



Atlas Copco



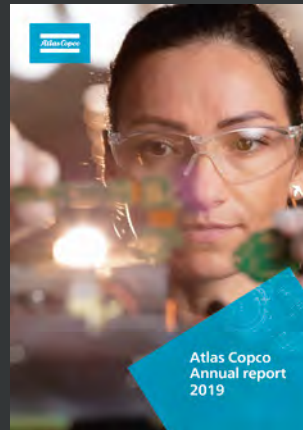
Atlas Copco
Annual report
2019

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 the Group in a comprehensive and cohesive manner.

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Industrial ideas drive development

Atlas Copco has been turning great ideas into business-critical benefits since 1873. By listening to our customers and knowing their needs, we deliver value and innovate with the future in mind.

Cover image:

Electrical components used in industrial assembly solutions inspected in an Atlas Copco R&D laboratory.

GRI Standards and external review

Atlas Copco reports its sustainability work for 2019 according to GRI Standards, Global Reporting Initiative's reporting guidelines, level Core. Deloitte has reviewed the report and verified this level, see page 141. More information can be found at: www.atlascopcogroup.com. The sustainability report 2019 is prepared in accordance with the Annual Accounts Act.

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 is a public company. 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 mentioning of the Board of Directors or the Board refers to the Board of Directors of Atlas Copco AB.

The audited annual accounts and consolidated accounts can be found on pages 13–39, 44–48 and 62–125. The corporate governance report examined by the auditors can be found on pages 51–61.

Sustainability information that has been reviewed by the auditors can be found on pages 5–12, 34–43 and 130–140.

Atlas Copco

– a decentralized group with four business areas



COMPRESSOR TECHNIQUE

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, mainly for the manufacturing and process industries. Principal product development and manufacturing units are located in Belgium, the United States, China, India, Germany and Italy.

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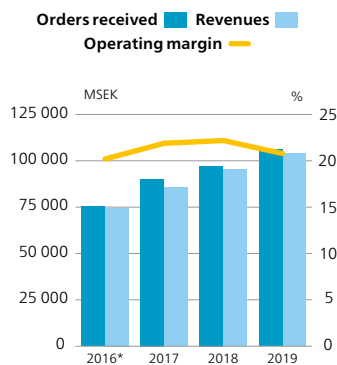
The Atlas Copco Group is a world-leading provider of sustainable productivity solutions. The Group offers customers innovative compressors, air treatment systems, vacuum solutions, industrial power tools and assembly systems, and power and flow solutions. Atlas Copco develops products and services focused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

The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning more than 180 countries.

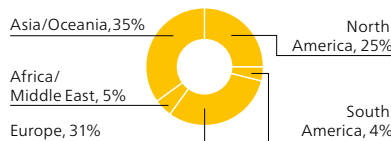
In 2019, Atlas Copco had revenues of BSEK 104 (BEUR 10) and about 39 000 employees at year end.

GROUP

Revenues 2019:
MSEK 103 756



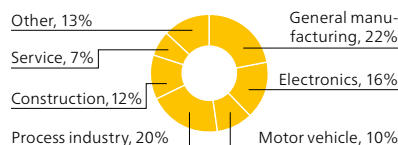
Revenues by region



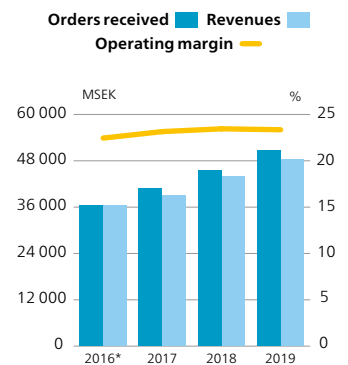
Share of revenues



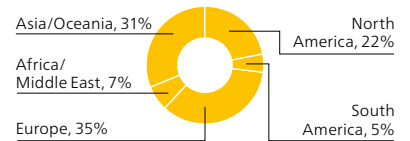
Orders received by customer category



Revenues 2019:
MSEK 48 286



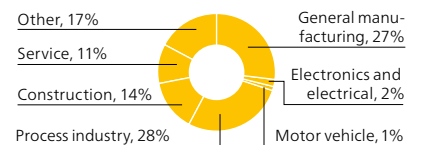
Revenues by region



Share of revenues



Orders received by customer category



* 2016 figures are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

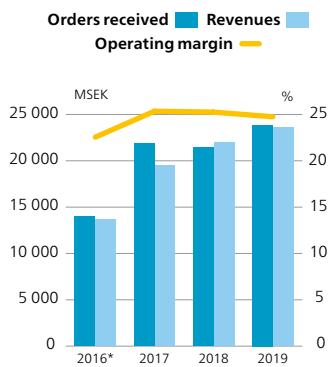


VACUUM TECHNIQUE

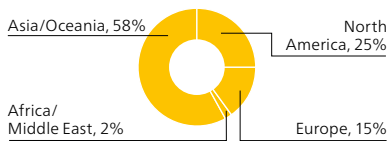
The Vacuum Technique business area provides vacuum products, exhaust management systems, valves and related products. The main markets served are semiconductor and scientific as well as a wide range of industrial segments including chemical process industries, food packaging and paper handling. The business 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 States, Mexico, United Kingdom, Czech Republic, Germany, South Korea, China and Japan.

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Revenues 2019:
MSEK 23 570



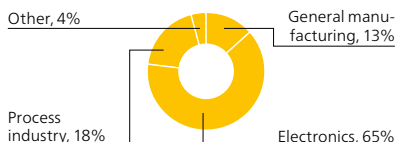
Revenues by region



Share of revenues



Orders received by customer category

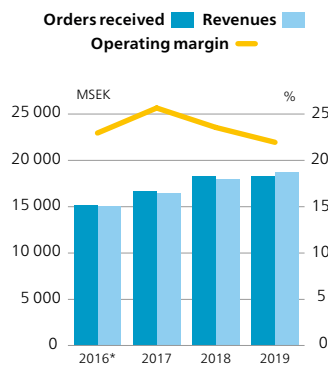


INDUSTRIAL TECHNIQUE

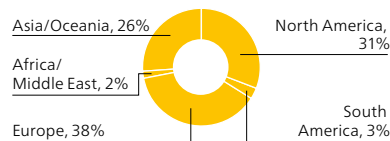
The Industrial Technique business area provides industrial power tools and systems, industrial assembly solutions, quality assurance products, software and service through a global network. The business area innovates for sustainable productivity for customers in the automotive and general industries,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

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Revenues 2019:
MSEK 18 712



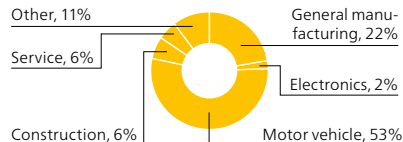
Revenues by region



Share of revenues



Orders received by customer category

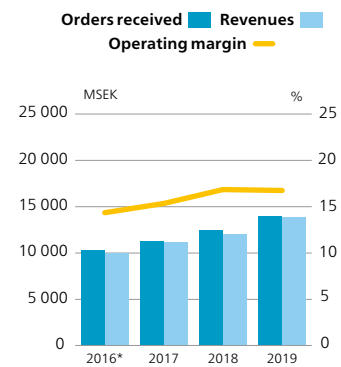


POWER TECHNIQUE

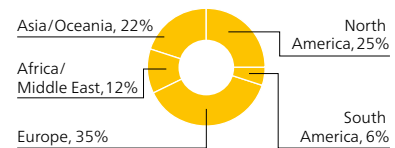
The Power Technique business area provides air, power and flow solutions through products such as mobile compressors, pumps, light towers and generators, along with a number of complementary products. It also offers specialty rental and provides services through a dedicated, global network. The business area innovates for sustainable productivity across multiple industries, including construction, manufacturing, oil and gas and exploration drilling. Principal product development and manufacturing units are located in Belgium, Spain, the United States, China and India.

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Revenues 2019:
MSEK 13 915



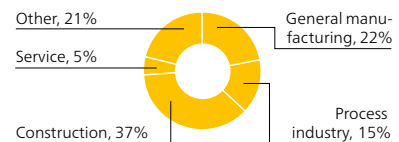
Revenues by region



Share of revenues



Orders received by customer category



Atlas Copco 2019

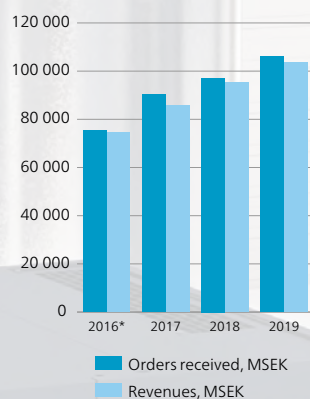
– a record year

Revenues: **MSEK 103 756** (+9%)

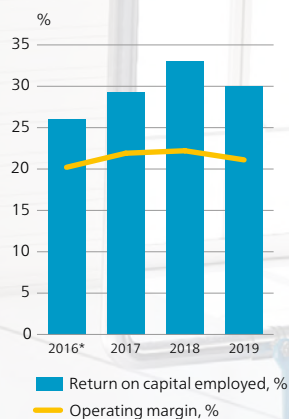
Return on capital employed: **30%**

Operating margin: **21.1%**

Orders received and revenues



Return on capital employed and operating margin



* 2016 figures are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

Delivering long-term growth and customer value in a sustainable way

Revenues, orders received and operating profit reached all-time high during 2019. It was also a year when we welcomed more new companies into the Group through acquisitions than any year before.

Mats Rahmström, President and CEO of the Atlas Copco Group, 2019 was a year with record-high revenues and orders received, what are your comments on the results?

This past year was another one with very strong results. The operating profit reached MSEK 21 897, orders received increased 9 percent to MSEK 106 104, and revenues increased to MSEK 103 756. I am proud of our strong teams that have worked to find even better ways to support our customers.

■ PAGE 7

During 2019 the global economy has been affected by increased uncertainties. How is Atlas Copco handling this situation?

I believe that our global presence, decentralized operations and closeness to our customers give us the ability to not only adapt to this somewhat new business climate but to also benefit from it.

Our business model ensures resilience and flexibility in both good and tougher times. This past year we have seen increasing unpredictability, a changing business climate and less willingness to invest in some segments. We have experienced increased complexity due to Brexit and trade wars. Our strategy and business model have proven effective despite this and I believe that our results not only for 2019 but long-term confirm this.

We plan and prepare for the future. In areas where there are uncertainties we prepare for different scenarios and how they might affect us instead of speculating about what the future might bring. We create long-term growth and value for our customers by keeping manufacturing and R&D close to them and with one third of our revenues in Europe, one third in the Americas and one third in Asia we are a truly global industrial group. ■ PAGE 14

Atlas Copco has a long history of acquiring companies and in 2019 a record number of companies joined the Group. What are the criteria when looking at possible acquisitions?

Our divisions are responsible for mapping and evaluating businesses that are adjacent to our core businesses and that offer synergies. Acquisitions have brought important contributions in the past and we will continue to complement our organic growth in this way. To achieve our goal to grow 8 percent annually over a business cycle, which is significantly above the global GDP, we need to acquire companies in the right segments. Through acquisitions we bring in new technologies, service opportunities and people with new ideas that we can combine with our existing strengths. I am very pleased to welcome new members into the Group since it brings both opportunities and diversity.



I believe that our global presence, decentralized operations and closeness to our customers give us the ability to not only adapt to this somewhat new business climate but to also benefit from it.

For us innovation is about understanding how we can bring value to our customers. A product can have the coolest features, but if it doesn't make the customer's products and processes cheaper, safer, more precise or less energy consuming, then it is just another product – not an innovation.

What about resources devoted to R&D, has that changed during 2019?

We invest more in R&D than our competitors and during 2019 we accelerated our innovation power further. Our aim is to shorten the time from idea to innovation. We are always looking to improve our current product range but we are also looking at projects that are close to our current products and technologies, has significant market potential and that accelerate our innovation power. That is why we are now dedicating more resources to projects that are not more of the same but instead aim to go above and beyond.

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What value does digitalization bring?

Digitalization brings value to our customers in almost every aspect of their operations. Most evidently, our products are essential when it comes to enabling the storing and processing of data, and needed to produce sensors, flat screens and other equipment that are part of our everyday life.

But digitalization brings value on deeper levels as well. Our connected products collect customers' data and we add value through our experience, analytic abilities and improved service offering. Digitized production lines will enable us to measure and monitor our customers' equipment, and to plan and foresee maintenance by seeing which parts actually need to be replaced and when. This is of high importance to our customers as our products are key to their production process and failures often come at a high cost. Digitalization makes it possible to

Customer collaboration day at Industrial Technique in Japan

sell increased productivity and uptime as a product instead of first selling a product and then adding an optional service program.

This way we can go towards predictive or prescriptive service programs based on the data collected, instead of fixing something already broken. The benefits for the customer are many, not least maximum uptime and optimal productivity, and we saw growth in service in all business areas during 2019.

Digitalization also brings value if we can leverage it to create a better customer experience by making it easier to access information about our products as well as buying them and tracking deliveries online.

With increased focus on sustainability and climate change, what role can Atlas Copco play?

For decades, Atlas Copco has made important technological advances to improve our products' energy efficiency, thereby

reducing costs and emissions. This is our core competence and mandate. It remains the most impactful way we can reduce carbon emissions and contribute to our customers' and our own sustainability ambitions. One prominent example is the VSD+ technology used in compressors, generators and vacuum pumps, which offers our customers notable energy savings. Another example is Atlas Copco abatement systems that remove greenhouse gases in the semiconductor industry.

It is said by many that 2020 is the start of the "decade for action" for achieving the Sustainable Development Goals (SDGs) set by the United Nations, and I agree. Our goals for sustainability, launched in early 2019 with 2018 as the base line, set the direction for Atlas Copco being part of the solutions for many years to come. They help ensure that we create value for all stakeholders and that is the right way to grow our company.

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/// When I meet with colleagues all over the world I am impressed by how our company culture and teams in many ways transcend borders. We allow mobility and encourage development and willingness to change.

Atlas Copco has defined goals in six focus areas: profitability, people, ethics, product and services, environment, and safety and well-being. Why is that?

The goals support our mission of achieving sustainable profitable growth and by setting goals in these areas we create lasting value for our customers, our employees and the planet. They also support the SDGs and we want to be part in finding solutions for the challenges we are facing.

I am confident that our organization will find ways to meet even the most ambitious of our goals. In our decentralized organization we have a culture with strong focus on performance and every level has the responsibility for setting targets that help us reach the goals, and every level has accountability for results.

To create opportunities for all our employees to learn and grow we strive to create a work culture of respect, fairness and openness. When I meet with colleagues all over the world I am impressed by how our company culture and teams in many ways transcend borders. We allow mobility and encourage development and willingness to change.

Diversity is key to attract and keep talent as well as to boost innovation. We also ensure that our employees understand the aspects of ethics most relevant to their roles, and help prepare them to avoid or to handle ethically challenging situations.

When it comes to reducing carbon dioxide, we take increased responsibility for the environmental impact of our products by strengthening our focus on the footprint throughout their entire life-cycle. In everything we do we strive to contribute to a better future and bring value to our customers, employees and shareholders. ■ PAGE 42

What are the results this far?

The goal for reducing carbon dioxide from operations and transport has already had considerable impact in the organization since its launch in early 2019. We have seen significant investment and action across the organization to increase the share of renewable electricity and solar energy, improved forecasting to reduce air freight, and product testing using biodiesel. These measures have reduced carbon dioxide emissions from our own operations and transport of goods. We challenge ourselves and our partners to bring down emissions from transport, and there is an opportunity to improve even further in this area.

What would you say is the key to future success?

Our ability to constantly challenge and innovate. At Atlas Copco, we innovate with the customer in focus and the future in mind. We continuously improve our processes, products and services. We monitor our progress, strategies and targets and reassess them when necessary. As stakeholder and market demand is shifting, it's key that we continue to deliver the best customer value in the most sustainable way.

*Mats Rahmström, President and CEO
Nacka, Sweden, January 2020*

This is Atlas Copco

– Home of Industrial Ideas

Our industrial ideas empower our customers to grow and drive society forward.



This is how we create a better tomorrow.

Vision, mission and strategy

Atlas Copco's vision is to become and remain First in Mind—First in Choice of our customers and other stakeholders. Our mission is to achieve sustainable, profitable growth. This means that we do everything we can to create lasting value while safeguarding people, profit and the planet.

FUNDAMENTALS FOR GROWTH AND STRATEGY

PEOPLE

Attract and develop qualified and passionate people, and provide fair opportunities to grow and develop with a strong focus on performance.

INNOVATION

Invest in research and development, work closely with customers and continuously launch new products and services that increase customers' productivity and uptime.

PRESENCE

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

OPERATIONAL EXCELLENCE

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

SERVICE

Increase the service offer, perform service for a larger proportion of the products we sell, leverage digital opportunities, and thereby generate more value for customers.

To succeed with our mission, Atlas Copco strives for a leading position in selected markets and segments. This is achieved through innovations and by delivering leading differentiated technology. With products and services critical to the customers' operations, Atlas Copco strives to support customers in their success. To support profitable growth over business cycles, the Group aims to have an agile balance sheet and focuses on marketplaces with a high service potential.

DIVERSIFIED

- Diverse customer base
- Sales evenly spread between Asia, Americas, and EMEA
- Operations in Europe, Asia and America

AGILE

- Outsourced production model, 75% of production cost of equipment is purchased components
- Flexible workforce
- Continuous scenario planning
- Leadership model with clear accountability
- Transparent organization with strong follow up

RESILIENT

- 36% of sales is service business
- Asset-light operations

Creating lasting value for all stakeholders

Atlas Copco’s vision is to become and remain First in Mind—First in Choice of its customers and other principal stakeholders. The Group aims to continuously deliver sustainable, profitable growth with an increased positive impact on society and the environment, thus creating shared value. Below, we illustrate how we with a responsible use of resources – human, natural and capital – create value for customers, employees, business partners, shareholders, as well as for society and the environment.

