

Sandvik

Annual Report 2008

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Sandvik Aktiebolag; (publ) Corporate registration number 556000-3468

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4 Consolidation to meet decline in demand and strengthen competitiveness. [Read more on page 4](#)

13 Sandvik Group's profit after financial items amounted to SEK 10,577 M. Earnings per share totaled SEK 6.30 and return on capital employed was 19.9%. [Read more on page 13](#)

16 Demand was mixed for Sandvik's products during 2008, with strong development in the first three quarters and a particularly difficult market situation in the fourth quarter. [Read more on page 16](#)

24 Sandvik's work with sustainable development is an integral part of business processes, with the aim of continuous improvement within such areas as the environment, work environment, human rights and business ethics. [Read more on page 24](#)

In addition to the financial information in the Annual Report, the Sandvik Group is presented in Sandviks' World 2008/2009, a publication distributed to all shareholders in April 2009. In addition to descriptions of operations, financial key figures, goals, business concept, strategy and more, the Sandvik World provides an in-depth look at a number of key areas. More information is provided at www.sandvik.com.

Forthcoming information and reports

Annual Report 2008	April 2009	Annual Report 2009	April 2010
The Sandvik World 2008/2009	April 2009	The Sandvik World 2009/2010	April 2010
Report on the first quarter	28 April 2009	Report on the first quarter	4 May 2010
Annual General Meeting	28 April 2009	Annual General Meeting	4 May 2010
Report on the second quarter	17 July 2009	Report on the second quarter	20 July 2010
Report on the third quarter	30 October 2009	Report on the third quarter	29 October 2010
Report on the fourth quarter	3 February 2010		

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Year in brief

Financial

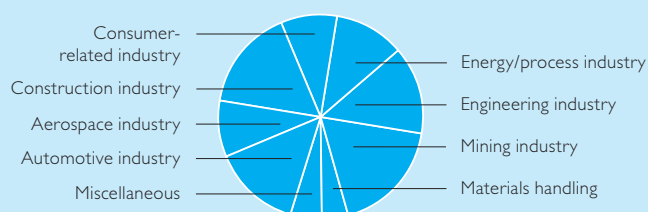
- Order intake up 1%*, SEK 92,610 M.
- Invoiced sales up 5%*, SEK 92,654 M.
- Profit after financial items –19%*, SEK 10,577 M.
- Earnings per share down 18%, SEK 6.30.
- Proposed dividend SEK 3.15.

* Excluding currency effects for comparable units.

Operational

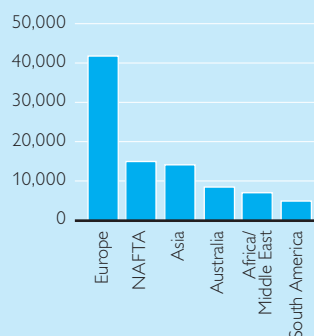
- Continuing programs in research, development and marketing.
- Improved cash flow.
- Action taken to adjust production capacity and costs to lower demand, including personnel reductions.

Invoiced sales by customer area, SEK M



The global economic decline in the fourth quarter of 2008 was one of the most dramatic experienced by Sandvik. The downturn impacted all business areas and many markets. Order intake decreased in price and volume by 18%, while the drop in invoiced sales was 1%. The market slow down varied among customer segments and was most discernible in the automotive industry, construction and exploration industries, parts of the general engineering industry and consumer-related industries.

Invoicing by market area, SEK M



Demand for Sandvik's products deteriorated sharply toward the end of the year. The slowdown was global, but order intake was relatively strong in South America and Africa, notably from the mining industry. The dramatic decline in the market meant that order intake in the last quarter was 14% lower than invoiced sales.

Key figures

SEK M	2008	2007	Change
Order intake	92,610	92,059	+1%
Invoiced sales	92,654	86,338	+7%
Profit after financial items	10,577	12,997	–19%
Earnings per share, SEK	6.30	7.65	–18%
Return on capital employed, %	19.9	27.0	
Return on shareholders' equity, %	24.8	34.4	
Cash flow from operations	9,671	5,476	
Number of employees, at 31 December	50,028	47,123	

During the last quarter of 2008 a number of measures to adjust costs and production capacity to the less favorable market situation were taken and the effects of these measures will impact earnings gradually during 2009. Sandvik conducts continuous assessments of the market and acts in accordance with these.

This is Sandvik

Sandvik is a high-technology engineering group with advanced products and world-leading positions in selected areas. The Group is represented in 130 countries and has about 50,000 employees. Sales amounted to approximately SEK 93 billion.

Sandvik's operations are based on unique expertise in materials technology and extensive insight into customer processes. This combination has provided world-leading positions in three primary areas:

- Tools for metal cutting in cemented carbide, high-speed steel and other hard materials as well as components in cemented carbide and other hard materials.
- Equipment and tools for the mining and construction industries.
- Products in advanced stainless materials, titanium, special alloys, metallic and ceramic resistance materials and process systems.

Sandvik is focused on growth. Sales have almost doubled during the past five years. To create the basis for continued profitable growth, operations are divided into three business areas, with world-leading positions. Each business area is responsible for research and development, production and sales of its particular products.

Business areas	Offering	Markets
<p>Sandvik Tooling focuses primarily on tools and tooling systems for metal cutting.</p> <p>The products are sold under a number of international brands, such as Sandvik, Sandvik Coromant, Walter, Valenite, ValeniteSafety, Dormer, Precision and Diamond Innovations.</p>	<p>Tools and tooling systems for metal cutting, as well as wear parts and components in cemented carbide.</p> <p>Highly efficient product solutions in cemented carbide and other hard materials, such as synthetic diamonds, cubic boron nitride, ceramics and high-speed steel.</p>	<p>The major customer segments are the global energy and aerospace industries as well as the automotive and general engineering industries.</p> <p>The global market for metal cutting tools is estimated to total some SEK 140 billion, with an average annual growth of 3–4%. The market potential for other components and wear parts made of hard materials is estimated at about SEK 30 billion.</p>
<p>Sandvik Mining and Construction specializes in equipment, tools and service for the mining and construction industries.</p> <p>Effective 1 April 2009, Sandvik Mining and Construction is active in three customer segments: Underground Mining, Surface Mining and Construction.</p>	<p>Equipment, tools, service and technical solutions for mineral exploration, mining and processing of rock and minerals in the mining and construction industries.</p> <p>An extensive product program for drilling and mechanical mining, as well as for loading and transport, crushing and sorting, demolition, recovery and handling of rock and minerals.</p>	<p>The products are deployed primarily in mines and in construction operations worldwide.</p> <p>The global market is estimated to amount to more than SEK 220 billion. Average, long-term annual growth for equipment, tools and spare parts is about 4–6%, with a higher growth rate for services.</p>
<p>Sandvik Materials Technology develops products in advanced stainless materials, special alloys, metallic and ceramic resistance materials and process systems.</p> <p>Operations are divided into six product areas – Tube, Strip, Wire, Kanthal, Process Systems and MedTech.</p>	<p>High value-added products and system solutions based on advanced metallic materials.</p> <p>Process equipment based on steel belts. Manufacturing of orthopedic implants and instruments.</p> <p>Systems for generating, controlling, measuring or protecting against heat.</p>	<p>Customers are active in most industrial segments in which exacting demands are imposed on safety, productivity, cost efficiency and a long life cycle.</p> <p>The world market is estimated at more than SEK 150 billion. The underlying average annual growth is 4–6%, while growth is higher in such segments as medical technology and energy.</p>

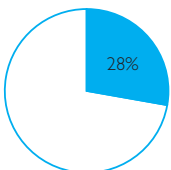
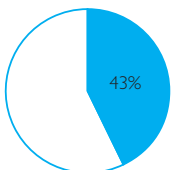
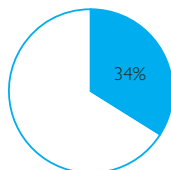
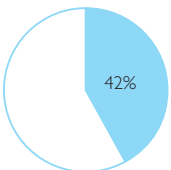
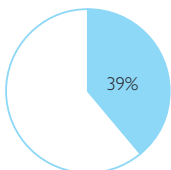
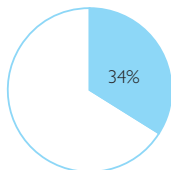
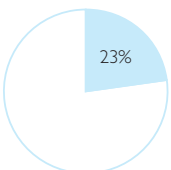
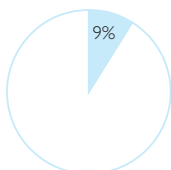
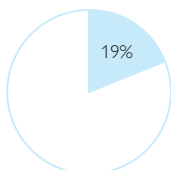
The world as our local market

Invoiced sales and number of employees for the fifteen largest markets in 2008.

	SEK M	Change, %	Number of employees
US	11,039	-1	5,286
Australia	8,152	+9	2,732
Germany	7,958	+7	3,881
Sweden	4,753	-6	11,487
Italy	4,682	-7	992
China	4,311	+26	1,813
South Africa	3,955	+12	2,237
France	3,698	+4	2,223

	SEK M	Change, %	Number of employees
Brazil	3,567	+7	1,818
UK	3,307	+1	2,004
Russia	2,625	+34	768
Canada	2,433	-5	947
Japan	2,121	0	634
India	2,044	+16	2,187
Finland	1,657	+31	1,812

Business areas' share of Group

	Invoiced sales	Operating profit	Number of employees
	 <p>28%</p> <p>SEK 25,975 M</p>	 <p>43%</p> <p>SEK 5,461 M</p>	 <p>34%</p> <p>16,988</p>
	 <p>42%</p> <p>SEK 38,651 M</p>	 <p>39%</p> <p>SEK 4,996 M</p>	 <p>34%</p> <p>16,796</p>
	 <p>23%</p> <p>SEK 21,480 M</p>	 <p>9%</p> <p>SEK 1,187 M</p>	 <p>19%</p> <p>9,281</p>

Consolidation to meet decline in demand and strengthen competitiveness

The latter part of 2008 entailed a major challenge for the entire global economy in the wake of the financial crisis and the rapid decline in demand. Also for Sandvik, the market demand dropped during the close of the year, following three robust quarters with consistently high demand in most of the customer segments.

Although 2008 was marked by the decline in demand during the fourth quarter, Sandvik advanced its market positions in a number of ways during the year. The launch of new products, expansion into emerging markets and within product areas as well as integration of acquired companies continued as planned. The strong customer focus to constantly achieve improvements in customer productivity and profitability was further developed and the process to improve competitiveness in these areas was strengthened.

Weaker growth in all business areas

Fiscal 2008 was yet another strong year for Sandvik in terms of sales and earnings. Invoicing for the year amounted in total to SEK 92,654 M (86,338), with profit for the year totaling SEK 7,836 M (9,594). During the first three quarters of the year, sales and invoicing were up from the preceding year. It was only at the end of the third quarter that weaker demand was noted and this development was accelerated by the global financial crisis. From November onwards, the slowdown in the automotive, construction and exploration industries spread to most other industries, with exception of the energy sector.

Focus on costs and production capacity

As a result of the market downturn, a number of actions were taken to adapt capacity and costs to a lower demand. These have included the termination of employment for more than 3,000 employees including temporary workers and con-

sultants. Increased focus on reducing tied-up capital in inventories, account receivables as well as fixed assets is a key element to further strengthen the cash flow. In view of the prevailing uncertain conditions, continuous assessments of the market are conducted and further actions will be taken if required. Meanwhile, Sandvik's financial stability will be utilized to the greatest extent possible to retain marketing activities and R&D and thereby increase market shares and secure the long-term development.

Sandvik Tooling

One of the notable events during the year included investment in a new production plant in Wuxi, China. A corporate presence in China creates proximity to customers in this expansive market and offers substantial advantages in customer service and credibility to the customers. As a result of the acquisition of the Norwegian company Teeness ASA – a market-leading company in the development and production of anti-vibration tools – the business area's offering was strengthened in the aerospace and energy industries. Order intake, invoicing and profitability weakened markedly within Sandvik Tooling during the fourth quarter of 2008 and measures were taken to adapt to lower volumes.

Sandvik Mining and Construction

The business area consolidated its position in the various customer segments. At the beginning of the year, the largest order to date in soft mineral mining was received

from Canada. Sandvik strengthened positions in most markets, but notably in Eastern Europe and China. As a result of the weakening markets, a sharp decline in order intake for the business area was noted in the fourth quarter. This led to a reduction of employees and a review of the organization. Sales of service and maintenance to customers will be a focus area going forward.

Sandvik Materials Technology

Business conditions remained robust in Sandvik Materials Technology throughout the first three quarters. In the fourth quarter, market demand diminished sharply, most notably in the automotive, aerospace and engineering industries. In contrast, demand remained stable in the energy sector. The decline in order intake made a strong adaptation of capacity and costs necessary, resulting in layoff notices for 1,500 employees, primarily in Sweden. Additional acquisitions in the medical-technology area strengthened Sandvik's position as a comprehensive subsupplier of orthopedic implants and instruments.

Well positioned to face future challenges

The strong presence geographically and within product markets remains of highest importance. At the same time, Sandvik will continue the adaptation of capacity and costs to the actual conditions on the market. A competitive customer offering, a stable financial position and a strong balance sheet combined with solid market presence will be utilized in the efforts to further advance positions. Proceeding on the

basis of the business mission of improving customer productivity and profitability, the development of new products, services and solutions with significant customer value will continue. Thus, the research and development programs will continue to have priority in the period ahead.

The year 2009 will be challenging. Uncertainty remains as to how the market will move in the short term. Based on the platform laid in recent years and the actions taken during the past year, Sandvik is well positioned for the future.

Sandviken, January 2009



Lars Pettersson
President and CEO

“Although 2008 was marked by the decline in demand during the fourth quarter, Sandvik advanced its market positions in a number of ways during the year.”

Our priorities 2009

- aggressive marketing activities
- intensified cost control
- lower investments
- reduced working capital – focus on cash flow
- adjustment of production capacity through workforce reductions and other measures.

Business concept, goals and strategies

Financial success is not enough for a leading, global company such as Sandvik. An increasing number of stakeholders demand a holistic approach, which, in addition to the financial aspect, includes environmental and social responsibility.

Productivity and profitability for customers as business concept

All industrial companies must enhance production efficiency to offset rising costs of, for example, raw materials, wages and energy. This calls for productivity gains in manufacturing industry. Sandvik's business concept is to develop, manufacture and market high-tech products and services that facilitate higher customer productivity and profitability.

Management by objectives

Sandvik works in a decentralized fashion with customer-oriented, financial, social and environmental goals.

The overall financial goals are based on the Group's world-leading positions in various product areas, along with a strong global presence, a considerable commitment to R&D as well as efficient production and logistics. The goal for Sandvik's organic growth is 8% over a business cycle, compared with the underlying average market growth of 4–6% in Sandvik's business areas. The goal is based on:

- Increased market shares in current and new markets.
- New products.
- New application areas with a high growth potential.

As shown in the table, the financial goals differ among the business areas based on the business conditions in the sector.

Environmental issues have priority at Sandvik. The Group's Code of Conduct includes a policy governing environmental issues, which, among other features, highlights the significance of management by objectives and preventive programs aimed at attaining consistent improvements. In 2008, Group Executive Management set the following new environmental objectives:

- More efficient use of energy and input materials.
- Reduced emissions to air and water.

- Increased recovery of materials and by-products.
- Reduced environmental impact from the use of hazardous chemicals.
- Increased number of products that support sustainability principles.

The objectives have also been honed in the form of more detailed environmental targets for each business area.

Based on the Group's policy for social responsibility, which is a part of the Code of Conduct, Group Executive Management set a number of new social objectives in 2008:

- Further reduce the frequency of occupational injuries, illnesses and incidents.
- Improve health and well-being among employees.
- Increase equality of opportunity at workplaces.

The social objectives have also been specified in the form of social targets for each business area.

Read more about Sandvik's sustainability programs at www.sandvik.com or in the Sustainability Report included in the Annual Report on pages 86–97.

Strategy

Sandvik's long-term strategy builds on the interaction of a number of strength factors that include advanced and broad-based R&D, high value-added products, in-house manufacturing, primarily direct sales to end customers, own market channels and efficient logistics systems, financial strength and a strong corporate culture.

Specialized and decentralized organization

Sandvik is a global engineering group with a decentralized organization. Decisions within operational activities are carried out within the Group's three business areas, all of which have specialist expertise in materials technology and other key technologies, as well as deep insight into customer processes.

Significant customer value

Sandvik creates customer value by providing products and services that offer reduced costs, reliability and cost efficient processes. By means of an extensive global presence, customers worldwide gain optimum solutions that cover products, service and technical support. Sandvik aims to be an appreciated business partner and the customer's obvious first choice.

Long-term approach and shareholder value

The Group consistently strives to create value for its shareholders. Sandvik has achieved about 10% annual growth over the past 20 years – attributable equally to organic growth and acquisitions. In the past five years, the total return for an investment in Sandvik shares averaged 11.6% annually.

Research and development

Comprehensive and goal oriented research and development is a prerequisite for continuing profitable growth. R&D programs are customer-oriented and many of them

are often pursued in close cooperation with customers.

Each year, Sandvik invests nearly SEK 3 billion in R&D and more than 2,400 employees are active in the area. The Group has some 5,000 active patents and other intellectual property rights that are owned and managed by a separate company to gain maximum value creation.

Advanced logistics

Efficient inventory management and advanced logistics enhance the reliability of supplies and ensure excellent customer service. Sandvik's distribution system is based on a small number of large and strategically sited warehouses in the largest market areas, providing rapid delivery and a broad product offering.

World-class manufacturing

Sandvik's production organization is integrated with product R&D and can truly boost world-class efficiency. This creates favorable potential for the continuous launch of new products and offers the Group major competitive advantages.

Transparent corporate governance

Effective and transparent corporate governance offers greater credibility among Sandvik's various stakeholders and creates a distinct focus on customer and shareholder value. Corporate governance clearly defines the roles and responsibilities of shareholders, the Board of Directors and Group Executive Management. It also covers the Group's control and management systems.

Sustainable development

Sandvik has a strong corporate culture and believes that sustainability issues are part of the Group's business operations. The Group is working towards long-term sustainable development based on environmental and social goals for its proprietary operations. The Group has a clear Code of Conduct to guide employees in their business operations and it pursues targeted efforts using the three basic core values: *Open Mind, Fair Play and Team Spirit*.

Goals and results

Sandvik Group	Long-term goals	Outcome 2008	Average 2007–2008
Organic growth	8%	5%	8%
Return on capital employed for existing operations	25%	20%	24%
Net debt/equity ratio	0.7–1.0	0.9	1.0
Payout ratio, % of earnings per share	≥50%	50%	51%
Sandvik Tooling			
Organic growth	7%	3%	6%
Return on capital employed for existing operations	30%	27%	30%
Sandvik Mining and Construction			
Organic growth	9%	15%	21%
Return on capital employed for existing operations	25%	24%	28%
Sandvik Materials Technology			
Organic growth	8%	–5%	7.5%
Return on capital employed for existing operations	20%	6%	10%

Acquisition strategy

Company acquisitions are part of Sandvik’s aggressive growth strategy, namely, to consolidate and advance positions in the Group’s priority areas. Acquired operations add new products and new know-how, as well as strengthening existing business, providing entry into new markets and opening the potential for a stronger presence in areas with high growth and favorable profitability.

Sandvik continuously analyzes possible acquisition candidates in its various areas of operations. At the same time, assessments are made regarding the possible divestment of operations that do not comprise part of the Group’s areas of core strategic directions.

The illustration below shows a number of company acquisitions and divestments that were completed during the past ten years.

Code of Conduct

Sandvik endeavors to provide increased value for its customers, employees, shareholders and other stakeholders by offering highly profitable goods and services in the international market. In parallel with these aims, Sandvik seeks to maintain a high level of business ethics and serve as a responsible social citizen in the various markets throughout the world.

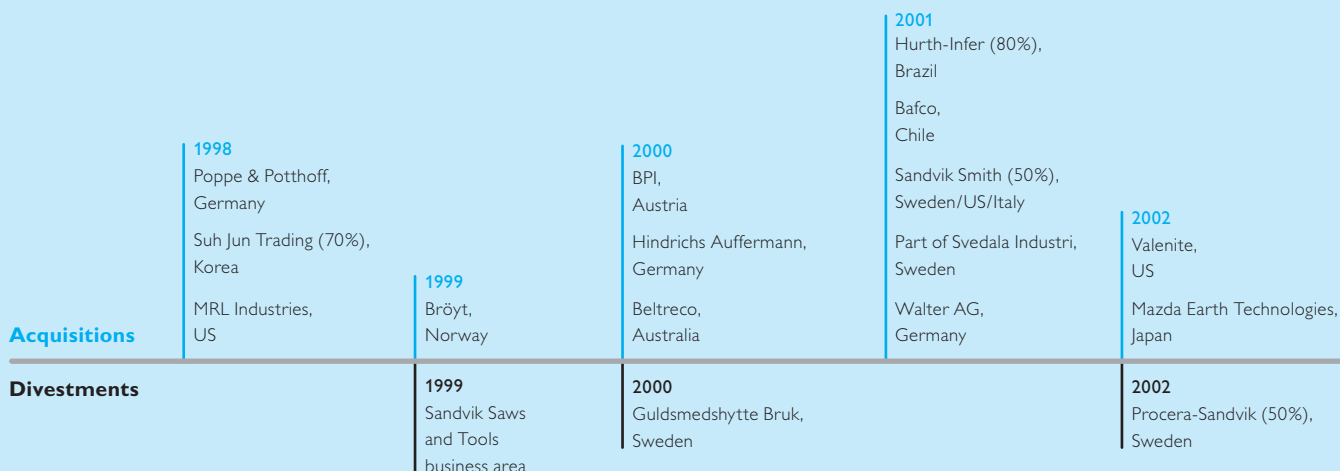
To ensure that the company acts in a responsible and correct manner, Sandvik has established a Code of Conduct that

applies to all units and employees. The Code of Conduct includes rules and policies for record keeping, business ethics, working conditions, as well as environmental and social commitments.

The Code of Conduct lays the basis for Sandvik’s management system and continual improvements in respect of business, environmental and social performance. Each manager within the Group is responsible for ensuring compliance with the Code of Conduct. The Group imposes demands on its suppliers to work in line with the Code of Conduct.

For a more detailed description of the Code of Conduct, refer to www.sandvik.com.

History of corporate acquisitions and divestments



Core values

Sandvik has a history stretching back almost 150 years – the Group was founded in 1862. In pace with the growth of operations and the internationalization of the company, it has been crucial to invest resources to maintain and develop the shared corporate approach and Sandvik’s core values.

The Group works consciously with three basic core values:

Open Mind – to encourage all aspects of operations to seek consistently new, innovative solutions and potential routes to improvement.

Fair Play – which describes Sandvik’s approach to sustainable development.

Team Spirit – that everybody at Sandvik acts as a team player through cross-border interaction, both in terms of geography and culture.

Company acquisitions during 2008:

The German system technology supplier **Aubema Beteiligungs GmbH** and its subsidiaries in Germany and China. The company specializes in advanced equipment for crushing coal, limestone and other types of soft minerals and materials.

The South African company **Corstor International (Pty) Ltd.** which is a leading company in the manufacture and sale of borehole core storage and handling systems for the mining and exploration industries.

The Norwegian firm **Teeness ASA** – a market-leading manufacturer of anti-vibration tools used in the aerospace and energy segments.

The British medical technology company **Eurocut Ltd.** which manufactures medical instruments and implants for the orthopedic sector.

A minority interest (49%) of US-based **Precorp Inc.** a tool manufacturer that develops, produces and distributes polycrystalline diamond (PCD) and cemented-carbide tools for the aerospace and automotive industries.

The British company **BTA Heller Drilling Systems**, a manufacturer of deep-hole-drilling tools. To be consolidated as of 2009.

				<p>2007 JKB Medical Technologies, US Part of Medtronic, US Rexam EMD, US Diamond Innovations, US Shark Abrasion Systems, Australia Hydramatic Engineering, Australia Extec Screens and Crushers, UK Fintec Crushing and Screening, UK Doncasters Medical Technologies, UK</p>	
	<p>2004 Part of MGS (51%), Brazil Technical Tooling, US</p>	<p>2005 Gesac (10%), China</p>	<p>2006 SDS Corporation, Australia UDR Group, Australia Hagby-Asahi, Sweden/Japan Implementos Mineros, Chile Metso Powdermet, Sweden</p>		
<p>2003 Eurotungstène (49%), France Part of Eimco, US Unit within Sandvik MGT, US</p>	<p>2004 Machinery division in Walter, Germany</p>			<p>2007 Sandvik Sorting Systems Outokumpu Stainless Tubular Products (11.6%), Finland</p>	<p>2008 Sandvik Tobler, France Sandvik Calamo, Sweden Construction division in Sandvik Nora, Sweden</p>

The Sandvik share

The Sandvik share price declined 56% in 2008 compared with a fall of 37% on the OMX Nordic Exchange Stockholm, measured as the OMX Stockholm All-Share Index (OMXS).

At year-end 2008, the Sandvik share was listed at SEK 49.00, corresponding to a market capitalization of SEK 58 billion (132). In terms of market capitalization, Sandvik was ranked the 8th (6th) largest company on the Nordic Exchange in Stockholm. During the year, Sandvik shares were traded for a total value of SEK 198 billion (275), making it the 7th (7th) most actively traded share.

Long-term shareholder value

The overriding financial goal of the Sandvik Group is to generate an attractive return and value growth for investors in the Sandvik share. The goal is that the dividend shall amount to at least 50% of earnings per share over an extended period.

Total dividend yield

The total dividend yield shows the progress of a stock investment and consists of the change in share price, including reinvested dividends. The sharp fall in the share price in 2008 meant that the total dividend yield on an investment in Sandvik shares was a minus 52% during the year. During the past five-year period, the total dividend yield averaged 11.6% annually.

At year-end 2008, the Sandvik share was valued at 7.8 times earnings per share compared with 14.5 times a year earlier.

More than 100,000 shareholders

Sandvik is listed on the OMX Nordic Exchange Stockholm and is one of the Stockholm Stock Exchange's oldest companies, with a listing dating back to 1901.

The Sandvik share can be traded in the US in the form of ADRs (American Depositary Receipts).

Over the course of 2008, interest in the Sandvik share continued to increase, both in and outside Sweden, and the number of shareholders increased by about 15,000 to some 104,000. Sandvik has shareholders in approximately 90 countries.

US-based Capital Group Inc., which is the world's largest fund manager, became one of the largest owners in Sandvik during the year with about 10% of the share capital. Otherwise, there were no major changes in institutional ownership.

At 31 December 2008, members of Sandvik's Group Executive Management owned a total of 216,828 shares in Sandvik, corresponding to 0.02% of the capital and voting rights. Members of the Board of Sandvik owned a total of 4,683,154 shares in Sandvik, corresponding to 0.4% of the capital and voting rights.

Dividend proposal

The Board will propose a dividend of SEK 3.15 (4.00) per share for 2008 to the Annual General Meeting, corresponding to 50% of earnings per share and a yield of 6.4% based on the share price at year-end. Overall, the proposed dividend represents some SEK 3.7 billion. Over the past five years, Sandvik's dividend has risen by an average of 8.4%. During the same period, an average of approximately 53% of earnings was distributed.

Close contact with investors and analysts

It is of the utmost importance that the value of Sandvik as a company is always assessed on the basis of relevant and correct information. To achieve this, a clear strategy for financial communications is required, along with regular contact by the company with the various players in the

financial market. This is primarily conducted through presentations in conjunction with the four interim reports, but also through meetings with analysts and investors, capital markets days, visits to various Sandvik sites and attendance at conferences and seminars. Growing uncertainty concerning the financial and market trend has increased the need of financial players to meet company representatives.

Contacts with the financial markets are coordinated by Sandvik's Investor Relations Group staff function. During the year, some 300 meetings were conducted with investors and analysts worldwide. The annual Capital Markets Day was held in Sandviken in September. In addition, the Group arranged investor visits to Sandvik's plants in countries such as Sweden, the US, India, China and Russia.

During the year, Institutional Investor awarded Sandvik the prize for best company and best Investor Relations department within the European engineering industry, based on a survey among analysts and investors.

For further information on IR activities and a list of the analysts monitoring Sandvik, refer to Sandvik's website www.sandvik.com/ir

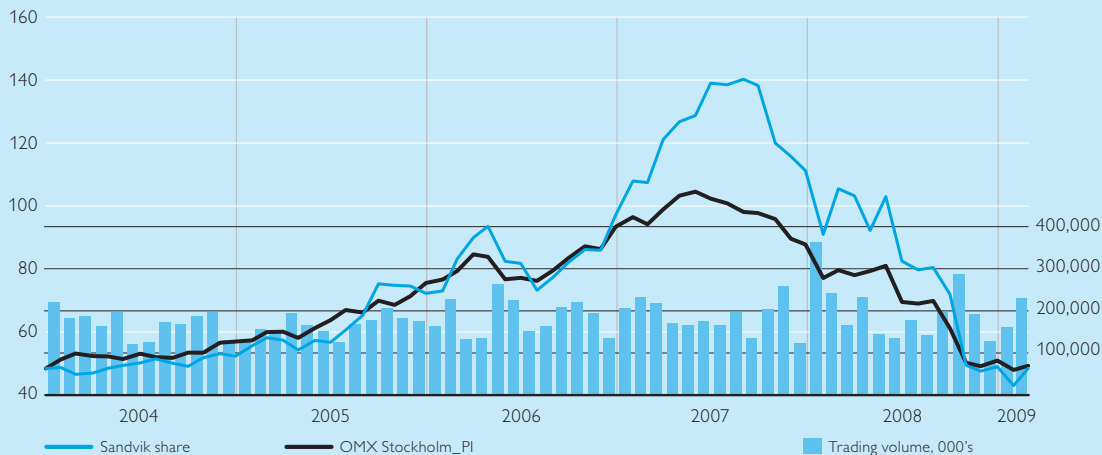
Dow Jones Sustainability Index

Autumn 2008 marked the inclusion of Sandvik for the first time in both the Dow Jones Sustainability Index World (DJSI World) and in the European Dow Jones STOXX Sustainability Index (DJSI STOXX). Qualification for the DJSI World requires that a company is among the 10% highest ranked companies in terms of three factors: financial success, environmental performance and social responsibility. Selection is done among the largest 2,500 companies in the Dow Jones World Index.

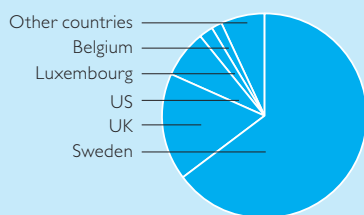
The annual process of assessing all companies ahead of the inclusion in the sustainability index involves a in-depth analysis of such factors as corporate governance, risk-management processes, the handling of climate issues, routines vis-à-vis suppliers and work-environment issues.

Sandvik is also included in the FTSE4Good Series, which is another international index focused on social responsibility.

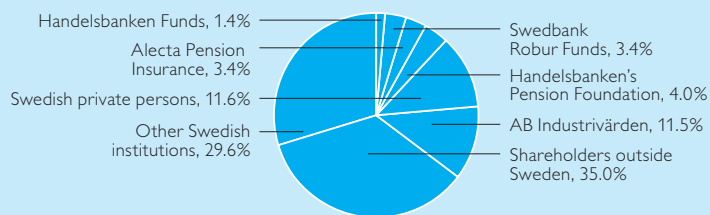
Sandvik and the Stockholm all-share index



Distribution of shareholdings by country



Shareholders in Sandvik AB, 31 December 2008

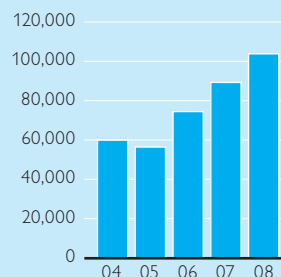


Key figures

	2008	2007	2006	2005	2004
Number of shares at year-end (millions)	1,186	1,186	1,186	237	247
Number of shares at year-end, recalculated for split (millions)	1,186	1,186	1,186	1,186	1,235
Market capitalization at year-end (SEK billions)	58	132	118	87.8	70.6
Number of shareholders	104,299	88,950	74,124	55,966	59,382
Share price at year-end, SEK	49.00	111.25	99.50	74.00	54.00
Earnings per share, SEK	6.30	7.65	6.45	4.95	3.85
P/E ratio at year-end	7.8	14.5	15.4	15.0	13.9
Change in share price during the year, %	-56	+12	+34	+37	+8
Regular dividend, SEK/share	3.15*	4.00	3.25	2.70	2.20
Dividend as a percentage of earnings per share	50	52	50	55	57
Total return (price increase + dividend), %	-52	18	38	42	12
Proportion of shares in Sweden, %	65	63	63	61	62
Proportion of shares owned by the ten largest shareholder groups, %	36	38	35	45	41

*Proposed dividend.

Number of shareholders

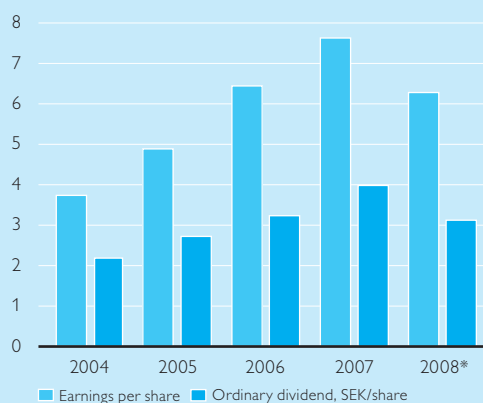


The ten largest shareholders at 31 December, %

	2008	2007	2006	2005	2004
AB Industrivärden	11.5	11.5	11.0	11.0	10.4
JP Morgan Chase Bank*	10.5	8.7	5.6	10.9	9.8
Handelsbanken's Pension Foundation	4.0	4.0	3.8	3.8	3.4
Alecta Pension Insurance	3.4	3.1	2.9	1.1	0.6
Swedbank Robur Funds	3.4	2.3	2.4	2.6	2.4
SEB Investment Management	1.9	1.5	1.7	1.6	1.4
Handelsbanken Funds	1.4	2.1	2.0	2.2	1.9
AMF Pension Insurance	1.3	1.5	1.8	3.8	2.4
Fourth Swedish National Pension Fund	1.3	1.4	1.5	—	—
Afa Insurance	1.3	1.0	1.1	1.0	1.3

*Administrates shares held in trust. Capital Group's shareholding is registered in custodial accounts.

Earnings and dividends per share, SEK



* Proposed dividend.

Market conditions

The global manufacturing industry reported favorable growth throughout the first half of 2008, after which it sharply stalled. The weakening affected all regions and most of Sandvik's customer segments. Russia, China, India and Brazil were among markets that continued to develop with favorable growth for the full year, but with a downturn in the fourth quarter. The customer segments that posted continued favorable growth included oil/gas, nuclear power and medical technology.

Industrial production in the OECD countries declined 0.2% compared with the preceding year. Manufacturing industry in the EU reported slightly negative growth, down 0.9% compared with the preceding year. German manufacturing developed slightly positively, up 0.2%. Manufacturing industry in France declined by 2.5%, while its Italian counterpart fell by 3.8%. The manufacturing industry in the UK also recorded a negative trend, down 2.9% compared with the preceding year. Growth in Eastern Europe remained positive, with Russian manufacturing output advancing 3.9% and Polish manufacturing registering a 4.1% rise.

In the US, growth in the manufacturing industry contracted by 2.4% marking the first negative year-on-year trend in six years. Brazilian manufacturing industry advanced 3.0%, whereas the trend in Mexico was just slightly positive, at 0.6%.

Growth remained resilient in parts of Asia, including China, India and South

Korea. In China, industrial output rose 12.6% with an increase of 4.4% in India. In South Korea, growth in manufacturing rose 2.9%. However, in Japan growth was negative, down 3.3%. Growth slowed sharply in all markets in the fourth quarter.

Demand in Sandvik's customer markets

Demand from the engineering industry weakened in most markets. Activity in the global automotive industry declined, with a few exceptions, such as South America and China. The downturn gained pace during the fourth quarter. In the aerospace industry, activity remained high during the first six months but subsequently fell during the latter half of the year, partly as a result of strikes in the aerospace industry.

The mining industry saw sharp growth during the first ten months of the year, before slowing significantly. Metal prices remained high for the first six months but fell sharply during the remainder of the

year. Demand for base and precious metals increased steeply during most of the year before weakening during the latter part. However, activity in the coal industry was high throughout the year, with a clear shift toward energy applications, while demand for metallurgical coal declined.

In the construction industry, activity was high throughout the first half of the year, notably in Eastern Europe and Asia, while mature markets, such as Western Europe and the US, weakened. Subsequently, a rapid weakening became evident, which continued for the remainder of the year.

Business conditions continued to be favorable for high value-added niche products for investment-related customer segments, such as energy, oil/gas, nuclear power, process industry and medical technology. Overall demand was slightly weaker from the electronics industry and consumer-related products.

Group summary review

Order intake amounted to SEK 92,610 M (92,059), up 1% in value and down 1% for comparable units, excluding currency effects. The Sandvik Group's invoiced sales reached SEK 92,654 M (86,338), up 7% in value and up 5% for comparable units, excluding currency effects. Markets outside Sweden accounted for 95% (94) of sales.

Consolidated profit after financial income and expenses totaled SEK 10,577 M (12,997). Earnings per share amounted to SEK 6.30 (7.65). Return on capital employed was 19.9% (27.0).

The Board of Directors proposes a dividend of SEK 3.15 per share (4.00), corresponding to 50% (52) of earnings per share representing a decrease of 21% from a year earlier.

Future prospects

Although 2008 was characterized by the decline in demand during the fourth quarter, Sandvik advanced market positions during the year. A strong presence in geo-

graphic markets and within product segments continues. At the same time, Sandvik will continue to adapt its capacity and costs to actual market conditions. Competitive customer offerings, stable finances and a strong balance sheet will be utilized along with a market presence to further strengthen positions. The business mission continues to be increasing customer productivity and profitability. To that end, Sandvik will continue to develop new products, services and solutions with significant customer value. Research and development programs will therefore have a high priority in the period ahead.

Financial objectives

New financial objectives were published in 2006. The objectives are based on Sandvik's strong development over the last few years and assessments of the Company's strength and of how it is positioned for the future. Group and business area objectives are presented below.

Fulfillment of the Group objectives

The result since 1998, is average annual organic growth of 6% and return on capital employed of 20%. In addition, the annual growth from acquisitions, net of divestments, has averaged 1%. During 2008, the organic growth was 5% and the return was 20%. At the end of 2008, the net debt/equity ratio was 0.9. The proposed dividend means that the payout percentage is 50%.

Financial objectives for the group

Organic growth	+8% + acquisitions
Return on capital employed	25% for existing operations
Net debt/equity ratio	0.7–1.0
Dividend payout percentage	≥50%

Business area

	Organic growth	Return on capital employed
Sandvik Tooling	+7%	30%
Sandvik Mining and Construction	+9%	25%
Sandvik Materials Technology	+8%	20%

Earnings, returns and financial position

Earnings and returns

Operating profit amounted to SEK 12,794 M (14,394), a decrease by 11% compared with the preceding year. This was mainly due to the rapid downturn in the fourth quarter with lower production volumes within all business areas leading to lower gross margins. Strategic investments within R&D and the sales organizations, combined with integration costs, affected earnings negatively. Operating profit was also influenced negatively by approximately SEK 1,100 M by changed metal prices in Sandvik Materials Technology. Changes in foreign exchange rates compared to 2007 positively affected the operating profit by some SEK 700 M. The net financing cost was SEK 2,217 M (1,397). The changed outcome compared with the preceding year was mainly caused by higher average debt and higher interest rates. Profit after financial income and expenses reached SEK 10,577 M (12,997). Income tax expense was SEK 2,741 M (3,403) or 26% (26) of profit before taxes.

The profit for the year attributable to equity holders of the Parent Company was SEK 7,472 M (9,116). Earnings per share amounted to SEK 6.30 (7.65). Return on capital employed amounted to 19.9% (27.0) and return on equity was 24.8% (34.4).

Financial position

Cash-flow from operating activities amounted to SEK 9,671 M (5,476). Cash-flow after investments, acquisitions and divestments was SEK 2,040 M (neg: 5,007). At the end of the year, cash and cash equivalents amounted to SEK 4,998 M (2,006). Interest-bearing liabilities, including net provisions of pensions, less cash and cash equivalents yielded a net debt of SEK 33,323 M (28,905).

Sandvik has a credit facility of EUR 500 M expiring in 2012 and another facility of EUR 1,000 M expiring in 2013. These facilities, which are the Group's primary liquidity reserve, were unutilized at the end of the year. Under the Swedish bond

program of SEK 15,000 M, bonds in the amount of SEK 13,200 M were outstanding. In addition, there are bonds issued in the US amounting to USD 740 M maturing over 9 and 14 years.

The international credit-rating institute Standard & Poors has an A rating for Sandvik's long-term borrowings, and A-1 for short-term borrowings.

Working capital

Working capital at the end of the year amounted to SEK 32,571 M (28,804). Relative working capital during the fourth quarter of 2008 was 32% (31) of invoiced sales. The change in the ratio is primarily explained by increased inventories in all business areas.

The carrying value of inventories at the end of the year was SEK 28,614 M (25,302), 29% (27) of invoiced sales. Accounts receivables at year-end totaled SEK 15,930 M (15,228), which was 16% (16) relative to invoiced sales.

Capital expenditure	2008	2007
Investments in property, plant and equipment, SEK M	7,169	5,399
as a percentage of invoiced sales, %	7.7	6.3

Of these investments, SEK 535 M (588) pertained to Sandvik Mining and Construction's fleet of rental machines.

Earnings and returns	2008	2007
Operating profit, SEK M	12,794	14,394
as a percentage of invoiced sales, %	13.8	16.7
Profit after financial income and expenses, SEK M	10,577	12,997
as a percentage of invoiced sales, %	11.4	15.1
Return on capital employed, %	19.9	27.0
Return on equity, %	24.8	34.4
Basic earnings per share, SEK	6.30	7.65
Diluted earnings per share, SEK	6.29	7.65

Definitions, page 56.

Equity

Equity at year-end amounted to SEK 36,725 M (29,823), or SEK 30.00 (24.10) per share. The equity ratio was 36% (35).

Investments

The purchase consideration for company acquisitions during the year (less acquired cash) was SEK 954 M (5,856). Proceeds from the sale of companies and shares amounted to SEK 111 M (363).

Investments in internally generated intangible assets amounted to SEK 460 M (431). Investments in property, plant and equipment amounted to SEK 7,169 M (5,399).

Parent Company and subsidiaries operating on commission for Sandvik AB

The Parent Company's invoicing amounted to SEK 20,427 M (20,682) and operating loss was SEK 395 M (profit: 521). Operating earnings were influenced negatively by

changed metal prices in Sandvik Materials Technology and low utilization in certain production facilities. The total adverse effect on operating earnings amounted to approximately SEK 900 M due to effects of changed raw material prices.

At 31 December 2008, interest-bearing liabilities and provisions less cash and cash equivalents amounted to SEK 12,362 M (10,240). Capital expenditure during the year amounted to SEK 1,537 M (1,128).

The Parent Company's total assets decreased by SEK 3,284 M (from SEK 45,183 M to SEK 41,899 M). During the year, a Group contribution of SEK 3,004 M related to 2007 was paid to Sandvik Intellectual Property AB. The Parent Company has, during 2008, received dividends of SEK 6,757 M, of which SEK 2,015 M from Sandvik Finance BV, SEK 1,234 M from Sandvik Mining and Construction Logistics Limited and SEK 3,000 M from AB Sandvik Bruket.

The number of employees in the Parent Company and the subsidiaries operating on commission for Sandvik AB at 31 December 2008 was 8,151 (7,999).

Besides Sweden, the Parent Company operates in a number of countries, mainly through representative offices.

Quarterly trend of profit after net financial items

		Invoiced sales, SEK M	Profit after financial items, SEK M	Net margin, %
2007	1 st Quarter	20,409	3,365	16
	2 nd Quarter	22,002	3,795	17
	3 rd Quarter	21,216	3,104	15
	4 th Quarter	22,711	2,733	12
2008	1 st Quarter	21,990	2,715	12
	2 nd Quarter	24,016	3,302	14
	3 rd Quarter	22,478	3,335	14
	4 th Quarter	24,171	1,524	6

Financial position

	2008	2007
Cash-flow from operating activities, SEK M	9,671	5,476
Cash-flow after investments, acquisitions and divestments, SEK M	2,040	-5,007
Cash and cash equivalents at 31 December, SEK M	4,998	2,006
Net debt at 31 December, SEK M	33,323	28,905
Net financial items, SEK M	-2,217	-1,397
Equity ratio, %	36	35
Net debt/equity ratio, times	0.9	1.0
Equity at 31 December, SEK M	36,725	29,823
Equity per share at 31 December, SEK	30.00	24.10

Definitions, page 56.

