTIFR gets to lower levels, Sandvik is moving towards a greater focus on TRIFR as

its primary safety performance indicator. There have been no fatalities to report since 2015.

Occupational well-being

Sandvik has processes in place to record and investigate occupational illnesses to determine the root causes and develop prevention strategies.

Hazardous materials

We continually work to replace hazardous materials with less hazardous alternatives in our production or, where replacement is not an option, minimize the use of hazardous materials. We invest in new equipment and improve our processes to reduce employee exposure to hazards such as noise, dust and exposure to gases or other substances. Our products and solutions are designed with improved customer health and safety in focus, for example by reducing their exposure to chemical hazards. Our battery-driven underground mining equipment helps to alleviate the potential health impacts of diesel particulate matter and other engine emissions.

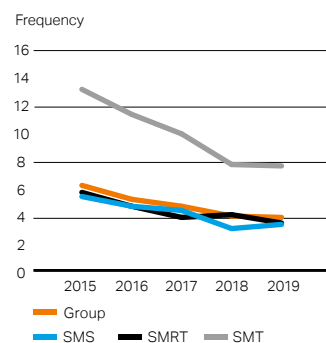
Work-related injuries

Total number of work-related incidents

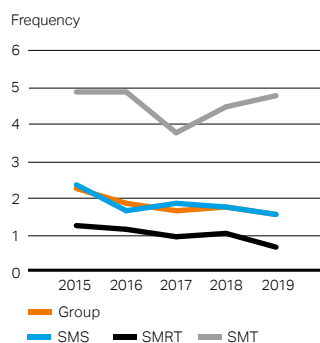
Health and safety	2018			2019		
	Employees	Non-employees ¹⁾	Total Workforce	Employees	Non-employees ¹⁾	Total Workforce
Injury						
Number of Fatalities	0	0	0			
Number of LTI	127	19	146	122	9	131
LTIFR ²⁾	1.7	2.0	1.7	1.6	0.92	1.5
Number of TRI	296	42	338	294	33	327
TRIFR ²⁾	3.9	4.4	3.9	3.9	3.4	3.8
Main type of injuries	Hand and finger injuries. Cuts and pinched hands and fingers are the most common injury types for both years					
Million Exposure Hours	76.7	9.5	86.2	75.3	9.8	85.2
Hazards reported			75,508			81,102
Hazards closed out			72,627			77,698
Hazard close out ratio (%)			96.2			95.8
Near Misses reported			6,656			6,299
Work Related illness³⁾						
Illness						
Number of Fatalities	0	0	0	0	0	0
Number of LTIL	10	1	11	10	2	12
LTILFR ²⁾	0.13	0.10	0.13	0.13	0.20	0.14
Number of TRIL	25	1	26	18	4	22
TRILFR ²⁾	0.33	0.10	0.30	0.24	0.41	0.26
Main type of illnesses	Repetitive strain injuries and stress-related symptoms are the most commonly reported illnesses.					

1) All workers who are not employees but whose work and/or workplace is controlled by Sandvik.
 2) Normalization factor = 1,000,000 hours worked.
 3) Based on data from only a few entities.

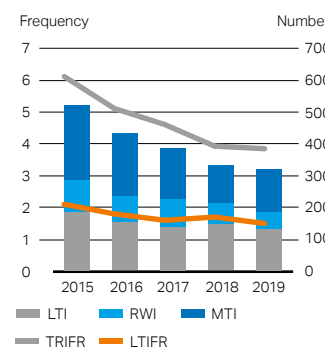
TRIFR by business area



LTIFR by business area



TRIFR and LTIFR



An LTI is an accident resulting in time away from work, a RWI (Restricted Work Injury) is an injury where you can be at work but you can't perform your ordinary work, and a MTI (Medical Treatment Injury) is when you need some kind of medical treatment but can perform your normal work.

NOTE 43. ENVIRONMENTAL FOOTPRINT

We provide customers with products and services that boost their environmental performance and efficiency. Within our operations we work continuously to minimize our own environmental impact.

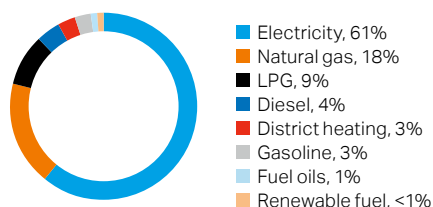
43.1 Carbon and energy

Sandvik is working to ensure that every individual site in the company has an action plan to increase energy efficiency and reduce carbon dioxide emissions (CO₂). Sandvik had about 110 environmental action plans underway in 2019, consisting of more than 300 individual actions. Heat exchange systems, improved insulation in buildings, LED lighting, and solar rooftop panels are some examples of initiatives.

For 2019, Sandvik had set a target to reduce its energy usage and CO₂ emissions, through environmental improvement actions, by 1.3 percent and 1.3 percent respectively. The completed actions amounted to annual energy usage reductions of 1.4 percent and 2.6 percent carbon emission reductions.

Our main production sites in Europe have been buying energy from renewable energy sources since 2013, resulting in a reduction of annual emissions by approximately 113,000 tons.