THE RESOURCES WE PUT IN:

NATURAL RESOURCES

- 369 GWh total energy use
- 41% renewable energy of total MWh energy used in operations
- 75% purchased components

HUMAN RESOURCES

- 38 000 average number of employees
- Employees in 71 countries
- 3 300 R&D engineers generating industrial ideas and innovations

FINANCIAL RESOURCES

- Average capital employed MSEK 72 732
- MSEK 3 684 investments in innovation*

ATLAS COPCO

Vision, mission and strategy
Page 5

Innovate for customers’ success
Page 35

Close to the customer with application knowledge and professional service
Page 5

Agile setup and asset-light operations
Page 7



Decentralized leadership model
Page 9



Core values
Page 10

Sustainability priorities
Page 34

THE VALUE WE CREATE:

CUSTOMERS

- Increased productivity
- Increased safety and ergonomics in working environment
- Energy savings
- Decreased total cost of ownership

EMPLOYEES

- Employees agree there is opportunity to learn and grow in the company
- Employees agree Atlas Copco has a work culture of respect, fairness and openness

BUSINESS PARTNERS

- More than 5 000 significant suppliers
- Leverage competence
- Market access
- Long-term reliable partner
- Over 1 000 suppliers were audited for safety, health, environment and ethics

SHAREHOLDERS

- 30% return on capital employed
- MSEK 14 625 operating cash flow
- 20% annual total return A-share, 10 year

SOCIETY/ENVIRONMENT

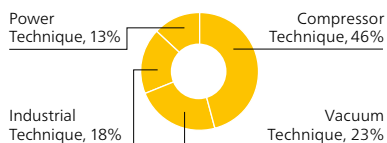
- 98% of employees have signed the Business Code of Practice
- 94% of employees were trained in the Business Code of Practice
- 10% reduced water consumption and 12% reduced CO₂ emissions from energy in operations and transport of goods
- Employment for 39 000 employees in 71 countries at year end

* Investments in product development, including capitalized expenditures

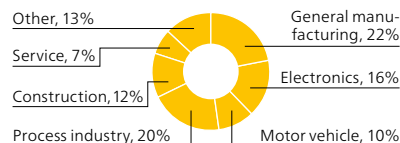
This is how we do business

Atlas Copco is characterized by focused businesses in a decentralized organization, global presence, a stable and growing service business, professional people, and an asset-light and flexible manufacturing setup. By providing professional service, technical competence and application knowledge the Group builds close customer relationships through direct and indirect channels. Atlas Copco is committed to sustainable productivity and delivering lasting value, which means that we do everything to support our customers to succeed, with a responsible use of resources – natural, human and financial resources.

Share of revenues by business area



Orders received by customer category



Share of revenues



Sales and service

Customer focus is a guiding principle for Atlas Copco. The ambition is to build close relationships with customers to help them increase their productivity in a sustainable way. Customer engagement, sales and service take place through direct and indirect channels (mainly distributors), online as well as offline, to maximize market presence. The Group has a global reach with sales in more than 180 countries.

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

About 36% of revenues are generated from service (spare parts, maintenance, repairs,

consumables, accessories, and specialty rental). These revenues are more stable than equipment sales and provide a strong base for the business.

Increase customer loyalty

Customers who have sales or service interactions with Atlas Copco receive surveys where they are asked for their opinion about the interaction and their experience. Customers are often engaged in discussions about their feedback in order 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 inhouse those components that are critical for the performance of the equipment. For other 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 about 64% 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, and we take responsibility for the products' functionality and quality. 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 and capital resources more efficiently, while ensuring highest quality.

Global reach

Atlas Copco has a global reach with sales in more than 180 countries. Sales and service is performed by employees with strong application and process knowledge.

75%

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

Agility

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

The ambition is to build close relationships with customers to support them in increasing their productivity in a sustainable way.



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

Innovation

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

A key activity is to design new or improved products that provide sustainable and 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 assembly operations.

The working capital requirements of the Group are affected by the relative high share of sales through own customer centers, which affects the amount of inventory and

receivables. 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

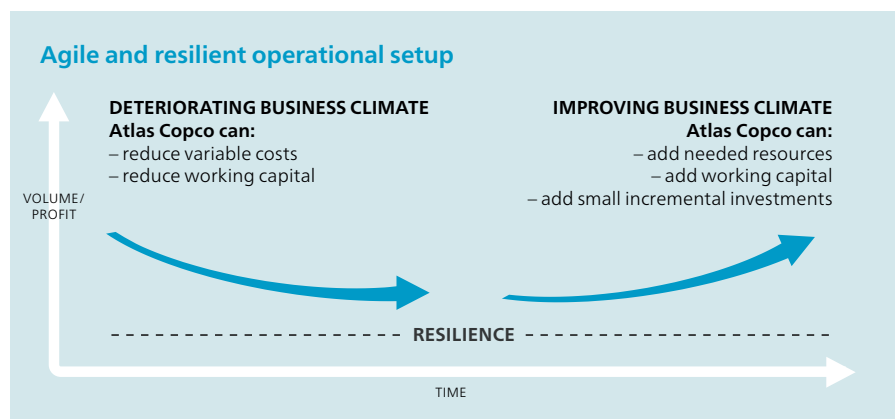
Acquisitions are primarily made in, or very close to, already existing core businesses. All divisions are required to map and evaluate businesses that are adjacent and can offer tangible synergies with existing businesses. All acquired businesses are expected to make a positive contribution to economic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

Leadership and human capital

In Atlas Copco, leadership is defined as the ability to create lasting results. 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 a

mission statement from their manager, which outlines the long-term expectations and goals and is described in both quantitative and qualitative measures. Typically a mission has a timeframe of three to five years. Based on the mission statement, the manager is expected to develop a vision, which clarifies how the mission will be achieved, as well as the strategies, the organization and the people needed 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, supported by continuous competence development and the 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.



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 (see organization chart below). 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 the 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.

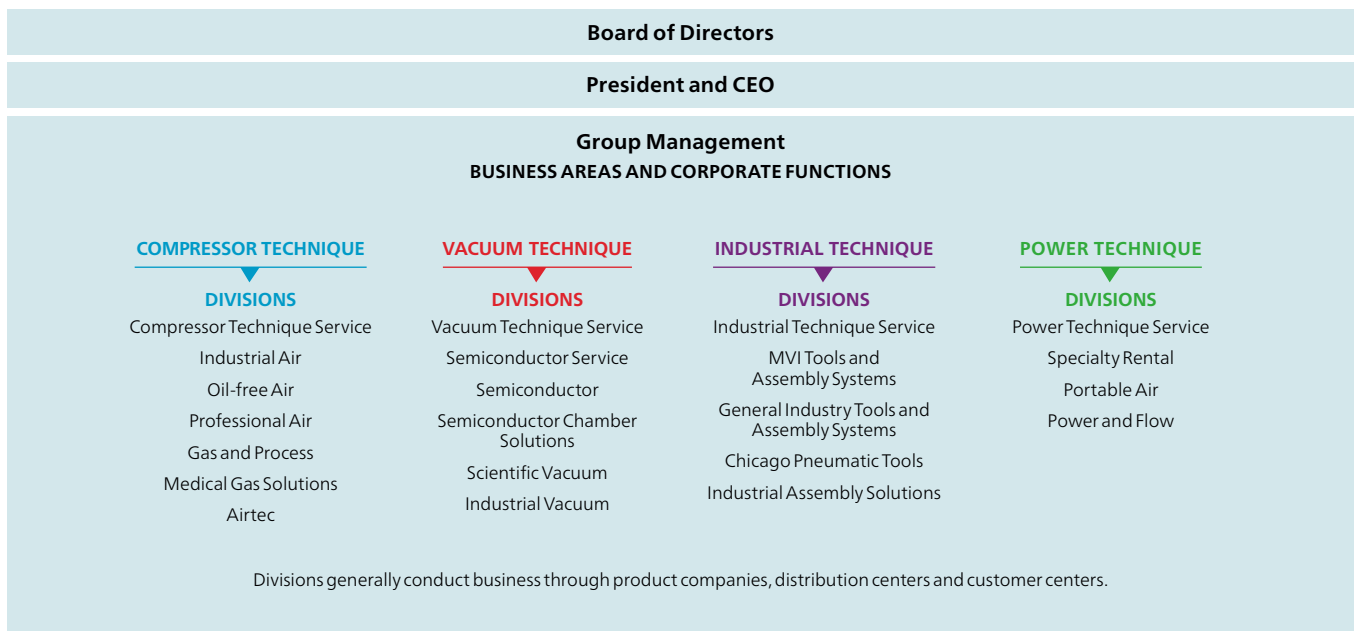
The President and CEO is responsible for the ongoing management of the Group following the Board's guidelines and instructions. The President and CEO is responsible for ensuring that the organization works towards achieving the goals for sustainable, profitable growth.

The business areas are responsible for developing their respective operations by implementing and following up on strategies

and objectives to achieve sustainable, profitable development and growth.

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), distribution centers, and several customer centers (units responsible for customer contacts, sales and service) dedicated or shared with other divisions.

As of January 1, 2020



The Atlas Copco Group is unified and strengthened through:

| | | | | |
|--|---------------------------------------|---|--|---------------------------|
| The corporate culture and the core values: interaction, commitment, and innovation | A shared vision and a common identity | Shared goals and strategic pillars for growth | One internal job market | A common leadership model |
| The sharing of resources and infrastructure/ service providers | One Group Treasury | The sharing of brand names and trademarks | Common processes and shared best practices collected in the database <i>The Way We Do Things</i> | |





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

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 many times are 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 service that increase our customers' productivity and competitiveness.

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.

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, innovation and commitment. All employees are expected to contribute by committing themselves to Group goals and to their individual performance targets.

PROCESSES

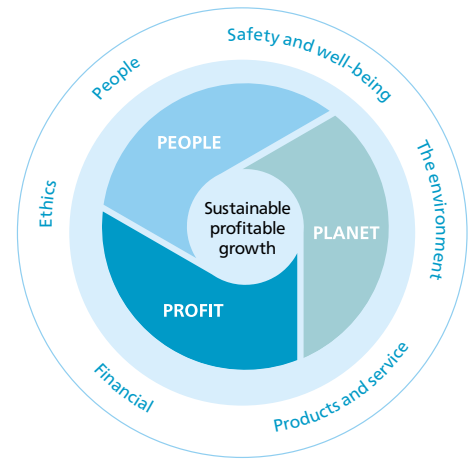
Group-wide strategies, processes, principles, guidelines, and shared best practices are gathered in the database *The Way We Do Things*. The database is available to all employees. It covers governance, safety, health, environment and quality, accounting and business control, treasury, tax, audit and internal control, information technology, people management, legal, communications and branding, risk, crisis management, administrative services, insurance, standardization, and acquisitions. 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.

THE BUSINESS CODE OF PRACTICE

Internal policy documents related to business ethics and social and environmental performance are summarized in the Atlas Copco Business Code of Practice. All employees in Group companies, as well as business partners, are expected to adhere to these policies. All employees are required to take annual ethics trainings and to sign the compliance statement annually.

Our goals

Atlas Copco sets ambitious goals to deliver sustainable, profitable growth. The goals have different time horizons: annual, three-year, a business cycle, and by 2030 for the longer-term ambitions.



SUSTAINABLE, PROFITABLE GROWTH

Sustainability plays an important part in Atlas Copco’s vision and it is an integral part of the Group’s mission. An integrated sustainable strategy, backed by ambitious goals, helps the company deliver greater value to all stakeholders in a way that is economically, environmentally and socially responsible. A goal achievement overview can be found at page 142.

Goals

| | | |
|---------------------------------------|---|--|
| <p>Financial</p> | <p>Our growth is sustainable and profitable</p> | <ul style="list-style-type: none"> – Revenue growth measured over a business cycle. Target: 8% per annum. Growth should primarily be organic, supported by selective acquisitions. – Sustained high return on capital employed by constantly striving for operational excellence and generating growth. – Earnings as dividends to shareholders. Target: about 50%. |
| <p>People</p> | <p>Our culture of collaboration and inclusion drives our success</p> | <ul style="list-style-type: none"> – The degree to which Atlas Copco employees agree there is opportunity to learn and grow should be above the global benchmark and continuously increase. – The degree to which Atlas Copco employees agree we have a work culture of respect, fairness and openness should be above the global benchmark and continuously increase. – Atlas Copco should have 30% female employees at year end 2030. <p style="text-align: right;">Additional information on page 36</p> |
| <p>Ethics</p> | <p>We are known for ethical behavior, openness and respect</p> | <ul style="list-style-type: none"> – All employees sign the Business Code of Practice. – All employees are trained in the Business Code of Practice. – All managers in risk countries lead trainings in the Business Code of Practice. – All significant suppliers sign the Business Code of Practice. – All significant distributors sign the Business Code of Practice. <p style="text-align: right;">Additional information on page 40</p> |
| <p>Products & Service</p> | <p>Our products create lasting value and make a positive impact</p> | <ul style="list-style-type: none"> – All projects for new or redesigned products have clear and specific targets for reduced environmental impact by 2021. – Projects for new and redesigned products achieve significantly reduced environmental impact. Target to be defined. <p style="text-align: right;">Additional information on page 35</p> |
| <p>Safety & Well-being</p> | <p>The way we work contributes to our safety and well-being</p> | <ul style="list-style-type: none"> – The degree to which Atlas Copco employees agree that the company takes a genuine interest in their well-being should continuously increase. – Atlas Copco should have a balanced safety pyramid, meaning that more near misses than minor injuries, and more minor injuries than recordable injuries are reported. <p style="text-align: right;">Additional information on page 39</p> |
| <p>Environment</p> | <p>Our processes minimize our impact on the environment</p> | <ul style="list-style-type: none"> – CO₂ emissions from energy in operations and transport of goods in relation to cost of sales should be reduced with 50% by 2030. – Continuous reduction of waste in relation to cost of sales. – Continuous reduction of water consumption in relation to cost of sales. – Continuous increase of significant direct suppliers with an approved environment management system. <p style="text-align: right;">Additional information on page 42</p> |

For more information about the sustainability focus areas, targets and processes, please see pages 34–43 and the sustainability notes on pages 130–140.

Contributing to the UN Sustainable Development Goals

Atlas Copco’s focus areas for sustainability are implemented in the daily operations, supported by policies, training material and monitoring tools. Concrete targets and key performance indicators are used to continuously measure performance in relation to the goals set in these areas. Progress in relation to the KPIs contributes to the achievement of the UN Sustainable Development Goals.



Increasing diversity and ensuring inclusion.

Atlas Copco promotes inclusion and diversity and strives to improve gender balance at all levels in the Group. The percentage of women in the organization was 19.8% at year end. The President and CEO has established, and chairs, a Diversity and Inclusion Council and each business area establishes its own related task force.

Page 34, 35, 36

Reducing CO₂ emissions from our operations and transport.

Atlas Copco undertakes a range of activities to reduce CO₂ emissions from energy in operations and transport of goods, such as installing solar panels, buying renewable electricity and avoiding air freight. In 2019, CO₂ emissions from energy in operations and transport of goods in relation to cost of sales decreased by 19%.

Page 34, 42

Continuously increasing the energy efficiency of products and service.

Energy efficiency in our products and service is a key selling point for Atlas Copco. The main environmental impact is in our customers’ use of our products. All projects for new and redesigned products must assess the environmental impact of the product. Products are developed with a life-cycle perspective.

Page 34, 35, 42

Zero tolerance for corruption.

This is clearly communicated in the Business Code of Practice, which Atlas Copco requires all employees and business partners to comply with. Atlas Copco holds yearly trainings in ethical dilemmas in over 30 languages. 94% of all employees took these trainings in 2019. In 2019, 90% of significant suppliers confirmed compliance with the criteria.

Page 34, 41

Working to reduce water consumption.

Local activities targeting water consumption are carried out. In 2019, the consumption of water in relation to cost of sales decreased by 17%. Since 1984 Atlas Copco has supported the employee-driven initiative “Water for All”. Since its start more than 2 million people have gained access to clean water and improved sanitation.

Page 34, 43

Focusing on ethics, safety and well-being – for employees and business partners.

Atlas Copco requires all business partners to comply with the Business Code of Practice. Child labor or forced labor is not tolerated and compliance is assessed and audited. Atlas Copco ensures the right to collective bargaining and expects the same of our business partners. In 2019, 90% of our significant suppliers confirmed their commitment to our Business Code of Practice. In 2019, Atlas Copco’s safety pyramid was balanced, meaning that more near misses than minor injuries, and more minor injuries than recordable (major) injuries were reported.

Page 34, 37, 39, 41

Making production as efficient as possible and reducing waste.

Atlas Copco seeks to decrease the total waste produced. Chemical handling follows strict protocols. Components that contain conflict minerals are not accepted and Atlas Copco monitors and screens its supply chain.

Page 34, 35, 42, 43



The year in review

Market review and demand development

The production and investment activities within Atlas Copco's customer segments were mixed and many of them were affected by the uncertain direction of the global economy in general and global trade in particular. The Group's total order intake increased 9% to a record MSEK 106 104 (97 132). The organic growth was 3%, more favorable exchange rates contributed with 5%, and acquisitions added 1%.

The service business, including specialty rental, continued to grow, with increased order volumes in all business areas. In total, the order intake for service increased about 6% organically, while orders for equipment increased by approximately 1% organically.

