

CORPORATE GOVERNANCE REPORT

Sandvik AB has its head office in Stockholm and is the Parent Company of the Sandvik Group, with subsidiaries in about 70 countries. The Group has about 37,000 employees and revenues in more than 160 countries. Sandvik AB is a public company with its shares listed on Nasdaq Stockholm.

Corporate governance within Sandvik is based on external rules such as the Swedish Companies Act, the Nordic Main Market Rulebook for Issuers, the Swedish Code of Corporate Governance (the "Code") and other relevant laws and regulations. The Code is available at corporategovernance-board.se. In 2020, Sandvik applied the Code without deviating from any of its regulations.

The Sandvik Way

Sandvik's corporate governance framework, The Sandvik Way, implements the external rules mentioned above and also sets out the internal rules and principles for governance that apply specifically within Sandvik. It is based on four building blocks, as set forth in the model below, and

describes how common ways of working have been implemented throughout the entire organization.

Oversight and Direction

This part outlines how the Group is led and governed from the top. The Board of Directors, elected at the Shareholders' Meeting, sets the strategic direction for the Group. The President carries this out through the Group Executive Management whose members manage and oversee the operations of the Group. The main operational responsibility in the Group lies with the business areas and divisions, with Group functions responsible for functional policies and processes supporting the business. This part is the main focus of this Corporate Governance Report.

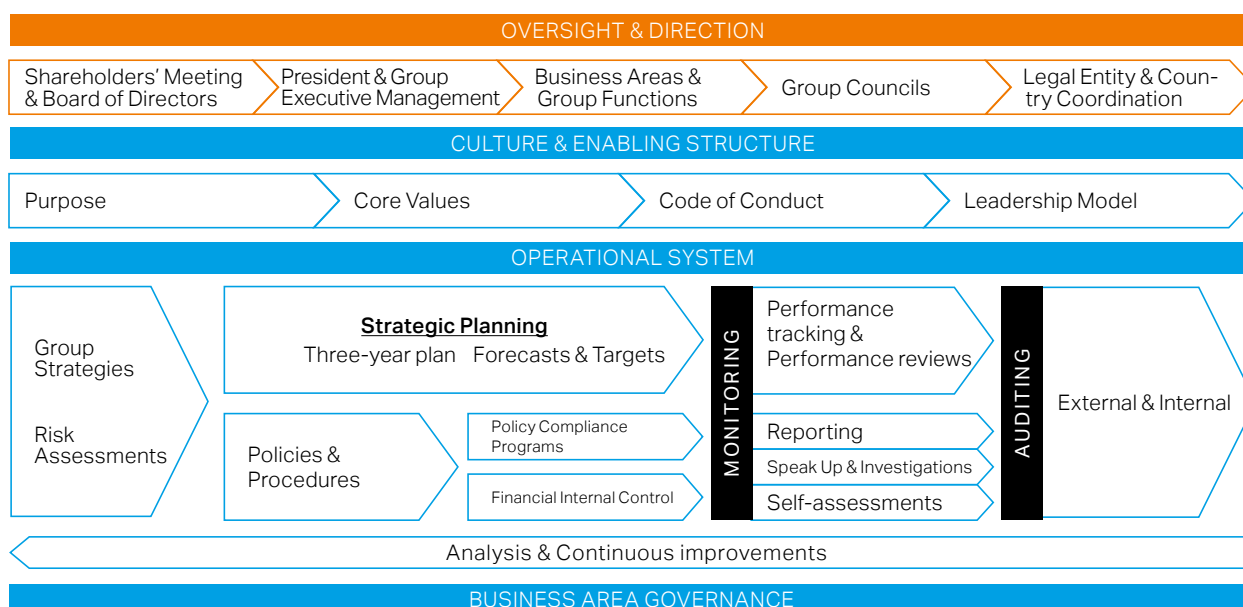
Culture and Enabling Structure

This building block sets the foundation for how we all shape our culture in the company and enable a customer oriented and responsible business. Our operational controls and risk frameworks are underpinned by the ambitions and requirements of our purpose, core values (Customer Focus, Innovation, Fair Play and Passion to Win), Code of Conduct and leadership principles.