Order intake and sales

Demand was mixed for Sandvik's products and services during 2008, with strong growth during the first three quarters and an especially difficult market situation during the fourth quarter. For the full-year 2008, growth in the EU declined, with activity sharply downward in, among others, Germany and Italy. Demand in Eastern Europe slowed considerably during the last quarter of 2008. Order intake in NAFTA was negatively impacted. The business climate in South America was more favorable during the year, with Brazil showing continued good growth, but with significant weakening during the fourth quarter. Demand was also strong in Africa and the Middle East, although weakening during the last quarter with an investment decline in the mining industry. Demand in Asia showed continued growth during the first three quarters, but weakened substantially during the fourth quarter. Asia accounted for 16% of the Group's total order intake. Demand in Australia weakened significantly.

Sandvik Tooling

The trend in Sandvik Tooling's markets was positive until the latter part of the third quarter, but after that it was negatively influenced by the downturn in the world economy. The slowdown began in NAFTA and Europe and spread during the fourth quarter to the rest of the world. The oil and gas sector developed positively. The activity in the aerospace industry declined but was still at a high level. The automotive and general engineering industry declined gradually during the year.

Sandvik Mining and Construction

Sandvik Mining and Construction's order intake in the mining industry developed strongly in the first ten months of the year, but subsequently stalled sharply. Metal prices remained high during the first six months, but fell steeply throughout the rest of the year. Demand for base and precious metals progressed strongly during most of the year, but weakened during the latter part.

The level of activity in the coal industry increased during 2008, with a discernable shift towards coal for energy production, while demand for metallurgical coal fell as a result of the weaker demand for steel. Overall, however, demand in the coal industry increased during the year.

Activity remained high in the construction industry throughout the first half of the year, notably in Eastern Europe and Asia, while mature markets such as Western Europe and the US weakened. Subsequent development saw a rapid slowdown that continued throughout the remainder of the year, resulting in a sharp fall in order intake in the construction area.

Sandvik Materials Technology

Demand for high value-added niche products from Sandvik Materials Technology continued to be favorable during the first three quarters, primarily from customers in such segments as energy, oil and gas, medical technology, nuclear power and the

process industry. However, demand for consumer-oriented applications was more sluggish, as was also the case for certain standard products.

Business conditions remained robust in all regions throughout the first three quarters – with activity particularly high in Asia and Australia. As a result of the global financial crisis and recession, market growth in a number of segments turned sharply downward at the beginning of the fourth quarter, notably in the automotive, and consumer-related industries. This led to the identification of excess capacity corresponding to 1,500 people. However, activity remained high in the energy and medical technology segments.

Order intake by market area

SEK M	2008	Share, %	2007	Change, %	Change, *
Europe	40,945	44	42,262	-3	-8
NAFTA	15,071	16	15,449	-2	-3
South America	5,839	6	5,143	+14	+13
Africa, Middle East	7,743	9	6,757	+15	+23
Asia	14,701	16	12,694	+16	+13
Australia	8,311	9	9,754	-15	-14
Group total	92,610	100	92,059	+1	-1

*Change compared with the preceding year for comparative units, excluding currency effects and company acquisitions.

Invoiced sales by market area

SEK M	2008	Share, %	2007	Change, %	Change, *
Europe	41,851	45	39,704	+5	+1
NAFTA	14,827	16	14,901	0	0
South America	5,982	7	5,445	+10	+7
Africa, Middle East	7,811	8	6,716	+16	+26
Asia	13,653	15	11,671	+17	+13
Australia	8,530	9	7,901	+8	+10
Group total	92,654	100	86,338	+7	+5

*Change compared with the preceding year for comparative units, excluding currency effects and company acquisitions.

Invoiced sales in the ten largest markets

SEK M	2008	2007	Change, %
US	11,039	11,187	-1
Australia	8,152	7,498	+9
Germany	7,958	7,467	+7
Sweden	4,753	5,082	-6
Italy	4,682	5,023	-7
China	4,311	3,434	+26
South Africa	3,955	3,547	+12
France	3,698	3,560	+4
Brazil	3,567	3,333	+7
UK	3,307	3,267	+1

Business areas and changes in the Group

Sandvik's operations are divided into three business areas: Sandvik Tooling, Sandvik Mining and Construction and Sandvik Materials Technology.

The Group's order intake and invoicing by business area are shown in separate tables. The listed company Seco Tools – in which Sandvik holds 60% of the shares and 89% of the voting rights – publishes its own annual report with comments on operations.

Sandvik Tooling

Sandvik Tooling's order intake totaled SEK 25,798 M (25,134), unchanged from the preceding year excluding currency effects for comparable units. Invoiced sales totaled SEK 25,975 M (24,732), an increase of 3% from the preceding year for comparable units, excluding currency effects. Changes in exchange rates affected order intake and invoiced sales positively by 2%.

The increase in invoiced sales was attributable to increased market shares and positive price trend. Growth was higher for cemented-carbide tools than for high-speed steel.

Operating profit totaled SEK 5,461 M (5,989), resulting in an operating margin of 21.0%. The decline was due primarily to the sharp volume drop during the last quarter of the year and the subsequent under absorption of fixed costs. Earnings were positively affected by the business area's efficiency-enhancement programs in manufacturing and distribution as well as by changes in the customer base and the completion of product programs aimed at higher profitability.

The number of employees at 31 December totaled 16,988 (16,440).

Sandvik Mining and Construction

Sandvik Mining and Construction's order intake grew sharply during the first three quarters of the year, but declined during the last quarter, and amounted to SEK 38,634 M (37,986), unchanged from the preceding year for comparable units, excluding currency effects.

At an early stage of the year, Sandvik Mining and Construction signed an agreement with Potash Corp in Canada covering the delivery of a fleet of Sandvik MF420 Borer Miners. This is Sandvik's

single largest order to date in operations involving the mining of soft minerals. The business continued to develop successfully during the year with delivery of four Road Header Systems to the Czech Republic and another four to Poland. In addition, a number of major project orders were received during the year for materials handling systems from Australia, Brazil, Poland and Mauritania with a total value of some SEK 2,000 M. Sandvik Mining and Construction launched a complete product series of primary crushers in 2007. In 2008, the business area unveiled the first strategic orders for these crushers, with a value of about SEK 100 M. Sandvik's new series of crushers offers a number of unique benefits that substantially enhance operational capacity in terms of maintenance, productivity and availability. The new crushers from Sandvik will support the crushing process for iron ore, copper ore and other minerals as well as primary crushing in large quarries.

During the year, the business area expanded considerably in the mining and construction industry in Eastern Europe and established a number of sales offices in the region. Sandvik's position as a leading supplier of advanced mining equipment for the coal industry was further consolidated, primarily in China, with a twofold increase in order intake from the coal industry.

Invoiced sales amounted to SEK 38,651 M (33,073), up 15% from the preceding year for comparable units, excluding currency effects. Changes in exchange rates had an adverse impact of about SEK 500 M on invoiced sales.

Operating profit totaled SEK 4,996 M (4,979), resulting in a profit margin of 13%. The number of employees at 31 December was 16,796 (15,173).

Sandvik Materials Technology

Sandvik Materials Technology's order intake totaled SEK 21,581 M (22,733), down 6% from the preceding year excluding currency effects for comparable units. During the year, a number of major project orders were secured for steam generator tubes for the energy sector, including

two orders worth some SEK 900 M during the fourth quarter. Major orders were also received for precision wire for emission filters in the energy sector, including two from India, each valued at about SEK 100 M.

Invoiced sales totaled SEK 21,480 M (22,486), down 5% from the preceding year for comparable units, excluding currency effects. Invoicing surcharges to offset high raw materials prices impacted on invoiced sales adversely by some 13%. Operating profit totaled SEK 1,187 M (2,435), resulting in profit margin of 5.5%.

Metal prices varied during the year. As a result, metal inventories were continuously revalued to the lower of acquisition cost and net sales value. The total negative effect on earning from changes in metal prices is estimated at SEK 1,100 M for 2008.

Operating profit for the year was impacted by metal price effects and under absorption of fixed costs due to lower production volumes. The number of employees at 31 December totaled 9,281 (9,098).

Changes in the Group

Sandvik Tooling

At the beginning of the year, Sandvik Tooling acquired the Norwegian company Teeness, which develops and manufactures antivibration tools for milling, turning and drilling. Teeness was included in Sandvik Coromant. The acquisition will give Sandvik Tooling market leadership in this product segment in which customers are primarily found in the rapidly growing aerospace and energy segments.

Sandvik Tooling also acquired 49% of the shares in US-based Precorp, a producer of tools in polycrystalline diamond (PCD) and cemented carbide. The tools are used for machining of advanced composite materials used mainly by the aerospace and automotive industries.

Sandvik Tooling reached an agreement in December to acquire UK-based BTA Heller Drilling Systems Ltd., a producer of tools and tooling systems for deep-hole drilling. The company will be integrated in Sandvik Coromant and will strengthen the customer offer in deep-hole drilling.

Sandvik Tobler was divested at the beginning of the year.

Sandvik Coromant strengthened its brand profile further focusing on customer value. The Walter Titex Prototyp product area changed name to Walter and introduced a new uniform brand-positioning encompassing three brands – Walter, Walter Titex and Walter Prototyp. The new Walter has a broad product portfolio and application knowledge, which further strengthens the product area's attraction and growth potential. Dormer and Precision product areas were integrated into a product area named Dormer and during the year together successfully profiled their brands in the NAFTA countries. The integration of Diamond Innovations was completed during 2008. The resources for research and development of cubic boron nitride and PCD tools were reinforced.

Irrespective of business climate fluctuations, research and development remains a priority within Sandvik Tooling. A high share of new products is a prerequisite for profitable growth. A research center was established in Olofström, Sweden, supporting the tool and application knowledge within die and mold applications. The business area also opened a research technology center for composite materials, tools and application knowledge in Sheffield, in the UK.

Work to consolidate and enhance efficiency in production continued during the year. Production declined, however, due to the lower demand experienced during the fourth quarter.

The utilization of time banks and similar solutions contributed to higher capacity flexibility. The production of tungsten-carbide powder at Sandvik Hard Materials'

unit in Coventry was closed. Production of special tools at Sandvik Coromant's operations in Australia was discontinued.

Sandvik Tooling continued to develop emerging markets and strongly growing product segments. Walter and Sandvik Hard Materials invested in new production facilities in Wuxi, China. Demand for the modular tool-holding system Coromant Capto® continued to increase and production capacity investments were made in Sandviken, Sweden and in Semine, Japan. A new plant for the production of medical products was opened in Zell, Germany. A production unit for high-speed steel taps was inaugurated in Pune, India.

Sandvik Mining and Construction

In January, the business area acquired Corstor International (Pty) Ltd. in South Africa. Corstor is a leading company in the manufacture and delivery of rock core storage and handling systems in the mining and exploration industries. Corstor also distributes geological and survey equipment along with accessories to the mining and exploration industries in Africa. The new product range is a good complement to Sandvik's offering for the exploration industry.

Sandvik Mining and Construction also acquired Aubema Beteiligungs GmbH, a German supplier of systems technology, and its subsidiaries Aubema GmbH and Beijing Aubema Technology Co. Ltd. Aubema, with its headquarters in Bergneustadt in Germany, offers system technology in the specialized field of crushing. The company's primary focus is on the distribution of customized solutions for crushing coal, coke, limestone and other soft minerals and materials. The acquisition is in line with Sandvik's goal of being a leading supplier of crushers for soft materials.

In April, the business area divested a minor part of Hagby-Asahi AB in Nora, Sweden, which had been acquired in 2006. Hagby-Asahi, a leading supplier and manufacturer of tools and equipment for mineral extraction, the company included a construction business with equipment for drilling and grinding of concrete using diamond tools. The construction business' focus and market were involved in an area

Order intake by business area

SEK M	2008	2007	Change, %	Change,*
Sandvik Tooling	25,798	25,134	3	0
Sandvik Mining and Construction	38,634	37,986	2	0
Sandvik Materials Technology	21,581	22,733	-5	-6
Seco Tools	6,594	6,176	7	4
Group activities	3	30	—	—
Group total	92,610	92,059	1	-1

*Change for comparable units, excluding currency effects and company acquisitions.

Invoiced sales by business area

SEK M	2008	2007	Change, %	Change,*
Sandvik Tooling	25,975	24,732	5	3
Sandvik Mining and Construction	38,651	33,073	17	15
Sandvik Materials Technology	21,480	22,486	-4	-5
Seco Tools	6,513	6,011	8	5
Group activities	35	36	—	—
Group total	92,654	86,338	7	5

*Change for comparable units, excluding currency effects and company acquisitions.

Operating profit by business area

SEK M	2008	% of sales	2007	% of sales
Sandvik Tooling	5,461	21	5,989	24
Sandvik Mining and Construction	4,996	13	4,979	15
Sandvik Materials Technology	1,187	6	2,435	11
Seco Tools	1,332	20	1,491	25
Group activities	-184	—	-500	—
Group total	12,794	14	14,394	17

in which Sandvik is not otherwise active and thus was not viewed as a core Sandvik business.

In a bid to ensure that the business area's Construction customer segment maintains a global orientation and attains a strong market position in selected niches, a decision was made to relocate parts of the head office to Singapore. The greatest growth potential for the segment's selected niches are in Asia and thus the strengthening of the presence in the region is a logical step.

During the year, the business area continued its efforts to streamline its logistics infrastructure, which is the most important area in ensuring customer access to products and spare parts. Sandvik Mining and Construction signed a strategic five-year agreement with the logistics company DHL Global Forwarding, which will act as the business area's supplier of air/sea freight and road transport.

The business area also continued to follow customers and establish production and assembly of equipment close to them. Apart from proximity to the customer, this provides highly flexible production, cost benefits and shorter lead times. All plants are controlled and coordinated by Sandvik Mining and Construction's global production organization, which ensures a uniform product line and quality at all the business area's plants. One of the new production units built during the year is located in Santiago in Chile. This is also the location of the headquarters for Latin America. The facility is the business area's largest in the region.

Sandvik Materials Technology

During the first quarter of 2008, Sandvik Materials Technology completed two acquisitions in the strategically significant and rapidly expanding medical-technology segment, namely, JKB Medical Technologies and Medtronic's unit in Memphis Tennessee, in the US. JKB Medical Technologies is a leading manufacturer and sub-supplier of spinal implants and medical instruments. The products are made from titanium alloys and in high-alloy stainless material. Medtronic's unit in Memphis specializes in medical-technology instruments for spinal surgery. May marked the acquisition of the

medical technology company, Eurocut Ltd., which manufactures medical instruments and implants from titanium alloys and in high-alloy stainless materials. Customers are leading medical-technology companies that sell directly to healthcare institutions and medical clinics.

As a result of these three acquisitions, which are in line with Sandvik's long-term aim of becoming a strategic partner and a comprehensive sub-supplier to the leading medical-technology companies worldwide, Sandvik's position in the medical-technology segment was further strengthened. The combination of the skills of the acquired companies as manufacturers of medical implants and instruments plus Sandvik Materials Technology's core expertise in materials and surface technology, powder technology, machining processing and production, create a competitive offer in the medical-technology market. All products are now marketed under the Sandvik brand.

To meet the rising demand for medical-technology materials, a new plant was commissioned for vacuum re-melting of high-alloy stainless materials and titanium alloys in Sandviken, Sweden. The plant also melts titanium alloys for seamless tubes for applications in nuclear power and aerospace industries.

To further strengthen presence in Asia, work commenced during the year in constructing a new production unit for cold pilgering and finishing of high-alloy seamless tubes in Zhenjiang, China. The investment, which is scheduled to be commissioned during the first six months of 2009, will offer larger capacity for high-alloy seamless tubes in Asia as well as strengthened market position in this key growth area. In parallel with this capacity expansion, work is in progress in expanding and strengthening the sales organization in Asia. A new research center for advanced materials was also built in Pune, India.

A pilot research unit for powder metallurgy was placed in operation in Sandviken, Sweden.

Extensive investments were also completed to increase capacity for rock-drill steel in Sandviken.

Programs to phase out operations deemed to be outside the defined core business of

Sandvik Materials Technology resulted in the divestment of Sandvik Calamo, a supplier of electrolyte-polished tubing products primarily for the electronics industry.

As a result of the global financial crisis and recession, market growth declined sharply in a number of segments at the beginning of the fourth quarter. The sharp fall in demand compelled Sandvik Materials Technology to take action to adjust capacity. A global excess capacity equivalent to 1,500 employees was identified, of which some 1,000 are employed in Sweden. The workforce reduction is expected to be completed during the second half of 2009.

Research, development and quality assurance

Advanced research in selected niches is a prerequisite for Sandvik's growth and profitability. Research expenses in 2008 totaled SEK 2,811 M (2,739), corresponding to 3% of invoiced sales. Of these expenses, SEK 333 M (377) was capitalized in the balance sheet. More than 2,400 persons work in research, development and quality assurance. Many of them are specialists with an advanced academic background and skills.

Sandvik Tooling conducts research and development (R&D) of materials and production processes for the entire business area at several competence centers around the world. Product and application development is conducted at the respective product areas in close liaison with customers.

Sandvik Mining and Construction's main development units are located in Finland, Sweden, Austria and the US. At these sites and in close cooperation with customers, the business area develops products adapted to needs and overall solutions for the mining and construction industries.

Sandvik Materials Technology has one of Europe's largest R&D centers for advanced metallic materials and special alloys in Sandviken, Sweden. The business area also has an R&D unit in Hallstahammar, Sweden, for ceramic and metallic resistance materials.

Sandvik Tooling

Sandvik Tooling's research and development focuses on the development of new materials and products and the improvement of production processes and production equipment. The aim is to improve tool performance and quality as well as production efficiency for customers and the business area itself. New methods are continually being developed for the production of cemented-carbide powders, as well as the manufacturing of ceramic materials, cubic boron nitride and synthetic diamonds. Development of precision pressing and coating in the production of indexable inserts has high priority.

During 2008, Sandvik Coromant introduced more than 2,500 new articles. Two tool concepts for milling were launched – CoroMill®490 and CoroMill®690. CoroMill®490 improves customer productivity in face and shoulder milling in steel and cast iron. The long-edge cutter CoroMill®690 facilitates more effective machining of titanium. In turning applications, CoroThread®266 was introduced – a threading tool with precision and stability.

The Walter product area, with the three brands Walter, Walter Titex and Walter Prototyp, offers a complete product range

for all types of metal cutting – turning, milling and drilling. During 2008, Walter introduced the Walter Xtra-tec® shoulder milling cutter for the aerospace industry, as well as further developed XD-Technology drills. Walter also developed the cemented-carbide grade WSM30 for turning stainless steel and other difficult-to-machine materials.

Diamond Innovations introduced several new products in 2008, including a composite in the Versimax™ product family. It combines wear resistance with high chemical and thermal stability. Compax 1200 is a PCD with a fine-grained microstructure that makes it ideal for applications with high demands on surface finish. Compax 1200 is highly suitable for titanium machining. Two Stratapax®PDC cutting tools were introduced for oil and gas drilling.

In 2008, ValeniteSafety successfully launched steel turning grades, expanded its range of milling cutters and added the innovative SideLok™ technology to a variety of product offerings. The product area strengthened its position as a provider of advanced engineering solutions for the automotive industry, such as air-actuated precision boring tools.

Dormer made additions to its product portfolio of solid-carbide tools. A new range of high-performance solid-carbide drills for composite materials was well received by the market.

During the year, Sandvik Hard Materials further developed its product offering. A series of wear and corrosion-resistant can tooling grades for the manufacture of aluminum cans was introduced. Sandvik Hard Materials also introduced a product for dredges. DURACORE® teeth provide increased wear resistance compared with standard products in dredging operations due to a cemented carbide core in the tooth point.

Sandvik Mining and Construction

As a result of close collaboration with customers, Sandvik Mining and Construction continually can tailor products and total solutions to meet customer requirements.

The focus on environmental, health and safety issues represents a key driving force in development work. Customer cost trends, notably in the energy area, and their difficulty in recruiting skilled personnel are major driving forces in product development.

Sandvik's new product line of loaders transports ore from underground mines for metal extraction in a productive, safe and profitable manner. The focus is on maximum capacity optimized for the particular space available, to ensure effective processes throughout the mine. Sandvik loaders provide superior reliability and service life, as well as better service, safety and comfort.

The new electronically controlled loader series is the first in the market that fully utilizes the so-called CAN bus technology. With 400 units delivered and 1.4 million accumulated working hours, it has proved more reliable than conventional systems. The electronic control system offers built-in diagnostics, trouble shooting and a simplified user interface in an interactive screen. The cab is easier to access and offers better visibility with improved sound insulation, superior air conditioning and a low-frequency suspension in the seat to raise the comfort level for the operator.

Sandvik's loader series has been developed to offer loading with safety as the highest priority. To reduce accidents involving slipping and falling, all daily maintenance can be conducted from the ground. There is a system for preventive maintenance around the entire unit, with safe access to the machine's superstructure. Moreover, a certified fire-suppression system has been installed to further protect personnel and property.

During 2008, Sandvik introduced a new generation of intelligent tunnel drill rigs for the drilling of blast holes in hard rock. These tunnel rigs in the DTi series are all equipped with the new iSURE software to handle tunneling work. The key advantage of the intelligent DTi rig is that it produces results with the highest quality at the minimum cost. It offers a combination of precision and strength with a number of user-friendly functions.

For pull-down drilling rigs, the DR 460 drill rig was introduced with superior cost-effective productivity and ergonomics for the operator.

Sandvik also introduced the DI 150 drill rig, with the focus on operational safety, safety and an environmentally friendly system for dust control, as well as a function for fuel economy aimed at applications in emerging markets.

The focus on environmental impact has also resulted in the launch of a new crusher model with lower sound level and mobile crushers with higher productivity for construction applications. In the mining crusher segment, a new primary crusher was introduced to complement Sandvik's previous offering. The equipment provides effective energy solutions for crushing and transport, which minimizes truck transport in mines.

In the energy sector, Sandvik Mining and Construction introduced a product series for high volumes of board and pillar mining of coal and other soft rock minerals. The product series includes a high-production machine for continual mining, a diesel-driven loader and mobile roof-bolting machine.

Sandvik Materials Technology

Sandvik Materials Technology develops advanced materials, products and system solutions in close cooperation with its customers to boost productivity and reduce energy consumption and environmental impact.

The business area has one of Europe's largest R&D centers for advanced metallic materials and special alloys in Sandviken, Sweden. The business area also has an R&D center in Hallstahammar, in Sweden, for ceramic and metal resistance materials. In early 2008, the business area's research operations were further extended with the addition of a research center in Pune, India.

During 2008, work commenced on a number of key R&D programs in the strategically important areas for Sandvik Materials Technology, including such areas as medical technology, powder technology and products used in connection with energy production.

As a result of acquisitions of medical-technology companies in the past two years, Sandvik's product program for this segment has been broadened to include implants and surgical instruments. The

products are manufactured from high-alloy stainless materials, titanium and cobalt-based alloys. The combination of the core capabilities of the acquired entities as manufacturers of medical implants and instruments and Sandvik Materials Technology's core expertise in materials and surface technology, processing, machining and production creates excellent conditions for the continuing development of the medical-technology product program. Moreover, the application know-how of the acquired entities offers Sandvik the potential to extend its materials offering to the medical technology segment. Thus, to take advantage of all development opportunities, the research and development resources in the medical-technology segment were increased substantially.

The business area's increased focus on the expanding area of powder technology was also supported by larger R&D resources. Development in this respect in 2008 included the building of a pilot plant for powder technology in Sandviken.

Sandvik SAF 3207 HD is a new material for the oil and gas industry. Oil extraction is now conducted at increasingly deeper depths. The greater the depth, the greater the demands imposed on the equipment and materials in order to cope with higher pressure and other stresses. Sandvik has long been a world leader in umbilical tubing, which connects the production units to the seabed. These are used for the remote control of oil wells down to a depth of more than 2.5 kilometers, where the various units may be separated by considerable distances. The new material, Sandvik SAF 3207 HD, permits the manufacture of umbilical tubes with thinner walls and thus lower weight, while the materials also offers superior wear and corrosion properties. For extremely deep sea depths, a high-strength material is necessary, which means that Sandvik SAF 3207 HD, permits the extraction of oil and gas from sources that previously could not be exploited. Due to the high corrosion resistance, Sandvik SAF 3207 HD may also be used for the newly discovered oil-rich areas off the coasts of Africa and Brazil, where temperatures are higher than in the North Sea, for example.

Sandvik Sanergy[®] HT is a product developed with the help of advanced surface technology and is intended for use in high-temperature fuel cells, or solidoxide fuel cells. By coating metallic precision strip with a thin metal coating, the properties

of the surface are controlled so that high electrical conductivity is combined with an efficient corrosion resistance. This extends the product's service life, while simultaneously contributing to reducing customer costs. Among other benefits, it can reduce the number of processing stages in the customers' production process.

More efficient energy conversion and increased use of renewable energy sources are significant driving forces for the Kanthal product area's product and application development. New and modified products are being introduced continually in the energy area. The launch of highly efficient industrial gas- and electricity-based heating systems under the Ecothal[®] and Superthal[®] brands continued during the year. Kanthal also strengthened its position as a leading supplier of heat-treatment ovens for the manufacture of silicon-based solar cells.

The Kanthal product area launched a new type of silicon-based heat radiator, Kanthal Globar[®] AS and Kanthal Globar[®] Type B. These heat radiators offer higher performance and increased flexibility for heat processes in the glass, ceramics, electronics and aluminum industries.

Sandvik Finemac[®] is a new material that has been specially developed for the manufacture of small watch components. It has been known for decades that lead in steel results in better machinability, but in line with the global focus on more environmentally friendly alternatives, the development of new lead-free alternatives has commenced. In close collaboration with customers, Sandvik Materials Technology has developed the lead-free steel grade Sandvik Finemac[®], which has equivalent or superior properties than the materials currently available for the watch industry.

The Process Systems product area has further developed and launched broad steel belts for new applications in the pulp and paper industry, where steel belts are a crucial component in the process. The steel belt copes with speeds of up to 80 meters per second and, thus, contributes to raising customer productivity, as well as adding to the quality of the end product. The paper industry is expected to offer considerable potential for this product.

Human Resources

Human Resource management is highly prioritized at Sandvik and represents a strategically important, integrated element of operations. During 2008 the extensive, global transformation program in the HR area has continued, with the introduction of common processes and IT support.

Delivery model through global processes

The Sandvik Human Resources (HR) organization is designed to provide the best HR support to all managers and employees in the Group, irrespective of geographic location or organizational affinity. The goal is to develop all employees to their full potential and have the best competence available for each job in the organization, with the purpose of ensuring that Sandvik achieves its strategic objectives and continues to be world-leading in its chosen segments.

To provide high-quality HR support to all units and to enable measurement of the performance of Sandvik's HR work, the company pursues six global processes across the entire organization to drive excellence in HR:

- **Change Management:** a systematic approach to conduct change successfully, achieving desired outcome at the optimum time and cost.
- **Competence Development & Performance Management:** to drive competence development, learning and high performance throughout the organization at all levels and in all business areas.
- **Industrial Relations:** the practices and policies which the organization seeks to apply in all business areas, to encourage high-quality working relationships, mutual trust and understanding with all its employees.
- **Resourcing:** to attract the right people by workforce and succession planning, talent management and a proactive recruitment process directly linked to the needs of the business.
- **Reward & Recognition:** building the right compensation and benefit structure to attract, motivate and retain the right people, and to ensure that all employees are fairly remunerated.

- **Workforce Administration:** to enable the HR processes access to accurate and organized data so that each process efficiently can perform their given task.

Sandvik has defined a model for the HR function that is based on business requirements and leading practices. Connect is the global transformation program implementing this model. Activities are conducted in the following areas: HR Advisor, the global HR processes, IT support and HR shared service center. The program currently covers more than 25,000 employees in seven countries and its expansion is continuing.

The Group believes that goals and measurements are key tools in ensuring continuous improvements in HR. All operations at Sandvik are covered by the goals set by the Group Executive Management. The five Key Performance Indicators are: diversity, mobility, employee turnover, competence development days and formal review discussions.

Sustainability

Sustainability issues are an integral feature of Sandvik's operations. As part of sustainability programs, the Group works actively with Sandvik's Code of Conduct, which is included in the "The Power of Sandvik" which represents the joint platform for Sandvik's approach to doing business and includes the values referred to as *Open Mind*, *Fair Play* and *Team Spirit*. More than 81% of Sandvik's personnel have undergone training in Sandvik's Code of Conduct.

One of the Group's objectives is to increase equality of opportunity at workplaces. All sites will introduce a program to improve the gender balance before year-end 2010. Refer to the section entitled "Sustainability Report" on pages 86–97 for other objectives and more detailed information on sustainability programs.

Number of employees

The number of employees at the end of the year was 50,028 (47,123), an increase for comparable operations of 2,307 persons (3,815) during the year. The number of employees in Sweden at 31 December 2008 totaled 11,487 (11,342). Data on personnel expenses and the average number of employees is available on page 59, Note 3.

Employee profit-sharing program

Since 1986, Sandvik has had a profit-sharing system for all employees at wholly owned companies in Sweden. The system was modified in 2007 to achieve increased transparency and better connection with the company's objectives. The Group's earnings and return during the year entailed an allocation totaling SEK 67 M (238) to the profit-sharing foundation in 2008.

Remuneration and compensation policy

The remuneration at Sandvik is based on a global compensation policy that supports Sandvik's business objectives, contributes to maintaining Sandvik as an attractive company in which to work and develop, stimulates internal mobility and provides increased efficiency. The compensation policy is based on four cornerstones: 1) position evaluation measuring the complexity and difficulty of the position, 2) individual performance, 3) the market situation, and 4) professional development of the employee.

As part of the total remuneration package, a share-based program was established in 2000 to offer a stock-related, long-term variable salary to some 350 international executives and specialists in the Group. The program was based on an annual allotment of personnel options on Sandvik shares with duration of five years and the right to exercise after three years, conditional on continued employment. The

allotment was based on Sandvik's return on capital employed during the preceding year. While the grant as such was free of charge, option holders must pay an exercise price for the share. The program is based on existing shares and, thus, does not require the issue of new shares. Under a financial arrangement, the effects for the company of future increases in the market value of the Sandvik share have been limited. Options under the program were granted during the years 2000–2004. During 2008, it was possible to exercise options granted in 2003 and 2004 and there are still 131,000 outstanding options at 31 December 2008, of which 20,000 to senior executives. For additional information, see pages 59–61, Note 3.5 Information on remuneration to the Board of Directors and senior executives.

The long-term variable salary program was halted for one year but starting in 2006 the Board of Directors decided to implement a cash-settled program each year for 2006, 2007 and 2008. The programs cover some 400 international executives and specialists within Sandvik and extend over a period of three years with possible payment after the third year of each program. The possible outcome of 2006 year's program is thus paid in 2009, the 2007 year's program in 2010 and the 2008 year's program in 2011. The programs have a direct connection to performance, surplus value and compensation with an annual cap value in relation to the annual salary in December year three of the participant. The possible outcome of the long-term variable salary implies fulfillment of measurable goals, outlined by the Board of Directors, with reference to certain key indicators creating shareholder value connected to the Sandvik's growth, profitability and capital efficiency during a period of three years.

The Board's proposal for the decision on principles for the remuneration of senior executives

The guidelines for the remuneration of the Board and senior executives that applied during 2008 are set out in Note 3.5 on pages 59–61. The company's auditors have examined compliance with the guidelines.

The Board of Sandvik AB that the Annual General Meeting on 28 April 2009 decide on the following principles for the remuneration of senior executives in accordance with that stated in Note 3.5. The Board's proposal is designed to ensure that Sandvik from a global perspective can offer remuneration at the market rate that will attract and retain qualified members of the Group Executive Management. The remuneration package for Group Executive Management comprises fixed salary, annual variable salary and long-term variable salary and pension. It is intended that the components will form a well-balanced remuneration and benefit package that reflects the individual's performance, responsibility and the Group's earnings trend.

The fixed salary, which is individual and differentiated considering responsibility and performance, is determined taking into account market conditions and is reviewed each year.

The Board may depart from the principles established by the Annual General Meeting if, in isolated cases, there are special reasons for a departure.

Those affected by these proposed principles are the President and the other members of the Group Executive Management. For further details, refer to Note 3.5 on pages 59–61.

Key figures

	2008	2007
No. of employees 31 December	50,028	47,123
Average number of employees		
Women	8,819	7,875
Men	39,752	36,548
Total	48,571	44,423

Non-financial information

Sandvik's sustainable development efforts represent an integral part of the business process, with focus on continual improvement in such areas as environment, health and safety, human rights and business ethics.

Sandvik has a distinct Code of Conduct that provides the platform for enhancement programs.

In addition to Sandvik's financial results, environmental and social performance is presented in the company's Sustainability Report on pages 86–97.

Environmental objectives

In 2008, Sandvik has established new environmental objectives (See page 6):

Examples of activities conducted during the year to meet the objectives include certification in accordance with ISO 14001 for companies recently acquired, the introduction of energy saving programs (two units have introduced certified energy management systems), phasing-out of chlorinated solvents and reduction of water consumption by recirculation. Relevant key figures for the use of electricity and fossil fuel, carbon dioxide emissions and water consumption are monitored on a quarterly basis. The outcome for 2008 is presented in Sandvik's Sustainability Report.

Licensed operations

Sandvik complies with applicable laws and regulations relating to environmental issues in the countries where the Group operates. However, Sandvik applies even stricter requirements when it is ecologically warranted, technically possible and economically reasonable. Sandvik's Swedish units conduct licensed operations in accordance with Swedish environmental legislation at the plants in Sandviken, Gimo, Stockholm, Hallstahammar, Surahammar, Svedala, Arbrå, Haparanda and Köping. The environmental permits for these sites relate to such activities as the manufacturing of ingot, bar, tube, strip and wire products, rock-drilling products, metal powder, cemented-carbide products, castings and various equipment and tools. All these units have the environmental permits that are required for their operations. The main environmental impacts from these sites are emissions to air and water, land contamination and noise. Sandvik is highly dependent on the environmental permits granted for these sites. In 2008, no new permits were received. One new appli-

cation was submitted for the production of hydrogen gas in Stockholm. No breaches of maximum permissible values or permitted manufacturing volumes within the parameters of the terms and conditions of permits occurred during the year. A number of target values were exceeded for noise and emissions to air and water at a few sites. Measures are being taken to comply with these target values, often in consultation with the relevant supervisory authority.

For the units subject to environmental permits, public environmental reports are submitted each year to the supervisory authority. In these reports, conditions and compliance with all the various requirements are presented, as are annual emissions and actions taken to lessen impacts on the environment or the consumption of resources. No unit has been issued any significant injunction, related to these requirements, from the supervisory authority in 2008.

At 22 units throughout the entire Sandvik Group, known or presumed land contamination has occurred. At 12 units, clean-up procedures have been ordered at an estimated cost of some SEK 60 M. Moreover, cleaning-up measures at additionally two sites have been decided.

When new manufacturing companies are acquired, the due diligence procedures always include a comprehensive environmental audit to identify any environmental liabilities related to the operation in question.

Emission allowances

Two of the Group's entities are involved in trading in carbon dioxide emission allowances in the EU. In 2008, the Group was allocated 109,727 emission allowances, corresponding to 109,727 tons of carbon dioxide. During the year, operations at these two facilities declared emissions corresponding to approximately 110,000 emission allowances, a slight excess that will be covered at the beginning of 2009 through the purchase of supplementary allowances. Legislation, and thus also the meaning of the term "metallurgical process" was changed with effect from 2008 to be defined as "physical changes in the material." The change means that essen-

tially all use of fossil fuel in the industrial site in Sandviken is encompassed by trading in emission allowances.

The trading in emission allowances also affects Sandvik in that the price for electricity, even such electricity not affected by emission allowances, has risen considerably.

Otherwise, Sandvik is not aware of any changes in environmental requirements raised by laws or otherwise that could have a significant operational or financial effect on business activities.

Social objectives

In 2008, Sandvik established new social objectives (See page 6):

Examples of activities pursued during the year to attain the objectives include certification of the health and safety management system in accordance with OHSAS 18001 for companies recently acquired, training, risk assessment of the workplace, more focus on reporting of incidents, improving the efficiency of safety committees, and offering stimulation to managers to employ women, in particular in regions where the proportion of female employees is very low. Relevant indicators and key figures that are monitored on a quarterly basis include the number of fatalities, injuries and incidents, absenteeism as well as the number of men and women in various positions.

Sandvik's policies relating to human rights, labor rights issues and business ethics are set out in a Code of Conduct. To emphasize the importance of compliance, training in these issues is regularly arranged. At the end of 2008, more than 81% of the employees had participated in this training.

Sandvik increased the focus on risks related to suppliers during 2008. A new supplier Code of Conduct is being developed and special supplier audit functions were established in China and India.

No incidents relating to violation of human rights were reported during 2008. A few suspected incidents of fraud and corruption were reported. All these incidents have been investigated, and when considered necessary, corrective measures were taken.

Sandvik's risks and risk management

Sandvik is a global Group with representation in 130 countries and as such is exposed to commercial and financial risks. Accordingly, the management of risks is a process that is important to Sandvik in its efforts to achieve its objectives. Effective risk management is a continuous process conducted within the scope of the operational control system and is an integral part of the periodic monitoring of the business.

ERM – Integrated Risk Management

For a number of years, Sandvik has applied a comprehensive program for risk management – Enterprise Risk Management (ERM). The program covers all parts of operations, business areas as well as Group Functions. Through ERM being an integral part in the control of Sandvik's operations, ERM assists Sandvik to also act when dramatic changes occur in external factors and well as market conditions. An example in this context is the specific decision regarding capacity adjustments taken late in 2008 as a result of the global decline in demand.

A full, consolidated ERM Report is submitted to Executive Group Management twice a year. The Board deals with the ERM Report once a year.

The purpose of the integrated risk management work is to:

- Create heightened risk awareness in the organization, from operational decision-makers to the Board of Directors. Transparent and consistent reporting of risks shall form a basis for a common approach to what shall be prioritized and managed.
- Support the Board of Directors and executive management in strategic decision-making through continuous identification and evaluation of strategic risks that impact the company.

- Contribute to improvements in operational decision-making by managers at various levels by ensuring that operational risks are continuously evaluated and managed.
- Ensure control of the company's exposure to risk by implementing a common model and methodology for risk management.
- Link risk management work to the company's performance management, which means that risk management work shall also be included among the targets set for individual employees.

A Group-wide risk management model has been established with common definitions, reporting formats and processes, and it also enables each business area to identify and manage their specific risks.

The main components of risk management are identification, measurement, management, reporting, monitoring and control. An action plan is established for each risk to accept, reduce, eliminate or increase the risk. Formal procedures and processes are established for the reporting, monitoring and control of risks.

Operational risks

Each manager with operational responsibilities shall ensure that risks associated with the operations are appropriately identified, measured and managed. Opera-

tional risks include market and country risks, R&D risks, product risks, production risks, health and safety as well as environmental risks. Each unit's risks are regularly summarized in a report, which also details the measures that are being taken to manage the risks. Each risk is measured and assigned an action plan. All this information is consolidated at Group level.

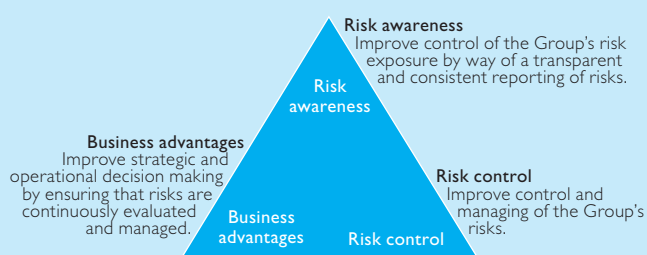
Compliance risks

Sandvik is globally engaged in many different areas and conducts its business within the framework of rules and regulations that apply in various countries, markets and factual areas. Sandvik shall comply with laws as regards environmental issues, labor issues, the operation of the business, taxation, terms of employment, marketing regulations, and so forth. In addition, Sandvik has internally established regulatory systems and instructions as support for management and other employees in the company.

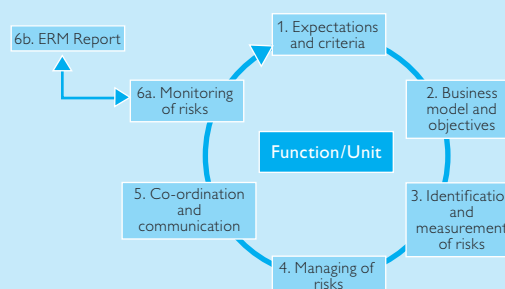
Financial reporting risks

Sandvik's operating companies present reports on their financial position on a regular basis in accordance with internal reporting rules and the accounting policies that Sandvik applies, the International Financial Reporting Standards (IFRS). The Group's controller function validates and

Purpose of integrated risk model



ERM process – Overview



analyzes the financial information as a part of the quality control of financial reporting. See also the “Corporate Governance Report” on pages 98–103.

Legal risks

Litigation

On occasion, Sandvik is party to litigation and administrative proceedings related to its operations, including responsibility for products, the environment, health and safety. However, Sandvik does not deem that any of these ongoing proceedings and processes will significantly affect the Sandvik Group. In the US, companies that sell welding electrodes, including Sandvik’s US subsidiary, Sandvik Inc., are the object of claims in which it is alleged that exposure to welding fumes causes neurological damage. All of these claims involve multiple defendants in addition to Sandvik Inc. To obtain a favorable verdict against Sandvik Inc., a plaintiff would have to prove that any neurological injury was caused by Sandvik Inc.’s welding electrodes. The market share of Sandvik Inc. for welding electrodes in the US is less than 1%, and many of the cases against the company have been dismissed because the plaintiffs could not prove that they had used Sandvik Inc.’s welding electrodes. In addition, Sandvik believes that there is no reliable scientific evidence to support the claims. Despite such absence of evidence, and also considering the minimal market share, Sandvik anticipates that it will have to continue to defend itself against these types of claims in lawsuits. To date, Sandvik has not received an unfavorable verdict in any proceedings or been forced to come to a settlement in regards to injury compensation

related to welding electrodes and the only expenses it has incurred are legal costs. A significant share of these costs has been covered by insurances.

Protection of intellectual property rights

To protect the return on the resources that Sandvik invests in research and development, the Group has a strategy for the active safeguarding of technical achievements against patent infringements and copying. Sandvik protects its intellectual property rights through legal proceedings when necessary.

Tax disputes

During 2007, the Swedish National Tax Board performed tax audits at Sandvik AB and Sandvik Intellectual Property AB (the “IP Company”), and in this connection, reviewed the reorganization of ownership and management of intellectual property rights that took place in 2005.

The reorganization implied that Swedish-owned patents and trademarks were transferred to the IP Company. The reasons for this reorganization were the need to gather the activities relating to intellectual property rights into one company to visualize the considerable worth of the intellectual rights and to gain operational advantages.

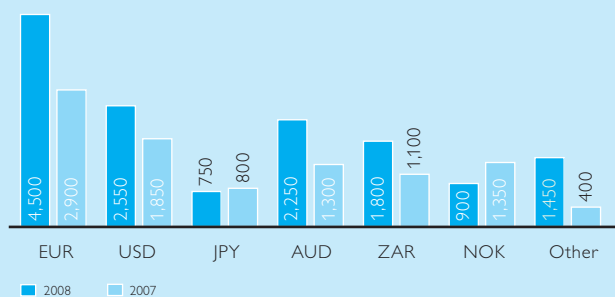
The Tax Board did not accept the tax returns for fiscal years 2005 and 2006 filed by the IP Company with respect to the claimed deductions for amortization of the transferred intellectual property rights. In November of 2008, the Tax Agency rejected the IP Company’s 2007 tax returns for the same reasons.

The Tax Board approved the tax returns filed by Sandvik AB for fiscal year 2005. Subsequently, the Tax Board, through the Public Commissioner, filed an appeal against its own decision relating to the effects of the above-mentioned reorganization. In addition, according to the Commissioner’s appeal, the rejection of the IP Company’s amortization claims should be removed should the appeal against Sandvik AB’s tax returns be granted. If the Commissioner’s appeals are granted, the resulting additional tax expense of some SEK 5,050 M would not affect Sandvik’s earnings since the amount would correspond to the tax value of the raised taxable amortization in the IP Company. However, as a result of a reduction in Swedish income tax from 28% to 26.3% effective from 2009, the tax value of the taxable depreciation is affected negatively by SEK 200 M.

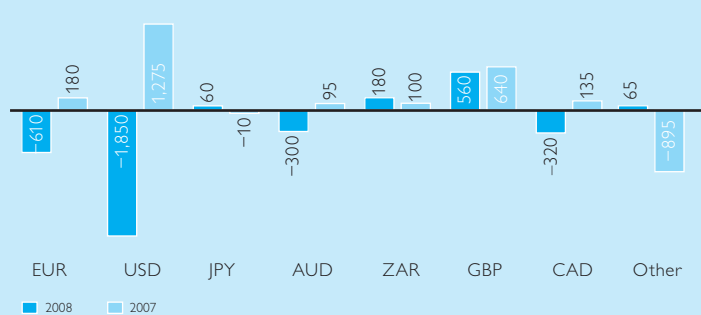
If the Court accepts Sandvik’s position, the Group’s tax expense would decline by about SEK 4,850 M, to be recognized as a tax benefit when such a court order gains legal force.

