Sandvik AB has its head office in Stockholm and is the Parent Company of the Sandvik Group, with subsidiaries in more than 60 countries. The Sandvik Group has about 46,000 employees and its operations are global with sales in more than 150 countries. Sandvik AB is a public company with its shares listed on Nasdaq Stockholm (the “Stock Exchange”).

Corporate governance at Sandvik comprises the system – encompassing the principles, guidelines, structures and processes – through which the Group is managed and controlled. The aim is to ensure efficient and value-creating decision-making by clearly specifying the division of roles and responsibilities among the shareholders, the Board and the Group Executive Management.

Corporate governance is based on the Swedish Companies Act, the Stock Exchange’s Rule Book for Issuers and the Swedish Code of Corporate Governance (the "Code"), as well as other relevant laws and regulations. The Code is available from corporategovernanceboard.se. In 2015, Sandvik applied the Code without deviating from any of its regulations.

Ownership Structure
At 31 December 2015, Sandvik’s share capital amounted to 1,505,263,107.60 SEK represented by 1,254,385,923 shares. Each share carries one vote at General Meetings of Shareholders. According to the share register, Sandvik had about 117,600 shareholders at 31 December 2015. AB Industrivärden was the largest owner with about 11.7% of the share capital. Of the total share capital at year-end, nearly 30% was owned by investors outside Sweden.

General Meeting
Pursuant to the Swedish Companies Act, 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

Corporate Governance Model

As a component in the governance of the Sandvik Group, committees and other coordination and preparatory bodies have been established comprising representatives from business areas and Group functions. Examples of such bodies include the Finance Management Team, IT Board, R&D Board and Communication Management Team.

Year in Brief
- Björn Rosengren took office as new President and CEO in November 2015
- Lars Engström joined the Group Executive Management as new President of Sandvik Mining in December 2015
- Jennifer Allerton, Claes Boustedt and Johan Molin were elected new members of the Board, with Johan Molin as Chairman of the Board in May 2015
- Annual election of the auditor was introduced.
- Launch of the revised Code of Conduct
their attendance within the time limit stated in the notice of the 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 Meeting.

2015 ANNUAL GENERAL MEETING
Shareholders representing 52.31% of the share capital and votes attended the Annual General Meeting held on 7 May 2015 in Sandviken, Sweden. Sven Unger, attorney-at-law, was elected to chair the meeting. Resolutions passed at the meeting included the following:

– Dividend of 3.50 SEK per share
– Election of Jennifer Allerton, Claes Boustedt and Johan Molin as new members of the Board and re-election of Board members Olof Faxander, Jürgen Geissinger, Johan Karlström, Hanne de Mora and Lars Westerberg. Election of Johan Molin as new Chairman of the Board
– Guidelines for 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
– Adoption of revised articles of association, resulting in annual election of the auditor
– Re-election of KPMG AB as auditor

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

2016 ANNUAL GENERAL MEETING
The next Annual General Meeting will be held on 28 April 2016 in Sandviken, Sweden. More information is available at 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,

THE TEN LARGEST SHAREHOLDER GROUPS
AT 31 DECEMBER 2015, %

<table>
<thead>
<tr>
<th>Shareholder Group</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB Industrivärden</td>
<td>11.7</td>
</tr>
<tr>
<td>Alecta Pension Insurance</td>
<td>4.9</td>
</tr>
<tr>
<td>Handelsbanken Pension</td>
<td>3.8</td>
</tr>
<tr>
<td>AMF – Insurance and Funds</td>
<td>3.5</td>
</tr>
<tr>
<td>Swedbank Robur Funds</td>
<td>3.4</td>
</tr>
<tr>
<td>SSB CL Omnibus*</td>
<td>3.4</td>
</tr>
<tr>
<td>JPM Chase NA*</td>
<td>2.5</td>
</tr>
<tr>
<td>L E Lundbergföretagen AB</td>
<td>2.4</td>
</tr>
<tr>
<td>Nordea Investment Funds</td>
<td>2.0</td>
</tr>
<tr>
<td>Göranssonska Foundations</td>
<td>1.8</td>
</tr>
</tbody>
</table>

* Shares held in trust.
which includes a procedure for appointing the Nomination Committee, valid until a General Meeting resolves on a change. In accordance with this instruction, the Nomination Committee should comprise representatives of the four largest shareholders, in terms of the number of votes, on the final business day in August plus the Chairman of the Board (convener).