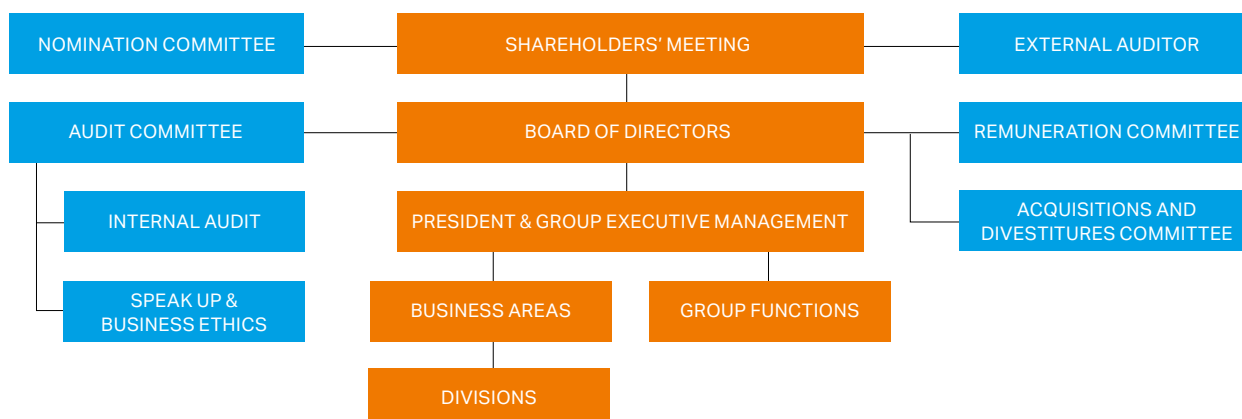
Operational System

The detailed controls and risk frameworks common across the Group are detailed in the operational system. This includes many aspects from planning and forecasting, policies, procedures and controls to compliance, monitoring and audit. The

The Sandvik Way



CORPORATE GOVERNANCE MODEL



operational system represents the day-to-day controls that directly impact the work of our employees. As such, it is subject to regular review and continuous improvement.

Business Area Governance

The final building block in the framework comprises the systems of business area governance, each reflecting the independent challenges and opportunities each business faces in its own industry sector. Customers, business cycles, supply chain and industry risk all vary across the business areas and call for controls and management systems tailored to the business, further complementing the group-wide way of working detailed in the other building blocks. Business area governance is adopted by each business area within the overall framework of The Sandvik Way and may include specific rules and procedures for each business area, division, business unit as well as other relevant parts of the operational business structure.

Ownership structure

As of December 31, 2020 Sandvik's share capital amounted to SEK 1,505,263,107.60 represented by 1,254,385,923 shares. According to the share register, Sandvik had about 106,000 shareholders as of December 31, 2020 and AB Industrivärden was the largest owner with about 12.5 percent of the share capital. Of the total share capital at year-end, about

43 percent was owned by investors outside Sweden.

Shareholders' meeting

The General Meeting of Shareholders is the highest decision-making body. At the Annual General Meeting, the shareholders are given the possibility to exercise their voting rights in relation to, for example, the Annual Report, dividends, election of the Board and appointment of auditor, and other matters stipulated in the Companies Act, the Articles of Association and, where applicable, the Code.

All shareholders who have been entered in the share register and have informed the company of their attendance within the time limit stated in the notice of the General Meeting are entitled to participate at Sandvik's General Meetings and vote according to the number of shares held. Shareholders are also entitled to be represented by a proxy at the General Meeting.

All shares in Sandvik carry equal voting rights with one vote per share.

2020 Annual General Meeting

Shareholders representing 56.2 percent of the share capital and votes attended the Annual General Meeting held on April 28, 2020 in Sandviken, Sweden. Due to the Covid-19 pandemic, shareholders participated mainly through proxy or advance voting. Sven Unger, attorney-at-law, was elected to chair the meeting.

Ten largest shareholders, December 31, 2020, %

AB Industrivärden	12.5
Alecta Pension Insurance	5.1
Swedbank Robur Funds	3.4
BlackRock	2.9
Vanguard	2.6
Lundbergföretagen AB	2.4
AMF Pension and Funds	2.3
SEB Funds	2.2
Norges Bank	1.7
Handelsbanken Funds	1.5

Source: Monitor by Modular Finance AB

Resolutions passed at the General Meeting included the following:

- No dividend
- Re-election of Board members Jennifer Allerton, Claes Boustedt, Marika Fredriksson, Johan Karlström, Johan Molin and Helena Stjernholm. Election of Stefan Widing and Kai Wärn as new Board members. Re-election of Johan Molin as Chairman of the Board.
- Re-election of PricewaterhouseCoopers AB as auditor
- Revised instruction for the Nomination Committee
- Guidelines for the remuneration of senior executives
- A long-term incentive program in the form of a performance share program for about 350 senior executives and key employees in the Group
- Authorization for the Board to decide on acquisition of the company's own shares



Sandvik's Annual General Meeting at the Göransson Arena in Sandviken, Sweden. Due to the Covid-19 pandemic, only nine shareholders and representatives participated in person.

