

# SUSTAINABLE BUSINESS REPORT 2014





Markus Schuster (left) and Vinzens Schnabl (right) at Wolfram Bergbau und Hütten, St. Martin, Austria, a product area with high focus on recycling of cemented carbide. Read more about Wolfram Bergbau und Hütten on page 14. Safety is always a top priority at Sandvik. The employees in the picture are wearing required safety gear for the site.

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### ABOUT SANDVIK SUSTAINABLE BUSINESS REPORT 2014

This is the ninth consecutive Sustainable Business Report for Sandvik and it covers the Group's sustainability activities during the 2014 fiscal year. The aim is to continue reporting on an annual basis. Sandvik's latest sustainability report was published in April 2014. The Sustainable Business Report comprises a supplement to the financial information presented in the Annual Report by describing the Group's goals, strategy, governance, risk and opportunity assessment and the operational business of Sandvik from a sustainability perspective. The report has been prepared in accordance with the Global Reporting Initiative Guidelines version 4.0 (GRI G4) Core level. Sandvik is a signatory to the UN Global Compact (UNGC) and we report in accordance with the UNGC Advanced level criteria, which means that the report includes information regarding the Group's work on the ten principles in the areas of human rights, labor, environment and anticorruption. The report has been reviewed by an external party.

Sandvik Sustainable Business Report is also available online at [sandvik.com/sustainability](http://sandvik.com/sustainability).



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.



FTSE4Good

# 2014

- Revised Code of Conduct adopted by the Board of Directors; ready for launch in 2015.
- Revised Supplier Code of Conduct launched and purchasing processes strengthened.
- New whistleblower system, "Speak Up", ready for launch in 2015.
- Declined lost time injury frequency rate (LTIFR) for the fourth consecutive year to 2.5 at year-end, the lowest in Sandvik's history.
- Greater integration of the antibribery and anticorruption program.
- New global trainee program initiated.
- Sandvik reconfirmed as a member of the FTSE4Good Index, the Ethibel Excellence Investment Register and RobecoSAM's Sustainability Yearbook.

**85,957**

MSEK  
Order intake -2%\*

**88,821**

MSEK  
Invoiced sales -2%\*

**19.4**

Share of women,  
total Group, %

**2.5**

Lost Time Injury  
Frequency Rate  
Improvement of 22%

**96**

Share of ISO 14001  
certified units, %

\* At fixed exchange rates for comparable units



# SUSTAINABLE BUSINESS STRENGTHENS OUR MARKET-LEADING POSITION

**Sandvik has a long tradition of developing products and solutions that generate higher productivity and thereby help to strengthen our customers' competitiveness. Product development often takes place in close cooperation with our customers, providing us with in-depth insight into the challenges faced by the various sectors. As a market leader, we have a duty to develop more and better solutions that ensure, for example, higher energy efficiency, reduced environmental footprint, and a sustainable energy supply, irrespective of the industry we serve.**

Our ambition is to be ranked among the most sustainable companies in our own industry. This allows us to create further value for our stakeholders, and lay the basis for long-term and profitable growth for the Group. In 2014, we accelerated this work through a range of initiatives.

We launched a new vision – We set the industry standard – which requires us to take a leading position with our products while also showing leadership in terms of how we

deal with our employees, our customers, and the environment as well as the communities in which we operate.

We continue to expand in emerging markets, including in major economies such as China and India. In India, we have decided to invest in a new R&D center and have developed several strategic collaborations with research institutes and universities. The focus of the Group R&D Center in China is environment and energy, with an emphasis on creating a technological platform for future business opportunities in these areas. By continuing to expand in these regions, we can grow with our customers in some of the most attractive markets in the world.

We are also expanding in key material and technology areas. Our investments in fuel cells and powder technology are based on technologies that promise a future in which the consumption of fossil fuels will be reduced and production will be more efficient and use less resources. Moreover, we are using information technology to an increasing extent in order to boost efficiency in processes in such

areas as the manufacturing industry and the mining sector. In the space of just a few years, there has been a major shift in drilling operations and other mining activities, whereby automation has taken over dangerous tasks from people and generated increased productivity and safety in a challenging marketing environment. Sandvik has been at the cutting edge of this development and has launched a range of innovations, many of which during 2014.

We carried out a major review of our Code of Conduct, a process involving both internal and external stakeholders, with the aim of producing the most comprehensive and responsible Code possible. The revised Code will be rolled out across the entire Group in 2015, with dedicated communications activities and interactive training of all employees. Everyone at Sandvik has to be aware of its content and abide by it. Our Code is governed by the ten principles of the UN Global Compact, to which we became a signatory in 2013 and intend to remain a member of, the OECD Guidelines and the UN's Guiding Principles on Business and Human Rights.

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"AS A MARKET LEADER, WE HAVE A DUTY TO DEVELOP MORE AND BETTER SOLUTIONS THAT ENSURE, FOR EXAMPLE, HIGHER ENERGY EFFICIENCY AND REDUCED ENVIRONMENTAL FOOTPRINT, IRRESPECTIVE OF THE INDUSTRY WE SERVE."

We have continued our work to reduce the lost time injury frequency rate (LTIFR) in the company. Using campaigns and training initiatives, we have strengthened the safety culture in all parts of the Group, and the LTIFR declined to 2.5 in 2014. Developing and selling leading products that improve safety in customer segments such as energy and mining, is the result of maintaining industry-leading safety in our own production and distribution processes. Safety is an essential part of our business and has a strong level of commitment within our organization.

Diversity and inclusion comprise other important components in the creation of a stronger and more profitable Sandvik. As a global and responsible company, it is vital that we have an organization that reflects these conditions if we are to succeed in the long term. We have put our global diversity strategy into action at the top level by increasing the proportion of women and international representation in the Group Executive Management.

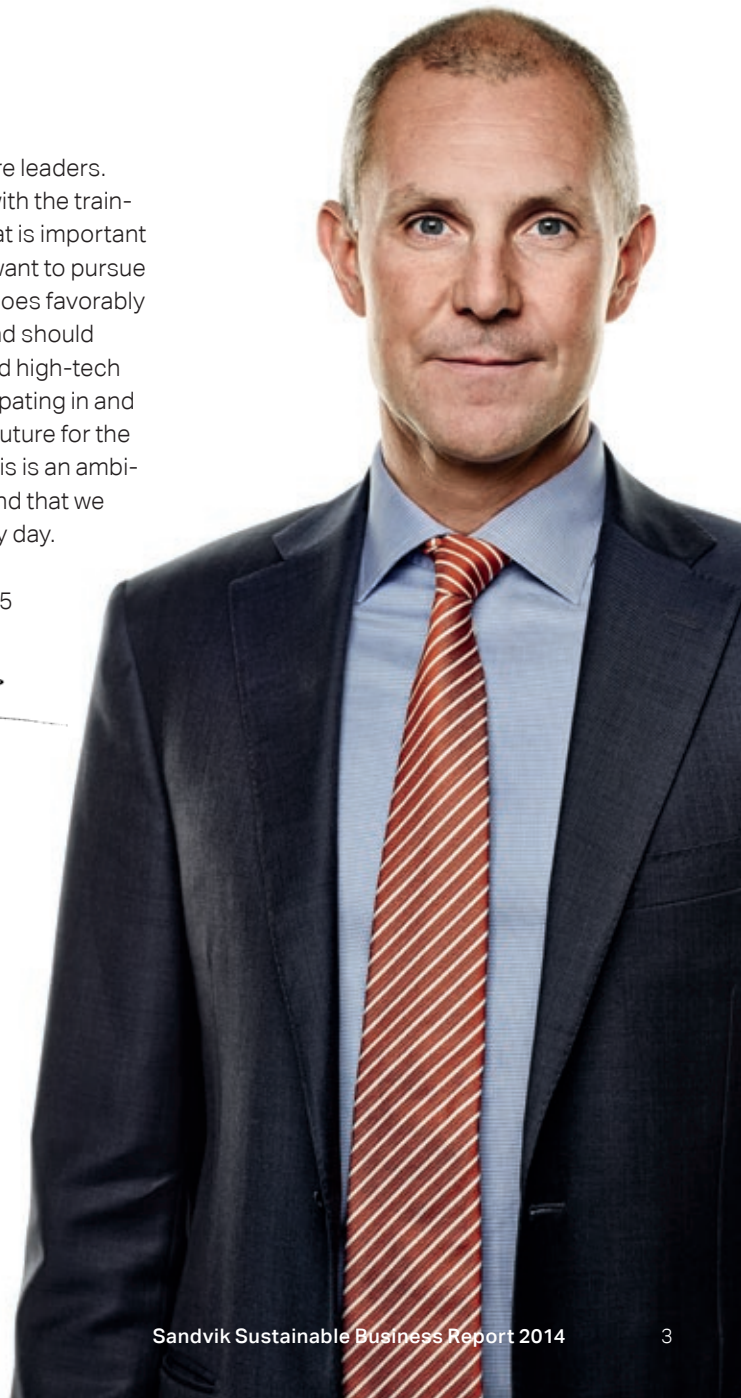
We have launched a global trainee program with participants from Sweden, China and India who will

be developed into future leaders. I have personally met with the trainees and listened to what is important to them and why they want to pursue a career at Sandvik. It does favorably match what we want and should strive to be: a global and high-tech company that is participating in and shaping a sustainable future for the industries we serve. This is an ambition that we all share, and that we all strive to realize every day.

Stockholm, March 2015



Olof Faxander  
President and CEO



# HIGH-TECH AND GLOBAL

We are a high-tech and global engineering group offering advanced products and services that enhance our customers' productivity, profitability and safety. In 2014, we had about 47,000 employees and sales of about 89 billion SEK in more than 130 countries. Our operations are based on unique expertise in materials technology and extensive insight into industrial and customer processes. We invest substantially in research and development and maintain close cooperation with our customers and suppliers. Our business is organized into five business areas: Sandvik Machining Solutions, Sandvik Mining, Sandvik Materials Technology, Sandvik Construction and Sandvik Venture.

## WORLD-LEADING POSITIONS IN THE FOLLOWING AREAS



Tools and tooling systems for metal cutting as well as components in cemented carbide and other hard materials.



Equipment and tools for the mining and construction industries as well as various types of processing systems.



High value-added products in advanced stainless steels, special alloys and titanium as well as metallic and ceramic resistance materials.

INVOICED SALES BY MARKET AREA\*

**19%**

NORTH AMERICA

**8%**

SOUTH AMERICA

**9%**

AFRICA/MIDDLE EAST



**38%**

EUROPE

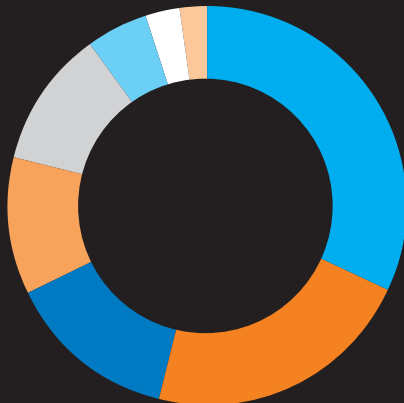
**19%**

ASIA

**7%**

AUSTRALIA

INVOICED SALES BY CUSTOMER SEGMENT\*



- Mining industry 32%
- Engineering industry 22%
- Energy industry 14%
- Automotive industry 11%
- Construction industry 11%
- Aerospace industry 5%
- Consumer-related industry 3%
- Miscellaneous 2%

**8,000**

active patents and other intellectual property rights



**3 BILLION SEK**

in research and development

\* Share of the Group's 2014 total invoiced sales

## BUSINESS AREA OVERVIEW

Sandvik is organized into five business areas responsible for research and development (R&D), production, marketing and sales of their respective products.



**SANDVIK MACHINING SOLUTIONS**



**SANDVIK MINING**

## OFFERING

A global market-leading manufacturer of tools and tooling systems for advanced industrial metal cutting. Products are manufactured in cemented carbide and other hard materials such as diamond, cubic boron nitride and special ceramics. Focus is on increasing customer productivity by providing products, solutions and applications know-how. The products are sold under well-established brands such as Sandvik Coromant, Seco, Walter, Pramet, Dormer and Carbology.

A leading global supplier offering the most complete product program in the market for the mining industry, including equipment and tools, service and technical solutions. The offering covers rock drilling, cutting and crushing, loading and hauling, recycling and materials handling of rock and minerals.

## MARKET

Customers operate in the general engineering, aerospace and automotive industries, the energy sector, as well as the electronics and medical technology industries. In 2014, the global market for metal-cutting tools was estimated to approximately 160 billion SEK. The average annual growth is expected to be 4–5% in the long term.

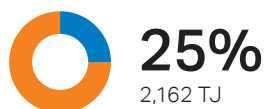
The products are primarily deployed in mines worldwide. In 2014, the global market was estimated to approximately 140 billion SEK. Although development is flat in the short term, the average annual growth is expected to be 4–6% in the long term.

## INDICATORS

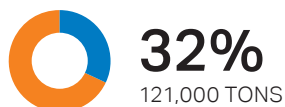
INVOICED SALES\*



ENERGY CONSUMPTION\*\*



CO<sub>2</sub>-EMISSIONS\*\*



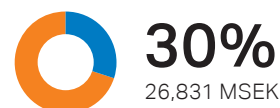
NUMBER OF EMPLOYEES\*\*\*

**18,927**

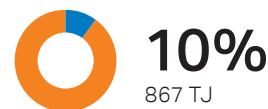
LOST TIME INJURY FREQUENCY RATE\*\*\*\*

**3.0** -15%

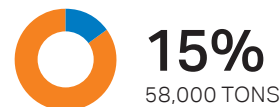
INVOICED SALES\*



ENERGY CONSUMPTION\*\*



CO<sub>2</sub>-EMISSIONS\*\*



NUMBER OF EMPLOYEES\*\*\*

**11,815**

LOST TIME INJURY FREQUENCY RATE\*\*\*\*

**1.2** -33%



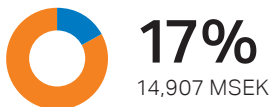


### SANDVIK MATERIALS TECHNOLOGY

A world-leading manufacturer of high value-added products made from advanced stainless steels and special alloys for the most demanding industries, such as oil and gas, nuclear and chemical. New materials are developed in close cooperation with customers, and the focus is on making the customers' processes safer and more efficient while reducing the environmental impact

Customers are active primarily in the energy segment, but also in the chemical, aerospace, mining and automotive industries, among others. In 2014, the global market was estimated to approximately 130 billion SEK. The average annual growth is expected to be 4–6% in the long term, although growth is normally higher in the energy segment.

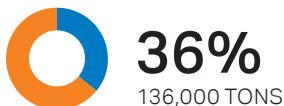
#### INVOICED SALES\*



#### ENERGY CONSUMPTION\*\*



#### CO<sub>2</sub>-EMISSIONS\*\*



#### NUMBER OF EMPLOYEES\*\*\*

**6,914**

#### LOST TIME INJURY FREQUENCY RATE\*\*\*\*

**5.2** -23%

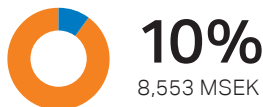


### SANDVIK CONSTRUCTION

Sandvik Construction specializes in equipment, tools and service for the breaking, drilling and crushing niches in the construction industry. Application areas include tunneling, quarrying, civil engineering, demolition and recycling. The range of products includes rock tools, drill rigs, breakers, bulk materials handling and crushing and screening machinery.

The products are deployed in construction operations worldwide. In 2014, the global market was estimated to about 140 billion SEK. The average annual growth for equipment, tools and spare parts in the construction industry is expected to be 4% in the long term.

#### INVOICED SALES\*



#### ENERGY CONSUMPTION\*\*



#### CO<sub>2</sub>-EMISSIONS\*\*

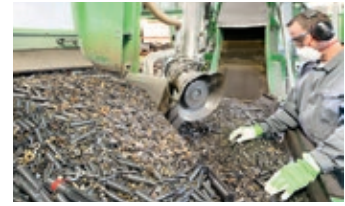


#### NUMBER OF EMPLOYEES\*\*\*

**2,815**

#### LOST TIME INJURY FREQUENCY RATE\*\*\*\*

**2.6** -27%



### SANDVIK VENTURE

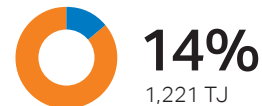
Sandvik Venture accelerates growth of small to mid-sized businesses with further potential to expand. The product areas – Sandvik Process Systems, Sandvik Hyperion, Wolfram Bergbau und Hütten and Varel International Energy Services – are leading suppliers of products and applications in their respective niches and also serve as enablers for other Sandvik business areas.

Customers are active in oil and gas, mining, metal cutting, composites and specific consumer niches.

#### INVOICED SALES\*



#### ENERGY CONSUMPTION\*\*



#### CO<sub>2</sub>-EMISSIONS\*\*



#### NUMBER OF EMPLOYEES\*\*\*

**4,074**

#### LOST TIME INJURY FREQUENCY RATE\*\*\*\*

**3.4** -24%

\* Share of the Group's total invoiced sales. \*\* Share of the Group's energy consumption and CO<sub>2</sub> emissions.

\*\*\* Restated to Full Time Equivalents (FTEs) at 31 December 2014. 2,773 employees are involved in Group activities and are thus not employed in any of the business areas.

\*\*\*\* Lost Time Injury Frequency Rate (LTIFR), i. e. Lost Time Injuries per million work hours. Number in % is compared with 2013.

# FOUNDATION FOR CONSOLIDATING OUR LEADING POSITION

## VISION

# WE SET THE INDUSTRY STANDARD

Our vision means that we set the benchmark for others to follow. We will achieve this, not only through technology and expertise, but equally importantly, through our employees and the relationships we build with customers and other stakeholders. Setting the industry standard requires a high level of innovative thinking within the company across all processes and within how we operate in our day-to-day business. The vision reinforces and enhances the importance of constantly striving toward being the leader in the industry and in our chosen segments.

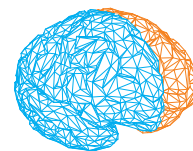
## CORE VALUES

Our core values are built on our rich heritage and support our ambitions for the future.



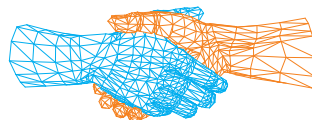
### CUSTOMER FOCUS

We constantly strive to exceed our customers' expectations and enable them to excel in their business.



