



ANNUAL REPORT 2020



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Cover photo: Interior from the Sandvik site in Troy, MI, US.

The formal Annual Report comprises pages 36–124. The Statutory Sustainability Report and Sustainable Business Report include pages 2–3, 9–11, 54–60 and 129–140. Unless otherwise stated, financial data on pages 0–7, 14–35 and 41–42 refers to continuing operations.

IMPORTANT EVENTS

- The Covid-19 pandemic negatively affected the demand in several customer segments, mainly in the aerospace and automotive industries as well as the oil and gas sector.
- Sandvik implemented a number of measures to offset the demand decline, including structural changes, cost savings, reduced work hours and layoffs.
- The Annual General Meeting resolved, in accordance with a revised proposal from the Board of Directors, that no dividend be paid for the financial year 2019.
- Several acquisitions were completed, primarily related to digitalization and round tools. An agreement to acquire the market-leading underground safety company DSI Underground was also signed.
- Sandvik strengthened its strategy for increased focus on growth. The Sandvik Mining and Rock Technology and Sandvik Machining Solutions business areas were reorganized.
- Sandvik decided to continue its preparations to distribute Sandvik Materials Technology to shareholders.
- Sandvik finalized the divestment of the oil and gas operations of Sandvik Drilling and Completions (Varel) and announced its intention to divest its mineral exploration operations.
- Sandvik began to report its sustainability goals in conjunction with the interim report.
- The Total Recordable Injury Frequency Rate (TRIFR) fell to 3.2 (3.8). However, two tragic fatalities underline the importance of continuous focus on safety.
- Sandvik was again included in the Dow Jones Sustainability Index.

INDICES

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

Member of
Dow Jones
Sustainability Indices
Powered by the S&P Global CSA



2020 IN BRIEF

Key ratios, continuing operations	2019	2020
Order intake, MSEK	104,075	86,287
Revenues, MSEK	103,238	86,404
Operating profit, MSEK	13,386	11,216
Operating margin, %	13.0	13.0
Adjusted operating profit, MSEK ¹⁾	19,219	14,563
Adjusted operating margin, % ¹⁾	18.6	16.9
Free operating cash flow, MSEK	17,745	16,425
Return on capital employed, %	15.2	13.3
Earnings per share, SEK	6.97	6.99
Adjusted Earnings per share, SEK ¹⁾	11.12	8.64
Net debt/equity ratio	0.18	0.04
Lost Time Injury Frequency Rate, LTIFR ²⁾	1.5	1.4
Total Recordable Injury Frequency Rate, TRIFR ³⁾	3.8	3.2
Number of employees ⁴⁾	40,235	37,125
Share of women, %	19.6	19.6

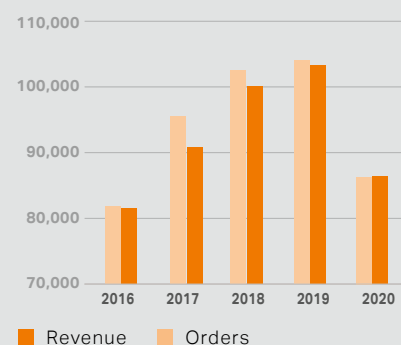
1) Adjusted for items affecting comparability, see page 42.

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

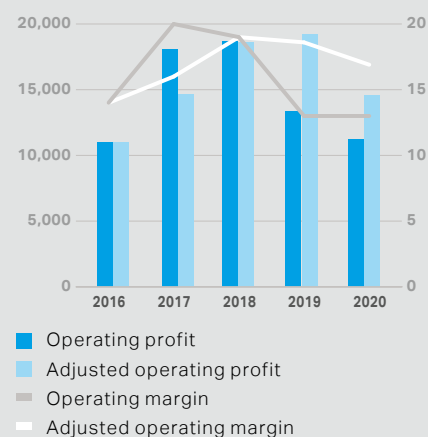
3) Total number of recordable injuries per million hours worked.

4) Full-time equivalent.

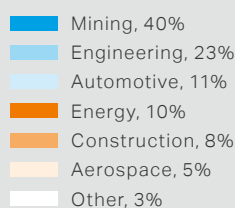
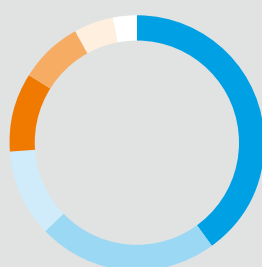
Revenues and order intake, MSEK



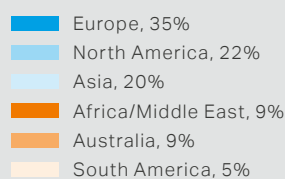
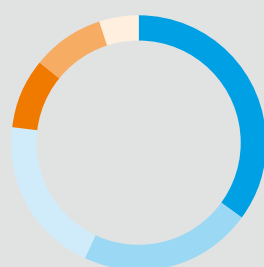
Operating profit, MSEK and operating margin, %



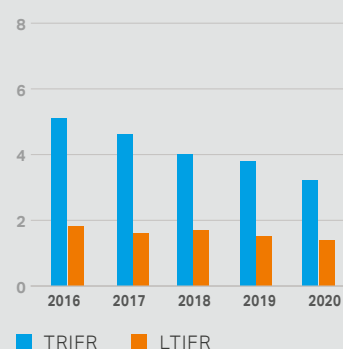
Revenues by customer segment



Revenues by market area



LTIFR and TRIFR

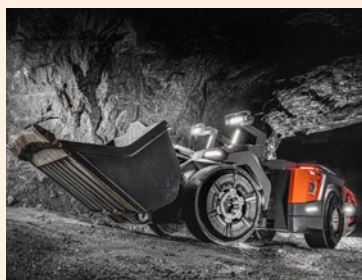


VALUE-CREATING OFFERINGS

BUSINESS AREAS

DIVISIONS

SANDVIK MINING AND ROCK SOLUTIONS¹⁾



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
39%	46%

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

SANDVIK MANUFACTURING AND 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
38%	41%

Sandvik Machining Solutions²⁾

- Sandvik Coromant
- Seco
- Walter
- Dormer Pramet
- Wolfram

Sandvik Manufacturing Solutions²⁾

- Additive Manufacturing
- Design and Planning Automation
- Metrology

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
16%	7%

- Tube
- Kanthal
- Strip

SANDVIK ROCK PROCESSING SOLUTIONS¹⁾



A leading supplier of equipment, service and technical solutions for processing rock and minerals in the mining and construction industries.

SHARE OF REVENUES	SHARE OF ADJUSTED OPERATING PROFIT
7%	7%

- Stationary Crushing and Screening
- Mobile Crushing and Screening
- Attachment Tools
- Shanbao

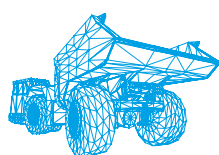
¹⁾As of January 2021, Sandvik Mining and Rock Technology was divided into two separate business areas, Sandvik Mining and Rock Solutions and Sandvik Rock Processing Solutions.

²⁾In October 2020 the business area changed its name to Sandvik Manufacturing and Machining Solutions. Two business area segments were created: Sandvik Manufacturing Solutions and Sandvik Machining Solutions, as of January 1, 2021.

The remaining -1 percent of adjusted operating profit refers to Other operations (page 42). 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 37,000 employees and sales in more than 160 countries. We have a strong focus on enhancing customer productivity, profitability and sustainability.

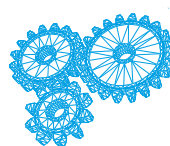
KEY CUSTOMER SEGMENTS/SHARE OF REVENUES



Mining

40%

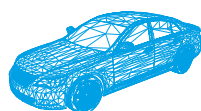
We deliver drill rigs, rock-drilling tools and systems, mobile and stationary crushers, load and haul machines, tunneling equipment, continuous mining and mechanical cutting equipment, as well as service and various solutions to increase automation, safety and customer productivity.



Engineering

23%

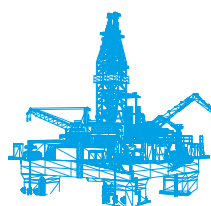
Our tools and tooling systems for metal cutting as well as advanced materials and components are used in engineering industries worldwide, improving productivity, profitability, quality and safety as well as reducing environmental impact. We are also a global leader in high-alloy metal powder.



Automotive

11%

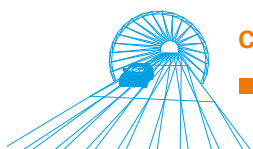
Our tools and tooling systems for turning, milling and drilling in metals increase productivity when manufacturing, for example, engines and transmissions. Our stainless and high-alloy products are found in air conditioning and air bags, among other things.



Energy

10%

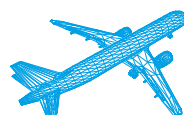
We offer solutions for all forms of energy production, including clean and renewable energy. We supply high-alloy products, such as stainless steel tubes for selected niches in the most demanding industries as well as tools and tooling systems to satisfy the industry's metal-cutting needs.



Construction

8%

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

5%

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 Mining and Rock Technology ■ Sandvik Manufacturing and Machining Solutions ■ Sandvik Materials Technology
The remaining 3 percent include mainly consumer goods, electronics and chemicals.

FOCUS ON GROWTH

2020 was a year of special circumstances as a pandemic with far-reaching consequences impacted the entire world. At the same time we made several strategic decisions that will strengthen and shape the future of Sandvik. We stand strong and are ready to shift towards growth.

I took office as President and CEO of Sandvik on February 1, 2020. Shortly thereafter, it became clear that the pandemic the whole world was facing would also impose stringent demands on Sandvik – as an employer, as a partner to our customers, and as a member of the communities where we operate. We acted swiftly and decisively to secure our employees' workplaces so we could continue to serve our customers despite the challenging circumstances. Our employees also took numerous impressive initiatives to assist with equipment and other aid in local communities during the most critical phase of the pandemic.

A more flexible company

At the same time, we had to take the measures necessary to ensure that Sandvik remains competitive over the long term, with a strong performance regardless of the market situation. In 2019, we were already adapting to a weaker business cycle, and in the spring of 2020 we initiated further actions to counter the effects of the pandemic that included activities both temporary and structural in nature.

One of our financial targets is to have an adjusted EBIT margin, rolling 12 months, of at least 16 percent. We delivered on this, even during this turbulent period. I see this as clear proof that Sandvik today is a far more flexible company, with greater resilience, than in the past. We could implement these adaptations so rapidly due to our decentralized business model, in which decisions are largely taken among our various divisions, which are close to the market and our customers.

Sustainable business

Sandvik is ambitious in terms of sustainability. During the year, we continued to work intensely in order to achieve our long-term goals for 2030. For us as an engineering company with a strong base in research and development, sustainability is a major business opportunity. When we develop more efficient, safer and more environmentally sound solutions, we take an important step alongside our partners towards a more sustainable future. Our focus on sustainability also increases our attractiveness among current and future employees.

Sandvik continues to support the principles of the UN Global Compact and to contribute towards fulfilling the UN's Sustainable Development Goals.

Structural changes for the future

During the year, Sandvik's Board of Directors made the decision to continue preparations for the distribution of the Sandvik Materials Technology business area to our shareholders. The Board's intent is to propose the distribution and listing of Sandvik Materials Technology on Nasdaq Stockholm at a shareholders' meeting in 2022, provided that the circumstances at the time are deemed to be right.

I am convinced that this is the correct way forward, both for Sandvik Materials Technology and for Sandvik as a whole.

In our other business areas, organizational changes were initiated in 2020 to drive further growth in our various operations. We see potential for growth through an increased degree of digitalization, automation and electrification, as well as through

an active acquisitions agenda. In December, we signed an agreement to acquire the underground safety company DSI Underground, one of the biggest acquisitions in the history of Sandvik.

An example of how we are advancing our positions and expanding our offering with digital solutions is the acquisition of the software company CGTech, which will help our customers become even more efficient in their manufacturing chains. We have also chosen to relinquish or reduce our ownership in operations where we believe that others would be better owners.

Stable ground

Our financial position is very strong. We have continued to generate a healthy cash flow, and at year-end we had a financial net cash position. This provides us with greater resilience if market conditions deteriorate, and it provides us with the conditions for pursuing value-creating growth.

In many ways, 2020 has been a challenging year, but I am convinced that at the same time it has made Sandvik even stronger and more flexible. I would like to extend my warmest thanks to our employees for their fantastic efforts under conditions that at times have been difficult, and to our shareholders and customers for their continued confidence. We are standing on stable ground. Now we must make use of all the interesting growth opportunities we see before us.

Stockholm, March 2021

Stefan Widing, President and CEO

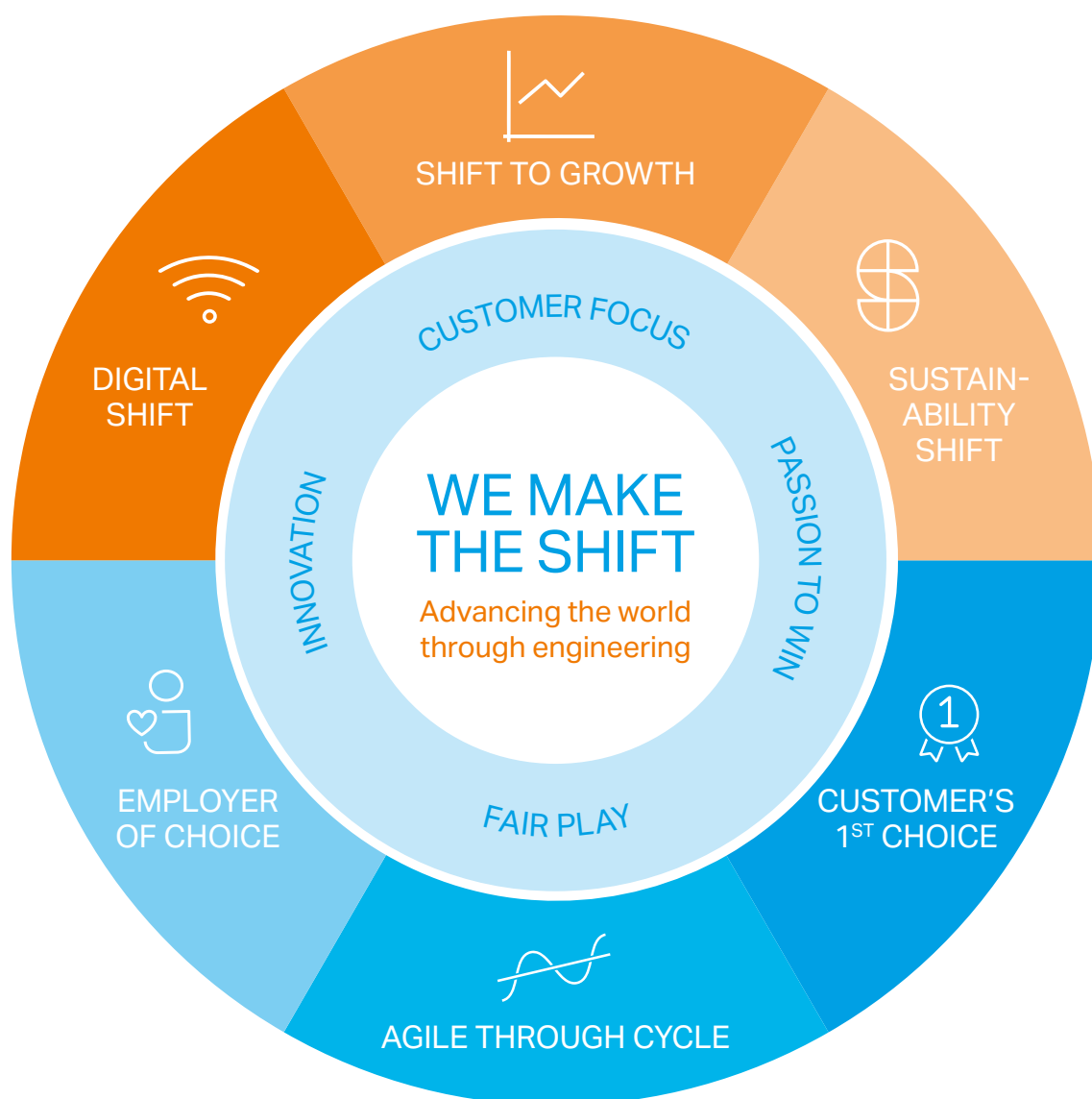
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*We are ready to shift
towards growth.*



SHIFTING TO GROWTH

During 2020, Sandvik updated its strategy for an increased focus on growth. In recent years we have divested underperforming businesses, decentralized the organization and become a much more resilient company. From this stable platform we will further increase the focus on growth, digitalization, sustainability and agility. In 2021, we introduced six strategic objectives, defining achievements up until 2025. We are continuing with the financial targets set in 2019.



We shift to growth

We have set a growth target of at least 5 percent (CAGR) through a business cycle. We need to increase our acquisition pace and we will add products and technology as well as services and digital solutions to our existing offerings. This growth target means that we aim to become a SEK 115 billion company by 2025. We will also focus on improving our New Sales Ratio (sales of new products).

We make the digital shift

Our objective is to be a leader in digital solutions in our industry and we will grow our digital customer offering. Internally, we will ensure efficiency through a seamless flow, supported by standardized business systems across our sites.

We make the sustainability shift

We have long-term 2030 sustainability goals in the areas of climate, circularity, people and fair play. All business areas and divisions have plans and actions to deliver on the goals and we will transparently report on the progress. By 2025, we should be halfway to reaching the targets.

We are our customer's first choice

Across the organization we want to advance the way we measure and improve customer value and customer satisfaction. By 2025, our divisions will be able to track their customer satisfaction improvements through structured methods and show continuous measurable progress.

We are agile through cycle

Our financial targets include a trough EBIT margin, adjusted for items affecting comparability and metal prices, of 16 percent on a rolling twelve-month basis. In our different industries, our cost structure should be flexible enough to manage economic downturns. Well-prepared contingency planning will enable quick responses to changing market conditions. Continuous improvements on fixed costs and operational efficiency are other key factors.

We are the employer of choice

We aim to be the employer of choice within our industries and attract the top talents. We will ensure a diverse workforce with regards to factors such as age, gender, nationality and ways of thinking. 25 percent of our managers will be women by 2025.

Achievements in 2020

- We acquired Allied Construction Products, CGTech, Sumnerill Tube Corporation, Quimmico Centro Tecnológico and Miranda Tools. We signed an agreement to acquire DSI Underground. A decision was made to proceed towards a separate listing of Sandvik Materials Technology. Reorganizations were made within Sandvik Manufacturing and Machining Solutions and Sandvik Mining and Rock Technology for increased growth. We completed the divestment of the oil and gas operations of Sandvik Drilling and Completions (Varel) and signed an agreement to divest the mineral exploration business.
- A new business area segment focusing on digital solutions, Sandvik Manufacturing Solutions, was established. The CGTech acquisition will strengthen our digital offering with software for numerical control (NC/CNC) simulation, verification and optimization. We acquired a minority stake in Oqton, a leading provider of AI-powered manufacturing solutions. We established partnerships with Microsoft to drive the digitalization of the manufacturing industry and with Exyn, an expert on autonomous aerial robot systems for the mining industry.
- We began reporting key sustainability KPIs in our interim reports. Sandvik was once again selected as a member of the Dow Jones Sustainability Index.
- Focusing on increased customer value, we launched a number of innovations and new products (see pages 18, 24 and 30). This strengthens our core offerings and positions in automation, electrification and digitalization.
- We surpassed the 16 percent trough EBIT margin, despite the sharply decreased demand due to the Covid-19 pandemic. Short-term actions, such as reduced spend and reduced work hours, generated savings of SEK 1.5 billion in 2020. We also initiated long-term structural measures that will result in savings of SEK 1.3 billion with a full annual run rate by the end of 2021. The efficiency program initiated in 2019 resulted in savings of SEK 1.7 billion.
- In the Sandvik all-employee survey the engagement index amounted to 80 percent. The share of female managers increased to 18.5 percent (18.2) and 19 percent (19) of the members in division management were non-Europeans.

CORE VALUES

Customer Focus, Innovation, Fair Play and Passion to Win are our core values. Our core values represent the culture of the company and they guide us in our actions and daily business decisions. **Customer Focus:** We constantly strive to exceed our customers' expectations and enable them to excel in their business. We are decentralized and decisions are taken close to customers. **Innovation:** We always strive for technology leadership and successful

partnerships. We work to ensure everyday advancements and innovative shifts. **Fair Play:** We put health and safety first. We are ethical and compliant and conduct our business sustainably. **Passion to Win:** We establish our market leadership through strong performance management, continuous improvements and empowered people. We are passionate about making our company number one.

TARGETS AND TARGET FULFILLMENT

Sandvik has long-term financial targets focusing on growth, profitability, dividend and a strong financial position. The 2030 sustainability targets focus on the areas of circularity, climate, people and ethics.

FINANCIAL TARGETS

GROWTH¹⁾

≥5%

Target: A growth of ≥ 5 percent through a business cycle (here defined as 2016–2020), organically and through acquisitions.

TROUGH EBIT MARGIN

≥16%

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

DIVIDEND¹⁾ 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

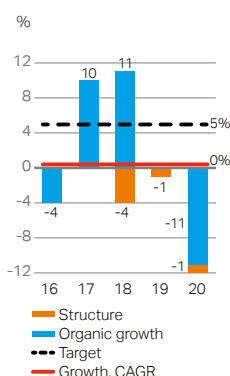
<0.5

Target: A net debt/equity ratio below 0.5.

OUTCOME 2020

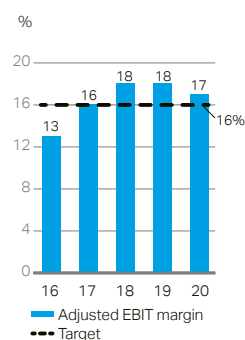
0%

Outcome: The revenue growth 2016–2020 was 0 percent. In 2020 the organic growth was -11 percent, due to a slow-down related to the Covid-19 pandemic.



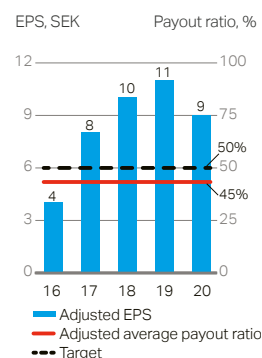
17%

Outcome: The EBIT margin, adjusted for items affecting comparability and metal prices, amounted to 17 percent in 2020. The EBIT margin was 13, 16, 18 and 18 percent in 2016, 2017, 2018 and 2019, respectively.



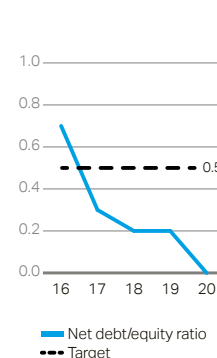
45%

Outcome: The average payout ratio in 2016–2020 amounted to 45 percent. Sandvik's strong performance in 2020 resulted in a proposed dividend of SEK 8 billion (0), corresponding to a payout ratio of 75 percent.



0.0

Outcome: The target was achieved as the net debt to equity ratio was 0.04.



¹⁾The growth and dividend targets refer to average through a business cycle, which is here defined as 2016–2020.

SUSTAINABILITY GOALS

We have 2030 Sustainability Goals in four areas and we report on KPIs for our own operations to track progress towards targets. In addition to our own operations, we also work with customers and suppliers to achieve the goals.

WE BUILD CIRCULARITY

71 ktons

Target: Our target is to reduce our waste to 38.8¹⁾ ktons by 2030, a 50 percent reduction. To be in line with this target we should reduce waste to 71 ktons by 2020.

WE SHIFT CLIMATE

304 ktons

Target: Our target is to reduce our CO₂ emissions to 166¹⁾ ktons by 2030, a 50 percent reduction. To be in line with this target we should reduce CO₂ emissions to 304 ktons by 2020.

WE CHAMPION PEOPLE

4.2

Target: Our target is to reduce our Total Recordable Injury Frequency Rate (TRIFR) to 2.3¹⁾ by 2030, a 50 percent reduction. To be in line with this target we should reduce the TRIFR to 4.2 by 2020.

WE PLAY FAIR

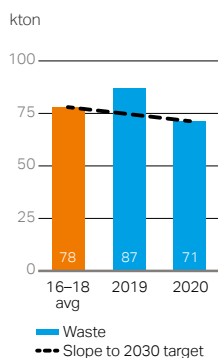
18.6%

Target: Our target is to increase the share of women in managerial positions to one third by 2030. Our target was to have 18.6 percent female managers by 2020.

OUTCOME 2020

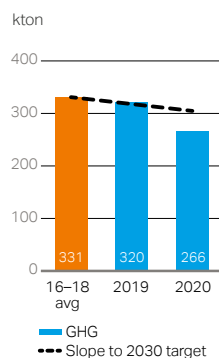
71 ktons

We reduced our waste by 18 percent to 71 ktons, mainly due to reduced production volumes. We have excluded tailings from our mine operations and slag from our steel manufacturing, amounting to more than 80 percent of the total waste, since our ability to impact these volumes is limited.



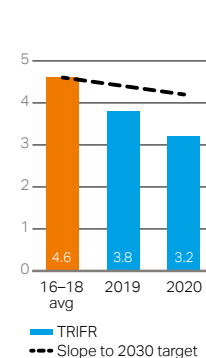
266 ktons

CO₂ emissions fell by 17 percent, mainly due to low activity levels caused by the Covid-19 pandemic. Production was shut down in India in the second quarter and traveling was reduced to a minimum.



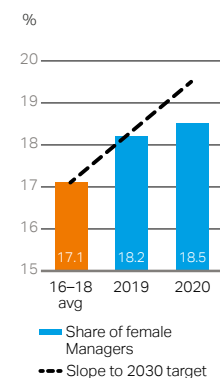
3.2

The number of injuries recorded during the year (133) and the Total Recordable Injury Frequency Rate (3.2) marked the lowest outcome ever for Sandvik. Regrettably, two fatalities were reported, the first since 2015.



18.5%

The share of female managers increased to a new top level by the end of the year, 18.5 percent. We have a plan in place to accelerate the increase of female managers in the years to come, which is necessary to achieve the 2030 goal.



The baseline for our Sustainability Goals is the average outcome 2016–2018. The dotted line is an indication of how well we are in line with the 2030 targets. TRIFR and CO₂ emissions are exceeding the required results, waste is on par and female managers below.

1) The targets are adjusted for structural changes.

SUSTAINABILITY GOALS 2030

Launched in 2019, our Sustainability Goals are in place to help us make the shift to a more sustainable business. This will help our planet and bring greater value to the company, our customers and other stakeholders.

Our Sustainability Goals 2030 take a holistic approach that includes customers, suppliers and our own operations in its scope. In 2020, we reported regularly on sustainability KPIs in our interim reports to ensure we are on track to achieve our goals. The four goal areas have also been included in the business area review process, and across the organization all divisions have developed roadmaps to achieve the goals in their most relevant areas. We have a team responsible for ensuring that sustainable supplier management is integrated into the daily

purchasing procedures and performance management of the organization.

Our main contribution to sustainability is through our products and solutions. For example, our electrically powered mining equipment and highly efficient and precise drills help our customers improve their productivity and work environment, while reducing waste, energy and emissions. We also contribute to medical improvements and improved quality of life with, for example, our ultra-fine medical wire for devices such as pacemakers and hearing implants.



WE BUILD CIRCULARITY

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.

Our goal: More than 90 percent circular

MAKING PROGRESS

In 2020, 82 percent of our steel produced was made from recycled material. Steel wear parts produced at our Svedala site in Sweden are made from 91 percent scrap. In our metalcutting operations, we initiated a program to identify packaging solutions based on non-fossil material. We began using recycled plastic around our stainless steel tubes. In our Rebuild program, we extend the lifecycle of mining equipment by refurbishing the entire unit at optimal intervals. In 2020, we did a number of Rebuild projects. Slag residue from our steelmaking process is being reused to make new products such as concrete blocks and asphalt. 18 of our production sites reported a 100 percent waste recovery rate.



WE SHIFT CLIMATE

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.

Our goal: Halve the CO₂ impact

MAKING PROGRESS

Yearly targets for energy efficiency improvements are defined and followed up on by all divisions. Among the initiatives are a clean electricity supply initiative with Purchase Power Agreements and green certificates, vehicle electrification and efforts to reduce our transport impact. The launch of a new battery loader will reduce heat and emissions for our mining customers. In two years (2017–2019), we have reduced the airfreight for rock tools, cutting CO₂ emissions by 40 percent. New electrical furnaces in the mining operations reduce energy consumption. By changing to a more energy-efficient lime in our steel mill in Sandviken, we were able to achieve an indirect reduction of 5,800 tons of CO₂ per year. All Sandvik Coromant sites are part of the “Green Factory” vision to reduce carbon emissions. Scope 3 emission monitoring in areas such as transportation of products and people was initiated. Biogas was used for the first time in the steel mill and hot rolling production in Sandviken, Sweden.

Five enablers to help us reach our Sustainability Goals

Performance Management

We will integrate sustainability targets in our performance management systems in 2021.

Good Governance

Our Code of Conduct and The Sandvik Way governance framework support well-functioning and efficient governance. The Code of Conduct was updated in 2020.

Transparency

We drive change through transparency of our progress, learnings and ways of working. In 2020, we included key sustainability KPIs in our interim reporting.

Shift Champions

Each year we award the best sustainability innovations within the company with the Sandvik Sustainability Award in Memory of Sigrid Göransson. In 2020, the award was given to the Kanthal division for its "gas to electric" solution that helps customers reduce their CO₂ emissions by converting from fossil gas furnaces to electrical furnaces.

Ideas Hub

We encourage individuals to present sustainability ideas or innovations through an IT platform, and have a target to reach 100,000 proposed ideas or innovations by 2030. Pilot projects were underway in three locations in 2020.



WE CHAMPION PEOPLE

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

Our goal: Zero harm to people

MAKING PROGRESS

We are rolling out health and well-being programs to all employees. In 2020, we put extra focus on the psychological health of employees as remote work increased due to the Covid-19 pandemic. At Sandvik Coromant, all managers were offered safety training and we became more proactive in investigating hazards. At the Svedala site, a robot will replace 80 percent of the manual work involved in grinding, reducing the risk of back problems, joint and muscle pain and "white finger syndrome". The Tampere site in Finland invested in a so called exoskeleton. It allows for limb movements with increased strength and endurance and aims to provide back support.



WE PLAY FAIR

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

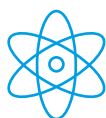
Our goal: Always do the right thing

MAKING PROGRESS

We continued to roll out our compliance tool, the Compliance House. In 2020, we launched a global training program in diversity and inclusion in which about 20,000 employees participated. About 8,500 employees participated in compliance training and 3,500 employees received training in competition law. Sandvik supports numerous community programs related to education, innovation and health and encourages all of its employees to participate. In 2020, Sandvik in Norway sent obsolete PCs to Uganda to be used by students. In Brazil, we introduced an employee parenting program, including prenatal care and the option of flexible working hours.

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 resistance 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' operations 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 and digital tools.



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 or new legal requirements 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.



New manufacturing techniques

The manufacturing industry is experiencing one of the greatest transformations ever, a transition often referred to as Industry 4.0, and it involves a shift to digitalization and automation. Access to Big Data, sophisticated analytical tools, robotization and artificial intelligence are creating new business opportunities. This also leads to better business intelligence, new ways for people to interact with machines and new opportunities to transfer digital instructions to physical products, enabling realtime decisions in machining processes. 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-axe technology, enabling the machining of 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 54.

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	Goal	Examples
	SDG 3 Good health and well-being	Exera® medical wire, used in medical applications, helps to improve people's quality of life. In 2020, we launched the battery loader Sandvik LH518B. It reduces heat and emissions underground, helping mine customers reach their sustainability targets and reduce ventilation costs.
	SDG 5 Gender equality	We drive different initiatives to support gender equality and have set a goal to have one third female managers by 2030. In 2020, we introduced an employee parenting program in Brazil and we made it possible for female employees in India to do shift work in a safe way. For many years we have been offering daycare for employees' children in India.
	SDG 7 Clean energy	We use clean electricity in all our European production sites (20), one in the US and one in Brazil, corresponding to 84 percent of our electricity usage. We deliver stainless steel tubes to the world's first industrial supercritical gasifier for production of renewable gas.
	SDG 8 Decent work	One of our long-term sustainability goals is zero harm to people. Our AutoMine® mining automation solution is an example where people are moved to a safer and healthier work environment.
	SDG 9 Industry innovation	Our industrial heating solutions help customers reduce their CO ₂ emissions by converting from fossil gas furnaces to electrical furnaces. On-demand additive manufacturing of titanium powder is transforming the medical industry.
	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 82 percent recycled material. 18 of our production sites have a 100 percent recovery rate.
	SDG 13 Climate action	We will halve our CO ₂ impact by 2030. All divisions have set targets for energy efficiency and reduced carbon emissions. The Rock Tools division has reduced carbon emissions by 40 percent (2017–2020) by moving from airfreight to other means of transport.

Read more on how we contribute to the UN SDGs on page 10 or at:
home.sandvik/sustainablebusiness



SANDVIK MINING AND ROCK TECHNOLOGY

2020 proved to be a solid year for Sandvik Mining and Rock Technology, despite the challenging market environment due to Covid-19. The lower demand in the aftermarket was offset by strong increases in equipment orders.

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 (83 percent) of our sales are in the mining segment. The business area provides equipment, rock tools, wear and spare parts for rock drilling, 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.

As of January 1, 2021, the Crushing and Screening division formed a new business area – Sandvik Rock Processing Solutions, to further accelerate profitable growth within

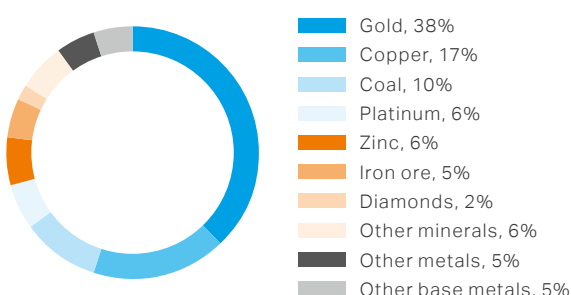
rock processing. The Crushing and Screening division mainly addresses separate parts of the value chain and faces different competition than the other Sandvik Mining and Rock Technology divisions. Sandvik Mining and Rock Technology also changed its name to Sandvik Mining and Rock Solutions.

Market 2020

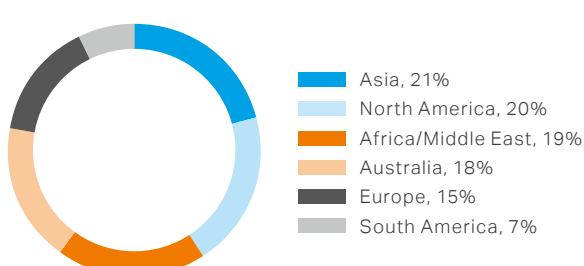
Despite hesitancy in customer decision-making due to Covid-19, the underlying mining market sentiment remained robust during the year. Commodity prices held up, despite a decline earlier in the year and metal prices recovered well in the latter part of the year. The big driver was gold, which reached a record high and is where the

2020 IN FIGURES

Commodity exposure



Revenues by market area



Overview, MSEK	2019	2020
Order intake	44,379	41,403
Revenue	44,777	40,032
Operating profit	8,602	7,389
Operating margin, %	19.2	18.5
Adjusted operating profit ¹⁾	8,911	7,923
Adjusted operating margin, %	19.9	19.8
Return on capital employed, %	32.3	28.0
Number of employees ²⁾	14,229	14,178
Gender balance (men/women), %	84/16	84/16
Women in managerial positions, %	17.0	17.8
Lost time injury frequency rate (LTIFR)	0.6	0.8
Total recordable injury frequency rate (TRIFR)	3.4	3.0

1) Operating profit adjusted for items affecting comparability of SEK -533 million in 2020 and SEK -309 million in 2019.

2) Full-time equivalent.



In September, Sandvik launched a new concept vehicle with an Automine® mining automation solution. It is the world's first autonomous underground mining machine designed ground-up for automation.

business area has its biggest exposure. Strong commodity prices, combined with a low oil price, meant that many mining companies were very profitable. Australia, in particular, had excellent growth during the year and is, along with South Africa, our largest markets with large orders booked in the second quarter. Equipment orders stayed healthy during the year but due to Covid-19 and access issues, there was less maintenance performed and this had a negative impact on the aftermarket.

Shift to growth

Our business area is focusing on five main areas to strengthen our market position. This includes cementing our leading position in autonomous mining equipment and working more with electrification and digitalization. We will evolve our portfolio through further partnerships and acquisitions. Safety and sustainability are at the top of our agenda and we are continuously working to identify the sustainability impact of our offering and bring value to our customers.

We focus on fast-growing commodities and have a high exposure to gold and electrification minerals. These are the minerals such as copper, nickel, zinc and lead, which are in high demand with the electrification of society. These commodities are growing faster than the industry as a whole and growth is also higher for underground applications where we have our largest exposure.

Our aim is to grow our market share in our core businesses. One of the biggest opportunities is within surface drilling, where we have a strong new competitive offering (see page 18) in the market that delivers the best productivity and cost of ownership. Expanding the aftermarket is something we do by having the best products, expertise close to or at our customers, connecting the equipment and collecting data to be able to maintain the products better than anyone else. We are also looking at new business models, such as selling battery packs as a service for our battery electric vehicles.

We aim to grow through acquisitions and entering partnerships in our core offering or adjacent technologies. We will turn around or divest the few businesses that we have that are not performing. In October, we completed the acquisition of Allied Construction Products LLC (Allied), a US distributor of hydraulic hammers to the construction and mining industries and manufacturer of compactor plates and mounting brackets. In December, we signed an agreement to acquire the market-leading underground safety solutions company DSI Underground.

Digital shift

We aim to shape the industry ecosystem with new technologies, products, companies and partners related to electrification, digitalization and automation. In July, we announced a partnership with Exyn Technologies Inc. where customers will benefit from the unique combination of Sandvik's world-leading digital mining solutions and Exyn's deep knowledge of autonomous aerial robot

systems. In September, Sandvik presented an autonomous concept vehicle, equipped with an AutoMine® mining automation system (see page 18).

With the electrification of our equipment, we can help our customers reduce their use of diesel and make the mining environment a safer and healthier one. In November, Sandvik and Barrick, the world's largest mining company, signed a partnership agreement for battery electric vehicles for underground hard rock mining.

Agile through cycle

We continue to focus on internal efficiencies within our decentralized structure to be sure we have the agility to deliver according to fluctuations in market demands. We also work with a flexible manufacturing set-up using both inhouse and subcontracted manufacturing resources. We retained a healthy adjusted operating margin of 19.8 percent, supported by cost measures announced in 2019 and temporary savings in 2020, such as reduced travel, temporary layoffs, structural changes to further decentralize, and staff reductions.

We are gradually divesting product groups that fall outside of our core capabilities. During the year we completed the divestment of the oil and gas-related parts of Sandvik Drilling and Completions (Varel) and announced the divestment of our mineral exploration business.

Sustainability shift

Our biggest sustainability impact is through our offering, which helps our customers increase productivity, reduce their environmental impact and become safer. 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. For example, Sandvik LH518B, the world's first 18-ton battery loader, reduces heat and emissions underground, helping mines reach their sustainability targets and reduce ventilation costs. In addition, we are recycling cemented carbide for rock tools, which reduces both energy consumption and CO₂ emissions compared to using virgin materials. In crushing and screening we recycle 90 percent of the wear parts. By focusing on logistical planning and using smart tools to track the most sustainable routes, we cut a big amount of emissions. We are also reducing emissions by moving from air transportation to sea and rail. In two years (2017–2019), we have reduced the airfreight for rock tools by 43 percent over and reduced carbon emissions by 40 percent.