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

2021 Annual General Meeting

The next Annual General Meeting will be held on April 27, 2021. More information is available at: home.sandvik.

Nomination Committee

The Nomination Committee is a preparatory body that prepares proposals for, among other things, the election of the Board of Directors, the Chairman of the Board and auditors as well as fees for adoption at the General Meeting. The Annual General Meeting has adopted an instruction for the Nomination Committee, which includes a procedure for appointing the Nomination Committee, valid until

Nomination Committee's tasks ahead of the 2021 Annual General Meeting

- Proposal concerning the Chairman of the Meeting
- Proposal concerning the number of Board members
- Proposal concerning remuneration of each Board member
- Proposal concerning the Board and Chairman of the Board
- Proposal concerning auditor and remuneration of the auditor
- If deemed necessary, proposal for changes to the Nomination Committee's instruction concerning the procedure for appointment of the Nomination Committee for the forthcoming Annual General Meeting and its assignment

a General Meeting resolves a change. In accordance with this instruction, the Nomination Committee shall consist of members appointed by each of the four largest shareholders in terms of the number of votes on the final business day in August plus the Chairman of the Board (convener).

Nomination Committee for 2021 AGM

For the 2021 Annual General Meeting, the Nomination Committee consists of Fredrik Lundberg, Chairman (Industrivärden), Ann Grevelius (Alecta), Marianne Nilsson (Swedbank Robur Funds), Lars Pettersson (Lundbergs) and Johan Molin (Sandvik's Chairman of the Board).

Up to the date of this Annual Report, the Nomination Committee met on three occasions. The Nomination Committee was informed of the results of the Board's own evaluation. The Committee met with the President and CEO that presented the Company's strategy. The Nomination Committee discussed the general criteria that Board members should fulfill, including the independence requirement, and reviewed the number of Board assignments that each Board member has in other companies. The Nomination Committee applied rule 4.1 of the Code as the diversity policy. This rule states that the Board shall have an appropriate composition in view of the company's operations, phase of development and other relevant circumstances,

display diversity and breadth in terms of qualifications, experience and background of the Board members elected by the General Meeting and that the company shall strive for gender balance.

Board of Directors

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

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

The President is appointed by the Board and is responsible for the daily operations pursuant to guidelines and instructions issued by the Board. The distribution of responsibilities between the Board and the President is laid down in the Board's Procedural Guidelines which are reviewed and adopted each year. The review is based on such aspects as the Board's evaluation of the individual and collective work that the Board performs.

In addition to financial reporting and the monitoring and follow-up of daily operations and profit trend, Board meetings address the goals and strategies for the operations, significant acquisitions and investments,

as well as matters relating to the capital structure. Senior executives report business plans and strategic issues to the Board on an ongoing basis.

Composition

As of December 31, 2020 Sandvik's Board consisted of eight members elected by the Annual General Meeting. The Nomination Committee communicated before the 2020 Annual General Meeting that the Nomination Committee had applied rule 4.1 of the Code as the diversity policy. The current Board composition is the result of the work of the Nomination Committee prior to that General Meeting. The Board consists of members with experience from different geographic areas and different industry sectors and, excluding the President, 43 per cent of the Board members elected by the General Meeting are women.

Pursuant to Swedish legislation, trade unions are entitled to representation on the Board and they have appointed two members and two deputies (one of which left his position as deputy on December 15, 2020).

The Board members are presented on pages 50–51.

Independence

Marika Fredriksson and Helena Stjernholm are not regarded as independent in relation to major share-

holders in the company and Stefan Widing is not regarded as independent in relation to the company and its executive management. The other five Board members elected by the General Meeting are all independent in relation to Sandvik and its executive management, as well as the company's major shareholders. Accordingly, the composition of the

Board complies with the independence requirements of the Code.

Board proceedings during 2020

During the year, the Board held 13 meetings. The President presented his 100-day plan after joining the company and started a strategy review. The Presidents of all business areas presented their goals and strategies.

