Effects of changes to IAS 19 Employee Benefits

Up until 31 December 2012, Sandvik applied the corridor method for the recognition of the Group's pension liability (refer also to Significant accounting policies and Note 23 of the 2012 Annual Report). The updated standard no longer permits the application of the corridor method. Consequently, changes in actuarial assumptions are recognized directly in other comprehensive income. Furthermore, the standard requires the company to apply the same interest rate for discounting the pension obligation as that used to calculate the anticipated return on plan assets.

The updated standard will be applied from 1 January 2013 with full retroactive application. For Sandvik, this entails an immediate increase in the net pension obligation (classed as a financial liability) and a corresponding reduction – taking taxation effects into consideration – in retained earnings. The updated standard also includes new rules concerning recognition of payroll tax.

If the standard had been applied as of 31 December 2012, the net pension obligation would have been 5.0 billion SEK higher, including payroll tax of 0.2 billion SEK. After taking deferred tax into account, the effects of the updated standard on retained earnings would have been 3.7 billion SEK lower than the amount reported on 31 December 2012. The effects at the end of each quarter of 2012 are shown in the tables below, including the opening balance for 2012. The impact on the consolidated income statement, aside from on other comprehensive income, is negligible and is therefore not reported separately.

Sandvik has elected to entirely exclude pension liabilities from its net debt/equity ratio target as of the first quarter of 2013. The effects on the net debt/equity ratio are negligible and are thus not reported separately. The target of the net debt/equity ratio remains at <0.8.

For tables, refer to the Excel file