Order volumes increased for compressors, mainly supported by increased demand for large industrial, and gas and process compressors, particularly in Asia. Orders for small and medium-sized industrial compressors were essentially unchanged.

The demand for vacuum equipment to the semiconductor industry remained at about the same high level as in the previous year, supported primarily by increased demand in China, and investments in new production technologies in other regions. Order volumes for vacuum equipment to the industrial and scientific markets were negatively affected by weakened demand in Asia and Europe.

The order intake for advanced industrial tools and assembly solutions decreased, mainly due to weakened demand from the motor vehicle industry in the latter half of the year, particularly in Asia and North America.

Order volumes increased for portable air and power and flow products, such as portable compressors, construction tools, generators and pumps, supported by demand from equipment rental companies in the first half of the year. More information can be found in the business area sections on pages 20–33.

North America

Orders received in North America increased 5% in local currencies. Order volumes increased for larger compressors, industrial vacuum pumps, and vacuum equipment to the semiconductor industry, as well as for power equipment. However, the order intake for industrial tools and assembly solutions decreased, due to weakened demand from the motor vehicle industry. The service business increased in all business areas except Industrial Technique. North America accounted for 25% (24) of orders received.

South America

Orders received in South America increased 12% in local currencies. The growth was supported by improved demand for compressors and power equipment, while the demand for industrial tools and assembly solutions decreased. Solid growth was achieved for the service business. In total, South America accounted for 4% (4) of orders received.

Europe

Orders received in Europe increased 3% in local currencies. Order volumes for equipment remained at about the same level as the previous year. The order intake increased for most types of compressors and power equipment, but decreased for vacuum equipment, and industrial tools and assembly solutions. Order volumes for the service business increased in all business areas. In total, Europe accounted for 30% (31) of orders received.

Africa/Middle East

Orders received increased 4% in Africa/Middle East in local currencies. The order intake for larger industrial compressors as well as gas and process compressors increased, while volumes for portable compressors declined. The order intake for industrial tools and assembly solutions also increased, as well as for service, supported by strong demand for specialty rental solutions. In total, Africa/Middle East accounted for 6% (6) of orders received.

Asia/Oceania

Order intake in local currencies in Asia/Oceania increased by 4%. Order volumes increased for equipment, and solid growth was achieved for service. The order intake for compressors increased, primarily supported by the demand for portable and larger stationary compressors. Order volumes for vacuum equipment grew, driven by increased demand from the semiconductor and flat-panel display industries, particularly in China. The order intake for industrial tools and assembly solutions decreased markedly, mainly explained by weakened demand from the motor vehicle industry in China. In total, Asia/Oceania accounted for 35% (35) of orders received.

Market presence

The market presence was further strengthened with the addition of sales and service engineers in several markets.

Atlas Copco had own customer centers in 71 (71) countries and production facilities in 19 (19) countries. Revenues were reported in 182 (184) countries.

Important events

Acquisitions and divestments

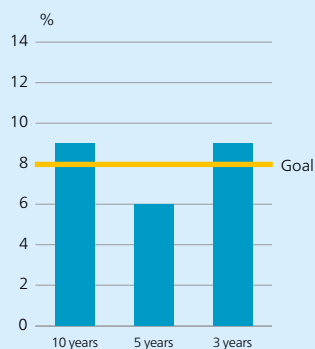
The Group completed 18 acquisitions during the year. In total, the acquisitions added net revenues of approximately MSEK 1 400. See also note 2 and the business area sections on pages 22–33.

Recognitions

Atlas Copco was once again included in the FTSE4Good Index, and was reconfirmed as a constituent of the Ethibel Sustainability Index Excellence Europe and the Ethibel Sustainability Index Excellence Global. Atlas Copco was also awarded "Prime" status in the Oekom Corporate Rating.

Financial goals – growth and return development

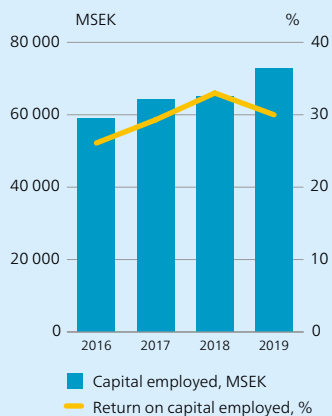
Annual revenue growth rate, average*



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.

* Figures for the years between 2010 and 2017 are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

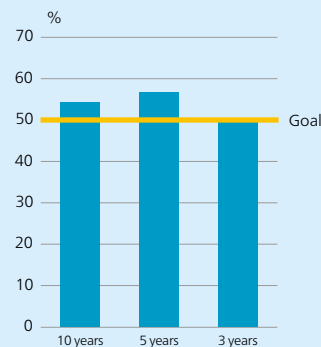
Capital employed and return*



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

Dividend/earnings per share, average*

including discontinued operations



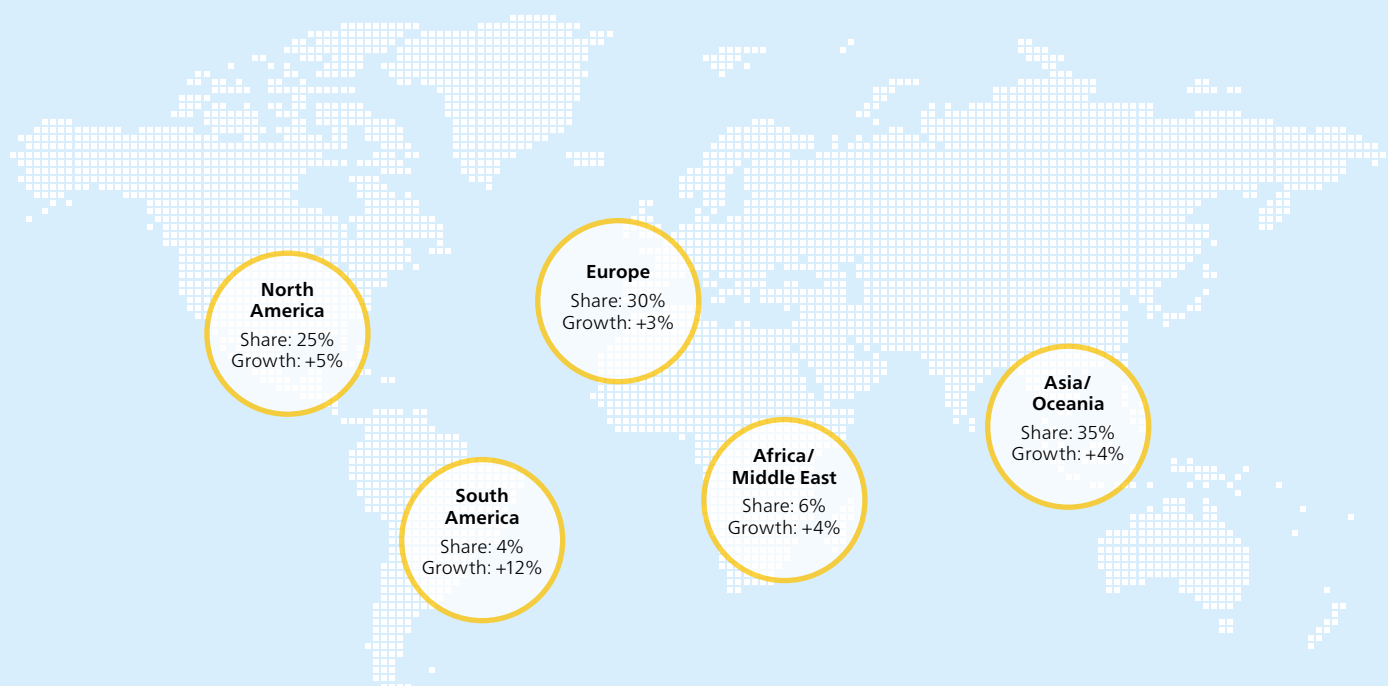
Atlas Copco aims to have a strong and cost-efficient financing of the business. The priority for the use of capital is to develop and grow the business. The strong profitability and cash generation allow the Group to do that and at the same time have the ambition to distribute about 50% of earnings as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

Dividend policy history

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

* Dividend for 2019 is based the proposal from the Board of Directors

Orders received by region and order growth in local currency



Revenues and return

Revenues

The Group's revenues increased 2% organically and 9% in total to a record MSEK 103 756 (95 363). The goal is to achieve an annual revenue growth of 8% over a business cycle. For the period 2010–2019, the average annual revenue growth has been approximately 9%*.

Operating profit

The operating profit reached an all-time high of MSEK 21 897 (21 187), corresponding to a margin of 21.1% (22.2). Items affecting comparability were MSEK –780 (52) and the adjusted operating margin was 21.9% (22.2). See also the sales and profit bridge below.

The operating profit for the Compressor Technique business area increased 9% to MSEK 11 198 (10 263), corresponding to a margin of 23.2% (23.3). The margin was supported by currency and increased volumes, but negatively affected by dilution from acquisitions.

The operating profit for the Vacuum Technique business area increased 5% to MSEK 5 792 (5 522), corresponding to a margin of 24.6% (25.1). The margin was supported by currency, but negatively affected by costs in operations and dilution from acquisitions.

The operating profit for the Industrial Technique business area decreased 3% to MSEK 4 069 (4 188), and includes items affecting comparability of MSEK –117, related to restructuring costs. The operating margin was 21.7% (23.4). The adjusted operating margin was 22.4% (23.4), supported by currency but negatively affected by sales mix and new investments in research and development.

The operating profit for the Power Technique business area increased 15% to MSEK 2 308 (2 006). The operating margin was 16.6% (16.7), supported by higher revenue volumes but negatively affected by dilution from acquisitions. Currency had no impact on the margin.

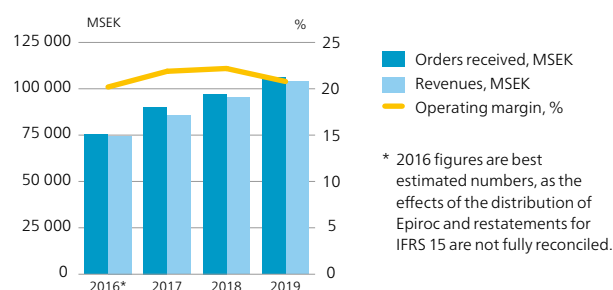
Net costs for common Group items and eliminations were MSEK –1 470 (–792). The increase was primarily due to items affecting comparability (provisions for share-related long-term incentive programs) of MSEK –663 (–18).

* Figures for the years 2010–2016 are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

| Sales bridge, Atlas Copco Group | | |
|------------------------------------|-----------------|----------------|
| | Orders received | Revenues |
| 2018, MSEK | 97 132 | 95 363 |
| Structural change, % | +1 | +2 |
| Currency, % | +5 | +5 |
| Organic *, % | +3 | +2 |
| Total, % | +9 | +9 |
| 2019, MSEK | 106 104 | 103 756 |

* Volume, price and mix

Orders received, revenues
and operating margin



| Sales bridge | Compressor Technique | | Vacuum Technique | | Industrial Technique | | Power Technique | |
|----------------------|----------------------|---------------|------------------|---------------|----------------------|---------------|-----------------|---------------|
| | Orders received | Revenues | Orders received | Revenues | Orders received | Revenues | Orders received | Revenues |
| 2018, MSEK | 45 580 | 43 972 | 21 471 | 22 007 | 18 264 | 17 933 | 12 498 | 12 042 |
| Structural change, % | +1 | +1 | +3 | +3 | +0 | +0 | +0 | +0 |
| Currency, % | +5 | +5 | +7 | +6 | +5 | +5 | +5 | +5 |
| Organic *, % | +5 | +4 | +1 | –2 | –5 | –1 | +7 | +11 |
| Total, % | +11 | +10 | +11 | +7 | +0 | +4 | +12 | +16 |
| 2019, MSEK | 50 654 | 48 286 | 23 876 | 23 570 | 18 267 | 18 712 | 13 954 | 13 915 |

* Volume, price and mix

| Bridge – revenues and operating profit, MSEK | 2019 | Volume, price, mix and other | Currency | Acquisitions | Items affecting comparability | Share-based long-term incentive programs | 2018 |
|---|---------|---------------------------------|----------|--------------|----------------------------------|---|--------|
| Revenues | 103 756 | 2 033 | 4 980 | 1 380 | – | – | 95 363 |
| Operating profit | 21 897 | –145 | 1 650 | 37 | –187 | –645 | 21 187 |
| Effect on margin, % | 21.1 | | | | | | 22.2 |

Depreciation and EBITDA

Depreciation, amortization and impairment cost were MSEK 4 700 (3 323) and earnings before depreciation and amortization, EBITDA, reached MSEK 26 597 (24 510), corresponding to a margin of 25.6% (25.7).

Net financial items

The Group's net financial items totaled MSEK –325 (–343). The net interest expense decreased to MSEK –359 (–644). Other financial items were MSEK 34 (301). The previous year included a tax-free gain of MSEK 362 from repatriation to Sweden of Euro-denominated equity. See notes 8 and 27.

Profit before tax

Profit before tax increased 3% to MSEK 21 572 (20 844), corresponding to a profit margin of 20.8% (21.9). Excluding items affecting comparability, profit before tax was MSEK 22 352 (20 430).

Taxes

Taxes for the year amounted to MSEK 5 029 (4 508), corresponding to an effective tax rate of 23.3% (21.6) in relation to profit before tax. Previous year's lower tax rate was mainly due to lower corporate income tax rates in a few countries and tax refunds related to prior years. See note 9.

Profit and earnings per share

Profit for the year increased 1% to MSEK 16 543 (16 336). This corresponds to basic and diluted earnings per share of SEK 13.60 (13.45) and SEK 13.59 (13.43) respectively.

| Depreciation, amortization and impairment, MSEK | 2019 | 2018 |
|---|--------------|--------------|
| Rental equipment | 727 | 595 |
| Other property, plant and equipment | 1 295 | 1 249 |
| Right-of-use assets | 1 050 | – |
| Intangible assets | 1 628 | 1 479 |
| Total | 4 700 | 3 323 |

| Key financial data, MSEK | 2019 | 2018 | Change, % |
|--|---------|---------|-----------|
| Orders received | 106 104 | 97 132 | +9 |
| Revenues | 103 756 | 95 363 | +9 |
| EBITDA | 26 597 | 24 510 | +9 |
| – in % of revenues | 25.6 | 25.7 | |
| Operating profit | 21 897 | 21 187 | +3 |
| – in % of revenues | 21.1 | 22.2 | |
| Adjusted operating profit | 22 677 | 21 135 | +7 |
| – in % of revenues | 21.9 | 22.2 | |
| Profit before tax | 21 572 | 20 844 | +3 |
| – in % of revenues | 20.8 | 21.9 | |
| Profit for the year, continuing operations | 16 543 | 16 336 | +1 |
| Profit for the year from discontinued operations | – | 90 099 | |
| Profit for the year | 16 543 | 106 435 | |
| Basic earnings per share, SEK | 13.60 | 87.49 | |
| of which continuing operations per share, SEK | 13.60 | 13.45 | |
| Diluted earnings per share, SEK | 13.59 | 87.36 | |
| of which continuing operations per share, SEK | 13.59 | 13.43 | |

Revenues and operating profit, MSEK

| | Revenues | | Operating profit | | Operating margin, % | | Return on capital employed, % | | Investments in tangible fixed assets ¹⁾ | |
|-------------------------------------|----------------|---------------|------------------|---------------|---------------------|-------------|-------------------------------|-----------|--|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Compressor Technique | 48 286 | 43 972 | 11 198 | 10 263 | 23.2 | 23.3 | 87 | 107 | 860 | 472 |
| Vacuum Technique | 23 570 | 22 007 | 5 792 | 5 522 | 24.6 | 25.1 | 22 | 27 | 404 | 844 |
| Industrial Technique | 18 712 | 17 933 | 4 069 | 4 188 | 21.7 | 23.4 | 35 | 40 | 247 | 256 |
| Power Technique | 13 915 | 12 042 | 2 308 | 2 006 | 16.6 | 16.7 | 28 | 28 | 1 303 | 1 201 |
| Common Group functions/eliminations | –727 | –591 | –1 470 | –792 | | | | | –12 | 26 |
| Total Group | 103 756 | 95 363 | 21 897 | 21 187 | 21.1 | 22.2 | 30 | 33 | 2 802 | 2 799 |

¹⁾ Excluding assets leased

Balance sheet

The Group's total assets increased 16% to MSEK 111 722 (96 670). Cash, cash equivalents and other current financial assets decreased to MSEK 15 130 (16 516), as a net effect of strong operational cash generation, dividend to shareholders and acquisitions.

Working capital ratios

The ratio of inventories to revenues at year end increased to 14.0% (13.3), and trade receivables were 19.8% (19.8). Trade payables decreased to 11.5% (13.1).

Capital turnover

The capital turnover ratio was 0.98 (0.99) and the capital employed turnover ratio was 1.43 (1.47).

Equity

At year end, Group equity including non-controlling interests was MSEK 53 290 (42 472), corresponding to 48% (44) of total assets. Equity per share was SEK 44 (35). Atlas Copco's market capitalization at year end was BSEK 440 (252), an increase of 75%. 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 was MSEK 17 475 (108 619), see page 63 and note 10. Shareholders' transactions include dividends totaling MSEK -7 663 (-8 496), sales and repurchases of own shares of net MSEK 1 287 (-198), and share-based payments of net MSEK -281 (-13). The previous year dividend preceded the distribution of Epiroc AB in June 2018. The previous year also included a mandatory redemption of shares of MSEK -9 705 and the distribution of Epiroc AB of MSEK -108 299. See page 65 and note 20.