Attendance at Board and Committee meetings in 2020

Member	Board	Audit Committee	Remuneration Committee	Acquisitions and Divestitures Committee
<i>Total number of meetings</i>	13	5	2	8
Jennifer Allerton	13			
Thomas Andersson	13			
Claes Boustedt	13	5		8
Marika Fredriksson	12			
Johan Karlström	12		2	
Tomas Kärnström	13			
Thomas Lilja	13			
Mats W Lundberg ¹⁾	13			
Johan Molin ²⁾	13	3	2	8
Björn Rosengren ³⁾	1			
Helena Stjernholm	13	5	2	8
Lars Westerberg ⁴⁾	7	2		
Stefan Widing ⁵⁾	12			
Kai Wärn ⁶⁾	6			

1) Resigned as deputy employee representative as of December 15, 2020.

2) Replaced Lars Westerberg as member of the Audit Committee as of April 28, 2020.

3) Resigned as President and CEO as well as Board member as of February 1, 2020.

4) Resigned as Board member at the 2020 Annual General Meeting and thereby also as member of the Audit Committee.

5) Appointed President and CEO as of February 1, 2020 and participated at Board meetings solely in this function before being elected Board member at the 2020 Annual General Meeting.

6) Elected Board member at the 2020 Annual General Meeting.

Composition of the Board as of December 31, 2020

Name	Function	Independent in acc. with the Code	Shareholding, number ¹⁾ Dec 31, 2020	Elected	Audit Committee	Remuneration Committee	Acquisitions and Divestitures Committee
Jennifer Allerton	Member	Yes	10,000	2015			
Thomas Andersson	Deputy ²⁾		0	2012			
Claes Boustedt	Member	Yes	20,000 ³⁾	2015	Chairman		Member
Marika Fredriksson	Member	No ⁴⁾	2,500	2017			
Johan Karlström	Member	Yes	5,000	2011		Member	
Tomas Kärnström	Member ²⁾		2,889	2006			
Thomas Lilja	Member ²⁾		4,840	2016			
Johan Molin	Chairman	Yes	260,000 ⁵⁾	2015	Member	Chairman	Chairman
Helena Stjernholm	Member	No ⁴⁾	5,000	2016	Member	Member	Member
Stefan Widing	Member	No ⁴⁾	43,152	2020			
Kai Wärn	Member	Yes	12,000	2020			

1) Pertains to own and closely related persons' shareholdings in Sandvik AB.

2) Employee representatives (both members and deputy members participate in Board meetings). Thomas Lilja (member) represents Unionen/Ledarna/Swedish Association of Graduate Engineers. Tomas Kärnström (member) and Thomas Andersson (deputy) represent IF Metall.

3) In addition 10,000 shares were acquired on January 29, 2021.

4) Marika Fredriksson and Helena Stjernholm are not regarded as independent in relation to major shareholders in the company and Stefan Widing is not regarded as independent in relation to the company and its executive management.

5) In addition 1,000,000 call options in Sandvik AB.

The Board also reviewed the strategies and results from a number of the divisions. The Board received regular updates on the impact of the Covid-19 pandemic on the business and took some strategic decisions based thereon. The Board addressed matters related to the overall Group strategy, long-term financial and sustainability targets, IT, risk management, human resources, such as incentive programs, environment, health and safety, and issues concerning investments and operational restructuring and reviewed previously made investments. Further, the Board handled matters with respect to acquisitions and divestments, such as the decision to proceed with the process to separate the Sandvik Materials Technology (SMT) business area with the target to distribute SMT to the shareholders and separately list it, the acquisition of CGTech and the signing of the acquisition of DSI Underground. The Remuneration Committee, Audit Committee and the Acquisitions and Divestitures Committee reported from their respective meetings. In respect of the Audit Committee, reported matters included accounting principles, financial outcome, ERM, compliance, Speak Up and Code of Conduct, internal control and internal audit as well as the result of the external audit. The Committees also submitted matters for resolution by the Board and the minutes and reports from these meetings were made available to the Board members. In September 2020, the Board visited Sandvik's operations in Gimo and Fagersta, taking specific precautions due to the Covid-19 restrictions.

Remuneration of the Board

As resolved at the 2020 Annual General Meeting, the fee to the Chairman of the Board is SEK 2,550,000 and the fee to each of the non-executive Board members elected by the General Meeting is SEK 690,000.

In addition, SEK 300,000 was paid to the Chairman of the Audit Committee and SEK 170,000 to each of the other Committee members, in total SEK 640,000. The Chairman of the Remuneration Committee was paid

SEK 145,000 and each of the other Committee members SEK 115,000, in total SEK 375,000. No remuneration was paid to the members of the Acquisitions and Divestitures Committee.

For more detailed information on remuneration of the Board members, see note G4.