**NOMINATION COMMITTEE FOR 2016 AGM**

For the 2016 Annual General Meeting, the Nomination Committee consists of Fredrik Lundberg, Chairman (Industrivärden), Kaj Thorén (Alecta), Pär Boman (Handelsbanken AB, Handelsbanken’s Pension Foundation and Handelsbanken’s Pension Fund), Tomas Hedberg (Swedbank Robur Funds) and Johan Molin (Sandvik’s Chairman of the Board). Up to the date of the Annual General Meeting, the Nomination Committee met on at least three occasions. Through Sandvik’s Chairman of the Board, the Nomination Committee has been informed of the results of the Board’s own evaluation and the company’s operations, stage of development and overall status. The Nomination Committee has discussed the general criteria that Board members should fulfill, including the independence requirement, and has reviewed the number of Board assignments that each Board member has in other companies. Furthermore, the Nomination Committee has paid special attention to the requirements relating to diversity and breadth as well as the requirement to strive for even gender distribution.

**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 reassuring 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 written instructions.

The Board’s Procedural Guidelines and instruction for work delegation between the Board and the President, as well as for financial reporting, 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 trends, Board meetings address the goals and strategies for the operations, acquisitions and significant 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 OF THE BOARD AT 31 DECEMBER 2015**

<table>
<thead>
<tr>
<th>NAME</th>
<th>FUNCTION</th>
<th>INDEPENDENT IN ACC. WITH THE CODE</th>
<th>SHAREHOLDING, NUMBER</th>
<th>ELECTED</th>
<th>AUDIT COMMITTEE</th>
<th>REMUNERATION COMMITTEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jennifer Allerton</td>
<td>Member</td>
<td>Yes</td>
<td>10,000</td>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thomas Andersson</td>
<td>Deputy*</td>
<td></td>
<td>612</td>
<td>2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claes Boustedt</td>
<td>Member</td>
<td>Yes</td>
<td>10,000</td>
<td>2015</td>
<td>Member</td>
<td></td>
</tr>
<tr>
<td>Jürgen M Geissinger</td>
<td>Member</td>
<td>Yes</td>
<td>0</td>
<td>2012</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>Member</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>2,889</td>
<td>2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mats W Lundberg</td>
<td>Deputy*</td>
<td></td>
<td>0</td>
<td>2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johan Molin</td>
<td>Chairman</td>
<td>Yes</td>
<td>260,000(1)</td>
<td>2015</td>
<td>Member</td>
<td>Chairman</td>
</tr>
<tr>
<td>Hanne de Mora</td>
<td>Member</td>
<td>Yes</td>
<td>16,000</td>
<td>2006</td>
<td>Chairman</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>
</tbody>
</table>

* Employee representatives (both members and deputy members participate in Board meetings). Jan Kjellgren (member) and Mats W Lundberg (deputy) represent Unionen/Ledarna/Swedish Association of Graduate Engineers. Tomas Kärnström (member) and Thomas Andersson (deputy) represent IF Metall.

1) Pertains to own and closely related persons’ shareholdings.
2) The shares are held through capital redemption policy. Johan Molin also holds 1,000,000 call options in Sandvik AB.
COMPOSITION
As per 31 December 2015, Sandvik’s Board comprised seven members elected by the Annual General Meeting. Pursuant to Swedish legislation, trade unions are entitled to representation on the Board and they have appointed two members and two deputies.

In accordance with the Nomination Committee’s proposal, Jennifer Allerton, Claes Boustedt and Johan Molin were elected new members of the Board, and Olof Faxander, Jürgen Geissinger, Johan Karlström, Hanne de Mora and Lars Westerberg were re-elected members of the Board at the 2015 Annual General Meeting. Johan Molin was elected new Chairman of the Board. Anders Nyrén and Simon Thompson had declined re-election. The trade unions appointed Tomas Kärnström and Jan Kjellgren as Board members, and Thomas Andersson and Mats W Lundberg as deputies. Sandvik’s General Counsel Åsa Thunman served as secretary of the Board, and the Remuneration and Audit Committees. Olof Faxander subsequently resigned from the Board in August 2015 in connection with the termination of his employment as President and CEO.