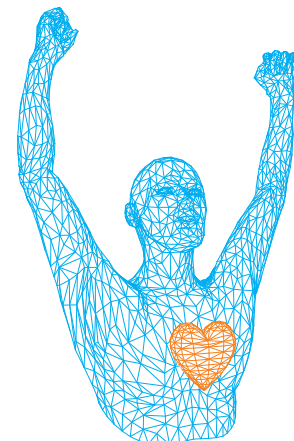
### INNOVATION

We shape the future by creating pioneering solutions throughout our operations.



### FAIR PLAY

We conduct business in a sustainable and responsible manner.



### PASSION TO WIN

We are passionate about making our company number one.

## BRAND PROMISE

# AMPLIFYING YOUR POSSIBILITIES

We strive toward amplifying your possibilities; adding productivity, sustainability – a high level of safety and ethics, and the ability to achieve continued success and growth. This is our brand promise.

## STRATEGIC DIRECTION

We have identified five guiding principles that describe our strategic direction and how we act to set the industry standard. With a strengthened customer focus as a base, we need to be:



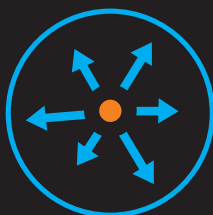
### GROWTH ORIENTED

Increase exposure to high-growth markets and segments.



### TECHNOLOGY LEADER

Supply customers with leading solutions and capitalize on new trends.



### FLEXIBLE AND AGILE

Have the ability to react quickly to market changes.



### EXCEPTIONAL PEOPLE

Attract, develop and retain the best talents, and create a culture that realizes the full potential of all our employees.



### TRULY GLOBAL

Think and act globally with a global footprint.

## HOW WE OPERATE – OUR ROLES AND RESPONSIBILITIES

### GROUP

The vision and strategic direction for Sandvik are determined by the Group Executive Management. Central enabling group functions decide on strategic plans that leverage key areas, such as strategic R&D, communications, talent development and mergers and acquisitions (M&A). They are also responsible for creating synergies by centralizing services and infrastructure.

### BUSINESS AREAS

Sandvik is organized into five business areas responsible for research and development (R&D), production, marketing and sales of their respective products. The strategic initiatives of the business areas support the vision and strategic direction of the Group.



# SHAPING A SUSTAINABLE FUTURE

**At Sandvik, we believe in shaping a sustainable future together with our customers, investors and other stakeholders. We have a long history of ethical and responsible business conduct. This approach has played a significant role in the global success of our company.**

During 2014, Sandvik entered into a new phase. We launched a new vision – We set the industry standard – and further developed our core values – Customer Focus, Innovation, Fair Play and Passion to Win. We revised our Code of Conduct and our Supplier Code of Conduct, and we prepared for a new global whistleblower system "Speak Up", which will be launched in 2015.

## OUR SUSTAINABILITY STRATEGY DRIVES GROWTH

Sandvik's business strategy focuses on profitable growth with ambitious targets for 2020. The goal is 8% growth over a business cycle, which requires us to become a high-performing organization focused on improving and creating value for our customers and other stakeholders.

We integrate sustainability into our operations because we regard it as a prerequisite for conducting profitable and responsible business, now and in the future. We believe in the triple bottom line to ensure the combined perspective of economic, social and environmental factors.

## BUILDING STRONG CUSTOMER RELATIONS

Many of our customers operate in segments with rigorous sustainability requirements. We aspire to partner with them to achieve both their and our goals in these areas. We are convinced that close cooperation with our customers in relation to sustainability will lead to greater competitive advantages and an optimized sustainability effort.

Through a detailed understanding of our customers, we develop products, solutions and services that help them raise their productivity and competitiveness, reduce environmental impact and improve health and safety. One example is our strong focus on solutions that increase automation in the mining industry. Automation solutions help our industry partners in all of these aspects; from higher productivity to resource optimization and safe working environments.

Another example is our cemented-carbide buyback program in which we buy used tools and inserts from our customers so we can make new products using recycled materials. This significantly reduces emissions and the use of raw materials.

## HIGH POTENTIAL IN EMERGING MARKETS

We aspire to grow in our key priority markets and aim to become truly global. To achieve this, we have

identified emerging markets as high-potential areas. These markets often entail risks, such as corruption or poor environmental conditions, but also provide great opportunities. For example, by offering high-productivity products, implying high energy efficiency, we can offer a reduced impact on the environment. To manage these risks and to leverage the opportunities, we need to remain flexible and agile to adjust our offering to these markets and their sustainability issues, regardless of whether these are challenges or opportunities.

## IMPORTANCE OF INNOVATION AND TALENT

Sandvik is a global technology leader. By integrating sustainability, such as environment or safety aspects, into our products and services, we believe that we can retain this position for many years. Examples of this include the focus Sandvik has on productivity and energy efficiency.

The continued integration of sustainability into our business strategy and brand value is also vital to maintain and develop our attractiveness as an employer. We need to attract, retain and develop exceptional people and top talent to ensure long-term growth, and we know that present and future generations will not find Sandvik attractive unless we can demonstrate that we are a truly sustainable company.



By constantly enhancing our offering to customers, actively working with our suppliers, minimizing our environmental impact, providing a safe, innovative and diverse workplace and engaging in the community, we ensure that we add value for all of our stakeholders, now and for many years to come.

### VALUE-CREATING GOVERNANCE

We aim to ensure efficient and value-creating decision-making by clearly defining the division of roles and responsibilities among shareholders, the Board of Directors and the Group Executive Management. All decision-making is supported by the Group's management systems.

Corporate governance is based on applicable legislation, the rules and regulations of Nasdaq Stockholm, the Swedish Code of Corporate Governance and internal policies and procedures. All shareholders are entitled to exercise their voting rights in the highest decision-making body, the Annual General Meeting of Shareholders. Sandvik's employees are given the opportunity to gain insight into and exert an influence over the company's operations through their union

representatives, since they are entitled to union representation on the Board under Swedish legislation.

Sandvik's corporate governance is managed through the governance framework "Power of Sandvik". The governance framework is based on four layers:

1. Oversight & Directional
  - Owners/Shareholders, the Board and the various committees.
2. Culture & Enabling Structure
  - Sandvik's vision, core values, strategy, organizational structure, Code of Conduct and leadership model.
3. Internal Control System
  - policies and procedures, delegation of authorities, roles and responsibilities, information and communication, frameworks for risk management and compliance self-assessment.
4. Monitoring & Assurance
  - functional councils, internal audit and external audit.

The governance framework is continuously developed and improved to strengthen the operational assurance of appropriate governance in all functional areas of Sandvik's operations.

### MANAGEMENT SYSTEMS

As part of Sandvik's work relating to environment, health and safety, the Group has decided that all major production-related units (with more than 25 employees) are to be certified in accordance with ISO 14001 and OHSAS 18001 within two years of their acquisition or establishment. By the end of 2014, 96% of these were ISO 14001 certified and 94% were OHSAS 18001 certified.

### OUR CODE OF CONDUCT AND SUSTAINABILITY GOVERNANCE

Our sustainability operations are closely linked to Sandvik's business strategy, with a foundation in our Code of Conduct as well as international instruments, such as the UN Global Compact, the UN's Guiding Principles on Business and Human Rights and the OECD's Guidelines for Multinational Enterprises. The Code of Conduct was substantially revised in 2014 and will be launched in 2015. Sandvik's Board of Directors adopts the Code of Conduct and the Group Executive Management

## IT'S IN OUR HANDS

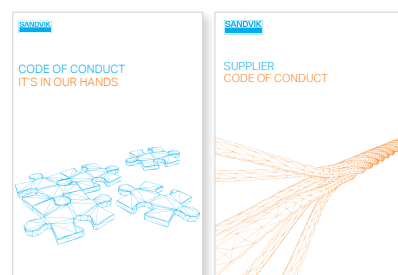
Our Code of Conduct, "It's in Our Hands", and Supplier Code of Conduct were revised during 2014. The Supplier Code of Conduct was published in 2014 (read more on page 26) and the Code of Conduct will be launched during 2015.

The Code of Conduct confirms our strong commitment to responsible business practices and compliance with the relevant laws and regulations in the countries where we operate. It describes the principles of behavior that all Sandvik employees must live by and it provides us with practical guidance in dealing with ethical dilemmas we may face.

The process of revising the Code of Conduct included a multi-stakeholder approach, involving internal functional experts, Country Managers, sustainability coordination teams and the Group Executive Management. External stakeholders, such as customers, suppliers, investors, trade unions and a civil organization, were also approached to provide their input. The Code will be translated into 16 different languages and communicated to our employees around the world.

Our Code will be supported by "Speak Up", a reporting tool provided by a third party and managed

by Sandvik. It will provide the possibility for our own employees as well as external stakeholders to report concerns and suspected breaches of any of the Codes.



sets targets for Sandvik's sustainability work. Combined with the Group's Supplier Code of Conduct and underlying policies and procedures, our Code of Conduct forms the basis of the sustainability efforts. Each business area and Group function is responsible for ensuring compliance with the Code of Conduct.

Structures and systems are continuously developed to satisfy requirements in the field of sustainable business and to meet our high ambitions. The business areas are also responsible for the management of sustainability-related risks in their operations. The various Group functions, such as Indirect Purchasing, Risk Management, Compliance, Human Resources and EHS (environment, health and safety), are responsible for their respective areas, related policies and procedures, and for developing objectives and targets. At Group level, there are a number of com-

mittees and other cooperative bodies in which sustainability issues are addressed and resolved. Targets and key figures are analyzed and reported to the Group Executive Management on a monthly, quarterly or yearly basis and, in certain instances, also to the Board of Directors.

**COORDINATION TEAMS TO OVERCOME CHALLENGES**

The Sustainable Business function manages the company's overall sustainability strategy and provides sustainability support to the business areas and Group functions.

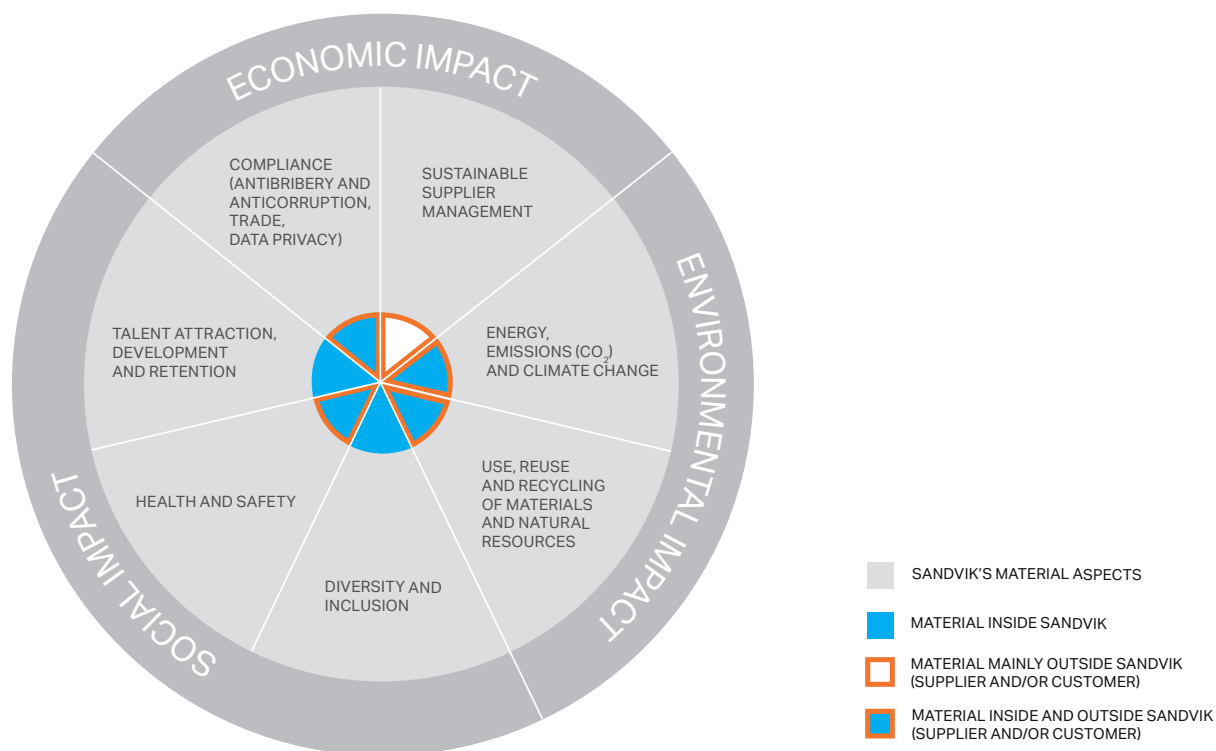
In a large, global company such as Sandvik, coordinating all sustainability issues, especially in light of the increasing complexity of these issues, can be challenging. Consequently, coordination teams have been formed, both at Group level and in selected countries. To date, coordination teams have been established in India, China, Mexico,

Brazil and, most recently, in South Africa. The coordination teams include representatives from the business areas as well as functional experts from, for example, Finance, Risk Management, EHS, Indirect Purchasing, Communications, Diversity and Inclusion, and Compliance.

**MATERIALITY ANALYSIS**

A materiality analysis was conducted by members of the Group Executive Management with the purpose of focusing Sandvik's sustainability activities. The starting point comprised various sustainability topics considered relevant for the Group, deriving from international frameworks and institutions such as the Global Reporting Initiative (GRI), the Dow Jones Sustainability Index, the Global Compact, as well as from media, identified trends and from dialogs with our stakeholders, in addition to our own assessment of relevant

**MATERIALITY ANALYSIS**



areas. These topics were prioritized in order to systemize the areas on which we should focus. The materiality analysis is updated on a regular basis to guarantee that the most important areas for the Group are addressed.

#### SETTING OBJECTIVES AND TARGETS THAT DRIVE BUSINESS ADVANTAGES

Objectives and targets are defined to effectively address the risks and leverage the opportunities identified. Objective and target formulation in the various sustainability areas is determined by each Group function. It is important to us that these objectives and targets drive business advantages and develop leadership in sustainability issues, and that they drive behavioral changes to achieve higher results in the long term. Examples of areas with these types of objectives and targets include Sandvik's efforts in relation to the environment, health

and safety. The objectives and targets are complemented by key performance indicators that show the outcomes of the various objectives and targets.

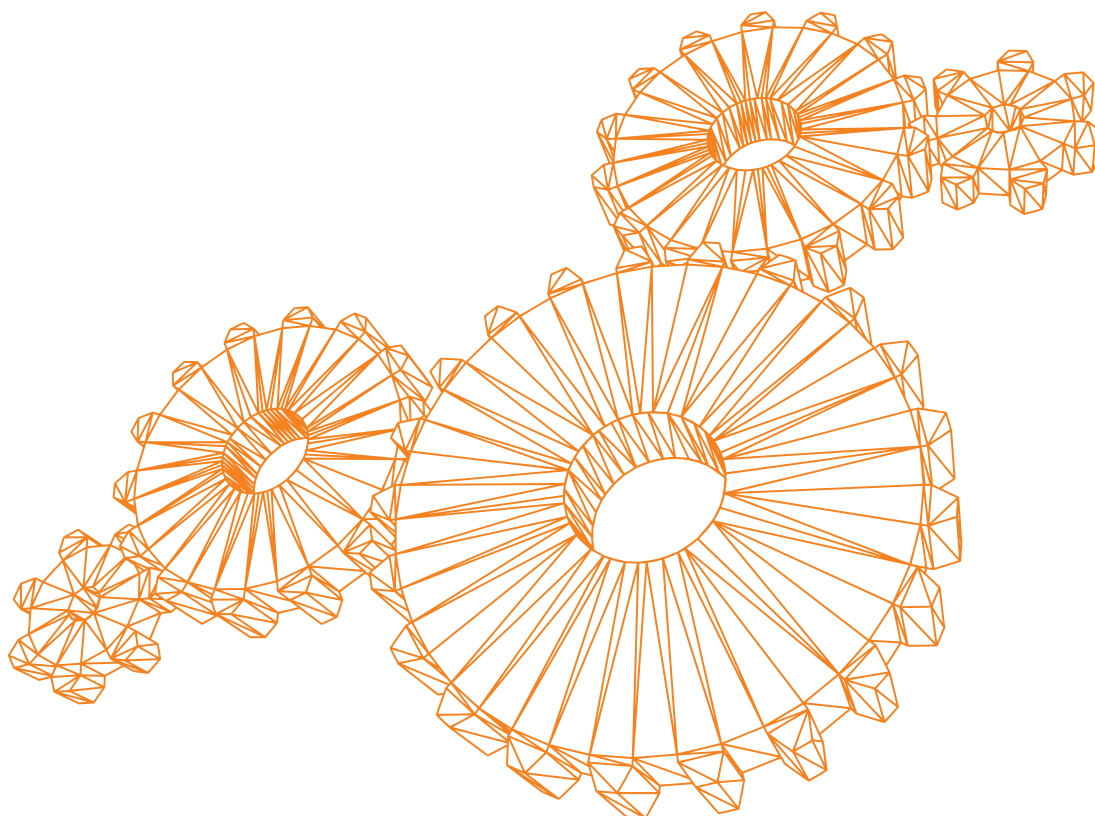
#### BUSINESS INTEGRITY

The primary objective of the Business Integrity function is providing assurance that the company is being operated in an ethical manner and that concerns or suspicions of non-compliance with the Code of Conduct or local laws in the relevant country are investigated and remediated appropriately. During the year, the team successfully finalized a number of matters resulting in remediation steps that have translated into value for the business. Although the outcome of investigation activities may result in action of a disciplinary nature, the real value to the business is management's ability to gain leverage from these incidents, implement preventive controls and thereby

proactively prevent a recurrence. The team has worked closely with the Internal Audit and Compliance functions, providing insight into risks established from factual findings and observations, thereby integrating actions as part of the remediation process.

#### GROUP INTERNAL AUDIT

Sandvik has an independent Internal Audit function with the objective of ensuring the Group's compliance with regulations and internal policies, including the Code of Conduct. The function is responsible for evaluating the Group's corporate governance, internal control and risk management process through the performance of internal audits. Auditing is based on a risk assessment that includes all types of risks in the organization.







Recycling of cemented-carbide tools at the Wolfram Bergbau und Hütten site in St. Martin, Austria.