In Sandvik’s opinion, the raised tax assessment of the IP Company by the Tax Board and the Public Commissioner’s appeal as it relates to Sandvik AB are both incorrect. All transactions comply with the agreements entered into in accordance with civil law by the Group companies concerned and have been implemented entirely in accordance with such agreements. According to the advice of tax specialists engaged by Sandvik, a tax assessment in line with Sandvik AB’s filed tax returns complies with prevailing laws. The raised tax assessments of the IP Company by the Tax Board and the Public Commis-

Net flows in foreign currency, SEK M



Hedged nominal foreign currencies, SEK M



sioner's claim for a raised assessment of Sandvik AB, respectively, are solely based on the grounds that the reorganization has entailed perceived unacceptable tax advantages to Sandvik.

In January and December of 2008, respectively, the IP Company appealed the decision by the Tax Board's regarding taxation for 2005, 2006 and 2007. Pending a conclusion of the legal proceedings, Sandvik has recorded a provision for the tax effects of implemented amortization in the IP Company and for accrued interest for the tax that the Public Commissioner's appeal against Sandvik AB would entail if it is approved.

Insurable risks

Sandvik has the customary insurance programs with respect to the Group's property and liability risks.

As a natural element of Sandvik's various activities, measures to limit the impact of damages are continually taken, often in cooperation with Sandvik's external insurance advisors.

In such a context, standards for desired protection levels are established to reduce the probability of significant material damages and to guarantee deliveries to customers.

Pension commitments

Sandvik has comprehensive pension obligations for its employees in all countries in which it operates. The pension solutions vary depending on legislation and local agreements. The most comprehensive agreements are found in Sweden, Finland, Germany, the UK and the US. To ensure the efficient administration of the substan-

tial pension plans in these countries and an equally efficient management of funds reserved for pension plans, Sandvik has established a separate entity for this purpose, the Sandvik Pensions Supervisory Board. In addition, local pension Boards are established in each country that are responsible for compliance with legislation and local agreements.

Sustainability risks

Sustainability risks entail the risk of adverse consequences concerning the environment, health and safety, human rights and business ethics due to the commercial operations conducted by Sandvik. To minimize these risks, Sandvik implements a comprehensive initiative at all levels of the company. Fair play and Code of Conduct seminars are held throughout the Group on a regular basis. These aspects also comprise key areas for Sandvik's internal assurance function, Group Assurance. In recent years, Sandvik has also developed a separate Sustainability Report, which requires a systematic analysis of the company's operations in terms of sustainability and enables the identification of risks within this area. For further information, see Sandvik's Sustainability Report on pages 86-97.

Financial risks

The Board of Directors is responsible for establishing the Group's finance policy, which comprises the guidelines, objectives and limits for financial management and the managing of financial risks within the Group. Sandvik Financial Services has been established to act as the functional organization responsible for the managing

of the greater part of the Group's financial risks.

The following presentation complies with the reporting requirements stated in accordance with IFRS (IFRS 7 and IAS 39).

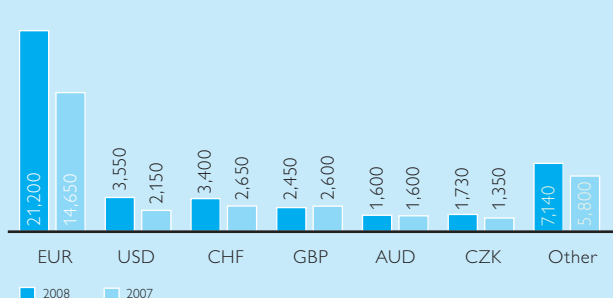
Sandvik Financial Services

Through its comprehensive international operations, Sandvik is exposed to currency, interest, liquidity and financing risks. Advantages exist for Sandvik's operations in the central handling of matters pertaining to financing and financial exposure. Therefore, Sandvik conducts internal banking operations within Sandvik Financial Services, which is located at its head offices in Sweden and Singapore. Sandvik Financial Services also conducts operations for payment advice, customer financing and trade finance. This activity is carried mainly through the head office in Sweden and via finance companies in the US, Germany and Chile.

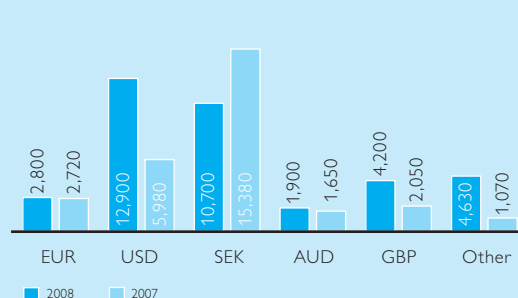
The internal bank provides service to the Group companies and the purpose of the bank is to support subsidiaries with loans, investment opportunities and currency-exchange deals, and to act as advisors in financial matters. Most receivables created through internal Group sales are transferred to the Swedish bank unit. Since internal sales largely arise in the buying company's local currency, the internal bank thereby attains adequate control over the Group's transaction exposure. The internal bank also conducts Sandvik's netting system, and is accountable for international cash management.

The primary objectives of Sandvik Financial Services is to contribute to the creation of value by minimizing the finan-

Net assets in foreign currency, SEK M



Borrowings by currency, SEK M



cial risks to which the Group is exposed in the ordinary course of business, and to optimize the Group’s net financing cost. Only banks with a solid financial position and high credit ratings are accepted as Sandvik’s counterparties in financial transactions. A new department within Sandvik Financial Services, designated Sandvik Credit, was established during the year. The main aim of the department is to act as advisor with regard to payment issues, arrange various forms of customer financing and to issue a global credit policy for Sandvik.

Currency risk

Currency risks refer to the foreign-exchange movements affecting the company’s earnings, shareholders’ equity and competitive situation in various ways:

- earnings are affected when sales and purchases are made in different currencies (transaction exposure),
- earnings are affected when assets and liabilities are denominated in different currencies (translation exposure),
- earnings are affected when the financial results of subsidiaries are translated to SEK (translation exposure),
- shareholders’ equity is affected when the net assets of subsidiaries are translated to SEK (translation exposure).

Transaction exposure

In its international operations, Sandvik regularly offers customers the possibility to pay in their own currencies through the global sales organization. As a result, the Group is continuously exposed to currency risks in accounts receivable denominated in foreign currency and in future sales to foreign customers.

Since a large percentage of production is concentrated to a few countries, while sales occur in many countries, Sandvik is exposed to a large net inflow of foreign currencies, which are exposed to transaction risks.

The Group’s net inflow of foreign currencies was approximately SEK 14,200 M (9,700). See diagram on page 26.

To reduce exposure to foreign currencies, currency received is used to pay for purchases in the same currency. In addition, major project orders are currency

hedged to safeguard gross margin. In addition, a certain portion of the anticipated net flow of sales and purchases is hedged through financial instruments in accordance with guidelines set in the Group’s finance policy. The hedging horizon for the Group as a whole depends on the mix of currency flows in the various business areas and is normally one to four months, but may be raised by a maximum of about six months through strategic currency hedges approved by the CFO. As of 31 December 2008, the average term of the hedged currency contracts in foreign currencies was eight months.

The total hedged volume outstanding in foreign currencies at year-end are presented in the “Hedged nominal foreign currencies” diagram on page 26, which shows outstanding contracts in the most important currencies at year-end exchange rates. Unrealized losses on outstanding currency contracts for hedging of future net flows at year-end amounted to SEK 233 M (gain: 34). Of this amount, a loss of SEK 37 M pertains to contracts that mature in 2009 and a loss of SEK 147 M to contracts maturing in 2010 or later. Hedge accounting in accordance with IAS 39 is applied to the majority of these hedging transactions. For a more detailed quarterly breakdown of cash-flow effects, see page 32.

Translation exposure

Group subsidiaries normally should not have any translation risk in their balance

sheets. Sandvik’s objective is that a subsidiary’s receivables and liabilities in foreign currency shall be balanced (hedged).

As of 31 December 2008, net assets of Group subsidiaries denominated in foreign currencies amounted to approximately SEK 41,065 M (30,800).

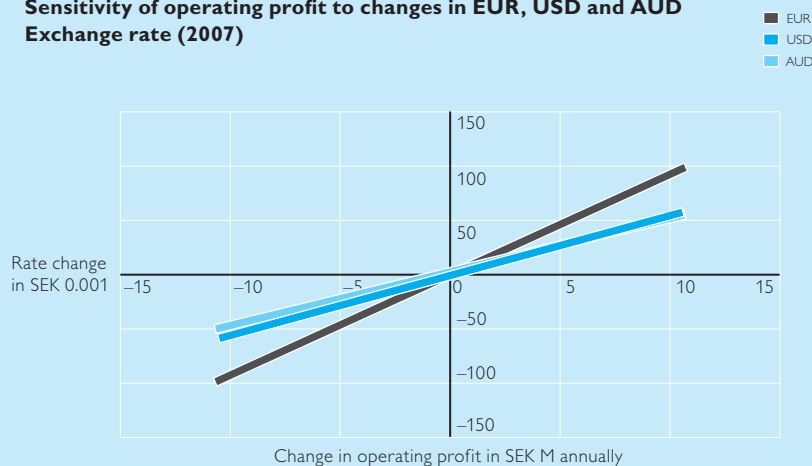
A subsidiary usually raises intra-Group borrowings denominated in its own currency. Its net assets, normally equivalent to its equity, are translated into SEK at the year-end exchange rate. The net assets are not hedged, but the differences that arise due to changes in exchange rates since the preceding year-end are recognized directly in equity.

A large share of Sandvik’s borrowing is conducted to finance foreign subsidiaries’ investments. Such borrowing is frequently in a particular currency, whereupon the internal bank lends to the subsidiaries requiring financing in local currencies. Furthermore, subsidiaries deposit excess cash with the internal bank. In these cases, the internal bank’s deposits and loans are hedged by currency-forward contracts. The Group’s borrowing in various currencies is presented in the diagram on page 27.

Translation exposure in the subsidiaries’ earnings

The earnings of the foreign subsidiaries are translated into SEK at the average exchange rate for the period during which earnings arise.

Sensitivity of operating profit to changes in EUR, USD and AUD Exchange rate (2007)



Exchange-rate sensitivity

As an estimate, it may be said that a change of plus or minus SEK 0.10 in the USD rate would change Sandvik's operating profit by plus or minus SEK 55 M (50) on an annual basis, under the conditions that prevailed at year-end 2008. A change of SEK 0.10 in the rates for EUR and AUD would have comparable effects of SEK 90 M (80) and SEK 50 M (35), respectively. In addition, there would be effects from the other group of currencies that the Group's operations give rise to. The change in earnings occurs with a delay, since a change in exchange rates does not have an impact until the hedging horizon has passed.

Accordingly, the rule of thumb should be used cautiously for a company such as Sandvik with global production and sales. Refer to the diagram on the preceding page.

Interest risk

Interest risk is defined as the risk that changes in market interest rates will have an adverse impact on the Group's net financial items. The speed with which a change in interest rate affects net financial items depends on the fixed-interest period of the loans.

The company's exposure to interest-rate fluctuations (interest risk) is considerably less than for currency risk. Interest risk arises in two ways:

- The company may have invested in interest-bearing assets, the value of which changes when the interest rate changes.

- The cost of the company's borrowing fluctuates when the general interest-rate situation changes.

Sandvik has no long-term surplus liquidity and usually only invests any liquidity in current bank deposits/current money-market instruments with maturities of less than 90 days. Accordingly, there is no significant interest risk in the Group's short-term investments.

Changes in interest rates thus mainly affect the cost of the company's borrowings.

The Group's maturity profile and interest rates for outstanding loans as at 31 December 2008 are presented in the diagram and table below.

Sandvik has entered into a number of interest-rate swaps to affect interest duration. The nominal values of interest-rate swaps and maturities are presented in the table below.

The interest-rate swap agreements entered into had an estimated positive net market value of SEK 1,298 M (196) at year-end. Sandvik applies hedge accounting in accordance with IAS 39 to these interest-rate swaps of SEK 1,337 M, since they are directly related to specific loans.

The Group's average interest rate, including other loans and effects of interest-rate swaps, was about 4.8% (4.8).

In accordance with Group guidelines, Sandvik's average fixed-interest term for loans shall be 12 months, but may vary between 6 and 30 months following approval by the CFO. At year-end, the average term was 13 months (13) taking

into account interest derivative instruments. In order to reduce the refinancing risk, the Group strives for an adequate distribution of maturity dates. At year-end, the average payback period was 3.9 years.

Loan conditions essentially follow the normal market terms. Only under exceptional circumstance were assets pledged in connection with the raising of loans. Such pledging is disclosed in Note 29.

The fair value of the loan portfolio, including derivatives relating to borrowing, would change by some SEK 230 M (195) in connection with a change in the market interest rate of one percentage point over the entire interest-rate curve, given the same volume and fixed-interest term as at 31 December 2008.

Liquidity and financing risk

Liquidity and financing risk is defined as the risk that costs will rise and financing possibilities will be limited when loans must be refinanced, and that payment commitments cannot be met as a result of insufficient liquidity.

In Sandvik's finance policy, the liquidity and financing risks are regulated such that the sum of guaranteed credit facilities and cash and cash equivalents must exceed the total of all borrowings that mature within the next six months. At 31 December 2008, the sum of cash and cash equivalents and credit facilities was SEK 21,415 M (16,192), compared with borrowings that mature within the next six months totaling SEK 9,271 M (9,954).

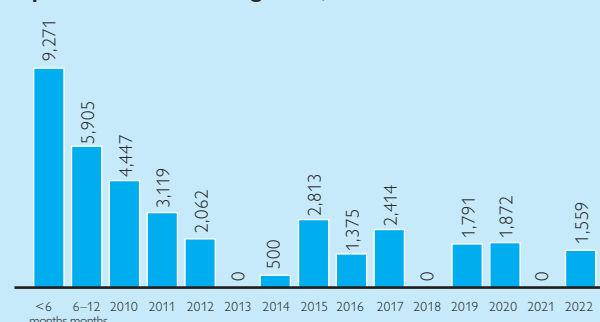
The Group's Interest rates for outstanding loans

SEK M	Effective interest, %	Total
Bond loans	4.5	13,369
Commercial papers	5.5	7,698
Private placement	3.7	6,937
Other loans	5.5	9,124
Total	4.8	37,128

Nominal values of interest-rate swaps and maturity

MSEK	2010	2011	2012	2016	2017	2018	2019	2020	2022	Total
EUR						274				274
SEK	840	450	1,300	100						2,690
USD					1,235	386	772	1,853	618	4,864
GBP						280				280
Total	840	450	1,300	100	1,235	940	772	1,853	618	8,108

The Group's maturity profile for outstanding loans, SEK M



Sandvik has credit facilities of EUR 500 M maturing in 2012 and of EUR 1,000 M maturing in 2013. These credit facilities have been placed at the company's disposal by a group of banks. The constituent banks also have other dealings with Sandvik. The facilities, which are the Group's primary liquidity reserve, were unutilized at year-end. The size of the facilities is regularly reconsidered and adapted to the Group's need for a liquidity reserve.

The company has a Swedish Medium-Term Note program with a program size of SEK 15,000 M (15,472). At year-end, bonds with a nominal value of SEK 13,200 M (10,697) were outstanding, with an average fixed-interest term of 2.8 years (3.9). Sandvik has issued bonds totaling USD 740 M (740) in the US market in so-called "private placements." The duration of these bonds varies between 9 and 14 years.

Sandvik has a Swedish commercial-paper program with a program size of SEK 10,000 M (10,000). The amount outstanding at year-end was SEK 7,172 M (5,971). The commercial papers had an average remaining term of about five months.

In addition, Sandvik has a European commercial-paper program with a program size of EUR 750 M (750). At year-end, measured in SEK, the outstanding amount was SEK 526 M (910). These commercial papers had an average remaining term of about five months.

At year-end, Standard & Poor's, the international credit rating institute, had assigned an A credit rating to Sandvik's long-term borrowing and A-1 for its short-term borrowing. For continuous update on

Sandvik's rating, we refer to Sandvik's own webpage.

Credit risk

The Group's financial transactions give rise to credit risk in relation to financial and commercial counterparties. Credit risk or counterparty risk is defined as the risk for losses if the counterparty does not fulfill its commitments.

Sandvik has entered into agreements with the banks that are most important to the company covering such matters as the right to offset receivables and liabilities that arise from financial transactions, so-called ISDA agreements. This means that the company has limited exposure to the financial sector. However, the company does have a credit risk in the form of outstanding customer accounts receivable. The distribution of the respective business areas' invoicing by industry segment implies a good risk spread.

At 31 December 2008, the total nominal value of derivative instruments for purchased and sold currencies amounted to SEK 49,924 M (43,375). These derivatives form part of the Group's managing of currency risks in transaction flows and financing.

Sandvik's customers frequently wish to finance their investments in new equipment with terms that match the products' expected economic lives. Therefore, Sandvik Financial Services works in close liaison with financial institutions, such as banks and export credits guarantee boards, to be able to offer customers competitive solutions. In certain cases, Sandvik must provide buyback guarantees, that is,

a promise to repurchase a machine at a price established in advance. At year-end, the outstanding buyback guarantees amounted to SEK 111 M (25). Sandvik, notably the Sandvik Mining and Construction business area, offers credits to the company's distributors and end-customers in the North- and South America countries and in Europe through its own finance companies. The value of outstanding credits in these companies was SEK 534 M (487) at year-end. In addition to the traditional financing of equipment that the customer buys, Sandvik also offers rental machines to customers that only require the use of a machine for a shorter period. At year-end, the net book value of Sandvik's global fleet of rental machines was SEK 468 M (569).

At 31 December 2008, the total gross amount of outstanding trade receivables was SEK 16,624 M (15,719). Impairment totaling a loss of SEK 694 M (loss: 491) was recognized.

An age analysis of outstanding trade receivables at 31 December is presented in the table below.

Raw materials price exposure

Sandvik's operations give rise to risks due to changes in the price of market-quoted raw materials, mainly nickel, tungsten, cobalt, and electricity. The nickel price varied significantly during the year. At the beginning of the year, the price was USD 26,000 per metric ton, the highest price was USD 33,000, while the price at year-end was about USD 11,000 per metric ton.

Age analysis of trade receivables

SEK M	2008			2007		
	Gross	Allowance for bad debts	Net book value	Gross	Allowance for bad debts	Net book value
Current receivables	11,878	-74	11,804	11,577	-64	11,513
Past due receivables 0-3 months	3,390	-82	3,308	3,139	-53	3,086
Past due receivables 3-12 months	1,005	-238	767	765	-160	605
Past due receivables >12 months	351	-300	51	238	-214	24
Total	16,624	-694	15,930	15,719	-491	15,228

Total credit risk – Financial instruments

SEK M	2008	2007
Trade receivables	15,930	15,228
Cash and cash equivalents	4,998	2,006
Unrealized gains on derivatives	3,420	982
Other receivables	710	487
Total	25,058	18,703

The total consumption of nickel is some 24,000 metric tons per year. When Sandvik Materials Technology obtains a significant customer order, the price of quoted materials included in the order is hedged. At year-end, the nickel inventory amounted to slightly less than 10,000 tons, of which about 1,526 metric tons was hedged. The market value of commodity derivatives entered into was a negative SEK 120 M (neg: 7). A price reduction for nickel of USD 1,000 per metric ton for current inventories is estimated to have a negative effect of SEK 80 M on Sandvik's reported results on an annual basis, based on the prevailing conditions at 31 December 2008.

For Sandvik's large production units in Sweden, the electricity price is continuously hedged through derivatives. The total electricity consumption at these units

amounts to some 900 GWh. The hedging horizon at year-end was about 18 months' expected consumption. The market value of electricity derivatives at year-end was about a negative SEK 67 M (103). A change in the electricity price of SEK 0.10 per kWh is estimated to impact Sandvik's operating profit by plus or minus SEK 90 M on an annual basis, based on the prevailing conditions at year-end 2008.

Hedge accounting in accordance with IAS 39 is applied to the majority of the raw materials and electricity derivatives.

Fair value of financial assets and liabilities

Fair value is based on market prices and is determined under generally accepted methods. When available, official market values at the closing date are used. Translation to SEK was conducted at the quoted currency

rate on the balance-sheet date.

Financial assets and liabilities and financial derivatives are stated at fair value, except for current and non-current borrowings, which are measured at amortized cost. Calculation at fair value would increase the Group's non-current borrowings by SEK 2,475 M (reduce 373), of which SEK 1,384 M is already recognized as the fair value hedge. When measuring interest-bearing liabilities, the company's Swedish bond loans have then been remeasured at listed market prices when available. Other non-current debt has been revalued based on the difference between the nominal interest rate and current market rate. Current loans, which include outstanding commercial papers with a fixed interest period of less than 12 months, have not been revalued.

Fair value of financial assets and liabilities by category

Balance-sheet items, SEK M	Derivatives designated as hedging instruments ²⁾		Assets at fair value through profit or loss ¹⁾ Derivates held for trading ³⁾		Available-for-sale financial assets		Loans and receivables		Total book value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Financial assets												
Financial investments	—	—	—	—	78	79	—	—	78	79	78	79
Shares in associates	—	—	—	—	485	348	—	—	485	348	485	348
Trade receivables	—	—	—	—	—	—	15,930	15,228	15,930	15,228	15,930	15,228
Other receivables ⁴⁾	—	—	—	—	—	—	1,258	1,043	1,258	1,043	1,258	1,043
Derivatives ⁵⁾	1,663	407	1,757	575	—	—	—	—	3,420	982	3,420	982
Cash/Cash equivalents	—	—	—	—	—	—	4,998	2,006	4,998	2,006	4,998	2,006
Total financial assets	1,663	407	1,757	575	563	427	22,186	18,277	26,169	19,686	26,169	19,686

Balance-sheet items, SEK M	Derivatives designated as hedging instruments ²⁾		Assets at fair value through profit or loss ¹⁾ Derivates held for trading ³⁾		Available-for-sale financial assets		Loans and receivables		Total book value		Fair value	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Financial liabilities												
Borrowings ⁶⁾	—	—	—	—	37,128	28,846	—	—	37,128	28,846	38,219	28,473
Derivatives ⁷⁾	790	—	727	303	—	—	—	—	1,517	303	1,517	303
Accounts payable	—	—	—	—	—	—	7,000	6,777	7,000	6,777	7,000	6,777
Due to associates	—	—	—	—	—	—	80	103	80	103	80	103
Other liabilities ⁸⁾	—	—	—	—	—	—	657	539	657	539	657	539
Total financial liabilities	790	—	727	303	37,128	28,846	7,737	7,419	46,382	36,568	47,473	36,195

1) Fair Value Option is not applied.

2) Of which SEK -511 M (+111) pertains to cash-flow hedges reported in the hedging reserve in equity. For more detailed information, see the description of hedge accounting.

3) Of which SEK +1,084 M (+226) pertains to economic hedges; hedge accounting is not applied.

4) Comprises parts of the Group's non-current receivables, accrued income and other receivables reported in the balance sheet.

5) Derivatives form part of the other receivables reported in the balance sheet.

6) Reported in the balance sheet as non-current and current liabilities to financial institutions and other liabilities.

7) Derivatives form part of the other liabilities reported in the balance sheet.

8) Form part of the Group's non-current liabilities, accrued expenses and other liabilities reported in the balance sheet.

Hedge accounting

At the end of 2008, hedge accounting in accordance with IAS 39 was applied as follows:

- cash-flow hedge accounting is applied to foreign currency derivatives (hedging instruments) used to hedge future commercial payments in foreign currency (hedged item). Accordingly, all derivatives are recognized in the balance sheet at fair value and changes in forward contracts are recorded in the hedging reserve in equity. Amounts reported in the hedging reserve are reversed to the income statement at the same time as the external sale or purchase is recognized in the income statement, that is, when the delivery to the external customer or from the external supplier occurs,
- cash-flow hedge accounting is applied to commodity derivatives used to hedge future customer orders received,
- cash-flow hedge accounting is applied to electricity derivatives used to hedge the cost of future electricity consumption at the Swedish production facilities,
- fair-value hedge accounting of a few significant loans and interest-rate swaps used to obtain a desired interest term. Sandvik's external financing is conducted through various borrowing programs and to convert such borrowings to a desired structure for the interest term interest derivatives are used. These hedging relations comprise fair-value hedges in which Sandvik uses interest-rate derivatives (hedging instrument) to eliminate the risk that changes in the market interest rate shall have an effect on the value of the liabilities (hedged item). In these hedging relations, the hedging instrument (the derivative) is measured at fair value, and the hedged item (the loan) is also measured at fair value with regard

to the hedged risk. This means that the change in the fair value of the derivative instrument and in the hedged item is both recognized in net finance cost.

Sandvik has not entered into any derivatives to hedge net investments in foreign operations.

Sandvik does not apply hedge accounting to all transactions entered into for hedging purposes. In those cases when hedge accounting is not applied, the measurement of the derivatives at market value and of financial liabilities at amortized cost creates an accounting volatility in net financing cost.

Sandvik considers that such transactions offer an economic hedge and that risks have been managed in accordance with the finance policy approved by the Board.

Net gains/losses by category for financial assets and liabilities

SEK M	2008	2007
Assets and liabilities at fair value		
Derivatives	100	244
Loans and receivables	645	-114
Available for sale assets	3	1
Financial liabilities	-2 253	-1 516

The table shows the fair value adjustment that is included in the net result. In addition to fair value adjustment, interest and currency movement effects are included.

Periods when hedged cash flows are expected to occur and affect earnings

SEK M	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2011	Total
Currency derivatives	-64	-92	-16	27	-1	-26	-33	-11	-105	-321
Commodity and electricity derivatives	-15	-28	-23	-21	-20	-23	-26	-7	-27	-190
Total	-79	-120	-39	6	-21	-49	-59	-18	-132	-511

For additional information on Sandvik's risk areas, see the company's Corporate Governance Report pages 98–103, and Sustainability Report, pages 86–97.

Consolidated income statement

SEK M	Note	2008	2007
Revenue	1, 2	92,654	86,338
Cost of sales and services		-61,562	-55,976
Gross profit		31,092	30,362
Selling expenses		-11,524	-10,334
Administrative expenses		-5,287	-4,142
Research and development costs	4	-2,014	-1,818
Share of results of associated companies		46	119
Other operating income	5	661	386
Other operating expenses	6	-180	-179
Operating profit	1, 3, 7, 8	12,794	14,394
Financial income		375	377
Financial expenses		-2,592	-1,774
Net financing cost	9	-2,217	-1,397
Profit after financial items		10,577	12,997
Income tax expense	11	-2,741	-3,403
Profit for the year		7,836	9,594
Attributable to			
Equity holders of the parent		7,472	9,116
Minority interest		364	478
Basic earnings per share, SEK	12	6.30	7.65
Diluted earnings per share, SEK	12	6.29	7.65

Consolidated balance sheet

SEK M	Note	2008	2007
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Patents and other intangible assets	13	2,641	2,492
Goodwill	13	9,831	8,933
Total		12,472	11,425
<i>Property, plant and equipment</i>			
Land and buildings	13	6,974	5,719
Plant and machinery	13	13,229	10,925
Equipment, tools and installations	13	1,874	1,548
Construction in progress and advance payments	13	4,046	2,703
Total		26,123	20,895
<i>Financial assets</i>			
Investments in associated companies	1, 16	485	348
Other financial assets	17	78	79
Deferred tax assets	11	1,277	1,323
Other non-current receivables	18	2,512	2,029
Total		4,352	3,779
Total non-current assets		42,947	36,099
Current assets			
<i>Inventories</i>			
	19	28,614	25,301
<i>Current receivables</i>			
Trade receivables		15,930	15,228
Due from associated companies		180	186
Income tax receivables	11	1,699	1,429
Other receivables	18	7,759	4,179
Prepaid expenses and accrued income		1,100	1,007
Total		26,668	22,029
<i>Cash and cash equivalents</i>			
		4,998	2,006
Total current assets		60,280	49,336
TOTAL ASSETS	1	103,227	85,435

SEK M	Note	2008	2007
EQUITY AND LIABILITIES			
Equity			
Share capital		1,424	1,424
Other paid-in capital		1,057	1,057
Reserves		4,651	368
Retained earnings including profit for the year		28,456	25,765
Equity attributable to equity holders of the parent		35,588	28,614
Minority interest		1,137	1,209
Total equity	20	36,725	29,823
Non-current liabilities			
<i>Interest-bearing liabilities</i>			
Provisions for pensions	23	2,735	3,100
Loans from financial institutions		4,691	2,682
Other liabilities	26	17,888	15,695
Total		25,314	21,477
<i>Noninterest-bearing liabilities</i>			
Deferred tax liabilities	11	1,514	1,786
Provisions for taxes	11	3,201	2,760
Other provisions	24	806	701
Other liabilities	27	398	129
Total		5,919	5,376
Total non-current liabilities		31,233	26,853
Current liabilities			
<i>Interest-bearing liabilities</i>			
Loans from financial institutions		11,324	9,158
Other liabilities	26	3,225	1,311
Total		14,549	10,469
<i>Noninterest-bearing liabilities</i>			
Advance payments from customers		2,368	1,795
Accounts payable		7,000	6,777
Due to associated companies		80	103
Income tax liabilities	11	1,301	1,334
Other liabilities	27	3,312	2,168
Provisions	24	734	569
Accrued expenses and deferred income		5,925	5,544
Total		20,720	18,290
Total current liabilities		35,269	28,759
TOTAL LIABILITIES		66,502	55,612
TOTAL EQUITY AND LIABILITIES		103,227	85,435

For information on contingent liabilities and pledged assets, see note 29.

Consolidated statement of changes in equity

SEK M	Equity attributable to equity holders of the parent company						
	Share capital	Other paid – in capital	Reserves	Retained earnings/ Profit for the year	Total	Minority interest	Total equity
Equity at 1 January 2007	1,424	1,057	-512	24,177	26,146	1,052	27,198
Foreign currency translation difference	—	—	800	—	800	31	831
Change in hedging reserve	—	—	111	—	111	—	111
Income tax on income and expense recognized directly in equity	—	—	-31	—	-31	—	-31
Net changes recognized directly in equity, excluding transactions with equity holders	—	—	880	—	880	31	911
Profit for the year	—	—	—	9,116	9,116	478	9,594
Total changes, excluding transactions with equity holders	—	—	880	9,116	9,996	509	10,505
Dividend	—	—	—	-3,855	-3,855	-352	-4,207
Exercised share options	—	—	—	-136	-136	—	-136
Reversal of tax provision pertaining to share options	—	—	—	22	22	—	22
Redemption of shares	-712	—	—	-2,847	-3,559	—	-3,559
Stock dividend	712	—	—	-712	0	—	0
Equity at 31 December 2007	1,424	1,057	368	25,765	28,614	1,209	29,823
Equity at 1 January 2008	1,424	1,057	368	25,765	28,614	1,209	29,823
Foreign currency translation difference	—	—	4,740	—	4,740	92	4,832
Change in hedging reserve	—	—	-621	—	-621	—	-621
Purchase of minority owned shares in subsidiaries	—	—	—	—	—	-162	-162
Income tax on income and expense recognized directly in equity	—	—	164	—	164	—	164
Net changes recognized directly in equity, excluding transactions with equity holders	—	—	4,283	—	4,283	-70	4,213
Profit for the year	—	—	—	7,472	7,472	364	7,836
Total changes, excluding transactions with equity holders	—	—	4,283	7,472	11,755	294	12,049
Dividend	—	—	—	-4,745	-4,745	-366	-5,111
Stock options exercised by employees settled against equity instruments	—	—	—	-36	-36	—	-36
Equity at 31 December 2008	1,424	1,057	4,651	28,456	35,588	1,137	36,725

Consolidated cash flow statement

SEK M	2008	2007
Cash flow from operating activities		
Income after financial income and expenses	10,577	12,997
Adjustment for depreciation, amortization and impairment losses	3,481	3,077
Adjustment for items that do not require the use of cash	-142	-627
Income tax paid	-2,897	-3,404
Cash flow from operating activities before changes in working capital	11,019	12,043
Changes in working capital		
Change in inventories	-1,001	-5,528
Change in operating receivables	-640	-2,505
Change in operating liabilities	293	1,466
Cash flow from operating activities	9,671	5,476
Cash flow from investing activities		
Acquisition of companies and shares, net of cash acquired	-954	-5,856
Acquisition of property, plant and equipment	-7,169	-5,399
Proceeds from sale of companies and shares, net of cash disposed of	111	363
Proceeds from sale of property, plant and equipment	381	409
Net cash used in investing activities	-7,631	-10,483
Net cash flow after investing activities	2,040	-5,007
Cash flow from financing activities		
Proceeds from external borrowings	16,026	16,671
Repayment of external borrowings	-9,484	-3,619
Redemption of own shares	—	-3,559
Exercise of personnel options	-44	-100
Payment to new pension fund	-663	—
Dividends paid	-5,111	-4,207
Cash flow from (net cash used in) financing activities	724	5,186
Cash flow for the year	2,764	179
Cash and cash equivalents at beginning of year	2,006	1,745
Exchange-rate differences on cash and cash equivalents	228	82
Cash and cash equivalents at end of year	4,998	2,006

Supplementary information, Note 31.

Parent Company income statement

SEK M	Note	2008	2007
Revenue	2	20,427	20,682
Cost of sales and services		-17,007	-16,111
Gross profit		3,420	4,571
Selling expenses		-662	-621
Administrative expenses		-2,191	-1,982
Research and development costs	4	-920	-1,019
Other operating income	5	788	488
Other operating expenses	6	-830	-916
Operating profit	3, 7, 8	-395	521
Income from shares in group companies	9	6,774	5,997
Income from shares in associated companies	9	5	5
Interest income and similar items	9	613	638
Interest expenses and similar items	9	-1,655	-1,165
Profit after financial items		5,342	5,996
Appropriations	10	7	3,063
Income tax expense	11	401	-745
Profit for the year		5,750	8,314

Parent Company balance sheet

SEK M	Note	2008	2007
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Patents and similar rights	14	31	26
Total		31	26
<i>Property, plant and equipment</i>			
Land and buildings	14	491	484
Plant and machinery	14	4,088	3,624
Equipment, tools and installations	14	312	305
Construction in progress and advance payments	14	1,727	1,352
Total		6,618	5,765
<i>Financial assets</i>			
Shares in group companies	15	14,435	13,762
Advances to group companies		61	48
Investments in associated companies	16	4	4
Other investments		1	1
Non-current receivables	18	26	20
Deferred tax assets	11	292	22
Total		14,819	13,857
Total non-current assets		21,468	19,648
Current assets			
<i>Inventories</i>			
	19	5,123	6,242
<i>Current receivables</i>			
Trade receivables		861	1,255
Due from group companies		12,800	16,311
Due from associated companies		116	131
Income tax receivables	11	166	393
Other receivables	18	233	518
Prepaid expenses and accrued income		1,129	679
Total		15,305	19,287
<i>Cash and cash equivalents</i>		3	6
Total current assets		20,431	25,535
TOTAL ASSETS		41,899	45,183

SEK M	Note	2008	2007
EQUITY AND LIABILITIES			
Equity			
<i>Non-distributable equity</i>			
Share capital		1,424	1,424
Legal reserve		1,611	1,611
Total		3,035	3,035
<i>Distributable equity</i>			
Profit brought forward		5,304	1,552
Profit for the year		5,750	8,314
Total		11,054	9,866
Total equity	20	14,089	12,901
<i>Untaxed reserves</i>			
Accelerated depreciation	21	—	—
Other untaxed reserves	22	12	19
Total		12	19
<i>Provisions</i>			
Provisions for pensions	23	128	108
Provisions for taxes	11	55	55
Other provisions	24	188	154
Total		371	317
<i>Non-current interest-bearing liabilities</i>			
Loans from financial institutions	25	1,653	1,718
Loans from group companies	25	122	30
Other liabilities	25	10,591	10,131
Total		12,366	11,879
<i>Non-current noninterest-bearing liabilities</i>			
Other liabilities		108	—
Total		108	—
<i>Current interest-bearing liabilities</i>			
Loans from group companies		7,074	10,902
Other liabilities		2,799	1,080
Total		9,873	11,982
<i>Current noninterest-bearing liabilities</i>			
Advance payments from customers		443	159
Accounts payable		1,532	1,721
Due to group companies		638	3,655
Due to associated companies		68	82
Other liabilities		219	136
Accrued expenses and deferred income	28	2,180	2,332
Total		5,080	8,085
TOTAL EQUITY AND LIABILITIES		41,899	45,183
Pledged assets	29	—	—
Contingent liabilities	29	17,316	16,068

Parent Company statement of changes in equity

SEK M	Share capital	Legal reserve	Distributable equity	Total equity
Equity at 1 January 2007	1,424	1,611	11,260	14,295
Profit for the year	—	—	8,314	8,314
Dividend	—	—	-3,855	-3,855
Redemption of shares	-712	—	-2,847	-3,559
Stock dividend	712	—	-712	0
Group contributions	—	—	-3,012	-3,012
Tax effect of group contributions	—	—	843	843
Reversal of tax provisions pertaining to share options	—	—	11	11
Exercised share options	—	—	-136	-136
Equity at 31 December 2007	1,424	1,611	9,866	12,901
Profit for the year	—	—	5,750	5,750
Dividend	—	—	-4,745	-4,745
Group contributions	—	—	304	304
Tax effect of group contributions	—	—	-85	-85
Exercised share options	—	—	-36	-36
Equity at 31 December 2008	1,424	1,611	11,054	14,089

Parent Company cash-flow statement

SEK M	2008	2007
Cash-flow from operating activities		
Profit before tax	5,349	9,059
Adjustment for depreciation	635	592
Adjustment for items that do not require the use of cash	- 237	-3,130
Income tax paid	269	-282
Cash-flow from operating activities before changes in working capital	6,016	6,239
Changes in working capital		
Changes in inventories	1,119	-1,643
Changes in operating receivables	819	-441
Changes in operating liabilities	-4,052	3,967
Cash-flow from operating activities	3,902	8,122
Cash-flow from investing activities		
Acquisition of companies and shares, net of cash acquired	-678	-2,036
Acquisition of property, plant and equipment	-1,537	-1,128
Proceeds from sale of companies and shares, net of cash disposed of	28	3
Proceeds from sale of property, plant and equipment	14	38
Net cash used in investing activities	-2,173	-3,123
Net cash-flow after investing activities	1,729	4,999
Cash-flow from financing activities		
Changes in advances/loans to/from group companies, net	-42	-1,841
Proceeds from external borrowings	3,350	8,679
Repayment of external borrowings	-564	-1,288
Redemption of own shares	—	-3,559
Exercise of personnel options	-36	-136
Dividend paid	-4,745	-3,855
Group contributions	305	-3,012
Net cash used in financing activities	-1,732	-5,012
Cash-flow for the year	-3	-13
Cash and cash equivalents at beginning of year	6	19
Cash and cash equivalents at end of year	3	6

Supplementary information, note 31.

Significant accounting policies

assessments and assumptions for accounting purposes

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and interpretations of such standards by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the EU Commission. In addition, the standard RFR 1.1, Supplementary accounting standards for consolidated accounts, issued by the Swedish Financial Accounting Standards Council has been applied.

The Parent Company has applied the same accounting policies as those applied in the consolidated financial statements except as set out below in the section "Parent Company's accounting policies."

The financial reports are presented on pages 12–85. The Parent Company's annual report and the consolidated financial statements were approved for issuance by the Board of Directors on 3 February 2009. The Group's and the Parent Company's income statements and balance sheets are subject to adoption at the Annual Meeting of Shareholders on 28 April 2009.

Basis of measurement in preparation of the Parent Company and Group financial reports

Assets and liabilities are stated on a historical cost basis except for certain financial assets and liabilities, which are stated at their fair value, viz. derivative financial instruments and financial instruments available-for-sale.

Receivables and liabilities and items of income and expense are offset only when required or expressly permitted in an accounting standard.

The Parent Company's functional currency is Swedish kronor (SEK) which is also the reporting currency of the Parent Company and the Group. Accordingly, the financial reports are presented in SEK. All amounts are in SEK million unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires management to make assessments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these assessments.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are further discussed below.

Events after the balance sheet date refer to both favorable and unfavorable events that have occurred after the balance sheet date but before the date the financial reports were authorized for issue by the Board of Directors. Significant non-adjusting events, that is, events indicative of conditions that arose after the balance sheet date, are disclosed in the financial reports. Only adjusting events, that is, those that provide evidence of conditions that existed at the balance sheet date, have been considered in the preparation of the financial reports.

The most significant accounting policies for the Group, as set out below, have been applied consistently to all periods presented in these consolidated financial statements except as specifically described. Moreover, the Group's accounting policies have been consistently applied in the reports of all members of the Group and also in the reports of associated companies – when necessary by adaptation to Group policies – when including these entities in the consolidated financial reports.

Changes in accounting policies

As of 2008, Sandvik has changed cost distribution between the costs of goods sold and administrative expenses to increase accuracy and clearness and thus reflect business in a better manner. Corresponding changes were made in the comparative figures, which resulted in increases in gross profit margin as well as administrative expenses rose by 1.4 percentage points (SEK 1,246 M) for full-year 2007. The reclassifications did not affect reported operating profit.

The following new standards and interpretations have been adopted in the preparation of the 2008 financial reports.

IFRIC 11 IFRS 2 Group and treasury share transactions, as well as intra-Group specifies how to account for equity-settled payments in which the company at settlement purchases equity instruments from another party or in which the owner of the company transfers the instruments as well as how to account for transactions in which the company's employees received or have rights to equity instrument of the Parent Company. The interpretation was applied as of the 2008 financial year and the transition is reported in accordance with IAS 8.

IFRIC 14 IAS 19 – The Limit on a Defined-Benefit Asset, Minimum Funding Requirements and Their Interaction, explain how the ceiling stated in IAS 19 for defined-benefit assets shall be interpreted and also states how this ceiling is affected by possible demands in the pension plan for minimum funding. The interpretation also states when requirements for minimum funding may result in a liability. The interpretation is applied as of the 2008 financial year. It is applied retroactively as from the beginning of 2007.

A number of interpretations issued by IFRIC that became effective in 2008 have been applied in the preparation of the Group's 2008 financial statements. No interpretation, however, had any significant impact on the Group's operating results or financial position.

New or revised IFRSs and interpretations coming into effect in future accounting periods

A number of new or revised standards and interpretations become effective first during future financial years. New items or revisions that become effective in the 2009 financial year are not planned to be applied early. To the extent that anticipated effects on the financial reports of application of the following new or revised standards and interpretations are not described below, Sandvik has not made an assessment of these effects.

Among other effects, the revised IFRS 2 Share-based payments: Vesting conditions and cancellation clarifies what terms comprise vesting conditions, that all other terms are non-vesting conditions and how non-vesting conditions are recognized. The change becomes effective in financial years beginning 1 January 2009 or later.

Revised IFRS 3 Business Combinations and revised IAS 27 Consolidated and Separate Financial Statements results in changes in consolidated accounting and recognition of acquisitions. The revised standards become effective in financial years that start on 1 July 2009 or later. However, they have not been endorsed as yet by the EU.

IFRS 8 Operating Segments defines an operating segment and what information shall be disclosed about these segments in financial reporting. The standard, which is adopted by the EU, becomes effective for application in financial years beginning 1 January 2009 or later. The standard will not result in a change in Sandvik's identification of the Group's segments.

Revised IAS 1 Presentation of Financial Statements results in the presentation of the financial statements changing in some respects and that new, nonobligatory designations for the reports are proposed. The change does not affect the determination of the amounts reported. The revised IAS 1 shall be applied in financial years beginning 1 January 2009 or later.

Changes in IAS 23 Borrowing Costs states that borrowing costs must be capitalized that are directly attributable to purchases, design or production of assets that require substantial time to complete for the intended use or sale. The change shall be applied in financial years beginning 1 January 2009 or later. The standard is not expected to have any significant effects on Sandvik's financial reports for 2009.

Changes in IAS 27 Cost of Investment in a subsidiary, jointly controlled entity or associate. Applies in financial years beginning 1 January 2009 or later. Among other effects, the change impacts recognition of dividends received from subsidiaries, associated companies and joint-venture companies and how the formation of a new parent company should be handled.

Changes in IAS 32 Financial Instruments: Classification and IAS 1 Presentation of Financial Statements made under the designation "Puttable Financial Instruments and Obligations Arising on Liquidation" results in certain highly limited financial instruments with the character of own equity instruments but that were previously recognized as a liability shall instead be recognized as equity. The interpretation is applied in financial years beginning 1 January 2009 or later and is assessed not to have any significant effects on Sandvik's financial reports for 2009.

IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items. Changes involves specifying how the rules in IAS 39 shall be applied in two hedging cases. These cases affect a unilateral risk in a hedged item and inflation in a financial hedge item. Applies in financial year beginning 1 July 2009 or later with retroactive effect. The changes are not yet endorsed by the EU.

IFRIC 12 Service Concession Arrangements addresses the issue of accounting by private parties for assets as well as the rights and obligations inherent in con-

tracts with the national government, county councils or municipalities regarding, for example, financing, operations and development of the facility. The interpretation is applied retroactively as of the 2008 financial year. The interpretation is not endorsed as yet by the EU.

IFRIC 13 Customer Loyalty Programs addresses recognition and valuation of a company's obligation to provide free or discounted goods or services to customers qualifying for this through prior purchases. The interpretation is applied in financial years beginning 1 July 2008 or later and is assessed not to have any significant effects on Sandvik's financial reports.

