

CORPORATE GOVERNANCE REPORT

Sandvik AB has its head office in Stockholm and is the Parent Company of the Sandvik Group, with subsidiaries in more than 60 countries. The Group has about 43,000 employees and sales in more than 150 countries. Sandvik AB is a public company with its shares listed on Nasdaq Stockholm (the "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 from corporategovernanceboard.se. In 2017 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 princi-

ples for governance that apply specifically within Sandvik. It is based on four levels, as set forth in the model below, and describes how common ways of working have been implemented throughout the entire organization.

Oversight and Direction

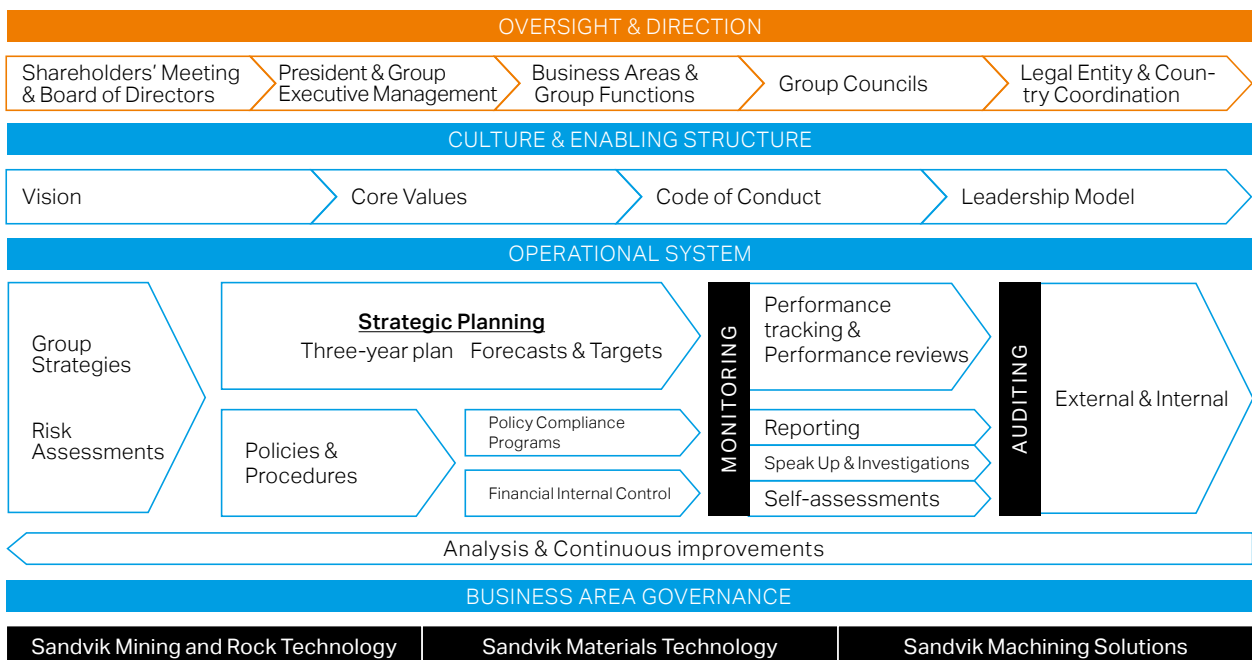
This level outlines how the Group is led and governed from the top. The Board of Directors, elected by the Shareholders' Meeting, sets the strategic direction for the Group. The President carries this out through the Group Executive Management whose members manage and oversee the operations of the Group. The main operational responsibility in the Group

lies with the business areas and product areas, with Group functions responsible for functional policies and processes supporting the business. This level is the main focus of this Corporate Governance Report.

