ATLAS COPCO
Annual report 2016

Atlas Copco believes in...

... delivering innovative products, reliable services and profitable growth while being a responsible corporate citizen. This annual report reflects Atlas Copco's mission of creating sustainable, profitable growth and it integrates financial, sustainability and governance information in order to describe Atlas Copco in a comprehensive and cohesive manner.

CONTENTS

● *MARKED WITH BLUE*

The audited annual accounts and consolidated accounts can be found on pages 14–48 and 56–124. The corporate governance report examined by the auditors can be found on pages 56–65.

● *MARKED WITH GREEN*

Sustainability information that has been reviewed by the auditors can be found on pages 10–13, 42–53 and 129–135.

NEW BUSINESS AREA ANNOUNCED

Vacuum Technique business area, operational from January 1, 2017.

See page 25

Detail from front page:
An Edwards nEXT turbomolecular vacuum pump is being checked after leak test prior to fitting to the final test station.

RECORD PROFIT, ORDERS AND STRONG CASH FLOW

See page 16–18

NOTICE

The amounts are presented in MSEK unless otherwise indicated and numbers in parentheses represent comparative figures for the preceding year. The figures presented in this report refer to continuing operations unless otherwise stated.

FORWARD-LOOKING STATEMENTS

Some statements in this report are forward-looking, and the actual outcomes could be materially different. In addition to the factors explicitly discussed, other factors could have a material effect on the actual outcomes. Such factors include, but are not limited to, general business conditions, fluctuations in exchange rates and interest rates, political developments, the impact of competing products and their pricing, product development, commercialization and technological difficulties, interruptions in supply, and major customer credit losses.

Atlas Copco AB and its subsidiaries are sometimes referred to as the Atlas Copco Group, the Group, or Atlas Copco. Atlas Copco AB is also sometimes referred to as Atlas Copco. Any mention of the Board of Directors or the Board refers to the Board of Directors of Atlas Copco AB.

CONTACTS

Investor Relations

Daniel Althoff, Investor Relations Manager
ir@se.atlascopco.com

Media

Ola Kinnander, Media Relations Manager
media@se.atlascopco.com

Sustainability

Sofia Svingby, Vice President Corporate Responsibility
cr@se.atlascopco.com

Production: Atlas Copco AB,
Griller Grafisk Form AB, Text Helene AB

Print: Hylte Tryck. Prepress: Bildrepro

9853 8376 01 (3 500)

A decentralized group with four business

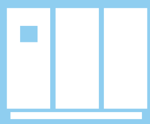
In the third quarter 2016, the Atlas Copco Group announced a fifth business area. The new business area Vacuum January 1, 2017. The vacuum business was part of the Compressor Technique business area in 2016. Below, the Group were operational in 2016 and with restated figures for Compressor Technique and Vacuum Technique, the five business

COMPRESSOR TECHNIQUE

Operational through 2016

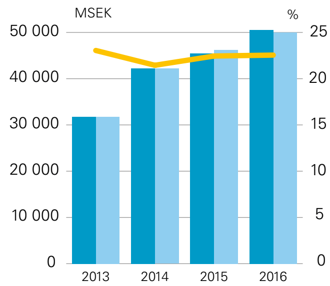
READ MORE ON PAGE 20

Revenues 2016:
MSEK 49 991

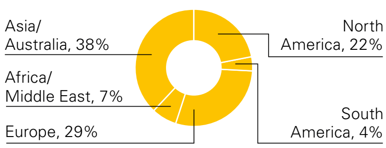


The Compressor Technique business area provides industrial compressors, vacuum solutions, gas and process compressors and expanders, air and gas treatment equipment and air management systems. The business area has a global service network and innovates for sustainable productivity in the manufacturing, oil and gas, and process industries. Principal product development and manufacturing units are located in Belgium, the United States, China, South Korea, Germany, Italy and the United Kingdom.

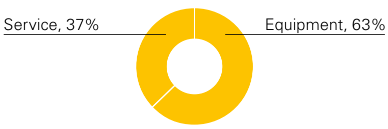
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



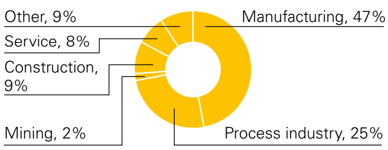
REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED BY CUSTOMER CATEGORY

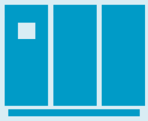


COMPRESSOR TECHNIQUE

Operational from January 1, 2017
(Restated figures)

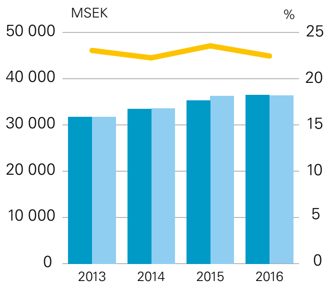
READ MORE ON PAGE 24

Revenues 2016:
MSEK 36 356

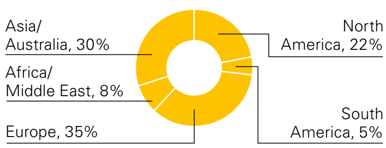


The Compressor Technique business area provides compressed air solutions; industrial compressors, gas and process compressors and expanders, air and gas treatment equipment and air management systems. The business area has a global service network and innovates for sustainable productivity in the manufacturing, oil and gas, and process industries. Principal product development and manufacturing units are located in Belgium, the United States, China, India, Germany and Italy.

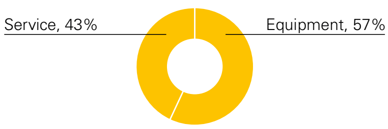
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



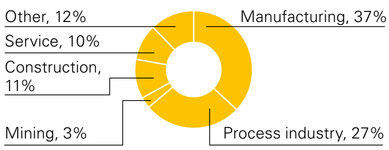
REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED BY CUSTOMER CATEGORY

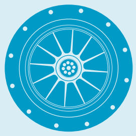


VACUUM TECHNIQUE

Operational from January 1, 2017

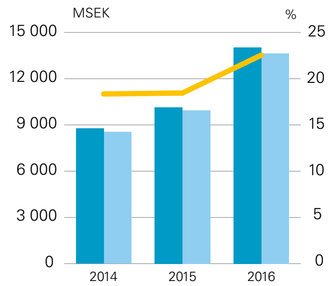
READ MORE ON PAGE 25

Revenues 2016:
MSEK 13 635

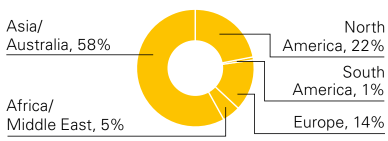


The Vacuum Technique business area provides vacuum products, exhaust management systems, valves and related products mainly under the Edwards, Leybold and Atlas Copco brands. The main markets served are semiconductor and scientific as well as a wide range of industrial segments including chemical process industries, food packaging and paper handling. The business area has a global service network and innovates for sustainable productivity in order to further improve its customers' performance. Principal product development and manufacturing units are located in the United Kingdom, Czech Republic, Germany, South Korea, China and Japan.

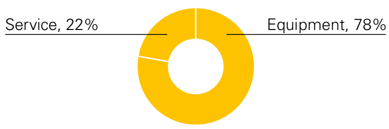
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



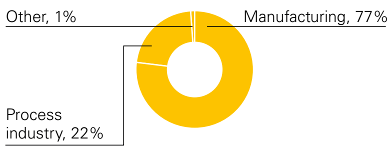
REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED BY CUSTOMER CATEGORY



areas in 2016, and five in 2017

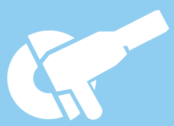
Technique, was operational from
presents the four business areas that
areas that are operational in 2017.

Orders received, MSEK
Revenues, MSEK
Operating margin, %

INDUSTRIAL TECHNIQUE

READ MORE ON PAGE 26

Revenues 2016:
MSEK 15 017

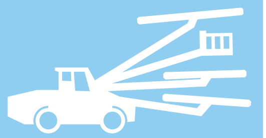


The Industrial Technique business area provides industrial power tools and systems, industrial assembly solutions, quality assurance products, software and service through a global network. The business area innovates for sustainable productivity for customers in the automotive and general industries, maintenance and vehicle service. Principal product development and manufacturing units are located in Sweden, Germany, the United States, United Kingdom, France and Japan.

MINING AND ROCK EXCAVATION TECHNIQUE

READ MORE ON PAGE 30

Revenues 2016:
MSEK 25 043

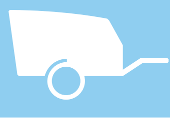


The Mining and Rock Excavation Technique business area provides equipment for drilling and rock excavation, a complete range of related consumables and service through a global network. The business area innovates for sustainable productivity in surface and underground mining, infrastructure, civil works, well drilling and geotechnical applications. Principal product development and manufacturing units are located in Sweden, the United States, Canada, China and India.

CONSTRUCTION TECHNIQUE

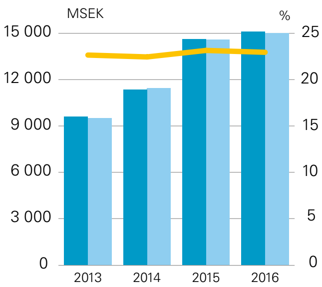
READ MORE ON PAGE 34

Revenues 2016:
MSEK 11 794

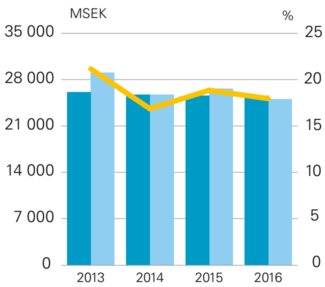


The Construction Technique business area provides construction and demolition tools, portable compressors, pumps and generators, and lighting towers. The business area offers specialty rental and provides service through a global network. Construction Technique innovates for sustainable productivity in infrastructure, civil works, oil and gas, energy and drilling. Principal product development and manufacturing units are located in Belgium, Spain, Sweden, the United States, China, and India.

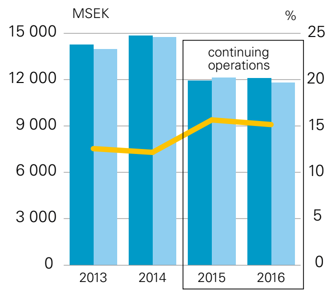
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



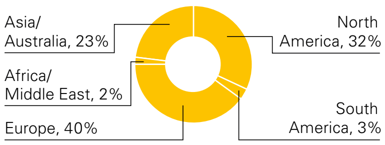
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



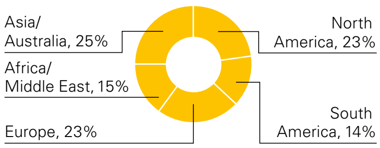
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



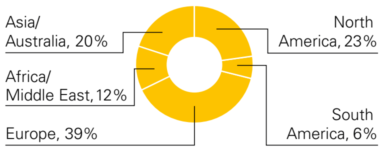
REVENUES BY REGION



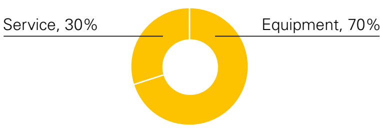
REVENUES BY REGION



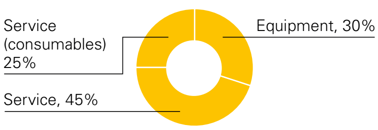
REVENUES BY REGION



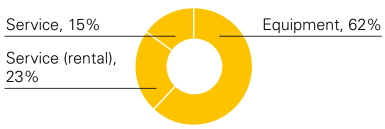
SHARE OF REVENUES



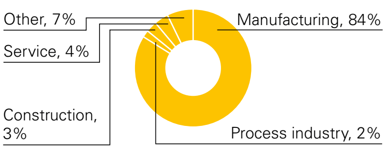
SHARE OF REVENUES



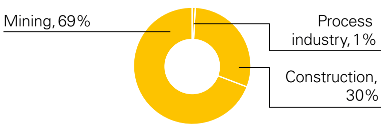
SHARE OF REVENUES



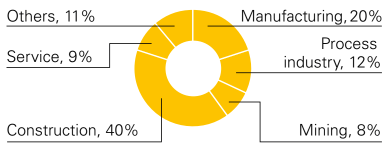
ORDERS RECEIVED BY CUSTOMER CATEGORY



ORDERS RECEIVED BY CUSTOMER CATEGORY



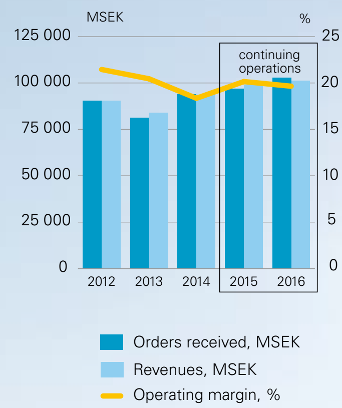
ORDERS RECEIVED BY CUSTOMER CATEGORY



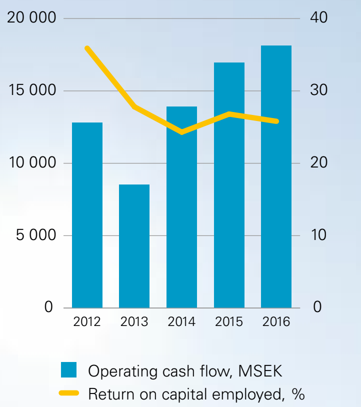
Atlas Copco in 2016

Atlas Copco is a world-leading provider of sustainable productivity solutions. The Group serves customers with innovative compressors, vacuum solutions and air treatment systems, construction and mining equipment, power tools and assembly solutions. Atlas Copco develops products and service focused on productivity, energy efficiency, safety and ergonomics. The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning 180 countries. In 2016, Atlas Copco had revenues of BSEK 101 (BEUR 10.7) and more than 42 000 employees.

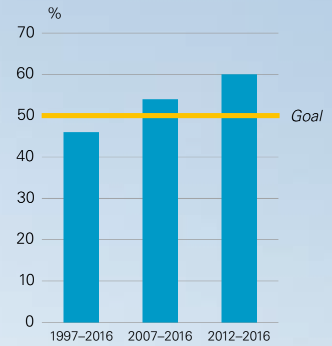
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



OPERATING CASH FLOW AND RETURN ON CAPITAL EMPLOYED*



DIVIDEND/EARNINGS PER SHARE, AVERAGE*



* Including discontinued operations

REVENUES, MSEK, 2016	OPERATING MARGIN, 2016	RETURN ON CAPITAL EMPLOYED, 2016	OPERATING CASH FLOW MSEK, 2016*
101 356	**19.5%**	**+27%**	**18 109**
+2.4%			+6.8%

* Including discontinued operations

The future is on our side

Atlas Copco achieved a strong result for 2016 despite soft conditions in several markets. We continued to focus on increasing customers' productivity with innovative products, services and solutions. We advanced further into the promising area of vacuum solutions and decided as a result to establish a fifth business area. At the same time, we made sure to stay agile and efficient.

The business climate in 2016 was mixed. Our industrial tools, assembly systems, vacuum equipment and industrial compressors saw healthy demand from sectors such as automotive, semiconductors, and general manufacturing. The mining and construction sectors continued to be difficult, largely because of China's slowed economy. Our service business continued to grow, partly driven by digital opportunities that present new smart ways for us to help customers. India, where we have a strong local presence, emerged as Asia's major growth engine. The United States, our biggest market, showed solid demand from automotive and general manufacturing but had a weak oil and gas sector.

Geopolitical issues, such as the United Kingdom's vote to exit the European Union and Brazil's slumping economy created uncertainty, especially for governments' willingness to invest in infrastructure. Still, several broad global trends continued to favor Atlas Copco, not the least the world's drive against climate change – which got a strong push by the Paris Climate Conference agreement reached in late 2015. Making energy-efficient products is an integrated part of our business strategy, and the more customers we help increase productivity the more the environment benefits.

Vacuum on the rise

Atlas Copco's growth will be supported by the overall roll-out in society of the internet of things and the rapidly increasing use of smartphones, flat screens and other high-technology products. These sensitive devices typically require an extremely clean manufacturing environment, especially when semiconductors are involved. That creates the need for advanced vacuum pumps.

In 2014, after concluding that the vacuum technology is close to home for us, we seriously entered that market with the acquisition of Edwards Group. With the acquisitions in 2016 of Leybold and CSK, as well as several smaller vacuum acquisitions, we now have a strong foothold in this business. We have the most complete vacuum portfolio, allowing us to penetrate deeper into all markets, application wise and geographically. To give the vacuum business the best chance to grow we created a dedicated business area, Vacuum Technique, which started at the beginning of 2017.

Standing close to the customers

Our service business continues to make great progress. The decision we took a few years ago to focus more on service and create a devoted service organization in each business area has been rewarding.

“There is always a better way.”

Improved logistics and connectivity that let us monitor our machines remotely play a key role in this development. Service accounts for more than 40% of our revenues. The benefits of having a strong service organization go far beyond generating revenue from machine maintenance and spare parts sales. We learn about the customers' needs and see how they use the equipment in different environments. This strengthens our bond with our customers and gives our research and development engineers invaluable information so we can continue to innovate the best products. Our 13 000 skilled service technicians are our eyes and ears to the market and truly an invaluable resource as we constantly seek to provide customers with smarter solutions.

We strive for servicing virtually all of the equipment we have sold. More and more customers realize they are truly benefiting from letting us, who know the equipment best, do the work. Atlas Copco is transforming more and more from an equipment provider to a service provider. In a sense we are increasingly becoming an insurance company – meaning, we are safeguarding that the equipment will work, allowing the customer to not worry about the machines so they instead can focus on their core business.

Industrialized entrepreneurship

Innovation has been at the core of Atlas Copco since we began our journey in 1873, and we continue to provide groundbreaking technologies that set new industry standards. The long list includes the one-man, one-machine mining method from the 1950s and the variable speed concept for compressors that has cut massive amounts of energy consumption. Today we continue to be a disruptor, for instance with assembly methods that let automotive manufacturers build lighter and thus more energy-efficient vehicles. Another example is battery-operated loaders for underground mines that improve working conditions and the environment as diesel engines are replaced.

> "Customers are truly benefiting from letting us, who know the equipment best, do the service work.

> Atlas Copco is focused on growing in the right market segments, organically and through strategic acquisitions.

We steadily roll out products and services that are more productive, energy efficient, safer and ergonomic. Innovative products launched in 2016 include compressors with unsurpassed efficiency, energy-saving vacuum pumps, tightening tools with enhanced productivity and ergonomics, a powerful mine truck that comes ready with automation, and fuel-efficient and user-friendly portable compressors for construction sites. One emerging trend that Atlas Copco is spearheading is mining automation. By installing autonomous technology on for example our drill rigs, mining companies can operate multiple rigs from a remote location. This saves money for the customers and provides a safe, comfortable work environment for the operators.

If a large company can succeed in having a true entrepreneurial spirit it can reap enormous gains thanks to the support of the broader organization. This support includes financing, technological competences, sales channels, brands and logistics. We strongly believe in this notion, which we call industrialized entrepreneurship. As one sign of our innovative spirit, we have about 6 200 active patents globally representing approximately 2 000 inventions.

The Group's John Munck Award, which rewards major technical innovations, was in 2016 presented to the team that developed a rotary screw vacuum pump that quickly gained popularity with customers. The vacuum pump incorporates much of the celebrated variable speed drive compressor technology. It is a quiet, intelligent and highly efficient machine that consumes only about half the energy of traditional vacuum pumps.

In our private lives, things are rapidly going digital, and this is also the trend for our business. You cannot be a market leader today unless you are on top of the digital world. Digitalization makes our production more efficient and improves our delivery services to customers. It makes us faster, more efficient and agile. It allows traceability for our industrial tools and provides medical gas monitoring alarms in hospitals.

It has also given us new ways to market our products. We are continuously adapting our operational processes by leveraging the digital capabilities.

Doing the right thing

In an unpredictable market and fast-changing world, it is important that we stay asset light and agile. Total capital expenditure in our facilities is low relative to our size. We have found a way to run a lean, efficient operation and we constantly aim to improve. There is always a better way.

In 2016 we revised the key performance indicators and established goals for our non-financial priorities, which help ensure that our profitable growth is sustainable. These priorities are: highest ethical standards, safety and well-being, competent teams, resource efficiency, and innovation. The goals include 100% of managers signing compliance to the Business Code of Practice, zero fatalities, and continued reduction of energy consumption from operations in relation to cost of sales. However, our biggest contribution to a better world is to continue developing the most energy-efficient and productive equipment. Here we are making a real difference.

Our Business Code of Practice, which embraces the UN Guiding Principles on Business and Human Rights, is central to our identity as a company. Working for human rights, improved labor conditions, a better environment and against corruption is not only the ethically correct thing to do but also a natural part of our business model.

Top-class people

Atlas Copco's philosophy on growing talent is simple but effective. We encourage employees to do many different jobs, take on new challenges and continuously learn both through on-the-job training, personal education and courses. Much of what we learn in our early age in school and university quickly gets outdated in the real world, and therefore it is key that we provide our colleagues with opportunities to keep growing. As a result we get a talented, experienced, up-to-date and efficient workforce.

Diversity of the workforce – whether it comes to nationality, gender, age, experience or education – is another success factor. The 420 most senior managers represent 57 nationalities; we are truly using a vast resource of talents from around the world. Our goal is to grow the proportion of women in the Group. Today our ratio of female managers is over 17%, on par with the ratio of female employees. More than 35% of external recruitments of recent graduates are female.

I mentioned digitalization before, and it also supports our employees. For high efficiency and individual flexibility, our employees increasingly get online from wherever they are at any time. Besides direct business-related tools, digitalization also provides online training programs and connects our 45 000 employees around the world.

In January 2017, Mats Rahmström (right) was appointed President and CEO of Atlas Copco AB, as from April 27, 2017. Ronnie Leten (left) will step down as President and CEO of Atlas Copco AB and member of the Board of Directors, with the last day in office April 26, 2017.

"We stand strong today and will continue to do so long into the future.

Strong for the future

Atlas Copco is focused on growing in the right market segments, organically and through strategic acquisitions. We are market leading on innovative products and services, and always strive for operational excellence and having a motivated, entrepreneurial workforce. We achieved a solid result in 2016 despite the mixed market climate, a sign of our resilient business model. Looking into the future, the big global trends are on our side. These trends include population growth and urbanization, which require major infrastructure investments, and the drive toward higher productivity and less emissions. We stand strong today and will continue to do so long into the future.

This January, we announced that Atlas Copco has initiated work in order to propose to the Annual General Meeting 2018 a split of the Group into two listed companies, Atlas Copco and a new company, and to distribute the new company to the shareholders. The new company will focus on mining/civil engineering customers, and Atlas Copco will focus on industrial customers. The two businesses have limited operational synergies, different demand drivers and demand characteristics, and both will benefit from an increased focus. The Board of Directors, including myself, strongly believes that this will benefit customers and generate long-term shareholder value.

Finally, after eight fantastic years as President and CEO, I will step down and hand over to Mats Rahmström after the Annual General Meeting on April 26, 2017. Mats is an appreciated leader with almost 30 years of experience in Atlas Copco. He lives and breathes our values, and with him the Group will be in excellent hands.

Thank you very much to our shareholders, customers, Board of Directors, employees and other stakeholders who all contribute to Atlas Copco's success. Your support for our business is invaluable.

Ronnie Leten
President and CEO
Stockholm, January 27, 2017

This is Atlas Copco

Atlas Copco is a world-leading provider of sustainable productivity solutions. The Group serves customers with innovative compressors, vacuum solutions and air treatment systems, construction and mining equipment, power tools and assembly systems. Atlas Copco develops products and services focused on productivity, energy efficiency, safety and ergonomics.

VISION, MISSION AND STRATEGY

The Atlas Copco Group's vision is to become and remain First in Mind—First in Choice® of its customers and other principal stakeholders.

The mission is to achieve sustainable, profitable growth. Sustainability plays an important role in Atlas Copco's vision and it is an integral aspect of the Group's mission.

An integrated sustainable strategy, backed by ambitious goals, helps the company deliver greater value to all its stakeholders in a way that is economically, environmentally and socially responsible. The Group has identified five strategic pillars critical for achieving its mission: presence, innovation, service, operational excellence, and people.

To safeguard that the strategic pillars are truly sustainable and that the Group is building an organization that will deliver results for many years to come,

This is our strategy for sustainable profitable growth

PRESENCE

Increase market presence and penetration and expand the product and service offering in selected market segments

INNOVATION

Invest in research and development and continuously launch new products and services that increase customers' productivity

ETHICS

SAFETY & WELL-BEING

INNOVATION

COMPETENCE

RESOURCES

VALUES AND BUSINESS CODE OF PRACTICE

INTERACTION
We interact with and develop close relationships with customers, internally and externally, as well as with other stakeholders. While we interact in many different ways, we believe that personal contacts are always the most efficient.

INNOVATION
Our innovative spirit is reflected in everything we do. Customers expect the best from our Group and our objective is to consistently deliver high-quality products and services that increase our customers' productivity and competitiveness.

Atlas Copco has established five priorities to complement the strategic pillars. The priorities – ethics, safety and well-being, innovation, competence, and resources – were identified following an extensive consultation with the Group's stakeholders. Key performance indicators to measure the performance have been identified and implemented in the organization and new Group goals were presented in the autumn during 2016. The financial goals, annual revenue growth of 8% over a business cycle and sustained high return on capital employed, remain unchanged. Results on all key performance indicators are presented throughout this annual report.

→ For further information about governance, the Board of Directors and Group Management, see pages 56–65

→ For further information about risk management, see pages 38–41

→ For comprehensive information about the business areas, see pages 20–37

Committed to Sustainable Productivity

We stand by our responsibilities towards our customers, towards the environment and the people around us. We make performance stand the test of time. This is what we call – Sustainable Productivity.

SERVICE

Increase the service offer, perform service on a higher share of the installed base of equipment, and give customers peace of mind

OPERATIONAL EXCELLENCE

Continuously strive for improved operational performance with an efficient and responsible use of resources – human, natural and capital

PEOPLE

Attract and develop qualified and motivated employees and find ways to reduce their time to competence

COMMITMENT
We operate worldwide with a long-term commitment to our customers in each country and market served. We keep our promises and always strive to exceed high expectations.

THE BUSINESS CODE OF PRACTICE
The internal policy documents related to business ethics and social and environmental performance are summarized in the Atlas Copco Business Code of Practice. All employees and managers in Group companies, as well as business partners, are expected to adhere to these policies.

Our core values reflect how we behave internally and in our relationships with external stakeholders.

ORGANIZATION Valid from January 1, 2017.

BOARD OF DIRECTORS

PRESIDENT AND CEO

GROUP MANAGEMENT

BUSINESS AREAS AND CORPORATE FUNCTIONS

COMPRESSOR TECHNIQUE	VACUUM TECHNIQUE	INDUSTRIAL TECHNIQUE	MINING AND ROCK EXCAVATION TECHNIQUE	CONSTRUCTION TECHNIQUE
Compressor Technique Service	Vacuum Technique Service	Industrial Technique Service	Mining and Rock Excavation Service	Construction Technique Service
Industrial Air	Semiconductor Service	MVI Tools and Assembly Systems	Underground Rock Excavation	Specialty Rental
Oil-free Air	Semiconductor	General Industry Tools and Assembly Systems	Surface and Exploration Drilling	Portable Energy
Professional Air	High Vacuum	Chicago Pneumatic Tools	Drilling Solutions	Construction Tools
Gas and Process	Industrial Vacuum	Industrial Assembly Solutions	Rock Drilling Tools	
Medical Gas Solutions			Rocktec	
Airtec				

DIVISIONS

Divisions generally conduct business through product companies, distribution centers and customer centers

Each business area has a service division with global responsibility for service of the business area's products and solutions. Common service providers – internal or external – provide services with higher quality and at a lower cost, thus allowing the divisions to focus on their core businesses.

In the third quarter 2016, the Atlas Copco Group announced a fifth business area

The new business area Vacuum Technique, was operational from January 1, 2017. The vacuum business was part of the Compressor Technique business area in 2016.

About the image: Vacuum pumps are used in a wide range of industrial applications. Below an Atlas Copco rotary vacuum pump with variable speed installed at a print shop.

Atlas Copco's organization is based on the principle of decentralized responsibilities and authorities.

STRUCTURE AND GOVERNANCE

Atlas Copco's organization is based on the principle of decentralized responsibilities and authorities. In 2016, Atlas Copco's operations were organized in four business areas comprised of 22 divisions, excluding the divestment of the Road Construction Equipment division. From January 1, 2017, the Group is organized in five business areas comprised of 27 divisions. The organization has both operating and legal units. Each operating unit has a business board reflecting the operational structure of the Group. The duty of a business board is to serve in an advisory and decision-making capacity concerning strategic and operative issues. It also ensures the implementation of controls and assessments. Each legal company has a legal board focusing on compliance and reflecting the legal structure of the Group.

The Board of Directors is responsible for the organization and management of the Group, regularly assessing the Group's financial situation and financial, legal, social and environmental risks, and ensuring that the organization is designed for satisfactory control. The Board formally approves the Business Code of Practice.

The President and CEO is responsible for the ongoing management of the Group following the Board's guidelines and instructions. The President and CEO is responsible for ensuring that the organization works towards achieving the goals for sustainable, profitable growth.

The business areas are responsible for developing their respective operations by implementing and following up on strategies and objectives to achieve sustainable, profitable development.

The divisions are separate operational units, responsible for delivering results in line with the strategies and objectives set by the business area. Each division has global responsibility for a specific product or service offering. A division can have one or more product companies (units responsible for product development, manufacturing and product marketing) and has several customer centers (units responsible for customer contacts, sales and service) dedicated or shared with other divisions.

PEOPLE

Atlas Copco's growth is closely related to how the Group succeeds in being a good employer, attracting and developing qualified and motivated people. With a global business conducted through numerous companies, Atlas Copco works with continuous competence development, knowledge sharing and implementing the core values: interaction, commitment, and innovation. All employees are expected to contribute by committing themselves to Group goals and to their individual performance targets. Atlas Copco's definition of good leadership is the ability to create lasting results.

PROCESSES

Group-wide strategies, processes, principles, guidelines, and shared best practices are gathered in the database *The Way We Do Things*. It covers governance, safety, health, environment and quality, accounting and business control, treasury, tax, audit and internal control, information technology, people management, legal, communications and branding, risk, crisis management, administrative services, insurance, standardization, and acquisitions. The information is available to all employees. Although most of the processes are self-explanatory, training on how to implement the processes is provided to managers on a regular basis. Wherever they are located, Atlas Copco employees are expected to operate in accordance with the processes, principles, and guidelines provided.

Statement of materiality and significant audiences

Atlas Copco is registered in Sweden and is legally governed by the Swedish Companies Act (2005:551). This act requires that the Board of Directors governs the company to be profitable and create value for its shareholders. However, Atlas Copco recognizes going beyond this, extending it to integrating sustainability into its business creates long-term value for all stakeholders, which is ultimately in the best interest of the company, the shareholders and society. The significant stakeholder audience, as outlined in the Atlas Copco Business Code of Practice, includes representatives of society, employees, customers, business partners and shareholders.

The Business Code of Practice is the central guiding policy for Atlas Copco, and is owned by the Board of Directors. Its commitment goes beyond the requirements of legal compliance, to support voluntary international ethical guidelines. These include the United Nations International Bill of Human Rights, International Labour Organization Declaration on Fundamental Principles and Rights at Work, the ten principles of the United Nations Global Compact, and OECD's Guidelines for Multinational Enterprises. Atlas Copco has employed a stakeholder-driven approach in order to identify the most material environmental, human rights, labor and ethical aspects for its business. These priorities guide how the Group develops and drives its business strategy, as well as its roadmap to support the UN Sustainable Development Goals.

The strategic pillars and priorities presented on pages 6–7 all aim at continuously delivering sustainable, profitable growth for the Group. This means an increased economic value creation and, simultaneously, a positive impact on society and the environment, thus creating shared value.

Atlas Copco monitors and voluntarily discloses the progress on these material financial and non-financial aspects, through an externally assured, integrated annual report. In addition to the Annual General Meeting, Atlas Copco also creates engagement opportunities so that non-shareholders can address the Group. For example at the annual stakeholder dialogue.

This is how we do business

Atlas Copco is characterized by focused businesses, a global presence with direct sales and service, a strong, stable and growing service business, professional people, and an asset-light and flexible manufacturing setup. Atlas Copco is committed to sustainable productivity, which means that we do everything we can to create lasting results with responsible use of resources – human, natural and capital.

DIRECT SALES AND SERVICE

Atlas Copco wants to have close relationships with end customers. The Group has sales in

180

countries

and about

80%

of sales are made directly to the end user.

Sales and service

Customer focus is a guiding principle for Atlas Copco. The ambition is to have close relationships with end customers and to help them increase their productivity in a sustainable way. Sales and service are primarily direct, but complemented by alternative sales channels, e.g. through distributors, to maximize market presence. The Group has sales in about 180 countries and around 80% of sales are made directly to the end user.

Sales of equipment is performed by engineers with strong application knowledge and the ambition to offer the best solution for the customer's specific application. Service and maintenance performed by skilled technicians is an integral part of the offer. Service is the responsibility of dedicated divisions in each business area. The responsibility includes development of service products, sales and marketing, technical support as well as service delivery and follow-up.

Stable service business

More than 40% of revenues are generated from service (spare parts, maintenance, repairs, consumables, accessories, and rental). These revenues are more stable than equipment sales and provide a strong base for the business.

Increase customer loyalty

Customers who have sales and/or service interactions with Atlas Copco receive surveys where they are asked to give their opinion about the interaction and their experience. Customers are often engaged in discussions about their feedback in order to solve problems and to improve products and services. A number of key performance indicators have been established, such as the availability of spare parts, which are continuously followed up to ensure that customer satisfaction improves.

Manufacturing and logistics

The manufacturing philosophy is to manufacture in-house those components that are critical for the performance of the equipment. For non-critical components, Atlas Copco leverages the capacity and the competence of business partners and cooperates with them to continuously achieve product and process improvements. Approximately 75% of the production cost of equipment represents purchased components and about 25% are internally manufactured core components, assembly costs and overhead.

Equipment represents less than 60% of revenues and Atlas Copco has organized its manufacturing and logistics to be able to quickly adapt to changes in equipment demand. The manufacturing of equipment is primarily based on customer orders and only some standard, high volume equipment is manufactured based on projected demand.

The assembly of equipment is to a large degree carried out in own facilities. The assembly is typically lean and flow-oriented and the final product is normally shipped directly to the end user. The organization works continuously to use human, natural or capital resources more efficiently.

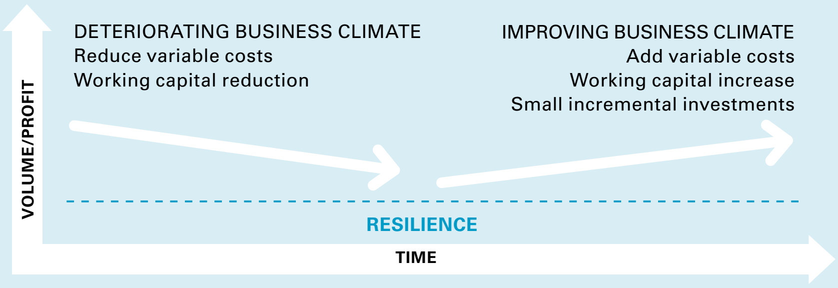
Innovation

Atlas Copco believes that there is always a better way of doing things. Innovation and product development are very important and all products are designed internally.

PRIMARY DRIVERS OF REVENUES

	EQUIPMENT	SERVICE
INDUSTRY	Industrial machinery investment	Industrial production
CIVIL ENGINEERING	Investment in infrastructure	Construction activity
MINING	Mining machinery investment	Metal and ore production

AGILE AND RESILIENT OPERATIONAL SETUP



AGILITY

Atlas Copco has organized its manufacturing and logistics to be able to quickly adapt to changes in equipment demand.

Approximately **75%** of the production cost of equipment represents purchased components.

A key activity is to design new or improved products that provide tangible benefits in terms of productivity, energy efficiency and/or lower life cycle cost for the customer, and at the same time can be efficiently produced. Atlas Copco protects technical innovations with patents.

Innovation also includes better processes to improve the flow and utilization of assets and information. Innovation will improve customer satisfaction and contribute to strengthening customer relations, the brand, as well as financial performance. Overcapacities and inefficiencies must always be challenged.

Investments in fixed assets and working capital

The need for investments in property, plant and equipment are moderate due to the manufacturing philosophy and can be adapted in the short and medium term to changes in demand. Most investments are related to machining equipment for core manufacturing activities and to production facilities, primarily for core component manufacturing and for assembly operations.

The working capital requirements of the Group are affected by the direct sales and service model, which affects the amount of inventory and receivables, as well as by the manufacturing philosophy. In an improving business climate with higher volumes, more working capital will be tied up. If the business climate deteriorates, working capital will be released.

Acquisitions

Acquisitions are primarily made in, or very close to, the already existing core businesses. All divisions are required to map and evaluate businesses that are adjacent and can offer tangible synergies with existing businesses. All acquired businesses are expected to make a positive contribution to economic value added.

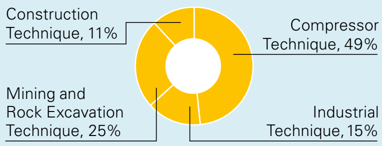
Leadership and human capital

Atlas Copco believes that competent and committed leaders are crucial to achieving sustainable profitable growth and has developed a leadership model.

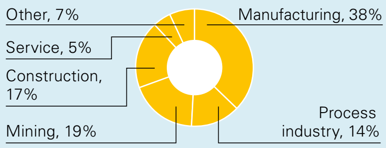
All managers are entitled to receive a mission statement from their manager, which outlines the long-term expectations and goals and is described in both quantitative as well as qualitative measures. Typically a mission has a timeframe of three to five years. Based on the mission statement, it is expected that the manager develops a vision, which clarifies how the mission will be achieved, as well as the strategies, the organization and the people required to make it happen.

Atlas Copco strives to be a good employer to attract and develop qualified and motivated people. All employees are responsible for their own professional career and supported by continuous competence development and an internal job market. Employees are encouraged to grow professionally and take up new positions. If the company needs to adapt capacity in a deteriorating business climate, the first action is to stop recruitment. Layoffs are the last resort.

SHARE OF REVENUES BY BUSINESS AREA



ORDERS RECEIVED BY CUSTOMER CATEGORY



SHARE OF REVENUES

A PORTFOLIO OF BRANDS

To fulfill customers different needs, improve outreach and growth, Atlas Copco works with a portfolio of brands. Each brand has a unique product/service offering and identity.

Read more on www.atlascopcogroup.com/en/about-us/brands

Creating value for all stakeholders

RESOURCES

HUMAN CAPITAL
44 695
EMPLOYEES

MSEK 26 046
Salaries, remuneration and other benefits

Capital employed **MSEK 72 987**

MSEK 2 511
Investments in tangible fixed assets

75% of product cost is purchased material and components

MSEK 3 013 *Investment in innovation**

Natural capital

–8% water consumption in water risk areas, fell to 296 418 m^3

454 GWh total energy use

39% of energy consumption came from renewable resources

* Investments in product development, including capitalized expenditures

VALUE CREATING ACTIVITIES

INNOVATION
Atlas Copco's divisions have key performance indicators to help them innovate across the value chain

PAGE 44–45

88% of all employees received a yearly appraisal

Local presence with a global reach, sales in 180 countries

51% of employees work in marketing, sales or service

4 471
Significant suppliers
– we leverage the competence of business partners

Atlas Copco has a vision to become and remain First in Mind—First in Choice® for all of its stakeholders. The Group aims to continuously deliver sustainable, profitable growth. This means an increased economic value creation and, simultaneously, a positive impact on society and the environment, thus creating shared value.

On this page, we illustrate how we with responsible use of resources – human, natural and capital – create value for customers, employees, business partners, shareholders, as well as for society and the environment.

OUR ACHIEVEMENTS

*Operating cash flow**
MSEK 18 109
2015: MSEK 16 955

Reduction of accidents per million working hours to
3.5
2015: 3.6 PAGE 48

Record operating profit:
MSEK 19 798
2015: 19 772 PAGE 16

Women in Atlas Copco's workforce
17.6%
2015: 17.3%
PAGE 46

Inflow of women
2015: 21%
22%
PAGE 46

+2% Revenues increased to
MSEK 101 356

27% *Return on capital employed*

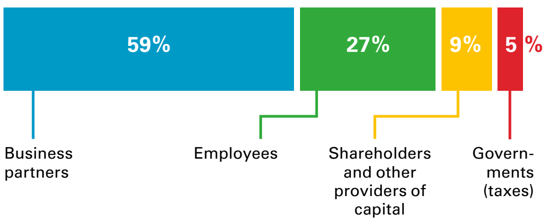
57
nationalities among the 420 most senior managers
2015: 52 nationalities
PAGE 46

99%
of managers signed compliance to the Business Code of Practice
PAGE 50

–5% energy consumption in operations in relation to cost of sales

Average annual return on the Atlas Copco A share for the past ten years **15.0%** PAGE 54

Distribution of direct economic value
PAGE 53



* Including discontinued operations

The year in review

MARKET REVIEW AND DEMAND DEVELOPMENT

The overall order intake for Atlas Copco's equipment and services increased 6% in 2016 to MSEK 102 812 (97 002). The organic increase was 4%. Acquisitions contributed with 3% and less favorable exchange rates affected negatively with 1%. The service business to manufacturing and process customers continued to grow while service in the mining and civil engineering segment decreased somewhat. In total, service grew 1% organically. Consumables for mining and civil engineering declined about 1% and orders in the specialty rental business decreased by 4%.

The orders received for equipment increased with approximately 4% organically. Orders for industrial compressors increased, while gas and process compressors declined. Vacuum solutions achieved significant growth, supported by strong demand from the semiconductor industry. Order volumes for industrial tools and assembly solutions also increased, mainly thanks to good demand from the automotive industry and application segments like energy and electronics.

Orders increased for mining and rock excavation equipment and for construction equipment, primarily due to a positive development in the second half of the year. See also business area sections on pages 20–37.

North America

The order intake in North America increased 1% in local currencies. Orders for mining equipment and compressors were largely unchanged, while order volumes increased for construction equipment, industrial tools, and assembly solutions. The service business for manufacturing customers increased, while service for mining and civil engineering decreased. In total, North America accounted for 24% (24) of orders received.

South America

Orders received in South America decreased 2% in local currencies, negatively affected by weak demand in the biggest market Brazil, where investments in industrial and construction equipment declined. In total, South America accounted for 7% (7) of orders received.

Europe

The orders received in Europe increased by 7% in local currencies. Service, in all segments, large industrial compressors, vacuum equipment and mining and construction equipment explained most of the positive development, while orders for industrial tools and small and medium-sized compressors were unchanged or down. In total, Europe accounted for 30% (30) of orders received.

Africa/Middle East

Orders received in local currencies increased 4% in Africa/Middle East, which accounted for 9% (10) of the Group's orders received. The service business had a mixed development in the region. Order intake for mining equipment was largely unchanged, orders for compressors increased, while order volumes for construction equipment decreased.

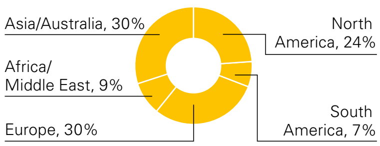
Asia/Australia

The order intake in local currencies in Asia/Australia increased by 17%. Growth was achieved in most countries, particularly in Australia, India and South Korea. Most equipment segments increased and the development of the service business continued to be positive. In total, Asia/Australia accounted for 30% (29) of orders received.

Market presence

In line with the strategic growth pillars, the global presence of the Group was further strengthened by the addition of sales and service engineers in many markets. Atlas Copco had own customer centers in 90 countries and revenues were reported in 180 countries.

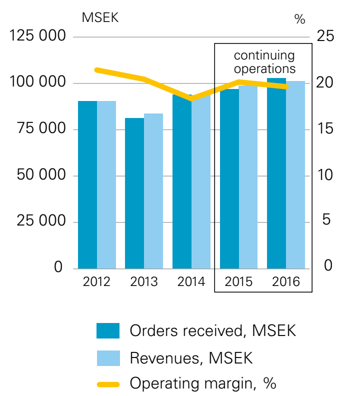
REVENUES BY REGION



SALES BRIDGE

	Atlas Copco Group		
	Orders received	Orders on hand, December 31	Revenues
2014	**93 873**	**22 830**	**93 721**
Structural change, %	+2		+2
Currency, %	+9		+9
Price, %	+0		+0
Volume, %	–4		–2
Total, %	**+7**		**+9**
2015	**100 241**	**20 254**	**102 161**
Discontinued operations	–3 239		–3 188
2015	**97 002**		**98 973**
Structural change, %	+3		+3
Currency, %	–1		–1
Price, %	+1		+0
Volume, %	+3		+0
Total, %	**+6**		**+2**
2016	**102 812**	**21 597**	**101 356**

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



IMPORTANT EVENTS

New business area from January 1, 2017

In August 2016, the Group announced the establishment of Vacuum Technique as a new business area. The new organization with five business areas instead of four, was operational from January 1, 2017. For further information, see introduction pages, pages 8 and 24–25.

Acquisitions and divestments

The Group completed 13 acquisitions during the year, which added net revenues of more than BSEK 3.

In January 2017, Atlas Copco agreed to sell its Road Construction Equipment division to the French industrial and construction company Fayat Group. The deal includes sales and service operations in 37 countries and production units in five countries; Sweden, Germany, Brazil, India and China. The business to be divested has 1 265 employees and revenues of MSEK 2 912 in 2016. The business is reported as Discontinued operations in 2016.

See also note 2–3 and business area sections on pages 20–37.

Changes in Group Management

Helena Hedblom was appointed President of the Mining and Rock Excavation Technique business area and member of Group Management, effective January 1, 2017. She was previously President of the Rock Drilling Tools division in the Mining and Rock Excavation Technique business area.

Geert Follens was appointed President of the new Vacuum Technique business area and member of Group Management, effective January 1, 2017. He was previously President of the Vacuum Solutions division in the Compressor Technique business area.

Recognitions

Atlas Copco achieved the following recognitions: Ranked no 38 out of 500 companies and no 5 of industrial companies by the Newsweek Green Rankings; was included in the FTSE4Good Index; was re-confirmed as a constituent of the Ethibel Sustainability Index Excellence Europe and the Ethibel Sustainability Index Excellence Global.

Announcements in January 2017

Mats Rahmström was appointed new President and CEO of Atlas Copco AB, effective April 27, 2017. Before taking on the role as new President and CEO, Mats Rahmström has been Senior Executive Vice President and President of the Industrial Technique business area within Atlas Copco.

In January 2017, it was announced that Atlas Copco will initiate work in order to propose to the Annual General Meeting 2018 to decide on a split of the Group into two listed companies; one focused on industrial customers and the other on mining/civil engineering customers.
For further information, please see:
www.atlascopcogroup.com/investor-relations

SALES BRIDGE	Compressor Technique		Industrial Technique		Mining and Rock Excavation Technique		Construction Technique	
	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues
2014	**42 249**	**42 165**	**11 335**	**11 450**	**25 752**	**25 718**	**14 847**	**14 739**
Structural change, %	+0	+0	+9	+10	+0	+0	+0	+0
Currency, %	+11	+11	+11	+10	+6	+7	+8	+9
Price, %	+1	+1	+0	+0	+0	+0	+1	+1
Volume, %	–4	–2	+9	+7	–7	–3	–7	–6
Total, %	**+8**	**+10**	**+29**	**+27**	**–1**	**+4**	**+2**	**+4**
2015	**45 458**	**46 237**	**14 612**	**14 578**	**25 587**	**26 665**	**15 166**	**15 300**
Discontinued operations							–3 239	–3 188
2015	**45 458**	**46 237**	**14 612**	**14 578**	**25 587**	**26 665**	**11 927**	**12 112**
Structural change, %	+6	+6	+0	+0	+0	+0	+3	+2
Currency, %	+0	+0	+0	+0	–2	–2	–1	–1
Price, %	+0	+0	+0	+0	+0	+0	+1	+1
Volume, %	+5	+2	+3	+3	+2	–4	–1	–5
Total, %	**+11**	**+8**	**+3**	**+3**	**+0**	**–6**	**+2**	**–3**
2016	**50 536**	**49 991**	**15 112**	**15 017**	**25 565**	**25 043**	**12 110**	**11 794**

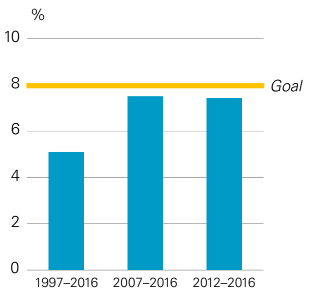
FINANCIAL SUMMARY AND ANALYSIS

KEY FINANCIAL DATA, MSEK	*2016*	*2015*	*Change, %*
Orders received	102 812	97 002	+6
Revenues	101 356	98 973	+2
EBITDA	24 039	23 952	+0
– in % of revenues	23.7	24.2	
Operating profit	19 798	19 772	+0
– in % of revenues	19.5	20.0	
Adjusted operating profit	*20 062*	*20 131*	*–0*
– in % of revenues	*19.8*	*20.3*	
Profit before tax	18 805	18 875	–0
– in % of revenues	18.6	19.1	
Profit for the year, continuing operations	13 785	11 777	+17
Loss for the year from discontinued operations	–1 837	–54	–3 302
Profit for the year	11 948	11 723	+2
Basic earnings per share, SEK	9.81	9.62	
of which continuing operations per share, SEK	11.32	9.67	
Diluted earnings per share, SEK	9.79	9.58	
of which continuing operations per share, SEK	11.30	9.62	

Revenues

The Group's revenues increased 2% to MSEK 101 356 (98 973). The goal is to achieve an annual revenue growth of 8% over a business cycle. In the past 10 years, the compounded annual growth rate has been 7.5%, including discontinued operations.

ANNUAL REVENUE GROWTH RATE
including discontinued operations



The Group's goal for annual revenue growth is 8%, measured over a business cycle. At the same time the ambition is to grow faster than the most important competitors. Growth should primarily be organic, supported by selective acquisitions.

Operating profit

The operating profit was MSEK 19 798 (19 772), corresponding to a margin of 19.5% (20.0). Items affecting comparability were MSEK –264 (–359) and the adjusted operating margin was 19.8% (20.3). See also the bridge below.

The operating profit for the Compressor Technique business area increased 8% to MSEK 11 175 (10 324), corresponding to a margin of 22.4% (22.3). The profit included items affecting comparability of MSEK +50 (–55). The margin was supported by currency and mix, but negatively impacted by dilution from acquisitions.

The operating profit for the Industrial Technique business area increased 2% to MSEK 3 430 (3 355), mainly due to higher revenue volume. The operating margin was 22.8% (23.0).

The operating profit for the Mining and Rock Excavation Technique business area decreased 11% to MSEK 4 465 (4 993), corresponding to a margin of 17.8 % (18.7). The margin was negatively impacted by lower revenue volume and negative currency impact.

The operating profit for the Construction Technique business area decreased 6% to MSEK 1 769 (1 883), corresponding to a margin of 15.0% (15.5), negatively affected by currency, lower revenue and unfavorable mix.

Net costs for common Group functions and eliminations were MSEK –1 041 (–783). The increase was primarily due to the provisions for share-related long-term incentive programs of MSEK –314 (–144).

Depreciation and EBITDA

Depreciation and amortization cost were MSEK 4 241 (4 180) and earnings before depreciation and amortization, EBITDA, reached MSEK 24 039 (23 952), corresponding to a margin of 23.7% (24.2).

Net financial items

The Group's net financial items totaled MSEK –993 (–897), whereof net interest expense of MSEK –769 (–750). Other financial items were MSEK –224 (–147), affected by one-time costs for repurchasing of own bond loans. See notes 8 and 27.

Profit before tax

Profit before tax was MSEK 18 805 (18 875), corresponding to a profit margin of 18.6% (19.1).

BRIDGE – REVENUES AND OPERATING PROFIT

MSEK	*2016*	Volume, price, mix and other	Currency	Acquisitions	Restructuring and capital gain	Share-based long-term incentive programs	*2015*
Revenues	101 356	–27	–810	3 220	–	–	98 973
Operating profit	19 798	–4	–245	180	265	–170	19 772
Effect on margin, %	19.5	0.0	–0.1	–0.5	+0.3	–0.2	20.0

	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets [2]	
MSEK	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015*	*2016*	*2015* [3]
Compressor Technique	49 991	46 237	11 175	10 324	22.4	22.3	40	38	413	586
Compressor Technique as from 2017 [1]	36 356	36 282	8 115	8 501	22.3	23.4	69	66		
Vacuum Technique [1]	13 635	9 955	3 060	1 823	22.4	18.3	19	13		
Industrial Technique	15 017	14 578	3 430	3 355	22.8	23.0	34	31	287	532
Mining and Rock Excavation Technique	25 043	26 665	4 465	4 993	17.8	18.7	32	34	800	981
Construction Technique	11 794	12 112	1 769	1 883	15.0	15.5	17	17	762	555
Common Group functions/eliminations	–489	–619	–1 041	–783					249	314
Total Group	**101 356**	**98 973**	**19 798**	**19 772**	**19.5**	**20.0**	**27**	**28**	**2 511**	**2 968**

[1] Restated figures for business area active from January 1, 2017 [2] Excluding assets leased [3] Including discontinued operations

Taxes

Taxes for the year amounted to MSEK 5 020 (7 098). The effective tax rate was 26.7% (37.6).

In 2015, Atlas Copco booked a tax provision of MEUR 300 (MSEK 2 802) related to the European Commission announced decision that Belgian tax rulings granted to companies with regard to "Excess Profit" shall be considered as illegal state aid. In 2016, Atlas Copco submitted an appeal for annulment of the decision to the European Court of Justice in Luxembourg (ECJ). The Belgian government and a number of other companies have filed similar appeals.

Later in 2016, Atlas Copco paid MEUR 239 (MSEK 2 250), in order to stop interest charges from accruing. The amount covered the potential liability for the years 2010–2014 and reduced the MEUR 300 provision made in 2015. MEUR 61 is kept as a provision for 2015. The money will be returned to Atlas Copco if the appeal in ECJ is successful. It will likely take several years until the judgment with the final decision from ECJ is passed. See also note 9.

Profit and earnings per share

Profit for the year from continuing operations increased 17% to MSEK 13 785 (11 777). Previous year was affected by the tax provision mentioned above. This corresponds to basic and diluted earnings per share of SEK 11.32 (9.67) and SEK 11.30 (9.62) respectively. Including discontinued operations the profit for the year was MSEK 11 948 (11 723) corresponding to basic and diluted earnings per share of SEK 9.81 (9.62) and SEK 9.79 (9.58), respectively.

BALANCE SHEET IN SUMMARY

MSEK	***Dec 31, 2016***		***Dec 31, 2015****	
Intangible assets	37 828	33%	33 520	33%
Rental equipment	3 095	3%	3 076	3%
Other property, plant and equipment	9 793	8%	8 947	9%
Other fixed assets	4 175	4%	4 128	4%
Inventories	16 912	14%	16 906	16%
Receivables	27 685	24%	25 985	25%
Current financial assets	2 455	2%	1 576	1%
Cash and cash equivalents	11 458	10%	8 861	9%
Assets classified as held for sale	2 491	2%	11	0%
Total assets	**115 892**	**100%**	**103 010**	**100%**
Total equity	53 177	46%	46 750	45%
Interest-bearing liabilities	28 629	25%	25 214	25%
Non-interest-bearing liabilities	33 275	28%	31 046	30%
Liabilities directly associated with assets held for sale	811	1%	–	–
Total equity and liabilities	**115 892**	**100%**	**103 010**	**100%**

* Including discontinued operations

The Group's total assets increased 13% to MSEK 115 892 (103 010), whereof assets held for sale represent MSEK 2 491 (11). Acquisitions, primarily of Leybold Vacuum, explained the majority of the increase but the strong cash generation and the effect of a weaker Swedish Krona also contributed. Cash, cash equivalents and other current financial assets increased 33% or MSEK 3 476.

EQUITY

MSEK	***2016***	***2015***
Opening balance	46 750	50 753
Profit for the year	11 948	11 723
Other comprehensive income for the year	2 785	–540
Shareholders' transactions	–8 306	–15 186
Closing balance	53 177	46 750
Equity attributable to		
– owners of the parent	53 105	46 591
– non-controlling interests	72	159

At year end, Group equity including non-controlling interests was MSEK 53 177 (46 750), corresponding to 46% (45) of total assets. Equity per share (including discontinued operations) was SEK 44 (38). Atlas Copco's market capitalization at year end was MSEK 329 940 (251 140), or 620% (537) of net book value.

The information related to public takeover bids given for the Parent Company, on page 19, is also valid for the Group.

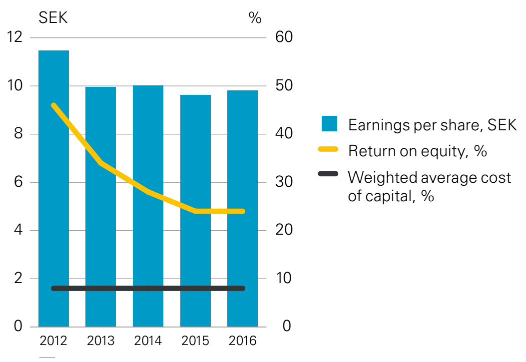
Total comprehensive income for the year increased to MSEK 14 733 (11 183), primarily due to translation differences on foreign operations, see page 67 and note 10. Shareholders' transactions include dividends and redemption of shares totaling MSEK –7 687 (–14 639), sales and repurchases of own shares of net MSEK –470 (–453), and share-based payments of net MSEK 6 (–94).

Interest-bearing debt and net indebtedness

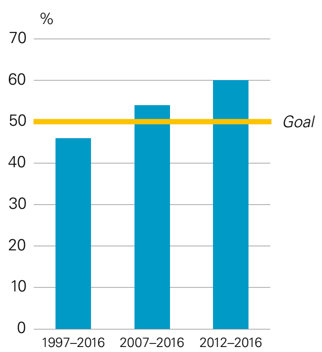
Total interest-bearing debt was MSEK 28 629 (25 121), whereof post-employment benefits MSEK 3 907 (2 208). The Group has an average maturity of 5.7 years on interest-bearing liabilities. See notes 21 and 23 for additional information.

The Group's net indebtedness, adjusted with MSEK 113 (28) for the fair value of related interest rate swaps, amounted to MSEK 14 829 (14 806) at year end. The net debt/EBITDA ratio was 0.6 (0.6) and the debt/equity ratio was 28% (32).

RETURN ON EQUITY AND EARNINGS PER SHARE
including discontinued operations



DIVIDEND/EARNINGS PER SHARE, AVERAGE
including discontinued operations



Atlas Copco aims to have a strong and cost-efficient financing of the business. The priority for the use of capital is to develop and grow the business. The strong profitability and cash generation allow the Group to do that and at the same time have the ambition to distribute about 50% of earnings as dividends to shareholders.

Dividend policy history

–2003	*30–40% of earnings*
2003–2011	*40–50% of earnings*
2011–	*about 50% of earnings*

Credit rating

Atlas Copco's long-term and short-term debt is rated by Standard & Poor's and Fitch with the long-/short-term rating A/A1 and A/F1, respectively.

Operating cash flow and investments (including discontinued operations)

Operating cash surplus was MSEK 24 600 (23 547).

Cash flows from financial items were MSEK –771 (– 2 037). The change is primarily due to cash flows from currency hedges of loans of MSEK –10 (–1 322), where the offsetting cash flow from the loans occurs in the future. Net pension funding and payments was –543 (+78) where the change is partly explained by a reclassification of reporting lines and partly by increased pension funding due to lower interest rates.

The working capital decreased by MSEK 2 875 (1 599), due to an increase in trade payables and a reduction of inventory. Net investments in rental equipment decreased to MSEK 748 (837). Net cash from operating activities amounted to MSEK 18 281 (18 112).

Gross investments in property, plant and equipment decreased to MSEK –1 369 (–1 705). The reduction was mainly due to a lower investment level in recently acquired businesses in Compressor Technique and Industrial Technique, where the previous year included some significant investments. Notable investments in 2016 were made by Compressor Technique in Korea, by Industrial Technique in the United States and Germany and by Construction Technique in the United States and in Belgium. Sale of property, plant and equipment decreased to MSEK 144 (600). Last year included a sale and leaseback transaction of premises in Sweden.