Return on capital employed and return on equity

Return on capital employed reached 30% (33) and the return on equity was 35% (34). The Group uses a weighted average cost of capital (WACC) of 8% (8) as an investment and overall performance benchmark.

| Balance sheet in summary, MSEK | Dec 31, 2019 | Dec 31, 2018 |
|---------------------------------------|---------------------|---------------------|
| Intangible assets | 36 549 | 30 025 |
| Rental equipment | 2 858 | 2 288 |
| Other property, plant and equipment | 8 021 | 8 099 |
| Right-of-use assets | 3 557 | - |
| Other fixed assets | 3 244 | 2 520 |
| Inventories | 14 501 | 12 718 |
| Receivables | 27 861 | 24 503 |
| Current financial assets | 125 | 102 |
| Cash and cash equivalents | 15 005 | 16 414 |
| Assets classified as held for sale | 1 | 1 |
| Total assets | 111 722 | 96 670 |
| Total equity | 53 290 | 42 472 |
| Interest-bearing liabilities | 27 143 | 23 218 |
| Non-interest-bearing liabilities | 31 289 | 30 980 |
| Total equity and liabilities | 111 722 | 96 670 |

| Equity, MSEK | 2019 | 2018 |
|---|-------------|-------------|
| Opening balance | 42 472 | 60 601 |
| Change in accounting principles | - | -37 |
| Profit for the year | 16 543 | 106 435 |
| Distribution of Epiroc AB | - | -108 299 |
| Other comprehensive income for the year | 932 | 2 184 |
| Shareholders' transactions | -6 657 | -18 412 |
| Closing balance | 53 290 | 42 472 |
| Equity attributable to | | |
| - owners of the parent | 53 231 | 42 425 |
| - non-controlling interests | 59 | 47 |

Interest-bearing debt and net indebtedness

Total interest-bearing debt was MSEK 27 143 (23 218), whereof post-employment benefits MSEK 3 488 (2 837). The Group has an average maturity of 5.6 years on interest-bearing liabilities. See notes 21 and 23 for additional information. The Group's net indebtedness, amounted to MSEK 12 013 (6 702) at year end. The net debt/EBITDA ratio was 0.5 (0.3) and the debt/equity ratio was 23% (16).

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+/A and A+/F1+, respectively.

Operating cash flow and investments (previous year including discontinued operations)

Operating cash surplus was MSEK 26 696 (28 444). Cash flows from financial items were MSEK –610 (–675) where the change is primarily due to cash flows from currency hedges of loans of MSEK –451 (–211), where the offsetting cash flow from the loans occurs in the future. Net pension funding and payments were MSEK –376 (–392). The working capital increased by MSEK 2 971 (increase of 3 391), impacted by increased revenues and the related increase in inventories and trade receivables. Net investments in rental equipment were MSEK 1 087 (1 276).

Gross investments in property, plant and equipment decreased to MSEK 1 662 (2 000) and cash received from sale of property, plant and equipment were MSEK 718 (78). The latter includes proceeds from sale and leaseback transactions in the US of approximately MSEK 600. Notable investments in 2019 were made by Vacuum Technique in the United States, by Industrial Technique in France and in the United States, and by Power Technique in the United States. Investments by Compressor Technique were spread over many different locations.

Net investments in intangible fixed assets, mainly related to capitalization of development expenditures, were MSEK 1 016 (846). Net investments in other assets were MSEK 18 (124).

In total, operating cash flow was MSEK 14 625 (approximately 13 500). The total operating cash flow, including discontinued operations, for the previous year was MSEK 14 133.

| Calculation of operating cash flow, MSEK | 2019 | 2018* |
|---|---------------|---------------|
| Operating cash surplus | 26 696 | 28 444 |
| Net financial items | –610 | –675 |
| Taxes paid | –5 501 | –5 896 |
| Pension funding | –376 | –392 |
| Change in working capital | –2 971 | –3 391 |
| Increase in rental equipment, net | –1 087 | –1 276 |
| Cash flows from operating activities | 16 151 | 16 814 |
| Investments of property, plant and equipment, net | –944 | –1 922 |
| Other investments, net | –1 033 | –970 |
| Cash flow from investments | –1 977 | –2 892 |
| Adjustment for currency hedges of loans | 451 | 211 |
| Operating cash flow | 14 625 | 14 133 |

* Includes discontinued operations

Cash flow from structural changes

The net cash flow from structural changes, i.e. acquisitions and divestments amounted to MSEK –7 706 (–1 409). See also note 2.

Cash flow from financing (previous year including discontinued operations)

Dividends paid amounted to MSEK –7 663 (–8 496). The previous year also had a cash outflow from the mandatory redemption of shares of MSEK –9 705 (see note 20). Sales and repurchases of own shares resulted in a net of MSEK –1 287 (–198), all related to hedging or deliveries of shares for the long-term incentive plans described on page 94. Change in interest-bearing liabilities was MSEK –1 648 (800).

Employees

In 2019, the average number of employees in the Group increased by 1 911 to 37 805. At year end, the number of employees was 38 774 (36 862) and the number of consultants/external workforce was 3 225 (3 195). For comparable units, the total workforce increased by 1 055. See also note 5.

| Average number of employees | 2019 | 2018 |
|-----------------------------|--------|--------|
| Atlas Copco Group | 37 805 | 35 894 |
| – Sweden | 1 414 | 1 329 |
| – Outside Sweden | 36 391 | 34 565 |
| Business areas | | |
| – Compressor Technique | 17 937 | 16 981 |
| – Vacuum Technique | 7 509 | 7 064 |
| – Industrial Technique | 7 586 | 7 321 |
| – Power Technique | 3 989 | 3 778 |
| – Common Group functions | 784 | 750 |

Parent Company

Atlas Copco AB is the ultimate Parent Company of the Atlas Copco Group and is headquartered in Nacka, Sweden.

Earnings

Profit before tax amounted to MSEK 11 374 (132 869). The previous year included an effect of intra-Group reorganizations, including capitalization, sales, and distribution of shares in subsidiaries. Profit for the year amounted to MSEK 11 341 (132 847).

Financing

The total assets of the Parent Company were MSEK 174 923 (228 508). At year end 2019, cash and cash equivalents amounted to MSEK 36 (5 906) and interest-bearing liabilities amounted to MSEK 23 949 (82 385), whereof the main part is Group internal loans. Equity represented 86% (64) of total assets and the non-restricted equity totaled MSEK 144 215 (139 521).

Employees

The average number of employees in the Parent Company was 102 (99).

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 other Group companies are exposed. A financial risk management committee meets regularly to make decisions about how to manage these risks. See also Risks, risk management and opportunities on pages 44–48.

Appropriation of profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 7.00 (6.30) per share be paid for the 2019 fiscal year. Excluding shares currently held by the Company, the proposed dividend corresponds to a total of MSEK 8 519 (7 640).

In order to facilitate a more efficient cash management, the dividend is proposed to be paid in two equal instalments, the first with record date April 27, 2020 and the second with record date October 26, 2020.

SEK

| | |
|---|------------------------|
| Retained earnings including reserve for fair value | 132 874 385 406 |
| Profit for the year | 11 341 490 775 |
| | 144 215 876 181 |
| The Board of Directors proposes that these earnings be appropriated as follows: | |
| To the shareholders, a dividend of SEK 7.00 per share | 8 519 323 848 |
| To be retained in the business | 135 696 552 333 |
| Total | 144 215 876 181 |

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 12 557 941 class A shares and 8 899 class B shares held by Atlas Copco, 1 217 046 264 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 2019, Investor AB held a total of 207 754 141 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 to 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.

Statutory sustainability report

Atlas Copco has prepared a sustainability report in accordance with the Global Reporting Initiative's guidelines (GRI Standards). The sustainability report has been prepared in accordance with disclosure requirements set out in the Swedish Annual Accounts Act chapter 6 paragraph 11. The scope and content of the sustainability report is defined on page 136.

Business areas



Atlas Copco is a world-leading provider of sustainable productivity solutions. The Group offers customers innovative compressors, air treatment systems, vacuum solutions, industrial power tools and assembly systems, and power and flow solutions.

Atlas Copco develops products and services 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 more than 180 countries. In 2019, Atlas Copco had revenues of MSEK 104 (EUR10) and at year end about 39 000 employees.

| Key figures, MSEK | 2019 | 2018 | Change, % |
|-------------------------------|---------|--------|-----------|
| Orders received | 106 104 | 97 132 | 9% |
| Revenues | 103 756 | 95 363 | 9% |
| Operating profit | 21 897 | 21 187 | 3% |
| Operating margin, % | 21.1 | 22.2 | |
| Return on capital employed, % | 30 | 33 | |
| Investments | 2 802 | 2 799 | |
| Average number of employees | 37 805 | 35 894 | |

Compressor Technique, page 22



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 mainly for the manufacturing and process industries.

| Key figures, MSEK | 2019 | 2018 | Change, % |
|-------------------------------|--------|--------|-----------|
| Orders received | 50 654 | 45 580 | 11% |
| Revenues | 48 286 | 43 972 | 10% |
| Operating profit | 11 198 | 10 263 | 9% |
| Operating margin, % | 23.2 | 23.3 | |
| Return on capital employed, % | 87 | 107 | |
| Investments | 860 | 472 | |
| Average number of employees | 17 937 | 16 981 | |

Vacuum Technique, page 25



The Vacuum Technique business area provides vacuum products, exhaust management systems, valves and related products. 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.

| Key figures, MSEK | 2019 | 2018 | Change, % |
|-------------------------------|--------|--------|-----------|
| Orders received | 23 876 | 21 471 | 11% |
| Revenues | 23 570 | 22 007 | 7% |
| Operating profit | 5 792 | 5 522 | 5% |
| Operating margin, % | 24.6 | 25.1 | |
| Return on capital employed, % | 22 | 27 | |
| Investments | 404 | 844 | |
| Average number of employees | 7 509 | 7 064 | |

Industrial Technique, page 28



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, aerospace, general industries and maintenance and vehicle service industries.

| Key figures, MSEK | 2019 | 2018 | Change, % |
|-------------------------------|--------|--------|-----------|
| Orders received | 18 267 | 18 264 | 0% |
| Revenues | 18 712 | 17 933 | 4% |
| Operating profit | 4 069 | 4 188 | -3% |
| Operating margin, % | 21.7 | 23.4 | |
| Return on capital employed, % | 35 | 40 | |
| Investments | 247 | 256 | |
| Average number of employees | 7 586 | 7 321 | |

Power Technique, page 31



The Power Technique business area provides air, power and flow solutions through products such as mobile compressors, pumps, light towers and generators, along with a number of complementary products. It also offers specialty rental and provides services through a dedicated, global network. Guided by a forward-thinking approach to innovation, Power Technique provides sustainable productivity solutions across multiple industries, including construction, manufacturing, oil and gas, and exploration drilling.

| Key figures, MSEK | 2019 | 2018 | Change, % |
|-------------------------------|--------|--------|-----------|
| Orders received | 13 954 | 12 498 | 12% |
| Revenues | 13 915 | 12 042 | 16% |
| Operating profit | 2 308 | 2 006 | 15% |
| Operating margin, % | 16.6 | 16.7 | |
| Return on capital employed, % | 28 | 28 | |
| Investments | 1 303 | 1 201 | |
| Average number of employees | 3 989 | 3 778 | |

Compressor Technique



Order volumes for both equipment and services increased. Growth was achieved in all regions. The growth for equipment was primarily driven by increased demand for larger compressors. The business area continued to invest in market presence, product development, service, and connectivity. In addition, 14 acquisitions were completed during the year.

Market development

The demand for the business area's equipment and services remained strong and order volumes increased. In total, the order intake increased 5% organically.

The service business continued to grow, primarily due to increased demand in Europe, Asia and South America. Order volumes in North America and Africa/Middle East were on about the same level as the previous year.

Order volumes for equipment increased in all regions. The strongest growth was achieved in Europe and Asia.

The order intake for large industrial compressors increased markedly, particularly in the latter half of the year, while order volumes for small and medium-sized industrial compressors remained at about the same level as the previous year. The demand for gas and process compressors was strong, and order volumes increased significantly in the year. Solid growth was achieved in all regions.

Market presence and organizational development

The business area continued to invest in innovation and market presence by adding resources in research and development, marketing and sales, as well as in service. Several new innovative products were introduced to the market, both for the oil-free and oil-injected compressor product ranges. The service offer was also strengthened, with an increased focus on connectivity and data analytics to support customer needs as one example. The business continued to improve

its engagement with customers in digital channels through online presence and improved CRM-systems.

Through several selected acquisitions, the business area increased its presence in targeted markets and customer segments.

The work to reduce the environmental footprint continued, and as an example, investments in 100% renewable energy in a production plant for gas and process compressors in Germany were made.

Acquisitions

The business area made 14 acquisitions in 2019. 11 distributors were acquired, of which four in the US, two in Canada, three in Germany, and two in France. In addition, the following three acquisitions were made:

- Eurochiller S.r.l., an Italian manufacturer and distributor of industrial cooling equipment and related products. The company had around 90 employees and revenues of approximately MEUR 26 (MSEK 267) in 2018.
- Class 1 Incorporated, a Canadian full-service supplier in medical gas solutions offering design, manufacturing, installation, distribution and service of medical gas solutions. The company had around 50 employees and revenues of approximately MCAD 9 (MSEK 130) in 2018.
- The operating assets of MGES Inc., a service supplier of medical gas solutions including distribution and service of medical gas systems. The business had 11 employees and revenues of approximately MUSD 5 (MSEK 48) in 2018. The company is based in the US.

Revenues, profits and returns

Revenues increased 10% and reached a record of MSEK 48 286 (43 972), corresponding to a 4% organic increase. Operating profit increased 9% to a record of MSEK 11 198 (10 263), corresponding to a margin of 23.2% (23.3). The operating margin was supported by currency and increased volumes, but negatively affected by dilution from acquisitions. The return on capital employed was 87% (107).

REVENUES, MSEK

48 286

2018: 43 972

OPERATING PROFIT MARGIN

23.2%

2018: 23.3%

RETURN ON CAPITAL EMPLOYED

87%

2018: 107%

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



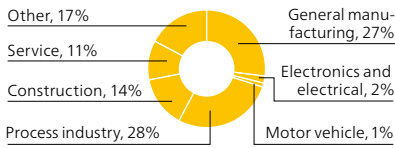
* 2016 figures not restated per IFRS 15

Sales bridge

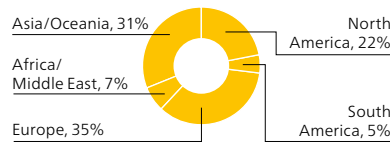
| | Orders received | Revenues |
|----------------------|-----------------|---------------|
| 2018, MSEK | 45 580 | 43 972 |
| Structural change, % | +1 | +1 |
| Currency, % | +5 | +5 |
| Organic*, % | +5 | +4 |
| Total, % | +11 | +10 |
| 2019, MSEK | 50 654 | 48 286 |

* Volume, price and mix

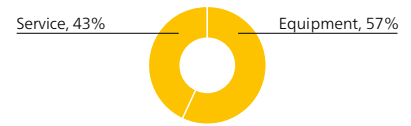
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



The market

The global market for compressed air equipment, air and gas treatment equipment 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, at 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.

Stationary industrial air compressors and associated air-treatment products, spare parts and service represent about 90% of sales. Large gas and process compressors, including related service represent about 10%.

Market trends

- Continued focus on energy efficiency/ savings, energy recovery and reduction of CO₂ emissions
- Increased demand for service and monitoring of compressed air installations
- Focus on total solution and total life-cycle cost
- New applications for compressed air

Demand drivers

- Industrial production
- Investments in machinery
- Energy costs
- Environmental regulations

Vision and strategy

The vision is to be First in Mind—First in Choice as a supplier of compressed air and gas 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, and compressor solutions for trains, ships, and hospitals. The business area is actively looking at acquiring complementary businesses.

Strategic activities

- Intensified focus on research and development
- Increase focus on digitalization and connected products
- 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 at current customers and adjacent segments and applications
- Perform more service on a higher share of the installed base of equipment
- Increase operational efficiency
- Further investments in employees and their competence development
- Acquire complementary businesses

Competition

Compressor Technique's principal competitors in the market for industrial compressors and air treatment equipment are Ingersoll-Rand, Kaeser, Hitachi, 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.

Market position

A leading market position globally in most of its operations.

State of the art oil-free compressors for a wide variety of customers

5 574 metric tonnes of CO₂ avoided annually which corresponds to:

1 183 passenger cars driven for one year

Energy savings: **11%**

With the introduction of the ZR VSD+ oil-free compressor concept a quantum leap is reached in the efficiency of oil-free screw compressors. Compared to the previous generation of ZR VSD compressors, the new generation brings energy

savings of on average 11% (5 to 20% depending on the required flow and pressure). Customers also benefit from a higher maximum flow, a larger turn-down or achievable minimum flow to maximize efficiency, and a longer design lifetime of the compressor elements. To achieve this, all core components have been redesigned; new compressor elements, new permanent magnet motors, new drive system, a new Elektronikon controller, and a new cooler package.

The new ZR VSD+ oil-free compressor series are available between 90 and 160 kW which covers a wide variety of customer applications in industries like food and beverage, pharmaceutical, specialty chemicals, electronics, textile, pulp and paper, and

the energy sector. With the sales volumes reached in 2019, the ZR VSD+ saves around 5 574 metric tonnes of CO₂ on an annual basis compared with the previous generation of ZR VSD compressors.



Products and applications

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



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



Gas and process compressors supply large amounts of air or gas for processes across many industries



Piston compressor for various industrial applications

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 single-stage and multi-stage centrifugal, or turbo compressors, which are complemented by turbo expanders.