Employer of choice

We constantly strive to be the employer of choice, offering a work culture and workplace environment designed to attract and retain exceptional people. We consider diversity and inclusion to be key to our success and, as a global organization, offer excellent possibilities to work

in different functions and locations. Health and safety are always a priority. Due to the global nature of Sandvik Mining and Rock Technology's operations, the impact of the Covid-19 pandemic on our business varied according to geography and timing as the virus spread. We introduced robust, site-specific Covid-19 Environment Health and Safety plans, including return-to-workplace risk assessments. Remote working was actively encouraged to help protect those who needed to be in the workplace physically to undertake their responsibilities. Face-to-face meetings and travel were actively discouraged, and cross-border travel was subject to approval.

Customer's 1st choice

It is fundamentally important that we serve our customers well by having the best services, digitalization and application expertise and are responsive to our customers. Sandvik technology has proven invaluable in supporting customers during the Covid-19 restrictions.

In November, Sandvik, Byrnes and OZ Minerals announced their mutual achievement of a world-first in teleremote development drilling. The Crushing and Screening division achieved a Sandvik-first by completing remote Factory Acceptance Testing (FAT) and pre-commissioning of the automation system for two new CH890i cone crushers. We also demonstrated our ability to bring value and serve our customers by signing several large equipment orders, including multi-year service contracts in Australia, South Africa and Ghana.



MEET SANDVIK PODCAST

She was awarded Female Leader of the Future 2020. Meet Nina Åxman, Head of Global Operations at Sandvik Rock Tools.



home.sandvik/stories/podcasts

OVERVIEW

Product portfolio

Equipment for drilling, cutting, breaking, crushing, loading and hauling. Drilling consumables (rock tools), service, spare and wear parts.

Market characteristics

Mining: 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.

Construction: 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

Mining:

- 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

Construction:

- GDP growth/urbanization
- Infrastructure investments and spending
- Government stimulus programs
- Aggregates production
- Cement consumption

Competitive landscape/Major competitors

Mining: Consolidated in certain segments, i.e. underground hard-rock mining: Epiroc, Metso Minerals, Caterpillar and Komatsu Mining.

Construction: Some global competitors present in several niches: Epiroc, Terex, Metso Minerals, Caterpillar and Furukawa. Many local players.

Go-to-market model

Mining: Direct sales ~95 percent with worldwide service network.

Construction: 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. Expand market share in surface drilling. 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.

INNOVATIONS 2020



CONCEPT VEHICLE WITH AUTOMINE® MINING AUTOMATION SOLUTION

The concept vehicle is based on the latest technologies and equipped with completely new sensing capabilities and artificial intelligence to enhance mining operations. It is the world's first fully autonomous underground mining machine, designed ground-up and built specifically for automation.



SANDVIK LH518B

The electric-battery loader has been designed from the ground-up to take advantage of all the benefits of electric drive technology. It produces no underground exhaust emissions and significantly less heat than traditional diesel engines, supporting mining customers to reach sustainability targets. Battery-powered equipment reduces ventilation requirements deep underground, having a positive impact on the bottom line.



TOP HAMMER XL

Top Hammer XL is a new groundbreaking drilling system for large hole sizes, 140 to 178 mm top hammer drilling in surface mining applications. The system includes a Pantera® DP1600i drill rig, a RD1840C rock drill and a LT90 rock tool – all designed to work seamlessly together for optimum performance. Field tests show a 50 percent reduction in fuel consumption, a 25 percent reduction in total drilling costs and a 15 percent increase in productivity compared to the down-the-hole (DTH) drilling method.

OUR CUSTOMER OFFERING

GENUINE PARTS AND SERVICES

Sandvik 365 parts and services offers round-the-clock service, qualified engineers and genuine parts on demand. Our comprehensive aftermarket offering includes service solutions to add even more value to customer operations, and genuine parts to extend equipment lifetime.

SURFACE DRILLING

Sandvik surface drilling equipment is renowned for durability, reliability and productivity. Our surface top hammer, surface down-the-hole and dimensional stone drilling rigs deliver low total cost of ownership in quarrying, opencast mining and construction applications.

UNDERGROUND DRILLING

Our underground drill rigs are engineered to maximize productivity in mining and tunneling applications. Equipped with high performance hydraulic rock drills, they are ergonomic, efficient and reliable. Our underground drill rigs and rock drills are designed to deliver the lowest possible cost per meter drilled and a low lifecycle cost.

CONTINUOUS MINING AND TUNNELING

Our continuous mining and tunneling equipment reflects the unique advantages of total in-house control over equipment and cutting tools alike. Optimized cutting technology and machine design result in high productivity, long service life and low total costs.

LOADING AND HAULING

Our underground loaders and haul trucks are engineered for safety, productivity and reliability in the toughest of applications. Rugged, compact and highly maneuverable, the ergonomic products offer enormous capacity for their size and return a very low cost per ton.

CRUSHING AND SCREENING

Sandvik crushing and screening solutions are engineered for productivity in mines, quarries and civil engineering projects. We also supply individual crushers and screens, as well as key components and consumables.

MINE AUTOMATION

The mining automation system AutoMine covers all aspects of automation, from single equipment to full fleet control. Operators can remotely control and monitor a fleet of driverless loaders, trucks or drill rigs.

ROCK TOOLS AND SYSTEMS

Sandvik offers the world's most comprehensive range of rock tools. As world leaders in steel and cemented carbide technology, our products have revolutionized the rock drilling industry, while our advanced tool systems for mining equipment raise productivity sharply.



LKAB's Kiruna mine is the world's largest underground iron ore mine. In February 2020 Sandvik delivered the first Toro LH625iE, the largest of its cable-electric loaders, to the mine.



Per Brännman, LKAB.

A RENEWED GIANT

The industry's largest capacity underground loader is helping the world's largest underground iron ore mine stay at the forefront of technological development.

Nearly 1.5 billion tons of crude iron ore have been extracted from the depths of LKAB's Kiruna operation in Sweden since mining began in 1898. Kiruna's orebody is approximately 80 meters wide and four kilometers long, and reaches a depth of up to two kilometers. The deeper the mine has developed, the more costly and complex ventilation has become.

"We had to scale up the mine and for that you need bigger machines, but we saw a lot of problems to take in diesel," says Per Brännman, who oversees the mine's 300-person loading division. "It's not just that you have to put in more ventilation to get a good environment, you also have to do more tunneling. Diesel was just not an option if we wanted to have big, productive machines down here."

Kiruna was among the industry's earliest adopters when it trialed its first cable-electric loader in 1985, and within a few years the mine decided to migrate to electric-powered production equipment.

With no exhaust emissions, less heat, fewer vibrations and lower noise levels, electric motors improve underground conditions and operator comfort while considerably reducing ventilation requirements. Electric equipment can also reduce a mine's energy costs to a fraction of a comparable diesel-operated unit.

Today the mine relies heavily on a fleet of 17 Sandvik LH625E electric loaders, whose 25-ton payload capacity is essential for achieving Kiruna's daily target of 85,000 tons of ore feed material.

The oldest of the mine's Sandvik loaders is 13 years old and has more than 35,000 production hours, and the

legacy units have outdated components. What began as a project to modernize those, and a side project to enhance the cable reeling system, ultimately evolved into a completely upgraded loader model.

"We are very satisfied with the old loaders," Brännman says. "So we wanted that machine, but Sandvik said to us that, 'A lot of these things are obsolete.' After much discussion, we took the decision together with Sandvik to build a new one. And that we did."

Sandvik collaborated closely with LKAB to customize the design of its Toro™ LH625iE loader to meet Kiruna's needs. These included better energy efficiency than the original model with the same industry-largest 25-ton payload capacity, and a larger, more ergonomic operator's cabin.

The new system initially presented some challenges, but LKAB and Sandvik worked together to overcome them.

"With some small adjustments, it works very well right now," Brännman says. "It's really important that we have equipment with the productivity to deliver the high volume of rock we need. If we're not delivering the tons, we can become a bottleneck."

Kiruna received its first two loaders in 2020 and three more will be delivered in 2021 and its sixth in early 2022. LKAB has an option for two more.

"If you're going to do a project like this together, you have to be very open-minded from both sides," Brännman says. "I recommend Sandvik because of their professionalism. In that I include open-minded, keen and very skilled. A win-win collaboration, I would say."

SANDVIK MANUFACTURING AND MACHINING SOLUTIONS

Sandvik Manufacturing and Machining Solutions experienced a turbulent year, due largely to the Covid-19 pandemic which hit the aerospace and automotive segments particularly hard, but still managed to deliver favorable margins. A reorganization of the business area will help create more business opportunities and strengthen our position in future digital solutions.

Sandvik Manufacturing and 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 (3D printing). The majority of the business area's customers are in the general engineering sector, followed by the automotive, aerospace and energy sectors.

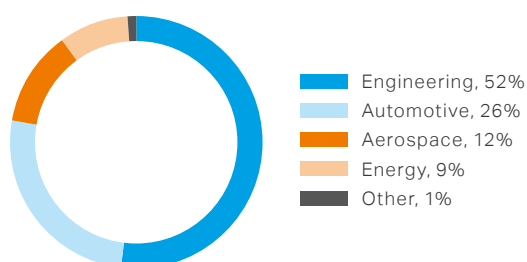
In 2020, we announced a decision to restructure our organization into two business area segments: Sandvik Machining Solutions and Sandvik Manufacturing Solutions.

As of January 1, 2021, the business area changed its name from Sandvik Machining Solutions into Sandvik Manufacturing and Machining Solutions.

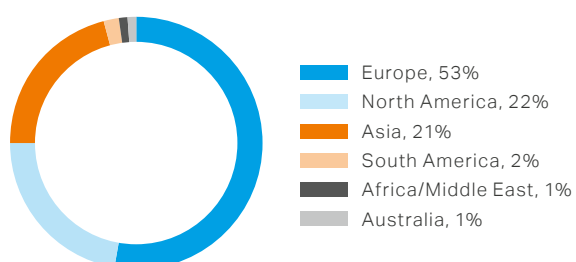
Our traditional tool business and brands, Sandvik Coromant, Walter, Wolfram, Seco and Dormer Pramet, are gathered in the new Sandvik Machining Solutions business area segment. The Sandvik Manufacturing Solutions business area segment focuses on related technologies and digital solutions and includes the divisions for Metrology, Additive Manufacturing and Design and Planning Automation.

2020 IN FIGURES

Revenues by customer segment



Revenues by market area



Overview, MSEK

	2019	2020
Order intake	41,163	32,677
Revenue	41,123	32,477
Operating profit	8,380	4,606
Operating margin, %	20.4	14.2
Adjusted operating profit ¹⁾	9,310	6,100
Adjusted operating margin, %	22.6	18.8
Return on capital employed, %	25.9	14.6
Number of employees ²⁾	18,453	17,301
Gender balance (men/women), %	79/21	79/21
Women in managerial positions, %	17.8	17.7
Lost time injury frequency rate (LTIFR)	1.5	1.3
Total recordable injury frequency rate (TRIFR)	3.3	2.5

1) Operating profit adjusted for items affecting comparability of SEK -1,494 million in 2020 and SEK -930 million in 2019.

2) Full-time equivalent.



The World Economic Forum has officially recognized the production unit in Gimo, Sweden as an advanced Industry 4.0 facility.

Market 2020

All sectors were heavily affected by the Covid-19 pandemic, and especially the aerospace and automotive sectors, where the demand for cutting tools decreased. The automotive segment started to recover in the third and fourth quarter. Our general engineering sector performed somewhat better during the year. The Asian markets began their recovery in the second quarter, particularly in the mid-market tool segment. In the beginning of the pandemic we were forced to temporarily shut down some factories but our global footprint gave us the flexibility to continue delivering products to customers all over the world.

Despite the downturn, we proved our resilience to market shifts. We adapted quicker than in the past to changing market situations and have become more proactive, with a culture of continuous improvement to increase efficiency, secure recovery and continue to tap into market opportunities moving ahead.

Shift to growth

Our growth agenda is based on both organic growth and acquisitions. The 2025 target is to have SEK 5 billion in total sales connected to adjacent business and expanded digital offerings, mainly deriving from the new business area segment Sandvik Manufacturing Solutions. Our core business should grow faster than the market, organically and through acquisitions. Adding value to our customers through improved efficiency and optimization remains our focus throughout the whole offering. The efforts in digital machining will take us even further in our journey to machining solutions with an end-to-end impact.

In 2020, we acquired US-based software company CGTech. The acquisition will enhance our capabilities in machining intelligence and strengthen our software offering for machining. We also acquired Quimmco Centro Tecnológico, offering integral machining solutions, and Miranda Tools, which furthers our geographic expansion in Asia. Our partly owned additive manufacturing company, Beamit, acquired Zare, an additive manufacturing company focusing on high-end components. We also divested a 10 percent minority interest in Gesac, a Chinese supplier of tungsten powder, cemented carbide and cutting tools.

Digital shift

Our metalcutting business is on a journey from providing tools to providing complete solutions that combine hardware, software and services. Through automation, machine monitoring and optimized manufacturing processes we are integrating digital systems to allow all parts in a machine shop to communicate, all the way from quotation to certification. This improves efficiency for our customers by reducing their total production time.

With the creation of the business area segment Sandvik Manufacturing Solutions, we can focus more on digitalization to strengthen our position in metal cutting

and digital manufacturing. This will lead to new business opportunities and make customers even more productive and sustainable.

Agile through cycle

We continue to challenge ourselves and improve our efficiency and profitability as part of our continuous improvement culture. These efforts apply to every aspect of our business. We are also looking into where we can leverage synergies and work more efficiently as a multi-brand group, for example in the areas of supply and logistics or by optimizing production facilities and research and development.

A priority in 2020 was to secure service and on-time deliveries to our customers, something that was achieved through an increased flexibility in logistics. Our costs were lowered by quickly shifting marketing and sales activities to virtual events, cutting down substantially on travel, and reducing work hours. We consolidated our footprint due to restructuring and optimization efforts, resulting in the closure of production units in Frankfurt and Delmenhorst, Germany and Orléans, France.

Sustainability shift

Our productivity improvement program, along with our digital offering and exceptional tool life, increase customers' productivity and efficiency while reducing energy, emissions and waste.

Sandvik is an industry leader within material recycling. A customer buy-back program has been in place since the early 1990s, whereby we reuse the materials from used cemented carbide tools. Our Wolfram division is a world leader in cemented carbide recycling and over the past three years it has significantly increased the recycling rate of tungsten. Our recycling efforts have extended to our packaging where we have a program to identify solutions based on non-fossil materials. Sandvik has also been instrumental in the development of vegetable-oil lubricants, which help promote a healthier work environment when working with moving machine components, for example.

Efforts continue within our own operations to reduce our energy consumption and CO₂ emissions through various initiatives, such as replacing conventional oil with non-fossil solutions. A global clean electricity solutions initiative is underway to identify how to best transfer to clean and carbon-free electricity solutions. We have a "Green Factory" program in place for Sandvik Coromant with focus on reducing carbon emissions, increasing recycling rates and implementing energy improvements at sites. Yearly targets for energy efficiency improvements are defined and followed up by all divisions.

Employer of choice

We work proactively to attract people with the competencies necessary to support our transition to Industry 4.0 and the selling of total machining solutions. We offer a flat organizational structure and a modern way of working that is attractive for that type of talent. In addition to recruiting

people with skills and know-how in robotics, artificial intelligence and digitalization, we are acquiring these skillsets through our strong acquisition agenda. We also continue to develop strong and diverse leadership skills, which have become even more crucial as remote work increases.

Health and safety continues to be our number one priority and in 2020 we supported employees working from home and promoted health and safety when at our sites. We put extra focus on the non-routine risk areas. For example, Sandvik Coromant initiated events to increase the focus on hazards reporting in order to prevent incidents. Activities were also held to improve the quality of investigations related to injuries with an emphasis on sharing and learning between sites.

In July, a tragic accident occurred at our plant in Gimo, Sweden, in which two employees lost their lives. We collaborate with authorities to investigate the cause of the accident. Our thoughts are with the relatives and close colleagues of the deceased.

In addition to physical health and safety, the psychological health of our employees is on our agenda. With so many employees working from home in 2020, we put extra emphasis on providing the right tools and keeping them connected emotionally. Psychological well-being is a big part of our safety meetings where we encourage everyone to speak up, give their opinion and ask questions. We conducted employee surveys to find out how employees felt working from home and how we could support them. We offered online motivational training and developmental training, and diversity awareness training for managers.

In our employee survey, the engagement rate improved to 80 percent (77 in 2018). Our scores improved more or less for all dimensions and in particular in employee health and welfare, which increased from 77 to 84 percent.

Customer's first choice

Delivering on time, being readily available and providing added value to customers are a few of the ways we aim to be the customer's first choice. Having a strong digital presence enabled us to effectively address all of these areas while facing the challenges of the Covid-19 pandemic. Our digital offering adds customer value. Our sensor-embedded tools, for example, ensure higher efficiency in our customers' workplaces.

Sandvik aims to lead the industry and become the customer's first choice within sustainability. We are providing customer solutions that raise performance, reduce setup times

and cut down on energy consumption. Our Wolfram smelter has conflict-free certification and we support our customers in fulfilling the obligations of the US Dodd Frank Act as it relates to supplies from conflict-affected areas.

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

- Global manufacturing
- Material evolution
- New manufacturing technologies
- Complex component designs and functionalities

Competitive landscape/Major competitors

- 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.



MEET SANDVIK PODCAST

Harald Kissel, R&D manager, is passionate about the opportunities that additive manufacturing in metal can bring – like being able to print custom-made medical implants.



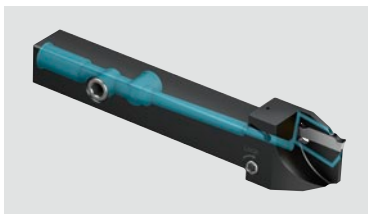
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INNOVATIONS 2020



TITANIUM POWDER

The Additive Manufacturing division commercialized a state-of-the-art titanium powder plant in Sandviken, Sweden enabling Sandvik to offer the widest material range for additive manufacturing on the market. The new plant received an AS9100D certification for deliveries to the aerospace industry and an ISO 13485:2016 certification for deliveries to the medical segment.



WALTER CUT DX

An innovative parting-off system. With the G4014-P groove turning holder and the double-edged DX18 indexable inserts, Walter launched a new system for grooving and parting off on the market.



GC4425 AND GC4415 TURNING GRADES

The new generation steel turning grades GC4425 and GC4415 bring enhanced technology in every single aspect. They outperform competition in a majority of steel turning applications and provide improved wear resistance, heat resistance and toughness, considerably expanding the application range.



DOUBLE TURBO® SQUARE SHOULDER MILL

Seco's shoulder mill ensures less power consumption, smoother cutting, longer tool life and better results. The cutter body is made of an optimized corrosion-resistant tool steel with all the properties necessary for longevity and toughness in milling applications. Double Turbo has less environmental impact since nickel coating is unnecessary. In addition, the double-sided insert design gives significant cost-per-edge savings.

OUR CUSTOMER OFFERING

METAL CUTTING

Our complete range of metal-cutting tools and tooling systems, coupled with the market's widest range of technical services, help customers optimize the manufacture of high quality components.

MILLING

Milling is the process of machining using rotary cutters to remove material. Milling can be done on flat surfaces, shoulders, slots, gears or complex 3D shapes. Milling is used, for example, to produce landing gears and turbine blades for airplanes.

TURNING

Turning generates cylindrical and rounded forms with a single-point tool. The tool remains stationary while the work piece rotates.

DIGITAL MANUFACTURING SOLUTIONS

Through automation, machining monitoring, metrology 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. This increases speed and quality of the design and planning processes.

DRILLING

When drilling, there are a multitude of characteristics to consider such as positioning accuracy, hole geometry and surface finish. Our range of drills has been designed with optimum hole quality in mind.

ADDITIVE MANUFACTURING

We have expertise across the entire additive manufacturing chain and can offer the widest range of powder alloys on the market.



Productivity skyrocketed when Japanese valve producer Fujikin started using a solid carbide drill from Sandvik.

SANDVIK DRILL HELPS MAINTAIN FUJIKIN'S FLOW

Productivity rose by an incredible 2,000 percent when Japanese valve maker Fujikin began using a solid carbide drill from Sandvik Coromant, CoroDrill® 860-PM.

High precision and quality are absolutely essential for Japanese company Fujikin, whose first patented product was the Needle Valve. It was launched for the valve industry in 1953 to help gas flow more precisely. Since then, the valve specialist and manufacturer of ultra-precision flow control systems has been developing equipment for everything from semiconductors to space rockets.

The company's valves and other products keep ultra high-pressure hydrogen and many other fluids flowing safely and efficiently. Today, Fujikin has earned a 65 percent market share in Japan and has a 40 percent worldwide share for its valve equipment used in semiconductor production.

Customer visit

In 2018, Fujikin visited Sandvik in Semine, Japan where the production unit manufactures premium indexable inserts, cutters and holders.

"The customer gained a good understanding of how the high productivity products are made in an effective way and by the following year, started using CoroDrill 860-PM to improve the pilot hole machining for the tapping of semiconductor equipment components," says Koji Itoh, Manager, Solid Round Tool at Sandvik Coromant in Japan.

The components are made of austenitic stainless steel with low carbon. The solid carbide drill is designed to

maximize productivity through high metal-cutting efficiency. Its excellent chip evacuation capability enables machining at high penetration rates.

"The shape of the drill geometry is very unique," says Takeyuki Suzuki, Chief of Tsukuba Advanced Technology Center Component Machining Section, Fujikin. "We chose it for its good performance, the quality of substrate and coating, as well as for its productivity capabilities, stability and the fact that Sandvik Coromant does reconditioning," adding that the latter provides further reliability.

Increased productivity

A reconditioning center was opened in Japan in 2019. It is one of a number of specialized centers located around the world that recondition Sandvik Coromant solid carbide tools, reproducing the geometry and coating of the original tool. After a time, when it is no longer economically viable or possible to recondition a tool, it can be recycled through Sandvik's recycling program, which pays customers market prices for their solid carbide.

Since putting the Sandvik drill into action, Fujikin's productivity rose by 2,000 percent and tool life was up more than 65 percent compared to the previous supplier's tools.

SANDVIK MATERIALS TECHNOLOGY

2020 was a challenging year for Sandvik Materials Technology, yet we made progress on our strategic journey. Mitigating actions were introduced in time to enable healthy margins despite a severe drop in orders, especially within the oil and gas and aerospace segments, due to the Covid-19 pandemic.

Sandvik Materials Technology manufactures advanced stainless steels and special alloys for industries with high demand on material quality and material knowledge. These materials are light, strong, corrosion-resistant, and can withstand high temperatures and pressures. Our expertise in metallurgy and industrial processes and applications increases customer efficiency and sustainability.

In 2020, the Sandvik Board of Directors decided to proceed with the preparations to distribute Sandvik Materials Technology to Sandvik's shareholders and list the company's shares on the Nasdaq Stockholm Exchange, pending approval by a shareholder's meeting in 2022 and that the circumstances are deemed right at the time. The

decision gives us a clear direction for the journey ahead as a technology leader and partner to our customers.

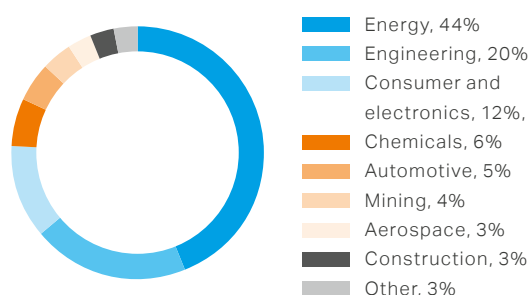
The health and safety of employees was prioritized during the year, with early and dedicated crisis and safety management at our sites. Consequently, the spread of Covid-19 within our operations was prevented to a large extent.

Market 2020

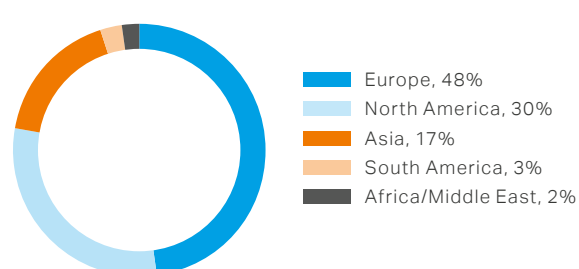
The first quarter of 2020 was mixed, with some large project orders coming in but also a slowdown in the short-cycle business as market uncertainty increased. Order intake was further affected in the second quarter with increasing market uncertainty and lockdowns in

2020 IN FIGURES

Revenues by customer segment



Revenues by market area



Overview, MSEK

	2019	2020
Order intake	16,475	11,910
Revenue	15,279	13,598
Operating profit	1,444	492
Operating margin, %	9.4	3.6
Adjusted operating profit ¹⁾	1,787	1,032
Adjusted operating margin, %	11.7	7.6
Return on capital employed, %	11.0	3.9
Number of employees ²⁾	5,726	5,084
Gender balance (men/women), %	81/19	81/19
Women in managerial positions, %	19.1	19.4
Lost time injury frequency rate (LTIFR)	4.7	3.9
Total recordable injury frequency rate (TRIFR)	7.5	6.7

1) Operating profit adjusted for items affecting comparability of SEK -540 million in 2020 and SEK 1,513 million in 2019.

2) Full-time equivalent.



Bloom casting at the steel mill in Sandviken, Sweden. Special alloys for advanced applications within the energy sector, such as nickel base and duplex steels, are among the materials produced here.

many countries. The segments most heavily affected were the energy segment, mainly oil and gas, as well as the aerospace segment with most airlines grounded. This negatively affected the demand for our stainless steel tubes and other products. At the end of the year there was an improvement in the order intake for the short-cycle business, however the severe drop in order intake, primarily within the oil and gas segment, remained challenging throughout the year.

Shift to growth

Demand for our products is driven by a number of factors, including the rising global need for energy and the shift towards fossil-free technologies. We foresee a continued demand for oil and gas, which will continue to be profitable segments. We have identified key segments where we can see a favorable growth potential, such as the industrial heating, medical and renewable energy segments.

Many industries have started the transformation to fossil-free production and in many cases, electrification of heating processes is key to enabling this transformation. Kanthal® is our brand for products and services in the area of sustainable industrial heating technology and resistance materials. Having the technology, expertise and global presence, Kanthal is partnering with energy-intensive industries, such as steel and aluminum, to help reduce their carbon footprint. In addition to CO₂ and NO_x reductions, our electric solutions provide energy-efficient, safe and controllable heat.

We also produce advanced materials for the medical segment which is fast-growing and profitable. We see an opportunity to grow, particularly within the wire-forming and coating area. We also see opportunities with forward integration in the value chain and by adding complementary capabilities. In 2020, our medical business unit opened a site in Arizona, US, enabling us to respond to the growing demand for our products and to come closer to our customers.

Renewables and their share of global power generation are expected to grow substantially, supported by large governmental investments. We will continue to explore and develop business opportunities in renewable energy sources, such as solar, geothermal and biomass, and take a leading position within materials technology for system enablers by primarily focusing on hydrogen and batteries.

Digital shift

We are evolving and advancing together with our customers when it comes to digitalization. One example is the Sandvik Mobile Service Solutions container. It supplies coiled tubing solutions to customers on site, using a digitally connected system to straighten and cut tubing to match customer specifications. This significantly reduces waste compared to delivering a standard tube size, leading to substantial material, time and cost savings. The fully mobile container can be manned in person

or steered remotely for everything from administrative details, such as certification and invoicing, to technological processes like the straightening and cutting of tubing.

Digital developments were accelerated due to the Covid-19 pandemic, as we needed to find new ways of working and communicating. In India, we developed a method to carry out inspections and testing activities remotely instead of sending engineers to the customer. Everything is digital, from inspection all the way to verification and approval. Remote inspection is highly appreciated by customers and has provided new business opportunities.

Within our tube production facility in Werther, Germany, we quickly adapted to a digitalized set-up. The site had been at the forefront of production development, including integrated digital systems, but the pandemic forced a full-scale pilot. During the pandemic, the site went fully digital. Programmers and automation engineers were connected to all the machines via a network and controlled and supported the functions of the machines from the safety of their homes.

Agile through cycle

A culture of continuous improvements, flexibility and efficiency are key prerequisites to managing our volatile business. With the downturn during 2020, we acted quickly with mitigating measures to protect our profitability despite a severe drop in order intake. To adjust our cost base to the new demand situation, we took several actions, including reducing work hours and reducing the number of consultants, staff layoffs and postponing investments. Overall, we have protected our margins well in the downturn. By postponing investments and successfully managing our inventory and accounts receivables, we secured a strong cash flow throughout the year.

We are continuously working with our footprint, both to bring it closer to customers, but also from a cost-efficiency perspective. In 2020, we finalized the closure of our site in Arnprior, Canada and moved the production to Scranton in the US. We also continued moving a production unit from our site in Sandviken, Sweden to Chomutov, in the Czech Republic. During the third quarter, our Tube division announced a reorganization that will result in exiting our site in Charost, France, following the decrease in demand within the aerospace segment.

Sustainability shift

By fully integrating sustainability into our operations and offerings, we are creating a solid base for conducting profitable and responsible business. Energy efficiency and circularity characterize our steel mills in Sandviken and Hallstahammar, Sweden which use more than 80 percent recycled steel in their production. By changing to a more energy-efficient lime in our steel mill processes, we were able to achieve an indirect reduction of 5,800 tons of CO₂ emissions per year. We also recycle the furnace slag from our steelmaking process and use it to make

new products such as concrete blocks. Among our other sustainability initiatives is a new buy-back program with our partner Stamicarbon to recycle high alloy steel from customers' old equipment.

Our product offering for our customers contributes to more efficient and sustainable processes and end products. We are always striving to find more sustainable solutions to eliminate harm to people and the environment. As an example, Sandvik Materials Technology won "The Sandvik Sustainability Award in Memory of Sigrid Göransson" for a service solution that helps customers reduce their CO₂ emissions by converting from fossil gas furnaces to electrical furnaces.

Employer of choice

With over 250 employees within Research and Development globally, we are building further on our heritage of innovation and collaboration.

We are taking new paths within our brand and culture to be able to utilize the entire recruitment base and attract more women to the industry. We work actively with diversity and inclusion, showcase the variety of interesting workplaces within our operations, and collaborate with local schools and universities in the regions where we operate to attract employees. During 2020, we continued our work to build competence for the future and launched several digital learning opportunities within our organization.

The safety development within our global operations was positive during 2020, supported by increased focus on local EHS (Environment, Health and Safety) plans. Our organization engaged in a number of activities related to combating the pandemic, for example by donating Personal Protective Equipment to the local communities in which we operate.

Customer's 1st choice

Sandvik Materials Technology is a niche player within our industry with unique competence and material know-how.

The Norwegian company Glasopor is one of few manufacturers in the world that produces foam materials from recycled glass. Its innovative products are used in road and railway construction and as insulation in buildings. The company has boosted its profitability and eliminated its carbon footprint by switching from gas to electricity based on a Kanthal® electric heating system. The goal was to reduce energy consumption by 28 percent; they ended up reducing it by 37 percent and in addition, reduced their CO₂ emissions to zero.

OVERVIEW

Product portfolio

Tubular products, bars, billets, strip, rock drill steel, resistance material, ultra-fine medical wire and wire-based components, 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

- The global demand for energy and hence the demand for energy production
- The shift towards fossil-free energy and energy efficiency
- A growing and aging population with new demands on healthcare combined with technological developments in the medical sector

Competitive landscape/Major competitors

Nippon Steel and Sumitomo Metal (tube), Tubacex (tube), Jiuli (tube), VoestAlpine (strip), Aperam (heating elements and systems), Fort Wayne Metals (medical) smaller niche players.

Go-to-market model

About 80 percent direct sales.

Growth strategy

Materials technology is needed in many growth segments, improving efficiency, productivity and sustainability in our customers' processes and applications. The oil and gas industry will remain a profitable segment and we have identified several other key growth segments, such as industrial heating, medical and renewable energy.

Strategic risk management

Fluctuating oil and gas prices. Increased competition of high-tech material from China. Local protectionism in the steel industry.



MEET SANDVIK PODCAST

Gary Davies explains how Exera® medical wire can be a life-changer for people with Parkinson's disease or diabetes.



home.sandvik/stories/podcasts

INNOVATIONS 2020



A SPECIAL GRADE

In 2020, we launched a new super-austenitic grade, Sanicro® 35, with high strength and extreme corrosion properties, making it suitable for a broad range of applications. Designed for highly corrosive environments, it bridges the gap between standard duplex or austenitic grades and nickel alloys.



NEW MEDICAL APPLICATION FOR PATHOLOGY

A more stable and sharper edge convinced a customer to change to the martensitic stainless grade 13c26. The change resulted in higher productivity and improved quality.



ELECTRIFICATION

Many industrial processes are rapidly being electrified. In this transition, our Kanthal division offers clean, safe, silent and controllable heating solutions that maximize energy efficiency and productivity for all industries with a heating process. One example is the steel industry which aims to minimize its carbon footprint by replacing fossil fuel with sustainable alternatives.

OUR CUSTOMER OFFERING

TUBE

Our wide range of tubular products in corrosion-resistant alloys contributes to more efficient and reliable industrial processes. Our super-duplex stainless steel tubes for umbilicals have become the industry standard due to their corrosion resistance, reliability and ability to withstand extreme temperatures and pressures. We have delivered steam generator tubes to more than 100 nuclear reactors worldwide. Our Pressurfect® seamless stainless steel tubes, developed for high-pressure gasoline direct injection (GDI) engines, significantly reduce fuel consumption and consequently lower exhaust emissions. We are a market-leading supplier of titanium tubes for aircraft hydraulic systems and these robust, light and thin tubes help modern fleets reduce average per-passenger carbon footprint.

INDUSTRIAL HEATING

Electric heating technology products, marketed under the Kanthal® brand, are used primarily for generation, measurement and control of heat in industrial furnaces and home appliances. Electric heating is more energy efficient than fossil alternatives and provide a cleaner and safer work environment for employees. There is a growing demand for electric heating technology. For example, the transition to fossil-free production of steel is dependent on sustainable heating solutions. The transition towards electrical cars is driving the demand for lithium-ion batteries, in which the cathode material must be produced at high temperatures.


STRIP

Our precision strip steels are used in applications such as compressors, and need to have an extreme fatigue strength. Our compressor valve steel

reduces the energy consumption and carbon emissions in, for example, air conditioning. We also offer strip steel with functional coating for different types of fuel cells and in other applications for renewable energy production, such as solar panels.

MEDICAL SOLUTIONS

The medical ultra-fine wire and wire-based components marketed under the Exera® brand are used in life-changing or even life-saving medical solutions. The wire is designed and formed to sense, stimulate or transmit signals inside or outside the human body. It is hence applicable in remote monitoring features that are increasingly in demand for future medical devices. Typical applications are pacemakers, continuous glucose monitors for diabetes care and deep brain stimulation.



Supercritical water gasifiers will contribute to a sustainable future. They are supported by Sandvik seamless tubes in stainless steel that can withstand high temperature and pressure.

MATERIALS AND RENEWABLE ENERGY IN A SUPERCRITICAL COMBINATION

Sandvik delivers advanced, seamless stainless steel tubes to the world's first industrial supercritical water gasifier that will help the Netherlands gearing up for a renewable future.

The Netherlands is facing a huge transition to replace natural gas resources with electricity and other gases, such as green gas (methane) and hydrogen. Sandvik customer SCW Systems has developed a method to produce renewable gas in a sustainable way.

"We develop novel technologies to convert wet organic waste streams into carbon neutral, or even carbon negative, energy carriers. The technology uses the fourth natural phase of water – the supercritical water phase – to split molecules to an almost atom level," explains Gerard Essing, CEO of SCW Systems. "This largely untapped phase occurs when temperatures reach 375 degrees Celsius and pressure is higher than 221 bar."

Completely renewable

When water is in the supercritical phase, organic substances such as sewage, become extremely soluble. The water becomes a solvent for organic components and a catalyst for a rapid and almost complete conversion of the energy stored in organic components into gas. From this, gas components such as green gas and hydrogen can be stored and used in the same infrastructure as existing gas supplies. As the process uses waste to create hydrogen, it is completely renewable and could help the Netherlands, and the rest of the world, reduce their reliance on fossil fuels.

Together with Gasunie New Energy, SCW Systems has successfully developed, completed and tested the first industrial reactor. Currently the world's first full demonstration facility (~20MW) is under construction and the production of the industrial supercritical water gasifiers has begun. To make its gasifiers, SCW Systems needed advanced materials that could withstand high temperature and pressure.

"Most steels wouldn't make the cut. In addition, because the feedstock used during gasification comes from a variety of sources, advanced seamless tubes in a corrosion-resistant material were required", says Dyon Hermesen, Sales Manager at Sandvik.

After several years of collaborative development and testing, the solution for the gasifiers was Sanicro®, Sandvik grades of nickel alloys and high-alloy austenitic stainless steels. The material used in this specific solution is characterized by its high structural stability, creep strength, and oxidation resistance and has been specifically developed for use at material temperatures up to around 700 degrees Celsius.

"Supercritical water gasification is an important clean energy innovation only if the advanced materials can withstand high pressure and high temperature. The specialists from Sandvik were able to create advanced seamless tubes that meet the challenges of this energy transition technology and support our urgency to act now", says Essing.

Sandvik continues to work with SCW Systems to support the industrial production of its gasifiers. The future for supercritical water gasification is promising. The Netherlands has set an ambition to produce 2 billion cubic meters of green gas by 2030, of which over 60 percent should be produced by supercritical water technology. Beyond the Netherlands, many countries with an existing gas infrastructure could benefit from the technology.



Dyon Hermesen, Sales Manager at Sandvik.

OUR SHARE

During 2020, the share price increased by 10.2 percent, while the OMXS30 index on Nasdaq Stockholm increased by 5.8 percent.

Sandvik's shares are listed on Nasdaq Stockholm, Sweden. At year-end 2020, the share price was quoted at SEK 201.3, corresponding to a market capitalization of SEK 253 billion, placing Sandvik as the 11th (10) largest company on Nasdaq Stockholm.

Share trading

In 2020, a total of 2.3 billion shares (0.8) were traded for a total value of SEK 382 billion (125). Trading in Sandvik shares on the Nasdaq Stockholm accounted for 52 percent (31) of the total volume of shares traded. Other markets, for example, BATS Chi-X, Turquoise, etc. accounted for 48 percent (69). 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 2020, the average daily ADR trading volume was 72,168 (36,450). At the end of 2020 there were 14,828,937 ADRs outstanding (4,192,508).

Dividend and total shareholder return

Our target is that the dividend will amount to at least 50 percent of adjusted earnings per share, through a business cycle. The Board has proposed an ordinary dividend of SEK 4.50 (0) per share and an extra dividend of SEK 2.00 per share to the 2021 Annual General Meeting, corresponding to approximately SEK 8.2 billion (0) and a dividend yield of 3.2 percent based on the share price at year-end. The dividend proposal corresponds to 75 percent of adjusted earnings per share for the Group. Assuming the general meeting accepts the dividend proposal the dividend will be paid as one installment.