## STRATEGIC APPROACH TO RECYCLING

Wolfram Bergbau und Hütten, a product area within Sandvik Venture, is a world-leading tungsten powder and tungsten carbide producer. Recently, they doubled their recycling capacity for cemented-carbide tools in its facility in St. Martin, Austria. The recycling process is clean and efficient, and we provide powder that is of the same high quality with the same properties as the one made from virgin raw materials. Alternative sourcing is growing in importance for us and our customers. Recycling has many benefits:

- We help our customers manage hazardous waste through buy-back programs; we repurchase their used cemented-carbide

inserts and rock tools, converting them into tungsten carbide powders, and return them to the customer for reuse in their production.

- We reduce the amount of tungsten extracted from mines. Tungsten is a scarce and finite mineral, estimated reserves of tungsten total about 7 million tons, or 100 years of consumption.
- Recycling activities provide a steady supply of tungsten as well as a safe supply, since tungsten is classified as a conflict mineral by the US SEC Dodd Frank Act, implying that the source of the tungsten needs to be traced.
- The recycling schemes use up to 70% less energy and emit up

to 40% less carbon dioxide than production with virgin raw materials.

Read more about recycling in all our business areas on page 34.

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# 70%

Is the approximate reduction in the energy used by recycling schemes compared with production using virgin raw materials.



# INTEGRATED RISK MANAGEMENT

The Sandvik Group applies a comprehensive risk management program – Enterprise Risk Management (ERM). The program covers business areas and Group functions. ERM is an integral part of Sandvik’s operational and strategic management and assists the company in taking action when it encounters change, whether triggered by internal or external factors. The main components of risk management are identification, evaluation, treatment, monitoring and reporting. An action plan is established to

accept, reduce, eliminate or transfer the risk or leverage the potential opportunities identified. Formal procedures and processes have been established for the reporting, monitoring and control of risks.

## BUSINESS RISKS

Each manager with operational responsibilities is expected to ensure that risks associated with the operations are appropriately identified, evaluated and managed. Business risks include market and country risks, R&D risks, product

risks, production risks, health and safety risks, environmental risks, corruption risks and human rights risks. Identified business risks are evaluated regularly and assigned action plans. The risks are then summarized in reports, which provide key input information for reporting at the business area and Group level.

The table below presents sustainability risk areas that have been identified.

## SUSTAINABILITY RISKS

RISK AREAS	RISK DESCRIPTION	POTENTIAL IMPACT	MITIGATION
<b>Compliance</b> (Bribery and corruption, trade compliance and data privacy)	Giving bribes to receive an order. Accepting a bribe before placing an order. Internal or external fraud. Violation of international trade regulations.	Legal consequences. Tarnished reputation and weaker financial position.	Training, due diligence, updating and strengthening related policies and procedures. Increase awareness of trade issues and embargoed countries.
<b>Health and safety</b>	Injuries and occupational illnesses affecting people working at Sandvik locations.	Fatalities, injuries or illnesses at the workplace. Tarnished reputation affecting sales and the ability to attract and retain personnel.	EHS management systems that, as a minimum, are certified in accordance with OHSAS 18001. Programs to continuously improve our health and safety culture.
<b>Environment</b>	Inefficient use of energy, water and raw materials and/or environmental pollution. Higher focus on products’ environmental footprint and possible future legislative requirements.	Increased costs, negative effects on the environment and tarnished reputation. Reduced access to raw materials for future needs. Reduced access to water for Sandvik’s operations, people living close to Sandvik’s plants and customers. Disruptions in the supply chain, including energy supply. Disruptions due to extreme weather conditions.	Environmental and climate change strategy development. Energy efficiency activities: internal and customer-focused. Sustainability focus in product development. ISO 14001 and 50001 certification, lifecycle analysis, environmental reporting, training and behavioral changes.
<b>Supplier conduct</b>	Suppliers, including subcontractors, agents and distributors, that do not respect the Group’s Supplier Code of Conduct and have poor sustainability performance. Unsustainable purchasing practices and supplier management.	Tarnished reputation and weaker financial position. Sudden disruptions in the value chain. Uncompetitive purchasing prices. Increased supplier turnover and low efficiency in the value chain. Increased total cost of ownership for purchased goods.	Revise supplier management scheme, supplier sustainability risk assessment, approval and development activities. Increase awareness – Supplier Code of Conduct training for employees and suppliers. Integrate supplier sustainability performance and product/service sustainability characteristics in the purchasing strategy.
<b>Customer conduct</b>	Customers behaving unethically.	Tarnished reputation and weaker financial position.	Strengthen dialog with customers on sustainability matters.

# CREATING SUSTAINABLE VALUE FOR OUR STAKEHOLDERS

**Our approach to sustainability includes the commitment to enhance our performance with regard to the economic, social and environmental dimensions, as well as to proactively shape relationships with our key stakeholders.**

There are close links between our core values, our business strategy and our sustainability activities. This builds on the conviction that sustainability represents a key business opportunity that can contribute to profitable growth for us and our stakeholders. By constantly enhancing our offering to customers, actively working with our suppliers, minimizing our environmental impact, providing an attractive and safe workplace and engaging in the community, we ensure that we add value for all of our stakeholders.

## OPEN DIALOG WITH OUR STAKEHOLDERS

We engage in an open dialog with our stakeholders on how sustainability activities are conducted, our priorities, decisions and the results that are achieved. The dialogs with our stakeholders provide important information when determining the Group's key sustainability matters in the materiality analysis.

Stakeholder dialogs are continuously conducted at Group level and, to a large degree, in the busi-



Well-attended Annual General Meeting on 13 May 2014 at the Göransson Arena in Sandviken, Sweden.

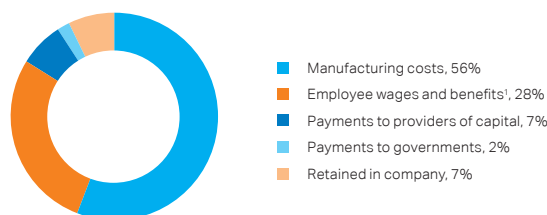
ness areas and in the local companies throughout the world.

In 2014, our stakeholder dialogs focused on the revision of our Code of Conduct and Supplier Code of Conduct. Key external stakeholder

groups were invited to provide their input to the drafting process of both Codes. A wide range of internal experts were also included throughout the revision processes.

## ECONOMIC VALUE, GENERATED AND DISTRIBUTED

In 2014, Sandvik generated direct economic value of 88,821 MSEK of which 82,729 MSEK was distributed and 6,092 MSEK was retained in the company.



<sup>1)</sup> Employee wages and benefits comprise wages to employees including amounts paid to the public sector (employer's contributions and unemployment benefit funds) on behalf of employees.

## OUR STAKEHOLDERS

Sandvik's principal stakeholders are identified on the basis of their interest in the Group and sustainability issues and their potential impact on the company.

STAKEHOLDER GROUP	TYPE OF DIALOG	TOPICS DISCUSSED	ACTIONS TAKEN, SEE PAGES
<b>CAPITAL MARKETS</b> Analysts Investors Shareholders	Regular individual meetings. Annual General Meeting. Written correspondence.	General sustainability strategy. Code of Conduct and Supplier Code of Conduct revision. Taxation. Anticorruption. Human rights in customer dialogs. Health and safety in the value chain. Environmental matters.	10–15  11, 15, 26–27 25 15, 24 15, 35 15, 26–27, 40–43 15, 28–34
<b>BUSINESS PARTNERS</b> Suppliers Customers Authorities Other business partners	Regular individual meetings. Written correspondence. Participation in working groups. Supplier training and audits. Sales meetings. Customer surveys.	General sustainability strategy. Code of Conduct and Supplier Code of Conduct revision. Anticorruption. Human rights in customer dialogs. Health and safety in the value chain. Environmental matters. Product safety. Sustainable supplier management.	10–15  11, 15, 26–27 15, 24 15, 35 15, 26–27, 40–43 15, 28–34 20–21 15, 26–27
<b>EMPLOYEES</b> Current and potential employees	Employee survey. Performance management meetings. Interviews. Written correspondence.	General sustainability strategy. Code of Conduct and Supplier Code of Conduct revision. Diversity and Inclusion. Employee safety.	10–15  11, 26–27 35–39 15, 40–43
<b>SOCIETY</b> Organizations NGOs Academia Media Unions	Regular individual meetings. Written correspondence. Participation in working groups and networks. Media channels. Interviews.	General sustainability strategy. Code of Conduct and Supplier Code of Conduct revision. Whistleblower system. Anticorruption. Human rights in customer dialogs. Health and safety in the value chain. Environmental matters. Sustainability reporting and communication.	10–15  11, 26–27 11 15, 24 15, 35 15, 26–27, 40–43 15, 28–34 Sustainable Business Report.

## INTERVIEW WITH ONE OF OUR STAKEHOLDERS

### HOW DO YOU THINK SANDVIK'S SUSTAINABILITY WORK HAS PROGRESSED IN RECENT YEARS?

– Generally speaking, Sandvik is performing well compared with its competitors. Sandvik's greatest environmental risks originate from its emissions of greenhouse gases generated from fuel consumption, transport activities and energy use in production processes. This is why I think it is positive that Sandvik is focusing on its carbon footprint in its environmental work. Because of climate change, it will be increasingly critical for businesses to improve their energy efficiency.

### HOW DOES SUSTAINABILITY CONTRIBUTE TO MORE SECURE AND BETTER INVESTMENTS?

– The work that Sandvik has done to identify and manage its key sustainability risks has helped the company become even better at controlling the business, building a sustainable corporate culture and

enhancing production efficiency. Maintaining an overview and focus is essential for a company that conducts activities in so many countries. In addition, the increased focus on energy efficiency has not only reduced the relative carbon footprint, but has also helped to lower costs.

### WHICH ISSUES DO YOU THINK SANDVIK SHOULD PRIORITIZE AT PRESENT?

– Sandvik should focus on developing and reporting the energy efficiency gains yielded by the company's products. Sustainability is not only a matter that affects production, but should also be viewed from the perspective of products. The efforts of suppliers and how Sandvik encourages their development toward a sustainable approach should also be described in more detail. The same applies to how Sandvik influences its customers' sustainability activities.



Carina Lundberg Markow, Executive Officer and Head of Corporate Governance department at Folksam Insurance Group.

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## ACTIVE COLLABORATION FOR GLOBAL SUSTAINABLE DEVELOPMENT

Sandvik is a member of the Swedish Leadership for Sustainable Development (SLSD), a network initiated and facilitated by the Swedish International Development Cooperation Agency (Sida). 23 member companies and three research institutions in the network have expressed a commitment to showing leadership for sustainable global development. Sandvik's participation has mainly related to anticorruption, an issue crucial to both our business and sustainable development worldwide. Our engagement contributed

to the drafting of a letter, in which SLSD formally proposed that an anticorruption goal be included in the Sustainable Development Goals (SDG) to be adopted by the United Nations in 2015. The network even suggested the wording for such a goal. The letter was signed by Sandvik together with 20 of the member companies and sent to the Swedish Ministry for Foreign Affairs and the relevant UN working group for the Sustainable Development Goals. We were therefore pleased to note that, in the UN

Secretary General's proposal for the new SDG, a sub-target had been included on anticorruption, worded in a manner that was in line with the SLSD's proposal in the letter.

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# 23

**Companies collaborate in the SLSD network.**



# ECONOMIC IMPACT

Sandvik AB, domiciled in Stockholm, is the Parent Company of the Sandvik Group, with subsidiaries in more than 60 countries. Sandvik AB is a public company listed on Nasdaq Stockholm. At year-end 2014, the share was quoted at 76.4 SEK, corresponding to a market capitalization of 95.8 billion SEK, placing Sandvik as the 17th largest company on Nasdaq Stockholm. In 2014, the number of shareholders amounted to approximately 115,000 in 91 countries.

Our financial targets are based on assessments of the company's strength and how it is positioned for

the future. The targets contribute to retaining and strengthening the Group's leading, global position and create long-term value for shareholders and other stakeholders. A main focus is the vigorous streamlining of operations to strengthen cash flow. Thereby we secure the necessary resources to be able to increase investments in growth-promoting activities.

Sandvik contributes to long-term economic growth by offering advanced products that help our customers increase their productivity and profitability. Economic responsibility encompasses many different sustainability aspects. For example, we invest heavily in

research and development to be able to maintain a strong and modern market position. We also continuously strive to strengthen our processes and procedures for supplier management and anticorruption programs. Furthermore, we adhere to international guidelines and the local legislation of each country to ensure that a correct pricing model is deployed and that a correct amount of tax is paid in each country.

Read more about our financial targets, achievements and the Sandvik share in our Annual Report for 2014.

## OBJECTIVES AND TARGETS

### GROWTH\*

**8%**

OUTCOME 2014: 2%

Focus on increased exposure to high-growth markets and segments, as well as on product launches through focused R&D.

### RETURN ON CAPITAL EMPLOYED\*

**25%**

OUTCOME 2014: 13.4%

Focus on reducing net working capital (NWC), selective capital allocation (investments) and restored earnings in Sandvik Mining and Sandvik Construction.

### NET DEBT /EQUITY RATIO

**<0.8**

OUTCOME 2014: 0.7

Focus on supporting cash flow generation.

### DIVIDEND PAYOUT RATIO

**50%**

OF EARNINGS PER SHARE  
OUTCOME 2014: 73% \*\*

Uninterrupted dividend since 1870.

\* Measured over a business cycle.

\*\* Proposed dividend.

# LEADING DEVELOPMENT OF TOMORROW'S SOLUTIONS

**Sandvik's annual R&D investments total approximately 3 billion SEK. We have 8,000 active patents and other intellectual property rights and, with a steady stream of R&D activities, we are one of the world's most innovative companies. Slightly more than 2,700 employees work at the company's approximately 60 R&D centers worldwide. Collaboration, proactive patent activities and close cooperation with our customers comprise key success factors.**

Based on deep understanding of global megatrends connected to our operations, research and development (R&D) are directed toward a number of priority areas. Contributing to a more efficient, global energy supply is one important component of our solutions – both now and in the future.

One example of a megatrend is global population growth. It presents significant challenges in areas such as energy supply and environmental protection. We tackle these through industrial innovation and continued rapid technological advances, focusing on solutions that enable enhanced energy efficiency, improved use of resources and increased safety.

## CLOSE CUSTOMER PARTNERSHIPS

Through a deep understanding of our customers, we develop products,

solutions and services that help them to raise productivity, strengthen competitiveness, reduce environmental impact and improve health and safety. One example is our strong focus on solutions that increase automation in the mining industry. Automation solutions help our industry partners in all these aspects; from higher productivity to resource optimization and safe working environments.

## GOVERNANCE AND ORGANIZATION

R&D at Sandvik is organized to create the best possible results through synergies. The majority of all R&D activities are managed by the business areas. Our main focus areas are development of core products, production methods, technology platforms and solutions that are adapted to our customers' needs. Group R&D strengthens Sandvik by setting the long-term strategic research direction in collaboration with the business areas and Sandvik Intellectual Property, through an R&D Board. Group R&D also creates synergies in the R&D organization, coordinates shared projects that advance positions for Sandvik beyond the present core business, coordinates performance management and performs strategic trend analysis.

## FOCUS ON EMERGING MARKETS

Our R&D activities are carried out throughout the world, with an

increased focus on emerging markets. Rapid growth and a substantial need for effective solutions in areas such as energy supply, infrastructure and the environment entail business opportunities for the Group. Technology development in these emerging markets is strong and we aim to contribute to this development. We have maintained a presence in India for just over 50 years and currently operate four business area research centers with just over 300 employees.

Group-wide R&D Centers have also been established in two priority markets: India and China. They are strategically important to facilitate the adaption of product offerings to regional customer requirements, reduce lead times and support R&D in all business areas. Our Group R&D Center in Pune, India, focuses on materials and process technology, with expertise in modeling and simulation. Strategic research projects are conducted to define possible future business opportunities. The center is growing rapidly, partly through close collaboration with universities in the region.

The focus of the Group R&D Center in China is environment and energy, with an emphasis on creating a technological platform for future business opportunities in these areas.

### GLOBAL PATENT ACTIVITIES

Rights issues relating to patents, material and brands are identified at an early stage in the development of new products and services. Intellectual property matters are addressed both globally and locally to ensure optimal positioning moving forward. The product portfolio is secured, which safeguards the company's innovations and income over the full product lifecycle.

### ADDITIVE MANUFACTURING – A PRIORITIZED TECHNOLOGY AREA

Additive manufacturing (AM), or 3D printing, is a strategic and important research area for Sandvik. During the year, we established an AM Center in Sandviken, where engineers and designers evaluate and develop the technology to identify new business opportunities. The initiative has a broad scope and encompasses application fields within all business areas, from materials research to facilitate the application of the technology, to existing and new products to challenge the limits of current AM technology available in the market.

### CAREER PATHS FOR R&D EMPLOYEES

The technical competence of our employees is a key factor behind Sandvik's success. In 2014, strong internal career paths were established in the R&D organization. These allow employees to build careers at Sandvik as employees, experts or leaders and offer entirely new opportunities to secure technical expertise in key competence areas in the Group. The highest expert level, Group Expert, is currently held by two employees: one working in Carbide Hard Materials, the other one in Materials Characterization.

### COLLABORATION BROADENS OUR RECRUITMENT BASE

To help safeguard our future technical expertise, we collaborate with universities, institutes of higher education and research institutes, and participate in a range of research programs. One example is the long history of collaboration in education, research and innovation with KTH, the Royal Institute of Technology, in Sweden. A strategic collaboration agreement was signed in February 2014 to enable

### SAFER SURFACE DRILLING

At Sandvik, we develop tools that increase both productivity and safety. The Sandvik Driller's Office software is a groundbreaking tool for everyone working with surface drilling. It follows worksite work flows and provides clear and simple visualizations of drilling patterns and terrain models in 3D, which simplify the planning process. A measurement tool and specific markers define the correct spot to start drilling. Accordingly, separate measuring and marking is not needed at the site, which would otherwise have to be performed manually. All communication between the drill and the rig is handled via a mobile data connection, meaning that no one has to be on site unnecessarily. Overall, Driller's Office generates substantial savings in time and money but, above all, it contributes to enhanced jobsite safety.

intensified focus on joint research activities. This provides us with the possibility to broaden our recruitment base of researchers and engineers and to continue building on our knowledge in key technical sciences.