Energy consumption 2019



Energy consumption

Energy Consumption (TJ)	2018	2019
Non-Renewable fuels	2,853	2,803
Gasoline	253	225
Diesel	369	355
Liquefied Petroleum Gas	838	696
Natural Gas	1,282	1,436
Fuel Oil	111	93
Renewable fuels		15
Ethanol		2
HVO		13
Total Energy from fuels	2,853	2,818
GRID Electricity	4,946	4,865
Own Renewable electricity	4	8
Purchased Heat and Steam	273	293
Sold Heat	-31	-35
Total Electricity Heat and Steam	5,192	5,130
Total Energy consumption	8,045	7,948

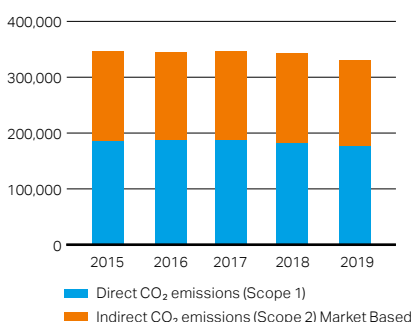
Energy Intensity

Total Energy use in relation to revenues	2018	2019
GJ/MSEK	80	77

Reduction of energy consumption (TJ)

	TJ	%
Total Energy use 2018 – continuing operations	8,045	
Environmental Improvement Actions	-109	-1.4
Other impacts	12	0.2
Total Energy use 2019 – continuing operations	7,948	-1.2

CO₂ emissions 2015–2019, tons



Energy data is calculated based on reported consumption data. The calculations are programmed within our reporting tool where also the factors for conversion to energy equivalents are stored. The conversion factors are established in our EHS definitions that are held within the management system documentation. These factors origin from the Swedish Energy Agency (EPA).

Energy by business area in TJ



Emissions

GHG Emissions ('000 ton CO ₂ e)	2018	2019
Scope 1	181	176
Scope 2 (location based)	281	274
Initiatives to source low-emission electricity	-119	-120
Scope 2 (market based)	162	155
Gross Total (location based)	463	450
Net Total (market based)	344	331

The emission factors for Scope 1 emissions are sourced from the Swedish EPA. The calculation of scope 2 'location based' use the conversions built in to the GHG Protocol calculation tool, version 4.4. The market-based emission factors and information on respective electricity supplier are provided by the Sandvik reporting entities annually. If these factors can't be obtained, the same emission factor as for location-based emissions, i.e. grid averages, are applied.

Any difference between location-based and market-based factors (positive or negative) is reported in the table as 'initiatives to source low-emission electricity'. The main effect comes from the purchase of emission-free electricity for our European operations. In 2019, Sandvik used 1,081 GWh grid electricity in Europe. We sourced, and cancelled, Guarantees of Origin for the full amount of electricity used in our European operations during the year.

CO₂ emissions by business area



Emission Intensity

Net total CO ₂ emissions in relation to revenues	2018	2019
ton/MSEK	3.4	3.2

Reduction of net total GHG emissions

	kton	%
CO₂ emissions 2018 – continuing operations	344	
Environmental Improvement Actions	-9	-2.6
Other impacts	-4	-1.1
CO₂ emissions 2019 – continuing operations	331	-3.7

Other Air emissions

Other air emissions (ton)	2018	2019
NOx	356	348
SOx	37	36
Volatile organic compounds (NMVOC)	53	46

Emissions to water (ton)

	2018	2019
Nitrogen	155	113
COD	110	124
Phosphorous	2	1
Nickel	0.4	0.3
Chromium	0.2	0.2

43.2 Water

About 90 percent of our manufacturing activities take place in areas where there is an abundance of water. Nonetheless, water use is closely monitored and many measures are taken to minimize consumption, including circulation of cooling water, to reduce the need for fresh water.

Sandvik's emissions to water consist mainly of nitrogen compounds, oxygen-consuming substances and metals. All wastewater from production processes is treated before being released, to ensure that all discharges are below the acceptable limit.

Water and effluents**Water withdrawal ('000 m³)**

	2018		2019	
	All Areas	Water Stressed Areas	All Areas	Water Stressed Areas
Fresh water by source of withdrawal				
Surface	4,112	0	4,332	0
Ground	1,004	89	1,048	86
Third-party	2,297	43	2,194	52
Rain	5	1	23	14
Total Withdrawal	7,418	147	7,597	153

Water discharge ('000 m³)

	2018		2019	
	All Areas	Water Stressed Areas	All Areas	Water Stressed Areas
Surface	1,414	0	1,495	0
Fresh water	831	0	907	0
Other water	583	0	588	0
Ground	461	0	492	0
Fresh water	5	0	4	0
Other water	457	0	488	0
Third-party	5,543	147	5,609	153
Fresh water	5,333	146	5,415	152
Other water	209	1	195	1
Total	7,418	147	7,597	153

Water Intensity

Water withdrawal in relation to revenues	2018	2019
m ³ /MSEK	74.4	73.6

Reduction of total water

	'000 m ³	%
Water 2018	7,418	
Environmental Improvement Actions	-12	-0.2
Other impacts	191	2.6
Water 2019	7,597	2.4

Sandvik does not use water in its products. In manufacturing operations, especially in hot environments, some water will inevitably transpire and evaporate. The evaporated volumes are insignificant in relation to production and water volumes. There are no steps in our manufacturing processes that would cause irreversible pollution to the water being used. Thus, all water withdrawn is released back to recipients after relevant treatment, either in our own treatment facilities or in third-party treatment operations. For the main manufacturing operations, water withdrawal and discharges are conducted in a carefully controlled manner and subject to relevant permits. In 2019, there was one occasion where the ground water withdrawal exceeded the allowed limit. A case was raised, but later deemed insignificant and closed by the authorities. The incident occurred in the operations in Sandviken, Sweden. No other significant water incidents were reported.