The Board members are presented in more detail on pages 124–125.

INDEPENDENCE
All seven Board members elected by the General Meeting are 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 requirements of the Code that the majority of the members elected by the General Meeting be independent in relation to the company and its executive management and that a minimum of two of those members that are independent in relation to the company and its executive management are also to be independent in relation to the company’s major shareholders.

BOARD PROCEEDINGS DURING 2015
During the year, the Board held 13 meetings. The Board addressed strategic issues. The executive managements of all five business areas presented their goals and strategies. The Board also addressed matters related to human resources, such as incentive programs, environment, health and safety, and issues concerning investments and the review of previously made investments, as well as acquisitions and divestments. The Remuneration and Audit Committees submitted reports from their respective meetings. In autumn 2015, the Board traveled around Sweden and Finland, which included visits to the Sandvik sites in Gimo (Sandvik Coromant), Fagersta (Seco Tools) and Tampere (Sandvik Mining and Sandvik Construction).

REMUNERATION OF THE BOARD
As resolved at the 2015 Annual General Meeting, the Chairman’s fee is 1,700,000 SEK and the fee to each of the non-executive Board members elected by the General Meeting is 600,000 SEK.

In addition, 175,000 SEK was paid to the Chairman of the Audit Committee and 150,000 SEK to each of the other Committee members, in total 475,000 SEK.

<table>
<thead>
<tr>
<th>MEMBER</th>
<th>BOARD</th>
<th>AUDIT COMMITTEE</th>
<th>REMUNERATION COMMITTEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of meetings</td>
<td>13</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Jennifer Allerton</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thomas Andersson</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claes Boustedt</td>
<td>9</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Alicia Espinosa</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olof Faxander</td>
<td>7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jürgen M Geissinger</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Johan Karlström</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan Kjellgren</td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tomas Kärnström</td>
<td>12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mats W Lundberg</td>
<td>9</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Johan Molin</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hanne de Mora</td>
<td>12</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Anders Nyrén</td>
<td>4</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Simon Thompson</td>
<td>4</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Lars Westerberg</td>
<td>13</td>
<td></td>
<td>3</td>
</tr>
</tbody>
</table>

1) Elected new Board member at the Annual General Meeting on 7 May 2015.
2) Left the Board in capacity of deputy employee representative in conjunction with the Annual General Meeting on 7 May 2015.
3) Left the Board in August 2015
4) Joined the Board in capacity of deputy employee representative in conjunction with the Annual General Meeting on 7 May 2015.
5) Left the Board in conjunction with the Annual General Meeting on 7 May 2015.
THE PRINCIPAL TASKS OF THE BOARD

- Establish the overall objectives and strategy for the operations
- Appoint, evaluate and, if necessary, discharge the President 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 transparent, 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 President in taking necessary measures
- Ensure that there is adequate control of compliance with laws and regulations governing the company’s operations
- Define appropriate guidelines to govern the company’s conduct in society, with the aim of ensuring its long-term value creation capability
- Ensure that there is an appropriate system for follow-up and control of the company’s operations and the risks to the company that are associated with its operations
- Ensure that necessary ethical guidelines are established for the company’s conduct
- Define appropriate guidelines to govern the company’s conduct in society, with the aim of ensuring its long-term value creation capability
- Ensure that there is an appropriate system for follow-up and control of the company’s operations and the risks to the company that are associated with its 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

The Chairman of the Remuneration Committee was paid 125,000 SEK and each of the other Committee members 100,000 SEK, in total 325,000 SEK. For more detailed information on remuneration of the Board members, see Note 3.5.

EVALUATION OF THE WORK OF THE BOARD

To ensure the quality of the work of the Board and to identify the possible need for further expertise and experience, a systematic and structured process is implemented annually to evaluate the work of the Board and its members. In 2015, the evaluations, which were led by the Chairman of the Board, were carried out by way of each Board member responding to an online questionnaire. The compiled results were distributed in writing to the Board members, who then discussed the results at the final Board meeting of the year. The Chairman of the Board also presented the results of the evaluations at a meeting with the Nomination Committee.

