Corporate Governance within Sandvik is based on applicable legislation, the rules and regulations of the Stock Exchange, the Swedish Code of Corporate Governance (the “Code”), and internal guidelines and regulations. The aim is to ensure efficient and value-creating decision-making by clearly specifying the division of roles and responsibilities among shareholders, the Board and executive management.

Corporate governance comprises the Group’s control and management systems. Another important corporate governance ingredient is the link to Sandvik’s risk management, in accordance with the ERM model, and to the approved model for remuneration of senior executives. The Code is available from www.corporategovernanceboard.se. Sandvik applied the Code in 2011 without deviating from any of the Code’s regulations.

Sandvik AB is the Parent Company of the Sandvik Group, with subsidiaries in about 60 countries. Its operations

**Significant events**

- Olof Faxander took office as President and CEO on 1 February 2011.
- Jonas Gustavsson, Anna Vikström Persson and Tomas Nordahl became members of Group Executive Management.
- Olof Faxander and Johan Karlström were elected new Board members.
- A new strategic direction was adopted.
- A new organization was introduced and new Group Executive Management team was appointed, effective 1 January 2012.

- Sandvik made a take over offer to the minority shareholders of the subsidiary Seco Tools AB in November 2011.
- An Extraordinary General Meeting, held in December 2011, resolved to change the place of the registered office of the Board from Sandviken to Stockholm.

**Organizational model**

As a component in the governance of Sandvik, Group-wide cooperation and task forces have been established comprising representatives from all business areas and the Group. Examples of such groups include the Finance Management Team, IT Management Team, R&D Council and Cross Communication Team.

*For the period until 31 December 2011.*
Ownership structure
At 31 December 2011, Sandvik’s share capital amounted to 1,423,544,610 SEK represented by 1,186,287,175 shares. Following the issues of new shares in Sandvik in January 2012 as part of Sandvik’s acquisition of Seco Tools AB, Sandvik’s share capital amounts to 1,505,263,107.60 SEK and the number of shares to 1,254,385,923. Each share carries one vote at meetings of shareholders. According to the owner register, Sandvik had about 113,000 shareholders at 31 December 2011. AB Industrivärden is the largest owner with about 12.2% of the share capital. Of the total share capital at year-end, approximately 32% was owned by foreign investors.

General meetings
Pursuant to the Swedish Companies Act, the General Meeting of shareholders is the highest decision-making forum, at which the shareholders exercise their voting rights. At the Annual General Meeting, resolutions are made relating to the Annual Report, dividends, election of Board members and, where applicable, appointment of auditors, and other matters stipulated in the Companies Act and the Articles of Association.

Sandvik’s Articles of Association do not contain any limitations on the number of votes that a shareholder may cast at a Meeting. In addition, the Articles of Association do not contain any specific provisions regarding the appointment or discharge of Board members or regarding amendments to the Articles.

All shareholders who have been entered in the Share Register and have informed the company of their attendance within the correct time limit stated in the notice are entitled to participate at Sandvik’s General Meetings and vote according to the number of shares held. Shareholders are also entitled to be represented by a proxy at the Meeting. Notice of the General Meeting is published in Post- och Inrikes Tidningar and on the company’s website. Confirmation of the publication of the notice is published in Svenska Dagbladet and in a daily newspaper published in Sandviken or Gävle.

2011 Annual General Meeting
Shareholders representing 50.71% of the votes and share capital attended the Annual General Meeting held on 3 May 2011 in Sandviken. Sven Unger, attorney-at-law, was elected to chair the meeting. The meeting resolved to pay a dividend of 3.00 SEK per share.

2011 Extraordinary General Meeting
An Extraordinary General Meeting held on 12 December 2011 resolved to authorize the Board of Directors, until 31 March 2012, on one or more occasions, to resolve to issue no more than 69,195,888 new shares as consideration for the acquisition of shares in Seco Tools AB. In addition, the Meeting resolved to amend the Articles of Association to the effect that the place of the registered office of the Board was changed from Sandviken to Stockholm.

2012 Annual General Meeting
Sandvik’s 2012 Annual General Meeting will be held on 2 May in Sandviken. Shareholders who wish to have a matter addressed by the Annual General Meeting must submit a written request to the Board in sufficient time prior to the Meeting. More information is available from Sandvik’s website, www.sandvik.com.