## FROM BRAZIL TO INDIA – NOBEL PRIZE EXHIBITION CONTINUES ITS JOURNEY

Sandvik is sponsoring the touring exhibition "The Nobel Prize: Ideas Changing the World," together with Saab, Volvo and Scania. In November, one year after the opening, the exhibition moved from Brazil and Sweden to India. The exhibition tells the story of Alfred Nobel, the Nobel Prize, and how work that has been honored by the Nobel Prize has influenced our world and continues to change it. Being a sponsor, Sand-

vik had the opportunity to welcome customers to the royal inauguration in Brazil in 2013 and since then has invited approximately 250 students and customers to the exhibition. A number of events took place in parallel with the exhibition's six-week duration in India. These included Nobel Prize seminars with Nobel Laureates, workshops about creativity, innovation and problem-solving from a historical Nobel Prize

perspective in addition to other events in New Delhi and other cities in India.

"Partnering with the Nobel museum and this exhibition is valuable for Sandvik, since it strengthens one of our core values, Innovation, and allows us to connect with our stakeholders in a new and inspiring way," says Inger Östblom, Project leader for Sandvik's participation in this project.



## FUEL CELL TECHNOLOGY DECREASES CO<sub>2</sub> EMISSIONS

Silent cars with no harmful emissions. Is this a fantasy? No, this is reality. At Sandvik, where we have some of the world's best researchers in materials technology, we have been conducting research on materials for fuel cell technology for more than ten years. Currently, we have a unique and full-scale plant that is fully prepared for fuel cell technology to take off. To enable more people to understand the implications of the technology, we conducted a joint project called "Save the planet – Use more fuel (cells)" in 2014 with the Municipality of Sandviken, Sweden. Leasing two fuel cell vehicles (FCVs) and a mobile hydrogen fueling station, we transported visitors, customers

and colleagues between Stockholm Arlanda Airport and our facility in Sandviken. We also conducted a test involving a fuel cell forklift that was used to transport materials around the site. Through this initiative, we took another step in our sustainability efforts involving fuel cell technology. "The fuel cell industry is a growing market with several applications areas in which we have a unique position and where we can realize our vision to set the industry standard," says Petra Einarsson, President of the Sandvik Materials Technology business area. "At our plant in Sandviken, we can enable fuel cell technology to become a significant force in reducing greenhouse gas emissions."

### WHAT ARE FUEL CELLS?

A fuel cell is an energy converter that can be used to generate electricity and heat from hydrogen gas. The energy in the hydrogen is converted to electricity in the fuel cell without any combustion and the only emission is pure water when using hydrogen that has been produced using fossil fuel-free methods. Aside from in the automotive industry, fuel cells can be deployed in several other applications, ranging from small portable chargers of consumer electronics to large stationary installations in the megawatt range. Sandvik manufactures coated strip steel, which is pressed into plates and used in the fuel cell.





## COST-EFFICIENT OFFERING FOR ULTRA-CLEAN ENERGY

FuelCell Energy of the US and the South Korean firm POSCO Energy have much in common. They share the same vision of the increasing importance of fuel cells in creating a sustainable and green energy supply. They share production technology and collaborate in areas including the supply chain to create a cost-efficient global platform. Both companies utilize Sandvik's know-how. Today, our resource-efficient steel belt casting machines are in place in their respective fuel cell facilities in the US and South Korea and manufacture a core component of the individual fuel cell component.

"Sandvik's technology enables us to supply our customers with an affordable and efficient distributed

power generation solution for utilities and large power users worldwide," says Chip Bottone, Chief Executive Officer of FuelCell Energy.

In the South Korean government's long-term plan for increasing the share of new and renewable energy sources, fuel cell technology has been assigned top priority, which means that the country is rapidly on its way to taking a leading position, for example, in fuel cell sites. Quite simply, in a country with a lack of domestic energy reserves, there is a substantial need for efficient, clean and safe solutions that reduce dependency on fossil fuel import. Our strong energy focus and technological know-how make us a natural partner for this development.

"We have an ambitious plan for continued growth in South Korea and in other parts of Asia. Close collaboration with leading technology companies, such as FuelCell Energy and Sandvik, are crucial to our success," says Vincent Ghim, Team Leader, Fuel Cell Division at POSCO Energy.

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# 20

**POSCO Energy has built 20 new fuel cell sites in South Korea, totaling 145 MW.**

# ZERO TOLERANCE TOWARD ALL FORMS OF BRIBERY AND CORRUPTION

**At Sandvik, we have a long history of ethical and responsible business conduct and this approach has played a significant role in the success of our company globally. In all our operations, we are committed to ethical business practices, something that our customers can rely on and that we should feel proud of.**

We conduct business with honesty and integrity and take a zero-tolerance approach to all forms of bribery and corruption. We strive to have clear and concise policies and procedures in place as well as an effective compliance organization, closely integrated with the business.

## **GREATER INTEGRATION OF COMPLIANCE**

In 2012, Sandvik formally established a Group Compliance function to provide greater focus, resources and organization in support of our commitment to ethical business. During 2013, the Compliance function rolled out a series of country risk assessments and embarked on a widespread program of business partner reviews. In 2014, Compliance took a further step to begin the deeper integration of the

antibribery and anticorruption (ABC) program into our five business areas.

## **SANDVIK'S ANTIBRIBERY AND ANTICORRUPTION PROGRAM**

Our ABC program closely conforms to the guidance provided by major regulators. It includes a hierarchy of policies and procedures; assessment of bribery and corruption risks; communications that both set the 'tone from the top' and also the 'tone at every level'; screening and vetting of business partners, particularly third-party intermediaries; and monitoring and reporting of these activities to the Group Executive Management and the Board.

## **RISK ASSESSMENT**

One of the key developments of 2014 was the establishment of a new, annual process to identify and assess the bribery and corruption risk in each business area. This process enables the management team of each business area to identify the areas of greatest risk so that they can prioritize these risks, assess the effectiveness of existing controls and plan a path for remediation when required, including the

termination of contracts with third parties if needed.

## **TRAINING**

Training is an important element of an effective compliance program and we rolled out an extensive Group-wide training program in 2013, which continued through 2014. At year-end 2014, approximately 42% of our employees had completed an e-learning course on ABC and selected employees had also attended face-to-face workshops. In 2015, our training program will evolve further and will be increasingly integrated in and driven by the business areas. Employees worldwide will continue to receive training in the form of both online e-learning courses and face-to-face workshops.

## **CONTINUED EVALUATION OF THE PROGRAM**

We continuously evaluate our ABC efforts and are working to develop measures by which we can evaluate the effectiveness of the program. Key measures include training completion rates, vendor screening rates and process integrity, expenditure on gifts and hospitality, and approval integrity.

# A GLOBAL TAX PAYER

**The OECD has issued guidelines for price setting of cross-border transactions in multinational groups. Sandvik adheres to these guidelines and to the local legislation of each country to ensure that a correct pricing model is deployed and that a correct amount of tax is paid in each country.**

Sandvik has initiated cooperation with tax authorities in several countries through which we share and discuss the company's internal efforts to ensure that we have systems and procedures in place to reduce tax risks while ensuring compliance with tax laws. This approach is voluntary and based on transparency and the trust between the company and the relevant tax authorities. We are convinced that an open discussion and cooperation with tax authorities around the globe will help the company to reduce uncertainty about the taxes it is obliged to pay. Discussing complex tax issues at an early stage and obtaining the tax authorities' view in relation to uncertain tax positions offers greater security and the opportu-

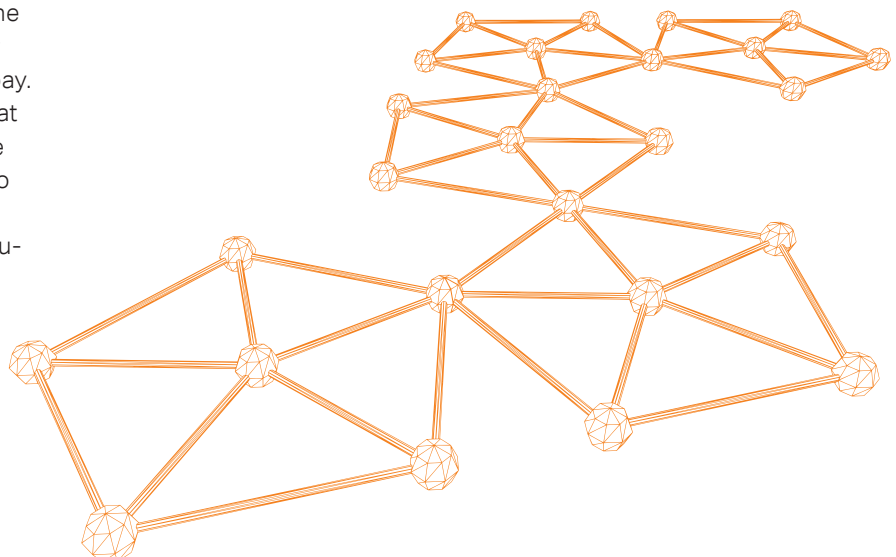
nity to reduce tax risks. Sandvik also endeavors to sign agreements with tax authorities, advanced pricing agreements or rulings, to obtain certainty regarding the pricing model for certain transactions.

Continuous discussions with tax authorities also reduce the need for additional tax audits. The tax authorities gain a better understanding of our business and can therefore manage investigations more efficiently. Despite cooperation with tax authorities, Sandvik is not able to eliminate all tax disputes. Sandvik is a global company with operations in a large number of countries with many cross-border Intra-Group transactions. Tax disputes often pertain to the internal pricing used for these transactions. The tax case regarding the reorganization of ownership of intellec-

tual property rights dating back to 2005 was finally closed in January 2014 when the Swedish Supreme Administrative Court of Appeal ruled against granting an appeal. The decision carried no financial implication for 2014.

## TAX PAYER IN VARIOUS COUNTRIES

We contribute to the local communities and countries in which we operate in the form of, for example, taxes and employment opportunities. In 2014, the Group paid 1,899 million SEK (7,816) in income taxes globally. Income tax comprises just a portion of the taxes that Sandvik pays in the majority of countries. In addition to income tax, Sandvik pays property taxes, employer's contributions, customs duties, energy taxes, indirect taxes, etc.



# DEVELOPING OUR SUSTAINABLE SUPPLIER MANAGEMENT

**A sustainable supply chain and strong supplier relationships are central to Sandvik's commitment to provide customers with the best and most innovative products. Building a sustainable supplier management is therefore a priority for Sandvik.**

## SANDVIK SUSTAINABLE SUPPLIER MANAGEMENT

Our suppliers are just as diverse as we are; from small local manufacturing units to multinational raw material and components suppliers and from labor-intensive to high-tech operations.

The Sandvik Supplier Code of Conduct (SSCoC) was approved in 2008, while the Sandvik Supplier Evaluation Process was launched in 2010, including on-site audits of high-risk suppliers. We are now taking steps to further develop Sandvik's Sustainable Supplier Management. In 2014, the Sandvik Sustainable Supplier Management Team was formed to further integrate sustainability in the purchasing process for the benefit of our organization, suppliers and other stakeholders. A global team of 35 sustainability experts supporting the regions of Latin America, EMEA (Europe, Middle East and Africa), South Asia and East Asia are engaged in these efforts.

## REVISED SUPPLIER CODE OF CONDUCT

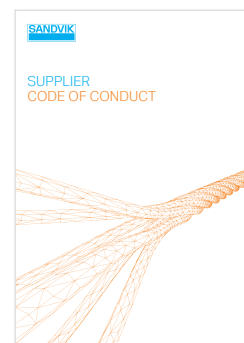
During the year, we launched the revised SSCoC, adding new areas of increasing importance, such as the right to property, competition law and conflict minerals. To strengthen our sustainable purchasing practices, we are refining and developing a more efficient and integrated tool for risk assessment and approval of suppliers from a sustainability perspective. The risk assessment continues to build on category and country risk elements and will take into account risks related to the content of our revised SSCoC, including antibribery and anticorruption compliance, trade compliance and conflict minerals. Depending on the outcome of the risk assessment, all suppliers will be assessed according to a verification path for high, medium or low-risk suppliers.

For our on-site audits of suppliers, we have developed a new audit program framework, including new audit tools, guidelines and procedures. We have also developed internal training materials relating to the revised SSCoC and the risk assessment and approval process for our purchasing organization, in addition to a supplier training program with a strong focus on the business advantages created through compliance with the SSCoC, which will be delivered in 2015. Our

capacity-building activities aim to increase awareness, engagement and trust along the supply chain and in our business partnerships.

## SUSTAINABLE PURCHASING POLICY

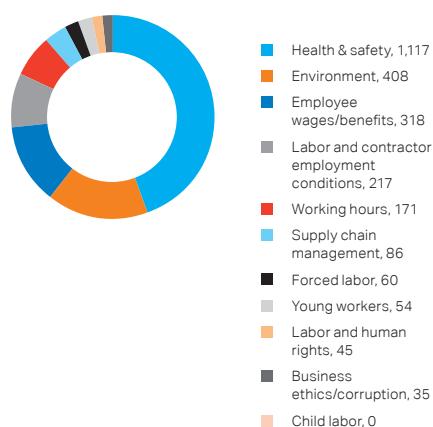
In order to further support the work on sustainable purchasing, we are developing a new Group-wide policy for sustainable purchasing. This policy will define overall objectives and expectations on Sandvik to ensure that all purchasing operations take into consideration issues such as limiting negative social and environmental impact of our supply base, combatting bribery and corruption, contributing to economic performance and, ultimately, protecting and generating business value.



We revised our Supplier Code of Conduct during 2014.



DEVIATIONS IDENTIFIED  
AMONG SUPPLIERS, 2014



SUPPLIER ON-SITE AUDITS

During the year, we conducted 222 on-site SSSoC audits, of which 13 were at new suppliers. The country/region breakdown is as follows: China 102, India 78, Brazil 17, Peru 10, Europe 8, South Africa 2, Uruguay 2, Mexico 2 and Malaysia 1. Similar to previous years, most deviations related to environment, health and safety, working hours and compensation. During 2014, we did not identify any cases of child labor. Regarding young workers (between 15 and 18 years old), we identified issues related to recruitment procedures and policy, working conditions and legally mandated health checks. The labor and human rights deviations refer to insufficient implementation of grievance systems and unequal treatment of migrant workers in China. The deviations concerning forced labor relate to financial penalties for employees at our suppliers in China. Deviations reported on business ethics/corruption refer to lack of relevant policies. Excessive overtime hours and inadequate overtime compensation remain a challenge. Our Sustainable Supplier Management Team performs analyses together with our suppliers to identify root causes and define how to get to terms with these issues in a sustainable manner.

A GROUP WIDE APPROACH TO CONFLICT MINERALS

Sandvik's journey toward ensuring conflict-free supply chains gained decisive momentum in 2013 as a result of the U.S. Securities and Exchange Commission approving rules to implement reporting and disclosure requirements related to conflict minerals, defined as columbite-tantalite (coltan), cassiterite, wolframite, gold, or their derivatives. When originating from the Democratic Republic of Congo, or its neighboring countries, there is a risk that these minerals could finance conflict in the region. Since many of Sandvik's products contain metals from these minerals, sometimes as an essential ingredient, an

interim study was initiated in 2013 to increase awareness of conflict minerals within the Group, including the prevailing legislation in the US.

During 2014, focus was directed at setting a Group-wide approach to conflict minerals throughout the organization as well as broadening the scope to include all raw materials whose extraction, transport or trade is associated with a risk that they may have directly or indirectly supported armed groups and/or caused gross human rights violations in conflict-affected and high-risk areas. In addition, we have issued a Conflict Minerals Statement and reinforced the Supplier

Code of Conduct with provisions for a transparent and conflict-free supply chain. We are currently developing a policy as well as management systems for policy and procedure adherence and implementation. Moreover, we are taking an active role in industry forums to promote responsible sourcing of minerals, such as the Tungsten Industry-Conflict Minerals Council (TI-CMC), an initiative that provides assurances that tungsten products originating from TI-CMC-compliant companies are conflict free, and the Conflict-Free Sourcing Initiative, a global benchmark for due diligence on conflict minerals.

# ENVIRONMENTAL IMPACT

**In addition to developing resource and energy-efficient products that boost customers' competitiveness, environmental efforts involve an increasing degree of recycling and production with reduced environmental impact and the development of a new environmental and climate change strategy. A central part is to create a business culture where leaders within Sandvik make sure environmental issues are integrated in a natural way in the daily operations.**

All parts of Sandvik's operations have some form of environmental impact, be it positive or negative. Direct impact stems from our production and transportation. Our

indirect impact occurs in the supply chain, customer use and the phasing out or recycling of our products. It is therefore vital to take the entire value chain into account in order to implement actual changes in our environmental footprint. By implementing new, innovative solutions, we can create additional competitive advantages and added value for our customers, thereby strengthening our own market-leading position. Consideration for the environment is a key factor when we develop new products, implement changes or acquire companies. We have identified climate impact, energy consumption and emissions as well as use, reuse and recycling of materials and natural resources as the most significant areas for Sandvik's envi-

ronmental efforts. Precautionary measures are taken when there is reason to believe that an action could harm the environment or human health.

## SANDVIK'S PRODUCTS AT THE CUTTING EDGE

To the greatest extent possible, our products should contribute to reducing the environmental impact of customer processes and be recyclable. Accordingly, different environmental requirements and the impact of the finished products on the environment are taken into account in product development. Read more about our product development on page 20.

## OBJECTIVES AND TARGETS\*

Objective: To significantly reduce the key environmental impacts resulting from Sandvik's activities by having environmental plans focused on the critical impacts at each location.

TARGET	DUE	STATUS
Activities in the approved key environmental management plans for specific areas (energy, water and CO <sub>2</sub> emissions) will be implemented.	2015	Progressing well for energy and CO <sub>2</sub> . Delayed for water.
Formal general environmental plans to be implemented for other major production units.	2015	Progressing according to plan.
For all other units, plans for increased environmental awareness and minimized environmental impact to be developed and implemented.	2015	Delayed. Not all other units have a developed plan yet.
Each business area is to develop a plan to reduce CO <sub>2</sub> emissions arising from transportation of goods and people by the end of 2015.	2015	Work has been initiated in this respect. Individual activities are ongoing in the business areas. For 2015, the ambition is to introduce harmonized follow-up procedures for CO <sub>2</sub> emissions from transportation.

\* See also page 40 for joint targets for environment, health and safety (EHS).

OBJECTIVE FOR 2013–2015  
**REDUCE**  
CO<sub>2</sub> EMISSIONS AT

**6**

SELECTED KEY SITES

These key sites, which have a high environmental impact, play a key role in reducing the Group's total emissions.