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.

Principal product development and manufacturing units are located in:

Belgium, the United States, China, India, Germany and Italy

Innovations during 2019

Several new products were introduced during the year, including:

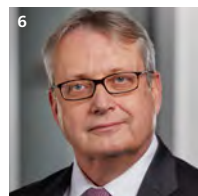
A new digital platform for the medical sector providing 24/7 presence and a full equipment management solution for customers.

A blower with half the size compared with the previous model, 10% more energy efficient and 30% more flow generation.

A new oil-injected compressor targeting the Asian market, with variable speed drive, permanent magnet motors, and connectivity will offer energy savings for customers.

A new oil-free turbo compressor combining high flow, low energy consumption, and a configurable design that can be modified to fit specific customer needs.

MANAGEMENT Compressor Technique, January 1, 2020



BUSINESS AREA PRESIDENT: Vagner Rego

DIVISIONS:

1. Compressor Technique Service

President Dirk Beyts

2. Industrial Air

President Joeri Ooms

3. Oil-free Air

President Philippe Ernens

4. Professional Air

President Alain Lefranc

5. Medical Gas Solutions

President Ben Van Hove

6. Gas and Process

President Robert Radimeczky

7. Airtec

President Wouter Ceulemans

Vacuum Technique



Order volumes for vacuum service increased while the demand for vacuum equipment remained at about the same level as the previous year. The development of equipment orders to the semiconductor and flat panel display market was slightly more favorable than industrial and scientific customers. Additional technology was added to the offer through the acquisition of Brooks' Semiconductor Cryogenics Business.

Market development

The demand for vacuum equipment and services remained on a high level with slightly increased order volumes. Overall, the order intake increased 1% organically.

The service business achieved solid order growth in all major regions supported by increased demand from both industrial and scientific customers and the semiconductor and flat panel industry.

The order intake for equipment was essentially unchanged. Order volumes for vacuum equipment to the semiconductor and flat panel industry was primarily supported by increased demand in China, and significant customers' investment in new production technologies in other regions.

Order volumes for industrial and scientific vacuum applications decreased, mainly due to weakened demand in Asia and Europe. Overall, equipment orders increased in North America and Asia, but decreased in Europe.

Market presence and organizational development

The business area continued to invest in innovation, market presence, research and development, marketing, sales, and service. Additional resources were added to research and development to increase the focus on innovation.

Several products with new technology were introduced to the market during the year, both for semiconductor applications and for the industrial and scientific market. Through the acquisition of Brooks' Semiconductor Cryogenics Business, additional tech-

nology was added to the offer. The acquired business is organized in a separate division, Semiconductor Chamber Solutions, effective as from January 1, 2020.

In sales, resources were added, particularly for the industrial and scientific markets in Asia. Investments were also made to develop connectivity capabilities and data analytics to support customer needs.

During the year, the business invested in an innovation center and a factory for the production of vacuum systems in Oregon, USA. The work to reduce the environmental footprint continued, and as an example, the vacuum equipment factory in Cologne, Germany, is now powered with 100% renewable energy.

Acquisitions

On July 1, 2019, Atlas Copco completed the acquisition of Brooks' Semiconductor Cryogenics Business for the agreed consideration of MUSD 675. The acquisition includes cryo pump operations located in Chelmsford, USA, and Monterrey, Mexico, together with a worldwide network of sales and service centers, and a 50% share of Ulvac Cryogenics, Inc., (UCI). Note that the revenues from UCI are not consolidated into Atlas Copco's revenues. Instead, the Group's share of the result after tax is treated as result from joint ventures.

The Cryogenics Business is consolidated as from July 1, 2019, and is a part of Atlas Copco's business area Vacuum Technique. For more information see note 2.

Revenues, profits and returns

Revenues increased 7% to MSEK 23 570 (22 007), corresponding to a 2% organic decline. Operating profit increased 5% to MSEK 5 792 (5 522), corresponding to a margin of 24.6% (25.1). The operating margin was supported by currency, but negatively affected by costs in operations and dilution from acquisitions. Return on capital employed was 22% (27).

REVENUES, MSEK

23 570

2018: 22 007

OPERATING PROFIT MARGIN

24.6%

2018: 25.1%

RETURN ON CAPITAL EMPLOYED

22%

2018: 27%

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



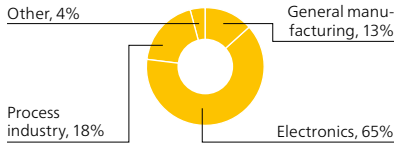
* 2016 figures not restated per IFRS 15

Sales bridge

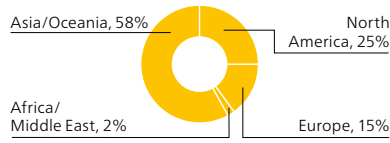
| | Orders received | Revenues |
|----------------------|-----------------|---------------|
| 2018, MSEK | 21 471 | 22 007 |
| Structural change, % | +3 | +3 |
| Currency, % | +7 | +6 |
| Organic*, % | +1 | -2 |
| Total, % | +11 | +7 |
| 2019, MSEK | 23 876 | 23 570 |

* Volume, price and mix

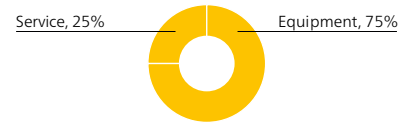
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



The market

Vacuum and abatement 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.

The Vacuum Technique business area sells products, systems and services across several targeted market sectors.

The market can be categorized in semiconductor, industrial vacuum and scientific vacuum. However, each of these sectors contains several sub-sectors and specific applications.

Vacuum products include a broad range of dry pumps, turbomolecular pumps and other vacuum pumps. These are used to create highly-controlled, low-pressure, particle-free environments for a diverse set of manufacturing processes such as semiconductor, flat panel display, LED and solar, glass and optical coating, scientific instruments used in life sciences, research institutes focused on renewable energy, high-energy lasers and nanotechnology, pharmaceuticals, heat treatment, lithium-ion batteries, and food processing and packaging.

Abatement systems include stand-alone and customized solutions which integrate vacuum and exhaust management technologies. Abatement is required both to prevent adverse chemical reactions within production processes and to comply with strict regulatory emission controls. The business area also provides value-added services including equipment monitoring, field and on-site servicing, remanufacturing, service upgrades and provision of spare parts and oils.

Market trends

- Increased use of demanding materials and production environments in processes for semiconductor and industrial production
- Focus on energy-efficiency savings
- Continued trend towards companies being compliant to strict regulatory emission standards
- Increased demand for digitally supported service offers
- Focus on total solutions and total life-cycle cost

Demand drivers

- Industrial production
- Manufacturing of semiconductors, research and development equipment, lithium-ion batteries, flat panel display and solar energy products
- Demand for energy-efficiency vacuum pumps
- Increase in vacuum requirements to support new production processes

Vision and strategy

The vision is to be First in Mind—First in Choice for vacuum and abatement solutions. The strategy is focused on technology leadership, market leadership, and agility to support growth drivers. This will be done by focusing on product research and development programs together with deployment of highly innovative products and services. Continued execution of market leadership will be done by an organization focused on agility, growing market share in our traditional heartlands and further expansion of the geographical footprint.

Additionally, the business area has a strong focus on developing the service business and an efficient and flexible global operations footprint.

Strategic activities

- Increase market coverage and improve presence in targeted markets and segments
- Fast introduction of highly innovative products and services offering better value and improved energy efficiency
- Increased market penetration and coverage through brand portfolio management
- Perform more service on a higher share of the installed base of equipment
- Increase organizations’ agility and operational efficiency
- Invest in employees and competence development
- Grow through strategically attractive acquisitions

Competition

Vacuum Technique’s principal competitors are:

Semiconductor market:

DAS Environmental Expert, Ebara, Kashiyama, Pfeiffer Vacuum, Shimadzu Corporation

Industrial and scientific market:

Gardner Denver, Pfeiffer Vacuum and Busch

Market position

A global market leader for vacuum and abatement solutions.

Dry vacuum pumps used in flat panel display manufacturing

19 000 metric tonnes of CO₂ avoided annually which corresponds to:

4 034 passenger cars driven for one year

Energy savings: **19%**

The manufacturing process of flat panel displays for TVs and smartphones is conducted in a vacuum environment to ensure quality, cleanliness and control. To transition the glass panel from atmospheric pressure to the low processing pressure required in the process chamber, the glass panel passes through a load lock chamber. Several large

vacuum pump systems are required per chamber to achieve the pump down from atmospheric pressure. Vacuum pumps can represent up to 20% of the total energy consumption of a flat panel manufacturing facility, driving the need to innovate more efficient and sustainable vacuum products whilst also solving the increasing challenges of large chamber pump down. The evolution leads up to the most recent flat panel load lock pumping system. The new dry vacuum pump can replace two pumps of the previous model to achieve like for like pump down performance on large chambers. The use of the new pump leads to cumulative energy savings by transitioning customers to the higher capacity pump compared to using more of the smaller capacity pumps. Maintaining low energy consumption of the new product but with



increased capacity enables a significant reduction in the total energy consumption of the vacuum pump systems needed per chamber. Based on the cumulative run hours of iXL900R dry vacuum pumps in 2019 compared to the previous generation iXL500 pumps, 26.8 GWh were saved, corresponding to around 19 000 metric tonnes of CO₂.

Products and applications

The Vacuum Technique business area offers an extensive range of vacuum and abatement solutions to the market.



Dry vacuum pump for food processing and packaging industry



Dry vacuum pump used in semiconductor and flat panel display industry



Integrated abatement system



Cryogenic pump

Oil-sealed rotary vane vacuum pumps

The latest generation of oil-sealed rotary vane pumps has been refined to produce a better quality of vacuum whilst extending the pressure range over which the pump can operate. They are used in a wide variety of industrial, and research and development applications.

Dry vacuum pumps

Dry pumps are oil-free pumping mechanisms to create vacuum environments. They use no lubricants within the vacuum pumping mechanism and have a series of monitoring and control options available. Dry pumps are used extensively in many semiconductor applications, and also in many industrial processes such as metallurgy, coating, drying and solar. They are also used in scientific instruments such as scanning electron microscopes.

Turbomolecular pumps

In turbomolecular, or turbo pumps, a turbine rotor spins rapidly to create a vacuum. The defining feature of the turbo pump is the high rotational speed. Turbo pumps are typically used in conjunction with primary wet or dry pumps. They are commonly used in semiconductor applications and research and development, industrial applications and high energy physics.

Liquid ring vacuum pumps

Liquid ring pumps are equipped with a fixed blade impeller. As the impeller rotates, the liquid forms a ring around the circumference of the casing. Standard liquid ring vacuum solutions are perfect for use in humid, dusty and dirty environments commonly found in industrial processes including food and beverage, mining, chemicals, oil, steel, cement, plastics and textiles.

Abatement and integrated systems

Abatement systems are used to manage gases and other process byproducts from dry pump exhaust. Abatement is required to prevent adverse chemical reactions with production processes and to comply with strict regulatory emissions controls. Abatement and integrated systems are primarily used in semiconductor, flat panel display, solar and LED applications.

Cryogenic pumps

Cryogenic pumps create vacuum by condensing (freezing) gas onto special arrays of cryogenically cooled surfaces within the pump envelope. The temperature of the surfaces can be below 20K/-250°C to enable the capture of most gas species. Cryogenic pumps are used in a spectrum of high-technology research applications as well as in manufacturing of semiconductor, flat panel and optical devices.

Innovations during 2019

Several new products were introduced during the year, including:

A new improved abatement system for semiconductor customers providing reduced total cost of ownership and environmental impact.

An oil-free screw vacuum pump for the food and packaging industry offering reduced risk for contamination in customers' production processes, high energy efficiency, and low lifetime costs.

A compact dry pump for the scientific market offering reduced energy consumption and up to 40% less floor space.

A new oil-free vacuum pump with variable speed drive for industrial use, offering higher performance and lower space requirement than comparable products.

Principal product development and manufacturing units are located in:

The United States, Mexico, United Kingdom, Czech Republic, Germany, South Korea, China and Japan

MANAGEMENT Vacuum Technique, January 1, 2020



BUSINESS AREA PRESIDENT: Geert Follens

DIVISIONS:

1. Vacuum Technique Service

President Eckart Roettger

2. Semiconductor Service

President Troy Metcalf

3. Semiconductor

President Paul Rawlings

4. Semiconductor Chamber Solutions*

President Martin Tollner

5. Scientific Vacuum

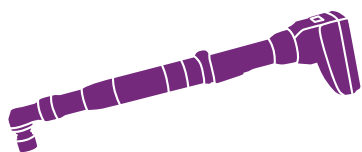
President Carl Brockmeyer

6. Industrial Vacuum

President Koen Lauwers

* Effective as from January 1, 2020

Industrial Technique



The service business continued to grow, while order intake for equipment decreased, mainly due to reduced demand from the motor vehicle industry. Order volumes decreased in all major regions, most significantly in Asia and North America. The business area continued to invest in product development, service market presence and strategic digitalization projects.

Market development

The overall demand for equipment and services decreased, primarily due to lower investment levels in the motor vehicle industry. In total, the order intake decreased 5% organically. The service business achieved growth and was supported by increased order volumes in Europe, while other regions remained on about the same level as the previous year.

Order volumes for advanced industrial tools and assembly solutions to the motor vehicle industry decreased notably, particularly in the latter half of the year. This was mainly due to weakened demand in Asia and North America. Order volumes in Europe were unchanged.

The order intake for industrial power tools from the general industry decreased due to lower demand from most end-customer segments. The order decline was mainly due to decreased demand in Europe, while demand from other regions was essentially unchanged.

Market presence and organizational development

The business area continued to invest in market presence and innovation with an increased number of employees in research and development and field service. Several new innovative products were introduced to the market, and continued focus on data-driven services resulted in investments to support customers in improving quality and uptime. Investments were also made in production and innovation facilities,

including a new aerospace innovation center outside Paris, France, and automation in a production facility for self-pierce rivet solutions outside Detroit, USA.

The focus on reducing the environmental footprint continued. As examples, one more factory signed an agreement for renewable energy and the logistics center in Belgium installed solar panels for power supply.

Acquisitions

In October 2019, it was announced that Atlas Copco had agreed to acquire the German-based Scheugenpflug AG. The company specializes in highly automated system solutions such as dispensing cells and vacuum potting chambers. Scheugenpflug AG had revenues of approximately MEUR 80 (MSEK 850) in 2018 and more than 600 employees. The acquisition was completed on January 3, 2020.

Revenues, profits and returns

Revenues increased 4% to MSEK 18 712 (17 933), corresponding to a 1% organic decline. The operating profit decreased 3% to MSEK 4 069 (4 188), and includes items affecting comparability of MSEK –117, related to restructuring costs. The operating margin was 21.7% (23.4). Adjusted operating margin was 22.4%, supported by currency, but negatively affected by sales mix and new investments in research and development. Return on capital employed was 35% (40).

REVENUES, MSEK

18 712

2018: 17 933

OPERATING PROFIT MARGIN

21.7%

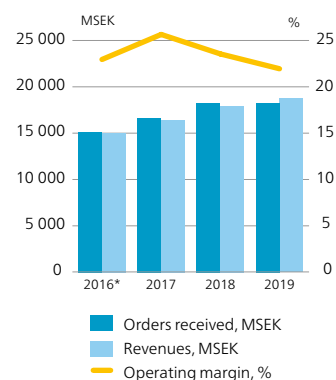
2018: 23.4%

RETURN ON CAPITAL EMPLOYED

35%

2018: 40%

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



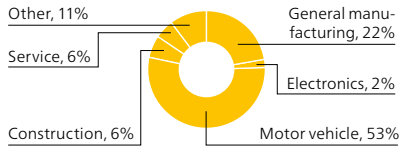
* 2016 figures not restated per IFRS 15

Sales bridge

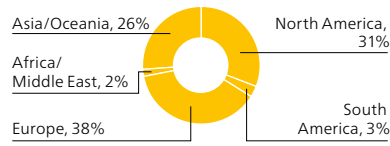
| | Orders received | Revenues |
|----------------------|-----------------|---------------|
| 2018, MSEK | 18 264 | 17 933 |
| Structural change, % | +0 | +0 |
| Currency, % | +5 | +5 |
| Organic*, % | -5 | -1 |
| Total, % | +0 | +4 |
| 2019, MSEK | 18 267 | 18 712 |

* Volume, price and mix

ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



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 applications served are 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, the use of lighter materials, and electrical cars, the motor vehicle industry is looking to alternative assembly solutions. The market demands new assembly technologies such as dispensing equipment for adhesives and sealants as well as self-pierce riveting equipment and rivets to cater 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 in, e.g. electronics, aerospace, appliances, energy and off-road vehicles, in general industrial manufacturing, the energy sector, oil and gas, shipyards, foundries, and among machine tool builders. The equipment supplied includes assembly tools for a wide torque range, drills, percussive tools, grinders, and accessories. Air motors are supplied separately for different industries and applications. 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
- Use of light-weight material in transportation-related industries
- Increased demand for electric vehicles
- Automation in customers’ production
- Digitalization and demand for connectivity in production

Demand drivers

- Industrial production
- Capital expenditure into industrial production
- Changes in manufacturing methods and higher requirements, e.g. quality assurance and traceability

Vision and strategy

The vision is to be First in Mind—First in Choice as a supplier of assembly and material removal solutions, quality assurance products, software, and services to customers in the motor vehicle and general industries. 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, quality, safety and ergonomics. Important activities are to extend the product offering and to provide additional services, know-how and training.