Evaluation of the work of the Board

To ensure the quality of the work of the Board and to identify the possible need for further expertise and experience, the work of the Board and its members is evaluated annually. In 2020, the evaluation, which was led by the Chairman of the Board, was carried out by way of each Board member responding anonymously to an online questionnaire. The Chairman also held separate evaluation discussions with all Board members. The compiled results of the evaluations were presented to the Board as well as to the Nomination Committee.

Board Committees

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

Remuneration Committee

During 2020 the members of the Remuneration Committee were Johan Molin (Chairman of the Committee), Johan Karlström and Helena Stjernholm. The tasks of the Remuneration Committee are, among others, those prescribed by the Code, which include preparing proposals regarding guidelines for remuneration of senior executives and long-term incentive programs for senior executives.

Based on the recommendations of the Remuneration Committee, the Board decides the remuneration and terms of employment for the President, who in turn decides on the remuneration to be paid to the Group Executive Management in consultation with the Remuneration Committee.

For guidelines, remuneration and other benefits payable to the Group

Executive Management, refer to the Guidelines for the remuneration of senior executives on pages 38–40 and note G4.

During 2020 the Remuneration Committee held two meetings.

Audit Committee

As of the 2020 Annual General Meeting the members of the Audit Committee are Claes Boustedt (Chairman of the Committee), Johan Molin and Helena Stjernholm. Areas addressed by the Audit Committee mainly related to:

- Monitoring the financial reporting and ensuring its reliability
- Effectiveness of the system of internal control and internal audit
- Planning, scope and follow-up of the internal and external audit for the year
- Assistance to the Nomination Committee with regards to proposal for auditor
- Monitoring of the external auditor's independence and objectivity vis-à-vis the company, including the extent to which the auditor provides other services than auditing services to the company
- The Group's systematic processes for overall corporate risk management (ERM), as well as more detailed risk management matters including legal disputes, compliance, corporate investigations, IT security, accounting procedures, taxation, treasury, finance operations, insurance coverage and pension issues
- The development and effectiveness of compliance processes, with special focus on the roll-out of the compliance program, the Compliance House
- Sandvik's Code of Conduct, some specific cases managed through Speak Up, Sandvik's global whistleblowing system, as well as the overall effectiveness of the system
- Sandvik's sustainable business strategy and materiality analysis

During 2020 the Audit Committee held five meetings at which Sandvik's external auditor and representatives of the company's management were present.

Acquisitions and Divestitures Committee

During 2020 the members of the Acquisitions and Divestitures Committee were Johan Molin (Chairman of the Committee), Claes Boustedt and Helena Stjernholm. The purpose of the Committee is to provide a better process for preparing major or strategically important acquisitions and divestitures for Board decisions. The Committee meets on an ad hoc basis, at the request of the President and CEO in consultation with the Chairman of the Board.

During 2020 the Acquisitions and Divestitures Committee held eight meetings and reviewed matters mostly related to the separation and potential distribution and listing of the Sandvik Materials Technology business area, the acquisitions of DSI Underground, CGTech, Miranda Tools' business, Allied Construction Products and QCT as well as the divestiture of Sandvik's Exploration business.

President and Group Executive Management

The President is accountable for Group decision-making in all areas delegated by the Board. In order to ensure a full Group perspective in these matters, the President has appointed the Group Executive Management as an advisory forum, focusing on how to achieve Group targets, strategies, structure and organization. The Group Executive Management meets each month and its members are accountable for implementing the President's decisions.

In 2020, the Group Executive Management consisted of:

- Stefan Widing, President and CEO (succeeding Björn Rosengren as of February 1, 2020) and President of Sandvik Manufacturing and Machining Solutions (as of October 1, 2020)
- Tomas Eliasson, Executive Vice President and CFO
- Lars Bergström, President of Sandvik Machining Solutions (until September 30, 2020), President of the Sandvik Manufacturing Solutions business area segment (as

of October 1, 2020 until December 31, 2020)

- Nadine Crauwels, President of the Sandvik Machining Solutions business area segment (as of October 1, 2020)
- Henrik Ager, President of Sandvik Mining and Rock Technology
- Göran Björkman, President of Sandvik Materials Technology
- Jessica Alm, Executive Vice President and Head of Group Communications
- Johan Kerstell, Executive Vice President and Head of Human Resources
- Åsa Thunman, Executive Vice President and General Counsel

On January 1, 2021, Anders Svensson took on the position as President of the new business area Sandvik Rock Processing Solutions and joined the Group Executive Management.

The President and other members of the Group Executive Management are presented further on pages 52–53.