43.3 Use, reuse, recondition and recycle

Circularity is a key aspect for Sandvik and we are reusing and recycling to offset the use of raw materials and reduce waste. Our target is to increase the share of recovered waste to 20 percent and we are currently at 19 percent. Total waste decreased by 1 percent. In 2019, 29 Sandvik locations reported a 100 percent waste recovery rate. Sandvik recycles both steel and cemented carbide. Our metallic input materials amounted to 306 thousand tons in 2019 (320), with a recovery rate of 79 percent (80).

Waste**Waste by type and disposal method (thousand tons)**

Waste by type and disposal method (kton)	2018	2019
Hazardous Waste	33	34
to recovery operations	14	14
to other disposal	19	20
Non-Hazardous Waste	303	299
to recovery operations	48	48
to other disposal	256	251
Total Waste	337	332

The reportable waste disposal methods are defined based on the disposal codes from the EU regulation 'Regulation (EC) No 1013/2006 of the European Parliament and of the Council of 14 June 2006 on shipments of waste'. These definitions will be applied by our reporting entities. The determination of waste disposal method varies in the company but is mainly based on information from the waste disposal company.

Total Waste by Business Area 2019

Waste Intensity

Total waste in relation to revenues ton/MSEK	2018	2019
	3.4	3.2

Reduction of total waste

	kton	%
Waste 2018	337	
Environmental Improvement Actions	0	0.0
Other impacts	-4	-1.3
Waste 2019	332	-1.3

NOTE 44. SUSTAINABLE SUPPLIER MANAGEMENT

Sandvik has about 65,376 suppliers located in approximately 91 countries, from which we source raw materials, components, products and services. Our commitment to provide sustainable products implies that we expect our suppliers to comply with Sandvik's Supplier Code of Conduct. In 2019, approximately 9.6 percent of our supplier spend occurred in countries with a high risk of Sandvik Supplier Code violations such as China (3.7 percent), India (2.9 percent), Brazil (1.5 percent), Indonesia and Mexico (0.6 percent each).

In 2019, the capacity building activities continued to be a key part of our efforts in building a sustainable supply base. We trained 707 Sandvik employees and all 115 audited suppliers in the Code of Conduct and our way of working with it. We also provided additional training on more specific topics, such as conflict minerals.

Supplier monitoring

In 2019, we identified 1,171 supplier entities (out of 42,505 fully risk assessed) located in high-risk countries and developing activities deemed to be at high risk. A total number of 115 suppliers were audited, out of which 74 are located in India, 12 in China, 12 in Argentina, 5 in South Africa, 5 in Brazil, 3 in Chile, 2 in Russia and one in the UK as well as Malaysia. All were audited either by independent third-party auditors, selected and trained by Sandvik (90 suppliers), or by our own auditors (25 suppliers). All audits were conducted on site.

We had 99 corrective action plans agreed to with the suppliers audited in 2019 (86 percent of total audited). During the year, we have prioritized the cases according to its severity and based on that, we have closed the year with 37 partly or fully implemented corrective action plans and one supplier terminated. For the remaining cases, 45 had the timeline extended for implementation in 2020 and 16 cases have not been implemented yet. All cases (61) will be followed up in 2020.

In 2019, we identified no deviations related to child labor or underaged workers exposed to hazardous working conditions. Deviations related to forced labor relate to financial penalties imposed on employees at our suppliers in China. Those regarding discrimination refer to unequal payment of employees with the same experience and qualification who performed the same work in Chile. Legal compliance deviations relate primarily to missing safety or environmental certificates/licenses. Competition Law, Anti-corruption and Conflict Minerals deviations refer to a lack of relevant policies/training/processes. Deviations related to environment, health and safety refer to a range of issues from missing relevant policies to lack of fire safety measures and/or risk assessments. Deviations related to employment conditions mostly refer to contracts missing mandatory clauses. Right-to-property-related deviations refer primarily to lacking impacts assessment on the previous user(s) caused by the facility taking over lease/ownership of the property. In 2019 one supplier relationship was terminated due to audit results.

Deviations identified among suppliers	2018	2019
Health and safety	1,335	702
Environment	327	248
Compensation and benefits	344	208
Anti-corruption	207	172
Working hours	216	137
Legal compliance	90	132
Competition law	168	84
Monitoring	92	67
Employment conditions	193	58
Management system	302	49
Right to property	7	8
Forced labor	40	6
Freedom of association and collective bargaining	8	2
Discrimination	1	2
Conflict-free origin of minerals	29	2
Child labor	0	0
Total	3,359	1,877

Conflict minerals

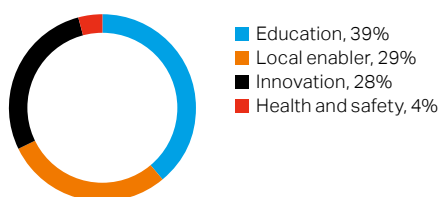
In 2019, we performed a reasonable country of origin enquiry to identify smelters and refiners associated with our supply chain, based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

Wolfram Bergbau und Hütten, a Sandvik subsidiary based in Austria, is a Conformant Tungsten Smelter that has maintained its compliant status since the company successfully completed the Responsible Minerals Assurance Program (former Conflict-Free Smelter Program) audit in March 2015. It continued to supply the majority of Sandvik's total tungsten in 2019.