BOARD COMMITTEES

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

REMUNERATION COMMITTEE

Since the 2015 Annual General Meeting, the members of the Remuneration Committee are the Chairman of the Board Johan Molin (Chairman of the Committee), Johan Karlström and Lars Westerberg. The tasks of the Remuneration Committee are, among others, those prescribed by the Code, which include preparing proposals regarding guidelines for remuneration of senior executives and long-term incentive programs for senior executives.

Based on the recommendations of the Remuneration Committee, the Board decides the remuneration and terms of employment for Sandvik AB’s President.

The President decides on the remuneration to be paid to the Group Executive Management in consultation with the Remuneration Committee. For additional information, see Note 3.5.

During 2015, the Remuneration Committee held three meetings.

AUDIT COMMITTEE

Since the 2015 Annual General Meeting, the members of the Audit Committee are Hanne de Mora (Chairman of the Committee), Claes Boustedt and Johan Molin. Areas addressed by the Audit Committee mainly related to:
- Financial reporting.
- Effectiveness of the system of internal control.
- Planning, scope and follow-up of the internal and external audit for the year.
- The Group’s systematic processes for risk management, including legal disputes, accounting procedures, taxation, finance operations and pension issues.
- The development and effectiveness of compliance processes and Speak-up, Sandvik’s global whistleblowing system.

In 2015, the Audit Committee held five meetings at which Sandvik’s external auditor and representatives of the company’s management were present.

EXTERNAL AUDITOR

At the 2015 Annual General Meeting, the audit firm KPMG AB was re-elected auditor of Sandvik AB for the period until the 2016 Annual General Meeting, with George Pettersson as the auditor-in-charge.

The progress of the audit is reported regularly during the year to the management teams of individual companies and the business areas, to the Group Executive Management, the Audit Committee and to the Board of Sandvik AB. 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 governed by a special instruction decided by the Audit Committee setting out the non-audit services that the external auditors may provide to Sandvik.

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

**OPERATIONAL MANAGEMENT**

The five business areas – Sandvik Machining Solutions, Sandvik Mining, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture – comprise Sandvik’s operational structure. The presidents of the business areas report directly to the President 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.

Visit sandvik.com for more detailed information relating to the Group’s operational organization and business activities.

**PRESIDENT AND GROUP EXECUTIVE MANAGEMENT**

In 2015, the Group Executive Management comprised Olof Faxander (until 10 August 2015), President and CEO; Björn Rosengren (from 1 November 2015), President and CEO; Mats Backman, Executive Vice President and CFO, and acting President and CEO (10 August–31 October 2015); Jonas Gustavsson, President of Sandvik Machining Solutions; Scot Smith (until 14 December 2015), President of Sandvik Mining; Lars Engström (from 15 December 2015), President of Sandvik Mining; Petra Einarsson, President of Sandvik Materials Technology; Dinggui Gao, President of Sandvik Construction; Jim Nixon, President of Sandvik Venture; Åsa Thunman, Executive Vice President and General Counsel; Anna Vikström Persson, Executive Vice President and Head of Human Resources; Jessica Alm, Executive Vice President and Head of Group Communications; Zhiqiang (ZZ) Zhang, Executive Vice President and Head of Emerging Markets, and Olle Wijk (until 31 December 2015), Executive Vice President and Head of Group R&D. The President and other members of the Group Executive Management are presented on pages 126-127.

The Group Executive Management meet each month and deal with the Group’s financial development, Group-wide development projects, leadership and competence sourcing, and other strategic issues.

Sandvik has established Group functions responsible for Group-wide activities such as legal affairs, communication, finance and HR. In addition to the Group Executive Management, business areas and Group functions, a number of committees and other coordination and preparatory bodies are commissioned to coordinate Group-wide strategic areas, such as environment, health and safety, research and development, purchasing, IT, finance and HR.

In all countries where Sandvik has registered sales, a Group Management Representative (GMR) has been appointed by the President and CEO to ensure that Sandvik, in the country or region to which the GMR is assigned, has an adequate country or regional organization to drive synergies and safeguard compliance and efficient coordination and performance of support activities in the country. The GMR should act as chairman in the country boards of his/her assignment or delegate this to a Deputy GMR and, if so, lead the regional country management team.

Each country in which Sandvik has a subsidiary has a Country Manager who acts as the representative of the Group Executive Management for a country/region, with an overall responsibility for Sandvik ownership-related matters and overall business activities. The Country Manager acts as a counterpart to the GMR or Deputy GMR and is responsible for promoting the wider Sandvik Group interest and initiating activities that should increase the efficiency of business operations and leverage the synergy opportunities within the Group.