Share capital

The number of Sandvik shares amounts to 1,254,385,923. Each share has a nominal value of SEK 1.2 and the share capital amounts to SEK 1,505,263,108. 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.

Authorization on acquisition of the company's own shares

The 2020 Annual General Meeting resolved to authorize the Board of Directors, for the period until the next Annual General Meeting, to decide on acquisitions of Sandvik shares, on one or more occasions, up to a maximum of 10 percent of all the shares in the company. The purpose of the authorization is to enable the Board of Directors to continuously adapt the company's capital structure and thereby contribute to increased shareholder value.

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.

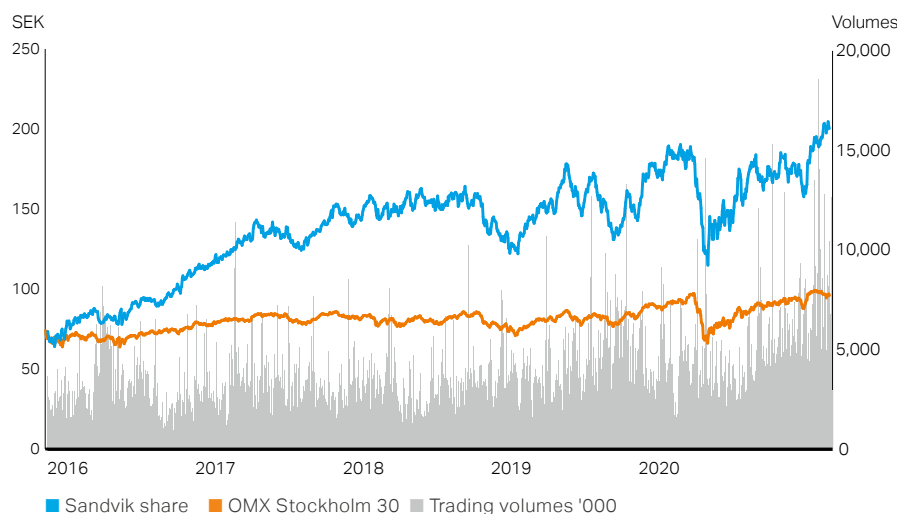
Owners

In 2020, the number of shareholders increased to 106,289 (100,768). There are shareholders in 77 countries, and the total ownership outside of Sweden amounted to 43 percent (39) at year-end. The ten largest individual shareholders accounted for 37 percent of the share capital on the same date. As of December 31, 2020, members of Sandvik's Group Executive Management owned a total of 109,720 shares in Sandvik. Members of the Board of Sandvik owned a total of 322,229 shares in Sandvik (including deputy board members, excluding the CEO). Total ownership of Group Executive Management and the Board corresponds to about 0.03 percent of the capital and voting rights.

Proposed dividend, SEK

Ordinary	Extra
4.50	+2.00

The Sandvik share, five-year trend



Key figures	2019	2020
Number of shares at year-end (million)	1,254	1,254
Market capitalization at year-end (billion)	229	253
Number of shareholders	100,768	106,289
Share price at year-end, SEK	182.7	201.3
Earnings per share after dilution, SEK (Group total)	6.79	6.95
Adjusted earnings per share, SEK (Group total)	10.96	8.61
P/E ratio at year-end	26.9	28.9
Change in share price during the year, %	+45	+10
Dividend, SEK/share	–	6.50 ¹⁾
Dividend/adjusted earnings per share, %	–	75 ¹⁾
Total yield (price increase + dividend), %	47	13
Proportion of shares in Sweden, %	61	57
Proportion of shares owned by the ten largest shareholder groups, %	39	37

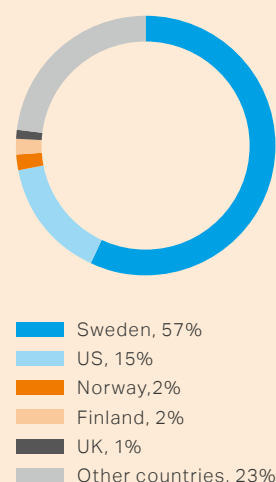
1) Proposed dividend.

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

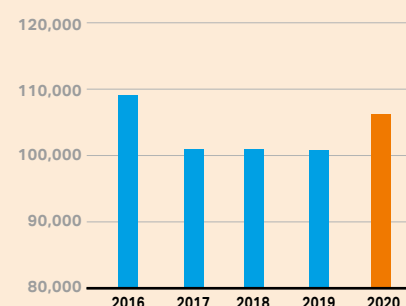
The ten largest shareholder groups, as of December, 31, %	2019	2020
AB Industrivärden	12.4	12.5
Alecta Pension Insurance	6.6	5.1
Swedbank Robur Funds	4.4	3.4
BlackRock	2.8	2.9
Vanguard	2.5	2.6
L E Lundbergföretagen AB	2.4	2.4
AMF Insurance and Funds	2.6	2.3
SEB Funds	2.3	2.2
Norges Bank	1.8	1.7
Handelsbanken Funds	1.1	1.5

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

Distribution of shareholding by country, December 31, 2020



Number of shareholders, December 31, 2016–2020



SANDVIK AS AN INVESTMENT

We continue to thrive on our value creating offering of productivity and sustainability based on more than 150 years of leading materials and applications know-how. We stay relevant by advancing the world through engineering, expanding our core competencies and adding new digital technologies, enabling us to broaden our customer offering. Our market-leading position and strong customer relationships combined with a decentralized

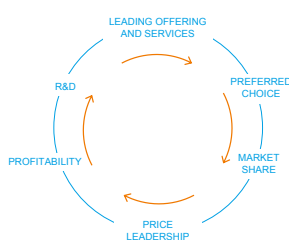
organization enable us to respond faster to market trends and customer needs.

In a cyclical world, our decentralized business model helps us to be more flexible, reduce earnings volatility and increase predictability. Our proven resilience in earnings and a strong balance sheet creates a solid platform from which to leverage interesting growth opportunities.

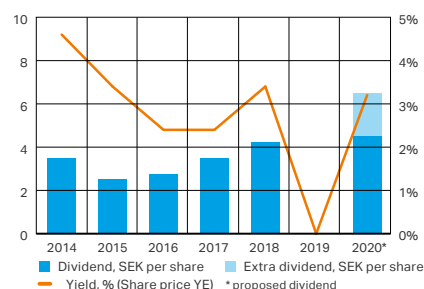
Combine core skills with new technologies



Leading position based on expertise



Shareholders rewarded



MARKET-LEADING POSITIONS – THE CUSTOMER'S FIRST CHOICE

- By providing products and services that improve customers' productivity and sustainability we ensure our market-leading positions and can maintain value-based pricing
- Strategic and long-term relationships with our customers combined with a decentralized decision model enable us to adapt faster to current and future needs
- About 4 percent of our annual revenues are spent on R&D to ensure a leading product offering
- High barriers to entry, resulting from leading technology position, capital intensity and materials know-how

AGILE THROUGH CYCLE – STRONG FINANCIAL PERFORMANCE

- Proven resilience in economic downturns
- Fast adoption through structural and volume cost-savings initiatives
- Solid adjusted EBIT margin, excluding metal price effects, of 17.1 percent delivered in 2020, above trough margin target of 16.0 percent, despite a significant drop in volumes
- Continuous work to improve cost structures and operational efficiency

SOLID FINANCIAL POSITION SUPPORTS SHIFT TO GROWTH

- A solid balance sheet, good cashflow generation and a net cash position
- Growth target of at least 5 percent through a business cycle to come from organic and acquired growth
- Capex at <SEK 4 billion annually
- Investments in product development, digitalization and automation
- Acquisitions to broaden our value-creating offering, lead digitalization and automation and expand geographically in faster growing markets

SHAREHOLDERS REWARDED

- Responsible and value-creating capital allocation
- Target of 50 percent dividend pay-out ratio through a business cycle
- 10-year average:
 - 66 percent dividend ratio
 - 3 percent yield
- During 2020, the Board decided to continue the process for a separate listing of Sandvik Materials Technology¹⁾

1) Pending shareholders' approval in 2022 and provided that the circumstances are deemed right at the time.

DIALOGUE WITH ANALYSTS

Approximately 25 analysts cover Sandvik on a continuous basis. At year-end 2020, the breakdown of ratings relating to the Sandvik share was: 74 percent buy/increase, 26 percent retain/neutral and 0 percent sell/decrease, according to SME Direkt. Below are some of the most frequent questions discussed in 2020, and our answers.

Q: You have outlined how you are now shifting to a growth-focused strategy, while at the same time keeping the target of at least 5 percent growth over a business cycle. How are you planning to achieve that?

A: Looking at our performance over the last business cycle (2016–2020), we had 0 percent growth, mainly impacted by a Covid-19-related negative organic growth of 11 percent in 2020. Our shift to growth strategy is clarifying how we intend to meet the previously set target of 5 percent, where 2.5 percent will come from organic growth and the remainder through acquisitions. To achieve this, all our business areas aim to grow at least 2x the market. In Sandvik Manufacturing and Machining Solutions this will be done by expanding our digital and adjacent offering, increasing our round tool offering and gaining market share in the mid-market segment. In Sandvik Mining and Rock Solutions and Sandvik Rock Processing Solutions we will enhance the aftermarket services and we also see opportunities within surface drilling, to name a few of the opportunities.

Q: In 2020 your margins got support from savings programs. How much have the savings contributed to your margins in 2020 and how much is still to come?

A: In 2020, the margin was supported by approximately SEK 4.2 billion from permanent and temporary savings. We are pleased that we were already one step ahead in the beginning of the year, and we have continued to take actions. Most of the targeted savings of SEK 1.3 billion announced in 2020 will be delivered in 2021. The majority of the measures can be described as structural, for example, closure of production units or major restructurings.

Q: The increased share of electrical vehicles is seen as a headwind for Sandvik Manufacturing and Machining Solutions. What is your view on this?

A: We recognize this as a challenge long-term, albeit not as material as some might believe, and we are taking actions to offset this headwind. Near- to mid-term we do not see this having any material impact. In the time period 2019–2025 we expect the cutting tool potential to grow at a rate of 1 percent per year, while a flat development is expected in 2025–2030. The total light vehicle production is estimated to grow at a rate of 1.4 percent CAGR 2019–2030.

Q: The Crushing and Screening division has formed its own business area: Sandvik Rock Processing Solutions. What is the rationale behind this decision?

A: There are several reasons. Sandvik Rock Processing Solutions addresses different parts of the value chain than Sandvik Mining and Rock Solutions does. It also has its own aftermarket and service operations and its activities are centered more downstream on rock processing, while Sandvik Mining and Rock Solutions focuses on rock extraction. This will enable both business areas to focus on their core businesses and at the same time increase the transparency.

Q: What has been decided regarding the listing of Sandvik Materials Technology and when will this happen?

A: In 2020, the Board decided that we will proceed with the preparation to distribute Sandvik Materials Technology to Sandvik's shareholders and list the company's shares on Nasdaq Stockholm. The Board intends to propose the distribution and listing of the Sandvik Materials Technology shares at a shareholders' meeting in 2022, provided that the circumstances are deemed right at the time. The intended distribution of shares is expected to meet the Lex Asea requirements and is subject to approval by Sandvik's shareholders.

Q: Can you describe the major achievements during the year in relation to your 2030 sustainability targets? What is on top of the agenda for the coming year?

A: During the year we have seen a great commitment to the 2030 sustainability goals, and they have become a strong driving force all across the company. We have included sustainability KPIs in the performance management review process for business areas and for the Group Executive Management. The business divisions have developed roadmaps on how to contribute to the 2030 targets. In the coming years we will focus on continued data-driven performance management in order to verify that all initiatives are paying off and are in line with our ambitions.

BOARD OF DIRECTORS' REPORT

GROUP TOTAL

Summary

The Covid-19 pandemic made 2020 a challenging year. The market demand was heavily affected, particularly in the short-cycle business and in the oil and gas industries, while the mining industries remained robust during the year. However, in the end of the year the recovery gradually improved for the early-cycle business, mainly the automotive and general engineering segments. It remains difficult to predict the short-term consequences, and in the long-term, the handling of the pandemic and economic policy decisions will determine the speed and strength of the recovery. Meanwhile, our priorities are to continue with precautionary measures to keep our employees and customers safe and to stay focused on executing our savings initiatives while capturing the interesting growth opportunities that lie ahead of us. For the full year, Sandvik's order intake for continuing operations decreased by -12 percent (-2) and revenues decreased by -11 percent (0) at fixed rates for comparable units.

Earnings and return

Sandvik's order intake amounted to SEK 86,288 million in 2020 (104,147), and revenue totaled SEK 86,409 million (103,533). The operating profit was SEK 11,184 million (13,182), corresponding to 12.9 percent (12.7) of revenues. The adjusted operating profit decreased to SEK 14,531 million (19,015) and the adjusted operating margin decreased to 16.8 percent (18.4) compared to the previous year. Movements in metal prices for Sandvik Materials Technology made a negative contribution to the operating profit of SEK -172 million (274). Changes in foreign exchange

rates affected earnings negatively by SEK -974 million (1,879) compared with the preceding year. Net financial items amounted to SEK 54 million (-1,238). The result after financial income and expenses for the Group was SEK 11,238 million (11,945), and SEK 11,270 million (12,150) for continuing operations. Income tax had a total impact of SEK -2,517 million (-3,421) on earnings, corresponding to 22 percent (29) of profit before taxes. Profit for the year attributable to equity holders of the Parent Company was SEK 8,721 million (8,539). Earnings per share for the Group amounted to SEK 6.96 (6.81) and SEK 6.99 (6.97) for continuing operations. Return on capital employed was 13 percent (15) and return on equity was 14 percent (14).

Working capital

Relative net working capital for the year was 28 percent (25) of revenues. In absolute terms net working capital amounted to SEK 20,355 million (25,027) at the end of the year. In terms of volume, net working capital decreased by SEK -2,055 million (447) compared with the preceding year. Changed currency rates decreased net working capital by SEK -2,486 million (869) compared with the preceding year. The structural effect from acquisitions and divestments decreased working capital by SEK -132 million (264).

Cash flow and financing

Cash flow from operating activities decreased to SEK 15,347 million

Earnings and return	2019	2020
Operating profit, MSEK	13,182	11,184
as a % of revenue	12.7	12.9
Adjusted operating profit, MSEK	19,015	14,531
as a % of revenue	18.4	16.8
Profit after net financial items, MSEK	11,945	11,238
as a % of revenue	11.5	13.0
Return on capital employed, %	15.0	13.3
Return on total equity, %	13.9	13.6
Basic earnings per share, SEK	6.81	6.96
Diluted earnings per share, SEK	6.79	6.95
Whereof continuing operations		
Operating profit, MSEK	13,386	11,216
as a % of revenue	13.0	13.0
Adjusted operating profit	19,219	14,563
as a % of revenue	18.6	16.9
Profit after net financial items, MSEK	12,150	11,270
as a % of revenue	11.8	13.0
Basic earnings per share, SEK	6.97	6.99
Capital expenditure, Group total	2019	2020
Investments in non-current assets, MSEK	4,147	3,278
as a % of revenue	4.0	3.8
as a % of scheduled depreciation	99	80

(16,894). Net cash flow after investing activities was SEK 10,571 million (11,703). At the end of the year, cash and cash equivalents amounted to SEK 23,752 million (16,987). Interest-bearing liabilities, including net pension liabilities, less cash and cash equivalents, yielded a net debt of SEK 2,646 million (11,131). The net debt to equity ratio was 0.04 (0.18). Sandvik's revolving credit facility of SEK 9,000 million was unutilized at year-end. Under the Swedish bond program, totaling SEK 15,000 million, bonds corresponding to a nominal amount of SEK 2,650 million were outstanding at year-end. Under the European bond program, totaling EUR 3,000 million, a nominal amount of EUR 1,103 million was outstanding at year-end. The remaining maturity of bonds averaged 1.0 years for Swedish bonds and 5.5 years for European bonds. 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 Sandvik's short-term borrowings.

Equity

Equity at year-end amounted to SEK 65,082 million (61,858), or SEK 51.9 per share (49.3). The equity ratio was 55 percent (51).

Investments

Investments in tangible and intangible assets for the full year 2020 amounted to SEK 3,197 million (4,136) corresponding to 80 percent of scheduled depreciation for continuing operations. Proceeds from sale of companies and shares, net of cash, amounted to SEK 778 million (95). Acquisition of companies and shares, net of cash, amounted to SEK 3,274 million (1,870). Investments in internally generated intangible assets were SEK 405 million (533).

Acquisitions and divestments

On January 14, Sandvik announced the completion of the acquisition of the US-based privately owned Summerill Tube Corporation, a manufacturer of high precision tubes for industries such as aerospace, transportation and petrochemical. In

2018, it generated revenues of about SEK 100 million.

On March 12, Sandvik completed the divestment of Sandvik Drilling and Completions (Varel), the operations relating to the oil and gas industry, to the private equity firm Blue Water Energy and the privately owned Nixon Energy Investments. Sandvik will remain a minority owner of 30 percent of the company and hold a position on the board.

On June 1, Sandvik completed the acquisition of Quimmco Centro Tecnológico (QCT), a privately owned Mexican company offering integral machining solutions. In 2019, QCT's cutting tools division generated SEK 90 million and had 130 employees.

On July 15, Sandvik divested a 10 percent minority interest in Xiamen Golden Egret Special Alloy Co., Ltd. (Gesac), a Chinese joint venture originally formed in 2005 to secure the supply of tungsten. The minority holding was divested to Xiamen Tungsten Co, the majority owner of Gesac.

On October 2, Sandvik acquired the remaining 79 percent of Allied Construction Products LLC (Allied), a US distributor of hydraulic hammers to the construction and mining industries and manufacturer of compactor plates and mounting brackets. In 2019, Allied generated USD 29 million in revenues with 38 employees. Sandvik was already a 21 percent minority shareholder and Sandvik products generated about 80 percent of Allied's revenues.

On October 9, Sandvik announced a signed agreement to divest its Exploration business to Drillman. Drillman is a subsidiary of the M Group of companies. In 2019, Exploration had revenues of SEK 450 million.

On October 19, Sandvik signed an agreement to acquire US-based CGTech, a global market leader in software for numerical control (NC/CNC) simulation, verification and optimization software. CGTech had about 180 employees and a revenue of SEK 470 million in 2019. The acquisition was completed on December 31.

On December 23, Sandvik completed the acquisition of the Indian company Miranda Tools, a manufacturer of high speed steel and solid carbide round tools. In 2019, Miranda Tools had revenues of about SEK 200 million and around 580 employees.

On December 24, Sandvik signed an agreement to acquire DSI Underground, the global leader in ground support and reinforcement products, systems and solutions for the underground mining and tunneling industries. DSI Underground has approximately 2,000 employees and the 2020 revenue is expected to be about EUR 518 million (excluding four joint ventures that are part of the acquisition).

On December 30, Sandvik acquired a minority stake in the privately owned American software company Oqton, a leading provider of AI-powered manufacturing solutions that allows manufacturers to manage, optimize, and automate their manufacturing workflows.

Impact on the financial reporting due to Covid-19

Goodwill attributable to the Sandvik Mining and Rock Technology business area amounting to SEK 304 million was written down in the second quarter due to an expected closure of smaller business. The cost is booked in Other operating income and expenses. The impairment testing of goodwill performed during 2020 did not indicate any other impairment requirements. See note G13 for details.

Sandvik has received various forms of government grants in different countries where the Group operates. The grants have been recognized as a reduced cost to which the grant is attributable to. The main part is related to personnel costs, however no government grants related to reduced work hours have been received in our Swedish entities for the fourth quarter. See note G33 for more details.

As of December 31, there is no significant impact on the valuation of inventory related to the Covid-19 pandemic, see note G18.

As of December 31, expected credit losses remain on a low level compared to twelve months rolling revenues. There are no indications of any significant impact related to the Covid-19 pandemic, see note G19.

Parent company¹⁾

The Parent Company's revenues for 2020 amounted to SEK 9,599 million (21,038) and the operating result was SEK 2,950 million (4,224). Result from shares in group companies of SEK -1,558 million (11,989) for the year consists primarily of costs related to the separation of Sandvik Materials Technology from the commissionaire structure, partially set off by dividends. Interest-bearing liabilities, minus cash and cash equivalents and interest-bearing assets, amounted to SEK 7,057 million (15,601). The Parent Company's total assets decreased by SEK -12,462 million, from SEK 76,797 million to SEK 64,335 million. Investments in non-current assets amounted to SEK 430 million (976).

The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB as of December 31, 2020 was 3,354 (6,627).

Dividend

The Board of Directors proposes an ordinary dividend of SEK 4.50 per share (0). In addition, the Board proposes an extra dividend of SEK 2.00. The dividend proposal represents 75 percent (0) of adjusted EPS for the Sandvik Group in total.

Dividend 6.50 per share
 × number of shares 1,254,385,923
 =8,153,508,500
 Profit carried forward 26,461,788,059
Total, SEK 34,615,296,559

Employees

The average number of employees amounted to 38,666 (41,120), of which 19 percent (19) were women. The employee turnover rate was 8 percent (10). Wages, salaries and other remunerations for the year totaled SEK 18,864 million (21,770).

Guidelines for the remuneration of senior executives

The guidelines for the remuneration of senior executives adopted by the 2020 Annual General Meeting are set out below. The Board of Directors does not propose any new guidelines.

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.

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 competi-

tive 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.

Financial position	2019	2020
Cash flow from operating activities, MSEK	16,894	15,347
Cash flow after investing activities, MSEK	11,703	10,571
Cash and cash equivalents and short-term investments as of December 31, MSEK	16,987	23,752
Net debt as of December 31, MSEK	11,131	2,646
Net financial items, MSEK	-1,238	54
Equity ratio, %	51	55
Net debt/equity ratio, times	0.18	0.04
Equity as of December 31, MSEK	61,858	65,082
Equity per share as of December 31, SEK	49.3	51.9

Quarterly trend of revenue and profit after financial items

MSEK		Revenue	Profit after financial items	Net margin,%
2019	Q1	25,180	4,145	16
	Q2	26,567	4,625	17
	Q3	25,188	2,765	11
	Q4	26,598	409	2
2020	Q1	23,623	2,334	10
	Q2	20,229	1,524	8
	Q3	20,146	3,986	20
	Q4	22,412	3,394	15

1) The Parent Company includes subsidiaries operating on commission for Sandvik AB. These are presented in note P12.

– *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](https://www.sandvik.com/home.sandvik). 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 G4.

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 5,977 (6,060) active patents. In 2020, 853 (964) new patents were granted. Investments in R&D were SEK 3,429 million (3,674), corresponding to 4.0 percent (3.7) of revenues. The number of employees in R&D, including Quality Assurance, was 2,534 (2,740).

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

2020, the Group paid SEK 3,518 million (3,598) 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 nine plants. All of them hold a requisite environmental permit. A number of guideline values were exceeded for emissions to air and water, and on one occasion, emission limit values to water were exceeded. In all these occurrences corrective actions were taken to comply with the target values. One environmental permit needs renewal in 2021.

Statutory sustainability report

Sandvik has, in accordance with the Annual Accounts Act, prepared a statutory sustainability report, 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, 9–11, 54–60 and 129–140.

Events after the end of the period

On January 1, 2021, a new business area, Sandvik Rock Processing Solutions, was established, formed out of the former Crushing and Screening division. The remaining operations within Sandvik Mining and Rock Technology changed their name to Sandvik Mining and Rock Solutions.

DEVELOPMENT IN BUSINESS AREAS

In 2020, Sandvik's operations consisted of three business areas: Sandvik Mining and Rock Technology, Sandvik Manufacturing and Machining Solutions, and Sandvik Materials Technology.

Order intake by business area

MSEK	2019	2020	Change, %	Change, % ¹⁾
SMRT	44,379	41,403	-7	-1
SMM	41,163	32,677	-21	-18
SMT	16,475	11,910	-28	-27
Other operations	2,059	297	-86	-5
Group activities	0	0	n/m	n/m
Continuing operations	104,075	86,287	-17	-12
Discontinued operations	71	1	-98	n/m
Group total	104,147	86,288	-17	-12

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

Revenue by business area

MSEK	2019	2020	Change, %	Change, % ¹⁾
SMRT	44,777	40,032	-11	-5
SMM	41,123	32,477	-21	-19
SMT	15,279	13,598	-11	-10
Other operations	2,059	297	-86	-5
Group activities	0	0	n/m	n/m
Continuing operations	103,238	86,404	-16	-11
Discontinued operations	295	6	-98	-98
Group total	103,533	86,409	-17	-11

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

Operating profit by business area

MSEK	2019	% of revenue	2020	% of revenue	Change, %	Change, % ¹⁾
SMRT	8,602	19	7,389	18	-14	-3
SMM	8,380	20	4,606	14	-45	-33
SMT	1,444	9	492	4	-66	-39
Other operations	-4,263	n/m	-578	n/m	-86	-43
Group activities	-776	n/m	-694	n/m	-11	-41
Continuing operations	13,386	13	11,216	13	-16	-19
Discontinued operations	-204	-69	-32	n/m	-84	-82
Group total	13,182	13	11,184	13	-15	-18

1) Change compared with the preceding year, at fixed exchange rates for comparable units adjusted for items affecting comparability.
n/m=non meaningful.

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 SEK 41,403 million (44,379), a decrease of -1 percent at fixed exchange rates for comparable units. Revenue totaled SEK 40,032 million (44,777), down -5 percent at fixed exchange rates for comparable units. The operating margin was 18.5 percent (19.2) of revenues and the adjusted operating margin was 19.8 percent (19.9) of revenues. The items affecting comparability of SEK -533 million (-309) were predominantly related to efficiency measures to ensure cost efficiency. Effects from the Covid-19 pandemic: Production was impacted only to a minor extent during the year, and both supply and distribution proceeded as planned. During

the second quarter there was a temporary negative impact on demand due to limited access to mines but there was a recovery during the second half of the year.

Financial overview, MSEK	2018	2019	2020
Order intake	41,842	44,379	41,403
Revenue	41,058	44,777	40,032
Operating profit	7,452	8,602	7,389
Operating margin, %	18.2	19.2	18.5
Adjusted operating profit ¹⁾	7,542	8,911	7,923
Adjusted operating margin, %	18.4	19.9	19.8
Return on capital employed, %	33.9	32.3	28.0
Number of employees ²⁾	14,397	14,223	14,178

1) Operating profit adjusted for items affecting comparability of SEK -90 million in 2018, of SEK -309 million in 2019 and of SEK -533 million in 2020.

2) Full-time equivalent.

Sandvik Manufacturing and Machining Solutions

Sandvik Manufacturing and 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 SEK 32,677 million (41,163), a decrease of -18 percent at fixed exchange rates for comparable units. Revenue totaled SEK 32,477 million (41,123), down -19 percent at fixed exchange rates for comparable units. The operating margin was 14.2 percent (20.4) of revenues and the adjusted operating margin was 18.8 percent (22.6) of revenues. The items affecting comparability of SEK -1,494 million (-930) were related to efficiency measures to mitigate a slower demand environment and to ensure optimized efficiency. Effects from the Covid-19 pandemic: The business area had a sharp drop in demand in the beginning of the second quarter, with large customer segments impacted by production stops and lower business activity.

After the second quarter, the demand had a steady recovery for automotive and general engineering, especially in the fourth quarter. However, the Covid-19 pandemic continued to weigh heavily on demand in aerospace and the oil and gas segments.

Financial overview, MSEK	2018	2019	2020
Order intake	41,094	41,163	32,677
Revenue	40,757	41,123	32,477
Operating profit	9,922	8,380	4,606
Operating margin, %	24.3	20.4	14.2
Adjusted operating profit ¹⁾	10,361	9,310	6,100
Adjusted operating margin, %	25.4	22.6	18.8
Return on capital employed, %	36.8	25.9	14.6
Number of employees ²⁾	19,549	18,530	17,301

1) Operating profit adjusted for items affecting comparability of SEK -439 million in 2018, of SEK -930 million in 2019 and of SEK -1,494 million in 2020.

2) Full-time equivalent.

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 and medical wire. Order intake for the business area amounted to SEK 11,910 million (16,475), a decrease of -27 percent at fixed exchange rates for comparable units. Revenue totaled SEK 13,598 million (15,279), down -10 percent at fixed exchange rates for comparable units. The operating margin was 3.6 percent (9.4) of revenues and the adjusted operating margin was 7.6 percent (11.7) of revenues. The items affecting comparability of SEK -540 million (-343) were related to efficiency measures to mitigate a slower demand environment as well as separation costs. Production during the year was largely unaffected by the Covid-19 pandemic, although there were some temporary shutdowns in the second quarter. Supply and distribution chains remained largely intact. However, the market weakness remains high in the oil & gas and aerospace segments.

Financial overview, MSEK	2018	2019	2020
Order intake	15,898	16,475	11,910
Revenue	14,697	15,279	13,598
Operating profit	1,307	1,444	492
Operating margin, %	8.9	9.4	3.6
Adjusted operating profit ¹⁾	1,331	1,787	1,032
Adjusted operating margin, %	9.1	11.7	7.6
Return on capital employed, %	10.1	11.0	3.9
Number of employees ²⁾	5,931	5,744	5,084

1) Operating profit adjusted for items affecting comparability of SEK 1,074 million in 2018, of SEK 1,513 million in 2019 and of SEK -540 million in 2020. In 2020, adjusted operating profit, excluding metal price effects totaling SEK 1,205 million (1,513 for 2019 and 1,074 for 2018). The adjusted underlying operating margin was 8.9 percent (9.9 for 2019 and 7.3 for 2018).

2) Full-time equivalent.

Other operations

After the divestment of Sandvik Drilling and Completions (Varel) in March 2020 there were no active operations in Other operations during the last three quarters. Varel was 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 SEK 297 million (2,059), a decrease of -5 percent at fixed exchange rates for comparable units. Revenue totaled SEK 297 million (2,059), down -5 percent at fixed exchange rates for comparable units. The operating margin was -194.9 percent (-207.0) of revenues and the adjusted operating margin was -10.4 percent (-6.8) of revenues. The items affecting comparability of SEK -547 million (-4,123) were related to the divestment of Varel in March 2020.

Financial overview, MSEK	2018	2019	2020
Order intake	3,605	2,059	297
Revenue	3,560	2,059	297
Operating profit	659	-4,263	-578
Operating margin, %	18.5	207.0	194.9
Adjusted operating profit ¹⁾	41	-140	-31
Adjusted operating margin, %	1.1	-6.8	-10.4
Return on capital employed, %	10.3	n/m	n/m
Number of employees ²⁾	1,089	1,081	0

1) Operating profit adjusted for items affecting comparability of SEK +618 million in 2018, SEK -4,123 million in 2019 and SEK -547 million in 2020.

2) Full-time equivalent.

Items affecting comparability

Items affecting comparability, MSEK	2018	2019	2020
Sandvik Mining and Rock Technology	-90	-309	-533
Sandvik Manufacturing and Machining Solutions	-439	-930	-1,494
Sandvik Materials Technology	-24	-343	-540
Other operations	618	-4,123	-547
Group activities	0	-127	-233
Group total	65	-5,832	-3,347

1) Primarily related to savings measures during 2018–2020.

2) Related to savings measures during 2018–2020.

3) 2018: related to a capital loss upon exit from joint venture; 2019: related to savings measures and the internal separation of Sandvik Materials Technology; 2020: related to savings measures and the internal separation of Sandvik Materials Technology.

4) 2018: related to capital gain from divestment of Hyperion; 2019: mainly related to a goodwill impairment upon divestment of Varel; 2020: primarily due to negative impact related to the realized effect from reversal of the accumulated currency translation in 'Other comprehensive income' due to the divestment of Varel.

5) Related to internal separation of Sandvik Materials Technology and savings measures during 2019–2020.

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 37,000 employees and revenues in more than 160 countries. Sandvik AB is a public company with its shares listed on Nasdaq Stockholm.

Corporate governance within Sandvik is based on external rules such as the Swedish Companies Act, the Nordic Main Market Rulebook 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 2020, Sandvik applied the Code without deviating from any of its regulations.

The Sandvik Way

Sandvik's corporate governance framework, The Sandvik Way, implements the external rules mentioned above 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.

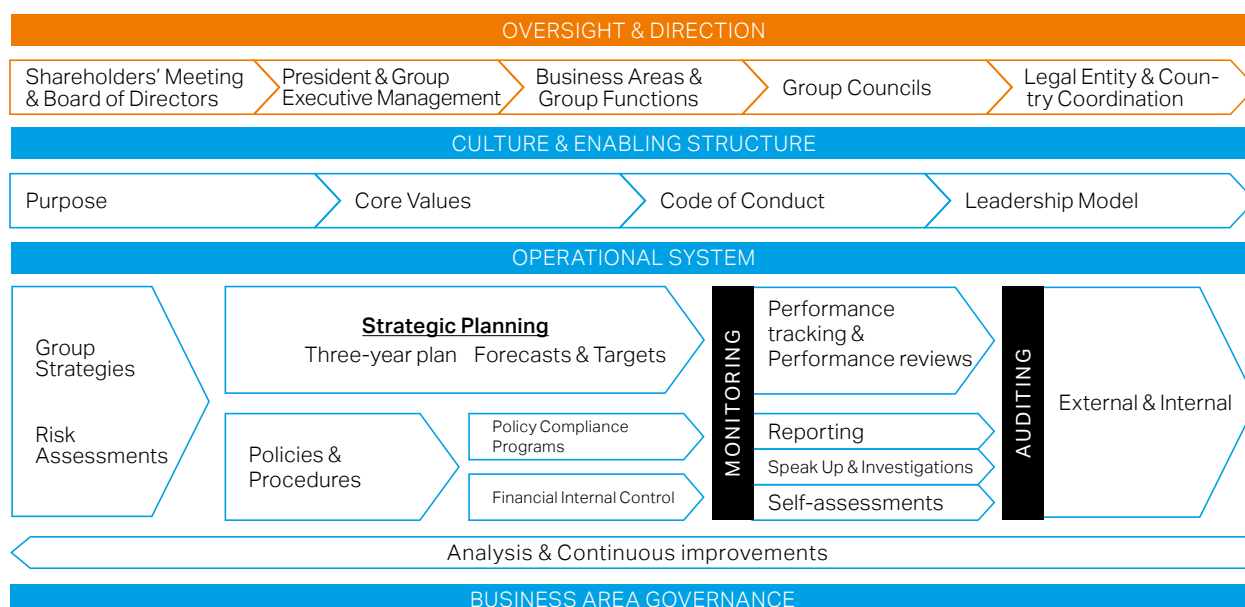
Culture and Enabling Structure

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 purpose, core values (Customer Focus, Innovation, Fair Play and Passion to Win), Code of Conduct and leadership principles.

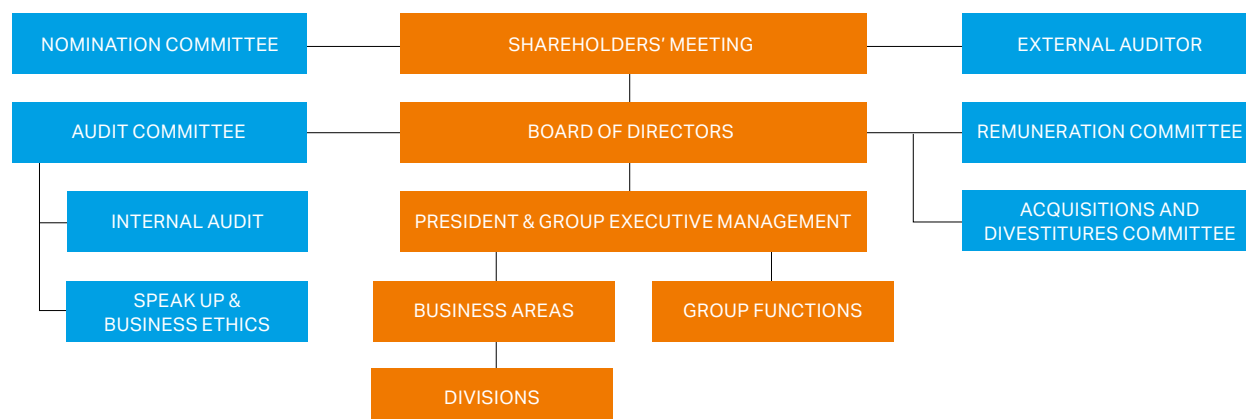
Operational System

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

The Sandvik Way



CORPORATE GOVERNANCE MODEL



operational system 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 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 December 31, 2020 Sandvik's share capital amounted to SEK 1,505,263,107.60 represented by 1,254,385,923 shares. According to the share register, Sandvik had about 106,000 shareholders as of December 31, 2020 and AB Industrivärden was the largest owner with about 12.5 percent of the share capital. Of the total share capital at year-end, about

43 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.

2020 Annual General Meeting

Shareholders representing 56.2 percent of the share capital and votes attended the Annual General Meeting held on April 28, 2020 in Sandviken, Sweden. Due to the Covid-19 pandemic, shareholders participated mainly through proxy or advance voting. Sven Unger, attorney-at-law, was elected to chair the meeting.

Ten largest shareholders, December 31, 2020, %

AB Industrivärden	12.5
Alecta Pension Insurance	5.1
Swedbank Robur Funds	3.4
BlackRock	2.9
Vanguard	2.6
Lundbergföretagen AB	2.4
AMF Pension and Funds	2.3
SEB Funds	2.2
Norges Bank	1.7
Handelsbanken Funds	1.5

Source: Monitor by Modular Finance AB

Resolutions passed at the General Meeting included the following:

- No dividend
- Re-election of Board members Jennifer Allerton, Claes Boustedt, Marika Fredriksson, Johan Karlström, Johan Molin and Helena Stjernholm. Election of Stefan Widing and Kai Wärn as new Board members. Re-election of Johan Molin as Chairman of the Board.
- Re-election of PricewaterhouseCoopers AB as auditor
- Revised instruction for the Nomination Committee
- Guidelines for the remuneration of senior executives
- A long-term incentive program in the form of a performance share program for about 350 senior executives and key employees in the Group
- Authorization for the Board to decide on acquisition of the company's own shares



Sandvik's Annual General Meeting at the Göransson Arena in Sandviken, Sweden. Due to the Covid-19 pandemic, only nine shareholders and representatives participated in person.

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

2021 Annual General Meeting

The next Annual General Meeting will be held on April 27, 2021. More information is available at: home.sandvik.com.

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

Nomination Committee's tasks ahead of the 2021 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

a General Meeting resolves a change. In accordance with this instruction, the Nomination Committee shall consist of members appointed by each 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 2021 AGM

For the 2021 Annual General Meeting, the Nomination Committee consists of Fredrik Lundberg, Chairman (Industrivärden), Ann Grevelius (Alecta), Marianne Nilsson (Swedbank Robur Funds), Lars Pettersson (Lundbergs) and Johan Molin (Sandvik's Chairman of the Board).

Up to the date of this Annual Report, the Nomination Committee met on three occasions. The Nomination Committee was informed of the results of the Board's own evaluation. The Committee met with the President and CEO that presented the Company's 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 December 31, 2020 Sandvik's Board consisted of eight members elected by the Annual General Meeting. The Nomination Committee communicated before the 2020 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, 43 per cent 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 (one of which left his position as deputy on December 15, 2020).

The Board members are presented on pages 50–51.