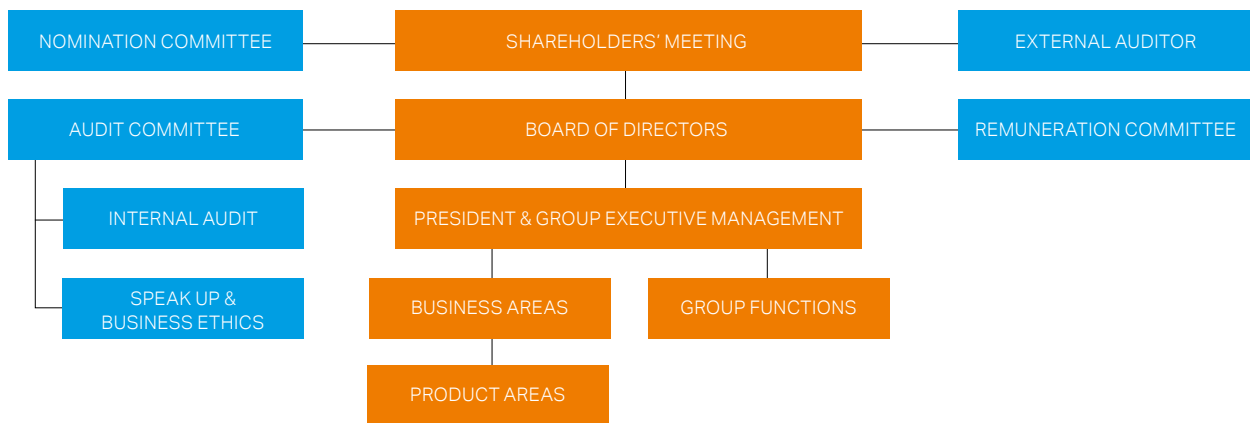
Culture and Enabling Structure

This level sets out the requirements and ambitions underpinning our operations. Our business philosophy is shaped by our Vision to excel, guided by our Core Values (Customer Focus, Innovation, Fair Play and Passion to Win), translated into the behaviors we outline in our Code of Conduct and motivated through the qualities outlined in Sandvik's Leadership Model.

THE SANDVIK WAY



CORPORATE GOVERNANCE MODEL



Operational System

The operational system in The Sandvik Way is at the core of how we work on a day-to-day basis in the Sandvik Group. It contains information and ways of working for the whole Sandvik Group related to strategic planning, risk management, internal controls and compliance, as well as Sandvik’s monitoring activities, including performance tracking and compliance self-assessment for the business units. This is also where our group-wide policies and procedures are collected.

Business Area Governance

Whereas the three top levels of The Sandvik Way set the group-wide way of working that applies across all of the business areas, product areas and Group functions, the business areas and product areas have their own tailored governance systems based on The Sandvik Way.

OWNERSHIP STRUCTURE

As of 31 December 2017 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 103,000 shareholders as of 31 December 2017. AB Industrivärden was the largest owner with about 11.8 percent of the share capital. Of the total share capital at year-end, 37 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, namely one vote per share.

2017 Annual General Meeting

Shareholders representing 49.52 percent of the share capital and votes attended the Annual General Meeting held on 27 April 2017 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 2.75 SEK per share
- Election of Marika Fredriksson as new member of the Board and re-election of Board members Jennifer Allerton, Claes Boustedt, Johan Karlström, Johan Molin, Björn Rosengren, Helena Stjernholm and Lars Westerberg. Re-election of Johan Molin as Chairman of the Board.
- Guidelines for remuneration of senior executives

TEN LARGEST SHAREHOLDERS, 31 DECEMBER 2017, %

AB Industrivärden	11.8
Alecta Pension Insurance	6.1
AMF Insurance and Funds	2.7
Handelsbanken Pension	2.6
Swedbank Robur Funds	2.5
L E Lundbergföretagen AB	2.4
SEB Investment Management	1.9
JP Morgan Chase*	1.8
Fourth Swedish National Pension Fund	1.4
Nordea Investment Funds	1.4

Source: Euroclear

* 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
- Re-election of KPMG AB as auditor

For additional information about the Annual General Meeting, including the minutes, refer to home.sandvik.

2018 Annual General Meeting

The next Annual General Meeting will be held on 27 April 2018 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



Sandvik's Annual General Meeting 2017 was held at the Göransson Arena, Sandviken, Sweden.

the Nomination Committee, valid until a General Meeting resolves on a change. In accordance with this instruction, the Nomination Committee should consist of representatives of the four largest shareholders, in terms of the number of votes, on the final business day in August plus the Chairman of the Board (convener).

Nomination Committee for 2018 AGM
For the 2018 Annual General Meeting, the Nomination Committee consists of Fredrik Lundberg, Chairman (Industrivärden), Kaj Thorén (Alecta), Pär Boman (Handelsbanken Pension), Anders Oscarsson (AMF Insur-

ance and 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. Through Sandvik's Chairman of the Board, the Nomination Committee was informed of the results of the Board's own evaluation. The Committee also met with Sandvik's President to review the company's operations, stage of development and overall strategy. The Nomination Committee discussed the general criteria that Board members should fulfill, including the independence requirement, and reviewed the number of Board assignments that each Board member has in other companies. 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 2017 Sandvik's Board consisted of eight members elected by the Annual General Meeting.