The business area is also increasing its presence in targeted geographical 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 innovative products and solutions, offering increased quality and productivity, improved ergonomics and reduced environmental impact
- Further increased focus on digitalization, through connected products and solutions, to support customers’ productivity, flexibility, and their transformation into Industry 4.0
- Extend the product and service offering at current customers and adjacent segments and applications
- Increase share of proactive services and increase share of service on installed base
- Increase operational efficiency
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

Competition

Industrial Technique’s principal competitors are:

Industrial tools business:

Apex Tool Group, Ingersoll-Rand, Stanley Black & Decker, Uryu, Bosch and several local and regional competitors

Adhesive and sealant equipment:

Nordson, Graco and Dürr

Self-pierce riveting:

Stanley Black & Decker and Böllhoff

Market position

A leading market position globally in most of its operations.

Battery drill for the aerospace industry

255 metric tonnes of CO₂ avoided annually which corresponds to:

54 passenger cars driven for one year

Energy savings:

93%



Around one-third of the millions of drilled holes in a commercial aircraft are commonly drilled using pneumatic hand-held drills. However, more and more industries are now switching from pneumatic to electric tools. One of the drivers of this transformation is to reduce the energy consumption. On average in aerospace industry, the ratio between the use of any sort of electric and pneumatic tools is a small portion, while in automotive industry the majority of tools are electric. An electric tool transforms electric energy directly in a mechanical action, which reduces the energy loss compared to a pneumatic tool drastically. The EBB26 is Atlas Copco’s first battery handheld drill, developed for the aerospace industry. In a typical aerospace drilling operation, the tool will reduce 93% of the energy

consumption compared to a traditional pneumatic power tool per drilled hole. The use of the EBB26 battery drill can save an equivalent of 255 metric tonnes of CO₂ emissions yearly in common applications in an average size aerospace plant, where each tool drills on average 600 holes per day. This saving corresponds to CO₂ emissions from 54 passenger cars driven for one year, which is based on the estimated replacement share of all pneumatic drills sold during 2017–2019 on a yearly average. The EBB26 battery drill supports the aerospace industry to reduce its environmental impact and at the same time, the industry’s driver to increase its output.

Products and applications

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



Handheld battery tool for assembly applications



Controller for advanced electric fixtured tools



Self-pierce riveting tool



Dispensing unit for application of adhesives and sealants

Industrial assembly tools and solutions

Advanced assembly tools and systems are used in the motor vehicle industry and general industrial production such as aerospace, off-road, and electronics. The business area provides a broad range of pneumatic, hydraulic and electric assembly tools, control systems, and associated software for safety-critical tightening. These systems generally make it possible for customers to collect, record, and process assembly data in their production.

Self-pierce riveting solutions, adhesive dispensing and flow drill fastening equipment

Self-pierce rivets, adhesive, and flow drill fasteners are primarily used in the motor vehicle industry and driven by the increased use of light materials in car production. The business area offers self-pierce riveting tools and rivets, dispensing equipment for adhesives and sealants as well as flow drill fastening equipment.

Material removal tools, drills and other pneumatic products

Pneumatic and electric industrial grinders, drills and percussive tools are being used in several industrial applications, for example in metal fabrication and aerospace production. The business area also offers airline infrastructure for optimization of pneumatic tools, and air motors that are being used as drive units in various industries and applications.

Principal product development and manufacturing units are located in:

Sweden, Germany, Hungary, the United States, United Kingdom, France and Japan

Innovations during 2019

Several new products were introduced during the year, including:

A new tool location system for handheld power tools providing a cost-efficient solution to reduce human errors and increase flexibility in production.

A smart handheld electric tool, with built-in software, for multiple uses with different configurations for various applications in the aerospace industry.

A high torque battery tool for the energy segment offering controlled tightening and traceability.

A new dispensing unit for sealants, based on intelligent and dynamic dispense technology for automated sealing in the automotive industry.

MANAGEMENT Industrial Technique, January 1, 2020



BUSINESS AREA PRESIDENT: Henrik Elmin

Divisions:

- 1. Industrial Technique Service**
President Håkan Andersson
- 2. MVI Tools and Assembly Systems**
President Lars Eklöf
- 3. General Industry Tools and Assembly Systems**
President Carl von Schantz
- 4. Chicago Pneumatic Tools**
President Ivo Maltir
- 5. Industrial Assembly Solutions**
President Berthold Peters

Power Technique



The business area continued to grow, with increased order volumes for equipment, service, and the specialty rental business in particular. The growth was primarily driven by increased demand in North America and Asia. Investments were made in market presence, service, and product development, and three acquisitions were completed.

Market development

The overall demand for equipment, service, and the specialty rental business increased in 2019, particularly in the first half of the year, driven by increased demand in North America and Asia. In total, the order intake increased 7% organically.

The specialty rental business achieved solid growth in all regions, particularly in South America, supported by the acquired business for temporary steam solutions (see acquisitions). Order volumes for service also increased, particularly in Asia, and growth was also achieved in North America and Europe.

Equipment orders increased, supported by increased demand from equipment rental companies in the first half of the year. Solid growth was achieved in North America and Asia. At the same time, the development in Europe and Africa/Middle East was less favorable. Order volumes increased both for portable compressors and power and flow equipment, such as generators and pumps.

Market presence and organizational development

The business area continued to invest in innovation and market presence in targeted markets and segments by adding resources in research and development, marketing, and sales. Numerous new innovative products were introduced during the year, and through the acquisition of Powerhouse Equipment & Engineering Co., temporary steam solutions were added to the offer. Investments were also made to further

improve efficiency in a production facility for portable compressors, generators and pumps in Rock Hill, USA.

To support a reduced environmental footprint, the business area invested in solar panels for power generation at the production facilities in the United States and Belgium.

Acquisitions

The business area made three acquisitions in 2019:

- Industrie Pumpen Vertriebs GmbH, a German distributor of industrial pumps, with around 20 employees and revenues of approximately MSEK 50 in 2017.
- Powerhouse Equipment & Engineering Co. Inc., a US-based steam boiler company with 95 employees and revenues of close to MUSD 36 (MSEK 347) in 2018.
- Mid South Engine & Power Systems, LLC. A provider of service for off-road engines and spare parts in the US. The company has 28 employees and revenues of MUSD 6 (MSEK 54) in 2018.

Revenues, profits and returns

Revenues increased 16% to MSEK 13 915 (12 042), corresponding to a 11% organic increase. Operating profit increased 15% to MSEK 2 308 (2 006). The operating margin was 16.6% (16.7), supported by higher revenue volumes but negatively affected by dilution from acquisitions. Currency had no impact on the margin. The return on capital employed remained at 28% (28).

REVENUES, MSEK

13 915

2018: 12 042

OPERATING PROFIT MARGIN

16.6%

2018: 16.7%

RETURN ON CAPITAL EMPLOYED

28%

2018: 28%

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



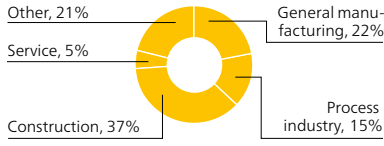
* 2016 shows best estimated numbers, as the effects of the split of Epiroc and restatements for IFRS 15 are not fully reconciled.

Sales bridge

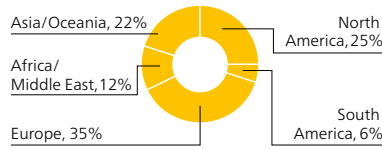
| | Orders received | Revenues |
|----------------------|-----------------|---------------|
| 2018, MSEK | 12 498 | 12 042 |
| Structural change, % | +0 | +0 |
| Currency, % | +5 | +5 |
| Organic*, % | +7 | +11 |
| Total, % | +12 | +16 |
| 2019, MSEK | 13 954 | 13 915 |

* Volume, price and mix

ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION



SHARE OF REVENUES



The market

The market for air, power and flow solutions has a large number of participants offering a wide range of products for different applications. The Power Technique business area focuses on a selected number of applications.

Multiple segments are served by the business area's offering. General and civil engineering contractors, often involved in infrastructure projects, demand light construction tools. Mobile compressors, generators, light towers and pumps provide reliable power sources for tools and applications in the construction sector 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
- Equipment connectivity
- Increased demand for service support/contracts

Demand drivers

- Infrastructure growth
- Industrial production
- Emergency relief efforts
- Engine regulations

Vision and strategy

The vision is to be the First in Mind—First in Choice provider of on-site air, power and flow solutions for sustainable productivity.

The strategy is to grow by developing Atlas Copco's market position and presence as a global supplier within portable compressors, pumps, generators and light towers, along with a range of complementary, market specific niche products, such as high-pressure boosters. The strategy also includes further development of specialty rental services as well as development of the service business; increasing revenues by offering more services to more 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
- Capture sales and service synergies
- 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

Power Technique's principal competitors include Doosan, Generac, Kaeser, and Sullair. In addition, there are a large number of competitors operating locally or regionally.

Market position

A leading or strong market position globally in most of its operations.

Electric portable air compressor with variable speed drive

740 metric tonnes of CO₂ avoided annually which corresponds to:

157 passenger cars driven for one year

Energy savings: **9%**

Building on in-house developed technology, the new H250VSD portable compressor uses electricity instead of diesel to deliver compressed air to Atlas Copco's customers. The efficient electric drivetrain generates more power compared to diesel engines of the same size, which results in a much smaller compressor with lower weight. Noise levels are lower, and varying air demand can

be met by the minimally required energy over a wider range of airflows. Moreover, the required compressed air pressure level can be achieved exactly without any efficiency losses. The H250VSD compressor is versatile since it can be used "plug and play" on the customer's site using the amperage and sockets that are available. Besides substantially reduced operating costs, the highly efficient electricity usage also reduces CO₂ emissions compared to the diesel-driven unit. By replacing diesel-driven units in the same airflow category, based on the H250VSD orders between September 2018 and October 2019, customers reduce CO₂ emissions by around 740 metric tonnes per year, which translates to 157 passenger cars driven for a year.



Products and applications

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



Portable medium-pressure oil-free compressor



Generator



Pump



Handheld pneumatic breaker

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. Electric portable air compressors generate less noise compared to compressors with combustion engines, and are ideal for low noise and emission zones or indoor 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

Lighting towers provide 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 offered to construction, demolition and mining businesses.

Principal product development and manufacturing units are located in:

Belgium, Spain, the United States, China and India

Innovations during 2019

Several new products were introduced during the year, including:

A new stage V compliant diesel engine and smart air controller for portable compressors, providing enhanced fuel efficiency, improved performance and lower total cost of ownership.

A new generator range with variable speed control providing increased reliability and reduced fuel consumption by up to 40%.

Six new models of stationary generators for industrial use offering quick installations, compact design, and integration with control systems.

An ergonomic handheld pneumatic rock drill providing high performance and reducing vibrations by up to 50%.

MANAGEMENT Power Technique, January 1, 2020



BUSINESS AREA PRESIDENT: Andrew Walker

DIVISIONS:

1. **Power Technique Service**
President Stefaan Vertriest
2. **Specialty Rental**
President Ray Löfgren
3. **Portable Air**
President Peter Lauwers
4. **Power and Flow**
President Adrian Ridge

Delivering lasting value in a sustainable way

Atlas Copco’s mission is to achieve sustainable, profitable growth. This means innovating with a long-term perspective to empower our customers to drive society forward and support them to meet their sustainability ambitions. It means minimizing environmental impact from our operations and products. It means making sure our employees are safe and healthy and that our company stays lean and efficient. It also includes growing in a way that is ethical, respecting and promoting human rights and with zero tolerance for corruption throughout the value chain.

To deliver lasting value for customers and all stakeholders, Atlas Copco focuses on the following areas for sustainability: products and service, people, safety and well-being, ethics, and the environment. Atlas Copco regards these areas, along with profitability and growth, as necessary to achieve long-term success. The focus areas were reconfirmed as relevant by internal and external stakeholders in 2018.

Atlas Copco’s Group Management has decided on these focus areas for sustainability, key performance indicators (KPIs),

and targets. Progress is monitored quarterly by Group Management. Most of the implementation is done in the divisions, which are the highest operational levels of the organization. Divisions and business area management monitor the progress continuously.

Atlas Copco’s drive to innovate supports the continuous development of highly energy- and resource-efficient products with low environmental impact. Atlas Copco’s employees are the Group’s most valuable asset, and to offer healthy and safe working conditions and fair development opportuni-

ties is a priority. Atlas Copco lives by the highest ethical standards and demands that business partners do the same. This stance protects the business from risk, enables growth and promotes ethical behavior in society.

Through its work, Atlas Copco contributes to the achievement of the UN Sustainable Development Goals and its targets. See more information about how Atlas Copco contributes to the relevant SDG indicators on pages 35–43.

FOCUS AREAS FOR SUSTAINABILITY

| FOCUS AREAS | VISION | MATERIAL ISSUES | UN SUSTAINABLE DEVELOPMENT GOALS |
|---|--|--|---|
| Products and service  | Our products create lasting value and make a positive impact | <ul style="list-style-type: none"> Product eco-efficiency Life-cycle perspective Product innovation Product quality and safety |   |
| People  | Our culture of collaboration and inclusion drives our success | <ul style="list-style-type: none"> Employee satisfaction and engagement Diversity and non-discrimination |   |
| Safety and well-being  | The way we work contributes to our safety and well-being | <ul style="list-style-type: none"> Occupational health, safety and well-being |  |
| Ethics  | We are known for ethical behavior, openness and respect | <ul style="list-style-type: none"> Business ethics and integrity Human rights Transparency and accountability Responsible supply chain |   |
| The environment  | Our processes minimize our impact on the environment | <ul style="list-style-type: none"> Climate change Energy use and efficiency Waste Water use |     |

Our strong creative spirit brings value to customers

Atlas Copco spearheads the technological development to optimize customers' productivity, energy efficiency and safety. 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.



PRODUCTS AND SERVICE

VISION: Our products create lasting value and make a positive impact

ACTION: We take a life-cycle approach to innovation

GOAL: All projects for new or redesigned products have targets for reduced environmental impact by 2021. Projects for new or redesigned products achieve significantly reduced environmental impact. Target to be decided.

Atlas Copco has a strong innovative spirit and the Group continuously launches new products that set new industry standards. Currently, the Group has 6 200 patents, linked to around 1 700 inventions.

Atlas Copco has strong relationships with customers in leading positions in their industries. A deep understanding of these customers' applications and needs is fundamental to maintaining the Group's leading position.

Efficiency, productivity and safety

Today's environmental and societal challenges present business opportunities for a company like Atlas Copco. Customers request equipment and service that increase their productivity and are resource- and energy-efficient, safe and ergonomic.

One of the Group's most well-known and groundbreaking innovations is the VSD (variable speed drive) technology in compressors. This is a good example of an innovative technology which helps customers increase their energy efficiency, reduce carbon-dioxide (CO₂) emissions and at the same time reduces cost. The technology is now available in generators, pumps and stationary as well as portable compressors. Read more about how Atlas Copco's innovative products save energy, contribute to less CO₂ emissions and support customers on pages 22–33.

Digitalization transforms the industry

Technology development and trends such as increased connectivity and big data can be harnessed to transform the efficiency of industrial processes. An increasing share of Atlas Copco's engineers work on product

development projects where software development, connectivity and big data are important parts.

Increasingly, digital and data-driven service and products are part of the offer. Digitalization brings value to Atlas Copco's customers in almost all parts of their operations and processes and several products are directly linked to the increased digitalization. The Group's products are essential when it comes to enabling the storing and processing of data. Atlas Copco's products are also needed to produce sensors, flat screens and other equipment that now are part of everyday life as well as in the manufacturing industry.

As the manufacturing industry is becoming increasingly digitalized, Atlas Copco also works with customers to increase the uptime of products, thus increasing customers' competitiveness. One example is the SmartLink data-monitoring system for compressors. More than 130 000 compressors are now connected globally, enabling continuous monitoring of their status as well as predictive maintenance.

A life-cycle approach

Atlas Copco takes a life-cycle approach to innovation. Products such as stationary compressors and industrial tools are designed so that they can be returned, refurbished and resold as used equipment. Such used equipment meet the same high standards as when it was new in terms of quality, performance and energy efficiency.

Strong service offerings and smart product design minimize waste and maximize the value of customers' investments. Modular design can support sustainability as it enables easy disassembling of a product, for instance an assembly tool. This way, parts can more easily be replaced, which prolongs the life of the tool and avoids waste generation. Work is ongoing to establish a Group-common methodology for assessing the environmental impact of all projects for new and redesigned products from a life-cycle perspective. Targets for reducing the impact will be established.

Investing in product development

Atlas Copco continued to invest in product development in 2019.

In 2019, the number of people employed in research and development represented 8.5% (7.9) of Atlas Copco's total workforce. The amount invested in research and development, including capitalized expenditures, increased by 22.8% to MSEK 3 684 (3 000) corresponding to 3.6% (3.1) of revenues and 4.5% (4.0) of operating expenses.



Atlas Copco contributes to the following Sustainable Development Goals:



- 9.4** By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes.
- 12.5** By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

Passionate people create exceptional things

Atlas Copco’s ambition is to be the most attractive industrial company in its target markets. To make this happen, it is essential to safeguard the Group’s strong values and enable the full potential of employees so they can deliver world-class solutions to customers every day.



PEOPLE

VISION: Our culture of collaboration and inclusion drives our success

ACTION: We help each other grow and thrive

| KEY PERFORMANCE INDICATORS | Goal | 2019 | 2018 |
|---|----------------------|-------|-------|
| Degree to which employees agree there is opportunity to learn and grow in the company* | Above benchmark (70) | 71 | n/a |
| Degree to which employees agree we have a work culture of respect, fairness and openness* | Above benchmark (74) | 74 | n/a |
| Share of female employees at year end 2030 | 30% | 19.8% | 19.1% |

* Scores based on scale 0–100 where 0 is “strongly disagree” and 100 is “strongly agree”.