Net investments in intangible fixed assets, mainly related to capitalization of development expenditures, were MSEK –1 012 (–1 151). Investments in other assets were MSEK –195 (+197). The changes are related to variations in the customer financing activities.

Operating cash flow increased 7% and reached a record of MSEK 18 109 (16 955). The contribution from discontinued operations to this number was very small.

The net cash flow from acquisitions and divestments amounted to MSEK –4 716 (–1 852). The previous year includes deferred considerations from acquisitions made in 2014. See also note 2.

Cash flow from financing (including discontinued operations)

Dividends paid amounted to MSEK –7 687 (–7 334). Sales and repurchases of own shares equaled net MSEK –470 (–453). Change in interest-bearing liabilities was MSEK –766 (+595).

Working capital ratios

The ratio of inventories to revenues at year end increased to 16.7% (16.5), and trade receivables increased to 21.1% (19.1). Trade payables increased to 10.1% (7.7).

Capital turnover

The capital turnover ratio including discontinued operations was 0.95 (0.97). The capital employed turnover ratio for continuing operations was 1.39 (1.39).

Return on capital employed and return on equity

Return on capital employed was 27% (28) and the return on equity, including discontinued operations, was 24.3% (24.3). The Group uses a weighted average cost of capital (WACC) of 8% (8) as an investment and overall performance benchmark.

Employees

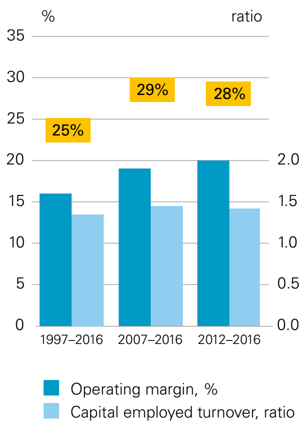
In 2016, the average number of employees in the Atlas Copco Group increased by 441 to 42 749. At year end, the number of employees was 44 695 (41 852) and the number of full-time consultants/external workforce was 3 300 (2 804). For comparable units the total workforce increased by 228. See also pages 46–48.

AVERAGE NUMBER OF EMPLOYEES	*2016*	*2015*
Atlas Copco Group	42 749	42 308
– Sweden	3 806	3 870
– Outside Sweden	38 943	38 438
Business areas		
– Compressor Technique	20 013	19 118
– Compressor Technique, as from 2017	*15 276*	*15 215*
– Vacuum Technique	*4 737*	*3 903*
– Industrial Technique	6 186	5 888
– Mining and Rock Excavation Technique	10 911	11 500
– Construction Technique	4 171	4 299
– Common Group functions	1 468	1 503

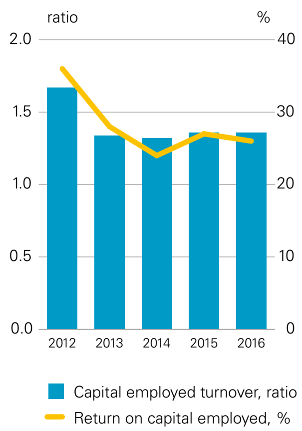
The Group's goal is to deliver sustained high return on capital employed, by constantly striving for operational excellence and generating growth.

% Average return on capital employed

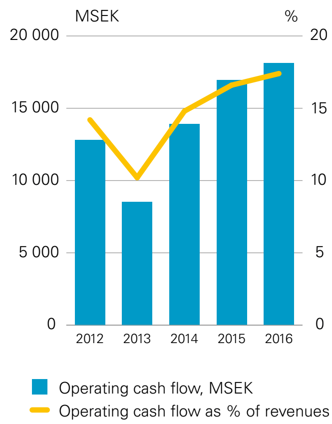
RETURN ON CAPITAL EMPLOYED
including discontinued operations



CAPITAL EMPLOYED TURNOVER AND RETURN
including discontinued operations



OPERATING CASH FLOW
including discontinued operations



PARENT COMPANY

Atlas Copco AB is the ultimate Parent Company of the Atlas Copco Group and is headquartered in Nacka, Sweden. Its operations include administrative functions, holding company functions as well as part of Atlas Copco Financial Solutions.

Earnings

Profit before tax totaled MSEK 9 802 (12 300). Profit for the year amounted to MSEK 9 232 (11 737).

Financing

The total assets of the Parent Company were MSEK 123 098 (118 357). At year end 2016, cash and cash equivalents amounted to MSEK 8 165 (4 311) and interest-bearing liabilities, excluding post-employment benefits, to MSEK 79 797 (76 569), whereof the main part is Group internal loans. Equity represented 34% (34) of total assets and the non-restricted equity totaled MSEK 35 578 (34 468).

Employees

The average number of employees in the Parent Company was 106 (118).

Remuneration

Principles for remuneration, fees and other remuneration paid to the Board of Directors, the President and CEO, and other members of Group Management, other statistics and the guidelines regarding remuneration and benefits to Group Management as approved by the Annual General Meeting are specified in note 5.

Financial risks, risks and factors of uncertainty

Atlas Copco is subject to currency risks, interest rate risks and other financial risks. Atlas Copco has adopted a policy to control the financial risks to which Atlas Copco AB and the Group are exposed. A financial risk management committee meets regularly to take decisions about how to manage these risks. See also Risks, risk management and opportunities on pages 38–41.

Appropriation of profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 6.80 (6.30) per share, equal to MSEK 8 258 (7 665), be paid for the 2016 fiscal year. The dividend is proposed to be paid in two equal installments, the first with record date April 28, 2017 and the second with record date October 30, 2017. The proposed payment periods facilitate a more efficient cash management. It is also proposed that the balance of retained earnings after the dividend be retained in the business as described below.

SEK	
Retained earnings including reserve for fair value	26 345 881 131
Profit for the year	9 232 015 514
	35 577 896 645
The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a dividend of SEK 6.80 per share	8 258 376 015
To be retained in the business	27 319 520 630
Total	**35 577 896 645**

Shares and share capital

At year end, Atlas Copco's share capital totaled MSEK 786 (786) and a total number of 1 229 613 104 shares divided into 839 394 096 class A shares and 390 219 008 class B shares were issued. Net of 14 813 384 class A shares and 332 659 class B shares held by Atlas Copco, 1 214 467 061 shares were outstanding. Class A shares entitle the owner to one vote while class B shares entitle the owner to one tenth of a vote. Class A shares and class B shares carry equal rights to a part of the company's assets and profit.

Investor AB is the single largest shareholder in Atlas Copco AB. At year end 2016 Investor AB held a total of 207 645 611 shares, representing 22.3% of the votes and 16.9% of the capital.

There are no restrictions which prohibit the right to transfer shares of the Company nor is the Company aware of any such agreements. In addition, the Company is not party to any material agreement that enters into force or is changed or ceases to be valid if the control of the Company is changed as a result of a public takeover bid. There is no limitation on the number of votes that can be cast at a General Meeting of shareholders.

As prescribed by the Articles of Association, the General Meeting has sole authority for the election of Board members, and there are no other rules relating to election or dismissal of Board members or changes in the Articles of Association. Correspondingly, there are no agreements with Board members or employees regarding compensation in case of changes of current position reflecting a public takeover bid.

Compressor Technique

The service and equipment business continued to grow in 2016. Order volumes increased for industrial compressors, and the vacuum solutions business achieved solid growth. The business area continued to invest in market presence, innovation and competence development. As from January 1, 2017, the vacuum solutions business was separated into a new business area.

KEY FIGURES, MSEK	2016	2015	Change, %
Orders received	50 536	45 458	+11
Revenues	49 991	46 237	+8
Operating profit	11 175	10 324	+8
Operating margin, %	22.4	22.3	
Return on capital employed, %	40	38	
Investments	413	586	
Average number of employees	20 013	19 118	

About the image: Oil-injected rotary screw compressor with variable speed for maximum efficiency.

The year in review

Business development

The demand for the business area's equipment and services was strong. In total, the order intake increased 5% organically. The service business continued to grow in all major regions. Orders received for equipment increased in all major regions except North and South America, where volumes decreased.

The order volumes increased for large sized compressors, while order intake for smaller compressors decreased.

Order volumes for gas and process compressors improved somewhat compared to the previous year.

The vacuum business achieved solid growth, supported by acquisitions.

Demand from customers in the electronics and semiconductor industries remained robust in 2016.

Market presence and organizational development

The business area continued to invest in innovation and market presence with increased number of employees in research and development, and in marketing and sales. The focus on vacuum solutions continued and in the third quarter Atlas Copco announced a fifth business area, Vacuum Technique, operational from January 1, 2017.

Acquisitions and divestments

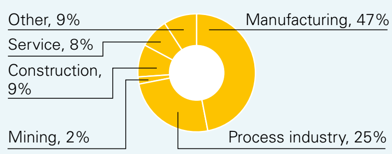
The business area made nine acquisitions in 2016 and one in January 2017:

- Capitol Research Equipment Inc., a U.S. parts and service provider for vacuum pumps, with revenues of MSEK 22 and 15 employees.
- FIAC, a manufacturer of piston compressors and related equipment, with a global sales network. The company had revenues in 2014 of about MSEK 640 and some 400 employees.
- Air et Fluides Lyonnais, a French distributor of industrial air compressors and ancillary systems, with 6 employees.
- Scales Industrial Technologies Inc., a U.S. distributor of industrial air compressors and ancillary systems. The company had about 180 employees.
- Kohler Druckluft, a compressor distributor with operations in Austria, Switzerland and Liechtenstein, with 30 employees.
- Schneider Druckluft, a German designer and producer of professional compressed air solutions, with 110 employees and revenues in 2015 of about MSEK 250.
- CSK Inc., a leading supplier of exhaust management systems in South Korea, with 400 employees and revenues in 2015 of about MSEK 870.
- Oerlikon Leybold Vacuum, a global supplier of vacuum solutions with headquarter in Cologne, Germany, and revenues of about MSEK 3 150 and 1 600 employees.
- Air Power of Nebraska Inc., a compressed air distributor in central United States with about 12 employees.
- In January 2017, the business of hb Kompressoren Druckluft- und Industrietechnik Gmb, a German distributor and service provider of industrial air compressors, with 10 employees, was acquired.

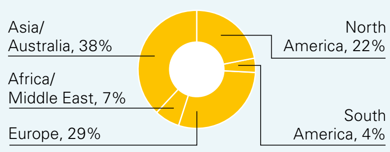
Revenues, profits and returns

Revenues increased 8% to a record of MSEK 49 991 (46 237) with a strong contribution from acquisitions. The revenues increased 2% organically. Operating profit increased 8% to a record of MSEK 11 175 (10 324), corresponding to a margin of 22.4% (22.3). The operating profit was affected positively by currency, but negatively by acqusitions. The return on capital employed was 40% (38).

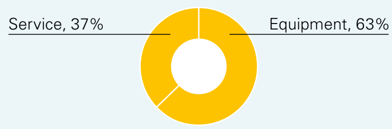
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED, REVENUES AND OPERATING MARGIN

SALES BRIDGE	Compressor Technique until 2017		Compressor Technique as from 2017		Vacuum Technique	
	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues
2014	**42 249**	**42 165**	**33 476**	**33 625**	**8 773**	**8 540**
Structural change, %	+0	+0	+0	+0	+0	+0
Currency, %	+11	+11	+9	+10	+17	+16
Price, %	+1	+1	+1	+1	+0	+0
Volume, %	–4	–2	–5	–3	–1	+1
Total, %	**+8**	**+10**	**+5**	**+8**	**+16**	**+17**
2015	**45 458**	**46 237**	**35 306**	**36 282**	**10 152**	**9 955**
Structural change, %	+6	+6	+3	+3	+17	+19
Currency, %	+0	+0	–1	–1	+2	+2
Price, %	+0	+0	+0	+0	–1	–1
Volume, %	+5	+2	+1	–2	+20	+17
Total, %	**+11**	**+8**	**+3**	**+0**	**+38**	**+37**
2016	**50 536**	**49 991**	**36 515**	**36 356**	**14 021**	**13 635**

The Compressor Technique business area provides industrial compressors, vacuum solutions, gas and process compressors and expanders, air and gas treatment equipment and air management systems. The business area has a global service network and innovates for sustainable productivity in the manufacturing, oil and gas, and process industries. Principal product development and manufacturing units are located in Belgium, the United States, China, South Korea, Germany, Italy and the United Kingdom.

REVENUES, MSEK

49 991

IN 2016

The market

The global market for compressed air equipment, air and gas treatment equipment, vacuum solutions and related services is characterized by a diversified customer base. The customers demand solutions that are reliable, productive and efficient and suited to specific applications.

Compressors are used in a wide spectrum of applications. In industrial processes, clean, dry and oil-free air is needed in e.g. food, pharmaceutical, electronics, and textile industries. Compressed air is also used to power industrial tools and in applications as diversified as snow making, fish farming, on high-speed trains, and in hospitals. Blowers are used in applications with a demand for a consistent flow of low-pressure air, for example wastewater treatment and conveying.

Gas and process compressors and expanders are supplied to various process industries, such as air separation plants, power utilities, chemical and petrochemical plants, and liquefied natural gas applications.

Vacuum solutions are required in a number of industrial applications where the pressure is required to be below atmospheric pressure and/or the environment needs to be clean. Applications include manufacturing of semiconductors, flat panel displays, chemicals and pharmaceuticals as well as packaging, pick-up and conveying.

Stationary industrial air compressors and associated air-treatment products, spare parts and service represent about 60–70% of sales. Large gas and process compressors, including service represent approximately 5–10 % and vacuum solutions, including service, approximately 25–30 %.

Market trends

- Continued focus on energy efficiency/savings, energy recovery and reduction of CO_2 emissions
- Increased demand for service and monitoring of compressed air installations
- Focus on total solution and total lifecycle cost
- New applications for compressed air

Demand drivers

- Investments in machinery
- Industrial production
- Energy costs

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of compressed air and gas and vacuum solutions, by being interactive, committed and innovative, and offering customers the best value.

The strategy is to further develop Atlas Copco's leading position in the selected niches and grow the business in a way that is economically, environmentally and socially responsible. This should be done by capitalizing on the strong market presence worldwide, improving market penetration in mature and developing markets, and continuously developing improved products and solutions to satisfy demands from customers. The presence is enhanced by utilizing several commercial brands. Key strategies include growing the service business as well as developing businesses within focused areas such as air treatment equipment, blowers, vacuum solutions, and compressor solutions for trains, ships, and hospitals.

The business area is actively looking at acquiring complementary businesses.

Strategic activities

- Increase market coverage and improve presence in targeted markets/segments
- Develop new sustainable products and solutions offering better value and improved energy efficiency to customers
- Extend the product and service offering
- Perform more service on a higher share of the installed base of equipment
- Increase operational efficiency
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

Competition

Compressor Technique's principal competitors in the market for industrial compressors and air treatment equipment are Ingersoll-Rand, Kaeser, Hitachi, Gardner Denver, Cameron, Sullair and Parker Hannifin. There are also numerous regional and local competitors, including many in China. In the market for gas and process compressors and expanders, the main competitors are Siemens and MAN Turbo. In the market for vacuum solutions, the main competitors are Busch, Gardner Denver, Ebara, Pfeiffer Vacuum, Kashiyama, Shimadzu Corporation, Ulvac Technologies and DAS Environmental Expert.

MARKET POSITION

Compressor Technique has a leading market position globally in most of its operations.

INNOVATION

Several new products were introduced during the year, including:

- A new centrifugal compressor with remote monitoring capabilities and an energy efficiency gain of approximately 6%.
- A vacuum pump, which offers energy savings of up to 50%.
- An extended range of oil-injected rotary screw compressors that deliver unsurpassed efficiency.
- A new range of refrigerant air dryers with the opportunity of 50% energy consumption savings and low carbon footprint.

Products and applications

Atlas Copco offers all major air compression technologies as well as air and gas treatment equipment, air management systems and vacuum solutions, and is able to offer customers the best solution for every application.

Piston compressors
Piston compressors are available as oil-injected and oil-free. They are used in general industrial applications as well as specialized applications.

Oil-free tooth and scroll compressors
Oil-free tooth and scroll compressors are used in industrial and medical applications with a demand for high-quality oil-free air. Some models are available as a WorkPlace AirSystem with integrated dryers as well as with energy-efficient variable speed drive (VSD).

Rotary screw compressors
Rotary screw compressors are available as oil-injected and oil-free. They are used in numerous industrial applications and can feature the WorkPlace AirSystem with integrated dryers, as well as the energy-efficient variable speed drive (VSD) technology and energy recovery kits.

Oil-free blowers
Oil-free blowers are available with different technologies: rotary lobe blowers, rotary screw blowers and centrifugal blowers. Blowers are used in process industry applications with a demand for a consistent flow of low-pressure air, for example wastewater treatment and conveying.

Oil-free centrifugal compressors
Oil-free centrifugal compressors are used in industrial applications that demand constant, large volumes of oil-free air. They are also called turbo compressors.

Gas and process compressors
Gas and process compressors are supplied primarily to the oil and gas, chemical/petrochemical process and power industries. The main product category is multi-stage centrifugal, or turbo, compressors which are complemented by turbo expanders.

Vacuum solutions
Vacuum products and abatement solutions are integral to manufacturing processes requiring clean vacuum environments, such as for semiconductors and flat panel displays, and are also used within an increasingly diverse range of industrial applications.

Air and gas treatment equipment and medical air solutions
Dryers, coolers, gas purifiers and filters are supplied to produce the right quality of compressed air or gas. In addition, solutions for medical air, oxygen and nitrogen generation as well as systems for biogas upgrading are offered.

Vacuum pump for industrial applications

Piston compressor for various industrial applications

Oil-free screw compressor with variable speed that provides clean air to industrial processes

Gas and process compressors supply large amounts of compressed air to various process industries

Breathing purifier for high-quality air to assure safe working environment

BUSINESS AREA PRESIDENT
NICO DELVAUX

1


2


3


4


5


6


7


8


THE DIVISIONS January 27, 2017

1. **Compressor Technique Service**
   President Vagner Rego
2. **Industrial Air**
   President Joeri Ooms
3. **Oil-free Air**
   President Philippe Ernens
4. **Professional Air**
   President Alain Lefranc
5. **Medical Air Solutions**
   President Ben Van Hove
6. **Vacuum Solutions**
   (Part of Vacuum Technique business area as from Jan 1, 2017)
   President Geert Follens
7. **Gas and Process**
   President Robert Radimeczky
8. **Airtec**
   President Wouter Ceulemans

Compressor Technique as organized from January 1, 2017 (restated)

Atlas Copco's Compressor Technique business area provides compressed air solutions; industrial compressors, gas and process compressors and expanders, air and gas treatment equipment and air management systems. The business area has a global service network and innovates for sustainable productivity in the manufacturing, oil and gas, and process industries. Principal product development and manufacturing units are located in Belgium, the United States, China, India, Germany and Italy.

Business development

The order intake for industrial compressors and air treatment equipment such as air dryers, coolers and filters increased compared to the previous year. Orders received for large gas and process compressors were somewhat down. Overall, the order intake increased in all major regions except North and South America, where volumes decreased. The service business continued to grow in all major regions.

Market presence and organizational development

The business area continued to invest in innovation and market presence. During 2016 the number of employees increased in research and development as well as in marketing and sales.

Revenues, profit and returns (restated)

Revenues increased 0% to MSEK 36 356 (36 282), corresponding to an organic decrease of 2%.

Operating profit decreased 5% to MSEK 8 115 (8 501) corresponding to a margin of 22.3% (23.4). The margin was supported by volumes but negatively impacted by currency. Return on capital employed was 69% (66).

Market trends

- Continued focus on energy efficiency/savings, energy recovery and reduction of CO_2 emissions
- Increased demand for service and monitoring of compressed air installations
- Focus on total solution and total lifecycle cost
- New applications for compressed air

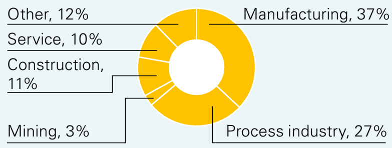
Demand drivers

- Investments in machinery
- Industrial production
- Energy costs

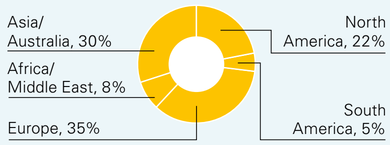
Competition

Compressor Technique's principal competitors in the market for industrial compressors and air treatment equipment are Ingersoll-Rand, Kaeser, Hitachi, Gardner Denver, Cameron, Sullair and Parker Hannifin. There are also numerous regional and local competitors, including many in China. In the market for gas and process compressors and expanders, the main competitors are Siemens and MAN Turbo.

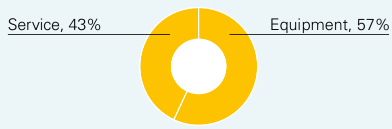
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED, REVENUES AND OPERATING MARGIN

About the image: Efficient compressor management is a fast way to achieve energy savings. Using advanced control systems can save energy. The Atlas Copco ES 360 controller can connect up to 60 machines.

Vacuum Technique as organized from January 1, 2017

Atlas Copco's Vacuum Technique business area provides vacuum products, exhaust management systems, valves and related products mainly under the Edwards, Leybold and Atlas Copco brands. The main markets served are semiconductor and scientific as well as a wide range of industrial segments including chemical process industries, food packaging and paper handling. The business area has a global service network and innovates for sustainable productivity in order to further improve its customers' performance. Principal product development and manufacturing units are located in the United Kingdom, Czech Republic, Germany, South Korea, China and Japan.

Business development

The demand for vacuum equipment and services was solid during 2016, and the order intake increased with 19% organically. Sales of products for the semiconductor industry contributed strongly to the growth, but also service and industrial vacuum contributed to the development.

Market presence and organizational development

Atlas Copco increased its presence in targeted markets and customer segments by selected acquisitions and by developing the product range for industrial vacuum (rough vacuum) opportunities.

Revenues, profit and returns (restated)

Revenues increased 37% to MSEK 13 635 (9 955), corresponding to an organic increase of 16%.

Operating profit increased 68% to MSEK 3 060 (1 823) corresponding to a margin of 22.4% (18.3), mainly supported by increased volumes.

Market trends

- Increased use of demanding material and production environment in industrial production
- Continued focus on energy efficiency/savings, and reduction of emissions
- Stricter regulatory standards sees companies having to be more compliant
- Focus on total solution and total life cycle cost

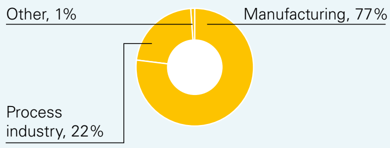
Demand drivers

- Industrial production
- Manufacturing of semiconductors, scientific instruments, research and development equipment, flat panel display and solar energy products
- Energy costs

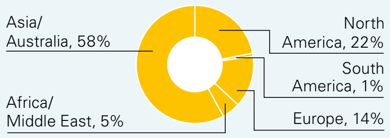
Competition

The main competitors for the semiconductor and industrial vacuum market are Busch, Gardner Denver, Ebara Corporation, Pfeiffer Vacuum, Kashiyama, Shimadzu Corporation, Ulvac Technologies and DAS Environmental Expert.

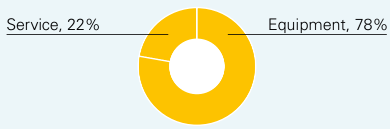
ORDERS RECEIVED BY CUSTOMER CATEGORY



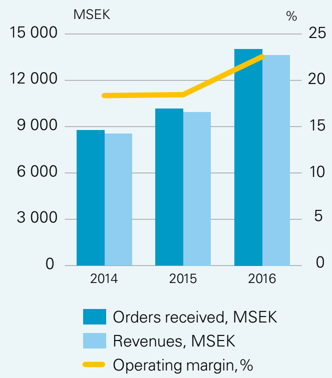
REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



BUSINESS AREA PRESIDENT
GEERT FOLLENS

THE DIVISIONS January 27, 2017

1. **Vacuum Technique Service** President Eckart Roettger
2. **Semiconductor Service** President Paul Rawlings
3. **Semiconductor** President Mike Allison
4. **High Vacuum** President Martin Tollner
5. **Industrial Vacuum** President Koen Lauwers

Industrial Technique

The business area continued to grow in 2016. Order volumes were supported by investments in the automotive and general industry. The service business achieved strong growth, and the business area continued to invest in market presence, service and product development.

KEY FIGURES, MSEK	***2016***	***2015***	***Change, %***
Orders received	15 112	14 612	+3
Revenues	15 017	14 578	+3
Operating profit	3 430	3 355	+2
Operating margin, %	22.8	23.0	
Return on capital employed, %	34	31	
Investments	287	532	
Average number of employees	6 186	5 888	

About the image: Electric handheld power tools with associated software are used for critical joining in car manufacturing.

The year in review

Business development

The demand for advanced industrial tools and assembly solutions continued to be strong and was supported by investments from the motor vehicle industry and by customers in general industry, e.g. electronics, off-road and aerospace. Orders received increased 3% organically.

The orders received for advanced industrial tools and assembly solutions from the motor vehicle industry increased as manufacturers continued to invest in new and upgraded production lines. The order volumes increased in Asia and North America but decreased in Europe.

Order volumes for industrial power tools from the general manufacturing industries increased compared to the previous year. Orders increased in Asia, Europe, North- and South America, but were down in Africa/Middle East. The growth was supported by orders for application segments like general assembly, energy and electronics industries.

The orders received decreased for the vehicle service business, which provides large fleet operators and specialized repair shops with tools and other equipment.

The service business continued to develop well. Customers increasingly demand service and maintenance support, ranging from ad-hoc maintenance to management of all tool maintenance at the customer site. Strong growth was achieved in all regions compared to the previous year.

Market presence and organizational development

The business area increased its presence in targeted markets and customer segments by selected acquisitions and by adding resources in service and sales.

Investments were also made in innovation centers and service facilities, including a bolting competence center in the United Kingdom and a central service workshop in Shanghai to support the growth in China. In the United Kingdom and the United States, investments for production capacity expansion of self-pierce rivets were made.

Acquisitions

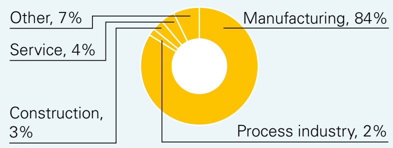
The business area made two acquisitions in 2016:

- Bondtech, a Swedish supplier of dispensing equipment for adhesives and sealants used by automotive manufacturers. The company had revenues in 2015 of about MSEK 32 and 12 employees.
- The self-pierce riveting business of Phillip-Tech in China, with about 45 employees was acquired in November. The business sells solutions designed by Atlas Copco-owned Henrob.

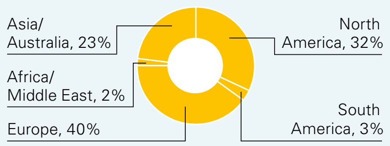
Revenues, profits and returns

Revenues increased 3% to a record MSEK 15 017 (14 578), corresponding to a 3% organic increase. Operating profit was MSEK 3 430 (3 355). The margin decreased to 22.8 % (23.0), negatively impacted by dilution from acquisitions, but positively affected by volume. Return on capital employed was 34% (31).

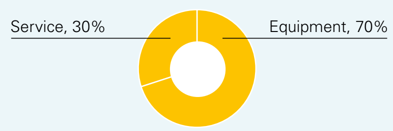
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED, REVENUES AND OPERATING MARGIN

SALES BRIDGE

	Industrial Technique	
	Orders received	Revenues
2014	**11 335**	**11 450**
Structural change, %	+9	+10
Currency, %	+11	+10
Price, %	+0	+0
Volume, %	+9	+7
Total, %	**+29**	**+27**
2015	**14 612**	**14 578**
Structural change, %	+0	+0
Currency, %	+0	+0
Price, %	+0	+0
Volume, %	+3	+3
Total, %	**+3**	**+3**
2016	**15 112**	**15 017**

The Industrial Technique business area provides industrial power tools and systems, industrial assembly solutions, quality assurance products, software and service through a global network. The business area innovates for sustainable productivity for customers in the automotive and general industries, maintenance and vehicle service. Principal product development and manufacturing units are located in Sweden, Germany, the United States, United Kingdom, France and Japan.

REVENUES, MSEK

15 017

IN 2016

The market

The motor vehicle industry, including sub-suppliers, is a key customer segment representing more than half of Industrial Technique's revenues, and the application served is primarily assembly operations. The motor vehicle industry has been at the forefront of demanding more accurate fastening tools that minimize errors in production and enable recording and traceability of operations. The business area has successfully developed advanced electric industrial tools and assembly systems that assist customers in achieving fastening according to their specifications and minimizing errors and interruptions in production. This also includes a wide offering of quality assurance and quality improvement solutions. With the increasing requirement of lower fuel consumption and the use of lighter materials, the motor vehicle industry is looking to alternative assembly solutions. The business area offers dispensing equipment for adhesives and sealants as well as self-pierce riveting equipment and rivets to cater to these needs.

In general industry, industrial tools are used in a number of applications, such as assembly, drilling and material removal. Customers are found in assembly operations, e.g. electronics, aerospace, appliances, energy and off-road vehicles, in general industrial manufacturing, shipyards, foundries, and among machine tool builders. The equipment supplied includes assembly tools for a wide torque range, drills, percussive tools, grinders, hoists and trolleys, and accessories. Air motors are supplied separately for different applications in production facilities.

For vehicle service, car and truck service and tire and body shops, the equipment supplied includes impact wrenches, percussive tools, drills, sanders, and grinders.

There is a growing demand for service, e.g. maintenance contracts and calibration services that improve customers' productivity.

Market trends

- Higher requirements for quality, productivity, flexibility, ergonomics and decreased environmental impact
- More advanced tools and systems and increased importance of service, know-how and training
- Power tools with electric motors, partly replacing pneumatic tools
- Demand for lower fuel consumption drives demand for alternative assembly methods, e.g. adhesives and self-pierce riveting
- Digitalization and demand for connectivity in production

Demand drivers

- Investments in industrial tools and systems, e.g. assembly line investments
- Changes in manufacturing methods and higher requirements, e.g. quality assurance and traceability
- Industrial production

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of industrial power tools, assembly systems, quality assurance products, software, and services to customers in the motor vehicle industry, in targeted areas in the general manufacturing industry and in vehicle service.

The strategy is to continue to grow the business profitably by building on the technological leadership and continuously offering products and services that improve customers' productivity. Important activities are to extend the product offering, particularly with the motor vehicle industry and to provide additional services, know-how and training. The business area is also increasing its presence in general industrial manufacturing, vehicle service and geographically in targeted markets. The presence is enhanced by utilizing a brand portfolio strategy. The business area is actively looking at acquiring complementary businesses. Growth should be achieved in a way that is economically, environmentally and socially responsible.

Strategic activities

- Increase market coverage and improve presence in targeted markets/segments
- Develop new sustainable products and solutions, offering increased quality and productivity, improved ergonomics and reduced environmental impact
- Extend the product and service offering
- Perform more service on a higher share of the installed equipment base
- Increase operational efficiency
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

Competition

Industrial Technique's competitors in the industrial tools business include Apex Tool Group, Ingersoll-Rand, Stanley Black & Decker, Uryu, Bosch and several local and regional competitors. In the area of adhesive and sealant equipment, the primary competitors are Nordson, Graco and Dürr. For self-pierce riveting, the main competitors are Emhart and Böllhoff.

MARKET POSITION

Industrial Technique has a leading market position globally in most of its operations.

INNOVATION

Several new products were introduced during the year, including:

- An electronic pistol-grip tightening tool together with a software release that combines increased productivity with improved ergonomics.
- A very compact and light weight impact wrench for vehicle service applications.
- A new low-reaction battery assembly tool and software providing high speed and tractability.
- A new range of high torque electrical nutrunners was launched. The products allow high accessibility and full traceability tightening. Primarily applications for the products can be found in wind energy operations, and aircraft and off-road assembly.

Products and applications

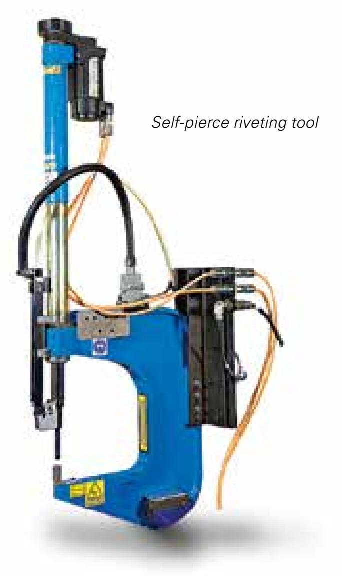
The Industrial Technique business area offers the most extensive range of industrial power tools and assembly systems on the market.

Motor vehicle industry
The motor vehicle industry primarily demands advanced assembly tools and assembly systems and is offered a broad range of electric assembly tools, control systems and associated software packages for safety-critical tightening. Specialized application centers around the world configure suitable assembly systems. The systems make it possible to view, collect and record the assembly data. The motor vehicle industry, like any industrial manufacturing operation, also demands basic industrial power tools. With the increasing requirement of lower fuel consumption and the use of lighter materials, the motor vehicle industry is increasingly investing in assembly solutions for these requirements, e.g. dispensing equipment for adhesives and sealants and equipment for self-pierce riveting.

General industrial manufacturing
The business area provides a complete range of products, services and production solutions for general industrial manufacturing. Products range from basic fastening tools, drills and grinders to the most advanced assembly systems available. It also includes a large range of accessories. Adhesive and sealant equipment is also offered to general industrial manufacturing businesses. A large team of specialists is available to support customers in improving production efficiency.

Vehicle service
The business area offers powerful and reliable tools to meet the demands of the vehicle service professional. The offering includes impact wrenches, drills, sanders and grinders.

Applicator and metering unit for application of adhesives and sealants



Self-pierce riveting tool

Advanced pneumatic drilling unit for demanding aerospace applications

Hand-held battery tool for assembly applications

Controller for advanced electrical assembly tools

BUSINESS AREA PRESIDENT
MATS RAHMSTRÖM*

THE DIVISIONS
January 27, 2017

1. **Industrial Technique Service**
   President Henrik Elmin
2. **MVI Tools and Assembly Systems**
   President Lars Eklöf
3. **General Industry Tools and Assembly Systems**
   President James McAllister
4. **Chicago Pneumatic Tools**
   President Philippe Artzet
5. **Industrial Assembly Solutions**
   President Tobias Hahn

* In January 2017, Mats Rahmström was appointed new President and CEO of Atlas Copco AB, effective April 27, 2017.

Mining and Rock Excavation Technique

The demand for mining and rock excavation equipment increased. Order volumes for the service and spare part business were flat despite a better development during the second half of the year. The order intake for consumables was stable. The business area identified and implemented further efficiency measures to adapt to the business climate.

KEY FIGURES, MSEK	*2016*	*2015*	*Change, %*
Orders received	25 565	25 587	0
Revenues	25 043	26 665	–6
Operating profit	4 465	4 993	–11
Operating margin, %	17.8	18.7	
Return on capital employed, %	32	34	
Investments	800	981	
Average number of employees	10 911	11 500	

About the image: The PowerROC surface drilling rig is suited for production in limestone, cement, and aggregate quarries as well as open pit mines.

The year in review

Business development

The demand for equipment from customers in the mining industry increased, reflecting increased investment during the second half of the year. The order intake improved for most types of underground and surface equipment.

Geographically, the order intake increased in Asia, Australia, South America and Europe. The order volumes in North America and Africa/Middle East were about the same as the previous year.

The order volumes for equipment for infrastructure projects were fairly flat.

Demand for service and spare parts remained on the same level as the previous year, even if the development were better during the last quarter of the year. The orders received increased in Europe and Asia but decreased in North and South America. Order volumes in Australia and Africa/Middle East were fairly unchanged.

The orders received for consumables were stable compared to the previous year. Geographically, order volumes increased in Australia and Europe but were down in South America and Africa/Middle East.

In total, the organic development for the business area was flat.

Organizational development

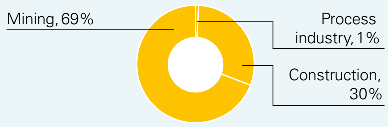
The business area continued to identify and implement further efficiency measures in order to strengthen the operations for the future, including consolidation of some manufacturing facilities and further rationalization measures.

In 2016 it was announced that the business area will close its Chinese production facility in Shenyang, which manufactures mainly hand-held rock drills for mining and construction, relocating operations to the plant in Zhangjiakou (China). It was also announced to move the operations of two of its mining consumables production facilities in the United States to an existing U.S. facility, which will be expanded. Atlas Copco will close the facilities in Grand Prairie, Texas, and Salt Lake City, Utah. The production will move to Fort Loudon, Pennsylvania. The closure of the facilities in China and the United States is expected to be completed during 2017.

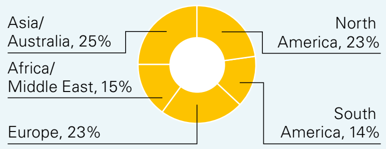
Revenues, profits and returns

Revenues decreased 6% to MSEK 25 043 (26 665), corresponding to a 4% organic decline. Operating profit decreased 11% to MSEK 4 465 (4 993), corresponding to a margin of 17.8% (18.7). The margin was impacted negatively by currency and volumes. Return on capital employed was 32% (34).

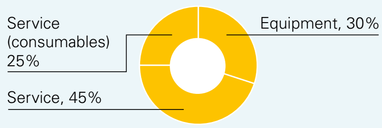
ORDERS RECEIVED BY CUSTOMER CATEGORY



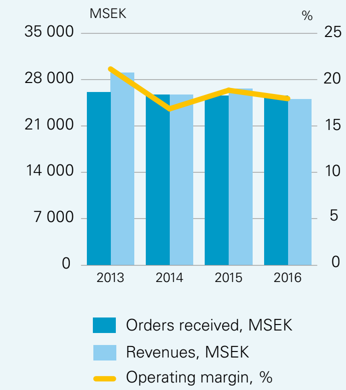
REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



SALES BRIDGE	Mining and Rock Excavation Technique	
	Orders received	Revenues
2014	**25 752**	**25 718**
Structural change, %	+0	+0
Currency, %	+6	+7
Price, %	+0	+0
Volume, %	–7	–3
Total, %	**–1**	**+4**
2015	**25 587**	**26 665**
Structural change, %	+0	+0
Currency, %	–2	–2
Price, %	+0	+0
Volume, %	+2	–4
Total, %	**+0**	**–6**
2016	**25 565**	**25 043**

The Mining and Rock Excavation Technique business area provides equipment for drilling and rock excavation, a complete range of related consumables and service through a global network. The business area innovates for sustainable productivity in surface and underground mining, infrastructure, civil works, well drilling and geotechnical applications. Principal product development and manufacturing units are located in Sweden, the United States, Canada, China and India.

REVENUES, MSEK

25 043

IN 2016

The market

The total market for equipment for mining and civil engineering applications is very large with numerous companies supplying products to different applications. The Mining and Rock Excavation Technique business area, however, offers products and services only for selected applications.

Customers from the mining industry represent about two thirds of business area revenues. The applications include production and development work for both underground and open-pit mines as well as mineral exploration. The customers demand rock drilling equipment, rock drilling tools, loading and haulage equipment, utility vehicles, ventilation systems, and exploration drilling equipment.

Contractors involved in civil engineering and infrastructure construction represent one third of revenues. The applications include blasthole drilling for tunneling, e.g. for road, railway and dam construction, aggregate production and drilling for water, energy, oil and gas, as well as for ground engineering. The customers demand rock drilling equipment, rock drilling tools, utility vehicles, ventilation systems, and ground engineering equipment.

The equipment is primarily sold directly to the end user and the business area has a large organization offering service, spare parts and consumables. Mining companies and contractors demand service, spare parts and consumables, often in the form of contracts where availability and productivity are key performance criteria.

Market trends

- More productive and safe equipment, including solutions for autonomous operations and remote control
- Increased focus on environment
- Customer and supplier consolidation
- Performance contracts for service and consumables
- Focus on total cost of operations and optimization of the value chain

Demand drivers

Mining

- Investments in equipment
- Ore production

Civil engineering

- Infrastructure and public investments
- Non-building construction activity

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of equipment and service for rock excavation for mining and civil engineering applications.

The strategy is to grow by maintaining and reinforcing Atlas Copco's leading market position as a global supplier for rock excavation equipment and services; by developing its positions in drilling and loading equipment, exploration drilling, and related businesses; and by increasing revenues by offering more services to customers. Growth should be achieved in a way that is economically, environmentally and socially responsible.

Strategic activities

- Increase market coverage and improve presence in targeted markets/segments
- Develop new sustainable products and solutions offering improved productivity and safety in line with customer demand, e.g. computerized control systems, remote control and solutions for autonomous operations
- Invest in design, development and production capacity in growth markets
- Extend the product and service offering
- Perform more service on a higher share of the installed base of machines
- Develop the service business
- Improve agility in cost and working capital
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

Competition

Mining and Rock Excavation Technique's principal competitor in most product areas is Sandvik. Other competitors include Furukawa in the market for underground and surface drilling equipment; Boart Longyear for underground drilling equipment for mining, exploration drilling equipment and rock drilling tools; Joy Global for open-pit mining equipment and Caterpillar for underground and open-pit mining equipment. In addition, there are several competitors operating locally, regionally and in certain niche areas.

INNOVATION

Several new products were introduced during the year, including:

- A range of concrete sprayers built to support all types of mid-sized to large scale underground construction and mining projects.
- A battery-driven underground loader that minimizes emissions and reduces ventilation costs in mines. The loader is equipped for automation.
- A 65 tons mine truck that increases customer productivity. The truck comes ready for automation with capabilities of monitoring production data in real time.
- A new surface exploration drilling rig was introduced. The drilling rig offers a range of new safety features to meet the most stringent safety standards. With a capability of long cores, the machine can also provide increased productivity.

MARKET POSITION

Mining and Rock Excavation Technique has a leading market position globally in most of its operations.

Products and applications

The Mining and Rock Excavation Technique business area offers an extensive range of productivity-enhancing equipment for rock excavation and civil engineering applications.

Underground rock drilling equipment
Underground drill rigs are used to drill blast holes in hard rock to excavate ore in mines or to excavate rock for road, railway or hydropower tunnels, or underground storage facilities. Holes are also drilled for rock reinforcement with rock bolts. The business area offers drill rigs with hydraulic and pneumatic rock drills, as well as handheld rock drills. Raise boring machines are used to drill large diameter holes, which can be used for ventilation, ore and personnel transportation.

Underground loading and haulage equipment
Underground vehicles are used mainly in mining applications, to load and transport ore and/or waste rock.

Underground utility vehicles
Utility vehicles are used for scaling, bolting, charging, lifting and shotcreting.

Surface drilling equipment
Surface drill rigs are primarily used for blast hole drilling in hard rock in open pit mining, quarries, and civil engineering projects, but also to drill for water, shallow oil and gas. The business area offers drill rigs with hydraulic and pneumatic rock drills as well as rotary drill rigs.

Rock drilling tools
Rock drilling tools include drill bits and drill rods for blast hole drilling in both underground and surface drilling applications, as well as consumables for raise boring and rotary drilling.

Exploration drilling and ground engineering equipment
The business area supplies a wide range of equipment for underground and surface exploration applications. An extensive range of equipment for ground engineering, including systems for overburden drilling, is also offered. Applications include anchoring, geotechnical surveying, ground reinforcement and water well drilling.

Ventilation systems
High-pressure fans designed especially for delivering air through ducts in mining and tunneling.

Surface drilling rig developed and designed for high performance in demanding construction applications

Rock drilling tools

Battery-driven underground loader for mining applications

1. *BUSINESS AREA PRESIDENT* (from 2013 until 2016)
JOHAN HALLING

2. *BUSINESS AREA PRESIDENT* (from January, 2017)
HELENA HEDBLOM

THE DIVISIONS
January 27, 2017

3. Mining and Rock Excavation Service
President Jess Kindler
4. Underground Rock Excavation
President Andreas Nordbrandt
5. Surface and Exploration Drilling
President Victor Tapia
6. Drilling Solutions
President José Manuel Sanchez
7. Rock Drilling Tools
President Helena Hedblom
8. Rocktec
President Jonas Albertson

Construction Technique

The service and construction tools business had flat development, while the order intake increased for portable energy products. Order volumes for the specialty rental business decreased, negatively affected by lower volumes in North America and Africa/Middle East. The business area continued to make selective investments in market presence and product development. Overall, the order intake increased compared to the previous year.

KEY FIGURES, MSEK	*2016*	*2015*	*Change, %*
Orders received	12 110	11 927	+2
Revenues	11 794	12 112	–3
Operating profit	1 769	1 883	–6
Operating margin, %	15.0	15.5	
Return on capital employed, %	17	17	
Investments	762	555*	
Average number of employees	4 171	4 299	

* Including discontinued operations

About the image: A portable generator being installed at a customer site by an Atlas Copco service technician.

The year in review

Business development

Total orders received increased 2% for the business area, while the organic development was flat. Construction equipment increased in all regions, compared to the previous year, except South America and Africa/Middle East.

Order volumes for construction tools, such as breakers and silenced demolition tools, was largely unchanged. Growth was achieved in Asia and Europe, while order volumes decreased in Africa/Middle East and South America.

The order intake for portable energy products, such as portable compressors, generators, pumps and lighting towers, increased. The increase was supported by growth in Europe and Asia. Order volumes in Africa/Middle East and South America decreased.

The service business had an overall flat development with increased orders received in Asia and Europe, but decreased order intake in North America and Africa/Middle East.

The specialty rental business had an overall negative development driven by lower order volumes in North America and Africa/Middle East.

Market presence and organizational development

The business area continued to make selective investments in market presence and product development.

Acquisitions and divestments

The business area made two acquisitions in 2016:

- Varisco, an Italian pump manufacturer with a global sales network, with revenues of about MSEK 270 in 2014 and about 135 employees.
- The operating assets of Roxel Rental AS, a supplier of temporary air solutions for the Norwegian offshore industry, was acquired in July. The company had revenues in 2015 of about MSEK 12.

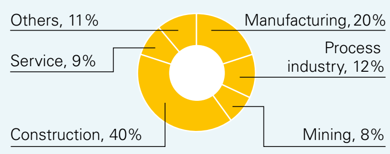
In January 2017, Atlas Copco agreed to sell its Road Construction Equipment division to French industrial and construction company Fayat Group. The deal includes sales and service operations in 37 countries and production units in five countries: Sweden, Germany, Brazil, India and China. The business has 1 265 employees and revenues of approximately MSEK 2 912 (MEUR 309) in 2016.

Revenues, profits and returns

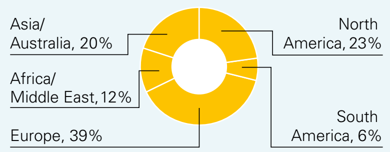
Revenues decreased 3% to MSEK 11 794 (12 112). Revenues declined 3% organically. Operating profit decreased 6% to MSEK 1 769 (1 883), corresponding to a margin of 15.0% (15.5). Return on capital employed was 17% (17).

SALES BRIDGE	Construction Technique	
	Orders received	Revenues
2014	**14 847**	**14 739**
Structural change, %	+0	+0
Currency, %	+8	+9
Price, %	+1	+1
Volume, %	–7	–6
Total, %	**+2**	**+4**
2015	**15 166**	**15 300**
Discontinued operations	–3 239	–3 189
2015	**11 927**	**12 112**
Structural change, %	+3	+2
Currency, %	–1	–1
Price, %	+1	+1
Volume, %	–1	–5
Total, %	**+2**	**–3**
2016	**12 110**	**11 794**

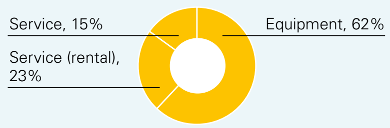
ORDERS RECEIVED BY CUSTOMER CATEGORY



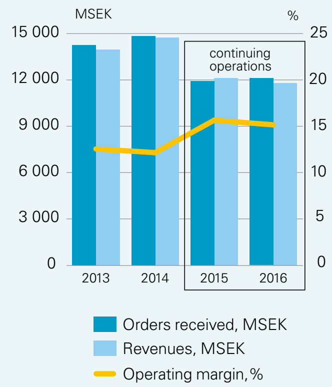
REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



Atlas Copco's Construction Technique business area provides construction and demolition tools, portable compressors, pumps and generators, and lighting towers. The business area offers specialty rental and provides service through a global network. Construction Technique innovates for sustainable productivity in infrastructure, civil works, oil and gas, energy and drilling. Principal product development and manufacturing units are located in Belgium, Spain, Sweden, the United States, China, and India.

REVENUES, MSEK

11 794

IN 2016

The market

The total market for construction equipment has a large number of participants offering a wide range of products for different applications. The Construction Technique business area, however, focuses on a select number of applications.

Several segments are served by the business area's offering. General and civil engineering contractors, often involved in infrastructure projects, other non-building activity and/or demolition work, demand light construction tools, such as breakers and cutters. Diesel-driven portable compressors and generators are reliable power sources for machines and tools in the construction sector as well as for mining and numerous industrial applications.

Contractors as well as rental companies are important customers for service, including spare parts, maintenance contracts, and repairs.

Market trends

- Higher requirements for productivity, flexibility and ergonomics
- Increased focus on environment and safety
- Customer and supplier consolidation
- Increased demand for service support/contracts

Demand drivers

- Infrastructure and public investments
- Demolition and recycling
- Investments in portable energy equipment

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of equipment and services for portable energy and demolition applications to the construction industries.

The strategy is to grow by developing Atlas Copco's market position and presence as a global supplier within the selected niches: in construction and demolition tools, portable compressors, pumps, generators and lighting towers. The strategy also includes further development of specialty rental services as well as development of the service business; increasing revenues by offering more customers more services. Growth should be achieved in a way that is economically, environmentally and socially responsible.

Strategic activities

- Increase market coverage and improve presence in targeted markets/segments
- Capture sales and service synergies between the construction businesses
- Develop new sustainable products and solutions offering enhanced productivity, safety and reduced environmental impact
- Invest in design, development and production capacity in growth markets
- Develop more competitive offerings with different value propositions
- Perform more service on a higher share of the installed base of machines
- Develop the service business
- Increase operational efficiency
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

Competition

Construction Technique's principal competitors in the market for portable compressors are Doosan Infracore, Kaeser and Sullair. Sandvik, Furukawa and Wacker Neuson for construction tools. In addition, there is a large number of competitors operating locally, regionally and in certain niche areas.

MARKET POSITION

Construction Technique has a leading market position globally in most of its operations.

INNOVATION

Several new products were introduced during the year, including:

- A new range of portable compressors that use about 12% less fuel than comparable models.
- A user-friendly portable generator equipped with a secure, corrosion-proof canopy.
- A flexible and versatile portable compressor with a wide pressure range, allowing high utilization.
- A new petrol breaker with electronic fuel injection technology which offers better handling through compact measurement and lower in weight combined with 10% less fuel consumption versus comparable models.

Products and applications

The Construction Technique business area offers a range of products for selected applications in civil engineering, construction and demolition.

Portable compressors
Portable oil-injected compressors are primarily used in construction applications where the compressed air is used as a power source for equipment, such as pneumatic breakers and rock drills. Portable oil-free compressors are rented by customers to meet a temporary need for oil-free air, primarily in industrial applications.

Boosters
When extra high pressure is needed, boosters are used to boost the air fed by portable compressors. This high-pressure air is mainly used in the drilling industry and in oil and gas applications.

Generators
Portable generators fulfill a temporary need for electricity, primarily in construction applications. Other common generator applications are power supply for events, emergency power and power in remote locations.

Lighting towers
Light for safe operations 24/7.

Pumps
Portable diesel-driven pumps and submersible electric pumps, primarily for water.

Construction and demolition tools
Hydraulic, pneumatic and gasoline-powered breakers, cutters and drills are offered to construction, demolition and mining businesses.

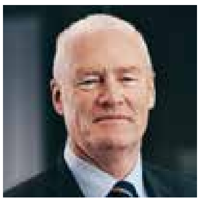
Handheld electronic fuel injected petrol driven breaker

Portable medium pressure oil-free compressor

Concrete buster for high-reach demolition

Light tower for civil engineering

BUSINESS AREA PRESIDENT
ANDREW WALKER



THE DIVISIONS
January 27, 2017

1. **Construction Technique Service**
   President Adrian Ridge
2. **Specialty Rental**
   President Ray Löfgren
3. **Portable Energy**
   President Peter Lauwers
4. **Construction Tools**
   President Vladimir Kozlovskiy

Risks, risk management and opportunities

All business activities involve risks. Atlas Copco has a structured and proactive approach to manage the company's risks. Well-managed risks can lead to opportunities and add value to the business. Risks that are not well managed can lead to incidents and losses.

Atlas Copco's global and diversified business towards many customer segments results in a variety of risks and opportunities geographically and operationally. However, the ability to prevent, detect and manage the risks is crucial for effective governance and control of the business. The aim is to achieve Group goals with well-managed risk taking in line with the strategy and within the frame of the company manual *The Way We Do Things*. Atlas Copco sees opportunities in an efficient risk management both from risk reduction and business opportunity perspectives, which can lead to good business growth.

The Group's risk management approach follows the decentralized structure of Atlas Copco. Local companies are responsible for their own risk management, which is monitored and followed-up regularly at local business board meetings. Group functions for legal, insurance, treasury, tax, controlling and accounting provide policies, guidelines and instructions regarding risk management. The implementation is regularly audited by internal and external audits. Read more on Internal control over financial reporting in the Corporate governance report, pages 64–65.

Insurance

The Group Insurance Program is provided by the in-house insurance company Industria Insurance Company Ltd. which retains part of the risk exposure for the following insurance lines; property damage, business interruption, transport and general & products liability. Financial lines insurance and business travel insurance are also managed by the Insurance & Risk Management department for the Group. However, Industria is not the insurer for these two lines. Insurance capacity is purchased from leading insurers and reinsurers by way of using international insurance brokers. Claims management services are partly purchased on a global basis from leading providers. Insurance policies are issued on a local basis to ensure compliance with local insurance laws whereas required.

Risk surveys

Every year approximately 30 risk surveys are performed at the Group's production facilities by risk consultants. The main purpose is to prevent potential property losses and business interruption by means of loss prevention and control recommendations based on Atlas Copco's Loss Prevention Standard. The results from the risk surveys are consolidated by the Insurance & Risk Management department and reported to Group Management annually and to each Business Area President semi-annually.

Enterprise Risk Management

Atlas Copco has developed its own enterprise risk management methodology to map Group risks. The methodology is applied on divisions, which is the highest operational level in the Group. Hereby risks are identified based on each divisional management team's knowledge of their own core business and area of responsibility. This hands-on approach is also in line with Atlas Copco's decentralized structure. The ownership of managing the risks raised in the risk mappings lies with each division, while the Insurance & Risk Management department manages the overall process, moderates the sessions and consolidates the results on Group level.

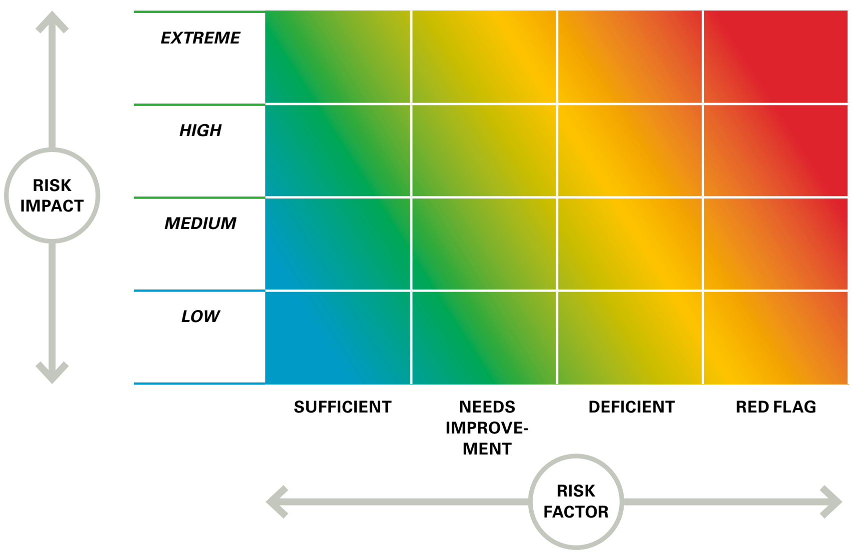
Results of risk mappings are reported to Group Management annually and to each Business Area President semi-annually.

Crisis Management

The crisis management process is managed by the Insurance & Risk Management department and Corporate Communications. It is rolled out to all Atlas Copco entities.

Risk mapping

Risks raised by the divisions in risk mapping sessions are mapped in a risk matrix. Risks are quantified by means of risk impact and risk factor i.e. how well the risk is managed. Risk impact is measured either by loss of life, monetary loss and/or loss of reputation on an impact scale from low to extreme.



Risks, risk management and opportunities, cont.

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
Financial risks, reporting risks and tax *Financial risks*	Changes in exchange rates can adversely affect Group earnings when revenues from sales and costs for production and sourcing are denominated in different currencies (transaction risks). An adverse effect on Group earnings can also occur when earnings of foreign subsidiaries are translated into SEK and on the value of the Group equity when the net assets of foreign subsidiaries are translated into SEK (translation risks). Atlas Copco's net interest cost is affected by changes in market interest rates. Atlas Copco is exposed to the risk of non-payment by any of its extensive number of end customers to whom sales are made on credit.	■ A Financial Risk Management Committee meets regularly to manage financial risks. ■ Atlas Copco Financial Solutions is responsible for these risks and also supports Group companies to implement financial policies and guidelines. ■ The Group's operations continuously monitor and adjust sales prices and costs to limit the transaction risk. These measures can be complemented with hedging. ■ Translation risks are partially hedged by borrowings in foreign currency and financial derivatives. ■ Stringent credit policies are applied and there is no major concentration of credit risk. The provision for bad debt is based on historical loss levels and up to date information and is deemed sufficient. In the case of Atlas Copco Financial Solutions, an in-house financing operations, risks are mitigated by retaining security in the equipment until full payment is received, by purchasing credit risk insurance and/or by transferring the risk to a third party.	→ Working proactively with financial risks improves the profit margin and also creates possibilities for more stable cash flow. Overall, financial risk mitigation has the ability to improve business resilience for Atlas Copco. → Atlas Copco Financial Solutions can improve customer relations and attract more customers.
Reporting risks, tax	The risk related to the communication of financial information to the capital market is that the reports do not give a fair view of the Group's true financial position and results of operations. Errors in reporting could result in management drawing the wrong conclusions. However, with many small entities the material impact is low. Taxes is an area with increased focus, especially transfer pricing risks but also new tax rules and regulations. Estimations sometimes form a large portion of the sustainability data which is reported, and thus by its nature the numbers presented may not be precise representations of the Group's impact.	■ Atlas Copco subsidiaries report their financial statements regularly in accordance with International Financial Reporting Standards (IFRS). The Group's consolidated financial statements, based on those reports, are prepared in accordance with IFRS and applicable parts of the Annual Accounts Act as stated in RFR 1 "Supplementary Rules for Groups". ■ The Group's' operational and legal consolidated result are based on the same numbers and system. These are analyzed by divisional, business area, Group management and Corporate functions before published externally. ■ The Group has procedures in place to ensure compliance with Group instructions, standards, laws and regulations, for example internal and external audits. ■ Group Tax is present globally to monitor and ensure compliance with local tax rules. Transfer pricing policy and agreements are implemented in operations and regularly reviewed. ■ Tax is regularly monitored and reported to the Board and Group Management. ■ Atlas Copco reports sustainability information according to G4 and works with training to improve reporting practices.	→ Integrated reporting identifies and encourages opportunities for business synergies. → Addressing reporting risks increases transparency and improves the potential to represent the business fairly and accurately. → Improved reporting also directly results in improved risk management, especially when the data has been integrated to highlight interdependencies. → Efficient reporting based on the same numbers and system gives total transparency for drawing the right conclusions. → Increased reporting requirements on taxes will increase transparency on taxes, which is of stakeholder interest.
Operational and other risks *Market risks*	A widespread financial crisis and economic downturn would not only affect the Group negatively but it could also impact customers' ability to finance their investments. Changes in customers' production levels also have an effect on the Group's sales of spare parts, service and consumables. In developing markets, new smaller competitors continuously appear which may affect Atlas Copco negatively.	■ Well-diversified sales to customers in multiple countries and industries. Sales of spare parts and service are relatively stable in comparison to equipment sales. ■ Monthly follow up of market and sales development enables quick actions. ■ Flexible manufacturing setup makes it possible to quickly adapt to changes in equipment demand. ■ Leading position in most market segments provides economies of scale.	→ A significant competitive advantage as a result of a strong global presence, including growth markets. → Opportunities to positively impact both the society and environment, through the Group's high quality sustainable products and high ethical standards. → Continue to develop close, long-term and strategic relationships with customers and suppliers.
Product development risks	One of the challenges for Atlas Copco's long-term growth and profitability will be to continuously develop innovative, sustainable products that consume fewer resources over the entire life cycle. Atlas Copco's product offering is also affected by national and regional legislation, on issues such as emissions, noise, vibrations, and recycling. However, there may be increased risk of competition in emerging markets where low-cost products are not affected by such rules.	■ Continuous investments in research and development to develop products in line with customer demand and expectations, even during economic downturns. ■ Designing products with a life-cycle perspective and measurable efficiency targets for the main product categories for each Division. ■ Designing products with reduced emissions, vibrations or noise and increased recycling potential to meet legislative requirements.	→ Substantial opportunities to strengthen the competitive edge by innovating high quality, sustainable products and creating an integrated value proposition for customers.
Production risks	Core component manufacturing is concentrated in a few locations and if there are interruptions or lack of capacity in these locations, this may have an effect on deliveries or on the quality of products. Production facilities could also have a risk of damaging the environment through operations, e.g. through hazardous waste and emissions. Atlas Copco is directly and indirectly exposed to raw material prices.	■ Manufacturing units continuously monitor the production process, test the safety and quality of the products, make risk assessments, and train employees. ■ Manufacturing units invest in modern equipment that can perform multiple operations. ■ Production units are subject to continuous risk management surveys to safeguard that they comply with the Atlas Copco loss prevention standard. ■ Ambition to certify all manufacturing units in accordance with the ISO 14001 standard.	→ Continued opportunities to extensively promote operational excellence to streamline production, minimize inefficiencies and maintain a high flexibility in the production process. → Cost increases for raw materials and components often coincide with strong end-customer demand and can partly be compensated by increased sales to mining customers and by increased market prices.