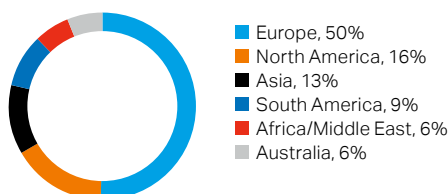
NOTE 45. COMMUNITY INVOLVEMENT

Our platform for community involvement includes four areas: Innovation, Education and skills, Health and Safety and Local enabler. In 2019, we were involved in about 250 projects.

Community projects by area



Community projects by geography



NOTE 46. FOLLOW UP ON 2019 TARGETS

Sandvik reports on the 2019 targets set up in 2018. We will report on the new 2030 sustainability targets as of 2020.

	Targets 2019	Outcome 2019
Our offerings		
Innovation and productivity		
Sandvik Machining Solutions	1) New Sales Ratio in the range of 30–40%	1) New Sales Ratio of 21.2%
	2) New Filing Ratio 30–35%	2) New Filing Ratio of 34.6%
	3) Increase recycling rate in products	3) A 20% increase, from 39% in 2018 to 47% in 2019
Sandvik Mining and Rock Technology	1) Maintain a healthy trend of New Filing Ratio (share of patents filed in the last 5 years as % of the total portfolio). Target New Filing Ratio: 41%	1) New Filing Ratio of 38.2%
Sandvik Materials Technology	1) All divisions to have the capabilities to present a Life Cycle Analysis to selected customers.	1) Life Cycle Assessment reports presented to selected customers and included in business development discussions.
	2) Market introduction of new products or applications supporting energy efficiency and green energy transition.	2) Multiple products that supports energy efficiency and green energy transition e.g. Sanicro® 25 and Tube Production on Customer Site used for hydrogen filling stations.
	3) Develop business cases for materials or applications used in emerging energy applications.	3) Multiple business cases developed e.g. additive manufacturing for industrial heating applications and Life Cycle Analysis as a service.
Health and Safety		
Sandvik Mining and Rock Technology	1) Manage Cyber Security for equipment within SMRT.	1) An Offering Cyber Security Policy was drafted and reviewed and an Offering Cyber Security Committee was launched. Internal security reviews for key products and services started.
Environmental Impact		
Sandvik Mining and Rock Technology	1) Ensure compliance within environmental regulations area for products.	1) Mandatory environmental regulations have been mapped and integrated into the New Product Development (NPD) process.
Sandvik Materials Technology	1a) Increased share of sustainable transports.	1a) All transports at the Sandviken site use HVO100 biodiesel.
	1b) Introduction of conventional packaging material recyclable at customer.	1b) Mapping of possible recyclable solutions ongoing and circular options for plastic investigated with suppliers and manufacturers.
	2) Feasibility review of potential recycling opportunities on business area product offering.	2) First buyback case of scrap steel for closed loop circularity completed. Additional discussions with selected customers initiated.
	3) Develop proposal for sustainability labeling to implement on applicable products.	3) Percentage of recycled material in a product included on materials certificate has been developed and launched.

	Targets 2019	Outcome 2019
Our operations		
Code of Conduct	1) 100% of all employees trained in our Code of Conduct. 2) 90% of new employees trained in our Code of Conduct within 3 months.	1) 96% were trained year-end 2019. 2) 65% of new employees were trained year-end 2019.
Speak Up	1) Average open days not to exceed 40 days. 2) Improve the results from 2018 SEMP survey. (a) Awareness to exceed 83%. (b) Confidence in the system/process to exceed 74%.	1) 85 days due to review and closure of old cases. 2) No monitoring done in 2019. Strategies developed to increase awareness and trust. Training to be rolled out in 2020 including monitoring.
Compliance	1) 100 % of all identified material entities*) shall have reported and have a Basic Compliance Completion Ratio. *) As defined together with each division.	1) Focus shifted to developing Sandvik's Compliance House, a tool for monitoring compliance implementation in the entities. Rollout started early 2020. We also continued to evaluate compliance implementation on Business Area and Divisional level.
Sustainable Supplier Management	1) Active suppliers, corresponding to 100% of supplier spend, risk assessed according to Sandvik inherited risk matrix. 2) Workplan in place for rolling out Sandvik Supplier Sustainability Questionnaire. 3) 100% of corrective actions pertaining to audits performed in 2018 and 2019 implemented within the time limit agreed with the supplier. 4) Suppliers representing 85% of spend having signed our Supplier Code of Conduct.	1) Approx. 71% fully risk assessed and 23% partly risk assessed (either by country or by category) 2) All business areas have outsourced the questionnaire and integrated it into their supplier management systems or plan to do so. Rolling out plan is being developed. 3) 19.4 % were implemented within the agreed time limit with suppliers. During the year, we have prioritized cases according to their severity and based on that, 31.4% have had the time line extended and will be followed up during 2020. 4) 55.5%
Environmental footprint	1) 1.3% reduction of energy use from environmental improvement action. 2) 1.3% reduction of CO ₂ emissions from environmental improvement action. 3) 0.6% reduction of water use from environmental improvement action 4) Reduce total waste by 0.2% from environmental improvement action.	1) Completed actions corresponding to 1.4% reduction was reported. 2) Completed actions corresponding to 2.6% reduction was reported. 3) Completed actions corresponding to 0.2% reduction was reported. 4) Completed actions corresponding to 0.0% reduction was reported.
Health and Safety	1) TRIFR: 3.6 2) LTIFR: 1.4	1) TRIFR: 3.8 2) LTIFR: 1.5