The ten largest shareholder groups at 31 December 2011, %

<table>
<thead>
<tr>
<th>Shareholder Group</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB Industrivärden</td>
<td>12.2</td>
</tr>
<tr>
<td>Swedbank Rabur Funds</td>
<td>4.6</td>
</tr>
<tr>
<td>Handelsbanken’s Pension Foundation</td>
<td>4.1</td>
</tr>
<tr>
<td>Alecta Pension Insurance</td>
<td>3.6</td>
</tr>
<tr>
<td>JPM Chase*</td>
<td>3.6</td>
</tr>
<tr>
<td>Omnibus Account WFD OM80</td>
<td>3.3</td>
</tr>
<tr>
<td>L E Lundbergföretagen AB</td>
<td>2.3</td>
</tr>
<tr>
<td>Göranssonska Foundations</td>
<td>2.1</td>
</tr>
<tr>
<td>Handelsbanken Funds</td>
<td>1.7</td>
</tr>
<tr>
<td>Folksam</td>
<td>1.6</td>
</tr>
</tbody>
</table>

* Administers shares held in trust.
Nomination Committee

The 2011 Annual General Meeting resolved that the Nomination Committee for the 2012 Annual General Meeting should comprise representatives of the four largest shareholders, in terms of the number of votes, on the final business day in August 2011 and the Board Chairman (convener).

Nomination Committee for 2012 AGM

For the Annual General Meeting to be held on 2 May 2012, the Nomination Committee consists of Carl-Olof By, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken’s Pension Foundations), Staffan Grefback (Alecta), Marianne Nilsson (Swebank Robur Funds), and Anders Nyrén (Sandvik’s Chairman of the Board). Up to 15 February 2012, the Nomination Committee had met on three occasions. Through Sandvik’s Board Chairman, the Nomination Committee received information concerning the Board’s own evaluation and the company’s operations, stage of development and overall status. The Nomination Committee discussed the general criteria that Board members should fulfill, including independence issues. The issue of more even gender distribution was addressed by the Committee. The Nomination Committee also had access to an external consultant as part of its work to identify and evaluate potential new Board members.

The Board of Directors

The Board of Directors is responsible for the company’s organization and the management of the company’s business. The Board shall continuously monitor the company’s and the Group’s financial position.

The Board shall ensure that the company’s organization is designed in a way that ensures that the accounts, the management of assets and the company’s financial condition in general are controlled in a satisfactory manner.

The CEO is responsible for the daily operations pursuant to guidelines and instructions issued by the Board. The distribution of responsibilities between the Board and the CEO is laid down in written terms of reference.

The Board’s Procedural Guidelines and instruction for work delegation between the Board and the CEO, as well as financial reporting, are updated and approved each year. The update is based on such aspects

Composition of the Board since 2011 Annual General Meeting

<table>
<thead>
<tr>
<th>Name</th>
<th>Function</th>
<th>Independent in acc. with the Code</th>
<th>Shareholding, number(^3) 31 Dec 2011</th>
<th>Elected</th>
<th>Audit Committee</th>
<th>Remuneration Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alicia Espinosa</td>
<td>Deputy*</td>
<td>Yes</td>
<td>7,137</td>
<td>2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olof Faxander</td>
<td>Member</td>
<td>No(^3)</td>
<td>9,639</td>
<td>2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johan Karlström</td>
<td>Member</td>
<td>Yes</td>
<td>5,000</td>
<td>2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan Kjellgren</td>
<td>Member*</td>
<td></td>
<td>570</td>
<td>2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tomas Kärnström</td>
<td>Member*</td>
<td></td>
<td>2,865</td>
<td>2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fredrik Lundberg</td>
<td>Member</td>
<td>No(^3)</td>
<td>6,040,000(^4)</td>
<td>2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hanne de Mara</td>
<td>Member</td>
<td>Yes</td>
<td>0</td>
<td>2006</td>
<td>Chairman</td>
<td></td>
</tr>
<tr>
<td>Egil Myklebust</td>
<td>Member</td>
<td>Yes</td>
<td>10,000</td>
<td>2003</td>
<td>Member</td>
<td></td>
</tr>
<tr>
<td>Anders Nyrén</td>
<td>Chairman</td>
<td>No(^3)</td>
<td>4,500</td>
<td>2002</td>
<td>Member</td>
<td>Chairman</td>
</tr>
<tr>
<td>Simon Thompson</td>
<td>Member</td>
<td>Yes</td>
<td>0</td>
<td>2008</td>
<td>Member</td>
<td></td>
</tr>
<tr>
<td>Lars Westerberg</td>
<td>Member</td>
<td>Yes</td>
<td>12,000</td>
<td>2010</td>
<td>Member</td>
<td></td>
</tr>
<tr>
<td>Bo Westin</td>
<td>Deputy*</td>
<td></td>
<td>0</td>
<td>1999</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^*\) Employee representatives (both members and deputy members participate in Board meetings). Jan Kjellgren (member) and Alicia Espinosa (deputy) represent Unions/Edarna/ Swedish Association of Graduate Engineers.