Independence

Marika Fredriksson and Helena Stjernholm are not regarded as independent in relation to major share-

holders in the company and Stefan Widing is not regarded as independent in relation to the company and its executive management. The other five 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 2020

During the year, the Board held 13 meetings. The President presented his 100-day plan after joining the company and started a strategy review. The Presidents of all business areas presented their goals and strategies.

Attendance at Board and Committee meetings in 2020

Member	Board	Audit Committee	Remuneration Committee	Acquisitions and Divestitures Committee
<i>Total number of meetings</i>	13	5	2	8
Jennifer Allerton	13			
Thomas Andersson	13			
Claes Boustedt	13	5		8
Marika Fredriksson	12			
Johan Karlström	12		2	
Tomas Kärnström	13			
Thomas Lilja	13			
Mats W Lundberg ¹⁾	13			
Johan Molin ²⁾	13	3	2	8
Björn Rosengren ³⁾	1			
Helena Stjernholm	13	5	2	8
Lars Westerberg ⁴⁾	7	2		
Stefan Widing ⁵⁾	12			
Kai Wärn ⁶⁾	6			

1) Resigned as deputy employee representative as of December 15, 2020.

2) Replaced Lars Westerberg as member of the Audit Committee as of April 28, 2020.

3) Resigned as President and CEO as well as Board member as of February 1, 2020.

4) Resigned as Board member at the 2020 Annual General Meeting and thereby also as member of the Audit Committee.

5) Appointed President and CEO as of February 1, 2020 and participated at Board meetings solely in this function before being elected Board member at the 2020 Annual General Meeting.

6) Elected Board member at the 2020 Annual General Meeting.

Composition of the Board as of December 31, 2020

Name	Function	Independent in acc. with the Code	Shareholding, number ¹⁾ Dec 31, 2020	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 ³⁾	2015	Chairman		Member
Marika Fredriksson	Member	No ⁴⁾	2,500	2017			
Johan Karlström	Member	Yes	5,000	2011		Member	
Tomas Kärnström	Member ²⁾		2,889	2006			
Thomas Lilja	Member ²⁾		4,840	2016			
Johan Molin	Chairman	Yes	260,000 ⁵⁾	2015	Member	Chairman	Chairman
Helena Stjernholm	Member	No ⁴⁾	5,000	2016	Member	Member	Member
Stefan Widing	Member	No ⁴⁾	43,152	2020			
Kai Wärn	Member	Yes	12,000	2020			

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) represents Unionen/Ledarna/Swedish Association of Graduate Engineers. Tomas Kärnström (member) and Thomas Andersson (deputy) represent IF Metall.

3) In addition 10,000 shares were acquired on January 29, 2021.

4) Marika Fredriksson and Helena Stjernholm are not regarded as independent in relation to major shareholders in the company and Stefan Widing is not regarded as independent in relation to the company and its executive management.

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

The Board also reviewed the strategies and results from a number of the divisions. The Board received regular updates on the impact of the Covid-19 pandemic on the business and took some strategic decisions based thereon. 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 decision to proceed with the process to separate the Sandvik Materials Technology (SMT) business area with the target to distribute SMT to the shareholders and separately list it, the acquisition of CGTech and the signing of the acquisition of DSI Underground. 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 accounting principles, financial outcome, ERM, compliance, Speak Up 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 September 2020, the Board visited Sandvik's operations in Gimo and Fagersta, taking specific precautions due to the Covid-19 restrictions.

Remuneration of the Board

As resolved at the 2020 Annual General Meeting, the fee to the Chairman of the Board is SEK 2,550,000 and the fee to each of the non-executive Board members elected by the General Meeting is SEK 690,000.

In addition, SEK 300,000 was paid to the Chairman of the Audit Committee and SEK 170,000 to each of the other Committee members, in total SEK 640,000. The Chairman of the Remuneration Committee was paid

SEK 145,000 and each of the other Committee members SEK 115,000, in total SEK 375,000. 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 G4.

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 2020, 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.

Remuneration Committee

During 2020 the members of the Remuneration Committee were 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 the Guidelines for the remuneration of senior executives on pages 38–40 and note G4.

During 2020 the Remuneration Committee held two meetings.

Audit Committee

As of the 2020 Annual General Meeting the members of the Audit Committee are Claes Boustedt (Chairman of the Committee), Johan Molin and Helena Stjernholm. 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 the compliance program, the Compliance House
- Sandvik's Code of Conduct, some specific cases managed through Speak Up, Sandvik's global whistleblowing system, as well as the overall effectiveness of the system
- Sandvik's sustainable business strategy and materiality analysis

During 2020 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 2020 the members of the Acquisitions and Divestitures Committee were Johan Molin (Chairman of the Committee), Claes Boustedt and Helena Stjernholm. The purpose of the Committee is 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 2020 the Acquisitions and Divestitures Committee held eight meetings and reviewed matters mostly related to the separation and potential distribution and listing of the Sandvik Materials Technology business area, the acquisitions of DSI Underground, CGTech, Miranda Tools' business, Allied Construction Products and QCT as well as the divestiture of Sandvik's Exploration business.

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 2020, the Group Executive Management consisted of:

- Stefan Widing, President and CEO (succeeding Björn Rosengren as of February 1, 2020) and President of Sandvik Manufacturing and Machining Solutions (as of October 1, 2020)
- Tomas Eliasson, Executive Vice President and CFO
- Lars Bergström, President of Sandvik Machining Solutions (until September 30, 2020), President of the Sandvik Manufacturing Solutions business area segment (as

of October 1, 2020 until December 31, 2020)

- Nadine Crauwels, President of the Sandvik Machining Solutions business area segment (as of October 1, 2020)
- Henrik Ager, President of Sandvik Mining and Rock Technology
- 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

On January 1, 2021, Anders Svensson took on the position as President of the new business area Sandvik Rock Processing Solutions and joined the Group Executive Management.

The President and other members of the Group Executive Management are presented further on pages 52–53.

Business areas

The Sandvik organizational model is based on a decentralized business model. As of January 1, 2021 there are four separate business areas – Sandvik Mining and Rock Solutions, Sandvik Manufacturing and Machining Solutions, Sandvik Materials Technology and Sandvik Rock Processing Solutions – each based on distinct product offerings. Each business area has full responsibility and accountability for its respective business results.

Sandvik Manufacturing and Machining Solutions is divided into two business area segments – Sandvik Machining Solutions and Sandvik Manufacturing Solutions. Further, each of the four 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.

For an overview of Sandvik's organizational model, refer to pages 2–3 and 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 2020 Annual General Meeting, the audit firm PricewaterhouseCoopers AB was re-elected auditor of Sandvik AB for the period until the 2021 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 G5.

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 43, 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. Internal control implementation has been completed in Group Functions and is continued in all business areas. 85 percent is expected to be completed in mid-2021 and the remaining 15 percent will be completed before mid-2022.

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 54. 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 control 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.

Due to the Covid-19 pandemic and the global travel restrictions, we developed an off-site audit methodology to continue executing the audit assignments remotely and provide assurance 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 and member of the Audit 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): 30,000 (of which 10,000 were acquired on January 29, 2021).



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 AB Industrivärden and 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, Sandvik's previous President and CEO, left the Board as of February 1, 2020.
 Lars Westerberg, Board member, left the Board as of April 28, 2020.
 Mats W Lundberg, deputy employee representative, left the Board as of December 15, 2020.

Information regarding Board assignments and holdings of shares as of December 31, 2020.
 Current Board assignments refer to assignments in companies or organizations outside the Sandvik Group.



STEFAN WIDING

Born 1977. Board member since 2020.

Education and business experience:

M.Sc. Applied Physics and Electrical Engineering and Bachelor of Business Administration. President and CEO, Sandvik AB, since February 1, 2020. President of the Sandvik Manufacturing and Machining Solutions business area since October 1, 2020. 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): 43,152.



KAI WÖRN

Born 1959. Board member since 2020.

Education and business experience:

M.Sc. in Mechanical Engineering, the Royal Institute of Technology, Stockholm, Sweden. President and CEO of Husqvarna AB 2013–2020. Operations partner at IK Investment Partners Norden AB 2011–2013, President and CEO of Seco Tools AB 2004–2010 and various positions within ABB 1985–2004.

Current board assignments: Chairman of the Board of Electrolux Professional AB and Board member of AB Electrolux.

Shareholding in Sandvik (own and closely related persons): 12,000.

EMPLOYEE REPRESENTATIVES



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): 4,840.



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.

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:

Saab AB and Fagerhults Belysning AB.

GROUP EXECUTIVE MANAGEMENT



STEFAN WIDING

Born 1977. President and CEO, Sandvik AB, since February 1, 2020. President of the Sandvik Manufacturing and Machining Solutions business area since October 1, 2020.

Education and business experience:

M.Sc. Applied Physics and Electrical Engineering and Bachelor of 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): 43,152.



HENRIK AGER

Born 1969. President of the Sandvik Mining and Rock Solutions business area since January 1, 2021.

Education and business experience:

M.Sc. Accounting and Finance. Various positions within Sandvik since 2014, including President of the Sandvik Mining and Rock Technology business area, President of the Rock Tools division, President of the Global Equipment division and Vice President 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): 18,452.



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): 4,879.



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: Chairman of the Swedish Association of Industrial Employers (Industriarbetsgivarna), board member of the Confederation of Swedish Enterprise (Svenskt Näringsliv) and board member of the Swedish Steel Producers' Association (Jernkontoret). **Shareholding in Sandvik (own and closely related persons):** 4,718.



NADINE CRAUWELS

Born 1971. President of the Sandvik Machining Solutions business area segment since October 1, 2020.

Education and business experience:

M.Sc. in Mechanical Engineering. President of Sandvik Coromant 2017–2020. Various other positions within Sandvik Coromant since 2000, including Vice President Customized Solutions and Strategic Relations, and Sandvik Coromant Manager Switzerland. Project Engineer and Consultant for the metal cutting industry at WTCM (today Sirris) 1995–2000.

Current board assignments: Board member of Rosti Group.

Shareholding in Sandvik (own and closely related persons): 5,008.



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): 17,044.



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): 8,320.



ANDERS SVENSSON

Born 1975. President of the Sandvik Rock Processing Solutions business area since January 1, 2021.

Education and business experience:

M.Sc. in Chemical Engineering. President of the Crushing and Screening division 2016–2020. Various positions within Sandvik since 2008, including President Customer Services, SVP Global sales, Sandvik Construction and Chief Purchasing Officer Sandvik Construction/ Sandvik Mining. Previously leading positions within Metso Minerals.

Current board assignments: –

Shareholding in Sandvik (own and closely related persons): 3,157.



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, Elekta AB 1999–2009, including General Counsel, and Lagerlöf & Leman law firm 1996–1999.

Current board assignments: Board member of the Swedish Association of Listed Companies (Aktiemarknadsbolagens förening).

Shareholding in Sandvik (own and closely related persons): 4,990.

Changes in the Group Executive Management

Björn Rosengren, Sandvik's previous President and CEO, left the company as of February 1, 2020. Lars Bergström left the company as of January 1, 2021.

Information regarding board assignments and holdings of shares as of December 31, 2020.

Current board assignments refers to assignments in companies or organizations outside the Sandvik Group.

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. About 80 workshops are conducted annually within the business. These include assigning risk owners and establishing mitigating action plans with follow-up procedures. 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 decides on the Group risk profile once per year, based on a bottom-up risk assessment, an external risk outlook and top management input. An ERM 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 45–47.

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 business interruption 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 risk management policy and related procedures 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

ERM PROCESS AT SANDVIK



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

Covid-19 pandemic

Although none of our divisions had a pandemic included in their risk profiles, the response to the Covid-19 pandemic was handled in a professional way. Our decentralized governance model enabled us to be agile with local country coordination to safeguard our employees and with global coordination on a business area level to safeguard supply chain and allocation of production. Many divisions did have a pandemic as one of the scenarios covered in their crisis management and could quickly respond when Covid-19 began to spread globally.

It is encouraging to see how our processes within risk management complement each other and support us in effectively mitigating and acting when a crisis occurs. This includes the Business Continuity Management procedure which has proven to further strengthen our resilience and preparedness for sudden events.

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 48–49.

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 page 56.

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 risks. 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 International 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 43.

For information about currency risks, interest risks, liquidity and refinancing risks, credit risks, raw material price risks and pension commitments, please see note G28.

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 2020.

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 2020

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.	Increased focus on M&As and business development to broaden existing product portfolio and meet customer demand for digital solutions, electrification and services. Competitor and market development is closely monitored and strategies are in place to reduce dependency on individual customer segments. The Covid-19 pandemic has given us further experience on our resilience, flexibility and ability to handle decline in specific segments and to reallocate resources to segments less effected by the pandemic.
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 the 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 to 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 outside the 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	Conflicting short- versus long-term financial priorities, leading to not meeting the 2030 sustainability goals, loss of competitiveness and stakeholder trust.	Not meeting customers' expectations of new business models built on sustainability. Negative reputational impact and not meeting stakeholder 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, anti-corruption, competition or antitrust 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 Sandvik Way, our governance framework, includes Group policies, Group procedures and other steering documentation, and is based on legal requirements and risk exposure with oversight through a Group functional council. To truly embed compliance in the business we have introduced the Compliance House, a system that enables the business to control and understand the status of compliance within their organizations. The Compliance House contains a breakdown of all the requirements in our four compliance programs: Anti-Bribery & Corruption, Competition Law, Data Privacy and Trade Compliance.
B7. IT failures	Major IT incident causing significant downtime in critical operational IT systems or services. Incident could be caused by cyberattack resulting also in ransom demand and reputational loss.	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.	Revision of cyber security improvement program being planned to address multiple areas. Each business area is running an IT security improvement program, including risk review of critical business applications and risk-based network segmentation. Project initiated to investigate resilience of business critical systems and services and facilitate improvement in this area.
B8. Insufficient IT security			
B4. Product development and product support	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.
B8. Insufficient IT security			
B10. Information and data protection	Leakage of confidential information and unstructured content management for internal systems as well as external platforms. Weaknesses in identity and access management and governance.	Can lead to business critical information being made available to unauthorized individuals or organizations.	Target architecture work for identity and access management area to be launched during 2021 in order to mitigate risk. Increased authentication to prevent unauthorized access has been implemented. All business areas have strengthened their IT security management. A review of key processes for information release and overall communication channels has been initiated.
B15. Business interruptions	Unforeseen major disturbance or failure in production or supply chain, caused by, for example, weather events, machinery break-downs, fires or pandemics.	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 Risk Management Policy was approved by the Group Executive Management in 2020. Procedures for Crisis Management and Business Continuity are continuously updated. Business areas/ divisions have performed risk scenario planning for some of the most critical production entities, supply chain vulnerabilities and IT system dependencies.
B36. M&A transactions or integration	Not being successful in identifying acquisition targets, completing efficient M&A processes and subsequent integration.	Our growth targets for the coming years are dependent on us delivering on our M&A strategy. Not being able to identify, complete and integrate acquisitions could have a major impact on our growth objectives and financial performance.	Business areas and divisions are continuously reviewing their acquisition plans, capability and efficiency ensuring enough resources are in place to identify, analyze and integrate M&A targets. In addition, Group Functions are strengthening their ability to support the business in the M&A processes.

SUSTAINABILITY GOVERNANCE

Sandvik's business strategy, business model and the 2030 sustainability Goals (see pages 9–11) 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 Sandvik Board of Directors, has the overall responsibility for sustainability within Sandvik, monitored by the Audit Committee. 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 Legal function is responsible for the coordination within the Group. 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

The Sandvik Code of Conduct is a cornerstone for our company.

Sandvik has a long history of working in accordance with applicable laws and internationally recognized principles, as well as in partnership with our local communities. Our Code of Conduct is built on our internal Core Values and external princi-

ples, such as the 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, in which we participate. We are also committed to adhering to the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. We believe that by doing so we are providing a solid foundation that supports a more sustainable future for Sandvik and for our stakeholders.

The Code of Conduct is a vital component in The Sandvik Way governance model, which encompasses common steering documents and processes, such as our policies and procedures. The Sandvik Way also describes a common culture and ways of working and is an important enabler for achieving our 2030 sustainability 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 relevant business area that conducts the investigation. The Ethics Office oversees the effectiveness of the Speak Up process. Reports, investigations and remediations 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 pages 9–11). 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 and fair labor conditions is confirmed in our Code of Conduct and in our Supplier Code of Conduct in which we support, amongst others, the International Bill of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights. The Sandvik Code of Conduct, supported by our core values, also provides guidance in identifying, preventing and mitigating risks related to human rights and fair labor conditions.

To mitigate risks related to human rights, we continuously work to ensure compliance with national

legislation and internationally agreed human rights standards and regulations. We regularly evaluate our processes and procedures for identifying, preventing and mitigating these risks in the Group's operations and in our value chain. Our work on human rights and fair working terms 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, a Sandvik Fellow project in India. All employees have the right, if they choose, to join a union and to 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 5,200 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 pages 9–11).

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 of working 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 are explicitly included in our 2030 goals (see pages 9–11). Sandvik's EHS Policy, Group 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, employees 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 was updated in 2020 and will be published in 2021. 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.

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

MSEK	Note	2019	2020
Continuing operations			
Revenue	G2, G3	103,238	86,404
Cost of goods sold		-61,662	-54,167
Gross profit		41,576	32,237
Selling expenses		-14,946	-10,710
Administrative expenses		-6,643	-5,504
Research and development costs	G6	-3,674	-3,429
Share of results of associated companies	G2	9	6
Other operating income	G7	1,184	473
Other operating expenses	G8	-4,119	-1,858
Operating profit	G2, G4, G5	13,386	11,216
Financial income		492	1,163
Financial expenses		-1,729	-1,110
Net financial items	G10	-1,237	54
Profit after net financial items		12,150	11,270
Income tax	G11	-3,421	-2,517
Profit for the year, continuing operations		8,728	8,753
Loss for the year, discontinued operations	G32	-205	-32
Profit for the year, group total		8,523	8,721
Profit (loss) for the year attributable to:			
Owners of the Parent Company		8,539	8,735
Non-controlling interests		-16	-14
Basic earnings per share, SEK	G12		
Continuing operations		6.97	6.99
Discontinued operations		-0.16	-0.03
Group total		6.81	6.96
Diluted earnings per share, SEK	G12		
Continuing operations		6.96	6.98
Discontinued operations		-0.17	-0.03
Group total		6.79	6.95
Consolidated statement of comprehensive income			
Profit for the year		8,523	8,721
Other comprehensive income			
Items that cannot be reclassified to profit (loss) for the year			
Actuarial gains (losses) on defined-benefit pension plans	G22	-1,638	-1,146
Tax relating to items that cannot be reclassified to profit (loss) for the year	G11	323	225
		-1,315	-921
Items that can be reclassified to profit (loss) for the year			
Translation differences during the year		1,880	-4,754
Fair-value changes in cash flow hedges		30	28
Fair-value changes in cash flow hedges transferred to profit (loss) for the year		-2	0
Tax related to fair-value changes in cash-flow hedges	G11	-8	-8
		1,900	-4,734
Total other comprehensive income for the year		585	-5,655
Total comprehensive income		9,108	3,066
Total comprehensive income for the year attributable to:			
Owners of the Parent Company		9,124	3,077
Non-controlling interests		-16	-11

CONSOLIDATED BALANCE SHEET

MSEK	Note	31 Dec 2019	31 Dec 2020
Assets			
Non-current assets			
Intangible assets	G13	20,074	21,004
Property, plant and equipment	G14	25,643	23,975
Right-of use assets	G15	3,172	2,891
Shares in associated companies	G16	292	508
Financial assets		83	81
Deferred tax assets	G11	3,797	4,098
Non-current receivables	G17	2,390	2,598
Total non-current assets		55,450	55,155
Current assets			
Inventories	G18	24,243	21,473
Trade receivables	G19	14,878	12,369
Income tax receivables	G11	1,403	676
Other receivables	G20	4,785	4,522
Prepaid expenses and accrued income		896	822
Cash and cash equivalents		16,953	23,752
Assets held for sale	G32	1,815	361
Total current assets		64,973	63,973
Total assets		120,423	119,128
Equity and liabilities			
Equity			
Share capital		1,505	1,505
Other paid-in capital		7,678	7,678
Reserves		7,010	2,274
Retained earnings incl. profit (loss) for the period		45,651	53,624
Equity attributable to owners of the Parent Company		61,844	65,081
Non-controlling interest		14	1
Total equity	G21	61,858	65,082
Non-current liabilities			
Provision for pensions	G22	7,765	8,822
Interest-bearing liabilities	G23, G28	17,619	13,536
Deferred tax liabilities	G11	2,299	2,059
Other provisions	G24	1,193	1,409
Other liabilities	G25	298	274
Total non-current liabilities		29,174	26,099
Current liabilities			
Interest-bearing liabilities	G23, G28	3,026	4,352
Accounts payable		7,598	6,974
Income tax liabilities	G11	3,744	2,695
Other liabilities	G25	4,507	4,077
Other provisions	G24	2,693	3,381
Accrued expenses and deferred income	G26	6,944	6,297
Liabilities directly attributed to assets held for sale	G32	880	171
Total current liabilities		29,391	27,947
Total liabilities		58,564	54,046
Total equity and liabilities		120,423	119,128

CONSOLIDATED CHANGES IN EQUITY

MSEK	Equity attributable to owners of the Parent Company						Total equity
	Share capital	Other paid-in capital	Reserves	Retained earnings incl. profit (loss) for the year	Total	Non-controlling interests	
Equity at January 1, 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	–	–	1,900	7,224	9,124	-16	9,108
Transactions 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
Dividend	–	–	–	-5,331	-5,331	-9	-5,340
Equity at December 31, 2019	1,505	7,678	7,010	45,651	61,844	14	61,858
Equity at January 1, 2020	1,505	7,678	7,010	45,651	61,844	14	61,858
Adjustment on correction of error	–	–	–	-53	-53	–	-53
Equity at January 1, 2020	1,505	7,678	7,010	45,598	61,791	14	61,805
Profit for the year	–	–	–	8,735	8,735	-14	8,721
Other comprehensive income (loss)	–	–	-4,736	-921	-5,657	3	-5,655
Total comprehensive income (loss) for the year	–	–	-4,736	7,814	3,077	-11	3,066
Transactions with owners							
Acquired non-controlling interest	–	–	–	2	2	-2	0
Share-based payment settled by equity instruments	–	–	–	34	34	–	34
Payments on exercise of options program	–	–	–	0	0	–	0
Increase/reduction of hedge options programs	–	–	–	176	176	–	176
Dividend	–	–	–	–	–	–	–
Equity at December 31, 2020	1,505	7,678	2,274	53,624	65,081	1	65,082

CONSOLIDATED CASH FLOW STATEMENT

MSEK	Note	2019	2020
Group total			
Cash flow from operating activities			
Income after net financial items		11,945	11,238
Adjustment for depreciation, amortization and impairment losses		10,077	5,964
Other adjustment for non-cash items	G30	428	926
Payment to pension fund	G22	-747	-674
Income tax paid		-3,598	-3,518
Cash flow from operating activities before changes in working capital		18,105	13,935
Changes in working capital			
Change in inventories		474	867
Change in operating receivables		1,168	1,533
Change in operating liabilities		-2,090	-344
Cash flow from changes in working capital		-447	2,055
Investments in rental equipment		-911	-935
Proceeds from sale of rental equipment		147	292
Cash flow from operating activities, net		16,894	15,347
Cash flow from investing activities			
Acquisition of companies and shares, net of cash acquired	G31	-1,870	-3,274
Proceeds from sale of companies and shares, net of cash disposed	G32	95	778
Acquisition of tangible assets		-3,472	-2,684
Proceeds from sale of tangible assets		397	269
Acquisition of intangible assets		-664	-514
Proceeds from sale of intangible assets		42	0
Acquisition of financial assets		-	-74
Proceeds from sale of financial assets		-	633
Other investments, net		281	89
Cash flow from investing activities, net		-5,191	-4,775
Cash flow from financing activities			
Repayment of borrowing		-6,664	-2,354
Proceeds from borrowings		60	56
Dividends paid		-5,340	-
Amortization, lease liabilities	G30	-945	-1,012
Cash flow from financing activities, net		-12,890	-3,310
Cash flow for the year		-1,188	7,261
Cash and cash equivalents at beginning of year		18,089	16,987
Foreign exchange differences on cash and cash equivalents		86	-496
Cash and cash equivalents at the end of year	G30	16,987	23,752
Continuing operations			
Cash flow from operating activities, net		17,046	15,414
Cash flow from investing activities, net		-5,206	-4,777
Cash flow from financing activities, net		-12,890	-3,310
Cash flow from continuing operations		-1,050	7,327

NOTES

G1 SIGNIFICANT ACCOUNTING PRINCIPLES – ASSESSMENTS AND ASSUMPTIONS FOR ACCOUNTING PURPOSES

The consolidated financial statements comprise Sandvik AB, corporate registration number 556000–3468, (the Parent Company) and all its subsidiaries, jointly the Group with registered office in Stockholm, Sweden. The Group also includes the share of investments in associated companies.

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.

Accounting principles are presented in this note or in connection to the note of which they aim to describe.

§ ACCOUNTING PRINCIPLES

The symbol and heading show where the accounting principles are described in each note.

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 principles as those applied in the consolidated financial statements except as set out in note P1 on page 108 in the section "Parent Company's accounting principles."

The financial statements are presented on pages 36–124 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 March 1, 2021. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual General Meeting on April 27, 2021.

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 of derivative instruments and plan assets in the defined benefit plans. 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 and in the notes, 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.

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.

Foreign currency**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 re-translated 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

G1, continued

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.

Changes in accounting policies

IASB has published amendments of standards that are effective as of January 1, 2020 or later. The standards have not had any material impact on the financial reports.

IFRS 3 Business combination; Definition of a Business

The amendment clarifies the definition of a business. A business includes, at a minimum, an input, a substantive process that together, significantly contribute to the ability to create output. The definition of the term outputs is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

IBOR transition

Where interest rate hedge accounting is applied Sandvik is exposed to the STIBOR reference rate for hedged instruments together with their hedging instruments. The change of reference rate due to the upcoming IBOR transition will, when implemented, affect future cash flows on interest income and interest expense but Sandvik expects continued 100 percent effectiveness of the hedges and no net interest impact. The nominal value of outstanding exposures is SEK 1.5 billion. Sandvik will continue to monitor any changes to STIBOR as a reference rate and update, together with counterparties, the relevant financial contracts accordingly as and when these occur.

Other changes

Other new or amended accounting standards and interpretations implemented during 2020 or that have been issued but are not yet in effect are not considered to have any material impact on Sandvik's financial statements.

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 contingent liabilities. The judgments and estimates discussed in notes where applicable 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.

! CRITICAL ESTIMATES AND JUDGMENTS

The symbol and heading show where the estimates and judgments are described in each separate note.

G2 SEGMENT INFORMATION

Information on business segments/business areas, continuing operations

2019	SMRT	SMM	SMT	Other operations	Group activities	Eliminations	Group total
Revenue							
External revenue	44,777	41,123	15,279	2,059	–	–	103,238
Internal revenue	16	399	486	0	–	-901	–
Total	44,793	41,522	15,766	2,059	–	-901	103,238
Share of results of associated companies	9	–	0	–	–	–	9
Operating profit (loss) by associated areas	8,602	8,380	1,444	-4,263	-776	–	13,386
Net financial items	–	–	–	–	–	–	-1,237
Income tax expense for the year	–	–	–	–	–	–	-3,421
Profit for the year	8,617	8,318	1,436	-4,268	-780	–	8,728
Other disclosures							
Assets	37,472	39,167	16,830	1,565	1,600	–	96,634
Investments in associates	103	189	–	–	–	–	292
Total assets	37,575	39,356	16,830	1,565	1,600	–	96,926
Unallocated assets	–	–	–	–	–	–	23,240
Group total assets	–	–	–	–	–	–	120,166
Liabilities	11,061	8,911	4,016	606	1,476	–	26,070
Unallocated liabilities	–	–	–	–	–	–	32,187
Group total liabilities	–	–	–	–	–	–	58,258
Capital expenditure	857	2,284	687	75	233	–	4,136
Depreciation/amortization	-1,694	-2,646	-861	-300	-203	–	-5,704
Impairment losses	-66	-35	-142	-4,121	–	–	-4,364
Other non-cash expenses	-563	481	-32	-81	621	–	428

2020	SMRT	SMM	SMT	Other operations	Group activities	Eliminations	Group total
Revenue							
External revenue	40,032	32,477	13,598	297	–	–	86,404
Internal revenue	9	323	327	–	–	-659	–
Total	40,041	32,799	13,925	297	–	-659	86,404
Share of results of associated companies	2	4	–	–	–	–	6
Operating profit (loss) by associated areas	7,389	4,606	492	-578	-694	–	11,216
Net financial items	–	–	–	–	–	–	54
Income tax expense for the year	–	–	–	–	–	–	-2,517
Profit for the year	7,433	4,550	486	-579	-696	–	8,753
Other disclosures							
Assets	34,411	37,980	15,125	84	1,446	–	89,046
Investments in associates	89	174	–	–	244	–	508
Total assets	34,500	38,153	15,125	84	1,691	–	89,554
Unallocated assets	–	–	–	–	–	–	29,460
Group total assets	–	–	–	–	–	–	119,014
Liabilities	10,856	8,748	3,804	115	1,072	–	24,594
Unallocated liabilities	–	–	–	–	–	–	29,299
Group total liabilities	–	–	–	–	–	–	53,894
Capital expenditure	-722	-1,876	-516	0	-83	–	-3,197
Depreciation/amortization	-1,720	-2,700	-838	-1	-256	–	-5,515
Impairment losses	-286	-116	48	2	-98	–	-450
Other non-cash expenses	-802	918	383	507	16	–	1,022

All transactions between the business areas are on market terms. For information regarding business combinations, see note G31.

G2, continued

Information by country, continuing operations

Revenue by country	2019	2020
USA	15,792	13,076
Australia	6,756	7,404
China	6,943	7,315
Germany	7,104	5,837
Russia	4,679	3,583
Canada	4,351	3,574
Sweden	3,596	3,259
Italy	3,827	2,943
South Africa	3,356	2,655
UK	3,889	2,515
Mexico	3,458	2,392
France	3,295	2,349
India	3,025	2,275
Japan	2,242	1,843
Brazil	1,713	1,454
Indonesia	2,111	1,406
Austria	1,238	1,117
Ghana	769	1,027
Spain	1,270	984
Norway	1,275	973
Finland	1,078	970
Poland	1,389	967
Chile	1,545	962
Korea	1,144	957
Other countries	17,393	14,567
Total	103,238	86,404

Revenue is specified by country based on where the customers are.

Non-current assets by country	2019	2020
Sweden	13,918	13,151
USA	7,380	8,964
France	4,556	4,330
Germany	4,124	3,904
Austria	2,642	2,524
Finland	2,344	2,213
UK	2,179	1,940
China	1,839	1,598
India	1,290	1,489
Canada	1,460	1,297
Czech Republic	940	980
Australia	897	857
Italy	641	664
Japan	656	581
Netherlands	396	370
Other countries	3,628	3,009
Total	48,888	47,871

Non-current assets are specified by country based on where the assets are located. Non-current assets consists of intangible assets, property, plant and equipment and right-of-use assets.

§ ACCOUNTING PRINCIPLES

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.

Segment information in accordance with IFRS8 is only provided for the Group.

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, 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- and deferred tax receivables and payables, financial investments and financial liabilities. ■

G3 CATEGORIES OF REVENUE

Information on revenue, continuing operations

Primary geographical markets	2019					2020				
	SMRT	SMM	SMT	Other operations	Group	SMRT	SMM	SMT	Other operations	Group
Europe	6,989	22,102	8,562	275	37,928	6,016	17,432	6,553	42	30,043
North America	9,617	9,571	3,601	812	23,601	7,782	7,094	4,052	116	19,043
South America	4,154	838	205	71	5,267	2,979	588	346	7	3,920
Africa and Middle East	8,181	341	311	761	9,595	7,539	263	270	110	8,181
Asia	9,188	8,002	2,531	135	19,855	8,403	6,861	2,320	17	17,601
Australia and New Zealand	6,648	269	69	6	6,992	7,314	239	59	4	7,615
Total	44,777	41,123	15,279	2,059	103,238	40,032	32,477	13,598	297	86,404
Major goods/service lines										
Sale of goods	40,835	40,460	15,219	1,671	98,185	36,594	31,905	13,523	236	82,259
Rendering of services	3,231	652	58	–	3,941	2,679	565	75	–	3,319
Rental income	707	4	–	388	1,099	753	3	–	60	815
Other non product related revenue	4	6	0	–	11	7	4	0	–	11
Total	44,777	41,123	15,279	2,059	103,238	40,032	32,477	13,598	297	86,404
Major goods/service lines										
Order backlog to be recognized as revenue after 2021 until 2022	300	–	1,482	–	1,782	436	–	891	–	1,327

§ ACCOUNTING PRINCIPLES

Revenue from goods and services

Revenue is recognized when the control of goods and services is transferred to the customer at an amount reflecting the expected and entitled consideration for the goods or services provided. The supply of goods and services comprises metal cutting tools, mining equipment, stainless steels, furnaces, installation, support and maintenance.

Allocation of transaction price

The transaction price is allocated 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. Adjusted market assessment approach and expected cost plus a margin approach are normally used to determine the stand-alone selling price if no observable selling price is available 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 variable consideration is related to a specific performance obligation in the contract.

Variable consideration

Customer contracts can include variable considerations such as cash discounts, rebates or right of returns. When such components are identified an assessment is made to determine if the identified portion of revenue and any related cost of goods sold should be deferred to a later period. This is established by applying the expected value method or the most likely amount method with the threshold of being highly probable that a reversal of revenue will not occur.

Significant financing component

When advances are received, Sandvik adjusts the promised amount of consideration for the effects of the time value of money. Sandvik uses the practical expedient to not calculate and account for significant financing component if the period between the transfer of a good or service to a customer and payment is 12 months or less.

Cost to obtain a contract

Contract asset for costs to obtain a contract is not recognized if the contract has a duration equal to or shorter than 12 months.

Goods sold

Revenue from goods sold (e.g. metal cutting tools, mining equipment, high value-added products in advance stainless steels and

special alloys, products for industrial heating) is recognized at a point in time when the control has been transferred to the customer. To assess when the control has been transferred, 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 are considered. For sale of goods the transfer of control usually occurs when the significant risks and rewards are transferred in accordance to the Incoterms.

When goods sold are highly customized and there is an enforceable right to payment for performances completed to date, the goods are recognized over time. Progress of satisfaction of each performance obligation is used to measure the revenue by the proportion of cost incurred to date compared to estimated total cost of each performance obligation.

If a customer contract includes 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 variable consideration.

Payment is generally due between 30–90 days from the transfer of control. In some contracts, short-term advances are required before the equipment is delivered. Some contracts contain right of return, late delivery penalties, volume rebates and trade-in, which give rise to variable consideration subject to constraint.

Rendering of services

Revenue from service contracts (e.g. installation, support and maintenance) is recognized over time since the customer receives and consumes the benefits as it is being provided. Progress of satisfaction of each performance obligation is used to measure the revenue by the proportion of cost incurred to date compared to estimated total cost of each performance obligation. Service contracts where the value transferred to the customer directly corresponds to the invoiced amount is recognized according to the right to invoice.

Payment is generally due between 30–90 days after completion.

Licenses

Revenue from licenses (e.g. automation and optimizations solutions) which are assessed to be separate performance obligations are recognized at point in time if the customer can use the license in its current functionality and no further updates or improvements are expected or required. If the customer has the right to access the license including future updates with improved functionality, the revenue from those licenses are recognized over time on a linear basis over the contract period. ■

G4 PERSONNEL INFORMATION AND REMUNERATION OF MANAGEMENT

Average number of employees

	2019		2020	
	Number women	%	Number women	%
Sweden	8,997	24	8,311	24
Rest of Europe	14,041	19	12,867	19
Total Europe	23,038	21	21,179	21
North America	5,343	17	4,844	19
South America	1,782	16	1,737	16
Africa, Middle East	2,173	17	2,103	18
Asia	7,851	14	7,858	14
Australia	934	17	946	19
Total	41,120	19	38,666	19

Wages, salaries other remuneration and social costs

	2019	2020
Wages, salaries and other remuneration	21,770	18,864
Social costs	5,613	5,064
Total	27,383	23,928
of which, pension costs recognized in social costs	1,612	1,649

A total of SEK 59 million (62) of the Group's pension costs relates to Boards and presidents. The Group's pension liability to these persons amounted to SEK 76 million (105).

Wages, salaries and other remuneration by market area

	2019	2020
Sweden	5,533	4,624
Rest of Europe	8,351	7,180
Total Europe	13,884	11,804
North America	3,621	2,979
South America	401	414
Africa, Middle East	798	808
Asia	2,226	2,066
Australia	840	792
Total	21,770	18,864
of which, to Boards of Directors and presidents		
Salaries and other remuneration	675	608
of which, variable salary	111	82

Gender distribution in senior management

Proportion of women, %	2019	2020
Gender distribution in senior management	16	16
Other senior executives	25	25

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 2020 Annual General Meeting, the total fee to the external Board members elected at the Meeting amounts to in total SEK 6,690,000 on an annual basis. Of this amount SEK 2,550,000 is payable to the Chairman of the Board (Johan Molin) and SEK 690,000 to each of the other external Board members (Jennifer Allerton, Claes Boustedt, Marika Fredriksson, Johan Karlström, Helena Stjernholm and Kai Wärn).

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 SEK 640,000 to the members of the Audit Committee (Claes Boustedt SEK 300,000, Helena Stjernholm SEK 170,000 and Johan Molin SEK 170,000) and in an amount totaling SEK 375,000 to the members of the Remuneration Committee (Johan Molin SEK 145,000, Johan Karlström 115,000 and Helena Stjernholm SEK 115,000). No remuneration was paid to the members of the Acquisitions and Divestitures Committee. 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 SEK 177. The options were purchased by the Chairman of the Board at market price.

President and other senior executives

Guidelines for remuneration

For information on the current guidelines for remuneration of senior executives, adopted by the 2020 Annual General Meeting, please refer to pages 38–40.

President and CEO

Sandvik's President and CEO, Stefan Widing, was paid an annual fixed salary of SEK 11,159,393 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 2020 amounted to SEK 1,787,501. Stefan Widing 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, Stefan Widing has a notice period of 12 months and 12 months' severance pay.

Other senior executives

Other members of the Group Executive Management are covered by a Swedish pension plan (ITP1 or ITP2) and for one member a Swiss pension plan. 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 applies 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. One member is covered by a Swiss pension plan under which 21 percent of fixed salary is contributed and whereof 75 percent is paid by the company and 25 percent by the employee.

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.

G4, continued

Remuneration and other benefits pertaining to 2020 expensed during 2020, in SEK

Position	Fixed salary/ Board fee	Annual variable salary ¹⁾	Other benefits ²⁾	Long-term variable salary ³⁾	Pension costs ⁴⁾
Chairman of the Board	2,865,000 ⁵⁾	–	–	–	–
Other Board Members	4,840,000 ⁵⁾	–	–	–	–
President and CEO	11,230,326 ⁶⁾	1,787,501	90,007	0	4,469,080
Former President and CEO	3,712,316 ⁷⁾	0	8,194	0	471,874
Other Senior Executives ⁸⁾	29,754,859 ⁹⁾	4,536,867	544,311	6,179,976	11,663,108
Total	52,402,501	6,324,368	642,512	6,179,976	16,604,062

1) Amount pertaining to 2020 and expected to be paid in 2021.