NOTE 47. GRI INDEX

	Standard and disclosure	Page	Comments
	GRI 102: General Disclosures 2016		
	Organizational profile		
	102-1 Name of the organization	48	
	102-2 Activities, brands, products, and services	2–3	
	102-3 Location of headquarters	48	
	102-4 Location of operations	3, 82, 98–104	
	102-5 Ownership and legal form	48	
	102-6 Markets served	1–3	
	102-7 Scale of the organization	1, 3, 63–65	
	102-8 Information on employees and other workers	123, 125–126	
	102-9 Supply chain	130	
	102-10 Significant changes to the organization and its supply chain	38–39, 133	
	102-11 Precautionary Principle or approach	58–60	
	102-12 External initiatives	1, 4, 11, 58–59, 124	
	102-13 Membership of associations	124	
GENERAL DISCLOSURES	Strategy		
	102-14 Statement from senior decision-maker	4–5	
	Ethics and integrity		
	102-16 Values, principles, standards, and norms of behavior	7, 58–61, 124	
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	102-18 Governance structure	48–61, 58	
	Stakeholder engagement		
	102-40 List of stakeholder groups	124	
	102-41 Collective bargaining agreements	125	
	102-42 Identifying and selecting stakeholders	124	
	102-43 Approach to stakeholder engagement	124	
	102-44 Key topics and concerns raised	37, 124	
	Reporting practice		
	102-45 Entities included in the consolidated financial statements	98–104	
	102-46 Defining report content and topic Boundaries	58–61, 123–124, 131–132	
	102-47 List of material topics	19, 25, 31, 58–61, 131–132	
	102-48 Restatements of information	123	
	102-49 Changes in reporting	123	
102-50 Reporting period	123		
102-51 Date of most recent report	124		
102-52 Reporting cycle	124		
102-53 Contact point for questions regarding the report	143		
102-54 Claims of reporting in accordance with the GRI Standards	124		
102-55 GRI content index	133–134		
102-56 External assurance	124, 140		
	GRI 103: Management approach 2016		
MANAGEMENT APPROACH	103-1 Explanation of the material topic and its Boundaries		
	Anti-corruption	58, 61, 124	
	Materials, Effluents and waste, Water and effluents, Energy, Emissions	13, 15, 128–130	
	Supplier Environmental Assessment, Child Labor, Forced and Compulsory Labor, Supplier Social Assessment	15, 47, 124, 130	
	Occupational Health and Safety	15, 59–61	
	Diversity and equal opportunity, Employment	15, 58–59	
	103-2 The management approach and its components		
	Anti-corruption	58, 61, 124	
	Materials, Effluents and waste, Water and effluents, Energy, Emissions	15, 128	
	Supplier Environmental Assessment, Child Labor, Forced and Compulsory Labor, Supplier Social Assessment	15, 47, 58–61, 130	
	Occupational Health and Safety	15, 58–61, 127	
	Diversity and equal opportunity, Employment	15, 58–59, 125	
	103-3 Evaluation of the management approach		
	Anti-corruption	58, 61, 124, 130, 131	
	Materials, Effluents and waste, Water and effluents, Energy, Emissions	59–61, 128–130	
	Supplier Environmental Assessment, Child Labor, Forced and Compulsory Labor, Supplier Social Assessment	58–61, 124	
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	Standard and disclosure	Page	Comments
MANAGEMENT APPROACH	GRI 403: Occupational Health and Safety 2018		
	403-1 Occupational health and safety management system	58–61	
	403-2 Hazard identification, risk assessment, and incident investigation	58–61	
	403-3 Occupational health services	58–61	
	403-4 Worker participation, consultation, and communication on occupational health and safety	58–61	
	403-5 Worker training on occupational health and safety	58–61	
	403-6 Promotion of worker health	58–61	
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	58–61	
	GRI 303: Water and effluents 2018		
	303-1 Interactions with water as a shared resource	59–61, 123, 129, 132	
303-2 Management of water discharge-related impacts	59–61, 129		
TOPIC SPECIFIC	GRI 205: Anti-corruption 2016		
	205-2 Communication and training about anti-corruption policies and procedures	124	Data per region and employee category not available as we follow up training on business area rather than region. Data on business partners not available.
	GRI 301: Materials 2016		
	301-1 Materials used by weight or volume	129	Data on packaging materials, reclaimed products and semi-manufactured metallic materials is not reported as focus in on metallic raw materials.
	301-2 Recycled input materials used	129	
	GRI 302: Energy 2016		
	302-1 Energy consumption within the organization	123, 128	
	302-3 Energy intensity	123, 128	
	302-4 Reduction of energy consumption	123, 128	
	GRI 303: Water and effluents 2018		
	303-3 Water withdrawal	123, 129	
	303-4 Water discharge	123, 129	
	Own indicator Water intensity	123, 129	
	Own indicator Reduction of total water	123, 129	
	GRI 305: Emissions 2016		
	305-1 Direct (Scope 1) GHG emissions	123, 128	Not applicable. Sandvik has no significant stationary source resulting in biogenic GHG emission.
	305-2 Energy indirect (Scope 2) GHG emissions	123, 128	
	305-4 GHG emissions intensity	123, 129	
	305-5 Reduction of GHG emissions	123, 129	
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	123, 129	POP, HAP and PM not available
	GRI 306: Effluents and waste 2016		
	306-2 Waste by type and disposal method	123, 129	
	Own indicator Waste intensity	123, 130	
Own indicator Reduction of total waste	123, 130		
GRI 308: Supplier Environmental Assessment 2016			
308-2 Negative environmental impacts in the supply chain and actions taken	130		
GRI 401: Employment 2016			
401-1 New employee hires and employee turnover	126		
GRI 403: Occupational health and safety 2018			
403-9 Work-related injuries	123, 127		
403-10 Work-related ill health	123, 127		
GRI 405: Diversity and equal opportunity 2016			
405-1 Diversity of governance bodies and employees	126		
GRI 408: Child labor 2016			
408-1 Operations and suppliers at significant risk for incidents of child labor	130		
GRI 409: Forced or compulsory labor 2016			
409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	130		
GRI 414: Supplier Social Assessment			
414-2 Negative social impacts in the supply chain and actions taken	130		