Business areas

The Sandvik organizational model is based on a decentralized business model. As of January 1, 2021 there are four separate business areas – Sandvik Mining and Rock Solutions, Sandvik Manufacturing and Machining Solutions, Sandvik Materials Technology and Sandvik Rock Processing Solutions – each based on distinct product offerings. Each business area has full responsibility and accountability for its respective business results.

Sandvik Manufacturing and Machining Solutions is divided into two business area segments – Sandvik Machining Solutions and Sandvik Manufacturing Solutions. Further, each of the four business areas is organized in a number of divisions based on product offering or brand. The division is the highest operational level in the Sandvik organizational structure. Certain divisions that are based on a product offering are also divided into business units representing a defined part of the product offering.

For an overview of Sandvik's organizational model, refer to pages 2–3 and visit home.sandvik for more detailed information relating to the Group's business activities and product portfolios.

Group functions

There are four Group functions within Sandvik: Communications, Finance, HR and Legal. Group functions specifically focus on setting the appropriate enabling structures and processes that are common for the Group or cover a specific area for which the Group is responsible.

External auditor

At the 2020 Annual General Meeting, the audit firm PricewaterhouseCoopers AB was re-elected auditor of Sandvik AB for the period until the 2021 Annual General Meeting. Peter Nyllinge is the auditor-in-charge.

The auditor continuously audits and monitors the company's general accounting and the execution by the Board and the President of their respective responsibilities.

The progress of the audit is reported regularly during the year to the management teams of individual companies and the business areas, the Audit Committee and the Board. The auditor meets with the Board at least once a year without the President or any other member of the Group Executive Management attending.

The independence of the external auditor is guaranteed by the Audit Committee having determined the principles for allowing non-audit services to be provided by the auditor and, in some cases, pre-approving non-audit services.

Audit fees are paid continuously over the period in office on an approved current account basis. For detailed information on fees paid to the auditor, see note G5.

Internal control over financial reporting

The Sandvik organization manages a well-established financial reporting process aimed at ensuring a high level of internal control.

The internal control system aligns with the conceptual framework of COSO, which is based on five key components that provide an effective framework for describing and designing the internal control system implemented in the organization. The five components are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring and Follow-up. The application of the COSO framework is described below.

Sandvik's Board of Directors is ultimately responsible for the governance of risk management including internal control over financial reporting.

Control environment

Sandvik internal control over financial reporting forms an integral part of the operational system described in The Sandvik Way on page 43, which also includes risk assessments, policies, procedures and compliance.

The Sandvik Financial Reporting Policies and Procedures govern control over financial reporting. These documents contain detailed instructions regarding accounting policies and financial reporting procedures to be applied by all Sandvik reporting entities.

A Sandvik Financial Internal Control Framework has been developed and includes key components such as well-defined roles and responsibilities, internal control procedures and the risk and control matrix which defines a mandatory minimum of control activities that contribute to the mitigation of risks to acceptable levels. Internal control implementation has been completed in Group Functions and is continued in all business areas. 85 percent is expected to be completed in mid-2021 and the remaining 15 percent will be completed before mid-2022.

Risk assessment and risk management

The Enterprise Risk Management (ERM) process at Sandvik includes the area of financial reporting. Read more about the Enterprise Risk Management (ERM) program on page 54. Key risks noted in local assessments

and observations made by Internal and External Audit are also taken into consideration to ensure that adequate controls exist to mitigate these risks.

Control activities

Mandatory control activities include business process controls, IT controls and corporate governance controls focusing on compliance with policies and procedures. Internal controls are tailored per each operational entity based on risks and applicability. Entity management and process owners are responsible for ensuring that internal controls are operated as per agreed design.

At Group level, Group Control manages the reporting process to ensure the completeness and accuracy of financial reporting and compliance with IFRS requirements.

Controllers in the divisions and business areas perform analytical reviews and investigations, conduct business trend analyses and update forecasts.

Information and communication

Policies and procedures related to financial reporting are updated and communicated on a regular basis to all entities.

Results of monitoring and status of improvement activities related to internal controls are included in the CFO report which is part of the agenda for the Audit Committee meetings.

Quarterly interim reports are published externally and are supplemented by investor meetings attended by members of the Group Executive Management.

Monitoring and follow-up

Entity management as well as local and global process owners are responsible for testing the effectiveness of internal controls through self-assessments on a quarterly basis and according to the requirements in the Sandvik Internal Control Framework. Results of the self-assessment testing of controls including test evidence are reported and consolidated in a Governance, Risk and Compliance IT tool. The

tool also requires reporting of action plans with the purpose to remediate ineffective controls.