Risks, risk management and opportunities, cont.

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
Distribution risks	Atlas Copco primarily distributes products and services directly to the end customer. If the distribution is not efficient, it may impact customer satisfaction, sales and profits. Damages and losses during the course of distribution can be costly. Some sales are made indirect through distributors and rental companies and their performance can have a negative effect on sales. The distribution of products can result in increased CO_2 emissions from transport.	■ Physical distribution of products is concentrated to a number of distribution centers and the delivery efficiency of these is continuously monitored. ■ Resources are allocated to training and development of the service organization. ■ As indirect sales are local/regional, the negative impact of poor performance is limited. ■ Increased focus on safer and more effective transports to reduce losses, costs and the total emissions per transport.	→ Continue to strengthen the relationship with customers through timely deliveries of products and services. → Transport efficiencies and safe transports can save the customer time and cost while reducing the environmental impact of their own operations. → Reduce fuel costs and resource requirements which improves business agility for the Group.
Supply chain risks	Atlas Copco and its business partners such as suppliers, sub-contractors and joint venture partners, must share the same values as expressed in Atlas Copco's Business Code of Practice. The availability of many components is dependent on suppliers and if they have interruptions or lack capacity, this may have an undesirable effect on deliveries. The use of many suppliers gives rise to the risk that products contain components which are not sustainably produced, e.g. that electronic components contain conflict minerals (whose trade or taxation fund armed groups in conflict areas such as the Democratic Republic of Congo).	■ Select and evaluate business partners on the basis of objective factors including quality, delivery, price, and reliability, as well as commitment to environmental and social performance. ■ Continue the process to investigate and eradicate the presence of conflict minerals in its value chain. ■ Establishment of a global network of sub-suppliers, to prevent supplier dependency. ■ Business partners sign a compliance letter to the Business Code of Practice. ■ E-learning for business partners developed to raise awareness of the Business Code of Practice.	→ Further increase business agility and reduce costs by improving supplier inventory management in response to changes in demand. → Continue to be a preferred business partner and promote efficiency, sustainability and safety. Good supplier relations help to improve Atlas Copco's competitive position. → Opportunity to strengthen customer relationships by being ready to support customers who are impacted by the Dodd Frank legislation on conflict minerals. → Promote human rights and work towards improving labor conditions, reducing corruption and conflicts.
Legal risks and compliance	Atlas Copco's business operations are affected by numerous laws and regulations as well as commercial and financial agreements with customers, suppliers, and other counterparties, and by licenses, patents and other intangible property rights.	■ In-house lawyers present on five continents supporting entities with advice on laws and regulations including compliance. ■ A yearly legal-risk survey of all companies within the Group is performed in addition to a continuous follow-up of the legal risk exposure. The result of the legal-risk survey is compiled, analyzed, and reported to the Board and the auditors.	→ Complying with legal norms and laws minimizes costs and increases opportunities to strengthen Atlas Copco's reputation. It also creates the chance to develop reliable partnerships and improve business stability.
Risks with acquisitions and divestments	When making acquisitions there are risks related to the selection and valuation of the potential targets as well as the process of acquiring the targets. Also the integration of acquired businesses can be a complex and demanding process. It is not certain that an acquisition will be successful if not all steps are done properly. Annual impairment tests are made on acquired goodwill. If goodwill is not deemed justified in such tests it can result in a write-down, affecting the Group's result. Acquisitions and divestments can impact local communities and/or the environment, directly or indirectly.	■ The Group has an Acquisitions Process Council, which has established a process for acquisitions. The process is continually updated and improved to address and mitigate risks. The Council also provides training and supports all business units prior to, during and post an acquisition. ■ Atlas Copco guidelines and policies are applied to assess and manage the environmental and social impact of operations in the affected communities after an acquisition is complete. ■ Human rights and environmental considerations are integrated when acquisitions and divestments are made.	→ Acquisitions give possibility to enter new markets, market segments, new technologies, new clients, increase in revenues, etc. → Identifying the obstacles to integration can allow Atlas Copco to improve the process through methods such as job rotation, training or team building exercises. This would not only result in a smoother integration process but also lower operational costs by decreasing downtime and allowing newly acquired companies to become productive and efficient more rapidly.
Employee risks	Atlas Copco must have access to skilled and motivated employees and safeguard the availability of competent managers to achieve established strategic and operational objectives.	■ The Competence mapping and plan secures access to people with the right expertise at the right time. Recruitment can take place both externally and internally, Internal recruitment and job rotation are facilitated by the "Internal job market". ■ Salaries and other conditions are adapted to the market and linked to business priorities. Atlas Copco strives to maintain good relationships with unions.	→ Motivated and skilled employees and managers are crucial to achieve or exceed business goals and objectives.
Risks to reputation	The Group's reputation is a valuable asset which can be affected in part through the operation or actions of the Group and in part through the actions of external stakeholders. Products must deliver the brand promise and be of high quality, safe and have a low negative impact on the environment when used by the customer. There is potential for reputational risk from non-compliance to product labeling standards or if there are cases of false advertising. Unsatisfied employees may also potentially detract the Atlas Copco brand.	■ All Atlas Copco products are tested and also quality assured. Monitoring of product labeling and regular communications training. ■ The Group actively engages in stakeholder dialogue. ■ Training in the Business Code of Practice includes the yearly signing of a Compliance Statement. ■ Clear well-known brand promise. ■ A comprehensive employee survey is carried out every two years and followed up actively.	→ Brand positioning. → Stakeholder engagement cannot only mitigate reputational risks in certain cases but it also presents opportunities to increase the awareness and credibility of Atlas Copco's brand through improvements and innovations. → Delivering tested and quality assured products improve customer satisfaction and promote repeat business. → Attract and develop employees that adhere to the Business Code of Practice.

Risks, risk management and opportunities, cont.

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
Information technology (IT) risks	The Group relies on IT systems in its day-to-day operations. Disruptions or faults in critical systems have a direct impact on production. Errors in the handling of financial systems can affect the company's reporting of results. Theft or modification of Intellectual Property constitutes a risk to our products and future business success. Cyber security risks are increasing in importance and can have a major impact on Atlas Copco operations.	■ Atlas Copco has a global IT security policy, including quality assurance procedures that govern IT operations. Information security is monitored through continuous reviews, IT Security audits. Standardized processes are in place for the implementation of new systems, changes to existing systems and daily operations. ■ IT Security tracks globally major downloads of files. Screening of business partners/consultants working in our systems. ■ The system landscape is based on well-proven products. ■ Cyber security is regularly discussed and addressed by the IT Security function. Awareness of cyber security risks increases the readiness to quickly address any attacks.	→ Stable IT systems, secure IT environment and standardized processes increase efficiencies and reduce costs. → Quick action on major download of product development files minimizes the potential damage. → Quick action to address a cyber attack gives opportunity to stable work environment and business continuity.
Safety and health risks	Issues with wellness and sick leave can impact the productivity and efficiency of the operations. Accidents or incidents at the workplace due to lack of proper safety measures can negatively affect productivity and the Atlas Copco employer brand. Atlas Copco recognizes the risk that serious diseases and pandemics can interrupt business operations and harm employees.	■ The Group regularly assesses and manages safety and health risks in operations. ■ The ambition is to certify all major units in accordance with the OHSAS 18001 standard. ■ Workplace wellness programs to reduce the impact of pandemic HIV/AIDS are in place in Sub-Saharan Africa. ■ Atlas Copco's business partners are trained in the Group's policies including the approach to health and safety.	→ Improved safety and health in operations increases both employee productivity and morale. → Atlas Copco is strengthened through safe products. The Group continues to be seen as industry leader. → Improving working conditions for customers and suppliers can create long lasting relationships and repeat orders.
Environmental risks (external)	The primary drivers for external environmental risk are from physical changes in climate and natural resources, changes in regulations, taxes and resource prices. Increased fuel/energy taxes can increase operational costs. Regulations and requirements related to carbon dioxide emissions from products and industrial processes are gradually increasing. Changes in mean precipitation can affect all of Atlas Copco's operations and negatively affect operations either directly or by disrupting the supply chain.	■ Atlas Copco consistently develops products with improved energy efficiency and reduced emissions. ■ In its own operations, Atlas Copco has several key performance indicators (KPIs) that address resource and energy usage in order to minimize the costs and impact on the environment. ■ All cooling agents used in Atlas Copco products have a zero ozone-depleting impact during the product's lifecycle, and the aim is to continue to introduce cooling agents with lower Global Warming Potential (GWP).	→ Working proactively with environmental risks can provide significant opportunities to drive innovation at Atlas Copco. → Given that many customers are operating in areas of extreme water stress or scarcity, water efficient or water recycling products can have a strong customer appeal. Thus, this presents a strong business opportunity to extend Atlas Copco's innovations to the focused area of water consumption. → Climate change impacts and predictions can induce changes in consumer's habits and behavior. As a result of climate events Atlas Copco's customers can become more risk averse and demand sustainable products from the Group.
Risks of corruption and fraud	Corruption and bribery exist in many markets where Atlas Copco conducts business. Fraud is wrongful or criminal deception intended to result in financial or personal gain, which is always present where there are persons with bad intentions.	■ Zero tolerance policy on bribery and corruption, including facilitation payments. ■ Internal control routines in place aimed at preventing and detecting deviations. The Internal Audit function is established to ensure compliance with the Group's corporate governance, internal control and risk management policies. ■ Control Self Assessment tool to analyze internal control processes. ■ Training in the Business Code of Practice, including fraud awareness and workshops. ■ The global Group hotline to report violations confidentially and with no penalties for reporting. ■ The Group supports fair competition and forbids discussions or agreements with competitors concerning pricing or market sharing.	→ By fighting against corruption and fraud, Atlas Copco has the opportunity to work with its industry peers to reshape international market practices. Refusing to pay bribes may cause temporary delays and setbacks; however it reduces costs in both the long and short run, builds opportunities to improve operational efficiencies and creates more stability in the society and in markets where the Group operates. → Working against corruption and fraud improves Atlas Copco's credibility and transparency and creates even more avenues to improve stakeholder relations.
Human rights risks (Esg note 7)	Atlas Copco operates in countries where the risk according to Amnesty International is high of human rights abuse, including child labor, forced or compulsory labor. Atlas Copco encounters customers, for instance in the mining industry, who are exposed to problems concerning environmental and human rights issues. Risks to the Group's reputation may also arise from the relationship with suppliers not complying with internationally accepted ethical, social, and environmental standards.	■ Guidance and regular interaction to identify risks with well-established non-governmental organizations. ■ Policies and procedures to match the standards in the UN Guiding Principles for Business and Human rights, which Atlas Copco has committed to since 2011. ■ Due diligence process and the integration of internal controls for human rights violations in all processes. ■ The Group customer sustainability assessment tool is used. ■ Supplier evaluations are regularly conducted in accordance with the UN Global Compact.	→ Following the UN Guiding Principles for Business and Human Rights to "do no harm" significantly reduces risks and costs; however a business' ability to "do good" according to these guidelines also creates business opportunities. For example: continuing to develop a diverse workforce can significantly increase Atlas Copco's competitive edge and also increase the knowledge and capacity to tailor products to the customer's needs. → Working with human rights positively impacts both the employer brand and investor relations. → Strong business ethics promote internal stability while also creating a more stable market place.

Committed to sustainable productivity

WORLD LEADING PRODUCTS AND SERVICE
With presence in 180 countries, Atlas Copco is a global provider of reliable products and service improving customers' productivity with the highest ethical standards.

About the image: In Tanzania, the company provides customers with world-class mining and rock excavation solutions while also providing local employment.

Ensuring sustainable productivity

Atlas Copco delivers cutting-edge technology in the form of safe, reliable and energy-efficient products designed to optimize customers' productivity and competitive advantage. The Group's high quality service offerings ensure that the customers get the most out of every investment, keeping Atlas Copco First in Mind—First in Choice®.

To succeed in delivering leading technology for sustainable productivity to its customers, Atlas Copco integrates priorities for sustainable profitable growth with ambitious goals. The priorities are: ethical behavior, safety and well-being, competent teams, resource efficiency and innovation. Atlas Copco regards these priorities as necessary to achieve long-term success.

In 2016, the work continued to develop key performance indicators (KPIs) for the five identified priorities. Key performance indicators as well as goals for the first four priorities are common for all Group companies. Significant efforts have been dedicated to making sure that all selected key performance indicators are leading, and not lagging.

Developing innovative products and services with a life cycle perspective have been mapped as the highest priority by all of Atlas Copco's stakeholders, internal and external. The innovation key performance indicators are set individually by each division to be relevant to their specific businesses. During 2016, all divisions have begun to measure and follow-up on individual three-year goals to drive innovation for customers' competitiveness.

Products designed for energy efficiency

Enhancing productivity has always been a key priority. Increasingly, however, energy is top of mind amid concerns about its price, the impact of its emissions and the geopolitical tensions involved in producing it. Atlas Copco supports the UN Sustainable Development Goals to ensure sustainable industrialization everywhere. By innovating with a life cycle approach, Atlas Copco contributes to the building of resilient infrastructure.

INNOVATE FOR SUSTAINABLE PRODUCTIVITY

BUSINESS AREAS

The biggest potential to increase energy efficiency/reduce emissions is through innovative products and service. Therefore, each business area has identified one or two product 'families' whose performance can be followed up year-on-year in relation to energy efficiency according to the following criteria:

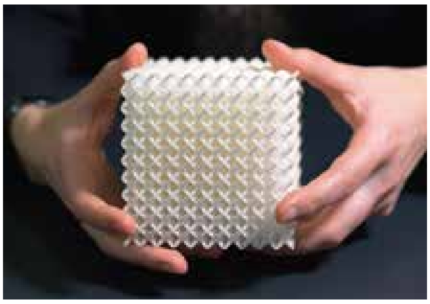
- The case chosen is significant to the business
- The case can be followed during a couple of years
- It must be possible to audit the data
- The energy efficiency gains may be reported throughout the value chain

DIVISIONS

Each division identifies two to three key performance indicators relevant to the business and sets 2018 targets on these. The performance will be followed-up by divisional business boards.

Driving forces for new product developments

CUSTOMERS' DEMANDS AND REQUESTS
e.g. for productivity, energy efficiency, quality, safety and ergonomics.



NEW TECHNOLOGY
e.g. Internet of things, machine connectivity and innovations in additive manufacturing.

SUSTAINABLE DEVELOPMENT GOALS
for economic growth, sustainable industrialization and shift to modern energy.

LAWS AND POLICIES on emissions, energy efficiency, raw materials, safety, taxes, hazardous chemicals, conflict minerals etc.

CLIMATE PLEDGES and governmental action plans post COP 21, to decouple economic growth from emissions.

Innovation

The Group has a long history in sustainability besides innovation; the Business Code of Practice was launched in 2003 and five years later Atlas Copco became a member of the UN Global Compact. The first integrated annual report was published in 2012 and in 2015 the priorities for sustainable profitable growth were launched.

A significant portion of Atlas Copco's environmental footprint concerns the use-phase of its products, with energy consumption having the most significant impact. Therefore, Atlas Copco's product development projects have ambitious targets to reduce energy consumption.

Strong service offerings and smart product design can minimize waste and maximize the value of the customer's investments. Products such as stationary compressors, drill rigs, hydraulic breakers and industrial tools are designed so that they can be returned, refurbished and resold as used equipment. Used equipment meets the same high standards as when it was new in terms of quality, performance and energy efficiency.

Atlas Copco has strong relationships with customers in leading positions in their industries. Trends such as increased digitalization and technology development can be harnessed to transform the efficiency of industrial processes. The challenge is to continue to meet the customers' need for equipment and service that increase their productivity and, at the same time, are sustainable, meaning that they are energy efficient, safe and ergonomic.

Digitalization for the future

Atlas Copco continued to invest in product development in 2016, and increasingly also in connectivity. Advanced technologies are required to meet customers' rising demands, and society requires environmentally sound and labor-friendly solutions.

The number of people employed in research and development represented 7.1% (7.1) of Atlas Copco's total workforce in 2016. The amount invested, including capitalized expenditures, decreased by 3.0% to MSEK 3 013 (3 106) corresponding to 3.0% (3.1) of revenues and 3.7% (3.9) of operating expenses.

Collaborations in research and development are important. One example is a consortium consisting of mining companies, technology providers and universities from four European countries with the objective to demonstrate state of the art mining technology.

Software development is a high priority for the Group. The Compressor Technique business area is involved in the future of equipment control with a focus on bringing even greater value and quality to its customers. The equipment control includes an intuitive touch-screen based unit with improved connectivity, allowing for improved energy efficiency, field reliability, and future-proof adaptability.

The Industrial Technique business area provides customers with a wide range of connected products and solutions. This means that material, products and equipment communicate with each other and drive the production process by exchanging information in real time. Areas benefiting from this interconnectivity range from line configuration software and tool management, to error proofing solutions.

The Mining and Rock Excavation Technique business area focuses on the function of the machine, the operator environment and the collection and integration of data. Innovations include a telematics solution that gathers, compares and communicates

Innovations reducing customers' energy consumption

2012

ASSEMBLY TOOLS FOR MANUFACTURING INDUSTRY

Transformation from air to electric powers one-hand processing and increases energy efficiency with 40%. The tool has increased safety and lower reaction force which gives better ergonomics.

SCROLL PUMP FOR MANUFACTURING INDUSTRY

The long life tip seal technology of the scroll pump extends maintenance intervals to up to five years, saving material wastage, and its smart control (with idle mode) delivers up to 15% energy reduction compared to comparable products.

2013

COMPRESSORS USED IN MANUFACTURING INDUSTRY

The GA VSD+ offers a space-saving, vertical drivetrain design, energy-saving variable speed-drive (VSD) and a compact, interior permanent magnet motor.
Saves up to 50% energy.

GENERATORS FOR PROCESS INDUSTRY

On-site gas generators allow customers to produce nitrogen and oxygen on site which significantly reduces customers costs and increases energy efficiency with up to 50%.

2014

VACUUM PUMPS FOR MANUFACTURING INDUSTRY

By introducing variable speed drive and an innovative inlet control valve, the GHS VSD+ brings energy savings of around 50% compared to traditional rotary vane pumps and dramatically reduces lifecycle costs.

GRINDERS FOR MANUFACTURING INDUSTRY

Integrated turbine motor offers 18% higher energy efficiency. Smaller motor gives better ergonomics and sound pressure level.

vital equipment information. The solution provides accurate production data about the customer's individual units or the entire fleet via a user-friendly web portal.

Within Construction Technique, the ability for monitoring and accessing key machine data remotely gathers pace. The software gives users the ability to monitor all types of key performance data, such as fuel consumption and service schedules, in order to utilize their maximum potential.

Additive manufacturing is an emerging technology with a potentially disruptive power. New degrees of freedom open up opportunities for increased part complexity, customization, energy efficiency, material savings and improvements in safety and performance. Most of the current applications for Atlas Copco can be found in prototyping and tooling. Typical examples where the technology is being developed are tools for measurement and production with improved ergonomics.

Resource efficiency

Since electricity is the lion share of the energy consumption in most applications for compressors, energy efficiency has a significant impact on the environmental footprint. In numerous applications of the variable speed drive (VSD) compressors, the technology saves on average 50% electricity compared to earlier models. In 2016, the number of compressors and vacuum pumps driven by variable speed drive became higher, thus increasing the VSD-ratio of Atlas Copco sold machines. Today almost half of all industrial oil injected screw compressors sold by Atlas Copco are VSD machines. For some customers, the energy efficiency has been even higher than 50%. One example is a manufacturer of bathroom and tiling solutions that saved 89% in energy consumption after switching to Atlas Copco's variable speed vacuum pump.

The largest footprint Atlas Copco has as regards energy consumption is through the use of its products. That is why continuous efforts are put into developing ever more efficient products. In the mining sector, this is closely linked to operator safety and customer productivity.

Through the autonomous Pit Viper drill rig productivity gains of up to 30% in safe and accurate drilling have been experienced, leading to corresponding energy savings. The automation means that the drill rig runs an operation with fewer stops and for longer hours. Through a tele-remote system the operator can perform the drill function remotely, as far as 1 300 km away from the site, which also improves work safety. The technology empowering the autonomous Pit Viper drill rig is the result of Atlas Copco's drive for innovation for sustainable productivity.

By applying innovative engineering with high ambitions both as regards environmental impact and customer value, several products are developed with considerable less weight than previous generations. This decreases resource consumption and energy from transports.

The construction sector, where mobility is key, can benefit from the new lightweight range of portable compressors. The 8 Series can be up to 150 kg lighter than comparable models, including options with a built-in generator, meaning any model can be towed by a normal passenger car, enabling easy transportation. The compressors provide an average of 12% fuel savings in operation.

Atlas Copco's innovative spirit and focus on customers' productivity has resulted in many break-through product launches over the years. Here are a few; many with energy savings around 50%.

(If nothing else is stated the comparison is made with the previous generation of this product range).

2015

LIGHT TOWER FOR CIVIL ENGINEERING

LED lighting technology on the light tower range make them the most energy efficient product in their category. These light towers are up to 60% more fuel efficient than metal-halide solutions.

COMPRESSORS FOR PROCESS INDUSTRY

High-pressure CO_2 integrally-geared turbo compressor increases energy efficiency with up to 30%.

2016

VACUUM PUMPS FOR MANUFACTURING

Best in class in energy usage requiring 50% less energy. The innovative coating technology extends pump life and service intervals.

DRILL RIGS FOR MINING

Surface drill rigs using the COPROD drilling method, offering 50% better fuel efficiency than conventional down the hole drilling.

BREAKERS FOR CIVIL ENGINEERING

Reduces the compressed air consumption with 50%, has 25% lower weight and vibration levels under 5m/s2.

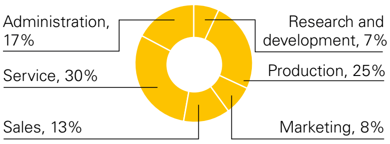
TOOLS FOR MANUFACTURING INDUSTRY

Introduction of 10% smaller and 20% lighter industrial tools to increase uptime and productivity.

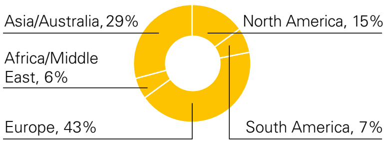
Attract and develop employees

Atlas Copco's people management strategy is to attract and develop qualified and motivated employees. The managers are expected to take responsibility for developing their employees, their organizations and themselves.

PROFESSIONAL CATEGORY SPREAD OF EMPLOYEES



GEOGRAPHICAL SPREAD OF EMPLOYEES



44 695

Number of employees December 31, 2016

To build the most competent teams is identified as one of the key priorities for creating sustainable profitable growth. The objective is to have talents professionally coached and trained, that diversity increases and the leadership becomes better and better in guiding the organization.

A fair and diverse workplace

A fundamental belief at Atlas Copco is that diversity inspires innovation and gives insights that help to create a better understanding of customers' needs. Atlas Copco companies establish local diversity policies and guidelines in alignment with Group policy, local laws and regulations, and local ambitions.

The Group is committed to promoting equal opportunity in its hiring and promotion processes. A wide range of efforts to attract a diverse workforce are in place globally, such as ensuring job ads are inclusive.

Striving for increased balance of the number of men and women in the workforce, Atlas Copco undertakes a variety of activities. The proportion of female recent graduates recruited during the year among white-collar workers declined somewhat to 36% (39). The inflow of women, measured as part of external recruitment overall to the Group, was 22 % in 2016. The Mining and Rock Excavation Technique business area carried out a Female Mentorship Program in order to attract and retain female leaders and talents during 2016. In the Industrial Technique business area in Hungary, conscious efforts to improve working conditions and office hours for women resulted in a workforce with more than 50% female employees.

In 2016, Atlas Copco further strengthened its focus on social media channels as an important tool to reach and attract talent in various fields of expertise and geographies. A common employer branding format was developed and is being rolled out in all regions to secure that full attention is paid to recruiting and retaining talent in all markets. In one outreach activity Atlas Copco joined a global student competition with a case to enable a visionary, sustainable city, utilizing Atlas Copco's innovative products and solutions.

The role of leadership

Atlas Copco's leaders have a key role for developing the business in a responsible way and to support the growth of employees. In 2016, the Group selected the Communicative Leadership Index, measured every other year, as one key performance indicator to measure leadership success. The score in 2016 was 75/100, which is higher than the previous score (68/100).

Atlas Copco seeks to strike a balance between developing the local workforce and offering international opportunities through internal mobility. Managers develop local leaders to attract and retain local competence and talent. In addition, managers who take on international positions play an important role for strengthening the business culture. Overall, Atlas Copo has managers on international assignments coming from 54 countries and work-

GROWING TALENT

Atlas Copco has a simple proven philosophy on how to grow talent; employees are encouraged to take on new challenges and do many different jobs. However, to do this they need to take control of their own careers and apply in the internal job market. The internal job market is Atlas Copco's way to fulfil the principle that everyone has talent and therefore can – and should – get the chance to develop further. All open postions except the CEO are advertised on the internal job market. The objective is to have a talented, experienced workforce, the foundation for achieving lasting results.

There are some basic principles for talent growth at Atlas Copco:

1. RESULTS GIVE FREEDOM
2. LEARNING BY DOING
3. YOU MUST TAKE CARE OF YOUR OWN CAREER
4. THE JOB MARKET IS OPEN TO EVERYBODY

ing in 58. In 2016, a total of 65% (64) of all senior managers were locally employed. 57 nationalities are represented among the 420 most senior managers worldwide.

Growing and mobilizing talent globally

Atlas Copco strives to encourage mobility, across geographical, organizational and cultural boundaries. This is important for developing competence, but also for successful integration of newly acquired companies. Experienced senior managers lead the integration process and make it possible to establish the Group's Business Code of Practice, values and vision in an efficient and pragmatic manner.

Transparent, constructive and systematic feedback on employees' and managers' performance is an important part of being a successful and responsible employer. Performance and development discussions are followed up as a key performance indicator. In 2016, 88% (84) of the employees had yearly discussions.

The opportunity for employees to continuously learn and develop new skills thereby building competence and knowledge is vital. In 2016, the average number of training hours per employee was 37 (39). In 2016, 56% (55) of the white-collar employees had a university degree.

In order to stimulate internal advancement and talent growth, a key performance indicator assessing managers according to their potential for more challenging tasks and their performance was introduced in 2016. 67% were assessed as having displayed both good results in their current position and to have potential for advancement.

Developing a leadership pipeline

In order to retain competence within the organization, the Group has an ambition to recruit 85% of managers internally. The outcome in 2016 was 86%. One key success factor to retaining talent while still growing competence and encouraging mobility, is the internal job market. In 2016, 4 421 positions were advertised, of which 360 were international. In 2016, the total internal mobility among employees increased to 7.8% (6.7). Overall external recruitment increased somewhat to 9.6% (8.6), excluding acquisitions.

ENGLISH KNOWLEDGE OPENS DOORS

Since more than 25 years, English is the corporate language in the Group. English knowledge is one of the most important factors for competence development in Atlas Copco and a key success factor for employees in their career advancement. Atlas Copco offers all employees an English virtual learning program. Participants have access to a virtual school which offers complete flexibility and unlimited opportunities to study – anywhere, any time and on any device. Thousands of hours of interactive, teacher-led learning content can be tailored to meet individual needs. Learners can also join an unlimited number of live, small-group, teacher-led conversations classes to practice their speaking skills.

Since 2014, 3 300 of Atlas Copco's employees in 53 countries have improved their language skills through EnglishConnects!

WE BUILD THE MOST COMPETENT TEAMS

67%

Managers with highest assessment rank for performance and potential for higher positions

GOAL: 65%

22%

Inflow of women

2015: 21%

GOAL: Continuous improvement

75

Communicative Leadership Index rating

2014*: 68

GOAL: Continuous improvement

** measured every second year*

88%

Employees with yearly performance and development discussions

2015: 84% **GOAL:** 100%

WE INVEST IN SAFETY AND WELL-BEING

15
Incidents per million working hours
2015: 17
GOAL: Continuous improvement

2.0%
Sick leave
2015: 1.9% **GOAL:** Below 2.5 %

1
Fatalities
2015: 0 **GOAL:** 0

3.5
Accidents per million working hours
2015: 3.6
GOAL: Continuous improvement

Committed to high labor standards

As a voluntary member of the UN Global Compact since 2008, Atlas Copco ensures that labor practices such as the right to collective bargaining are included in the Business Code of Practice. The Group views trade unions and employee representatives as a necessary and valuable support system for its employees, and fosters relationships based on mutual respect and constructive dialogue. In 2016, 37% of all employees were covered by collective bargaining agreements, and it is estimated that several hundred local consultations/negotiations took place with unions regarding working conditions and organizational changes. As a decentralized organization, this engagement and constructive dialogue with labor unions takes place at a local level. In countries where no independent labor union may exist, Atlas Copco has taken measures to establish forums for employer/employee relations, for example in China, through environment and safety committees. A non-discrimination policy covers all employees and the Business Code of Practice also covers employee rights.

For full disclosure on wages and employee benefits, see note 5.

Safety and well-being enhance productivity

Atlas Copco has a global Safety, Health and Environmental policy to ensure that workplaces have robust standards for safety and well-being. The major focus of the activities during the year has been to promote the behavioral changes that are necessary to create a safety culture in the workplace. In addition, priority was given to enhancing safety for employees working at customer sites and to road safety.

The number of accidents per million working hours for Atlas Copco employees decreased to 3.5 (3.6), (ESG note 4). Atlas Copco has begun to report on accidents and incidents in the additional workforce as well. Compared to the previous year, this group showed a significant reduction to 1.4 (3.1) accidents per million working hours. The progress is likely a result of the priority that has been given to encourage reporting of incidents, in order to increase transparency. The number of incidents per million working hours decreased significantly for Atlas Copco employees, and even more for the additional workforce. Sadly, one fatality caused by a traffic accident on a customer site was reported in 2016.

In 2016, sick leave among Atlas Copco's employees due to own illness or work-related accidents increased somewhat to 2.0% (1.9), however it was still below the accepted level of 2.5%.

SAFETY AND WELLNESS TRAINING INDIA

The Atlas Copco Safety and Health Award aims to inspire companies in their work to improve safety and health for all stakeholders. The winner in 2016 is Industrial Technique India for its wide-ranging efforts to promote a safe and healthy workplace. Industrial Technique India has achieved more than 650 days without accidents. There were no loss of man hours due to accidents in this period. The organization made this possible through a wide range of initiatives. The organization also encourages transparency in reporting, realizing that what gets measured gets done.

WORKPLACE WELLNESS

In 2003, Atlas Copco started conducting HIV testing in South Africa. Today Atlas Copco has gender sensitive HIV and wellness programs in place in Botswana, the DR Congo, Kenya, Namibia, South Africa, Tanzania, Zambia and Zimbabwe and spreads its knowledge to both business partners and the society. Atlas Copco in Zambia and Zimbabwe have shared their experiences with the value chain through mentorship programs. Additionally, Atlas Copco South Africa has summarized its experiences in a pocket guide on HIV and AIDS. During 2016, Atlas Copco ran various programs promoting the health and wellness of employees and communities in sub-Saharan Africa, some in partnership with others, such as the Swedish Workplace HIV/Aids Programme. In an example from Botswana, Atlas Copco partnered with bus and truck manufacturer Scania, the Department of Road Transportation and Safety and the Ministry of Health for a campaign that raised awareness of road safety and health, providing opportunities for wellness testing along a busy highway.

Living by the highest ethical standards

Ensuring that the business grows with a clear stance against corruption and a strong commitment to respecting human rights is the right way to expand Atlas Copco's global presence. The Group works continuously with its entire value chain to protect the business from risks and to promote better standards in society.

To live by the highest ethical standards is one of the key priorities for creating sustainable profitable growth for Atlas Copco. The Group's ability to ensure that the highest ethical standards are applied is a function of the values and behavior of employees, management and business partners. Because of that, significant weight is put on communicating and monitoring the adherence to Atlas Copco's values.

Human rights

Human rights are integrated into the Group processes and driven in the organization by the Business Code of Practice supported by both the Supplier and the Customer Sustainability Assessment tools and criteria, and reinforced by targeted training (ESG note 7).

Responsible sourcing practices

Atlas Copco's business model is agile because of strategic partnerships with business partners such as suppliers, distributors and joint venture partners. Purchased components represent about 75% of the product cost. Working with business partners who share the Group's high standards of quality, business ethics and resource efficiency is necessary to effectively manage risks, and to enhance productivity in the value chain. Atlas Copco's purchasing strategies are decentralized to give the organization higher flexibility and to ensure the right competence. The Group has a large international supplier base, which presents significant challenges in maintaining supply chain standards. Purchasing councils oversee supply chain management at divisional level, and come together as a part of the Group purchasing council to develop central policies and tools that impact all operations. One such example is the issue of conflict minerals.

Approach to sustainability in the supply chain

Atlas Copco prioritizes follow-up activities with suppliers who represent the bulk of the annual purchase value as well as the highest risk from markets with corruption or human rights risk, i.e. significant suppliers. In 2016, 4 471 (4 187) suppliers were within the scope of this risk-based approach. 91% (95) of the 4 471 significant suppliers have been requested to confirm compliance to Atlas Copco's 10 criteria letter. 88% (88) confirmed compliance.

Business partners within the scope are impartially evaluated on parameters including price, quality and reliability as well as key environmental, social and ethical concerns. The checklist is based on the UN Global Compact and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. On-site visits are made in order to ensure compliance. (ESG note 5).

In order to ensure that Atlas Copco's values as stated in the 10 criteria letter are implemented, regular audits are performed by the business operations. In 2016, 1 145 (1 188) significant suppliers were audited for quality and 774 (859) for safety, health, environmental and ethical standards. Of these, 14 (16) were rejected due to quality issues and another 2 (13) for safety, health, environmental or ethical standards. All new suppliers must confirm compliance with the Business Code of Practice. However, for non-red-flag issues (such as having environmental management systems), Atlas Copco seeks to work with business partners to set up an action plan to help them meet the criteria within 6–12 months' time.

HOW ATLAS COPCO WORKS WITH HUMAN RIGHTS IN THE VALUE CHAIN

Atlas Copco's Business Code of Practice supports the UN International Bill of Human Rights and is a central policy to guide the business in working with all issues, including human rights.

SUPPLIERS	*THE GROUP'S OWN OPERATIONS*	*CUSTOMERS*	*COMMUNITY*
Atlas Copco has integrated the UN Global Compact principles into supplier evaluation and management. Read more on page 49–50.	The Group's operational goals strive to create safe, healthy and fair working environments. Read more in the Employees section on pages 46-48.	The Group is strengthening its approach using the UN Guiding Principles on Business and Human Rights. Read more in ESG note 7.	Atlas Copco pays the fair, and legal amount of taxes to support the communities the Group operates in. Read more in ESG note 8.
Prohibiting child labor and forced labor, responsible sourcing from high risk or conflict affected regions.	Ensuring that employees have fair labor and working conditions, diversity in the workplace and the right to join trade unions.	Product safety, protecting standard of life by minimizing environmental impact through usage of products, issues related to community relocation and security concerns.	Community engagement activities increases the access to health, education and safe development of children and vulnerable groups, as well as disaster relief.

WE LIVE BY THE HIGHEST ETHICAL STANDARDS

99%
Managers signed compliance to the Business Code of Practice
GOAL: 100%

Managers trained in the Business Code of Practice
Measuring starts in 2017.
GOAL: 100%

64%
of employees aware of the Group hotline or local hotline
GOAL: 100%

88%
Significant suppliers that confirmed compliance with the Atlas Copco Business Code of Practice
GOAL: 100% **2015:** 88%

Significant agents, contractors, distributors that confirmed compliance with the Atlas Copco Business Code of Practice
Measuring starts in 2017.
GOAL: 100%

Applying the Business Code to distributors and agents

Approximately 20% of Atlas Copco's revenues are generated through sales via distributors, agents and contractors. In 2016, the Group decided that each division develops its own process for implementing confirmed compliance with the Atlas Copco Business Code of Practice among significant distributors and agents, since the number of and type of distributors and agents differ significantly between the divisions. Measuring will begin in 2017.

Sales compliance process

The Group began using the customer sustainability tool in 2013 to investigate potential risks based on environmental, labor, human rights and corruption in markets and industries where Atlas Copco is present (ESG note 7). The Group has shared the tool with industry peers in order to promote a standard approach to sales compliance among capital goods providers.

Atlas Copco's Compliance board oversees and supports the operations, to ensure that the Group is not complicit in human rights violations in accordance with its commitment to the UN Guiding Principles on Business and Human Rights.

The lacking enforcement of legal and political infrastructure in some complex markets represents a challenge. Bilateral engagements with civil society and investors are crucial for the Group to successfully escalate issues in challenging markets.

Zero tolerance against corruption

Fighting corruption is central to working with human rights and environmental impacts, since corruption can cripple the governmental bodies and processes needed to address the issues. The Atlas Copco Group has a zero tolerance policy, which applies to all employees as well as the Board of Directors. The Board has explicitly communicated that corruption is never acceptable for securing a sale. This also applies to facilitation payments. This basic rule strengthens the brand and contributes to fair market competition.

The zero tolerance of corruption is supported by a policy, procedures, training and monitoring process. Internal control procedures are set up to minimize the risk of corruption and bribes, such as the segregation of duty. Internal audits include compliance to the Business Code of Practice. When incidents are reported, firm action is taken on a case-by-case basis (ESG note 6). There are no negative consequences, such as demotion, penalty or other reprisals, for employees refusing to receive or pay bribes or for reporting violations. The Group hotline can be used by employees to report behavior or actions that are, or may be perceived as, violations of laws or of the Business Code of Practice. It serves as a complement to similar processes on country level. The Group Legal department is responsible for managing the hotline process and ensures that reports are treated confidentially. The person reporting is guaranteed anonymity.

In 2016, Atlas Copco measured employee awareness of the ethical hotline, through its biennial employee survey. On average, 64% of the employees stated that they had knowledge of the hotline. This is an area that will be followed up and measures for improvement put in place in the coming years.

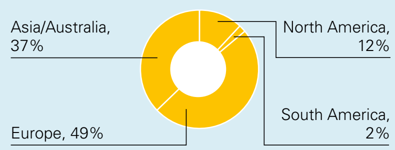
Atlas Copco takes part in non-political arenas to influence the conditions for doing sustainable business. Through membership in local business associations and cooperation with others, the company uses its weight carefully in order to further the values that are embedded in Atlas Copco's business model.

Training for employees worldwide

The Business Code of Practice is given to all new employees and training is provided globally. All managers are required to sign the Business Code of Practice each year. In 2016, 99% of the managers signed the compliance statement. Managers also receive in-depth classroom training with dilemma cases.

In 2016, the training has been reworked to correspond to the Group's key performance indicators and to match the different position levels in the organization. During 2017, systems will be put in place to track participation in the training. A separate training package has been developed for blue-collar employees to ensure understanding of the topics covered in the training. The new package was finalized during the year and made available to all operations.

GEOGRAPHICAL SPREAD OF SUPPLIERS



Efficient and responsible use of resources

Atlas Copco strives to reduce its environmental footprint across the value chain and delivers energy-efficient products designed with a life cycle approach.

Ensuring that resources are used in the most responsible and efficient way in our production and by our products is key for Atlas Copco. Group common goals have been established to track progress. Atlas Copco's strategy for growth relies partly on acquisitions, which can have an influence on the Group's environmental performance.

Enhanced risk management

Atlas Copco faces risks driven by changes in environmental regulations, availability of resources and other developments. In 2016, Atlas Copco developed the sustainability KPIs for resource efficiency further to integrate these risks.

Energy security

Diversifying sources of energy to include renewable sources not only has a positive environmental impact but can also benefit the business by protecting it from price fluctuations and the lack of availability of traditional energy sources.

While the Group prioritizes switching to renewable energy sources, in many growth markets renewable energy may not be readily available or is a minor component in the country's energy mix. This influences the proportion of renewable energy sources used in these particular markets, and on the overall energy mix.

Water management

Atlas Copco's overall water consumption is relatively low. This is due to its asset light business model and the focus on assembly rather than steel manufacturing or other resource intensive activities.

With some of its own operations in countries facing water scarcity, Atlas Copco uses water indices to identify operations located in water-risk areas, from physical, legislative or cost perspectives. Group companies in these areas should implement a water-risk management plan. Innovative product design also aims to reduce water use when drilling to explore for minerals, for example.

The Group has established a KPI measuring consolidated water consumption in risk areas in relation to cost of sales. Water consumption in water risk areas decreased by 8% in 2016 as compared with 2015. The decrease is due in part to the activities for water conservation that were undertaken, as a result of increased awareness of the issue, for instance in parts of India and California and partly due to operations being closed down.

WE USE RESOURCES RESPONSIBLY AND EFFICIENTLY

8.2

MWh energy from operations/cost of sales (MSEK); 12M

GOAL: Continuous reduction year-on-year

2015: 8.6

39%

Renewable of total MWh energy used in operations; 12M

GOAL: Continuous increase year-on-year

2015: 33% (partly different scope)

3.4

Transport CO_2 (tonnes)/cost of sales (MSEK); 12M

GOAL: Continuous reduction year-on-year

2015: 4.0

5.3

Water consumption m^3 at sites in water risk areas/cost of sales (MSEK); 12M

GOAL: Continuous reduction year-on-year

2015: 6.0

94%

Reused, recycled and recovered waste in kg/total waste in kg; 12M

GOAL: Continuous increase year-on-year

2015: 94%

Environmental risks in the supply chain
The Group recognizes the risk and responsibility to manage water and other environmental risks in its value chain, see risks, page 41. Smelters and other resource-intensive activities are often tier 2 suppliers, or further down the value chain. The Group works with suppliers using its 10 criteria letter and action plans that are developed with business partners. Atlas Copco's business partners must commit to conducting their business with environmental preservation in mind, including water use and waste water treatment.

Ideally, Atlas Copco's suppliers should have an environmental management system or, as a minimum, be committed to developing an environmental policy or system, to ensure continuous improvement of their environmental performance. Commitment to Atlas Copco's 10 criteria means that suppliers should take responsibility to minimize the environmental impact that products and services may have while being manufactured, distributed and used, as well as during their disposal.

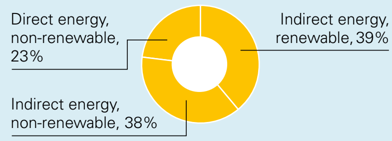
The percentage of waste reused, recycled and recovered of the total waste in internal operations is measured as one of the Group's KPIs for use of resources. In 2016, this share of the waste in kg/total was 94%, which is the same level as in 2015. While the amount of reused, recycled and recovered waste was already on a high level, increased focus should be put on increasing the share in order to benefit both customers and the environment.

Impacts from operations
Atlas Copco has overall decreased its footprint from energy consumption and transportation during 2016. The Group's energy consumption from operations in relation to cost of sales decreased with 5%, mainly due to the fact that some operations were closed during the year and for other structural reasons. The acquisition of Leybold contributed to the energy consumption with some 14 500 MWh, however total consumption for the Group was lower than previous year.

The percentage of renewable energy of total MWh energy used in operations was 39% in 2016. From 2016, also the renewable part of the energy mix provided is included in addition to fully renewable energy procured, which means that the proportion is not fully comparable with previous years (ESG note 3).

CO_2 (tonnes)/cost of sales from transport have been deemed a major contributor to Atlas Copco's overall CO_2 footprint, and is therefore a priority to improve. In 2016, the CO_2 (tonnes) decreased in relation to cost of sales by 15% (MSEK) from operations. This development is due to factors such as new transport methods being deployed for freight, estimates from previous year proven higher than actual outcome and, in some cases, a reduction of business volume.

PROPORTION OF ENERGY CONSUMPTION



Atlas Copco's full environmental performance can be found in ESG note 3.

WATER CHANGES LIVES

Since 1984 *Water for All* supports projects that give people in need access to clean drinking water, sanitation and hygiene. It is Atlas Copco's main community engagement initiative financed by voluntary employee donations which are boosted by the company. In 2016, employees in more than 50 countries were working in established *Water for All* organizations or involved in starting up national chapters. All in all, since the start of the initiative, close to 2 million people have received access to clean drinking water through *Water for All.*

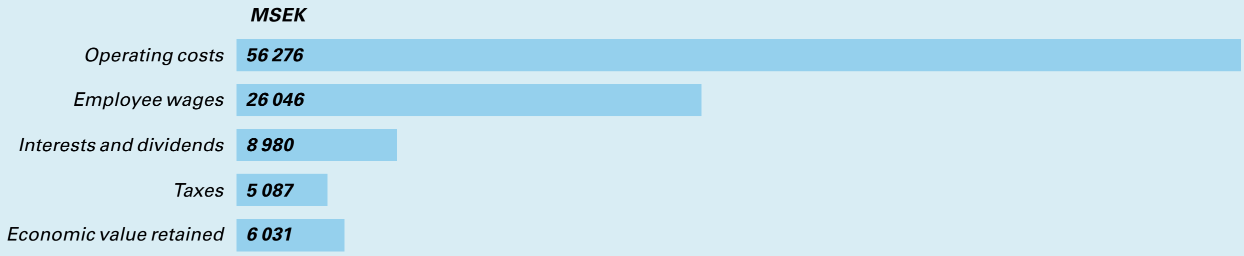
LESS TRAVEL GIVES LOWER CO_2 EMISSIONS

More than 40% of Atlas Copco's business is in service. Therefore, reducing the environmental footprint from service and transportation, while finding ways to provide better and faster service to the customer is in focus. One example is by having more field technicians closer to the customers. This strategy has resulted in shorter reaction time on service requests as well as reduced average travel time. Benefits include higher customer satisfaction, increased efficiency of worktime and reduced risk for travel incidents. In the Industrial Technique business area, for example, the reduced travel time has led to savings of > KEUR 300 a year as well a reduction of CO_2 emissions by 62–73 tons (gasoline/diesel).

Development and distribution of economic value

In 2016 Atlas Copco created direct economic value of: ***MSEK*** **102 420**

It was distributed to suppliers and business partners, employees, providers of capital, and to governments, and has a positive impact on society. See also page 129.



Atlas Copco creates employment and financial stability through subcontracting manufacturing and other activities. Operating costs including costs to suppliers for goods and services, functional costs deducted for employee wages and benefits amounted to MSEK 56 276 (56 051). Employee wages and benefits increased by 10% to MSEK 26 046 (23 619).

The Group's providers of capital, for example shareholders and creditors, provide funds to finance the asset base that is used to create economic value. In return, these stakeholders receive annual dividend and interest. The costs for providers of capital including dividend, increased to MSEK 8 980 (8 658), due to an increased ordinary dividend.

Atlas Copco contributes to economic development within the regions where it operates, through payments to pension funds and social security, and payments of taxes, social costs and other duties. In 2016, the cost for direct taxes to governments decreased 32% to 5 087 MSEK (7 484). The decrease is primarily due to a one-time tax cost in 2015 in Belgium (note 9). The Group has been in dialogue with stakeholders regarding disclosure of taxes by country, (note 9 and ESG note 8). Community investments amounted to MSEK 22 (24). The economic value retained amounted to MSEK 6 031 (4 057).

Local purchasing (non-core) is encouraged in order to generate societal value in the communities where Atlas Copco operates, by creating job opportunities as well as generating direct and indirect income. This is mostly carried out by individual companies, and also decreases the environmental impact from transport.

Taxes

Atlas Copco strives to be a good corporate citizen and follows the laws and regulations where it operates. The Group recognizes the importance of tax payments to advance economic development and pay taxes in the countries of operation. Atlas Copco is transparent in line with international accounting standards and believe in sound corporate practice in the area of tax management.

On January 11, 2016 the European Commission announced a decision that Belgian tax rulings granted to companies with regard to "Excess Profit" shall be considered as illegal state aid and that unpaid taxes should be paid to the Belgian state. Atlas Copco has such tax rulings since 2010. As a result of the decision, Atlas Copco made a provision of MEUR 300 (MSEK 2 802) in 2015. In June 2016, Atlas Copco paid MEUR 239 (MSEK 2 250) of the additional taxes due and released the corresponding provision. The remaining part of the additional taxes remains as a provision and is expected to be paid in 2017. The Belgian government as well as Atlas Copco has appealed the decision to the European Court of Justice in Luxembourg. It will likely takes several years until the final judgment. If the appeal is successful and such judgment positive for Atlas Copco, the additional taxes paid will be returned to Atlas Copco (note 9, ESG note 8).

ATLAS COPCO OPENS UP FOR BUSINESS IN IRAN

Following the suspension of most sanctions towards Iran, Atlas Copco has decided to open up for doing business in the country. Atlas Copco was present in Iran between 1974 and 2013, when the extensive sanctions made the company leave the market. As of early 2016, a distributor has been appointed and Atlas Copco is again aiming to expand in the market. Due to sanctions still in place, special conditions apply. Atlas Copco undertakes rigorous screening and assessment of business partners and customers in order to make sure that Atlas Copco's business in the country is in line with internal values and guidelines as well as internationally applicable regulations and norms. Atlas Copco participates in dedicated stakeholder dialogues and runs internal risk workshops in order to further integrate up-to-date risk analysis in its operations in Iran.

The Atlas Copco share

Share price development and returns

During 2016, the price of the A share increased 33.2% to SEK 277.50 (208.40) and the price of the B share increased 27.3% to SEK 248.60 (195.30). The annual total return on the Atlas Copco A share, equal to dividend, redemption and the appreciation of the share price, was on average 15.0% for the past ten years and 17.1% for the past five years. The corresponding total return for Nasdaq Stockholm was 7.6% and 15.9%, respectively.

Trading and market capitalization

The Atlas Copco shares are listed on Nasdaq Stockholm, which represented 29% of the total trading of the A share (38% of the B share) in 2016. Other markets, so called Multilateral Trading Facilities (MTF), e.g. BATS Chi-X, Turquoise and Burgundy accounted for some 42% (37% of the B share), and the remaining 29% (25% of the B share) were traded outside public markets, for example through over-the-counter trading.

The market capitalization at year end 2016 was MSEK 329 940 (251 140) and the company represented 5.4% (4.4) of the total market value of Nasdaq Stockholm. Atlas Copco was the fifth (sixth) most traded name in 2016 by total turnover.

A program for American Depositary Receipts (ADRs) was established in the United States in 1990. One ADR corresponds to one share. The depositary bank is Citibank N.A. At year end 2016, there were 8 185 945 ADRs outstanding, of which 6 865 312 represented A shares and 1 320 633 B shares.

SHARE INFORMATION 2016-12-31	A SHARE	B SHARE
Nasdaq Stockholm	ATCO A	ATCO B
ISIN code	SE0006886750	SE0006886768
ADR	ATLKY.OTC	ATLCY.OTC
Total number of shares	839 394 096	390 219 008
% of votes	95.6	4.4
% of capital	68.3	31.7
Whereof shares held by Atlas Copco	14 813 384	332 659
% of votes	1.7	0.0
% of capital	1.2	0.0

Personnel stock option program and repurchase of own shares

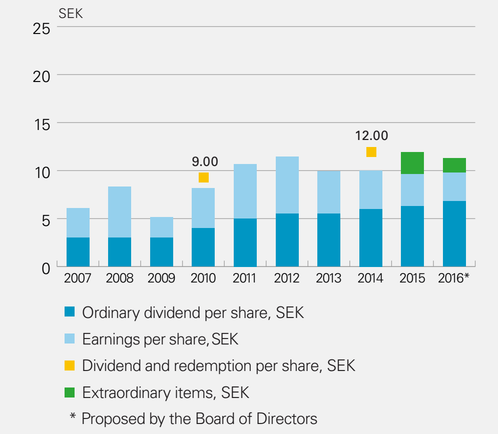
The Board of Directors will propose to the Annual General Meeting 2017 a similar performance-based long-term incentive program as in previous years. The intention is to cover the plan through the repurchase of the company's own shares. The company's holding of own shares on December 31, 2016 appears in the table below.

Dividend and dividend policy

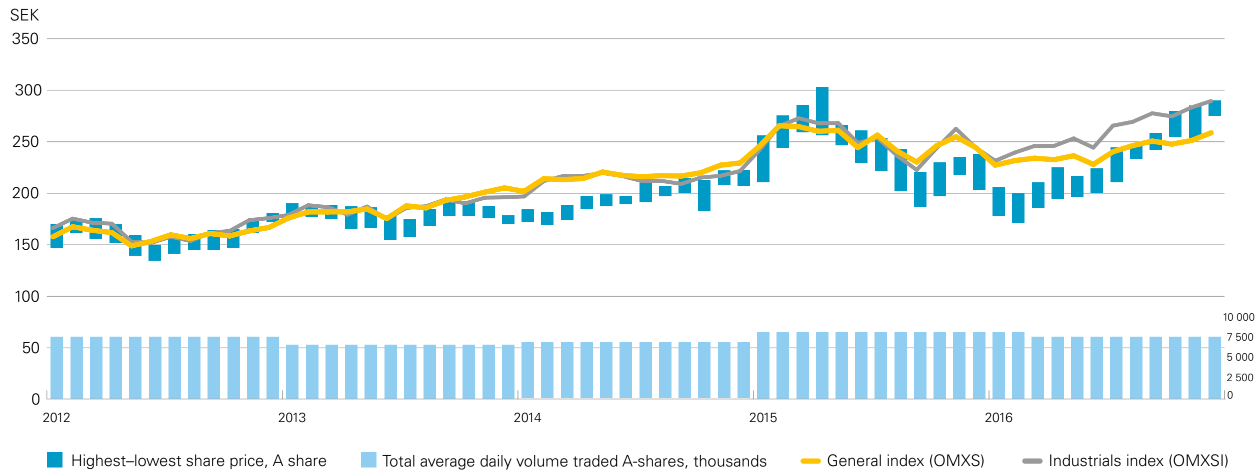
The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 6.80 (6.30) per share be paid for the 2016 fiscal year. The dividend is proposed to be paid in two equal installments. If approved, the annual dividend growth for the five-year period 2011–2016 will equal 6.3%. During the same period, the dividend has averaged 60% of basic earnings per share. The ambition is to distribute about 50% of earnings as dividends to shareholders.

The dividend is subject to approval at the Annual General Meeting 2017. See more information on page 19.

EARNINGS AND DISTRIBUTION PER SHARE



SHARE PRICE



Ownership structure

At year end 2016, Atlas Copco had 76 058 shareholders (79 926 at year end 2015). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 36% (36) of the voting rights and 33% (32) of the number of shares. Swedish investors held 53% (52) of the shares and represented 51% (50) of the voting rights.

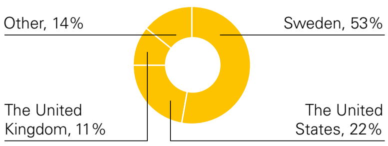
TEN LARGEST SHAREHOLDERS*

December 31, 2016	*% of votes*	*% of capital*
Investor AB	22.3	16.9
Swedbank Robur fonder	4.0	5.1
Alecta Pensionsförsäkring	3.1	3.9
SEB Investment Management	1.7	1.3
Handelsbanken	1.0	1.2
Nordea Investment Funds	1.0	0.9
Folksam	0.8	0.8
Första AP-fonden	0.8	0.9
Fjärde AP-fonden	0.8	1.1
SPP Fonder AB	0.6	0.6
Others	63.9	67.3
Total	**100.0**	**100.0**
– of which shares held by Atlas Copco	1.7	1.2

* Shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository

SHAREHOLDERS BY COUNTRY

December 31, 2016
Percent of capital



OWNERSHIP STRUCTURE, DECEMBER 31, 2016

Number of shares	*% of shareholders*	*% of capital*
1–500	64.0	0.6
501–2 000	23.1	1.6
2 001–10 000	9.7	2.5
10 001–50 000	2.0	2.6
50 001–100 000	0.3	1.5
>100 000	0.9	91.2
Total	**100.0**	**100.0**

OWNERSHIP CATEGORY, DECEMBER 31, 2016	*% of capital*
Shareholders domiciled abroad (legal entities and individuals)	46.6
Swedish financial companies	39.5
Swedish individuals	5.2
Other Swedish legal entities	3.9
Swedish social insurance funds	3.3
Swedish trade organizations	1.2
Swedish government & municipals	0.3
Total	**100.0**

SHARE ISSUES [1]			*Change of share capital, MSEK*	*Amount distributed, MSEK*
2007	Split	3:1		
	Share redemption [2]	628 806 552 shares at SEK 40	–262.0	–24 415.7
	Bonus issue	No new shares issued	262.0	
	Cancellation of shares held by Atlas Copco	28 000 000 shares	–17.5	
	Bonus issue	No new shares issued	17.5	
2011	Split	2:1		
	Share redemption [3]	1 229 613 104 shares at SEK 5	–393.0	–6 067.0
	Bonus issue	No new shares issued	393.0	
2015	Split	2:1		
	Share redemption [4]	1 229 613 104 shares at SEK 6	–393.0	–7 304.7
	Bonus issue	No new shares issued	393.0	

[1] For more information please visit www.atlascopcogroup.com/investor-relations
[2] 610 392 352 shares net of shares held by Atlas Copco
[3] 1 213 493 751 shares net of shares held by Atlas Copco
[4] 1 217 444 513 shares net of shares held by Atlas Copco

IMPORTANT DATES

2017	April 26	Annual General Meeting
		First quarter results
	April 27*	Shares trade excluding right to dividend of SEK 3.40
	May 4*	First dividend payment date (preliminary)
	July 17	Second quarter results
	October 18	Third quarter results
	October 27*	Shares trade excluding right to dividend of SEK 3.40
	November 2*	Second dividend payment date (preliminary)
2018	January 26	Preliminary fourth quarter results 2017

* Board of Directors proposal to the Annual General Meeting. The record date is the first trading day after shares trade excluding the right to dividend.

MORE INFORMATION

→ More data per share can be found on page 137 in the five-year summary.

→ For more information on distribution of shares, option programs and repurchase of own shares, see notes 5, 20 and 23.

→ Detailed information on the share and debt can be found on www.atlascopcogroup.com/investor-relations

Corporate governance

In the corporate governance report Atlas Copco presents how applicable rules are implemented in efficient control systems to achieve long-term growth. Good corporate governance is not only about following applicable rules, it is also about doing what is right. The challenge is to find the right balance between risk and control in a decentralized management model. The goal is sustainability in productivity and profitability as well as in governance.

