

Corporate Governance Report

Sandvik AB has its registered office in Sandviken, Sweden, and is the Parent Company of the Sandvik Group, with subsidiaries in about 60 countries. Its operations are global with sales in more than 130 countries, and the Sandvik Group has approximately 47,000 employees. Sandvik AB is a public company listed on NASDAQ OMX Stockholm (“the Stock Exchange”) and has some 112,000 shareholders.

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 Code is available from www.corporategovernanceboard.se.

The purpose of corporate governance is to clearly specify 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.

Ownership structure

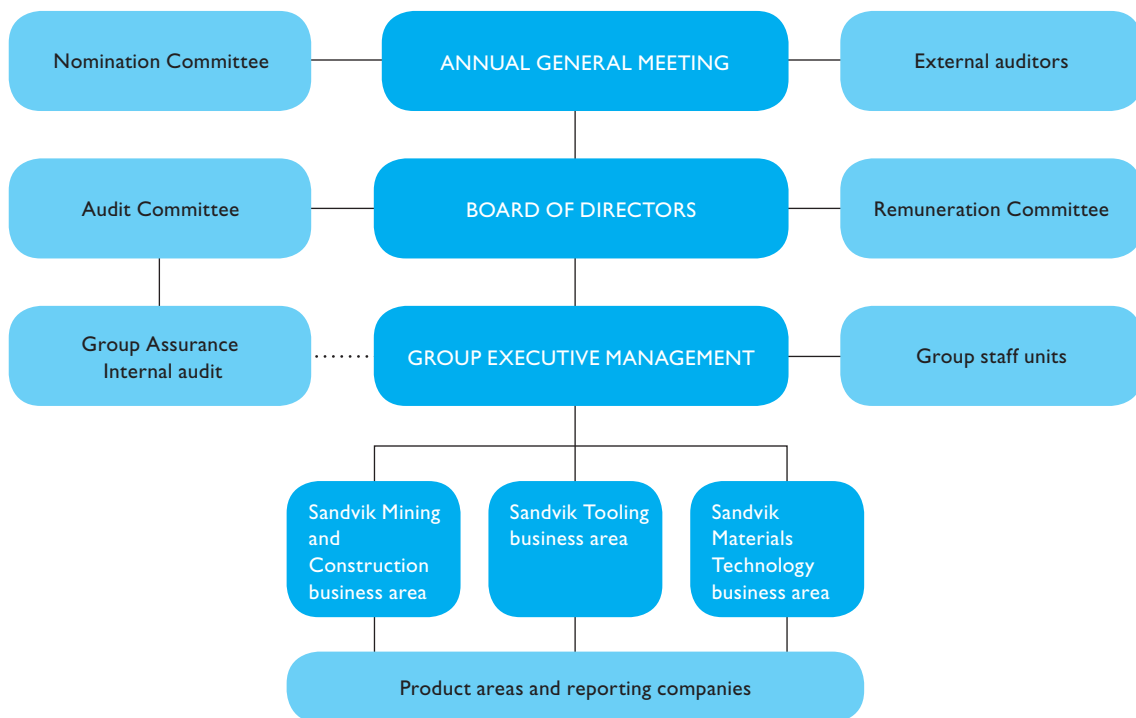
Sandvik’s share capital amounts to SEK 1,423,544,610 represented by 1,186,287,175 shares. Each share carries one vote at meetings of shareholders. According to the owner register, Sandvik had about 112,000 shareholders at 31 December 2010. Industrivärden AB is the largest owner with about 11.7% of the share capital. Of the total share capital at year-end, approximately 31% was owned by foreign investors, according to SIX Ågarservice.

Shareholder meetings

Pursuant to the Swedish Companies Act, the 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 appointment of auditors, remuneration of Board members and auditors, and other matters stipulated in the Companies Act and the Articles of Association.

The 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

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, Cross Communication Team, etc.

Association do not contain any specific provisions regarding the appointment or discharge of Board members or regarding amendments to the Articles. The Annual General Meeting did not issue the Board with any permanent authorization to decide that the company should issue new shares or acquire treasury shares.

All shareholders who have been entered in the Share Register and notified the company of their attendance within the correct time limit are entitled to participate at the Annual General Meeting and vote according to the number of shares held. Shareholders are also entitled to be represented by a proxy at the Meeting. Notification of the Annual General Meeting is published in Post- och Inrikes Tidningar, in Svenska Dagbladet and in a daily newspaper published in Sandviken or Gävle.

Additional information concerning the Annual General Meeting and complete minutes are published on the company's website, www.sandvik.com.