Business areas and divisions are to monitor the remediation of ineffective controls. The Audit Committee monitors the effectiveness of internal controls related to financial reporting presented by management with potential deficiencies and suggested actions.

The Board reviews all quarterly interim reports as well as the Annual Report prior to publishing. The Audit Committee reports to the Board regarding internal control matters including matters for resolution. Minutes from Audit Committee meetings are made available to Board members.

Internal audit

Internal Audit is subordinated to the Audit Committee and the Head of Internal Audit reports to the Audit Committee.

Internal audits include, as a basis, the Group's policies for corporate governance, risk management and internal control regarding areas such as financial reporting, compliance with the Code of Conduct and IT.

The outputs of the audits include action plans and programs for improvement. Findings are reported to the business area management and to the Audit Committee.

Due to the Covid-19 pandemic and the global travel restrictions, we developed an off-site audit methodology to continue executing the audit assignments remotely and provide assurance to the Audit Committee.

AUDITORS' REPORT

Unofficial translation

To the general meeting of the shareholders of Sandvik AB (publ), corporate identity number 556000-3468

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Sandvik AB (publ) for the year 2020. The annual accounts and consolidated accounts of the company are included on pages 36–124 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Parent Company and the Group as of December 31, 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of December 31, 2020 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act.

A corporate governance statement has been prepared and is in agreement with the Annual Accounts Act. The statutory administration report and the corporate governance statement are consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the Parent Company and the Group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the Parent Company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent Company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its Parent Company or its controlled companies within the EU.

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

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated finan-

cial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Sandvik performs its business via its subsidiaries in many territories. Operationally, the business is organized in divisions that are aligned with the Group's three Business Areas. There are joint functions at various levels of the Group to support the operational activities of the divisions.

In order to tailor our overall audit approach, we have updated our understanding of how the Group's business is organized, about important systems and processes as well as the internal controls put in place to provide comfort to management and the directors with respect to precision of the financial reporting. For this purpose, we have held interviews with management at various levels of the Group and heads of Group functions to discuss the business and the Group's strategy. We have also obtained and read management reports, policies, instructions and planning and steering documents. In addition, we have had a close dialogue with both Group Internal Audit and Group Internal Controls in order to share knowledge and coordinate activities when relevant.

With all of this as a starting point and for the purpose of expressing an opinion on the consolidated accounts, we decided that approximately 80 reporting units were the most important and should be in scope for the Group audit. Financial reporting from less significant units were covered through analytical procedures that were used to conclude whether extended audit procedures were necessary. Most subsidiaries of the Group are also subject to statutory audit requirements. The central team was responsible for the audit of significant IT systems, processes, transaction flows and functions including the consolidation and the parent company accounts. The local teams were responsible for auditing items related to the operations in each reporting unit that emanates from local production and sales activities.

We have considered the impact Covid-19 has had on our audit and tailored our procedures to properly cover any new and/or increased risks. On an overall level we have been able to conduct our audit although the pandemic has led to other ways of working and use of digital tools for communication and collection of audit evidence.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter***Revenue recognition in the appropriate period***

The Group manufactures and sells products and services to its customers globally, mainly through its own distribution network. Sales contracts contain various performance obligations and other terms and the determination of when significant performance obligations have been met varies albeit a specific point in time can often be established. The Group has analyzed its various sales contracts and concluded on the principles for deciding in which period or periods the Group's sales transactions should be recognized as revenue.

Disclosures in notes G2, G3 and P2 provide additional information on how the Group accounts for its revenue.

Measurement of acquired intangible assets

The majority of Sandvik's intangible assets have been acquired externally, mostly through acquiring businesses and represent significant amounts. Assets with indefinite useful life such as goodwill are not subject to yearly depreciation. Instead, an annual test will show whether the carrying amount for the cash generating unit can still be supported. Sandvik has acquired and divested several businesses containing intangible assets during 2020. There are a number of instances where management's judgment is decisive for the accounting treatment in connection with acquiring and divesting of businesses. Management's estimates of the intangible assets' potential to generate future cash flows and other assumptions are also decisive when preparing the annual impairment tests.

Note G13 contains additional information on the Group's intangible assets and the significant assumptions applied in the annual impairment tests.