# CLIMATE IMPACT, ENERGY CONSUMPTION AND EMISSIONS

**Sandvik has approximately 140 production, distribution or service sites worldwide that hold various types of environmental permits where required, depending on legislation. Sandvik is entirely dependent on the environmental permits granted for these sites. The largest environmental impact is caused by the raw material and energy-intensive site Sandviken, Sweden.**

## CLIMATE IMPACT AND ENERGY CONSUMPTION

Energy efficiency is a critical area. The ability to consume energy at a

reasonable cost is crucial to the functioning of communities across the world. A high degree of energy efficiency helps to boost the value of the energy source and can also result in lower costs. We conduct ongoing energy assessments of our production operations to identify additional opportunities to improve our energy efficiency. When new large investment projects are introduced, an energy efficiency analysis is performed and the project is assessed based on a life cycle cost perspective to identify the best solution.

During 2014, work began on a

long-term environmental and climate change strategy for Sandvik. Two workshops were held that focused on the risks and opportunities created for Sandvik's business as a result of climate change. An overall benchmark analysis of the climate strategies of five leading companies/peers and five major customers was carried out. These activities will serve as the foundation for the company's environmental and climate change strategy, which will be launched in 2015. The strategy will describe how our business areas and Group functions are to act with respect to climate change and other

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## WE HELP OUR CUSTOMERS TO BECOME MORE ENERGY-EFFICIENT

We strive to offer our customers energy-efficient products. One example is the Pressurflect™ tubing for gasoline direct injection (GDI) fuel systems. Sandvik Materials Technology has introduced new seamless stainless steel tubes for gasoline direct injection (GDI) fuel systems, also called Pressurflect™. The new Pressurflect™ tubes help reduce fuel consumption and lower CO<sub>2</sub> emissions in combustion engines. GDI technology is helping reduce fuel consumption by 20% or more while still producing excellent power output and lowering emissions.

Another example from Sandvik Materials Technology is the Sandvik Hiflex™ compressor valve steel. Sandvik Hiflex™ precision strip steel is specially designed for the manufacture of compressor valves for next-generation compressors. Compressor valves made from Sandvik Hiflex™ precision strip steel contribute to enhancing compressor efficiency, promote long service life and can also contribute to reduced noise levels.

An example from Sandvik Mining is the Electrical Current Draw Reducer Unit for drill rigs. One of the most significant value proposi-

tions for Sandvik's new DD422i face drill rig is to provide more environmentally responsible drilling solutions that help to reduce energy losses and emissions caused by underground activity. The electrical current reducer unit is an option that Sandvik offers along with the new drill rig when gains in drilling results are required despite limited sources of electrical supply. Rather than drawing reactive power from the mine network, the Sandvik Electrical Current Draw Reducer unit fitted to a DD422i face drill rig provides this power element for all on-board drilling components.

environmental challenges in order to strengthen Sandvik’s market-leading position over the long term.

During 2014, the initiative launched in 2013 to reduce the Group’s CO<sub>2</sub> emissions continued. This meant that we increased the purchasing of electricity from renewable energy sources, such as hydro, wind, solar and biomass, in the majority of European countries in which we conduct significant operations, in accordance with the European Guarantees of Origin scheme, which guarantees that electricity is produced from renewable sources of energy. As a result of these initiatives, Sandvik’s CO<sub>2</sub> emissions were reduced by nearly 110,000 tons compared with 2012, corresponding to about 20% of the Group’s total CO<sub>2</sub> emissions.

One of Sandvik’s objectives for 2013–2015 is to reduce energy consumption and/or CO<sub>2</sub> emissions at six selected production sites. These individually account for more than 2% of the Group’s energy con-

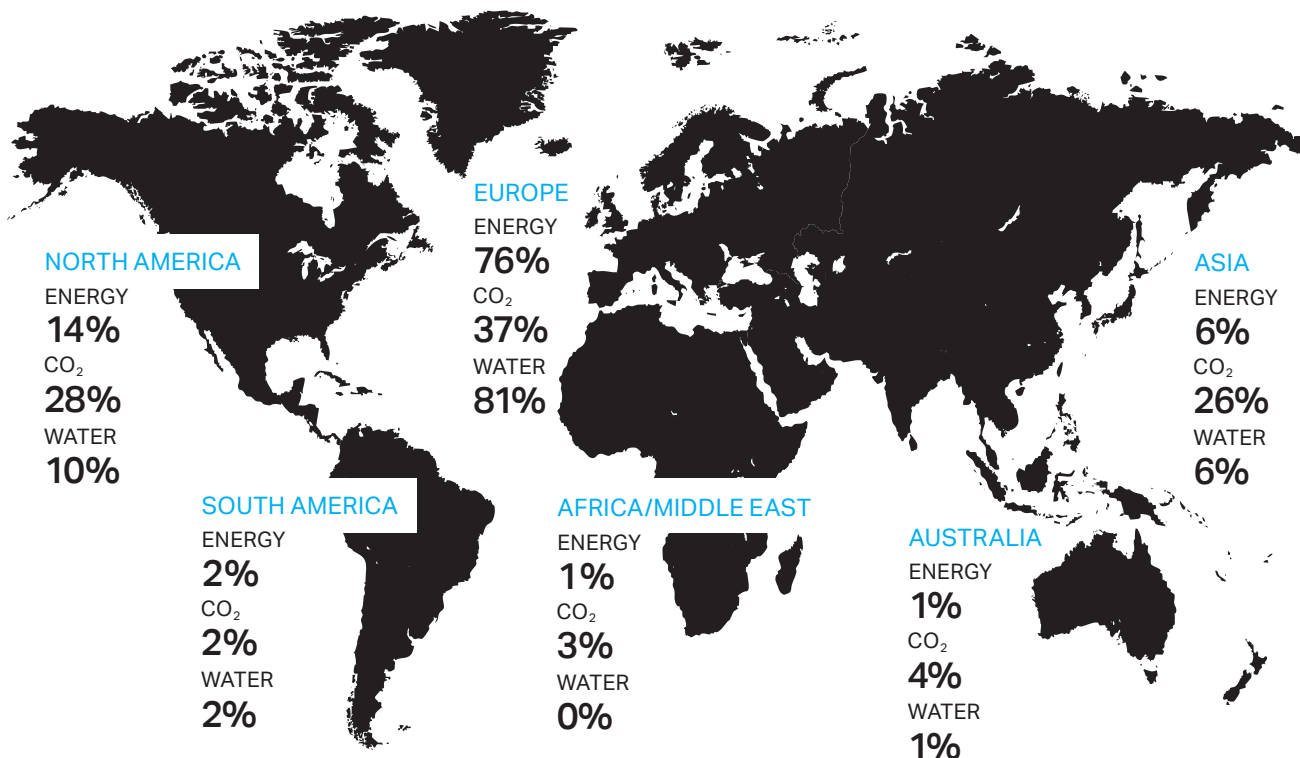
sumption and/or 4% of the Group’s CO<sub>2</sub> emissions and therefore play a key role in reducing the Group’s total emissions. These key initiatives are still ongoing and are proceeding largely as planned. In addition, all major production-related units with more than 25 employees have the target of producing action plans focusing on such factors as energy consumption and CO<sub>2</sub> emissions. At the end of the year, the results showed that, in terms of energy intensity (MJ per worked hour), we improved 4% during the year. Regarding CO<sub>2</sub> emission intensity (g CO<sub>2</sub> per worked hour), the result was a 2% improvement. The reason for the weaker improvement of the CO<sub>2</sub> emission intensity was that increased energy consumption was noted in certain markets where electricity is generated using a higher share of non-renewable energy sources. Sandvik’s operations also generate CO<sub>2</sub> emissions from the transport of materials, products and employees.

**SAVING THE ENVIRONMENT AND SAVING MONEY**

We believe that we can save and earn money if we reduce our impact on the environment. One example is Sandvik Machining Solution’s plant in Münsingen, Germany, where we have switched energy sources from fuel oil to natural gas and installed heat recovery systems. With the additional exchange of the control units and a new program setup, we are now saving 100,000 EUR per year and CO<sub>2</sub> emissions have been reduced by 600 tons per year. At the same time we increased both our production area as well as our sales.

In 2013, Sandvik decided to invest in Bromma Business Jet in order to provide the Group Executive Management, the company’s Board and other key individuals with access to an efficient, safe and fast way of traveling to the company’s various operations across the globe. Sandvik’s aim

**SHARE OF THE GROUP’S ENERGY CONSUMPTION, CO<sub>2</sub> EMISSIONS AND USE OF WATER PER MARKET AREA, 2014**





was to supplement the other means of travel, such as scheduled airline services, rail and road transport services. We have operations in about 130 countries and, therefore, the time saved by using the business jet can, in certain cases, be significant. We are aware of the increased CO<sub>2</sub> emissions this type of transportation entails compared to regular air travel. Therefore, as a responsible owner, we have, together with Bromma Business Jet, decided that the climate impact of the operation will be offset by way of a carbon-neutral flight program from 2014 and onwards. This means that all fuel consumption is reported and the climate-related emissions are offset through the purchase of credits from a selected carbon offset project supplied by a global leading provider of carbon-reduction solutions.

### EMISSIONS TO AIR

In addition to CO<sub>2</sub> emissions, the Group's emissions to the atmosphere comprise acidifying substances, particulate matter and organic substances. These emissions mainly originate from our production processes and from the combustion of fossil fuels in conjunction with our purchases of heating, transportation and electricity.

Direct emissions of acidifying substances include sulfur dioxide (SO<sub>2</sub>) and various forms of nitrogen oxides (NO<sub>x</sub>). The Group's emissions of sulfur dioxide mainly originate from the combustion of oils and coal, and are estimated to have amounted to 34 tons (39) in 2014. One of the reasons for this reduction was that the combustion of oils decreased at several of our facilities in India. We had access to a more stable electricity supply during the year, which reduced the need for Sandvik's own generators

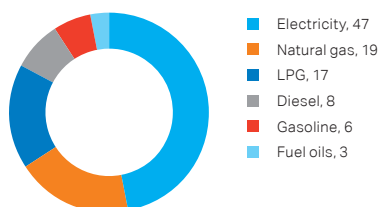
to secure electricity. In Sandviken, steam production now uses more electricity and less combustion of fuel oil, which helps to reduce emissions of both SO<sub>2</sub> and CO<sub>2</sub>.

Emissions of NO<sub>x</sub> are mainly derived from the smelting processes in Sandviken, Hallstahammar and Svedala in Sweden, from combustion processes and, to a lesser degree, from plants for the pickling and cleaning of metal surfaces. NO<sub>x</sub> emissions decreased during the year and amounted to 338 tons (351), attributable to a reduction in fossil fuel combustion compared with the preceding year.

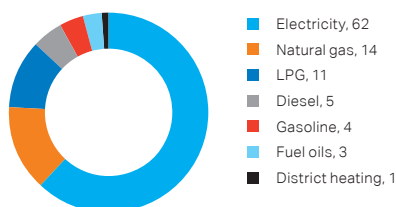
### EMISSIONS TO WATER

Emissions to water mainly consist of phosphorous and nitrogen, oxygen-consuming substances and metals from pickling plants. All wastewater from processes is treated before it is released.

CO<sub>2</sub>-EMISSIONS, 2014, %



ENERGY CONSUMPTION, 2014, %



## SUSTAINABLE CONSTRUCTION PROJECTS ON HAWAII

Construction projects on Hawaii's largest island O'ahu requires the use of strong concrete based on high-quality sand shaped so that the particles sit tightly together. However, such sand is scarce in Hawaii. Hawaiian Cement, one of Sandvik's customers, discovered that the sand had to be imported from Canada, with the resulting

environmental disadvantages of transporting material more than 3,000 kilometres. By investing in a crusher from Sandvik Construction, the CV229, it was possible to find a solution to this situation. The main advantage that Hawaiian Cement gains by deploying our CV229 VSI is a reduction in its environmental impact, given that the company no

longer needs to import sand from Canada. This is particularly important in Hawaii, where there are stringent global and local restrictions governing the use of natural sand. Furthermore, the end product supplied to customers is of superior quality and costs for Hawaiian Cement are significantly reduced.

# WE (RE-)USE AND RECYCLE

Since 2012, Sandvik has conducted life cycle assessments (LCAs) to determine the environmental impact of products throughout their life cycle. These assessments have mainly been conducted in Sandvik Materials Technology. The aim is to have LCA data available for the most important steel grades in the business area's product portfolio to evaluate the actual environmental saving at the customer level for strategic applications. This information is always passed on to interested customers.

## RAW MATERIALS AND INPUT MATERIALS

The input materials deemed to be most relevant are various types of metallic raw materials, water and purchased components. To maximize the sustainable utilization of materials and reduce the environmental impact, used cemented-carbide products are repurchased and the production of steel is

mainly based on recycled materials. In total for the Group, about 80% of metallic raw materials is derived from recovered material.

Sandvik Material Technology is the main consumer of raw materials in the Group. The raw materials most important to the business area are iron, nickel, chromium, manganese and molybdenum, either in alloys or as part of scrap metal. The key metallic raw materials for Sandvik Machining Solutions and Sandvik Venture are tungsten, tungsten carbide and cobalt, but graphite and compounds with more unusual elements such as tantalum are also used. Sandvik Mining and Sandvik Construction use iron and manganese raw material for the manufacture of castings. A wide range of machine components are used as input materials.

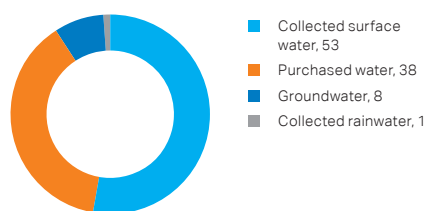
## USE OF WATER

Water is a valuable, and sometimes scarce, resource. Accordingly, we continuously endeavor to reduce

our consumption of freshwater (purchased water), and groundwater. Surface water is collected at more than 30 sites. Economizing with freshwater is particularly important in areas where water is scarce, so called water-stressed regions. According to a previously made survey of Sandvik's sites, five sites in India and one site in China are located in areas defined by the UN as having access to less than 500 cubic meters of water per year and person. In 2014, these facilities presented their measures for efficient water use. All production sites in India have systems for the treatment of wastewater, which is subsequently re-used in their operations. Several units also collect rainwater for internal use.

An action plan has been introduced at the site in Sandviken, Sweden, which uses considerable volumes of water, in order to reduce its consumption of purchased freshwater. During 2014, actions were implemented and water consumption at

WATER CONSUMPTION, 2014, %



the site was reduced by 10%. Further actions are planned for 2015, which may lead to an additional saving of 10%. Across the entire company, we successfully reduced water usage by more than 350 million liters during 2014. This was equivalent to a 6% improvement in water usage compared with the preceding year, in relation to worked hours.

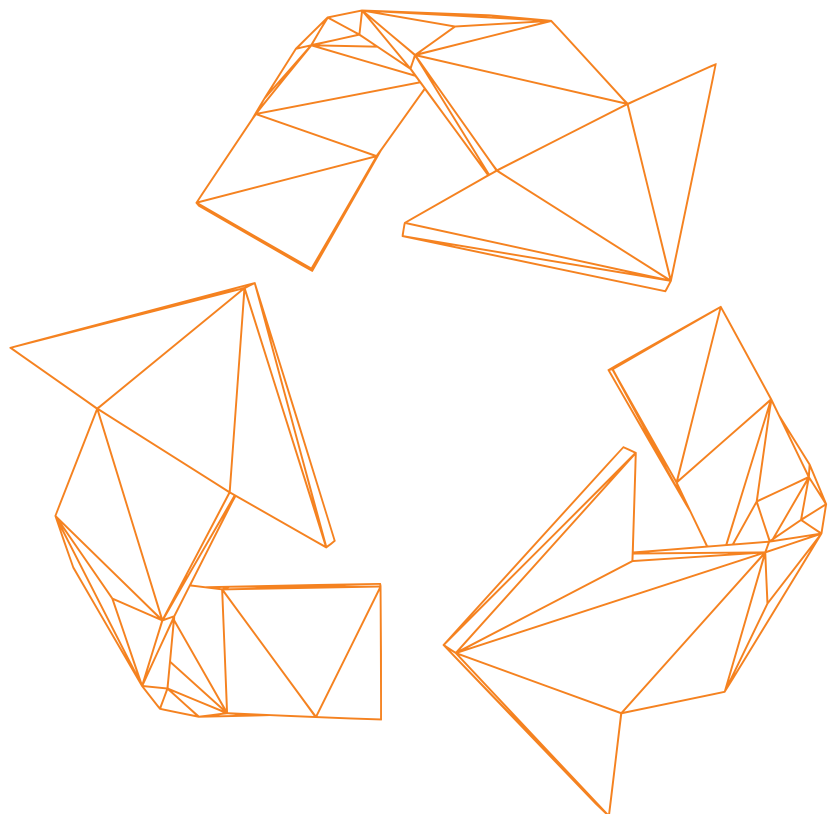
## WASTE

Sandvik's operations give rise to various types of waste. Nearly 85% of all waste is generated at Sandvik Materials Technology's facilities in Sandviken and through the dressing process at Wolfram Bergbau und Hütten, a product area within Sandvik Venture.

Metalliferous waste and other by-products are re-used or recycled to the greatest extent possible. However, certain waste products, such as slag from steel production and casting and tailings from tungsten enrichment, are disposed of pending the further

development of these types of waste into useable by-products. The total amount of waste decreased by 3% during 2014 in comparison with 2013. Of the total waste, 9% was classified as hazardous. This type of waste is subject to strict legislation and is treated and disposed of in a safe manner. Generation of hazardous waste

decreased by 8% compared with the preceding year. Although some of the tungsten enrichment sand can be used as construction material, waste disposed of increased by 6% during the year. The main reason for this increase is that, in addition to landfilled waste, other disposal methods were also included in the waste data as of 2014.





Sandeep P. Dhavan, working with the recycling of cemented-carbide products at our site in Chiplun, India.

## INCREASED FOCUS ON RECYCLING

Consideration for the environment is decisive for all operations at Sandvik, particularly in relation to the recycling of steel and cemented carbide. Comprehensive recycling programs are under way in all parts of the Group. The global raw material shortage is a key factor underlying the initiative. Recycling results in lower energy consumption, reduced emissions, such as carbon dioxide, acidifying substances and wastewater discharge, and less waste. These are factors that are not only of major importance to Sandvik, but also to customers and society at large.