Tomas Kärnström (member) and Bo Westin (deputy) represent F Metal.

1) Not independent in relation to major shareholders in the company.

2) Not independent in relation to the company and Group Executive Management.

3) Pertains to own and closely related persons’ shareholdings.

4) Shareholding in Sandvik in addition to shareholding via L.E. Lundbergföretagen AB totals 27,500,000, and shareholding via AB Industrivärden totals 144,577,252.
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, acquisitions and major investments, as well as matters relating to the financial structure. Senior executives report business plans and strategic issues to the Board on an ongoing basis. The respective committees prepare remunera-

Evaluation of the work of the Board

To ensure that the Board of Directors meets with required standards, a systematic and structured process has been developed to evaluate the work that the Board and its members perform. The evaluation of the work of the Board and its need for experience and expertise covers each individual member. The Board discusses the evaluations in a plenary meeting. The Chairman of the Board presents the results of the evaluation at a meeting with the Nomination Committee.

The principal tasks of the Board are to

- establish the overall objectives and strategy for the operations,
- appoint, evaluate and, if necessary, discharge the CEO and otherwise ensure that the company’s executive management functions efficiently and is suitably remunerated,
- ensure that the provision of information by the company is open, correct, relevant and reliable,
- ensure that there are effective systems for the monitoring and control of the company’s operations,
- monitor and evaluate the company’s development and advise and support the CEO in taking necessary measures,
- ensure that there is adequate control of compliance with laws and regulations governing the company’s operations,
- ensure that necessary ethical guidelines are established for the company’s conduct,
- decide on acquisitions, divestments and investments,
- propose the dividend to the Annual General Meeting.

Attendance at Board and Committee meetings in 2011

<table>
<thead>
<tr>
<th>Member</th>
<th>Board</th>
<th>Audit Committee</th>
<th>Remuneration Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings</td>
<td>12</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Georg Ehrnrooth¹</td>
<td>3</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Alicia Espinosa</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olof Faxander²</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johan Karlström²</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan Kjellgren</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tomas Kärnström</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fredrik Lundberg</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hanne de Mora</td>
<td>12</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Egil Myklebust</td>
<td>12</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>Anders Nyrén</td>
<td>12</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Lars Pettersson¹</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Simon Thompson</td>
<td>12</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Lars Westerberg</td>
<td>12</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Bo Westin</td>
<td>10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹) Left the Board in conjunction with the Annual General Meeting on 3 May 2011.
²) Elected as Board member at the Annual General Meeting on 3 May 2011.
Composition of the Board of Directors
Sandvik’s Board of Directors, to the extent elected at the Annual General Meeting, has eight members. Pursuant to Swedish legislation, union organizations are entitled to representation on the Board and they have appointed two additional members and two deputies.

In accordance with the Nomination Committee’s proposal, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, Simon Thompson and Lars Westerberg were re-elected at the Annual General Meeting in 2011. Johan Karlström and Olof Faxander were elected new members of the Board. Anders Nyrén was re-elected Board Chairman. The trade unions appointed Tomas Kärnström and Jan Kjellgren as Board members and Alicia Espinosa and Bo Westin as deputies.

Sandvik’s General Counsel Bo Severin served as secretary of the Board, the Remuneration and Audit Committees as well as the Nomination Committee. The Board members are presented in more detail on pages 112–113.

Independence
Anders Nyrén and Fredrik Lundberg are not independent in relation to major shareholders in the company and Olof Faxander is not independent in relation to the company and Group Executive Management. The other five members elected by the General Meeting are all independent in relation to Sandvik and major shareholders. Accordingly, the composition of the Board complies with the requirements in the Code that the majority of the members elected by the General Meeting be independent in relation to the company and Group Executive Management and that a minimum of two of those members that are independent in relation to the company and its management shall also be independent in relation to major shareholders.