BOARD STATEMENT ON DIVIDEND PROPOSAL

Board statement in accordance with Chapter 18, Section 4 of the Swedish Companies Act.

The nature and extent of the company's operations are stated in the Articles of Association and issued annual reports.

Such nature and extent do not entail risks over and above those inherent, or reasonably to be expected, in the industry or otherwise inherent in business operations. For information on significant events, reference is made to the Directors' Report.

The company's financial position at 31 December 2019 is apparent from this Annual Report. The proposed dividend does not infringe on investments deemed to be required.

In addition, the company's liquidity reserve is in the form of an unutilized revolving credit facility amounting

to 9,000 million SEK, which means that the company should reasonably be able to meet unexpected events and temporary fluctuations in cash flows of reasonable proportions. The company's financial position supports the assessment that the company will be able to continue its business and meet its obligations in both the short and long term.

In view of the above and based on what the Board is otherwise aware, the proposed dividend in the Board's opinion is justified considering the requirements which the nature, extent and risks associated with the operations place on the size of the equity of the company, and also taking into consideration the company's need to strengthen its balance sheet, liquidity and financial position in general.

Stockholm, 1 March 2020

Sandvik Aktiebolag (publ)
BOARD OF DIRECTORS

PROPOSED APPROPRIATION OF PROFITS

The President and the Board of Directors propose that the profits at the disposal of the Annual General Meeting:

profits carried forward	16,312,157,363
and result for the year	15,136,768,569
SEK	31,448,925,932

be appropriated as follows:

a dividend of 4.50 SEK per share to the shareholders	5,644,736,653
profits carried forward	25,804,189,279
SEK	31,448,925,932

The proposed record date for dividends is Thursday, 30 April 2020.

The income statements and the balance sheets of the Group and of the Parent Company are subject to the adoption by the Annual General Meeting on 28 April 2020.

The Board of Directors and the President hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden, and that the consolidated financial statements have been prepared in accordance with the international financial reporting standards referred to in the regulation (EU) no. 1606/2002 of the European Parliament and Council dated 19 July 2002, pertaining to the application of international financial reporting standards. The Annual Report and the consolidated financial statements give a true and fair view of the Parent Company's and the Group's financial position and results. The Report of the Directors pertaining to the Parent Company and the Group gives a fair overview of the development of the Parent Company's and the Group's operations, financial position and results, and describes the significant risks and uncertainties facing the Parent Company and the companies included in the Group.

Stockholm, 1 March 2020

Johan Molin
Chairman

Jennifer Allerton
Board member

Claes Boustedt
Board member

Marika Fredriksson
Board member

Johan Karlström
Board member

Tomas Kärnström
Board member

Thomas Lilja
Board member

Helena Stjernholm
Board member

Lars Westerberg
Board member

Stefan Widing
President and CEO

Our auditor's report was submitted on 6 March 2020
PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant
Lead Partner

Magnus Svensson Henryson
Authorized Public Accountant

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**How our audit addressed the 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.

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. 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. 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

ASSURANCE REPORT

Auditor's Limited Assurance Report on the Sustainable Business Report and Statement on the Statutory Sustainability Report

To the annual meeting of the shareholders of Sandvik AB (publ), Corp. Id. 556000-3468

Introduction

We have been engaged by the Board of Directors and the Managing Director of Sandvik AB (publ) to undertake a limited assurance engagement of Sandvik's Sustainable Business Report for the year 2019. The company has defined the scope of the Sustainable Business Report and the Statutory Sustainability Report on page 124.

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 Sustainable Business Report including the Statutory Sustainability Report, in accordance with the applicable criteria, and the Annual Accounts Act respectively. The criteria are defined on page 124, and consist of the GRI Sustainability Reporting Standards, as well as the accounting and calculation principles that Sandvik has developed. This responsibility also includes the internal control relevant to the preparation of a sustainability report that does not contain material misstatement, whether due to fraud or error.

Responsibilities of the Auditor

Our responsibility is to express a conclusion on the Sustainable Business Report based on the limited assurance procedures we have performed, and to provide a statement on the Statutory Sustainability Report.

We conducted our limited assurance engagement in accordance with ISAE3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainable Business Report, and applying analytical and other limited assurance procedures.

We have conducted our review regarding the Statutory Sustainability Report in accordance with RevR 12, the Auditor's Opinion on the Statutory Sustainability Report, issued by FAR. A limited assurance engagement and a review according to RevR 12 have a different focus and a considerably smaller scope compared to the focus and scope of an audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The audit firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent in relation to Sandvik according to generally accepted auditing standards in Sweden, and have fulfilled our professional ethics responsibility according to these requirements.