Atlas Copco is incorporated under the laws of Sweden with a public listing at Nasdaq Stockholm AB (Nasdaq Stockholm). Atlas Copco is governed by Swedish legislation and regulations, primarily the Swedish Companies Act, but also the rules of Nasdaq Stockholm, the Swedish Corporate Governance Code (the "Code"), the Articles of Association and other relevant rules.

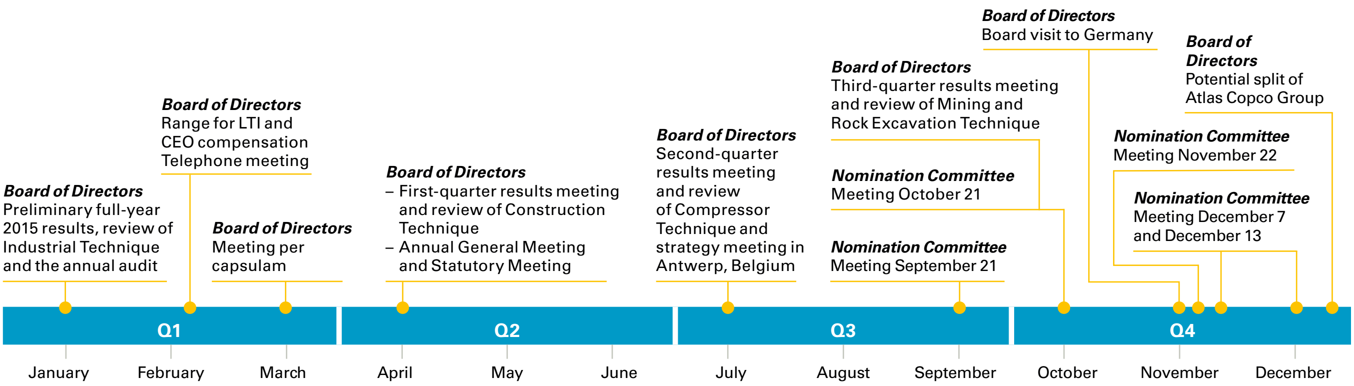
Atlas Copco does not report any deviations from the Code for the financial year 2016.

The corporate governance report has been examined by the auditors, see page 125.

THE FOLLOWING INFORMATION IS AVAILABLE AT WWW.ATLASCOPCOGROUP.COM

- → Atlas Copco's Articles of Association
- → Business Code of Practice
- → Corporate governance reports since 2004 (as a part of the annual report)
- → Information on Atlas Copco's Annual General Meeting

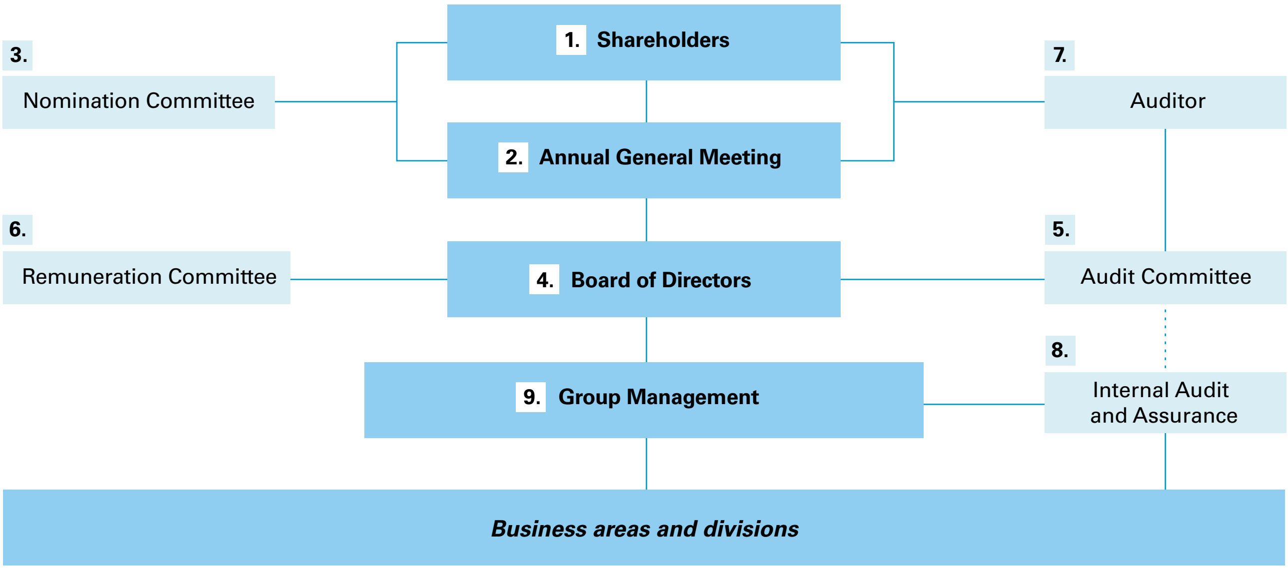
THE BOARD'S WORK DURING 2016 IN SUMMARY



COMMENT FROM THE CHAIR

Atlas Copco is a truly global company with customers in 180 countries. Laws, environmental standards and social conditions vary from country to country. We want to make sure that we always act with the highest ethical standards and integrity. In this respect, our Business Code of Practice is our most important tool. We insist on upholding our high standards also in challenging environments where national legislation is weaker. Our business partners are expected to do the same. To make this happen and to safeguard our reputation, we rely on solid governance and our leaders' ability to defend our values.

Hans Stråberg, Chair since 2014



GOVERNANCE STRUCTURE

1. Shareholders

At the end of 2016, Atlas Copco had 76 058 shareholders (79 926 at year end 2015). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 36% (36) of the voting rights and 33% (32) of the number of shares. Swedish investors held 53% (52) of the shares and represented 51% (50) of the voting rights.

The largest shareholder is Investor AB, holding 17% of capital and 22% of votes. More information on Atlas Copco's shareholders can be found on pages 54–55.

2. Annual General Meeting

The Annual General Meeting (AGM) is Atlas Copco's supreme decision-making body in which all shareholders are entitled to take part. The shareholders may exercise their voting rights in a number of important issues, such as the election of Board members and auditors, approval of financial statements, discharge of liability for the President and CEO, and the Board, and the adoption of the proposed distribution of profits. All shareholders registered in the shareholders' register who have given due notification to the company of their intention to attend, may join the meeting and vote for their total shareholdings. Atlas Copco encourages all shareholders to attend the AGM and shareholders who cannot participate personally may be represented by proxy holders. A shareholder or a proxy holder may be accompanied by two assistants and a proxy form can be found prior to the AGM at www.atlascopco-group.com/agm.

The AGM 2016 was held on April 26, 2016 in Stockholm, Sweden and 63% of the total number of votes in the company and 61% of the shares were represented.

Decisions at the AGM 2016 included:

- adoption of the income statements and balance sheets of the company and the Group for 2015
- discharge of liability of the company's affairs during the 2015 financial year for the President and CEO, and the Board of Directors
- adoption of the Board's proposal for profit distribution with a dividend of SEK 6.30 per share to be paid in two equal installments of SEK 3.15 each
- that the number of directors elected by the AGM for a term ending at the next AGM would be nine directors and no alternates
- election of the Board of Directors
- a resolution of the Board of Directors' fee
- approval of the guidelines for remuneration to management
- approval of the reported scope and principals for a performance based employee stock option plan for 2016
- election of Deloitte AB as auditing company until AGM 2017.

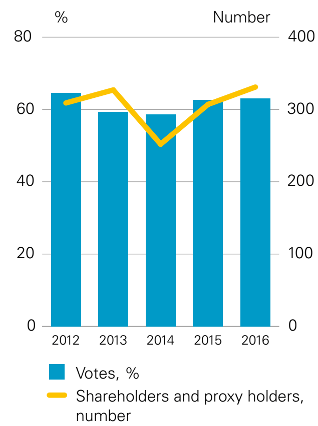
Shareholders who wish to contact the Nomination Committee or have a matter addressed by the Board of Directors at the AGM may submit their proposals by ordinary mail or e-mail to:

Atlas Copco AB,
Att: General Counsel
SE-105 23 Stockholm, Sweden,
nominations@atlascopco.com or
board@atlascopco.com

Proposals have to be received by the Board of Directors and the Nomination Committee respectively, no later than seven weeks prior to the AGM to be included in the notice to the AGM and the agenda.

ANNUAL GENERAL MEETING 2017
The Annual General Meeting will be held on April 26, 2017 at Aula Medica, Nobels väg 6, Solna, Sweden.

ANNUAL GENERAL MEETING ATTENDANCE



GOVERNANCE STRUCTURE, CONTINUED

3. Nomination Committee

The Nomination Committee has the responsibility to ensure that the Board of Directors of Atlas Copco AB represents the knowledge, experience and diversity most suitable to achieve a sustainable and profitable development of the Atlas Copco Group.

Based on the findings of the Chair of the Board, the Nomination Committee annually evaluates the work of the Board. Further to that, the Nomination Committee proposes the Chair for the Annual General Meeting, prepares a proposal regarding number and names of Board members, including Chair and a proposal for remuneration to the Chair and other Board members not employed by the company, as well as a proposal for remuneration for Board committee work. Finally the Nomination Committee proposes an audit company including remuneration for the audit.

The proposals and the Nomination Committee's statement will be published at the latest with the notice to the AGM 2017. In the Nomination Committee's strive to reach gender balance, for example in case of equal competence, the candidate that will lead to improved gender balance should be proposed.

In compliance with the Swedish Corporate Governance Code and the procedures adopted by the AGM 2016, the representatives of the four largest shareholders, listed in the shareholders' register as of August 31, 2016, together with the Chair of the Board shall form the Nomination Committee. The members of the Nomination Committee for the AGM 2017 were announced on September 21, 2016, and they represented approximately 32% of all votes in the Company. The Nomination Committee had several meetings during the year. The members of the Nomination Committee receive no compensation for their work in the Nomination Committee.

Nomination Committee members for the AGM 2017

Petra Hedengran, Investor AB, Chair of the Nomination Committee
Jan Andersson, Swedbank Robur
Ramsay Brufer, Alecta
Hans Ek, SEB Fonder
Hans Stråberg, Atlas Copco AB, Chair

4. Board of Directors

The Board of Directors is overall responsible for the organization, administration and management of Atlas Copco in the best interest of the Company and of the shareholders. The Board is responsible for following applicable rules and implementing efficient control systems in the decentralized organization. An efficient control system offers the correct balance between risk and control. The long-term growth incentive is regularly evaluated by the Board based on the Group's financial situation and financial, legal, social and environmental risk. The mission is to achieve a sustainable and profitable development of the Group.

Board of Directors' members

The Board of Directors consists of nine elected members, including the President and CEO. The Board also has two union members, each with one personal deputy. Atlas Copco fulfilled the 2016 requirements of Nasdaq Stockholm and the rules of the Swedish Corporate Governance Code regarding independency of board members.

The Board of Directors' work

The Board continuously addresses the strategic direction, the financial performance, and the methods to maintain sustainable profitability of the Group. Further, the Board regularly ensures that efficient control systems are in place. The Board also follows up on the compliance of the Business Code of Practice as well as the whistleblowing system. Besides the general distribution of responsibilities that apply in accordance with the Swedish Companies Act and the Code, the Board and its committees (Audit Committee, Remuneration Committee and others) annually review and adopt "The Rules of Procedure" and "The Written Instructions", which are documents that govern the Boards' work and distribution of tasks between the Board, the committees and the President as well as the Company's reporting processes.

The Board had eight meetings in 2016. All meetings were held at Atlas Copco AB in Nacka, Sweden, except one in Antwerp, Belgium, one per capsulam and one per telephone. The attendance of Board members is presented on pages 60–61. In addition, the Board made a study trip to Germany to visit Leybold, SCA and one customer.

The Board continuously evaluates the performance of the CEO, Ronnie Leten. For the Annual Audit, the company's principal auditor, Jan Berntsson, Deloitte, reported his observations and the Board also had a separate session with the auditor where members of Group Management were not present.

Evaluation of the Board of Directors' work

The annual evaluation of the Board of Directors' work, including the Board's committees (Audit Committee, Remuneration Committee and others) was conducted by the Chair of the Board, Hans Stråberg. He evaluated the Boards' working procedures, competence and composition, including the background, experience, and diversity of the Board members. His findings were presented to the Nomination Committee.

Remuneration to the Board of Directors

Remuneration and fees are based on the work performed by the Board. The AGM 2016 decided to adopt the Nomination Committee's proposal for remuneration to the Chair and other Board members not employed by the Company, and the proposed remuneration for committee work. See also note 5.

- The Chair was granted an amount of SEK 1 975 000
- Each of the other Board members not employed by the Company were granted SEK 625 000
- An amount of SEK 225 000 was granted to the Chair of the Audit Committee and SEK 150 000 to each of the other members of this committee
- An amount of SEK 100 000 was granted to the Chair of the Remuneration Committee and SEK 75 000 to each of the other members of this committee was granted
- An amount of SEK 60 000 was granted to each non-executive director who, in addition, participates in committee work decided upon by the Board
- The meeting further resolved that 50% of the director's Board fee could be received in the form of synthetic shares

5. Audit Committee

The Audit Committee's primary task is to support the Board of Directors in fulfilling its responsibilities in the areas of audit and internal control, accounting, financial reporting and risk management as well as to supervise the financial structure and operations of the Group and approve financial guarantees, delegated by the Board. The Audit Committee work further includes reviewing internal audit procedures. The work of the Audit Committee is directed by the Audit Committee Charter, which is reviewed and approved annually by the Board. The Chair of the committee has the accounting competence required by the Swedish Companies Act and two of the members are independent from the Company and its main shareholder.

During the year, the committee convened five times. All members were present at these meetings. All meetings of the Audit Committee have been reported to the Board of Directors and the corresponding Minutes have been distributed to the Board.

Audit Committee 2016–2017

Ulla Litzén, Chair until AGM (April 26)
Staffan Bohman, Chair as from AGM
Gunilla Berg, new member as from AGM
Johan Forssell
Hans Stråberg

6. Remuneration Committee

The Remuneration Committee's primary task is to propose to the Board the remuneration to the President and CEO and a long-term incentive plan for key employees. The goal with a long-term incentive plan is to align the interests of key personnel with those of the shareholders. The Remuneration Policy for Group Management aims to establish principles for a fair and consistent remuneration with respect to compensation, benefits, and termination. The base salary is determined by position and performance and the variable compensation is for the achievement of individual goals. The Remuneration Policy is reviewed annually and the AGM 2016 approved the guidelines for remuneration. See also note 5.

The Remuneration Committee had five meetings in 2016. All members were present. During the year, the Remuneration Committee also supported the President and CEO in determining remuneration to the other members of Group Management. All meetings of the Remuneration Committee have been reported to the Board and the corresponding Minutes have been distributed.

Remuneration Committee 2016–2017

Hans Stråberg, Chair
Peter Wallenberg Jr
Anders Ullberg

7. Auditor

The task of the external auditor is to examine Atlas Copco's annual accounts and accounting practices, as well as to review the Board and the CEO's management of the Company. At the AGM 2016 the audit firm Deloitte AB, Sweden, was elected external auditor until the AGM 2017 in compliance with a proposal from the Nomination Committee. The principal auditor is Jan Berntsson, Authorized Public Accountant at Deloitte AB.

At the AGM 2016, Jan Berntsson referred to the auditor's report for the Company and the Group in the annual report and explained the process applied when performing the audit. He also recommended adoption of the presented income statements and balance sheets, discharge of liability for the President and CEO and the Board of Directors, and adoption of the proposed distribution of profits.

8. Internal Audit and Assurance

The Board of Directors is responsible for that Atlas Copco has adequate internal control systems in place for financial reporting. Read more on pages 64–65.

"To safeguard our reputation, we rely on solid governance and our leaders' ability to defend our values.

9. Group Management

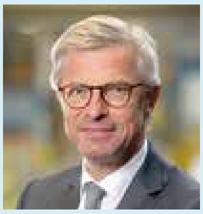
Besides the President and CEO, the Group Management consists of four business area executives (five as of January 1, 2017) and executives responsible for the main Group functions; Corporate Communications and Governmental Affairs, Organizational Development, Controlling and Finance, and Legal. The President and CEO is responsible for the ongoing management of the Group following the Board's guidelines and instructions.

Remuneration to Group Management

The Remuneration Policy is reviewed and presented to the AGM by the Board of Directors for approval every year. In 2016, the AGM decided to adopt the Board's proposal.

The remuneration covers an annual base salary, variable compensation, possible long-term incentive (personnel options), pension premium and other benefits. The variable compensation is limited to a maximum percentage of the base salary. No fees are paid for Board memberships in Group companies or for other duties performed.

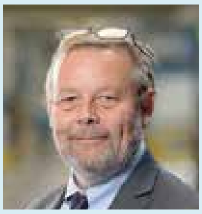
Board of Directors

					
Name **Born** **Function**	**Hans Stråberg** 1957 Chair since 2014	**Ronnie Leten** 1956 Board member President and CEO	**Anders Ullberg** 1946 Board member	**Staffan Bohman** 1949 Board member	**Margareth Øvrum** 1958 Board member
Education	M.Sc. in Mechanical Engineering, Chalmers University of Technology, Gothenburg	M.Sc. in Applied Economics, University of Hasselt, Belgium	B.Sc. in Economics and Business Administration, Stockholm School of Economics	B.Sc. in Economics and Business Administration, Stockholm School of Economics and Stanford Executive Program, the U.S.	M.Sc. in Technical Physics, Norwegian University of Science and Technology, Trondheim, Norway
Nationality / Elected	Swedish / 2013	Belgian / 2009	Swedish / 2003	Swedish / 2003	Norwegian / 2008
Board memberships	Chair of Roxtec AB, CTEK AB, Nikkarit Holding AB and Vice Chair of Orchid Orthopedics Inc. Member of the Board of Investor AB, Stora Enso Oyj, Finland, N Holding AB, Mellby Gård AB, Hedson.	Chair of Electrolux AB	Chair of Boliden AB, Natur & Kultur and Studsvik AB. Board Member of Beijer Alma AB och Valedo Partners. Chair of the Swedish Financial Reporting Board and Board Member of European Financial Reporting Advisory Group.	Chair of Höganäs AB, Cibes Lift Group AB and Swedish Tax Delegation for Industry and Commerce. Vice Chair of Rezidor Hotel Group AB and the Board of trustees of SNS. Board member in Vattenfall AB and Upplands Motor Holdings AB.	Board member of Alfa Laval AB.
Principal work experience and other information	Chief Executive Officer and President for Electrolux AB. Various executive positions in the Electrolux Group based in Sweden and the U.S. EU Co-Chair TABD, Trans-Atlantic Business Dialogue.	President and CEO of Atlas Copco AB*. Business Area President for Atlas Copco Compressor Technique. Division president for the divisions Airtec and Industrial Air as well as several management positions within IT, logistics, business development and manufacturing in the Compressor Technique business area in Belgium.	Vice President Corporate Control Swedyards (Celsius Group), Executive Vice President and CFO, SSAB, Swedish Steel, and President and CEO of SSAB Swedish Steel.	CEO of Sapa AB, Gränges AB and DeLaval AB.	Executive Vice President for Statoil ASA*. Several leading positions within technology, projects, production, maintenance, health/safety/environment, and procurement in Statoil. All positions in Norway.
Total fees 2016, KSEK [1)]	2 965	–	750	874	628
Board meeting attendance	8 of 8	7 of 8	8 of 8	8 of 8	8 of 8
Remuneration Committee attendance	5 of 5 Chair	–	5 of 5	–	–
Audit Committee attendance	5 of 5	–	–	5 of 5 Chair	–
Holdings in Atlas Copco AB [2)]	21 500 class B shares 7 791 synthetic shares	19 166 class A shares 32 000 class B shares 405 717 employee stock options	14 000 class A shares 10 000 class B shares	10 000 class A shares 30 000 class B shares 2 027 synthetic shares	8 207 synthetic shares
Independence to Atlas Copco and its management	Yes	No [3)]	Yes	Yes	Yes
Independence to major shareholders	No [4)]	Yes	Yes	Yes	Yes
Annual Meeting attendance	Yes	Yes	Yes	Yes	Yes

Board members appointed by the unions

Bengt Lindgren
Board member
Born 1957
Chair of IF Metall, Atlas Copco, Fagersta
Elected 1990
Board meeting attendance 8 of 8

Mikael Bergstedt
Board member
Born 1960
Chair of PTK, Atlas Copco, Tierp Works
Elected 2004
Board meeting attendance 7 of 8

			
Johan Forssell 1971 Board member	**Peter Wallenberg Jr** 1959 Board member	**Sabine Neuß** 1968 Board member	**Gunilla Berg** 1960 Board member
M.Sc. in Economics and Business Administration, Stockholm School of Economics	BSBA Hotel Administration, University of Denver, the U.S. and International Bachaloria, American School, Leysin, Switzerland	M.Sc. in engineering from Coburg University, Germany	B.Sc. in Finance from the Stockholm School of Economics
Swedish / 2008	Swedish / 2012	German / 2016	Swedish / 2016
Board member of Saab AB, Patricia Industries AB and EQT Holdings AB.	Chair of Foundation Administration Management Sweden AB, The Grand Group, The Royal Swedish Automobile Club. Vice Chair of the Knut and Alice Wallenberg Foundation. Board member of Aleris Holding AB, Foundation Asset Management Sweden AB and Scania AB.	Member of Supervisory Board at Continental AG, Germany	Board member of Alfa Laval AB
President and CEO of Investor AB*. Managing Director, Head of Core Investments and member of the management group of Investor AB.	President and CEO of The Grand Hotel Holdings, General Manager, The Grand Hotel, President Hotel Division Stockholm-Saltsjön.	Chief Operating Officer at Linde Material Handling GmbH, Germany*, Managing Director at TRW Automotive Safety Systems GmbH, Germany, and Management positions at Behr GmbH & Co KG in Germany and in the United States, several management positions at Brose Fahrzeugteile GmbH in Germany.	Chief Financial Officer at PostNord Group AB*, Chief Financial Officer at Teracom Group AB, SAS AB and the cooperative KF.
778	699	469	665
8 of 8	8 of 8	4 of 8	4 of 8
–	5 of 5		
5 of 5	–		3 of 5
5 000 class B shares 8 207 synthetic shares	166 667 class A shares 8 207 synthetic shares		300 class B shares 1 528 synthetic shares
Yes	Yes	Yes	Yes
No [5]	No [4]	Yes	Yes
Yes	Yes	Yes	Yes

Ulf Ström
Deputy
Born 1961
Chair of IF Metall, Atlas Copco Rock Drills AB, Örebro
Elected 2008
Board meeting attendance 8 of 8

Kristina Kanestad
Deputy
Born 1966
Chair of Unionen, Atlas Copco Rock Drills AB, Örebro
Elected 2007
Board meeting attendance 8 of 8

REFERENCES:

All educational institutions and companies are based in Sweden, unless otherwise indicated.

1) See more information on the calculation of fees in note 5.

2) Holdings as per end of 2016, including those of close relatives or legal entities and grant for 2016.

3) President and CEO of Atlas Copco.

4) Board member in a company which is a larger owner (Investor AB).

5) Employed by a company which is a larger owner (Investor AB).

* Current position.

Group Management

1. RONNIE LETEN	2. NICO DELVAUX	3. GEERT FOLLENS	4. MATS RAHMSTRÖM	5. JOHAN HALLING	6. HELENA HEDBLOM
President and CEO In current position since 2009	**Senior Executive Vice President and Business Area President Compressor Technique** In current position since 2014	**Senior Executive Vice President and Business Area President Vacuum Technique** In current position since 2017	**Senior Executive Vice President and Business Area President Industrial Technique** In current position since 2008	**Senior Executive Vice President and Business Area President Mining and Rock Excavation Technique** (from 2013 until 2016)	**Senior Executive Vice President and Business Area President Mining and Rock Excavation Technique** In current position since 2017
NATIONALITY / EMPLOYED / BORN					
Belgian / 1985 / Born 1956	Belgian / 1991 / Born 1966	Belgian / 1995 / Born 1959	Swedish / 1988 / Born 1965	Swedish / 1998 / Born 1952	Swedish/ 2000 / Born 1973
EDUCATION					
M.Sc. in Applied Economics, University of Hasselt, Belgium	M.Sc. in Electromechanics from the University of Brussels and an MBA from the Handelshogeschool in Antwerp, Belgium	M.Sc. in Electromechanical Engineering and a post-graduate degree in Business Economics from the University of Leuven, Belgium	MBA from the Henley Management College, the United Kingdom	M.Sc. in Mechanical Engineering from the University of Lund	M.Sc. in Material Technology from the Royal Institute of Technology of Stockholm
PRINCIPAL WORK EXPERIENCE AND OTHER INFORMATION					
Ronnie Leten has been Business Area President for Compressor Technique and Division President for the divisions Airtec and Industrial Air. He has also held management positions within IT, logistics, business development and manufacturing in the Compressor Technique business area. All positions in Belgium. Chair of Electrolux AB.	Nico Delvaux has had positions in sales, marketing, service, acquisition-integration management and general management, in markets including Benelux, Italy, Canada and the United States. Before his current position, he was Business Area President for Construction Technique.	Geert Follens has held positions in purchasing, supply chain and general management. He has served as General Manager of Atlas Copco Compressor Technique customer center in the United Kingdom. Before he became President of the Vacuum Solutions division he was first President of the Portable Energy division and then of the Industrial Air division.	Mats Rahmström has held positions in sales, service, marketing and general management within the Industrial Technique business area. He held the position as General Manager for customer centers in Sweden, Canada and the United Kingdom. Before his current position he was President of the Tools and Assembly Systems General Industry division within Industrial Technique. Board member of Permobil Holding AB and CL Intressenter AB	Johan Halling has been President of one of the electric tool divisions within Industrial Technique that Atlas Copco owned at the time. After that he was President of Atlas Copco's Rock Drilling Tools division.	Helena Hedblom had different roles within research and development and as General Manager for the product company Secoroc. Before her current position she was President of the Rock Drilling Tools division, based in Sweden.
HOLDINGS IN ATLAS COPCO AB *					
19 166 class A shares 32 000 class B shares 405 717 employee stock options. The President and CEO, Ronnie Leten, has no major shareholdings or part ownership in enterprises with which Atlas Copco has significant business relations.	5 843 class A shares 113 754 employee stock options	5 097 class A shares	6 680 class A shares 91 763 employee stock options	12 805 class A shares 100 182 employee stock options	2 190 class A shares

In January 2017, **Mats Rahmström (4)** was appointed President and CEO of Atlas Copco AB, as from April 27, 2017. **Ronnie Leten (1)** will step down as President and CEO of Atlas Copco AB and member of the Board of Directors, with the last day in office April 26, 2017.

7. ANDREW WALKER	8. ANNIKA BERGLUND	9. JEANETTE LIVIJN	10. HANS OLA MEYER	11. HÅKAN OSVALD
Senior Executive Vice President and Business Area President Construction Technique In current position since 2014	**Senior Vice President Corporate Communications and Governmental Affairs** In current position since 1997	**Senior Vice President Organizational Development** In current position since 2007	**Senior Vice President Controlling and Finance** In current position since 1999	**Senior Vice President General Counsel** In current position since 2012
NATIONALITY / EMPLOYED / BORN				
Irish / 1986 / Born 1961	Swedish / 1979 / Born 1954	Swedish / 1987 / Born 1963	Swedish / 1991 / Born 1955	Swedish / 1985 / Born 1954
EDUCATION				
M.Sc. in Industrial Engineering and an MBA from University College Dublin, Ireland	B.Sc. in Economics and Business Administration from Stockholm School of Economics and an MBA from the University of Antwerp, Belgium	M.Sc. in Business Administration from Växjö högskola	B.Sc. in Economics and Business Administration from Stockholm School of Economics	Master of Law from Uppsala University
PRINCIPAL WORK EXPERIENCE AND OTHER INFORMATION				
Andrew Walker has held several different management positions in markets including the United Kingdom, Ireland, Belgium and the United States. Before his current position, Andrew Walker was President of the Service division within Compressor Technique.	Annika Berglund has held a number of positions related to marketing, sales, and business controlling in Europe. Prior to her current position, she was Marketing Manager for the electronic company Atlas Copco Controls (Danaher Motion). Board member of Peter Wallenberg Water For All Foundation.	Jeanette Livijn has held various positions in the fields of financial, business controlling and managerial positions within human resource. Before she took up her present position she was Vice President Human Resources for the Industrial Technique business area.	Hans Ola Meyer was employed in 1978 to work with Group accounting and controlling. Later he moved to Ecuador as Financial Manager. Between 1984 and 1991, he held various positions at the broker Penningmarknadsmäklarna. He returned to Atlas Copco in 1991 as Financial Manager in Spain and before his current position he became Senior Vice President Finance, for Atlas Copco AB and a member of Group Management. Member of The Swedish Financial Reporting Board and member of the Board of Upplands Motor Holding AB and PRI Pensionsgaranti (Mutual).	Håkan Osvald has been General Counsel for Atlas Copco North America Inc. and Chicago Pneumatic Tool Company in the United States. After that he was appointed Vice President Deputy General Counsel Atlas Copco Group, with a special responsibility for acquisitions. Prior to his current position, he was General Counsel Operations. Since 2012 he is Secretary of the Board of Directors for Atlas Copco AB. Chair of ICC Sweden, reference group Competition and member of the Board of Sweden-China Trade Council
HOLDINGS IN ATLAS COPCO AB *				
3 998 class A shares 55 818 employee stock options	7151 class A shares 7 090 class B shares 46 253 employee stock options	3 414 class A shares 45 465 employee stock options	7 286 class A shares 25 021 class B shares 58 661 employee stock options	4 821 class A shares 2 600 class B shares 76 378 employee stock options

* Holdings as per December 31, 2016, including those held by related natural or legal persons. See note 23 for more information on the option programs and matching shares.

All educational institutions and companies are based in Sweden, unless otherwise indicated.

Internal control over financial reporting

This section includes a description of Atlas Copco's system of internal controls over financial reporting in accordance with the requirements set forth in the Swedish Code of Corporate Governance and as stipulated by the Swedish Companies Act.

The purpose of well developed internal controls over financial reporting is to ensure correct and reliable financial statements and disclosures.

The basis for the internal control is defined by the overall control environment. The Board of Directors is responsible for establishing an efficient system for internal control and governs the work through the CEO. Group Management sets the tone for the organization, influencing the control consciousness of the employees. One key success factor for a strong control environment lies in ensuring that the organizational structure, decision hierarchy, corporate values in terms of ethics and integrity as well as authority to act, are clearly defined and communicated through guiding documents such as internal policies, guidelines, manuals, and codes.

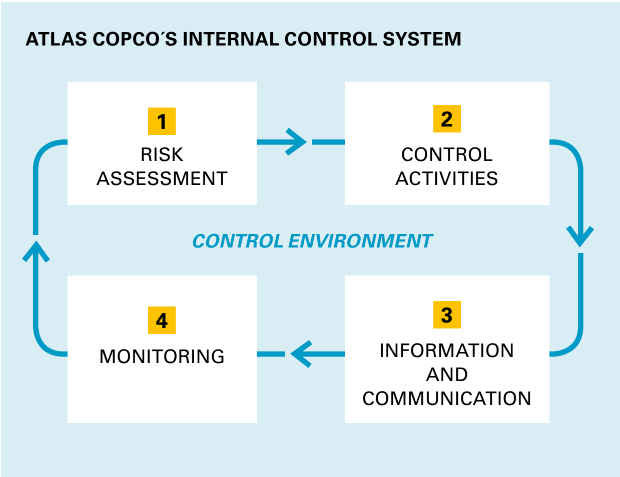
The financial reporting accounting policies and guidelines are issued by Group management to all subsidiaries which are followed up with newsletters and conference calls. Trainings are also held for complex accounting areas. The policies and guidelines detail the appropriate accounting for key risk areas such as revenues, trade receivables including bad debt provisions, inventory costing and obsolescence, accounting for income taxes (current and deferred), financial instruments and business combinations.

The internal control process is based on a control framework that creates structure for the other four components of the process – risk assessment, control activities, information and communication as well as monitoring. The starting point for the process is the regulatory framework for internal control issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), www.coso.org.

1 RISK ASSESSMENT

The company applies different processes to assess and identify the main risks relating to financial reporting misstatements. The risk assessments are regularly performed to identify new risks and follow up that internal control is improved over previously identified risks. The key risk areas for the financial reporting and control activities that are in place to manage the risks are presented below.

Key financial reporting risks	*Revenues are not recognized in the appropriate accounting period*	*Trade receivables are not appropriately valued*	*Inventory are not appropriately valued at the lower of cost or net realizable value*	*Income taxes are not accounted for in accordance with applicable tax legislation*	*Financial instruments are not valued at fair value or amortized cost, and hedges are not accounted for according to Group policy*	*Business combinations and associated goodwill as well as intangible assets are not appropriately accounted for*
2 CONTROL ACTIVITIES to manage key financial reporting risks	Customer contracts are signed at appropriate level within the Group.	Trade receivables and cash balances are appropriately reconciled at each reporting date.	Inventory counts are performed on a regular basis.	Tax calculations are prepared and reviewed at each reporting date.	Financial instruments are appropriately reconciled at each reporting date.	All business combinations are approved by the Board.
	Revenues are disaggregated and analyzed by type (e.g. goods, services and rental) and by period at local, division, business area and Group level.	Credit assessments are performed and credit limits are reviewed on a regular basis.	Inventories are appropriately reconciled at each reporting date.	The effective tax rate for each company is analyzed at each reporting date by Group Tax.	Contracts for financial instruments (e.g. borrowings, derivatives) are signed at appropriate level within the Group.	Purchase price allocations are prepared at division level and reviewed at Group level.
	Revenues for goods shipped are scrutinized at period end against shipping terms and the percentage of completion for services and projects are assessed at each reporting date.	Provisions of bad debts are made according to Group policy.	Inventory costs are reviewed and approved by the divisions.	Compliance with transfer pricing policies is monitored regularly.	Fair values of derivatives are compared to external valuations.	Goodwill impairment tests are prepared at business area level and reviewed at Group level.
		Days of sales are analyzed at local, division, business area and Group level.	Inventory levels and the saleability of inventory are assessed at each reporting date together with obsolescence.	Ongoing tax audits and disputes are monitored by Group Tax Specialists.	Hedging strategies and policies as well as hedge effectiveness are monitored by the Financial Risk Management Committee (FRMC).	



3 INFORMATION AND COMMUNICATION

The company has information and communication channels designed to ensure that information is identified, captured and communicated in a form and timeframe that enable employees and managers to carry out their responsibilities. Reporting instructions and accounting guidelines are communicated to personnel concerned in the internal database *The Way We Do Things*, supported by, for example, training programs for different categories of employees. A common Group reporting system is used to report and consolidate all financial information.

4 MONITORING

Examples of monitoring activities for the financial reporting include:

- Management at division, business area and group level regularly reviews the financial information and assess compliance to Group policies.
- The Audit Committee and the Board of Directors review reports on financial performance by business area and geography.
- The Internal Audit process aims to provide independent and objective assurance on internal control. Further, the process aims to serve as a tool for employee professional development and to identify and recommend leading practices within the Group. Internal audits are annually planned or initiated by the Group internal audit function with a risk-based approach. In 2016, the Group internal audit function conducted internal audits in 109 (106) units out of 522 (489). The audits were conducted in 45 countries. Internal audits were conducted under leadership of Group internal audit staff with audit team members having diverse functional competences but always with expertise in accounting and controlling. The results of the internal audits undertaken are regularly reported to the Audit Committee.
- The objective of the control self assessment process is primarily to support local unit managers evaluating the status of their control routines and to address weak areas. One of the areas is internal control, which includes internal control over financial reporting. Other areas include legal issues, communication and branding, and the Business Code of Practice.
- The Group has a hotline process where employees and other stakeholders can report on behavior or actions that are possible violations of laws or of Group policies, including violation of accounting and financial reporting guidelines and policies. This also includes perceived cases of human rights violation, discrimination or corruption. The reports are treated confidentially and the person who is reporting is guaranteed anonymity.
- In the compliance process, Group Management, divisional management and all managers responsible for an operational or holding unit and certain other key positions are requested to sign a statement confirming compliance to financial policies, the Business Code of Practice and applicable laws and regulations.

Financial statements and notes

MSEK unless otherwise stated

Consolidated income statement

For the year ended December 31, Amounts in MSEK	Note	2016	2015
Continuing operations			
Revenues	4	101 356	98 973
Cost of sales		–61 237	–59 348
Gross profit		**40 119**	**39 625**
Marketing expenses		–11 044	–10 669
Administrative expenses		–6 824	–6 232
Research and development expenses		–3 096	–3 151
Other operating income	7	757	462
Other operating expenses	7	–121	–270
Share of profit in associated companies and joint ventures	14	7	7
Operating profit	4, 5, 6, 16	**19 798**	**19 772**
Financial income	8	300	427
Financial expenses	8	–1 293	–1 324
Net financial items		**–993**	**–897**
Profit before tax		**18 805**	**18 875**
Income tax expense	9	–5 020	–7 098
Profit from continuing operation		**13 785**	**11 777**
Discontinued operations			
Loss from discontinued operations, net of tax	3	–1 837	–54
Profit for the year		**11 948**	**11 723**
Profit attributable to:			
– owners of the parent		11 931	11 717
– non-controlling interests		17	6
Basic earnings per share, SEK	11	9.81	9.62
– of which continuing operations		*11.32*	*9.67*
Diluted earnings per share, SEK	11	9.79	9.58
– of which continuing operations		*11.30*	*9.62*

Consolidated statement of comprehensive income

For the year ended December 31, Amounts in MSEK	Note	2016	2015
Profit for the year		**11 948**	**11 723**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		–113	662
Income tax relating to items that will not be reclassified		–3	–124
		–116	**538**
Items that may be reclassified subsequently to profit or loss			
Translation differences on foreign operations		3 201	–1 370
Hedge of net investments in foreign operations		–762	681
Cash flow hedges		–25	68
Income tax relating to items that may be reclassified		487	–457
		2 901	**–1 078**
Other comprehensive income for the year, net of tax	10	**2 785**	**–540**
Total comprehensive income for the year		**14 733**	**11 183**
Total comprehensive income attributable to:			
– owners of the parent		14 711	11 173
– non-controlling interests		22	10

Consolidated balance sheet

Amounts in MSEK	Note	Dec. 31, 2016	Dec. 31, 2015*
ASSETS			
Non-current assets			
Intangible assets	12	37 828	33 520
Rental equipment	13	3 095	3 076
Other property, plant and equipment	13	9 793	8 947
Investments in associated companies and joint ventures	14	138	125
Other financial assets	15	2 102	2 129
Other receivables		46	51
Deferred tax assets	9	1 889	1 823
Total non-current assets		**54 891**	**49 671**
Current assets			
Inventories	16	16 912	16 906
Trade receivables	17	21 353	19 552
Income tax receivables		476	649
Other receivables	18	5 856	5 784
Other financial assets	15	2 455	1 576
Cash and cash equivalents	19	11 458	8 861
Assets classified as held for sale	3	2 491	11
Total current assets		**61 001**	**53 339**
TOTAL ASSETS		**115 892**	**103 010**
EQUITY	Page 69		
Share capital		786	786
Other paid-in capital		6 599	6 405
Reserves		6 053	3 157
Retained earnings		39 667	36 243
Total equity attributable to owners of the parent		**53 105**	**46 591**
Non-controlling interests		72	159
TOTAL EQUITY		**53 177**	**46 750**
LIABILITIES			
Non-current liabilities			
Borrowings	21	23 148	21 888
Post-employment benefits	23	3 907	2 225
Other liabilities		492	854
Provisions	25	1 097	741
Deferred tax liabilities	9	1 028	1 497
Total non-current liabilities		**29 672**	**27 205**
Current liabilities			
Borrowings	21	1 574	1 101
Trade payables		10 283	7 873
Income tax liabilities		3 002	5 109
Other liabilities	24	15 234	13 499
Provisions	25	2 139	1 473
Liabilities classified as held for sale	3	811	–
Total current liabilities		**33 043**	**29 055**
TOTAL EQUITY AND LIABILITIES		**115 892**	**103 010**

*Including assets and liabilities related to discontinued operations.

Information concerning pledged assets and contingent liabilities is disclosed in note 26.

Consolidated statement of changes in equity

2016	Equity attributable to owners of the parent							
Amounts in MSEK	Share capital	Other paid-in capital	Hedging reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Opening balance, Jan. 1	786	6 405	–96	3 253	36 243	46 591	159	46 750
Profit for the year					11 931	11 931	17	11 948
Other comprehensive income for the year			–14	2 910	–116	2 780	5	2 785
Total comprehensive income for the year			**–14**	**2 910**	**11 815**	**14 711**	**22**	**14 733**
Dividends					–7 665	–7 665	–22	–7 687
Acquisition of series A shares					–1 294	–1 294		–1 294
Divestment of series A shares		183			626	809		809
Divestment of series B shares		11			4	15		15
Change of non controlling interests					–68	–68	–87	–155
Share-based payment, equity settled								
– expense during the year					82	82		82
– exercise option					–76	–76		–76
Closing balance, Dec. 31	**786**	**6 599**	**–110**	**6 163**	**39 667**	**53 105**	**72**	**53 177**

2015	Equity attributable to owners of the parent							
Amounts in MSEK	Share capital	Other paid-in capital	Hedging reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Opening balance, Jan. 1	786	6 037	–152	4 391	39 513	50 575	178	50 753
Profit for the year					11 717	11 717	6	11 723
Other comprehensive income for the year			56	–1 138	538	–544	4	–540
Total comprehensive income for the year			**56**	**–1 138**	**12 255**	**11 173**	**10**	**11 183**
Dividends					–7 305	–7 305	–29	–7 334
Redemption of shares	–393				–6 912	–7 305		–7 305
Increase of share capital through bonus issue	393				–393			
Acquisition of series A shares					–1 380	–1 380		–1 380
Divestment of series A shares		351			552	903		903
Divestment of series B shares		17			7	24		24
Share-based payment, equity settled								
– expense during the year					73	73		73
– exercise option					–167	–167		–167
Closing balance, Dec. 31	**786**	**6 405**	**–96**	**3 253**	**36 243**	**46 591**	**159**	**46 750**

See note 10 and 20 for additional information.

Consolidated statement of cash flows

For the year ended December 31, Amounts in MSEK	Note	2016	2015
Cash flows from operating activities			
Operating profit from continuing operations		19 798	19 772
Operating loss from discontinued operations	3	–85	–44
Adjustments for:			
Depreciation, amortization and impairment	12, 13	4 392	4 347
Capital gain/loss and other non-cash items		495	–528
Operating cash surplus		**24 600**	**23 547**
Net financial items received/paid		–771	–2 037
Taxes paid		–7 132 [1]	–4 238
Pension funding and payment of pension to employees		–543	78
Cash flow before change in working capital		**16 154**	**17 350**
Change in:			
Inventories		1 229	1 342
Operating receivables		–810	35
Operating liabilities		2 456	222
Change in working capital		**2 875**	**1 599**
Increase in rental equipment		–1 207	–1 263
Sale of rental equipment		459	426
Net cash from operating activities		**18 281**	**18 112**
Cash flows from investing activities			
Investments in other property, plant and equipment		–1 369	–1 705
Sale of other property, plant and equipment		144	600
Investments in intangible assets	12	–1 027	–1 168
Sale of intangible assets		15	17
Acquisition of subsidiaries	2	–4 716 [2]	–1 852 [2]
Divestment of subsidiaries	3	–	58
Investment in other financial assets, net		–195	197
Net cash from investing activities		**–7 148**	**–3 853**
Cash flows from financing activities			
Dividends paid		–7 665	–7 305
Dividend paid to minority		–22	–29
Redemption of shares		–	–7 305
Acquisition of non-controlling interest		–68	–
Repurchase of own shares		–1 294	–1 380
Divestment of own shares		824	927
Borrowings		8 008	845
Repayment of borrowings		–7 747	–593
Settlement of CSA [3]		–915	429
Payment of finance lease liabilities		–112	–86
Net cash from financing activities		**–8 991**	**–14 497**
Net cash flow for the year [4]		**2 142**	**–238**
Cash and cash equivalents, Jan. 1		8 861	9 404
Net cash flow for the year		2 142	–238
Exchange-rate difference in cash and cash equivalents		489	–305
Cash and cash equivalents, discountined operations		–34	–
Cash and cash equivalents, Dec. 31	19	**11 458**	**8 861**

[1] Includes tax payment in Belgium of MSEK 2 250.
[2] Includes deferred consideration for acquisitions made in 2014.
[3] Credit Support Annex, see note 27.
[4] Includes cash flows from discontinued operations, see note 3 for cash flows from discontinued operations.

1. Significant accounting principles, accounting estimates and judgments

SIGNIFICANT ACCOUNTING PRINCIPLES

The consolidated financial statements comprise Atlas Copco AB, the Parent Company ("the Company"), and its subsidiaries (together "the Group" or Atlas Copco) and the Group's interest in associated companies and joint ventures. Atlas Copco AB is headquartered in Nacka, Sweden.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU. The statements are also prepared in accordance with the Swedish recommendation RFR 1 "Supplementary Accounting Rules for Groups" and applicable statements issued by the Swedish Financial Reporting Board. These require certain additional disclosure requirements for Swedish consolidated financial statements prepared in accordance with IFRS.

The accounting principles set out below have been consistently applied to all periods presented, unless otherwise stated, and for all entities included in the consolidated financial statements. The Annual Report for the Group and for Atlas Copco AB, including financial statements, was approved for issuance on March 4, 2017. The balance sheets and income statements are subject to approval by the Annual General Meeting of the shareholders on April 26, 2017.

Basis of consolidation

The consolidated financial statements have been prepared in accordance with the acquisition method. Accordingly, business combinations are seen as if the Group directly acquires the assets and assumes the liabilities of the entity acquired. The consolidated income statements and balance sheets of the Group include all entities in which the Company, directly or indirectly, has control. Control exists when the Company has power over the entity, is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to use its power to affect its returns. Generally, control and hence consolidation is based on ownership. In a few exceptions, consolidation is based on agreements that give the Group control over an entity. See note A22 for information on the Group's subsidiaries.

Intra-group balances and internal income and expense arising from intra-group transactions are fully eliminated in preparing the consolidated financial statements. Gains and losses arising from intra-group transactions that are recognized in assets, such as inventory and fixed assets, are eliminated in full, but losses only to the extent that there is no evidence of impairment.

Business combinations

At the acquisition date, the date on which control is obtained, each identifiable asset acquired and liability assumed is recognized at its acquisition-date fair value. The consideration transferred, measured at fair value, includes assets transferred by the Group, liabilities to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Any subsequent change in such fair value is recognized in profit or loss, unless the contingent consideration is classified as equity. Transactions costs that the Group incur in connection with a business combination are expensed as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of acquisition-date fair value amounts of the identifiable assets acquired and liabilities assumed.

Non-controlling interest is initially measured either

- at fair value, or
- at the non-controlling interest's proportionate share of the fair value of identifiable net assets.

Subsequent profit or loss attributable to the non-controlling interest is allocated to the non-controlling interest, even if it puts the non-controlling interest in a deficit position. Acquisitions of non-controlling interests are recognized as a transaction between equity attributable to owners of the parent and non-controlling interests. The difference between consideration paid and the proportionate share of net assets acquired is recognized in equity. For details on the acquisitions made during the year, see note 2.

Associated companies and joint ventures

An associate is an entity in which the Group has significant influence, but not control, over financial and operating policies. When the Group holds 20–50% of the voting power, it is presumed that significant influence exists, unless otherwise demonstrated. A joint venture is an entity over which the Group has joint control, through contractual agreements with one of more parties. Investments in associated companies and joint ventures are reported according to the equity method. This means that the carrying value of interests in an associate or joint venture corresponds to the Group's share of reported equity of the associate or joint venture, any goodwill, and any other remaining fair value adjustments recognized at acquisition date.

"Shares of profit in associated companies and joint ventures", included in the income statements, comprises the Group's share of the associate's and joint venture's income after tax adjusted for any amortization and depreciation, impairment losses, and other adjustments arising from any remaining fair value adjustments recognized at acquisition date. Dividends received from an associated company or joint venture reduce the carrying value of the investment.

Unrealized gains and losses arising from transactions with an associate or a joint venture are eliminated to the extent of the Group's interest, but losses only to the extent that there is no evidence of impairment of the asset. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognize further losses unless the Group has incurred obligations or made payments on behalf of the associate.

Functional currency and foreign currency translation

The consolidated financial statements are presented in Swedish krona (SEK), which is the functional currency for Atlas Copco AB and also the presentation currency for the Group's financial reporting. Unless otherwise stated, the amounts presented are in millions Swedish krona (MSEK).

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction and non-monetary items carried at fair value are reported at the rate that existed when the fair values were determined. Tangible and intangible assets, inventory and advanced payments are examples of non-monetary items.

Receivables and liabilities and other monetary items denominated in foreign currencies are translated using the foreign exchange rate at the balance sheet date. The exchange gains and losses related to receivables and payables and other operating receivables and liabilities are included in "Other operating income and expenses" and foreign exchange gains and losses attributable to other financial assets and liabilities are included in "Financial income and expenses". Exchange rate differences on translation to functional currency are reported in "Other comprehensive income" in the following cases:

- translation of a financial liability designated as a hedge of the net investment in a foreign operation,
- translation of intra-group receivables from, or liabilities to, a foreign operation that in substance is part of the net investment in the foreign operation,
- cash flow hedges of foreign currency to the extent that the hedge is effective.

In the consolidation, the balance sheets of foreign subsidiaries are translated to SEK using exchanges rates at the end of the reporting period and the income statements are translated at the average rates for the reporting period. Foreign exchange differences arising on such translation are recognized in "Other comprehensive income" and are accumulated in the currency translation reserve in equity. Exchange rates for major currencies that have been used for the consolidated financial statements are shown in note 27.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, and for which discrete financial information is available. The operating results of all operating segments are reviewed regularly by the Group's President and CEO, the chief operating decision maker, to make decisions about allocation of resources to the segments and also to assess their performance. See note 4 for additional information.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and reduced for value added tax, estimated customer returns, discounts and other similar deductions. See note 4 for further information on revenue by segment and by geographical area.

Goods sold

Revenue from goods sold is recognized when the significant risks and rewards of ownership have been transferred to the buyer, i.e. when the Group retains neither continuing right to dispose of the goods nor hold effective control of the goods sold, recovery of the consideration is probable and the amount of the revenue and associated costs can be measured reliably. When the product requires installation and this constitutes a significant part of the contract, revenue is recognized when the installation is completed. Revenue is not recorded for buy-back commitments if the substance of the agreement is that the risks

1. Significant accounting principles, accounting estimates and judgments, continued

and rewards of ownership have not been transferred to the buyer. No revenue is recognized if there is significant uncertainty regarding the possible return of goods.

Services rendered
Revenue from services is recognized by reference to the stage of completion of the contract. The stage of completion is determined by the proportion of costs incurred to date compared to the estimated total costs of the transaction. Where the outcome of a service contract cannot be estimated reliably, revenue is recognized to the extent of costs incurred that are expected to be recoverable. When it is probable that total contract costs will exceed total revenue, the expected loss is recognized as an expense immediately. When services are performed by an indeterminate number of activities over the service contract period, revenue is recognized linearly over that period.

Rental operations
Rental income from rental equipment is recognized on a straight-line basis over the rental period. Sale of rental equipment is recognized as revenue when the significant risks and rewards of ownership have been transferred to the buyer. The carrying value of the rental equipment sold is recognized as cost of sales. Investments in and sales of rental equipment are included in cash flows from operating activities.

Other operating income and expenses
Commissions and royalties are recognized on an accrual basis in accordance with the financial substance of the agreement. Gains and losses on disposals of an item of non-current tangible and intangible assets are determined by comparing the proceeds from disposal with the carrying amount. Such gains and losses are recognized within "Other operating income" and "Other operating expenses". See note 7 for additional information.

Financial income and expenses
Interest income and interest expenses are recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established. See note 8 for additional information.

Income taxes
Income taxes include both current and deferred taxes. Income taxes are reported in profit or loss unless the underlying transaction is reported in "Other comprehensive income" or in equity, in which case the corresponding tax is reported according to the same principle.

A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current year or prior years. Deferred tax is recognized using the balance sheet liability method. The calculation of deferred taxes is based on differences between the values reported in the balance sheet and their valuation for taxation, which are referred to as temporary differences, and the carry forward of unused tax losses and tax credits. Temporary differences attributable to the following assets and liabilities are not provided for: the initial recognition of goodwill, the initial recognition (other than in business combinations) of assets or liabilities that affect neither accounting nor taxable profit, and differences related to investments in subsidiaries, associated companies and joint ventures to the extent that they will probably not reverse in the foreseeable future, and for which the company is able to control the timing of the reversal of the temporary differences.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. In the calculation of deferred taxes, enacted or substantively enacted tax rates are used for the individual tax jurisdictions.

Current and deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. For details regarding taxes, see note 9.

Earnings per share
Basic earnings per share are calculated based on the profit for the year attributable to owners of the parent and the basic weighted average number of shares outstanding. Diluted earnings per share are calculated based on the profit for the year attributable to owners of the parent and the diluted weighted average number of shares outstanding. Dilutive effects arise from stock options that are settled in shares, or that at the employees' choice can be settled in shares or cash in the share based incentive programs.

Stock options have a dilutive effect when the average share price during the period exceeds the exercise price of the options. When calculating the dilutive effect, the exercise price is adjusted by the value of future services related to the options. If options for which employees can choose settlement in shares or cash are dilutive, the profit for the year is adjusted for the difference between cash-settled and equity-settled treatment of options and the more dilutive of cash settlement and share settlement is used in calculating earnings per share. See note 11 for more details.

Intangible assets
Goodwill
Goodwill is recognized at cost, as established at the date of acquisition of a business (see "Business combinations"), less accumulated impairment losses, if any. Goodwill is allocated to the cash-generating units (CGU) that are expected to benefit from the synergies of the business combination. Impairment testing is made at least annually or whenever the need is indicated. The impairment test is performed at the level on which goodwill is monitored for internal management purposes. The four business areas of Atlas Copco's operations have been identified as CGUs. Goodwill is reported as an indefinite useful life intangible asset.

Technology-based intangible assets
Expenditure on research activities is expensed as incurred. Research projects acquired as part of business combinations are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, these research projects are carried at cost less amortization and impairment losses. Expenditure on development activities are expensed as incurred unless the activities meet the criteria for being capitalized i.e.:

- the product or process being developed is estimated to be technically and commercially feasible, and
- the Group has the intent and ability to complete and sell or use the product or process.

The expenditure capitalized includes the cost of materials, direct labor, and other costs directly attributable to the project. Capitalized development expenditure is carried at cost less accumulated amortization and impairment losses. Amortization related to research and development expenditure for 2016 amounted to 838 (721). This has been reported as part of research and development costs in the income statement since the Group follows up on the research and development function as a whole.

Trademarks
Trademarks acquired by the Group are capitalized based on their fair value at the time of acquisition. Certain trademarks are estimated to have an indefinite useful life and are carried at cost less accumulated impairment losses. They are tested at least annually for impairment. Other trademarks, which have finite useful lives, are carried at cost less accumulated amortization and impairment losses.

Marketing and customer related intangible assets
Acquired marketing and customer related intangibles are capitalized based on their fair value at the time of acquisition and are carried at cost less accumulated amortization and impairment losses.

Other intangible assets
Acquired intangible assets relating to contract-based rights, such as licenses or franchise agreements, are capitalized based on their fair value at the time of acquisition and carried at cost less accumulated amortization and impairment losses. Expenditure on internally generated goodwill, trademarks and similar items is expensed as incurred. Changes in the Group's intangible assets during the year are described in note 12.

Property, plant and equipment
Items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Cost of an item of property, plant and equipment comprises purchase price, import duties, and any cost directly attributable to bringing the asset to the location and condition for use. The cost also includes dismantlement and removal of the asset in the future if applicable. Borrowing cost for assets that need a substantial period of time to get ready for their intended use are included in the cost value until the assets are substantially ready for their use or sale and are thereafter depreciated. The Group capitalizes costs on initial recognition and on replacement of significant parts of property, plant and equipment if it is probable that the future economic benefits embodied will flow to the Group and the cost can be measured reliably. All other costs are recognized as an expense in profit or loss when incurred.

Rental equipment
The rental fleet is comprised of diesel and electric powered air compressors, generators, air dryers, and to a lesser extent general construction equipment.

1. Significant accounting principles, accounting estimates and judgments, continued

Rental equipment is initially recognized at cost and is depreciated over the estimated useful lives of the equipment. Rental equipment is depreciated to a residual value estimated at 0–10% of cost.

Depreciation and amortization

Depreciation and amortization is calculated based on cost using the straight-line method over the estimated useful life of the asset. Parts of property, plant and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately when the useful lives of the parts do not coincide with the useful lives of other parts of the item. The following useful lives are used for depreciation and amortization:

Technology-based intangible assets	3–15 years
Trademarks with finite lives	5–15 years
Marketing and customer related intangible assets	5–10 years
Buildings	25–50 years
Machinery and equipment	3–10 years
Vehicles	4–5 years
Computer hardware and software	3–10 years
Rental equipment	3–8 years

The useful lives and residual values are reassessed annually. Land, assets under construction, goodwill, and trademarks with indefinite lives are not depreciated or amortized. For changes in the Group's property, plant and equipment see note 13.

Leasing

The Group acts both as lessor and lessee. Leases are classified as either finance leases or operating leases. A finance lease entails the transfer to the lessee of substantially all of the economic risks and benefits associated with ownership. If this is not the case, the lease is accounted for as an operating lease.

Group as lessee

For the lessee, a financial lease implies that the fixed asset leased is recognized as an asset in the balance sheet. Initially, a corresponding liability is recorded. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Fixed assets under finance leases are depreciated over their estimated useful lives, while the lease payments are reported as interest and amortization of the lease liability. For operating leases, the lessee does not account for the leased asset in its balance sheet. The costs of operating leases are recorded in the income statement on a straight-line basis over the term of the lease.

Group as lessor

In cases where the Group acts as the lessor under an operating lease, the asset is classified as rental equipment and is subject to the Group's depreciation policies. The lease payments are included in profit or loss on a straight-line basis over the term of the lease. Under finance leases where the Group acts as lessor, the transaction is recorded as a sale and a lease receivable, comprising the future minimum lease payments and any residual value guaranteed to the lessor, is recorded. Lease payments are recognized as interest income and repayment of the lease receivable. See note 22 for more details on leases.

Impairment of non-financial assets

The carrying values of the Group's non-financial assets are reviewed at least at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the Group estimates the recoverable amount of the asset. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount (i.e. the greater of fair value less costs to sell and value in use). In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of assessing impairment, assets are grouped in CGUs, which are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. Impairment losses are recognized in profit or loss. An impairment loss related to goodwill is not reversed. In respect of other assets, impairment losses in prior periods are reviewed for possible reversal of the impairment at each reporting date.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recognized according to the first-in-first-out principle and includes the cost of acquiring inventories and bringing them to their existing location and condition. Inventories manufactured by the Group and work in progress include an appropriate share of production overheads based on normal operating capacity. Inventories are reported net of deductions for obsolescence and internal profits arising in connection with deliveries from the production companies to the customer centers. See note 16 for more details.

Equity

Shares issued by the company are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effect.

When share capital recognized as equity is repurchased, the amount of the consideration paid is recognized as a deduction from equity net of any tax effect. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or subsequently reissued, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is transferred to or from other paid-in capital.

Provisions

Provisions are recognized:

- when the Group has a legal or constructive obligation (as a result of a past event),
- it is probable that the Group will have to settle the obligation, and
- the amount of the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date.

If the effect of the time value of money is material, the provision is determined by discounting the expected future cash flows of estimated expenditures.

Provisions for product warranties are recognized as cost of sales at the time the products are sold based on the estimated cost using historical data for level of repairs and replacements.

A restructuring provision is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or been announced publicly.

Present obligations arising under onerous contracts are recognized as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Before a provision is established, the Group recognizes any impairment loss on the asset associated with the contract. For details on provisions see note 25.

Post-employment benefits

Post-employment benefit plans are classified either as defined contribution or defined benefit plans. Under a defined contribution plan, the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts if the fund does not hold sufficient assets to pay all employee benefits. Contributions to defined contributions plans are expensed when employees provide services entitling them to the contribution.