Board proceedings during 2011
During the year, the Board held 12 meetings. The Board addressed the strategic direction. The executive managements of all three business areas presented their goals and strategies. The Board also addressed matters related to personnel, such as succession planning and remuneration terms, and matters relating to investments, acquisitions and divestments, including the public offer to acquire the minority shares of the subsidiary Seco Tools AB.

Remuneration of the Board members
As resolved at the 2011 Annual General Meeting, the Chairman’s fee is 1,500,000 SEK and the fee to each of the external members elected at the Annual General Meeting is 500,000 SEK.

In addition, 175,000 SEK was paid to the Chairman and 150,000 SEK to each member of the Audit Committee, in total 475,000 SEK. The Chairman of the Remuneration Committee was paid 125,000 SEK and each Committee member 100,000 SEK, or a total of 325,000 SEK. For additional information on remuneration of the Board members, see pages 70–73.

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 draft issues and present them to the entire Board for resolution.

Remuneration Committee
According to the Board’s Procedural Guidelines, the Remuneration Committee shall undertake the tasks prescribed by the Code, which includes preparing proposals to the Board of Directors regarding proposed guidelines for remuneration of senior executives that the Annual General Meeting is to resolve on by law. Since the 2011 Annual General Meeting, the members of the Remuneration Committee have been the Board’s Chairman Anders Nyrén (also Chairman of the Remuneration Committee), Egil Myklebust and Lars Westerberg.

The Remuneration Committee’s recommendations to the Board cover:
- principles for remuneration
- the distribution between fixed and variable salary
- pension and severance pay
- other benefits to senior executive management

Based on the recommendations of the Remuneration Committee, the Board decides the remuneration of the President and CEO. The President decides on the remuneration to be paid to the other senior executives following consultation with the Remuneration Committee. For additional information, see pages 70–73.

During 2011, the Remuneration Committee met on four occasions.

Audit Committee
Since the 2011 Annual General Meeting, the members of the Audit Committee have been Hanne de Mora (Chairman), Anders Nyrén and Simon Thompson. In 2011, the Committee held five meetings at which the company’s external auditor and representatives of the company’s management were present. Areas addressed by the Audit Committee mainly related to:
- Financial reporting.
- Planning, scope and follow-up of the internal and external audit for the year.
- The Group’s implementation of systematic processes for risk management, including legal disputes, accounting procedures, taxation, finance operations and pension issues.

External auditor
At the 2011 Annual General Meeting, the audit firm KPMG AB was re-elected auditor for the four-year period until the 2015 Annual General Meeting, with George Pettersson as the auditor in charge.

The progress of the audit is reported regularly during the year to the manage-
ments of individual companies and the business areas, to Group Executive Management, the Audit Committee and to the Board of Sandvik AB. The auditor meets with the company’s Board at least once a year without the CEO or any other member of Group Executive Management attending.

The independence of the external auditor is governed by a special instruction prepared by the Audit Committee setting out which non-audit services the external auditors may provide to Sandvik.

Audit fees are paid continuously over the mandate period on an approved current account basis. For information on fees paid to auditors, see page 73.

Operational management
Information relating to the Group’s operational organization and business activities is available on the company’s website, www.sandvik.com.

The three business areas Sandvik Tooling, Sandvik Mining and Construction and Sandvik Materials Technology, comprised Sandvik’s operational structure in 2011. The presidents of the business areas report directly to the CEO of Sandvik AB and are responsible for the business activities of their respective areas. In turn, the business areas are organized into various product areas or customer segments. Internal Board meetings are held at the business area level. Sandvik AB’s CEO chairs these meetings. In addition to the president and the financial manager of the business area, Sandvik AB’s Senior Executive Vice Presidents and the General Counsel attended these meetings. Senior Executive Vice President Peter Larson is a Board member of Seco Tools AB and thus does not participate in Sandvik Tooling’s Board meetings.

CEO and Group Executive Management
From 1 February 2011, Group Executive Management comprised Olof Faxander, President and CEO, Anders Thelin, Sandvik Tooling, Lars Josefsson (until 5 September 2011), Sandvik Mining and Construction, Peter Gossas (until April 2011), Sandvik Materials Technology, Jonas Gustavsson (from 1 May 2011), Sandvik Materials Technology, Peter Larson, Senior Executive Vice President, Ola Salmén, Senior Executive Vice President and CFO, Bo Severin, Executive Vice President and General Counsel, Anna Vikström Persson (from 1 March 2011), Executive Vice President and Head of Human Resources, and Tomas Nordahl (from 1 October 2011) Executive Vice President and Head of IT, sourcing and strategy. Peter Larson served as the Acting President of Sandvik Mining and Construction Business Area from 5 September 2011. A new Group Executive Management team will come into effect in 2012, for more details refer to page 4.