The Nomination Committee communicated before the 2017 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 experiences 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 146–147.

Independence

Helena Stjernholm is not regarded as independent in relation to major shareholders in the company and

NOMINATION COMMITTEE'S TASKS AHEAD OF THE 2018 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

Björn Rosengren is not regarded as independent in relation to the company and its executive management. The other six Board members elected by the General Meeting are all independent in relation to Sandvik and its executive management, as well as the company's major shareholders. Accordingly, the composition of the Board complies with the independence requirements of the Code.

Board proceedings during 2017

During the year, the Board held 13 meetings. The Board addressed strategic issues. The executive management of all business areas presented their goals and strategies. The Board also addressed matters related to IT, human resources, such as incentive programs, environment, health and safety, and issues concerning investments and the review of previously made investments, as well as acquisitions and divestments, such as the sale of the Sandvik Process Systems and Hyperion businesses. The Remuneration and Audit Committees submitted reports from their respective meetings and the minutes from these minutes were made available to the Board members. In the autumn of 2017 the Board visited the Sandvik site in Fairlawn, US.

Remuneration of the Board

As resolved at the 2017 Annual General Meeting, the fee to the Chairman of the Board is 2,200,000 SEK and the fee to each of the non-executive

Board members elected by the General Meeting is 630,000 SEK.

In addition, 275,000 SEK was paid to the Chairman of the Audit Committee and 150,000 SEK to each of the other Committee members, in total 575,000 SEK. The Chairman of the Remuneration Committee was paid 125,000 SEK and each of the other Committee members 100,000 SEK, in total 325,000 SEK.

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

Evaluation of the work of the Board

To ensure the quality of the work of the Board and to identify the possible need for further expertise and experience, the work of the Board and

its members is evaluated annually. In 2017 the evaluation, which was led by the Chairman of the Board, was carried out by way of each Board member responding to an online questionnaire. The Chairman also held separate evaluation meetings with all Board members. The compiled results were presented to the Board. The Chairman of the Board also presented the results of the evaluations at a meeting with the Nomination Committee.

BOARD COMMITTEES

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

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS IN 2017

Member	Board	Audit Committee	Remuneration Committee
<i>Total number of meetings</i>	13	6	7
Jennifer Allerton	13		
Thomas Andersson	13		
Claes Boustedt	13	6	
Marika Fredriksson ¹⁾	7		
Jürgen M Geissinger ²⁾	3		
Johan Karlström	13		7
Tomas Kärnström	13		
Thomas Lilja	13		
Mats W Lundberg	13		
Johan Molin	13		7
Björn Rosengren	13		
Helena Stjernholm	13	6	
Lars Westerberg	12	6	7

1) Elected new Board member at the Annual General Meeting 2017.

2) Left the Board in conjunction with the Annual General Meeting 2017.

COMPOSITION OF THE BOARD AS OF 31 DECEMBER 2017

Name	Function	Independent in acc. with the Code	Shareholding, number ¹⁾ 31 Dec 2017	Elected	Audit Committee	Remuneration Committee
Jennifer Allerton	Member	Yes	10,000	2015		
Thomas Andersson	Deputy ²⁾		612	2012		
Claes Boustedt	Member	Yes	20,000	2015	Chairman	
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
Björn Rosengren	Member	No	95,216	2016		
Helena Stjernholm	Member	No	0 ⁴⁾	2016	Member	
Lars Westerberg	Member	Yes	180,000	2010	Member	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) Acquired 5,000 shares on 12 February 2018.

Remuneration Committee

During 2017 the members of the Remuneration Committee were the Chairman of the Board Johan Molin (Chairman of the Committee), Johan Karlström and Lars Westerberg. The tasks of the Remuneration Committee are, among others, those prescribed by the Code, which include preparing proposals regarding guidelines for remuneration of senior executives and long-term incentive programs for senior executives.

Based on the recommendations of the Remuneration Committee, the Board decides the remuneration and terms of employment for the President, who in turn decides on the remuneration to be paid to the Group Executive Management in consultation with the Remuneration Committee.