Other post-employment benefit plans are defined benefit plans and it is the Group's obligation to provide agreed benefits to current and former employees. The net obligation of defined benefit plans is calculated by estimating the amount of future benefits that employees have earned in return for their services in current and prior periods. The amount is discounted to determine its present value and the fair values of any plan assets are deducted. Funded plans with net assets, i.e. plans with assets exceeding the commitments, are reported as financial non-current assets.

The cost for defined benefit plans is calculated using the Projected Unit Credit Method, which distributes the cost over the employee's service period. The calculation is performed annually by independent actuaries using actuarial assumptions such as employee turnover, mortality, future increase in salaries and medical cost. Changes in actuarial assumptions, experience adjustments of obligations and changes in fair value of plan assets result in remeasurements and are recognized in other comprehensive income. Each quarter a remeasurement is performed to adjust the present value of pension liabilities and the fair value of pension assets against "Other comprehensive income". Net interest on defined benefit obligations and plan assets is reported as interest income or interest expenses. See note 23 for additional information.

Share-based compensation

The Group has share-based incentive programs, consisting of share options and share appreciation rights, which have been offered to certain employees based on position and performance. Additionally, the Board is offered synthetic shares.

The fair value of share options that can only be settled in shares (equity-

1. Significant accounting principles, accounting estimates and judgments, continued

settled) is recognized as an employee expense with a corresponding increase in equity. The fair value, measured at grant date using the Black-Scholes formula, is recognized as an expense over the vesting period. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest.

The fair value of the share appreciation rights, synthetic shares, and options with a choice for employees to settle in shares or cash is recognized in accordance with principles for cash-settled share-based payments. The value is recognized as an employee expense with a corresponding increase in liabilities. The fair value, measured at grant date and remeasured at each reporting date using the Black-Scholes formula, is accrued and recognized as an expense over the vesting period. Changes in fair value are, during the vesting period and after the vesting period until settlement, recognized in profit or loss as an employee expense. The accumulated expense recognized equals the cash amount paid at settlement.

Social security charges are paid in cash and are accounted for in consistence with the principles for cash-settled share-based payments, regardless of whether they are related to equity- or cash-settled share-based payments. See note 23 for details.

Financial assets and liabilities – financial instruments

Recognition and derecognition

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provision of the instrument. Transactions of financial assets are accounted for at trade date, which is the day when the Group contractually commits to acquire or dispose of the assets. Trade receivables are recognized on issuance of invoices. Liabilities are recognized when the other party has performed and there is a contractual obligation to pay. Derecognition, fully or partially, of a financial asset occurs when the rights in the contract have been realized or mature, or when the Group no longer has control over it. A financial liability is derecognized, fully or partially, when the obligation specified in the contract is discharged or otherwise expires.

A financial asset and a financial liability are offset and the net amount presented in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Measurement of financial instruments

Financial instruments are measured, classified and recognized according to IAS 39 in the following categories:

The Group classifies its financial assets in the following categories:
- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Assets available for sale

The Group classifies its financial liabilities in the following categories:
- Financial liabilities at fair value through profit or loss
- Other financial liabilities measured at amortized cost using the effective interest method

Financial assets and liabilities at fair value through profit or loss: This category includes financial assets and liabilities held for trading or are designated as such upon initial recognition. A financial asset or liability is held for trading if the Group manages such investments and makes purchase and sale decisions based on their fair value. A derivative that is not designated or effective as hedging instrument is also categorized as held for trading. Financial instruments in this category are measured at fair value and changes therein are recognized in profit or loss. Fair value is determined in the manner described in note 27.

Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market, such as trade and other receivables and cash and cash equivalents. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Held-to-maturity investments: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity. Held-to-maturity-investments are measured at amortized cost using the effective interest rate method, less any impairment losses.

Available-for-sale financial assets: This category consists of non-derivatives that are either designated as available-for-sale or are not classified as any of above categories. These assets are measured at fair value. Changes therein are recognized in "Other comprehensive income", except for impairment losses and foreign exchange gains and losses on available-for-sale monetary items which are recognized in profit or loss. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Fair value is determined in the manner described in note 27.

Other financial liabilities: Other financial liabilities are measured at amortized cost using the effective interest method. Trade payables and loan liabilities are recognized in this category.

Impairment of financial assets

Financial assets, except those classified as fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. A financial asset is considered to be impaired if objective evidence indicates that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flow of the investment has been affected negatively. The impairment is made on an individual basis for significant financial assets and in some cases collectively in groups with similar credit risks. Impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized in other comprehensive income.

Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item hedged. Changes in fair value for derivatives that do not fulfill the criteria for hedge accounting are recognized as operating or financial transactions based on the purpose of the use of the derivative. Interest payments for interest swaps are recognized as interest income or expense, whereas changes in fair value of future payments are presented as gains or losses from financial instruments.

In order to qualify for hedge accounting the hedging relationship must be
- formally designated,
- expected to be highly effective, and
- documented.

The Group assesses, evaluates, and documents effectiveness both at hedge inception and on an on-going basis.

Fair value hedges: Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss together with any changes in the fair value of the hedged asset or liability. The Group applies fair value hedge accounting for interest rate swaps used for hedging fixed interest risk on borrowings.

Cash flow hedges: Changes in the fair value of the hedging instrument are recognized in Other comprehensive income to the extent that the hedge is effective and the accumulated changes in fair value are recognized as a separate component in equity. Gains or losses relating to the ineffective part of hedges are recognized immediately in profit or loss.

The amount recognized in equity through Other comprehensive income is reversed to profit or loss in the same period in which the hedged item affects profit or loss. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the amount previously recognized in Other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss. The Group uses foreign currency forwards to hedge part of the future cash flows from forecasted transactions in foreign currencies. Interest rate swaps are also used as cash flow hedges for hedging interest on borrowings with variable interest.

Hedge of net investments in foreign operations: The Group hedges a substantial part of net investments in foreign operations. Changes in the value of the hedge instrument relating to the effective portion of the hedge are recognized in Other comprehensive income and accumulated in equity. Gains or losses relating to the ineffective portion are recognized immediately in profit or loss. On divestment of foreign operations, the gain or loss accumulated in equity is recycled through profit or loss, increasing or decreasing the profit or loss on

1. Significant accounting principles, accounting estimates and judgments, continued

the divestment. The Group uses loans and forward contracts as hedging instruments.

Accounting for discontinuation of hedges: Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

For fair value hedges, the fair value adjustment to the carrying amount of the hedged asset or liability arising from the hedged risk is amortized to profit or loss from the date the hedge was discontinued.

For cash flow hedges any gain or loss recognized in other comprehensive income and accumulated in equity at that time of hedge discontinuation remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Asset held for sale and discountined operations

Assets are classified as held for sale if their value, within one year, will be recovered through a sale and not through continued use in the operations. On the reclassification date, assets and liabilities are measured at the lower of fair value less selling expenses and the carrying amount. Following reclassification, the assets are no longer depreciated or amortized. Gains and losses recognized on remeasurements and disposals are reported in profit or loss.

A discontinued operation is a component of the Group that either has been disposed of, or is classfied as held for sale, and represents a separate major line of business or geographical area of operations. A discontinued operation is reported separately from continuing operations in the income statement with the corresponding presentation for the comparative period. In the balance sheet assets held for sale and associated liabilities is reported separately, the comparative period is not affected. Assets held for sale and discontinued operations are carried at the lower of carrying amount of fair value less cost to sell.

Contingent liabilities

A contingent liability is a possible obligation or a present obligation that arises from past events that is not reported as a liability or provision, due either to that it is not probable that an outflow of resources will be required to settle the obligation or that a sufficiently reliable calculation of the amount cannot be made.

New or amended accounting standards in 2016

The following revised and amended IFRS standards have been applied by the Group from 2016 but had none or no material impact on the Group.

Annual improvements to IFRSs 2011–2014 issued in September 2014.
The Annual improvements include a number of amendments to various IFRSs (IFRS 5, IFRS 7 and IAS 19).

Amendments to IAS 1 Disclosure initiative issued in December 2014.
The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

Amendments to IAS 16 and 38 Clarification of acceptable methods of depreciation and amortization issued in May 2014.
The amendment to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset.

New or amended accounting standards effective after 2016

The following standards, interpretations, and amendments have been issued but were not effective as of December 31, 2016 and have not been applied by the Group.

IFRS 9 Financial Instruments
The standard is intended to replace IAS 39 Financial instruments: Recognition and Measurement, and addresses the classification and measurement of financial instruments and hedge accounting. It is likely to affect the Group's accounting of financial s and financial liabilities. The effective date is January 1, 2018 and the Group is yet to assess the full impact of IFRS 9.

IFRS 15 Revenue from Contracts with Customers
This new standard will replace existing revenue recognition standards and establishes a five-step model to account for revenue from contracts with customers. Revenue recognized will reflect the expected and entitled consideration for transferring goods and/or services to customers. Mandatory effective date of the new standard is January 1, 2018 for annual periods beginning on or after January 1, 2018.

The Group has performed a preliminary assessment of the effects of IFRS 15 during 2016, which is subject to change depending on the conclusions from a more detailed ongoing analysis. Contracts with customers with the below implications will therefore need further analysis before the Group will be able to quantify the impact on the financial statement. The Group is also considering the clarifications issued by IASB in April 2016 and will monitor any further developments. The final impact, following the referred further analysis is, however, expected to have only limited effects compared to current revenue recognition standards, in relation to the size of revenue and profit of the Group.

Sales of goods
The Group provides goods such as equipment, industrial tools, consumables and spare parts to customers. In general when entering into contracts with customers with a single performance obligation, the Group expects limited impact from IFRS 15 on the Group's profit and loss. As in accordance with the current standard, revenue is expected to be recognized at one point in time when the control has been transferred to the customer, which in general will be at the delivery of the goods.

The Group provides customized equipment to customer which includes installation and commissioning. Under these circumstances, the Group's assessment is that the customer simultaneously receives and consumes the benefits provided by the Group. Currently, these projects are accounted for over time. However, in some contracts with customers the Group does not fulfill all requirements in IFRS 15 to recognize revenue over time. The Group's preliminary assessment is therefore that for these contracts, the control is transferred at one point in time when the performance obligation has been satisfied. This will impact the timing of revenue.

Rendering of service
The Group provides different kinds of services to customers. The Group expects limited impact on the Group's profit and loss relating to these types of service contracts. The revenue is expected to be recognized over time as the customer simultaneously receives and consumes the benefits of the service.

The Group also provides installation, commissioning and other services with certain equipment. These services are sold either separately in contracts with customers or bundled together with the sale of the equipment to the customer. Due to the more detailed requirements for determining whether goods or services are performance obligation under IFRS 15, the assessment of identified performance obligation might differ from identified deliverables according to the current revenue recognition standard. IFRS 15 also requires allocation of the transaction price to the identified performance obligations which may impact the timing of revenue.

Warranty obligations
The Group provides assurance-type warranties where the warranty is a guarantee of quality of the goods provided. These will continue to be accounted for under IAS 37 Provision, Contingent Liabilities and Contingent Assets. Certain contracts with customers includes extended warranty. The Group expects these to be accounted for as a separate performance obligation under IFRS 15 and as such the timing of revenue is expected to be impacted.

Variable consideration
Some contracts with customers provide a right of return, volume rebate or variable prices depending on certain factors. In order to prevent over-recognition of revenue, IFRS 15 requires estimated variable consideration to be constrained. Variable consideration may only be included in the transaction price allocated to the performance obligations if it is highly probable that a significant reversal of revenues will not occur when the uncertainty of the variable consideration has been resolved. The Group will continue to assess contracts individually to determine the estimated variable consideration and related constraint.

Presentation and disclosure
IFRS 15 presentation and disclosure requirements are more detailed compared to current revenue recognition standard. This will be a significant change from what is currently disclosed and will increase the volume of disclosures required in the financial statement. Development and testing of appropriate systems, internal controls and procedures to collect and disclose the required information will continue during 2017.

1. Significant accounting principles, accounting estimates and judgments, continued

*IFRS 16 Leases**
The standard defines the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The changes relate to the accounting treatment by the lessee. IFRS 16 introduces a single accounting model and requires the recognition of substantially all leases in the balances sheet and the separation of depreciation of lease assets from interest on lease liabilities in the income statement. IFRS 16 is effective from 1 January 2019. The assessment of the effect from this standard is under investigation.

In addition to the above, other new or revised accounting standards have been published, but are not yet effective. They are not considered to have a material impact on the financial statements of Atlas Copco.

* Indicates that the standard has not yet been endorsed by the EU.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial reports requires management's judgment and the use of estimates and assumptions that affects the amounts reported in the consolidated financial statements. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the prevailing circumstances. Actual result may differ from those estimates. The estimates and assumptions are reviewed on an on-going basis. Changes in accounting estimates are recognized in the period which they are revised and in any future periods affected.

The estimates and the judgments which, in the opinion of management, are significant to the underlying amounts included in the financial reports and for which there is a significant risk that future events or new information could entail a change in those estimates or judgments are as follows.

Revenue recognition

Key sources of estimation uncertainty
Revenue from services is recognized in profit or loss by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Accounting judgment
Management's judgment is used, for instance, when assessing:
- if the risks and rewards have been transferred to the buyer, to determine if revenue and cost should be recognized in the current period,
- the degree of completion of service contracts and the estimated total costs for such contracts, to determine the revenue and cost to be recognized in the current period and whether any losses need to be recognized, and
- the customer credit risk (i.e. the risk that the customer will not meet the payment obligation), to determine and justify the revenue recognized in the current period.

Impairment of goodwill, other intangible assets and other long-lived assets

Key sources of estimation uncertainty
Goodwill and certain trademarks are not amortized but are subject to annual tests for impairment. Other intangible assets and other long-lived assets are amortized or depreciated based on management's estimates of the period that the assets will generate revenue but are also reviewed regularly for indications of impairment. The impairment tests are based on a review of the recoverable amount, which is estimated based on management's projections of future cash flows using internal business plans and forecasts.

Accounting judgment
Asset impairment requires management's judgment, particularly in assessing:
- whether an event has occurred that may affect asset values,
- whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset in the business,
- the appropriate assumptions to be applied in preparing cash flow projections, and
- the discounting of these cash flows.

Changing the assumptions selected by management to determine the level, if any, of impairment could affect the financial position and results of operation. See note 12.

Deferred taxes

Key sources of estimation uncertainty
Deferred tax assets are recognized for temporary differences between the carrying amounts for financial reporting purposes of assets and liabilities and the amounts used for taxation purposes and for tax loss carry-forwards. The Group records deferred tax assets based upon management's estimates of future taxable profit in different tax jurisdictions. The actual results may differ from these estimates, due to change in the business climate and change in tax legislation. See note 9.

Inventory

Accounting judgment
The Group values inventory at the lower of historical cost, based on the first-in, first-out basis, and net realizable value. The calculation of net realizable value involves management's judgment as to the estimated sales prices, overstock articles, out-dated articles, damaged goods, and selling costs. If the estimated net realizable value is lower than cost, a valuation allowance is established for inventory obsolescence. See note 16 for additional information.

Trade and financial receivable

Key sources of estimation uncertainty
The Group estimates the risk that receivables will not be paid and provides for doubtful accounts based on specific provisions for known cases and collective provisions for losses based on historical loss levels.

Accounting judgment
Management's judgment considers rapidly changing market conditions which may be particularly sensitive in customer financing operations. Additional information is included in section "Credit risk" in note 27.

Pension and other post-employment benefit valuation assumptions

Key sources of estimation uncertainty
Pensions and other post-employment obligations are dependent on the assumptions established by management and used by actuaries in calculating such amounts. The key assumptions include discount rates, inflation, future salary increases, mortality rates, and health care cost trend rates. The actuarial assumptions are reviewed on an annual basis and are changed when it is deemed appropriate.

See note 23 for additional information regarding assumptions used in the calculation of pension and post-employment obligations.

Legal proceedings and tax claims

Accounting judgment
Atlas Copco recognizes a liability when the Group has an obligation from a past event involving the transfer of economic benefits and when a reasonable estimate can be made of what the transfer might be. The Group reviews outstanding legal cases regularly in order to assess the need for provisions in the financial statements. These reviews consider the factors of the specific case by internal legal counsel and through the use of outside legal counsel and advisors when necessary. The financial statements may be affected to the extent that management's assessments of the factors considered are not consistent with the actual outcome.

Additionally, the legal entities of the Group are frequently subject to audits by tax authorities in accordance with standard practice in the countries where the Group operates. In instances where the tax authorities have a different view on how to interpret the tax legislation, the Group makes estimates as to the likelihood of the outcome of the dispute, as well as estimates of potential claims. The actual results may differ from these estimates.

Warranty provisions

Key sources of estimation uncertainty
Provisions for product warranties should cover future commitments for the sales volumes already realized. Warranty provision is a complex accounting estimate due to the variety of variables which are included in the calculations. The calculation methods are based on the type of products sold and historical data for level of repairs and replacements. The underlying estimates for calculating the provision is reviewed at least quarterly as well as when new products are being introduced or when other changes occur which may affect the calculation. See note 25.

2. Acquisitions

The following summarizes the significant acquisitions during 2016 and 2015:

Closing date		Country	Business area	Revenues [1]	Number of employees [1]
2016 Dec. 22	Air Power of Nebraska	U.S.A.	Compressor Technique	[2]	12
2016 Nov. 24	Phillip-Tech	China	Industrial Technique	[2]	45
2016 Sep. 1	Leybold	Germany etc.	Compressor Technique [3]	3 150	1 600
2016 Aug. 5	CSK	South Korea etc.	Compressor Technique [3]	870	400
2016 Aug. 2	Schneider Druckluft	Germany, Slovakia and Czech Republic	Compressor Technique	250	110
2016 July 4	Roxel Rental	Norway	Construction Technique	12	2
2016 June 14	Bondtech	Sweden	Industrial Technique	32	12
2016 May 2	Kohler Druckluft	Austria, Switzerland and Liechtenstein	Compressor Technique	[2]	30
2016 Apr. 15	Scales Industrial Technologies	U.S.A.	Compressor Technique	[2]	180
2016 Apr. 4	Air et Fluides Lyonnais	France	Compressor Technique	[2]	6
2016 Mar. 2	FIAC	Italy etc.	Compressor Technique	640	400
2016 Jan. 12	Varisco	Italy etc.	Construction Technique	270	135
2016 Jan. 5	Capitol Research Equipment	U.S.A.	Compressor Technique [3]	22	15
2015 Dec. 15	Air Supply Systems and A-1 Air Compressor Corp.	U.S.A.	Compressor Technique	[2]	37
2015 Dec. 4	Innovative Vacuum Solutions Inc.	U.S.A.	Compressor Technique	32	19
2015 Oct. 5	NJS Technologies	United Kingdom	Industrial Technique	9	7
2015 Sep. 9	Air Repair Sales and Service Ltd.	Canada	Compressor Technique	[2]	12
2015 Aug. 7	Applied Plasma Systems Co.	South Korea	Compressor Technique	9	5
2015 July 2	Mustang Services	U.S.A.	Construction Technique	45	2
2015 Mar. 3	Kalibriercentrum Bayern	Germany	Industrial Technique	28	27
2015 Jan. 8	Maes Compressoren NV	Belgium	Compressor Technique	65	30

[1] Annual revenues and number of employees at the time of acquisition.
[2] Former distributor of Atlas Copco products. No revenues are disclosed for former Atlas Copco distributors.
[3] Included in Vacuum Technique as from 2017.

All acquisitions above were made through the purchase of 100% of shares and voting rights or through the purchase of the net assets of the acquired operations. The Group received control over the operations upon the date of acquisition. No equity instruments have been issued in connection with the acquisitions. All acquisitions have been accounted for using the acquisition method.

The amounts presented in the following tables detail the recognized amounts aggregated by business area, as the relative amounts of the individual acquisitions are not considered significant. The fair values related to intangible assets are amortized over 5–15 years. For those acquisitions that include a contingent consideration clause, the fair value of the contingent consideration has been calculated based on a discount rate of 10.5%. For more information about the valuation of contingent consideration, see note 27. The Group is in the process of reviewing the final values for the acquired businesses. No adjustments are expected to be material. Adjustments related to the acquisitions made in 2016 are included in the following tables.

Compressor Technique	Recognized values	
	2016	**2015**
Intangible assets	2 377	45
Property, plant and equipment	1 104	12
Other assets	1 925	70
Cash and cash equivalents	937	11
Interest-bearing loans and borrowings	–2 876	–4
Other liabilities and provisions	–1 439	–18
Net identifiable assets	**2 028**	**116**
Non-controlling interests	–6	–
Goodwill	2 790	24
Total consideration	**4 812**	**140**
Deferred consideration	56	2
Cash and cash equivalents acquired	–937	–11
Net cash outflow	**3 931**	**131**

In January, the Compressor Technique business area acquired the assets of Capitol Research Equipment Inc., a U.S. parts and service provider for vacuum pumps. Intangible assets of 18 were recorded on the purchase.

FIAC, an Italian manufacturer of piston compressors and related equipment with a global sales network, was acquired in March. The acquisition strengthens Atlas Copco's product portfolio and expertise especially for piston compressors. Intangible assets of 190 and goodwill of 139 were recorded on the purchase. The goodwill is not deductible for tax.

Two distributors were acquired in April. Air et Fluides Lyonnais is a French distributor and service provider of industrial air compressors and ancillary systems. The acquisition strengthens Atlas Copco's access in the important Lyon region. Intangible assets of 4 were recorded on the purchase. Scales Industrial Technologies Inc. distributes, services and rents out industrial air compressors and ancillary systems in the Northeastern region of the U.S. The acquisition will allow Atlas Copco to further strengthen its presence in the Northeastern U.S. market. Intangible assets of 113 and goodwill of 72 were recorded on the purchase. The goodwill is deductible for tax purposes.

In May, the compressor business of Kohler Druckluft, with operations in Austria, Switzerland and Liechtenstein was acquired. The company is an authorized Atlas Copco compressor distributor and specializes in selling, renting out and servicing industrial air compressors and air treatment systems. The acquisition will further improve Atlas Copco's customer interaction in central Europe. Intangible assets of 19 were recorded on the purchase.

In August, Schneider Druckluft GmbH, a German designer and producer of professional compressed air solutions with a large network of retailers and specialist shops, was acquired. Schneider Druckluft provides high-quality compressed air solutions and is considered to fit well with the strategy of the Professional Air division within Compressor Technique. Intangible assets of 47 and goodwill of 3 was recorded on the purchase. The goodwill is not deductible for tax.

CSK Inc., a leading supplier of exhaust management systems in the South Korean semiconductor, display, solar and LED markets, was also acquired in August. CSK is based in South Korea, and also has sales and service locations in China, Taiwan and the United States. The company provides manufacturers with exhaust management systems that treat hazardous gases occurring as part of the semiconductor, display, solar and LED manufacturing processes,

2. Acquisitions, continued

as well as gas and liquid delivery for advanced semiconductor manufacturing. The acquisition will enable Atlas Copco to offer customers a wider range of top-quality solutions. Intangible assets of 368 and goodwill of 482 were recorded on the purchase. The goodwill is not deductible for tax. Non-controlling interest in the Taiwanese subsidiary amounted to 6. This has been valued at the proportionate share of the acquired net assets.

In September, Leybold Vacuum, the vacuum segment of OC Oerlikon Corporation AG, was acquired. The business is headquartered in Cologne, Germany. Leybold Vacuum's vacuum solutions are used to create clean, particle-free environments for such applications as automotive, metallurgy, coating of microchips, and the manufacturing of analytical instruments. The acquisition will strengthen Atlas Copco's technology platform for superior vacuum solutions. Intangible assets of 1 600 and goodwill of 2 088 were recorded on the acquisition. The goodwill is not deductible for tax purposes.

In December, Air Power of Nebraska Inc., a compressed air distributor in the central United States that sells, installs and services compressed air products and related systems, was acquired. The acquisition will strengthen Atlas Copco's presence in the region. Intangible assets of 19 and goodwill of 5 were recorded on the purchase. The goodwill is deductible for tax purposes.

Mining and Rock Excavation Technique	Recognized values	
	2016	2015
Intangible assets	–	–
Property, plant and equipment	–	–
Other assets	–	–
Cash and cash equivalents	–	–
Other liabilities and provisions	–	–
Net identifiable assets	**–**	**–**
Goodwill	–	–
Total consideration	**–**	**–**
Deferred consideration	–	20
Cash and cash equivalents acquired	–	–
Net cash outflow	**–**	**20**

The Mining and Rock Excavation Technique business area made no acquisitions in 2016.

Industrial Technique	Recognized values	
	2016	2015
Intangible assets	68	–116
Property, plant and equipment	4	1
Other assets	29	–2
Other liabilities and provisions	–11	44
Net identifiable assets	**90**	**–73**
Goodwill	50	52
Total consideration	**140**	**–21**
Deferred consideration	244	1 644
Net cash outflow	**384**	**1 623**

In June, the Industrial Technique business area acquired Bondtech, a Swedish supplier of dispensing equipment for adhesives and sealants used by automotive manufacturers. The acquisition adds expertise and a strong presence in the Nordic adhesives market. Intangible assets of 14 and goodwill of 12 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In November, the self-pierce riveting business of Phillip-Tech (Beijing) Co., Ltd., was acquired. The company sells self-pierce riveting products and solutions designed and produced by Atlas Copco-owned Henrob. The acquisition adds a company that plays a crucial role in marketing the riveting technology in China. Intangible assets of 54 and goodwill of 38 were recorded on the purchase. The goodwill is not deductible for tax purposes.

Total consideration includes contingent consideration with a fair value of 50 related to the Phillip-Tech acquisition. Contingent consideration to be paid is dependent on revenues the five first years after the acquisition. The fair value of the contingent consideration has been calculated based on the assumption that the maximum amount will be paid.

Net cash outflow includes contingent consideration related to Henrob that was paid in 2016.

Construction Technique	Recognized values	
	2016	2015
Intangible assets	138	4
Property, plant and equipment	83	74
Other assets	147	–
Cash and cash equivalents	12	–
Interest-bearing loans and borrowings	–13	–
Other liabilities and provisions	–97	–
Net identifiable assets	**270**	**78**
Goodwill	143	–
Total consideration	**413**	**78**
Deferred consideration	–	–
Cash and cash equivalents acquired	–12	–
Net cash outflow	**401**	**78**

In January, the Construction Technique business area acquired Varisco, an Italian pump manufacturer with a global sales network. The pumps are typically used to remove unwanted water or other liquids in the construction, mining, and oil and gas industries; they are also used in industrial process plants and for emergency services in case of floods. The pump business is a focused growth segment for the business area and Varisco's products and customer base make this an attractive acquisition. Intangible assets of 135 and goodwill of 143 were recorded on the purchase.

In July, the operating assets of Roxel Rental AS, a supplier of temporary air solutions for the Norwegian offshore industry, were acquired. The acquisition will strengthen Atlas Copco's position in the Norwegian offshore market. Intangible assets of 3 were recorded on the purchase.

2. Acquisitions, continued

Total fair value of acquired assets and liabilities	Group recognized values 2016	2015
Intangible assets	2 583	–67
Property, plant and equipment	1 191	87
Other non-current assets	3	–
Inventories	988	36
Receivables [1]	1 093	36
Other current assets	17	–4
Cash and cash equivalents	949	11
Interest-bearing loans and borrowings	–2 889	–4
Other liabilities and provisions	–1 218	–16
Deferred tax assets/liabilities, net	–329	42
Net identifiable assets	**2 388**	**121**
Non-controlling interests	–6	–
Goodwill	2 983	76
Total consideration	**5 365**	**197**
Deferred consideration	300	1 666
Cash and cash equivalents acquired	–949	–11
Net cash outflow	**4 716**	**1 852**

[1] The gross amount is 1 131 (37) of which 38 (1) is expected to be uncollectible.

The goodwill recognized on acquisitions is primarily related to the synergies expected to be achieved from integrating these companies into the Group's existing structure.

The total consideration for all acquisitions was 5 365. Deferred consideration includes both deferred consideration not yet paid for acquisitions made in 2016 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the net cash outflow totaled 4 716 after deducting cash and cash equivalents acquired of 949.

Acquisition-related costs amounted to 53 (28) and were included mainly in "Administrative expenses" in the income statement for 2016. Part of the costs related to acquisitions that were finalized in 2016 were included in the income statement for 2015.

Contribution from businesses acquired in 2016 and 2015 by business area	Compressor Technique		Industrial Technique		Mining and Rock Excavation Technique		Construction Technique		Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Contribution from date of control										
Revenues	2 802	75	31	17	–	–	270	29	3 103	121
Operating profit	–105	–10	–1	–2	–	–	17	14	–89	2
Profit for the year									–28	–
Contribution if the acquisition had occurred on Jan. 1										
Revenues	5 749	213	75	32	–	–	277	58	6 101	303
Operating profit	–28	–6	3	–2	–	–	17	25	–8	17
Profit for the year									–24	8

3. Divestments and assets held for sale

Divestments

In 2015, Atlas Copco sold its JC Carter business, based in California, USA. Some minor divestments, including Compressor Technique's Ortman Fluid Power business were also made. The result from these divestments was reported under "Other operating income". See note 7.

Assets held for sale and discontinued operations

On January 19, 2017 Atlas Copco announced the agreement to sell its Road Construction Equipment division, part of the Construction Technique business area, to the French industrial and construction company Fayat Group. The divestment is expected to be completed during the second quarter 2017. The Road Construction Equipment Division is from the fourth quarter 2016 until closure of the divestment classified as discontinued operations and assets and liabilities held for sale. Remeasurement to fair value less cost to sell resulted in an impairment of intangible assets of 1 754, net after tax.

Assets held for sale also includes 4 (11) that is made up of buildings that are not related to the divestment of the Road Construction Equipment Division. An impairment of 6 was recorded on one of these buildings during 2016.

The following tables present the income statement, balance sheet and cash flow for the Road Construction Equipment division.

Carrying value of divested assets and liabilities	2016	2015
Intangible assets	–	30
Other property, plant and equipment	–	2
Inventories	–	14
Net identifiable assets	**–**	**46**
Capital gain	–	10
Contingent consideration	–	2
Net cash effect	**–**	**58**

Income Statement discontinued operations	2016	2015
Revenues	2 912	3 188
Cost of sales	–2 415	–2 683
Gross profit	**497**	**505**
Marketing expenses	–310	–329
Administrative expenses	–125	–122
Research and development expenses	–144	–136
Other operating income and expenses	–3	38
Operating loss	**–85**	**–44**
Financial Income	2	10
Financial Expenses	–14	–18
Net Financial items	**–12**	**–8**
Loss before tax	**–97**	**–52**
Income tax expense	14	–2
Loss from operations	**–83**	**–54**
Loss on remeasurement to fair value less cost to sell		
Impairment of intangible assets	–2 094	–
Income tax on remeasurement	340	–
Loss for the period from discontinued operations	**–1 837**	**–54**
Basic earnings per share, SEK	–1.51	–0.05
Diluted earnings per share , SEK	–1.51	–0.04

Carrying value of assets and liabilities held for sale	2016
Intangible assets	70
Property, plant and equipment	334
Financial assets	4
Deferred tax assets	42
Inventories	1 067
Receivables	936
Cash	34
Interest-bearing loans and borrowings	–117
Other liabilities and provisions	–689
Deferred tax liabilities	–5
Net carrying value	**1 676**

Cash Flow discontinued operations	2016			2015		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Cash flow from:						
Operating activities	18 164	117	18 281	17 867	245	18 112
Investing activities	–7 024	–124	–7 148	–3 682	–171	–3 853
Financing activities	–8 991		–8 991	–14 497		–14 497
Net cash flow for the year	**2 149**	**–7**	**2 142**	**–312**	**74**	**–238**
Cash and cash equivalents, Jan. 1			8 861			9 404
Exchange-rate difference in cash and cash equivalents			489			–305
Cash and cash equivalents, Dec. 31			**11 492**			**8 861**

4. Segment information

2016	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Common group functions	Eliminations	Group
Revenues from external customers	49 686	14 972	24 995	11 473	230	–	101 356
Inter-segment revenues	305	45	48	321	71	–790	–
Total revenues	**49 991**	**15 017**	**25 043**	**11 794**	**301**	**–790**	**101 356**
Operating profit	**11 175**	**3 430**	**4 465**	**1 769**	**–1 063**	**22**	**19 798**
– of which share of profit in associated companies and joint ventures	–	*7*	–	–	–	–	*7*
Net financial items							–993
Income tax expense							–5 020
Profit for the year from continuing operations							13 785
Loss for the year from discontinued operations							–1 837
Profit for the year							**11 948**
Non-cash expenses							
Depreciation/amortization	1 444	650	1 011	773	363	–79	4 162
Impairment	8	67	–	4	–	–	79
Other non-cash expenses	245	12	–59	–12	198	–	384
Segment assets	**46 775**	**14 002**	**18 915**	**12 916**	**4 095**	**–1 465**	**95 238**
– of which goodwill	*13 382*	*4 430*	*1 555*	*4 742*	–	–	*24 109*
Investments in associated companies and joint ventures	1	122	15	–	–	–	138
Unallocated assets							17 585
Total assets, continuing operations							112 961
Total assets, discontinued operations*							2 931
Total assets							**115 892**
Segment liabilities	**15 314**	**4 019**	**5 033**	**2 481**	**2 951**	**–1 794**	**28 004**
Unallocated liabilities							33 343
Total liabilities, continuing operations							61 347
Total liabilities, discontinued operations*							1 368
Total liabilities							**62 715**
Capital expenditures							
Property, plant and equipment	425	289	865	766	344	–95	2 594
– of which assets leased	*12*	*2*	*65*	*4*	–	–	*83*
Intangible assets	310	161	270	125	70	–	936
Total capital expenditures	**735**	**450**	**1 135**	**891**	**414**	**–95**	**3 530**
Goodwill acquired	2 790	50	–	143	–	–	2 983

* Includes inter-segment receivables and liabilities.

4. **Segment information,** continued

2015	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Common group functions	Eliminations	Group
Revenues from external customers	45 928	14 528	26 558	11 752	207	–	98 973
Inter-segment revenues	309	50	107	360	134	–960	–
Total revenues	**46 237**	**14 578**	**26 665**	**12 112**	**341**	**–960**	**98 973**
Operating profit	**10 324**	**3 355**	**4 993**	**1 883**	**–779**	**–4**	**19 772**
– of which share of profit in associated companies and joint ventures	–	*5*	*2*	–	–	–	*7*
Net financial items							–897
Income tax expense							–7 098
Profit for the year from continuing operations							11 777
Loss for the year from discontinued operations							–54
Profit for the year							**11 723**
Non-cash expenses*							
Depreciation/amortization	1 373	616	1 097	920	285	–91	4 200
Impairment	10	2	134	1	–	–	147
Other non-cash expenses	–144	–33	9	18	–11	–	–161
Segment assets*	**37 647**	**13 132**	**18 631**	**16 238**	**3 273**	**–1 233**	**87 688**
– of which goodwill	*9 815*	*4 135*	*1 483*	*5 089*	–	–	*20 522*
Investments in associated companies and joint ventures	1	108	16	–	–	–	125
Unallocated assets							15 197
Total assets							**103 010**
Segment liabilities*	**11 746**	**2 734**	**4 928**	**2 411**	**3 678**	**–1 400**	**24 097**
Unallocated liabilities							32 163
Total liabilities							**56 260**
Capital expenditures*							
Property, plant and equipment	594	535	1 051	557	472	–158	3 051
– of which assets leased	*8*	*3*	*70*	*2*	–	–	*83*
Intangible assets	355	156	305	272	80	–	1 168
Total capital expenditures	**949**	**691**	**1 356**	**829**	**552**	**–158**	**4 219**
Goodwill acquired	24	52	–	–	–	–	76

* Including discountined operations.

4. Segment information, continued

The Group is organized in separate and focused but still integrated business areas, each operating through divisions. The business areas offer different products and services to different customer groups. They are also the basis for management and internal reporting and are regularly reviewed by the Group's President and CEO, the chief operating decision maker. All business areas are managed on a worldwide basis and their role is to develop, implement and follow up the objectives and strategies within their respective business. For a description of the business areas, see pages 20–37.

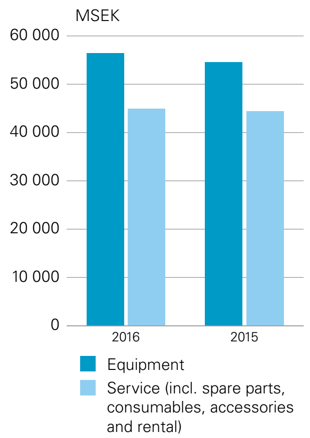
Common group functions, i.e. functions which serve all business areas or the Group as a whole, is not considered a segment.

The accounting principles for the segments are the same as those described in note 1. Atlas Copco's inter-segment pricing is determined on a commercial basis.

Segment assets are comprised of property, plant and equipment, intangible assets, other non-current receivables, inventories, and current receivables.

Segment liabilities include the sum of non-interest-bearing liabilities such as operating liabilities, other provisions, and other non-current liabilities. Capital expenditure includes property, plant and equipment, and intangible assets, but excludes the effect of goodwill, intangible assets and property, plant and equipment through acquisitions.

Revenues from external customers



Geographical information

The revenues presented are based on the location of the customers while non-current assets are based on the geographical location of the assets. These assets include non-current assets other than financial instruments, investments in associated companies and joint ventures, deferred tax assets, and post-employment benefit assets.

By geographic area/country	Revenues		Non-current assets	
	2016	2015	2016	2015*
North America				
Canada	3 367	3 579	350	308
U.S.A.	18 367	18 005	8 450	7 844
Other countries	2 657	2 568	123	160
	24 391	**24 152**	**8 923**	**8 312**
South America				
Brazil	2 371	2 753	348	337
Chile	1 930	2 254	178	135
Other countries	2 352	2 587	154	97
	6 653	**7 594**	**680**	**569**
Europe				
Belgium	985	932	2 059	1 928
France	3 111	2 723	281	232
Germany	4 851	4 331	7 095	2 876
Italy	2 265	2 068	1 650	912
Russia	2 590	2 309	97	63
Sweden	1 955	1 847	7 376	9 537
United Kingdom	2 632	3 335	14 801	14 327
Other countries	11 986	11 503	1 278	1 249
	30 375	**29 048**	**34 637**	**31 124**
Africa/Middle East				
South Africa	1 893	2 148	169	139
Other countries	7 099	7 382	280	323
	8 992	**9 530**	**449**	**462**
Asia/Australia				
Australia	3 365	3 518	335	390
China	12 459	12 126	2 750	2 792
India	3 932	3 407	620	594
Japan	2 254	2 068	561	493
South Korea	3 857	2 759	1 407	464
Other countries	5 078	4 771	354	343
	30 945	**28 649**	**6 027**	**5 076**
Total	**101 356**	**98 973**	**50 716**	**45 543**

* Including discountined operations.

4. Segment information, continued

Quarterly data

Revenues by business area MSEK	2016				2015			
	1	2	3	4	1	2	3	4
Compressor Technique	10 692	11 929	12 932	14 438	11 049	11 462	11 875	11 851
– of which external	10 611	11 847	12 870	14 358	10 951	11 378	11 806	11 793
– of which internal	81	82	62	80	98	84	69	58
Industrial Technique	3 417	3 622	3 841	4 137	3 394	3 697	3 668	3 819
– of which external	3 406	3 611	3 830	4 125	3 382	3 684	3 656	3 806
– of which internal	11	11	11	12	12	13	12	13
Mining and Rock Excavation Technique	5 736	6 124	6 212	6 971	6 756	6 870	6 481	6 558
– of which external	5 723	6 111	6 204	6 957	6 724	6 856	6 451	6 527
– of which internal	13	13	8	14	32	14	30	31
Construction Technique	2 718	3 042	2 961	3 073	2 910	3 236	3 055	2 911
– of which external	2 628	2 954	2 890	3 001	2 849	3 144	2 968	2 791
– of which internal	90	88	71	72	61	92	87	120
Common Group functions/eliminations	–110	–152	–103	–124	–152	–174	–157	–136
Total	**22 453**	**24 565**	**25 843**	**28 495**	**23 957**	**25 091**	**24 922**	**25 003**

Operating profit by business area MSEK	2016				2015			
	1	2	3	4	1	2	3	4
Compressor Technique	2 296	2 700	2 905	3 274	2 392	2 603	2 709	2 620
in % of revenues	*21.5%*	*22.6%*	*22.5%*	*22.7%*	*21.6%*	*22.7%*	*22.8%*	*22.1%*
Industrial Technique	737	799	897	997	770	865	866	854
in % of revenues	*21.6%*	*22.1%*	*23.4%*	*24.1%*	*22.7%*	*23.4%*	*23.6%*	*22.4%*
Mining and Rock Excavation Technique	866	1 041	1 163	1 395	1 276	1 258	1 296	1 163
in % of revenues	*15.1%*	*17.0%*	*18.7%*	*20.0%*	*18.9%*	*18.3%*	*20.0%*	*17.7%*
Construction Technique	408	484	449	428	458	427	546	452
in % of revenues	*15.0%*	*15.9%*	*15.2%*	*13.9%*	*15.7%*	*13.2%*	*17.9%*	*15.5%*
Common Group functions/eliminations	–137	–255	–340	–309	–369	–111	–96	–207
Operating profit	**4 170**	**4 769**	**5 074**	**5 785**	**4 527**	**5 042**	**5 321**	**4 882**
in % of revenues	*18.6%*	*19.4%*	*19.6%*	*20.3%*	*18.9%*	*20.1%*	*21.4%*	*19.5%*
Net financial items	–181	–341	–304	–167	–229	–220	–270	–178
Profit before tax	**3 989**	**4 428**	**4 770**	**5 618**	**4 298**	**4 822**	**5 051**	**4 704**
in % of revenues	*17.8%*	*18.0%*	*18.5%*	*19.7%*	*17.9%*	*19.2%*	*20.3%*	*18.8%*

5. Employees and personnel expenses

Average number of employees	2016			2015		
	Women	Men	Total	Women	Men	Total
Parent Company						
Sweden	60	46	106	65	53	118
Subsidiaries						
North America	1 097	5 226	6 323	1 066	5 304	6 370
South America	473	2 471	2 944	471	2 612	3 083
Europe	3 310	15 162	18 472	3 132	14 741	17 873
– of which Sweden	*689*	*3 011*	*3 700*	*691*	*3 061*	*3 752*
Africa/Middle East	384	2 144	2 528	396	2 176	2 572
Asia/Australia	2 188	10 188	12 376	2 171	10 121	12 292
Total in subsidiaries	**7 452**	**35 191**	**42 643**	**7 236**	**34 954**	**42 190**
Total	**7 512**	**35 237**	**42 749**	**7 301**	**35 007**	**42 308**

Females in the Board of Directors and Group Management, %	Dec. 31, 2016	Dec. 31, 2015
Parent Company		
Board of Directors [1]	33	33
Group Management	22	22

[1] In line with the EU calculation model, which excludes CEO and includes employee representatives.

5. Employees and personnel expenses, continued

Remuneration and other benefits	Group	
MSEK	2016	2015
Salaries and other remuneration	21 187	18 957
Contractual pension benefits	820	1 185
Other social costs	4 039	3 477
Total	**26 046**	**23 619**
Pension obligations to Board members and Group Management [1]	5	5

[1] Refers to former members of Group Management.

Remuneration and other benefits to the Board KSEK	Fee	Value of synthetic shares at grant date	Number of synthetic shares at grant date	Other fees [1]	Total fees incl. value of synthetic shares at grant date **2016**	Adj. due to vesting and change in stock price [2]	Total expense recognized **2016** [3]	Total expense recognized **2015**
Chairman:								
Hans Stråberg [4]	2 571	–	–	394	2 965	607	3 572	2 719
Other members of the Board:								
Ulla Litzén [5]	197	–	–	94	291	–	291	1 247
Anders Ullberg	619	–	–	131	750	–	750	807
Staffan Bohman [4]	720	–	–	290	1 010	158	1 168	951
Margareth Övrum	309	312	1 528	–	621	592	1 213	664
Johan Forsell	309	312	1 528	150	771	592	1 363	814
Gunilla Nordström [5]	75	–	–	–	75	425	500	663
Peter Wallenberg	309	312	1 528	71	692	594	1 286	630
Sabine Neuss [6]	469	–	–	–	469	–	469	–
Gunilla Berg [6]	234	312	1 528	113	659	9	668	–
Other members of the Board previous year	–	–	–	–	–	–5	–5	315
Union representatives (4) [7]	46	–	–	–	46	–	46	48
Total 2016	**5 858**	**1 248**	**6 112**	**1 243**	**8 349**	**2 972**	**11 321**	
Total 2015	5 397	1 200	4 688	1 211	7 808	1 050		8 858

[1] Refers to fees for membership in board committees.
[2] Refers to synthetic shares received in 2011–2016.
[3] Provision for synthetic shares as at December 31, 2016 amounted to MSEK 11 (9).
[4] Hans Stråberg and Staffan Bohman invoiced their fees. The fees received include compensation for social costs.
[5] Ulla Litzén and Gunilla Nordström left the board in 2016. The fees received refer to Q1, 2016.
[6] Sabine Neuss and Gunilla Berg were elected board members at the Annual General Meeting 2016.
[7] Union representatives receive compensation to prepare for their participation in board meetings.

Remuneration and other benefits to Group Management KSEK	Base salary	Variable compensation [1]	Other benefits [2]	Pension fees	Total, excl. recognized costs for share based payments	Recognized costs for share based payments [3]	Total expense recognized **2016**	Total expense recognized **2015**
President and CEO								
Ronnie Leten	14 420	11 420	2 079	5 047	32 966	18 886	51 852	31 078
Other members of Group Management (8 positions)	27 519	14 045	1 934	8 662	52 160	20 908	73 068	47 916
Total 2016	**41 939**	**25 465**	**4 013**	**13 709**	**85 126**	**39 794**	**124 920**	
Total 2015	39 268	22 696	4 918	13 246	80 128	–1 134		78 994
Total remuneration and other benefits to the Board and Group Management							136 241	87 852

[1] Refers to variable compensation earned in 2016 to be paid in 2017.
[2] Refers to vacation pay, company car, medical insurance, and other benefits.
[3] Refers to stock options and SARs received in 2011–2016 and includes recognized costs due to change in stock price and vesting period, see also note 23.

5. Employees and personnel expenses, continued

Remuneration and other fees for members of the Board, the President and CEO, and other members of Group Management

Principles for remuneration to the Board and Group Management
The principles for remuneration to the Board and Group Management are approved at the Annual General Meeting of the shareholders. The principles approved by the 2016 meeting are described in the following paragraphs.

Board members
Remuneration and fees are based on the work performed by the Board. The remuneration and fees approved for 2016 are detailed in the table on the previous page. The remuneration to the President and CEO, who is a member of Group Management, is described in the following sections.

The Annual General Meeting decided that each board member can elect to receive 50% of the 2016 gross fee before tax, excluding other committee fees, in the form of synthetic shares and the remaining part in cash. The number of synthetic shares is based upon an average end price of series A shares during ten trading days following the release of the first quarterly interim report for 2016. The share rights are earned 25% per quarter as long as the member remains on the Board. After five years, the synthetic shares give the right to receive a cash payment per synthetic share based upon an average price for series A shares during 10 trading days following the release of the first quarterly interim report of the year of payment. The board members will receive dividends on series A shares until payment date in the form of new synthetic shares. If a board member resigns his or her position before the stipulated payment date as stated above, the board member has the right to request a prepayment. The prepayment will be made twelve months after the date from when the board member resigned or otherwise the original payment date is valid.

Four board members accepted the right to receive synthetic shares. The number and costs at grant date and at the end of the financial year are disclosed by board member in the table on the previous page.

Group Management
Group Management consists of the Group President and eight other members of the Executive Committee. The compensation to Group Management shall consist of base salary, variable compensation, possible long-term incentive (personnel options), pension premium, and other benefits.

The following describes the various guidelines in determining the amount of remuneration:

- Base salary is determined by position, qualification, and individual performance.
- Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. The variable compensation is maximized to 80% of the base salary for the Group President, 60% for Business Area Presidents, and 50% for other members of Group Management.
- Performance related personnel option program for 2016, see note 23.
- Pension premiums are paid in accordance with a defined contribution plan with premiums ranging between 25 and 35% of base salary depending on age.
- Other benefits consist of company car and private health insurance.
- For the expatriates, certain benefits are paid in compliance with the Atlas Copco terms and conditions for expatriate employment.

A mutual notice of termination of employment of six months shall apply.

The Board has the right to deviate from the principles stated above if special circumstances exist in a certain case. No fees are paid to Group Management for board memberships in Group companies nor do they receive compensation for other duties that they may perform outside the immediate scope of their duties.

President and CEO
The variable compensation can give a maximum of 80% of the base salary. The variable compensation is not included in the basis for pension benefits. According to an agreement, the President and CEO has the option to receive variable compensation in the form of cash payment or as a pension contribution.

The President and CEO is a member of the Atlas Copco Airpower N.V. pension plan and the contributions follow the Atlas Copco pension policy for Swedish executives, which is a defined contribution plan. The President and CEO is entitled to retire at the age of 60. The contribution is age related and is 35% of the base salary and includes provisions for a survivors' pension. These pension plans are vested.

Other members of Group Management
Members of Group Management employed in Sweden have a defined contribution pension plan, with contribution ranging from 25% to 35% of the base salary according to age. The variable compensation is not included in the basis for pension benefits. Members of Group Management not based in Sweden also have a defined contribution pension plan. These pension plans are vested. The retirement age is 65.

Option/share appreciation rights, holdings for Group Management
The stock options/share appreciation rights holdings as at December 31 are detailed below:

Stock Options/share appreciations rights holdings as at Dec. 31, 2016

Grant Year	President and CEO	Other members of Group Management
2012	112 001	131 092
2013	5 601	11 152
2014	121 015	260 493
2015	167 100	185 537
2016 [1]	268 969	302 363
Total	**674 686**	**890 637**

[1] Estimated grants for the 2016 stock option program including matching shares. See note 23 for additional information.

Termination of employment
The CEO is entitled to a severance pay of twelve months if the Company terminates the employment and a further twelve months if other employment is not available.

Other members of Group Management are entitled to severance pay if the Company terminates their employment. The amount of severance pay is dependent on the length of employment with the Company and the age of the executive, but is never less than 12 months and never more than 24 months' salary.

Any income that the executive receives from employment or other business activity, whilst severance pay is being paid, will reduce the amount of severance pay accordingly.

Severance pay for the CEO and other members of Group Management is calculated only on the base salary and does not include variable compensation. Severance pay cannot be elected by the employee, but will only be paid if employment is terminated by the Company.

Remuneration and other committees
In 2016, Hans Stråberg, Chair, Peter Wallenberg Jr and Anders Ullberg were members of the remuneration committee. The committee proposed compensation to the President and CEO for approval by the Board. The committee also supported the President and CEO in determining the compensation to the other members of Group Management.

Staffan Bohman, Chair, Gunilla Berg, Johan Forssell and Hans Stråberg formed the Audit Committee.

In addition, Anders Ullberg, Chair, Staffan Bohman and Hans Stråberg participated in a committee regarding repurchase and sale of Atlas Copco shares.

5. Employees and personnel expenses, continued

Workforce profile

Atlas Copco strives to grow local leaders where it operates. The geographical spread of employees and senior managers is in continuous development. As a customer-focused company, 51% of all employees work in marketing, sales or service.

Geographical spread of employees, %	Employees	Nationality of senior managers
North America	15	7
South America	7	4
Europe	43	70
Africa/Middle East	6	6
Asia/Australia	29	13
Total	**100**	**100**

Employees by professional category, %	2016	2015
Production	25	26
Marketing	8	8
Sales and support	13	13
Service	30	30
Administration	17	16
Research & development	7	7
Total	**100**	**100**

6. Remuneration to auditors

Audit fees and other services	2016	2015
Deloitte		
Audit fee	67	67
Audit activities other than the audit assignment	2	1
Other services, tax	11	9
Other services, other	5	4
Other audit firms		
Audit fee	7	5
Total	**92**	**86**

Audit fee refers to audit of the financial statements and the accounting records. For the Parent Company this also includes the administration of the business by the Board of Directors, the President and CEO.

Audit activities other than the audit assignment refer for example to comfort letters and the limited assurance report on Atlas Copco's sustainability report.

Tax services include both tax consultancy services and tax compliance services.

Other services essentially comprise consultancy services, such as due-diligence services in connection with acquisitions.

At the Annual General Meeting 2016, Deloitte was elected as auditor for the Group until the Annual General Meeting 2017.

7. Other operating income and expenses

Other operating income	2016	2015
Commissions received	4	19
Income from insurance operations	152	162
Capital gain on sale of property, plant and equipment	43	199
Capital gain on divestment of business	–	10
Exchange-rate differences	2	–
Other operating income	556	72
Total	**757**	**462**

Other operating expenses	2016	2015
Capital loss on sale of property, plant and equipment	–52	–79
Exchange-rate differences	–	–105
Other operating expenses	–69	–86
Total	**–121**	**–270**

Other operating income includes the release of a pension provision of MSEK 380, related to the acquisition of Edwards in 2014.

Additional information on costs by nature

Cost of goods sold includes expenses for inventories, see note 16, warranty costs, environmental fees, and transportation costs.

Salaries, remunerations and employer contributions amounted to 26 046 (23 619) whereof expenses for post employment benefits amounted to 820 (1 185). See note 5 for further details.

Government grants relating to expenses have been deducted in the related expenses by 77 (60). Government grants related to assets have been recognized as deferred income in the balance sheet and will be recognized as income over the useful life of the assets. The remaining value of these grants, at the end of 2016, amounted to 64 (25).

Included in the operating profit are exchange rate changes on payables and receivables, and the effects from currency hedging. The operating profit also includes –55 (36) of realized foreign exchange hedging result, which were previously recognized in equity. Amortization, depreciation and impairment charge for the year amounted to 4 241 (4 347, including discontinued operations). See note 12 and 13 for further details. Costs for research and development amounted to 3 096 (3 151).

8. Financial income and expenses

Financial income and expenses	2016	2015
Interest income		
– cash and cash equivalents	126	239
– finance lease receivables	167	166
– other	6	5
Capital gain		
– other assets	–	17
Foreign exchange gain, net	1	–
Financial income	**300**	**427**
Interest expenses		
– borrowings	–754	–942
– derivatives for fair value hedges	–244	–58
– pension provisions, net	–58	–68
– deferred considerations	–12	–92
Change in fair value – other liabilities and borrowings	–150	–9
Foreign exchange loss, net	–	–134
Impairment loss	–75	–21
Financial expenses	**–1 293**	**–1 324**
Financial expenses, net	**–993**	**–897**

"Foreign exchange gain, net" includes foreign exchange gains of 655 (987) on financial assets at fair value through profit and loss and foreign exchange losses of 654 (1 121) on other liabilities.

Change in fair value – other liabilities and borrowings is mainly related to repurchase of a MUSD 800 bond originally maturing in 2017.

See note 27 for additional information.

9. Taxes

Income tax expense	2016			2015		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current taxes	–5 087	37	–5 050	–7 484	7	–7 477
Deferred taxes	67	317	384	386	–9	377
Total	**–5 020**	**354**	**–4 666**	**–7 098**	**–2**	**–7 100**

The following is a reconciliation of the companies' weighted average tax based on the national tax for the country as compared to the actual tax charge:

	2016	2015
Profit before tax continuing operations	18 805	18 875
Loss before tax discontinued operations	–2 191	–52
Profit before tax	**16 614**	**18 823**
Weighted average tax based on national rates	–4 740	–5 439
– in %	28.5	28.9
Tax effect of:		
Non–deductible expenses	–455	–368
Withholding tax on dividends	–356	–251
Tax–exempt income	737	891
Adjustments from prior years:		
– current taxes	245	–2 132
– deferred taxes	–187	190
Effects of tax losses/credits utilized	92	18
Change in tax rate, deferred tax	65	40
Tax losses not recognized	–94	–46
Other items	27	–3
Income tax expense	**–4 666**	**–7 100**
Effective tax in %	28.1	37.7

9. Taxes, continued

The effective tax rate including discontinued operations was 28.1% (37.7) and 26.7% (37.6) for continuing operations. Withholding tax on dividends of –356 (–251) relates to provisions on profits in countries where Atlas Copco incurs withholding taxes on repatriation of income. Tax-exempt income of 737 (891) refers to income that is not subject to taxation or subject to reduced taxation under local law in various countries. The net from tax issues and disputes in different countries amounted to 245 (–2 132).

Previously unrecognized tax losses/credits and deductible temporary differences, which have been recognized against current tax expense, amounted to 92 (18). No material unrecognized tax losses/credits or temporary difference have been used to reduce deferred tax expense.

European Commission's decision on Belgium's tax rulings

On January 11, 2016, the European Commission announced its decision that Belgian tax rulings granted to companies with regard to "Excess Profit" shall be considered as illegal state aid and that unpaid taxes shall be reclaimed by the Belgian state. Atlas Copco has such tax ruling since 2010.

Following the European Commission decision Atlas Copco made a provision of 2 802 during 2015. In June 2016, Atlas Copco paid 2 250 of additional taxes due and released the corresponding provision. It is expected that the remaining part of the additional taxes will be paid in 2017 (and the remaining provision will be released).

The Belgian government as well as Atlas Copco has appealed the decision to the European Court of Justice in Luxembourg (ECJ). There are several other companies that have been affected by the decision of January 11, 2016 in the same way as Atlas Copco; most of those companies have also appealed to ECJ.

It will likely take several years until final judgement is rendered by ECJ. If the appeal is successful and such judgement positive for Atlas Copco, the additional taxes paid will be returned to Atlas Copco.

The following table reconciles the net liability balance of deferred taxes at the beginning of the year to the net liability at the end of the year:

Change in deferred taxes	2016	2015
Opening Net balance, Jan. 1	326	422
Business acquisitions	–330	42
Discontinued operations	–36	–
Charges to profit for the year	384	377
Tax on amounts recorded to equity	466	–494
Reclassifications	–	107
Translation differences	51	–128
Net balance, Dec. 31	**861**	**326**

9. Taxes, continued

The deferred tax assets and liabilities recognized in the balance sheet are attributable to the following:

Deferred tax assets and liabilities	2016			2015		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	144	2 872	–2 728	155	2 243	–2 088
Property, plant and equipment	310	708	–398	295	659	–364
Other financial assets	12	36	–24	12	29	–17
Inventories	1 988	43	1 945	1 594	40	1 554
Current receivables	255	172	83	257	237	20
Operating liabilities	874	178	696	778	93	685
Provisions	415	14	401	418	5	413
Post–employment benefits	900	20	880	604	30	574
Borrowings	392	1	391	87	104	–17
Loss/credit carry-forwards	255	–	255	224	–	224
Other items [1)]	10	650	–640	10	668	–658
Deferred tax assets/liabilities	**5 555**	**4 694**	**861**	**4 434**	**4 108**	**326**
Netting of assets/liabilities	–3 666	–3 666	–	–2 611	–2 611	–
Net deferred tax balances	**1 889**	**1 028**	**861**	**1 823**	**1 497**	**326**

1) Other items primarily include tax deductions which are not related to specific balance sheet items.

Deferred tax assets regarding tax loss carry-forwards are reported to the extent that realization of the related tax benefit through future taxable results is probable. To the extent that it is not probable that taxable results will be available against which the unused tax losses can be utilized, a deferred tax asset is not recognized. At December 31, the Group had total tax loss carry-forwards of 5 185 (4 715), of which deferred tax assets were recognized for 1 029 (1 074). The tax value of reported tax loss carry-forwards totals 255 (224). There is no expiration date for utilization of the major part of the tax losses carry-forwards for which deferred tax assets have been recognized.