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

3) The amounts pertain to changes in provisions made for the 2018, 2019 and 2020 LTI programs for the members of the Senior Management at year-end.

4) Amounts pertaining to company paid contributions.

5) Expensed during 2020.

6) The fixed salary during 2020 for Stefan Widing amounts to SEK 11,159,393 after the 10 percent base salary deduction (Apr–Dec) of SEK 975,001 made due to the Covid-19 pandemic. The remaining amount relates to vacation pay, etc. Board fees are not payable to President and CEO.

7) Björn Rosengren's fixed salary 2020 amounts to SEK 1,258,250, the remaining amount relates to vacation pay, etc. Board fees are not payable to President and CEO.

8) Pertains to the following persons in 2020: Johan Kerstell, Tomas Eliasson, Jessica Alm, Åsa Thunman, Göran Björkman, Henrik Ager, Lars Bergström, Nadine Crauwels (Oct–Dec).

9) The temporary 10 percent base salary deduction due to the Covid-19 pandemic was also applicable for other Senior Executives.

Remuneration and other benefits pertaining to 2019 expensed during the year, in 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
Incoming President and CEO	10,300,000 ⁶⁾	–	–	–	–
Other senior executives ⁷⁾	28,675,299	5,582,713	451,757	9,489,645	10,816,536
Total	62,302,195	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 SEK 15,099,000, the remaining amount relates to vacation pay, etc. Board fees are not payable to President and CEO.

6) 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 at the 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 December 31, 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.

7) 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).

Long-term incentive programs (LTI)

Share-based incentive program 2017–2020

The 2017–2020 Annual General Meetings approved the Board's proposal to adopt a performance share program for each year for maximum 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 4,853,793 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.

Matching shares

In LTI 2017, each acquired investment share entitles participants to be allotted one Sandvik share ("matching share") after a period of three years, free of charge.

Performing shares

In LTI 2017–2020, provided certain performance targets are met, Sandvik shares ("performances 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 2017–2020, 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 2017–2020

LTI 2017: Matching shares were allotted during 2020. Performance shares were also allotted since the performance targets set by the Board of Directors were met. Adjusted EPS for the financial year 2017 amounted to SEK 7.99.

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

LTI 2019: Performance shares will partly be allotted since the performance targets set by the Board of Directors were partly met.

The adjusted EPS for the financial year 2019 amounted to SEK 11.20.

LTI 2020: No performance shares will be allotted since the performance targets set by the Board of Directors were not met. Adjusted EPS for the financial year 2020 amounted to SEK 8.74. This means that there will be no allotment of shares under LTI 2020.

The number of allotted shares (matching shares under the 2017 LTI program and performance shares under the 2017–2020 LTI programs) for the President and other members of the Group Executive Management on Dec 31, 2020 corresponds to the number of outstanding performance shares and matching shares at year-end.

The allotments of performance shares in LTI 2018 and LTI 2019 programs requires continuous employment and that all investment shares are held during a period of three years from the acquisition of the investment shares.

G4, continued

Costs for the programs

The following IFRS 2 provisions were established during the year:

For LTI 2020 no IFRS 2 provisions were made during 2020 since the performance targets set by the Board of Directors were not met.

For LTI 2019 SEK 10,4 million (excluding social costs), of which SEK 1,4 million for the other senior executives.

For LTI 2018 SEK 28,2 million (excluding social costs), of which SEK 4,8 million for the other senior executives.

The President did not participate in LTI 2019 or LTI 2018, thus there are no provisions established during the year.

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 two 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 2020. 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.

Assumptions for determining the value, 2017–2020 LTI Programs

Assumptions	Program 2017 (on date of issue)	Program 2018 (on date of issue)	Program 2019 (on date of issue)	Program 2020 (on date of issue)
Share price, SEK	137.00	162.90	153.00	142.25
Present value of forecasted future dividends, SEK ¹⁾	10.55	12.70	14.81	15.75
Risk-free interest rate, %	-0.46	-0.41	-0.49	-0.31

¹⁾ Based on analysts' 3 year combined expectations

Number of shares, group, 2017 – 2020 LTI programs

	Performance shares 2017	Matching shares 2017	Performance shares 2018	Performance shares 2019	Performance shares 2020
Outstanding at beginning of year	1,007,694	223,472	1,202,528	428,813	–
Allotted during the period	–	–	–	–	587,417
Vested during the year	-906,377	-209,141	-26,424	–	–
Forfeited during the year	-101,317	-14,331	-186,359	-58,758	-587,417
Outstanding at year-end	–	–	989,745	370,055	–
Theoretical value when allotted acc. to Black-Scholes, SEK	126.40	126.40	150.10	138.19	126.40

Number of shares, parent company, 2017 – 2020 LTI programs

	Performance shares 2017	Matching shares 2017	Performance shares 2018	Performance shares 2019	Performance shares 2020
Outstanding at beginning of year	191,382	35,098	194,341	61,508	–
Allotted during the period	–	–	–	–	93,639
Vested during the year	-130,954	-28,314	-26,424	–	–
Forfeited during the year	-60,428	-6,784	-87,342	-25,273	-93,639
Transferred during the year	–	–	41,756	3,183	–
Outstanding at year-end	–	–	122,331	39,418	–
Theoretical value when allotted acc. to Black-Scholes, SEK	126.40	126.40	150.10	138.19	126.40

§ ACCOUNTING PRINCIPLES**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 shares 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. ■

G5 REMUNERATION TO AUDITORS

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

	2019	2020
PwC		
Audit fees	-82	-83
Audit activities other than the audit assignment	0	0
Tax consultancy services	-6	-6
Other services	-23	-22
Total	-111	-111
Other Audit firms		
Audit fees	-10	-10
Audit activities other than the audit assignment	0	0
Tax consultancy services	-36	-37
Other services	-124	-48
Total	-170	-95

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.

G6 RESEARCH AND DEVELOPMENT COSTS

	2019	2020
Expenditure for		
Research and development	-3,872	-3,604
Quality assurance	-475	-243
Total	-4,347	-3,847
of which expensed, total	-4,149	-3,672
of which expensed relating to research and development	-3,674	-3,429

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.

G7 OTHER OPERATING INCOME

Other operating income amounted to SEK 473 million (1,184). The amount is mainly related to realized hedges of SEK 169 million and profit from foreign exchange of SEK 96 million.

For 2019 the amount is mainly related to currency exchange gain from operating receivables and liabilities of SEK 550 million and legal settlements/ penalties of SEK 100 million.

G8 OTHER OPERATING EXPENSES

Other operating expenses amounted to SEK -1,858 million (-4,119). The main parts are currency exchange loss from operating receivables and liabilities of SEK -360 million, impairment of goodwill of SEK -304 million and other items with currency components of SEK -784 million.

For 2019 the main parts are impairment on goodwill related to Varel of SEK -2,776 million and currency exchange loss from derivatives and other items with currency components of SEK -800 million.

G9 OPERATING EXPENSES

	2019	2020
Cost of goods and material	-33,104	-28,099
Employee benefit expense	-27,383	-23,928
Depreciation and amortization	-5,704	-5,515
Impairment losses, inventories	-215	-270
Impairment losses and reversal impairment losses, non-current assets	-4,364	-450
Impairment losses, doubtful receivables	-74	-102
Other expenses	-20,201	-17,305
Total	-91,045	-75,668

Other expenses mainly relate to purchases of services and consumables.

G10 NET FINANCIAL ITEMS

	2019	2020
Interest income	356	335
Dividend	20	5
Other investments including derivatives		
Net gain on remeasurements of financial assets/liabilities	80	195
Gain from disposal of financial asset	-	599
Other financial income	37	30
Financial income	492	1,163
Interest expense	-1,405	-1,001
Other investments including derivatives		
Net loss on remeasurements of financial assets/liabilities	-236	-10
Foreign-exchange losses	-4	-5
Other financial expenses	-85	-96
Financial expenses	-1,729	-1,110
Net financial items	-1,237	54

Net interest income/expense from financial assets and liabilities not measured at fair value through profit or loss amounted to SEK -666 million (-1,049). No inefficiencies in cash flow hedges impacted profit for the year (0). For further information regarding valuation policies for financial instruments, refer to note G28.

§ ACCOUNTING PRINCIPLES

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. ■

G11 INCOME TAX

Recognized in profit and loss

	2019	2020
Income tax expense for the year		
Current tax	-4,112	-3,373
Adjustment of taxes attributable to prior years	95	190
Total current tax expense	-4,017	-3,183
Deferred taxes relating to temporary differences and tax losses carried forward	596	666
Total tax expense	-3,421	-2,517

The Group's recognized tax expense for the continuing operations for the year amounted to SEK 2,517 million (3,421) or 22.3 percent (28.2) of profit after net financial items.

Reconciliation of the 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 21.9 percent (22.6). The tax rate in Sweden is 21.4 percent (21.4). Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

	2019		2020	
	MSEK	%	MSEK	%
Profit after net financial items	12,150		11,270	
Weighted average tax based on each country's tax rate	-2,744	-22.6	-2,469	-21.9
Tax effect of				
Non-deductible expenses	-767	-6.3	-231	-2.0
Tax-exempt income	31	0.2	48	0.4
Adjustments relating to prior years	95	0.8	190	1.7
Effects of tax losses carried forward, net	13	0.1	-20	-0.2
Other	-49	-0.4	-35	-0.3
Total recognized tax expense	-3,421	-28.2	-2,517	-22.3

Tax items attributable to other comprehensive income

	2019			2020		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Actuarial gains (losses) attributable to defined-benefit pension plans	-1,638	323	-1,315	-1,146	225	-921
Translation differences for the year	1,880	-	1,880	-4,754	-	-4,754
Fair-value changes in cash flow hedges for the year	30	-9	21	28	-8	20
Fair-value changes in cash flow hedges carried forward to profit (loss) for the year	-2	1	-1	0	0	0
Other comprehensive income	270	315	585	-5,872	217	-5,655

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.

	2019			2020		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Intangible assets	184	-1,466	-1,282	197	-1,445	-1,248
Property, plant and equipment	250	-1,612	-1,362	200	-1,475	-1,275
Financial non-current assets	184	-149	35	173	-129	44
Inventories	961	-94	867	853	-52	801
Receivables	170	-107	63	122	-91	31
Interest-bearing liabilities ¹⁾	1,632	0	1,632	1,851	-6	1,845
Non-interest-bearing liabilities ²⁾	1,304	-26	1,278	1,446	-28	1,418
Other	15	-	15	17	-	17
Tax losses carried forward	252	-	252	386	-	386
Interest expenses carried forward	-	-	-	20	-	20
Total	4,952	-3,454	1,498	5,265	-3,226	2,039
Offsetting within companies	-1,155	1,155	-	-1,167	1,167	-
Total deferred tax assets and liabilities	3,797	-2,299	1,498	4,098	-2,059	2,039

1) Mainly related to pensions.

2) Mainly related to provisions.

Unrecognized deferred tax assets

The Group has additional tax losses carried forward of SEK 2,195 million (2,595). The main part of the change for 2020 relates to revaluation and expiry of tax losses in prior years in Brazil, Chile and China. No deferred tax asset was recognized for these losses.

The expiry dates of these tax losses carried forward are distributed as follows:

Year	MSEK
2021	77
2022	22
2023	35
2024	17
2025	40
No expiry date	2,004
Total	2,195

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 losses carried forward amounted to SEK 639 million (750).

Change of deferred tax in temporary differences and unused tax losses

	2019	2020
Balance at the beginning of the year, net	765	1,498
Recognized in profit and loss	596	666
Acquisitions/disposals of subsidiaries	-146	-202
Recognized in other comprehensive income	315	217
Translation differences	44	-136
Reclassifications	-76	-4
Balance at end of year, net	1,498	2,039

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

	2019	2020
Income tax liabilities	-3,744	-2,695
Income tax receivables	1,403	676
Net tax liabilities/receivables	-2,341	-2,019

§ ACCOUNTING PRINCIPLES**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 losses carried forward are recognized only to the extent that it is probable they can be utilized against future taxable profits. ■

! CRITICAL ESTIMATES AND KEY JUDGMENTS**Income tax**

Significant estimates are made to determine both current and deferred tax liabilities/assets, not least the value of deferred tax assets.

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.

The recognized provision for ongoing tax litigations and other uncertainties amounted to SEK 1,267 million (1,454) and is as previously based on management's best estimate of the outcome. ■

G12 EARNINGS PER SHARE**Basic and diluted earnings per share, SEK**

	Basic		Diluted	
	2019	2020	2019	2020
Earnings per share, group total	6.81	6.96	6.79	6.95
Earnings per share, continuing operations	6.97	6.99	6.96	6.98

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

	2019	2020
Profit for the year attributable to the owners of the Parent Company, group total	8,539	8,735
Profit for the year attributable to owners of the Parent Company, continuing operations	8,744	8,767

Basic earnings per share

The calculation of earnings per share is based on the profit for the year attributable to the equity holders of the Parent Company divided by the weighted average numbers of shares outstanding during the year. The earnings per share is calculated both for the group total as well as for the continuing operations.

Weighted average number of shares basic

In thousands of shares	2019	2020
Total number of ordinary shares at January 1	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 is based on the profit for the year attributable to the equity holders of the Parent Company divided by the weighted average numbers of shares outstanding during the year, diluted. The earnings per share is calculated both for the group total as well as for the continuing operations.

Weighted average number of shares diluted

In thousands of shares	2019	2020
Total number of ordinary shares at January 1	1,254,386	1,254,386
Effect of share options	2,580	1,669
Weighted average number of shares outstanding during the year, diluted	1,256,965	1,256,055

Diluted earnings per share is related to outstanding share-based LTI programs for 2018 and 2019. For LTI program for 2020 no performance shares will be allotted since the performance targets set by the Board of Directors were not met. Further information about the LTI programs are found in note G4.

§ ACCOUNTING PRINCIPLES**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 share-based awards are dilutive if the exercise price is less than the quoted stock price and increases with the size of the difference. ■

G13 INTANGIBLE ASSETS

	Internally generated intangible assets					Acquired intangible assets					Total	
	Capital- ized R&D expendi- ture	IT software	Patents, and licenses	Other	Subtotal	Capital- ized R&D expendi- ture	IT software	Patents, licenses, trade- marks etc.	Goodwill	Other	Subtotal	
Cost												
At January 1, 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	-129	-320	-3	-3	-456	-24	-126	-1,196	–5	-916	-2,268	-2,723
Reclassifications	-8	-1	4	23	19	–	19	0	–	-4	15	34
Translation differences for the year	26	24	4	3	57	7	10	81	561	114	774	831
At December 31, 2019	4,101	3,038	257	163	7,558	482	921	1,514	17,233	3,073	23,224	30,782
Accumulated amortizations and impairment losses												
At January 1, 2019	2,660	1,637	106	106	4,508	110	637	950	–	1,661	3,357	7,866
Business combinations	–	–	3	–	3	–	0	–	–	5	5	9
Divestments and disposals	-112	-312	2	-3	-425	-9	-109	-1,196	–	-915	-2,229	-2,653
Impairment losses	52	10	–	–	62	–	10	839	2,853	436	4,138	4,200
Reclassification	-6	6	14	4	17	0	7	0	–	-11	-4	14
Amortizations for the year	333	321	14	5	673	58	75	120	–	281	534	1,207
Translation differences for the year	14	6	2	3	25	1	8	-6	–	39	42	66
At December 31, 2019	2,940	1,668	140	116	4,863	160	629	706	2,853	1,496	5,844	10,708
Net carrying amount												
At December 31, 2019	1,161	1,370	117	47	2,694	322	292	807	14,380	1,577	17,381	20,074
Cost												
At January 1, 2020	4,101	3,038	257	163	7,558	482	921	1,514	17,233	3,073	23,224	30,782
Additions	175	222	9	0	405	32	69	7	-2	3	109	514
Business combinations	–	–	–	–	–	–	3	269	1,788	1,043	3,103	3,103
Divestments and disposals	-76	-192	-9	-1	-279	0	-37	-65	-2,853	-50	-3,005	-3,284
Reclassifications	0	-58	11	–	-46	0	78	-11	–	10	77	31
Translation differences for the year	-86	-23	-13	-13	-135	-22	-34	-64	-948	-195	-1,264	-1,399
At December 31, 2020	4,114	2,987	255	148	7,503	492	1,001	1,648	15,217	3,884	22,244	29,747
Accumulated amortizations and impairment losses												
At January 1, 2020	2,940	1,668	140	116	4,863	160	629	706	2,853	1,496	5,844	10,708
Business combinations	–	–	–	–	–	–	3	–	–	–	3	3
Divestments and disposals	-22	-173	-7	0	-202	0	-32	-66	-2,853	-50	-3,000	-3,203
Impairment losses	41	51	–	–	92	0	1	0	304	0	305	396
Reclassifications	-2	-53	5	0	-50	0	2	-9	–	5	-2	-52
Amortization for the year	287	385	12	10	694	40	69	90	–	200	399	1,092
Translation differences for the year	-54	-13	-7	-12	-86	-9	-27	3	–	-82	-115	-200
At December 31, 2020	3,189	1,866	143	114	5,310	191	644	725	304	1,569	3,433	8,743
Net carrying amount												
At December 31, 2020	925	1,121	112	34	2,193	301	357	923	14,913	2,315	18,811	21,004

G13, continued

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

	2019	2020
Cost of sales	-140	-123
Selling expenses	-47	-39
Administrative expenses	-629	-585
Research & development	-391	-345
Total	-1,207	-1,092

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

	2019	2020
Cost of sales	-16	-1
Selling expenses	-1,276	0
Administrative expenses	-1	-1
Research & development	-53	-91
Other operating expenses	-2,853	-304
Total	-4,200	-396

Impairment tests of intangible assets

Intangible assets with a definite useful life were tested for impairment when an indication for impairment was identified. Intangible assets with an indefinite useful life were tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount has been impaired. The tests resulted in impairment losses of SEK 396 million (4,200).

Goodwill

	Carrying amount	
	2019	2020
Goodwill by cash-generating unit		
Sandvik Manufacturing and Machining Solutions		
Walter	1,124	1,119
Seco Tools	423	442
Sandvik Coromant	621	2,267 ¹⁾
Dormer Pramet	131	320 ¹⁾
Business area level	5,274 ²⁾	4,787
Total	7,573	8,937
Sandvik Mining and Rock Technology		
Business area level	5,441	4,706
Total	5,441	4,706
Sandvik Materials Technology		
Business area level	1,324	1,234
Total	1,324	1,234
Other operations	42	36
Group total	14,380	14,913

1) In 2020 Sandvik Coromant and Dormer Pramet are new CGUs and have been separated from business area level SMM.

2) In 2020, CGU Metrologic and Wolfram are included in business area level SMM but were own CGUs in 2019. Metrologic amounted to SEK 2,544 million and Wolfram amounted to SEK 1,595 million in 2019.

Impairment tests of goodwill

As stated below, the carrying amount of goodwill in the consolidated balance sheet is SEK 14,913 million (14,380), essentially related to a number of major business combinations. During 2020, Sandvik redefined the cash-generating units (CGUs) within the business area Sandvik Manufacturing and Machining Solutions. In the previous year the following CGUs were applied: Walter, Seco Tools, Wolfram and Sandvik Manufacturing and Machining Solutions business area level. The new CGUs for which impairment tests have been performed are Sandvik Coromant, Seco Tools, Dormer Pramet, Walter and Sandvik Manufacturing and Machining Solutions business area level. Sandvik has redefined the CGUs to reflect the core divisions, which are all competing brands with separate operations and cash flows. The other divisions (Wolfram, Applied Manufacturing Technologies and Additive Manufacturing) are tested within the SMM business area level, as their purpose is to

support and/or generate synergies with the core divisions. For the business areas Sandvik Mining and Rock Technology and Sandvik Materials Technology, respectively, the CGUs are unchanged, which means that goodwill is tested for impairment at the business area level. Consolidated goodwill is allocated to the CGUs stated above. The recoverable amount of all of the CGUs 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 Seco Tools (2), Walter (2), Sandvik Coromant (not applicable last year), Dormer Pramet (not applicable last year), Sandvik Manufacturing and 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. Since 2020 Sandvik calculates a pre-tax discount rate for each CGU, which varied between 10.1 and 12.6 percent; Sandvik Mining and Rock Technology 12.6 percent, Sandvik Manufacturing and Machining Solutions 10.1 percent, Sandvik Coromant 11.7 percent, Seco Tools 10.6 percent, Dormer Pramet 10.5 percent, Walter 11.1 percent and Sandvik Materials Technology 10.2 percent. Last year all CGUs applied a pre-tax discount rate of 10 percent before tax. The specific risks of the CGUs have been adjusted for in the future cash flow forecasts.

Goodwill attributable to the Sandvik Mining and Rock Technology business area amounting to SEK 304 million was written down in the second quarter due to an expected closure of smaller business. The cost is booked in other operating income and expenses. For more information, see note G32.

The impairment testing of goodwill performed during 2020 did not indicate any other impairment requirements. Sensitivity in the calculations 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.

ACCOUNTING PRINCIPLES**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 and is reported as an indefinite useful life intangible asset. Goodwill is allocated to CGUs that are expected to benefit from the synergies of the business combination. 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.

G13, continued

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	10–20 years
– Trademarks	10–20 years and some with indefinite useful life
– Customer relationships	10 years
– Capitalized development costs	3–10 years
– Software for IT operations	3 years

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 CGU to which the asset belongs.

In respect to 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 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

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. ■

! CRITICAL ESTIMATES AND KEY JUDGMENTS**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 CGU 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. 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 intangible assets – excluding goodwill and certain trademarks – are stated at cost less accumulated amortization and any impairment losses. Other than goodwill and certain trademarks, Sandvik has not identified any intangible assets with indefinite useful lives. The assets are 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 CGU to which the asset belongs.

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 costs to sell. ■

G14 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment, tools, fixtures and fittings	Construction in progress	Total
Cost					
At January 1, 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	127	570	280	-2,105	-1,128
Translation differences for the year	278	637	109	24	1,048
At December 31, 2019	17,605	43,169	6,865	2,657	70,296
Accumulated depreciations and impairment losses					
At January 1, 2019	8,330	30,188	5,012	–	43,529
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	–	–	-29
Reclassifications	-80	-928	10	–	-997
Depreciation for the year	545	2,575	435	–	3,554
Translation differences for the year	127	452	84	–	664
At December 31, 2019	8,593	30,947	5,113	–	44,653
Net carrying amount					
At December 31, 2019	9,012	12,222	1,752	2,657	25,643
Cost					
At January 1, 2020	17,605	43,169	6,865	2,657	70,296
Additions	251	1,364	221	1,739	3,576
Business combinations	27	357	39	2	425
Divestments and disposals	-282	-1,706	-356	-151	-2,495
Reclassifications	307	431	82	-1,665	-845
Translation differences for the year	-815	-1,984	-331	-124	-3,254
At December 31, 2020	17,093	41,631	6,520	2,458	67,702
Accumulated depreciations and impairment losses					
At January 1, 2020	8,593	30,947	5,113	–	44,653
Business combinations	9	188	26	–	223
Divestments and disposals	-201	-1,420	-338	–	-1,959
Impairment losses	122	94	5	–	222
Reversal of impairment losses	-45	-65	–	–	-111
Reclassifications	-7	-566	-91	–	-665
Depreciation for the year	542	2,473	426	–	3,442
Translation differences for the year	-396	-1,435	-248	–	-2,079
At December 31, 2020	8,616	30,217	4,894	–	43,727
Net carrying amount					
At 31 December 31, 2020	8,477	11,414	1,626	2,458	23,975

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

	2019	2020
Cost of sales	-306	9
Administrative expenses	0	-96
Research & development	0	-25
Total	-306	-112

Impairment tests

Property, plant and equipment with a definite useful life were tested for impairment when an indication for impairment was identified. The tests resulted in impairment losses of SEK 112 million (306).

Additional information

Items of property, plant and equipment totaling SEK 225 million (234) have been pledged as security for liabilities. In 2020, contractual commitments for the acquisition of property, plant and equipment amounted to SEK 265 million (385).

§ ACCOUNTING PRINCIPLES

Owned assets

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

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated over their estimated useful lives. Land is not depreciated. Depreciation is recognized on a straight-line basis (unless otherwise described) based on the cost of the assets, adjusted by residual value when applicable, and estimated useful lives. The following depreciation periods are applied.

Land and buildings:

- Land indefinite useful life
- Buildings 10–50 years
- Site improvements 20 years

Plant and machinery:

- Plant and machinery 5–10 years
- Rental assets 3 years

G14, continued

Equipment, tools, fixtures and fittings:

- Depreciated over the estimated useful lives.
- 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 reversals of impairment

Impairment and reversals of impairment is applicable also for property, plant and equipment. For details see section in note G13.

Borrowing costs

For definition of borrowing costs see section in intangible assets note G13. The capitalization of borrowing costs relating to tangibles is mainly relevant for the construction of production buildings on a proprietary basis. ■

! CRITICAL ESTIMATES AND KEY JUDGMENTS**Impairment tests of non-current assets**

Sandvik's tangible assets are stated at cost less accumulated depreciation and any impairment losses. The assets are depreciated 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 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 2020 was SEK 983 million (1,071).

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 costs to sell. ■

G15 LEASES**Leases with Sandvik as lessee
Right-of-use assets**

	Land and buildings	Plant and machinery	Fixture and fittings	Total
Accumulated acquisition cost				
Opening balance adjustment at January 1, 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 December 31, 2019	2,902	374	864	4,137
Depreciation and impairment losses				
Depreciation for the year	608	106	275	989
Impairment losses	17	6	0	23
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 December 31, 2019	589	103	274	966
Net carrying amount				
At December 31, 2019	2,313	271	590	3,172
Accumulated acquisition cost				
At January 1, 2020	2,902	374	864	4,137
Additions	431	94	227	753
Remeasurements	214	-10	11	215
Business combinations	26	0	0	26
Divestments and disposals	-197	-51	-107	-355
Reclassifications	2	-54	56	3
Translation differences for the year	-187	-8	-60	-257
At December 31, 2020	3,190	345	990	4,523
Depreciation and impairment losses				
At January 1, 2020	589	103	274	966
Depreciation for the year	541	127	320	987
Impairment losses	0	4	0	5
Reversal of impairment losses	-3	0	0	-3
Divestments and disposals	-82	-43	-97	-222
Reclassifications	-5	-26	22	-8
Translation differences for the year	-57	-4	-31	-92
At December 31, 2020	983	159	489	1,632
Net carrying amount				
At December 31, 2020	2,207	185	501	2,891

Depreciation per line in the income statement	2019	2020
Cost of goods sold	-277	-300
Selling expenses	-298	-255
Administrative expenses	-375	-355
Research and Development expenses	-39	-79
Total	-989	-987

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

	2019	2020
Cost of goods sold	-23	3
Selling expenses	-0	-4
Total	-23	-1

Amounts recognized in the income statement

	2019	2020
Depreciations for the year	-989	-987
Impairment losses/reversal of impairment losses	-23	-2
Interest expenses related to lease liabilities	-111	-104
Expenses for low value assets	-80	-51
Expenses for short-term leases	-42	-49
Expenses related to variable lease expenses not included in the lease liability	-4	-3
Gains/losses related to sale and leaseback transactions	-0	-1
Total amounts recognized in the income statement	-1,249	-1,197
The total cash outflow for leases during the year	-1,071	-1,118

Contracts not yet commenced

Contracts not yet commenced amounted to SEK 111 million (27). For maturity analysis of the lease liability, see note G28.

Financial leases with Sandvik as lessor

The Group's investments in financial leases amounted to SEK 3,751 million (3,413) at year-end 2020. Finance income was SEK 187 million (93). 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:

	Nominal fee		Present value	
	2019	2020	2019	2020
Within one year	1,883	1,898	1,763	1,841
Between one and five years	1,529	1,851	1,450	1,768
Later than five years	1	2	0	2
Net carrying amount	3,413	3,751	3,213	3,611

Operating leases with Sandvik as lessor

The planned residual value of the Group's rental fleet is SEK 983 million (1,071). Depreciation for the year amounted to SEK 523 million (472). Loss on disposed assets was SEK -6 million (-14). The future minimum lease payments under non-cancellable leases amount to SEK 663 million (782). Variable fees amounted to SEK 2 million (10). Future minimum lease payments under non-cancellable cancel operating lease contracts fall due as follows:

	2019	2020
Within one year	384	375
Between one and five years	398	287
Later than five years	0	0
Net carrying amount	782	663

ACCOUNTING PRINCIPLES

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.

Impairment and reversals of impairment

Impairment and reversals of impairment is applicable also for right-of-use assets. For details see section in note G13.

Sandvik as a lessee

For all contracts an evaluation is done to identify if a lease exists 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 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.

When the agreement is recognized as an operating lease the asset is classified as tangible assets and valued at cost less accumulated depreciation. The cost of an asset comprises the acquisition value and any initial direct costs related to the contract. The

G15, continued

lease payments and the depreciations are included in profit or loss on a straight-line basis over the term of the lease.

Financial lease contracts are recognized as a receivable at an amount equal to the net investment in the lease and revenues are recognized in accordance with the revenue recognition principles.

Sandvik provides financing of equipment sold by the different divisions or business areas. Sandvik Financial Services mainly finances customers in the mining and construction sectors who invest in Sandvik capital equipment. To arrange financing solutions, the Sandvik customers can choose between different product offerings.

The financing offering is provided through five separate legal entities. To manage the correlating credit and financial risks, a proper credit assessment and collection procedures are implemented. Furthermore all tactical and operational decisions related

to our financing exposure are following the financial framework as well as Sandvik policies and procedures.

Sandvik Financial Services is responsible for identifying and assessing its key risks related to end customer financing, as well as managing and monitoring them. Risk management is carried out in accordance with the Sandvik policies, in particular the Customer Finance procedures. All transactions are assessed based on the commercial risk of the buyer, country (political) and the product risk. All customers receive a rating using an in-house credit rating model. Different types of securities are used to support the financing, in most cases the asset is held as a security using pledges or retention of title, improving the LGD (Loss Given Default). ECA (Export Credit Agency) support is used when the risk level needs to be balanced. ■

G16 SHARES IN ASSOCIATED COMPANIES

Shares in associated companies	2019	2020
Accumulated share of equity		
At the beginning of the year	100	292
Acquisition of associates	190	282
Share of profits for the year	9	6
Less dividend received	-1	-1
Translation differences during the year	-5	-71
Carrying amount at the end of year	292	508

Additional information

The close of the reporting period for the associate Eimco Elecon is March 31, 2020. The dividend paid in 2020 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.

Summarized financial information of associated companies, and the Group's share

2019	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share. %
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	30.4
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
2020	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share. %
Eimco Elecon	India	135	11	394	39	356	25.1
Fagersta Seco AB	Sweden	–	–	3	2	1	50.0
Fagerstahälsan AB	Sweden	8	0	8	6	2	50.0
Beam IT Spa	Italy	65	10	325	88	237	30.4
STC Rental Co. Ltd.	Japan	13	0	1	0	1	14.5
Varel Oil and Gas Holding Inc – acquired in March 2020	USA	77	-1	137	38	100	30.0
3C Metrologic	Mexico	9	2	9	4	4	40.0
Shanghai Innovatools Co. Ltd.	China	4	0	10	3	8	40.0

§ ACCOUNTING PRINCIPLES

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. ■

G17 NON-CURRENT RECEIVABLES

	2019	2020
Derivatives designated as hedging instruments	70	85
Funded pension plans	417	312
Other non-interest-bearing receivables	401	345
Other interest-bearing receivables	1,503	1,855
Total	2,390	2,598

G18 INVENTORIES

	2019	2020
Raw materials and consumables	5,680	4,573
Work in progress	4,785	4,302
Finished goods	13,778	12,598
Total	24,243	21,473

Cost of sales of the Group includes impairment of inventories of SEK 270 million (215). There were no significant reversals of impairment losses during 2020 and 2019.

§ ACCOUNTING PRINCIPLES

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. ■

G19 TRADE RECEIVABLES

Age analysis of trade receivables

	2019							Total
	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	
Expected loss rate, %	-1.2	1.9	4.5	8.5	19.9	40.4	89.7	4.2
Gross carrying amount – trade receivables	11,965	1,586	511	284	346	210	632	15,533
	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

	2020							Total
	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	
Expected loss rate, %	0.7	2.6	7.5	10.7	19.6	47.7	93.5	5.0
Gross carrying amount – trade receivables	10,668	1,132	313	133	187	165	416	13,014
	10,668	1,132	313	133	187	165	416	13,014
Loss allowance	-74	-29	-23	-14	-37	-79	-389	-645
Reported value	10,595	1,103	289	118	151	86	27	12,369

2020 has been a challenging year for several of Sandvik's markets but despite increased credit risk, the negative impact has been limited. Expected credit losses remain on a low level compared to twelve months rolling revenue.

§ ACCOUNTING PRINCIPLES

Trade receivables

Receivables are recognized at amortized cost.

Expected credit losses

Sandvik evaluates its trade receivables, contract assets and financial leases on a collective basis for each category, respectively. Each reporting entity classifies their receivables in suitable risk categories according to Group policy.

Expected credit loss 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.

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. Changes to the allowance for expected credit losses for accounts receivables are recognized in selling expenses.

Expected credit loss related to financial leases are presented in note G28, section Credit risk.

Writing off

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 securities

The Group selectively utilizes different forms of credit securities, such as letters of credit, retention of title or credit insurance. ■

G20 OTHER CURRENT RECEIVABLES

	2019	2020
Contract assets	77	90
Derivatives designated as hedging instruments	339	332
Other non-interest-bearing receivables	2,318	2,065
Other interest-bearing receivables	1,801	1,851
Advances to suppliers	249	184
Total	4,785	4,522

§ ACCOUNTING PRINCIPLES

A contract asset is recognized when the right to consideration for a performance obligation is conditional on completion of promises other than the passage of time. ■

G21 CAPITAL AND RESERVES

Details of reserves	2019	2020
Translation reserve		
At the beginning of the year	5,233	7,113
Translation differences during the year	1,880	-4,757
At the end of the year	7,113	2,356
Hedging reserve		
At the beginning of the year	-123	-103
Cash-flow hedges recognized in OCI	20	21
At the end of the year	-103	-82
Total reserves		
Reserves at the beginning of the year	5,110	7,010
Changes in reserves:		
Translation reserve	1,880	-4,757
Hedging reserve	20	21
Reserves at the end of the year	7,010	2,274

The Board of Directors proposes an ordinary dividend of SEK 4.50 per share (0). In addition, the Board proposes an extra dividend of SEK 2.00. The total proposal corresponds to 75 percent (0) of Sandvik Group total's adjusted earnings per share. The proposed record date to receive dividends is April 29, 2021. Assuming the general meeting accepts the dividend proposal, the date to receive dividends will be May 4, 2021 and the dividend will be paid in one installment. The Annual General Meeting will be held on April 27, 2021.

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.

§ ACCOUNTING PRINCIPLES

Equity

Equity is defined as total shareholders' equity including non-controlling interests.

Other paid-in capital

Relates to payments made by owners and includes share premium reserve transferred to the statutory reserve at December 31, 2005. Any share premium as of January 1, 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.

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 SEK 0 million (20).

Dividend

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

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.

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. ■

G22 PROVISIONS FOR PENSION AND OTHER NON-CURRENT POST-EMPLOYMENT BENEFITS

Sandvik provides direct pension solutions or participates in defined benefit, defined contribution and other plans for post-employment benefits to all employees. These plans are structured in accordance with local regulations and practices. The Group's most significant defined-benefit pension plans are described below per country.

Sweden

The Swedish pension plan is funded through a foundation and is based on salary at the time of retirement. It 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 total value of the assets held by the Swedish foundation was SEK 3,101 million (2,904), which was SEK 271 million (300) lower than the capital value of the corresponding pension obligations for the entire foundation.

The commitment for family pension, also a defined-benefit plan, is insured with Alecia. Sufficient information to use defined-benefit accounting for this plan is not available, and therefore recognized as a defined-contribution plan. At the end of 2020, Alecia reported a preliminary plan surplus of 148 percent (148).

The Group's share of Alecia's saving premiums is 0.1 percent, the total share of active members in Alecia is 0.7 percent. For 2021, the expected contribution to Alecia is SEK 52 million (39).

The Group's mutual responsibility as a credit insured company of PRI Pensionsgaranti in Sweden is classified as a contingent liability and amounts to SEK 64 million (60). This mutual responsibility can only be imposed in the instance that PRI Pensionsgaranti has consumed all of its assets, and it amounts to a maximum of 2 percent of the Group's pension liability in Sweden.

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 at 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, 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 January 1, 2008 are included in a defined contribution plan.