For guidelines, remuneration and other benefits payable to the Group Executive Management, refer to Proposal regarding guidelines for the remuneration of senior executives on page 48 and Note 3.5.

During 2017 the Remuneration Committee held seven meetings. The increased number of meetings was mainly driven by the replacement of two members of the Group Executive Management during 2017.

Audit Committee

During 2017 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:

- Financial reporting
- Effectiveness of the system of internal control
- Planning, scope and follow-up of the internal and external audit for the year
- The Group's systematic processes for risk management, including legal disputes, IT, accounting procedures, taxation, treasury, finance operations and pension issues
- The development and effectiveness of compliance processes and Speak Up, Sandvik's global whistle-blowing system
- Sandvik's sustainable business strategy and materiality analysis
- Preparation for election of new auditor

During 2017 the Audit Committee held six meetings at which Sandvik's external auditor and representatives of the company's management were present.

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 2017 the Group Executive Management consisted of:

- Björn Rosengren, President and CEO
- Tomas Eliasson, Executive Vice President and CFO
- Klas Forsström, President of Sandvik Machining Solutions, from 1 April 2017
- Lars Engström, President of Sandvik Mining and Rock Technology
- Göran Björkman, President of Sandvik Materials Technology, from 1 November 2017
- 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
- Jonas Gustavsson, President of Sandvik Machining Solutions, until 31 March 2017
- Petra Einarsson, President of Sandvik Materials Technology, until 31 October 2017

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

BUSINESS AREAS

The Sandvik organization model is based on a decentralized business model with three separate business areas – Sandvik Machining Solutions, Sandvik Mining and Rock Technology and Sandvik Materials Technology – based on distinct product offerings.

Each business area has full responsibility and accountability for its respective business results.

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

Visit home.sandvik for more detailed information relating to the Group's business activities and product portfolios.

GROUP FUNCTIONS

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

EXTERNAL AUDITOR

At the 2017 Annual General Meeting, the audit firm KPMG AB was re-elected auditor of Sandvik AB for the period until the 2018 Annual General Meeting. Joakim Thilstedt is the auditor-in-charge.

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

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

The independence of the external auditor is guaranteed by a requirement that the Audit Committee pre-approves non-audit services to be provided by the auditors.

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

BREACH OF THE STOCKHOLM STOCK EXCHANGE'S RULE BOOK

In December 2017 the Disciplinary Committee of the Stockholm Stock Exchange found that Sandvik had breached the Stockholm Stock Exchange's Rule Book for Issuers (the "Rule Book") and imposed a fine on Sandvik amounting to one annual fee, equivalent to an amount of SEK 3,105,000. The Disciplinary Committee found that Sandvik had contravened section 3.1 of the Rule Book by mistakenly publishing its interim report for the second quarter of 2017 on the company's website before the report was disclosed in a correct manner as stipulated in the Rule Book.

INTERNAL CONTROL OF FINANCIAL REPORTING

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

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

Control environment

The Sandvik Way regulates the governance of the Sandvik Group. It includes delegation of responsibilities, including signatory and authorization principles for decision making and cost approvals, and request and approval procedures in respect to investments and acquisitions, among other items.

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

A Sandvik Financial Internal Control Framework has been developed and includes key components such as; well-defined roles and responsibilities, internal control policy 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 well underway.

Risk assessment and risk management

The Enterprise Risk Management (ERM) process at Sandvik encompasses the area of financial reporting. 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

In each legal entity, the finance staff is responsible for accurate accounting and the closing of books. At Group level, Group Control manages the reporting process to ensure the completeness and accuracy of financial reporting and compliance with IFRS requirements. Both statutory and management reporting is conducted in close cooperation with product areas, business areas and specialist functions such as tax, treasury and legal to ensure the correct reporting of the income statement, balance sheet, equity and cash flow.

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

Information and communication

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

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

Monitoring and follow-up

Each legal entity manager and their respective finance organization is ultimately responsible for continuously monitoring the financial information of the various entities. The Audit Committee is to ensure that the company's financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies. The Audit Committee prepares issues and presents them to the Board for resolution.

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

Internal audit

The Internal Audit function audits the corporate governance, internal control and risk-management procedures. Internal Audit is subordinated to the Audit Committee and the head of the unit reports to the Audit Committee.

Internal audits include, as a basis, the Group's policies for corporate governance, risk management and internal control with regard to areas such as financial reporting, compliance with the Code of Conduct and IT. The outputs of the audits include action plans and programs for improvement.