Sandvik Machining Solutions is continuously increasing its recycling of cemented-carbide products through customer buyback schemes. The Sandvik Coromant product area's program for recycling of solid cemented-carbide inserts represents an integral part of this effort. We also operate customer cemented-carbide buyback

schemes in other product areas in the business area.

Sandvik Mining and Sandvik Construction operate a program for the recycling of used drill bits at the facilities of customers and other users. The program has been intensified in recent years due to the global awareness of the importance of sustainable processes. Better communication with customers, incentives linked to the recycling program and our responsible management of the process comprise key reasons behind the rapid increase in the volume of recycled material.

Collected products from Sandvik Machining Solutions, Sandvik Venture, Sandvik Mining and Sandvik Construction are gathered at various sites worldwide from where they are transported to our separation facilities in Austria or India for recovery of both cemented carbide and steel. Read more about our Wolfram Bergbau und Hütten

product area in Austria on page 14.

Production at Sandvik Materials Technology is largely based on recovered stainless steel, accounting for approximately 80% in 2014, which represents an increase of 5 percentage points since 2008. The metal dust generated in the smelting processes is gathered and sent onward for recycling into a raw material which is reused in the steelworks. There is also a well-functioning system in place for recovery of production waste, such as scrap steel, turnings and mill scales for recycling.

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# 80%

Share of metallic raw materials from recovered material.



# SOCIAL IMPACT

**Sandvik is a high-tech engineering group with operations in more than 130 countries and about 47,000 employees. We are committed to taking responsibility for our employees and their working environment as well as for the communities where we conduct our operations.**

Sandvik should offer its employees a safe workplace. We have a vision of zero workplace injuries and the company has established safety as a top priority. During the year, we worked on the continued reduction of the lost time injury frequency rate (LTIFR). The target for 2014 was revised to 2.4 and it was nearly achieved. Therefore,

we are raising the bar and have set a new target for 2015 of 1.9.

To strengthen our leading position, we must attract, develop and retain the most talented employees. Accordingly, we must be able to offer a workplace that embraces diversity and inclusion, and provides opportunities for talent development. In 2014, we continued efforts to increase the proportion of women at various levels in the Group. We initiated the Group's first global trainee program and implemented a career path for personnel in the R&D organization as described on page 21.

In some of the countries where Sandvik operates, there is a risk of human rights violations. We work

continuously to ensure compliance with national legislation and international principles. In 2014, we reviewed our Group-wide Code of Conduct and Supplier Code of Conduct. These Codes and accompanying procedures enhance our possibilities of identifying, preventing and mitigating risks related to human rights in the Group's operations and value chain throughout the world, with a particular focus on high-risk countries.

Sandvik also participates in local projects in the communities in which we operate. We have a policy for sponsorship and community involvement activities that guide us in our approach to these projects.

## OBJECTIVES AND TARGETS

LOST TIME INJURY  
FREQUENCY RATE

**<1**  
BY 2020\*

**EHS AS A  
BUSINESS  
ADVANTAGE**

ALL BUSINESS AREAS  
SHALL HAVE A PLAN FOR  
LEVERAGING EHS AS A  
BUSINESS ADVANTAGE.

## AMBITION

GENDER DIVERSITY  
EQUIVALENT TO

**30/70**  
FEMALE/MALE MANAGERS

\* For further information on health and safety objectives and targets, please see the table on page 40.

# A PERFORMANCE-BASED CULTURE

**Sandvik's success relates directly to having the right people in the right positions. In 2014, the journey toward a high-performing organization continued. This is important for Sandvik in order to retain our market-leading position in a challenging market. In order to achieve this, we will continue to focus on a workplace that embraces diversity and inclusion, and provides opportunities for talent development. During 2014, a number of initiatives were implemented to strengthen the Group's performance-based culture.**

A few of those initiatives were within areas such as leadership development, compensation and benefits, succession planning, talent development, Employer Branding, culture, diversity and inclusion and securing internal career paths.

## FOCUS ON PERFORMANCE

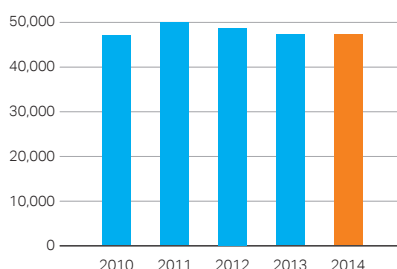
To be able to leverage the full potential of our employees, it is important that we continue to maintain a strong performance culture. A number of key initiatives are being implemented to secure this, including a stronger culture and core values, a clearer compensation strategy, improved performance management and a more intense focus on the business advantage of diversity and inclusion. Our core values have been further developed and a new vision and strategic direction have been established. The internal employee survey shows that the workforce is very engaged. Our engagement score is high compared with the global norm, which is also essential to achieve a strong performance culture.

A global remuneration strategy is in the process of being introduced throughout the Group. The focus is on creating a remuneration struc-

ture that is fair, competitive and easy to understand. An assessment is underway to determine how Sandvik's salary levels compare with other companies operating in the same markets as the Group and competing for the same talent. The review of Sandvik's sales incentive programs initiated in 2013 has resulted in the first incentive program for a workforce category in the Group.

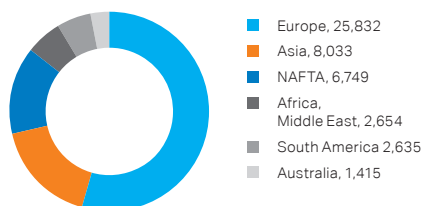
Our work on the performance dialog process, which encompasses all employees, follows a clear structure. In 2014, focus was on creating a more efficient method for cascading our objectives throughout the organization and ensuring that this method permeates the performance dialog process at all levels in the Group. Approximately 85% of our employees completed performance dialogs during the year.

NUMBER OF EMPLOYEES, 2010–2014\*



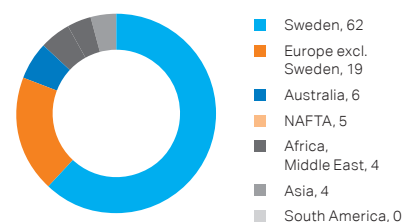
\* Restated to Full Time Equivalents (FTEs) at 31 December 2014.

NUMBER OF EMPLOYEES BY MARKET AREA, 2014\*



\* Restated to Full Time Equivalents (FTEs) at 31 December 2014.

SHARE OF NATIONALITIES IN THE BUSINESS AREA MANAGEMENT TEAM, 2014, %



## DIVERSITY AND INCLUSION GIVE BUSINESS ADVANTAGES

Diversity and inclusion are vital parts of our people strategy. The recruitment of individuals with diverse backgrounds has a strong impact on Sandvik's creativity and capacity for innovation. For us, diversity and inclusion mean respecting and leveraging employees' personal and cultural differences.

Continued efforts related to diversity and inclusion are also a prerequisite for succeeding in the continued globalization of business. Each business area has conducted status analyses and identified improvement areas for driving and accelerating diversity and inclusion efforts. An action plan for managing these improvement areas was compiled for 2013–2015. The action plan is continuously monitored.

Globalization of the Group's key positions in terms of experience, education, nationality, gender

and age are factors for long-term success. The Group Executive Management is a diverse group with different backgrounds and experiences. In terms of nationality, in addition to Swedes, the Group Executive Management now has representatives from China, the UK and the US. The Group's two employees at the highest expert level at Sandvik, Group Expert, comprise one woman from Sweden and one man from China.

In 2014, a major focus was directed at the learning offering in the area of diversity and inclusion, with the objective of increasing awareness among all of our employees of the benefits for the business.

## OUR LEADERS SHOW THE WAY

The strongest ambassadors for our culture are our leaders. The Group's leadership model supports the strategic direction and states that excellent leaders are key to Sandvik's success. The leadership

criteria for all managers are reviewed annually in performance dialogs and employees use the same criteria to evaluate their managers in the internal employee survey.

Sandvik has three Group leadership programs for leaders at different levels, based on the business strategy and leadership model. Participants in the leadership programs represent all business areas, and use a mix of functions, geographies and experience as a vital part of creating a diverse and dynamic group.

## KEY TALENT DEVELOPMENT

Attracting, appointing, developing and retaining talent are key factors in securing Sandvik's performance and growth. Accordingly, we strive to be a leader in this area. During the year, talent assessments were carried out by the Group Executive Management and a shared method was introduced for these assessments.

# DIVERSITY ENABLES INNOVATION

We have a strong belief in diversity and inclusion as important enablers for innovation and thinking outside the box. At Sandvik Coromant, part of Sandvik Machining Solutions, particular focus is dedicated to innovation. The internal challenge, Coromant Bright Yellow Challenge, has been ongoing for more than two years. The challenge catalyzed personnel around the globe into thinking about change and improvement, and to compete with their innovations. The strong response can be seen in the hundreds of competition entries that have been received. Each year, one of these is selected as the winner. In September 2014, in competition

with 167 others, the Americans Brian Mount and Evan O'Hearn were selected as winners for their development of a new process for special tools. The award was preceded by a large innovation convention in Sandviken, Sweden, where the top innovations were presented. Interest and commitment is rising each year, and all parts of the organization from across the globe participate and contribute. The Bright Yellow Challenge is a perfect example of utilizing the full potential of our workforce. By embracing diversity and inclusion, Sandvik Coromant gains new, stunning ideas and innovations from employees of different



From left: The winners Evan O'Hearn and Brian Mount, together with Klas Forsström, President of Sandvik Coromant.

ages and genders from all over the world. This is one example of how diversity and inclusion help our employees and our business to grow.

## SOCIAL IMPACT

Our efforts to assure the quality of our succession planning continued and a Talent Successions Manager has now been appointed in each business area. Succession planning is carried out on a continuous basis for all positions that have a direct impact on business goals and are therefore critical for the Group. People with the potential to fill these positions have been identified and action plans have been established. The talent development program initiated at the global level in 2013 was rolled out during the year in selected countries, such as China, India and the US. In addition, our global mentor pool, where senior leaders mentor next-generation leaders and experts, continued to be developed.

Sandvik has defined strong career paths for Sandvik Employees and Sandvik Experts. The career paths have been implemented in the R&D organization and provide opportunities for employ-

ees to pursue careers without having to become managers. The program, ONE SGE (Sandvik Global Expert program) has also been implemented to support and develop the Group's specialists and experts.

### RECRUITING THE RIGHT PEOPLE

The employee turnover rate was 10% (12%) in 2014. To maintain and strengthen our position as a global market leader, it is particularly important that we are able to attract, recruit, develop and retain the right talent. We have created a structure for working with employer branding globally and have launched a range of initiatives, one of which is the definition of our global Employer Value Proposition, with the aim of strengthening our offering in a competitive market.

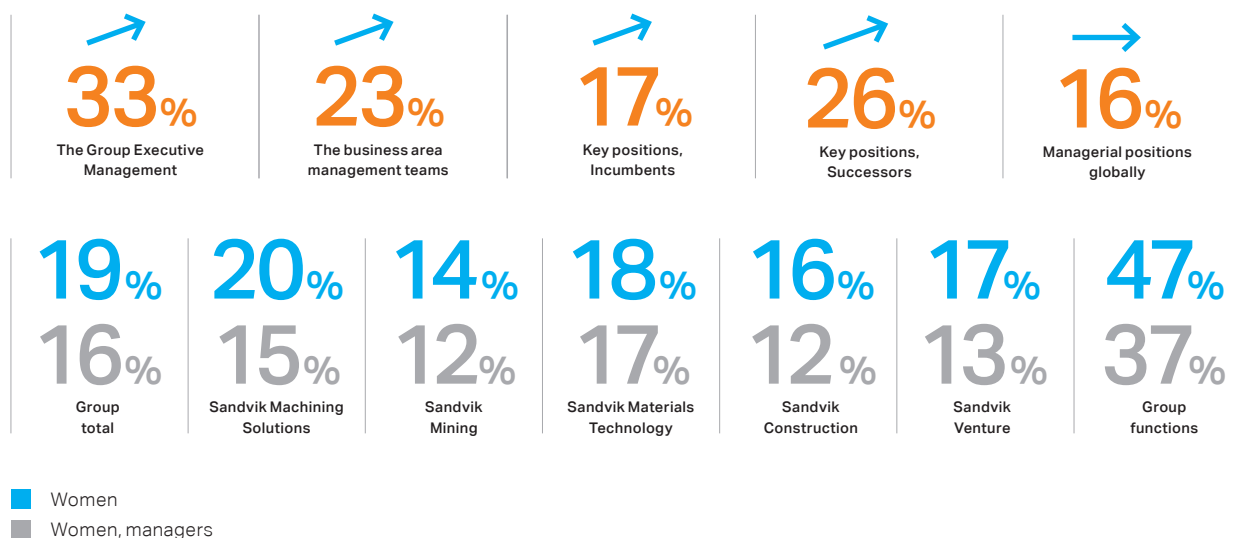
A key and prioritized element in strengthening our employer brand comprises the efforts with employee career pages on sandvik.com and the use of social

media. LinkedIn, the global networking website for professionals, is now one of the Group's main employer branding channels. We also communicate our employer brand through Facebook, Twitter and Instagram.

### FAIR EMPLOYMENT CONDITIONS

We care about our employees. Accordingly, our employment conditions are based on the UN Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work. All employees have the right to, if they so choose, join any union and be covered by a collective agreement. The Group has several unions represented in various countries. We always endeavor to maintain a constructive dialog with our employees and provide them with the opportunity to influence their working conditions, regardless of whether they are a member of a union or not.

## SHARE OF WOMEN





# TOMORROW'S LEADERS COME FROM ALL PARTS OF THE WORLD

A way of increasing knowledge of Sandvik while being able to attract the best talents moving forward is our new global trainee program. When recruiting to the program, the Sandvik leadership model forms the basis for our selection of candidates to secure future leaders with the capabilities to empower other employees as well as develop the business themselves to successfully execute our strategy.

In September 2014, the first global trainee program started with participants from Sweden, China and India. This will be followed by a second trainee program in 2015, with participants from Sweden, China, the US, South Africa and India.

## WHY DID YOU DECIDE TO APPLY?

**Annie:** The program looked well organized and "truly global", we could learn and work outside our home country and gain a holistic view of the company's global operation. In addition, Sandvik is a leading company in the industry with a good reputation and long history.

**Anna:** The ability to develop, create and maintain customized products

for the most demanding applications is the reason why customers rely on Sandvik. The possibility of becoming part of this team with the vision to set the industry standard is why I chose to apply.

## GIVE AN EXAMPLE OF SOME OF THE VALUABLE LEARNING YOU GAINED FROM THE PROGRAM?

**Rishiraj:** The importance of safety at work. Safety practices in day-to-day activities not only provide an optimal and superior work environment for employees, but also result in better productivity and enable more efficient and safer industrial activities.

## HAS YOUR IMPRESSION OF SANDVIK CHANGED?

**Annie:** I thought that a manufacturing company with more than 150 years of history behind it would probably work at a slow pace and there would be few changes.

However, I am very surprised by what I have seen, Sandvik is a company that is continuously evolving!

**Anna:** I have experienced the company's strong local heritage. The people of Sandvik are open and extremely passionate.

**Rishiraj:** I have witnessed how the concepts of diversity and inclusion are practiced with a high level of commitment.

## WHAT DOES SANDVIK'S VISION "WE SET THE INDUSTRY STANDARD" MEAN TO YOU?

**Annie:** The willingness to learn and change, be committed to my work and exceed customer expectations.

**Rishiraj:** To set benchmarks in fields of innovation, technology leadership and in the relationship with customers.

## WHAT IS MOST IMPORTANT FOR FUTURE LEADERS AT SANDVIK?

**Anna:** To truly take pride in developing other people. To create a winning culture and never settle for less, celebrating the wins and reflecting on how we can perform even better in the future.



Julie, Kelly, Annie, Bert, Rishiraj, Sauptak, Ajit, Anshuman, Prutha, Gustav, Mikaela, Anna and Kevin – with the potential and desire to become future leaders at Sandvik.

# ANOTHER STEP CLOSER TO ZERO INJURIES

**Despite a significant improvement to the Group's lost time injury frequency rate (LTIFR) in recent years, Sandvik's safety work remains a top priority. Several campaigns were introduced in 2014 to increase employee awareness in the area. The goal is to create an industry-leading safety culture and pass this culture on to our customers and suppliers.**

Given the challenges and risks facing the industries in which we operate, maintaining a safe work

environment must always be a top priority, out of respect for both our employees and our customers. To emphasize our strong focus on this area, we have established a "Zero Harm" vision. We aim to achieve this vision through globalization and localization, in other words, we strive to think globally and act locally. This involves finding ways to more efficiently coordinate and standardize various activities between the business areas, as well as driving innovation in the area. Safety

activities are being integrated into all areas of the Group. If we are to continue on our path to success, it is important that we establish active and visible leadership, a knowledge-sharing corporate culture, strong communication and consistent accountability.

## CAMPAIGNS

The focus of our health and safety strategy is on preventative measures and various activities to change the corporate culture. Several campaigns were carried

### GROUP ENVIRONMENT, HEALTH AND SAFETY (EHS) OBJECTIVES AND TARGETS\*

Objective	Target	Due	Status
All business areas are to develop and implement an approved plan for leveraging EHS as a business advantage.	Each business area is to have implemented its plan.	2015	Implementation according to plan. One business area has reported some delay.
Each manager to will agree, publically declare and implement three personal leadership behaviors related to the environment, health and safety by the end of 2015.	All managers are to achieve the target.	2014	Two business areas have reported some delays. The work will continue and also include all frontline supervisors until the end of 2015.
Eliminate all fatalities and permanently disabling injuries by identifying and controlling extreme potential risk situations.	Implement Major Hazard Standards to control Extreme Potential Hazards.	2015	Progressing according to plan.
Ensure that systems and culture are in place to further reduce the number and severity of work-related injuries, illnesses and other incidents.	All major production-related units will implement the activities in their approved formal safety plan.	2015	Progressing according to plan.
	All other units will implement their general safety plans to ensure a strong safety culture throughout the company.	2015	Progressing according to plan.
	Achieve a Lost Time Injury Frequency Rate (LTIFR) of 2.4.	2014	The LTIFR at year-end was 2.5, which represented a 22% improvement.
To have all employees working in a culture and environment that support their health and well-being.	All employees are to have continued access to a health and well-being program through their own Sandvik company.	2013–2015	When surveyed, over 90% of the sites reported that they had access to a health and well-being program in 2014.
	Most employees should perceive the program on offer to be effective.	2013–2015	When surveyed, over 50% perceived their program as effective, with a slight deviation in one business area.