Reconciliation of change in present value of defined benefit obligation for funded and unfunded plans

	2019	2020
Opening balance, January 1	27,036	31,845
Service cost	532	728
Settlements	-102	0
Interest cost	814	632
Contributions by plan participants	32	30
Benefits paid	-1,110	-1,210
Remeasurements loss/(gain) arising from:		
- Financial assumptions	3,802	2,495
- Demographic assumptions	-117	206
- Experience adjustments	298	482
Other	-205	-2
Exchange differences	865	-2,167
Closing balance, December 31	31,845	33,038

Total pension costs recognized in the income statement

	2019	2020
Pension cost for defined benefit plans	-533	-729
Pension cost for defined contribution plans	-540	-522
Total amount in the income statement	-1,073	-1,251

Reconciliation of change in the fair value of plan assets

	2019	2020
Opening balance, January 1	21,517	24,757
Interest income	654	505
Settlements	-102	0
Contribution by the employer	501	429
Benefits paid directly by employer	246	245
Settlements paid by employer	0	0
Contributions by plan participants	32	30
Benefits paid	-1,110	-1,210
Return on plan assets, excl amount included in interest	2,345	2,036
Other	-157	-9
Exchange differences	831	-1,982
Closing balance, December 31	24,757	24,803

	2019	2020
Actual return on plan assets	2,999	2,542
Consolidation ratio for funded plans %	83	79
Consolidation ratio for all plans including unfunded	78	75
Estimated contributions for the next year	400	616

G22, continued

Information by country December 31, 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 deferred	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
Pension plans recognized according to local rules	-	-	-	-	-	-	-	-260
Total net liability	-	-	-	-	-	-	-	7,348
Provision for pensions	-	-	-	-	-	-	-	7,765
Over-funded pension plans recognized as asset, non-current receivable	-	-	-	-	-	-	-	417
Funding level, %	39	96	94	102	55	98	62	78
Net liability for medical plans	-	-	293	-	-	62	-	355
Average duration of the obligation, years	25	18	14	18	12	12	N/A	15
Amounts included in the income statement/other comprehensive income								
Current service cost	-231	-65	-34	-100	-41	-41	-21	-533
Net interest	-79	-3	-26	4	-21	0	-34	-160
Remeasurements	-1,240	-254	51	-45	-128	15	-37	-1,638
Total expense for defined benefits (pretax)	-1,550	-322	-9	-141	-190	-27	-92	-2,331
Amounts included in the cash flow statement								
Contributions by the employer	-	-218	-194	-35	-47	-3	-4	-501
Benefits paid	-117	-	-26	-	-64	-3	-36	-246
Settlements paid	-	-	-	-	-	-	-	-
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	1.3	2	2	N/A	2.19
Discount rate, % (weighted average)	1.75	2.05	3.19	1.2	1.3	3.06	N/A	2.1
Future salary increase, % (weighted average)	3	2.53	3	2.5	3	3	N/A	2.81
Information by country December 31, 2020	Sweden	UK	US	Finland	Germany	Canada	Other	Total
Amounts included in the balance sheet								
Present value of funded and unfunded obligations	8,854	8,172	7,750	3,989	2,692	469	1,113	33,038
- of which for actives	4,715	1,703	3,256	1,236	1,115	183	869	13,077
- of which for vested deferred	2,492	2,531	909	881	309	34	48	7,203
- of which for retirees	1,647	3,938	3,585	1,872	1,268	252	191	12,753
Plan assets	3,101	7,554	7,540	3,816	1,596	464	732	24,803
Total surplus (deficit)	-5,753	-618	-209	-174	-1,096	-5	-380	-8,236
Pension plans recognized according to local rules	-	-	-	-	-	-	-	-273
Total net liability	-	-	-	-	-	-	-	8,509
Provision for pensions	-	-	-	-	-	-	-	8,822
Over funded pension plans recognized as asset, non-current receivable	-	-	-	-	-	-	-	313
Funding level, %	35	92	97	96	59	99	66	75
Net liability for medical plans	-	-	268	-	-	59	-	327
Average duration of the obligation, years	23	17	14	18	14	13	N/A	15
Amounts included in the income statement/Other comprehensive income								
Current service cost	-333	-62	-146	-118	-42	-8	-21	-729
Net interest	51	142	219	45	20	16	36	528
Remeasurements	829	423	-143	163	-96	4	-34	1,146
Total expense for defined benefits (pretax)	547	502	-69	90	-117	12	-20	946
Amounts included in the cash flow statement								
Contributions by the employer	0	-146	-177	-36	-50	-0	-19	-429
Benefits paid	-120	0	-23	0	-63	-2	-36	-245
Settlements paid	-	-	-	-	-	-	-	-
Major assumptions for the valuation of the liability								
Longevity, years ¹⁾	23	23	21	23	22	20	N/A	N/A
Inflation, %	1.75	2.85	2.25	1.2	2	2	N/A	2.11
Discount rate, % (weighted average)	1.5	1.45	2.18	0.8	1	2.6	N/A	1.58
Future salary increase, % (weighted average)	3	2.69	3	2.5	3	3	N/A	2.87

1) Expressed as the expected remaining life expectancy of a 65-year-old in number of years

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 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

	SE	UK	US	FIN	DE	CA	Total
Life expectancy, +1 year	424	333	248	152	220	15	1,393
Discount rate -50 bps	1,162	791	601	374	260	31	3,218
Inflation rate + 50 bps	1,182	288	-266	15	200	-123	1,295
Equities -20%	152	215	476	246	75	16	1,180

Plan assets

The fair value of plan assets on December 31, 2020 included loans of SEK 0 million (0) to Sandvik companies and the value of properties leased to Sandvik of SEK 200 million (209).

Class of assets in %

	2019	2020
Interest-bearing securities	50	53
Shares	27	26
Properties	9	8
Other	10	10
Cash and cash equivalents	4	3
of which assets without quoted prices	0	0

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.

§ ACCOUNTING PRINCIPLES**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. ■

! CRITICAL ESTIMATES AND KEY JUDGMENTS**Post-employment benefits**

Actuarial assumptions are used to measure pension obligations and they 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 the coming year. All other assumptions, both financial and demographic are reviewed at least annually.

The financial risk management associated with the defined-benefit plans are presented in the Directors' Report in the section Financial Risk Management. ■

G23 OTHER INTEREST-BEARING LIABILITIES

	2019	2020
Non-current liabilities		
Bond issues	15,123	11,344
Lease liabilities	2,448	2,170
Other	48	22
Total	17,619	13,536
Current liabilities		
Bond issues	1,995	3,350
Lease liabilities	792	795
Other	239	206
Total	3,026	4,352

§ ACCOUNTING PRINCIPLES

Financial liabilities excluding derivatives 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.

For information on contractual terms, scheduled repayments and the exposure to interest risk and foreign-currency risk, refer to the section "Financial risk management". ■

G24 OTHER PROVISIONS

	Warranties	Restructuring	Employee benefits	Environmental obligations	Legal disputes	Other obligations	Total
Balance at January 1, 2019	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
Reclassifications	-	0	0	-	-	1	1
Business combinations	46	-156	55	-2	3	-4	-58
Translation differences	30	3	-23	5	6	-27	-7
Balance at December 31, 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
Balance at January 1, 2020	445	1,595	622	398	208	618	3,885
Provisions made during the year	225	2,088	285	67	62	367	3,094
Provisions used during the year	-157	-846	-296	-11	-32	-204	-1,545
Unutilized provisions reversed during the year	-70	-232	-54	-2	-16	-73	-447
Reclassifications	2	15	-16	1	7	-16	-7
Business combinations	1	0	4	0	0	4	9
Translation differences	-23	-44	-17	-23	-32	-61	-200
Balance at December 31, 2020	423	2,576	529	431	196	635	4,790
of which current	313	2,188	182	61	162	474	3,381
of which non-current	110	388	346	369	34	161	1,409

§ ACCOUNTING PRINCIPLES

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.

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. Site restoration is included in environmental obligations.

Legal disputes

Legal disputes include provisions for claims which, at the balance sheet date, had not been closed.

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. ■

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.

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. ■

! CRITICAL ESTIMATES AND KEY JUDGMENTS

Disputes

Sandvik is 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. ■

G25 OTHER LIABILITIES

Other non-current liabilities	2019	2020
Derivatives designated as hedging instruments	263	239
Other	36	35
Total	298	274
Other current liabilities		
Derivatives designated as hedging instruments	270	233
Bills payable	88	50
Contract liabilities	2,149	2,145
Other	2,000	1,649
Total	4,507	4,077

§ ACCOUNTING PRINCIPLES

Other liabilities

Other liabilities excluding derivatives are classified and subsequently measured at amortized cost.

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.

Contract liabilities

A contract liability is recognized when a payment is received before the performance obligation has been satisfied. ■

G26 ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses and deferred income	2019	2020
Personnel related	4,592	3,742
Other accrued expenses	2,352	2,556
Total	6,944	6,297

G27 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 Group.

Contingent liabilities	2019	2020
Bills discounted	5	4
Other surety undertakings and contingent liabilities	1,826	2,297
Total	1,831	2,301

The Group's surety undertakings and contingent liabilities amounted to SEK 2,301 million (1,831) and mainly comprised of bank guarantees and ongoing proceedings.

Pledged assets

Pledged assets for own liabilities and provisions.

Pledged assets	2019	2020
Property mortgages	234	225
Total	234	225

§ ACCOUNTING PRINCIPLES

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.

A contingent liability is also recognized 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. ■

G28 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 Group'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.

Currency risk – Transaction exposure

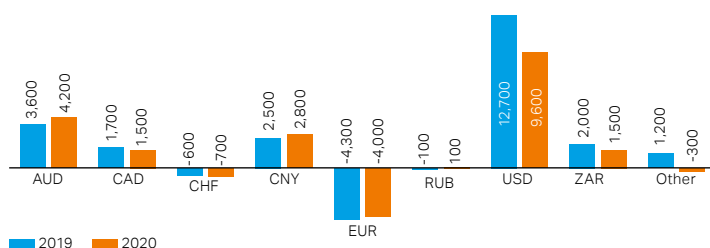
Risk

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 counter-value in the exporting companies' local currencies, and measured at the average exchange rate, amounted to SEK 16,189 million (20,266) in 2020. The most important currencies for one year of exposure are shown in the following diagram.

Exposure

Net flow in foreign currencies



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 protect 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 SEK 1,754 million (2,136). The average duration for the hedged volume of foreign currency was 3 months (3). Unrealized gains from outstanding currency contracts for hedging of future net flows amounted to SEK 184 million (18) at year-end. This amount consists of SEK 135 million in gains related to contracts maturing in 2021 and SEK 49 million in gains related to contracts maturing in 2022 or later.

If all exchange rates for the exposure currencies were to change by 5 percent in an unfavourable direction, total operating profit over a 12-month period would change by approximately SEK -1,239 million (-1,360), assuming that the composition is the same as it was at year-end.

Sensitivity analysis by currency

AUD	CAD	CHF	CNY	EUR	USD	ZAR	Other	Total
-164	-64	-36	-129	-123	-433	-53	-237	-1,239

G28, continued

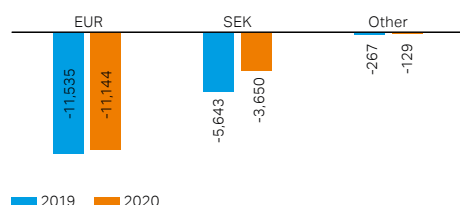
Currency risk – Translation exposure

Translation exposure occurs when assets and liabilities are denominated in different currencies.

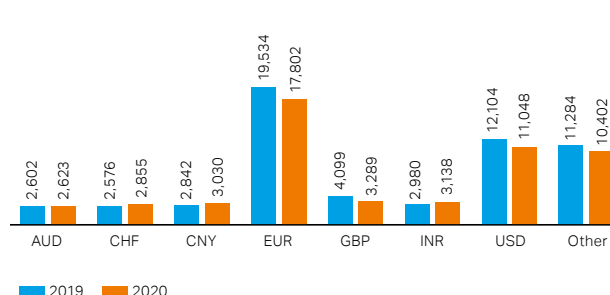
Since the Swedish krona (SEK) is Sandvik's base currency, a translation risk related to the valuation of the net assets in foreign subsidiaries and the profit/loss in foreign currency achieved during the period occurs. The net assets, which usually consist of the foreign subsidiaries' shareholders equity, are translated to SEK at the rates applied at the balance sheet date. At December 31, the Group's net assets in subsidiaries in local currencies amounted to SEK 54,187 million (58,021).

Exposure

Group's external borrowing by currency



Net assets by foreign currency



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 SEK -2,712 million (-2,904). This net effect primarily comprises translation exposure in equity.

Sensitivity analysis by currency

AUD	CHF	CNY	EUR	GBP	INR	USD	Other	Total
-131	-143	-151	-890	-164	-157	-552	-524	-2,712

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 SEK -29 million (-36).

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 SEK 34 million (50) 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	3.3	11	3,650
Bond loans, European MTN	3.6	58	11,044
Commercial papers	–	–	–
Other loans from banks	5.4	4	228
Total loans	3.6	46	14,923
Interest effect of currency derivatives	1.1		
Total incl. currency derivatives	4.7		

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 46 months (49) 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 with currency derivatives. Consequently, there is an interest-rate effect in currency derivatives of 1.1 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 4.7 percent (4.4).

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 SEK 1,500 million, 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 this note.

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 G27.

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.

G28, continued

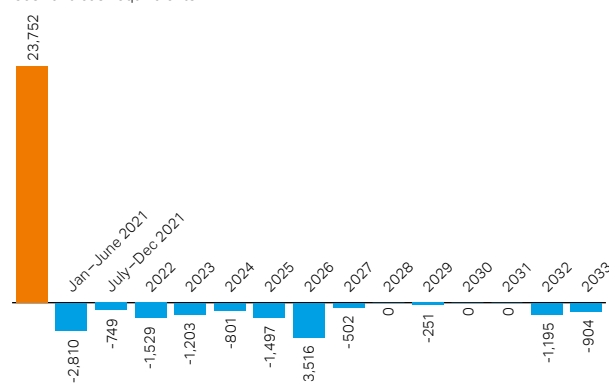
Liquidity and refinancing risk**Risk**

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

Cash and cash equivalents

**Borrowing and remaining credit periods**

	Currency	Recognized liability, MSEK	Average remaining credit periods, years
Bond loans, Swedish MTN	SEK	3,650	1.0
Bond loans, European MTN	EUR	11,044	5.5
Commercial papers	EUR, SEK	–	–
Other loans from banks	EUR, SEK	228	0.4
Total borrowings		14,923	4.3

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 SEK 68,040 million 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 SEK 96,540 million. The short-term liquidity reserve, comprising committed credit facilities and accessible cash and cash equivalents was SEK 28,667 million. 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 SEK 5,518 million.

Sandvik has a revolving credit facility totaling SEK 9,000 million maturing in 2023. The facility 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 76 percent at year-end 2020 compared with 87 percent one year earlier. The maturity structure for the Group's financial liabilities and derivatives is presented further down in this note.

At year-end, Standard & Poor's, the international credit rating agency, had assigned an 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, please visit 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	2019	2020
Trade receivables ¹⁾	14,878	12,369
Cash and cash equivalents	16,987	23,752
Unrealized net gains on derivatives	409	417
Other receivables	433	622
Outstanding credits	3,527	3,611
Total	36,235	40,771

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 December 31, the value of these amounted to SEK 24,169 million (17,396).

Sandvik companies are generally 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 the 2020 consolidated credit losses were limited despite challenging circumstances on several of Sandvik's market segments. To mitigate increasing credit risk, focus on the area sharpened and additional credit control tools were introduced. Sandvik's credit losses, defined as the total of receivables written off and change in bad debt reserve, amounted to SEK -150 million (-24), equivalent to 0.2 percent of sales. The gross value of trade receivables was SEK 13,016 million (15,535) at December 31. Total impairment of these was SEK -647 million (-657). An age analysis of trade receivables at December 31, is presented in note G19.

Sandvik offers short- and long-term customer financing through its own Financial Services companies and in partnership with financial institutions and banks. At year-end, the value of outstanding credits referring to finance leases amounts to SEK 3,725 million (3,615), of which SEK -114 million (-88) 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 SEK 202 million (447).

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 SEK 0.1 per kWh is estimated to affect Sandvik's operating profit by plus or minus SEK 80 million (85) on an annual basis, based on the prevailing conditions at year-end 2020.

G28, continued

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.

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 800 GWh. The hedging horizon at year-end was about 22 months' (18) expected consumption.

Comments

Net total consumption of nickel amounted to about 14,300 metric tons during the year.

At year-end, the volume of hedged nickel inventory was 643 metric tons (2,184). The market value of commodity derivatives entered into was SEK 10 million (-33).

The volume of electricity hedged with derivatives was 1,405 GWh (1,239) at year-end. The market value of these derivative contracts amounted to SEK -11 million (14).

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 this note.

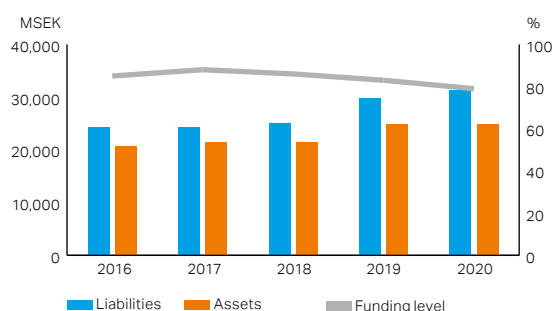
Pension commitments**Risk**

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 18.4 years. The average duration of the Group's interest-bearing assets in the pension portfolio is 16.7 years. The allocation to interest-bearing assets is 51 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 SEK 3,218 million.

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 SEK 1,180 million. If the life expectancy assumptions increase by one year, the pension liability would rise by 3.3 percent which corresponds to SEK 1,393 million. The calculated total loss potential for one year (pension risk), based on stress tests, is on aggregate SEK 4,325 million.

Development of pension liability and assets**Comments**

In 2020, the pension assets totalled SEK 24,827 million (24,788) and the corresponding pension liability amounted to SEK 31,320 million (29,899), which is equal to a funding level of 79 percent (83). The return on Sandvik's pension assets was 10.8 percent during the year (14.0). In addition, Sandvik has unfunded pension commitments of SEK 1,733 million (1,946).

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 G22.

The Group's financial instruments measured at fair value in the balance sheet

	2019	2020
Financial assets		
<i>Derivatives</i>		
Foreign exchange contracts	365	380
Commodity and electricity derivatives	44	38
Total ¹⁾	409	418
Financial liabilities		
<i>Derivatives</i>		
Foreign exchange contracts	288	279
Interest-rate swaps	181	153
Commodity and electricity derivatives	63	40
Total ²⁾	532	472

1) Included in other receivables.

2) Included in other liabilities.

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 SEK 417 million. The carrying amount of corresponding liabilities was SEK -472 million. 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 SEK 177 million would be offset in accordance with the framework agreement governing offsetting.

Calculation at fair value of the Group's non-current borrowings would increase the total carrying amount by SEK 2,075 million (2,276). 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 below. 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.

G28, continued

Financial assets and liabilities by valuation category

Balance sheet items	Fair value through profit (loss)		Amortized costs		Hedge Accounting		Total carrying amount	
	2019	2020	2019	2020	2019	2020	2019	2020
Financial assets								
Financial investments	82	81	–	–	–	–	82	81
Trade receivables ¹⁾	–	–	14,878	12,369	–	–	14,878	12,369
Other receivables ²⁾	–	–	3,413	3,802	–	–	3,413	3,802
Derivatives ³⁾	409	417	–	–	0	0	409	418
Cash and cash equivalents	–	–	16,987	23,752	–	–	16,987	23,752
Total financial assets	491	498	35,279	39,923	0	0	35,770	40,421
Financial liabilities								
Borrowings ⁴⁾	–	–	17,453	14,923	–	–	17,453	14,923
Derivatives ⁵⁾	401	369	–	–	131	103	532	472
Accounts payable ¹⁾	–	–	7,598	6,974	–	–	7,598	6,974
Due to associates	–	–	1	1	–	–	1	1
Other liabilities ⁶⁾	–	–	3,732	3,308	–	–	3,732	3,308
Total financial liabilities	401	369	28,784	25,205	131	103	29,316	25,677

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

The Company's financial liabilities amounted to SEK 25,677 million (29,316) at year-end.

	2019	2020
Fair value through profit or loss	-608	432
Amortized costs	-585	-1 321
Hedge accounting	20	21

Maturity structure relating to undiscounted cash flows for financial liabilities and derivatives, nominal amounts

		2019				2020			
		<6 months	6-12 months	1-5 years	>5 years	<6 months	6-12 months	1-5 years	>5 years
Bank loans	EUR, Other	-156	-99	-89	–	-109	-100	-22	–
Commercial papers	SEK	–	–	–	–	–	–	–	–
Medium Term Notes	SEK	-2,071	-37	-3,784	–	-2,038	-675	-1,065	–
European Medium Term Notes	EUR	-279	-135	-4,756	-9,282	-971	-130	-5,247	-7,164
Private Placements	USD	–	–	–	–	–	–	–	–
Derivatives									
- Currency derivatives		90	-2	-15	-21	116	6	8	-8
whereof outflow		-204	-11	-24	-21	-157	-27	-18	-8
whereof inflow		294	9	9	–	273	33	26	–
- Interest rate derivatives		-41	-2	-154	–	-42	-20	-95	–
- Commodity and electricity derivatives		-17	5	-8	–	13	-2	-12	–
Leases ¹⁾		-374	-418	-1,873	-575	-373	-423	-1,473	-696
Accounts payable ²⁾		-7,598	–	–	–	-6,974	–	–	–
Total		-10,446	-688	-10,679	-9,878	-10,378	-1,344	-7,906	-7,868

1) Discounted values based on IFRS 16.

2) Excludes assets held for sales.

Periods when hedged cash flows in the hedge reserve are expected to occur and affect earnings

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2023 and later
Interest rate derivatives	–	–	–	-8	–	–	–	–	-61
Total	–	–	–	-8	–	–	–	–	-61

**Derivative financial instruments
– interest-rate swaps (cash-flow hedges)**

	2019	2020
Carrying amount (included in other liabilities)	-131	-103
Notional amount	1,500	1,500
Change in fair value of outstanding hedging instruments since January 1	31	28

§ ACCOUNTING PRINCIPLES
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 derecognition

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 the income statement.

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. 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 the income statement. 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 financial income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the income statement. 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.

Financial instruments measured at fair value in the balance sheet

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 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.

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 remeasurement 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 the income statement. When the hedged item impacts income statement, the accumulated changes in value of the hedging instrument are reclassified to the income statement. The gain or loss relating to the effective portion of hedging instruments is recognized in the income statement within the same line as the hedged item. ■

G29 TRANSACTIONS WITH RELATED PARTIES

Related-party transactions

The Group's sales to associated companies amounted to SEK 18 million (5). The Group's purchases from associated companies amounted to SEK 4 million (5). All transactions are carried out on market terms.

Transactions with key management personnel

Except as indicated in note G4, 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.

G30 SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT

Cash and cash equivalents	2019	2020	Other adjustments for non-cash items, etc	2019	2020
Cash and cash equivalents comprise:			Changes in value of financial instruments	90	-1,011
Cash and bank	4,936	20,735	Unappropriated results of associated companies	-8	-6
Short-term investments comparable to cash and cash equivalents	12,017	3,017	Gains and losses on disposal of non-current assets	-69	146
Total in the balance sheet	16,953	23,752	Gains and losses on disposal of companies and shares	-	1
Total in the cash flow statement	16,987	23,752	Provisions for pensions	533	882
			Other provisions	128	942
Interest and dividend paid and received	2019	2020	Other	-66	-28
Dividend received	20	5	Total	428	926
Interest received	346	356			
Interest paid	-1,425	-1,035			
Total	-1,059	-674			

Changes in Liabilities arising from financing activities

	Cash Flow			Non-cash flow changes				
	January 1, 2019	New loans	Amortization	Reclassification	New leases	Currency/FX	Other	December 31, 2019
Interest-bearing liabilities	21,554	22	-4,438	-2,109	-	159	-17	15,170
Current interest-bearing liabilities	2,375	38	-2,227	1,885	-	11	152	2,234
Lease liabilities	3,325	-	-945	0	770	81	9	3,240
Dividends paid	-	-	-5,340	-	-	-	-	-
Total	27,254	60	-12,950	-224	770	251	144	20,645

	Cash Flow			Non-cash flow changes				
	January 1, 2020	New loans	Amortization	Reclassification	New leases	Currency/FX	Other	December 31, 2020
Interest-bearing liabilities	15,170	14	-74	-3,536	-	-245	37	11,366
Current interest-bearing liabilities	2,234	43	-2,280	3,536	-	21	2	3,556
Lease liabilities	3,240	-	-1,012	0	907	-173	3	2,965
Total	20,645	56	-3,366	0	907	-397	43	17,888

§ ACCOUNTING PRINCIPLES

The consolidated cash flow statement is prepared in accordance with the indirect method. 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. ■

G31 BUSINESS COMBINATIONS

The acquisitions of business combinations executed in 2019 and 2020 are set out below. Annual revenue and number of employees reflect the latest known information at the date of the respective transaction.

Business area	Cash Generating Unit	Company/Unit	Country	Acquisition date	Annual revenue	No. of employees
Sandvik Manufacturing and Machining Solutions	Business area level SMM	Wetmore Tool & Engineering	USA	January 9, 2019	160 MSEK in 2017	170
Sandvik Mining and Rock Technology	Sandvik Mining and Rock Technology	Artisan	USA	February 11, 2019	12 MUSD in 2017	60
Sandvik Manufacturing and Machining Solutions	Seco Tools	OSK	Japan	April 10, 2019	120 MSEK in 2017	90
Sandvik Mining and Rock Technology	Sandvik Mining and Rock Technology	Newtrax	USA	June 17, 2019	26 MCAD in 2018	120
Sandvik Materials Technology	Sandvik Materials Technology	Thermaltek	USA	December 31, 2019	13 MUSD in 2018	30
Sandvik Manufacturing and Machining Solutions	Walter	Melin Tool Company	USA	December 31, 2019	22 MUSD in 2018	100
Sandvik Materials Technology	Sandvik Materials Technology	Summerill Tube Corporation	USA	January 14, 2020	100 MSEK in 2018	45
Sandvik Manufacturing and Machining Solutions	Seco Tools	Quimmico Centro Tecnológico (QCT)	Mexico	June 1, 2020	90 MSEK in 2019	130
Sandvik Mining and Rock Technology	Sandvik Mining and Rock Technology	Allied Construction Partners LLC	USA	October 2, 2020	29 MUSD in 2019	38
Sandvik Manufacturing and Machining Solutions	Dormer Pramet	Miranda Tools	India	December 23, 2020	200 MSEK 2019	580
Sandvik Manufacturing and Machining Solutions	Sandvik Coromant	CGTech	USA etc.	December 31, 2020	470 MSEK in 2019	180

Total fair value of assets and liabilities of acquired businesses in 2020

The fair value of acquired assets and assessed liabilities has been preliminarily established for the acquisitions of Miranda Tools and CGTech. The final fair value of acquired assets and assessed liabilities for Summerill Tube Corporation, Quimmico Centro Tecnológico (QCT) and Allied Construction Partners LLC has been established during 2020. Only minor IFRS adjustments were made to the acquisition values.

All acquisitions above were made through the purchase of 100 percent of shares and voting rights or through the purchase of the net assets of the acquired operations, except for the acquisition of Allied Construction that was made through the purchase of 79 percent of shares and voting rights. Sandvik received control over

the operations upon the date of closing the acquisition. No equity instruments have been issued in connection with the acquisitions. All acquisitions have been accounted for using the acquisition method.

The amounts presented in the following tables detail the recognized amounts aggregated by business area, as the relative amounts of the individual acquisitions are not considered significant, except for CGTech and Miranda Tools businesses which are disclosed separately. Sandvik is in the process of reviewing the final values for CGTech and Miranda Tools. No adjustments are expected to be material.

Fair value recognized in 2020	SMRT		SMM		SMT		Total
		Total	Whereof CGTech	Whereof Miranda Tools			
Intangible assets	–	390	–	347	36		426
Property, plant and equipment	9	96	8	35	24		129
Other non-current assets	2	25	18	7	–		27
Inventories	52	39	–	35	39		130
Receivables	26	146	118	28	17		189
Other current assets	1	22	22	1	–		23
Cash and cash equivalents	5	70	70	–	–		75
Interest-bearing loans and borrowings	-2	-16	-16	–	–		- 18
Other liabilities and provisions	-11	-150	-135	-15	-26		- 187
Deferred tax assets/liabilities, net	2	-192	-192	–	–		- 190
Net identifiable assets and liabilities	84	430	- 107	438	90		604
Goodwill and surplus values, net	20	2,793	2,793	–	–		2,813
Purchase consideration	-104	-3,223	-2,686	-438	-90		-3,417
Cash and cash equivalents in the acquired business	5	70	70	–	–		75
Transaction expenses	0	-45	-29	-13	0		-46
Net cash outflow	-99	-3,198	-2,645	-451	-90		-3,388

In January, Sandvik Materials Technology acquired Summerill Tube Corporation, a manufacturer of high precision tubes. Since 1892 it has delivered seamless and welded tubing in stainless steels and nickel alloys to various high demanding industries including aerospace, transportation and petrochemical. Intangible assets of SEK 27 million and goodwill of SEK 9 million was recorded on the purchase. The deal has a limited impact on earnings per share from the start. The goodwill is deductible for tax purposes.

In June, Seco Tools a division within Sandvik Manufacturing and Machining Solutions acquired the cutting tools division of Quimmco centro tecnológico (QCT), a privately owned Mexican company offering integral machining solutions. The acquisition of QCT's cutting tools division expands Seco Tools' capabilities in custom-made tools, meaning further long-term support in our productivity offering to customers. The deal has a limited impact to earnings per share from the start. Goodwill of SEK 44 million was recorded on the purchase. The goodwill is not deductible for tax purposes.

In October, Sandvik Mining and Rock Technology acquired 79 percent of Allied Construction Products LLC (Allied), a US distributor of hydraulic hammers to the construction and mining industries and manufacturer of compactor plates and mounting brackets. Sandvik was already a 21 percent minority shareholder of the company and Sandvik's products generated about 80 percent of Allied's revenues. The deal is neutral to Sandvik's earnings per share from the start. Goodwill of SEK 20 million was recorded on the purchase. The goodwill is deductible for tax purposes.

In December, the Sandvik Coromant division within business area Sandvik Manufacturing and Machining Solutions completed the acquisition of US-based CGTech, a global market leader in software for numerical control (NC/CNC) simulation, verification and optimization. The product offering includes Vericut®, a machining simulation and optimization software which is CAM, machine tool manufacturer and cutting tool neutral and works stand alone or in conjunction with all major CAM suppliers. The combined machining expertise of Sandvik Coromant and CGTech will enhance the Group's capabilities in machining intelligence, strengthen the software offering and facilitate an improved presence in key areas of the customer value chain. Intangible assets of SEK 1,079 million and goodwill of SEK 1,714 million were recorded on the purchase. The goodwill is deductible for tax purposes.

In December, Sandvik's division Dormer Pramet within business area Sandvik Manufacturing and Machining Solutions completed the acquisition of the entire business of the Indian company Miranda Tools, comprising the manufacture of High Speed Steel and solid carbide round tools. The acquisition enhances Dormer Pramet's product offering and facilitates an improved presence in key markets such as India, China and Southeast Asia.

The deal has a limited impact on Sandvik's earnings per share. Intangible assets of SEK 143 million and goodwill of SEK 204 million were recorded on the purchase. The goodwill is not deductible for tax purposes.

Change of total fair value recognized in the Group in 2020 from businesses acquired during 2019

	SMRT			SMM			SMT			Total		
	2019	2020	Change	2019	2020	Change	2019	2020	Change	2019	2020	Change
Intangible assets	23	23	-	-	-	-	-	139	139	23	162	139
Property, plant and equipment	4	4	-	45	113	68	-	3	3	49	120	71
Other non-current assets	21	21	-	-	-	-	-	-	-	21	21	-
Inventories	61	61	-	52	120	68	-	10	10	113	191	78
Receivables	175	175	-	86	97	11	-	8	8	261	280	19
Other current assets	29	29	-	3	5	2	-	-	-	32	34	2
Cash and cash equivalents	38	38	-	3	10	7	-	-	-	41	48	7
Interest-bearing loans and borrowings	-245	-245	-	-28	-28	-	-	-	-	-273	-273	-
Other liabilities and provisions	-200	-200	-	-94	-184	-90	-	-4	-4	-294	-388	-94
Deferred tax assets/liabilities, net	4	4	-	2	1	-1	-	-	-	6	5	-1
Net identifiable assets and liabilities	-90	-90	-	69	134	65	-	156	156	-21	200	221
Goodwill and surplus values	930	930	-	730	606	-124	154	-	-154	1,814	1,536	-278
Purchase consideration	-840	-840	-	-799	-740	59	-154	-156	-2	-1,793	-1,736	57
Cash and cash equivalents in the acquired business	38	38	-	3	10	7	-	-	-	41	48	7
Transaction expenses	-74	-74	0	-46	-56	-10	-	-2	-2	-120	-132	-12
Net cash outflow	-876	-876	0	-842	-786	56	-154	-158	-4	-1,872	-1,820	52

The fair value of the acquisitions made during 2019 have changed due to the establishment of a final purchase price agreement during 2020.

Contributions from companies acquired in 2019 and 2020 by business area

	SMRT		SMM		SMT		Total	
	2019	2020	2019	2020	2019	2020	2019	2020
Contributions as of acquisition date								
Revenues	83	50	211	25	–	79	294	154
Profit (loss) for the year	-124	-2	-26	-9	–	3	-150	-8
Contributions if the acquisition date would have been January 1								
Revenue	293	227	447	523	126	79	866	829
Profit (loss) for the year	-147	-1	-9	4	27	3	-129	6

Other acquisitions

In December, Sandvik acquired a minority stake in the privately owned American software company Oqton, a leading provider of AI-powered manufacturing solutions that allows manufacturers to manage, optimize, and automate their manufacturing workflows. This has been recognized as a financial asset.

§ ACCOUNTING PRINCIPLES

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, defacto 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 remeasurement 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. ■

! CRITICAL ESTIMATES AND JUDGMENTS

The business areas use estimates and judgments regarding allocation of goodwill and other surplus values in a business combination. ■

G32 DIVESTMENTS, ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The divestments of business combinations executed in 2020 are set out below. There were no divestments during 2019.

Business area	Company/Unit	Divestment date	Annual revenue	No. of employees
Other operations	Sandvik Drilling & Completions (Varel)	March 12, 2020	2,100 MSEK in 2019	1,100
Sandvik Materials Technology	Sandvik Powder Solutions Business	April 6, 2020	68 MSEK in 2019	30

Divestments

In March, the divestment of Sandvik Drilling and Completions (Varel), meaning the operations related to the oil and gas industry, was completed to the private equity firm Blue Water Energy and its co-investor, the privately owned Nixon Energy Investments. Sandvik still remains as minority owner of 30 percent of the company and holds a position on the board. The remaining holding is incorporated in Group Activities. The contribution to Sandvik's earnings per share from the minority ownership, reported in associated companies, have been limited during the year. The divestment impacted the other operating expenses by SEK -547 million

of which SEK -520 million is the realized effect from reversal of accumulated currency translation in Other comprehensive income. The divestment generated a positive cash flow impact of SEK 704 million net of transaction costs. Sandvik Drilling and Completions (Varel) was presented as other operations in 2019. See below under Assets held for sale.

In April, the divestment of the Sandvik Powder Solutions Business for powder-based HIP products to Metal Technology Co. Ltd. (MTC) was completed but the transaction had no major impact on Sandvik.

Assets and liabilities included in divestments 2020

	Other operations Sandvik Drilling & Completions (Varel)	SMT Sandvik Powder Solutions Business	Total
Intangible assets	19	77	96
Property, plant and equipment	272	21	293
Other non-current assets	62	8	70
Inventories	577	41	618
Receivables	555	13	568
Other current assets	59	2	61
Cash and cash equivalents	53	0	53
Interest-bearing loans and borrowings	-123	-9	-132
Other liabilities and provisions	-426	-50	-476
Deferred tax assets/liabilities, net	54	4	58
Net identifiable assets	1,102	107	1,209
Gain (loss) on divestments of business combinations	-547	-79	-626
Consideration received after divestment costs	757	28	785
Less: Cash and cash equivalents in the divested entities	-53	0	-53
Impact on the Group's cash and cash equivalents, divested operations	704	28	732

Asset held for sale

During October 2020 Sandvik signed an agreement to divest its Exploration business to Drillman, a subsidiary of the M Group of companies, which is 100 percent owned and operated in Australia. Drillman provides equipment and technical support to the Geo-technical, Mineral Exploration, Horizontal, Directional and Upstream Gas Drilling sectors, among others. The deal includes exploration rigs, consumables and production stock, along with selected trademarks and patents. The business is currently reported in Sandvik Mining and Rock Technology. Since the recovery of the investment is principally through the 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. Closing of the transaction is expected during the first half of 2021.

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. Since the recovery of the investment principally was through the sale, the assets and liabilities were classified as a disposal group held for sale 2019. The disposal group was measured at fair value less costs to sell. The transaction triggered a write-down of goodwill and other intangible assets in 2019 with an effect on net result of SEK 3,900 million in other operating expenses.

Assets and liabilities held for sale

	2019	2020
Intangible assets	18	2
Property, plant and equipment	249	-0
Other non-current assets	169	53
Inventories	571	245
Receivables	729	61
Other current assets	46	0
Cash and cash equivalents	34	-0
Total assets	1 815	361
Interest-bearing loans and borrowings	126	0
Other liabilities and provisions	754	171
Total liabilities	880	171
Total equity and liabilities	880	171

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, through 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 2021.

Income Statement for discontinued operations

	2019	2020
Revenue	295	6
Cost of sales and services	-385	-13
Gross profit	-90	-8
Selling expenses	-29	6
Administrative expenses	-45	-27
Other operating income	4	2
Other operating expenses	-44	-5
Operating loss	-204	-32
Net financial items	-1	0
Loss after financial items	-205	-32
Loss for the year	-205	-32

Cash flow Statement for discontinued operations

	2019	2020
Cash flow from operating activities	-152	-67
Cash flow from investing activities	16	2
Cash flow from financing activities	-2	-0
Cash flow from discontinued activities	-138	-66

§ ACCOUNTING PRINCIPLES**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. To be highly probable, actions to complete the transaction are initiated and the transaction is expected to be completed within one year. 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 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, it deconsolidates 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 remeasurement of the retained interest to fair value is disclosed separately.

Distribution to owners

When Sandvik is committed to distribute a disposal group to its owner, assets and liabilities will be reclassified to "held for distribution to owners". Sandvik is committed to the distribution when the disposal group is available for immediate distribution and the distribution is highly probable. To be highly probable, actions to complete the distribution are initiated and the distribution is expected to be completed within one year. The decision of distribution shall have been taken at appropriate level within the organization. ■

G33 GOVERNMENT GRANTS

Sandvik has received various forms of government grants in countries where the Group operates of SEK 521 million (48) during 2020. The grants have been recognized as a reduced cost to which the grant is attributable to. The main part is related to personnel costs.

The majority of the grants have no unfulfilled conditions or contingencies attached to the grants.

§ ACCOUNTING PRINCIPLES

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. ■

G34 EVENTS AFTER THE END OF THE PERIOD**Establishment of new business area – Sandvik Rock Processing Solutions**

On October 16, 2020, Sandvik announced that it had decided to establish a new business area, Sandvik Rock Processing Solutions, as of January 1, 2021. The new business area will consist of the Crushing and Screening division, which was part of the Sandvik Mining and Rock Technology business area until January 1, 2021. The reason is to further accelerate profitable growth within rock processing. As of January 1, 2021, the remaining operations within Sandvik Mining and Rock Technology changed name to Sandvik Mining and Rock Solutions.

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PARENT COMPANY INCOME STATEMENT

MSEK	Note	2019	2020
Revenue	P2	21,038	9,599
Cost of sales and services		-10,038	-1,877
Gross profit		11,000	7,722
Selling expenses		-1,259	-956
Administrative expenses		-2,724	-1,382
Research and development costs	P5	-1,588	-1,386
Other operating income	P6	44	7
Other operating expenses	P6	-1,249	-1,055
Operating profit	P3, P4, P11	4,224	2,950
Result from shares in group companies	P7	11,989	-1,558
Interest income and similar items	P7	485	448
Interest expenses and similar items	P7	-795	-578
Profit after net financial items		15,903	1,262
Appropriations		-82	2,285
Income tax	P8	-684	-680
Profit for the year		15,137	2,867

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

PARENT COMPANY BALANCE SHEET

MSEK	Note	31 Dec 2019	31 Dec 2020
Assets			
Non-current assets			
Intangible assets	P9	85	39
Property, plant and equipment	P10	7,089	3,219
Financial assets			
Shares in group companies	P12	42,573	43,544
Due from group companies		11,648	10,469
Other investments		2	2
Non-current receivables	P13	35	12
Deferred tax assets	P8	80	81
Total non-current assets		61,512	57,366
Current assets			
Inventories	P14	3,229	676
Current receivables			
Trade receivables		798	167
Due from group companies		10,112	5,092
Other receivables	P13	451	415
Prepaid expenses and accrued income		695	619
Cash and cash equivalents		0	0
Total current assets		15,285	6,969
Total assets		76,797	64,335
Equity and liabilities			
Equity			
Non-distributable equity			
Share capital		1,505	1,505
Statutory reserve		1,611	1,611
Distributable equity			
Profit brought forward		16,312	31,748
Profit for the year		15,137	2,867
Total equity	P15	34,565	37,731
Untaxed reserves			
Untaxed reserves		3,222	937
Provisions			
Provisions for pensions	P16	337	303
Other provisions	P17	433	447
Total provisions		3,392	1,687
Non-current interest-bearing liabilities			
Other liabilities	P18	15,124	11,346
Non-current non-interest-bearing liabilities			
Other liabilities		245	123
Current interest-bearing liabilities			
Loans from financial institutions		99	–
Loans from group companies		13,144	7,116
Other liabilities		1,995	3,350
Total current interest-bearing liabilities		30,607	21,935
Current non-interest-bearing liabilities			
Advance payments from customers		325	26
Accounts payable		1,819	749
Due to group companies		2,226	609
Income tax liabilities	P8	604	11
Other liabilities		291	205
Accrued expenses and deferred income	P19	2,368	1,383
Total current non-interest-bearing liabilities		7,633	2,982
Equity and liabilities		76,797	64,335

For information on contingent liabilities and pledged assets, refer to note P20.