Group Executive Management is convened each month and deals with the Group’s financial development, Group-wide development projects, leadership and competence sourcing, and other strategic issues. The Sandvik Group has established Group functions responsible for such Group-wide activities as financial reporting, business analysis, treasury, IT, communications, internal control, legal affairs, HR, taxes, investor relations, intellectual property rights, and patents and trademarks. Intellectual property rights and patents and trademarks are managed by a separate, wholly owned Group entity. In addition to Group Executive Management, business areas and Group functions, a number of councils are commissioned to coordinate Group-wide strategic areas, such as environment, health and safety, research and development, purchasing, IT, finance and HR.

The CEO and other members of Group Executive Management are presented on page 114.

For each country in which Sandvik has a subsidiary, there is a Country Manager whose task includes representing Sandvik in relation to public authorities in the country, assuming responsibility for Group-wide issues, coordinating Group-wide processes, and ensuring compliance with Group-wide guidelines.

For each country, a member of Group Executive Management, or another individual appointed by Group Executive Management, has been given the overriding responsibility for the business (Group Management Representative). In most cases, this individual serves as Chairman on local Boards and is responsible, through the Country Manager, for ensuring compliance with Group-wide guidelines.

Remuneration of senior executives
For principles, remuneration and other benefits payable to Group Executive Management, refer to pages 70–73.

Internal control and risk management
The Board has the overall responsibility to ensure that the Group’s system for management and internal control is effective.

The guidelines for Sandvik’s operations are assembled in The Power of Sandvik, the contents of which include:

- The Group’s business concept, strategies, objectives and core values.
- Organizational structure and job descriptions.
- Sandvik’s Code of Conduct, including business ethics, human rights, equal opportunity, health and safety, external environment and community involvement.
- Administrative procedures, guidelines and instructions.

The Group’s risk management complies with the ERM model and is integrated with the daily planning, monitoring and control within the framework of strategic and operational management. Effective risk management unites operational business development with demands from shareholders and other stakeholders for control and sustainable value creation. Risk management also aims to minimize risks while ensuring that opportunities are leveraged in the best possible way.
Internal control of financial reporting

The financial statements are established in accordance with prevailing legislation, International Financial Reporting Standards (IFRS) and the listing agreement with the NASDAQ OMX Stockholm. This description of internal control over financial reporting is prepared in accordance with the Annual Accounts Act and constitutes an integral part of the Corporate Governance Report.

Sandvik’s finance organization manages a well-established financial reporting process aimed at ensuring a high level of internal control. The internal control system applied complies with the conceptual framework of COSO, which is based on five key components comprising good internal control in large companies. The five components are Control Environment, Risk Assessment, Control Activities, Information and Communication and, finally, Monitoring and follow up.

The internal control procedures cover all stages of the financial reporting process, from the initial recording of transactions in each subsidiary and reporting entity, to the validation and analysis of each business area and further to the consolidation, quality assurance, analysis and reporting at Group level. The way Sandvik applies the COSO framework is described below.

Control Environment
As described earlier in the Annual Report, The Power of Sandvik (PoS) is the primary source for the guidelines governing management and staff, internal control and conduct at Sandvik. The PoS contains the Sandvik Code of Conduct, delegation instruments, including signature and authorization principles for decision-making and cost approvals, request and approval procedures regarding investments and acquisitions, among other items.

In the area of financial reporting, the Sandvik Financial Reporting Procedures have been implemented. This document contains detailed instructions regarding accounting policies and financial reporting procedures to be applied by all Sandvik reporting entities. In the 20 major countries where Sandvik operates, Country Financial Managers are appointed to support the local management and finance organizations and to provide a link between reporting entities and Group finance. At Group level, Group Financial Control manages the reporting process to ensure the completeness and correctness of financial reporting and its compliance with IFRS requirements. Group Business Control performs the business analysis and compiles the report on operational performance. Both statutory and management reporting is performed in close cooperation with business areas and specialist functions such as tax, legal and financial services to ensure the correct reporting of the income statement, balance sheet, equity and cash flow.