IFRIC 15 Agreements for the Construction of Real Estate deals with issues covered by IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from construction of real estate is to be recognized. The interpretation is applied retroactively to financial years beginning 1 January 2009 or later. The interpretation is not endorsed as yet by the EU.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation deals with issues including that it is solely the risk in functional currencies in the parent company and respective foreign operation that can be hedged. In addition, the interpretation answers where in the Group the hedging instrument can be included if hedge accounting is applied and if the consolidation method affects the amount reclassified from equity to earnings, that is, consolidation step-by-step, or consolidation by line item. The interpretation is applied prospectively in financial years beginning 1 October 2008 or later. The interpretation is not endorsed as yet by the EU.

IFRIC 17 Distribution of Non-cash Assets to Owners deals with issues related to dividends paid with other assets than cash. In such cases, the dividend amount corresponds to the fair value and the difference between this

value and the carrying amount shall be charged against earnings. The interpretation is applied prospectively in financial years beginning 1 July 2009 or later. The interpretation is not endorsed as yet by the EU.

Classification

Non-current assets and liabilities essentially consist of amounts expected to be recovered or settled after more than 12 months from the balance sheet date. Current assets and current liabilities essentially consist of amounts expected to be recovered or settled within 12 months from the balance sheet date. The Group's operating cycle is considered to be less than one year.

Segment reporting

The Group's operations are organized in a number of business areas based on products and services. The market organization also reflects this structure. The business areas therefore constitute the Group's primary segments while the market areas constitute the secondary segments. In accordance with IAS 14, segment information is presented only on the basis of the consolidated financial statements.

Segment results, assets and liabilities include only those items that are directly attributable to the segment and the relevant portions of items that can be allocated on a reasonable basis to the segments. Unallocated items comprise interest and dividend revenue, gains on disposal of financial investments, interest expense, losses on the disposal of financial investments, income tax expense and certain administrative expenses. Unallocated assets and liabilities include income tax receivables and payables, financial investments and financial liabilities.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Parent Company. Control exists when the parent has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable or convertible are taken into account.

Acquisitions of subsidiaries are reported in accordance with the purchase method. Under such method, the acquisition is regarded as a transaction whereby the parent indirectly acquires the subsidiary's assets and assumes its liabilities and contingent liabilities. The acquisition cost to the Group is established in a purchase price allocation analysis. In such analysis, the cost of the business combination is established as being the fair values of recognized identifiable assets, liabilities and contingent liabilities. The cost of the business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for the net assets acquired, plus any costs directly attributed to the business combination. When the cost of the business combination exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities, the excess is reported as goodwill. If the difference is negative, such difference is immediately recognized in the income statement.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associated companies

Associated companies are those entities in which the Group has significant influence, but not control, over the financial and operating policies, normally a shareholding of not less than 20% and not more than 50%. Interests in associated companies are, as from the date significant influence commences, reported in accordance with the equity method in the consolidated financial statements. Under the equity method, the carrying values of interests in associates correspond to the reported equity of associated companies, any goodwill and any other remaining fair value adjustments recognized at acquisition date. The consolidated income statements include as "Share of results of associated companies" the Group's share of the associate's income adjusted for any amortization impairment losses, and other adjustments arising from the purchase price allocation. Dividends received from an associated company reduce the carrying value of the investment.

Any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with IFRS 3, Business Combinations.

The application of the equity method is discontinued on the date that significant influence ceases.

Transactions eliminated on consolidation

Intra-group balances, income and expenses and any unrealized gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealized losses are similarly eliminated, but only insofar as there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into functional currency at the foreign exchange rate at the date of the transaction. The functional currency is the currency of the primary economic environment in which the Group entities operate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's reporting currency, SEK, at foreign exchange rates ruling at the balance sheet date. Revenues and expenses of foreign operations are translated to SEK at average rates that approximate the foreign exchange rates at the transaction dates.

Exchange differences arising from the translation of the net investment in foreign operations are recognized directly in a separate component of equity, a translation reserve. Such reserve reflects cumulative translation differences arising as from 1 January 2004, the date of transition to IFRSs. Translation differences arising before that date are included in other components of equity and are not separately disclosed.

Such translation reserve relating to a foreign operation is released into the Group's income statement upon disposal.

Revenue

Revenue from sales and services

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, that is, normally in connection with delivery. If the product requires installation at the buyer, and installation is a significant part of the contract, revenue is recognized when the installation is completed. Buy-back commitments may entail that sales revenue cannot be recognized if the agreement with the customer in reality implies that the customer has only rented the product for a certain period of time.

Revenue from service assignments is normally recognized in connection with the rendering of the service. Revenue from service and maintenance contracts is recognized in accordance with the percentage of completion method. The stage of completion is normally determined based on the proportion of costs incurred on the balance-sheet date in relation to the estimated total costs of the assignment. Only expenditures relating to work carried out or will be carried out are included in calculating the total costs.

Construction contracts

Construction contracts exist to some extent, mainly in the Sandvik Mining and Construction business area and the Sandvik Materials Technology's Process Systems product area. As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognized in the income statement in proportion to the stage of completion of the contract. The stage of completion is determined based on the proportion that contract costs incurred to date bear to the estimated total contract costs. Expected losses are immediately recognized as an expense in the consolidated income statement.

Other revenue

Revenue in the form of royalty is recognized on the basis of the financial implications of the agreement.

Government grants

Government grants are recognized in the balance sheet when there is reasonable assurance that the grant will be received and that the entity will comply with the conditions attaching to them. Grants are recognized as income in the same way and over the same periods as the related costs that they are intended to compensate, on a systematic basis. Grants related to assets are presented by deducting the grant from the carrying value of the asset.

Operating and financial income and expenses

Operating lease agreements

Costs for operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense. Variable fees are charged to income as incurred.

Finance lease agreements

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Variable fees are charged to income as incurred.

Financial income and expenses

Financial income comprises interest income on funds invested (including financial assets available-for-sale), dividend income, gains on the disposal of financial assets available-for-sale, and gains on hedging instruments recognized in the income statement.

Interest income from financial instruments is recognized using the effective interest method (see below). Dividend income is recognized when the Group's right to receive payment is established. Income from the sale of a financial instrument is reported when the risks and benefits associated with ownership are transferred to the buyer and the Group no longer has control over the instrument.

Financial expenses comprise interest expense on borrowings, unwinding of the discount effect on provisions, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method, irrespective of how the borrowed funds are used (see below).

Foreign currency gains and losses are reported net.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case the related tax effect is also recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is reported using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill, or for temporary difference arising on the initial recognition of assets or liabilities that affect neither accounting, nor taxable profit. Additionally, deferred tax is not recognized on temporary differences relating to investments in subsidiaries and associated companies to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the underlying assets and liabilities, using tax rates and fiscal regulations enacted or substantively enacted at the balance sheet date.

A deferred tax asset relating to deductible temporary differences and net operating losses is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Any additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Financial instruments

Financial instruments recognized in the balance sheet include assets, cash and cash equivalents, loan and trade account receivables, financial investments and derivatives, and among liabilities, accounts payable, borrowings and derivatives.

Recognition and derecognition

A financial asset or a financial liability is recognized on the balance sheet when the entity becomes a party to the contractual provisions of the instrument. Trade receivables are recognized upon issuance of the invoice. A liability is recognized when the counterparty has performed under the agreement and the Company is contractually obliged to settle the obligation, even if no invoice has been received. A financial asset is derecognized when the rights under the agreement are realized or have expired, or when control of the contractual rights is lost. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or otherwise expires. A financial asset and a financial liability is offset and presented in a net amount in the balance sheet only if there is a legally enforceable right to set off the recognized amounts and an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously. A regular purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting. Trade date is the date at which an entity commits itself to purchase or sell an asset.

Classification and measurement

A non-derivative financial instrument is initially recognized at transaction price equivalent to the fair value of the instrument. The classification of a financial asset determines how it is measured after initial recognition. The Group classifies its financial instruments based on the purpose for its acquisition. Management decides its classification on initial recognition. Sandvik's holdings of financial instruments are classified as follows.

Cash and cash equivalents comprise cash balances and call deposits with banks and equivalent financial institutions, and short-term investments that have a maturity of no more than three

months from the date of acquisition, and are exposed only to an insignificant risk of changes in value.

Financial assets and liabilities are classified as follows:

a) Financial assets and financial liabilities at fair value through profit or loss consisting of two subgroups;

i) Financial assets and financial liabilities held for trading, which comprise all derivatives held by Sandvik. Derivatives trading is pursued mainly to hedge the Group's foreign exchange and interest rate risks. Derivatives with positive fair values are reported with other current or non-current receivables (unrealized profits), while derivatives with negative fair values are reported with other current or non-current liabilities (unrealized losses).

ii) Financial assets and liabilities which are initially classified as belonging to this category (fair value option). Sandvik holds no financial instruments classified in this subgroup.

b) Loans and receivables

Other non-current receivables and current trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After the initial recognition, these assets are measured at amortized cost using the effective interest method, less any impairment losses.

c) Financial liabilities

Financial liabilities, that is, Sandvik's borrowings, are initially measured at fair value net of transaction costs. Borrowings are subsequently measured at amortized cost and any difference between the loan amount (net of transaction costs) and the repayable amount is allocated to profit or loss over the term of the loan using the effective interest method. Borrowings are classified as current unless the Company has an unconditional right to postpone payment for at least 12 months after the balance sheet date.

d) Financial assets available for sale

Investments in shares and participations reflect holdings that are not traded on an active market and are classified as financial assets available-for-sale. Such assets are, after initial recognition, principally measured at their fair values with gains or losses arising from a change in the fair value recognized directly in equity. However, if there is objective evidence that the asset is impaired, the cumulative loss recognized directly in equity is removed from equity and recognized in the income statement. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are, however, measured at cost, possibly adjusted to recognize an impairment loss.

The policies set out above are those that Sandvik mainly apply when accounting for financial assets and financial liabilities. The exceptions from the above-mentioned principles apply to financial instruments that form part of hedging relations.

A more detailed account of such exceptions is set out in the hedge accounting section of the risk and risk management statement.

Derivatives and hedge accounting

The Group's derivative instruments are acquired to hedge interest rates and foreign exchange risks to which the Group is exposed as well as the risk for changes in the fair value of certain assets, liabilities and contracted transactions. Derivatives are initially recognized at fair value. Transaction costs are recognized in profit or loss for the period. After initial recognition, derivatives are measured as described below.

To meet the criteria for hedge accounting, there must be a clear-cut relation to the hedged item and the hedge must be expected to be highly effective and it must be possible to measure such effectiveness reliably. Moreover, the hedge

must be formally designated and documented. Gains and losses on hedges are recognized in the income statement at the same time that the gains and losses are recognized for the hedged items.

Receivables and liabilities denominated in foreign currencies

Sandvik uses foreign exchange contracts to hedge the foreign exchange risk inherent in these assets and liabilities. Hedge accounting is not applied to derivatives that economically hedge such monetary assets and liabilities denominated in foreign currencies. Rather, both the underlying receivable or liability and the hedging instrument are measured at the exchange rate ruling on the balance sheet date with changes in value recognized in the income statement.

Cash-flow hedges

Sandvik uses foreign exchange contracts and foreign currency options to hedge future cash flows and forecast transactions denominated in foreign currencies, including intra-group transactions as defined in the amendment to IAS 39 issued by the IASB in April 2005. These derivative instruments are included in the balance sheet at fair value. The effective portion of changes in fair value is recognized directly in the hedging reserve in equity. The ineffective portion of a gain or loss is immediately recognized in the income statement. To a lesser extent, Sandvik has entered into foreign exchange contracts that are not designated as hedging instruments. The changes in fair value of these contracts are directly recognized in the income statement.

The accumulated gain or loss recognized in equity is reclassified into profit or loss in the periods during which the hedged item affects profit or loss (for instance when a forecast sale takes place). If the hedged forecast transaction subsequently results in the recognition of a non-financial asset (for instance, invento-

ries or an item of property, plant and equipment), or a non-financial liability, the hedging reserve is dissolved and the gain or loss is included in the initial cost or other carrying amount of the asset or liability.

Interest-rate swaps are used to hedge the risk in future interest rate flows of loans with floating interest rate. The swaps are measured at fair value in the balance sheet. The interest coupon on swaps is reported as interest income or interest expense in the income statement. The remaining change in fair value is recognized directly in the hedging reserve in equity until the hedged item is recognized in profit or loss, or as long as the criteria for hedge accounting and hedge effectiveness are met. Some of Sandvik's interest rate swaps do not meet the criteria for hedge accounting and the changes in fair value of these instruments are therefore recognized in profit or loss. Also the contracts that Sandvik, on account of its share option program, has concluded to limit the effect of future Sandvik share price rises are accounted for in this manner.

Fair value hedges

When a hedging instrument is used to hedge the exposure to changes in fair value, changes in the fair value of the instrument are recognized in profit or loss. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in profit or loss.

Fair value hedges are used to hedge the value of assets and liabilities recognized in the balance sheet, provided that the hedged item is otherwise reported at purchase value, and by contracted flows. The derivative instruments used include commodity and electricity derivatives used to hedge delivery contracts entered into with suppliers.

Hedging of net investments

Sandvik has no derivatives to hedge net investments in foreign operations.

Intangible assets

Goodwill

Goodwill acquired in a business combination represents the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. Goodwill arising on the acquisition of an associated company is included in the carrying value of such an investment.

On transition to IFRS, the Company has not applied IFRS retrospectively to business combinations effected before 1 January 2004. Instead, the carrying value of goodwill at that date henceforth constitutes its deemed cost, adjusted only for any impairment losses.

If in a business combination the fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the difference is immediately recognized in the income statement.

Research and development

Expenditure on research activities related to the obtaining of new scientific or technical knowledge is charged to income as incurred. Expenditure on development activities, whereby the research results or other knowledge is applied to accomplish new or improved products or processes, are reported as an intangible asset in the balance sheet, provided the product or process is technically and commercially feasible and the Company has sufficient resources to complete development, and is subsequently able to use or sell the intangible asset. The carrying value includes the directly attributable expenditure such as the cost of materials and services, costs of employee benefits, fees to register a legal right and amortization of patents and licenses. Other expenses for development are charged to income as incurred. In the balance sheet, capitalized

development expenditure is stated at cost less accumulated amortization and any impairment losses.

Other intangible assets

Other intangible assets acquired by the Company are reported at cost less accumulated amortization and any impairment losses. Capitalized expenditure for the development and purchase of software for the Group's IT operations are included under this caption. Expenditure for internally generated goodwill and trademarks is reported in the income statement as incurred.

Subsequent expenditure

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits. All other expenditure is expensed as incurred.

Amortization of intangible assets

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment on each balance sheet date or as soon as there is an indication that the asset may be impaired. Intangible assets with a finite useful life are amortized as from the date the asset is available for use. The estimated useful lives are as follows:

- Patents and trademarks 10–20 years
- Capitalized development costs 3–7 years
- Software for IT operations 3 years

Property, plant and equipment

Owned assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses.

No borrowing costs are included in the cost of an asset but such costs are charged to income as incurred irrespective of how the borrowed funds were used.

Leased assets

In the consolidated financial statements, leases are classified as either finance leases or operating leases. A finance lease substantially transfers the economic risks and rewards of ownership to the lessee. If that is not the case, the lease is classified as an operating lease.

Assets leased under finance leases are recognized as assets in the consolidated balance sheet and are initially measured at the lower of the fair value of the leased property and the present value of the minimum lease payments at inception of the lease. The obligation to pay future leasing fees is reported as interest-bearing non-current and current liabilities. The leased assets are systematically depreciated and the leasing fees are apportioned between interest expense and the reduction of the outstanding liabilities.

In cases in which Sandvik is the lessor under a financial lease, the assets held under such leases are not presented as property, plant and equipment since the risks of ownership have been transferred to the lessee. Instead, the future minimum lease payments are reported as financial receivables.

Subsequent expenditure

Subsequent expenditure on an item of property, plant and equipment is capitalized only when it increases the future economic benefits. All other expenditure is expensed as incurred.

Depreciation

Depreciation is based on cost less estimated residual value. The assets are depreciated over the estimated useful lives. Plant and machinery is generally depreciated on a straight-line basis over 5–10 years, rental assets over three years, buildings over 10–50 years, and site improvements over 20 years. Land is not depreciated. Computer equipment is depreciated over 3–5 years on the diminishing balance method.

If an item of property, plant and equipment comprises parts with different useful lives, each such significant part is depreciated separately.

Depreciation methods and estimated residual values and useful lives are reviewed at each year-end.

Impairment and reversals of impairment

Assets with an indefinite useful life are not amortized but tested for impairment annually. Assets that are amortized or depreciated are tested for impairment whenever events or changed circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the carrying amount of an asset exceeds its recoverable amount, which is the greater of the net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses recognized in respect of a cash-generating unit (or group of units) are allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of items of property, plant and equipment and intangible fixed assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been deter-

mined, net of depreciation and amortization, if no impairment loss had been recognized.

Impairment – and any reversal of impairment – of certain other assets, such as financial assets under the scope of IAS 39, inventories, plan assets held by a long-term employee benefit fund and deferred tax assets, is tested in accordance with the respective standard.

Inventories

Inventories are stated at the lower of cost and net realizable value, with due consideration of obsolescence. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost is based on the first-in/first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Equity

When share capital is repurchased, the amount of the consideration paid is recognized as a change in equity. If the repurchased shares are cancelled, the quota value of such shares reduces the share capital. If repurchased shares are re-issued, the consideration directly increases shareholders' equity.

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

Earnings per share

The calculation of basic earnings per share is based on the profit or loss attributable to ordinary equity holders of the Parent Company and the weighted average number of ordinary shares outstanding during the year. When calculating diluted earnings per share, the weighted average number of shares outstanding is

adjusted for the effects of all dilutive potential ordinary shares, that is during periods presented options under employee equity-settled share-based payment transactions. The options are dilutive if the exercise price is less than the quoted stock price and increases with the size of the difference.

Employee benefits

The Group's pension plans

The Group sponsors a number of defined contribution and defined benefit pension plans, some of which with plan assets held by separate foundations or equivalent. A number of Group entities also provide post-employment medical benefits. Whenever possible, Sandvik nowadays seeks defined contribution pension solutions and in recent years defined benefit plans have as far as possible been closed for new entrants in connection with negotiations about defined contribution pension arrangements. The Group's Swedish companies as from October 2007 offers to its newly hired white-collar staff the defined contribution pension solution (ITP 1) resulting from the renegotiation of the ITP Plan between the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector.

Defined-contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The size of the pension that the employee will ultimately receive in such case depends on the size of the contributions that the entity pays to the plan or an insurance company and the return that the contributions yield. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense as the employee renders services to the entity and the contribution payable in exchange for that service becomes due.

Defined-benefit plans

The Group's net obligation in respect of defined-benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. The discount rate is the yield a the reporting date of AA credit rated bonds – or if there is no deep market for such bonds, government bonds – that have maturity dates approximating the terms of the Group's obligations. The calculation is performed annually by a qualified actuary. Also the fair value of any plan assets as at the balance sheet date is assessed. Sandvik applies such accounting policy to the Group's most significant defined-benefit plans. A number of plans, which neither individually, or in the aggregate are significant in relation to the Group's total pension obligations, are still reported in accordance with local regulations.

In measuring the present value of pension obligations and the fair value of plan assets, actuarial gains and losses may accrue either because the actual outcome differs from earlier assumptions (so-called experience adjustments) or since the assumptions are changed. The corridor rule is applied which means that only the portion of the aggregate gains and losses that exceed the greater of 10% of the present value of the obligations or 10% of the fair value of plan assets are recognized in profit or loss over the remaining expected average service period of the plan participants. Actuarial gains and losses are otherwise not recognized.

When the benefits under a plan are improved, the portion of the increased benefits that relate to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The amount of obligations reported in the balance sheet for pensions and similar obligations reflects the present value of the obligations at balance sheet date, less the fair value of any plan assets and any unrecognized gains or losses as well as any unrecognized past service costs.

If the net amount so determined is an asset, the recognized value of the asset is limited to the total of any cumulative unrecognized net actuarial losses and past service cost, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

When there is a difference between the pension cost recognized in the separate financial statements of an entity and in the consolidated financial statements, a provision or a refundable claim for payroll tax on pension costs calculated on such difference is recognized. Such calculation is not discounted to present value.

Termination benefits

A provision is recognized relating to termination of employees only when the entity is demonstrably committed either to terminate the employment of an employee or a group of employees before the normal retirement age or provide termination benefits as a result of an offer made to encourage voluntary redundancy. In the latter case, a liability and an expense are recognized if it is probable that the offer will be accepted and the number of employees that will expect the offer can be reliably estimated.

Share-based payments

A share option program allows employees to acquire shares in the Company. The fair value of options granted is recognized as an employee expense with a corresponding increase in equity. The fair value as measured at grant date is spread over the vesting period. The fair value of the options is measured using the Black & Scholes formula, taking into account the terms and conditions upon which the options were granted. Sandvik's option programs contain no other vesting condi-

tions than that the employee shall remain in the entity's employ at the end of the three-year vesting period. The amount recognized as an expense is adjusted to reflect the actual number of share options earned.

Cash-settled options result in a commitment to employees measured at fair value recognized as an expense and a liability. The fair value is initially measured at the allotment date and is allocated over the vesting period. The fair value of the cash-settled options is calculated in accordance with the Black & Scholes formula, taking into account the terms and conditions of the rights. The fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognized as an employee expense in the income statement.

Social costs relating to share-based payments to employees are expensed over the accounting periods during which the services are provided. The charge is based on the fair value of the options at the reporting date. The fair value is calculated using the same formula as that used when the options were granted.

Provisions

A provision is reported in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes with their associated probabilities.

Restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Site restoration

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognized when the land is contaminated.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group are lower than the unavoidable cost of meeting its obligations under the contract.

Contingent liabilities

A contingent liability is reported when there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events or when there is a present obligation that can not be reported as a liability because it is not probable that an outflow of resources will be required, alternatively because the amount of the obligation cannot be measured with sufficient reliability.

Cash-flow statement

Payments and receipts are presented by activities: operating activities, investing activities, and financing activities. Cash flows from operating activities are reported using the indirect method.

Changes during the year in operating assets and liabilities are adjusted for the effects of exchange rate movements. Acquisitions and divestments are reported with investing activities. The assets and liabilities held by acquired or divested entities at the transfer date are not included in the analysis of changes in

working capital, nor in changes in balance sheet items reported with investing and financing activities.

In addition to cash and bank, cash and cash equivalents include short-term investments, the conversion of which to bank funds can be accomplished at an amount that is largely known in advance. Cash and cash equivalents thus include short-term investments with a maturity of less than three months.

Parent Company's accounting policies

The Parent Company has prepared its annual report in accordance with the Annual Accounts Act (1995:1554) and the standard, RFR 2.1 Reporting by a legal entity, issued by the Swedish Financial Accounting Standards Council. Also the interpretations issued by the Council's Emerging Issues Task Force valid for listed companies have been applied. Under RFR 2.1, the Parent Company in its annual report shall apply all the IFRSs and IFRIC interpretations approved by the EU to the extent possible within the framework of the Annual Accounts Act, the law on safeguarding of pension commitments, and also considering the close tie between financial reporting and taxation. The standard specifies what exceptions from or additions to the IFRSs shall be made. Taken together, this results in differences between the accounting policies applied in the consolidated financial statements and those applied by the Parent Company in the following areas.

Classification and reporting formats

The Parent Company's income statement and balance sheet adhere to the formats included in the Annual Accounts Act. The differences compared to IAS 1 Presentation of Financial Statements applied when presenting the consolidated financial statements mainly pertain to the presentation of finance income and expenses, non-current assets, equity and the presentation of provisions as a separate caption in the balance sheet.

Shares in Group companies and associated companies

The Parent Company reports shares in Group companies and associated companies in accordance with the cost model. Revenues comprise only dividends received, provided such dividends are derived from post-acquisition earnings. Dividends in excess of such earnings are considered a recovery of part of the cost of the equity securities that reduces the carrying value.

Property, plant and equipment

The Parent Company reports items of property, plant and equipment at cost less accumulated depreciation and any impairment losses, that is as in the consolidated financial statements, but increased by any revaluation.

Leased assets

The Parent Company reports all lease contracts as operating leases.

Intangible assets

The Parent Company recognizes all expenditure for research and development in the income statement.

Employee benefits

The Parent Company calculates expenses for defined benefit pension plans differently from the manner prescribed in IAS 19. The Parent Company applies the Act on Income Security and regulations issued by the Swedish Financial Supervisory Authority, which is a prerequisite for income tax purposes. Compared to IAS 19, the most significant differences relate to the determination of the discount rate, the fact that the obligation is calculated based on the current salary level disregarding assumptions about future levels, and the immediate recognition of actuarial gains and losses in the income statement.

Income tax

The Parent Company reports untaxed reserves including the deferred tax component. In the consolidated financial statements, untaxed reserves are reported in their equity and deferred tax components.

Group contributions and shareholders' contributions in legal entity accounts

The Parent Company reports group contributions and shareholders' contributions in accordance with the pronouncement of the Swedish Financial Accounting Standard Council's task group (UFR 2). Shareholders' contributions are reported directly in the recipient's equity whereas the contributor capitalizes the contribution with shares and participations, to the extent that the recognition of an impairment loss is not required. Group contributions are reported in accordance with their financial substance. This means that group contributions paid to minimize the Group's overall income tax burden are reported directly in retained earnings net of the related tax effect.

Anticipated dividends

Anticipated dividends from subsidiaries are recognized in case the Parent Company unilaterally may decide the size of the dividend and provided that the Parent Company has made such decision before it issued its financial reports.

Financial instruments

Hedge accounting is not applied by the Parent Company.

Financial guarantees

Sandvik has elected not to apply the provisions of IAS 39 relating to financial guarantee contracts entered into in favor of subsidiaries and associated companies as allowed under RFR 2.1.

Critical accounting estimates and judgments**Key sources of estimation uncertainty**

In order to prepare the financial reports, management and the Board make various judgments and estimates that can affect the amounts recognized in the financial statements for assets, liabilities, revenues and expenses as well as information in general, including issues with regard to contingent liabilities. The judgments and estimates discussed in this section are those deemed to be most important for an understanding of the financial statements, considering the level of significant estimations and uncertainty. The conditions under which Sandvik operates are gradually changing meaning that the estimates also change.

Impairment tests of goodwill

Goodwill is tested for impairment annually and whenever events or changes in circumstances indicate that the carrying value of goodwill has been impaired, for example due to a changed business climate or a decision has been taken either to sell or close-down certain operations. In order to determine if the value of goodwill has been impaired, the cash-generating unit to which goodwill has been allocated must be valued using present-value techniques. When applying this valuation technique, the Company relies on a number of factors, including historic results, business plans, forecasts and market data. This is further described in Note 13. As can be deduced from this description, changes during 2009 in the conditions for these judgments and estimates can significantly affect the assessed value of goodwill.

Impairment tests of other fixed assets

Sandvik's property, plant and equipment and intangible assets – excluding goodwill – are stated at cost less accumulated depreciation/amortization and any

impairment losses. Other than goodwill, Sandvik has not identified any intangible assets with indefinite useful lives. The assets are depreciated/amortized over the estimated useful lives to their estimated residual values. Both the estimated useful life and the residual value are reviewed at least at each financial year-end.

The carrying value of the Group's non-current assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value will not be recovered. The carrying value of intangible assets not yet available for use is tested annually. If such analysis indicates an excessive carrying value, the recoverable amount of the asset is estimated. The recoverable amount is the higher of the asset's fair value less costs to sell, and its value in use. Value in use is measured as the discounted future cash flows of the asset, alternatively the cash-generating unit to which the asset belongs. The rental fleet of Sandvik Mining and Construction is particularly examined considering its dependence on the business climate in the mining industry and the risk that rental agreements may be cancelled. The carrying value of the rental fleet at the end of 2008 was SEK 468 M (569).

A call for an impairment test arises also in connection with the classification of a non-current asset as held for sale, when it shall be re-measured at the lower of its carrying amount and fair value less cost to sell.

Property, plant and equipment and intangible assets – excluding goodwill – comprise about 30% of the Group's assets (see Note 13). Impairment losses during 2007 and 2008 were not significant, but losses may arise if forecasts of future cash flows are changed due to changes in the business model and strategy, the competitive situation or legal conditions for the operations.

Pension assumptions

Actuarial assumptions are important ingredients in the actuarial methods used to measure pension obligations and they can significantly affect the reported net liability and the annual pension cost. Two critical assumptions – the discount rate and expected return on plan assets – are essential for the measurement of both the expense of the current year and the present value of the defined-benefit obligations. These assumptions are reviewed annually for each pension plan in each country. Other assumptions, which may relate to demographic factors such as pension age, mortality rates and employee turnover, are reviewed less frequently. The actual outcome often differs from the actuarial assumptions for economic or other reasons.

The discount rate is used to measure the present value of future cash flows at the measurement date. This rate shall be determined by reference to market yields at the balance sheet date on high-quality corporate bonds or, if there is no deep market for such bonds, the market yields on government bonds. A lower discount rate increases the present value of the pension obligation and the annual pension cost.

In order to determine the expected rate of return on plan assets, the Company considers the current and anticipated categories of plan assets as well as historic and expected returns on the various categories.

Considering current interest rate levels, Sandvik raised the discount rate for 2008 from a weighted average rate of 5.3% in 2007 to 5.7%. The expected weighted average return on plan assets was 6.2% in 2008 compared with 6.5% in 2007.

Income tax

Significant estimates are made to determine both current and deferred tax liabilities/assets, not least the value of deferred tax assets. The Company then must determine the possibility that deferred tax assets will be utilized and offset against future taxable profits. The actual results may differ from these estimates, for instance due to changes in the business climate, changed tax legislation, or the outcome of the final review by tax authorities and tax courts of tax returns. At year-end 2008, Sandvik reports deferred tax assets of SEK 1,277 M (1,323). Further, the Group has additional tax loss carryforwards of about SEK 570 M (570) for which no deferred tax assets are recognized since utilization of these losses is not deemed probable. A change in the estimate of the possibility for utilization thus can affect results both positively and negatively. The expenditure recognized as a provision for ongoing tax litigations is based on management's best estimate of the outcome and at the end of 2008 amounts to SEK 3,201 M (2,760).

Disputes

Sandvik is – besides the tax litigation cases set out above – party to a number of disputes and legal proceedings in the ordinary course of business. Management consults with legal experts on issues related to legal disputes and with other experts internal or external to the Company on issues related to the ordinary course of business. It is management's best estimate that neither the Parent Company, nor any subsidiary, is involved in legal proceedings or arbitration that may be deemed to have a materially negative effect on the business, the financial position or results of operations.

For additional information on risks related to disputes, refer to page 26.

Key assessments in applying the Group's accounting policies

The Company refers to its description above of the accounting policies that the Company has chosen to apply, especially when those policies are selected from allowed alternatives. Management would in particular draw attention to the following:

Inventory accounting

Sandvik applies IAS 2 in accounting for its inventories. Inventories are carried at the lower of cost and net realizable value. A consequence of the IAS 2 rules is that if the market value of materials and components included in Sandvik's finished goods drops, the value of the materials

and components must not be reduced as long as the selling price of the finished product less selling costs still is greater than the cost of the finished product. Instead, the lesser market value of the materials and components shows itself in the form of a lower margin in future periods to the extent that Sandvik must adapt its selling price due to the changes in market values. In periods of significant price volatility, this state of things should be taken into consideration when future results are being appraised.

Accounting for actuarial gains and losses

Under IAS 19, it is not allowed to immediately recognize actuarial gains and losses related to defined-benefit pension

plans in the income statement but to recognize only that portion of such gains and losses that fall outside of a corridor of plus/minus 10% of the greater of the present value of the defined-benefit obligation and fair value of the plan assets. Also any systematic method that results in faster recognition of actuarial gains and losses is possible, including immediate recognition in the income statement. Sandvik has chosen to apply the corridor approach and to recognize gains or losses outside the corridor over the expected average remaining working lives of the employees participating in the plan. Unrecognized actuarial losses amounted to SEK 932 M at year-end 2007 and SEK 2,353 M at year-end 2008.

Definitions

Earnings per share

Net profit for the year attributable to equity holders of the parent company divided by the average number of shares outstanding during the year.

Equity ratio

Shareholders'equity including minority interests in relation to total capital.

Net debt/equity ratio

Interest-bearing current and non-current debts (including provisions for pensions) less cash and cash equivalents divided by the total

of shareholders'equity including minority interests.

Rate of capital turnover

Invoiced sales divided by average total capital.

Relative working capital

Average working capital divided by invoicing in the most recent quarter adjusted to annual rate.

Return on capital employed

Profit after financial income and expenses, plus interest expenses, as a percentage of average total capital, less non-interest-bearing debts.

Return on shareholders' equity

Net profit for the year as a percentage of average shareholders'equity during the year.

Return on total capital

Profit after net financial items plus interest expenses as a percentage of average total capital.

Working capital

Total of inventories, accounts receivable and accounts payable.

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TO THE CONSOLIDATED AND PARENT COMPANY FINANCIAL STATEMENTS

(Amounts in SEK millions, unless otherwise stated)

NOTE 1. SEGMENT INFORMATION

1.1 Information on business segments/business areas

	Sandvik Tooling		Sandvik Mining and Construction		Sandvik Materials Technology		Seco Tools		Corporate		Eliminations		Group total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue														
External revenue	25,795	24,732	38,651	33,073	21,480	22,486	6,513	6,011	35	36	—	—	92,654	86,338
Internal revenue	146	338	21	6	326	351	23	23	112	131	-628	-849		
Group total	26,121	25,070	38,672	33,079	21,806	22,837	6,536	6,034	147	167	-628	-849	92,654	86,338
Share of results of associated companies	11	5	29	63	5	49	1	2	—	—			46	119
Operating profit by business area	5,461	5,989	4,996	4,979	1,187	2,435	1,332	1,491	-182	-500			12,794	14,394
Net financing cost													-2,217	-1,397
Income tax expense													-2,741	-3,403
Profit for the year													7,836	9,594
Other disclosures														
Assets	27,115	22,375	32,740	26,678	21,832	22,440	5,812	4,795	2,413	1,931			89,912	78,219
Investment in associates	143	19	81	57	253	263	8	9	—	—			485	348
Segment assets	27,258	22,394	32,821	26,735	22,085	22,703	5,820	4,804	2,413	1,931			90,397	78,567
Unallocated assets	—	—	—	—	—	—	—	—	—	—			12,830	6,868
Group total													103,227	85,435
Liabilities	5,269	5,034	9,445	8,126	3,467	3,637	1,338	1,295	2,357	2,228			21,876	20,320
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—			44,626	35,293
Group total													66,502	55,613
Capital expenditure	2,496	2,024	1,940	1,273	1,770	1,227	725	563	401	312			7,332	5,399
Business combinations	337	1,508	320	2,842	89	1,973	106	—	—	—			852	6,323
Depreciation/Amortization	-1,356	-1,161	-929	-916	-722	-563	-351	-309	-86	-90			-3,444	-3,039
Impairment losses	-32	-5	—	—	—	—	-5	—	—	—			-37	-5
Other non-cash expenses	-16	29	25	-73	41	4	-64	0	-128	-587			-142	-627

All transactions between the business areas are on market terms.

1.2 Information by market area

	Europe		NAFTA		South America		Africa, Middle East		Asia, Australia		Group total		
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	
External income	41,851	39,704	14,827	14,901	5,982	5,445	7,811	6,716	22,183	19,572	92,654	86,338	
Total assets		66,717	56,339	14,347	11,952	4,575	3,775	3,293	2,512	14,295	10,857	103,227	85,435
Direct capital expenditure		4,483	3,739	954	591	581	352	136	160	1,178	557	7,332	5,399

External segment revenue is based on the geographical location of the customers.

The reported amounts for segment assets and investments during the year are based on the location of the assets.

NOTE 2. CATEGORIES OF REVENUE

	Group		Parent Company	
	2008	2007 ¹⁾	2008	2007
Sale of goods	86,629	80,143	20,392	20,625
Contract revenue	3,070	2,903	0	—
Rendering of services	2,388	2,613	31	52
Rental income	567	679	4	5
Total	92,654	86,338	20,427	20,682

1) Reclassifications have been made compared with the annual report for the preceding year.

NOTE 3. PERSONNEL INFORMATION AND REMUNERATION TO MANAGEMENT AND AUDITORS

3.1 Average number of employees

	Group				Parent Company			
	2008		2007		2008		2007	
	Number	Women %	Number	Women %	Number	Women %	Number	Women %
Sweden	11,415	21	10,964	20	8,022	20	7,707	19
Rest of Europe	15,727	19	14,645	19	—	—	—	—
Total Europe	27,142	20	25,609	20	8,022	20	7,707	19
NAFTA	6,534	19	5,782	19	—	—	—	—
South America	3,292	15	3,074	12	1	—	1	—
Africa, Middle East	3,134	12	2,694	11	—	—	—	—
Asia, Australia	8,469	15	7,264	14	—	—	—	—
Total	48,571	18	44,423	18	8,023	20	7,708	19

3.2 Absence due to illness, Parent company

%	2008	2007
Total absence due to illness as a percentage of regular working hours	3.9	4.5
Share of total absence due to illness pertaining to continued sick leave for 60 days or more	39.9	45.5

Absence due to illness as percentage of each group's regular working hours

Sick leave by gender

	2008	2007
Men	3.5	4.0
Women	5.2	6.3

Sick leave by age category

	2008	2007
Age 29 or younger	3.3	3.5
Age 30 to 49	3.5	4.0
Age 50 or older	4.8	5.7

3.3 Wages, salaries, other remuneration and social costs

	Group		Parent Company	
	2008	2007	2008	2007
Wages, salaries and other remuneration	18,181	16,080	3,515	3,222
Social costs	4,881	4,244	1,647	1,495
Employee profit sharing	67	238	53	197
Total	23,129	20,562	5,215	4,914
of which pension costs reported with social costs	1,424	1,392	495	416

SEK 56 M (46) of the Group's pension costs relate to Boards and presidents. The Group's pension liability to these persons amounted to SEK 205 M (189). Correspondingly, SEK 21 M (7) of the Parent Company's pension costs related to the Board of Directors and presidents. The Parent Company's pension liability relating to these persons amounted to SEK 92 M (75).

Remuneration and other benefits during the year¹⁾

SEK	Fixed salary/ Director's fee	Annual variable salary ²⁾	Long term variable salary ³⁾	Other benefits ⁴⁾	Pension cost	Share based remuneration ⁵⁾
Chairman of the Board Clas Åke Hedström	1,450,000 ⁶⁾	—	—	—	7,741,000 ⁷⁾	—
President and CEO Lars Petterson	8,805,712 ⁸⁾	575,000	1,688,709	263,420	9,783,000 ⁹⁾	—
Other senior executives ¹⁰⁾	18,043,579	2,997,643	3,562,363	1,375,333	14,301,000 ⁹⁾	1,594,658
Total	28,299,291	3,572,643	5,251,072	1,638,753	31,825,000	1,594,658

1) Expensed during 2008.

2) Amount pertaining to 2008 and expected to be paid in 2009. During 2008, annual variable salary expensed in 2007 was paid in the amount of SEK 11,432,125, SEK 3,333,000 of which to the President.

3) Reserved amount for the long term variable salary programs 2006–2008.

4) Other benefits largely pertain to free housing and company car.

5) Value of personnel options exercised during the year calculated as the difference between the exercise price and the share price at the exercise date.

6) Expensed during 2008 and will be paid in 2009. The amount includes the regular directors' fee of SEK 1,350,000 and a SEK 100,000 fee to members of the Remuneration Committee.

7) Pension to the Chairman is being paid under an earlier employment contract. The pension liability, and accordingly pension costs, were impacted by the Swedish Financial Supervisory Authority's new calculation basis FFFS 2007:31, which includes increase of life length assumptions and decreased discount rates, entailing that the accumulated pension liability, and accordingly provisions, rose to SEK 7,741,000. The new regulations came into effect on 1 January 2008.

8) Lars Petterson's fixed salary as of 1 January 2008 amounts to SEK 7,200,000 to which is added vacation pay and cash payments for saved vacation days.

9) This year's increase in the President's and other senior executives' pension costs is to a relatively large degree (in the case of the President approximately 25%) due to the Swedish Financial Supervisory Authority's new calculation basis FFFS 2007:31, which includes increase of life length assumptions and decreased discount rates. The new calculation basis came into effect on 1 January 2008.

10) Pertains to the following persons in 2008: Peter Larson, Peter Gossas, Anders Thelin, Lars Josefsson and Per Nordberg.

3.4 Wages, salaries and other remuneration by market area

	Group		Parent Company	
	2008	2007	2008	2007
Sweden	4,842	4,443	3,515	3,222
Rest of Europe	6,728	6,219	0	0
Total Europe	11,570	10,662	3,515	3,222
NAFTA	2,919	2,476	—	—
South America	682	572	0	0
Africa Middle East	663	661	—	—
Asia, Australia	2,347	1,709	—	—
Total	18,181	16,080	3,515	3,222

Of which, to Boards of Directors and presidents

	2008	2007	2008	2007
Salaries and other remuneration	377	366	27	28
of which variable salary	61	63	8	8

3.5 Information on remuneration to the Board of Directors and senior executives

Guidelines

The guidelines for the remuneration of Sandvik's senior executives were adopted at the Annual General Meeting in 2008. They are designed to ensure that Sandvik, from a global perspective, can offer market related remuneration in order to attract and retain qualified members.

Components of remuneration

The total remuneration package is distributed between fixed salary, annual variable salary, long-term variable salary, pension and other benefits, such as company car, free housing, health insurance and severance benefits. It is intended that the components together shall form a well-balanced remuneration and benefit program that reflects the individual's performance, responsibility as well as the Group's profitability development.

Preparation and decision-making process

The Board's Remuneration Committee prepares issues relating to Group Executive Management's remuneration. The Committee met six times during the year. Issues dealt with included the distribution between fixed and variable salary, the magnitude of any pay increases and the long term variable salary. The

NOTE 3 3.5 PERSONNEL INFORMATION AND REMUNERATION TO MANAGEMENT AND AUDITORS (CONT.)

Board has discussed the Remuneration Committee's proposals and has made a decision, using the Committee's proposal as guidance.

Based on the Remuneration Committee's proposals, the Board has decided on the remuneration of the President for 2008. The President decided on remuneration to other senior executives after consultation with the Remuneration Committee. The Remuneration Committee performed its task supported by expertise on remuneration levels and structures. For information on the composition of the Committee, see page 100.

Remuneration to the Board and senior executives**The Board**

Fees to the Chairman and other external Board members are paid in accordance with the decision at the Annual General Meeting. No Board fees are paid to the President and the employee representatives.

President and other senior executives

The following guidelines approved by the Annual General Meeting for remuneration to senior executives were applied for 2008:

The Board's proposal of guidelines for remuneration to senior executives is designed to ensure that the Sandvik Group from a global perspective can offer remuneration at the market rate and that is competitive to attract and retain skilled personnel to Sandvik's Group Executive Management.

Group Executive Management's remuneration comprises fixed salary, annual variable salary and long-term variable salary. The components are intended to create a well-balanced remuneration and benefit program that reflects the individual's performance, responsibility and the Group's earnings development.

The fixed salary, which is individual and differentiated based on the individual's responsibility and performance, is determined based on market-rate principles and is reviewed annually.

Payment of annual variable salary requires fulfillment of annually established goals. The goals are related to the company's earnings and to measurable goals within the individual's area of responsibility. The annual variable salary for Group Executive Management may amount to a maximum of 50–75% of fixed salary.

The long-term variable salary requires fulfillment of measurable goals, set by the Board, pertaining to certain key figures that create shareholder value linked to the company's growth, profitability and capital efficiency during a three-year period. The maximum payment of long-term variable salary for Group Executive Management is 45–50% of the annual fixed salary.

Previously, the long-term variable salary comprised employee stock options. Only employee stock options from 2004 are still exercisable. The program was based on an annual allotment of employee stock options on Sandvik shares. At 29 February 2008, the number of options outstanding amounted to 20,000. The company's cost for these options is estimated to amount to SEK 2.5 M.

Group Executive Management's other benefits shall correspond to what could be considered reasonable in relation to generally accepted practice on the market. The benefits comprise pension, company car, housing, medical insurance and severance pay.

The pension benefits for Group Executive Management are based solely on fixed salary and shall be defined-benefit or defined-contribution. Normally, retirement is at age 62. Retirement age for the President is 60.

Normally, severance payment is made when employment is terminated by the company. Any other income from employment is deducted from the severance pay, which is between 12 and 18 months for persons under 55 years of age and between 18 to 24 months for persons over 55. No severance is paid to employees who resign from the company.

The Board shall have the right to deviate from the guidelines decided by the Annual General Meeting, if in individual cases there is a special reason for this.

The sphere of senior executives encompassed by the proposal is the President and other members of Group Executive Management.

The Board's proposal for remuneration to senior executives to be applied in 2009

The Board proposes that for 2009 the Annual General Meeting decide to apply the same guidelines for remuneration to senior executives as applied in 2008, with the exception of pension benefits, which as of 2009 are based either on fixed salary or the gross salary paid in cash.