PARENT COMPANY CHANGES IN EQUITY

MSEK	Share capital	Statutory reserve	Distributable equity	Total equity
Equity at January 1, 2019	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 December 31, 2019	1,505	1,611	31,449	34,565
Equity at January 1, 2020	1,505	1,611	31,449	34,565
Comprehensive income for the year	–	–	2,867	2,867
Dividend	–	–	–	–
Share-based payment settled by equity instruments	–	–	34	34
Increase of hedge options programs	–	–	176	176
Transfer of equity Sandvik Australian Limited Partnership	–	–	89	89
Equity at December 31, 2020	1,505	1,611	34,615	37,731

PARENT COMPANY CASH FLOW STATEMENT

MSEK	Note	2019	2020
Cash flow from operating activities			
Profit before tax		15,821	3,547
Adjustment for depreciation, amortization and impairment losses		1,163	684
Adjustment for non-cash items, etc	P22	-222	-413
Income tax paid		-728	-1,275
Cash flow from operating activities before changes in working capital		16,034	2,543
Changes in working capital			
Changes in inventories		-164	2,553
Changes in operating receivables		795	7,972
Changes in operating liabilities		706	-3,956
Cash flow from operating activities		17,371	9,112
Cash flow from investing activities			
Acquisition of companies and shares, net of cash acquired		-11,893	-1,144
Acquisition of property, plant and equipment		-976	-430
Proceeds from sale of companies and shares, net of cash disposed of		115	-2,011
Proceeds from sale of property, plant and equipment		136	3,923
Net cash used in investing activities		-12,618	338
Net cash flow after investing activities		4,753	9,450
Cash flow from financing activities			
Changes in advances/loans to group companies		-1,853	-1,118
Changes in advances/loans from group companies		2,414	-6,029
Proceeds from external borrowings		99	–
Repayment of external borrowings		-85	-2,303
Dividend paid		-5,331	–
Net cash used in financing activities		-4,756	-9,450
Cash flow for the year		-3	0
Cash and cash equivalents at beginning of year		3	0
Cash and cash equivalents at end of year		0	0

P1 ACCOUNTING PRINCIPLES, PARENT COMPANY

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.

The Parent Company generally apply accounting principles as the consolidated financial statements, when an exception is made the accounting principle applied for the Parent Company is presented in the respective note.

§ ACCOUNTING PRINCIPLES

The symbol and heading show where the accounting principles are described in the note.

Changed accounting principles

The Parent Company's accounting principles has changed in accordance with the amendments described in the Group in G1.

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.

Borrowing costs

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

P2 CATEGORIES OF REVENUE

	2019	2020
Geographical markets		
Europe	17,431	8,995
North America	1,410	113
South America	201	72
Africa and Middle East	81	80
Asia	1,809	287
Australia and New Zealand	106	52
Total	21,038	9,599
Goods/service lines		
Sale of goods	20,962	9,557
Rendering of services	66	39
Rental income	10	3
Total	21,038	9,599

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

P3 PERSONNEL INFORMATION AND REMUNERATION TO MANAGEMENT

Average number of employees was at year end 2020 4,990 (6,711) of which 25 percent were women (23). All personnel in the Parent Company is based in Sweden.

Wages, salaries, other remuneration and social costs

	2019	2020
Wages, salaries and other remuneration	4,196	2,160
Social costs	1,291	770
Pension costs	571	426
Total	6,058	3,356
of which to Boards of Directors and presidents ¹⁾		
Salaries and other remunerations	39	38
Variable salary	6	–
Pension costs	23	21

¹⁾ The Parent Company's pension liability relating to these persons amounted to SEK 4 million (4).

Gender distribution in senior management

Proportion of women, %	2019	2020
Gender distribution in senior management	27	27
Other senior executives	29	29

For information regarding incentive programs see note G4.

§ ACCOUNTING PRINCIPLES

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. ■

P4 REMUNERATION TO AUDITORS

	2019	2020
PwC		
Audit fees	-18	-16
Audit activities other than the audit assignment	0	–
Tax consultancy services	0	0
Other services	-20	-16
Total	-38	-32
Other audit firms		
Audit fees	0	–
Audit activities other than the audit assignment	–	–
Tax consultancy services	-1	-1
Other services	-89	-23
Total	-90	-24

P5 RESEARCH AND DEVELOPMENT

	2019	2020
Expenditure for		
Research and development	-1,655	-1,386
Quality Assurance	-269	-35
Total	-1,924	-1,421
of which expensed, total	-1,858	-1,421
of which expensed relating to Research and Development	-1,588	-1,386

P6 OTHER OPERATING INCOME AND EXPENSES

The Parent Company's other operating income amounted to SEK 7 million (44). The amount is mainly related to profit from sale of assets of SEK 4 million (31).

The Parent Company's other operating expenses amounted to SEK -1,055 million (-1,249). The main part is royalties between group companies of SEK -830 million (-1,189).

P7 FINANCIAL INCOME AND EXPENSES**Income from shares in group companies**

	2019	2020
Dividend, net of withholding tax	10,036	738
Group contributions paid/received	1,937	–
Gain or loss on sale of shares and participations	16	-2,243
Impairment	–	-53
Total	11,989	-1,558

Interest income and similar items

	2019	2020
Interest income, group companies	482	432
Other interest income	0	0
Derivatives, group companies	–	5
Other	3	11
Total	485	448

Interest expense and similar items

	2019	2020
Interest expense, group companies	-154	-41
Other interest expense	-564	-521
Derivatives, group companies	-65	-4
Other	-12	-12
Total	-795	-578

§ ACCOUNTING PRINCIPLES**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. ■

P8 INCOME TAX

Recognized in profit and loss

	2019	2020
Income tax expense for the year		
Current tax	-1,326	-624
Adjustment of taxes attributable to prior years	-87	-57
Total current tax expense	-1,413	-681
Deferred taxes relating to temporary differences and tax losses carried forward	729	1
Total tax expense	-684	-680

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:

	2019		2020	
	MSEK	%	MSEK	%
Profit after financial items	15,821		3,547	
Weighted average tax based on each country's tax rate	-3,386	-21.4	-759	-21.4
Tax effect of				
Non-deductible expenses	-68	-0.4	-51	-1.4
Tax-exempt income	2,797	17.7	178	5.0
Adjustments relating to prior years	-27	-0.2	-57	-1.6
Other	-	-	9	0.2
Total recognized tax expense	-684	-4.3	-680	-19.2

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.

	2019			2020		
	Deferred tax assets	Deferred tax liabilities	Net	Deferred tax assets	Deferred tax liabilities	Net
Property, plant and equipment	-	-24	-24	-	-24	-24
Inventories	6	-	6	6	-	6
Provisions	76	-21	55	86	-11	75
Non-interest-bearing assets and liabilities	43	-	43	25	-1	24
Total	125	-45	80	117	-36	81
Offsetting	-125	125	-	-117	117	-
Total deferred tax assets and liabilities	-	80	80	-	81	81

Change of deferred tax in temporary differences and unused tax losses

	2019	2020
Balance at the beginning of the year, net	-649	80
Recognized in profit and loss	729	1
Balance at end of year, net	80	81

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

	2019	2020
Income tax liabilities	-604	-11
Income tax receivables	-	-
Net tax liabilities/receivables	-604	-11

§ ACCOUNTING PRINCIPLES

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. ■

P9 INTANGIBLE ASSETS

	Patents and other intangible assets	Goodwill	Total
Cost			
At January 1, 2019	123	139	262
Additions	17	–	17
Divestments and disposals	-20	–	-20
At December 31, 2019	120	139	259
Accumulated amortization			
At January 1, 2019	97	58	155
Divestments and disposals	-20	–	–
Amortization for the year	11	28	39
At December 31, 2019	88	86	174
Net carrying amount			
At December 31, 2019	32	53	85

	Patents and other intangible assets	Goodwill	Total
Cost			
At January 1, 2020	120	139	259
Additions	4	–	4
Divestments and disposals	-40	–	-40
Reclassifications	3	–	3
At December 31, 2020	87	139	226
Accumulated amortization			
At January 1, 2020	88	86	174
Divestments and disposals	-22	–	-22
Amortization for the year	8	27	35
At December 31, 2020	74	113	187
Net carrying amount			
At December 31, 2020	13	26	39

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

	2019	2020
Administrative expenses	39	35
Total	39	35

§ ACCOUNTING PRINCIPLES

Intangible assets

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

Amortization of intangible assets

Intangible assets are amortized on a straight-line basis over the estimated useful lives. Intangible assets are amortized from the date they are available to use. The estimated useful lives are as follows:

- Patents 10–20 years
- Goodwill 10 years ■

P10 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery	Equipment, fixtures and fittings	Construction in progress	Total
Cost					
At January 1, 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 December 31, 2019	1,756	14,860	1,565	1,232	19,413
Revaluations					
At January 1, 2019	39	-	-	-	39
Divestments and disposals	-3	-	-	-	-3
At December 31, 2019	36	-	-	-	36
Accumulated depreciation and impairment losses					
At January 1, 2019	778	10,207	1,135	-	12,120
Divestments and disposals	-9	-471	-103	-	-583
Reclassifications	0	0	-	-	-
Depreciation for the year	51	680	92	-	823
At December 31, 2019	820	10,416	1,124	-	12,360
Net carrying amount					
At December 31, 2019	972	4,444	441	1,232	7,089

	Land and buildings	Plant and machinery	Equipment, fixtures and fittings	Construction in progress	Total
Cost					
At January 1, 2020	1,756	14,860	1,565	1,232	19,413
Additions	28	52	32	318	430
Divestments and disposals	-201	-9,702	-702	-514	-11,119
Reclassifications	59	221	73	-383	-30
At December 31, 2020	1,642	5,431	968	653	8,694
Revaluations					
At January 1, 2020	36	-	-	-	36
Divestments and disposals	-0	-	-	-	0
At December 31, 2020	36	0	0	-	36
Accumulated depreciation and impairment losses					
At January 1, 2020	820	10,416	1,124	-	12,360
Divestments and disposals	-95	-6,593	-530	-	-7,218
Reclassifications	-	-30	-	-	-30
Depreciation for the year	46	252	78	-	376
Impairment losses	-	23	-	-	23
At December 31, 2020	771	4,068	672	-	5,511
Net carrying amount					
At December 31, 2020	907	1,363	296	653	3,219

P11 LEASES

Operating leases with Sandvik as lessee according to RFR 2

	2019	2020
Within one year	135	117
Between one and five years	374	279
Later than five years	223	191
Net carrying amount	732	587

Leasing fees for assets under operating leases, such as leased premises, machinery and office equipments are recognized within operating expenses. In 2020, the Parent Company expensed SEK 159 million.

Operating leases with Sandvik as lessor

No future minimum lease payments under non-cancellable operating lease contracts (0).

§ ACCOUNTING PRINCIPLES

Leased assets

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

P12 SHARES IN GROUP COMPANIES

	2019	2020
Cost		
At the beginning of the year	31,528	43,044
Additions	5,825	349
Capital contributions	6,068	1,136
Capital reductions	-27	-
Divestment	-350	-460
At the end of the year	43,044	44,069
Accumulated impairment losses		
At the beginning of the year	-751	-471
Impairment losses for the year	-	-54
Impairment reversed for the year	280	-
At the end of the year	-471	-525
Accumulated revaluations		
At the beginning of the year	0	0
At the end of the year	0	0
Carrying amount at year-end	42,573	43,544

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

Company, domicile	Corp. Reg. number	2019			2020		
		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	3,656	1,000	91	7,527
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
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 Besöksservice 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	5,782,350	501,000	100	6,623,705
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 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	28,342	910	91	37,947
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	281048
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	2,500	100	4,740,600
Goldcup 26940 AB	559291-1035	–	–	–	25,000	100	25
Goldcup 26939 AB	559291-1027	–	–	–	25,000	100	25
Goldcup 26938 AB	559291-1019	–	–	–	25,000	100	25

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

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

P12, continued

Sandvik AB's holdings of shares and participations in foreign subsidiaries, direct holdings, according to balance sheet at December 31, 2020

Country/Location	Company	2019			2020		
		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	–	–	–
	Sandvik Australian Ltd. Partnership	–	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	1,579,078	–	100	1,579,078
	Sandvik Materials Technology (China) Ltd.	–	23 ³⁾	282,749	–	23 ³⁾	230,343
Czech Republic	Sandvik CZ s.r.o.	–	100	0	–	100	0
Democratic Republic of Congo	Sandvik Mining and Construction DRC S.P.R.L.	9990	100	4898	9990	100	4,898
Hungary	Sandvik Magyarorszag 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
	Sandvik Materials Technology India Private Ltd.	–	–	–	1,801,241	75 ⁵⁾	2,084
	Sandvik Mining and Rock Technology India Private Ltd.	–	–	–	1,801,241	75 ⁵⁾	2,084
Ireland	Sandvik Mining and Construction Logistics Ltd.	100	100	5,508	100	100	5,508
Japan	Sandvik Materials Technology Japan K.K.	2,780,000	100	224,701	–	–	–
	Sandvik K.K.	–	–	–	8,000	100	224,207
Korea	Sandvik Korea Ltd.	752,730	100	20,185	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
Netherlands	Sandvik Finance B.V.	18,788	100	7,093,582	18,788	100	7,093,582
	Frost Holding B.V.	1	100	1105	1	100	0
Peru	Sandvik del Perú S.A.	6,562,795	90 ³⁾	26,025	6,562,795	90 ³⁾	26,025
Russia	Sandvik LLC	–	–	–	–	100	67,238
	Sandvik Mining and Construction CIS LLC	–	–	–	–	100	45,015
Serbia	Sandvik Mining and Rock Technology LLC Belgrade	–	–	–	–	100	7,898
Slovakia	Sandvik Slovakia s.r.o.	–	100	1,238	–	100	1,238
South Africa	Sandvik Holding Southern Africa (Pty) Ltd	1107501	100	1,084,567	1,107,501	100	1,084,567
Turkey	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				42,573,113			43,543,899

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 percent.

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

P12, continued

Sandvik AB's holdings of shares and participations in subsidiaries, indirect holdings, %¹⁾

Country/Location	Company	2019	2020
Sweden	Sandvik Materials Technology StripTech AB	–	100
	Sandvik Treasury AB	100	100
	Sandvik Materials Technology Treasury AB	100	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	100
	AB Sandvik Materials Technology	–	100
	Kanthal AB	100	100
	Sandvik Powder Solutions AB	100	–
	Sandvik Mining and Construction Haparanda AB	100	100
	Sandvik SRP AB	100	100
Argentina	JV Rock Drill Steel	–	100
	ESIP Energy S.A.	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	100
	Sandvik Financial Services 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	100
	Terelion (Australia) Pty Ltd	100	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
Belarus	OOO Walter Tools	–	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
	CGTech Brasil Consultoria de Software Eireli	–	100
Burkina Faso	Sandvik Mining and Rock Technology Burkina Faso SARL	100	100
Canada	Système Guardian Inc.	100	100
	Sandvik Canada, Inc.	100	100
	Sandvik Materials Technology Canada, Inc.	–	100
	Newtrax Holdings Inc	100	100
	Inrock Ltd.	100	100
	Newtrax Technologies Inc	100	100
	Varel Rock Bits Canada Inc	100	–
	Artisan Vehicles, Inc.	100	100
Chile	Sandvik Chile S.A.	100	100
	NTX Chile SpA	100	100
	Sandvik Financial Services S.A.	100	100
	Sandvik Mining and Construction Chile S.A.	100	100

1) Refers to share of capital, which also corresponds to voting rights for the total number of shares unless otherwise stated.

P12, continued

Country/Location	Company	2019	2020
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
	Varel Beijing Trading Co Ltd	100	–
	Dormer Tools (Shanghai) Co Ltd	100	100
	Sandvik Logistics (Shanghai) Co. Ltd	100	100
	Seco Tools (Shanghai) Co Ltd	100	100
	Kunshan OSK Precision Tools Co., Ltd	100	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 ²⁾	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
	Beijing CGTech Software Co., Ltd.	–	100
Colombia	Sandvik Colombia S.A.S.	100	100
Czech Republic	Sandvik Chomutov Precision Tubes Spol. s.r.o.	100	100
	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	100
	Sandvik Coromant Finland Oy	100	100
	Tammerfors Linne och Jern Ab	100	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	–
	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
	CGTech S.A.R.L.	–	100
Gabon	Varel Gabon SARL	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

²⁾ Share of votes 60% (60).

P12, continued

Country/Location	Company	2019	2020
Germany	Metrologic Group GmbH	100	100
	Protomedical GmbH	100	100
	Kanthal GmbH	–	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
	CGTech Deutschland GmbH	–	100
Ghana	Sandvik Mining & Construction Ghana Limited	100	100
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
	Sandvik Materials Technology India Private Limited	–	100
	Sandvik Mining and Rock Technology India Private Limited	–	100
	CGTech India Software Solutions Private Limited	–	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
Ireland	Diamond Innovations International Sales	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
	Sandvik Materials Technology Italia S.R.L.	–	100
	CGTech s.r.l.	–	100
Japan	Sandvik Materials Technology K.K.	100	100
	Sandvik KK	–	100
	Walter Japan K.K.	100	100
	Seco Tools Japan K.K.	100	100
	Sandvik Tooling Supply Japan K.K.	100	100
	Kabushiki Kaisha CGTech	–	100
Kazakhstan	Sandvik Mining and Construction Kazakhstan Ltd	100	100
Korea	Walter Korea Ltd	100	100
	Sandvik Materials Technology Korea Co., Ltd.	–	100
	Seco Tools Korea Ltd	100	100
	Sandvik SuhJun Ltd	100	100
	CGTech Co., Ltd.	–	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	–
	Sandvik Mining And Construction (M) Sdn Bhd	100	100
Mexico	NTX Mining Services S de RL de CV	100	100
	Sandvik SA de CV	100	100
	Sandvik Hard Materials de Mexico S.A. de C.V.	100	100
	Sandvik Materials Technology Mexico S.A. de C.V.	–	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	–
	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

P12, continued

Country/Location	Company	2019	2020
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	–
Nigeria	Sandvik Mining & Construction Nigeria Limited	100	100
	Varel International Nigeria Limited	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	100
	Sandvik Forestal S.A.	100	100
	Varel International Industries L.P Sucursal Del Peru	100	–
Philippines	Sandvik Philippines Inc	100	100
	Sandvik Tamrock Philippines Inc	100	100
Poland	Sandvik Polska Sp. Z.o.o.	100	100
	Walter Polska SP. Z.o.o.	100	100
	Seco Tools Sp Z.o.o.	100	100
	Pramet Sp. Z.o.o.	100	100
Portugal	Seco Tools Portugal Lda	100	100
Romania	Sandvik SRL	100	100
	Walter Tools SRL	100	100
	Seco Tools Romania SRL	100	100
Russia	Newtrax Rus LLC	100	100
	LLC Walter	100	100
	Sandvik MKTC OAO	100	100
	LLC Sandvik	100	100
	Varel NTS, LLC	100	–
	LLC Pramet	100	100
	LLC Seco Tools	100	100
Saudi Arabia	Sandvik Mining and Construction CIS LLC	100	100
	Varel Arabia Company Limited	75	–
Serbia	Seco Tools SRB d.o.o.	100	100
	Sandvik Mining & Rock Technology LLC Belgrade	–	100
Singapore	Walter AG Singapore Pte Ltd	100	100
	Sandvik South East Asia Ptd Ltd	100	100
	Seco Tools (SEA) Pte Ltd	100	100
	Sandvik Materials Technology Singapore Pte. Ltd.	–	100
	Sandvik Mining and Construction S.E. Asia Pte Ltd	100	100
Slovakia	PRAMET Slovakia spol sro	100	100
	Walter Slovakia s.r.o.	100	100
	Seco Tools SK, s.r.o.	100	100
Slovenia	Sandvik D.o.o.	100	–
	Walter Tools, d.o.o.	100	100
	Seco Tools SI d.o.o.	100	100
South Africa	Sandvik (Pty) Ltd	100	100
	Newtrax Pty. Ltd	100	100
	Sandvik Financial Services (Pty) Ltd	100	100
	Seco Tools South Africa (Pty) Ltd	100	100
	Sandvik Mining RSA (Pty) Ltd	75	75
	Sandvik Mining & Construction Delmas (Pty) Ltd	100	100
Spain	Sandvik Espanola	100	100
	Sandvik Materials Technology Spain S.L.	–	100
	Walter Tools Iberica S.A.U.	100	100
	Metrologic Group Spain S.L.	100	100
	Seco Tools Espana S.A.	100	100

P12, continued

Country/Location	Company	2019	2020
Switzerland	Sandvik Holding AG	100	100
	Sandvik AG	100	100
	Sandvik Materials Technology Santrade AG	–	100
	Walter (Schweiz) AG	100	100
	Santrade Ltd	100	100
	Varel International Engineering Resources SA	100	–
	Seco Tools AG	100	100
Taiwan	Sandvik Taiwan Ltd	100	100
	Seco Tools (S.E.A.) Taiwan Branch	100	100
Tanzania	Sandvik Mining & Construction Tanzania Limited	98	98
Thailand	Sandvik Thailand Limited	91	91
	Walter (Thailand) Co Ltd	100	100
	Seco Tools (Thailand) Co Ltd	100	100
Turkey	Walter Cutting Tools Industry and Trade LLC	100	100
	Seco Tools Kesici Takimlar Makina San.Tic.A.S.	100	100
Ukraine	LLC Seco Tools Ukraine	100	100
	Sandvik Ukraine	100	100
United Arab Emirates	Downhole Products Middle East Fze	100	–
United Kingdom	Sandvik Holdings Ltd	100	100
	Sandvik Materials Limited	100	100
	Sandvik Ltd	100	100
	Walter GB Ltd	100	100
	Dormer Pramet Ltd	100	100
	BTA Heller Drilling Systems Ltd	100	100
	Inrock Ltd. (UK)	100	100
	Varel (UK) Limited	100	–
	Downhole Products UK Holdco II Limited	100	–
	Downhole Products UK Holdco Limited	100	–
	Downhole Products Limited	100	–
	Ian Hay (Engineering) Ltd	100	–
	Seco Tools (UK) Limited	100	100
	Tamrock Great Britain Holdings Ltd	100	100
	Fintec Crushing and Screening Limited	100	100
	Sandvik Osprey Ltd	100	100
	CGTech Ltd.	–	100
USA	Sandvik Special Metals LLC	100	100
	PennPower Inc	100	100
	Sandvik, Inc.	100	100
	Sandvik Financial Services LLC	100	100
	Walter USA LLC	100	100
	TDM Systems Inc	100	100
	Sandvik Machining Solutions USA LLC	100	100
	Dura-Mill, Inc.	100	100
	Allied Construction LLC	20	100
	Advanced Theodolite Technology, Inc.	100	100
	Metrologic Group Services, Inc.	100	100
	MG USA Properties, Inc.	100	100
	Precorp Inc	100	100
	uFab LLC	100	100
	Dormer Pramet LLC	100	100
	Varel Group	100	–
	Varel International Energy Services Inc.	100	–
	Varel International Holdings Inc	100	–
	Valenite LLC	100	100
	Sandvik Materials Technology LLC	100	100
	Varel International Ind. LLC	100	–
	Downhole Products Holdings USA Inc.	100	–
	Aberdeen Products, Inc.	100	–
	Varel Newtech Holdings Inc	50	–
	Wetmore Tool and Engineering Company	100	100
	Artisan Vehicle Systems, Inc.	100	100
	Tamcorp Inc USA	100	100

P12, continued

Country/Location	Company	2019	2020
USA	Thermaltek LLC	100	100
	Summerill High Precision LLC	–	100
	Inrock Drilling Systems, inc.	100	100
	Inrock Acquisitions, Inc.	100	100
	Pennsylvania Extruded Tube Co. (PEXCO)	70	70
	Diamond Tool Coating, LLC	100	100
	Niagara Cutter LLC	100	100
	Seco Tools, LLC	100	100
	Sandvik Wire and Heating Technology Corporation	100	100
	Sandvik Thermal Process Inc.	100	100
	Sandvik Mining and Construction USA LLC	100	100
	Custom Electric Manufacturing LLC	100	100
	Melin Tool Company, Inc.	100	100
	Artisan Vehicle, Inc.	100	100
	CGTech	–	100
Vietnam	Sandvik Vietnam Company Ltd	100	100
	Seco Tools Vietnam Co Ltd	100	100
Zambia	Sandvik Mining & Construction Zambia Limited	100	100

§ ACCOUNTING PRINCIPLES

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 remeasurement 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.

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. ■

P13 NON-CURRENT RECEIVABLES AND OTHER CURRENT RECEIVABLES

	2019	2020
Non-current receivables		
Derivatives	19	–
Other interest-bearing receivables	16	12
Total	35	12
Other current receivables		
Derivatives	26	–
Other non-interest-bearing receivables	418	415
Other interest-bearing receivables	7	0
Total	451	415

P14 INVENTORIES

	2019	2020
Raw materials and consumables	1,095	459
Work in progress	1,301	170
Finished goods and goods for resale	833	47
Total	3,229	676

P15 CAPITAL AND RESERVES

Share capital

According to the Articles of Association of Sandvik AB, the share capital shall amount to a minimum of SEK 700,000,000 and a maximum of SEK 2,800,000,000. 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:

Share capital at:	No. of shares	Quotient value SEK/share	Share capital SEK
December 31, 2018	1,254,385,923	1.20	1,505,263,108
December 31, 2019	1,254,385,923	1.20	1,505,263,108
December 31, 2020	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 dividend

P15, continued

for 2020 is estimated to amount to SEK 8,153 million, SEK 6.50 per share, the 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).

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 2020, 1,254,385,923 shares (1,254,385,923) with a quotient value of SEK 1.20 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.

§ ACCOUNTING PRINCIPLES

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 January 1, 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. ■

P16 PROVISIONS FOR PENSION AND OTHER NON-CURRENT POST-EMPLOYMENT BENEFITS

The Parent Company's recognized pension provision was SEK 303 million (337). 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 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

	2019	2020
Present value of funded and unfunded pension obligations	2,489	2,595
Plan assets	2,482	1,594
Deficit in the assets of the pension foundation	-330	699
Net amount recognized for pension obligations	-337	-303

P17 OTHER PROVISIONS

	Warranties	Restructuring	Employee benefits	Environmental obligations	Legal disputes	Other obligations	Total
Balance at January 1, 2019	9	36	143	27	-	0	215
Provisions made during the year	1	265	56	25	0	0	347
Provisions used during the year	2	-75	-52	0	0	0	-125
Unutilized provisions reversed during the year	0	-4	0	0	0	0	-4
Balance at December 31, 2019	12	222	147	52	0	0	433
Balance at January 1, 2020	12	222	147	52	0	0	433
Provisions made during the year	-7	241	87	-34	-	3	290
Provisions used during the year	-2	-168	-102	-1	-	-	-273
Unutilized provisions reversed during the year	-	-3	-	-	-	0	-3
Reclassifications	0	3	-3	-	-	0	0
Balance at December 31, 2020	3	295	129	17	0	3	447

P18 NON-CURRENT INTEREST-BEARING LIABILITIES

Non-current interest-bearing liabilities fall due as follows:

	2019			2020		
	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⁾	6 977	8 146	15 123	4,976	6,369	11,345
Total	6 978	8 146	15 124	4,977	6,369	11,346

¹⁾ Other liabilities mainly comprise bond loans.

P19 ACCRUED EXPENSES AND DEFERRED INCOME

	2019	2020
Personnel related	1,767	995
Expense related to finance	304	122
Other	297	266
Total	2,368	1,383

P20 CONTINGENT LIABILITIES AND PLEDGED ASSETS

Contingent liabilities	2019	2020
Bills discounted	–	–
Other surety undertakings and contingent liabilities	4,577	3,889
Total	4,577	3,889
- of which for subsidiaries	4,570	3,853

The Parent Company's surety undertakings and contingent liabilities amounted to SEK 3,889 million (4,577), of which SEK 1 million (1) 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.

No assets of the Parent Company had been pledged in 2020 and 2019.

P21 TRANSACTIONS WITH RELATED PARTIES

Sales to group companies from the Parent Company amounted to SEK 8,513 million (16,966), or 89 percent (81) of total sales. The share of exports was 67 percent (58). The Parent Company's purchases from group companies amounted to SEK 1,886 million (1,875), or 23 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.

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.

P22 SUPPLEMENTARY INFORMATION TO THE CASH FLOW STATEMENT

Cash and cash equivalents	2019	2020
Cash and cash equivalents comprise:		
Cash and bank	0	0
Total in the balance sheet	0	0
Total in the cash flow statement	0	0

Interest and dividend paid and received	2019	2020
Dividend received	10,036	738
Interest received	489	396
Interest paid	-572	-481
Total	9,953	654

Other adjustments for non-cash items, etc	2019	2020
Changes in value if financial instruments	180	-102
Unappropriated results of associated companies	–	–
Gains and losses on disposal of non-current assets	-327	-330
Gains on disposal of companies and shares	-18	2,243
Provision for pensions	-36	-34
Other provisions	214	15
Other	-235	-2,205
Total	-222	-413

P23 EVENTS AFTER THE END OF THE PERIOD

No major events to report after the end of the reporting period.

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 December 31, 2020 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 SEK 9,000 million, 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, March 1, 2021

Sandvik Aktiebolag (publ)
BOARD OF DIRECTORS

PROPOSED APPROPRIATION OF PROFITS

The Board of Directors proposes that the profits at the disposal of the Annual General Meeting:

profits carried forward	31,747,920,923
and result for the year	2,867,375,636
SEK	34,615,296,559

be appropriated as follows:

a dividend of 6.50 SEK per share	
to the shareholders	8,153,508,500
profits carried forward	26,461,788,059
SEK	34,615,296,559

The proposed record date for dividends is Thursday, April 29, 2021.

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 Tuesday, April 27, 2021.

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 July 19, 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, March 1, 2021

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

Kai Wärn
Board member

Stefan Widing
Board member
President and CEO

Our auditor's report was submitted on March 5, 2021
PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant
Partner in charge

Magnus Svensson Henryson
Authorized Public Accountant

AUDITORS' 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 2020. The annual accounts and consolidated accounts of the company are included on pages 36–124 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Parent Company and the Group as of December 31, 2020 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 December 31, 2020 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 judgments; 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 many territories. Operationally, the business is organized in divisions that are aligned with 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 with respect to precision of the financial reporting. For this purpose, we have held interviews with management at various levels of the Group and heads of Group functions to discuss the business and the Group's strategy. We have also obtained and read management reports, policies, instructions and planning and steering 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, 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.

We have considered the impact Covid-19 has had on our audit and tailored our procedures to properly cover any new and/or increased risks. On an overall level we have been able to conduct our audit although the pandemic has led to other ways of working and use of digital tools for communication and collection of audit evidence.

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 judgment, we determined certain quantitative thresholds for materiality, including the overall group 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 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 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 notes G2, G3 and P2 provide additional information on how the Group accounts for its revenue.

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.

Measurement of acquired intangible assets

The majority of Sandvik's intangible assets have been acquired externally, mostly through acquiring businesses and represent 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 2020. 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 G13 contains additional information on the Group's intangible assets and the significant assumptions applied in the annual impairment tests.

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 whether 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.
- Traced disclosure information to accounting records and other supporting documentation.

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 centres. 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.

Notes G18 and P14 provide information about the the Group's accounting principles for measuring inventory and additional information on the line item.

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 many 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.
- Traced disclosure information to accounting records and other supporting documentation.

Key audit matter**How our audit addressed the Key audit matter*****Costs for efficiency measures***

Sandvik has announced a number of measures to mitigate effects from the Covid-19-pandemic during 2020 with actions supporting short-term and long-term savings. Efficiency measures to mitigate a slower demand environment and to ensure optimized efficiency cover initiatives across all business areas. As of December 31, 2020, the Group has recorded a provision for restructuring amounting to SEK 2.6 bn. 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.

Note G24 provide information on the Group's accounting principles for measuring restructuring costs and additional information on the line item.

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

- Read the detailed plans for efficiency measures presented to the board as documentation to support the decisions.
- Obtained evidence on a sample basis that the criteria for recording provisions were met.
- 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 costs relating to programs 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 1–36 and 129–144, and the Statutory Sustainability Report and Sustainable Business Report on pages 2–3, 9–11, 54–60 and 129–140. This other information also contains the Remuneration report that we expect to receive after the release of the Auditors' report. 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 Directors and the Managing Director of Sandvik AB (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the Group's financial situation and ensuring that the company's organization is designed so that the accounting,

management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

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 April 28, 2020 and has been the company's auditor since the general meeting of the shareholders on April 27, 2018.

Stockholm, March 5, 2021

PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant
Lead Partner

Magnus Svensson Henryson
Authorized Public Accountant

NON-FINANCIAL NOTES

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NF1 ABOUT THIS REPORT

This is the fifteenth consecutive year of sustainable business reporting for Sandvik. We aim to continue reporting the same way on an annual basis. The data in this report refers to the 2020 fiscal year. Sandvik's most recent Sustainable Business Report was published in March 2020. 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, are found on pages 2–3, 9–11, 56–60 and 130–140. See note P12 for a list of entities included in the figures, unless otherwise stated.

This report has been prepared in accordance with the Global Reporting Initiative, GRI Standards, Core option. The figures presented are the accumulated figures for 2020 for all active reporting units, unless otherwise stated. An operational control approach was used for consolidations. It covers our material aspects decided in the materiality analysis described in NF3 and it has been reviewed by an external party. As of 2020, we no longer report on emissions to water.

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 2020. 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.

NF2 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. Some of the dialogues held in 2020 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 on issues such as product development for improved safety and energy efficiency of the products. In 2020, much of the dialogue was moved to digital channels, such as the virtual event "Innovation in Mining". Investors and customers show a markedly increased interest in sustainability-related issues. 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 and we have included sustainability-related questions in the Sandvik all-employee survey. Sandvik regularly meets with unions and discusses the sustainability agenda. In 2020, we entered a partnership with the Lahti University of Applied Sciences in Finland to share insights on industrial production and sustainability. In September, students from the university carried out a sustainability review at the Lahti site.

Membership in organizations

Sandvik is a member of the UN Global Compact. Sandvik is also part of the industry association Jernkontoret (steel producers), Svemin (mines, minerals and metal producers), the Cobalt Institute and the International Tungsten Industry Association.

NF3 MATERIALITY ANALYSIS

Sandvik has a materiality analysis based on the process and method for its long-term sustainability target setting. The starting point is the sustainability agenda for the Group, derived from international frameworks and institutions such as the UN SDGs, the UN Global Compact, media reports, global trends, stakeholder dialogues and our own assessments.

In 2018, an initiative started to develop a set of long-term sustainability goals. The objective was to develop goals covering the most material areas for the Group and for its stakeholders. The target-setting had a holistic approach, including customers, own operations and suppliers to the scope.

The target process involved the Group Executive Management, business areas, divisions, functional groups and selected experts, and was based on input from stakeholders such as employees, customers, shareholders and investors. The conclusion was to focus our sustainability agenda around the four areas of circularity, climate, people and fair play.

The Sustainability Goals 2030 were approved by the Group Executive Management and the Board of Directors in 2019. The 2020 review of the long-term sustainability goals did not indicate a need to add or exclude any target area.

NF4 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.

Sandvik has set 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 contains sections dedicated to anti-bribery, corruption, diversity and inclusion and more. Every quarter, a training report is generated to monitor this target. By the end of 2020, 98 percent (96) 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 from being hired. The outcome by the end of 2020 was 76 (65) percent.

NF5 SPEAK UP

Employees and external parties who witness a violation of the Code of Conduct, laws or our policies can report the violation, anonymously if requested, through the global reporting tool Speak Up. They can also ask questions related to the Code of Conduct through Speak Up.

In 2020, we launched a global Speak Up training, consisting of four lessons, with the purpose of informing the employees about the whistleblowing process. The first and last lesson included a survey about employee awareness of and trust in Speak Up. According to the surveys, the training showed very good results with substantial improvements in both awareness and trust across the organization. This was confirmed in the 2020 Employee Engagement Survey, where 92 percent (83 in 2018) of respondents said they were aware of Speak Up and 78 percent (74 in 2018) said they trust that they can report without fear of retaliation.

Speak Up is available through Sandvik 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 that conducts the investigation, supported by a specialist investigation function.

In 2020, 203 (142) Speak Up incidents were reported (see distribution in chart). Of all cases opened and closed in 2020, 63 percent were closed within 90 days and the substantiation rate of closed cases amounted to 45 (38) percent. 2 percent (4) of all Speak Up reports related to human rights matters. In 2020, we added division data to the reports in order to provide the business areas with more detailed statistics.

NF5, continued

	Number		%	
	2019	2020	2019	2020
Speak Up Reports				
Human Relations	47	69	33	34
Compliance	26	43	18	21
Theft and misappropriation	13	10	9	5
Business records and information	6	12	4	6
EHS	12	20	8	10
Inquiries	21	17	15	8
Other	17	32	12	16
Total	142	203	100	100

NF6 COMPLIANCE

Sandvik manages compliance risks through a compliance program with a collective oversight through a Group function in four areas: anti-bribery and corruption, competition law, trade compliance and data privacy. In 2020, the strategic work mainly focused on the roll-out of a compliance tool, the Compliance House. The Compliance House is a tool which enables all levels of the company, from each individual business unit to the Board of Directors, 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 to implement the Compliance House at 25–50 percent of Sandvik entities was met.

Compliance training was offered to employees in different formats, including e-learning, webinars and classroom training. A total of 8,538 (3,800) participants received training.

There were extensive activities in the trade compliance program area in 2020 due to continued Brexit preparations, trade wars and a number of changes in customs tariffs and international sanctions imposed by the US government and other countries. For data privacy, anchoring of data privacy networks and formal processes as well as publication of formal governance documents, expanded awareness training, and work to begin scaling and leveraging the European GDPR program for a more global reach, were begun and underway.

Sandvik has zero tolerance for bribery and corruption. In 2020, the implementation of processes and systems to handle risks related to administrative intermediaries, such as customs agents, was in focus.

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 2020, 3,583 (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 significant fines or non-monetary sanctions for non-compliance with laws or regulations related to our four areas.

NF7 EMPLOYEES

At year-end 2020 the number of employees amounted to 37,125 (40,235).