**REMUNERATION OF SENIOR EXECUTIVES**

For guidelines, remuneration and other benefits payable to the Group Executive Management, refer to Proposal regarding guidelines for the remuneration of senior executives on page 45 and Note 3.5.

**INTERNAL CONTROL AND RISK MANAGEMENT**

The Board has the overall responsibility to ensure that the Group’s system for risk management and internal control is effective. The Group applies a comprehensive risk management program, Enterprise Risk Management (ERM). ERM is an integral part of Sandvik’s operational and strategic management and assists the company in taking action when change occurs, whether triggered by internal or external factors.

The guidelines for Sandvik’s operations are assembled in Power of Sandvik, which is the governance framework incorporating the Group’s strategy, Code of Conduct and policies that regulate the governance of the Sandvik Group.
GOVERNANCE OF SUSTAINABLE BUSINESS
With Sandvik’s Sustainable Business strategy and Code of Conduct as the basis, risks and opportunities are analyzed. Objectives and targets are set to address the risks identified by the Group and to efficiently leverage the opportunities available.

The Board adopts the Group’s Code of Conduct and the Group Executive Management establishes objectives and performance indicators for sustainability operations. At the end of 2014, the Board of Directors adopted a revised Code of Conduct, which was launched in 2015. Each business area assumes responsibility for ensuring compliance with the Code and that the goals are cascaded down in the organization. The business areas are also responsible for the assessment of sustainability risks (for example, environment, health, safety, corruption, human rights, working conditions and supplier responsibility) in their operations, and specific teams are appointed in each business area to coordinate issues and support the local management.

Sandvik conducts a materiality analysis on a regular basis. In 2013, and confirmed in 2014 and 2015, the following aspects were identified as material:

COMPLIANCE
Compliance includes four areas: anticorruption compliance, competition law, trade compliance and data protection. The main purpose is to ensure a well-functioning structure with control over Sandvik’s international business and to manage compliance risks.

SUSTAINABLE SUPPLIER MANAGEMENT
A sustainable supply chain and strong supplier relationships are central to Sandvik’s commitment to provide customers with the best and most innovative offerings.

USE, REUSE AND RECYCLING OF MATERIALS AND NATURAL RESOURCES
Comprehensive recycling programs are underway in all parts of the Group. The global raw material shortage is an impediment for a successful business. Recycling results in less virgin raw material used, lower energy consumption and reduced emissions, acidifying substances and waste water discharge, in addition to less waste. Factors important to Sandvik, the Group’s customers and society at large.

ENERGY, EMISSIONS AND CLIMATE CHANGE
Climate change affects Sandvik and we need to mitigate this risk. In addition, a high degree of energy efficiency increases the value of the energy source, resulting in lower costs and emissions, both for Sandvik and its customers.

HEALTH AND SAFETY
Maintaining a safe work environment will always be a top priority, out of respect for both Sandvik’s employees and customers. The Group’s performance is meeting growing expectations from its customers and other stakeholders. Health and safety is a significant competitive advantage to Sandvik.

DIVERSITY AND INCLUSION
Sandvik’s view is that diverse teams are more effective, more likely to think and act outside the box and contribute to greater creativity and innovation. Diversity and inclusion are integral parts of a modern society and, for Sandvik, a strong competitive advantage.Having the right mix of people, reflecting Sandvik’s markets, will support the business and our ambition to meet the needs of global and local customers.

TALENT ATTRACTION, DEVELOPMENT AND RETENTION
Sandvik must ensure that it has the right people in the right positions. In order to retain the Group’s market-leading position in a challenging market, a high-performing culture is important.
INTERNAL CONTROL OF FINANCIAL REPORTING

The financial statements are established in accordance with prevailing legislation, International Financial Reporting Standards (IFRS) as adopted by EU and the listing agreement with Nasdaq Stockholm. This description of internal control over financial reporting has been prepared in accordance with the Annual Accounts Act and constitutes an integrated 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 aligns with the conceptual framework of COSO, which is based on five key components that jointly facilitate good internal control. The five components are Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring and Follow-up. The internal control procedures cover all stages of the financial reporting process, from the initial recording of transactions in each subsidiary and reporting entity, the validation and analysis of each business area through to the consolidation, quality assurance, analysis and reporting at Group level. The application of the COSO framework is described below.