The procedures performed in a limited assurance engagement and review according to RevR 12 do not allow us to obtain such assurance that we become aware of all significant matters that could have been identified if an audit was performed. The stated conclusion based on a limited assurance and review in accordance with RevR 12, therefore, does not have the level of assurance that a stated conclusion based on an audit has.

Our procedures are based on the criteria defined by the Board of Directors and the Managing Director as described above. We consider these criteria as suitable for the preparation of the Sustainable Business Report.

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

Conclusion

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainable Business Report is not, in all material respects, prepared in accordance with the criteria defined by the Board of Directors and Managing Director.

A Statutory Sustainability Report has been prepared.

Stockholm, 6 March 2020

PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant

Fredrik Ljungdahl
Sustainability Expert Member of FAR

ANNUAL GENERAL MEETING

Annual General Meeting

The Annual General Meeting will be held on Tuesday, 28 April 2020 at 3:00 p.m. at the Göransson Arena, Sätragatan 21, Sandviken, Sweden.

Shareholders who wish to participate in the Meeting must:

- be recorded in the share register maintained by Euroclear Sweden AB on Wednesday, 22 April 2020, and
- notify the company of their participation in the Meeting not later than Wednesday, 22 April 2020.

Notice of participation in the Meeting shall be made on the company's website home.sandvik, by telephone +46 (0) 26-26 09 40 weekdays 9:00 a.m.–4:00 p.m. or by letter to Computershare AB, "Sandvik's AGM", Box 5267, SE-102 46 Stockholm, Sweden.

Shareholders whose shares are registered in the name of a nominee must temporarily have re-registered the shares in their own name at Euroclear Sweden AB on Wednesday, 22 April 2020 to be entitled to participate in the Meeting. Please note that this procedure also applies with respect to shares held on a bank's shareholder deposit account and certain investment savings accounts.

When giving notice, please state name, personal or corporate registration number, address and telephone number and the number of assistants, if any. If participation is by proxy, the proxy should be submitted to the address stated above in advance of the Meeting.

Dividend

The President and the Board of Directors propose that the 2020 Annual General Meeting declare a dividend of 4.50 SEK per share.

The proposed record date is Thursday, 30 April 2020. If the proposal is adopted by the Annual General Meeting, it is expected that dividends will be paid on Wednesday, 6 May 2020. Dividends will be sent to those who on the record date are entered in the share register or on the separate list of assignees, etc. To facilitate the distribution of dividends, shareholders who have changed address should report this change to their bank in sufficient time prior to the record date.

Annual Report

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

DEFINITIONS

Earnings per share

Profit/loss for the year attributable to equity holders of the Parent Company divided by the average number of shares outstanding during the year.

EBIT

Earnings before interest and taxes. Corresponds to operating profit.

Adjusted EBIT

Earnings before interest and taxes adjusted for items affecting comparability. Corresponds to adjusted operating profit.

Equity ratio

Total equity in relation to total capital.

Net debt/equity ratio

Interest-bearing current and non-current debts, including net pension liabilities, less cash and cash equivalents divided by total equity.

Rate of capital turnover

Revenues for the last quarter annualized divided by average total capital.

Working capital

Total of inventories, trade receivables, account payables and other current non-interest-bearing receivables and liabilities, excluding tax assets and liabilities and provisions.

Relative working capital

Average working capital for the last four quarters, divided by revenues in the last twelve months.

Return on capital employed

Operating profit/loss plus financial income, as a percentage of a four quarter average capital employed. Capital employed is defined as total capital less current non-interest bearing debt.

DEFINITIONS CONT

Return on total equity

Consolidated net profit/loss for the year as a percentage of average total equity during the year.

Return on total capital

Operating profit/loss plus financial income, as a percentage of four quarter average total capital.

Order intake

Order intake for a period refers to the value of all orders received for immediate delivery and those orders for future delivery for which delivery dates and quantities have been confirmed. General sales agreements are included only when they have been finally agreed upon and confirmed. Service contracts are included in the order intake with the full binding contract amount upon signing.

Total recordable injury frequency rate (TRIFR)

Total number of injuries per million worked hours.

Lost time injury frequency rate (LTIFR)

Number of lost time injuries per million worked hours.

Items affecting comparability

Items with a significant impact on Group or Business Area results from gains and losses on business disposals, restructuring and impairments costs.

FINANCIAL TARGETS

Financial targets for the Sandvik Group; excluding discontinued operations and including Sandvik Materials Technology unless otherwise stated.

Growth ≥ 5 percent

Target to be achieved through both organic and acquired growth.

- Target through the economic cycle
- Organic revenue growth
- M&A (disposals and acquisitions)

EBIT margin – trough ≥ 16 percent

Trough = lowest level through an economic cycle.

- 12 month rolling
- Excluding items impacting comparability
- Excluding metal prices effects in Sandvik Materials Technology

Dividend pay-out ratio 50 percent

- Target through the economic cycle
- Excluding items impacting comparability

Net gearing, net debt/equity < 0.5

Net debt to equity ratio, including discontinued operations

- Annual target, excluding transformational M&A
- Including pension liabilities and impact from adaption of IFRS16 leases

If you have any comments on our Annual Report, please contact Group Communications, +46 (0)8 456 11 00 or info@sandvik.com.

For comments or questions on sustainability-related information, please contact Sustainable Business, +46 (0)8 456 11 00 or info@sandvik.com.