Findings are reported to the Group Executive Management and the business area management and to the Audit Committee.

AUDITOR'S REPORT

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Sandvik AB (publ.) for the year 2017. The annual accounts and consolidated accounts of the company are included on pages 46-122 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 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 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts, and the corporate governance statement is in accordance with the Annual Accounts Act.

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

Our opinions in this report on the 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.

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.

Accounting for Assets held for sale and discontinued operations

See disclosure 30 and accounting principles on pages 82 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The Group has completed the divestment of product area Mining Systems. The divested businesses has been deconsolidated from the financial statements apart from the ongoing contracts to be finalized by the Group that was not part of the divestment. The contracts are still presented as a discontinued operation in the income statement and as a disposal Group held for sale within the balance sheet. The result of the discontinued operations amounts to -52 million SEK for 2017.

The remaining contracts involves complex estimates on the projected final revenue and cost to complete.

The Group has during 2017 completed the divestment of product area Process Systems which by 1 December 2017 has been deconsolidated from the financial statements.

The Group has also during 2017 decided to divest product area Hyperion and the Material Technology operations Welding and Stainless wire. These businesses are presented as disposal groups held for sale within the balance sheet.

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

Response in the audit

We have assessed the divestments of Mining Systems and Process Systems by obtaining and reviewing sales agreements and other relevant documentation.

We have evaluated the internal control of the business in relation to monitoring of the remaining ongoing contract as well as challenged managements assumptions on final project forecasts. Assessment have also been made through sampling of project estimates for which we have evaluated the underlying assumptions used by the business for revenue recognition and provisions, if any.

We have assessed the assumptions applied by the Group for presenting remaining ongoing contract within Mining Systems as a discontinued operation, as well as the presentation of Hyperion and Welding and Stainless wire operations as held for sale, by obtaining and reviewing minutes and other relevant documentation of the sales processes and board decisions as well as holding discussions with Group management.

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

We have also reviewed the Annual Report disclosures for completeness.

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

See disclosure 12 and 14 respectively and accounting principles on pages 79-80 and 82 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of acquired intangible assets of goodwill, patents, licenses, trademarks, etc. is 17,376 million SEK as at 31 December 2017, which represents approximately 16% of total assets. Annually, or if certain indicators of impairment exist, goodwill is subject to an impairment test which is complex and contains significant elements of judgment. An impairment test must be performed for each identified cash-generating unit.

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

The parent company holds shares in Group companies of 32,558 million SEK as at 31 December 2017. If the book value of the shares exceeds the equity in a given Group company, a similar type of impairment test is performed using the same methodology and assumptions as is done in respect of goodwill in the Group.

Response in the audit

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

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

We have assessed the methodology used and an important part of our work has been to evaluate how changes in assumptions may affect the valuation.

We have assessed the reasonableness of the allocation of goodwill to cash-generating units. The assessment was conducted through interviews with Group management and evaluation of the Group's documentation of the allocation.

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

Provisions for pensions

See disclosure 20 and accounting principles on pages 80-81 in the annual accounts and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The Group has a pension obligation that mainly concerns the United Kingdom, the United States, Sweden, Finland and Germany. Before reduction by the fair value of plan assets, this pension obligation is valued at 26,339 million SEK as at 31 December 2017.

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

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

Response in the audit

We have examined the external actuarial report that is used by the Group for valuation of its pension obligation.

We have critically assessed the key assumptions used for discount rate, inflation, salary increases and mortality within the calculations against assumptions used by other comparative companies and externally obtained market data.

We have reviewed and assessed the documentation supporting significant changes in plan assets and significant events impacting the obligation.

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

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 1-45, 127-144 and 146-152. The Board of Directors and the President and CEO 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 Directors and the President and CEO

The Board of Directors and the President and CEO 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 President and CEO 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 President and CEO 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 President and CEO intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibility

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

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

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President and CEO.
- Conclude on the appropriateness of the Board of Directors' and the President and CEO's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

AUDITOR'S REPORT

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President and CEO of Sandvik AB (publ.) for the year 2017 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the President and CEO

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

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

The President and CEO 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 President and CEO in any material respect:

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

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

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

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

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Sandvik AB (publ.) by the general meeting of the shareholders on the 27 April 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since financial years before 1994.

Stockholm 6 March 2018
KPMG AB

Joakim Thilstedt
Authorized Public Accountant