Tax losses carry-forwards for which no deferred tax have been recognized expires in accordance with below table:

	2016	2015
Expires after 1–2 years	449	24
Expires after 3–4 years	643	1 030
Expires after 5–6 years	42	50
No expiry date	3 022	2 537
Total	**4 156**	**3 641**

Changes in temporary differences during the year that are recognized in the income statement are attributable to the following:

	2016	2015
Intangible assets	185	203
Property, plant and equipment	57	29
Other financial assets	–1	16
Inventories	244	9
Current receivables	68	–9
Operating liabilities	–70	32
Provisions	–15	58
Post-employment benefits	–100	–43
Borrowings	–70	–25
Other items	55	98
Changes due to temporary differences	**353**	**368**
Loss/credit carry-forwards	31	9
Charges to profit for the year	**384**	**377**

10. Other comprehensive income

Other comprehensive income for the year	2016			2015		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Attributable to owners of the parent						
Items that will not be reclassified to profit or loss						
Remeasurments of defined benefit plans	–113	–3	–116	662	–124	538
Items that may be reclassified subsequently to profit or loss						
Translation differences on foreign operations	3 196	308	3 504	–1 374	–295	–1 669
Hedge of net investments in foreign operations	–762	168	–594	681	–150	531
Cash flow hedges	–25	11	–14	68	–12	56
Total other comprehensive income	**2 296**	**484**	**2 780**	**37**	**–581**	**–544**
Attributable to non-controlling interests						
Translation differences on foreign operations	5	–	5	4	–	4
Total other comprehensive income	**2 301**	**484**	**2 785**	**41**	**–581**	**–540**

11. Earnings per share

Amounts in SEK	Basic earnings per share		Diluted earnings per share	
	2016	2015	2016	2015
Earnings per share	9.81	9.62	9.79	9.58
– of which continued operations	*11.32*	*9.67*	*11.30*	*9.62*
– of which discontinued operations	*–1.51*	*–0.05*	*–1.51*	*–0.04*

The calculation of earnings per share presented above is based on profits and number of shares as detailed below.

Profit for the year attributable to owners of the parent	2016	2015
Profit for the year	11 931	11 717
– of which continued operations	*13 768*	*11 771*
– of which discontinued operations	*–1 837*	*–54*

Average number of shares outstanding	2016	2015
Basic weighted average number of shares outstanding	1 216 105 455	1 217 420 945
Effect of employee stock options	702 116	1 286 968
Diluted weighted average number of shares outstanding	**1 216 807 571**	**1 218 707 913**

Potentially dilutive instruments
As of December 31, 2016, Atlas Copco had four outstanding employee stock option programs, of which the exercise price, including adjustment for remaining vesting costs for the 2014 and 2016 programs, exceeded the average share price for series A shares, SEK 229.93 per share. These programs are, therefore, considered anti-dilutive and are not included in the calculation of diluted earnings per share. If the average share price, adjusted in accordance with above, exceeds the strike price in the future, these options will be dilutive.

12. Intangible assets

Impairment tests for cash-generating units with goodwill and for intangible assets with indefinite useful lives
Impairment tests (including sensitivity analyses) are performed as per September 30 each year.

Current goodwill is monitored for internal management purposes at business area level. The goodwill has therefore been tested for impairment at business area level except as stated below.

Businesses acquired in 2016 as well as those in previous years, and their related cash flows, have in most cases been integrated with other Atlas Copco operations soon after the acquisition. In instances where the acquired business is not yet integrated and hence is monitored separately, the associated goodwill is tested for impairment separately. Atlas Copco acquired Edwards Group January 9, 2014. Goodwill and intangible assets have been included in the Compressor Technique values, and this year, as well as previous year, their values have also been tested separately.

The recoverable amounts of the cash generating units have been calculated as value in use based on management's five-year forecast for net cash flows where the most significant assumptions are revenues, operating profits, working capital, and capital expenditures.

All assumptions for the five-year forecast are estimated individually for each of the business areas based on their particular market position and the characteristics and development of their end markets. The forecasts represent management's assessment and are based on both external and internal sources. The perpetual growth for the period after five years is estimated at 3%.

The Group's average weighted cost of capital in 2016 was 8% (8) after tax (approximately 10.5% (10.5) before tax) and has been used in discounting the cash flows to determine the recoverable amounts. All business areas are expected to generate a return well above the values to be tested, including sensitivity analyses/worst-case scenarios.

The following table presents the carrying value of goodwill and trademarks with indefinite useful lives allocated by business area.

Carrying value of goodwill and intangible assets with indefinite useful lives by cash generating unit:

	2016		2015	
	Trademarks	Goodwill	Trademarks	Goodwill
Compressor Technique	1 884	13 382	1 169	9 815
Industrial Technique	–	4 430	–	4 135
Mining and Rock Excavation Technique	–	1 555	–	1 483
Construction Technique	–	4 742	1 225	5 089
Total	**1 884**	**24 109**	**2 394**	**20 522**

The trade names of Edwards and Leybold in the Vacuum Solutions division represent strong trade names that have been used for a long time in their industries. Management's intention is that these trade names will be used for an indefinite period of time. Apart from the assessment of future customer demand and the profitability of the business, future marketing strategy decisions involving the trade names, can affect the carrying value of these intangible assets.

Amortization and impairment of intangible assets are recognized in the following line items in the income statement:

	2016		2015*	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	9	35	18	33
Marketing expenses	16	571	17	548
Administrative expenses	80	98	58	58
Research and development expenses	490	348	616	299
Total	**595**	**1 052**	**709**	**938**

* Including discontinued operations

Impairment charges on intangible assets totaled 72 (142) of which 28 (130) were classified as research and development expenses in the income statement, and 10 (3) were classified as marketing expenses. Of the impairment charges, 4 (127) were due to capitalized development costs relating to projects discontinued.

12. Intangible assets, continued

2016	Internally generated intangible assets		Acquired intangible assets					
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based	Goodwill	Total
Cost								
Opening balance, Jan. 1	6 045	1 339	69	3 814	5 134	4 905	20 558	41 864
Discontinued operations	–801	–22	–46	–1 225	–	–38	–516	–2 648
Investments	673	124	54	–	–	85	–	936
Business acquisitions	–	–	24	756	1 118	685	2 983	5 566
Disposals	–326	–40	–	–	–65	–97	–	–528
Reclassifications	6	4	–4	29	–	14	–	49
Translation differences	137	50	4	169	344	172	1 121	1 997
Closing balance, Dec. 31	**5 734**	**1 455**	**101**	**3 544**	**6 531**	**5 725**	**24 146**	**47 236**
Amortization and impairment losses								
Opening balance, Jan. 1	3 434	562	27	735	2 019	1 531	36	8 344
Discontinued operations	–407	–17	–42	–	–	–27	–	–492
Amortization for the period	478	113	2	125	461	396	–	1 575
Impairment charge for the period	4	–	10	2	14	42	–	72
Disposals	–321	–25	–	–	–65	–97	–	–508
Reclassifications	9	3	–	29	–	6	–	47
Translation differences	103	25	–5	38	132	77	1	370
Closing balance, Dec. 31	**3 300**	**661**	**–8**	**929**	**2 561**	**1 928**	**37**	**9 408**
Carrying amounts								
At Jan. 1	2 611	777	42	3 079	3 115	3 374	20 522	33 520
At Dec. 31	**2 434**	**794**	**109**	**2 615**	**3 970**	**3 797**	**24 109**	**37 828**

2015	Internally generated intangible assets		Acquired intangible assets					
	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based	Goodwill	Total
Cost								
Opening balance, Jan. 1	5 485	1 278	96	3 742	5 157	4 658	19 957	40 373
Investments	875	148	–	–	–	145	–	1 168
Business acquisitions	–	–	–	3	–118	48	76	9
Divestments of business	–	–	–	–16	–11	–14	–20	–61
Disposals	–264	–62	–	–	–47	–37	–	–410
Reclassifications	15	1	–27	–	–	–9	–	–20
Translation differences	–66	–26	–	85	153	114	545	805
Closing balance, Dec. 31	**6 045**	**1 339**	**69**	**3 814**	**5 134**	**4 905**	**20 558**	**41 864**
Amortization and impairment losses								
Opening balance, Jan. 1	3 094	537	59	631	1 626	1 192	37	7 176
Amortization for the period	487	94	–	120	428	376	–	1 505
Impairment charge for the period	128	–	–	–	3	11	–	142
Divestments of business	–	–	–	–13	–11	–6	–	–30
Disposals	–263	–62	–	–	–47	–28	–	–400
Reclassifications	37	–3	–30	–	–	–7	–	–3
Translation differences	–49	–4	–2	–3	20	–7	–1	–46
Closing balance, Dec. 31	**3 434**	**562**	**27**	**735**	**2 019**	**1 531**	**36**	**8 344**
Carrying amounts								
At Jan. 1	2 391	741	37	3 111	3 531	3 466	19 920	33 197
At Dec. 31	**2 611**	**777**	**42**	**3 079**	**3 115**	**3 374**	**20 522**	**33 520**

Other technology and contract based intangible assets include computer software, patents, and contract based rights such as licenses and franchise agreements. All intangible assets other than goodwill and trademarks with indefinite useful lives are amortized.

For information regarding amortization and impairment principles, see note 1.

See note 2 for information on business acquisitions.

13. Property, plant and equipment

2016	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	5 822	13 807	770	20 399	6 086
Discontinued operations	–283	–484	–4	–771	–54
Investments	92	673	614	1 379	1 215
Business acquisitions	712	432	19	1 163	28
Disposals	–105	–737	–	–842	–775
Reclassifications	251	475	–678	48	–357
Translation differences	258	587	20	865	420
Closing balance, Dec. 31	**6 747**	**14 753**	**741**	**22 241**	**6 563**
Depreciation and impairment losses					
Opening balance, Jan. 1	2 319	9 133	–	11 452	3 010
Discontinued operations	–110	–361	–	–471	–24
Depreciation for the period	242	1 364	–	1 606	981
Impairment charge for the period	–	7	–	7	–
Disposals	–56	–648	–	–704	–487
Reclassifications	–2	52	–	50	–227
Translation differences	116	392	–	508	215
Closing balance, Dec. 31	**2 509**	**9 939**	**–**	**12 448**	**3 468**
Carrying amounts					
At Jan. 1	3 503	4 674	770	8 947	3 076
At Dec. 31	**4 238**	**4 814**	**741**	**9 793**	**3 095**

2015	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	6 173	13 739	674	20 586	6 013
Investments	117	837	797	1 751	1 300
Business acquisitions	–5	18	–	13	74
Divestments of business	–	–21	–	–21	–
Disposals	–513	–1 054	–	–1 567	–757
Reclassifications	91	515	–707	–101	–463
Translation differences	–41	–227	6	–262	–81
Closing balance, Dec. 31	**5 822**	**13 807**	**770**	**20 399**	**6 086**
Depreciation and impairment losses					
Opening balance, Jan. 1	2 376	8 777	–	11 153	2 836
Depreciation for the period	253	1 438	–	1 691	1 004
Impairment charge for the period	3	–	–	3	2
Divestments	–	–19	–	–19	–
Disposals	–243	–891	–	–1 134	–498
Reclassifications	–32	–5	–	–37	–286
Translation differences	–38	–167	–	–205	–48
Closing balance, Dec. 31	**2 319**	**9 133**	**–**	**11 452**	**3 010**
Carrying amounts					
At Jan. 1	3 797	4 962	674	9 433	3 177
At Dec. 31	**3 503**	**4 674**	**770**	**8 947**	**3 076**

For information regarding depreciation, see note 1.

14. Investments in associated companies and joint ventures

Accumulated capital participation	2016	2015
Opening balance, Jan. 1	125	115
Dividends	–4	–2
Profit for the year after income tax	7	7
Translation differences	10	5
Closing balance, Dec. 31	**138**	**125**

1) The Atlas Copco percentage share of each holding represents both ownership interest and voting power.

Summary of financial information for associated companies and joint ventures	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, % 1)
2016							
Associated companies							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	67	14	53	37	–	25
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	134	63	71	96	1	25
Reintube S.L.	Spain	9	6	3	13	–	47
Joint ventures							
Toku-Hanbai Group	Japan	388	170	218	754	13	50
2015							
Associated companies							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	69	17	52	53	–	25
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	135	66	69	131	8	25
Yanggu Wuyue Special Steel Co. Ltd.	China	1 064	1 303	–239	134	–97	25
Reintube S.L.	Spain	6	4	2	12	–	47
Joint ventures							
Toku-Hanbai Group	Japan	349	159	190	631	10	50

The above table is based on the most recent financial reporting available from associated companies and joint ventures. In the third quarter, the Group exercised the option to swap the shares in Yanggu Wuyue Special Steel Co. Ltd to the remaining non-controlling interest in Shandong Rock Drilling Tools Co. Ltd.

15. Other financial assets

Fair value of financial instruments under other financial assets, except held-to-maturity investments, corresponds to their carrying value.

	2016	2015
Non-current		
Pension and other similar benefit assets (note 23)	422	396
Derivatives		
– held for trading	–	1
– designated for hedge accounting	–	102
Available-for-sale investments	6	3
Held-to-maturity investments	27	167
Financial asset at fair value through profit and loss	123	124
Financial assets classified as loans and receivables		
– finance lease receivables	435	423
– other financial receivables	1 089	913
Closing balance, Dec. 31	**2 102**	**2 129**
Current		
Held-to-maturity investments	144	25
Financial assets classified as loans and receivables		
– finance lease receivables	510	460
– other financial receivables	1 801	1 091
Closing balance, Dec. 31	**2 455**	**1 576**

See note 22 on finance leases and note 27 for information on credit risk.

16. Inventories

	2016	2015
Raw materials	1 423	984
Work in progress	3 094	2 600
Semi-finished goods	3 537	3 936
Finished goods	8 858	9 386
Closing balance, Dec. 31	**16 912**	**16 906**

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 1 090 (1 128). Reversals of write-downs which were recognized in earnings totaled 347 (381). Previous write-downs have been reversed as a result of improved market conditions in certain markets.

Inventories recognized as expense amounted to 45 936 (47 244).

17. Trade receivables

Fair value for trade receivables corresponds to their carrying value. Trade receivables are categorized as loans and receivables.

Provisions for bad debts, trade	2016	2015
Provisions at Jan. 1	1 053	939
Discontinued operations	–16	–
Business acquisitions and divestments	35	1
Provisions recognized for potential losses	525	616
Amounts used for established losses	–268	–267
Release of unnecessary provisions	–284	–213
Change in discounted amounts	–1	2
Translation differences	59	–25
Closing balance, Dec. 31	**1 103**	**1 053**

Trade receivables of 21 353 (19 552) are reported net of provisions for doubtful accounts and other impairments amounting to 1 103 (1 053).

Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 525 (616).

For credit risk information, see note 27.

18. Other receivables

Fair value for other receivables corresponds to their carrying value.

	2016	2015
Derivatives		
– held for trading	117	252
– designated for hedge accounting	11	71
Financial assets classified as loans and receivables		
– other receivables	2 849	2 511
– accrued income	2 057	2 210
Prepaid expenses	822	740
Closing balance, Dec. 31	**5 856**	**5 784**

Other receivables consist primarily of VAT claims and advances to suppliers. Accrued income relates mainly to service and construction projects. Prepaid expenses include items such as rent, insurance, interest, IT and employee costs.

See note 27 for information on the Group's derivatives.

19. Cash and cash equivalents

Fair value for cash and cash equivalents corresponds to their carrying value. Cash and cash equivalents are classified as loans and receivables.

	2016	2015
Cash	4 122	4 468
Cash equivalents	7 336	4 393
Closing balance, Dec. 31	**11 458**	**8 861**

During 2016, cash and cash equivalents had an estimated average effective interest rate of 0,65% (1.47). Estimated average effective interest rate has decreased due to lower deposits in currencies with higher interest rates. The committed, but unutilized, credit lines are MEUR 1 440 (1 740), which equals to MSEK 13 770 (15 892).

See note 27 for additional information.

20. Equity

Shares outstanding	2016			2015		
	A shares	B shares	Total	A shares	B shares	Total
Opening balance, Jan. 1	839 394 096	390 219 008	1 229 613 104	839 394 096	390 219 008	1 229 613 104
Split of shares 2:1	–	–	–	839 394 096	390 219 008	1 229 613 104
	839 394 096	**390 219 008**	**1 229 613 104**	**1 678 788 192**	**780 438 016**	**2 459 226 208**
Redemption of shares	–	–	–	–827 726 884	–389 717 629	–1 217 444 513
Redemption of shares held by Atlas Copco	–	–	–	–11 667 212	–501 379	–12 168 591
Total number of shares, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**	**839 394 096**	**390 219 008**	**1 229 613 104**
– of which held by Atlas Copco	–14 813 384	–332 659	–15 146 043	–13 123 103	–393 879	–13 516 982
Total shares outstanding, Dec. 31	**824 580 712**	**389 886 349**	**1 214 467 061**	**826 270 993**	**389 825 129**	**1 216 096 122**

At December 31, 2016 Atlas Copco AB's share capital amounted to SEK 786 008 190 distributed among 1 229 613 104 shares, each with a quota value of approximately SEK 0.64 (0.64). Series A shares entitle the holder to one voting right and series B shares entitle the holder to one-tenth of a voting right per share.

In 2015 a split of shares was performed followed by a redemption of shares and a bonus issue. The redemption of shares corresponded to a total distribution of 7 305 MSEK.

20. Equity, continued

Repurchases/ Divestment of shares	Number of shares held by Atlas Copco						Cost value affecting equity	
	2016	AGM mandate 2016 Apr.–Dec.	AGM mandate 2015 Jan.–Mar.	2015	AGM mandate 2015 Apr.–Dec.	AGM mandate 2014 Jan.–Mar.	2016	2015
Opening balance, Jan. 1	13 516 982			11 613 086			2 377	1 556
Repurchase of A shares	5 160 000	3 660 000	1 500 000	5 500 000	1 900 000	3 600 000	1 294	1 380
Divestment of A shares	–3 469 719	–2 291 100	–1 178 619	–3 488 604	–820 902	–2 667 702	–626	–552
Divestment of B shares	–61 220	–61 220	–	–107 500	–107 500	–	–4	–7
Closing balance, Dec. 31	**15 146 043**			**13 516 982**			**3 041**	**2 377**
Percentage of shares outstanding	1.2 %			1.1 %				

The 2016 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on Nasdaq Stockholm in order to fulfill the obligations under the performance stock option plan. The mandate is valid until the next AGM and allows:

- The purchase of not more than 7 250 000 series A shares, whereof a maximum 7 000 000 may be transferred to personnel stock option holders under the performance stock option plan 2016.
- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to board members who have opted to receive synthetic shares as part of their board fee.
- The sale of not more than 30 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 5 500 000 series A and B shares in order to cover the obligations under the performance stock option plans 2011, 2012 and 2013.

The 2015 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on Nasdaq Stockholm in order to fulfill the obligations under the performance stock option plan. The mandate was valid until the AGM 2016 and allowed:

- The purchase of not more than 3 800 000 series A shares, whereof a maximum 3 500 000 may be transferred to personnel stock option holders under the performance stock option plan 2015.
- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to board members who have opted to receive synthetic shares as part of their board fee.
- The sale of not more than 30 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 8 100 000 series A and B shares in order to cover the obligations under the performance stock option plans 2010, 2011 and 2012.

Repurchases and sales are subject to market conditions, regulatory restrictions, and the capital structure at any given time. During 2016, 5 160 000 series A shares were repurchased while 3 469 719 series A shares and 61 220 series B shares were divested in accordance with mandates granted by the 2015 and 2016 AGM. Further information regarding repurchases and sales in accordance with AGM mandates is presented in the table above. The series A shares are held for possible delivery under the 2012–2016 personnel stock option programs. The series B shares held can be divested over time to cover costs related to the personnel stock option programs, including social insurance charges, cash settlements or performance of alternative incentive solutions in countries where allotment of employee stock options is unsuitable. The total number of shares of series A and series B held by Atlas Copco is presented in the table above.

Reserves
Consolidated equity includes certain reserves which are described below:

Hedging reserve
The hedging reserve comprises the effective portion of net changes in fair value for certain cash flow hedging instruments.

Translation reserve
The translation reserve comprises all exchange differences arising from the translation of the financial statements of foreign operations, the translation of intra-group receivables from or liabilities to foreign operations that in substance are part of the net investment in the foreign operations, as well as from the translation of liabilities that hedge the company's net investments in foreign operations.

Non-controlling interest
Non-controlling interest amount to 72 (159). In the third quarter, the Group exercised the option to swap the shares in the associated company Yanggu Wuyue Special Steel Co.Ltd to the remaining non-controlling interest in Shandong Rock Drilling Tools Co. Ltd. Five subsidiaries, including Atlas Copco (India) Ltd., have non-controlling interest. None of these are material to the Group.

Appropriation of profit
The Board of Directors proposes a dividend of SEK 6.80 (6.30) per share, totaling SEK 8 258 376 015 if shares held by the company on December 31, 2016 are excluded.

SEK	
Retained earnings including reserve for fair value	26 345 881 131
Profit for the year	9 232 015 514
	35 577 896 645
The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a dividend of SEK 6.80 per share	8 258 376 015
To be retained in the business	27 319 520 630
Total	**35 577 896 645**

The proposed dividend for 2015 of SEK 6.30 per share, as approved by the AGM on April 28, 2016, was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 7 664 874 417.

21. Borrowings

	Maturity	Repurchased nominal amount	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Non-current						
Medium Term Note Program MEUR 500	2019		4 781	4 993	4 567	4 823
Medium Term Note Program MEUR 500	2023		4 762	5 247	4 545	4 937
Medium Term Note Program MEUR 500	2026		4 773	4 627	–	–
Capital market borrowings MUSD 800	2017	MUSD 800	–	–	6 897	7 173
Capital market borrowings MUSD 150	2019	MUSD 7.5	1 295	1 519	1 190	1 475
Bilateral borrowings EIB MEUR 275	2019		2 630	2 666	2 512	2 561
Bilateral borrowings NIB MEUR 200	2024		1 912	1 989	1 827	1 908
Bilateral borrowings EIB MEUR 300	2022		2 869	2 912	–	–
Other bank loans			69	69	304	304
Less current portion of long-term borrowings			–43	–43	–127	–127
Total non-current bonds and loans			**23 048**	**23 979**	**21 715**	**23 054**
Financial lease liabilities			100	100	108	108
Other financial liabilities			–	–	65	65
Total non-current borrowings			**23 148**	**24 079**	**21 888**	**23 227**
Current						
Current portion of long-term borrowings			43	43	127	127
Short term loans			1 461	1 461	909	909
Financial lease liabilities			70	70	65	65
Total current borrowings			**1 574**	**1 574**	**1 101**	**1 101**
Closing balance, Dec. 31			**24 722**	**25 653**	**22 989**	**24 328**

The difference between carrying value and fair value relates to the measurement method as certain liabilities are reported at amortized cost and not at fair value. Changes in interest rates and credit margins create the difference between fair value and amortized cost. See additional information about the Group's exposure to interest rate risk and foreign currency risk in note 27.

During September 2016 Atlas Copco issued a 10-year MEUR 500 bond at 0.645% interest rate. In January 2015 Atlas Copco AB entered into a loan agreement with European Investment Bank amounting to MEUR 300. The facility was fully drawn in April 2016. The funds from these two transactions have primarily been used to repurchase the MUSD 800 bond, originally maturing 2017.

Atlas Copco has a long-term debt rating of A (A) from Standard & Poor's Corporation and A (A) from Fitch Ratings. Other than standard undertakings such as negative pledge and pari passu, interest-bearing loans, borrowings and committed credit lines are not subject to any financial covenants.

The Group's back-up facilities are specified in the table below.

Back-up facilities	Nominal amount	Maturity	Utilized
Commercial papers [1, 2]	MSEK 18 913	–	–
Credit-line	MEUR 640	2020	–
Credit-line	MEUR 800	2021	–
Equivalent in SEK	**MSEK 32 682**		–

1) Interest is based on market conditions at the time when the facility is utilized. Maturity is set when the facility is utilized.
2) The maximum amounts available under these programs total MUSD 1 000, MEUR 400 and MSEK 6 000 corresponding to a total of MSEK 18 913 (18 004).

The Group's short-term and long-term borrowings are distributed among the currencies detailed in the table below.

Currency	2016 Local currency (millions)	2016 MSEK	2016 %	2015 Local currency (millions)	2015 MSEK	2015 %
EUR	2 305	22 040	89	1 512	13 811	60
SEK	26	26	0	27	27	–
USD	184	1 675	7	983	8 208	36
Other	–	981	4	–	943	4
Total		**24 722**	**100**		**22 989**	**100**

The following table shows the maturity structure of the Group's borrowings and includes the effect of interest rate swaps.

Maturity	Fixed	Floating [1]	Carrying amount	Fair value
2017	–	1 574	1 574	1 574
2018	–	75	75	75
2019	8 706	26	8 732	9 204
2020	–	16	16	16
2021	–	4	4	4
2022	–	2 871	2 871	2 914
2023	4 763	–	4 763	5 248
2024	–	1 913	1 913	1 990
2025	–	–	–	–
2026 and after	4 774	–	4 774	4 628
Total	**18 243**	**6 479**	**24 722**	**25 653**

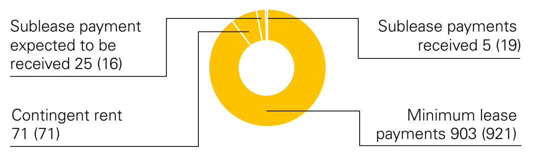
1) Floating interest in the table is borrowings with fixings shorter or equal to six months.

22. Leases

Operating leases – lessee

The leasing costs of assets under operating leases amounted to 969 (974), and are derived primarily from rented premises, machinery, and computer and office equipment. Operating leasing contracts for office and factory facilities typically run for a period of 10 to 15 years. For a limited number of operating leasing contracts, purchase and renewal options exist for machinery and renewal options exist for premises. The total leasing cost includes minimum lease payments of 903 (921), contingent rent of 71 (71), and sublease payments received of 5 (19). Future payments for non-cancelable operating leasing contracts fall due as follows:

Leasing cost under operating leases – Lessee



	2016	2015
Less than one year	769	749
Between one and five years	1 660	1 478
More than five years	449	649
Total	**2 878**	**2 876**

The total of future minimum sublease payments expected to be received was 25 (16).

Operating leases – lessor

Atlas Copco has equipment which is leased to customers under operating leases. Long-term operating lease contracts are financed and administrated by Atlas Copco Financial Solutions and certain other subsidiaries. Future payments for non-cancelable operating leasing contracts fall due as follows:

	2016	2015
Less than one year	446	449
Between one and five years	279	260
More than five years	25	52
Total	**750**	**761**

Contingent rent recognized as income amounted to 53 (78).

Finance leases – lessee

Assets utilized under finance leases	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1, 2016	136	42
Carrying amounts, Dec. 31, 2016	132	72
Carrying amounts, Jan. 1, 2015	151	14
Carrying amounts, Dec. 31, 2015	136	42

Assets utilized under finance leases are comprised primarily of vehicles. For a limited number of finance leasing contracts, both purchase and renewal options exist.

Future payments for assets held under finance leases as lessee will fall due as follows:

	2016			2015		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	83	13	70	74	9	65
Between one and five years	112	14	98	114	8	106
More than five years	2	–	2	2	–	2
Total	**197**	**27**	**170**	**190**	**17**	**173**

Finance leases – lessor

The Group offers lease financing to customers via Atlas Copco Customer Finance and certain other subsidiaries. See note 27 for information on financial exposure and principles for control of financial risks. Future lease payments to be received fall due as follows:

	2016		2015	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	519	510	483	460
Between one and five years	446	425	446	422
More than five years	12	10	2	1
	977	**945**	**931**	**883**
Unearned finance income	–	32	–	48
Total	**977**	**977**	**931**	**931**

23. Employee benefits

Post-employment benefits
Atlas Copco provides post-employment defined benefits pensions and other long-term employee benefits in most of its major locations. The most significant countries in terms of size of plans are Belgium, Canada, Germany, Sweden, the United Kingdom and the United States. Some plans are funded in advance with certain assets or funds held separately from the Group for future benefit payment obligations. Other plans are unfunded and the benefits from those plans are paid by the Group as they fall due.

The plans in Belgium cover early retirement, jubilee, and termination indemnity, which are all unfunded. Defined contribution plans were added to the defined benefit plans in 2015 due to a change in local regulations, these plans are all funded.

In Canada, Atlas Copco provides a pension plan and a supplemental retirement pension benefit plan for executives. Both plans are funded. There are also two unfunded plans, a post-retirement benefit plan and a post-employment plan. In 2016, Canada had a curtailment in one of its pension plans resulting in a gain of MSEK 81, included in this year's settlement gain.

The German plans include those for pensions, early retirements and jubilee. The plans are funded. The Group is leasing property in Finland and Sweden from the Group's German pension trust. See note 28 for further information. Due to the acquisition of Leybold the pension plans in Germany have increased by BSEK 1.8.

There are three defined benefit pension plans in Sweden. The ITP plan is a final salary pension plan covering the majority of white-collar employees in Sweden. Atlas Copco finances the benefits through a pension foundation. The second plan relates to a group of employees earning more than ten income base amounts that has opted out from the ITP plan. This plan is insured. The third defined benefit pension plan relates to former senior employees now retired. In Sweden, in addition to benefits relating to retirement pensions, Atlas Copco has obligations for family pensions for many of the Swedish employees, which are funded through a third party insurer, Alecta. This plan is accounted for as a defined contribution plan as sufficient information is not available for calculating the net pension obligation.

In the United Kingdom, there is a final salary pension plan. This plan is funded. In 2010, the plan was converted to a defined contribution plan for future services. In 2016, a release of a pension provision related to the acquisition of Edwards occurred. Resulting in a gain on settlement of MSEK 380.

In the United States, Atlas Copco provides a pension plan, a post-retirement medical plan, and a number of supplemental retirement pension benefits for executives. The pension plan is funded while the other plans are unfunded.

The Group identifies a number of risks in investments of pension plan assets. The main risks are interest rate risk, market risk, counterparty risk, liquidity and inflation risk, and currency risk. The Group is working on a regular basis to handle the risks and has a long-term investment horizon. The investment portfolio should be diversified, which means that multiple assets classes, markets and issuers should be utilized. An asset liability management assessment should be conducted periodically. The study should include a number of elements. The most important elements are, the duration of the assets and the timing of liabilities, the expected return of the assets, the expected development of liabilities, the forecasted cash flows and the impact of a shift in interest rates on the obligation.

The net obligations for post-employment benefits and other long-term employee benefits have been recorded in the balance sheet as follows:

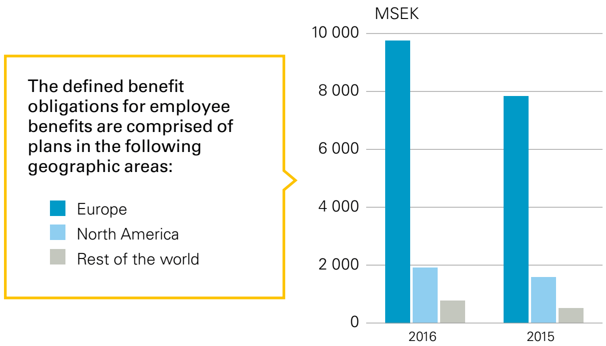
	2016	2015
Financial assets (note 15)	–422	–396
Post-employment benefits	3 907	2 225
Other provisions (note 25)	116	175
Closing Balance, net	**3 601**	**2 004**

The tables below show the Group's obligations for post-employment benefits and other long-term employee benefits, the assumptions used to determine these obligations and the assets relating to these obligations for employee benefits, as well as the amounts recognized in the income statement and the balance sheet. The net amount recognized in balance sheet amounted to 3 601 (2 004). The weighted average duration of the obligation is 16.6 (14.4) in years.

Post-employment benefits **2016**	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	Total
Present value of defined benefit obligations	9 200	2 902	93	250	12 445
Fair value of plan assets	– 8 825	–	– 86	–	– 8 911
Present value of net obligations	**375**	**2 902**	**7**	**250**	**3 534**
Other long-term service obligations	–	–	67	–	67
Net amount recognized in balance sheet	**375**	**2 902**	**74**	**250**	**3 601**
2015					
Present value of defined benefit obligations	8 313	1 220	94	301	9 928
Fair value of plan assets	–7 889	–	–83	–	–7 972
Present value of net obligations	**424**	**1 220**	**11**	**301**	**1 956**
Other long-term service obligations	–	–	48	–	48
Net amount recognized in balance sheet	**424**	**1 220**	**59**	**301**	**2 004**

23. Employee benefits, continued

Plan assets consist of the following:	2016			
	Quoted market price	Unquoted market price	Total	2015
Debt instruments	3 908	537	4 446	4 294
Equity instruments	553	353	906	1 244
Property	297	702	999	919
Assets held by insurance companies	186	921	1 107	863
Cash	541	69	610	466
Investment funds	746	–	746	–
Derivatives	1	–	1	–
Others	92	5	96	186
Closing balance, Dec 31	**6 324**	**2 587**	**8 911**	**7 972**



Movement in plan assets	2016	2015
Fair value of plan assets at Jan 1	7 972	7 954
Discontinued operations	–110	–
Business acquisitions	160	–
Interest income	255	246
Remeasurement – return on plan assets	505	568
Settlements	–32	–667
Employer contributions	317	147
Plan members contributions	32	20
Administrative expenses	–10	–7
Benefit paid by the plan	–337	–289
Reclassifications	143	–
Translation differences	16	–
Fair value of plan assets at Dec 31	**8 911**	**7 972**

The plan assets are allocated among the following geographic areas:	2016	2015
Europe	6 971	6 599
North America	1 508	1 150
Rest of the world	432	223
Total	**8 911**	**7 972**

Asset ceiling	2016	2015
Asset ceiling at Jan. 1	–	29
Remeasurements – asset ceiling	–	–28
Translation difference	–	–1
Asset ceiling, Dec. 31	**–**	**–**

Movement in present value of the obligations for defined benefits	2016	2015
Defined benefit obligations at Jan. 1	9 928	10 541
Discontinued operations	–129	–
Current service cost	392	319
Past service cost	2	–2
Gain/loss on settlement	–466	–24
Interest expense (+)	314	315
Actuarial gains (–)/ losses (+) arising from experience adjustments	14	313
Actuarial gains (–)/ losses (+) arising from financial assumptions	619	–394
Actuarial gains (–)/ losses (+) arising from demographic assumptions	–4	44
Business Acquisitions	2 078	–
Settlements	–32	–667
Benefits paid from plan or company assets	–570	–499
Reclassifications	159	1
Translation differences	140	–19
Defined benefit obligations, Dec. 31	**12 445**	**9 928**

Remeasurements recognized in other comprehensive income amounts to –113 (–662) and –12 (29) in profit and loss. The Group expects to pay 484 (326) in contributions to defined benefit plans in 2017.

Expenses recognized in the income statement	2016	2015
Current service cost	392	319
Past service cost	2	–2
Gain loss on settlements	–466	–24
Net interest cost	59	69
Employee contribution/ Participant contribution	–32	–20
Remeasurement of other long-term benefits	12	29
Administrative expenses	9	6
Total	**–24**	**377**

The total benefit expense for defined benefit plans amounted to –24 (377), whereof –83 (308) has been charged to operating expenses and 59 (69) to financial expenses. Expenses related to defined contribution plans amounted to 903 (861).

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages, in %)	2016	2015
Discount rate		
Europe	2.15	2.77
North America	3.52	4.04
Future salary increases		
Europe	1.81	1.67
North America	1.81	3.51
Medical cost trend rate		
North America	7.01	7.80

The Group has identified discount rate, future salary increases, and mortality as the primary actuarial assumptions for determining defined benefit obligations. Changes in those actuarial assumptions affect the present value of the net obligation. The discount rate is determined by reference to market yields at the balance sheet date using, if available, high quality corporate bonds (AAA or AA) matching the duration of the pension obligations. In countries where corporate bonds are not available, government bonds are used to determine the discount rate. In Sweden in line with prior years, mortgage bonds are used for determining the discount rate.

Atlas Copco's mortality assumptions are set by country, based on the most recent mortality studies that are available. Where possible, generational mortality assumptions are used, meaning that they include expected improvements in life expectancy over time.

The table below shows the sensitivity analysis for discount rate and increase in life expectancy and describes the potential effect on the present value of the defined pension obligation.

Sensitivity analysis	Europe	North America
Change in discount rate + 0.50%	–777	–40
Change in discount rate – 0.50%	868	42
Increase in life expectancy, +1 year	179	13

23. Employee benefits, continued

Share value based incentive programs

In 2012–2015, the Annual General Meeting decided on performance-based personnel stock option programs based on a proposal from the Board on an option program for the respective years. In 2016, the Annual General Meeting decided on a performance based personnel stock option program for 2016 similar to the 2012–2015 programs.

Option programs 2012–2016

At the Annual General Meeting 2012–2016 respectively, it was decided to implement performance related personnel stock option programs. The decision to grant options was made in April each year and the options were issued in March the following year (issue date). The number of options issued each program year depended on the value creation in the Group, measured as Economic Value Added (EVA), for the respective program year. For the 2016 option program, the number of options varies on a linear basis within a preset EVA interval. The size of the plan and the limits of the interval have been established by the Board and have been approved by the Annual General Meeting and are compatible with the long term business plan of the Group.

In connection to the issue, the exercise price was calculated as 110% of the average trading price for series A shares during a ten day period following the date of the publishing of the fourth quarter report. The options were issued without compensation paid by the employee and the options remain the property of the employee only to the extent that they are exercisable at the time employment is terminated.The 2012–2015 programs have a term of five years from the grant date whereas the 2016 program has a term of seven years. The options in the 2012–2016 programs are not transferable and become exercisable at 100% three years after grant.

The 2012–2016 programs include a requirement for senior executives (33 in total) to purchase Atlas Copco A shares for 10% of their gross base salary in order to be granted options. A lower amount of investment will reduce the number of options proportionately. Further, senior executives who have invested in Atlas Copco A shares will have the option to purchase one matching share per each share purchased at a price equal to 75% of the average trading price for series A shares during a ten day period following the date of the publishing of the fourth quarter report. This right applies from three years after grant until the expiration of the stock option program.

The Board had the right to decide to implement an alternative incentive solution (SARs) for key persons in such countries where the grant of personnel options was not feasible.

In the 2012–2016 programs, the options may, on request by an optionee in Sweden, be settled by the Company paying cash equal to the excess of the closing price of the shares over the exercise price on the exercise day, less any administrative fees. Due to this choice of settlement by the Swedish employees, these options are classified for accounting purposes as cash-settled in accordance with IFRS 2.

The Black-Scholes model is used to calculate the fair value of the options/SARs in the programs at issue date. For the programs in 2015 and 2016, the fair value of the options/SARs was based on the following assumptions:

Key assumptions	2016 Program (Dec. 31, 2016)	2015 Program (at issue date)
Expected exercise price	SEK 309/211 [1]	SEK 196/134 [1,2]
Expected volatility	30%	30%
Expected options life (years)	3.05	3.10
Expected share price	SEK 280.80	SEK 207.90
Expected dividend (growth)	SEK 6.30 (10%)	SEK 6.30 (10%)
Risk free interest rate	–0,20%	–0,50%
Expected average grant value	SEK 39.70/70.50	SEK 33.90/63.20
Maximum number of options	7 084 053	3 651 055
– of which forfeited	1 938 527	578 070
Number of matching shares	33 739	38 531

[1] Matching shares for senior executives. [2] Actual.

The expected volatility has been determined by analyzing the historic development of the Atlas Copco A share price as well as other shares on the stock market.

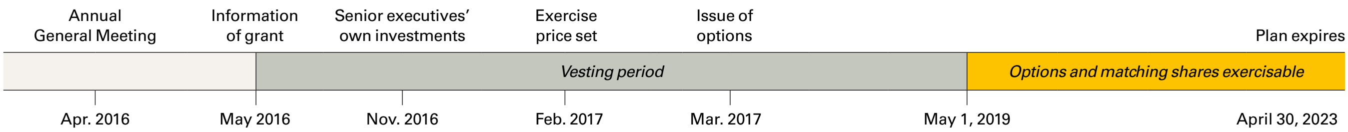
When determining the expected option life, assumptions have been made regarding the expected exercising behavior of different categories of optionees.

For the stock options in 2012–2016 programs, the fair value is recognized as an expense over the following vesting periods:

Program	Vesting period		Exercise period	
Stock options	From	To	From	To
2012	June 2012	April 2015	May 2015	April 2017
2013	June 2013	April 2016	May 2016	April 2018
2014	May 2014	April 2017	May 2017	April 2019
2015	May 2015	April 2018	May 2018	April 2020
2016	May 2016	April 2019	May 2019	April 2023

For the 2016 program, a new valuation of the fair value has been made and will be made at each reporting date until the issue date.

Timeline 2016 option plan



23. Employee benefits, continued

For SARs and the options classified as cash-settled, the fair value is recognized as an expense over the same vesting period; the fair value is, however, remeasured at each reporting date and changes in the fair value after the end of the vesting period continue to be recognized as a personnel expense.

In accordance with IFRS 2, the expense in 2016 for all share-based incentive programs amounted to 268 (135) excluding social costs of which 82 (73) refers to equity-settled options. The related costs for social security contributions are accounted for in accordance with the statement from the Swedish Financial Reporting Board (UFR 7) and are classified as personnel expenses.

In the balance sheet, the provision for share appreciation rights and stock options classified as cash-settled as of December 31 amounted to 195 (85). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2012–2016, see also note 20.

Summary of share value based incentive programs

Program	Initial number of employees	Initial number of options	Expiration date	Exercise price, SEK	Type of share	Fair value on grant date	Intrinsic value for vested SARs
Stock options							
2009	222	3 902 878	Mar. 20, 15	104.86	A	28.59	–
2010	221	3 796 922	Apr. 30, 15	166.99	A	28.32	–
2011	224	2 801 249	Apr. 30, 16	179.70	A	22.47	–
2012	248	3 522 144	Apr. 30, 17	195.32	A	28.30	–
2013	250	–	N/a	N/a	N/a	N/a	–
2014	263	3 751 402	Apr. 30, 19	271.50	A	52.90	–
2015	254	2 522 760	Apr. 30, 20	196.00	A	33.90	–
Matching shares							
2010	21	38 334	Apr. 30, 15	113.59	A	53.40	–
2011	20	40 438	Apr. 30, 16	122.08	A	41.23	–
2012	28	43 286	Apr. 30, 17	132.82	A	52.30	–
2013	28	44 704	Apr. 30, 18	128.91	A	58.00	–
2014	28	39 191	Apr. 30, 19	185.56	A	96.30	–
2015	29	38 531	Apr. 30, 20	134.00	A	63.20	–
Share appreciation rights							
2009	47	741 240	Mar. 20, 15	104.86	A	–	175.94
2010	49	756 351	Apr. 30, 15	166.99	A	–	113.81
2011	48	543 215	Apr. 30, 16	179.70	A	–	101.10
2012	56	720 806	Apr. 30, 17	195.32	A	–	85.48
2013	58	–	N/a	N/a	N/a	N/a	–
2014	59	745 866	Apr. 30, 19	271.50	A	–	–
2015	64	550 225	Apr. 30, 20	196.00	A	–	–

Number of options/rights 2016

Program	Outstanding Jan.1	Exercised	Expired/ forfeited	Outstanding Dec. 31	*–of which exercisable*	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options							
2011	1 313 819	1 302 400	11 419	–	–	–	204
2012 [1]	2 818 339	1 618 534	287	1 199 518	*1 199 518*	4	257
2014 [2]	3 673 964	–	189 227	3 484 737	–	28	–
2015 [3]	2 522 760	–	25 556	2 497 204	–	40	–
Matching shares							
2011	22 203	22 203	–	–	–	–	203
2012	29 261	8 820	–	20 441	*20 441*	4	241
2013	36 708	7 027	–	29 681	*29 681*	16	230
2014	36 469	–	3 057	33 412	–	28	–
2015	38 531	–	1 234	37 297	–	40	–
Share appreciation rights							
2011	117 791	117 790	1	–	–	–	203
2012	526 996	379 645	–	147 351	*147 351*	4	255
2014	745 866	–	12 421	733 445	–	28	–
2015	550 225	–	8 309	541 916	–	40	–

All numbers have been adjusted for the effect of the redemptions in 2011 and 2015 in line with the method used by Nasdaq Stockholm to adjust exchange-traded options contracts.

[1] Of which 401 055 have been accounted for as cash settled.
[2] Of which 1 176 558 have been accounted for as cash settled.
[3] Of which 893 499 have been accounted for as cash settled.

23. Employee benefits, continued

Number of options/rights 2015 Program	Outstanding Jan.1	Granted	Exercised	Expired/ forfeited	Outstanding Dec. 31	*–of which exercisable*	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options								
2009	241 998	–	241 991	7	–	–	–	263
2010	1 343 216	–	1 342 216	1 000	–	–	–	262
2011	2 197 690	–	883 871	–	1 313 819	*1 313 819*	4	256
2012	3 301 373	–	443 734	39 300	2 818 339	*2 818 339*	16	250
2014	3 751 402	–	–	77 438	3 673 964	–	40	–
2015	–	2 522 760	–	–	2 522 760	–	52	–
Matching shares								
2010	8 966	–	8 966	–	–	–	–	267
2011	23 361	–	1 158	–	22 203	22 203	4	247
2012	38 718	–	7 997	1 460	29 261	29 261	16	225
2013	39 793	–	–	3 085	36 708	–	28	–
2014	39 191	–	–	2 722	36 469	–	40	–
2015	–	38 531	–	–	38 531	–	52	–
Share appreciation rights								
2009	39 704	–	39 704	–	–	–	–	260
2010	224 534	–	214 405	10 129	–	–	–	263
2011	328 641	–	200 023	10 827	117 791	*117 791*	4	255
2012	641 616	–	78 539	36 081	526 996	*526 996*	16	249
2014	745 866	–	–	–	745 866	–	40	–
2015	–	550 225	–	–	550 225	–	52	–

All numbers have been adjusted for the effect of the redemptions in 2011 and 2015 in line with the method used by Nasdaq Stockholm to adjust exchange-traded options contracts.

24. Other liabilities

Fair value of other liabilities corresponds to carrying value.

Other current liabilities	2016	2015
Derivatives		
– held for trading	648	158
– designated for hedge accounting	82	32
Other financial liabilities		
– other liabilities	3 128	3 030
– accrued expenses	7 468	6 763
Advances from customers	2 393	2 160
Deferred revenues construction contracts	284	233
Deferred revenues service contracts	1 231	1 123
Closing balance, Dec 31	**15 234**	**13 499**

Accrued expenses include items such as social costs, vacation pay liability, accrued interest, and accrued operational expenses.

See note 27 for information on the Group's derivatives.

25. Provisions

2016	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	1 165	232	817	2 214
Discontinued operations	–28	–3	–25	–56
During the year				
– provisions made	1 271	391	828	2 490
– provisions used	–975	–154	–389	–1 518
– provisions reversed	–231	–3	–255	–489
Discounting effect	1	–	2	3
Business acquisitions	96	–	21	117
Reclassification	–9	–	331	322
Translation differences	69	17	67	153
Closing balance, Dec. 31	**1 359**	**480**	**1 397**	**3 236**
Non-current	199	50	848	1 097
Current	1 160	430	549	2 139
Total	**1 359**	**480**	**1 397**	**3 236**

2015	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	1 173	206	1 002	2 381
During the year				
– provisions made	932	200	387	1 519
– provisions used	–833	–149	–347	–1 329
– provisions reversed	–120	–19	–216	–355
Discounting effect	3	–	6	9
Business acquisitions	1	–	–	1
Translation differences	9	–6	–15	–12
Closing balance, Dec. 31	**1 165**	**232**	**817**	**2 214**
Non-current	157	95	489	741
Current	1 008	137	328	1 473
Total	**1 165**	**232**	**817**	**2 214**

2016, Maturity	Product warranty	Restructuring	Other	Total
Less than one year	1 160	430	549	2 139
Between one and five years	193	1	782	976
More than five years	6	49	66	121
Total	**1 359**	**480**	**1 397**	**3 236**

Other provisions consist primarily of amounts related to share-based payments including social fees, other long-term employee benefits (see note 23), and environmental remediation obligations.

26. Assets pledged and contingent liabilities

Assets pledged for debts to credit institutions and other commitments	2016	2015
Inventory and property, plant and equipment	34	60
Endowment insurances	134	126
Other receivables	854	152
Total	**1 022**	**338**

Contingent liabilities	2016	2015
Notes discounted	13	17
Sureties and other contingent liabilities	323	300
Total	**336**	**317**

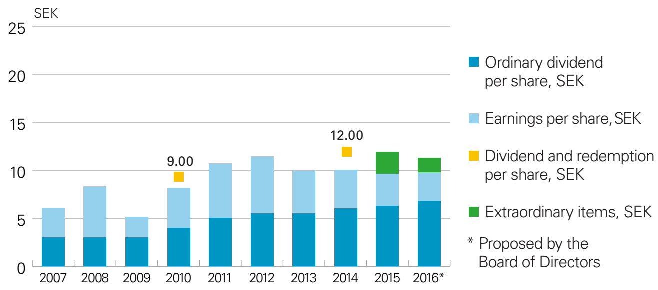
Sureties and other contingent liabilities relate primarily to pension commitments and commitments related to customer claims and various legal matters.

27. Financial exposure and principles for control of financial risks

Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled MSEK 77 899 (69 739). The Group's policy is to have a capital structure to maintain investor, creditor and market confidence and to support future development of the business. The Board's decision is that the annual dividend shall correspond to about 50% of earnings per share. In recent years the Board has also proposed, and the Annual General Meeting has approved, distributions of "excess" equity to the shareholders through share redemptions and share repurchases.

There are no external capital requirements imposed on the Group.



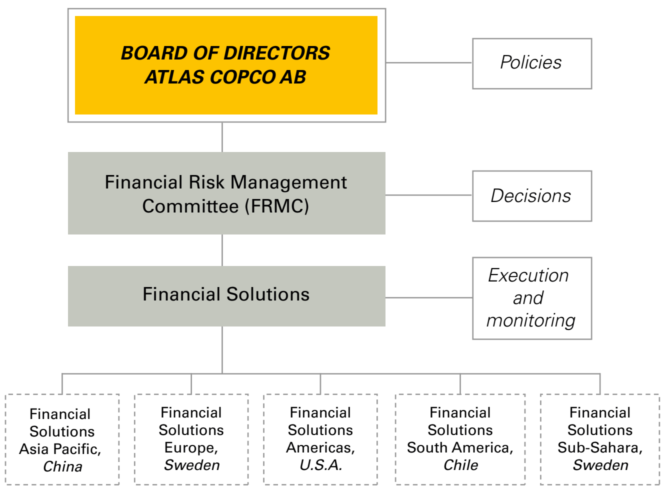
Financial risks

The Group is exposed to various financial risks in its operations. These financial risks include:

- Funding and liquidity risk
- Currency risk
- Other market and price risks
- Interest rate risk
- Credit risk

The Board of Directors establishes the overall financial policies and monitors compliance to the policies. The Group's Financial Risk Management Committee (FRMC) manages the Group's financial risks within the mandate given by the Board of Directors. The members of the FRMC are the CEO, CFO, Group Treasurer, and Head of Business Control, Financial Solutions. The FRMC meets on a quarterly basis or more often if circumstances require.

Financial Solutions has the operational responsibility for financial risk management in the Group. Financial Solutions manages and controls financial risk exposures, ensures that appropriate financing is in place through loans and committed credit facilities, and manages the Group's liquidity.



Funding and liquidity risk

Funding risk is the risk that the Group does not have access to adequate financing on acceptable terms at any given point in time. Liquidity risk is the risk that the Group does not have access to its funds, when needed, due to poor market liquidity.

27. Financial exposure and principles for control of financial risks, continued

Group funding risk policy

The Group's funding risk policy refers to Atlas Copco AB and Atlas Copco Airpower n.v. as external borrowings mainly are held in these entities.

- The Group should maintain minimum MSEK 8 000 committed credit facilities to meet operational, strategic and rating objectives. Actual amount at year-end was MEUR 1 440 (1 740) which corresponds to MSEK 13 770 (15 892).
- The average tenor (i.e. time to maturity) of the Group's external debt shall be at least 3 years. Actual average tenor at year-end was 5.7 years (4.1).
- No more than MSEK 8 000 of the Group's external debt may mature within the next 12 months. In 2017 no debt is maturing (0).
- Adequate funding at subsidiary level shall at all times be in place.

Status at year-end

As per December 31, there were no deviations from the Group funding risk policy. Cash and cash equivalents totaled MSEK 11 458 (8 861). The overall liquidity of the Group is strong considering the maturity profile of the external borrowings, the balance of cash and cash equivalent as of year-end, and available back-up credit facilities from banks. Please refer to note 21 for information on utilized borrowings, maturity, and back-up facilities.

The following table shows maturity structure of the Group's financial liabilities. The figures shown are contractual undiscounted cash flows based on contracted date, when the Group is liable to pay, including both interest and nominal amounts. The short term assets are well matched with the short term liabilities in terms of maturity. Furthermore, the Group has back-up facilities of MSEK 13 770 with maturity 2020 and 2021 to secure liquidity.

Financial instruments	Up to 1 year	1–3 years	3–5 years	Over 5 years
Liabilities				
Liabilities to credit institutions	420	9 668	353	14 749
Other financial liabilities	–	0	0	–
Derivatives	44	89	–	–
Other liabilities	–	148	33	–
Non-current financial liabilities	**464**	**9 905**	**386**	**14 749**
Liabilities to credit institutions	1 596	–	–	–
Current portion of interest-bearing liabilities	141	–	–	–
Derivatives	730	–	–	–
Other accrued expenses	7 468	–	–	–
Trade payables	10 283	–	–	–
Other liabilities	3 128	–	–	–
Current financial liabilities	**23 346**	**–**	**–**	**–**
Financial liabilities	**23 810**	**9 905**	**386**	**14 749**

Derivatives classified as assets designated for hedge accounting amounts to MSEK 11 (173) and derivatives classified as liabilities designated for hedge accounting amounts to MSEK 208 (165). Other derivatives are classified as held for trading.

Interest rate risk

Interest rate risk is the risk that the Group is negatively affected by changes in the interest rate levels.

Group interest rate risk policy

The interest rate risk policy states that the average duration (i.e. period for which interest rates are fixed) should be a minimum of 6 months and a maximum of 48 months.

Status at year-end

The Group uses interest rate swap agreements to a limited extent to convert interest on loans. The Group has interest rate swaps to convert variable interest rates to fixed interest rates on the loan of MEUR 275. These swaps are designated as cash flow hedging instruments and the hedged item is the floating interest rate of the loan. The forecasted cash flows have due dates every six months until September 2019. The interest rate swaps earlier designated as fair value hedges have been closed during 2016 as the corresponding USD loan was repurchased. For more information about the Group's borrowings, see note 21.

Including the effect of derivatives, the effective interest rate and interest duration of the Group's borrowings at year-end was 2.0% (3.3) and 50 months (36) respectively. A deviation from the Group policy has been granted until the end of March 2017. Excluding derivatives, the Group's effective interest rate was 1.8% (3.5) and the average interest duration was 47 months (33).

Outstanding derivative instruments related to interest rate risk	2016		2015	
	Fair value	Nominal amount	Fair value	Nominal amount
Interest rate swaps, fair value hedge				
Assets	–	–	MSEK 102	MUSD 200
Liabilities	–	–	–	–
Interest rate swaps, cash flow hedge				
Assets	–	–	–	–
Liabilities	MSEK 126	MEUR 275	MSEK 133	MEUR 275

The following tables show the estimated effect, in MSEK, of a parallel upward and downward shift of one percentage point (100 basis points) in all interest rates on external loans and on interest rate swaps hedging the loans.

The first table shows the estimated effect on the profit and loss before taxes. 74% of the Groups loan portfolio have fixed interest rates. The interest costs for these loans are not affected by a movement in market interest rates. The simulation is based on the assumption that interest on loans can not be negative. For all the interest rate swaps, cash flow hedge accounting is applied with no impact on earnings as changes in fair value affect other comprehensive income.

The second table shows the fair value effect on loans and interest rate swaps reported at fair value. Certain loans are reported at amortized cost and are therefore not affected by changes in interest rate levels.

Interest sensitivity, earnings	2016	2015
	Earnings impact	Earnings impact
Market interest rate +1%	–48	–33
Market interest rate –1%	10	26

Interest sensitivity, fair value	2016		2015	
	Earnings impact	OCI impact	Earnings impact	OCI impact
Market interest rate +1%	–	67	6	89
Market interest rate –1%	–	–70	–6	–94

27. Financial exposure and principles for control of financial risks, continued

Currency risk

The Group is present in various geographical markets and undertakes transactions denominated in foreign currencies and is consequently exposed to exchange rate fluctuations. This affects both transaction exposure (cash flow) and translation exposure (balance sheet). These two exposures are explained separately below.

Transaction exposure

Group currency risk policy

Transaction exposure risk is the risk that profitability is negatively affected by changes in exchange rates, affecting cash flows in foreign currencies in the operations. Due to the Group's presence in various markets, there are inflows and outflows in different currencies. As a normal part of business, net surpluses or deficits in specific currencies merge. The values of these net positions fluctuate subject to changes in currency rates and, thus, render transaction exposure. The following describes the Group's general policies for managing transaction exposure:

- Exposures shall be reduced by matching in and outflows of the same currencies.
- Business area and divisional management are responsible for maintaining readiness to adjust their operations (price and cost) to compensate for adverse currency movements.
- Based on the assumption that hedging does not have any significant effect on the Group's long-term result, the policy recommends to leave transaction exposures unhedged on an ongoing basis. In general, business areas and divisions shall not hedge currency risks. Hedging can, however, be motivated in case of long-term contracts where there is no possibility to adjust the contract price or the associated costs. Financial transaction exposure is fully hedged.
- The FRMC decides if parts of the transaction exposure shall be hedged. Transactions shall qualify for hedge accounting in accordance with IFRS and hedging beyond 18 months is not allowed.

Status at year end

The Group has continued to manage transaction exposures primarily by matching in- and outflows in the same currencies. A part of the transaction exposure has after FRMC decision been hedged with derivative instruments. The net nominal amounts of the derivative instruments are shown in the table below.

Outstanding derivative instruments related to transaction exposure	2016 Nominal amount, net	2015 Nominal amount, net
Foreign exchange forwards		
AUD	MAUD –72	MAUD –33
CZK	–	MCZK 324
EUR	MEUR 13	MEUR 31
GBP	MGBP 92	MGBP 34
JPY	–	MJPY 150
KRW	–	MKRW 64 919
NOK	MNOK –39	MNOK –42
SEK	MSEK 477	MSEK 184
USD	MUSD –133	MUSD –154

Out of the net nominal amounts in the table the largest crosses are GBP/USD and SEK/AUD with nominal amounts of MGBP 84/MUSD –112 respectively MSEK 477/MAUD –72. Out of the outstanding amounts, 86% is maturing within one year and 14% beyond one year. No hedging beyond 18 months is in place.

In the table below, fair value for all outstanding derivative instruments related to transaction exposure is shown.

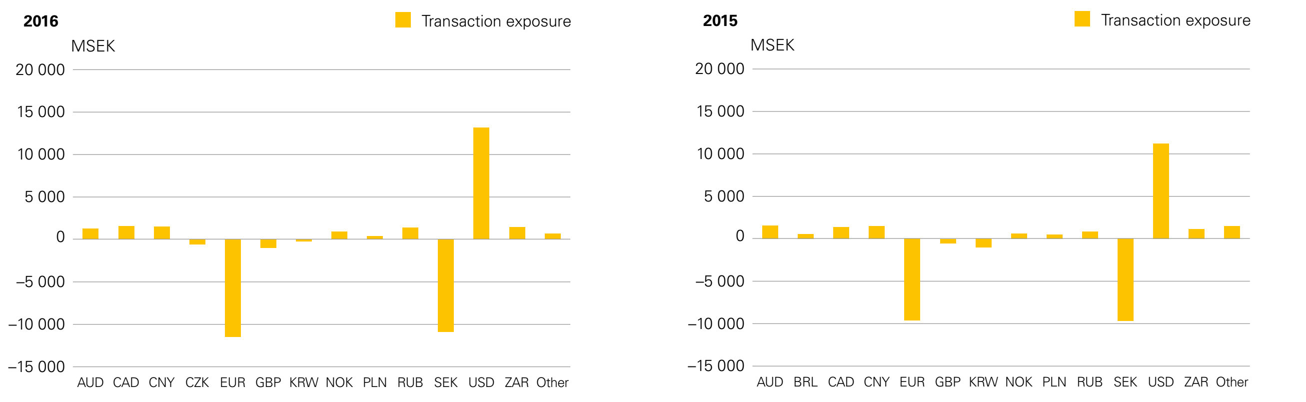
Outstanding derivative instruments related to transaction exposure	2016 Fair value	2015 Fair value
Foreign exchange forwards		
Assets	13	18
Liabilities	98	66

The largest operational surplus and deficit currencies are shown in Graph 1 including discontinued operations. The amounts presented in Graph 1 represent estimates of the Group's net exchangeable amounts in different currencies. Estimates are based on the Group's intercompany payments and payment flows from customers and to suppliers in the most significant currencies. The operational transaction exposure in MSEK is –10 902 (–9 708) and is calculated as the net operational cash flow exposure.