Measurement of inventory

Sandvik keep significant stock of raw materials, spare parts and work-in-progress at its production units and stores of finished goods mostly at its sales units and distribution centres. Measurement of inventory is important for a fair presentation of gross margin. A due process is required to prepare accurate reporting of the acquisition cost when procurement, production and logistical processes are complex. Establishing product costing requires many instances of management judgment with effect on the reported values. This includes considering normal production levels, foreign currency, prices of raw materials and allocation of other direct and indirect costs. For finished goods, assessment is needed of obsolescence and how sellable the products are. Finally, there is a complexity in monitoring and measuring volumes particularly for some raw materials and work in progress as well as eliminating effects from intra group transactions.

Notes G18 and P14 provide information about the the Group's accounting principles for measuring inventory and additional information on the line item.

How our audit addressed the Key audit matter

Our audit included but was not limited to the following activities:

- Mapped and evaluated selected systems and processes for revenue recognition and tested a sample of key controls.
- Evaluated whether the Group accounting principles for revenue recognition comply with IFRS.
- Tested a sample of sales transactions for compliance with the Group accounting principles.
- Performed data analytical procedures to identify and evaluate a sample of manual and automatic journal entries.
- Traced disclosure information to accounting records and other supporting documentation.

Our audit included but was not limited to the following activities:

- Assessed the model used by the Group for impairment testing and evaluated the significant assumptions for establishing forecasted cash flows and discount interest rates used for calculating the value-in-use of the cash generating units. In our evaluation, we have compared with the historic business performance and the Group's forecasts and strategic planning as well as with external data sources when possible and relevant.
- Evaluated whether the purchase price allocations of the significant acquisitions made during the year meet the requirements of IFRS and have been prepared according to generally accepted practices. Assessed that significant assumptions used to measure values of acquired assets are reasonable.
- Traced disclosure information to accounting records and other supporting documentation.

Our audit included but was not limited to the following activities:

- Mapped and evaluated selected systems and processes for inventory and tested a sample of key controls for establishing cost.
- Tested, on a sample basis, stocks of raw materials to actual prices. Assessed the reasonableness of the product costing for work in progress and finished goods.
- Participated in stock takes at many locations and tested the cut-off of deliveries in or out of inventory.
- Obtained the Group's monitoring controls of slow movers and assessments of obsolescence as well as net selling prices.
- Traced disclosure information to accounting records and other supporting documentation.

Key audit matter**Costs for efficiency measures**

Sandvik has announced a number of measures to mitigate effects from the Covid-19-pandemic during 2020 with actions supporting short-term and long-term savings. Efficiency measures to mitigate a slower demand environment and to ensure optimized efficiency cover initiatives across all business areas. As of December 31, 2020, the Group has recorded a provision for restructuring amounting to SEK 2.6 bn. Both the costs for executing the efficiency measures and the expected reduction of cost for running the business going forward are significant. An accurate reporting of an efficiency program involves management estimates on the timing and measurement of costs for reducing staff, exiting agreements and the other costs that the efficiency measures give rise to as well as the presentation of the effects on the business going forward.

Note G24 provide information on the Group's accounting principles for measuring restructuring costs and additional information on the line item.

How our audit addressed the Key audit matter

Our audit included but was not limited to the following activities:

- Read the detailed plans for efficiency measures presented to the board as documentation to support the decisions.
- Obtained evidence on a sample basis that the criteria for recording provisions were met.
- Assessed management's measurement of provisions through evaluation of a sample of supporting documentation.
- Tested actual costs to contracts, payments and other evidence on a sample basis.
- Traced disclosure information to accounting records and other supporting documentation and read the presentation of the costs relating to programs for efficiency measures in the annual report.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–36 and 129–144, and the Statutory Sustainability Report and Sustainable Business Report on pages 2–3, 9–11, 54–60 and 129–140. This other information also contains the Remuneration report that we expect to receive after the release of the Auditors' report. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts.

In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated. If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisorsansvar. This description is part of the auditor's report.

Report on other legal and regulatory requirements**Opinions**

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director's and the Managing Director of Sandvik AB (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Director's and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Parent Company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Director's and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the Group's type of operations, size and risks place on the size of the parent company's and the Group' equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the Group's financial situation and ensuring that the company's organization is designed so that the accounting,

management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.

PricewaterhouseCoopers AB, Torsgatan 21, 113 97 Stockholm, was appointed auditor of Sandvik AB (publ) by the general meeting of the shareholders on April 28, 2020 and has been the company's auditor since the general meeting of the shareholders on April 27, 2018.

Stockholm, March 5, 2021

PricewaterhouseCoopers AB

Peter Nyllinge
Authorized Public Accountant
Lead Partner

Magnus Svensson Henryson
Authorized Public Accountant