Remuneration and other benefits during the year

In accordance with the decision at the Annual General Meeting, the total fee to the external directors elected at the Meeting amounts to SEK 4,500,000. Of this amount, SEK 1,350,000 (on an annual basis) is payable to the Chairman of the Board (Clas Åke Hedström), SEK 900,000 to the Vice Chairman (Anders Nyrén) and SEK 450,000 to each of the other external Board members (Georg Ehrnrooth, Simon Thompson, Egil Myklebust, Fredrik Lundberg and Hanne de Mora).

In addition to these amounts, the Annual General Meeting resolved that an additional fee should be paid for the committee work to committee members not employed by the company, in the amount of SEK 400,000 to be divided between the members of the Audit Committee (Anders Nyrén SEK 150,000, Fredrik Lundberg SEK 125,000 and Hanne de Mora SEK 125,000) and SEK 250,000 to be divided between the members of the Remuneration Committee

(Clas Åke Hedström SEK 100,000, Egil Myklebust SEK 75,000 and Georg Ehrnrooth SEK 75,000).

In addition to the pension obligations to the Chairman of the Board and the President, there are no pension obligations to other Board members. At 31 December 2008, the pension obligation to the Chairman amounted to SEK 56,355,685 and relates to a defined-benefit obligation, which is not secured by an insurance policy and which refers to his period of services as President of Sandvik AB.

Effective 1 January 2008, President and CEO Lars Pettersson is paid an annual fixed salary of SEK 7,200,000, and receives benefits in the form of free housing and company car. In addition, a variable salary of maximum 75% of the fixed salary is paid. The variable salary for 2008 amounts to SEK 575,000.

Lars Pettersson is entitled to retire with pension at age 60. His pension between age 60–65 will amount to 65% of the fixed salary up to 30 price base amounts and 50% of fixed salary in excess of 30 price base amounts. No pension insurance policy is taken out for his pension through age 65 and at 31 December 2008 the obligation for pension earned through that date amounts to SEK 19,985,374. The pension from the age of 65 is arranged through the ITP Plan and a supplementary defined-contribution plan under which the company each year contributes 40% of the fixed salary in excess of 20 price base amounts make up pension from age 65. Moreover, an agreement has been reached covering severance pay in the event that the company terminates employment. Severance pay equals 18 months' fixed salary in addition to the six-month notice period.

For other members of Group Executive Management, pension age is 62. Pension between the age of 62 and 65 will amount to 65% of fixed salary up to 30 price base amounts, 50% of fixed salary between 30–50 price base amounts, and 25% of fixed salary in the interval 50–100 price base amounts. No pension insurance policies have been taken out for pensions through age 65 and at 31 December 2008 the obligation for pensions earned through that date amounts to SEK 22,971,902.

The pension from age 65 to the other members of Group Executive Management is arranged through the ITP Plan and a supplementary defined-contribution plan under which the company each year contributes 20–30% (depending on age) of fixed salary portions in excess of 20 price base amounts. Moreover, agreements have been reached covering severance pay in the event that the company terminates employment. The severance pay equals 12–18 months' fixed salary in addition to the six-month notice period. For both the President and other members of Group Executive Management, any earned income is offset against the severance pay.

Profit sharing

To promote a performance that is favorable to the Group's long term development and also to stimulate continued employee loyalty, since 1986, Sandvik has a profit-sharing system for all employees in wholly-owned companies in Sweden. As from 2007, the system has been modified in order to increase transparency and elasticity and to better relate the system to the company's goals. Under the modified system, the maximum allocation may be higher than before, but cannot exceed SEK 250 M, and also the requirements for maximum allocation have been raised. The Group's return during 2008 implied an allocation of SEK 66.8 M to the profit sharing foundation.

Share-based remuneration

As part of the total remuneration package, a share-based program was established in the year 2000 to offer a long-term variable salary to some 350 international executives and specialists in the Group. The program was based on an annual allotment of personnel options on Sandvik shares with a lifetime of five years and the right to exercise after three years, conditional upon continued employment. The allocation was based on Sandvik's return on capital employed during the preceding year. While the grant as such was free of charge, the option holder must pay an exercise price for the shares. The program is based on existing shares and, therefore, does not require the issue of new shares.

Allotments under the program were made during years 2000–2004. During 2008, it was possible to exercise options granted in years 2003, and 2004.

Operating profit for the year was positively affected by SEK 28,211,889 for the share-based remuneration, including related social security costs. The positive effect relates to the decreased market price of the Sandvik share which has implied a lower value estimation of the exercisable options.

Under a swap agreement with a bank, the company has secured the acquisition of 9,000,000 Sandvik shares (after the 5:1 split decided at the Annual General Meeting in 2006) at a price of SEK 46.80 as a financial hedge. Of that number, 624,936 shares were acquired during 2008 (1,842,605 shares during 2007). In total, 8,537,163 shares have been acquired under the agreement. Under a call option fully utilized during 2006, additionally 270,000 shares (before the split) had been secured at a price of SEK 267.50. These measures limit the effects of future increases in the market price of the Sandvik share on the company's costs for the program and for 2008 these measures had a negative effect on results of SEK 36,265,000. Accordingly, the net effect of the share based program and related financial arrangements during 2008 reduced results by SEK 8,053,111.

Long-term variable salary

In 2006, the Board decided to implement as a long-term variable salary a cash-based program. Based on a common goal perception for executives, specialists and shareholders, the program shall form a link to future performance goals aimed at the long-term enhancement of the value of the company. Overall common Group and business area focus on and governing towards profitable growth effect this. An additional purpose is to improve the possibilities to recruit and retain key employees in the Group.

A long-term variable salary program was decided for each of the year 2006, 2007 and 2008. Some 400 Sandvik employees participate in the programs on a global basis. The programs apply for a three-year period, with any settlement paid after the third year of each program. Accordingly, settlement for the 2006 program takes place in 2009, for the 2007 program in 2010, and for the 2008

program in 2011. Under these programs, there is a direct link between performance, value added, and remuneration. There is an annual maximum outcome related to the participant's fixed salary in the December of the third year. The outcome is conditional upon meeting measurable goals established by the Board for certain key ratios that create shareholder value linked to the company's growth, profitability and capital efficiency over a three-year period. For members of Group Executive Management, the maximum long-term variable salary can amount to 45–50% of the annual fixed salary.

Amounts attributable to these three programs are expensed and reserved amounts continuously, based on assumptions regarding actual performance goal achievement. The cost of the three programs is estimated at SEK 206 M. A total of SEK 185 M has been reserved for these programs in the 2008 accounts.

Break-down of share-based payments (personnel options)

Group

Allotted and exercisable options at year-end are presented in the following table:

Option program	Date granted	Exercise period	Exercise price, SEK	Exercise price after split, SEK	Options granted	Exercisable options	Underlying shares ¹⁾	Settlement method
2004	2004-02-18	2007-02-19 – 2009-02-20	262.70	51.34	312,000	131,057	681,496	Delivery of shares

Parent Company

Allotted and exercisable options at year-end to employees at the Parent Company are presented in the following table:

Option program	Date granted	Exercise period	Exercise price, SEK	Exercise price after split, SEK	Options granted	Exercisable options	Underlying shares ¹⁾	Settlement method
2004	2004-02-18	2007-02-19 – 2009-02-20	262.70	51.34	155,500	74,570	387,764	Delivery of shares

1) After the share redemptions in 2005 and 2007 and the split on 8 June 2006, each option carries the right to acquire 5.2 shares.

Options exercisable by senior executives

Option program	Other senior executives
2001	—
2002	—
2003	—
2004	20,000

Number and weighted average exercise prices for shares under options

Group

Options in thousands	Weighted average exercise price 2008, SEK	Number of options, 2008	Weighted average exercise price 2007, SEK	Number of options, 2007
At beginning of year	45.16	324	46.67	757
Forfeited	39.62	–73	51.34	–49
Exercised	41.52	–120	45.32	–384
At end of year	51.34	131	45.16	324
Exercisable at end of year	51.34	131	45.16	324

Parent Company

Options in thousands	Weighted average exercise price 2008, SEK	Number of options, 2008	Weighted average exercise price 2007, SEK	Number of options, 2007
At beginning of year	46.38	151	46.96	396
Forfeited	39.62	–11	51.34	–45
Exercised	42.11	–65	45.55	–200
At end of year	51.34	75	46.38	151
Exercisable at end of year	51.34	75	46.38	151

For options exercised during the year, the weighted average share price during the period was SEK 97.94. The exercise price for options outstanding at 31 December 2008 amounted to SEK 51.34. Their contractual lifetime is 1.5 months.

The estimated value of options granted is calculated in accordance with the Black & Scholes option-pricing model. The contractual lifetime of the option (5 years) is used as input data in the model. Anticipated early exercise is taken into account in the Black & Scholes model.

Total expenses for cash-settled, share-based payments, excluding social costs

Group and Parent Company, SEK	2008	2007
Expense related to cash-settled options granted 2002	—	1,170,809
Expense related to cash-settled options granted 2004	—	3,348,419
Total expense for share-based payments	—	4,519,228

3.6 Gender distribution in senior management

Proportion of women, %	Group		Parent Company	
	2008	2007	2008	2007
Boards and presidents	8	8	15	23
Senior management	13	13	—	—

3.7 Audit fees

Fees to the Group's auditors were as follows:

	KPMG		Other auditors at Group companies		Total	
	2008	2007	2008	2007	2008	2007
Audit						
Parent Company	7.5	5.9	—	—	7.5	5.9
Subsidiaries (excl. Seco Tools)	50.2	38.9	3.2	3.1	53.3	42.0
Seco Tools	0.3	0.3	6.8	7.2	7.1	7.5
Group	58.0	45.1	9.9	10.3	67.9	55.4
Other services						
Parent Company	8.5	4.2				
Subsidiaries (excl. Seco Tools)	10.2	11.4				
Seco Tools	0.5	0.6				
Group	19.2	16.2				

Audit services comprise the examination of the financial statements, the accounting records and the administration of the business by the Board of Directors and the President, and other procedures required to be performed by the Company's auditors as well as other services caused by observations during the performance of such examination and other procedures.

Other services essentially comprise advice in areas closely related to the audit, such as advice on accounting issues, tax services and due-diligence services.

NOTE 4. RESEARCH, DEVELOPMENT AND QUALITY ASSURANCE

	Group		Parent Company	
	2008	2007	2008	2007
Expenditure for				
research and developmen	2,347	2,195	920	1,019
quality assurance	464	544	207	236
Total	2,811	2,739	1,127	1,255
of which expensed	2,478	2,362	1,127	1,255
of which expensed relating to research and development	2,014	1,818	920	1,019

Research and quality assurance expenditures are expensed as incurred. Expenditure for development is reported as an intangible asset if it meets the criteria for recognition as an asset in the balance sheet.

NOTE 5. OTHER OPERATING INCOME

Group	2008	2007
Gain on sale of property, plant and equipment	—	118
Gain on sale of businesses and shares	56	26
Insurance compensation	15	144
Exchange rate gains on operating receivables and liabilities	497	—
Other	93	98
Total	661	386

Parent Company

Other operating income mainly pertains to intra-group services and currency gains on receivable and liabilities of an operational nature.

NOTE 6. OTHER OPERATING EXPENSES

Group	2008	2007
Loss on disposal of non-current assets	-28	—
Exchange rate losses on operating receivables and payables	—	-28
Impairment loss on non-current receivable	-104	—
Other	-48	-22
Total	-180	-179

Parent Company

Other operating expenses pertain mainly to royalties between group companies, exchange rate losses on operating receivables and payables, and losses on sale of property, plant and equipment.

NOTE 7. OPERATING EXPENSES

Group	2008	2007
Employee benefit expense	-23,129	-20,562
Depreciation and amortization	-3,444	-3,039
Impairment losses – inventories	-460	-281
Impairment losses – property, plant and equipment	-37	-5
Impairment losses – trade receivables	-228	-80

The Parent Company recognized trade receivable impairment losses of SEK 29 M (25). There were no significant reversals of earlier recognized impairment losses during 2008 or 2007.

NOTE 8. FEES FOR FINANCE AND OPERATING LEASES

FINANCE LEASES

Finance leases with Sandvik as lessee

The Group leases plant and machinery under finance lease agreements.

At 31 December 2008 the net carrying amount of such leased assets was SEK 221 M (145). Variable fees recognized as an expense were SEK 0 M (0).

Future minimum lease payments in respect of non-cancellable contracts fall due as follows:

Group	Minimum fee		Present value	
	2008	2007	2008	2007
Within one year	36	25	35	25
Between 1–5 years	116	52	94	45
Later than five years	118	102	68	60
Total	270	179	197	130

Finance leases with Sandvik as lessor

The Group's investments in finance leases at 2008 year-end were SEK 642 M (572). Variable fees recognized in the income statement, and unguaranteed residual values accruing to the benefit of the lessor, were minor.

The gross investment and the present value of minimum lease payments fall due as follows:

Group	Minimum fee		Present value	
	2008	2007	2008	2007
Within one year	338	246	310	156
Between 1–5 years	304	326	265	200
Later than five years	0	0	0	0
Total	642	572	575	356

OPERATING LEASES

Operating leases with Sandvik as lessee

Leasing fees for assets under operating leases, such as leased premises, machinery and major items of computer and office equipment are recognized with operating expenses in the income statement. The Group in 2008 expensed SEK 509 M (451), including minimum lease payments of SEK 477 M (442), variable fees of SEK 35 M (15), and net of sublease income of SEK 4 M (6). The Parent Company expensed SEK 122 M (110).

Future minimum lease payments under non-cancellable operating lease contracts fall due as follows:

	Group		Parent Company	
	2008	2007	2008	2007
Within one year	603	477	162	150
Between 1–5 years	1,122	1,031	320	293
Later than five years	483	368	165	127
Total	2,208	1,876	647	570

Future minimum lease payments under non-cancellable lease contracts expected to be received for assets, which are subleased amount to SEK 4 M (7).

Operating leases with Sandvik as lessor

The net carrying value of the Group's rental fleet is SEK 468 M (569). Depreciation for the year amounted to SEK 395 M (445). The future minimum lease payments under non-cancellable leases amount to SEK 250 M (262). Variable fees recognized as income amounted to SEK 62 M (57).

Future minimum lease payments under non-cancellable operating lease contracts fall due as follows:

	Group		Parent Company	
	2008	2007	2008	2007
Within one year	124	148	9	11
Between 1–5 years	125	113	9	1
Later than five years	1	1	0	0
Total	250	262	18	12

NOTE 9. NET FINANCING COST

Group	2008	2007
Interest income	352	197
Dividend	3	1

Other investments incl. derivatives

Net gain on disposal of financial assets	0	36
Net gain on remeasurement of financial assets/ liabilities at fair value	16	143
Other financial income	4	0
Financial income	375	377
Interest expense	-2,256	-1,541

Other investments incl. derivatives

Net loss on disposal of financial assets	-8	-107
Net loss on remeasurement of financial assets/ liabilities	-260	-89
Net foreign-exchange losses	-54	-34
Other financial expenses	-14	-3
Financial expenses	-2,592	-1,774
Net financing cost	-2,217	-1,397

Changes in the fair value of interest-rate swaps had a positive effect on net financing cost of SEK 40 M (4). The valuation is made by interpolation in an estimated interest curve based on current interest rates for various durations. Changes in the fair value of derivatives on equity instruments positively affected net financing cost by SEK 70 M (85). The valuation is based on quoted share prices at balance sheet date.

Financial assets and liabilities not measured at fair value through profit or loss yielded a net interest expense of SEK 1,929 M (1,486).

Hedging of fair values had a negative SEK 8 M (neg: 0.4) result effect, that is from the fair value measurement of hedged positions and related hedging instruments.

Parent Company	Income from shares in Group companies		Income from shares in associated companies	
	2008	2007	2008	2007
Dividend, net of withholding tax	6,754	6,003	5	5
Gain on sale of shares and participations	20	-17	—	—
Impairment	0	—	—	—
Reversal of earlier impairment losses	—	11	—	—
Total	6,774	5,997	5	5

Parent Company	Income from other investments held as non-current assets		Interest income and similar items	
	2008	2007	2008	2007
Interest income, Group companies	—	—	601	619
Other interest income	—	—	12	19
Total	—	—	613	638

Parent Company	Interest expense and similar items	
	2008	2007
Interest expense, Group companies	-672	-607
Other interest expense	-723	-476
Derivatives, Group companies	-247	-65
Other	-13	-17
Total	-1,655	-1,165

NOTE 10. APPROPRIATIONS

Parent Company	2008	2007
Accelerated depreciation	—	2,429
Change in tax allocation reserves	—	638
Changes in other untaxed reserves	7	-4
Total	7	3,063

NOTE 11. INCOME TAX
Reported in income statement

	Group		Parent Company	
	2008	2007	2008	2007
Income tax expense				
Current tax	-2,942	-4,396	112	-829
Adjustment of taxes attributable to prior years	66	229	15	67
Total current tax expense	-2,876	-4,166	127	-762
Deferred taxes relating to temporary differences and unused tax losses	135	763	274	17
Total tax expense	-2,741	-3,403	401	-745

The Group's tax expense for the year was SEK 2,741 M (3,403) or 25.9% (26.2) of the profit after financial items.

Reconciliation of the Group's tax expense

The Group's weighted average tax rate, based on the tax rates in each country, is 26.5% (29.6). The nominal tax rate in Sweden is 28.0% (28.0).

Reconciliation of the Group's weighted average tax rate, based on the tax rates in each country, and the Group's actual tax expense:

Group	2008		2007	
	SEK M	%	SEK M	%
Profit after financial items	10,577		12,997	
Weighted average tax based on each country's tax rate	-2,805	-26.5	-3,849	-29.6
Tax effect of				
Non-deductible expenses	-216	-2.0	-195	-1.5
Tax exempt income	145	1.4	199	1.5
Adjustments relating to prior years	66	0.6	229	1.8
Effects of unused tax losses, net	30	0.3	75	0.6
Other	39	0.4	138	1.1
Total reported tax expense	-2,741	-25.9	-3,403	-26.2

Reported in the balance sheet
Deferred tax assets and liabilities

The deferred tax assets and liabilities reported in the balance sheet are attributable to the following assets and liabilities (liabilities shown with a minus sign):

Group	2008			2007		
	Deferred ta assets	Deferred ta liabilities	Net	Deferred ta assets	Deferred ta liabilities	Net
Intangible assets	43	-771	-728	34	-666	-632
Property, plant and equipment	98	-1,114	-1,016	96	-965	-869
Financial non-current assets	93	-2	91	58	-2	56
Inventories	1,572	-64	1,508	1,445	-62	1,383
Receivables	204	-536	-332	66	-335	-269
Interest-bearing liabilities	367	-442	-75	325	-263	62
Noninterest-bearing liabilities	724	-670	54	513	-761	-248
Other	29	-50	-21	19	-49	-30
Unused tax losses	282	—	282	84	—	84
Total	3,412	-3,649	-237	2,640	-3,103	-463
Offsetting within companies	-2,135	2,135	—	-1,317	1,317	—
Total deferred tax assets and liabilities	1,277	-1,514	-237	1,323	-1,786	-463

Parent Company	2008			2007		
	Deferred ta assets	Deferred ta liabilities	Net	Deferred ta assets	Deferred ta liabilities	Net
Property, plant and equipment	—	-34	-34	—	-37	-37
Provisions	31	—	31	27	—	27
Noninterest-bearing liabilities	295	—	295	32	—	32
Total	326	-34	292	59	-37	22
Offsetting	-34	34	—	-37	37	—
Total deferred tax assets and liabilities	292	—	292	22	—	22

Reconciliation of the Parent Company's tax expense

The Parent Company's effective tax rate is less than the nominal tax rate in Sweden, mainly due to tax-exempt dividend income from subsidiaries and associated companies.

Reconciliation of the Parent Company's nominal tax rate and actual tax expense:

Parent Company	2008		2007	
	SEK M	%	SEK M	%
Profit before tax	5,349		9,059	
Tax based on the nominal tax rate for the Parent Company	-1,498	-28.0	-2,537	-28.0
Tax effects of				
Non-deductible expenses	-22	-0.4	-33	-0.4
Tax-exempt income	1,946	36.4	1,758	19.4
Adjustments relating to prior years	-19	-0.4	—	—
Effect of changed tax rate	2	0.0	—	—
Use of previously uncapitalized tax loss deductions	-8	-0.1	67	0.7
Total reported tax expense	401	7.5	-745	-8.2

Tax items recognized directly in equity

Group	2008	2007
Deferred tax relating to hedging reserve	-164	31
Total	-164	31
Parent Company	2008	2007
Current tax relating to taxable group contributions	85	843
Total	85	843

NOTE 11. INCOME TAX (CONT.)

Unrecognized deferred tax assets

The Group has additional unused tax losses of about SEK 570 M (570). Related deferred tax assets were not recognized since it was not deemed probable that it would be possible to utilize these deductions in the foreseeable future.

Movements in deferred tax in temporary differences and unused tax losses

	Group		Parent Company	
	2008	2007	2008	2007
Balance at beginning of year, net	-463	-691	22	17
Recognized in income statement	135	763	270	5
Acquisitions/Disposals of subsidiaries	-10	-489	—	—
Recognized in equity	164	-31	—	—
Government grants	—	32	—	—
Translation differences	-63	-47	—	—
Balance at end of year, net	-237	-463	292	22

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

	Group		Parent Company	
	2008	2007	2008	2007
Other provisions for taxes	-3,201	-2,760	-55	-55
Income tax liabilities	-1,301	-1,334	—	—
Income tax receivables	1,699	1,429	166	393
Net tax liabilities/receivables	398	95	166	393

Other provisions for taxes of SEK 3,201 (2,760) relate to ongoing disputes and assessed risks. The increase during 2008 (SEK 441 M) mainly reflects provisions relating to the tax dispute as regards Sandvik Intellectual Property AB and Sandvik AB regarding the reorganization of ownership and managing of patents and trademarks effected in 2005. For additional information refer to the section "Sandvik's risks and risk management."

NOTE 12. EARNINGS PER SHARE

Basic and diluted earnings per share

SEK	Basic		Diluted	
	2008	2007	2008	2007
Earnings per share	6.30	7.65	6.29	7.65

The calculation of the numerators and denominators used in the above calculations of earnings per share (rounded down to the nearest SEK 0.05) is shown below.

Basic earnings per share

The calculation of earnings per share 2008 is based on the profit for the year attributable to the equity holders of the parent of SEK 7,472 M (9,116) and the weighted average number of shares (thousands) during 2008 of 1,186,287 (1,186,287). These two components have been calculated as follows:

Profit for the year attributable to the equity holders of the parent

	2008	2007
Profit for the year attributable to the equity holders of the parent	7,472	9,116

Weighted average number of shares

In thousands of shares	2008	2007
Total number of ordinary shares at 1 January	1,186,287	1,186,287
Effects of reacquisitions and redemption	—	—
Weighted average number of shares outstanding during the year	1,186,287	1,186,287

Diluted earnings per share

The calculation of diluted earnings per share 2008 is based on the profit attributable to the equity holders of the parent of SEK 7,472 M (9,116) and the weighted average number of shares (thousands) during 2008, 1,187,058 (1,188,397). The two components have been calculated as follows:

Profit for the year attributable to equity holders of the parent

	2008	2007
Profit for the year attributable to equity holders of the parent	7,472	9,116

Weighted average number of shares

In thousands of shares	2008	2007
Weighted average number of shares as calculated above	1,186,287	1,186,287
Additional shares assuming full exercise of options	771	2,110
Weighted average number of shares outstanding during the year, as adjusted	1,187,058	1,188,397

NOTE 13. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – GROUP**Intangible assets**

Cost	Internally generated intangible assets					Acquired intangible assets							Total
	Capitalized R&D expenditure	IT Software	Patents, licenses, trademarks, etc.	Other	Subtotal	Capitalized R&D expenditure	IT Software	Patents, licenses, trademarks, etc.	Goodwill	Other	Subtotal		
At 1 January 2007	633	450	69	72	1,224	15	251	205	5,156	225	5,852	7,076	
Additions	377	37	15	2	431	—	13	38	—	11	62	493	
Business combinations	—	—	—	—	—	—	—	552	3,886	839	5,277	5,277	
Divestments and disposals	-9	-13	—	—	-22	—	-4	-16	—	-15	-35	-57	
Reclassifications	-37	-4	28	-29	-42	—	7	4	-58	36	-11	-53	
Translation differences during the year	7	1	6	1	15	—	11	-11	-51	-35	-86	-71	
At 31 December 2007	971	471	118	46	1,606	15	278	772	8,933	1,061	11,059	12,665	
At 1 January 2008	971	471	118	46	1,606	15	278	772	8,933	1,061	11,059	12,665	
Additions	333	99	25	3	460	—	20	5	—	32	57	517	
Business combinations	—	—	—	—	—	—	2	120	474	6	602	602	
Aquisition of minority interest	—	—	—	—	—	—	—	—	16	—	16	16	
Divestments and disposals	-17	-10	—	—	-27	—	-8	-10	—	18	0	-27	
Reclassifications	-100	116	54	—	70	—	14	-89	—	1	-74	-4	
Translation differences during the year	40	5	23	5	73	—	37	-52	408	-17	376	449	
At 31 December 2008	1,227	681	220	54	2,182	15	343	746	9,831	1,101	12,036	14,218	
Accumulated amortization and impairment losses													
At 1 January 2007	139	263	39	30	471	15	167	99	—	72	353	824	
Divestments and disposals	-4	-6	—	—	-10	—	-4	-1	—	—	-5	-15	
Reclassifications	—	-1	5	-6	-2	—	-2	-11	—	48	35	33	
Amortization for the year	60	107	13	8	188	—	40	46	—	134	220	408	
Translation differences for the year	1	-2	-12	—	-13	—	8	3	—	-8	3	-10	
At 31 December 2007	196	361	45	32	634	15	209	136	—	246	606	1,240	
At 1 January 2008	196	361	45	32	634	15	209	136	—	246	606	1,240	
Business combinations	—	—	—	—	—	—	2	10	—	11	23	23	
Divestments and disposals	-16	-12	—	—	-28	—	-12	-2	—	-1	-15	-43	
Reclassifications	—	3	10	—	13	—	1	—	—	1	2	15	
Amortization for the year	91	77	7	6	181	—	51	102	—	112	265	446	
Translation differences for the year	5	3	9	3	20	—	27	0	—	18	45	65	
At 31 December 2008	276	432	71	41	820	15	278	246	—	387	926	1,746	
Net book values													
1 January 2007	494	187	30	42	753	0	84	106	5,156	153	5,499	6,252	
31 December 2007	775	110	73	14	972	0	69	636	8,933	815	10,454	11,425	
1 January 2008	775	110	73	14	972	0	69	636	8,933	815	10,454	11,425	
31 December 2008	951	249	149	13	1,362	0	65	500	9,831	714	11,110	12,472	
Amortization for the year is included in the following lines in the 2007 income statement													
Cost of sales	—	-11	—	—	-11	—	-1	-1	—	-44	-46	-57	
Selling expenses	—	-10	—	-3	-13	—	-27	—	—	-48	-75	-88	
Administrative expenses	-60	-86	-13	-5	-164	—	-12	-45	—	-42	-99	-263	
Total	-60	-107	-13	-8	-188	—	-40	-46	—	-134	-220	-408	
Amortization for the year is included in the following lines in the 2008 income statement													
Cost of sales	—	-8	-2	—	-10	—	-1	-59	—	-74	-134	-144	
Selling expenses	-6	-16	-2	-3	-27	—	-33	-44	—	-15	-92	-119	
Administrative expenses	-85	-53	-3	-3	-144	0	-17	1	—	-23	-39	-183	
Total	-91	-77	-7	-6	-181	0	-51	-102	—	-112	-265	-446	

NOTE 13. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – GROUP (CONT.)**Property, plant and equipment**

	Land and buildings	Plant and machinery	Equipment, tools and installations	Construction in progress	Total
Cost					
At 1 January 2007	8,358	24,995	4,342	2,169	39,864
Additions	500	1,882	424	2,102	4,908
Business combinations	419	704	117	15	1,255
Divestments and disposals	-238	-1,502	-364	-17	-2,121
Reclassifications	365	1,228	124	-1,591	126
Translation differences for the year	94	297	75	25	491
At 31 December 2007	9,498	27,604	4,718	2,703	44,523
At 1 January 2008	9,498	27,604	4,718	2,703	44,523
Additions	661	2,271	535	3,348	6,815
Business combinations	23	318	46	1	388
Divestments and disposals	-129	-1,544	-343	-9	-2,025
Reclassifications	448	1,695	159	-2,256	46
Translation differences for the year	904	1,850	377	259	3,390
At 31 December 2008	11,405	32,194	5,492	4,046	53,137
Accumulated depreciation and impairment losses					
At 1 January 2007	3,560	15,651	2,976		22,187
Business combinations	53	113	43		209
Divestments and disposals	-148	-1,193	-357		-1,698
Reclassifications	-1	13	31		43
Depreciation for the year	275	1,926	430		2,631
Impairment losses	2	3	—		5
Translation differences for the year	38	166	47		251
At 31 December 2007	3,779	16,679	3,170		23,628
At 1 January 2008	3,779	16,679	3,170		23,628
Business combinations	1	93	21		115
Divestments and disposals	-64	-1,168	-287		-1,519
Reclassifications	-2	65	10		73
Depreciation for the year	334	2,211	453		2,998
Impairment losses	5	32	—		37
Translation differences for the year	378	1,053	251		1,682
At 31 December 2008	4,431	18,965	3,618		27,014
Net book values					
1 January 2007	4,798	9,344	1,366	2,169	17,677
31 December 2007	5,719	10,925	1,548	2,703	20,895
1 January 2008	5,719	10,925	1,548	2,703	20,895
31 December 2008	6,974	13,229	1,874	4,046	26,123
Impairment losses are included in the following lines in the 2007 income statement	Land and buildings	Plant and machinery	Equipment, tools and installations		Total
Impairment losses					
Administrative expenses	-5	—	—		-5
Cost of sales	—	-32	—		-32
Ratable values	2008	2007			
Buildings (in Sweden)	1,287	1,059			
Land (in Sweden)	421	253			

Additional information

Items of property plant and equipment for a total of SEK 250 M (217) have been pledged as security for liabilities.

Contractual commitments for the acquisition of property, plant and equipment amount to SEK 150 M (110).

Government grants

The Group received government grants for the acquisition of property, plant and equipment during 2008 for a total of SEK 63 M (6). Grants received have reduced the stated cost by SEK 63 M (2).

**NOTE 13. INTANGIBLE ASSETS AND PROPERTY,
PLANT AND EQUIPMENT – GROUP (CONT.)****Impairment tests of goodwill**

Goodwill was tested for impairment at balance sheet date 31 December 2008. As appears above, the carrying value of goodwill in the consolidated balance sheet is SEK 9,831 M (8,933), essentially related to a number of more significant business combinations.

	Carrying value	
Goodwill by cash-generating unit	2008	2007
Sandvik Tooling		
Walter Group	1,209	1,056
Diamond Innovations	816	674
Business area level	1,023	719
Total	3,048	2,449
Sandvik Mining and Construction		
Exploration	402	424
Extec/Fintec	1,086	1,372
Business area level	2,370	1,834
Total	3,858	3,630
Sandvik Materials Technology		
Kanthal Group	1,139	1,041
MedTech	1,407	1,498
Business area level	85	81
Total	2,631	2,620
Seco Tools and Corporate	294	234
Group total	9,831	8,933

Goodwill is allocated to cash-generating units. The recoverable amount of a cash-generating unit is assessed based on estimates of value in use. These calculations are based on budgets/forecasts covering a five-year period. Cash flows for subsequent years have been extrapolated based on inflation, in no case exceeding 2%. Need of working capital beyond the five-year period is deemed to remain on the same level as in the fifth year. Cash flows have generally been discounted at a pre-tax rate of 10%.

Production and marketing processes of acquired businesses have in most cases been integrated into other Sandvik operations to such an extent that it is no longer possible to identify the cash flows and assets of the acquired businesses. For such reason, the impairment tests were largely made at a higher level although in no case above segment level. At present, the activities of Walter, Diamond Innovations, Kanthal, MedTech, Exploration and Extec/Fintec are also conducted in such a way that it has been possible to separately test goodwill allocated to these acquisitions.

The testing of goodwill at a higher organizational level obviously lessens the probability of identifying an impairment loss. These tests have with large margins supported the carrying values. Nor have the testing of goodwill allocated to the Walter Group, Kanthal and Exploration demonstrated impairment. The sensitivity of the calculations implies that no impairment loss would be identified even if the discount rate were increased by 1 percentage point or if the long term growth were lowered by 1 percentage point.

Other impairment tests

Capitalized development projects that are not yet available for use have been tested without any impairment being recognized.

**NOTE 14. INTANGIBLE ASSETS AND PROPERTY,
PLANT AND EQUIPMENT – PARENT COMPANY****Intangible assets**

	Patents and similar rights	
Cost		
At 1 January 2007		102
Additions		7
Divestments and disposals		-10
At 31 December 2007		99
At 1 January 2008		99
Additions		23
Divestments and disposals		-1
At 31 December 2008		121
Accumulated amortization		
At 1 January 2007		51
Amortization for the year		22
At 31 December 2007		73
At 1 January 2008		73
Amortization for the year		17
At 31 December 2008		90
Net book value at end of year		31
Amortization for the year is included in the following lines in the income statement		
	2008	2007
Selling expenses	-14	-14
Administrative expenses	-4	-8
Total	-18	-22

NOTE 14. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT – PARENT COMPANY (CONT.)**Property, plant and equipment**

	Land and buildings	Plant and machinery	Equipment, tools and installations	Construction in progress	Total
Cost					
At 1 January 2007	811	8,361	993	974	11,139
Additions	6	149	24	942	1,121
Divestments and disposals	-2	-126	-38	—	-166
Reclassifications	30	486	48	-564	0
At 31 December 2007	845	8,870	1,027	1,352	12,094
At 1 January 2008	845	8,870	1,027	1,352	12,094
Additions	9	211	30	1,264	1,514
Divestments and disposals	—	-155	-65	-3	-223
Reclassifications	25	804	57	-886	0
At 31 December 2008	879	9,730	1,049	1,727	13,385
Revaluations					
At 1 January 2007	41	—	—	—	41
At 31 December 2007	41	—	—	—	41
At 1 January 2008	41	—	—	—	41
At 31 December 2008	41	—	—	—	41
Accumulated depreciation					
At 1 January 2007	379	4,869	684	—	5,932
Divestments and disposals	-1	-104	-34	—	-139
Depreciation for the year	24	481	72	—	577
At 31 December 2007	402	5,246	722	—	6,370
At 1 January 2008	402	5,246	722	—	6,370
Divestments and disposals	—	-136	-55	—	-191
Depreciation for the year	27	532	70	—	629
At 31 December 2008	429	5,642	737	—	6,808
Net book values					
1 January 2007	473	3,492	309	974	5,248
31 December 2007	484	3,624	305	1,352	5,765
1 January 2008	484	3,624	305	1,352	5,765
31 December 2008	491	4,088	312	1,727	6,618

Ratable values – Parent Company	2008	2007
Buildings (in Sweden)	281	280
Land (in Sweden)	82	82

NOTE 15. SHARES IN GROUP COMPANIES

Shares in Group Companies	Parent Company	
	2008	2007
Cost		
At beginning of year	14,151	12,123
Additions	2,477	1,888
Capital contributions	1	148
New issues	-2,099	-8
Divestments	14,824	14 151
Accumulated impairment losses		
At beginning of year	-389	-400
Impairment losses reversed during the year	0	11
	-389	-389
Net book value at end of year	14,435	13,762

NOTE 15. SHARES IN GROUP COMPANIES (CONT.)**Sandvik AB's holdings of shares and participations in subsidiaries****Direct holdings**

According to balance sheet at 31 December; company, domicile	2008				2007			
	Corp. Reg. number	No. of shares	Holding, % ²⁾	Book value SEK 000's	No. of shares	Holding, % ²⁾	Book value SEK 000's	
SWEDEN								
C.O. Öberg & Co:s AB, Sandviken	556112-1186	2,000	100	0	2,000	100	0	
Dropler High Tech AB, Sandviken	556332-0380	1,000	100	119	1,000	100	119	
Elasis Svenska AB, Sandviken	556307-8947	100,000	100	110	100,000	100	110	
Förvaltningsbolaget Predio 4 KB, Sandviken	916624-2181	—	0 ³⁾	0	—	0 ³⁾	0	
Gimo Utbildningsaktieföretag, Gimo	556061-4041	1,000	91	2,591	1,000	91	2,591	
Gusab Holding AB, Sandviken	556001-9290	1,831,319	100	53,474	1,831,319	100	53,474	
Gusab Stainless AB, Mjölby	556012-1138	200,000	100	33,172	200,000	100	33,212	
Industri AB Skomab, Sandviken	556008-8345	2,000	100	100,050	2,000	100	100,050	
Malcus AB, Sandviken	556350-7903	1,000	100	100	1,000	100	100	
Rammer Svenska AB, Sandviken	556249-4004	3,000	100	851	3,000	100	851	
Tamrock Svenska AB, Sandviken	556189-1085	100	100	123	100	100	123	
AB Sandvik Antenn, Sandviken	556350-7895	1,000	100	100	1,000	100	100	
AB Sandvik Automation, Sandviken	556052-4315	1,000	100	50	1,000	100	50	
AB Sandvik Belts, Sandviken	556041-9680	25,000	100	2,500	25,000	100	2,500	
AB Sandvik Bruket, Sandviken	556028-5784	13,500	100	1,698	13,500	100	1,698	
AB Sandvik Calamo, Molkom	556190-2569	—	—	—	50,000	100	5,000	
AB Sandvik Communication, Sandviken	556257-5752	1,000	100	120	1,000	100	120	
AB Sandvik Construction Segment, Malmö ¹⁾	556659-6952	1,000	100	100	1,000	100	100	
AB Sandvik Coromant, Sandviken ¹⁾	556234-6865	1,000	100	50	1,000	100	50	
Sandvik Coromant Sverige AB, Stockholm ¹⁾	556350-7846	1,000	100	100	1,000	100	100	
Sandvik Export Assistance AB, Sandviken	556061-3746	80,000	100	0	80,000	100	0	
AB Sandvik Falken, Sandviken	556330-7791	1,000	100	120	1,000	100	120	
Sandvik Far East Ltd. AB, Sandviken	556043-7781	10,000	100	10,000	10,000	100	10,000	
Sandvik Försäkrings AB, Sandviken	516401-6742	15,000	100	15,000	15,000	100	15,000	
AB Sandvik Hard Materials, Stockholm ¹⁾	556234-6857	1,000	100	50	1,000	100	50	
Sandvik Hard Materials Norden AB, Stockholm	556069-1619	1,000	100	50	1,000	100	50	
Sandvik Information Technology AB, Sandviken ¹⁾	556235-3838	1,000	100	50	1,000	100	50	
Sandvik Intellectual Property AB, Sandviken	556288-9401	1,000,000	100	3,499,950	1,000,000	100	3,499,950	
AB Sandvik International, Sandviken ¹⁾	556147-2977	1,000	100	50	1,000	100	50	
AB Sandvik Klangberget, Sandviken	556135-6857	1,000	100	100	1,000	100	100	
Sandvik Materials Technology EMEA AB, Stockholm	556734-2026	1,000	100	100	1,000	100	100	
AB Sandvik Materials Technology, Sandviken ¹⁾	556234-6832	1,000	100	50	1,000	100	50	
Sandvik Mining and Construction AB, Sandviken ¹⁾	556664-9983	1,000	100	100	1,000	100	100	
Sandvik Mining and Construction Sverige AB, Sandviken ¹⁾	556288-9443	1,000	100	50	1,000	100	50	
Sandvik Mining and Construction Tools AB, Sandviken ¹⁾	556234-7343	1,000	100	50	1,000	100	50	
Sandvik Nora AB, Nora	556075-0506	80,000	100	135,000	80,000	100	135,000	
Sandvik Powdermet AB, Surahammar	556032-6760	600	100	119,554	600	100	119,554	
AB Sandvik Process Systems, Sandviken ¹⁾	556312-2992	1,000	100	100	1,000	100	100	
AB Sandvik Rock Tools, Sandviken	556081-4328	1,000	100	50	1,000	100	50	
Sandvik Rotary Tools AB, Köping	556191-8920	101,000	100	150,177	101,000	100	150,177	
AB Sandvik Service, Sandviken	556234-8010	1,000	100	50	1,000	100	50	
AB Sandvik Skogsfastigheter, Sandviken	556579-5464	1,000	100	26	1,000	100	100	
AB Sandvik Steel Investment, Sandviken	556350-7853	1,000	100	100	1,000	100	100	
Sandvik Stål Försäljnings AB, Stockholm ¹⁾	556251-5386	1,000	100	50	1,000	100	50	
Sandvik Systems Development AB, Sandviken ¹⁾	556407-4184	1,000	100	100	1,000	100	100	
Sandvik Tooling AB, Sandviken ¹⁾	556692-0038	1,000	100	100	1,000	100	100	
Sandvik Tooling Sverige AB, Sandviken ¹⁾	556692-0053	1,000	100	100	1,000	100	100	
AB Sandvik Tranan, Sandviken	556330-7817	1,000	100	9,088	1,000	100	9,088	
Sandvik Utbildnings AB, Sandviken	556304-8791	910	91	91	910	91	91	
AB Sandvik Vallhoven, Sandviken	556272-9680	6,840	100	1,800	6,840	100	1,800	
Sandvik Västanbyn AB, Sandviken	556590-8075	1,000	100	100	1,000	100	100	
AB Sandvik Västberga Service, Stockholm	556356-6933	1,000	100	100	1,000	100	100	
Sandvik Örebro AB, Sandviken	556232-7949	10,000	100	167	10,000	100	167	
AB Sandvik Örnen, Sandviken	556330-7783	1,000	100	120	1,000	100	120	
Sandvikens Brukspersonals Byggnadsförening upa, Sandviken	785500-1686	—	100	0	—	100	0	
Scandinavian Handtools AB, Sandviken	556093-5875	1,000	100	50	1,000	100	50	
Steebide International AB, Sandviken	556048-3405	15,000	100	1,000	15,000	100	1,000	
Tooling Support Halmstad AB, Halmstad	556240-8210	80,000	100	25,145	80,000	100	25,145	
AB Trellobo, Sandviken	556251-6780	1,000	100	120	1,000	100	120	
Walter Norden AB, Halmstad	556752-4698	15,000	100	1,500	—	—	100	

NOTE 15. SHARES IN GROUP COMPANIES (CONT.)

Sandvik AB's holdings of shares and participations in subsidiaries Direct holdings

		2008			2007		
According to the balance sheet at 31 December;		No. of		Book value	No. of shares		Book value
company,		shares	Holding, % ²⁾	SEK 000's		Holding, % ²⁾	SEK 000's
AUSTRALIA	Sandvik Australia Pty. Ltd.	—	6 ^{3,4)}	1,202,442	—	6 ^{3,4)}	1,202,442
	Sandvik Australian Ltd. Partnership	—	99	—	—	99	—
BRAZIL	Dormer Tools S.A.	2,137,623,140	100	200,000	2,137,623,140	100	200,000
	Sandvik do Brasil S.A.	1,894,797,190	100	46,072	1,894,797,190	100	46,072
BULGARIA	Sandvik Bulgaria Ltd.	—	100	0	—	100	0
CHINA	Sandvik China Holding Co Ltd.	—	100	668,890	—	100	327,915
	Sandvik China Ltd.	—	100	190,666	—	100	190,666
	Sandvik International Trading (Shanghai) Co. Ltd.	—	100	17,466	—	100	17,466
	Sandvik Mining and Construction (China) Ltd.	—	100	44,468	—	100	44,468
	Sandvik Materials Technology (China) Ltd.	—	44 ³⁾	109,053	—	44 ³⁾	66,870
	Sandvik Process Systems (Shanghai) Ltd.	—	100	6,809	—	100	6,809
CZECH REPUBLIC	Sandvik CZ s.r.o.	—	100	0	—	100	0
GERMANY	Sandvik Materials Technology GmbH	—	1 ³⁾	1,486	—	1 ³⁾	1,486
	Sandvik Holding GmbH	—	1 ³⁾	367	—	1 ³⁾	367
GREECE	Sandvik A.E. Tools and Materials	5,529	100	1,567	5,529	100	1,567
HUNGARY	Sandvik Magyarorszag Kft.	—	100	3,258	—	100	3,258
INDIA	Sandvik Asia Ltd.	16,030,246	27 ⁵⁾	277,028	16,030,246	27 ⁵⁾	277,028
IRELAND	Sandvik Mining and Construction Logistics Ltd.	100	100	5,508	100	100	5,508
ITALY	Sandvik Sorting Systems S.p.A.	—	—	—	—	—	—
JAPAN	Sandvik K.K.	2,600,000	100	224,701	2,600,000	100	224,701
KENYA	Sandvik Kenya Ltd.	35,000	96	0	35,000	96	0
KOREA	Sandvik Korea Ltd.	752,730	100	46,856	752,730	100	46,856
MALI	Sandvik Mining and Construction Mali	25,000	100	3,462	25,000	100	3,462
MEXICO	Sandvik Mexicana S.A. de C.V.	406,642,873	90 ³⁾	71,000	406,642,873	90 ³⁾	71,000
MONGOLIA	Sandvik Mongolia LLC.	400,000	100	2,682	400,000	100	2,682
MOROCCO	Sandvik Maroc SARL	940	94	0	940	94	0
NETHERLANDS	Sandvik Finance B.V.	18,786	100	7,017,620	18,786	100	4,923,930
PERU	Sandvik del Perú S.A.	6,562,795	100	26,025	6,562,795	100	26,025
POLAND	Sandvik Baildonit S.A.	—	100	—	—	100	—
	Sandvik Polska Sp. z o.o.	3,211	100	93,197	3,211	100	93,197
SLOVAKIA	Sandvik Slovakia s.r.o.	—	100	1,238	—	100	1,238
SWITZERLAND	Sanfinanz AG	1,000	100	735	1,000	100	735
TURKEY	Sandvik Endüstriyel Mamüller Sanayi ve Ticaret A.S.	125,154,588	100	3,200	125,154,588	100	3,200
UK	Inhoco 3367 Ltd.	—	—	—	97,001	100	861,486
	Sandvik Medical Solutions Ltd.	—	—	—	1,320,714	100	938,385
ZIMBABWE	Sandvik Mining and Construction Zimbabwe (Pty) Ltd.	233,677	100	3,269	233,677	100	3,269
				14,434,781			13,761,518

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

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

3) Remaining shares are held by other Group companies.