Control activities
Control activities have been implemented in all areas that affect financial reporting. The internal control activities follow the logic of the reporting process and the finance organization. In each reporting entity, the finance staff is responsible for the correct accounting and closing of books. The finance staff adheres to the Sandvik Financial Reporting Procedures and validates and reconciles local accounts before submitting them to business area management and Group finance for consolidation.

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

Group Financial Control, Group Business Control and Group Assurance all have key responsibilities for control activities regarding financial reporting.

Risk assessment and risk management
The ERM work at Sandvik described earlier in the Annual Report also includes the area of financial reporting. This means that risk management is a natural element of the daily work on and responsibility for financial reporting. Specific activities have been established with the purpose of identifying risks, weaknesses and any changes needed to the financial reporting process to minimize risks. The combination of roles and responsibilities, work descriptions, IT systems, skills and expertise creates an environment that is monitored continuously to identify and manage potential risks.

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

The business areas and major countries also have a system of internal Board meet-
ings with a formal agenda, including financial information, monitoring and decisions related to financial and accounting matters.

Steering documents, such as policies and instructions, are updated regularly on the company’s intranet and are available to Sandvik’s employees. Reporting requirements are also updated on the company’s intranet and are communicated through formal and informal channels, as well as at regular meetings and conferences.

Information to external parties is communicated regularly on Sandvik’s website, which contains news and press releases. Quarterly interim reports are published externally and are supplemented by investor meetings attended by Group Executive Management. In addition, there is an established agenda for communicating information on shareholder meetings and other information to owners. The Annual Report is made available to shareholders and the general public, both as a printed version and on Sandvik’s website.

**Monitoring and follow-up**

Order status, sales statistics and cash flow are reported and monitored on a monthly basis while a comprehensive and complete closing of books, together with a full reporting package provided to the Group Executive Management and the Board, is performed quarterly and for the full fiscal year.

Each business entity manager and finance organization is ultimately responsible for continuously monitoring the financial information of the various entities. In addition, the information is monitored at a business area level, by Group staff functions, Group Executive Management and by the Board. The Audit Committee at Sandvik is a key body in the monitoring of financial reporting and different aspects thereof.

The quality of the financial reporting process and internal controls are assessed by Group Finance every month as part of the quality assurance of reporting. The Sandvik internal audit function Group Assurance independently monitors the internal control system of financial reporting as part of its audit plan.

The external auditors continuously examine the level of internal control over financial reporting. They review the third-quarter interim report and study the financial reports prepared for the other quarters. In conjunction with the close of the third quarter, the external auditors perform a more detailed examination of the operations, known as a hard close audit, which includes the Parent Company’s reporting and internal control, the business areas, subsidiaries and Group functions. Finally, the external auditors perform a standard examination of the annual accounts and Annual Report.

**Group Assurance**

The Group Assurance staff function ensures that the Group has effective corporate governance, internal control and risk management procedures.

Group Assurance is subordinated to the Board’s Audit Committee and the head of the unit reports to the Audit Committee. In functional terms, the head of Group Assurance reports to Sandvik’s CFO.

The internal audits are based on the Group’s guidelines and policies for corporate governance, risk management and internal control with regard to such aspects as financial reporting, compliance with the Code of Conduct and IT. The examination results in actions and programs for improvement. Findings are reported to Group Executive Management and business area management and to the Board’s Audit Committee.
Audit Report

TO THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF SANDVIK AB (PUBL)
CORPORATE REGISTRATION NUMBER 556000-3468

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and the consolidated accounts of Sandvik AB (publ) for the year 2011. The annual accounts and the consolidated accounts are included in the printed version of this document on pages 14–97.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts
The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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.

Auditor’s responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company’s preparation and fair presentation of the annual accounts and consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2011 and of their financial performance and cash flows in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A Corporate Governance Report has been prepared. The Board of Directors’ report and the Corporate Governance Report are consistent with the other parts of the annual accounts and the consolidated accounts.

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

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have examined the proposed appropriations of the company’s profit or loss and the administration of the Board of Directors and the Managing Director of Sandvik AB (publ) for the year 2011.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor’s responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company’s profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Opinions
We recommend to the annual 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.

Sandviken 16 February 2012
KPMG AB

George Pettersson
Authorized Public Accountant