\* The Group's specific environmental targets are presented on page 28.

out in the business areas during the year, mainly with the aim of reducing the number of crush injuries in production operations. These campaigns, collectively referred to as the "Hands and Fingers" campaign, have helped to improve awareness and consequently reduce the injury frequency rate. At Sandvik Mining, an extensive training program known as "Speaking Safety" was initiated for mining equipment sales personnel. Based on the Group's strong safety culture, the program helps sales personnel to feel more comfortable communicating about products' safety solutions with customers and regard this as a sales advantage.

In parallel with these measures and activities, we monitor performance indicators that reveal the outcome of the work performed, including the LTIFR. Information about safety activities is always included in Sandvik's quarterly reports in order to emphasize the importance of this work for stakeholders.

### TWO FOCUS AREAS

Our safety work primarily focuses on two overall areas. The aim of the first focus area is to identify the risks, even where the risk is extremely small, but with the worst consequence scenarios, and to eliminate or, if this is not possible, control these risks. All business areas conduct ongoing safety assessments to identify potential extreme risks and implement systems for monitoring and minimizing these risks.

The aim of the second focus area is to reduce the number of accidents and work-related illnesses. We have increased our efforts in relation to measuring and monitoring the effect of preventative activities using key indicators. All production units with more than 25 employees are to be certified in accordance with OHSAS 18001 within two years of acquisition or establishment. The aim of our health objective is to ensure that all employees work in a culture and environment that supports their health and well-being. The Group

conducts regular health check-ups and closely monitors individuals who may, for example, be exposed to hazardous materials such as cobalt and nickel.

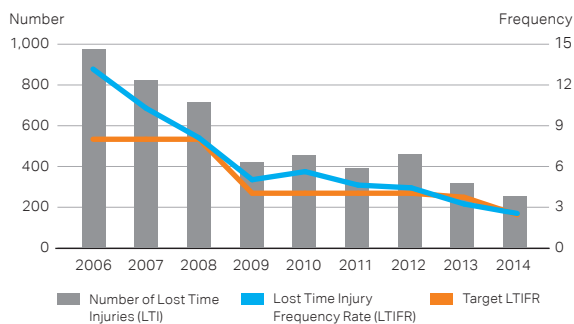
### A POSITIVE YEAR

Compared with the tragedies experienced in 2013, when three people lost their lives while working at Sandvik, 2014 was a significantly more positive year with no fatalities. The initiatives we have taken played an important role in this result, including our continued risk identification efforts, which helped to minimize the risk of fatalities and other serious incidents.

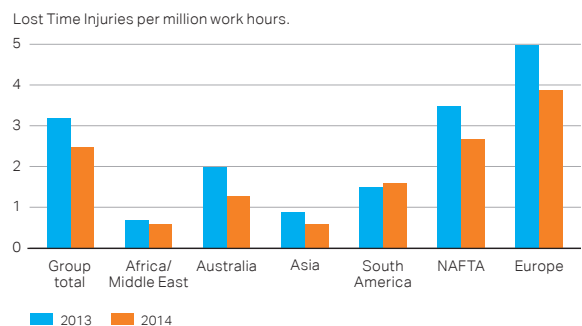
### REDUCED LTIFR

Although we are pleased to report a positive, long-term LTIFR trend, we will continue to implement further improvement measures. We are already working to strengthen our existing safety systems, implementing campaigns and expanding our focus on active and visible leadership, all with the aim of changing our corporate culture and our

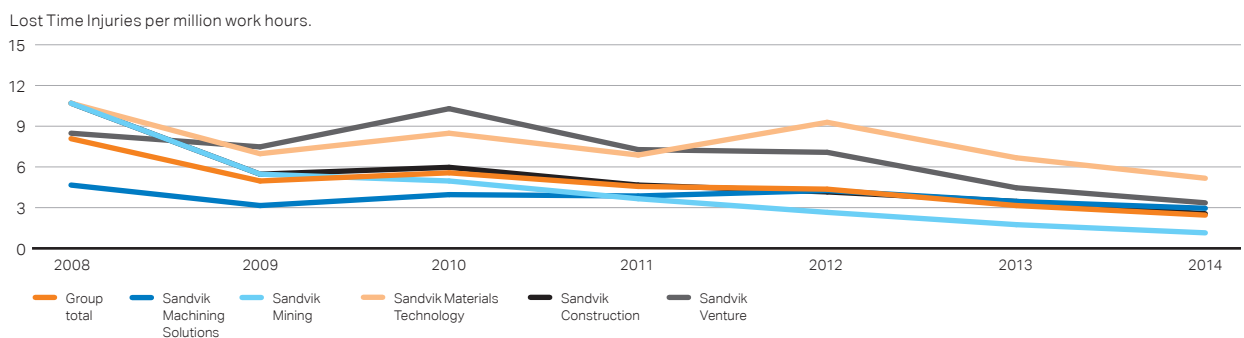
LTI AND LTIFR, 2006–2014



LTIFR BY MARKET AREA, 2013–2014



LTIFR BY BUSINESS AREA, 2008–2014



employees' behavior. In 2014, the LTIFR was reduced in all business areas. The Group's LTIFR has improved 43% over the course of only three years, amounting to 2.5 at year end, which represented a 22% improvement compared with the preceding year. Although we cannot expect this significant positive change to be repeated in forthcoming years, we have the scope to further reduce the number of incidents and bring us one step closer to our vision of zero harm. Certain regions have demonstrated a particular potential for improvement. As in earlier years, the markets in Asia and Africa reported the lowest LTIFR, while lost time injury rates in Europe remain relatively high. If we are to succeed in achieving a significant reduction in LTIFR, it is particularly important that we continue to improve our internal safety culture. To further strengthen our focus on safety work, we reduced the Group's LTIFR target for 2015 to 1.9. As part of Sandvik's 2020 strategy, the LTIFR is one of four Group key indicators that we carefully monitor to ensure that our work is progressing in the right direction. The 2020 goal for the company is to reach LTIFR<1.

### BROADSCALE MONITORING PROCEDURES

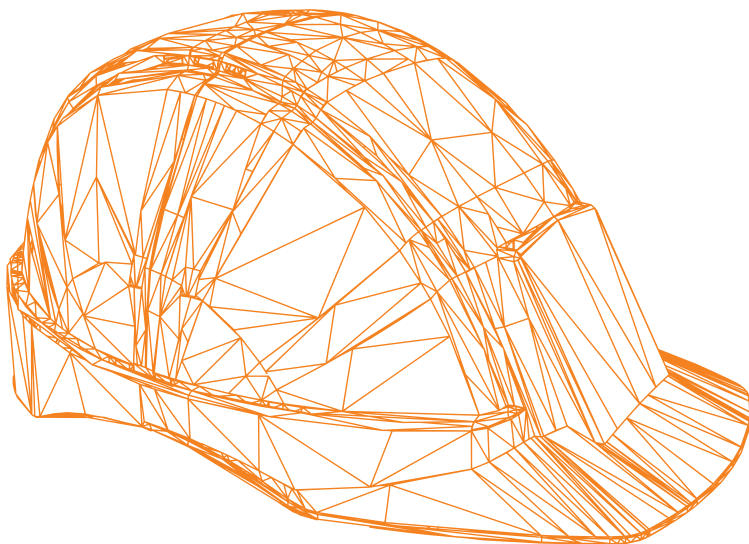
To ensure that our safety measures generate results across a broad front, it is crucial that we monitor all incident categories within the company and not only those that result in lost time, such as LTIFR. In 2013, Sandvik conducted its first follow-up of incidents within the Group that lead to alternative work tasks for the injured individual or incidents that require medical treatment. The number of incidents in this category per million hours worked, referred to as total recordable injuries or TRI, amounted to 8.7 in 2013 and decreased to 6.4 in 2014. The year-on-year improvement was a result of a healthy reduction in the number of injuries in all categories. In total, we reduced the number of recordable injuries by more than 200 between the years. The long-term objective is to establish a positive trend for this performance indicator. Although it is too early to discern a trend after monitoring this performance indicator for only two years in all parts of the company, having access to this data and an effective reporting procedure in place has enabled us to further improve our monitoring of incidents throughout the Group.

### HEALTH AND WELL-BEING

We aim to improve the health and well-being of our employees. The objective is to ensure that employees see their work and leisure time as meaningful, and to enable them to achieve a good work/life balance. All employees should have access to a health and well-being program that is adapted to their local conditions. Group-wide guidelines are in place to assist sites in creating and implementing such programs, while local adaptation and organization of these programs is delegated to local management, and monitored as part of the site plan developed for the plant in question. Since the programs are adapted at the local level and significant differences exist between units, it is difficult to assess the effectiveness of the programs. Accordingly, we plan to intensify our monitoring of these programs during 2015.

### EBOLA

The Ebola outbreak in West Africa is causing concern. At Sandvik, we are working closely with our health and safety teams to ensure the health and well-being of our staff and business continuity. Of the affected countries, Sandvik has a presence in Nigeria and the Democratic Republic of Congo. The control measures that were implemented resulted in no Sandvik employee being directly affected by the outbreak in 2014. Although public reports suggest that the risk associated with the outbreak is declining, Sandvik will keep the control measures in place until there is an official announcement that the outbreak is over.







Sandvik employees at Elko, Nevada, celebrating safety records.

## SAFETY MILESTONES IN THE US

Safety is our top priority at Sandvik and our safety performance across the organization continued to improve during 2014, with more than 80 of Sandvik Mining's locations reaching the milestone of lost time injury (LTI) free for more than one year. Some plant locations have achieved seven years and some smaller contract locations have gone as many as ten years without recording an LTI.

In the US, three locations – the sales areas of Brier Hill (Pennsylvania), Elko (Nevada) and Spokane (Washington) with a total of 105 employees – have been LTI free for a period of five to seven years, while the Alachua (Florida) Production Unit, with more than 100 employees, has recorded one year without

an LTI and recordable injuries. These achievements demonstrate a culture and a work ethic where everyone looks after themselves and each other.

"We have been working hard throughout the country to increase focus on preventative efforts, recognizing and understanding risks, and improving our safety culture. The achievements reached this year illustrate that these efforts are worthwhile and our teams are committed," says Carolyn Nestle, EHS (environment, health and safety) Area Manager, Sandvik Mining USA.

The accomplishments are not taken lightly, but are celebrated and encouraged as part of the company culture. Sandvik places high impor-

tance on training of both its employees and customers who work with equipment, since we recognize this as one of the most positive methods for helping to prevent accidents.

A safety culture based on communication and accountability has created an engaged workforce, a safer environment for everyone and has strengthened the value of EHS as a business advantage.

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# 2,560

**Approximately 2,560 days, or seven years, without a lost time injury.**

# WE ENGAGE IN COMMUNITIES AROUND THE WORLD

**Our culture, based on our core values – Customer Focus, Innovation, Fair Play and Passion to Win – is deeply rooted in the company's history and essential for Sandvik's rapid and successful international expansion. Being a truly global company, we impact many of the communities in which the Group operates.**

We always strive to act as a good corporate citizen and have a positive influence on the many communities around the world. The Group often comprises a large part of the community and has a number of stakeholders who are impacted by the company in various ways.

## IT'S A DUAL INVESTMENT

Community involvement represents a dual investment, both in the development of a sustainable company, and in the development

of the communities where we are present. For the company, this contributes, for example, to a good reputation and generates loyalty for Sandvik, both in the community and among employees. We also see a direct link between, for example, vocational training programs and potential future employees, particularly in countries where there is a lack of technical expertise. For the community, this increases the level of education and thereby development opportunities for the country in question. Education is one example of efficient ways to combat poverty.

## CLEAR POLICY ON COMMUNITY INVOLVEMENT

We believe that decisions regarding our community involvement are best made and implemented at the country level where there is true understanding of local needs,

both for the community and for our company. The Group has a policy in place governing community involvement and sponsorship activities. We define community involvement and sponsorships as active partnerships that benefit all parties involved. These partnerships should have measurable targets, be able to report clear results and be linked to the Sandvik brand and core values.

## HEALTH AND EDUCATION PRIORITIZED

In 2014, we supported a range of different community projects around the world. Areas such as health and safety, rights of children and education were prioritized in our various projects to enable innovative capabilities and a sustainable development in the community around us.

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## PROGRAM AGAINST HIV/AIDS

In certain countries, the community and working life is marked by the presence of serious transmittable diseases. Since 2005, Sandvik has been working with programs to combat HIV/AIDS and other diseases among our workers, their families and customers in the southern regions of Africa. The programs are assisted by the Swedish Workplace HIV and AIDS Programme (SWHAP), a joint initiative by the International Council

of Swedish Industry (NIR) and the Swedish Industrial and Metal-worker's Union (IF Metall). SWHAP provides support for HIV and Wellness workplace programs in almost 300 workplaces in Botswana, Democratic Republic of Congo, Kenya, Namibia, Rwanda, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. During 2014, almost 30,000 employees of various companies in the region benefited from participation in the program.

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# 30,000

**SWHAP provides support to almost 30,000 employees from various companies in the region.**



Candice Riekert (left) is a Learning Administrator. Thandeka Mathebula (middle) and Michael Pipi (right) have both taken part in the apprentice program.

## SKILLING UP FOR THE FUTURE

South Africa is a major market for Sandvik Mining, but finding enough skilled workers to support growth has been a challenge in recent years. Through an internal analysis in 1998, we identified a real need for mechanical, diesel and electrical artisan skills, and this led to a dedicated apprentice program.

Vusi Mnguni, who heads the program, says the company did more than just look at workforce planning and the skill shortages to determine what was needed to bridge the gap.

"We also went into the community to look at what difference we could make and find people with the right potential, train them and help them grow. The overall aim was to give Sandvik the competitive edge

in the market, making sure that we placed the best people where needed," says Vusi Mnguni.

More than 760 apprentices have undergone training since the program started in 2001. The mechanics who are being trained by Sandvik have a specific focus on mechanized mining. Many apprentices have been promoted to supervisory and specialist-level positions over the years after they completed the program.

"The Sandvik apprentice program is one of the company's strategic actions that show how investing in people to increase their skills will result in enhanced productivity and profitability, not only for Sandvik but also for the wider mining industry," Vusi Mnguni concludes.

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# 760

**Apprentices have undergone training.**



## KEY FIGURES

FINANCIAL KEY FIGURES	UNIT	2014	2013	2012	2011	2010	2009	2008	2007
Economic value, generated and distributed									
Sales	MSEK	88,821	87,328	98,529	94,084	82,654	71,937	92,654	86,338
Manufacturing costs	MSEK	49,717	50,507	56,161	56,054	44,758	46,859	53,287	48,343
Employee wages and benefits	MSEK	24,964	23,599	24,907	24,014	22,885	22,441	23,129	20,562
Payments to providers of capital	MSEK	6,251	6,279	6,056	5,776	2,805	5,986	7,328	5,604
Payments to governments	MSEK	1,797	3,937	3,180	3,173	2,391	885	2,876	4,167
Retained in company	MSEK	6,092	3,006	8,225	5,067	9,815	-4,234	6,034	7,662

WAGES, SALARIES, OTHER REMUNERATION AND SOCIAL COSTS	UNIT	GROUP		PARENT COMPANY	
		2014	2013	2014	2013
Wages, salaries and other remuneration	MSEK	19,620	18,632	3,948	3,840
Social costs	MSEK	5,231	4,938	1,882	1,755
Employee profit sharing	MSEK	113	29	96	24
<b>Total</b>	<b>MSEK</b>	<b>24,964</b>	<b>23,599</b>	<b>5,926</b>	<b>5,619</b>
Of which, pension costs recognized in social costs	MSEK	1,703	1,700	661	628

ENVIRONMENTAL KEY FIGURES	UNIT	2014	2013	2012	2011	2010	2009	2008	2007
<b>Metallic raw materials</b>	Thousand metric tons	328	341	318	352	359	252	350	399
Of which recovered	%	80	81	81	80	81	78	79	78
<b>Energy consumption</b>	TJ	8,808	9,061	8,905	9,131	9,112	7,520	8,885	8,755
Change	%	-3	2	-2	0	21	-15	1	8
Non-renewable fuel	TJ	3,153	3,350	3,391	3,691	3,911	2,957	3,358	3,349
Electricity, heating and cooling purchased	TJ	5,694	5,748	5,514	5,440	5,201	4,563	5,527	5,406
Electricity, heating and cooling sold	TJ	-39	-37	—	—	—	—	—	—
<b>Energy intensity</b>	MJ per worked hour	87	91	84	—	—	—	—	—
Change	%	-4	8	—	—	—	—	—	—
<b>Water consumption</b>	Thousand m <sup>3</sup>	7,832	8,193	8,488	8,414	8,998	7,077	6,626	6,837
Change	%	-4	-3	1	-6	27	7	-3	0
Of which, municipal water	Thousand m <sup>3</sup>	2,999	3,162	3,232	3,379	3,437	3,202	3,597	3,521
Of which, groundwater	Thousand m <sup>3</sup>	681	667	715	617	601	547	528	538
Of which, surface water	Thousand m <sup>3</sup>	4,102	4,312	4,496	4,377	4,914	3,326	2,497	2,730
Of which, rain	Thousand m <sup>3</sup>	50	52	45	41	46	2	4	48
<b>Water intensity</b>	Liter per worked hour	78	82	80	—	—	—	—	—
Change	%	-6	3	—	—	—	—	—	—
<b>CO<sub>2</sub> emissions</b>	Thousand tons	385	384	523	538	559	479	566	547
Change	%	0	-26	-3	-4	17	-15	3	16
Direct emissions, from fossil fuels	Thousand tons	202	216	220	242	260	195	224	226
Indirect emissions, from electricity	Thousand tons	183	168	303	296	299	284	342	321
<b>CO<sub>2</sub> emission intensity</b>	g CO <sub>2</sub> per worked hour	3,808	3,866	4,938	—	—	—	—	—
Change	%	-2	-22	—	—	—	—	—	—
<b>Waste</b>	Thousand tons	370	380	352	433	417	280	166	171
Change	%	-3	8	-19	4	49	69	-3	14
Breakdown 2007–2013									
Of which, hazardous	Thousand tons	—	38	35	36	34	27	32	28
Of which to landfill	Thousand tons	—	307	292	366	358	231	109	105
Breakdown 2014									
Hazardous waste to recovery	Thousand tons	14	—	—	—	—	—	—	—
Hazardous waste to other disposal	Thousand tons	21	—	—	—	—	—	—	—
Non-hazardous waste to recovery	Thousand tons	31	—	—	—	—	—	—	—
Non-Hazardous waste to other disposal	Thousand tons	304	—	—	—	—	—	—	—
<b>Emissions of process water</b>	Thousand m <sup>3</sup>	2,078	2,090	1,972	2,265	2,166	1,427	—	—
Change	%	-1	6	-13	5	52	—	—	—
<b>Emissions to air</b>									
NM VOC	kg	61,000	64,000	66,000	61,000	62,000	65,000	—	—
SO <sub>2</sub>	kg	34,000	39,000	42,000	71,000	69,000	45,000	—	—
NO <sub>x</sub>	kg	338,000	351,000	354,000	380,000	441,000	379,000	—	—