As a world-leading provider of innovative productivity solutions, Atlas Copco is dependent on all of its talented, committed and passionate employees. One of the Group’s primary focus areas is therefore to work professionally to attract, develop and retain passionate people. All to be First in Mind—First in Choice as an employer and to achieve sustainable business success.

A framework to align and integrate people management

The Talent Framework consists of a common set of competencies that are aligned with the Group’s core values and beliefs. The five competencies apply to all employees and are identified as the most critical to drive business success. The framework is designed to link all people management practices together and aligns the Group’s people strategy to its business strategy.

The Talent Framework breaks down key competencies into behaviors that strengthen Atlas Copco’s ability to drive real change in employee performance. The framework emphasizes the belief that each and every employee, regardless of position, has a critical role in driving the Group’s success.

The ability to attract talent

To stay competitive in a changing business climate, Atlas Copco needs to attract new kinds of talent. Targeted employer branding

activities and the internal job market drive Atlas Copco’s ability to attract talent. A consistent and structured approach for competence-based recruitment safeguards cultural fit and diversity. Competency-based interviewing is based on the belief that the best predictor of future performance is past performance. The Talent Framework helps predict how the individual will perform and his or her potential success in the organization. A structured interview guide is used to ensure fairness and consistency.

The Group’s employee-engagement survey measures to what extent employees experience a work culture characterized by respect, fairness and openness. The 2019 result was below the Group target for this KPI, but in line with the global benchmark. The KPI score is described in the above text box.

A strong company culture, combined with a focus on innovation, global reach and a mission-driven mindset that drives accountability, makes the Group stand out.

Developing passionate people

Atlas Copco has a strong culture of growing talents by encouraging employees to take accountability for their own career and learning journey. Part of the people philosophy is having futureready leaders who demonstrate key behaviors aligned with the Group’s values and who coach and

develop their teams for high performance.

The Group’s internal job market and focus on mobility, combined with a mission-driven culture, help the company grow passionate people. A key ingredient is also to enable a learning culture and provide tools that promote lifelong learning, stimulating employees’ professional as well as personal development. The global Learning and Development Community plays a key role in enabling lifelong personalized learning with local business needs in mind.

Through the employee-engagement survey Atlas Copco measures to what extent employees experience the opportunity to learn and grow within the company. The 2019 result was in line with the Group’s goal to be above the global benchmark. The KPI score is described in the above text box.

Diversity drives business performance

Atlas Copco sees diversity as a business-critical driver for long-term success. We believe that diversity makes us stronger and that there is a clear correlation between diversity and business performance. A diverse workforce improves innovation and customer relationships, business performance and facilitates employee retention.

To capture global growth opportunities and explore the entire talent pool, Atlas Copco strives for increased diversity and

Atlas Copco sees diversity as a business-critical driver for long-term success. We believe that diversity makes us stronger.

works with inclusion throughout the operations. At Atlas Copco, we aim for a culture that encourages diversity, inviting all voices to the table. The vision is a Group with a diversity of cultures, nationalities and ethnic origins as well as other aspects of diversity. Atlas Copco also wants to be a workplace that offers equal opportunities and has a balance between female and male employees and role models.

With a goal of 30% women in the organization by year end 2030, the Group addresses the issue of gender balance being the biggest gap in the area of diversity. In 2019, progress was made towards a better gender balance with 19.8% women in the workforce (19.1) by year end.

In January 2019, Atlas Copco established the Diversity and Inclusion Council chaired by President and CEO Mats Rahmström. The council consists of representatives from all business areas, along with the corporate communications, human resources and accounting and controlling functions. The council meets regularly to follow up on action plans and results in the operations. The work is mainly driven by the business area task forces and ambassadors in each operational entity.

The council has established guiding principles for diversity and inclusion based

on best practices in the Group, to guide managers in attracting, recruiting, developing and retaining talent.

Safeguarding company culture

The company culture is an important asset for Atlas Copco, and a variety of activities, policies and processes are in place to support and develop it. A strong focus on mission, performance and accountability for results is one example. Related to this, clear follow-up structures are in place. The importance of continuous improvement is the basis for all aspects of the business, and progress is monitored closely.

Recurring workshops for employees on company values, strategy and guidelines are carried out to develop the culture. A common denominator for both values and practice is helping each other as colleagues and support learning at work.

Atlas Copco’s bi-annual global engagement survey aims to measure and improve employee engagement, business results and diversity. The survey brings important insights within four focus areas: employee engagement, Group culture, safety, and innovation. The insights are used to promote discussions regarding leadership and culture, and shape actions that drive development.

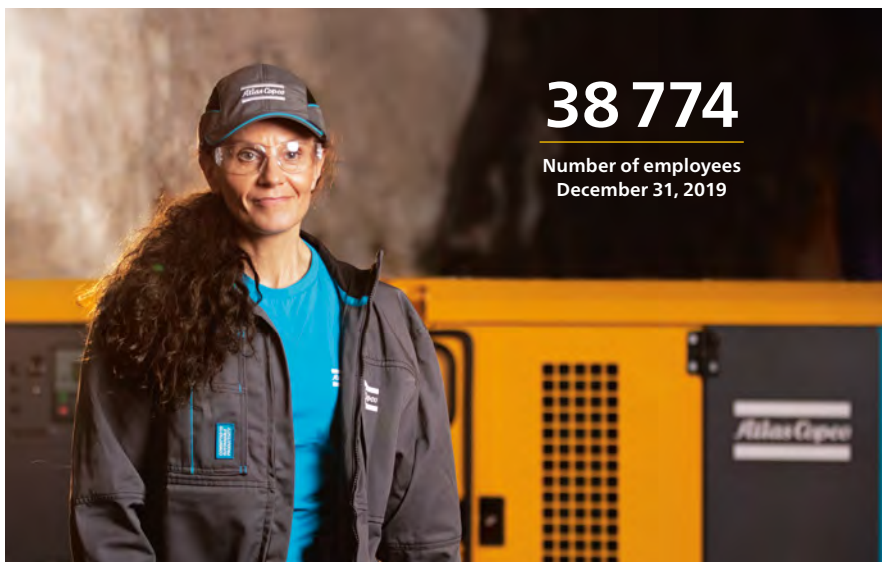
WITH THE FUTURE IN MIND

To remain First in Mind—First in Choice as an employer, Atlas Copco has identified four focus areas to help equip the company for future challenges. These are:

- 1. Leadership:** Future ready leaders who demonstrate key behaviors aligned with company values. Leaders who coach and develop their teams for high performance.
- 2. Talent acquisition and pipeline:** A strong internal and external talent pipeline focused on proactively attracting, developing and retaining talent.
- 3. Learning organization:** A culture that promotes lifelong learning, stimulating both the professional as well as personal development of our people.
- 4. Employee engagement:** An open working environment that encourages creativity, learning and passion.

SERVICE ENGINEER TRAINEE PROGRAM ATTRACTS FEMALE EMPLOYEES

In Mexico, the Compressor Technique business area runs an annual Field Service Engineer Trainee Program. Today 100% of the business unit’s service technicians are men. With increased focus on improving gender balance, efforts have been made to attract women to the program. Five women have joined the six-month program, during which they will study compressor theory, receive hands-on training in maintaining the equipment, and shadow experienced technicians in the field.



Atlas Copco contributes to the following Sustainable Development Goals:

- 5.1** End all forms of discrimination against all women and girls everywhere.
- 5.5** Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making.
- 8.8** Protect labour rights and promote safe and secure working environments for all workers, including migrant workers.



MAKING LEARNING ON THE GO EASY AND FUN

Atlas Copco encourages a culture that promotes lifelong learning, stimulating both professional and personal development.

After a successful four-month pilot in 2019, with high engagement and strong feedback from participants, the Group decided to offer all employees access to more than 14 000 online courses from a micro-learning provider. All content is integrated into the Group’s global learning system, a “one stop shop” for competence development activities.

Unlimited on-demand access

Employees are provided with unlimited access to on-demand content designed to discover and learn the skills needed to stay competitive today and tomorrow. This was well endorsed by both leaders and employees. Employees can pick and choose from high-quality courses in a variety of languages facilitated by industry experts and thought leaders. Quizzes and exercises are also available to help employees reinforce their new knowledge.

Targeted learning

Learning playlists have also been developed, packaging and recommending courses considered relevant across the business, for a specific subject, function or role to help drive more targeted learning. There is also a community where employees can learn from others and share their experiences. More than 200 000 micro-learning videos have been viewed since the global launch in September, 2019.



/// Employees can pick and choose from high-quality courses in a variety of languages facilitated by industry experts and thought leaders.

EMPLOYEE COMMUNITY ENGAGEMENT

Water for All is Atlas Copco’s main community engagement initiative. Through the dedicated and passionate work of volunteering employees, Water for All funds projects which empower people through access to clean drinking water, sanitation and hygiene, thereby contributing to healthy societies, free from conflict and poverty. Women and young girls are particularly affected by the lack of water and sanitation, and all projects supported by Water for All thus aim to positively impact the lives of especially women and girls. All employee donations are matched with twice as much by Atlas Copco.

In 2019, more than 50 water and sanitation projects were implemented with Water for All funding in 33 countries, in total reaching more than 180 000 people.



Atlas Copco employees contribute to the following Sustainable Development Goal:

6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all.

Water for All is the main community engagement initiative of both Atlas Copco and Epiroc. The numbers convey Water for All’s global achievements in 2019 including both companies.



Contributing to employees' safety and well-being

The major focus of Atlas Copco's safety and well-being policy and activities is to promote behavior that contribute to a culture of well-being and safety in the workplace. Making sure that everyone at Atlas Copco is safe and sound is a priority and an essential step to build trust among employees and for the continued business success.



SAFETY AND WELL-BEING

VISION: The way we work contributes to our safety and well-being

ACTION: We look after each other's well-being

| KEY PERFORMANCE INDICATORS | Goal | 2019 | 2018 |
|--|---------------------|------|------|
| A balanced safety pyramid | Yes | Yes | n/a |
| Degree to which employees agree that the company takes a genuine interest in their well-being* | Continuous increase | 69 | n/a |

* Scores based on scale 0–100 where 0 is "strongly disagree" and 100 is "strongly agree".



The safety and well-being of employees is a core priority at Atlas Copco. The Group is committed to providing a safe and healthy working environment for all its employees in all operations. The global Safety, Health and Environmental policy ensures that there are robust standards for safety and well-being in the workplace. Focus is on reinforcing a culture and behavior that contribute to the safety and well-being of employees, including risk assessment and safety procedures, good environment within and around the workplace, appropriate follow-up procedures, transparent reporting and related training.

The progress of this work is measured by the employee survey. Through the survey, employees' experience of the Group's commitment of prioritizing employees

well-being is measured. The goal is that an increasing part of Atlas Copco employees agree that the company takes a genuine interest in their well-being. The result for 2019 was in line with the Group's goal. The KPI score is described in the above text box.

The Atlas Copco Group is highly decentralized and regional and local policies and practices complement the Group's processes, consistent with its vision and values. One example is the Vacuum Technique business area, which uses a set of leading indicators such as training, risk assessments and safety engagements to continually improve its safety performance. Leading indicators also cover the topics of health and well-being. The Group SHEQ-council oversees the work and supports the organization with develop-

ment of policies, processes and sharing of best practice in this area.

To further strengthen the safety work and to encourage a culture of increased transparency, the Group measures its safety-related progress with the use of a "safety pyramid" (see model below). The pyramid should be balanced, meaning that more near misses than minor injuries, and more minor injuries than recordable injuries are reported.

This model encourages increased risk awareness, transparent reporting and risk-averse behavior. The result in 2019 was in line with the Group's goal of a balanced pyramid. For a more detailed discussion about the model, definition and the results, see the sustainability notes on page 133.

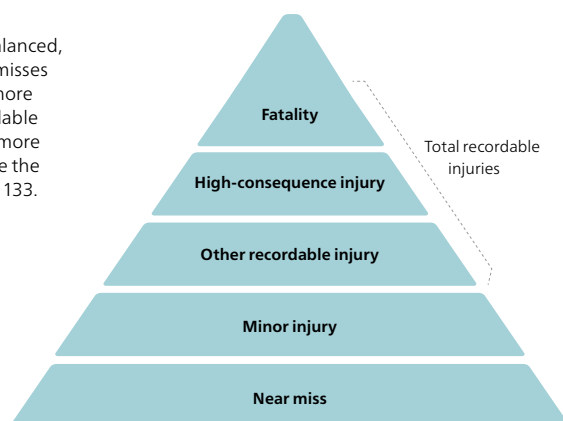
Atlas Copco contributes to the following Sustainable Development Goal:

- 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers.



The safety pyramid

The pyramid should be balanced, meaning that more near misses than minor injuries, and more minor injuries than recordable injuries are reported. For more details and definitions, see the sustainability notes, page 133.



Ethical behavior throughout the value chain

For Atlas Copco, expanding our global presence in the right way means ensuring that the company maintains a clear stance against corruption and a strong commitment to respecting and promoting human rights. Atlas Copco works continuously with its value chain to protect the business from risks and to promote better standards in society.

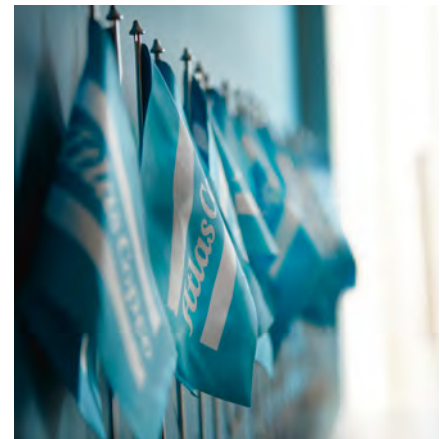


ETHICS

VISION: We are known for ethical behavior, openness and respect

ACTION: We act with honesty and integrity

| KEY PERFORMANCE INDICATORS | Goal | 2019 | 2018 |
|---|------|------|------|
| Employees sign the Business Code of Practice, % | 100% | 98% | n/a |
| Employees trained in the Business Code of Practice, % | 100% | 94% | n/a |
| Managers in risk countries lead trainings in the Business Code of Practice, % | 100% | 91% | n/a |
| Significant suppliers sign the Business Code of Practice, % | 100% | 90% | 86% |
| Significant distributors sign the Business Code of Practice, % | 100% | 59% | n/a |



Atlas Copco’s ability to ensure that the highest ethical standards are applied is dependent on the values and behavior of employees, management and business partners. Significant weight is therefore put on communicating and monitoring the adherence to the Group’s values.

The Group assesses the potential for risks for breaches of the Business Code of Practice and trains all employees in the Business Code and its practical implementation. New yearly e-learning, mandatory for all employees, and classroom trainings held by managers in risk countries, were rolled-out as Group KPIs in 2019. The annual signing of the Business Code of Practice, together with training, support employees to identify and handle ethical dilemmas and strengthen the awareness of the Group’s values and guidelines.

A responsible value-chain approach

Working with business partners who share the Group’s high standards regarding quality, business ethics, the environment and resource efficiency is necessary to effectively manage risks, and to enhance productivity in the value chain.

All business partners are expected to adhere to the Group’s values and to follow the Business Code of Practice. The Business Code is the backbone of the business partner process, reinforced by signed commitment to follow it, screening and audits, customer sustainability assessment and targeted training. See the sustainability notes, page 134.

Responsible sourcing practices

Atlas Copco has a large international supplier

base, which presents significant challenges. Purchased components represent about 75% of the product cost.

Atlas Copco uses a risk-based approach and prioritizes follow-up activities with significant suppliers who represent the bulk of the purchase value or who operate in markets with high corruption or human rights risk. In 2019, 5 079 (4 660) suppliers were identified as such suppliers. 96% (95) of them were requested to confirm compliance to the Business Code. 90% (86) confirmed compliance. Continuous efforts are made to further increase this figure.

Significant suppliers are 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 to ensure compliance. See the sustainability notes, page 134.

Regular audits are performed to ensure that Atlas Copco’s values are implemented. In 2019, 1 116 (845) significant suppliers were audited for safety, health, environmental and ethical standards. Of these, 1 (0) was rejected for safety, health, environmental or ethical standards.

The business partner criteria are available in more than 30 languages.

Distributors and agents

Approximately 20% of Atlas Copco’s revenues are generated via distributors and agents. In 2019, a new Group KPI was established requiring that all significant distributors sign

the Business Code of Practice. The Group’s processes prioritize significant distributors who represent the bulk of the purchase value or operate in high-risk markets. In 2019, 59% of the significant distributors signed their commitment. Continuous efforts are made to further increase this figure.

Sales compliance process

General managers, and ultimately the divisional presidents, are responsible for implementing Group policies and guidelines and to make sales decisions. The Head of Group Compliance supports the organization on sales compliance related matters, including sanctions and export control.

Atlas Copco partners with customers to address human rights risks in the value chain. The customer assessment tool is used to investigate potential environmental, labor, human rights and corruption risks. In-depth dialogue and field visits complement this tool. Atlas Copco’s compliance board oversees the implementation of and compliance with the Business Code of Practice.