2010 Annual General Meeting

Shareholders representing 47.2% of the votes and share capital attended the Annual General Meeting held on 4 May 2010. Sven Unger, attorney-at-law, was elected to chair the meeting. The meeting resolved to pay a dividend of SEK 1 per share for the 2009 fiscal year. In his presentation, President and CEO Lars Pettersson commented on operations during the 2009 fiscal year and developments during the first quarter of 2010. He also gave an account of the Sandvik Group's business model and future development.

Lars Westerberg was elected a new member of the Board and Georg Ehrnrooth, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, Lars Pettersson and Simon Thompson were re-elected as members of the Board. Anders Nyrén was elected Chairman of the Board. The trade union organizations had appointed Tomas Kärnström and Jan Kjellgren as permanent members of the Board, with Alicia Espinosa and Bo Westin as deputies.

Nomination Committee

In accordance with the resolution passed at the Annual General Meeting in 2009, Sandvik has had a Nomination Committee. The four largest shareholders in terms of the number of votes each appointed one member and, together with the Chairman of the Board, they formed the Nomination Committee.

Nomination Committee for the 2010 AGM

The Nomination Committee for the 2010 Annual General Meeting, comprising Carl-Olof By, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken's Pension Foundations), Staffan Grefbäck (Alecta), Marianne Nilsson (Swedbank Robur Funds), and Clas Åke Hedström (Sandvik Chairman at that time), held six meetings. Through Sandvik's Board Chairman, the Nomination Committee received information concerning the Board's own evaluation of Board members' performance and of the company's operations, stage of development and overall status. The Nomination Commit-

Nomination Committee's tasks

- Submit proposals concerning the Chairman of the Annual General Meeting.
- Proposals concerning the number of Board members.
- Proposals concerning remuneration of Board members and auditors.
- Proposals concerning Board members and Chairman of the Board.
- Proposals concerning number of auditors and appointment of auditors.
- Proposals concerning the method of appointment of the Nomination Committee for the forthcoming AGM and its assignments.

tee discussed the general criteria that Board members should fulfill, including independence issues. The issue of more even gender distribution was addressed by the Committee. In its assessment, the Nomination Committee determined that the Board functioned effectively and that the various Board members represent a broad spectrum of experience and knowledge, which is why the Nomination Committee has proposed the new election of Lars Westerberg and the re-election of all other Board members, except for Clas Åke Hedström who announced that he wished to resign from the Board of Directors after 16 years, eight of which he served as Chairman.

The ten largest shareholders at 31 December, %

	2010	2009	2008	2007	2006
AB Industrivärden	11.7	11.4	11.5	11.5	11.0
Swedbank Robur Funds	5.0	4.7	3.4	2.3	2.4
Handelsbanken's Pension Foundation	4.0	4.0	4.0	4.0	3.8
Alecta Pension Insurance	3.4	2.5	3.4	3.1	2.9
Omnibus Account W FD OM80	3.0	2.5	—	—	—
L E Lundbergföretagen AB	2.0	1.2	1.2	1.1	0.8
AMF Pension Insurance	2.0	1.8	1.3	1.5	1.8
SSB CL Omnibus AC OM03 (0 PCT) Pension Fund	1.8	0.8	—	—	—
Nordea Investment Funds	1.8	1.4	0.6	0.9	1.4
Handelsbanken Funds	1.7	1.9	1.4	2.1	2.0

The principal tasks of the Board are to

- Establish the overall objectives 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 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 AGM.

Nomination Committee for the 2011 AGM

For the Annual General Meeting to be held on 3 May 2011, the Nomination Committee consists of Carl-Olof By, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken's Pension Foundations), Staffan Greffbäck (Alecta), Marianne Nilsson (Swedbank Robur Funds), and Anders Nyrén (Sandvik's Chairman).

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.

Procedural Guidelines

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 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 remuneration and audit matters.