4) Share of capital 33%.

5) Shares up to an ownership interest of 97% are held by other Group companies.

Sandvik AB's holdings of shares and participations in subsidiaries

Indirect holdings in operating Group companies

Group holding, %	2008 ¹⁾	2007 ¹⁾	Group holding, %	2008 ¹⁾	2007 ¹⁾		
SWEDEN	Kanthal AB	100	100	Sandvik Mining and Construction Pty. Ltd. Australia	100	100	
	Sandvik Mining and Construction Haparanda AB	100	100	Sandvik Mining and Construction Tomago Pty. Ltd.	100	100	
	Sandvik Invest AB	100	100	Sandvik RC Tools Australia Pty. Ltd.	100	100	
	Sandvik SRP AB	100	100	Sandvik Rotary Tools Australia Pty. Ltd.	100	100	
	Sandvik SRP (Arbrå) AB	100	100	Walter Australia Pty. Ltd.	100	100	
	Sandvik Treasury AB	100	100	AUSTRIA	Walter Austria GmbH	100	100
	Seco Tools AB	60 ²⁾	60 ²⁾	Sandvik BPI Bohrtechnik GmbH & Co. KG	100	100	
ALGERIA	Sandvik Mining and Construction Algeria SpA	100	100	Sandvik in Austria Ges.m.b.H.	100	100	
ARGENTINA	Sandvik Argentina S.A.	100	100	Sandvik Mining and Construction GmbH	100	100	
	Walter Argentina S.A.	100	100	Sandvik Mining and Construction Materials Handling GmbH & Co. KG	100	100	
AUSTRALIA	Hydramatic Engineering Pty. Ltd.	100	100	BELGIUM	Walter Benelux N.V./S.A.	100	100
	Sandvik Australia Pty. Ltd.	100	100	BRAZIL	Diamond Innovations Brasil	100	100
	Sandvik Shark Pty. Ltd.	100	100	Comércio E Importação Ltda.	100	100	
	Sandvik Mining and Construction Perth Pty. Ltd.	100	100	Sandvik MGS S.A.	100	51	
	Sandvik Mining and Construction Adelaide Pty. Ltd.	100	100				

NOTE 15. SHARES IN GROUP COMPANIES (CONT.)**Sandvik AB's holdings of shares and participations in subsidiaries**

Indirect holdings in operating Group companies

Group holding, %	2008 ¹⁾	2007 ¹⁾	Group holding, %	2008 ¹⁾	2007 ¹⁾
			NEW		
			ZEALAND		
			Sandvik New Zealand Ltd.	100	100
			Walter New Zealand Ltd.	100	100
CANADA			NIGERIA		
Dormer Tools Inc.	100	100	Sandvik Mining and Construction Nigeria Ltd.	100	100
Sandvik Canada Inc.	100	100	NORWAY		
Sandvik Mining and Construction Canada Inc.	100	100	Sandvik Norge A/S	100	100
Valenite-Modco Ltd.	100	100	Sandvik Riser Technology A/S	100	100
CHILE			Teeness ASA	100	—
Sandvik Chile S.A.	100	100	Sandvik Tamrock A/S	100	100
Sandvik Exploration Equipment	100	100	PERU		
CHINA			Sandvik del Peru S.A.	100	100
Beijing Aubema Technology Company Ltd.	100	—	PHILIPPINES		
Sandvik Hard Materials (Wuxi) Co. Ltd.	100	100	Sandvik Philippines Inc.	100	100
Sandvik Round Tools Production Co. Ltd.	100	100	Sandvik Tamrock (Philippines) Inc.	100	100
Sandvik Tooling Sales and Trade (Shanghai) Ltd.	100	100	POLAND		
Sandvik (Qingdao) Ltd.	100	100	Walter Polska Sp. z.o.o.	100	100
Walter Wuxi Co. Ltd.	100	100	Sandvik Mining and Construction Sp. z.o.o.	100	100
CROATIA			ROMANIA		
Sandvik, za trgovinu d.o.o.	100	100	Sandvik SRL	100	100
CZECH			RUSSIA		
REPUBLIC			OOO Walter	100	100
Sandvik Chomutov Precision Tubes s.r.o.	100	100	Sandvik Mining and Construction CIS LLC	100	100
Walter CZ s.r.o.	100	100	Sandvik-MKTC OAO	100	98
DENMARK			SERBIA/MON-		
Sandvik A/S	100	100	TENEGRO		
FINLAND			Sandvik Serbia/Montenegro d.o.o.	100	100
Sandvik Mining and Construction Finland Corp.	100	100	SINGAPORE		
Sandvik Mining and Construction Oy	100	100	Kanthal Electroheat (SEA) Pte. Ltd.	100	100
FRANCE			Sandvik Mining and Construction		
Safety S.A.S.	100	100	S.E. Asia Pte. Ltd.	100	100
Sandvik CFBK S.A.S.	100	100	Sandvik South East Asia Pte. Ltd.	100	100
Sandvik Hard Materials France	100	100	Walter AG Singapore Pte. Ltd.	100	100
Sandvik Materials Technology France S.A.S.	100	—	SLOVENIA		
Sandvik Mining and Construction Lyon S.A.S.	100	100	Sandvik d.o.o.	100	100
Sandvik Mining and Construction France S.A.S.	100	100	SOUTH		
Sandvik S.A.S.	100	100	AFRICA		
Sandvik Tooling France S.A.S.	100	—	ARO Mining (Pty) Ltd.	100	100
GERMANY			Sandvik Mining and Construction RSA (Pty) Ltd.	100	100
ARO Hydramatic Europe GmbH	100	100	Sandvik (Pty) Ltd.	100	100
Aubema Crushing Technology GmbH	100	—	Sandvik Mining and Construction		
J&M Mining Supply GmbH	100	100	Delmas (Pty) Ltd.	100	100
Prototyp-Werke GmbH	100	100	SDS Mining Supplies (Africa) (Pty) Ltd.	100	100
Safety Deutschland GmbH	100	100	SPAIN		
Sandvik Customer Financing Europe GmbH	100	100	Sandvik Española S.A.	100	100
Sandvik Materials Technology Deutschland GmbH	100	100	Walter Tools Iberica S.A.U.	100	100
Sandvik Mining and Construction			SWITZER-		
Central Europe GmbH	100	100	LAND		
Sandvik Mining and Construction Supply GmbH	100	100	Sandvik AG	100	100
Sandvik Tooling Deutschland GmbH	100	100	Sansafe AG	100	100
TDM Systems GmbH	75	75	Santrade Ltd.	100	100
Walter AG	100	100	Walter (Schweiz) AG	100	100
Walter Deutschland GmbH	100	100	TAIWAN		
Werner Schmitt PKD-Werkzeug GmbH	100	100	Sandvik Hard Materials Taiwan Pty. Ltd.	100	100
GHANA			Sandvik Taiwan Ltd.	100	100
Sandvik Mining and Construction Ghana Ltd.	100	100	Walter Taiwan Ltd.	100	100
HONG KONG			TANZANIA		
Sandvik Hong Kong Ltd.	100	100	Sandvik Mining and Construction Tanzania Ltd.	100	100
HUNGARY			THAILAND		
Walter Hungaria Kft.	100	100	Sandvik Thailand Ltd.	100	100
INDIA			Walter (Thailand) Co. Ltd.	100	100
Sandvik Mining and Construction Tools India Ltd.	97	97	UK		
Walter Tools India Pvt. Ltd.	100	100	Dormer Tools Ltd.	100	100
INDONESIA			Extec Screens and Crushers Ltd.	100	100
PT Sandvik Indonesia	100	100	Fintec Crushing and Screening Ltd.	100	100
PT Sandvik Mining and Construction Indonesia	100	100	Kanthal Ltd.	100	100
PT Sandvik SMC	100	100	Prototyp UK Ltd.	100	100
IRELAND			Safety Cutting Tools UK Ltd.	100	100
Diamond Innovations International Sales	100	100	Sandvik Ltd.	100	100
Sandvik Ireland Ltd.	100	100	Sandvik Medical Solutions Ltd.	100	100
ITALY			Sandvik Mining and Construction Ltd.	100	100
Dormer Italia S.p.A.	100	100	Sandvik Osprey Ltd.	100	100
Impero S.p.A.	100	100	Walter GB Ltd.	100	100
Sandvik Italia S.R.L.	100	100	UKRAINA		
SSC Holding Italia S.R.L.	100	100	Sandvik Ukraine	100	100
Walter Italia S.R.L.	100	100	US		
JAPAN			Diamond Innovations Inc.	100	100
Sandvik Mining and Construction Japan K.K.	100	100	Diamond Innovations International Inc.	100	100
Sandvik Tooling Supply Japan K.K.	100	100	Extec Inc.	100	100
Walter Tooling Japan K.K.	100	—	Kanthal Corp.	100	100
KAZAKH-			MRL Industries Inc.	100	100
STAN			Pennsylvania Extruded Tube Co.	70	70
Sandvik Mining and Construction Kazakhstan	100	100	Precision Twist Drill Co.	100	100
KOREA			Sandvik Customer Finance LLC	100	100
Sandvik Suhjun Ltd.	100	70	Sandvik Inc.	100	100
Walter Korea Ltd.	100	100	Sandvik Medical Solutions Alabama LLC	100	100
MALAYSIA			Sandvik Medical Solutions Oregon Inc.	100	100
Sandvik Malaysia Sdn. Bhd.	100	100	Sandvik Mining and Construction USA LLC	100	100
Sandvik Malaysia Wood Technology Sdn. Bhd.	100	100	Sandvik Process Systems LLC	100	100
Sandvik Mining and Construction			Sandvik Special Metals LLC	100	100
(Malaysia) Sdn. Bhd.	100	100	TDM Systems Inc.	100	100
Walter Malaysia Sdn. Bhd.	100	100	Valenite LLC	100	100
MEXICO			Walter USA Inc.	100	100
Sandvik de México S.A. de C.V.	100	100	ZAMBIA		
Valenite de México S.A. de C.V.	100	100	Sandvik Mining and Construction Zambia Ltd.	100	100
Sandvik Mining and Construction					
de México S.A. de C.V.	100	100			
NETHER-					
LANDS					
Sandvik Benelux B.V.	100	100			
Sandvik DC Venlo B.V.	100	100			
Sandvik Intellectual Property B.V.	100	100			

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

2) Share of votes 89% (89).

NOTE 16. INVESTMENTS IN ASSOCIATED COMPANIES

Group	2008	2007
Accumulated share of equity		
At beginning of year	348	543
Acquisitions	91	6
Divestments	—	-234
Share of profits for the year	46	119
Less dividend received	-21	-85
Translation differences during the year	21	-1
At end of year	485	348

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

2008	Country	Revenue	Profit	Assets	Liabilities	Equity	Group's share, %
Owned directly by Sandvik AB							
Balzer Sandvik Coating AB	Sweden	111	23	77	24	53	49.0
Owned indirectly by Sandvik AB							
AvestaPolarit Stainless Tube AB1)	Sweden	69	7	126	14	112	50.0
Caterpillar Impact Products Ltd.	UK	405	56	177	79	98	40.0
Eimco Elecon	India	175	20	213	43	170	25.1
Fagersta Stainless AB	Sweden	1,964	5	991	480	511	50.0
Fintec Crushing & Screening Ltd.	UK	54	1	107	17	90	49.0
Associates owned by Seco Tools		46	4	45	26	19	
2007							
Owned directly by Sandvik AB							
Balzer Sandvik Coating AB	Sweden	102	20	59	20	39	49.00
Owned indirectly by Sandvik AB							
Bellataire LLC	US	62	-8	68	18	50	50.00
Caterpillar Impact Products Ltd.	UK	479	91	123	75	48	40.00
Eimco Elecon	India	157	14	223	71	152	25.10
Fagersta Stainless AB	Sweden	2,540	52	1,050	528	522	50.00
Associates owned by Seco Tools		78	4	48	30	18	

Additional information

The reporting date of the financial statements of Eimco Elecon is 31 March 2008. Dividend paid in 2008 is included in reported results. No financial reports as of a later date have been obtainable.

Parent Company's shares in associated companies	2008	2007
Cost		
At beginning of year	4	4
At end of year	4	4

	Corp. Reg. No.	Share of capital and voting rights, %	Carrying value, SEK M
2008			
Balzer Sandvik Coating AB, Stockholm	556098-1333	49	4
2007			
Balzer Sandvik Coating AB, Stockholm	556098-1333	49	4

NOTE 17. OTHER FINANCIAL ASSETS

Group	2008	2007
Non-current financial investments		
Available-for-sale investments		
Shares and participations	78	79
Total	78	79

Additional information

It has not been possible to measure the fair value of these shares and participations reliably and these assets are, therefore, measured at cost.

NOTE 18. NON-CURRENT RECEIVABLES AND OTHER CURRENT RECEIVABLES

Group	2008	2007
Non-current receivables		
Funded pension plans	1,542	1,035
Other noninterest-bearing receivables	438	525
Other interest-bearing receivables	532	469
Total	2,512	2,029
Other current receivables		
Derivatives held as investments	4	29
Derivatives designated as hedging instruments	3,204	571
Due from customers for contract work	1,138	1,129
Other noninterest-bearing receivables	2,533	1,919
Other interest-bearing receivables	439	280
Advances to suppliers	441	251
Total	7,759	4,179
Parent Company		
Non-current receivables		
Derivatives	6	—
Other noninterest-bearing receivables	20	20
Total	26	20
Other current receivables		
Derivatives	19	103
Other noninterest-bearing receivables	200	407
Other interest-bearing receivables	14	8
Total	233	518

	Group	
	2008	2007
Construction contracts		
Contract costs incurred and recognized profits (less recognized losses)	6,691	6,622
Advances received	885	770
Amounts retained by customers	0	0
Gross amount due from customers	1,138	1,129
Gross amount due to customers	207	414

NOTE 19. INVENTORIES

	Group		Parent Company	
	2008	2007	2008	2007
Raw materials and consumables	6,315	6,964	1,815	3,639
Work in progress	5,274	5,157	2,074	1,873
Finished goods	17,025	13,180	1,234	730
Total	28,614	25,301	5,123	6,242

Cost of sales of the Group includes write-downs of inventories of SEK 460 M (281) while cost of sales of the Parent Company includes write-downs of SEK 154 M (113). There were no significant reversals of write-downs during 2008 and 2007.

NOTE 20. CAPITAL AND RESERVES

	Group	
	2008	2007
Details of reserves		
Translation reserve		
At beginning of year	288	-512
Translation differences during the year	4,740	800
At end of year	5,028	288
Hedging reserve		
At beginning of year	80	0
Cash flow hedges reported in equity	-457	80
At end of year	-377	80
Total reserves		
Reserves at beginning of year	368	-512
Changes in reserves:		
Translation reserve	4,740	800
Hedging reserve	-457	80
Reserves at end of year	4,651	368

Other paid-in capital

Relates to payments made by owners and includes share premium reserve transferred to the legal reserve at 31 December 2006. Any share premium as from 1 January 2007 and onwards is also reported as paid-in capital.

Reserves**Translation reserve**

The translation reserve comprises all foreign exchange differences arising on the translation of the financial statements of foreign operations stated in a currency different from the Group's presentation currency. The Parent Company's and the Group's presentation currency is Swedish kronor (SEK).

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash-flow hedging instruments related to hedged transactions that have not yet occurred.

Retained earnings including profit for the year

Retained earnings including profit for the year comprises the earned profits of the Parent Company and its subsidiaries and associated companies.

Repurchased shares

Repurchased shares include the acquisition cost for own shares (treasury stock) held by the Parent Company.

Managing of capital**Sandvik's long-term financial objectives**

	2008	2007
Organic growth	8%	8%
Return on capital employed	25%	25%
Debt/Equity ratio	≥50%	0.7-1.0
Dividend payout percentage	0.7-1.0	≥50%

New financial objectives were announced in 2006. The objectives are based on Sandvik's strong development in recent years and assessments of the company's strengths and positioning in future. Sandvik's overall financial objectives are aggressive and based on the Group's position as world leading within its various product areas, a strong global presence, strong research and development efforts, and effective production and logistics.

Sandvik's organic growth goal is 8% per year to be compared with the underlying average growth of the market of 3-5% within Sandvik's fields of activities. The higher goal is based on:

- Increased market shares in existing as well as new markets
- New products
- New application areas with great growth potentials.

Equity

Equity is defined to include total shareholders' equity and minority interest.

	2008	2007
Equity		
Share capital	1,424	1,424
Other paid-in capital	1,057	1,057
Reserves	4,651	368
Retained earnings including profit for the year	28,456	25,765
Equity attributable to equity holders of the parent	35,588	28,614
Minority interest	1,137	1,209
Total equity	36,725	29,823

The Board of Directors has proposed to the Annual General Meeting of Shareholders a dividend of SEK 3.15 per share. Over the last five years, slightly more than half of the earnings per share has been distributed as ordinary dividend. Thus, slightly more than half of the annual earnings per share has been distributed as ordinary dividends.

No changes were made to the processes for managing capital during the year.

Neither the Parent Company, nor any of its subsidiaries have to comply with externally imposed capital requirements.

NOTE 20. CAPITAL AND RESERVES (CONT.)

Parent Company

Share capital

According to the Articles of Association of Sandvik AB the share capital shall amount to a minimum of SEK 700,000,000 and a maximum of SEK 2,800,000,000. All issued shares are fully paid have the same voting rights and are equally entitled to the Company's assets.

Share capital during the last two years has changed as follows:

	No. of shares	SEK/share	Share capital SEK
Share capital at 31 December 2006	1,186,287,175	1,20	1,423,544,610
Share split at 22 May 2007, 2:1	1,186,287,175	—	—
Stock dividend 14 June 2007	—	0,60	711,772,305
Cancellation of redemption 20 June 2007	-1,186,287,175	-0,60	-711,772,305
Share capital 31 December 2007	1,186,287,175	1,20	1,423,544,610
Share capital 31 December 2008	1,186,287,175	1,20	1,423,544,610

A dividend is in accordance with the stipulations in the Swedish Companies' Act proposed by the Board of Directors and shall be approved at the Annual Meeting of Shareholders. The proposed not yet resolved dividend for 2008 is estimated to amount to SEK 3,737 M (SEK 3.15 per share). This amount is not reported as a liability.

No shares have been reserved for transfer under options or other agreements.

The Sandvik share is officially listed only on the Stockholm Stock Exchange. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

Undistributable reserves

Undistributable reserves may not be paid to the shareholders in the form of dividends.

Legal reserve

The purpose of the legal reserve has been to tie up part of the profits unless needed to cover an accumulated deficit. The legal reserve amount includes amounts that before 1 January 2006 were included in the share premium reserve.

Distributable reserves

Retained earnings

Retained earnings comprise the distributable reserves reported in the prior year less any dividend declared. The total of such profits brought forward and the profit for the year constitute the total distributable reserves, that is the maximum amount available for distribution to the shareholders.

NOTE 21. PARENT COMPANY'S ACCELERATED DEPRECIATION

	Land and buildings	Plant and machinery	Equipment, tools and installations	Patents and similar rights	Total
Balance at 1 January 2007	1	2,202	195	32	2,430
Accelerated depreciation for the year	-1	-2,202	-195	-32	-2,430
Balance at 31 December 2007	—	—	—	—	—
Balance at 1 January 2008	—	—	—	—	—
Balance at 31 December 2008	—	—	—	—	—

NOTE 22. PARENT COMPANY'S OTHER UNTAXED RESERVES

Tax allocation reserves	2008	2007
Other untaxed reserves	12	19
Total other untaxed reserves	12	19

NOTE 23. PROVISIONS FOR PENSION AND OTHER LONG-TERM POST-EMPLOYMENT BENEFITS

Sandvik provides direct pension solutions and otherwise participates in a number of defined benefit, defined contribution and other plans for long-term post-employment benefits to employees throughout the group. The plans are structured in accordance with local regulations and local practice. In recent years, Sandvik has sought defined contribution solutions and to an ever increasing extent the total pension expense is made up by the costs for such plans. In principle, the plans cover all employees. The Group's most significant pension arrangements are described below.

Sweden

Workers are covered by the SAF/LO Plan which is a multiemployer collectively bargained defined contribution pension plan common for several industry sectors. Salaried employees are covered by the ITP Plan, which is also a multiemployer collectively bargained pension plan for several industry sectors. The ITP Plan was renegotiated and, as from October 2007, newly hired white-collar employees are offered the defined contribution solution that the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector agreed on (ITP 1). Earlier hired employees

remain in the old ITP Plan. The old-age pension obligation under the old plan is of the defined benefit kind and Sandvik mainly provides for this pension under the so-called FPG/PR1 system. However, the commitment for family pension, also classified as a defined benefit plan, is insured with Alecta. Sufficient information to use defined benefit accounting for this plan has not been available but these pension benefits insured with Alecta are accounted for as if the plan were a defined contribution plan. At the end of 2008, Alecta reports a plan surplus of 112% (152). Such surplus reflects the fair value of Alecta's plan assets as a percentage of plan commitments, then measured in accordance with Alecta's actuarial assumptions which are different from those under IAS 19. Alecta's surplus may be distributed to the members of the plan and/or to the plan participants.

In addition, the Parent Company has made supplementary defined benefit pension commitments to a limited number of Executive Group Management members.

At 31 December 2008, the defined benefit obligation amounted to SEK 2,106 M (1,900). The fair value of the plan assets held by the Sandvik Pension Foundation in Sweden was SEK 1,665 M (1,895).

NOTE 23. PROVISIONS FOR PENSION AND OTHER LONG-TERM POST-EMPLOYMENT BENEFITS (CONT.)**US**

The major part of the employees of the Group's US subsidiaries have been entitled to participate in the defined benefit pension plans sponsored by their respective employer. As of the preceding year, these commitments have been renegotiated meaning that newly hired staff will henceforth be offered a defined contribution solution. The defined benefit plans were closed for new entrants.

In the US part of the Group, there are also commitments for post-retirement medical benefits.

At 31 December 2008, the present value of remaining defined benefit pension obligations amounted to SEK 3,293 M (2,448). The fair value of plan assets was SEK 2,059 M (2,028).

UK

Sandvik guarantees a number of defined benefit pension plans in the UK. These plans are funded through trusts, which provide pension benefits based on a participant's salary when reaching pension age and length of service. All defined benefit plans were closed for new entrants in September 2006. Newly hired employees since then are being offered to participate in a defined contribution plan.

At 31 December 2008, the present value of remaining defined benefit pension obligations amounted to SEK 3,732 M (4,441) and the fair value of plan assets was SEK 3,234 M (3,776).

Finland

In Finland, Sandvik sponsors a funded defined benefit pension plan. The benefits offered include an old-age pension and disability pension. In addition to the benefits guaranteed by the Finnish subsidiary, there is also a defined contribution pension component.

At 31 December 2008, the present value of the defined benefit pension obligations was SEK 2,101 M (2,077). The fair value of the plan assets held by the related Finnish pension foundation was SEK 2,455 M (2,466).

Germany

In Germany, Sandvik has defined benefit pension plans. Until 2008, these plans were unfunded. During 2008, Sandvik formed a foundation, a so-called Contractual Trust Agreement (CTA), which covers the current employees within most of Sandvik's German companies. The pension commitments for retirees and paid-up policyholders are still unfunded. The present value of the defined benefit obligations amounted at 31 December 2008 to SEK 1,709 M (1,578). The fair value of the plan assets amounts to SEK 778 M (0).

Other

The present value of defined benefit pension obligations in other countries was SEK 1,882 M (1,645). The fair value of related plan assets was SEK 1,230 (1,066).

The total cost for the more significant defined benefit pension plans is presented below:

Pension cost	2008	2007
Current service cost	-414	-407
Interest cost	-734	-658
Expected return on plan assets	734	638
Amortization of unrecognized gains and losses	-10	-5
Prior service costs	-5	-1
Employee contributions	55	47
Gains (losses) on settlements	15	23
Total defined benefit pension cost	-359	-363

Total pension costs for defined contribution and defined benefit plans were as follows:

Defined contribution and defined benefit plans	2008	2007
Defined contribution plans	-1,065	-1,029
Defined benefit plans	-359	-363
Total pension cost	-1,424	-1,392

The cost for defined contribution plans includes also plans reported in accordance with local regulations and the cost for the defined benefit commitments insured with Alecta described to the left.

Actual return on plan assets during 2008 was a negative SEK 1,353 M (pos: 607).

Pension costs are included in the income statement lines cost of sales, selling expenses, administrative expenses, research and development costs, and financial expense. Financial expense includes a portion, SEK 206 M (170), of the interest cost above that pertains to deficits in pension plans.

If the fair value of plan assets for a certain pension plan exceeds the present value of the obligation, an asset is recognized considering the restrictions described in the "Significant accounting principles" section above. The amounts recognized in the balance sheet are distributed between non-current financial receivables and provisions as follows:

	2008	2007
Provision for pensions		
Funded plans reported as non-current receivables	1,542	1,035
Pension plans reported as provisions for pensions	-2,735	-3,100
Provisions for pensions, net	-1,193	-2,065

Actuarial gains and losses for a specific plan are recognized over the expected average remaining working lives of the employees participating in the plan to the extent that the total gain or loss exceeds the greater of 10% of the present value of the obligations or 10% of the fair value of any plan assets.

A summary of the reported net obligation for the most significant plans for defined benefit pensions and medical benefits follows:

Net obligation	2008	2007
Wholly or partly funded plans		
Present value of defined benefit obligations	-12,940	-11,758
Fair value of plan assets	11,421	11,231
Net liability, funded plans	-1,519	-527

Unfunded plans

Present value of defined benefit obligations	-1,883	-2,331
Unrecognized past service costs	34	32
Unrecognized actuarial losses (+) and gains (-), net	2,353	932
Pension liability for plans reported in accordance with IAS 19	-1,015	-1,894
Pension liability for plans reported in accordance with local regulations	-178	-171
Provisions for pensions/medical benefits, net	-1,193	-2,065

The consolidation ratio, that is, the value of plan assets in relation to the present value of comparable obligations, amounted at year-end 2008 to 88% (96).

Composition of plan assets, %	2008	2007
Shares and equity based securities	26	38
Interest-bearing securities	56	48
Other	18	14
Total	100	100

The fair value of plan assets at 31 December 2008 (and 31 December 2007) includes loans to Sandvik entities totaling SEK 153 M (154) and the value of properties leased to Sandvik of SEK 255 M (200).

Movements in the reported obligations for pensions and medical benefits, and in plan assets are set out in the following tables:

Movements in the obligations	2008	2007
Obligations for defined benefit plans at beginning of year	-14,089	-13,417
Current service cost and interest cost	-1,149	-1,065
Pensions paid	554	548
Effects of business combinations and settlements	-161	-253
Actuarial gains(+)/losses(-)	775	-83
Translation differences	-753	181
Obligations for defined benefit plans at end of year	-14,823	-14,089

NOTE 23. PROVISIONS FOR PENSION AND OTHER LONG-TERM POST-EMPLOYMENT BENEFITS (CONT.)

	2008	2007
Movements in plan assets		
Fair value of plan assets at beginning of year	11,231	10,417
Expected return on plan assets	734	638
Actuarial gains(+)/losses(-)	-2,087	-31
Pensions paid, net	-503	-501
Contributions from employers	1,380	625
Effects of business combinations and settlements	195	250
Translation differences	471	-167
Fair value of plan assets at end of year	11,421	11,231

Sandvik estimates that about SEK 700 M will be paid in 2009 to existing defined benefit pension plans.

The movements in the net pension and medical-benefit liability is presented in the following table:

	2008	2007
Net liability at beginning of year	-2,065	-2,286
New plans, incl. those of newly acquired companies	-7	-44
Pension cost for the year for defined benefit plans	-359	-363
Contributions from Group companies	1,380	625
Translation differences	-135	32
Movement in net liability for defined benefit plans reported in accordance with IAS 19	879	250

	2008	2007
Movement in pension plans reported in accordance with local regulations	-7	-29
Provisions for pensions, net	-1,193	-2,065

Key actuarial assumptions (weighted average, %)	2008	2007
Discount rate	5.7	5.3
Expected return on plan assets	6.2	6.5
Expected rate of salary increases	3.5	3.6
Expected inflation	2.7	2.5
Change in medical cost trend	9.0	9.0

	2008	2007	2006
Unrecognized actuarial gains (-) and losses (+)			
Unrecognized gains and losses at beginning of year	932	856	778
Changed assumptions relating to obligations	-746	-137	318
Experience adjustments arising on plan liabilities	-30	167	82
Experience adjustments arising on plan assets	2,087	31	-232
Amortization of actuarial gains and losses	-10	-5	-15
Translation difference	120	20	-75
Unrecognized gains and losses at end of year	2,353	932	856

Parent Company

The Parent Company's reported pension provision was SEK 128 M (108). The Parent Company's PRI pensions are secured through Sandvik's own pension foundation, the Sandvik Pension Foundation in Sweden. Sandvik AB and most of its Swedish subsidiaries, including Seco Tools, are members of the foundation. The fair value of the assets held by the foundation was SEK 1,665 M (1,895), which was below the capital value of the pension obligations by SEK 72 M (exceeded by 366).

The Parent Company's funded obligations are mainly the ITP plans, in which different lifetime assumptions were made during the year, while at the same time the consolidation reserve was reduced. In total, the changes had only a limited effect on the reported liability.

The Swedish Financial Supervisory Authority's (Finansinspektionen) new calculation basis, FFS 2007:31, which covers the Parent Company's unfunded obligations, became effective 1 January 2008 and means increased lifetime assumptions and reduced discount rates.

The development of the Parent Company's pension obligations appears in the following table:

	Funded obligations	Unfunded obligations	Total
2008			
Capital value at beginning of year	-1,247	-95	-1,342
Pension cost for the year excl. interest cost	-63	-12	-75
Interest cost	-52	-1	-53
Pensions paid	32	5	37
+/- effects of settlements and business combinations	0	—	0
Other changes	-18	-14	-32
Capital value at end of year	-1,348	-117	-1,465
of which insured with FPG/PRI	-1,337	-46	-1,383
2007			
Capital value at beginning of year	-1,163	-93	-1,256
Pension cost for the year excl. interest cost	-53	-6	-59
Interest cost	-41	-2	-43
Pensions paid	34	6	40
+/- effects of settlements and business combinations	-6	—	-6
Other changes	-18	—	-18
Capital value at end of year	-1,247	-95	-1,342
of which insured with FPG/PRI	-1,234	-28	-1,262

	2008	2007
Movement in the assets of the pension foundation		
Fair value of assets at beginning of year	1,475	1,452
Actual return on assets	-202	23
Net amount refunded to employers	24	—
Fair value of assets at end of year	1,297	1,475

	2008	2007
Reconciliation of the reported pension liability:		
Capital value at end of year	-1,465	-1,342
Fair value of the assets of the foundation at end of year	1,297	1,475
Surplus/deficit value of foundation assets	40	-241
Reported net liability	-128	-108

The reported pension cost for the year comprises the following:

	2008	2007
Current service cost excl. interest cost	-75	-59
Interest cost	-53	-43
Return on separated assets	-202	23
Effects of settlements, etc.	—	—
Costs for pension under own management	-330	-79
Defined contribution plans		
Pension premiums for the year	-397	-320
Subtotal	-727	-399

Special employer's contribution	-91	-79
Premium for credit insurance policy	2	-1
Total pension cost for the year	-816	-479

Change in surplus value of separated assets	330	79
Net pension cost for the year	-486	-400

Composition of the foundation's assets, %	2008	2007
Shares and equity based securities	13	20
Interest-bearing securities	77	76
Other	10	4
Total	100	100

Key actuarial assumptions %	2008	2007
Discount rate for ITP plan	3,84	3,64

NOTE 24. OTHER PROVISIONS

Group	Provisions for warranties	Provisions for restructurings	Personnel related provisions	Other provisions	Total
Balance at 1 January 2008	379	190	370	331	1 270
Provisions made during the year	220	64	189	481	954
Provisions used during the year	-206	-104	-142	-279	-731
Provisions reversed during the year	-12	-1	-1	-6	-20
Translation differences	33	11	5	18	67
Balance at 31 December 2008	414	160	421	545	1 540
of which current	211	31	136	356	734
of which non-current	203	129	285	189	806

Parent Company

Balance at 1 January 2008	27	0	114	13	154
Provisions made during the year	2	—	50	25	77
Provisions used during the year	-4	—	-34	—	-38
Provisions reversed during the year	—	—	-5	—	-5
Balance at 31 December 2008	25	0	125	38	188

Provisions for warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes against their associated probabilities.

Provisions for restructuring

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Personnel related provisions

The provisions include, among other things, provisions for long-term variable salary, social costs, outstanding personnel options and the special employer's contribution relating to unsecured pensions.

Other provisions

Other provisions include provisions not classified into the above categories, such as provisions for onerous contracts, for lease commitments relating to abandoned premises, and for environmental issues.

Provisions classified as current are expected to result in an outflow of resources within twelve months from the balance sheet date.

Provisions carried by newly acquired companies at acquisition date amounted to some SEK 12 M (35).

NOTE 25. NON-CURRENT INTEREST-BEARING LIABILITIES**Parent Company**

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

Group	2008			2007		
	Within 1-5 years	Later than five years	Total	Within 1-5 years	Later than five years	Total
Loans from financial institutions	1,190	463	1,653	1,255	463	1,718
Loans from Group companies	122	—	122	30	—	30
Other liabilities	8,168	2,423	10,591	7,707	2,424	10,131
Total	9,480	2,886	12,366	8,992	2,887	11,879

NOTE 26. OTHER INTEREST-BEARING LIABILITIES

Group	2008	2007
Non-current liabilities		
Bond issues	17,528	15,203
Other	360	492
Total	17,888	15,695

Current liabilities

Bond issues	2,776	1,025
Other	449	286
Total	3,225	1,311

For information on contractual terms, scheduled repayments and the exposure to interest risk and foreign-currency risk, refer to the section "Sandvik's risks and risk management".

NOTE 27. OTHER NONINTEREST-BEARING LIABILITIES

Group	2008	2007
Other non-current liabilities		
Derivatives held for trading	38	1
Derivatives designated as hedging instruments	296	54
Other	64	74
Total	398	129

Other current liabilities

Derivatives held for trading	20	3
Derivatives designated as hedging instruments	1,109	224
Bills payable	185	131
Gross amount due to construction contract customers	207	414
Other	1,791	1,396
Total	3,312	2,168

NOTE 28. ACCRUED EXPENSES AND DEFERRED INCOME

Parent Company	2008	2007
Personnel related	1,159	1,344
Expenses related to finance	386	404
Other	635	988
Total	2,180	2,332

NOTE 29. CONTINGENT LIABILITIES AND PLEDGED ASSETS

From time to time, Sandvik is party to more or less significant legal proceedings in the ordinary course of business. In that context, Sandvik is also party to legal and administrative proceedings related to its responsibility for products, environment, health and safety. None of these proceedings is of a material nature.

As with a large number of other companies that market and sell welding electrodes in the US, Sandvik's US subsidiary, Sandvik Inc., is the object of claims in which it is asserted that the exposure to welding fumes caused neurological injury. All of these cases involve multiple defendants in addition to Sandvik Inc. The Company has not lost any lawsuit or settled any such claims, and the only costs incurred have been the costs of defending the lawsuits, which have been covered by insurance.

To obtain a favorable result against Sandvik Inc., a plaintiff would have to prove that the neurological injury was caused by welding electrodes sold by Sandvik Inc. Sandvik Inc.'s market share for welding electrodes in the US is low, less than 1%.

Many of the cases against Sandvik Inc. have been dismissed because the plaintiff could not show that they had used Sandvik Inc.'s welding electrodes. Sandvik believes that there is no reliable scientific evidence to support the claims but – despite such absence of evidence, and considering also the minimal market share anticipates that Sandvik Inc will have to continue to defend itself against this kind of claims in lawsuits and that the possibility that Sandvik Inc. in future will incur costs for this kind of legal proceedings cannot be ruled out.

	Group		Parent Company	
	2008	2007	2008	2007
Contingent liabilities				
Bills discounted	22	65	—	—
Other surety undertakings and contingent liabilities	1 838	2 392	17 316	16 068
Total	1 860	2 457	17 316	16 068
of which for subsidiaries			17 122	15 762

The Parent Company's surety undertakings and contingent liabilities amounted to SEK 17,316 M, SEK 13,941 M of which related to the Parent Company's guarantees for Sandvik Treasury AB's financial borrowings. The remainder comprised mainly indemnity bonds for commitments of Group companies to their customers and vendors, and to financial institutions relating to local borrowings, guarantees on advances received and various types of performance bonds.

The Group's surety undertakings and contingent liabilities amounted to SEK 1,860 M and comprised mainly guarantees to financial institutions for various types of performance bonds, chiefly relating to construction contracts entered into by Sandvik Mining and Construction.

Pledged assets

Pledged assets for own liabilities and provisions.

Group	2008	2007
Property mortgages	250	217
Chattel mortgages	166	42
Total	416	259

No assets of the Parent Company had been pledged at 2008 and 2007 year-ends.

NOTE 30. RELATED PARTIES

The Group's sales to associated companies amounted to SEK 1,756 M (2,131). The Group's purchases from associated companies amounted to SEK 564 M (803). Advances have been made to associated companies in the amount of SEK 0 M (0). Interest income on loans to associated companies amounted to SEK 0 M (1). Guarantees have been made for the obligations of associated companies in the amount of SEK 0 M (0). All transactions are carried out on market terms.

Sales to Group companies from the Parent Company amounted to SEK 15,362 M (14,791), or 75% (72) of total sales. The share of exports was 79% (83). The Parent Company's purchases from Group companies amounted to SEK 2,306 M (2,610), or 13% (13) of total purchases. The Parent Company had not made any advances to associated companies. Guarantees have been made for obligations of associated companies in the amount of SEK 0 M (0). All transactions are effected on an arm's length basis.

Transactions with key management personnel

Except as indicated in Note 3.5, Information on benefits to the Board of Directors and senior executives, and in the description of the Board of Directors on page 96, no transactions with related natural persons have taken place.

NOTE 31. SUPPLEMENTARY INFORMATION TO THE CASH-FLOW STATEMENTS

	2008	2007
Cash and cash equivalents – Group		
Cash and cash equivalents comprise:		
Cash and bank	3,112	1,927
Short-term investments	1,886	79
Total in the balance sheet	4,998	2,006
Total in the cash-flow statement	4,998	2,006
Cash and cash equivalents – Parent Company		
Cash and cash equivalents comprise:		
Cash and bank	3	6
Total in the balance sheet	3	6
Total in the cash-flow statement	3	6

A short-term investment is classified as cash equivalent if:

- the risk of changes in value is insignificant
- it is readily convertible into cash
- it has a maturity of no more than three months from the date of acquisition.

	Group		Parent Company	
	2008	2007	2008	2007
Interest and dividend paid				
Dividend received	3	1	6,757	6,005
Interest received	383	257	545	529
Interest paid	-2,169	-1,381	-1,403	-1,029
Total	-1,783	-1,123	5,899	5,505

Adjustment for items do not require the use of cash

Amortization, depreciation and impairment losses	3,481	3,077	635	581
Changes in fair value of financial instruments	—	—	547	-178
Unappropriated results of associated companies	-24	-37	—	—
Gains and losses on disposal of property, plant and equipment	-60	-152	-1	15
Provisions for pensions	-299	-253	20	2
Appropriations	—	—	-7	-3,063
Unrealized exchange-rate differences	—	—	-678	30
Other	241	-185	-118	75
Total	3,339	2,450	398	-2,538

	2008	2007
Acquisitions of subsidiaries and other business operations – Group		
Net assets acquired:		
Non-current assets	865	6,323
Inventories	138	935
Operating receivables	116	641
Cash and cash equivalents	10	385
Total assets	1,129	8,284
Provisions	-38	-44
Operating liabilities	-109	-919
Other liabilities	-155	-772
Total provisions and liabilities	-302	-1,735
Purchase consideration recognized as a liability	-16	-308
Purchase consideration paid	-811	-6,241

**NOTE 31. SUPPLEMENTARY INFORMATION
TO THE CASH-FLOW STATEMENT (CONT.)**

	2008	2007
Acquisition of minority interests in subsidiaries		
Purchase consideration paid	-153	—
Less cash and cash equivalents acquired	10	385
Effect on cash and cash equivalents	-954	-5,856

	2008	2007
Divestments of subsidiaries and other business operations – Group		
Net assets divested:		
Non-current assets	-20	-94
Inventories	-46	-43
Operating receivables	-31	-363
Cash and cash equivalents	0	-41
Total assets	-97	-541
Provisions	3	77
Operating liabilities	29	261
Other liabilities	—	70
Total provisions and liabilities	32	408
Purchase consideration received	111	404
Less cash and cash equivalents of divested operations	0	-41
Effect on cash and cash equivalents	111	363

NOTE 32. BUSINESS ACQUISITIONS

The business acquisitions effected during 2007 and 2008 are set out below. Annual revenue and number of employees reflect the situation at the time of the respective acquisition.

Annual revenue and number of employees

Business area	Company	Acquisition date	Annual revenue	No. of employees
Sandvik Mining and Construction	Shark Abrasion Systems, Australien	17 January 2007	70	10
Sandvik Mining and Construction	Hydramatic Engineering, Australien	28 February 2007	330	290
Sandvik Tooling	Diamond Innovations, USA	15 March 2007	>1 000	600
Sandvik Mining and Construction	Extec Screens and Crushers Ltd., Storbritannien	31 May 2007	1 800	450
Sandvik Mining and Construction	Fintec Crushing and Screening Ltd., Storbritannien	31 May 2007	560	325
Sandvik Materials Technology	Doncasters Medical Technologies, Storbritannien	13 July 2007	500	430
Sandvik Materials Technology	JKB Medical Technologies, USA	14 December 2007	90	90
Sandvik Mining and Construction	JN Precise, Kanada	28 January 2008	100	70
Sandvik Materials Technology	Medtronic Inc, USA (del av)	1 February 2008	140	110
Sandvik Mining and Construction	Corstor International, Sydafrika	29 February 2008	70	100
Sandvik Mining and Construction	Aubema, Tyskland	3 April 2008	160	80
Sandvik Mining and Construction	Sanslip, Sverige	7 April 2008	15	9
Sandvik Materials Technology	Eurocut Ltd., Storbritannien	2 May 2008	60	60
Sandvik Tooling	Teeness ASA, Norge	30 May 2008	200	105
Seco Tools	ALG, Ryssland	5 May 2008	100	170
Sandvik Tooling	BTA Heller Drilling Systems Ltd.	16 January 2009	33	12

In all of the business combinations during 2008, Sandvik acquired 100% of the shares. No equity instruments have been issued in connection with the acquisitions.

JN Precise is a supplier of tools and components for exploration drilling. The unit is based in Canada.

Sandvik reached an agreement at the end of 2007 with Medtronic Inc to acquire a production unit specialized in medical instruments for spinal surgery. The unit is based in Memphis, Tennessee in the US.

Corstor International is a company that manufactures and sells systems for borehole core storage and handling for the mining exploration industries.

Aubema offers advanced solutions for crushing of coal, limestone and other types of industrial minerals, salt, fertilizing agents and other types of soft minerals. The head office and largest production unit is in Bergneustadt, Germany.

Sanslip manufactures machines for regrinding drill bits. Operations are conducted in Sandviken, Sweden.

Eurocut Ltd. manufactures medical instruments and implants of the orthopedic sector. The customers are leading medical-technology companies that sell directly to hospitals and medical clinics. Operations are carried out from Sheffield, UK.

Teeness ASA is a market leader in development and production of vibration-dampening tools. The acquisition strengthens Sandvik Tooling's offering to the aerospace, energy and other industries. The unit is based in Trondheim, Norway.