The following table indicates the effect from one percentage point weakening or strengthening of the SEK against all other currencies based on the transaction exposure.

Transaction exposure sensitivity	2016	2015
SEK exchange rate +1%	–109	–95
SEK exchange rate –1%	109	95

GRAPH 1 Estimated operational transaction exposure in the Group's most important currencies 2016 and 2015*



* Including discontinued operations

27. Financial exposure and principles for control of financial risks, continued

The table below indicates the effect on the Group's pretax earnings that one-sided fluctuations in USD and EUR exchange rates may have. The indication is based on the assumptions that no hedging transactions have been undertaken, and before any impact of offsetting price adjustments or similar measures. The sensitivity analysis is based on the operational transaction exposure for 2016.

Transaction exposure sensitivity	2016	2015
USD Currency rate +1 %	131	106
USD Currency rate –1 %	–131	–106
EUR Currency rate +1 %	–115	–96
EUR Currency rate –1 %	115	96

Translation exposure

Group currency risk policy

Translation exposure risk is the risk that the value of the Group's net investments in foreign currencies is negatively affected by changes in exchange rates. The Group's worldwide presence creates a currency effect since the financial statements of entities with functional currencies other than SEK are translated to SEK when preparing the consolidated financial statements. The net exposure in each currency represents the net of assets and liabilities denominated in that currency. The effect of currency rate fluctuations on these net positions is the translation effect.

The following describes the Group's general policies for managing translation exposure:

- Translation exposure should be reduced by matching assets and liabilities in the same currencies.
- The FRMC may decide to hedge part or all of the remaining translation exposure. Any hedge of translation exposure shall qualify for hedge accounting in accordance with IFRS.

Status at year end

The Group uses loans to reduce the translation exposure on net investments in EUR in the consolidated financial statements and to reduce the exchange rate risk related to net assets in subsidiaries. These instruments are designated as net investment hedges in the consolidated financial statements.

The financial instruments shown in the table below are used to hedge EUR-denominated net assets.

Outstanding financial instruments related to translation exposure	2016		2015	
	Fair value	Nominal amount	Fair value	Nominal amount
Derivatives				
Assets	–	–	MSEK 58	–
Liabilities	–	–	–	MEUR 310
External loans				
Loans in EUR [1]	MSEK –2 144	MEUR 1 775	MSEK –1 914	MEUR 1 472

[1] In the balance sheet, loans designated as net investment hedges are reported at amortized cost and not at fair value.

The Group's loan portfolio is also exposed to movement in currency rates. However, the impact on the net income would be limited as a majority of all of the Group´s loans are designated as hedges of net investments and the effect is accounted for in other comprehensive income. Loans not designated as net investment hedges affect net income. These loans are hedged with FX-forward contracts, also affecting net income. The impact of a 1% movement in the EUR/SEK rate would affect other comprehensive income with MSEK 37 (35) (see also note 1, Accounting principles, Financial assets and liabilities).

Graph 2 indicates the Group's sensitivity to currency translation effects when earnings of foreign subsidiaries are translated including discontinued operations. The graph indicates for example that the translation effect on the Group's pretax earnings would be –153 (–158) if SEK is strengthen by 1%. A 1% SEK weakening would affect the Group's pretax earnings by 153 (158).

Credit risk

Credit risk can be divided into operational and financial credit risk. These risks are described further in the following sections. The table below shows the total credit risk exposure related to assets classified as financial instruments as per December 31.

Credit risk	2016	2015
Loans and receivables		
– trade receivables	21 399	19 603
– finance lease receivables	945	883
– other financial receivables	2 890	2 004
– other receivables	2 567	2 194
– accrued income	2 057	2 210
– cash and cash equivalents	11 458	8 861
Held-to-maturity investments	171	192
Available-for-sale investments	6	3
Fair value through profit and loss	123	124
Derivatives	128	426
Total	**41 744**	**36 500**

Operational credit risk

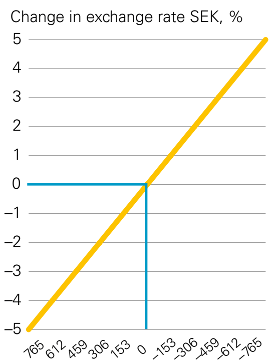
Group credit risk policy

Operational credit risk is the risk that the Group's customers do not meet their payment obligations. The Group's operational credit risk policy is that business areas, divisions and individual business units are responsible for the commercial risks arising from their operations. The operational credit risk is measured as the net aggregate value of receivables on a customer.

Status at year end

Since the Group's sales are dispersed among many customers, of whom no single customer represents a significant share of the Group's commercial risk, the monitoring of commercial credit risks is primarily done at the business area, divisional or business unit level. Each business unit is required to have an approved commercial risk policy.

GRAPH 2 **Translation effect on earnings before tax***



* Including discontinued operations

27. Financial exposure and principles for control of financial risks, continued

The Group has an in-house customer finance operation (part of Financial Solutions) as a means of supporting equipment sales. At December 31, including discontinued operations, the credit portfolio of the customer finance operations totaled approximately 2 965 (2 607) consisting of 96 (91) reported as trade receivables, 925 (844) reported as finance lease receivables, and 1 944 (1 672) reported as other financial receivables. In addition, Financial Solutions also has non-cancelable operating lease contracts of 731 (747). There were no significant concentrations of customer risks in these operations. No customer represented more than 5% of the total outstanding receivables. For further information, see note 22.

Atlas Copco Financial Solutions maintains collateral for its credit portfolio primarily through repossession rights in equipment. Business units may also partly transfer the commercial risk insurance to external entities (normally to an export credit agency).

Provision for credit risks
The business units establish provisions for their estimate of incurred losses in respect of trade and other receivables. The main components of this provision are specific loss provisions corresponding to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have not yet been identified. The collective loss provision is determined based on historical default statistics for similar financial assets. At year-end 2016, the provision for bad debt amounted to 4.9% (5.1) of gross total customer receivables. The following table presents the gross value of trade receivables, both current and non-current, by maturity together with the related impairment provisions.

Trade receivables	2016		2015	
	Gross	Impairment	Gross	Impairment
Not past due	15 205	20	13 154	10
Past due but not impaired				
0–30 days	3 517	–	3 436	–
31–60 days	864	–	1 072	–
61–90 days	473	–	542	–
More than 90 days	1 883	–	2 007	–
Past due and individually impaired				
0–30 days	87	4	97	1
31–60 days	26	6	20	2
61–90 days	22	10	21	8
More than 90 days	379	230	307	239
Collective impairment	–	833	–	793
Total	**22 456**	**1 103**	**20 656**	**1 053**

The total estimated fair value of collateral for trade receivables amounted to 405 (469). The collateral mainly consisted of repossession rights and export credit insurance. Based on historical default statistics and the diversified customer base, the credit risk is assessed to be limited.

The gross amount of finance lease receivables amounted to 984 (908), of which 39 (26) have been impaired, and the gross amount of other financial receivables amounted to 3 050 (2 054), of which 160 (49) have been impaired. There are no significant amounts past due that have not been impaired. The total estimated fair value of collateral to finance lease receivables and other finance receivables was 573 (559) and 1 712 (1 523) respectively, consisting primarily of repossession rights.

Financial credit risk
Group credit risk policy
Credit risk on financial transactions is the risk that the Group incurs losses as a result of non-payment by counterparts related to the Group's investments, bank deposits or derivative transactions. The financial credit risk is measured differently depending on transaction type.

Investment transactions
Efficient cash management systems should be maintained in order to minimize excess cash in operations where it cannot be invested or used to reduce interest-bearing debt. Cash may only be invested if at least one of the credit ratings (as rated by Standard & Poor's, Fitch Ratings or Moody's) of the approved counterpart or underlying investment is at least: A-/A3 in case of financial counterparties and funds, BBB-/Baa3 in case of non-financial counterparties. Investments in structured financial products are not allowed, unless approved by the FRMC. Furthermore, counterparty exposure, tenor and liquidity of the investment are considered before any investment is made. A list of each approved counterpart and its maximum exposure limit is maintained and monitored.

Derivative transactions
As part of the Group's management of financial risks, the Group enters into derivative transactions with financial counterparts. Such transactions may only be undertaken with approved counterparts for which credit limits are established and with which ISDA (International Swaps and Derivatives Association) master agreements and CSA (Credit Support Annex) agreements are in force. Derivative transactions may only be entered into by Atlas Copco Financial Solutions or in rare cases by another entity, but only with approval from the Group Treasurer. Atlas Copco primarily uses derivatives as hedging instruments and the policy allows only standardized (as opposed to structured) derivatives.

Status at year-end
At year-end 2016, the measured credit risk on derivatives, taking into account the market-to-market value and collaterals, amounted to MSEK 138 (180).

The table below presents the reported value of the Group's derivatives.

Outstanding derivative instruments related to financial exposures	2016	2015
Interest rate swaps		
Assets	–	102
Liabilities	126	133
Foreign exchange forwards		
Assets	115	306
Liabilities	632	125

Outstanding derivative instruments related to operational exposures	2016	2015
Assets	13	18
Liabilities	98	66

No financial assets or liabilities are offset in the balance sheet. Derivative instruments are subject to master netting agreements and the fair values of derivatives that are not offset in the balance sheet are 128 (426) for assets and 856 (324) for liabilities. The table below shows derivatives covered by master netting agreements.

Outstanding net position for derivative instruments	Gross	Offset in BS	Net in BS	Master netting agreement	Cash collateral	Net position
Assets						
Derivatives	128	–	128	–128	–	–
Liabilities						
Derivatives	856	–	856	–128	–853	–125

The negative net position in liabilities is due to that exchange of security is done on a weekly basis.

27. Financial exposure and principles for control of financial risks, continued

Other market and price risks

Commodity-price risk is the risk that the cost of direct and indirect materials could increase as underlying commodity prices rise in global markets. The Group is directly and indirectly exposed to raw material price fluctuations. Cost increases for raw materials and components often coincide with strong end-customer demand and are offset by increased sales to mining customers and compensated for by increased market prices. Therefore, the Group does not hedge commodity-price risks.

Fair value of financial instruments

In Atlas Copco's balance sheet, financial instruments are carried at fair value or at amortized cost. The fair value is established according to a fair value hierarchy. The hierarchy levels should reflect the extent to which fair value is based on observable market data or own assumptions. Below is a description of each level and valuation methods used for each financial instrument.

Level 1

In the Level 1 method, fair value is based on quoted (unadjusted) prices in active markets for identical assets or liabilities. A market is considered as active if quoted prices from an exchange, broker, industry group, pricing service, or supervisory body are readily and regularly available and those prices represent actual and regularly occurring market transactions at arm's length.

Level 2

In the Level 2 method, fair value is based on models that utilize observable data for the asset or liability other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Such observable data may be market interest rates and yield curves.

Level 3

In the Level 3 method, fair value is based on a valuation model, whereby significant input is based on unobservable market data.

Valuation methods

Derivatives

Fair values of forward exchange contracts are calculated based on prevailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows. Discounted cash flow models are used for the valuation.

Interest-bearing liabilities

Fair values are calculated based on market rates and present value of future cash flows.

Finance leases and other financial receivables

Fair values are calculated based on market rates for similar contracts and present value of future cash flows.

The Group's financial instruments by level

The carrying value for the Group's financial instruments corresponds to fair value in all categories except for borrowings and held-to-maturity investments. See note 21 for additional information about the Group's borrowings.

The following table includes financial instruments at their fair value and by category.

Financial instruments by fair value hierarchy	Fair value	Level 1	Level 2	Level 3
Financial assets	156	123	33	–
Other receivables	1 570	–	1 570	–
Non-current financial assets	**1 726**	**123**	**1 603**	–
Trade receivables	21 353	–	21 353	–
Financial assets	2 455	–	2 455	–
Other receivables	2 567	–	2 567	–
Derivatives	128	–	128	–
Other accrued income	2 057	12	2 045	–
Current financial assets	**28 560**	**12**	**28 548**	–
Financial assets	**30 286**	**135**	**30 151**	–
Borrowings	23 979	16 386	7 593	–
Other financial liabilities	100	–	100	–
Derivatives	126	–	126	–
Other liabilities	181	–	66	115
Non-current financial liabilities	**24 386**	**16 386**	**7 885**	**115**
Borrowings	1 504	–	1 504	–
Derivatives	730	–	730	–
Other accrued expenses	7 468	245	7 223	–
Trade payables	10 283	–	10 283	–
Other liabilities	3 128	–	2 382	746
Current financial liabilities	**23 113**	**245**	**22 122**	**746**
Financial liabilities	**47 499**	**16 631**	**30 007**	**861**

In other liabilities, MSEK 861 (1 078) relates to contingent considerations for acquisitions. The largest part relates to Henrob, which was acquired in September 2014.

For Henrob, the payment of the contingent consideration is dependent on achieving future milestones as targets for revenue and growth within three years of the acquisition, in total a maximum of 745 (MUSD 82). Part of the liability was settled in 2016. The fair value for the remaining milestones assumes that the maximum amount will be paid out given a discount rate of 10.5%.

Reconciliation of financial liabilities in Level 3 (MSEK)	Opening balance	Business acquisitions	Settlement	Interest	Remeasurement	Translation	Closing balance	Profit/loss related to liabilities included in closing balance
Deferred considerations 2016	1 078	50	–330	12	–19	70	861	7

Currency rates used in the financial statements			Year-end rate		Average rate	
	Value	Code	2016	2015	2016	2015
Australia	1	AUD	6.56	6.09	6.36	6.30
Canada	1	CAD	6.74	6.02	6.46	6.56
China	1	CNY	1.31	1.29	1.29	1.34
EU	1	EUR	9.56	9.13	9.44	9.34
Hong Kong	100	HKD	117.19	107.74	110.50	108.27
United Kingdom	1	GBP	11.17	12.38	11.60	12.82
U.S.A.	1	USD	9.09	8.35	8.58	8.39

28. Related parties

Relationships

The Group has related party relationships with the Company's largest shareholder, its associates, joint ventures and with its Board members and Group Management. The Company's largest shareholder, Investor AB, controls approximately 22% of the voting rights in Atlas Copco.

The subsidiaries that are directly owned by the Parent Company are presented in note A21 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed in note A22. Information about associated companies and joint ventures is found in note 14. Information about Board members and Group Management is presented on pages 60–63.

In 2015 premises in Sweden were sold to and leased back from the Group's German pension trust for a consideration of 420 resulting in a net gain of 101. The lease term for the premises varies between 6 and 15 years. The consideration and the lease payments are on market terms.

Transactions and outstanding balances

The Group has not had any transactions with Investor AB during the year, other than dividends declared and has no outstanding balances with Investor AB.

Investor AB has controlling or significant influence in companies with which Atlas Copco may have transactions within the normal course of business. Any such transactions are made on commercial terms.

Transactions with associated companies and joint ventures

The Group sold various products and purchased goods through certain associated companies and joint ventures on terms generally similar to those prevailing with unrelated parties.

The following table summarizes the Group's related party transactions with its associates and joint ventures:

	2016	2015
Revenues	18	22
Goods purchased	103	164
Service purchased	54	35
At Dec, 31:		
Trade receivables	3	3
Trade payables	3	18
Other liabilities	–	1
Other interest-bearing liabilities	–	16
Guarantees	–	–

Compensation to key management personnel

Compensation to the Board and to Group Management is disclosed in note 5.

29. Subsequent events

Atlas Copco has initiated a work in order to propose to the Annual General meeting 2018 to decide on a split of the Group into two listed companies; one focused on industrial customers and another focused on mining/civil engineering customers.

On January 19, 2017 Atlas Copco announced the agreement to sell its Road and Construction Equipment division to the French industrial and construction company Fayat Group. The Road Construction Equipment division has been reported separately as discontinued operations in Atlas Copco Group's financial statements, with a retrospective restatement of previous periods unless otherwise stated.

Financial statements, Parent Company

Income statement

For the year ended December 31, Amounts in MSEK	Note	2016	2015
Administrative expenses	A2	–619	–566
Other operating income	A3	171	142
Operating loss		**–448**	**–424**
Financial income	A4	7 085	9 606
Financial expenses	A4	–1 866	–1 405
Profit after financial items		**4 771**	**7 777**
Appropriations	A5	5 031	4 523
Profit before tax		**9 802**	**12 300**
Income tax	A6	–570	–563
Profit for the year		**9 232**	**11 737**

Statement of comprehensive income

For the year ended December 31, Amounts in MSEK	Note	2016	2015
Profit for the year		**9 232**	**11 737**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation of net investment		–	461
Cash flow hedges		9	16
Income tax relating to items that may be reclassified		–2	–104
Other comprehensive income of the year, net of tax		**7**	**373**
Total comprehensive income for the year		**9 239**	**12 110**

Balance sheet

As at December 31, Amounts in MSEK	Note	2016	2015
ASSETS			
Non-current assets			
Intangible assets	A7	32	15
Tangible assets	A8	45	32
Financial assets			
Deferred tax asset	A9	74	86
Shares in Group companies	A10, A21	110 597	110 635
Other financial assets	A11	164	258
Total non-current assets		**110 912**	**111 026**
Current assets			
Income tax receivable		44	–
Other receivables	A12	3 977	3 020
Cash and cash equivalents	A13	8 165	4 311
Total current assets		**12 186**	**7 331**
TOTAL ASSETS		**123 098**	**118 357**
EQUITY			
Restricted equity			
Share capital		786	786
Legal reserve		4 999	4 999
Total restricted equity		**5 785**	**5 785**
Non-restricted equity			
Reserve for fair value		654	647
Retained earnings		25 692	22 084
Profit for the year		9 232	11 737
Total non-restricted equity		**35 578**	**34 468**
TOTAL EQUITY		**41 363**	**40 253**
PROVISIONS			
Post-employment benefits	A15	142	135
Other provisions	A16	271	132
Total provisions		**413**	**267**
LIABILITIES			
Non-current liabilities			
Borrowings	A17	53 074	49 063
Other liabilities		126	135
Total non-current liabilities		**53 200**	**49 198**
Current liabilities			
Borrowings	A17	26 723	27 506
Tax liabilities		–	90
Other liabilities	A18	1 399	1 043
Total current liabilities		**28 122**	**28 639**
TOTAL EQUITY AND LIABILITIES		**123 098**	**118 357**

Statement of changes in equity

MSEK unless otherwise stated	Number of shares outstanding	Share capital	Legal reserve	Reserve for fair value – translation reserve	Retained earnings	Total
Opening balance, Jan. 1, 2016	1 216 096 122	786	4 999	647	33 821	40 253
Total comprehensive income for the year				7	9 232	9 239
Dividends					–7 665	–7 665
Acquisition series A shares	–5 160 000				–1 294	–1 294
Divestment series A shares	3 469 719				809	809
Divestment series B shares	61 220				15	15
Share-based payment, equity settled						
– expense during the year					82	82
– exercise of options					–76	-76
Closing balance, Dec. 31, 2016	**1 214 467 061**	**786**	**4 999**	**654**	**34 924**	**41 363**
Opening balance, Jan. 1, 2015	1 218 000 018	786	4 999	274	37 241	43 300
Total comprehensive income for the year				373	11 737	12 110
Dividends					–7 305	–7 305
Redemption of shares		–393			–6 912	–7 305
Increase of share capital through bonus issue		393			–393	–
Acquisition series A shares	–5 500 000				–1 380	–1 380
Divestment series A shares	3 488 604				903	903
Divestment series B shares	107 500				24	24
Share-based payment, equity settled						
– expense during the year					73	73
– exercise of options					–167	–167
Closing balance, Dec. 31, 2015	**1 216 096 122**	**786**	**4 999**	**647**	**33 821**	**40 253**

See note A14 for additional information.

Statement of cash flows

For the year ended December 31, Amounts in MSEK	2016	2015
Cash flows from operating activities		
Operating loss	–448	–424
Adjustments for:		
Depreciation	10	11
Capital gain/loss and other non-cash items	–332	–777
Operating cash deficit	**–770**	**–1 190**
Net financial items received	5 636	9 514
Group contributions received	4 523	3 860
Taxes paid	–690	–642
Cash flow before change in working capital	**8 699**	**11 542**
Change in		
Operating receivables	–496	1 010
Operating liabilities	516	–445
Change in working capital	**20**	**565**
Net cash from operating activities	**8 719**	**12 107**

For the year ended December 31, Amounts in MSEK	2016	2015
Cash flow from investing activities		
Investments in tangible assets	–19	–3
Investments in intangible assets	–21	–12
Investments in subsidiaries	–58	–76
Repayments/investments in financial assets	–	2
Net cash from investing activities	**–98**	**–89**
Cash flow from financing activities		
Dividends paid	–7 665	–7 305
Redemption of shares	–	–7 305
Repurchase and divestment of own shares	–470	–453
Change in interest-bearing liabilities	3 368	2 203
Net cash from financing activities	**–4 767**	**–12 860**
Net cash flow for the year	**3 854**	**–842**
Cash and cash equivalents, Jan. 1	4 311	5 153
Net cash flow for the year	3 854	–842
Cash and cash equivalents, Dec. 31	**8 165**	**4 311**

Notes to the Parent Company financial statements

MSEK unless otherwise stated

A1. Significant accounting principles

Atlas Copco AB is the ultimate Parent Company of the Atlas Copco Group and is headquartered in Nacka, Sweden. Its operations include administrative functions, holding company functions as well as parts of Atlas Copco Financial Solutions (Treasury).

The financial statements of Atlas Copco AB have been prepared in accordance with the Swedish Annual Accounts Act and the recommendation RFR 2, "Accounting for Legal Entities", hereafter referred to as "RFR 2", issued by the Swedish Financial Reporting Board. In accordance with RFR 2, parent companies that issue consolidated financial statements according to International Financial Reporting Standards (IFRS), as endorsed by the European Union, shall present their financial statements in accordance with IFRS, to the extent these accounting principles comply with the Swedish Annual Accounts Act and may use exemptions from IFRS provided by RFR 2 due to Swedish accounting or tax legislation.

The financial statements are presented in Swedish krona (SEK), rounded to the nearest million. The parent company's accounting principles have been consistently applied to all periods presented unless otherwise stated. The financial statements are prepared using the same accounting principles as described in note 1 in the Group's consolidated financial statements, except for those disclosed in the following sections.

For discussion regarding accounting estimates and judgments, see page 76.

Subsidiaries

Participations in subsidiaries are accounted for by the Parent Company at historical cost. The carrying amounts of participations in subsidiaries are reviewed for impairment in accordance with IAS 36, Impairment of Assets. See the Group's accounting policies, Impairment of financial assets, for further details.

Transaction costs incurred in connection with a business combination are accounted for by the Parent Company as part of the acquisition costs and are not expensed.

Lease contracts

All lease contracts entered into by the Parent Company are accounted for as operating leases.

Employee benefits

Defined benefit plans

Defined benefit plans are not accounted for in accordance with IAS 19. In the Parent Company defined benefit plans are accounted for according to the Swedish law regarding pensions, "Tryggandelagen" and regulations issued by the Swedish Financial Supervisory Board. The primary differences as compared to IAS 19 are the way discount rates are fixed, that the calculation of defined benefit obligations is based on current salary levels, without consideration of future salary increases and that all actuarial gains and losses are included in profit or loss as they occur.

Share-based payments

The share-based payments that the Parent Company has granted to employees in the Parent Company are accounted for using the same principle as described in note 1 in the Group's consolidated financial statements.

The share-based payments that the Parent Company has granted to employees in subsidiaries are not accounted for as an employee expense in the Parent Company, but are recognized against Shares in Group companies. This vesting cost is accrued over the same period as in the Group and with a corresponding increase in equity for equity-settled programs and as a change in liabilities for cash-settled programs.

Financial guarantees

Financial guarantees issued by the Parent Company for the benefit of subsidiaries are not valued at fair value. They are reported as contingent liabilities, unless it becomes probable that the guarantees will lead to payments. In such case, provisions will be recorded.

Hedge accounting

Interest-bearing liabilities denominated in other currencies than SEK, used to hedge currency exposure from investments in shares of foreign subsidiaries are not translated using the foreign exchange rates on the balance sheet date, but measured based on the exchange rate the day that the hedging relation was established.

Derivatives used to hedge investments in shares in foreign subsidiaries are recognized at fair value and changes therein are recognized in profit or loss. The corresponding fair value change on shares in subsidiaries is recognized in profit or loss.

Group and shareholders' contributions

In Sweden, Group contributions are deductible for tax purposes but shareholders' contributions are not. Group contributions are recognized as appropriations in the income statement. Shareholders' contributions are recognized as an increase of Shares in Group companies and tested for impairment.

A2. Employees and personnel expenses and remunerations to auditors

Average number of employees	2016			2015		
	Women	Men	Total	Women	Men	Total
Sweden	60	46	106	65	53	118

Women in Atlas Copco Board and Management, %	Dec. 31, 2016	Dec. 31, 2015
Board of Directors excl. union representatives	33	33
Group Management	22	22

Salaries and other remuneration	2016		2015	
	Board members and Group Management [1]	Other employees	Board members and Group Management [1]	Other employees
Sweden	106	103	61	118
of which variable compensation	22		20	

[1] Includes 8 (8) Board members who receive fees from Atlas Copco AB as well as the President and CEO and 7 (7) members of Group Management who are employed by and receive salary and other remuneration from the Company.

For information regarding remuneration and other fees for members of the Board, the President and CEO, and other members of Group Management, see note 5 of the consolidated financial statements.

Pension benefits and other social costs	2016	2015
Contractual pension benefits for Board members and Group Management	12	11
Contractual pension benefits for other employees	20	15
Other social costs	76	61
Total	**108**	**87**
Pension obligations to former members of Group Management	5	5

Remunerations to auditors

Audit fees and consultancy fees for advice or assistance other than audit, were as follows:

	2016	2015
Deloitte		
– audit fee	6	6
– audit activities other than audit assignment	1	1
– other services, tax	–	–
Total	**7**	**7**

Audit fee refers to audit of the financial statements and the accounting records. For the Parent Company the audit also includes the administration of the business by the Board of Directors, the President and CEO.

Audit activities other than the audit assignment refer for example to comfort letters and the limited assurance report on Atlas Copco's sustainability report.

Tax services include both tax consultancy services and tax compliance services.

At the Annual General Meeting 2016, Deloitte was elected as auditor for the Group until the Annual General Meeting 2017.

A3. Other operating income

	2016	2015
Commissions received	166	135
Other operating income	1	–
Exchange-rate differences, net	4	7
Total other operating income	**171**	**142**

A4. Financial income and expenses

Financial income and expenses	2016	2015
Interest income		
– cash and cash equivalents	52	104
– receivables from Group companies	306	208
Dividend income from Group companies	6 727	9 276
Capital gain	–	4
Foreign exchange gain, net	–	14
Financial income	**7 085**	**9 606**
Interest expense		
– borrowings	–567	–704
– derivatives for fair value hedges	–244	–58
– liabilities to Group companies	–485	–642
– pension provisions, net	–	–1
Change in fair value		
– other assets	–142	–
Foreign exchange loss, net	–26	–
Impairment loss		
– writedown of shares in Group Companies	–402	–
Financial expenses	**–1 866**	**–1 405**
Financial income, net	**5 219**	**8 201**

The following table presents the net gain or loss by category of financial instruments.

	2016	2015
Net gain/loss on		
– loans and receivables, incl. bank deposits	190	326
– other liabilities	–1 052	–1 347
– derivatives for fair value hedges	–244	–58
Profit from shares in Group companies	6 325	9 280
Total	**5 219**	**8 201**

For further information about the hedges, see note 27 of the consolidated financial statements.

A5. Appropriations

Appropriations	2016	2015
Group contributions paid	–213	–170
Group contributions received	5 244	4 693
Total	**5 031**	**4 523**

A6. Income tax

	2016	2015
Current tax	–560	–549
Deferred tax	–10	–14
Total	**–570**	**–563**
Profit before taxes	9 802	12 300
The Swedish corporate tax rate, %	22.0	22.0
National tax based on profit before taxes	–2 156	–2 706
Tax effects of:		
Non-deductible expenses	–179	–163
Tax exempt income	1 481	2 088
Deductible expenses, not recognized in Income statement	28	81
Controlled foreign company taxation	–18	–29
Adjustments from prior years	274	166
Total	**–570**	**–563**
Effective tax in %	**5.8**	**4.6**

The Parent Company's effective tax rate of 5.8 % (4.6) is primarily affected by non-taxable income such as dividends from Group companies.

A7. Intangible assets

	Capitalized expenditures for computer programs	
	2016	2015
Accumulated cost		
Opening balance, Jan. 1	48	36
Investments	21	12
Closing balance, Dec. 31	**69**	**48**
Accumulated depreciation		
Opening balance, Jan. 1	33	26
Depreciation for the year	4	7
Closing balance, Dec. 31	**37**	**33**
Carrying amount		
Opening balance, Jan. 1	15	10
Closing balance, Dec. 31	**32**	**15**

A8. Property, plant and equipment

	2016			2015		
	Buildings and land	Machinery and equipment	Total	Buildings and land	Machinery and equipment	Total
Accumulated cost						
Opening balance, Jan. 1	27	46	73	27	46	73
Investments	13	6	19	–	3	3
Disposals	–	–	–	–	–3	–3
Closing balance, Dec. 31	**40**	**52**	**92**	**27**	**46**	**73**
Accumulated depreciation						
Opening balance, Jan. 1	6	35	41	8	32	40
Depreciation for the year	2	4	6	–2	6	4
Disposals	–	–	–	–	–3	–3
Closing balance, Dec. 31	**8**	**39**	**47**	**6**	**35**	**41**
Carrying amount						
Opening balance, Jan. 1	21	11	32	19	14	33
Closing balance, Dec. 31	**32**	**13**	**45**	**21**	**11**	**32**

The asset Buildings and land relates to improvements in leased properties. Depreciation is accounted for under administrative expenses in the Income Statement.

The leasing costs for assets under operating leases, such as rented premises, cars and office equipment are reported among administrative expenses and amounted to 70 (68). Future payments for non-cancelable leasing contracts amounted to 399 (476) and fall due as follows:

	2016	2015
Less than one year	71	69
Between one and five years	233	243
More than five years	95	164
Total	**399**	**476**

A9. Deferred tax assets and liabilities

	2016			2015		
	Assets	Liabi-lities	Net balance	Assets	Liabi-lities	Net balance
Fixed assets	1	–	1	1	–	1
Post-employment benefits	34	–	34	32	–	32
Other provisions	14	–	14	6	–	6
Non-current liabilities	25	–	25	47	–	47
Total	**74**	**–**	**74**	**86**	**–**	**86**

The following reconciles the net balance of deferred taxes at the beginning of the year to that at the end of the year:

	2016	2015
Net balance, Jan. 1	86	–4
Charges to other comprehensive income	–2	–3
Reclassification	–	107
Charges to profit for the year	–10	–14
Net balance, Dec. 31	**74**	**86**

A10. Shares in Group companies

	2016	2015
Accumulated cost		
Opening balance, Jan. 1	111 774	95 046
Investments	39	–
Net investment hedge	72	129
Shareholders' contribution	253	16 819
Divestments	–	–220
Closing balance, Dec. 31	**112 138**	**111 774**
Accumulated write-up		
Opening balance, Jan. 1	600	600
Closing balance, Dec. 31	**600**	**600**
Accumulated write-down		
Opening balance, Jan. 1	–1 739	–1 739
Write-down	–402	–
Closing balance, Dec. 31	**–2 141**	**–1 739**
Total	**110 597**	**110 635**

For further information about Group companies, see note A21.

A11. Other financial assets

	2016	2015
Receivables from Group companies	–	1
Derivatives		
– held for trading	–	1
– designated for hedge accounting	–	102
Endowment insurances	134	126
Financial assets classified as loans and receivables		
– other financial receivables	30	28
Closing balance, Dec. 31	**164**	**258**

Endowment insurances relate to defined contribution pension plans and are pledged to the pension beneficiary (see note A15 and A20).

A12. Other receivables

	2016	2015
Receivables from Group companies	2 814	2 411
Derivatives		
– held for trading	117	252
– designated for hedge accounting	11	71
Financial assets classified as loans and receivables		
– other receivables	968	225
Prepaid expenses and accrued income	67	61
Closing balance, Dec. 31	**3 977**	**3 020**

Other receivables of 968 (225) mainly refers to CSA agreements used to limit the credit risk on derivative transactions.

A13. Cash and cash equivalents

	2016	2015
Cash and cash equivalents classified as loans and receivables		
– cash	1 645	745
– cash equivalents	6 520	3 566
Closing balance, Dec. 31	**8 165**	**4 311**

The Parent Company's guaranteed, but unutilized, credit lines equaled to 6 120 (8 585).

A14. Equity

For information on share transactions and mandates approved by the Annual General Meeting and proposed dividend for 2016, see note 20 in the consolidated financial statements.

Reserves
The Parent Company's equity includes certain reserves which are described as follows:

Legal reserve
The legal reserve is a part of the restricted equity and is not available for distribution.

Reserve for fair value – Translation reserve
The reserve comprises translation of intragroup receivables from or liabilities to foreign operations that in substance are part of the net investment in the foreign operations, as well as cash flow hedges to convert variable interest rates to fixed interest rates.

A15. Post-employment benefits

	2016			2015		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	126	9	135	110	17	127
Provision made	10	–	10	17	–	17
Provision used	–2	–1	–3	–1	–8	–9
Closing balance, Dec. 31	**134**	**8**	**142**	**126**	**9**	**135**

The Parent Company has endowment insurances of 134 (126) relating to defined contribution pension plans. The insurances are recognized as other financial assets, and pledged to the pension beneficiary.

Description of defined benefit pension plans
The Parent Company has three defined benefit pension plans. The ITP plan is a final salary pension plan covering the majority of salaried employees in Atlas Copco AB which benefits are secured through the Atlas Copco pension trust. The second plan relates to a group of employees earning more than 10 income base amounts who have opted out from the ITP plan. This plan is insured. The third plan relates to retired former senior employees. These pension arrangements are provided for.

	2016			2015		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations	137	8	145	134	9	143
Fair value of plan assets	–327	–	–327	–296	–	–296
Present value of net obligations	–190	8	–182	–162	9	–153
Not recognized surplus	190	–	190	162	–	162
Net amount recognized in balance sheet	**–**	**8**	**8**	**–**	**9**	**9**

Reconciliation of defined benefit obligations	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations at Jan. 1	134	9	143	133	17	150
Service cost	7	–	7	6	1	7
Interest expense	4	–	4	4	–	4
Other changes in obligations	–	–	–	–	–8	–8
Benefits paid from plan	–8	–1	–9	–9	–1	–10
Defined benefit obligations at Dec. 31	**137**	**8**	**145**	**134**	**9**	**143**

Reconciliation of plan assets	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Fair value of plan assets at Jan. 1	296	–	296	262	–	262
Return on plan assets	31	–	31	34	–	34
Fair value of plan assets at Dec. 31	**327**	**–**	**327**	**296**	**–**	**296**

A15. Post-employment benefits, continued

	2016	2015
Pension commitments provided for in the balance sheet		
Costs excluding interest	13	6
Total	**13**	**6**
Pension commitments provided for through insurance contracts		
Service cost	19	20
Total	**19**	**20**
Net cost for pensions, excluding taxes	**32**	**26**
Special employer's contribution	10	10
Total	**42**	**36**

Pension expenses excluding taxes for the year, included within administrative expenses amounted to 32 (26) of which the Board members and Group Management 12 (11) and others 20 (15).

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amounts to 327 (296) and is allocated as follows:

	2016	2015
Equity securities	45	35
Bonds	201	188
Real estate	73	70
Cash and cash equivalents	8	3
Total	**327**	**296**

The plan assets of the Atlas Copco pension trust are not included in the financial assets of the Parent Company.

The return on plan assets in the Atlas Copco pension trust amounted to 11.1 % (11.9).

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 3.8 % (3.7). The Parent Company estimates 9 MSEK will be paid to defined benefit pension plans during 2017.

A16. Other provisions

	2016	2015
Opening balance, Jan. 1	132	222
During the year		
– provisions made	252	78
– provisions used	–113	–168
Closing balance, Dec. 31	**271**	**132**

Other provisions include primarily provisions for costs related to employee option programs accounted for in accordance with IFRS 2 and UFR 7.

A17. Borrowings

	Maturity	Repurchased nominal amount	2016 Carrying amount	2016 Fair value	2015 Carrying amount	2015 Fair value
Non-current						
Medium Term Note Program MEUR 500	2019		4 458	4 993	4 458	4 823
Medium Term Note Program MEUR 500	2023		4 534	5 247	4 531	4 937
Medium Term Note Program MEUR 500	2026		4 773	4 627	–	–
Capital market borrowings MUSD 800	2017	MUSD 800	–	–	6 897	7 173
Capital market borrowings MUSD 150	2019	MUSD 7.5	1 295	1 519	1 190	1 475
Bilateral borrowings EIB MEUR 275	2019		2 329	2 666	2 329	2 561
Bilateral borrowings EIB MEUR 300	2022		2 778	2 912	–	–
Bilateral borrowings NIB MEUR 200	2024		1 886	1 989	1 886	1 908
Non-current borrowings from Group companies			31 021	32 167	27 772	28 878
Total non-current borrowings			**53 074**	**56 120**	**49 063**	**51 755**
Current						
Current borrowings from Group companies			26 723	26 747	27 506	27 529
Total current borrowings			**26 723**	**26 747**	**27 506**	**27 529**
Closing balance, Dec. 31			**79 797**	**82 867**	**76 569**	**79 284**
Whereof external borrowings			**22 053**	**23 953**	**21 291**	**22 877**

The difference between carrying value and fair value relates to the measurement method as certain liabilities are reported at amortized cost and not at fair value. Changes in interest rates and credit margins create the difference between fair value and amortized cost.

During 2016 Atlas Copco issued a 10-year MEUR 500 bond at 0.645% interest rate. In January 2015 Atlas Copco AB entered into a loan agreement with Nordic Investment Bank amounting to MEUR 300. The facility was fully drawn in April 2016. The funds from these two transactions have primarily been used to repurchase the MUSD 800 bond, originally maturing 2017.

A17. Borrowings, continued

The following table shows the maturity structure of the Parent Company's external borrowings and includes the effect of interest rate swaps.

Maturity	Fixed	Floating [1)]	Carrying amount	Fair value
2019	8 082	–	8 082	9 178
2022	2 778	–	2 778	2 912
2023	4 534	–	4 534	5 247
2024	–	1 886	1 886	1 989
2026	4 773	–	4 773	4 627
Total	**20 167**	**1 886**	**22 053**	**23 953**

1) Floating interest in the table is borrowings with fixings shorter or equal to six months.

A18. Other liabilities

	2016	2015
Accounts payable	21	26
Liabilities to Group companies	288	246
Derivatives		
– held for trading	648	158
– designated for hedge accounting	82	–
Other financial liabilities		
– other liabilities	10	218
Accrued expenses and prepaid income	350	395
Closing balance, Dec. 31	**1 399**	**1 043**

Accrued expenses include items such as social costs, vacation pay liability, and accrued interest.

A19. Financial exposure and principles for control of financial risks

Parent Company borrowings
Atlas Copco AB had MSEK 22 053 (21 291) of external borrowings and MSEK 57 744 (55 278) of internal borrowings at December 31, 2016. Derivative instruments are used to manage the currency and interest rate risk in line with policies set by the Financial Risk Management Committee, see note 27 in the consolidated financial statements.

Hedge accounting
The Parent Company hedges shares in subsidiaries through loans of MEUR 5 038 (4 739). The deferral hedge accounting of the loans is based on a RFR 2 exemption.

The interest rate risk is partly managed with interest rate swaps, designated as cash flow hedges. Note 27 of the consolidated financial statements include fair value of these swaps and further details.

Financial credit risk
Credit risk on financial transactions is the risk that the Parent Company incurs losses as a result of non-payment by counterparts related to the Parent Company's investments, bank deposits or derivative transactions. For further information regarding investment and derivative transactions, see note 27 of the consolidated financial statements.

The table below shows the actual exposure of financial instruments as per December 31.

Financial credit risk	2016	2015
Cash and cash equivalents	8 165	4 311
Receivables from Group companies	2 814	2 412
Derivatives	128	426
Other	1 065	315
Total	**12 172**	**7 464**

Fair value hierarchy
Fair values are based on observable market prices or, in the case that such prices are not available, on observable inputs or other valuation techniques. Amounts shown in other notes are unrealized and will not necessarily be realized.

For more information about fair value hierarchy, see note 27 of the consolidated financial statements. There are no level 3 instruments in the Parent Company.

Valuation methods
Derivatives
Fair values of forward exchange contracts are calculated based on prevailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows.

Interest-bearing liabilities
Fair values are calculated based on market rates and present value of future cash flows.

The Parent Company's financial instruments by category
The carrying value for the Parent Company's financial instruments corresponds to fair value in all categories except for borrowings.

See A17 for additional information.

A20. Assets pledged and contingent liabilities

	2016	2015
Assets pledged for derivative contracts		
Other receivables	854	152
Assets pledged for pension commitments		
Endowment insurances	134	126
Total	**988**	**279**
Contingent liabilities		
Sureties and other contingent liabilities		
– for external parties	3	3
– for Group companies	8 158	7 843
Total	**8 161**	**7 846**

Sureties and other contingent liabilities include bank and commercial guarantees, CSA-agreements, (Credit Support Annex) and performance bonds. Sureties and other contingent liabilities for Group companies has increased during the year mostly due to currency effects when the Swedish krona has weakend in relation to Euro.

A21. Directly owned subsidiaries

	2016			2015		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
Directly owned product companies						
Atlas Copco Airpower n.v., Wilrijk	76 415	100	46 068	76 415	100	46 028
Atlas Copco Construction Technique Brasil Ltda, São Paulo	25 777 505	100	258	25 777 505	100	619
Atlas Copco Craelius AB, 556041-2149, Nacka	200 000	100	46	200 000	100	56
Atlas Copco GIA AB, 556040-0870, Grängesberg	50 000	100	130	50 000	100	153
Atlas Copco Meyco AG, Zürich	9 000	100	64	9 000	100	64
Atlas Copco Rock Drills AB, 556077-9018, Örebro	1 000 000	100	517	1 000 000	100	467
Atlas Copco Secoroc AB, 556001-9019, Fagersta	2 325 000	100	185	2 325 000	100	179
Atlas Copco Welltech AB, 556577-2240, Jonsered	20 000	100	78	20 000	100	78
Construction Tools PC AB, 556069-7228, Kalmar	60 000	100	2 053	60 000	100	2 050
Dynapac Compaction Equipment AB, 556068-6577, Karlskrona	80 000	100	889	80 000	100	887
Gazcon A/S, Lynge	500	100	23	500	100	23

A21. Directly owned subsidiaries, continued

	2016			2015		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
Directly owned customer centers						
AGRE Kompressoren GmbH, Garsten-St. Ulrich	200 000	100	7	200 000	100	7
Atlas Copco (Cyprus) Ltd., Nicosia	99 998	100	–	99 998	100	–
Atlas Copco (India) Ltd., Pune	21 731 582	96	1 827	21 731 582	96	1 818
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	28	250 000	100	28
Atlas Copco (Malaysia), Sdn. Bhd., Shah Alam	1 000 000	100	15	1 000 000	100	14
Atlas Copco (Philippines) Inc., Binan	121 995	100	6	121 995	100	6
Atlas Copco (Schweiz) AG., Studen	8 000	100	52	8 000	100	52
Atlas Copco (South East Asia) Pte.Ltd., Singapore	1 500 000	100	5	1 500 000	100	6
Atlas Copco Argentina S.A.C.I., Buenos Aires	5 120 025	93/100[1]	62	5 120 025	93/100[1]	62
Atlas Copco Brasil Ltda., Barueri	70 358 841	100	240	70 358 841	100	239
Atlas Copco Chilena S.A.C., Santiago	24 998	100	14	24 998	100	11
Atlas Copco CMT Sweden AB, 556100-1453, Nacka	103 000	100	100	103 000	100	99
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	13	60 000	100	12
Atlas Copco Eastern Africa Limited., Nairobi	482 999	100	31	482 999	100	31
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/100[1]	2	5	0/100[1]	2
Atlas Copco Ges.m.b.H., Vienna	1	100	43	1	100	43
Atlas Copco Indoeuropeiska AB, 556155-2760, Nacka	3 500	100	25	3 500	100	25
Atlas Copco KK, Tokyo	375 001	100	32	375 001	100	31
Atlas Copco Kompressorteknik A/S, Copenhagen	4 000	100	4	4 000	100	4
Atlas Copco Maroc SA., Casablanca	3 888	97	3	3 888	97	3
Atlas Copco Services Middle East OMC, Manama	500	100	9	500	100	6
Atlas Copco Venezuela SA, Caracas	25 812 000	100	42	25 812 000	100	42
Kohler Druckluft AG, Oberriet	1 000	100	8	–	–	–
Servatechnik AG, Oftringen	3 500	100	28	3 500	100	28
Soc. Atlas Copco de Portugal Lda., Lisbon	1	100	27	1	100	26
Directly owned holding companies and others						
AtCoBtech AB, 559053-5455, Nacka	500	100	31	–	–	–
Atlas Copco A/S, Langhus	2 500	100	42	2 500	100	40
Atlas Copco Beheer B.V., Zwijndrecht	15 712	100	2 501	15 712	100	2 459
Atlas Copco Customer Finance Chile Ltda, Santiago	6 317 500	0/100[1]	–	6 317 500	0/100[1]	–
Atlas Copco Deutschland GmbH, Essen	1	100	6	1	100	3
Atlas Copco Finance Belgium BVBA, Wilrijk	1	0/100[1]	–	1	0/100[1]	–
Atlas Copco Finance Europe n.v., Wilrijk	1	0/100[1]	1	1	0/100[1]	1
Atlas Copco France Holding S.A., Cergy Pontoise	278 255	100	264	278 255	100	259
Atlas Copco Holding GmbH, Essen	2	100	1 063	2	100	1 056
Atlas Copco Järla Holding AB, 556062-0212, Nacka	95 000	100	20 570	95 000	100	20 570
Atlas Copco Lugnet Treasury AB, 556277-9537, Nacka	700 500	100	724	700 500	100	724
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	27 311	1 000	100	27 285
Atlas Copco UK Holdings Ltd., Hemel Hempstead	150 623 666	100	1 471	150 623 666	100	1 470
Atlas Copco USA Holdings Inc., Parsippany	100	100	3 464	100	100	3 429
Dynapac AB, 556655-0421, Malmö	75 000	100	–	75 000	100	–
Econus S A, Montevideo	21 582 605	100	17	21 582 605	100	17
Industria Försäkrings AB, 516401-7930, Nacka	300 000	100	30	300 000	100	30
Oy Atlas Copco AB, Vantaa	150	100	33	150	100	30
Power Tools Distribution n.v., Hoeselt	1	0/100[1]	1	1	0/100[1]	2
2 (2) dormant companies		100	12		100	12
Net investment hedge			122			50
Carrying amount, Dec. 31			**110 597**			**110 635**

[1] First figure; percentage held by Parent Company, second figure; percentage held by Atlas Copco Group.

A22. Related parties

Relationships

The Parent Company has related party relationships with its largest shareholder, its subsidiaries, its associates, its joint ventures and with its Board members and Group Management.

The Parent Company's largest shareholder, Investor AB, controls approximately 22 % of the voting rights in Atlas Copco AB.

The subsidiaries that are directly owned by the Parent Company are presented in note A21 and all directly and indirectly owned operating subsidiaries are listed on the following pages.

Information about Board members and Group Management is presented on pages 60–63.

Transactions and outstanding balances

The Group has not had any transactions with Investor AB during the year other than dividends declared and has no outstanding balances with Investor AB.

Investor AB has controlling or significant influence in companies which Atlas Copco AB may have transactions with in the normal course of business. Any such transactions are made on commercial terms.

The following table summarizes the Parent Company's transactions with Group companies:

	2016	2015
Revenues		
Dividends	6 727	9 276
Group contribution	5 244	4 693
Interest income	306	208
Expenses		
Group contribution	–213	–170
Interest expenses	–485	–642
Receivables	**2 814**	**2 412**
Liabilities	**58 032**	**55 524**
Guarantees	**8 158**	**7 843**

The following details directly and indirectly owned holding and operational subsidiaries (excluding branches), presented by country of incorporation.

Country	Company	Location (City)
Algeria	SPA Atlas Copco Algérie	*Algiers*
Angola	Atlas Copco Angola Lda	*Luanda*
Argentina	Atlas Copco Argentina S.A.C.I	*Buenos Aires*
	Atlas Copco Servicios Mineros S.A.	*Buenos Aires*
Australia	Atlas Copco Australia Pty Limited	*Blacktown*
	Atlas Copco Customer Finance Australia Pty Limited	*Blacktown*
	Atlas Copco South Pacific Holdings Pty Ltd.	*Blacktown*
	Henrob (UK) Pty Ltd	*Brisbane*
Austria	AGRE Kompressoren GmbH	*Garsten-st. Ulrich*
	Atlas Copco Ges.m.b.H.	*Vienna*
	Atlas Copco Powercrusher GmbH	*St. Valentin*
Bahrain	Atlas Copco Services Middle East OMC	*Manama*
Bangladesh	Atlas Copco Bangladesh Ltd.	*Dhaka*
Belgium	Atlas Copco Airpower n.v.	*Wilrijk*
	Atlas Copco Belgium n.v.	*Overijse*
	Atlas Copco Business Services n.v.	*Wilrijk*
	Atlas Copco Finance Belgium BVBA	*Wilrijk*
	Atlas Copco Finance Europe n.v.	*Wilrijk*
	Atlas Copco Rental Europe n.v.	*Wilrijk*
	EDMAC Europe n.v.	*Wilrijk*
	International Compressor Distribution n.v.	*Wilrijk*
	Maes Compressoren NV	*Ghent*
	Power Tools Distribution n.v.	*Hoeselt*
	SA Edwards Vacuum NV	*Estaimpuis*
Bolivia	Atlas Copco Boliviana SA	*La Paz*
Bosnia and Herzegovina	Atlas Copco BH d.o.o.	*Sarajevo*
Botswana	Atlas Copco (Botswana) (Pty) Ltd.	*Gaborone*
Brazil	Atlas Copco Brasil Ltda	*Barueri*
	Atlas Copco Construction Technique Brasil Ltda	*São Paulo*
	Cavaletti Equipamentos e Servicos Ltda	*Valinhos*
	Chicago Pneumatic Brasil Ltda	*Barueri*
	Edwards Vacuo Ltda	*São Paulo*
	Evo Air Locacao e Venda de Compr Ltda	*São Paulo*
	Leybold do Brasil Ltda.	*Jundiaí*
	Schucker do Brazil Ltda	*São José dos Pinais*
	Synatec Brasil Sist. Qual. Rast. Ind. Ltda	*São Paulo*
Bulgaria	Atlas Copco Bulgaria EOOD	*Sofia*
	Construction Tools EOOD	*Roseau*
Burkina Faso	Atlas Copco Burkina Faso SARL	*Ouagadougou*
Cameroon	Atlas Copco Afrique Centrale SA	*Douala*
Canada	Atlas Copco Canada Inc.	*Dorval*
	Chicago Pneumatic Tool Co. Canada Ltd.	*Toronto*
Chile	Atlas Copco Chilena S.A.C.	*Santiago*
	Atlas Copco Customer Finance Chile Ltda	*Santiago*

Country	Company	Location (City)
China	Atlas Copco (Wuxi) Compressor Co., Ltd.	*Wuxi*
	Atlas Copco (Nanjing) Construction and Mining Equipment Ltd.	*Nanjing*
	Atlas Copco (Shenyang) Construction and Mining Equipment Ltd.	*Shenyang*
	Atlas Copco (Zhangjiakou) Construction & Mining Equipment Ltd.	*Zhangjiakou*
	Atlas Copco (Wuxi) Energy Conservation Engineering Co., Ltd.	*Wuxi*
	Atlas Copco (Shanghai) Equipment Rental Co., Ltd.	*Shanghai*
	Atlas Copco Financial Leasing Co,.Ltd	*Shanghai*
	Atlas Copco Industrial Technique (Shanghai) Co., Ltd.	*Shanghai*
	Atlas Copco (China) Investment Co., Ltd.	*Shanghai*
	Atlas Copco (China) Mining and Construction Equipment Trading Co Ltd	*Nanjing*
	Atlas Copco (Shanghai) Process Equipment Co., Ltd.	*Shanghai*
	Atlas Copco (Shanghai) Trading Co., Ltd.	*Shanghai*
	Bolaite (Shanghai) Compressor Co., Ltd.	*Shanghai*
	Bolaite (Shanghai) Compressor Trading Co. Ltd	*Shanghai*
	CSK China Co. Ltd	*Wuxi*
	CSK Xian China Co. Ltd	*Xian*
	Dynapac (China) Compaction & Paving Eq Co., Ltd.	*Tianjin*
	Edmac (Shanghai) Trading Co., Ltd.	*Shanghai*
	Edwards Technologies Trading (Shanghai) Company Ltd	*Shanghai*
	Edwards Technologies Vacuum Engineering (Qingdao) Company Ltd	*Qingdao*
	Edwards Technologies Vacuum Engineering (Shanghai) Company Ltd	*Shanghai*
	Edwards Technologies Vacuum Engineering (Xian) Company Ltd	*Xian*
	FIAC Air Compressors (Jiangmen) Limited	*Jiangmen*
	Golden Fluid Pumps (Tianjin) Co. Ltd	*Tianjin*
	Guangzhou Linghein Compressor Co., Ltd	*Guangzhou*
	Kunshan Q-Tech Air System Technologies Ltd.	*Kunshan*
	Leybold (Tianjin) Co.Ltd.	*Tianjin*
	Leybold (Tianjin) International Trade Co.Ltd.	*Tianjin*
	Liuzhou Tech Machinery Co., Ltd.	*Liuzhou*
	Pan-Asia Gas Technology (Wuxi) Co., Ltd.	*Wuxi*
	Shanghai Beacon Medaes Medical Gas Engineering Consulting Co., Ltd.	*Shanghai*
	Shanghai Tooltec Industrial Tool Co., Ltd.	*Shanghai*
	Shandong Rock Drilling Tools Co Ltd	*Yanggu*
	Wuxi Pneumatech Air/Gas Purity Equipment Co., Ltd.	*Wuxi*
	Wuxi Shengda Air/Gas Purity Equipment Co., Ltd	*Wuxi*

A22. **Related parties,** continued

Country	Company	Location (City)
Colombia	Atlas Copco Colombia Ltda	*Bogotá*
Croatia	Atlas Copco d.o.o.	*Zagreb*
Cyprus	Atlas Copco (Cyprus) Ltd.	*Nicosia*
Czech Republic	ALUP CZ spol. S.r.o	*Breclav*
	Atlas Copco s.r.o.	*Prague*
	Edwards s.r.o.	*Lutin*
	Edwards Services s.r.o.	*Lutin*
	Industrial Technique Service s.r.o.	*Prague*
	Schneider Bohemia spol s.r.o.	*Line*
Democratic Republic of the Congo	Atlas Copco DRC sprl	*Lubumbashi*
Denmark	Atlas Copco Kompressorteknik A/S	*Copenhagen*
	Gazcon A/S	*Lynge*
Egypt	Atlas Copco Equipment Egypt S.A.E.	*Cairo*
Finland	Oy Atlas Copco Ab	*Vantaa*
	Oy Atlas Copco Kompressorit Ab	*Vantaa*
	Oy Atlas Copco Louhintatekniikka Ab	*Vantaa*
	Oy Atlas Copco Rotex Ab	*Tampere*
	Oy Atlas Copco Tools Ab	*Vantaa*
France	ABAC France S.A.S.	*Valence*
	Atlas Copco Applications Industrielles S.A.S.	*Cergy Pontoise*
	Atlas Copco Compresseurs S.A.S	*Cergy Pontoise*
	Atlas Copco Crépelle S.A.S.	*Lille*
	Atlas Copco Forage et Construction S.A.S.	*Cergy Pontoise*
	Atlas Copco France Holding S.A.	*Cergy Pontoise*
	Compresseurs Mauguière S.A.S.	*Cergy Pontoise*
	Compresseurs Worthington Creyssensac S.A.S.	*Chambly*
	Edwards SAS	*Gennevilliers*
	ETS Georges Renault S.A.S.	*Nantes*
	Exlair S.A.S.	*Cergy Pontoise*
	Hibon International SA	*Gennevilliers*
	Hibon SA	*Gennevilliers*
	Leybold France SAS Z. I. De Marcerolles	*Bourg-Les-Valence*
	Seti-Tec S.A.S.	*Lognes*
Germany	ALUP Kompressoren GmbH	*Köngen*
	Atlas Copco ACE GmbH	*Essen*
	Atlas Copco Beteiligungs GmbH	*Essen*
	Atlas Copco Berg-und Tunnelbautechnik GmbH	*Essen*
	Atlas Copco Deutschland GmbH	*Essen*
	Atlas Copco Energas GmbH	*Cologne*
	Atlas Copco Holding GmbH	*Essen*
	Atlas Copco Kompressoren und Drucklufttechnik GmbH	*Essen*
	Atlas Copco Road Construction GmbH	*Wardenburg*
	Atlas Copco MCT GmbH	*Essen*
	Atlas Copco Tools Central Europe GmbH	*Essen*
	Construction Tools GmbH	*Essen*
	Desoutter GmbH	*Maintal*
	Dynapac GmbH	*Wardenburg*
	Edwards GmbH	*Kirchheim*
	Ekomak Kompressoren GmbH	*Moers*
	Gefahard Industrie Electronic GmbH	*Michelstadt*
	Henrob GmbH	*Herford*
	Leybold GmbH	*Cologne*
	Leybold Dresden GmbH	*Dresden*
	Leybold Real Estate GmbH	*Cologne*
	Saltus Industrial Technique GmbH	*Wuppertal*
	SCA Schucker GmbH & Co KG	*Bretten*
	SCA Schucker Verwaltungs-GmbH	*Bretten*
	Schneider Druckluft GmbH	*Reutlingen*
	Synatec GmbH	*Leinfelden-Echterdingen*
Ghana	Atlas Copco Ghana Ltd.	*Accra*
Greece	Atlas Copco Hellas AE	*Koropi*