Composition of the Board since 2010 Annual General Meeting

Name	Function	Independent an acc. with the Code	Shareholding, number ³⁾ 31 Dec 2010	Elected	Audit Committee	Remuneration Committee
Georg Ehrnrooth	Member	Yes	55,000	1997		Member
Alicia Espinosa	Deputy*	Yes	6,739	2010		
Jan Kjellgren	Member*		570	2008		
Tomas Kärnström	Member*		2,865	2006		
Fredrik Lundberg	Member	No ¹⁾	5,940,000 ⁴⁾	2006		
Hanne de Mora	Member	Yes	0	2006	Chairman	
Egil Myklebust	Member	Yes	10,000	2003		Member
Anders Nyrén	Chairman	No ¹⁾	4,500	2002	Member	Chairman
Lars Pettersson	Member	No ²⁾	139,062	2002		
Simon Thompson	Member	Yes	0	2008	Member	
Lars Westerberg	Member		12,000	2010		
Bo Westin	Deputy*		0	1999		

* Employee representatives (Both members and deputy members partake in Board meetings). Jan Kjellgren (member) and Alicia Espinosa (deputy) represent Unionen/Ledarna/ Swedish Association of Graduate Engineers. Tomas Kärnström (member) and Bo Westin (deputy) represent IF Metall.

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 via L E Lundbergföretagen AB totals 23,500,000, and shareholding via AB Industrivärden totals 138,443,752.

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.

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 members and two deputies.

In accordance with the Nomination Committee's proposal, Georg Ehrnrooth, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, Lars Pettersson and Simon Thompson were reelected at the Annual General Meeting in 2010. Lars Westerberg was elected a new member of the Board. Anders Nyrén was elected Board Chairman.

Sandvik's General Counsel Bo Severin served as secretary of the Board, the

Remuneration and Audit Committees as well as the Nomination Committee.

Independence

As defined in the Code, Anders Nyrén and Fredrik Lundberg are not independent in relation to major shareholders in the company and Lars Pettersson is not independent in relation to the company and Group Executive Management. The remaining four members elected at the Annual General Meeting were 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 Annual 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 2010

During the year, the Board met on seven occasions. The Board dealt with strategic issues related to the operations of the business areas. The executive managements of all three business areas presented their goals and strategies. During the year, the Board visited Sandvik Materials Technolo-

gy's plant in Sandviken. The Board also addressed matters related to personnel, such as succession planning and remuneration terms, and matters relating to investments, acquisitions and divestments.

Board of Directors appoints new President

In December 2010, the Board of Directors appointed Olof Faxander as new President and CEO of Sandvik as of 1 February 2011. Olof Faxander succeeds Lars Pettersson, who has held the position of President and CEO since 2002. In conjunction with the change of President, the Board of Directors expressed its sincere gratitude to Lars Pettersson for his contribution to Sandvik.

Remuneration of the Board members

As resolved at the Annual General Meeting, the fee to each of the external members elected at the Annual General Meeting is SEK 450,000. The Chairman's fee is SEK 1,350,000. In addition, SEK 150,000 was paid to the Chairman and SEK 125,000 to each member of the Audit Committee, in total SEK 400,000. The Chairman of the Remuneration Committee was paid SEK 100,000 and each member SEK 75,000, or a total of SEK 250,000. For additional information on remuneration to the Board members, see pages 68–70.

Attendance at Board and Committee meetings in 2010

Member	Board	Audit Committee	Remuneration Committee
Number of meetings	7	4	7
Georg Ehrnrooth	6		7
Alicia Espinosa	5		
Clas Åke Hedström	2		3
Jan Kjellgren	7		
Tomas Kärnström	7		
Fredrik Lundberg	7		
Hanne de Mora	6	4	
Egil Myklebust	7		7
Anders Nyrén	7	4	5
Lars Pettersson	7		
Simon Thompson	6	1	
Lars Westerberg	4		
Bo Westin	6		

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 work procedures, 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. In 2010, the members of the Remuneration Committee were the Board's Chairman Anders Nyrén (also Chairman of the Remuneration Committee), Georg Ehrnrooth and Egil Myklebust.

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 proposal by the Remuneration Committee, the Board decides the remuneration of the President and CEO. The Board of Directors utilized its right to deviate from the guidelines resolved by the Annual General Meeting pertaining to severance pay for Lars Pettersson in conjunction with his departure from the company. He will receive remuneration until his 60th birthday, which is the age of retirement stipulated in his employment contract. This deviates from the provision of the Code by nine months. The deviation was made to span the

period until Lars Pettersson's contractual retirement. 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 68–70. Key guidelines relating to remuneration policies in the Group have been presented to the Remuneration Committee.

During 2010, the Remuneration Committee was convened on seven occasions.

Audit Committee

Since the 2010 Annual General Meeting, the members of the Audit Committee have been Hanne de Mora (Chairman), Anders Nyrén and Simon Thompson. In 2010, the Committee held four meetings at which the company's external auditors 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 systematic processes for risk management, including legal disputes, accounting procedures, taxation, finance operations and pension issues.