On 5 May 2008, Seco Tools acquired 100% of the shares in the Russian tool manufacturer ALG based on Moscow. The acquisition is part of Seco Tools' aim to be actively present in the large industrial markets in the world. With its focus on customers in metal cutting and wear parts, ALG is considered a strong brand on the Russian market and is one of the three leading producers in the country.

In December 2008, Sandvik reached an agreement to acquire the British company BTA Heller Drilling Systems Ltd. The company specializes in advanced tooling solutions for deep-hole drilling in complex materials. Annual revenues amount to about SEK 33 M, with 12 employees. The company is located in Cirencester, UK

Goodwill has been recognized as a result of synergy effects, for example in the form of improved production processes, integration of production capacity, joint research and development activities and synergies in the distribution chain arising from added products.

NOTE 32. BUSINESS ACQUISITIONS (CONT.)

Pre-acquisition carrying amounts determined under IFRS and fair value adjustments of assets and liabilities of the acquired companies are presented by business area in the following tables:

Sandvik Tooling	2008			2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition	Recognized value on acquisition
Intangible assets	—	28	28	132
Property, plant and equipment	129	—	129	647
Financial investments	8	—	8	59
Inventories	27	—	27	319
Current receivables	14	—	14	211
Cash and cash equivalents	2	—	2	149
Interest-bearing liabilities	-113	—	-113	-39
Noninterest-bearing liabilities	-30	-7	-37	-433
Net identifiable assets and liabilities	37	21	58	1,045
Goodwill			177	729
Purchase consideration			235	1,774
Cash and cash equivalents of acquired businesses			-2	-149
Net cash outflow			233	1,625

Sandvik Mining and Construction	2008			2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition	Recognized value on acquisition
Intangible assets	51	—	51	975
Property, plant and equipment	32	2	34	280
Financial investments	—	—	—	23
Inventories	59	—	59	562
Current receivables	65	—	65	345
Cash and cash equivalents	7	—	7	182
Interest-bearing liabilities	-41	—	-41	-238
Noninterest-bearing liabilities	-96	—	-96	-902
Net identifiable assets and liabilities	77	2	79	1,227
Earlier investment in associated company			—	-61
Goodwill			222	1,587
Purchase consideration			301	2,753
Cash and cash equivalents of acquired businesses			-7	-182
Part of consideration entered as a liability			-2	-308
Net cash outflow			292	2,263

Sandvik Materials Technology	2008			2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition	Recognized value on acquisition
Intangible assets	—	—	—	284
Property, plant and equipment	71	2	73	119
Financial investments	—	—	—	13
Inventories	39	—	39	58
Current receivables	—	—	—	97
Cash and cash equivalents	—	—	—	54
Interest-bearing liabilities	—	—	—	-1
Noninterest-bearing liabilities	—	—	—	-172
Net identifiable assets and liabilities	110	2	112	452
Goodwill			16	1,570
Purchase consideration			128	2,022
Cash and cash equivalents of acquired businesses			—	-54
Net cash outflow			128	1,968

NOTE 32. BUSINESS ACQUISITIONS (CONT.)**Seco Tools**

	2008			2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition	Recognized value on acquisition
Intangible assets	—	10	10	—
Property, plant and equipment	40	-3	37	—
Inventories	9	1	10	—
Current receivables	32	—	32	—
Cash and cash equivalents	1	—	1	—
Interest-bearing liabilities	-21	—	-21	—
Noninterest-bearing liabilities	-19	-9	-28	—
Net identifiable assets and liabilities	42	-1	41	—
Goodwill			59	—
Purchase consideration			100	—
Cash and cash equivalents of acquired businesses			-1	—
Finalized purchase consideration			-14	—
Net cash outflow			85	—

Total fair value of assets and liabilities of acquired businesses

	2008			2007
	Pre-acquisition carrying amounts	Fair value adjustments	Recognized value on acquisition	Recognized value on acquisition
Intangible assets	51	38	89	1,391
Property, plant and equipment	272	1	273	1,046
Financial investments	8	—	8	95
Inventories	134	1	135	939
Current receivables	111	—	111	653
Cash and cash equivalents	10	—	10	385
Interest-bearing liabilities	-175	—	-175	-278
Noninterest-bearing liabilities	-145	-16	-161	-1,507
Net identifiable assets and liabilities	266	24	290	2,724
Earlier investment in associated company			—	-61
Goodwill			474	3,886
Purchase consideration			764	6,549
Cash and cash equivalents of acquired businesses			-10	-385
Part of consideration entered as a liability			-16	-308
Net cash outflow			738	5,856
of which directly attributable acquisition costs			12	49

No material adjustments have been made to the fair values of assets and liabilities of businesses acquired during 2007.

Contributions from companies acquired during 2008 by business area

	Sandvik Tooling	Sandvik Mining and Construction	Sandvik Materials Technology	Seco Tools	Total
Contributions as from acquisition date					
Revenue	0	205	100	65	370
Net profit (loss)	8	-2	-28	5	-17

Contributions as though the acquisition date had been 1 January 2008

Revenue	0	269	119	102	490
Net profit (loss)	14	1	-33	6	-12

Contributions from companies acquired during 2007 by business area

	Sandvik Tooling	Sandvik Mining and Construction	Sandvik Materials Technology	Total
Contributions as from acquisition date				
Revenue	836	1,673	263	2,772
Net profit (loss)	-33	40	16	23

Contributions as though the acquisition date had been 1 January 2007

Revenue	1,056	2,758	572	4,386
Net profit (loss)	-31	98	35	102

Acquisition of minority interests

On 15 May 2008, an additional 49% was acquired in Sandvik MGS S.A., on 23 July 2.1% in Sandvik MKTC-OAO and on 31 October 30% in Sandvik Shujun Ltd. As a result, the ownership in these companies rose to 100%. Accordingly, the Group reports a decline in minority interests of SEK 162 M.

NOTE 33. PARENT COMPANY PARTICULARS

Sandvik Aktiebolag, corporate registration number 556000-3468, is a registered Swedish limited liability company domiciled in Sandviken. The head office address is Sandvik AB, SE-811 81 Sandviken, Sweden.

Sandvik's shares are quoted on the Stockholm Stock Exchange. Shares can also be traded in the US in the form of ADRs (American Depositary Receipts).

The 2008 consolidated financial statements comprise the Parent Company and all its subsidiaries, together the Group. The Group also includes the owned share of investments in associated companies.

NOTE 34. INFORMATION ON SHARES, OWNERS AND RIGHTS

The Parent Company has issued one series of shares and each share carries one vote. The total number of shares shall be not less than 1,000,000,000 and no more than 4,000,000,000.

At the end of 2008, 1,186,287,175 shares with a quota value of SEK 1.20 per share had been issued. Shareholders have a preferential right to subscribe to newly issued shares issued for cash or with terms and conditions concerning rights of setoff. All shares are fully negotiable.

Shareholdings that directly and indirectly represent at least 10% of the voting rights are held by AB Industrivärden (11,50%). At year-end, Captial Group Inc. was one of the largest shareholders in Sandvik, with about 10% of the share capital. Since these shares are trustee registered, Sandvik does not have full insight into their total holdings.

Sandvik AB's Articles of Association among other things govern the direction of the business, domicile and share capital. The articles further stipulate that the members of the Board of Directors shall be elected at the Annual Meeting of Shareholders. Board representatives of the employees are appointed by the trade unions under the Private Sector Employees (Board Representation) Act.

Borrowing agreements entered into by Sandvik AB include conditions coming into effect should the control of the Company change as a result of a public takeover bid.

There are no agreements between the Company and its directors or employees if those persons give notice of termination, or their services are improperly terminated, or the employment is terminated as a consequence of a public takeover bid.

Board statement on dividend proposal

Board statement in accordance with Chap. 18, Section 4 and Chap. 20, section 8 of the Swedish Companies Act.

The nature and extent of the company's operations are stated in the Articles of Association and issued annual reports. Such nature and extent do not entail risks over and above those inherent, or reasonably to be expected, in the industry or otherwise inherent in business operations. The company's sensitivity to economic fluctuations is not different from that of other companies in the industry. For information on significant events, we refer to the Report of the Directors.

The company's financial position at 31 December 2008 appears from this annual report which shows a net debt/equity ratio of 0.9 (1.0). Such ratio is no different from what is frequently displayed in the industry. The proposed dividend does not infringe on investments deemed to be required. In addition, the

company's liquidity reserve at the end of the year in the form of unutilized credit facilities is about EUR 1,500 M, which means that the Company should reasonably be able to meet unexpected events and temporary fluctuations in cash flows of reasonable proportions. The company's financial position supports the assessment that the company will be able to continue in business and meet its obligations in both the short and long term.

In view of the above and based on what the Board is otherwise aware, the proposed dividend in the Board's opinion is justified considering the requirements which the nature, extent and risks associated with the operations place on the size of the equity of the company, and also taking into consideration the company's need to strengthen its balance sheet, liquidity and financial position in general.

Sandviken, 3 February 2009
Sandvik Aktiebolag; (publ)
Board of Directors

Proposed appropriation of profits

The Board of Directors and the President propose that

the profits brought forward from the preceding year	5,303,563,706
and the profit for the year	5,749,736,652
SEK	11,053,300,358

be appropriated as follows:

a dividend of SEK 3.15 per share	3,736,804,601
profit carried forward	7,316,495,757
SEK	11,053,300,358

The income statements and the balance sheets of the Group and of the Parent Company are subject to the adoption by the Annual General Meeting on 28 April 2009.

The Board of Directors and the President hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden, and that the consolidated financial statements have been prepared in accordance with the international financial reporting standards referred to in the regulation (EU) no. 1606/2002 of the European Parliament and Council dated 19 July 2002, pertaining to the application of international financial reporting standards, and that such financial reports give a true and fair view of the results of operations and financial position of the Parent Company and of the Group, respectively, and that the Report of the Directors pertaining to the Parent Company and the Group gives a fair view of the development of the company's and the Group's activities, financial position and results of operations, and further presents the significant risks and uncertainties facing the company and the entities that are members of the Group.

Sandviken, 3 February 2009

Clas Åke Hedström
Chairman

Georg Ehrnrooth
Director

Jan Kjellgren
Director

Tomas Kärnström
Director

Fredrik Lundberg
Director

Hanne de Mora
Director

Egil Myklebust
Director

Anders Nyrén
Director
Vice Chairman

Simon Thompson
Director

Lars Pettersson
President

Our audit report was submitted on 19 February 2009

KPMG Bohlins AB

Caj Nackstad
Authorized Public Accountant

Significant events

After the Board of Directors approved the 2008 Annual Report, some significant business transactions were carried out in the Sandvik Group.

In conjunction with assuming loans in the form of US Private Placements in 2005 and 2007, Sandvik secured interest-rate swap contracts to attain floating interest. Through closing the swap contracts in the first quarter of 2009, Sandvik will report a cash flow contribution of about SEK 1,200 M. The corresponding earnings effect will be distributed over the remaining term of the loans of about 11 years. After closing of the contracts, Sandvik will have a more balanced distribution between fixed and floating rates on loans outstanding.

On 17 February 2009, it was announced that Sandvik signed an agreement to acquire Wolfram Bergbau- und Hütten-GmbH Nfg. KG (WBH). The acquisition is expected to be completed during the second quarter of 2009, after approval by relevant anti-trust authorities. Headquartered in St. Martin, Austria,

WBH has been active since 1975 as a producer and supplier of tungsten products. The company also operates a refining plant for producing tungsten carbide, including a chemical plant for recycling tungsten material, in St. Martin, Austria, where the headquarter is located. WBH also operates a mine and ore dressing plant in Mittersill, Austria. The product offering includes tungsten carbide and tungsten metal powders. Through its research and development, WBH has achieved market-leading product quality. Sales in 2008 amounted to approximately SEK 1,800 M, with some 300 employees. The acquisition is of major strategic importance for Sandvik.

In February, Sandvik issued a Eurobond loan amounting to EUR 600 M, slightly more than SEK 6 billion. The loan matures in February 2014 and carries an interest rate of 6.8%. The loan strengthens Sandvik's financing and provides for a favorable balance between mid- and long-term borrowing.

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 2008. The company's annual report is included in printed version of this document on pages 12–85. 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 consolidated 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. The statutory administration report 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 administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

Sandviken, 19 February 2009

KPMG Bohlins AB

Caj Nackstad
Authorized Public Accountant

Sustainability report

Sustainability is an important part of the company's business activities. Sandvik has been conducting extensive sustainability efforts for many years and reports the results of these efforts in this sustainability report. The concept of sustainable development encompasses environment, health and safety, business ethics and human rights issues. A Code of Conduct and an environmental, health and safety management system form the foundation of Sandvik's sustainability work. This work is carried out decentralized within the business areas, but is guided by Group established policies, strategies, objectives, targets and performance indicators.

1. Significant events during the year:

- A 50% reduction in the Lost Time Injury Frequency Rate compared with the 2005 figure was attained.
- The use of trichloroethylene (TCE) was phased out as of year end.
- The number of major production, service, machinery rebuilding and distribution units certified in accordance with ISO 14001 is 147 (82%), with 159 (89%) certified in accordance with OHSAS 18001.
- Group Executive Management set new sustainability objectives and targets in November.
- In December, Group Executive Management established a new environment, health and safety policy.
- An organization was established to review suppliers in India and China.
- Sandvik was included in the Dow Jones World Sustainability Index and the Dow Jones STOXX Sustainability Index.
- Sandvik was awarded the prize for Sweden's best sustainability report for listed companies, by FAR SRS (the Institute for the accountancy profession in Sweden).

2. Sustainability report

This is the third year that Sandvik has published a sustainability report. This report describes the Group's strategies, controls, responsibilities, risks and opportunities together with its sustainability objectives and targets and also presents the Group's results from a financial, environmental and social perspective. The sustainability report has been independently reviewed in accordance with the proposed

FAR SRS' standard "RevR 6 Assurance of Sustainability Reporting" and AccountAbility's "AA1000AS (2008)." AA1000AS (2008) is an internationally accepted standard that provides the requirements for conducting sustainability assurance. It requires the assurance provider to provide assurance on the nature and extent of adherence to the AA1000's accountability principles. Information regarding AccountAbility is available on the organizations website (www.accountability21.net).

The sustainability report is comprised of information in the following locations:

- The Board of Directors' report covering requirements pertaining to non-financial performance indicators and environmental information in line with the Swedish Annual Accounts Act.
- The report in this section that summarizes strategies, controls, responsibilities, risks, opportunities and the Group's objectives, targets and results from a sustainability perspective.
- *The Sandvik World* publication that presents a number of examples concerning work that has been conducted to achieve the Group's environmental and social targets.
- Sandvik's website (www.sandvik.com), which contains further information relating to the sustainability work being conducted in each of the business areas.
- Sandvik's website also includes complete references to Global Reporting Initiative's (GRI) G3 guidelines, which were applied when preparing this sustainability report.

2.1 Content, scope and limitations of the report

This sustainability report refers to the 2008 financial year. Unless otherwise stated, the same accounting policies are applied in the sustainability report as in the rest of the Annual Report, and the report covers the entire operations of the Group, but excludes Seco Tools, associated companies and joint ventures. Specific methods of measurement and assumptions are presented in connection with the respective indicators in the report. Data from units acquired during the year is included only in the indicators for 2008.

2.2 Application of laws and recommendations

This sustainability report is based on the Swedish Annual Accounts Act, the Swedish Society of Financial Analysts' recommendations relating to Corporate Responsibility and the third generation of guidelines (G3) issued by the internationally recognized organization GRI. Further information regarding GRI is available on the organization's website (www.globalreporting.org). The report corresponds with the GRI level B+, which means that at least 20 indicators are presented and that the report has been subjected to an independent verification. A complete GRI index and comments on all of the indicators are available on Sandvik's website www.sandvik.com

Sandvik has adopted AccountAbility's AA1000APS (2008) principles for accountability that were introduced in October 2008. Accountability means that Sandvik is acknowledging, assuming, taking responsibility for and trying to be transparent about the sustainability related effects caused by its operations.

This also involves working to involve stakeholders in identifying and understanding sustainability issues and concerns, and to report, explain and be answerable to stakeholders for decisions, actions and performance.

Accountability means that Sandvik will systematically incorporate AccountAbility's three principles in relations with Sandvik's various stakeholders:

- Inclusivity
- Materiality
- Responsiveness

The ambition is to begin mapping the extent to which the principles are incorporated in the Group and based on the result establish goals and actions for the future work that aims to develop sustainability reporting.

3. Strategy and control of sustainability programs

A prerequisite for Sandvik remaining a successful company and attaining sustainable development is that the company takes its environmental and social responsibility, and that all its employees work in an ethically responsible manner. Sandvik's strategy for sustainability programs entails proceeding from the company's Code of Conduct when analyzing risks and opportunities, setting objectives and targets as part of efforts to minimize risks, and utilizing the possibilities available in an efficient and effective manner. Sandvik will always seek an open dialog with all of its key stakeholders regarding how this work is conducted and the results achieved. This is a key condition in being able to focus on the correct features for continual improvements.

Sandvik's control model entails that Group Executive Management sets the company's Code of Conduct and objectives, and that each business area assumes responsibility for ensuring compliance with the Code and that the objectives are broken down in the organization. In addition, each business area is responsible for the assessment of sustainability-related risks (environment, health and safety, corruption, human rights issues, etc.) in its

operations, and in each business area, specific organizations have been appointed to coordinate issues and support the local management teams. At the Group level, various councils exist (such as for environment, health and safety) to coordinate the work among the business areas and to draft policies, objectives, targets and indicators for Group Executive Management. To ensure that management systems, internal controls and risk management function adequately, an independent unit (Group Assurance) continually monitors the organization's operations and reports to the Board's Audit Committee and Group Executive Management on a quarterly basis. Moreover, a report on performance indicators and key figures is presented to the Board, Group Executive Management and the entire organization on a quarterly basis. Training is also a key factor in Sandvik's sustainability strategy. A program is in progress to train all company employees as regards the implications of environmental and social responsibility and business ethics. By the end of 2008, 81% (90) of employees had completed the training. The decline is attributable primarily to personnel turnover.

3.1 Stakeholders

A number of stakeholders influence and/or are influenced by the Group's operations. Sandvik has identified three stakeholder groups of particular significance: shareholders, employees and customers. These are of critical importance for operations and there is regular contact with these groups at various levels in the Group. During the year, stakeholder-related dialogs took place with a number of Social Responsible Investment (SRI) analysts and other stakeholder-related dialogs were conducted with the assistance of external parties. Among other aspects, these dialogs reveal that Sandvik's business operations are viewed as being exposed to significant risks from an environmental and social perspective (for example in terms of human rights issues) especially in relation to suppliers and customers. An example of what stakeholders expect include more information on Sandvik's long-term strat-

egy on climate change. The dialogs also revealed that Sandvik works with relevant sustainability aspects and that reporting contains relevant information as regards the results of Sandvik's programs. This was further confirmed during the year when Sandvik was awarded the prize for Sweden's best sustainability report, listed companies by FAR SRS.

3.1.1 Shareholders

Dialog with shareholders is primarily conducted through the Board and at the Annual General Meeting, but also through a well-developed Investor Relations function, which regularly enters into dialog with specific SRI analysts. These dialogs have indicated that shareholders require more information regarding the risks that Sandvik identifies and how they are managed, especially regarding human rights issues in the supply chain.

3.1.2 Employees

Sandvik's employees are represented on the Board of the Parent Company. When requested, information is shared and discussed with the employees. Furthermore, negotiations are conducted with employee representatives at a local level in connection with such events as organizational changes. Dialogs with the trade union organizations have revealed that employees feel that health and safety, absenteeism, discrimination and the environment are key issues, as well as general training in responsibility and business ethics. Competence development and assessment of performance are other key areas.

3.1.3 Customers

Customer contacts are handled locally through Sandvik's worldwide sales organization. Increasing demands by customers regarding Sandvik's sustainability programs are becoming ever more evident. Many of these demands relate to workplace safety and the environment, for example customers more often insist that Sandvik should have systems for compiling data on carbon dioxide emissions. In addition, requests have been presented that Sandvik be able to report the carbon diox-

ide emissions generated in product manufacturing. Questions related to the new European Community Regulation on chemicals and their safe use (REACH) are also common and many customers, notably those of Sandvik Mining and Construction, are imposing higher requirements on machine safety. Customers also want to be assured that Sandvik complies with all international conventions on human rights.

3.1.4 Other stakeholders

Discussions are maintained on an ongoing basis with authorities, educational bodies, Non-Governmental Organizations (NGOs), the general public and other stakeholders as necessary.

4. Responsibility

Sandvik's responsibilities are summarized in the Group's Code of Conduct, which was set by the Board in 2004. The Code deals with responsibility in such areas as business ethics, suppliers, employee working conditions and development, human rights, environment and community involvement. The Code has been translated into 13 languages and is available at Sandvik's website (www.sandvik.com). The Code also includes a distinct process for managing the reporting of divergences from the stated responsibilities. Employees are encouraged to report behavior that diverges from the Code to their immediate supervisor in the respective unit or, if there is a feeling that such action will not have any effect, to a more senior manager, the company's human resources department or Sandvik's General counsel. There is a Group unit that is responsible for dealing with all such notifications. 'Whistleblowers' are guaranteed that there will be no reprisals for such notifications or for participation in the company's investigation of a complaint.

4.1 Business ethics

Sandvik's Code of Conduct includes clear guidelines on accuracy of records, the avoidance of bribes as well as compliance with antitrust and competition legislation in the countries in which Sandvik is active.

4.2 Suppliers

Sandvik has a clear position regarding suppliers, including contractors, agents, distributors and their sub-suppliers. These groups must meet the same requirements as those imposed on Sandvik's employees, and operate in line with the Code of Conduct.

4.3 Environment, health and safety

Sandvik's vision as regards the environment, health and safety is to be recognized by its stakeholders as a company with excellent environment, health and safety performance. To achieve this Sandvik must ensure that:

At its sites Sandvik minimizes:

- any potential environmental impacts such as energy use and input materials in the most efficient way,
- any risks to health, safety and well-being of employees.

Products, services and technical solutions:

- provide a long service lifetime and better resource utilization,
- have minimal environmental impact when used by a customer,
- are fully recyclable.

4.3.1 Policy

In December, Group Executive Management established a new environment, health and safety policy for all Group units.

Environment, health and safety policy:

- Environment, health and safety issues are integral parts of Sandvik's total operations and the company achieves continual improvement in these areas through management by objectives. Sandvik believes that the greatest effect is achieved through preventive actions.
- The company follows an approach that results in long-term sustainable development in its operations. Consequently, Sandvik strives for high efficiency in the use of energy and natural resources, promote systems for recycling and

recovery of materials and work to prevent pollution and any work-related illness and injury.

- Sandvik strives to provide a healthy and safe work environment that stimulates employees to perform effectively, to assume responsibility and to continue to develop towards their personal and professional goals.
- Sandvik complies with or exceeds applicable environmental, health and safety, legal and other requirements. The company believes that common and effective environment, health and safety requirements and standards should be established at an international level.

4.4 Human rights and employee conditions

Sandvik has clear policies on human rights and labor rights, which are based on the United Nation's declaration on human rights and the International Labor Organization's declaration regarding basic principles and rights in the workplace.

Sandvik is responsible for ensuring that these policies are complied with in the company's operations as well as throughout the supply chain where Sandvik has the potential to exert influence and control.

5. Risks and opportunities

Sandvik's financial risks are described on pages 27–32. In addition to these, there are risks associated with the fact that Sandvik is active in many parts of the world where the risk of environmental pollution, violation of human rights and corruption is present. Moreover, Sandvik has a large number of production units in which environmental, health and safety risks arise. Sandvik has an established risk management process to assess these types of risks, as well as financial risks. The risk assessment not only encompasses the Group's operations, but also risks related to the geographical areas in which Sandvik is active and supplier-related risks. The risk management process is described in the section starting on page 25 in Sandvik's Annual Report.

5.1 Business ethics

Risks relating to business ethics are regarded as significant, especially the risk of bribes in connection with marketing and sales in countries in which corruption is widespread. The use of agents represents a particularly major risk. The development of corruption in various countries in which Sandvik is active is continually monitored via, for example, Transparency International's website (www.transparency.org). The risk of breaches of local antitrust and competition legislation is also high. To minimize these business risks, continual training and internal audits are conducted. During the year a few isolated cases of suspected corruption were reported. All these cases have been investigated and corrective measures have been taken, such as the immediate dismissal of employees found to be behaving inappropriately.

5.2 Suppliers

During 2008, Sandvik sharpened its focus on risks relating to the supply chain by establishing guidelines and internal practice for the future. The fundamental methodology for evaluating suppliers is being developed and is scheduled to be implemented during 2009. A special supplier Code of Conduct is also being developed and is scheduled to be implemented during 2009. The Code contains the same fundamental requirements as Sandvik's Code of Conduct, but also contains additional specific material relating to the supply chain. To minimize risk exposure, a special organization has been established to increase the control of suppliers in China and India, where the supplier risk is deemed to be significant and where Sandvik is increasing its purchases of materials and components.

5.3 Environment

At year-end 2008, Sandvik had 144 manufacturing units and 35 distribution or service/rebuilding workshops worldwide, many of which present a potential environmental impact.

Environmental management systems have already been introduced at the vast majority of these sites and are currently being developed at the remaining sites. Within the framework of these systems, the Group's environmental risks have been summarized as follows:

Overall environmental risks at Sandvik's own operations:

- Use/consumption of energy, input materials, fresh water and hazardous chemicals.
- Generation of emissions and waste from production.
- Old industrial sites and waste landfills.
- Environmental liabilities in conjunction with company acquisitions.

Risks relating to emissions are primarily related to the emission of carbon dioxide to the atmosphere. These emissions are caused by the company's use of fossil fuels for power and transport and indirectly from purchase of electricity produced by combustion of fossil fuel. Meanwhile, there is a long-term business opportunity for Sandvik in its search for new carbon neutral energy sources, as well as in the short term in the extraction of more fossil fuels whose extraction presents greater difficulties.

Page 24 in the Board of Directors' Report present information on licensed operations and environmental liabilities.

5.4 Health and safety

Sandvik's various production, service/rebuild and distribution units present potential risks of work-related illnesses and injuries. Health and safety management systems have already been introduced at the vast majority of these units and are currently being developed at the remaining sites. The management systems are also designed to enhance the work environment and the work conditions of the company's employees. Sandvik's products may also constitute a risk when in use at customers' sites. This risk imposes major requirements on quality control for the company

and its suppliers, as well as the need for simple, clear operator manuals and product specifications.

5.5 Human rights and employee conditions

Any violation of Sandvik's policies in respect of human rights and employee conditions could have a major negative impact on Sandvik's credibility. Consequently, regular basic training is held covering the company's basic values, policies and risks regarding human rights and labor legislation. In addition, regular internal audits are conducted at units deemed to be particularly exposed to these risks. The results of the audits are presented to local executives, country managers, Group Executive Management and the Board.

To raise the level of understanding in the organization regarding the risks relating to human rights and labor legislation when Sandvik undertakes operations in high-risk countries, analyses have been conducted of countries in Asia, Africa and South America. These analyses are available on Sandvik's intranet for those active in these countries. Risks of this type arise not only in direct operations (such as production and procurement) in such countries, but also indirectly (risk associated with customers).

No incidents involving human rights abuses were reported in 2008.

6. Goals for sustainability programs

Sandvik's Group Executive Management set new or modified sustainability objectives and targets in November 2008.

6.1 Environment

6.1.1 The Group's objectives are:

- More efficient use of energy and input materials.
- Reduced emissions to air and water.
- Increased recovery of materials and by-products.
- Reduced environmental impact from the use of hazardous chemicals.
- Increased number of products that support sustainability principles.

6.1.2 *The Group's targets are:*

- Reduce the use of energy in relation to sales volume by 10% before year-end 2012 (base year: 2008).
- Reduce consumption of fresh water in relation to sales volume by 10% before year-end 2012 (base year: 2008).
- Commence reporting of wastewater discharged from sites before year-end 2009.
- Replace all chlorinated solvents, such as dichloromethane, tetrachloroethene, tetrachloromethane, trichloroethane and trichloroethene, with other solvents or techniques before year-end 2010.
- Reduce carbon dioxide emission from internal use of fossil fuels and electricity by 10% in relation to sales volume before year-end 2012 (base year: 2008).
- Commence reporting of carbon dioxide emission arising from transportation before year-end 2009.
- All major production, service and distribution units shall be certified in accordance with ISO14001 within two years of acquisition or establishment.

6.2 Health and safety

6.2.1 *The Group's objectives are to:*

- Further reduce the frequency of occupational injuries, illnesses and incidents.
- Improve health and well-being among employees.

6.2.2 *The Group's targets are:*

- Reduce the Lost Time Injury Frequency Rate by 50% before year-end 2012 (base year: 2008).
- All sites will introduce a health and well-being program before year-end 2010.
- All major production, service and distribution units shall be certified in accordance with OHSAS 18001 (or an equivalent standard) within two years of acquisition or establishment.

6.3 Employee conditions and development

6.3.1 *The Group's objectives are:*

- Increase equality of opportunity at workplaces.

6.3.2 *The Group's targets are:*

- All sites will introduce a program to improve the gender balance before year-end 2010.
- All employees shall have formal annual performance review discussions.

7. Outcome of sustainability programs

The following section presents the outcome in relation to the Group's targets using the relevant performance indicators and key figures. Acquisitions and divestments have not had any material impact during the year. Sandvik's adaptation to the rate of production as a result of the prevailing market situation had a marked impact on the majority of the environmental and safety indicators.

7.1 Financial

Sandvik's financial progress is presented in the Report of the Board of Directors and in the financial statements in the Annual Report. These include a presentation of the Group's financial goals and outcome in relation to these goals.

The table to the right shows how the value created through the Group's operations has been generated and the manner in which it was distributed among the various stakeholders.

Apart from allocations of carbon dioxide emission allowances, Sandvik has not received any significant Government grants during the year (see Note 13 in the Annual Report).

7.2 Environment

7.2.1 *Use of raw materials*

Material consumption varies across the business areas. At Sandvik Tooling and Sandvik Materials Technology, production is mainly based on metallic raw materials, while at Sandvik Mining and Construction, it is primarily based on purchased components. Sandvik's consumption of

metallic raw materials is presented in the table to the right.

Sandvik Materials Technology's sites in Sandviken and Hallstahammar, Sweden, are the major users of raw materials in the Group. The raw materials most important to Sandvik Materials Technology are iron, nickel, chromium, manganese and molybdenum, either in alloys or as part of scrap metal. Of these materials 80% are derived from recycled scrap. The key raw materials for Sandvik Tooling are various tungsten compounds and cobalt, but more unusual elements such as tantalum are also used. Sandvik Mining and Construction uses iron and manganese raw material for the manufacture of castings. Approximately 88% of these materials are derived from scrap. In total for the Group, about 79% of metallic raw materials are derived from scrap.

Although the recovery level is already high today, Sandvik continuously endeavors to increase the proportion of recovered raw materials to secure a sustainable utilization of raw materials and to reduce its environmental impact. This is accomplished through buying back used products and the recycling of waste products from proprietary manufacturing plants. Sandvik Tooling's recycling program for the recycling of cemented carbide at the Chiplun plant in India is continuing. In 2008, nearly 40% of the cemented carbide inserts sold by Sandvik Coromant were recycled. Other product areas at Sandvik Tooling also commenced recycling activities during the year. Moreover, in 2008 Sandvik Mining and Construction commissioned a new plant in Chiplun to separate cemented carbide and steel in drill cores. The cemented carbide is subsequently included in the same recycling process as Sandvik Tooling's cemented carbide inserts. The steel is sold to local steel mills for recycling.

The recycling of cemented carbide is based on what is referred to as the zinc method in which used cemented carbide inserts are converted into a hard metal powder, which after adjustment and quality control can be used as a raw material. This method is a highly favorable comple-

ment to the more energy intensive processes involving ore as the original material. The total energy use in manufacturing cemented carbide inserts is therefore reduced by about 75%, which means a decline in carbon dioxide emissions during the production process of about 40% per cemented carbide insert produced. Nitrous oxide emissions are also reduced.

Hazardous chemicals are used only to a limited and well-supervised extent and are handled in accordance with environmentally safe methods. The target of replacing trichloroethylene with other less environmentally hazardous solvents or techniques has essentially been attained. A few sites that continue to use a limited amount of the substance will complete their adjustment in early 2009. The total annual consumption in 2008 was about 14 (16) cubic meters.

7.2.2 Use of energy

The table and diagrams to the right show the trend in use of energy in Sandvik as well as the distribution of energy use by the business areas and various markets.

Use of energy in relation to sales volume indicates that the Group continues its improvement in regard to energy efficiency. Total use of energy in relation to sales volume declined by 4.3% and electricity consumption in relation to sales volume fell by 3.4%. Compared with the base year 2004 (index = 100), electricity consumption in relation to sales volume has declined by 14%, that is, a greater decrease than the Group target of 10%.

Although the final date for attaining the target has not yet arrived (2010), Group Executive Management has set a new target for the period 2008 to 2012, namely, to reduce total energy use (electricity and fossil fuel) by 10% in relation to sales volume. The new target was established because the values for electricity consumption for the base year 2004 were somewhat uncertain as well as to include the consumption of fossil fuel in the target.

Examples of measures to decrease the use of energy are presented in *The Sandvik World*.

Financial value generated and distributed*

Amounts in SEK M	Stakeholder	2008	2007	2006	2005
Sales	Customers	92,654	86,338	72,289	63,370
Financial value generated		92,654	86,338	72,289	63,370
Production costs	Suppliers	53,287	48,343	38,620**	33,895
Employee wages and benefits	Personnel	23,129	20,562	18,825**	17,281
Payments to providers of capital	Credit providers	2,217	1,397	955	713
Payments to providers of capital	Shareholders	5,111	4,207	3,533	6,976
Payments to governments**	Public sector	2,876	4,167	3,151	2,306
Financial value distributed		86,620	78,676	65,084	61,171
Retained in company		6,034	7,662	7,205	2,199

* The table includes Seco Tools.

** Value adjusted since preceding reporting.

Raw materials consumption

	2008	2007	2006	2005
Consumption of metallic raw materials (thousand tons)	350	399	405	372
of which, recovered, %	79	78	78	80

The development of energy use

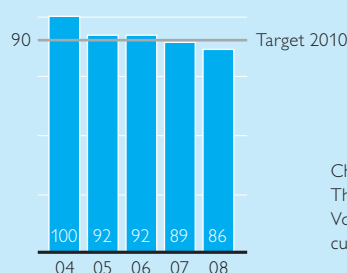
	2008	2007	2006	2005
Use of energy (TJ)*	8,800	8,600	8,000	7,400
of which fossil fuels (TJ) Direct energy**	3,300	3,200	2,900	2,700
of which electricity (TJ) Indirect energy***	5,500	5,400	5,100	4,700

* Use of energy is reported in TeraJoule (TJ).

** Values 2005–2007 adjusted since preceding reporting.

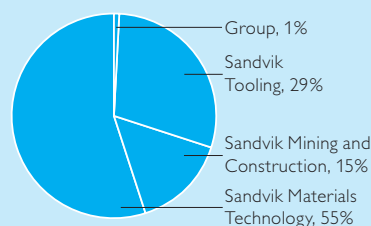
*** Use of energy does not include the energy used by electricity producers to generate the electricity.

Electricity use in relation to volume

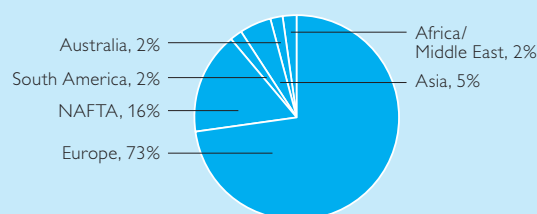


Change in electricity use in relation to volume, 2004–2008. The diagram shows the index compared with 2004. Volume is defined as invoiced sales adjusted for structural, currency and price effects.

Energy use per Business Area



Energy use per Market Area



7.2.3 Consumption of fresh water

Fresh water is a valuable resource and its efficient use is therefore crucial. During 2008, Sandvik's Group Executive Management set a target to reduce consumption of fresh water relative to sales volume by 10% from 2008 to 2012. The table on the right shows the trend in freshwater consumption in Sandvik since 2005.

Of the countries where Sandvik has significant fresh water consumption only India, has very limited access to fresh water.

All production sites in India have introduced systems for the treatment of all waste water, which is subsequently re-used in its operations. Similar systems also exist in Sandvik's facilities in, for example, Sandviken, Sweden and Sao Paulo, Brazil.

7.2.4 Biodiversity

13 of Sandvik's production units are located within or close to protected areas with high value in terms of biodiversity. Five of these sites are located in the US, five in Europe, two in Brazil and one in New Zealand. Approximately half of these areas comprise wetlands. Sandvik demonstrates particular consideration for these areas and cooperates with authorities in relevant cases.

7.2.5 Emissions and waste

Emissions from Sandvik's operations vary in nature. However, the primary substance emitted is carbon dioxide to the atmosphere. These emissions are a key focus for Sandvik's environmental management systems and are closely monitored. The table to the right shows the trend of the company's carbon dioxide emissions. The figures show the carbon dioxide emissions in relation to sales volume and the emissions by business area and market area.

Carbon dioxide emissions from the use of fossil fuels declined in relation to sales volumes by 4%, which is same percentage decline compared with the base year (2004), but does not quite meet the target that stipulates a reduction of 10% by the end of 2010.

To increase the quality of the values reported for carbon dioxide emissions related to the generation of electricity, factors used in the calculation of carbon dioxide emissions have been obtained from the

suppliers of the electricity used in the plants that account for 80% of Sandvik's electricity consumption. For the remainder of the units, the country factors (from the International Energy Agency Data Service) were used, which were previously used for all sites. All emissions from earlier years have been recalculated on the assumption that all sites have had the same supplier during this period. The aim is to use supplier-specific factors for all sites to further enhance data quality from 2009.

Although the final date for the target has not yet arrived (2010), Group Executive Management has set a new target to reduce carbon dioxide emissions by 10% from internal use of fossil fuels and electricity in relation to sales volume during the period 2008 to 2012. The new target was established because the values for carbon dioxide emissions for the base year (2004) were somewhat uncertain, and to include carbon dioxide emissions from the generation of electric power.

During the year, Group Executive Management also set a new target to commence reporting of carbon dioxide emissions arising from transportation (passenger and freight) by the end of 2009. As a result, Sandvik will be able to present a more comprehensive report in line with the Greenhouse Gas Protocol (www.ghgprotocol.org).

The table to the right presents the waste volumes produced by Sandvik during 2008. No major changes compared to previous years are noted.

7.2.6 Environmental management system

Sandvik's target is that all major production, service and distribution units shall be certified in accordance with the international standard for environmental management systems, ISO 14001, within two years of their acquisition or establishment. The term "major" is defined as sites with 25 employees or more. At year-end 2008, 147 (82%) production, service/rebuilding and distribution units were certified. These units are physically located on Sandvik's sites. In addition, there are about 25 maintenance workshops that Sandvik operates within customer operations (mainly mines). These workshops are part of the customers' environmental management systems. Of Sandvik's 144 major pro-

Use of fresh water	2008	2007	2006	2005
Fresh water use (thousand m ³)	4,500	4,500	4,600	3,800
of which, purchased (thousand m ³)	3,600	3,500	3,300	3,300
of which, from own wells (thousand m ³)	500	500	500	400
of which, collected rain water (thousand m ³)	400	500	800	100

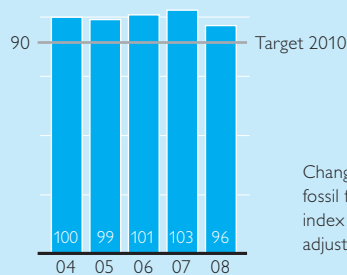
The development of carbon dioxide emission	2008	2007	2006	2005
Carbon dioxide emissions (thousand tons CO ₂)*	534	511	439	391
of which from combustion of fossil fuels (thousand tons CO ₂). Direct	218	221***	198	180
of which use of electrical energy (thousand tons CO ₂). Indirect**	316	290	241	211

* Excluding emissions from the transport of raw materials and finished products as well as travel.

** Emissions are calculated with conversion factors (from electricity suppliers or International Energy Agency Data Service) which take in to account the type of primary energy used for electricity production.

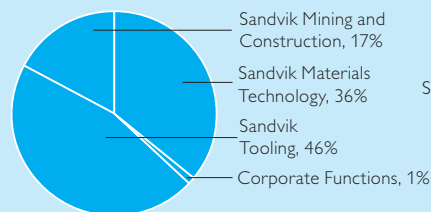
*** Adjusted since preceding reporting.

Carbon dioxide emissions in relation to volume

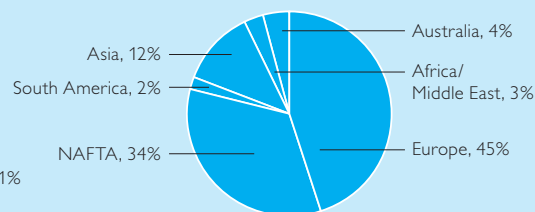


Change in carbon dioxide generated from the combustion of fossil fuels in relation to volume 2004–2008. The diagram shows index compared with 2004. Volume is defined as invoiced sales adjusted for structural, currency and price effects.

Carbon dioxide emission per Business Area



Carbon dioxide emission per geographical Market Area



Produced waste	2008	2007	2006	2005
Waste (thousand tons)*	166	171	150	140
of which, hazardous waste (thousand tons)	32	28	35	24
of which, landfilled (thousand tons)	109	105	95	90

* Excluding scrap metal that has been internally or externally recycled.

duction sites, 92% are certified. All major units not certified are of new acquisitions during 2007–2008.

7.3 Health and safety

The table to the right provides an overview of Sandvik's results as regards health and safety.

Regrettably, two fatalities occurred during the year. One was a result of a motor vehicle incident in Zimbabwe, while the other took place during service and maintenance work in an underground mine in South Africa.

The number of Lost Time Injuries and the Lost Time Injury Frequency Rate have declined by 30% and 50%, respectively, since 2005, and the number of Lost Days due to Lost Time Injuries declined by 10%. Accordingly, the target of a reduction of 50% in the Lost Time Injury Frequency Rate before the end of 2008 has been fulfilled.

The sick leave ratio has declined by 44% since 2005. The target is a 50% reduction by the end of 2010. Since the term sick leave is interpreted differently in various countries, it is difficult to monitor it in a satisfactory manner. Therefore, Group Executive Management has decided to amend the target of a reduction of 50% in sick leave by the end of 2010 to "All sites will introduce a health and well-being program before year-end 2010." The target will be monitored by measuring total absenteeism, as well as keeping track of the implementation of the well-being programs.

The diagrams to the right present the Lost Time Injury Frequency Rate by business areas and market areas. During 2008, all business areas have reduced the injury frequency rate. Sandvik Mining and Construction and Sandvik Materials Technology have succeeded in reducing this figure by around 25% and Sandvik Tooling by 11% from an already low level. An important factor behind the reduction is the progressive introduction of a health and safety management system that include an increased focus on safety leadership and accountability, structured incident reporting and investigation. Other important factors are communication with, and involvement of employees through, for

example, local safety committees and systematic risk assessments and internal audits as a basis for implementing preventive measures.

Sandvik encourages reporting of health and safety incidents, for example, by establishing targets for the reporting of a specified number of Near Misses in relation to one Lost Time Injury. From 2007, the number of reported Near Misses has been introduced as a Group-wide indicator (see adjacent table). In 2008, the number of reported Near Misses rose sharply. This is not indicating an actual increase in the number of Near Misses, but is rather proof of a broader base and more comprehensive reporting. The number of reported Near Misses in relation to one Lost Time Injury was 8.9.

In certain countries, community and working life is marked by the presence of serious transmittable diseases. For example, HIV/AIDS is an extremely serious problem particularly in southern Africa. Sandvik has extensive HIV/AIDS programs in South Africa, Zimbabwe, Tanzania, Zambia, and Malawi and to some extent in Ghana and the Democratic Republic of Congo. A summary of the HIV/AIDS programs in these countries is presented in the table to the right.

Sandvik has implemented programs to educate and counsel employees and their families and, in some cases, other inhabitants near to Sandvik operations, about HIV/AIDS. Training in these matters is provided daily, usually in conjunction with the safety meetings that are held prior to work commencing. Counseling is provided by private organizations with whom Sandvik cooperates and the Group's own counselors. These meetings not only address HIV/AIDS matters, but take a more holistic approach to address other factors that may affect an individual, such as stigma. Preventive work and risk controls are conducted in connection with training and counseling. The main focus is placed on changing the attitude to partners and the use of condoms. Measures and support are offered to all employees who test HIV positive. In addition to the opportunity to receive testing and free condoms, antiretroviral drugs are offered to people who are within the scope of the program.

7.3.1 Management system for health and safety

Sandvik's target is to certify all major production, service and distribution sites in accordance with the international specification for the occupational health and safety management system OHSAS 18001 (or a comparable standard) within two years of the acquisition or establishment. The term major is defined as sites with 25 employees or more. At year-end 2008, 159 (89%) production, service/rebuilding and distribution units were certified. These units are physically located on Sandvik's sites. In addition, there are about 25 maintenance workshops that Sandvik operates within customers' operations (mainly mines). 70% of these units have also been certified. 90% of Sandvik's 144 major production units are certified. All but one of the units not certified consist of new acquisitions during 2007–2008.