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

The Sandvik Financial Reporting Policies and Procedures govern control over financial reporting. These documents contain detailed instructions regarding accounting policies and financial reporting procedures to be applied by all Sandvik reporting entities. In the 20 major countries where Sandvik operates, Country Finance Managers are appointed to support 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 accuracy of financial reporting and compliance with IFRS requirements. Group Business Control performs business analysis and compiles reports on operational performance. Both statutory and management reporting is conducted in close cooperation with business areas and specialist functions such as tax, financial services and legal to ensure the correct reporting of the income statement, balance sheet, equity and cash flow.

RISK ASSESSMENT AND RISK MANAGEMENT
The Enterprise Risk Management (ERM) process at Sandvik, which is described in the Integrated Risk Management Report on pages 54–55, encompasses the area of financial reporting. Risk management is a normal component of the daily work on 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 amalgamation of roles and responsibilities, work descriptions, IT systems, skills and expertise creates an environment that is monitored continuously to identify and manage potential risks.

CONTROL ACTIVITIES
Internal Control activities have been effected in all areas that impact upon 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 accurate accounting and the closing of books. Finance staff adheres to the Sandvik Financial Reporting Policies and Procedures and validate and reconcile 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 as and when needed. All business areas present their financial performance in written reports to the Group Executive Management on a monthly and quarterly basis.

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

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

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

Steering documents, such as policies and procedures, as well as instructions, are updated regularly on the company’s intranet and are available to all of 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 the Group Executive Management. In addition, there is an established agenda for communicating information on shareholder meetings and other information to investors. The Annual Report is made available to shareholders and the general public, both as a printed version and on Sandvik’s website.

INTERNAL AUDIT
The Internal Audit function audits the corporate governance, internal control and risk-management procedures.

Internal Audit is subordinated to the Board’s Audit Committee and the head of the unit reports to the Audit Committee.

Internal audits include, as a basis, the Group’s guidelines and policies for corporate governance, risk management and internal control with regard to areas such as financial reporting, compliance with the Code of Conduct and IT. The outputs of the audits include action plans and programs for improvement. Findings are reported to the Group Executive Management and the business area management and to the Board’s Audit Committee.

MONITORING AND FOLLOW-UP
Each business entity manager and their respective finance organization is ultimately responsible for continuously monitoring the financial information of the various entities. The information is also monitored at a business area level, by Group staff functions, the Group Executive Management and by the Board. The Audit Committee at Sandvik is to ensure that the company’s financial reports are produced in accordance with legislation, applicable accounting standards and other requirements for listed companies. The Audit Committee prepares issues and presents them to the Board for resolution.

The quality of the financial reporting process and internal controls is assessed by Group Finance every month as part of the quality assurance of reporting. The Sandvik internal audit function independently reviews 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, as part of a hard-close audit, which includes an assessment of the Parent Company’s reporting and internal control over financial reporting in the business areas, subsidiaries and Group functions. Finally, the external auditors perform an examination of the annual accounts and the Annual Report.
AUDITOR’S REPORT

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS
We have audited the annual accounts and consolidated accounts of Sandvik AB (publ) for the year 2015. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 41–122.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO FOR THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS
The Board of Directors and the President and CEO are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the 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 President and CEO 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 judgment, 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 President and CEO, 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 opinions.

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 group as of 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. A corporate governance statement has been prepared. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

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 also audited the proposed appropriations of the company’s profit or loss and the administration of the Board of Directors and the President and CEO of Sandvik AB (publ) for the year 2015.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE PRESIDENT AND CEO
The Board of Directors is responsible for the proposal for appropriations of the company’s profit or loss, and the Board of Directors and the President and CEO 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 basis for our opinion on the Board of Directors’ proposed appropriations of the company’s profit or loss, we examined the Board of Directors’ reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

As 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 President and CEO is liable to the company. We also examined whether any member of the Board of Directors or the President and CEO 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 opinions.

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 President and CEO be discharged from liability for the financial year.

Stockholm 1 March 2016

KPMG AB
George Pettersson
Authorized Public Accountant