External auditor

At the 2008 Annual General Meeting, the audit firm KPMG AB was reelected auditor for the three-year period until the 2011 Annual General Meeting, with Caj Nackstad as the auditor in charge.

An account of the audit is presented to the shareholders in the audit report. This report provides a recommendation to the shareholders upon which they can base their resolutions at the Annual General Meeting regarding the adoption of the income statements and balance sheets of the Parent Company and the Group, the appropriation of the Parent Company's

profit and the discharge of the members of the Board and the CEO from liability for the fiscal year.

The audit is conducted in accordance with the Companies Act and generally accepted auditing standards, which require that the audit is planned and performed on the basis of knowledge of the Sandvik Group's operations and its development and strategies. The audit includes such activities as an examination of compliance with the Articles of Association, the Companies Act, the Annual Accounts Act, International Financial Reporting Standards (IFRS).

The progress of the audit is reported regularly during the year to the managements of individual companies and the business areas, to Group Executive Management, the Audit Committee and to the Board of Sandvik AB. The auditors meet with the company's Board once a year without the President or any other member of company 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.

In accordance with the Auditors Act, auditors are required to continuously assess their independence.

For information on fees paid to auditors, see page 70.

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, comprise Sandvik's operational structure. 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 in various product areas or customer segments. Internal Board meetings are held at the business area level. Sandvik's CEO chairs these meetings. In addition to the president and the financial manager of the business area, Sandvik AB's Executive Vice President and the General Counsel attended these meetings. 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

In 2010, Group Executive Management comprised Lars Pettersson, President and CEO, Anders Thelin, Sandvik Tooling, Lars Josefsson, Sandvik Mining and Construction, Peter Gossas, Sandvik Materials Technology, Peter Larson, Executive Vice President, Ola Salmén, Executive Vice President and CFO and (from 1 October 2010) Göran Westberg, Senior Vice President Human Resources, and Bo Severin, General Counsel. 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 rights, and patents and trademarks. Intellectual 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

Important events

- Anders Nyrén was elected Chairman of the Board.
- Lars Westerberg was elected as a new Board member.
- Olof Faxander was appointed new President and CEO effective 1 February 2011.
- Bo Severin, General Counsel, was appointed as a member of Group Executive Management as of 1 October 2010.
- Anna Vikström Persson was appointed Senior Vice President Human Resources and member of Group Executive Management as of 1 March 2011.

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 110 of the Annual Report. For principles, remuneration and other benefits payable to Group Executive Management, refer to pages 68-70.

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.

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 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 utilized in the best possible way.

Internal control of financial reporting

The financial statements were 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 of 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 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 signatory and authorization principles for decision-making and cost approvals, request and approval procedures regarding investments and acquisitions etc., and instructions regarding funding and the placement of capital.

In the area of financial reporting, the Sandvik Financial Reporting Procedures (FRP) 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 accounts for the business analysis of results and 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.

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.

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.

The Group finance functions that are responsible for the consolidated Sandvik income statement, balance sheet and cash-flow statement and the internal management and external statutory reporting perform detailed reconciliation of submitted financial information from each reporting entity. Comparisons are made against targets, forecasts and previous accounting periods. Key ratios and performance indicators are reviewed and calculations tested. In-depth analysis is made of reported numbers and performance. Meetings are held with business area management to discuss performance and to agree on the outcome of financial information for the reporting period.

Group Financial Control, Group Business Control and Group Assurance 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 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 meetings with a formal agenda, including financial information, monitoring and decisions related to financial 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 performance of the financial reporting process and the quality of 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 of 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 the Annual Report.

Group Assurance

As assigned by the Board and the Audit Committee, the Group Assurance staff function ensures that the Group has effective corporate governance, internal control and risk management procedures.

The purpose of the activities of Group Assurance is to support the creation of value growth in the Group. It achieves this by ensuring that well-functioning risk management and appropriate internal control have been established, by ensuring the quality of internal controls and by suggesting improvements in the areas of corporate governance, internal control and risk management. 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. The teams report 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

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of Sandvik AB; (publ) for the year 2010. The company's annual report is included in the printed version of this document on pages 12–94. The Board of Directors and the President are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consoli-

dated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Swedish Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. A Corporate Governance Report has been prepared. The statutory Report of the Directors is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Meeting of Shareholders that the income statements and balance sheets of the Parent Company and the Group be adopted, that the profit of the Parent Company be dealt with in accordance with the proposal in the Report of the Directors and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Sandviken, 17 February 2011

KPMG AB

Caj Nackstad
Authorized Public Accountant