7.4 Employee conditions and development

To ensure continuous improvement of employee performance, Group Executive Management has decided to monitor five indicators: diversity (the balance between the number of men and women), mobility (internally within the company), personnel turnover, competence development days and performance review discussions. Two of these indicators have a specific Group target – that all employees shall have an annual performance review discussion and improvement in the balance between men and women in the company.

7.4.1 Employment

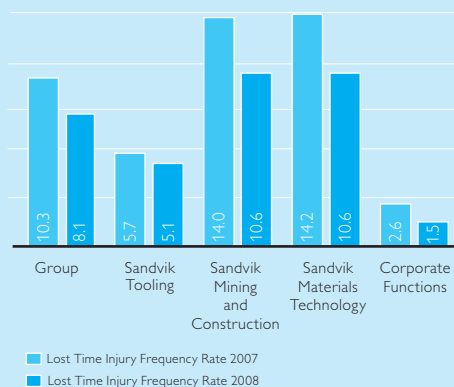
The average number of employees by geographical area and gender is presented in Note 3 in the Annual Report. During the year, 4,503 employees terminated employment at Sandvik, leading to a personnel turnover of 10.2% (9.7). Mobility within the company (the proportion of positions filled internally in relation to the total number of positions filled) was 14.8% (14.1). The average number of employees in the companies covered by the sustainability report was 44,330 (40,291) at year-end.

Health and safety	2008	2007	2006	2005
Number of fatalities due to work-related injuries	2	1	2	0
Number of Lost Time Injuries*	717	827	980	1,030
Lost Time Injury Frequency Rate**	8,1	10,3	13,2	16,1
Number of reported Near Misses	6,346	3,179	—	—
Lost days due to Lost Time Injuries	11,286	12,603	14,897	12,715
Working Days Lost by employee due to Lost Time Injuries	0.25	0.31	0.40	0.40
Total absence (from scheduled work), %	2.3	2.6	2.7	3.3
Total sick leave (whether work-related or not), %	2.2	2.4	2.5	4.0

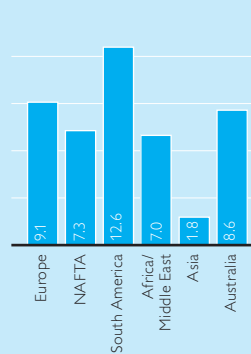
* Work-related injury (own employees) resulting in minimum one day's absence from work.

** Lost Time Injury Frequency Rate is defined as the number of Lost Time Injuries per million work hours. Assumption: Employees are assumed to work 2,000 hours a year.

Lost Time Injury Frequency Rate per Business Area



Lost Time Injury Frequency Rate per Market Area



HIV/AIDS Assistance program

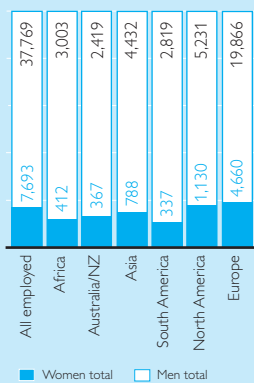
Recipients	Education	Counseling	Prevention/ Risk controls	Treatment
Employees	6	5	6	4
Families of employees	4	5	5	4
Other inhabitants	5	4	4	2

The number denotes the number of countries in which Sandvik offers programs for the respective categories.

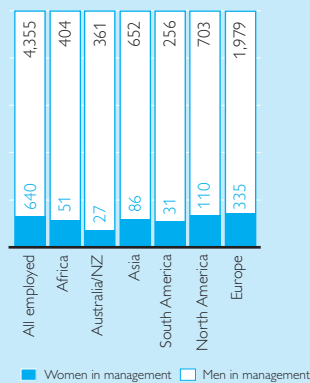
Proportion of women, %

	2008	2007	2006	2005
All employees	16.9	17.0	17.0	17.0
Internal Board members and Presidents	7.8	8.0	6.0	6.0
Managers/supervisors	12.8	12.1	11.9	10.5
Staff positions (excluding managers/supervisors)	27.7	28.0	28.7	30.4
Worker positions	10.2	10.7	10.8	10.8

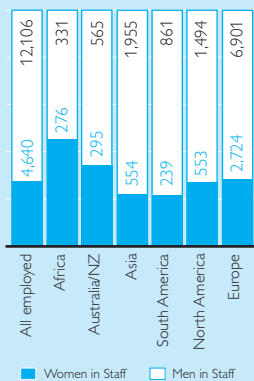
Proportion of women, all employees



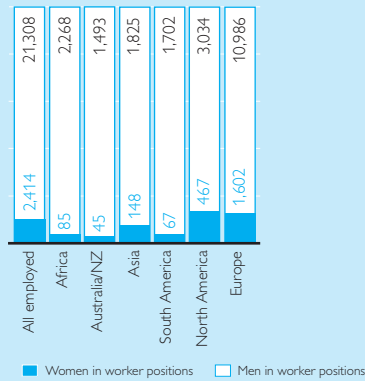
Proportion of women, managers/supervisors



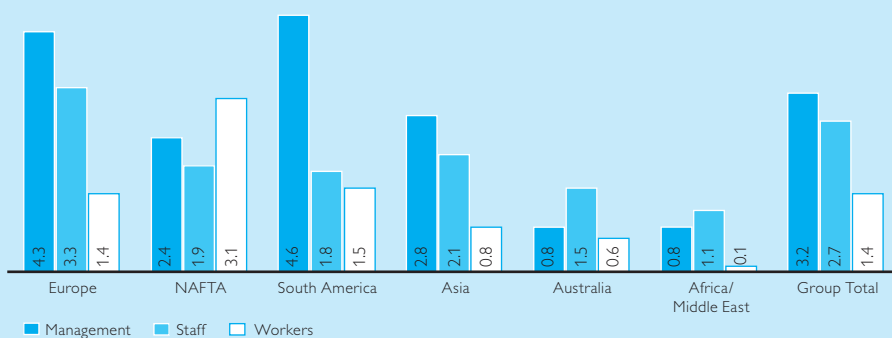
Proportion of women, staff positions



Proportion of women, worker positions



Competence development days per employee and Market Area



7.4.2 Diversity and equal opportunity

About 75% of Sandvik's employees work outside Sweden. The employees at subsidiaries in more than 60 countries have a wide variety of nationalities and collectively speak a large number of languages. This diversity in the Group is considerable and this is also a prerequisite for Sandvik to be able to secure the availability of the right expertise at the right time for the needs that exist within the company. This high level of diversity is secured by offering equal rights and equal opportunities to all, irrespective of age, race, color, national origin, religion, sex or disability. Sandvik has aimed to increase the proportion of female employees to 25% before year-end 2010, to ensure access to the most competent employees in a future with increased competition for skilled labor. However, as shown by the table to the left, the proportion has remained at 17% over the past four years. Thus, Group Executive Management has decided to refocus its efforts and reformulate the target as follows:

All sites will introduce a program to improve the gender balance before year-end 2010.

Distribution of the average number of employees within various geographical regions and taking into account gender is presented in Note 3 to the financial statements in the Annual Report. Other relevant key figures regarding distribution by gender are shown in the accompanying diagrams.

7.4.3 Performance review discussions and competence development

During 2008, performance review discussions were conducted with 56% of Sandvik's employees, which is far below the established target of 100%. An important part of the performance review discussion is to identify opportunities to enhance the skills and well-being of the employee as well as increase satisfaction and well-being in the workplace. Advancing the employee's skills is equal to advancing Sandvik's business. The number of competence development days per employee and region during the year is presented in the diagram to the left.

Limited assurance report

To the readers of Sandvik's 2008 Sustainability Report:

We have performed a review of Sandvik's 2008 Sustainability Report. The Sustainability Report is presented on page 86–97 of Sandvik's 2008 Annual Report and on Sandvik's website www.sandvik.com/sustainability under the heading GRI Index in the form of complete references to Global Reporting Initiatives's (GRI) Sustainability Reporting Guidelines, G3. It is Sandvik's Executive Management that is responsible for the continuous activities regarding sustainable development from the perspective of financial, environmental and social responsibility and for the preparation and presentation of the Sustainability Report in accordance with applicable criteria. Our responsibility is to express a conclusion on the Sustainability Report based on our review.

Our review has been performed in accordance with FAR SRS (the institute for the accountancy profession in Sweden) draft recommendation "RevR 6 Assurance of sustainability reports" and AccountAbility's AA1000AS (2008). A limited review consists of making inquiries, primarily of persons responsible for sustainability matters and for preparing the sustainability report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing in Sweden RS and other generally accepted auditing standards. The procedures performed in a limited review do not enable us to obtain an assurance

that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In accordance with the AA1000AS (2008), we confirm that we are independent of Sandvik AB and impartial to Sandvik's stakeholders.

The criteria used in the course of performing review procedures are based on applicable parts of the Sustainability Reporting Guidelines, G3 issued by the Global Reporting Initiative (GRI) suitable for the sustainability report, and specific measurement and reporting principles, Fair Play Reporting, developed and stated by Sandvik. We consider those criteria to be suitable for our engagement.

Our limited review has, based on an assessment of materiality and risk, among other things included the following procedures:

- Interviews with certain external stakeholders to secure that Sandvik responds to important stakeholders' concerns in the sustainability report.
- Interviews with responsible management, at group level, division level and at selected business units with the aim to assess if the qualitative and quantitative information stated in the sustainability report is complete, correct and sufficient.
- Share internal and external documents to assess if the information stated in the sustainability report is complete, correct and sufficient.
- Assessment of suitability and application of criteria in respect to internal and external stakeholders' need of information.

- Evaluation of the design of systems and processes used to obtain, manage and validate sustainability information.
- Review of underlying documentation, on a test basis, to assess whether the information and data in the sustainability report is based on that documentation.
- Pre-announced visits to ten of Sandvik's facilities located in Brazil, Finland, Spain, Sweden, Germany and the US. Interviews with management and key personnel in order to ensure that sustainability performance data are reported, in all material respects, in a uniform manner and in accordance with applicable criteria.
- Review of qualitative information and statements, as well as the report on compliance with legislation, permits and conditions related to sustainability.
- Assessment of Sandvik's stated application level according to AccountAbility's AA1000APS (2008).
- Assessment of the Sandvik's stated application level according to GRI:s guidelines.
- Reconciliation of financial information against Sandvik's Annual Report 2008.
- Overall impression of the Sustainability Report, and its format, considering the information's mutual correctness with applicable criteria.

Based on our review procedures, nothing has come to our attention that causes us to believe that Sandvik's 2008 sustainability report has not, in all material aspects, been prepared in accordance with the above stated criteria.

Sandviken, February 19, 2009
KPMG AB

Caj Nackstad
Authorized Public Accountant

Åse Bäckström
Expert Member FAR SRS

Corporate Governance Report

Effective and transparent corporate governance enhances the confidence in Sandvik and also promotes business value and shareholder value in the company.

General

Sandvik Aktiebolag is a public company listed on Nasdaq OMX Stockholm (the "Stock Exchange"). Sandvik Aktiebolag has some 104,000 shareholders. Sandvik AB has its registered office in Sandviken, Sweden, and is the Parent Company of the Sandvik Group with subsidiaries in more than 60 countries. Its operations are global with representation in 130 countries, and the Sandvik Group has approximately 50,000 employees. Sandvik shall be the customers' obvious first choice and create the best added value for its stakeholders – in particular, customers, shareholders and personnel. At the same time, Sandvik shall act as a good corporate citizen that assumes long-term responsibility. The purpose of corporate governance is to clearly specify the division of roles and responsibilities among owners, the Board and executive management. Corporate governance comprises the Group's control and management system. Another important corporate governance ingredient is the link to Sandvik's risk management, which is conducted in accordance with the ERM model and to the model for remuneration of senior executives. This Corporate Governance Report is not part of the statutory Annual Report and it has not been examined by Sandvik's external auditors.

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.

For additional information regarding the Swedish Code of Corporate Governance, the Annual General Meeting of shareholders, and so forth, refer to the website of The Swedish Corporate Governance Board, www.bolagsstyrningskollegiet.se.

Ownership structure

Information on shareholders and shareholdings is presented on pages 10–11 (the section on the Sandvik share).

Articles of Association

According to Sandvik Aktiebolag's Articles of Association, the company's name is Sandvik Aktiebolag. Its 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. The Board of Directors, to the extent elected at the Annual General Meeting, shall comprise not less than five and not more than eight members, with not more than five deputies. In addition, not less than two and not more than three auditors and the same number of deputies shall be appointed. The Annual General Meeting may also appoint one auditor only, with no deputy, if a registered auditing firm is appointed. The company's financial year is the calendar year. The Annual General Meeting shall be convened in Sandviken or Stockholm, Sweden.

The Articles of Association in full are available on the company's website, www.sandvik.se.

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, decisions 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 set out in the Companies Act and the Articles of Association. Additional information concerning the Annual General Meeting and complete minutes are published on the company's website, www.sandvik.se.

2008 Annual General Meeting

Shareholders representing 53.1% of the votes and capital attended the Annual General Meeting held on 29 April 2008. Sven Unger, attorney-at-law, was elected to chair the meeting. The meeting resolved to declare a dividend of SEK 4 per share for the 2007 financial year. In his presentation, President and CEO Lars

Pettersson commented on operations during the 2007 financial year and developments during the first quarter of 2008. He also gave an account of the Sandvik Group's development opportunities.

Georg Ehrnrooth, Clas Åke Hedström, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén, and Lars Pettersson were all reelected as permanent members of the Board. Simon Thompson was elected as a new Board member, replacing Sigrun Hjelmquist, who declined reelection. Clas Åke Hedström was elected Chairman of the Board. The trade union organizations had appointed Tomas Kärnström and Jan Kjellgren as permanent members of the Board, with Mette Ramberg Frodigh and Bo Westin as deputies. Anders Nyrén is the Vice Chairman of the Board.

Nomination Committee

A Nomination Committee has been established in accordance with the resolution reached at the Annual General Meeting in 2007. The four largest shareholders known to the company each appointed one member and together with the Chairman of the Board, they made up the Nomination Committee. Prior to the 2008 *Annual General Meeting*, the Nomination Committee submitted proposals for the Chairman of the Meeting, the number of Board members, fees for Board members and auditors, Board members and Chairman, the number of auditors and the election of auditors, and how the Nomination Committee will be appointed prior to the 2009 *Annual General Meeting* and what its assignment shall be.

The Nomination Committee, which for the 2008 *Annual General Meeting* comprised Carl-Olof By, Chairman (Industrivärden), Curt Källströmer (Handelsbanken's Pension Foundations), Staffan Greffbäck (Alecta Pension Insurance), Marianne Nilsson (Swedbank Robur Funds), and Clas Åke Hedström (Sandvik's Chairman), held five meetings. Through Sandvik's Board Chairman, the Nomination Committee received information concerning the Board's own eval-

uation of Board members' performance. The Nomination Committee discussed the general criteria that Board members should fulfill, including independence issues.

The Nomination Committee concluded that the current size of the Board, with its eight members, is what best serves Sandvik, and that the proposed Board fulfills the demands that will be imposed on Sandvik Aktiebolag with regard to its position and future direction.

Nomination Committee prior to the 2009 Annual General Meeting

Prior to the Annual General Meeting to be held on 28 April 2009, the Nomination Committee consists of Carl-Olof By, Chairman (Industrivärden), Håkan Sandberg (Handelsbanken's Pension Foundations), Staffan Greffbäck (Alecta Pension Insurance), Marianne Nilsson (Swedbank Robur Funds), and Clas Åke Hedström (Sandvik's Chairman).

The Nomination Committee shall submit proposals for the Chairman of the Meeting, the number of Board members, fees for each of the Board members and auditors, Board members and Chairman, and how the Nomination Committee will be appointed prior to the 2010 *Annual General Meeting* and what its assignment shall be.

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 terms of reference.

The principal tasks of the Board are to:

- establish the overall objectives for the company's operations and the strategy for reaching these objectives,
- ensure that the company's executive management functions efficiently and is suitably remunerated,
- ensure that the company's external financial reporting is conducted transparently and objectively and provides a fair view of the company's performance, profitability, financial position and risk exposure,
- ensure that there are effective systems for monitoring and control of the company's operations and financial position in relation to the established goals,
- 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 behavior,
- decide on acquisitions, divestments and investments,
- propose dividends to the Annual General Meeting.

Composition of the Board of Directors

Sandvik Aktiebolag'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 permanent members and two deputies.

In accordance with the Nomination Committee's proposal, Georg Ehrnrooth, Clas Åke Hedström, Fredrik Lundberg, Hanne de Mora, Egil Myklebust, Anders Nyrén and Lars Pettersson were reelected at the Annual General Meeting in 2008. Simon Thompson was elected as a new member of the Board.

Clas Åke Hedström, who was elected Chairman of the Board, has earlier held the position of President and CEO in the company (1994–2002). President and

CEO Lars Pettersson is employed by the company. Anders Nyrén is the President of Industrivärden. Fredrik Lundberg is a member of the Board of Industrivärden. Industrivärden owns shares representing 11% of the voting rights in Sandvik. Anders Nyrén and Fredrik Lundberg are thus not independent in relation to major shareholders as defined in the Code. 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 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, and that the members that are independent in relation to the company and major shareholders have the required experience to serve public listed companies.

Sandvik's General Counsel Bo Severin served as secretary of the Board, the Remuneration and Audit Committees as well as the Nomination Committee.

For additional information on the members of the Board, see pages 104–105.

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, and 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.

Board proceedings during 2008

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 and the Board visited Sandvik Materials Technology's medical applications operations in the UK and the US.

The Board addressed matters related to personnel, such as planning for replacements and remuneration terms. Decisions were taken on investments, acquisitions and divestments. Other areas dealt with include the Group's work on risk management and the company's strategy for capital structure and borrowings.

Remuneration to the Board members

As decided 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 and the fee to the Vice Chairman is SEK 900,000. 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 59–61.

Evaluation of the Board members

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.

Evaluation of the President

The Board continually evaluates the performance of the President and CEO. When this issue is addressed – not less than once a year – no members of Group Executive Management attend.

Committees

The tasks of the committees and their work procedures are set out in written instructions issued by the Board. The committees shall draft issues and present them to the entire Board for resolution.

Remuneration Committee

According to the Board's work procedures, the Remuneration Committee shall prepare remuneration to the President and other senior executives based on the guidelines decided at the Annual General Meeting. In 2008, the members of the Remuneration Committee were the Board's Chairman Clas Åke Hedström (also Chairman of the Remuneration Committee), Georg Ehrnrooth and Egil Myklebust.

The committee's proposals to the Board cover the principles for remuneration, the distribution between fixed and variable salary, pension terms, principles for severance pay, and other benefits to senior executive management.

Based on the proposal by the Remuneration Committee, the Board decides the remuneration to the President and CEO. The President decides remunerations to the other senior executives following consultation with the Remuneration Committee. For additional information, see pages 59–61.

During 2008, the Remuneration Committee was convened six times.

Audit Committee

The members of the Audit Committee are Anders Nyrén (Chairman), Hanne de Mora and Fredrik Lundberg. The committee held six meetings in 2008 at which the company's external auditors and representatives of the company's management were present. Areas addressed by the committee mainly covered financial reporting and the planning, scope and follow-up of the internal and external audit. The committee also dealt with the Group's implementation of systematic processes for risk management, accounting procedures, taxation and finance operations, as well as insurance and pension issues.

External auditors

At the 2008 Annual General Meeting, the audit firm KPMG AB was reappointed 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 decisions 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 of liability for the financial 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) and the disclosure standards specified by the Stock Exchange relating to information in the Annual Report, as well as issues related to the valuation of items reported in the balance sheet and the follow-up of essential accounting processes and financial control. The audit includes that the company has followed the principles of remuneration to the Group Executive Management approved by the Annual General Meeting.

The progress of the audit is regularly reported 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 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 continually assess their independence.

For information on fees paid to auditors, see page 62.

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 two Execu-

tive Vice Presidents, the Group's Business Controller and the General Counsel normally attend these meetings. Executive Vice President Peter Larsson is a Board member of Seco Tools AB and thus does not participate in Sandvik Tooling's Board meetings.

The CEO, the two Executive Vice Presidents, and the three presidents of the business areas make up Group Executive Management. Group Executive Management is convened each month and deals with the Group's financial development, Group-wide development projects, leadership and competence issues, and other strategic issues. The Sandvik Group has established eleven group functions responsible for Group-wide activities within finance, treasury, IT, communications, internal control, legal affairs, personnel, 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, there are a number of councils 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 106. For principles, remuneration and other benefits to the Group Executive Management, see pages 59–61.

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 such country, a member of Group Executive Management, or another person appointed by Group Executive Management, has been assigned overall responsibility for the operations in the country concerned (Group Management Representative). In most cases, this member is also Chairman of the local Board and, among other tasks, must ensure compliance with Group-wide guidelines aided by the Country Manager.

Integration of acquired companies

Sandvik has actively acquired companies. In the most recent 10-year period, some 50 companies have been acquired. In the past two years, 15 new companies with

some 2,900 employees and total sales of more than SEK 5 billion (at acquisition date) have been acquired. Accordingly, a considerable part of the Sandvik Group's growth comes from acquisitions.

Swift and well-accomplished integration of new companies with Sandvik's other operations is of utmost importance. The commercial synergies of the acquisition must be ensured. The integration also comprises management and HR issues, and harmonization with Sandvik's administrative procedures and its core values: *Open Mind*, *Team Spirit* and *Fair Play*.

The integration is secured in three steps. During the initial acquisition stage, prior to the completion of negotiations and before the acquisition is finalized, the significant integration aspects are analyzed and prepared. As soon as the acquisition is concluded, an integration group is appointed which is charged with the task of planning and implementing the integration in various areas. Finally, the company is incorporated into Sandvik's administrative procedures and its personnel are trained in Sandvik's regulations and set of values. This includes financial reporting, which allows for early consolidation into Sandvik's financial reporting and the consolidated accounts.

Violation of listing agreement

In May 2006, Sandvik divested all of its shares in the wholly owned company Edmeston AB to Edmeston Holding AB for slightly more than SEK 8 M. All shares in the aforementioned company were owned by the 24-year-old daughter of Edmeston AB's President. In February 2008, the Swedish Securities Council issued a statement (Statement 2008:06) that in its overall assessment, Sandvik had breached the code of generally accepted practices in the securities market, since the sale of the shares in Edmeston AB could be construed as circumventing the so-called Leo regulations.

As a result of the Swedish Securities Council's statement, the Stock Exchange requested that disciplinary measures be taken by the stock market's Disciplinary Committee. In May 2008, the Disciplinary Committee ruled that Sandvik had violated its listing agreement and issued a fine corresponding to one annual fee. In the ruling, the Disciplinary Committee noted that the transactions concerned relatively limited values and that nothing indicated anything else than that the transaction was to the benefit of the shareholders of Sandvik Aktiebolag.

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.

Control environment

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 (authority, authorization manual, financial reporting, risk management, personnel policy, health and safety, etc.); in some markets, such guidelines have also been adapted to local legislation.

The Power of Sandvik is the platform for the Group's processes for internal control, risk management, and information and communication, with the exception of Seco Tools, which has corresponding documentation.

All employees shall comply with the guidelines in *The Power of Sandvik*. Every manager within the Group is responsible for ensuring compliance with the Code of Conduct, guidelines and instructions. The Code of Conduct covers Sandvik's internal activities, the company's role in society and its attitude to customers, employees, suppliers, and shareholders. The Code of Conduct is based on fundamental values for responsible business behavior, human rights, conditions at work and the environment as described in the OECD's guidelines for multinational companies and applicable laws and regulations. To ensure that these guidelines and values are mirrored in Sandvik's actual behavior, monitoring and control is exercised through self-assessments, reporting of key data as well as quarterly reporting to Group Executive Management and the Board. A committee with members from Group Executive Management regularly arranges seminars attended by managers from throughout the world. At such seminars, the Code of Conduct is described, discussed and transformed into local action plans.

Risk management

Effective risk management unites operational business development with the demand for control and sustainable value creation by shareholders and other stakeholders. Risk management also aims to minimize risks while also ensuring that opportunities are utilized in the best possible way. One example of active risk management was the implementation of the Sandvik Pensions Supervisory Board, which is responsible for monitoring the exposure of the Group's pension commitments and the related reserved assets.

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. Goals established for integrated risk management include:

- the creation of heightened risk awareness in the entire organization, from operational decision-makers to the Board of Directors. Transparent and consistent reporting of risks shall form the basis for a common approach to what shall be prioritized and resolved,
- the support of the Board and executive management in the strategic decision-making by continuous identification and evaluation of strategic risks,
- improved operational decision-making by managers at various levels by securing the continuous evaluation and management of operational risks,
- enhanced control of the company's risk exposure by implementing a common model and methodology for risk management.

The Board of Director's description of internal control over financial reporting for 2008

Sandvik's financial reporting was established in accordance with prevailing legislation, International Financial Reporting Standards (IFRS) and the listing agreement with the Nasdaq OMX Nordic Exchange Stockholm. This description of internal control over financial reporting is prepared in accordance with the Code, sections 10.5 and 10.6. It does not form part of the formal Annual Report and has not been examined by the external auditors.

Sandvik's finance organization manages a well-established financial reporting process that ensures a high level of internal control. The internal control system applied follows 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.

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 in the following.

Control Environment

As described above 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 with signatory and authorization principles for decision-making and cost approvals, request and approval procedures regarding investments and acquisitions, instructions regarding funding and the placement of capital and more.

In the area of financial reporting, the Sandvik Financial Reporting Procedures (FRP) have been implemented. It contains detailed instructions regarding accounting principles and financial reporting procedures to be applied by all Sandvik reporting entities. In the twenty major countries where Sandvik operates are Country Financial Managers 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 provides 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 above in the Annual Report also includes the area of financial reporting. This means that risk management is a natural element of the daily work with 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 work descriptions, roles and responsibilities, IT-systems, skills and expertise creates the environment continuously being monitored to identify and manage potential risks.

Attendance at Board and Committee meetings 2008

Member	Board	Audit Committee	Remuneration Committee
No. of meetings	7	6	6
Georg Ehrnrooth	7		6
Clas Åke Hedström	7		6
Sigrun Hjelmquist	2	2	
Jan Kjellgren	5		
Fredrik Lundberg	7	6	
Hanne de Mora	6	4	
Egil Myklebust	7		5
Anders Nyrén	7	6	
Lars Pettersson	7		
Simon Thompson	5		
Tomas Kärnström	6		
Göran Lindstedt	2		
Mette Ramberg Frodigh	5		
Bo Westin	6		

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. They adhere to the Sandvik Financial Reporting Procedures and validate and reconcile local accounts before submitting the financial data 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 finance functions 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 data from each reporting entity. Comparisons are made against budgets, 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 reports conducted by Group Assurance and the external auditors.

In the business areas and in major countries there is also a system with 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 regularly updated on the company's intranet and are available to all 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 regularly communicated 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 providing a full reporting package to the Group Executive Management and the Board is performed quarterly and for the full financial year.

Each business entity manager and finance organization are 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 being assessed by Group Finance every month as part of the quality assurance of reporting. The Sandvik internal audit function Group Assurance monitors independently the internal control system of financial reporting as part of its audit plan.

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 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. The independence of the Group Assurance function is ensured by its reporting to the Audit Committee. In practical terms, the head of Group Assurance reports to Sandvik's Executive Vice President and 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 Audit Committee.

Board of Directors auditors

Members of the Board

Clas Åke Hedström, b. 1939.

Chairman since 2002, Director of Sandvik AB since 1994.

Education and business experience: MSc. Eng. President and CEO of Sandvik AB 1994–2002. President of Sandvik Tooling business area 1980–1994 and various positions within Sandvik Coromant 1965–1980.

Current Board assignments: Director of AB SKF.

Shareholding in Sandvik (own and closely related persons): 225,000.

Lars Pettersson, b. 1954.

Director of Sandvik AB since 2002.

Education and business experience: MSc. Eng., PhD Honorary. President and Chief Executive Officer of Sandvik AB since 2002. Group Executive Vice President and President of Sandvik Specialty Steels business area 2000–2002. Various positions within production and management in Sandvik 1978–1999.

Current Board assignments: Director of Skanska AB and Teknikföretagen.

Shareholding in Sandvik (own and closely related persons): 113,654.

Georg Ehrnrooth, b. 1940.

Director of Sandvik AB since 1997.

Education and business experience: Graduate engineer, D.Tech. Honorary. President of Metra Oyj (currently Wärtsilä Oyj Abp) 1991–2000, President of Lohja Oyj Abp 1979–1991, various positions in production and management within Wärtsilä Oyj Abp 1965–1979.

Current Board assignments: Chairman of the Board of Sampo plc, Director of Oy Karl Fazer Ab and Nokia Oyj.

Shareholding in Sandvik (own and closely related persons): 55,000.

Fredrik Lundberg, b. 1951.

Director of Sandvik AB since 2006.

Education and business experience: MSc. Eng., B.Sc. (Econ.), D.Econ Honorary, D.Tech. Honorary. Active in L E Lundbergföretagen AB since 1977 and Chief Executive Officer since 1981.

Current Board assignments: Chairman of the Board of Cardo AB, Holmen AB, Hufvudstaden AB, Vice Chairman of Svenska Handelsbanken AB and NCC AB, Director of LE Lundbergföretagen AB and Industrivärden AB. *Shareholding in Sandvik (own and closely related persons):* 4,280,000, via L E Lundbergföretagen AB 14,000,000 and via AB Industrivärden 136,431,200.

Anders Nyrén, b. 1954.

Director of Sandvik AB since 2002.

Vice Chairman of the Board.

Education and business experience: B.Sc. (Econ.), MBA. President and Chief Executive Officer of AB Industrivärden since 2001, Executive Vice President and CFO of Skanska AB 1997–2001, various executive positions within AB Wilhelm Becker, STC Scandinavian Trading Co AB, STC Venture AB, OM International, Securum AB and Nordbanken 1979–1997.

Current Board assignments: Chairman of Association of Exchange-listed Companies and the Association for Good Practices on the Securities Market, Vice Chairman of Svenska Handelsbanken AB, Director of Ericsson, Industrivärden, SCA, SSAB, and Ernströmgruppen. *Shareholding in Sandvik (own and closely related persons):* 4,500.

Egil Myklebust, b. 1942.

Director of Sandvik AB since 2003.

Education and business experience: LLB. Chief Executive Officer of Norsk Hydro 1991–2001, President of Næringslivets hovedorganisasjon 1989–1990, President of Norsk Arbeidsgivareforening 1987–1988, various positions within Norsk Hydro 1971–1987. Consultant to the National Insurance Administration 1968–1971.

Current Board assignments: Director of University Board (University of Oslo). *Shareholding in Sandvik (own and closely related persons):* 5,000.

Hanne de Mora, b. 1960.

Director of Sandvik AB since 2006.

Education and business experience: B.Sc. (Econ.), Bachelor's degree of Business Administration IESE, Barcelona. One of the founders and owners, also Chairman of the Board of the management company a-connect (group) ag since 2002, partner in McKinsey & Company Inc. 1989–2002, various positions within brand management and controlling within Procter & Gamble 1986–1989.

Current Board Assignments: — *Shareholding in Sandvik (own and closely related persons):* 0.

Simon Thompson, b. 1959.

Director of Sandvik AB since 2008.

Education and business experience: MA Geology. Various positions with Anglo American Group 1995–2007 including director of Anglo American plc 2005–2007, Director of AngloGold Ashanti 2004–2008, chairman Tarmac 2004–2007, Director of SG Warburg 1994–1995, NM Rothschild & Sons Ltd. 1984–1995.

Current Board assignments: Director of UC Rusal, Newmont Mining Corporation and AMEC plc.

Shareholding in Sandvik (own and closely related persons): 0.

Tomas Kärnström, b. 1966.

Director of Sandvik AB since 2006
(Employee representative).

Education and business experience:
Principal safety representative Sandvik
Materials Technology. Various positions
within Sandvik since 1986.

Current Board assignments: —
*Shareholdings in Sandvik (own and
closely related persons):* 2,865.

Jan Kjellgren, b. 1952.

Director of Sandvik AB since 2008
(Employee representative).

Education and business experience:
Research engineer, Sandvik Tooling Sver-
ige AB. Various positions within Sandvik
since 1981.

Current Board assignments: AB Sandvik
Hard Materials, Sandvik Tooling Sverige
AB.

*Shareholding in Sandvik (own and
closely related persons):* 570.

Deputy members

Bo Westin, b. 1950.

Director of Sandvik AB since 1999
(Employee representative).

Education and business experience:
Chairman Union Committee, Metal
Workers' Union, Sandvik Rotary Tools
AB, Köping. Various operator positions
within Sandvik Mining and Construction
since 1973. Volvo Köpingverken 1971–
1972, Köpings Mekaniska Verkstad
1968–1970.

Current Board assignments: Director of
Sandvik Rotary Tools.

*Shareholding in Sandvik (own and
closely related persons):* 101.

Mette Ramberg Frodigh, b. 1961.

Director of Sandvik since 2006
(Employee representative).

Education and business experience:
Master of Engineering NTH Norway,
research engineer since 1997.

Current Board assignments: —

*Shareholding in Sandvik (own and
closely related persons):* 900.

Honorary Chairman

Percy Barnevik, b. 1941.

Chairman of the Board of Sandvik AB
1983–2002.

Auditors

Caj Nackstad, b. 1945.

Auditor in charge, Authorized Public
Accountant, KPMG AB.

Other auditing assignments: Billerud,
Skanska, LKAB, Axel Johnson AB and
Wallenius.

Current Board assignments: —
*Shareholding in Sandvik (own and
closely related persons):* 0.

Board Secretary

Bo Severin, b. 1955.

Secretary to the Sandvik Board of Direc-
tors since 2000.

Education and business experience: LLB.
General Counsel in Sandvik AB.

Current Board assignments: —
*Shareholding in Sandvik (own and
closely related persons):* 12,544.

Group Executive Management and Group staff units

Lars Pettersson, b. 1954.

Director of Sandvik AB since 2002.
President and Chief Executive Officer of Sandvik AB since 2002.

Education and business experience: MSc. Eng., PhD Honorary. Group Executive Vice President and President of Sandvik Specialty Steels business area 2000–2002, various positions within production and management in Sandvik 1978–1999.
Current Board assignments: Director of Skanska AB and Teknikföretagen.
Shareholding in Sandvik (own and closely related persons): 113,654.
Employee stock options: —

Peter Larson, b. 1949.

Executive Vice President of Sandvik AB since 2000. Responsible for Business Development and HR.

Education and business experience: B.Sc. (Econ), Executive Vice President and head of IT, Sandvik AB 2004 until 15 February 2009, Executive Vice President and CFO, Sandvik AB 2000–2004, Executive Vice President of Kanthal 1992–2000, Administration Manager, Uddeholm Tooling 1989–1992, controller positions within Härnösands Grafit AB, Kanthal AB and Asea/ABB 1974–1989.
Current Board assignments: Director of Seco Tools AB.
Shareholding in Sandvik (own and closely related persons): 46,425.
Employee stock options: 5,000.

Per Nordberg, b. 1956.

Executive Vice President and CFO of Sandvik AB since 2004 until 31 August 2009.

Education and business experience: B.Sc (Econ). CFO, OMX 2002–2004, Group Treasurer, AstraZeneca Plc 1999–2002, Group Treasurer, Astra 1995–1999, other senior finance positions within Atlas Copco 1981–1994.
Current Board assignments: Director of Första AP-fonden.
Shareholding in Sandvik (own and closely related persons): 500.
Employee stock options: —

Ola Salmén, b. 1954.

CFO of Sandvik AB from 1 September 2009.

Anders Thelin, b. 1950.

President of Sandvik Tooling business area since 2000.

Education and business experience: MSc. Eng. Various positions within research and development and the management group of Sandvik Coromant 1976–2000.
Current Board assignments: Director of Haldex AB.
Shareholding in Sandvik (own and closely related persons): 16,129.
Employee stock options: 5,000.

Lars Josefsson, b. 1953.

President of Sandvik Mining and Construction business area since 2003.

Education and business experience: MSc. Eng. Physics. President, ABB STAL/ALSTOM 1998–2003.
Current Board assignments: —
Shareholding in Sandvik (own and closely related persons): 40,000.
Employee stock options: 5,000.

Peter Gossas, b. 1949.

President of Sandvik Materials Technology business area since 2002.

Education and business experience: MSc. Eng. Physics. General Manager Sandvik Tube 2001, business unit manager positions within Avesta Polarit, Avesta Sheffield and Avesta AB 1986–2001, production and development positions within SSAB 1974–1986.
Current board assignments: Director of Höganäs AB, chairman of “Stål och Metall Arbetsgivareförbundet”.
Shareholding in Sandvik (own and closely related persons): 120.
Employee stock options: 5,000.

Group staff units

IT	Peter Larson (until 15 February 2009) Daniel Repond (from 16 February 2009)	Intellectual Property	Henrik Hägglöf
Business Control	Andreas Burman	Communications	Anders Wallin
Real Estate	Carl Larsson	Investor Relations	Jan Lissåker
Financial Control	Björn Wahlborg	Legal Affairs	Bo Severin
Financial Services	Anders Örbom	Personnel and Business Development	Peter Larson
Group Assurance	Heléne Gunnarson (until 31 March 2009) Bernth Nilsson (from 1 April 2009)	Taxes and Financial Projects	Thomas B. Hjelm

Information regarding Board assignments and holdings of shares and employee stock options is as of 1 January 2009.

Financial key figures

Key Figures (From 2004 in accordance with IFRS, earlier years in accordance with previous GAAP)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Invoiced sales, SEK M	92,654	86,338	72,289	63,370	54,610	48,810	48,700	48,900	43,750	39,300
change, %	+7	+19	+14	+16	+12	0	0	+12	+11	-7
of which organic, %	+5	+18	+14	+14	+15	+5	-7	+3	+12	-8
of which structural, %	+2	+3	+1	-1	-1	+2	+10	+1	-4	-1
of which currency, %	0	-2	-1	+3	-2	-7	-3	+8	+3	+2
Operating profit, SEK M	12,794	14,394	12,068	9,532	7,578	4,967	5,771	6,103	6,327	4,425
as % of invoicing	14	17	17	15	14	10	12	12	14	11
Profit after financial items, SEK M	10,577	12,997	11,113	8,819	6,877	4,187	5,063	5,606	5,804	5,465
as % of invoicing	11	15	15	14	13	9	10	11	13	14
Consolidated net profit for the year, SEK M	7,836	9,594	8,107	6,392	5,111	2,788	3,436	3,688	3,712	3,620
Shareholders' equity, SEK M	36,725	29,823	27,198	24,507 ¹⁾	23,551 ¹⁾	21,440	23,205	23,972	23,019	20,109
Equity ratio, %	36	35	41	41	46	46	48	50	55	52
Net debt/equity ratio, multiple	0.9	1.0	0.6	0.7	0.5	0.5	0.5	0.4	0.3	0.3
Rate of capital turnover, %	101	112	115	112	108	98	97	102	104	95
Cash and cash equivalents, SEK M	4,998	2,006	1,745	1,559	1,720	1,972	2,175	2,258	2,097	2,369
Return on shareholders' equity, %	24.8	34.4	31.8	27.4	21.7	12.8	14.9	15.5	17.3	12.4 ²⁾
Return on capital employed, %	19.9	27.0	27.6	23.7	20.5	13.4	15.4	17.4	20.3	15.1 ²⁾
Investments in property, plant and equipment, SEK M	7,169	5,399	4,801	3,665	2,967	3,153	2,357	2,627	2,087	1,875
Total investments, SEK M	8,301	10,068	6,081	3,950	3,278	3,260	5,066	4,083	2,670	2,233
Cash flow from operations, SEK M	9,671	5,476	8,170	7,266	5,322	6,421	7,190	5,093	4,476	3,394
Cash flow, SEK M	2,764	179	357	-380	-207	-104	48	73	-334	577
Number of employees, 31 December	50,028	47,123	41,743	39,613	38,421	36,930	37,388	34,848	34,742	33,870

1) Total equity, including minority interest. 2) Excluding items affecting comparability.

Per-Share Data (From 2004 in accordance with IFRS. Earlier years in accordance with previous GAAP. All historical figures are adjusted taking into account the 5:1 split.)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Basic earnings ¹⁾	6.30	7.65	6.45	4.95	3.85	2.20	2.70	2.85	2.85	2.80
Diluted earnings ²⁾	6.29	7.65	6.45	4.90	3.75	2.15	2.70	2.85	2.80	2.75
Equity	30.00	24.10	22.00	19.80	18.30	17.20	18.60	19.10	17.80	15.50
Dividend (2008 as proposed)	3.15	4.00	3.25	2.70	2.20	2.10	2.00	1.90	1.80	1.60
Direct return ³⁾ , %	6.4	3.6	3.3	3.6	4.1	4.2	5.2	4.2	4.0	3.0
Payout percentage ⁴⁾ , %	50	52	50	55	57	94	73	66	63	57
Quoted prices, Sandvik share, highest	108	151	106	79	56	50	52	49	62	56
lowest	42	96	71	54	46	35	38	35	36	27
year-end	49	111	100	74	54	50	39	45	45	54
No. of shares at year-end, million	1,186.3	1,186.3	1,186.3	1,186.3	1,235.2	1,250.1	1,250.1	1,255.1	1,293.5	1,293.5
Average no. of shares, million	1,186.3	1,186.3	1,186.3	1,216.9	1,255.8	1,250.1	1,252.5	1,277.6	1,293.5	1,293.5
P/E ratio ⁵⁾	7.8	14.5	15.4	15.0	13.9	22.1	14.2	15.6	15.9	19.1
Quoted price, % of equity ⁶⁾	163	462	452	374	293	288	209	235	255	344

1) Profit for the year per share.

2) Profit for the year per share after dilution.

3) Dividend divided by the quoted price at year-end.

4) Dividend divided by basic earnings per share.

5) Market price of share at year-end in relation to earnings per share.

6) Market price of share at year-end, as a percentage of equity per share.

Definitions, page 56.

Development by Business Area

	Invoiced sales				Operating profit and operating margin							
	2008 SEK M	2007 SEK M	2006 SEK M	2005 SEK M	2008		2007		2006		2005	
					SEK M	%	SEK M	%	SEK M	%	SEK M	%
Sandvik Tooling	25,975	24,732	22,477	20,847	5,461	21	5,989	24	5,191	23	4,420	21
Sandvik Mining and Construction	38,651	33,073	25,001	20,560	4,996	13	4,979	15	3,672	15	2,654	13
Sandvik Materials Technology	21,480	22,486	19,337	17,003	1,187	6	2,435	11	2,324	12	1,729	10
Seco Tools*	6,513	6,011	5,436	4,919	1,332	21	1,491	25	1,266	23	1,100	22

*Seco Tools, an independent, exchange-listed group of companies that markets tools for metal cutting, is part of the Sandvik Group.

Annual Meeting, payment of dividend

Annual Meeting

The Annual Meeting will be held at Jernvallen, Sandviken, Sweden on Tuesday, 28 April 2009 at 5.00 p.m.

Shareholders wishing to attend the Meeting must notify the Company either by letter to Sandvik AB, Legal Affairs, SE-811 81 Sandviken, Sweden or by telefax +46 26 26 10 86, or telephone +46 26 26 09 40 from 9.00 a.m. to 12.00 noon and 1.00 p.m. to 4.00 p.m. on weekdays, or via the Internet on the Group's website (www.sandvik.se). Notification must reach Sandvik AB not later than Wednesday, 22 April 2009. In order to qualify for attendance, shareholders must also have been entered in the Share Register kept by VPC AB not later than Wednesday, 22 April 2009 to establish their right to attend the Meeting.

Shareholders whose shares are registered as held in trust must have them temporarily re-registered with the VPC in their own names not later than Wednesday, 22 April 2009 to establish their right to attend the meeting. Note that this procedure also applies to shareholders using a bank's shareholder deposit account and/or trade via the Internet.

In notification of your intent to attend the Meeting, please state your name, personal or corporate registration number, address and telephone number, and details of any advisors.

If you plan to be represented at the Meeting by proxy, notice must be given to Sandvik AB prior to the Meeting.

Payment of dividend

The Board and the President propose that the Meeting declare a dividend of SEK 3.15 per share for 2008.

The proposed record date is Monday, 4 May 2009. If this motion is adopted by the Meeting, it is expected that dividends will be paid on Thursday, 7 May 2009. Dividends will be sent to those who, on the record date, are entered in the Share Register or on the separate List of Assignees, etc. To facilitate the distribution of dividends, shareholders who have changed address should report their change of address to their bank in sufficient time prior to the record date.

Sandvik's Annual Report

Sandvik's Annual Report for 2008 comprises the formal financial reporting, meaning the Board of Directors' report, income statements and balance sheets, with accompanying notes, etc., and is printed separately in a reduced number of copies for the shareholders who have ordered the printed reports. In addition to descriptions of operations, financial key figures, goals, business concept, strategy and more, The Sandvik World provides an in-depth look at a number of key areas. The Sandvik World is distributed to all shareholders.

The formal Annual Report is available on the Group's website (www.sandvik.com) and can be ordered in printed form.