Competence development

Sandvik provides employee development opportunities through on-the-job-training, virtual learning channels and classroom training. In 2020, we signed a contract with LinkedIn Learning and can now offer a wide range of digital skills training in various topics and languages, available on any device. We offer our employees leadership programs, learning academies, digital workshops, mentoring, and other opportunities to acquire new skills and knowledge. Due

to the pandemic situation, most leadership and expert programs were postponed and only 36 (549) employees participated in a program. In the fourth quarter, a digital leadership program, Leading Remote, was launched and 30 employees participated during the quarter.

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 2020, about 1,790 (2,700) 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 18.5 percent (18.2), the share of women in division management teams amounted to 20 percent (19) and the share of women in our talent pool was 33 percent (25). 19 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. We rolled out an online diversity and inclusion training globally in which 19,682 employees participated with a high engagement level. 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.

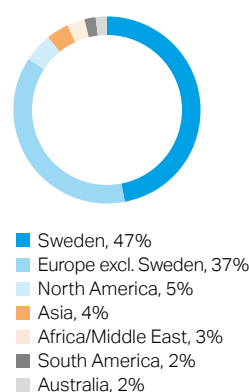
Employee engagement

We conduct a global Sandvik employee engagement survey biannually. In the 2020 survey, the Sandvik Employee Engagement Index showed a score of 80 percent (76 in 2018) with a participation rate of 83 percent (87 in 2018). 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.

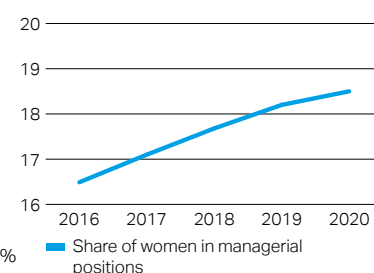
Every employee at Sandvik is offered at least one individual performance dialogue annually with their manager, that focuses on previous performance, new goals, as well as development plans for the coming years. In 2020, 95 percent (97) of employees participated in performance dialogues.

In 2020, 58 percent (61) of employees were covered by collective bargaining agreements.

Top 300 managers, nationalities



Share of women in managerial positions, %



NF7, continued

Total number of employees by employment contract and gender¹⁾

	Female		Male		Total	
	2019	2020	2019	2020	2019	2020
FTE						
Permanent	7,502	7,308	31,130	30,434	38,632	37,742
Temporary	461	439	1,423	1,291	1,885	1,730
Total	7,963	7,747	32,553	31,725	40,516	39,472

Total number of employees by employment type and gender¹⁾

	Female		Male		Total	
	2019	2020	2019	2020	2019	2020
FTE						
Full time	7,217	7,071	31,982	31,195	39,199	38,266
Part time	743	671	574	535	1,317	1,206
Total	7,960	7,742	32,556	31,730	40,516	39,472

Total workforce by employment contract and region¹⁾

	Permanent		Temporary		Total	
	2019	2020	2019	2020	2019	2020
FTE						
Europe	23,340	22,530	710	634	24,050	23,164
North America	4,545	4,449	26	13	4,571	4,462
South America	1,745	1,747	29	19	1,774	1,766
Africa & Middle East	1,922	1,883	214	245	2,136	2,128
Asia	6,200	6,216	891	804	7,091	7,020
Australia	928	942	20	19	948	961
Total	38,680	37,767	1,890	1,734	40,570	39,501

Total number and rates of new employee hires and employee turnover by age group, gender, and area¹⁾

Total number and rate of new employee hires by age¹⁾

	2019		2020	
	Hired	%	Hired	%
Under 30	859	35	475	31
30–50	1,379	57	972	62
Over 50	187	8	114	7
Total	2,425	100	1,561	100

Total number and rate of new employee hires by gender¹⁾

	2019		2020	
	Hired	%	Hired	%
Female	607	22	406	23
Male	2,120	78	1,384	77
Total	2,727	100	1,790	100

Total number and rate of new employee hires by region¹⁾

	2019		2020	
	Hired	%	Hired	%
Europe	1,249	46	742	41
North America	627	23	302	17
South America	222	8	173	10
Africa & Middle East	113	4	81	4
Asia	355	13	387	22
Australia	161	6	105	6
Total	2,727	100	1,790	100

Total number and rate of new employee turnover by age¹⁾

	2019		2020	
	Left	%	Left	%
Under 30	501	9	502	11
30–50	1,990	8	1,458	6
Over 50	1,492	14	1,100	10
Total	3,983	10	3,060	8

Total number and rate of new employee turnover by gender¹⁾

	2019		2020	
	Left	%	Left	%
Female	832	10	646	8
Male	3,151	10	2,361	7
Total	3,983	10	3,007	8

Total number and rate of new employee turnover by region¹⁾

	2019		2020	
	Left	%	Left	%
Europe	1,993	8	1,587	7
North America	861	19	683	15
South America	280	15	179	10
Africa & Middle East	233	11	120	6
Asia	528	7	385	6
Australia	151	16	106	11
Total	4,046	10	3,060	8

All employees by gender and employee category, %

	Female		Male		Total	
	2019	2020	2019	2020	2019	2020
Staff	26	26	74	74	54	53
Workers	13	12	87	88	46	47
Total	20	20	80	80	100	100

All employees by age group and employee category, %

	Under 30		30–50		Over 50		Total	
	2019	2020	2019	2020	2019	2020	2019	2020
Staff	9	8	64	64	27	28	54	53
Workers	16	15	56	57	28	28	46	47
Total	12	11	60	61	27	28	100	100

Diversity of governance bodies and breakdown of other employees

	Share of women, %	Age structure, %		
		Under 30	30–50	Above 50
Board of Directors	27	–	27	73
Group Executive Management	33	–	33	67
Management	18,5	1	68	31
Other employees	19,6	12	60	28

¹⁾ Differences in the total number of employees due to insufficient data.

NF7, continued

§ REPORTING PRINCIPLES

Employee statistics regarding the number of FTEs (Full Time Equivalents) is derived from the financial reporting system. We have revised our figures for the total number of employees (FTE) for the years 2014–2017 as we now report on continuing 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, which covers 98 percent of Sandvik employees. These figures are compiled annually. We define manager as an employee managing an organization. Sandvik does not have a significant portion of workers who are not employees. ■

NF8 HEALTH AND SAFETY

Management systems

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 2020, 98 percent of sites in scope were certified. No previous certifications were abandoned compared to last year.

Health and Safety metrics

We utilize a wide range of leading and lagging indicators to measure health and safety 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 2020, the LTIFR (LTIs per million hours worked) decreased to 1.4 (1.5), and the TRIFR (total number of recordable injuries per million hours worked) was reduced to 3.2 (3.8). Cuts and pinched hands and fingers were the most common injury types. As the LTIFR gets to lower levels, Sandvik is moving towards a greater focus on TRIFR as its primary safety performance indicator. Regrettably, a tragic incident occurred during the year at one of our Swedish production units, causing two fatalities. The incident investigation is still on-going. This was the first fatality 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. Repetitive strain injuries and stress-related symptoms were the most commonly reported illnesses.

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.

Total number of work-related incidents

Health and safety	2019			2020		
	Employees	Non-employees ¹⁾	Total Workforce	Employees	Non-employees ¹⁾	Total Workforce
Injury						
Number of fatalities	–	–	–	2	–	2
Number of LTI	124	9	133	95	6	101
LTIFR ²⁾	1.6	0.92	1.5	1.5	0.75	1.4
Number of TRI	296	33	329	215	17	232
TRIFR ²⁾	3.9	3.4	3.8	3.3	2.1	3.2
Exposure hours, hazards and near misses						
Million exposure hours	76.1	9.8	85.9	65.5	8.0	73.5
Hazards reported			81,158			56,008
Hazards closed out			79,192			53,145
Hazard close out ratio (%)			97.6			94.9
Near misses reported			6,323			4,144
Work-related illness ³⁾						
Illness						
Number of fatalities	0	0	0	0	0	0
Number of LTIL	10	2	12	5	1	6
LTILFR ²⁾	0.13	0.20	0.14	0.08	0.12	0.08
Number of TRIL	17	3	20	18	2	20
TRILFR ²⁾	0.24	0.31	0.23	0.27	0.25	0.27

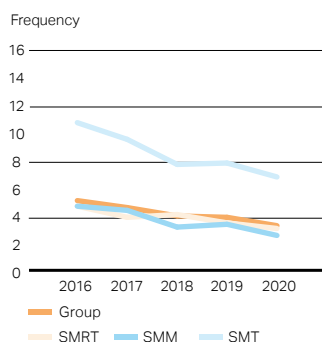
1) All workers who are not employees but whose work and/or workplace is controlled by Sandvik.

2) Normalization factor = 1,000,000 hours worked.

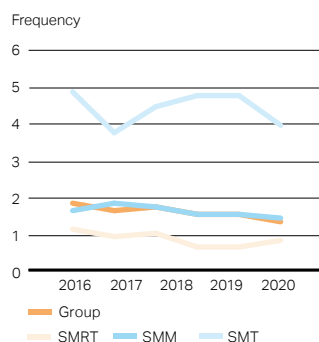
3) Based on data from only a few entities.

NF8, continued

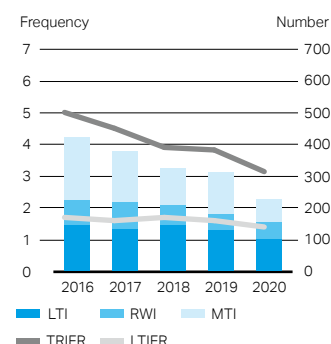
TRIFR by business area



LTIFR by business area



TRIFR and LTIFR



§ REPORTING PRINCIPLES

Health and Safety data is derived from our EHS reporting system in which safety-related indicators are reported on a monthly basis. 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.

An LTI is an accident resulting in time away from work, an 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 still perform your normal work. Worked hours is defined as exposure hours, i.e. 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 term used in GRI named as "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 reported data for occupational illnesses and frequency rates are part of our monthly reporting process. The illness data is not seldom difficult to capture and can in some cases be surrounded by regulatory obligations, for example related to privacy of workers. Part of the difficulty lies in the fact that occupational illness might not be detected until some time after an exposure occurs, which may contribute to a risk that the illness is not recognized as work-related. 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 and not as the result of a single instantaneous event. Establishing an illness as work-related can be a complicated process and could span over a long period of time. ■

NF9 ENVIRONMENTAL FOOTPRINT

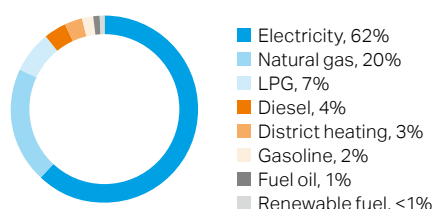
Carbon and energy

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 88 environmental action plans underway in 2020, consisting of more than 260 individual actions. Heat exchange systems, improved insulation in buildings, LED lighting, and solar rooftop panels are some examples of initiatives. As a consequence of the economic slowdown and focus on cost control, as well as reduced work hours, many of these projects suffered delays and many were put on hold. Therefore, the reported outcome of these initiatives were close to zero for the year, and our reported reductions of carbon emission and energy use was essentially all attributable to the lower activity levels during the year.

For 2020, 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 resulted in annual energy reductions of 0.2 percent and carbon emission reductions of 0.3 percent, during a year when many projects were either halted or severely delayed. Nevertheless, we managed to reduce total energy by nearly 13 percent and carbon emissions declined by more than 18 percent compared to the previous year. Since few projects were completed, it's deemed that most of the reductions were attributed to the lower activity levels caused by the Covid-19 pandemic and, to some lesser extent, from projects completed in previous years.

Our main production sites in Europe have been buying electricity from low emission energy sources since 2013, resulting in a reduction of annual emissions by approximately 112,000 tons based on the 2020 outcome.

Energy by energy source



Energy consumption

Energy consumption (TJ)	2019	2020
Non-renewable fuels	2,811	2,365
Gasoline	223	136
Diesel	355	293
Liquefied petroleum gas	698	474
Natural gas	1,442	1,417
Fuel oil	93	45
Renewable fuels	15	27
Ethanol	2	2
HVO	13	24
Total energy from fuels	2,825	2,392
GRID electricity	4,865	4,307
Own renewable electricity	8	10
Purchased heat and steam	294	267
Sold heat	-35	-38
Total electricity heat and steam	5,132	4,547
Total energy consumption	7,958	6,939

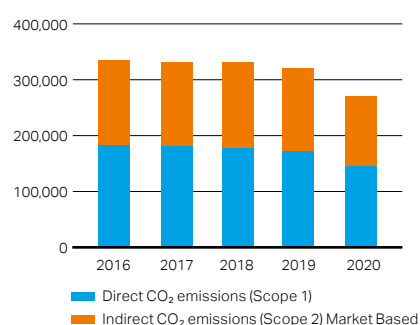
NF9, continued

Energy intensity

Total energy use in relation to revenues	2019	2020
GJ/MSEK	77	80

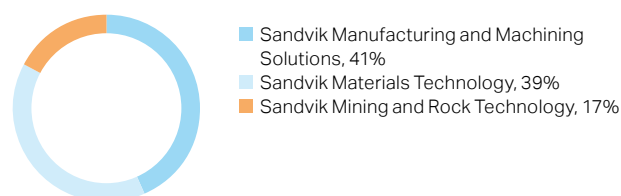
Reduction of energy consumption

	TJ	%
Total energy use 2019	7,958	
Environmental improvement actions	-17	-0.2
Other impacts	-1,002	-12.6
Total energy use 2020	6,939	-12.8

CO₂ emissions 2016–2020, tons**Energy by business area****Emissions**

GHG emissions (kton CO ₂)	2019	2020
Scope 1	177	146
Scope 2 (location based)	279	239
Initiatives to source low-emission electricity	-120	-112
Scope 2 (market based)	159	128
Gross total (location based)	455	385
Net total (market based)	335	274

The main difference between our reported market-based and location-based emissions derives from the purchase of emission-free electricity for our European operations. In 2020, Sandvik used 974 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	2019	2020
ton/MSEK	3.2	3.2

Reduction of net total GHG emissions

	kton	%
CO₂ emissions 2019	335	
Environmental improvement actions	-1	-0.3
Other impacts	-61	-18.1
CO₂ emissions 2020	274	-18.4

Other air emissions

Other air emissions (ton)	2019	2020
NO _x	203	166
SO _x	5	2
Volatile organic compounds (NMVOC)	46	29

Other air emissions were calculated based on reported use of fossil fuel. In addition to the values reported in the table above, the steel mill operations generate an estimated 145 tons of NO_x and 31 tons of SO_x per year.

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 as a means 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 (1,000 m³)**

	2019		2020	
Fresh water by source of withdrawal	All Areas	Water-stressed Areas	All Areas	Water-stressed Areas
Surface	4,332	0	4,014	0
Ground	1,048	87	1,090	103
Third-party	2,194	42	2,110	20
Rain	23	14	18	9
Total withdrawal	7,597	143	7,232	131

NF9, continued

Water discharge (1,000 m³)

Water discharge by destination	2019		2020	
	All Areas	Water Stressed Areas	All Areas	Water Stressed Areas
Surface	1,495	0	1,377	0
Fresh water	907	0	809	0
Other water	588	0	569	0
Ground	492	0	452	0
Fresh water	4	0	3	0
Other water	488	0	448	0
Third-party	5,610	143	5,403	131
Fresh water	5,415	143	5,224	131
Other water	195	0	179	0
Total	7,597	143	7,232	131

Water intensity

Water withdrawal in relation to revenues	2019	2020
m³/MSEK	74	84

Reduction of total water

	1,000 m³	%
Water 2019	7,597	
Environmental improvement actions	0	0
Other impacts	-365	-4.8
Water 2020	7,232	-4.8

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. 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. No significant water incidents were reported.

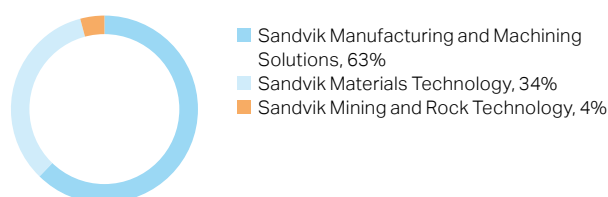
Use, reuse, recondition and recycle

Circularity is a key aspect for Sandvik and we reuse and recycle to offset the use of raw materials and reduce waste. Total waste decreased by 2 percent. In 2020, 18 of Sandvik's production-related sites reported a 100 percent waste recovery rate. Sandvik recycles both steel and cemented carbide.

Waste**Waste by type and disposal method**

Waste by type and disposal method (kton)	2019	2020
Hazardous waste	34	33
to recovery operations	14	15
to other disposal	20	17
Non-hazardous waste	299	294
to recovery operations	48	36
to other disposal	251	258
Total waste	332	327

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**Waste intensity**

Total waste in relation to revenues	2019	2020
ton/MSEK	3.2	3.8

Reduction of total waste

	kton	%
Waste 2019	332	
Environmental improvement actions	0	0
Other impacts	-5	-1.6
Waste 2020	327	-1.6

REPORTING PRINCIPLES

Environmental data is derived from our EHS reporting system in which reporting is conducted on a quarterly basis for environmental indicators. 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. Energy and GHG emission data is calculated based on reported consumption data. The conversion factors are established in our EHS definitions that are held within the management system documentation. These factors originate from the Swedish EPA for scope 1. For scope 2, location-based emission from the use of electricity is derived from reported consumption and converted using emission factors as listed in the GHG-protocol calculation tool version 4.8, except for US-based companies, where the US EPA's Power Profiler tool was used to better accommodate for the difference in carbon footprint within the country's various electricity grids. For the market-based emissions, the consumption data uses specific emission factors, if available, and otherwise the same factors as for location-based emissions.

In the tables showing the reductions of energy, GHG emissions, water and waste, 'Environmental improvement actions' were derived from what was registered from sites that had committed to implement such actions and reported completion at year-end. The remaining difference between 2019 and 2020, whether positive or negative, is reported as 'Other impacts'. Other impacts refer to 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 the environmental impact.

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 specifies how the water withdrawal was discharged after use. An allocation key was requested from major production sites at the end of 2019 and was applied on data for both 2019 and 2020. These sites have returned an estimated split of their water discharge. Where no such split could be specified, the reported water withdrawal was included 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 as freshwater when drawn in to our production processes. ■

NF10 SUSTAINABLE SUPPLIER MANAGEMENT

Sandvik has about 52,000 suppliers located in 98 countries, from which we source raw materials, components, products and services. In 2020, we started to develop working processes within Sustainable Supplier Management to support our commitment to our 2030 Sustainability Goals. A focus area has been to increase internal knowledge and communication related to the sustainability goals within our sourcing network, and to communicate them with suppliers.

Identified key suppliers

During the year we identified 450 potential key suppliers to achieving our sustainability goals. The criteria for and number of suppliers defined as key will change over time, based on the natural supplier lifecycle and depending on the selected suppliers' commitment to meet Sandvik requirements and achieve the targets. A supplier may be selected as key based on their category, spend, criticality or their potential for building partnerships related to our sustainability targets. Discussions on the sustainability targets were initiated with identified key suppliers and are still ongoing.

Circularity

For Sandvik, circular use of raw materials, for example in our buy-back programs for cemented carbide, has been part of our business model for many years. With this sustainability goal we are strengthening our ambitions within the circular supply chain. During the year, we initiated a discussion with suppliers about new sustainable packaging solutions, including for example recycled materials. In 2020, we made an agreement with a Swedish supplier providing us with corrugated plastic that consists of 80 percent recycled material, with ongoing development projects to reach 100 percent. Another example is the Central Warehouse in Sandviken, Sweden that exchanged their custom-made pallets to refurbished standard pallets.

Climate

Our logistics suppliers are important for achieving the climate goal. In 2020, a logistics working group for all Sandvik business areas was established to understand, analyze and optimize our logistics from a climate perspective. We started collecting baseline data of our CO₂ emissions from our key logistics suppliers and initiated dialogues with them on CO₂ reduction programs. In some cases, we have taken control of transportation for in and outflow of materials, which led to a reduction of packaging material and reduced CO₂ emissions.

People

Health and safety plans are part of the requirements on our suppliers in the Sandvik Supplier Code of Conduct (SSCoC). Suppliers are requested to provide a safe and healthy working environment and take all practicable steps to prevent incidents and injuries. Follow-up on the People goal is included in the Supplier Code of Conduct audits.

Fair play

The Sandvik Supplier Code of Conduct places requirements on our suppliers in the areas of health and safety, compliance with relevant laws, labor and human rights, environment and anti-corruption. As part of the Code, suppliers are requested to cascade Sandvik requirements to their own supply chain.

Sandvik suppliers are assessed for risk of violating the requirements in the Code based on country and category risks and segmented as high, medium or low risk. In 2020, approximately 3.8 percent of our supplier spend was rated as high risk.

By signing the Code, the supplier gives Sandvik the right to perform compliance audits. Due to the global pandemic, it was not possible to perform on-site audits to the same extent as in previous years. During the year, two supplier Code of Conduct audits were performed, both by independent third-party auditors. The pandemic has given us reason to evaluate traditional compliance tools for Code compliance and we are looking into revised methods for the future.

We performed nine follow-up activities and closed 127 of identified audit findings from audits conducted in 2019. Out of 1,877 audit findings identified in 2019, 353 were closed by the end of 2020.

During the year one supplier relation was terminated due to violations of the minimum wage requirement in the Code.

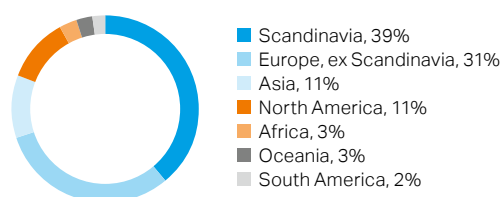
Responsible sourcing of minerals

Sandvik condemns all activities in the raw material sector connected to illegal or unlawful exploitation of ores, that directly or indirectly finances or benefits armed groups in conflict areas, or that contribute to serious human rights violations, including child labor, and has adopted measures to manage and mitigate these risks.

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 2020.

Sandvik annually performs 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. As of 2020, Sandvik participates in the Responsible Minerals initiative.

Supplier spend by region

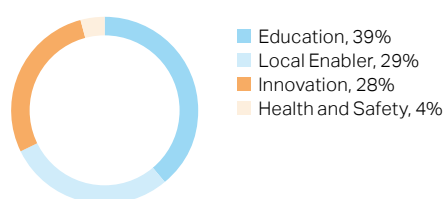


NF11 COMMUNITY INVOLVEMENT

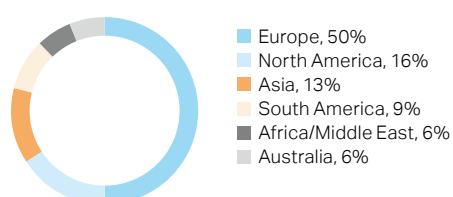
Our platform for community involvement includes four areas: Innovation, Education and Skills, Health and Safety and Local Enabler. We gather information about our community involvement initiatives biannually and the last one was performed in 2019, when we were involved in about 250 projects.

In 2020, Sandvik engaged in a number of activities related to the Covid-19 pandemic across the globe. It ranged from donating personal protective equipment to hospitals and elderly care homes to supporting vulnerable people affected by the pandemic with food and hygiene kits.

Community projects by area 2019



Community projects by geography 2019



NF12 GRI INDEX

	Standard and disclosure	Page	Comments
GENERAL DISCLOSURES	GRI 102: General Disclosures 2016		
	Organizational profile		
	102-1 Name of the organization	43	
	102-2 Activities, brands, products, and services	2-3	
	102-3 Location of headquarters	43	
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	102-7 Scale of the organization	1, 3, 62-63	
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	102-9 Supply chain	37, 137	
	102-10 Significant changes to the organization and its supply chain	36-37, 139-140	
	102-11 Precautionary Principle or approach	58-60	
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	102-13 Membership of associations	130	
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	102-14 Statement from senior decision-maker	4-5	
	Ethics and integrity		
	102-16 Values, principles, standards, and norms of behavior	7, 58-60, 130	
	Governance		
	102-18 Governance structure	43-60	
	Stakeholder engagement		
	102-40 List of stakeholder groups	130	
	102-41 Collective bargaining agreements	131	
	102-42 Identifying and selecting stakeholders	130	
	102-43 Approach to stakeholder engagement	130	
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	Reporting practice		
	102-45 Entities included in the consolidated financial statements	83	
	102-46 Defining report content and topic Boundaries	(7-9), 58-60, 129-130	
	102-47 List of material topics	17, 23, 29, 58-60	
	102-48 Restatements of information	130	
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	102-52 Reporting cycle	130	
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	102-54 Claims of reporting in accordance with the GRI Standards	130	
	102-55 GRI content index	139-140	
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MANAGEMENT APPROACH	GRI 103: Management approach 2016		
	103-1 Explanation of the material topic and its Boundaries		
	Anti-corruption	58, 60, 130, 131	
	Materials, Effluents and waste, Water and effluents, Energy, Emissions	9-10, 134-137	
	Supplier Environmental Assessment, Child Labor, Forced and Compulsory Labor, Supplier Social Assessment	11, 57, 130	
	Occupational Health and Safety	9, 11, 59-60, 133	
	Diversity and equal opportunity, Employment	9, 11, 59	
	103-2 The management approach and its components		
	Anti-corruption	11, 58, 60, 130-131, 137	
	Materials, Effluents and waste, Water and effluents, Energy, Emissions	9, 10, 134	
	Supplier Environmental Assessment, Child Labor, Forced and Compulsory Labor, Supplier Social Assessment	11, 57-61, 137	
	Occupational Health and Safety	11, 58-60, 133	
	Diversity and equal opportunity, Employment	11, 58-59, 131	
	103-3 Evaluation of the management approach		
	Anti-corruption	58-59, 130, 137	
	Materials, Effluents and waste, Water and effluents, Energy, Emissions	59-60, 134-137	
	Supplier Environmental Assessment, Child Labor, Forced and Compulsory Labor, Supplier Social Assessment	59-60, 130	
	Occupational Health and Safety	59-60, 133	
	Diversity and equal opportunity, Employment	58-59, 131	

	Standard and disclosure	Page	Comments
MANAGEMENT APPROACH	GRI 403: Occupational Health and Safety 2018		
	403-1 Occupational health and safety management system	59–60	
	403-2 Hazard identification, risk assessment, and incident investigation	59–60	
	403-3 Occupational health services	59–60	
	403-4 Worker participation, consultation, and communication on occupational health and safety	59–60	
	403-5 Worker training on occupational health and safety	59–60	
	403-6 Promotion of worker health	59–60	
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	59–60	
	GRI 303: Water and effluents 2018		
	303-1 Interactions with water as a shared resource	59–60, 135–136	Not addressed.
	303-2 Management of water discharge-related impacts	59–60, 135–136	
TOPIC SPECIFIC	GRI 205: Anti-corruption 2016		
	205-2 Communication and training about anti-corruption policies and procedures	130–131	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 302: Energy 2016		
	302-1 Energy consumption within the organization	134–136	No separate data on cooling. No data on energy sold.
	302-3 Energy intensity	135–136	
	302-4 Reduction of energy consumption	134–136	
	GRI 303: Water and effluents 2018		
	303-3 Water withdrawal	135–136	No water withdrawn or discharged to sea.
	303-4 Water discharge	136	
	Own indicator Water intensity	136	
	Own indicator Reduction of total water	136	
	GRI 305: Emissions 2016		
	305-1 Direct (Scope 1) GHG emissions	135–136	Sandvik has no significant stationary source resulting in biogenic GHG emission. The CO ₂ equivalents from other greenhouse gases in the reported fuel data was insignificant and amounted to 1 kton 2020 based on GWP 265 for N ₂ O and 28 for CH ₄ . They are not included in the total. Base year not applicable.
	305-2 Energy indirect (Scope 2) GHG emissions	135–136	The emission represent no other greenhouse gases than CO ₂ . Base year not applicable.
	305-4 GHG emissions intensity	135–136	The emission data represent no other greenhouse gases than CO ₂ .
	305-5 Reduction of GHG emissions	135–136	The emission data represent no other greenhouse gases than CO ₂ . Base year not applicable.
	305-7 Nitrogen oxides (NO _x), sulfur oxides (SO _x), and other significant air emissions	135–136	POP, HAP and PM not available
	GRI 306: Effluents and waste 2016		
	306-2 Waste by type and disposal method	136	
	Own indicator Waste intensity	136	
	Own indicator Reduction of total waste	136	
	GRI 308: Supplier Environmental Assessment 2016		
	308-2 Negative environmental impacts in the supply chain and actions taken	137	Nine non-compliances to the environmental section of the Supplier Code of Conduct were identified during the audits conducted. One of the suppliers has developed a corrective action plan.
	GRI 401: Employment 2016		
	401-1 New employee hires and employee turnover	132–133	
	GRI 403: Occupational health and safety 2018		
	403-9 Work-related injuries	133–134	
	403-10 Work-related ill health	133–134	
	GRI 405: Diversity and equal opportunity 2016		
	405-1 Diversity of governance bodies and employees	131–132	
	GRI 408: Child labor 2016		
	408-1 Operations and suppliers at significant risk for incidents of child labor	137	
	GRI 409: Forced or compulsory labor 2016		
	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labor	137	
	GRI 414: Supplier Social Assessment		
	414-2 Negative social impacts in the supply chain and actions taken	137	

ASSURANCE REPORT

Auditor's Limited Assurance Report on the Sustainable Business Report and Statement on the Statutory Sustainability Report

**To the annual general meeting of Sandvik AB (publ),
corporate identity number 556000-3468**

Introduction

We have been engaged by the Board and the Managing Director to undertake an examination of Sandvik's Sustainable Business Report for 2020. The company has defined the scope of the Sustainable Business Report and the Statutory Sustainability Report on page 130.

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. The criteria are described on page 130 of the Sustainable Business Report, and consists of the GRI Sustainability Reporting Standards which are applicable to the Sustainable Business, the Greenhouse Gas Protocol for CO₂ emissions as well as the accounting and calculation principles that Sandvik has developed. This responsibility also includes the internal control which is deemed necessary to establish 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 procedures we have performed, and to provide a statement on the Statutory Sustainability Report. Our assignment is limited to the historical information that is presented and thus does not include future-oriented information.

We conducted our engagement in accordance with ISAE3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The engagement includes a limited assurance engagement on the complete Sustainable Business Report and audit of certain information as specified below. The objective of an audit is to obtain reasonable assurance that the information is free of material misstatements. A reasonable assurance engagement includes examining, on a test basis, evidence supporting the quantitative and qualitative information in the Sustainable Business Report. 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 examination regarding the Statutory Sustainability Report in accordance with FAR's recommendation RevR 12, the Auditor's Opinion on the Statutory Sustainability Report. A limited assurance engagement and an examination 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 other 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 an examination 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 an examination in accordance with RevR 12, therefore, does not have the security that the conclusion of our reasonable assurance procedures.

Since this assurance engagement is combined, our conclusions regarding the reasonable assurance, the limited assurance and the review according to RevR12 will be presented in separate sections.

Our reasonable assurance engagement includes 2020 data related to the Sustainability Goals We build circularity, We shift climate and We play fair, and specifically the following KPIs:

- Total waste, including waste to recovery and waste to other disposal (page 136)
- CO₂ emissions in scope 1 and scope 2 (page 135)
- Share of women in managerial positions (page 131)

Our procedures are based on the criteria defined by the Board of Directors and the Managing Director as described above. We consider these criteria 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 conclusions 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 prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and the Managing Director.

In our opinion the information in the Sustainable Business Report which has been subject to our reasonable assurance procedures have, in all material respects, been prepared in accordance with the criteria defined by the Board of Directors and the Managing Director.

A Statutory Sustainability Report has been prepared.

Stockholm, March 5, 2021

PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant

Åsa Ekberg
Sustainability Expert, member of FAR

ANNUAL GENERAL MEETING

Annual General Meeting

The Annual General Meeting will be held on Tuesday, April 27, 2021.

In view of the Covid-19 pandemic, the Board of Directors has decided that the Annual General Meeting shall be conducted without the physical presence of shareholders, representatives and third parties, and that shareholders shall only be entitled to exercise their voting rights by postal voting before the Meeting.

Shareholders who wish to participate in the Meeting by postal voting must:

- be recorded as shareholder in the share register maintained by Euroclear Sweden AB on Monday, April 19, 2021, and
- give notice of their intention to participate by submitting their postal votes so that these are received by Computer-share AB not later than Monday, April 26, 2021.

Shareholders whose shares are registered in the name of a nominee must, to be entitled to participate in the Meeting, temporarily have re-registered the shares in their own name so that the shareholder is registered in the share register as of Monday, April 19, 2021. Please note that this procedure also applies with respect to shares held on a bank's shareholder deposit account and certain investment savings accounts. Request for such voting rights registration shall be made to the nominee, in accordance with the nominee's routines, at such time in advance as decided by the nominee. Voting rights registration that has been made by the nominee no later than

Wednesday, April 21, 2021 will be taken into account in the preparation of the share register.

If a shareholder submits its postal vote through a representative, a written and dated proxy signed by the shareholder must be attached to the postal voting form. If the shareholder is a legal person, a registration certificate or other authorization document must be attached to the form.

Further instructions regarding the process for postal voting will be available in the formal notice convening the Meeting and on the company's website, home.sandvik.

Dividend

The Board of Directors proposes that the 2021 Annual General Meeting declare a dividend of SEK 6.50 per share.

The proposed record date is Thursday, April 29, 2021. If the proposal is adopted by the Annual General Meeting, it is expected that dividends will be paid on Tuesday, May 4, 2021. 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

Financial targets

Financial targets for the Sandvik Group are 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 adaptation of IFRS16 leases

DEFINITIONS

Adjusted EBIT

Earnings before interest and taxes adjusted for items affecting comparability. Corresponds to adjusted operating profit.

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.

Equity ratio

Total equity in relation to total capital.

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.

Lost time injury frequency rate (LTIFR)

Number of lost time injuries per million worked hours.

Net debt/equity ratio

Interest-bearing current and non-current debts, including net pension liabilities, less cash and cash equivalents divided by total equity.

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.

Rate of capital turnover

Revenues for the last quarter annualized divided by average total capital.

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.

Return on total capital

Operating profit/loss plus financial income, as a percentage of four quarter average total capital.

Return on total equity

Consolidated net profit/loss for the year as a percentage of average total equity during the year.

SMM

SMM is an abbreviation for the Sandvik Manufacturing and Machining Solutions business area.

SMRT

SMRT is an abbreviation for the Sandvik Mining and Rock Technology business area. As of January 1, 2021 the business area is divided to Sandvik Mining and Rock Solutions (SMR) and Sandvik Rock Processing Solutions (SRP).

SMT

SMT is an abbreviation for the Sandvik Materials Technology business area.

Total recordable injury frequency rate (TRIFR)

Total number of injuries per million worked hours.

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.

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

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue, MSEK	94,084	98,529	87,328	88,821	90,822	84,430	93,906	100,924	103,533	86,409
Change, %	14	5	-11	2	2	-7	11	8	+3	-17
of which organic, %	20	5	-7	-2	-6	-6	10	11	-1	-11
of which structural, %	0	0	0	2	0	0	0	-6	-1	-1
of which currency, %	-5	0	-5	2	8	-1	1	2	4	-4
Operating profit, MSEK	10,148	13,490	8,638	10,120	6,062	9,657	18,011	18,103	13,182	11,184
as % of revenue	11	14	10	11	7	11	19	18	13	13
Profit after net financial items, MSEK	8,179	11,516	6,753	8,264	4,059	7,996	16,940	17,315	11,945	11,238
as % of revenue	9	12	8	9	4	9	18	17	12	13
Consolidated net profit for the year, MSEK	5,861	8,107	5,008	5,992	2,194	5,468	13,160	12,669	8,523	8,721
Equity, MSEK ¹⁾	31,264	32,536	33,610	36,672	34,060	39,290	48,722	58,163	61,858	65,082
Equity ratio, % ¹⁾	32	31	36	34	34	38	46	49	51	55
Net debt/equity ratio, multiple ^{2,3)}	0.7	0.8	0.9	1.0	1.0	0.7	0.3	0.2	0.2	0.0
Rate of capital turnover, % ²⁾	100	97	89	89	86	83	90	89	85	72
Cash and cash equivalents, MSEK	5,592	13,829	5,076	6,327	6,376	8,818	12,724	18,089	16,987	23,752
Return on total equity, % ¹⁾	18.5	25.3	15.3	17.4	6.2	15.2	31.3	23.3	13.9	13.6
Return on capital employed, % ¹⁾	16.0	19.8	12.6	13.4	7.9	12.9	23.8	22.0	15.0	13.3
Investments in non-current assets, MSEK	4,994	4,820	4,185	4,703	4,161	3,691	3,578	3,984	4,147	3,278
Total investments, MSEK	5,332	4,859	4,674	7,537	4,168	3,722	3,578	8,615	6,018	6,552
Cash flow from operations, MSEK	7,764	11,892	5,133	9,515	11,952	12,032	14,286	14,914	16,894	15,347
Cash flow, MSEK	907	8,450	-8,656	1,039	79	2,288	3,963	5,382	-1,188	7,261
Number of employees, December 31	50,030	48,742	47,338	47,318	45,808	43,732	43,024	41,705	40,246	37,125

1) As of 2011, comparative figures adjusted due to amended accounting principles.

2) As of 2011, comparative figures adjusted due to changed definition.

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).

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Basic earnings, SEK ¹⁾	4.63	6.51	4.00	4.79	1.79	4.39	10.50	10.11	6.81	6.96
Diluted earnings, SEK ²⁾	4.63	6.51	4.00	4.79	1.79	4.39	10.49	10.09	6.79	6.95
Equity, SEK ³⁾	25.2	25.9	26.7	29.1	27.1	31.2	38.8	46.4	49.3	51.9
Dividend, SEK (2020 as proposed)	3.25	3.50	3.50	3.50	2.50	2.75	3.50	4.25	–	6.50
Direct return, % ⁴⁾	3.8	3.4	3.9	4.6	3.4	2.4	2.4	3.4	–	3.2
Payout percentage, % ⁵⁾	70	54	88	73	140	63	33	42	–	93
Quoted prices, Sandvik Share, highest, SEK	135	107	108	97	107	116	153.9	165.3	190.4	205.6
lowest, SEK	73	82	79	74	68	65	113.5	123.1	122.7	115.5
year-end, SEK	84	103.50	90.70	76.40	74.05	112.70	143.7	126.4	182.7	201.3
No. of shares at year-end, million	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	1,254.4
Average no. of shares, million	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	1,254.4
P/E ratio ⁶⁾	18.2	15.9	22.7	15.9	41.4	25.7	13.7	12.5	26.9	28.9
Quoted price, % of equity ^{2, 7)}	333	400	340	261	273	361	370	273	370	388

1) Profit for the year per share.

2) Profit 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.

Development by business area, Group total

	Revenue			Operating profit and operating margin					
	2018	2019	2020	2018	2019		2020		
	MSEK	MSEK	MSEK	MSEK	%	MSEK	%	MSEK	%
Sandvik Mining and Rock Technology	41,058	44,777	40,032	7,452	18	8,602	19	7,389	18
Sandvik Manufacturing and Machining Solutions	40,757	41,123	32,477	9,922	24	8,380	20	4,606	14
Sandvik Materials Technology	14,697	15,279	13,598	1,307	9	1,444	9	492	4
Other operations	3,560	2,059	297	659	19	-4,263	n/m	-578	n/m
Discontinued operations	852	295	6	-552	-65	-204	-69	-32	n/m

For more key figures, please visit our investors page at home.sandvik

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