KEY FIGURES, GROUP TOTAL

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue, MSEK	82,654	94,084	98,529	87,328	88,821	90,822	84,430	93,906	100,924	103,533
Change, %	+15	+14	+5	-11	+2	+2	-7	+11	+8	+3
of which organic, %	+17	+20	+5	-7	-2	-6	-6	+10	+11	-1
of which structural, %	+1	0	0	0	+2	0	0	0	-6	-1
of which currency, %	-2	-5	0	-5	+2	+8	-1	+1	+2	+4
Operating profit/loss, MSEK	11,029	10,148	13,490	8,638	10,120	6,062	9,657	18,011	18,103	13,182
as % of revenue	13	11	14	10	11	7	11	19	18	13
Profit/loss after financial items, MSEK	9,412	8,179	11,516	6,753	8,264	4,059	7,996	16,940	17,315	11,945
as % of revenue	11	9	12	8	9	4	9	18	17	12
Consolidated net profit for the year, MSEK	6,943	5,861	8,107	5,008	5,992	2,194	5,468	13,160	12,669	8,523
Equity ¹⁾ , MSEK	33,813	31,264	32,536	33,610	36,672	34,060	39,290	48,722	58,163	61,858
Equity ratio ¹⁾ , %	38	32	31	36	34	34	38	46	49	51
Net debt/equity ratio ^{2,3)} , multiple	0.7	0.7	0.8	0.9	1.0	1.0	0.7	0.3	0.2	0.2
Rate of capital turnover ²⁾ , %	92	100	97	89	89	86	83	90	89	85
Cash and cash equivalents, MSEK	4,783	5,592	13,829	5,076	6,327	6,376	8,818	12,724	18,089	16,987
Return on total equity ¹⁾ , %	22.1	18.5	25.3	15.3	17.4	6.2	15.2	31.3	23.3	13.9
Return on capital employed ¹⁾ , %	17.4	16.0	19.8	12.6	13.4	7.9	12.9	23.8	22.0	15.0
Investments in non-current assets, MSEK	3,378	4,994	4,820	4,185	4,703	4,161	3,691	3,578	3,984	4,147
Total investments, MSEK	4,493	5,332	4,859	4,674	7,537	4,168	3,722	3,578	8,615	6,018
Cash flow from operations, MSEK	12,149	7,764	11,892	5,133	9,515	11,952	12,032	14,286	14,914	17,654
Cash flow, MSEK	-2,642	907	8,450	-8,656	1,039	79	2,288	3,963	5,382	-1,188
Number of employees, 31 December	47,064	50,030	48,742	47,338	47,318	45,808	43,732	43,024	41,705	40,246

1) As of 2011, comparative figures adjusted due to amended accounting principles.

2) As of 2011, comparative figures adjusted due to changed definition. For definitions see page 150.

3) As of 2012, net debt includes net pension liabilities.

Per-share data

(All historical figures are adjusted taking into account the 5:1 split).

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Basic earnings ¹⁾	5.59	4.63	6.51	4.00	4.79	1.79	4.39	10.50	10.11	6.81
Diluted earnings ²⁾	5.59	4.63	6.51	4.00	4.79	1.79	4.39	10.49	10.09	6.79
Equity ³⁾	27.5	25.2	25.9	26.7	29.1	27.1	31.2	38.8	46.4	49.3
Dividend (2019 as proposed)	3.00	3.25	3.50	3.50	3.50	2.50	2.75	3.50	4.25	4.50
Direct return ⁴⁾ , %	2.3	3.8	3.4	3.9	4.6	3.4	2.4	2.4	3.4	2.5
Payout percentage ⁵⁾ , %	54	70	54	88	73	140	63	33	42	66
Quoted prices, Sandvik Share, highest	133	135	107	108	97	107	116	153.9	165.3	190.4
lowest	76	73	82	79	74	68	65	113.5	123.1	122.7
year-end	131	84	103.50	90.70	76.40	74.05	112.70	143.7	126.4	182.7
No. of shares at year-end, million	1,186.3	1,186.3	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4
Average no. of shares, million	1,186.3	1,186.3	1,245.9	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4	1,254.4
P/E ratio ⁶⁾	23.5	18.2	15.9	22.7	15.9	41.4	25.7	13.7	12.5	26.9
Quoted price, % of equity ^{2, 7)}	476	333	400	340	261	273	361	370	273	370

1) Profit/Loss for the year per share.

2) Profit/Loss for the year after dilution of outstanding convertible program.

3) As of 2011, comparative figures adjusted due to amended accounting principles.

4) Dividend by quoted price at year-end.

5) Dividend by basic earnings per share.

6) Market price of share at year-end in relation to earnings per share.

7) Market price of share at year-end, as a percentage of equity per share. Supplementary definitions see page 150.

Development by business area, Group total

	Revenue			Operating profit and operating margin					
	2017	2018	2019	2017		2018		2019	
	MSEK	MSEK	MSEK	MSEK	%	MSEK	%	MSEK	%
Sandvik Machining Solutions	36,114	40,757	41,123	8,465	23	9,922	24	8,380	20
Sandvik Mining and Rock Technology	35,058	41,058	44,777	5,864	17	7,452	18	8,602	19
Sandvik Materials Technology	13,281	14,697	15,279	224	2	1,307	9	1,444	9
Other Operations	6,374	3,560	2,059	4,293	67	659	19	-4,263	N/M
Discontinued Operations	3,078	852	295	-62	-2	-552	-65	-204	-69

For more key figures, please visit our investors page at home.sandvik

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