Country	Company	Location (City)
Hong Kong	Atlas Copco China/Hong Kong Ltd	*Kowloon*
	Edwards Vacuum Hong Kong Ltd	*Hongkong*
	FIAC Air Compressors (Hong Kong) Limited	*Hongkong*
Hungary	Atlas Copco Kft.	*Budapest*
	Atlas Copco Hungary Kft	*Budapest*
India	Atlas Copco (India) Ltd.	*Pune*
	Edwards India Private Ltd	*Pune*
	Leybold India Pvt Ltd.	*Pune*
Indonesia	PT Atlas Copco Indonesia	*Jakarta*
	PT Atlas Copco Nusantara	*Jakarta*
Iraq	Atlas Copco Iraq LLC	*Erbil*
	Atlas East LLC for General Trading and Industrial equipment	*Baghdad*
Ireland	Atlas Copco (Ireland) Ltd.	*Dublin*
	Edwards Vacuum Technology Ireland Ltd	*Dublin*
Israel	Edwards Israel Vacuum Ltd	*Kiryat Gat*
Italy	ABAC Aria Compressa S.p.A	*Robassomero*
	Atlas Copco BLM S.r.l.	*Milan*
	Atlas Copco Italia S.p.A.	*Milan*
	Atlas Copco Stonetec S.r.L	*Bagnolo Piemonte*
	Ceccato Aria Compressa S.r.l	*Vicenza*
	Edwards S.p.A.	*Milan*
	FIAC S.p.a.	*Bologna*
	Leybold Italia Srl	*Milan*
	MultiAir Italia S.r.l	*Cinisello Balsamo*
	Varisco SPA	*Padova*
	Varisco Wellpoint srl	*Padova*
Japan	Atlas Copco KK	*Tokyo*
	Edwards Japan Ltd	*Chiba*
	Fuji Industrial Technique Co., Ltd.	*Osaka*
	Leybold Japan Co. Ltd. Shin-Yokohama AK bldg	*Kohoku-Ku, Yokohama-Shi*
Kazakhstan	Atlas Copco Central Asia LLP	*Almaty*
Kenya	Atlas Copco Eastern Africa Limited	*Nairobi*
Latvia	Atlas Copco Baltic SIA	*Riga*
Lebanon	Atlas Copco Levant S.A.L.	*Beirut*
Luxembourg	Atlas Copco Finance S.á.r.l.	*Luxembourg*
Malaysia	Atlas Copco (Malaysia) Sdn. Bhd.	*Shah Alam*
	Edwards Technologies Malaysia Sdn. Bhd.	*Kuala Lumpur*
Mali	Atlas Copco Mali Sarl	*Bamako*
Mexico	Atlas Copco Mexicana S.A. de C.V.	*Tlalnepantla*
	Desarrollos Técnologicos ACMSA S.A. de C.V.	*Tlalnepantla*
	Desoutter Tools Mexico SA de CV	*Tlalnepantla*
	SCA Schucker de Mexico S.A. de C.V.	*Puebla*
Mongolia	Atlas Copco Mongolia LLC	*Ulaanbaatar*
Morocco	Atlas Copco Maroc SA	*Casablanca*
Mozambique	Atlas Copco Mozambique	*Maputo*
Myanmar	Atlas Copco Services Myanmar Co., Ltd.	*Yangon*
Namibia	Atlas Copco Namibia (Pty) Ltd.	*Windhoek*
Netherlands	Atlas Copco Beheer B.V.	*Zwijndrecht*
	Atlas Copco Internationaal B.V.	*Zwijndrecht*
	Atlas Copco Nederland B.V.	*Zwijndrecht*
	Creemers Compressors B.V.	*Eindhoven*
	Leybold Nederland B.V.	*Utrecht*
New Zealand	Atlas Copco (N.Z.) Ltd.	*Auckland*
	Exlair (NZ) Limited	*Auckland*
Nigeria	Atlas Copco Nigeria Ltd.	*Lagos*
Norway	Atlas Copco Anlegg- og Gruveteknikk A/S	*Langhus*
	Atlas Copco A/S	*Langhus*
	Atlas Copco Kompressorteknikk A/S	*Langhus*
	Atlas Copco Tools A/S	*Langhus*
	Berema A/S	*Langhus*
Pakistan	Atlas Copco Pakistan (Pvt) Ltd.	*Lahore*

A22. Related parties, continued

Country	Company	Location (City)
Panama	Atlas Copco Central América SA	*Panama*
	Atlas Copco Panama SA	*Panama*
Peru	Atlas Copco Peruana SA	*Lima*
Philippines	Atlas Copco (Philippines) Inc.	*Binan*
Poland	Airgroup Kompresory sp. z o.o.	*Warsaw*
	ALUP Kompressoren Polska sp. z.o.o.	*Warsaw*
	Atlas Copco Polska Sp. z o.o.	*Warsaw*
Portugal	Sociedade Atlas Copco de Portugal Lda	*Lisbon*
Romania	Atlas Copco Romania S.R.L.	*Bucharest*
Russia	Airgrupp LLC	*Moscow*
	JSC Atlas Copco	*Moscow*
	Ekomak Industrial	*Moscow*
Senegal	Atlas Copco Senegal SARL	*Dakar*
Serbia	Atlas Copco A.D.	*Belgrade*
Singapore	Atlas Copco (South East Asia) Pte. Ltd.	*Singapore*
	Edwards Technologies Singapore PTE Ltd	*Singapore*
	Leybold Singapore Pte Ltd	*Singapore*
Slovakia	Atlas Copco s.r.o	*Bratislava*
	Schneider – Slovensko tlaková vzduchotechnika spol. s r.o.	*Nitra*
Slovenia	Atlas Copco d.o.o.	*Trzin*
South Africa	Atlas Copco Holdings South Africa (Pty) Ltd.	*Boksburg*
	Atlas Copco Investment Company (Pty) Ltd.	*Boksburg*
	Atlas Copco South Africa (Pty) Ltd.	*Boksburg*
South Korea	Atlas Copco Korea Co., Ltd.	*Seongnam*
	CP Tools Korea Co., Ltd.	*Anyang*
	CSK Inc.	*Yongin*
	Edwards Korea Ltd	*Seongnam*
	Leybold Korea Ltd	*Bundang*
Spain	Aire Comprimido Industrial Iberia, S.L.	*Madrid*
	Atlas Copco S.A.E.	*Madrid*
	Grupos Electrógenos Europa, S.A	*Zaragoza*
	Leybold Spain S.A.	*Cornellá de Llobregat*
Sweden	AtCoBtech AB	*Nacka*
	Atlas Copco CMT Sweden AB	*Nacka*
	Atlas Copco Compressor AB	*Nacka*
	Atlas Copco Craelius AB	*Nacka*
	Atlas Copco Customer Finance AB	*Nacka*
	Atlas Copco GIA AB	*Grängesberg*
	Atlas Copco Industrial Technique AB	*Nacka*
	Atlas Copco Järla Holding AB	*Nacka*
	Atlas Copco Lugnet Treasury AB	*Nacka*
	Atlas Copco Rock Drills AB	*Örebro*
	Atlas Copco Secoroc AB	*Fagersta*
	Atlas Copco Sickla Holding AB	*Nacka*
	Atlas Copco Welltech AB	*Jonsered*
	Construction Tools PC AB	*Kalmar*
	Dynapac AB	*Malmö*
	Dynapac Compaction Equipment AB	*Karlskrona*
	Dynapac International AB	*Malmö*
	Industria Insurance Company Ltd Industria Försäkringsaktiebolag	*Nacka*
	SFR STG 1626 KB	*Karlskrona*
Switzerland	Kohler Druckluft AG	*Studen*
	Atlas Copco (Schweiz) AG	*Studen*
	Atlas Copco Meyco AG	*Zurich*
	Leybold Schweiz AG Pfaeffikon	*Pfaeffikon*
	Servatechnik AG	*Oftringen*
Taiwan	Atlas Copco Taiwan Ltd.	*Taipei*
	CSKT Inc.	*Jubei*
	Edwards Technologies Ltd	*Jhunan*
	Leybold Taiwan Ltd	*Hsin-Chu*
Tanzania	Atlas Copco Tanzania Limited	*Geita*
Thailand	Atlas Copco (Thailand) Limited	*Bangkok*

Country	Company	Location (City)
Turkey	Atlas Copco Makinalari Imalat AS	*Istanbul*
	Chicago Pneumatic Endüstriyel Ürünler Ticaret A.Ş	*Istanbul*
	Dost Kompresör End Mak Imal akım ve Tic A.Ş	*Istanbul*
	Ekomak Endüstriyel	*Istanbul*
	Ekoser Endüstriyel	*Istanbul*
Ukraine	LLC Atlas Copco Ukraine	*Kiev*
United Arab Emirates	Atlas Copco Middle East FZE	*Jebel Ali free zone, Dubai*
	Atlas Copco Services Middle East SPC	*Abu Dhabi*
United Kingdom	Air Compressors and Tools Limited	*Hemel Hempstead*
	Atlas Copco Ltd.	*Hemel Hempstead*
	Atlas Copco (NI) Ltd.	*Lisburn*
	Atlas Copco Medical Ltd	*Staveley*
	Atlas Copco UK Holdings Ltd.	*Hemel Hempstead*
	Edwards High Vacuum International Ltd	*Crawley*
	Edwards Ltd	*Crawley*
	Henrob Ltd	*Flintshire*
	Leybold UK Ltd	*Chessington*
	SCA Schucker UK Ltd.	*Didcot*
	Tentec Ltd.	*Birmingham*
Uruguay	Econus S A	*Montevideo*
USA	Atlas Copco Assembly Systems LLC	*Auburn Hills*
	Atlas Copco Compressors LLC	*Rock Hill*
	Atlas Copco Comptec LLC	*Voorheesville*
	Atlas Copco Customer Finance USA LLC	*Parsippany*
	Atlas Copco Drilling Solutions LLC	*Garland*
	Atlas Copco Hurricane LLC	*Franklin*
	Atlas Copco Mafi-Trench Company LLC	*Santa Maria*
	Atlas Copco North America LLC	*Parsippany*
	Atlas Copco Rental LLC	*Laporte*
	Atlas Copco Secoroc LLC	*Grand Prairie*
	Atlas Copco Specialty Rental LLC	*Houston*
	Atlas Copco Tools & Assembly Systems LLC	*Auburn Hills*
	Atlas Copco USA Holdings Inc.	*Parsippany*
	BeaconMedaes LLC	*Rock Hill*
	Chicago Pneumatic International Inc.	*Rock Hill*
	Chicago Pneumatic Tool Company LLC	*Rock Hill*
	CSK TS Inc	*Austin*
	Edwards Vacuum, LLC	*Sanborn*
	Goldenrod Inc.	*Rock Hill*
	Henrob Corporation	*New Hudson*
	Houston Service Industries, Inc	*Houston*
	Innovative Vacuum Solutions, Inc	*Thonotosassa*
	Leybold USA Inc	*Export*
	MedaesUSCo Inc.	*Rock Hill*
	Mining, Rock Excavation and Construction LLC	*Commerce City*
	Quincy Compressor LLC	*Bay Minette*
	SCA Schucker LLC	*Auburn Hills*
	Scales Industrial Technologies, Inc.	*New York*
	Varisco USA Inc	*North Carolina*
Uzbekistan	Atlas Copco Compressors and Mining Technique LLC	*Tashkent*
Venezuela	Atlas Copco Venezuela SA	*Caracas*
Vietnam	Atlas Copco Vietnam Company Ltd.	*Ho Chi Minh City*
Zambia	Atlas Copco (Zambia) Ltd.	*Chingola*
Zimbabwe	Atlas Copco Zimbabwe (Private) Ltd.	*Harare*

Signatures of the Board of Directors

The Parent Company financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statements have been prepared in accordance with International Accounting Standards as prescribed by the European Parliament and the Regulation (EC) No 1606/2002 dated July 19, 2002 on the application of International Accounting Standards. The Parent Company financial statements and the consolidated financial statements give a true and fair view of the Parent Company's and the Group's financial position and results of operations.

The administration report for the Group and Parent Company provides a true and fair overview of the development of the Group's and Parent Company's business activities, financial position and results of operations as well as the significant risks and uncertainties which the Parent Company and its subsidiaries are exposed to.

Nacka, March 3, 2017

Hans Stråberg
Chair

Ronnie Leten
President and CEO

Sabine Neuß
Board member

Anders Ullberg
Board member

Staffan Bohman
Board member

Margareth Øvrum
Board member

Johan Forssell
Board member

Gunilla Berg
Board member

Peter Wallenberg Jr
Board member

Bengt Lindgren
Union representative

Mikael Bergstedt
Union representative

Our audit report was submitted on March 3, 2017
Deloitte AB

Jan Berntsson
Authorized Public Accountant

Atlas Copco AB is required to publish information included in this annual report in accordance with the Swedish Securities Market Act. The information was made public on March 10, 2017.

Audit report

To the annual meeting of the shareholders of Atlas Copco AB
Corporate identity number 556014-2720

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Atlas Copco AB for the financial year 2016-01-01–2016-12-31 except for the corporate governance statement on pages 56–65. The annual accounts and consolidated accounts of the company are included on pages 14–48 and 56–124 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 56–65. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

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

Recognition of revenue in the appropriate period

The group generates revenues from product and product related offerings ranging from equipment, service and rental to customers in multiple geographies. The time of delivery of the different offerings ranges from a specific point in time to over several years, and the sales agreements may include complex terms such as buy-back commitments, return rights, and a single transaction may contain separate revenue components such as product delivery, installation and servicing of equipment sold. All these complexities managed by several hundred subsidiaries require policies and procedures as well as management judgment to determine the appropriate method and period to properly recognize revenues.

In note 1 the group's revenue recognition policy together with critical accounting estimates and judgments is described, and note 4 provides disclosures of revenues separated on different product offerings and geographies.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy for revenue recognition and its compliance with IFRS,
- analytical review of revenues disaggregated on different product offerings and geographies, and
- on a sample basis testing of sales transaction for revenue recognition in the appropriate period.

Valuation of trade receivables

The group has significant amounts of trade receivables from its sales to customers in around 180 countries. There is a risk that not all of the receivables will be paid. The risk may be higher in some geographies due to weaker economic conditions or geopolitical uncertainties. Procedures for collecting payments and assessing customers' ability to pay together with appropriate accounting policies to recognize provisions for doubtful receivables are important factors to ensure a fair valuation of trade receivables.

In note 1 the group's policy for recognizing impairment of trade receivables is described, and note 17 describes the provisions for bad debts and note 27 disclose the ageing of trade receivables.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy for recognizing bad debt for compliance with IFRS,
- evaluating processes and controls for credit assessments and approval of credit limits,
- on a sample basis confirming trade receivables against customer statements alternatively against cash receipts, and
- evaluating management's estimates of the provision for doubtful receivables.

Valuation of inventory

The group carries significant inventories of goods and spare parts produced and held by several production companies and customer centres in many countries. Valuation of inventory requires clear policies and is subject to management's estimates for determining its cost, judgment about its saleability and its net realizable value as well as procedures for safeguarding and keeping track of the inventory.

In note 1 the group's inventory accounting policy and critical accounting estimates and judgments is described, and note 16 provides disclosures of the group's inventory obsolescence provisions.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy and the individual entities' accounting for inventory in compliance with IFRS,
- observations of physical inventory counts,
- on a sample basis testing of the valuation of inventory,
- evaluating management's estimates of the obsolescence reserve, and
- review of eliminations for intragroup profits in inventory.

Accounting for income taxes

Accounting for income taxes are subject to complex tax legislation requiring management's interpretation and judgment. The interpretations made by management may be challenged by different tax authorities, other authorities and courts. The group's geographical footprint also requires adherence to tax legislation and transfer pricing requirements in many different countries. The European Commission's decision on January 11, 2016, that Belgian tax rulings granted to multinationals with regard to "Excess Profit" shall be considered as illegal state aid and that unpaid taxes shall be reclaimed by the Belgian state, requires management's judgment of the final outcome as the decision has been appealed by Atlas Copco.

In note 1 the group's accounting policy for income taxes together with critical accounting estimates and judgments is described, and note 9 provides disclosures of income taxes as well as the accounting treatment regarding the European Commission's decision on the Belgian "Excess Profit" tax rulings.

Our audit procedures

Our audit procedures included, but were not limited to:

- review of tax calculations to assess if the income tax expense and tax assets and liabilities have been appropriately accounted for,
- assessing management's processes for monitoring compliance with income tax legislation and transfer pricing requirements in the different geographies, and
- evaluating the accounting associated with the European Commission's decision regarding Belgian "Excess Profit" tax rulings.

Financial instruments and foreign currency exposures

To manage its financial risk exposure the group uses different financial instruments, including derivatives. Accounting for derivatives is complex and movements in fair values, measurement of effectiveness and application

Audit report, continued

of hedging strategies could have a significant impact on the reported results and financial position of the group. In addition to derivative instruments the group uses external loans to hedge the currency exposure associated with its net investments in foreign operations.

In note 1 the group's accounting policy for financial instruments is described and note 27 provides disclosures regarding financial instruments and foreign currency exposures as well as the group's financial risk management procedures.

Our audit procedures

Our audit procedures included, but were not limited to:

- review of hedging strategies and policies,
- review of hedging activities to ensure that these are properly authorized,
- evaluation of hedge effectiveness, and
- review of the relevance of market data and methodologies used to determine fair value of derivative contracts.

Accounting for business combinations and valuation of associated goodwill and intangible assets

In 2016 the group completed 13 acquisitions for a total consideration of 5,365 MSEK. Accounting for business combinations requires significant judgments and estimates by management to determine the fair value of acquired assets and assumed liabilities. Subsequent to the acquisitions any goodwill or intangible assets with indefinite useful life, as assessed by management such as trademarks, originating from the acquisitions need to be assessed by management annually for impairment. These impairment assessments require management's estimates and judgments in determining the group's cash generating units as well as future revenues, operating profits, working capital, and capital expenditures for these units.

In note 1 the group's policy for accounting for acquisitions and impairment testing of non-financial assets is described, and note 2 provides disclosures of acquisitions made, and note 12 for key assumptions used by management when preparing the annual impairment tests on goodwill and other intangible assets with indefinite useful lives.

Our audit procedures

Our audit procedures included, but were not limited to:

- review of purchase price allocations for significant acquisitions utilizing valuation specialists to review fair values assigned to acquired assets and assumed liabilities, and
- analyzing key assumptions made in the impairment tests for goodwill and other intangible assets with indefinite useful lives, and evaluating the sensitivity of the key assumptions.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 2–13, 49–55 and 128–137. The Board of Directors and the Managing Director are responsible for this other information.

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

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

Audit report, *continued*

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Atlas Copco AB for the financial year 2016-01-01–2016-12-31 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 56–65 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Nacka, March 3, 2017
Deloitte AB

Jan Berntsson
Authorized Public Accountant

Financial definitions*

Reference is made in the Annual Report to a number of financial performance measures which are not defined according to IFRS. These performance measures provide complementary information and are used to help investors as well as group management analyze the company's operations and facilitate an evaluation of the performance. Since not all companies calculate financial performance measures in the same manner, these are not always comparable with measures used by other companies. These financial performance measures should therefore not be regarded as a replacement for measures as defined according to IFRS.

Adjusted operating profit
Operating profit (earnings before interest and tax), excluding items affecting comparability.

Adjusted operating profit margin
Operating profit margin excl. items affecting comparability.

Average number of shares outstanding
The weighted average number of shares outstanding before or after dilution. Shares held by Atlas Copco are not included in the number of shares outstanding. The dilutive effects arise from the stock options that are settled in shares or that at the employees' choice can be settled in shares or cash in the share based incentive programs. The stock options have a dilutive effect when the average share price during the period exceeds the exercise price of the options.

Capital employed
Average total assets less non-interest-bearing liabilities/provisions. Capital employed for the business areas excludes cash, tax liabilities and tax receivables.

Capital employed turnover ratio
Revenues divided by average capital employed.

Capital turnover ratio
Revenues divided by average total assets.

Debt/equity ratio
Net indebtedness in relation to equity, including non-controlling interests.

Dividend yield
Dividend divided by the average share price quoted.

Earnings per share
Profit for the period attributable to owners of the parent divided by the average number of shares outstanding.

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization
Operating profit plus depreciation, impairment and amortization.

EBITDA margin
EBITDA as a percentage of revenues.

Equity/assets ratio
Equity including non-controlling interests, as a percentage of total assets.

Equity per share
Equity including non-controlling interests divided by the average number of shares outstanding.

Items affecting comparability
Restructuring costs, capital gains/losses, impairments and other non-recurring items.

Net cash flow
Change in cash and cash equivalents excluding currency exchange rate effects.

Net debt/EBITDA ratio
Net indebtedness in relation to EBITDA.

Net indebtedness/net cash position
Borrowings plus post-employment benefits minus cash and cash equivalents and other current financial assets, adjusted for the fair value of interest rate swaps.

Net interest expense
Interest expense less interest income.

Operating cash flow
Cash flow from operations and cash flow from investments, excluding company acquisitions/divestments.

Operating cash surplus
Operating profit adding back depreciation, amortization and impairments as well as capital gains/losses and other non-cash items.

Operating profit
Revenues less all costs related to operations, but excluding net financial items and income tax expense.

Operating profit margin
Operating profit as a percentage of revenues.

Organic growth
Sales growth that excludes translation effects from exchange rate differences, and acquisitions/divestments.

Profit margin
Profit before tax as a percentage of revenues.

Return on capital employed (ROCE)
Profit before tax plus interest paid and foreign exchange differences (for business areas: operating profit) as a percentage of capital employed.

Return on equity
Profit for the period, attributable to owners of the parent as a percentage of average equity, excluding non-controlling interests.

Total return to shareholders
Share price performance including reinvested dividends and share redemptions.

Weighted average cost of capital (WACC)

$$\frac{\text{interest-bearing liabilities} \times i + \text{market capitalization} \times r}{\text{interest-bearing liabilities} + \text{market capitalization}}$$

i: An estimated average risk-free interest rate of 4% plus a premium of 0.5%. An estimated standard tax rate has been applied.

r: An estimated average risk-free interest rate of 4% plus an equity risk premium of 5%.

* Atlas Copco has chosen to present the company's alternative performance measures in accordance with the guidance by the European Securities and Markets Authority (ESMA) in a separate appendix. The appendix is published on http://www.atlascopcogroup.com/investor-relations/key-figures

Environmental, Social and Governance (ESG) Performance [1)]

The environmental, social and governance key performance indicators (KPIs) below were re-confirmed and goals set on selected key performance indicators during 2016.

		Including discontinued operations			Continuing operations		
ECONOMIC VALUE	**Note**	**2012**	**2013**	**2014**	**2015**	**2016**	**Change, %***
Direct economic value							
Revenues [2)]		91 417	84 803	94 614	99 869	102 420	3
Economic value distributed							
Operating costs [3)]		53 635	49 079	56 460	56 051	56 276	0
Employee wages and benefits, including other social costs		18 108	18 274	20 826	23 619	26 046	10
Costs for providers of capital [4)]		7 182	7 853	7 919	8 658	8 980	4
Costs for direct taxes to governments		4 377	4 286	4 169	7 484	5 087	–32
Economic value retained		8 115	5 311	5 240	4 057	6 031	49
– Redemption of shares		–	–	–	7 305	–	–
WE USE RESOURCES EFFICIENTLY AND RESPONSIBLY							
Renewable energy for operations, % of total energy		–	–	33	33	33	0
Renewable energy for operations incl. renewable of mix, % of total energy		–	–	–	–	39	
Direct energy use in GWh [5)]	3	133	132	127	117	104	–11
Indirect energy use in GWh [5)]	3	286	288	337	343	349	2
Total energy use in GWh [5)]	3	419	420	464	460	454	–1
Total energy use in MWh/COS [5)]		–	–	9.1	8.6	8.2	–5
CO_2 emissions '000 tonnes (direct energy) – scope 1 [6)]		28	28	27	24	22	–8
CO_2 emissions '000 tonnes (indirect energy) – scope 2 [6)]		71	75	95	99	100	1
CO_2 emissions '000 tonnes (total energy) – scope 1+2 [6)]		99	103	122	123	122	–1
CO_2 emissions '000 tonnes (transports) – scope 3 [6)]		218	193	199	211	191	–9
CO_2 emissions tonnes (transports)/COS [6)]		–	–	3.9	4.0	3.4	–15
Proportion of reused or recycled waste, %		92	93	93	94	94	0
Water consumption in water risk areas ('000 m^3) [7)]		–	–	–	320	296	–8
Water consumption in water risk areas (in m^3)/COS [7)]		–	–	–	6.0	5.3	–12
WE BUILD THE MOST COMPETENT TEAMS							
White-collar employees, %		63	63	63	64	65	
Blue-collar employees, %		37	37	37	36	35	
Employee turnover white-collar employees, %		7.4	7.4	6.6	6.2	5.8	–6
Employee turnover blue-collar employees, %		9.5	9.7	6.0	5.4	4.9	–9
Total turnover, voluntary leave %		–	–	6.4	5.9	5.5	–7
Yearly performance and development discussion, % [8)]		79	82	82	84	88	5
Proportion of women employees, %		16.8	16.7	16.9	17.3	17.6	2
Proportion of women managers, %		15.2	16.3	16.6	17.1	17.5	2
Inflow of women into the Group, share of total external recruitment, %		–	–	–	21	22	5
Nationalities among senior managers, number		49	52	53	52	57	10
Managers in the fourth quadrant of the performance/potential matrix, %		–	–	–	–	67	
Communicative Leadership Index, rate 1–100 [8)]		–	–	68	–	74	
WE INVEST IN SAFETY AND HEALTH							
Work-related accidents, number	4	383	403	381	292	285	–2
Work-related accidents, number per one million working hours	4	5.3	5.4	4.7	3.6	3.5	–3
Lost days due to accidents, number per one million working hours	4	100	139	129	114	109	–4
Work-related incidents, number		–	–	1 688	1 395	1 232	–12
Work-related incidents, number per one million working hours	4	23.2	21.2	21.0	17.3	15.2	–12
Fatalities	4	3	0	1	0	1	100
Sick leave due to diseases, %		2.0	2.0	1.9	1.9	2.0	5
Sick leave due to diseases and accidents, %		2.1	2.1	2.0	2.0	2.1	5
WE LIVE BY THE HIGHEST ETHICAL STANDARDS							
% Global managers with signed compliance to Business Code of Practice		–	–	–	99	99	0
% of employees aware of the Group ethical hotline or local helpline [8)]		–	–	–	–	64	
% Significant suppliers committed to the Business Code of Practice	5	–	76	81	88	88	0
% Managers trained in Business Code of Practice [9)]		–	–	–	–	–	

* Change in 2016 vs. 2015. The green, yellow and red marks are highlighting the direction of change 2016 vs. 2015. Neutral is –5% to 5%.

Positive Neutral Negative

See footnotes on next page

Notes to the environmental, social and governance (ESG) performance

1. Reporting principles of the environmental, social and governance performance

Since 2001, the report has been prepared yearly in accordance with the Global Reporting Initiative (GRI) guidelines. This is the second report that follows the G4 Core guidelines. The most recent sustainability report was published in March 2016 as part of the annual report 2015.

This report is also Atlas Copco's Communication on Progress (COP), a report on performance in relation to the UN Global Compact's ten principles. It can be found at www.atlascopcogroup.com/investor-relations and on UN Global Compact's website at unglobalcompact.org/cop.

Atlas Copco adheres to the following internationally recognized voluntary standards and principles:

- UN Global Compact. Atlas Copco is a signatory to the UN Global Compact since 2008, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.
- Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines. The guidelines (G4) include an internationally recognized set of indicators for economic, environmental and social aspects of business performance that enables stakeholders to compare companies' performance. Atlas Copco's reporting according to the reporting principles and guidance, including required disclosures, can be found at www.atlascopcogroup.com/investor-relations.

Data collection and reporting

The sustainability report and the corporate governance report are integrated in the 2016 annual report. Sustainability information in the annual report is primarily presented on pages 10-13, 42–53 and 129–135, and in the GRI Compliance Index. Reported facts and figures have been verified in accordance with Atlas Copco's procedures for internal control. Data collection is integrated into the Group reporting consolidation systems and collected on a quarterly basis. Reported values are normally not corrected retroactively, but when a restatement of historically reported numbers is done this can be due to a change of calculation method or scope.

Environmental data covers production units and distribution centers. Business partner data covers production units and employee data covers all operations. Responsibility for reporting rests with the General Manager of each company. Data is reported at local operating unit level, aggregated to division/business area and Group level. Data verification is performed at each level before submitting to external auditors for verification.

The reporting of greenhouse gas emissions is done in accordance with the GHG Protocol (ghgprotocol.org) and the International Energy Agency (iea.org). The Group is a member of the Swedish Network for Transport and Environment (NTM) and closely follows its recommendations, which may impact the reporting guideline of CO_2 emissions from transport.

Scope

The annual report includes information regarding all three aspects of the Group's strategy i.e. where Atlas Copco has a significant economic, environmental and social impact. The report covers Atlas Copco's operations for the fiscal year 2016, unless otherwise stated. Operations divested during the year are excluded; units that were acquired are included. This may at times cause major changes in reported performance. Limitations and reporting principles are explained in the relevant section of the report. For the reporting period of 2016 all publicly disclosed sustainability information can be found in the publication Atlas Copco's annual report 2016, except for the GRI Compliance Index, which is available on the Atlas Copco website, www.atlascopcogroup.com/investor-relations.

Atlas Copco's annual report 2016 includes a general overview of the Group's environmental situation in accordance with the requirements of Swedish legislation regarding environmental information in the Administration Report. In addition, environmental and social information has been integrated into the annual report where appropriate in order to provide a more complete picture of the Group. In addition, Atlas Copco reports with reference to the content elements and guiding principles of the Inaugural Integrated Reporting Framework developed by the International Integrated Reporting Council.

Atlas Copco regards sustainability as an integral part of its business model and reports both financial and non-financial data in a consolidated annual report. The integrated report provides investors and stakeholders with a relatively complete and easily accessible overview of the Atlas Copco Group's most important activities contributing to sustainable development and increasing shareholder value.

Materiality impact on reporting

The GRI core indicators reported and analyzed are those that are understood to be material to the Atlas Copco Group and its stakeholders, and which facilitate benchmarking with other companies in a broader sense. The contents of Atlas Copco's annual report 2016 are based on the GRI G4 Principles for Defining Report Content, and are guided by stakeholder inclusiveness, the Group's sustainability context, materiality and completeness. Key issues are identified through extensive consultation with the Group's stakeholders. The material aspects identified in this report include, but are not limited to, the GRI G4 indicators and aspects. The Group's materiality process also guides the disclosure for the Group's UN Global Compact Communication on Progress and Atlas Copco's work with the UN Sustainable Development Goals. A GRI G4 and UNGC COP compliance index accompanies this Annual Report and can be found online. For more information about how the materiality analysis was conducted, visit www.atlascopcogroup.com/sustainability.

Stakeholder dialogue

As a global Group, it is vital for Atlas Copco to ensure accountability for its actual and potential impact on its stakeholders. In discussions with for example NGO's, GO's and other influencers, it takes advice and/or learns from listening to their views. In 2016, one formal stakeholder dialogue was conducted with major shareholders, with the participation of members of Group management in connection to the annual Capital Markets Day. Major issues are collected and form the basis for development of strategic responses to challenges.

Review/audit

Atlas Copco has self-declared the report to be in accordance to GRI G4 Core. The report covers Standard Disclosures, all Disclosures on Management Approach and at least one indicator per material aspect, in accordance to the GRI G4 guidelines. The annual report has been reviewed and approved by

Footnotes to page 129

1) Calculations according to GRI G4 Guidelines, www.globalreporting.org. The environmental, social and governance information has been subject to external assurance in 2012, 2013, 2014, 2015 and 2016. This can to some extent influence comparisons between these years' and previous years' performance.

2) Revenues include revenues, other operating income, financial income, profit from divested companies and share of profit in associated companies.

3) Operating costs include cost of sales, marketing expenses, administration expenses, research and development expenses, other operating expenses, deducted for employee wages and benefits. COS when presented in relation to sustainability information refers to cost of sales at standard cost in MSEK.

4) Costs for providers of capital include financial costs and dividend, but exclude redemption of shares and repurchase of own shares.

5) The energy use purchased externally or generated on site by the company for its own production or operation. Includes all fuel used on site at the facility. Included in the calculation of indirect energy is elecitricity and district heating. In calculation in direct energy are diesel, gasoline, coal, bio-fuel, propane and natural gas included.

6) Standardized conversion factors published by the Greenhouse Gas Protocol Initiative and International Energy Agency are used to calculate CO_2 emissions, see www.ghgprotocol.org and www.iea.org.

7) Water risk mapping was carried out using the water risk maps generated by Verisk Maplecroft. Water risk as defined by Verisk Maplecroft water stress index, where categories "medium, high and extreme" are used in Atlas Copco's water risk scope.

8) Collected every two years through the Group's employee survey Insight.

9) To be collected starting in 2017.

1. Reporting principles of the environmental, social and governance performance, continued

Atlas Copco's Group Management and the Atlas Copco Board of Directors. The sustainability information in the annual report 2016 has been subject to limited assurance by Deloitte AB.

Additional ESG Disclosure
Atlas Copco uses a materiality driven approach and the GRI G4 guidelines to disclose environmental, social and governance information to customers, investors and other stakeholders.The Group strives to be as transparent as possible, parttaking in rankings, ratings and sharing information insofar it is relevant to the business. By and large the relevant information is communicated in a transparent way in the annual report. Atlas Copco is a signatory of the UN Global Compact since 2008, reporting according to the 'comprehensive' option.

Atlas Copco received the following recognitions in 2016:
Atlas Copco was ranked number 38 out of 500 companies and no 5 of industrial companies by the Newsweek Green Rankings. Atlas Copco was included in the FTSE4Good Index and was re-confirmed as a constituent of the Ethibel Sustainability Index Excellence Europe and the Ethibel Sustainability Index Excellence Global.

Atlas Copco has never paid for inclusion in rankings or lists, irrespective of the size of the fee requested, and has no ambition to change its position in the future.

2. Materiality

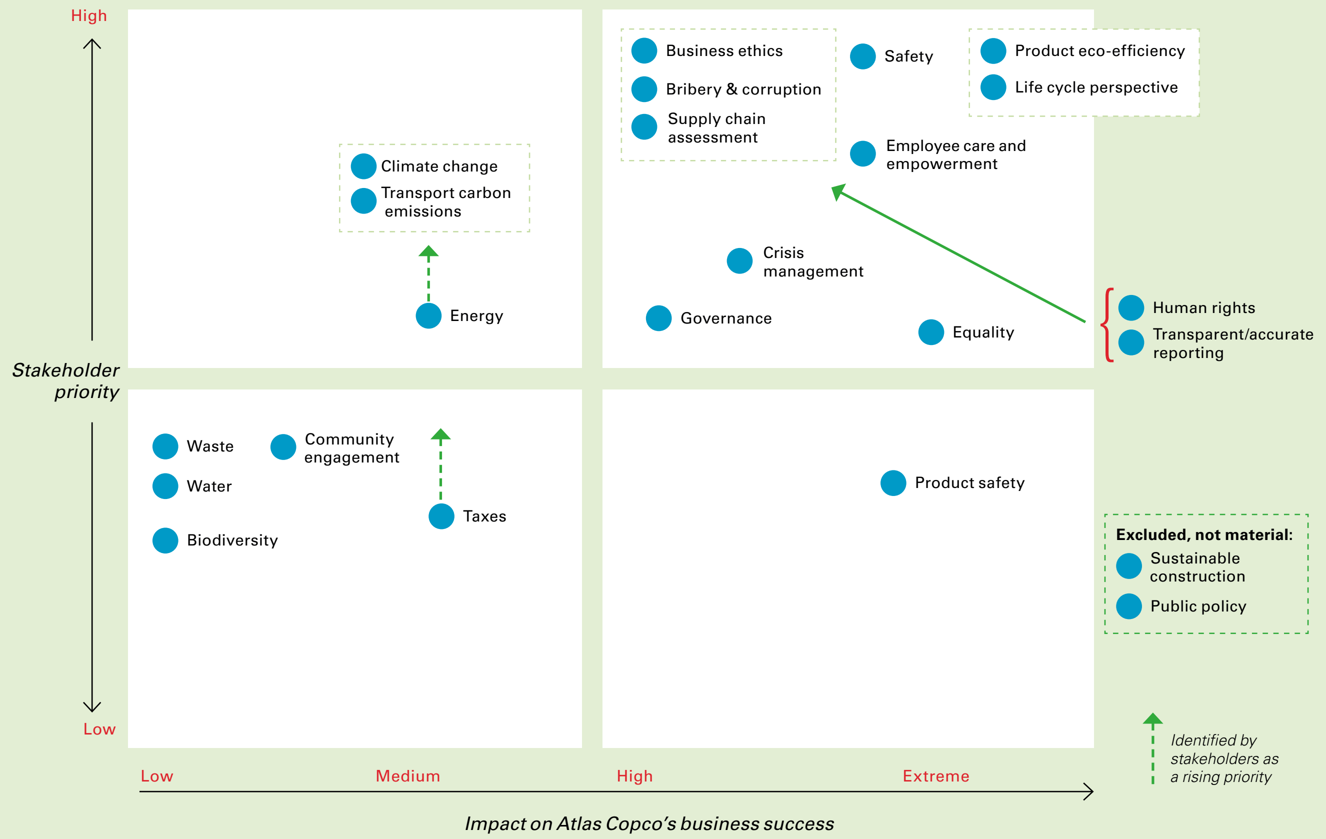
In 2015, Atlas Copco completed consultation with 200 institutional stakeholders, which was conducted over an eight-month period to identify the key sustainability priorities that impact, and are impacted by the Group's business.

Selection criteria for aspects to be mapped
The selection of the aspects was partly defined by the GRI G4 guidelines, but it also included topics outside of the reporting framework that were raised by stakeholders. More information can be found at www.atlascopcogroup.com/sustainability. Economic value creation and Atlas Copco's financial targets were excluded from the scope in the consultation in order to keep the mapping and dialogue focused on the long-term environmental, social and governance aspects below.

Selection of stakeholders for consultation
Atlas Copco's Business Code of practice defines its five key stakeholders, and each group was consulted for the materiality mapping process. Internal stakeholders included multiple functions such as research and development, logistics, purchasing and divisional management teams for the Group's strategy. For external stakeholders' input, Atlas Copco directly and indirectly engaged with international NGOs, unions, key investors, civil society and business advocacy groups, customers and business partners. This stakeholder-driven approach takes inspiration from the GRI G4 guidance for materiality and the full materiality process is summarized online and in the GRI appendix which can be found online at www.atlascopcogroup.com. The materiality results, below, overlap partially with the GRI G4 indicators.

MATERIALITY MAPPING RESULTS

Atlas Copco's main stakeholders:
customers, shareholders, employees, business partners, society



2. Materiality, continued

Impact on Atlas Copco's goals

The materiality process identified the priorities for the success of Atlas Copco's long-term strategy to create value for all stakeholders. As a result, the Group has adapted its KPIs to reflect these priorities. The Group strives to link the KPIs and goals to support the Sustainable Development Goals and outcomes of the UN Climate Conference in Paris (COP 21). KPIs will address and manage the risks, opportunities and impacts of the Group's business in parts of the value chain where they have been found to be material during the consultation with stakeholders. The formulation of these KPIs have been guided by the GRI G4 aspects, but not limited to the definitions as proposed in the guidelines. The Group consolidated goals on selected key performance indicators have been finalized and are presented throughout this report.

3. Environmental impact

Environmental performance

Atlas Copco has integrated its most material environmental KPIs into its planning process. The KPIs drive improvements and efficiency, while reducing the environmental impact for the Group.

Energy consumption*, %	2016
Direct energy, renewable	0
Direct energy, non-renewable	23
Indirect energy, renewable (incl. renewable of mix)	39
Indirect energy, non-renewable	38

* Direct energy is defined as purchased and consumed fuel for own production; this includes oil, coal, natural gas, gasoline and diesel. Indirect energy is defined as energy from external sources, for example energy required to produce and deliver purchased electricity and district heating.

Environmental compliance

Atlas Copco follows applicable environmental laws in all countries where the Group operates. Incidents or fines are reported for non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages. There were 3 (20) accidents resulting in adverse environmental effects according to reporting. All accidents were addressed fully and comprehensively and clean-up costs amounted to KSEK 2 885 (4 840).

Five Swedish companies require permits based on Swedish environmental regulations. These operations mostly involve machining and assembly of components. The permits relate to areas such as emissions to water and air, as well as noise pollution. The Group has been granted all permits needed to conduct its business and none were under revision in 2016.

Environmental management systems

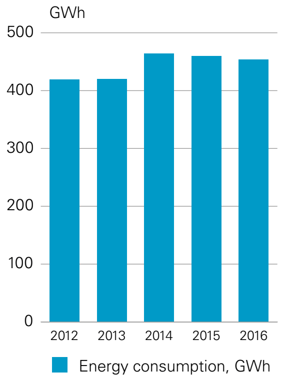
To help minimize the environmental impact and to secure that the precautionary approach is applied, Atlas Copco has the ambition to implement environmental management systems (EMS) in all operations. All product companies should be certified according to ISO 14001 in order to manage and reduce their environmental impact. Acquired product companies are normally certified within a two-year period.

Product responsibility

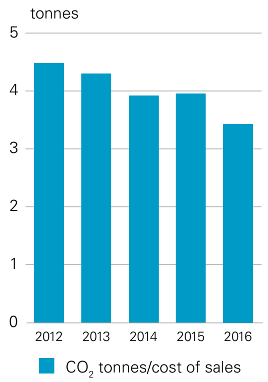
As a minimum, all products comply with laws and regulations regarding their environmental impact and they are tested for safety prior to delivery. Further, all Atlas Copco products and services come with relevant product, service and safety information. The product and service information required by the Group's procedures for product and service information and labeling covers aspects such as sourcing of components, content such as substances of concern, safe use and disposal of the product. Customer training is included when relevant, to secure safe handling of the products.

In general, a limited proportion of Atlas Copco products fall under the EU Waste Electrical and Electronic Equipment (WEEE) Directive. For example, handheld electric tools and monitoring control instruments qualify but not large mining and other capital equipment. Atlas Copco has a responsibility for the disposal of products that fall under the directive. Atlas Copco strives to follow laws and regulations regarding safety, health and environmental aspects, product information and labeling. Two cases have been filed in 2016 for non-compliance with laws and regulations concerning the provision and use of products and services and fines paid amounted to KSEK 38.

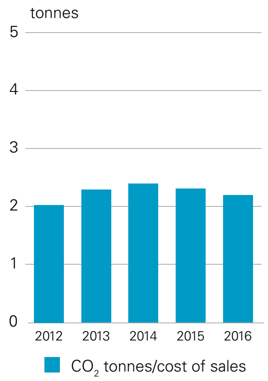
ENERGY CONSUMPTION



CO_2 EMISSIONS FROM TRANSPORT/COS



CO_2 EMISSIONS FROM ENERGY/COS



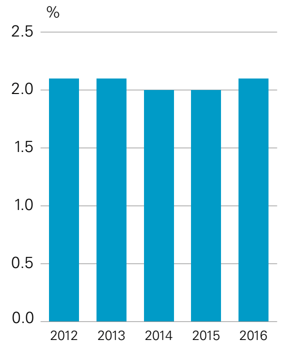
4. Safety and health

Safety is a key priority area for Atlas Copco, and all divisions have included this aspect to set targets and make action plans. Group consolidated goals have been finalized during 2016 and are presented on page 48.

Continous efforts have been put on behavioral based safety and safety days have been arranged in the Atlas Copco Group since 2014. In 2016, the number of accidents for Atlas Copco employees decreased to 285 (292).The largest decrease was reported from operations in South America and Asia. The largest increase was reported for North American and particular attention will be put on reducing this number. For several years the majority of the accidents reported have been in Europe. While the number of accidents decresed in Europe during 2015, reported figures remained unchanged between 2015 and 2016. The relative number of accidents decreased to 3.5 (3.6) per one million working hours. The number of incidents decreased to 1 232 (1 395) and the relative number decreased to 15.2 (17.3) incidents per one million working hours. Improvements were most significant in South America and Europe. Among the additional workforce, the decrease of both accidents and incidents was significant, with 1.4 (3.1) accidents and 28.3 (36.7) incidents per million working hours. Atlas Copco Group companies shall have an Atlas Copco verified Safety Health Environment and Quality management system, which is documented, implemented and maintained on an ongoing basis. Customer centers and other units with more than 70 employees and all product companies shall be certified according to OHSAS 18001.

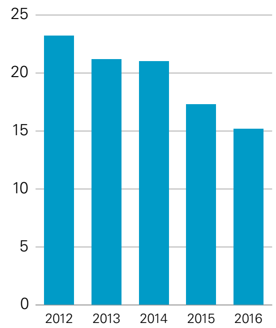
Geographical spread of incidents and accidents among Atlas Copco employees, %	Spread of employees, %	Work-related incidents %	Work-related accidents %
North America	15	14	17
South America	7	3	6
Europe	43	75	58
Africa/Middle East	6	2	6
Asia/Australia	29	6	13
Total	**100**	**100**	**100**

TOTAL SICK-LEAVE



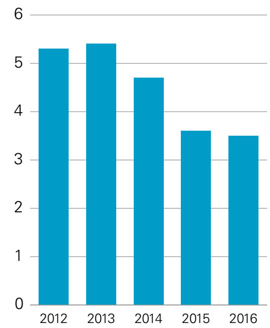
Goal: <2.5%

NO. OF INCIDENTS PER MILLION WORKING HOURS



Goal: Continuous improvement

NO. OF ACCIDENTS PER MILLION WORKING HOURS



Goal: Continuous improvement

5. Business partners

Business partner	Role in the value chain	Primary responsible for risk management and compliance
Suppliers, subcontractors	Provide key parts as well as manufacturing services	Purchasing councils
Joint ventures	Partly owned companies that provide complementary products and services	Division presidents
Agents, distributors	Sell and distribute products to customers on the Group's behalf	Marketing councils

Supply chain management process: Suppliers are evaluated during and after selection by product companies, primarily by personnel in the purchasing function. Internal training on how to carry out supplier evaluations is published in the Group database *The Way We Do Things*.

The supplier evaluation process examines:

- Business partners' record of governance, ethics and stance against corruption
- Labor issues: Rejection of forced, compulsory or child labor, elimination of discrimination, safeguarding employee health and safety, collective bargaining rights
- Environmental performance: Managing waste, minimizing emissions, and reducing consumption of natural resources
- Human rights issues: Responsible sourcing and respect for human rights in operations

At times self-assessment checklists are sent to suppliers and on-site evaluations are conducted either at regular intervals or when deemed necessary. These result in a report with concrete suggestions in the form of an action plan or improvement to be followed up on at an agreed time. Atlas Copco can provide experience and know-how to suppliers who require support in order to comply with the minimum standards set forth in the 10-criteria checklist; however suppliers who fail to meet red-flag criteria (such as zero-tolerance of corruption) or do not show a willingness to improve are rejected. Supplier evaluations regarding safety, health, social and environment aspects including objective factors such as quality and financial data are performed throughout the Group.

Definition of significant supplier for reporting: All external suppliers of goods and services, direct and indirect, with a purchasing value above a set threshold, based on 12 month values from October prior year to September current year. For suppliers in high-risk countries listed below, suppliers are determined to be significant based on a significantly lower purchasing threshold (approximately 13% of set value) and are reported.

5. Business partners, continued

High-risk countries: Angola, Bolivia, China, Colombia, Democratic Republic of Congo, Indonesia, Iran, Nigeria, Russia, Saudi Arabia, Uzbekistan, Zimbabwe. These countries are identified as having a heightened risk of human rights violations or corruption based on risk mapping provided by Amnesty International and Transparency International in 2011. The adaptation of the definition had resulted in a lower number of significant suppliers as from 2013 onward. In 2016, the number of significant suppliers increased compared with 2015.

Supplier's commitment	2016	2015
Significant suppliers, number	4 471	4 187
Safety, health and social and environment evaluated suppliers [1], %	17	21
Approved suppliers (no need to follow up), %	95	91
Conditionally approved suppliers (monitored), %	5	7
Rejected suppliers (relationship ended) [2], %	0	2
Suppliers asked on commitment to the Business Code of Practice, number	4 075	3 977
Significant suppliers that have confirmed their commitment to the Code, %	88	88

1) Evaluations or audits are conducted by Atlas Copco teams directly at the suppliers' sites.
2) Reasons for rejection include for example safety in the workplace, personal protection for workers and no fulfillment of environmental laws. Suppliers are rejected if they do not meet Atlas Copco requirements and are not willing to improve. The Group does not keep any black lists of business partners.

Prohibited or declarable substances

Atlas Copco maintains lists of substances which are either prohibited or must be declared due to their potential negative impact on health or the environment. Prohibited substances are not allowed in the Group's products or processes. Declarable substances should be limited in use, additionally any use of listed substances in items must be declared. Suppliers' use of such substances is regularly checked, and if prohibited substances should be found, they must immediately be replaced with approved alternatives. The lists are continuously revised according to applicable legislation, including REACH. The lists on prohibited and declarable substances are published on the Atlas Copco website.

6. Governance

Atlas Copco's hotline is the Group's whistleblower function of the Business Code of Practice. The Group is positive to receiving reports through the hotline since it provides the possibility to act on potential misconduct to the Business Code of Practice. During the year the hotline has been promoted globally among employees and business partners and knowledge about its existance measured.

Reported potential violations, number	2016
Fraud	19
Labor relations	23
Corruption	6
Discrimination	4
Other (personal, organizational issues)	0
Total	**52**

Eleven cases are still under investigation, of which six are related to fraud and five to labor relations. Seven cases of fraud or corruption were substantiated as well as seven instances concerning labor relations, leading to personal consequences such as dismissal or changes in procedures to prevent future occurrences. The alleged cases of discrimination were not substantiated and closed after investigation.

No single case was material during the year. No fines related to the hotline have been paid during the year. There have been no other instances of anti-competitive behavior brought to the attention of Group Management.

7. Human rights

Commitment to human rights

Atlas Copco's central guiding policy is the Business Code of Practice which was updated in 2012 to support the United Nations International Bill of Human Rights. Atlas Copco is also a signatory of the UN Global Compact and is committed to working with the ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. The Atlas Copco Business Code of Practice also supports the International Labour Organization Declaration on Fundamental Principles and Rights at Work, as well as the OECD's Guidelines for Multinational Enterprises. In 2011, Atlas Copco took on the commitment to protect, respect and provide access to remedy with regards to human rights as proposed in the UN Guiding Principles on Business and Human Rights. In accordance with requirements of the framework, Atlas Copco has an ongoing process to identify, prevent, mitigate and account for the human rights impacts related to Atlas Copco's business or business relations. Human rights due diligence is carried out when deemed relevant for specific markets, for instance when Atlas Copco enters a market that is perceived as presenting severe human rights risks, such as Myanmar.

Atlas Copco's human rights approach

Working with human rights is a continuous process of learning, development and implementation. Atlas Copco strives to work with issues within its scope across the value chain. Atlas Copco does not view human rights in isolation, but as rather a cross-connected issue which can be impacted by working with corruption and environmental aspects according to the Business Code of Practice. Human rights are monitored by the Compliance board, which contains two members of Group Management. The Compliance board addresses training needs, impact assessment and the action points related to the implementation of the UN Guiding Principles. The Group strives to work with its commitment to the UN Guiding Principles across the value chain, covering procurement, human resources, sales, marketing and other business processes.

Atlas Copco's human rights statement

The Business Code of Practice is the central policy document, based on which Atlas Copco has a public human rights statement. Atlas Copco's human rights statement is available publicly on the Group website, and has been approved by Group Management after internal and external consultation.

Atlas Copco's commitment covers all individuals and groups who may be impacted by its activities or through its business relationships. It is available to

7. Human rights, continued

all employees through the Group's intranet, and also through business and human rights trainings. Business partners are referred to the human rights statement during business negotiations and also during trainings. Human rights issues are raised in continuous dialogue with external stakeholders, such as workers in the company's value chain, trade unions, communities, customers, NGOs and governmental authorities.

According to the human rights statement, the Atlas Copco hotline can be used to report perceived human rights violations and in cases where the stakeholder(s) or employee(s) are not satisfied with the solution provided by the ethical hotline, Atlas Copco will provide for mediation at the Stockholm Chamber of Commerce Arbitration Institute. There were no changes to the Group's human rights policy during 2016.

Integrating the rights of children, women and special vulnerable groups

Atlas Copco strives to be inclusive in its human rights work to ensure that the rights of vulnerable groups such as children or minorities are covered by policies and processes. The Group works to integrate this into the broader human rights approach, and assesses the direct and indirect impacts the business can have on relevant groups.

Atlas Copco explored public-private partnerships on a local and Group level, in order to support the implementation of the UN Guiding Principles and to increase leverage to respect human rights. In 2014, Atlas Copco joined the Swedish Leadership for Sustainable Development, a business network run by the Swedish International Development Cooperation Agency, to strengthen its approach on environment, human rights and anti-corruption. The Group also participated in cross-industry dialogues in order to share best practices and tools from the implementation process.

Conflict minerals

In late 2016, a draft EU regulation on conflict minerals was agreed by Members of the European Parliament, ministers and the EU Commission, requesting that due diligence checks should be mandatory for importers of certain metals and their ores from conflict and high-risk areas.The draft resolution is pending final approval by the Council and the European Parliament. Atlas Copco monitors the development in the area and will follow applicable legislation. Atlas Copco is a supplier to customers required to report on the Dodd Frank Act, section 1502 in the United States. Atlas Copco's business areas continue to monitor the minerals and sourcing processes used by significant suppliers using the Conflict Mineral Reporting Template (CMRT).

8. Taxes

Atlas Copco strives to be a good and reliable corporate citizen, observing the spirit as well as the letter of the laws of the countries in which the Group operates. The Group recognizes the key role that tax plays in the area of advancing economic development and also considers it vital to combat corruption and support environmentally sound business practices in order to create the most value for society. Atlas Copco acts in accordance with all applicable laws and are at all times guided by relevant international standards, chiefly the OECD and UN guidelines. Atlas Copco believes in good corporate practice in the area of tax management, balancing the interests of various stakeholders, including customers, investors and the governments and communities in the countries in which the Group operates. Key stakeholders have identified taxes as a rising priority. See note 9 of the consolidated financial statements for the details of taxes paid, reported according to the international financial reporting standards.

Opinion on disclosing tax by country

Atlas Copco has been in dialogue with investors, NGOs and peers regarding the disclosure of tax paid per country. At present there is no international standard for reporting taxes paid by country and therefore the resulting data is not comparable between different companies. Atlas Copco is not opposed to reporting tax paid by country if guidelines are broadened to apply to all companies in the industry so that the data is comparable and can be analyzed fairly.

Presence in countries classified as tax havens

Atlas Copco has companies in over 90 countries. Sometimes these companies are in countries that can be classified as tax havens. However, the reason for Atlas Copco's presence in these markets is that the Group has customers with ongoing projects, such as when expanding the Panama Canal.

9. Product energy efficiency

The energy efficiency calculations for the products detailed in the report were based on estimates provided by Atlas Copco's research and development departments.

GHS1600VSD+

For the bathroom and tiling customer the energy efficiency was calculated using the assumptions of consumption of 28kW electricity on average per hour with the previous machinery. Using the new GHS variable speed vacuum pump the energy consumption was reduced to 2.93 kW/hour. The GHS pump replaced 6 pumps with 13.37 kW energy consumption on average. After installation of the single GHS the same output could be produced with an average use of 1.92 kW.

Reduced travel by service technicians

The reduction of CO_2 emissions as a result of lower fuel consumption by transportation in the Industrial Technique business area was calculated using the parameters of 420 technicians' travel hours during a 12-month period. The reduction in travel hours was multiplied with the average fuel consumption, which was calculated using an average speed of 80 km per hour to 8 litres per 100 km. The difference in fuel consumption between the last three months average versus first three month average were then calculated. The subsequent reduction of CO_2 emission was calculated using the UK-based National Energy Foundation's carbon footprint calculator (www.carbon-calculator.org.uk/).

8-series portable compressor

When taking the average fuel consumption of small compressors, that power two tools, the average consumption was 7.05 liters per hour, under normal working conditions. Under the same conditions, the 8 Series consumes fuel at 6.2 liters per hour, making it 12% more energy efficient.

Pit Viper Drill Automation

The data on 33% extra drill capacity came from a customer public interview. The calculation of corresponding energy savings stems from the fact that an average drill burns 24.9 gallons/hr and runs 5 000 hours/yr. The figure 24.9 gallons/hr assumes that a drill spends its operating life at 33% drilling, 33% tramming and 34% in standby. This equates to gallons/hr at 38.2 for drilling, 18.4 in tram and 18.4 in standby.

Auditor's Limited Assurance Report on Atlas Copco AB's Sustainability Report

This is the translation of the auditor's report in Swedish.

To Atlas Copco AB

Introduction

We have been engaged by the Board of Directors of the President of Atlas Copco AB to undertake a limited assurance engagement of the Atlas Copco AB's Sustainability Report for the year 2016. The Company has defined the scope of the Sustainability Report on page 130.

Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 130 in the Sustainability Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability 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 Sustainability 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 Sustainability 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 other generally accepted auditing standards in Sweden. The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. 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 Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability 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 Sustainability Report, is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

Nacka, March 3, 2017
Deloitte AB

Jan Berntsson
Authorized Public Accountant

Didrik Roos
Authorized Public Accountant

Five years in summary

MSEK	Including discontinued operations 2012	2013	2014	Continuing operations 2015	2016
ORDERS, REVENUES AND PROFIT					
Orders	90 570	81 290	93 873	97 002	102 812
Revenues	90 533	83 888	93 721	98 973	101 356
Change, organic from volume and price, %	9	–4	–2	–2	0
EBITDA	21 930	19 759	20 724	23 952	24 039
EBITDA margin, %	24.2	23.6	22.1	24.2	23.7
Operating profit	19 266	17 056	17 015	19 772	19 798
Operating profit margin, %	21.3	20.3	18.2	20.0	19.5
Net interest expense	–658	–730	–699	–750	–769
Profit before tax	18 562	16 266	16 091	18 875	18 805
Profit margin, %	20.5	19.4	17.2	19.1	18.6
Profit for the year	13 933	12 082	12 175	11 777	13 785
EMPLOYEES					
Average number of employees	39 133	40 159	43 645	42 308	42 749
Revenues per employee, SEK thousands	2 315	2 089	2 147	2 339	2 371
CASH FLOW					
Operating cash surplus	21 583	19 205	20 426	23 547	24 600
Cash flow before change in working capital	15 819	13 426	15 634	17 350	16 154
Change in working capital	–1 366	–538	2 056	1 599	2 875
Cash flow from investing activities	–2 732	–4 472	–10 565	–3 853	–7 148
Gross investments in other property, plant and equipment	–1 672	–1 255	–1 548	–1 705	–1 369
Gross investments in rental equipment	–1 299	–1 456	–1 719	–1 263	–1 207
Net investments in rental equipment	–749	–1 021	–1 303	–837	–748
Cash flow from financing activities	–4 204	–2 535	–14 358	–14 497	–8 991
of which dividends paid [1]	–6 070	–6 669	–6 682	–14 639	–7 687
Operating cash flow	12 817	8 532	13 916	16 955	18 109
FINANCIAL POSITION AND RETURN					
Total assets	80 794	87 891	105 281	103 010	115 892
Capital turnover ratio	1.15	0.98	0.98	0.97	0.95
Capital employed	54 354	62 683	70 953	71 372	72 987
Capital employed turnover ratio	1.67	1.34	1.32	1.39	1.39
Return on capital employed, %	35.9	27.8	24.3	28.3	27.2
Net indebtedness	9 262	7 504	15 428	14 806	14 829
Net debt/EBITDA	0.42	0.38	0.74	0.62	0.62
Equity	34 185	39 794	50 753	46 750	53 177
Debt/equity ratio, %	27.1	18.9	30.4	31.7	27.9
Equity/assets ratio, %	42.3	45.3	48.2	45.4	45.9
Return on equity, %	45.5	33.6	28.1	24.3	24.3
KEY FIGURES PER SHARE					
Basic earnings / diluted earnings, SEK	11.47 / 11.44	9.95 / 9.92	10.01 / 9.99	9.62 / 9.58	9.81 / 9.79
Dividend, SEK	5.50	5.50	6.00	6.30	6.80 [2]
Dividend as % of basic earnings	48.0%	55.3%	59.9%	65.5%	69.3%
Dividend yield %	3.5%	3.1%	3.1%	2.6%	3.0%
Redemption of shares, SEK	–	–	6.00	–	–
Operating cash flow, SEK	10.6	7.0	11.5	13.9	14.9
Equity, SEK	28	33	42	38	44
Share price, December 31, A share / B share, SEK	178.3 / 158.2	178.3 / 163.2	218.4 / 200.9	208.4 / 195.3	277.5 / 248.6
Highest price quoted, A share / B share, SEK	180.9 / 160.3	194.1 / 176.4	222.6 / 204.3	303.1 / 270.0	290.0 / 259.4
Lowest price quoted, A share / B share, SEK	134.4 / 118.6	154.3 / 136.2	169.6 / 155.9	186.9 / 173.7	171.0 / 162.6
Average closing price, A share / B share, SEK	158.6 / 141.1	179.0 / 160.6	196.4 / 181.1	238.7 / 217.5	229.9 / 210.0
Average number of shares, millions	1 213.8	1 212.8	1 215.6	1 217.4	1 216.1
Diluted average number of shares, millions	1 215.6	1 214.4	1 216.6	1 218.7	1 216.8
Number of shareholders, December 31	69 272	72 738	70 914	79 926	76 058
Market capitalization, December 31, MSEK	211 397	213 348	261 719	251 140	329 940

[1] Includes share redemption in 2015 [2] Proposed by the Board of Directors

COMMITTED TO SUSTAINABLE PRODUCTIVITY

We stand by our responsibilities towards our customers,
towards the environment and the people around us.
We make performance stand the test of time.
This is what we call – Sustainable Productivity.

Atlas Copco AB (publ)
SE-105 23 Stockholm, Sweden Phone: +46 8 743 80 00
Reg.no: 556014-2720 www.atlascopcogroup.com

9853 8376 01