ENVIRONMENTAL KEY FIGURES	UNIT	2014	2013	2012	2011	2010	2009	2008	2007
<b>Emissions to water</b>									
Nitrogen	kg	261,000	269,000	285,000	329,000	379,000	201,000	—	—
Phosphorous	kg	37,100	32,800	20,700	12,400	1,300	1,400	—	—
COD	kg	195,000	208,000	259,000	170,000	201,000	172,000	—	—
Nickel	kg	280	200	280	210	180	680	—	—
Chromium	kg	140	100	140	80	60	70	—	—

SOCIAL KEY FIGURES	UNIT	2014	2013	2012	2011	2010	2009	2008	2007
<b>People</b>									
Total number of employees	FTE	47,318	47,338	48,742	50,030	47,064	44,355	50,028	47,123
Of whom, women	%	19.4	19.1	18.5	17.9	17.6	17.2	16.9	17.0
FTEs	%	98	97	—	—	—	—	—	—
Of whom, women	%	18	—	—	—	—	—	—	—
Part-time employees	%	2	3	—	—	—	—	—	—
Of whom, women	%	59	—	—	—	—	—	—	—
Contracted employees	FTE	1,776	3,524	—	—	—	—	—	—
<b>LTIFR</b>	Number of LTIs per million hours worked	2.5	3.2	4.4	4.6	5.6	5.0	8.1	10.3
<b>TRIFR</b>	Number of TRIs per million hours worked	6.4	8.7	—	—	—	—	—	—

		EUROPE	NAFTA	SOUTH AMERICA	AFRICA/ MIDDLE EAST	ASIA	AUSTRALIA
<b>Employees by market area</b>	FTE	25,832	6,749	2,635	2,654	8,033	1,415

		SANDVIK MACHINING SOLUTIONS	SANDVIK MINING	SANDVIK MATERIALS TECHNOLOGY	SANDVIK CONSTRUCTION	SANDVIK VENTURE	GROUP ACTIVITIES	TOTAL
<b>Employees by business area</b>	FTE	18,927	11,815	6,914	2,815	4,074	2,773	47,318
Total share of women	%	19.9	14.0	17.7	15.6	16.7	46.9	19.4
Women in management positions	%	14.8	12.1	16.8	11.5	13.3	36.9	16.4

			GENDER		AGE STRUCTURE		
			SHARE OF WOMEN	UNDER 30	30-50	ABOVE 50	
<b>Composition of Board and Group Executive Management and breakdown of other employees</b>	%	Board of Directors		18.2	0	27.3	72.7
	%	Group Executive Management		33.3	0	75	25
	%	Management		16.4	2	69.9	28.1
	%	Other employees		19.9	15.4	59.1	25.4

		2014	2013	2012	2011	2010	2009	2008
<b>New employee hires and employee turnover</b>								
New employee hires per year	Total number	3,293	—	—	—	—	—	—
Of whom, women	%	22	—	—	—	—	—	—
Employee turnover per year	%	10	12	11	8	8	14	10

		MEN	WOMEN
Employee turnover by gender	%	10	9

		UNDER 30	30-50	ABOVE 50
New employee hires by age	Total number	1,179	1,847	267
Employee turnover by age	%	11	9	12



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G4-27	Topics and concerns raised through stakeholder engagement.	16-18	
<b>Reporting profile</b>			
G4-28	Reporting profile.	Inside front cover.	
G4-29	Date of most recent report.	Inside front cover.	
G4-30	Reporting cycle.	Inside front cover.	
G4-31	Contact point for questions regarding the report.	Inside back cover.	
G4-32	GRI content index.	48-49	
G4-33	External assurance.	Inside front cover, 51-52	
<b>Governance</b>			
G4-34	Governance structure of the organization.	10-13	
<b>Ethics and integrity</b>			
G4-56	Values, principles, standards and norms of behaviour.	8, 11-12	

## SPECIFIC STANDARD DISCLOSURES

		PAGE	COMMENTS AND OMISSIONS
<b>COMPLIANCE (ANTIBRIBERY AND ANTICORRUPTION, TRADE, DATA PRIVACY)</b>			
ECONOMIC IMPACT	<b>Anticorruption</b>		10-13, 15, 24, 44
	SO3	DMA Total number and percentage of operations assessed for risks related to corruption and the significant risks identified.	15, 24
	SO4	Communication and training on anti-corruption policies and procedures.	24
	<b>Compliance (environment)</b>		10-13
	EN29	DMA Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	AR: 118
	<b>Compliance (product)</b>		10-13
	PR9	DMA Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	AR: 118
	<b>Compliance (social)</b>		10-13
	SO8	DMA Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	AR: 118

			PAGE	COMMENTS AND OMISSIONS
ECONOMIC IMPACT (CONTINUED)	<b>SUSTAINABLE SUPPLIER MANAGEMENT</b>			
	<b>Child labor</b>	DMA	10–13, 15, 26, 27	
	HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures to contribute to the effective abolition of child labor.	26, 27	
	<b>Forced and compulsory labour</b>	DMA	10–13, 15, 26, 27	
	HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to elimination of all forms of forced or compulsory labor.	26, 27	
	<b>Supplier assessment for human rights</b>	DMA	10–13, 15, 26, 27	
	HR10	Percentage of new suppliers that were screened using human rights criteria.	26, 27	Percentage not available.
ECONOMIC IMPACT (CONTINUED)	<b>Supplier assessment for labour practices</b>	DMA	10–13, 15, 26, 27	
	LA15	Percentage of new suppliers that were screened using labor practices criteria.	26, 27	Percentage not available.
	<b>Supplier assessment for Impacts on Society</b>	DMA	10–13, 15, 26, 27	
	SO9	Percentage of new suppliers that were screened using criteria for impacts on society.	26, 27	Percentage not available.
ECONOMIC IMPACT (CONTINUED)	<b>Supplier assessment for environment</b>	DMA	10–13, 15, 26, 27	
	EN32	Percentage of new suppliers that were screened using environmental criteria.	26, 27	Percentage not available.
ENVIRONMENTAL IMPACT	<b>ENERGY, EMISSIONS (CO<sub>2</sub>) AND CLIMATE CHANGE</b>			
	<b>Energy</b>	DMA	10–13, 15, 28–31	
	EN3	Energy consumption within the organization.	30–31, 46, 51	Data not divided by type.
	EN5	Energy intensity.	46	
	<b>Emissions</b>	DMA	10–13, 15, 28–31	
	EN15	Direct greenhouse gas emissions.	30–31, 46, 51	No data on biogenic CO <sub>2</sub> emissions.
	EN16	Energy indirect greenhouse gas emissions.	30–31, 46, 51	
	EN18	Greenhouse gas emissions intensity.	46	
	EN21	NO <sub>x</sub> , SO <sub>2</sub> , and other significant air emissions.	31, 46, 51	No data on POP, HAP, or PM.
	<b>USE, REUSE, AND RECYCLING OF MATERIALS AND NATURAL RESOURCES</b>			
	<b>Materials</b>	DMA	10–13, 15, 28, 32–33	
	EN1	Materials used by weight or volume.	32, 46	No data available on packaging material.
	EN2	Percentage of materials used that are recycled input materials.	32, 34, 46	
<b>Water</b>	DMA	10–13, 15, 28, 32		
EN8	Total water withdrawal by source.	32, 46		
<b>Waste</b>	DMA	10–13, 15, 28, 32–33		
EN23	Total weight of waste by type and disposal method.	33, 46	No detailed information on disposal method.	
SOCIAL IMPACT	<b>DIVERSITY AND INCLUSION</b>			
	<b>Diversity and equal opportunity</b>	DMA	10–13, 35–38	
	LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.	47	
SOCIAL IMPACT	<b>HEALTH AND SAFETY</b>			
	<b>Occupational health &amp; safety</b>	DMA	10–13, 35, 40–44	
	LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender.	41–42, 47, 51	Data by gender not available.
SOCIAL IMPACT	<b>TALENT ATTRACTION, DEVELOPMENT AND RETENTION</b>			
	<b>Employment</b>	DMA	10–13, 35–38	
	LA1	Total number and rates of new employees hires and employee turnover by age group, gender, and region.	38, 47	Data by region not available.
SOCIAL IMPACT	<b>Training and education</b>	DMA	10–13, 35–38	
	LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category.	37	Data by gender and employee category not available.

# GLOBAL COMPACT INDEX

GLOBAL COMPACT SCOPE OR PRINCIPLE	CRITERIA FOR GLOBAL COMPACT ADVANCED LEVEL	REFERENCE TO SUSTAINABLE BUSINESS REPORT
Implementing the Ten Principles into Strategies and operations.	<p><b>Criterion 1:</b> The COP describes mainstreaming into corporate functions and business units.</p> <p><b>Criterion 2:</b> The COP describes value chain implementation.</p>	<p>Shaping a sustainable future</p> <p>Integrated risk management</p> <p>Developing our sustainable supplier management</p> <p>Zero tolerance toward all forms of bribery and corruption</p> <p>Environmental impact</p> <p>We (re-)use and recycle</p>
<p><b>Principle 1:</b> Businesses should support and respect the protection of internationally proclaimed human rights; and</p> <p><b>Principle 2:</b> make sure that they are not complicit in human rights abuses.</p>	<p><b>Criterion 3:</b> The COP describes robust commitments, strategies or policies in the area of human rights.</p> <p><b>Criterion 4:</b> The COP describes effective management systems to integrate the human rights principles.</p> <p><b>Criterion 5:</b> The COP describes effective monitoring and evaluation mechanisms of human rights integration.</p>	<p>Shaping a sustainable future</p> <p>Integrated risk management</p> <p>Social impact</p> <p>Developing our sustainable supplier management</p>
<p><b>Principle 3:</b> Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;</p> <p><b>Principle 4:</b> the elimination of all forms of forced and compulsory labour.</p> <p><b>Principle 5:</b> the effective abolition of child labour.</p> <p><b>Principle 6:</b> the elimination of discrimination in respect of employment and occupation.</p>	<p><b>Criterion 6:</b> The COP describes robust commitments, strategies or policies in the area of labor.</p> <p><b>Criterion 7:</b> The COP describes effective management systems to integrate the labor principles.</p> <p><b>Criterion 8:</b> The COP describes effective monitoring and evaluation mechanisms of labor principles integration.</p>	<p>Shaping a sustainable future</p> <p>Integrated risk management</p> <p>A performance-based culture</p> <p>Developing our sustainable supplier management</p>
<p><b>Principle 7:</b> Businesses should support a precautionary approach to environmental challenges;</p> <p><b>Principle 8:</b> undertake initiatives to promote greater environmental responsibility; and</p> <p><b>Principle 9:</b> encourage the development and diffusion of environmentally friendly technologies.</p>	<p><b>Criterion 9:</b> The COP describes robust commitments, strategies or policies in the area of environmental stewardship.</p> <p><b>Criterion 10:</b> The COP describes effective management systems to integrate the environmental principles.</p> <p><b>Criterion 11:</b> The COP describes effective monitoring and evaluation mechanisms for environmental stewardship.</p>	<p>Shaping a sustainable future</p> <p>Integrated risk management</p> <p>Leading development of tomorrow's solutions</p> <p>Environmental impact</p> <p>Climate impact, energy consumption and emissions</p> <p>We (re-)use and recycle</p>
<p><b>Principle 10:</b> Businesses should work against corruption in all its forms, including extortion and bribery.</p>	<p><b>Criterion 12:</b> The COP describes robust commitments, strategies or policies in the area of anticorruption.</p> <p><b>Criterion 13:</b> The COP describes effective management systems to integrate the anti-corruption principle.</p> <p><b>Criterion 14:</b> The COP describes effective monitoring and evaluation mechanisms for the integration of anticorruption.</p>	<p>Shaping a sustainable future</p> <p>Integrated risk management</p> <p>Zero tolerance toward all forms of bribery and corruption</p>
<p><b>Scope:</b> Taking action in support of broader UN Goals and Issues.</p>	<p><b>Criterion 15:</b> The COP describes core business contributions to UN goals and issues.</p> <p><b>Criterion 16:</b> The COP describes strategic social investments and philanthropy.</p> <p><b>Criterion 17:</b> The COP describes advocacy and public policy engagement.</p> <p><b>Criterion 18:</b> The COP describes partnerships and collective action.</p>	<p>Shaping a sustainable future</p> <p>Creating sustainable value for our stakeholders</p> <p>Zero tolerance toward all forms of bribery and corruption</p> <p>A performance-based culture</p> <p>Leading development of tomorrow's solutions</p> <p>Environmental impact</p> <p>Climate impact, energy consumption and emissions</p> <p>We (re-)use and recycle</p> <p>We engage in communities around the world</p>
<p><b>Scope:</b> Corporate Sustainability Governance and Leadership.</p>	<p><b>Criterion 19:</b> The COP describes CEO commitment and leadership.</p> <p><b>Criterion 20:</b> The COP describes Board adoption and oversight.</p> <p><b>Criterion 21:</b> The COP describes stakeholder engagement.</p>	<p>Letter from the President and CEO</p> <p>Shaping a sustainable future</p> <p>Creating sustainable value for our stakeholders</p>

# REPORTING PRINCIPLES

The reporting of Sandvik's sustainability activities is based on the Swedish Annual Accounts Act, the Swedish Society of Financial Analysts' (SFF) recommendations relating to sustainability and the Global Reporting Initiative (GRI). The scope of the report is somewhat different compared to previous years as a result of the transition from GRI G3 Guidelines to GRI G4 Guidelines (Core level). Some information found in the reports of previous years was not considered material and is therefore not disclosed in this report. The Sustainable Business Report has been reviewed by external auditors in accordance with RevR 6 Assurance of Sustainability Reports issued by Far.

## REPORT SCOPE, BOUNDARY AND CALCULATION METHODS

GRI's guidance on the Reporting Principles of Materiality, Stakeholder inclusiveness, Sustainability context, and Completeness was used to define the content of the report. This Sustainable Business Report refers to the 2014 fiscal year and covers all operations of the Group, including subsidiaries, but excludes associated companies and joint ventures. Sandvik acquired Varel in May 2014. Regarding the scope of this report, Varel is included in all EHS figures and financial figures as well as in employee statistics derived from the financial reporting system.

Employee statistics regarding age, turnover, new employees, part time/full time and gender are derived from the Group's common

HR system, which covers 94% of Sandvik employees. These figures are compiled on a yearly basis. Financial figures and employee statistics not stated above are derived from our financial reporting system. EHS data is derived from our EHS reporting system in which reporting is conducted on a monthly basis for safety-related indicators and on a quarterly basis for the areas relating to environmental key figures. Supplementary data is collected and compiled manually once a year, and thus the quality of the data is subject to a higher level of uncertainty. These figures are rounded to a greater degree to manage this higher level of uncertainty. EHS data and statistics from our financial reporting system cover all operations. In the event of further limitations in the report, these are indicated in the text.

The calculations of CO<sub>2</sub> emissions do not include emissions from the transport of raw materials and finished products or travel. In most cases, when calculating CO<sub>2</sub> emissions related to the generation of electricity, factors were obtained from the suppliers of the plant electricity. In other cases, factors from the International Energy Agency Data Services were used. For the majority of the European sites, the emission factor is zero, with reference to the European Guarantees of Origin scheme. Waste data reporting was changed in 2014, and is now broken down by a) hazardous or non-hazardous and b) sent to recovery (recovery, reuse or recycling) or to other disposal.

Previous waste data was reported as total waste plus a) of which hazardous and/or b) of which sent to landfill. As a consequence of the change, this year's detailed data can only be used for indicative comparison with the old data. However, it is possible to compare total waste between the years.

From 2012, the calculation method for LTI and LTIFR is based on actual working hours and includes contracted personnel. The previous assumption was 2,000 hours/person/year, and included only employees.

Figures were rounded in certain cases, meaning that the tables and calculations do not always tally exactly. The percentage changes stated in the report are based on actual figures, meaning that they are not based on rounded figures. The key figures compiled are based on information available at the date of the most recent year-end accounts, which may entail that historical figures have been adjusted.

The Group's results in relation to its objectives are measured using relevant performance indicators and key figures. The figures presented are the accumulated figures for 2014 for all active reporting units, unless otherwise stated.

# AUDITOR'S REPORT

## AUDITOR'S LIMITED ASSURANCE REPORT ON SANDVIK'S SUSTAINABLE BUSINESS REPORT

To Sandvik AB

### INTRODUCTION

We have been engaged by the Group Executive Management of Sandvik to undertake a limited assurance engagement of Sandvik's Sustainable Business Report for the year 2014.

### RESPONSIBILITIES OF THE GROUP EXECUTIVE MANAGEMENT FOR THE SUSTAINABLE BUSINESS REPORT

The Group Executive Management are responsible for the preparation of the Sustainable Business Report in accordance with the applicable criteria, as explained on page 51 in the Sustainable Business Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) which are applicable to the Sustainable Business Report, as well as the accounting and calculation principles that Sandvik has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainable Business Report that is free from material misstatements, whether due to fraud or error.

### RESPONSIBILITIES OF THE AUDITOR

Our responsibility is to express a conclusion on the Sustainable Business Report based on the limited assurance procedures we have performed.

We conducted our limited assurance engagement in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainable Business Report, and applying analytical and other limited assurance procedures. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion. Our procedures are based on the criteria defined by the Group Executive Management as described above.

We consider these criteria suitable for the preparation of the Sustainable Business Report.

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

### CONCLUSION

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainable Business Report, is not prepared, in all material respects, in accordance with the criteria defined by the Group Executive Management.

Stockholm, March 20, 2015

KPMG AB

Joakim Thilstedt  
Authorized Public Accountant

Jenny Fransson  
Expert Member of FAR



Do you have any comment on our Sustainable Business Report,  
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