Zero tolerance against corruption

The fight against corruption is a central aspect to working with human rights and environmental impact, since corruption can cripple the governmental bodies and processes needed to address the issues. Atlas Copco has a zero-tolerance policy, which applies to all employees as well as to the Board of Directors. The Board has explicitly stated that corruption or facilitation payments are never acceptable in order to secure a sale. This rule strengthens the brand

HUMAN RIGHTS IN THE VALUE CHAIN

Atlas Copco’s Business Code of Practice endorses the UN International Bill of Human Rights and guides the business in working with all issues relating to ethical behavior, including human rights.

| Business partners | The Group’s own operations | Customers | Community |
|--|--|---|--|
| HUMAN RIGHTS RISKS Business partners not complying with labor standards, including working hours, forced/bonded or under-age labor and the freedom of association. Occurrence of conflict minerals in sourced products. | HUMAN RIGHTS RISKS Risks of violations including working conditions and discrimination in the workforce. Operations in countries with high risks of human rights abuse, including corruption and limited freedom of association. | HUMAN RIGHTS RISKS Risks related to environmental impact and safe use of products, including substances with potential health impact, and risks of mismanaging customer integrity. Risks related to local communities, such as land rights. | HUMAN RIGHTS RISKS Risks of corruption and unethical tax planning, impeding fair competition and depriving people of their rights to critical functions such as healthcare and education. |
| POLICIES Atlas Copco has integrated the UN Global Compact principles into business partner evaluation and management. Read more on page 40 and 134–135. | POLICIES Group goals and policies aim to create safe, healthy and fair working environments. The Human Rights Policy and Business Code of Practice. Read more on page 133. | POLICIES The Group is strengthening its approach using the UN Guiding Principles on Business and Human Rights. Read more on page 133. | POLICIES The Business Code of Practice is the main policy document on anti-corruption. The Group’s tax policy is available on the corporate website. |
| ACTIVITIES Prohibiting child labor and forced labor, promoting adherence to international guidelines on working conditions, environmental management and freedom of association. Responsible sourcing practices, which covers the occurrence of conflict minerals. | ACTIVITIES Ensuring fair labor conditions, non-discrimination in the workplace and the right to join trade unions. Training for all employees in the Business Code of Practice, including issues of working conditions, labor rights and discrimination. | ACTIVITIES Product safety, minimizing environmental impact through usage of products, security concerns and issues related to community relocation. Customer assessment tool and compliance board oversight of policy implementation. | ACTIVITIES Community engagement activities increases access to health, education and safe development of children and vulnerable groups, as well as disaster relief. Training for all employees in the Business Code of Practice, including corruption issues. |

and contributes to fair market competition. There are no negative consequences, such as demotion or other reprisals, for employees refusing to receive or pay bribes or for reporting violations.

The Group’s misconduct reporting system can be used by stakeholders to report violations of laws or of the Business Code of Practice. The system is operated by a third-party actor and reporting is anonymous. The system was updated in 2019 to further enhance secure and efficient reporting and handling of cases.

Training for employees worldwide

All new employees receive the Business Code of Practice and both digital and classroom training is provided globally. All Atlas Copco employees, including the additional workforce, have access to these trainings. Ethical dilemmas based on the Business Code and inspired by actual cases from the organization form the basis of the trainings.

Since 2018, all employees are required to annually sign their compliance with the Business Code of Practice. Employees are required to take a short e-learning before signing the compliance statement. The percentage of employees signing compliance is a KPI for the Group. In 2019, the first year of the KPI, 98% of the employees signed the compliance statement. The percentage of employees completing the e-learning was 94%. Managers in countries with higher risk of corruption, human rights violations or environmental risks are required to lead in-depth classroom training with dilemma cases with their employees. In 2019, 91% of the managers held this training with their direct reports. Continuous communication and follow-up of the results are made to further increase the number.

Approach to human rights

Atlas Copco is committed to the UN Guiding Principles for Business and Human Rights

and has an ongoing process to identify, prevent and mitigate the impact on human rights related to its business. Atlas Copco’s compliance board oversees the implementation of and compliance with the Business Code of Practice and the company’s commitment to the UN Guiding Principles. The lacking enforcement of legal and political infrastructure in some markets represents a challenge. Bilateral engagements with civil society and investors are crucial to successfully escalate issues in challenging markets. Through memberships in local business associations and in cooperation with others, Atlas Copco collaborates to further the Group’s values.

Atlas Copco works across the value chain covering the human rights of individuals and groups who may be impacted by the Group’s activities or through its business relationships, see the table above.



Atlas Copco contributes to the following Sustainable Development Goals:


- 8.7** Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour
- 8.8** Protect labour rights and promote safe and secure working environments for all workers, including migrant workers
- 16.5** Substantially reduce corruption and bribery in all their forms

DILEMMA TRAININGS

The dilemmas are based mainly on real cases from throughout the organization. The 16 topics include discrimination, environment, harassment, working conditions, conflicts of interest, and bribery. Employees are presented with a challenging situation to discuss, and should choose one of three options for how to handle the situation. The answer explains the reasoning for the best course of action and the connection to Atlas Copco’s policies or guidelines. Managers are provided with a facilitator guide to help them lead the discussion.

Minimizing the environmental impact

Atlas Copco strives to reduce its environmental footprint across the value chain and to minimize the impact from its own operations. Atlas Copco aims to play a role in tackling the challenges of climate change and responds to business opportunities following this global concern. The Group’s innovative products support customers to reduce their energy use and carbon footprint.



THE ENVIRONMENT

VISION: Our processes minimize our impact on the environment

ACTION: We use resources responsibly

| KEY PERFORMANCE INDICATORS | Goal | 2019 | 2018 |
|---|---------------------|------|------|
| Carbon dioxide emissions from energy in operations and transport of goods (tonnes)/COS. Base year 2018. | -50% by 2030 | 4.3 | 5.3 |
| Waste (kg)/COS | Continuous decrease | 597 | 667 |
| Water consumption (m ³)/COS | Continuous decrease | 7.2 | 8.7 |
| Significant direct suppliers with an approved environmental management system, % | Continuous increase | 28% | n/a |



The effects of climate change presents an enormous challenge to society as a whole, as well as to businesses. However, the effects of climate change bring opportunities. Atlas Copco wants to be part of the solution to the challenges of climate change and takes responsibility for the company’s impact.

Customers request energy-efficient products and solutions to decrease their carbon footprint. Atlas Copco has a high ambition when it comes to meeting such needs and energy-efficiency is at the core of the innovations for many of the Group’s products. The abatement systems that Atlas Copco produces for the semi-conductor industry removing highly potent green-house gases, is an example of a technology with positive environmental effects in other industrial processes.

Most of the carbon dioxide (CO₂) emissions of Atlas Copco’s products occur when the products are used by the customer. Work is ongoing to establish a common method for assessing the life-cycle impact from all new or redesigned products and to set goals for reducing it.

Even though the impact from own operations and transport is relatively low in comparison with the value chain as a whole, it is important to reduce the climate impact and increase resource efficiency in the Group’s own operations. Group common goals are established to track progress within this area.

Climate-change risks and opportunities

Atlas Copco faces risks driven by climate change, such as changes in regulations, avail-

ability of resources and changing consumer behavior. Such risks are mainly assessed and addressed within the risk-management system at divisional level, see page 46. Among the risks are also increased energy prices and taxes, and regulations related to CO₂ emissions. Atlas Copco’s continuous work to increase the energy efficiency of its products helps mitigate such risks and represents a potential market opportunity.

Changing weather patterns may pose a physical risk to operational units or suppliers in areas in risk of raising sea levels, water scarcity or violent storms. Market shifts toward a low-carbon economy may impact the viability of certain sectors and give rise to new businesses and business models to be served by Atlas Copco. For instance, increased generation of renewable energy, such as solar panels and wind mills, and the surge in production of electrical vehicles present business opportunities to provide products and services to these industries.

Increased use of renewable energy

The ambition to reduce negative climate impact spurs the increased use of renewable energy in the Group’s operations. Diversifying sources of energy to include renewable energy has a positive environmental impact and protects the business from price fluctuations and the lack of traditional energy sources.

In some markets, renewable energy may not be readily available or is a minor component in the country’s energy mix.

This composes a challenge to Atlas Copco’s ability to meet its target to reduce CO₂ emissions from energy in operations. The energy mix supplied also influences the impact from the use-phase of products, and thereby Atlas Copco’s value-chain footprint. Efforts are made to increase the percentage of renewable energy used in operations. In 2019, the percentage of renewable energy of total energy used in operations increased to 41% (34).

Impact from operations and transportation of goods

Atlas Copco’s ambition is to reduce the CO₂ emissions from energy in operations and transport of goods by half in relation to cost of sales by 2030. To achieve this, a wide range of actions is undertaken. Buying renewable electricity from the grid, installing solar panels, switching to bio-fuels in tests of compressors, and implementing energy-conservation measures are some examples. Regarding CO₂ from transportation of goods, collaboration with freight forwarders and a restrictive use of airfreight are examples of actions undertaken and planned. However, the nature of the business makes avoiding airfreight complicated. Collaboration with transport partners, and to some extent technical developments, are key enablers to achieve Atlas Copco’s ambitious goal in this area.

In 2019, Atlas Copco decreased the CO₂ emissions from energy in operations and transport of goods in relation to cost of sales by 19%. The decrease of CO₂ emissions from

-17%

Water consumption (m³)/cost of sales

-19%

Emissions of CO₂ from energy in operations and transport of goods (tonnes)/cost of sales

energy in operations and transport of goods in absolute numbers were 12%. The main drivers for the reduction were purchasing of renewable electricity, reduced use of airfreight and improved supply-chain efficiency.

Reducing waste from operations

To reduce the volume of waste is an important way to decrease the total environmental impact from production and move towards increasing circularity. Atlas Copco has successfully increased the amount of reused, recycled and recovered waste, and the level has been at a consistent and high level for several years. Therefore, focus is on decreasing the total volume of waste. As of 2019, the total volume of waste in relation to cost of sales is a Group KPI. In 2019, it decreased by 10% compared to 2018, mainly because of re-classification of reporting entities.

Water management

Water is an increasingly scarce resource in many parts of the world and access to clean water is key for a sustainable development. Atlas Copco’s overall water consumption is relatively low due to the Group’s focus on assembly rather than other resource-intensive activities. Nevertheless, Atlas Copco seeks to decrease its usage of water and to increase water reuse and circulation. Innovative

product design and improved processes also reduce water use for customers.

Atlas Copco has established a KPI measuring consolidated water consumption in relation to cost of sales. The consumption of water decreased by 17% in 2019 in relation to cost of sales. Water consumption in absolute numbers decreased by 10%, mainly due to improved water management and water circulation.

Environmental risks in the supply chain

Atlas Copco recognizes the responsibility to manage environmental risks in its value chain, see sustainability notes, page 134. Atlas Copco works with tier-one suppliers using its business partner criteria and action plans developed together with business partners. Smelters and other resource-intensive activities are often tier-two suppliers, or further down the value chain.

Commitment to the business partner criteria means that suppliers take responsibility to minimize the environmental impact of products and services during manufacturing, distribution and usage, as well as after disposal. Screening and audits are part of the Group’s supplier management system.

To further increase the Group’s efforts to reduce its impact along the value chain, a new KPI was established in 2019. Significant direct

EXPERT CONTRIBUTION TO THE UN IPCC

Mike Czerniak is the Environmental Solutions Business Development Manager in Atlas Copco’s Vacuum Technique business area, and a Professor in Atmospheric Chemistry Research Group at the University of Bristol. As a leading expert and long-time semiconductor industry professional, Czerniak was invited to participate in the recent United Nations Intergovernmental Panel on Climate Change (IPCC) activity to refine the guidelines for reporting greenhouse gas (GHG) emissions.

Czerniak spent the last four years as a Lead Author on the GHG document, standardizing how governments across the globe report their GHG emissions to the UN. Mike Czerniak specifically contributed to the section covering the semiconductor and flat panel display industries. New gases used in the industry and additional by-product emission sources were key features of the latest edition of the guidelines, and underlines the benefits of using appropriate exhaust gas abatement technologies such as those provided by Atlas Copco.

The guidelines are available at the UN IPCC website.

suppliers should have an approved environmental management system. In 2019, 28% of the significant direct suppliers met this requirement. Read more about the Group’s environmental impact and results, page 132.

Atlas Copco wants to be part of the solution to the challenges of climate change and takes responsibility for the company’s impact.



Atlas Copco contributes to the following Sustainable Development Goals:

- 6.4** By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater
- 7.2** By 2030, increase substantially the share of renewable energy in the global energy mix
- 7.3** By 2030, double the global rate of improvement in energy efficiency
- 12.2** By 2030, achieve the sustainable management and efficient use of natural resources
- 12.4** By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, and significantly reduce their release to air, water and soil

Risks, risk management and opportunities

All business activities involve risks, therefore there is a need for a structured and proactive approach to manage the company’s risks. Well-managed risks can lead to opportunities and add value to the business while 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. Thus, the ability to identify, analyze and manage risks is crucial for effective governance and control of the business. The aim is to achieve Group goals with a high risk awareness and well-managed risk taking, in line with the strategy and within the frame of the company’s manual “*The Way We Do Things*”. Atlas Copco sees the benefits of 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 e.g. at local business board meetings. Group functions for legal, insurance, sustainability, treasury, tax, controlling and accounting provide policies, guidelines and instructions regarding risk management. This is regularly audited by internal and external audits. Examples of risks and how they are handled in Atlas Copco are shown in the table in this section.

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 and product liability. Financial lines insurance and business travel insurance are managed by the Group’s Insurance and Risk Management department. 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 where required.

Loss prevention

The main purpose of Atlas Copco’s loss prevention process is to prevent potential property losses and business interruptions. Atlas Copco’s Loss Prevention Standard stipulates Group requirements in regards of loss prevention for product companies and distribution centers, including areas like: construction, safety systems, loss prevention procedures and plans that need to be prepared. To ensure alignment with the standard and to support sites’ understanding of how the standard applies to each site, around 25 risk surveys are performed annually. The results from the risk surveys are consolidated and reported to Group Management.

Enterprise risk management

Atlas Copco has developed an enterprise risk management process to map strategic risks. The methodology used is applied on divisions, which is the highest operational level in the Group. Annual workshops are held by each divisional management team where risks are identified, analyzed, evaluated/re-evaluated and managed to ensure a structured and proactive approach to risks exposing Atlas Copco. The ownership of managing the risks raised in this process lies within each division, while the Insurance and Risk Management department manages the overall process, moderates the sessions and consolidates the results on Group level. This hands-on approach is also in line with Atlas Copco’s decentralized structure. The results are reported to Group Management annually and to each Business Area President semi-annually.



Risk process

In Atlas Copco, Enterprise Risk Management is not seen as a project but as a continuous process. The risk environment changes over time and it is therefore necessary to continuously revisit, update and identify new risks. The defined framework is described in the picture above.

Examples of risks and how they are handled by Atlas Copco

| RISK | CONTEXT | MITIGATING FACTORS | OPPORTUNITIES |
|----------------------------------|---|---|--|
| LEGAL | Atlas Copco's business operations are affected by numerous laws, regulations and trade sanctions as well as commercial and financial agreements with customers, suppliers and other counterparties, and also by licenses, patents and other intangible property rights. | <ul style="list-style-type: none"> • Inhouse lawyers on five continents support Group companies with advice on laws and regulations including compliance as well as support with contract reviews. Proactive training is also done. • A yearly legal risk survey of all companies in the Group is performed in addition to continuous follow-up of the legal risk exposure. The result of the survey is compiled, analyzed and reported to the Board and the auditors. • A separate central function, Group Compliance, is in place. It is responsible for aligning and coordinating the compliance organization which, in line with Atlas Copco's decentralized structure, is hosted in the business areas/divisions. | <ul style="list-style-type: none"> → Complying with legal norms and laws minimizes costs and increases opportunities to strengthen Atlas Copco's reputation. It also develops reliable partnerships and improves business stability. → The ability to trade on all markets, in compliance with applicable trade sanctions, increases revenue and lowers risk. |
| FINANCIAL | <p>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).</p> <p>Atlas Copco's net interest cost is affected by changes in market interest rates.</p> <p>Funding risk refers to the risk that the Group and its subsidiaries do not have access to financing on acceptable terms.</p> | <ul style="list-style-type: none"> • A Financial Risk Management Committee meets regularly to manage financial risks. • Atlas Copco Financial Solutions is responsible for these risks and supports Group companies to implement financial policies and guidelines. • The Group's operations continuously monitor relevant exchange rates and try to offset negative changes by adjusting sales prices and costs. • 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. • The Group's Financial Risk Policy stipulates that a minimum amount of stand-by credit facilities should exist and that a minimum average time to maturity for the external debt is set. | <ul style="list-style-type: none"> → Working proactively with financial risks improves the profit margin and creates possibilities for more stable cash flow. Overall, financial risk mitigation has the ability to improve business resilience for Atlas Copco. |
| REPORTING (INCLUDING TAX) | <p>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.</p> <p>Reporting errors could result in management drawing the wrong conclusions. However, with many small entities, the material impact is low.</p> <p>Taxes is an area with increased focus, especially transfer pricing risks but also new tax rules and regulations.</p> <p>Estimations sometimes form a 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.</p> | <ul style="list-style-type: none"> • 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 results 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 monitors and ensures compliance with local tax rules. Transfer pricing policies and agreements are implemented in operations and regularly updated. Quarterly updates on tax are presented to the Board and Group Management. • Atlas Copco reports sustainability information according to GRI Standards and works with training to improve reporting practices. | <ul style="list-style-type: none"> → Integrated reporting identifies and encourages opportunities for business synergies. → Addressing reporting risks increases transparency and improves the potential to present 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 transparency for drawing the right conclusions. → Increased reporting requirements on taxes increases transparency. |
| CORRUPTION AND FRAUD | <p>Corruption and bribery exist in many markets where Atlas Copco conducts business.</p> <p>Fraud or criminal deception intended to result in financial or personal gain, is always present in global operations.</p> | <ul style="list-style-type: none"> • 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 misconduct reporting system and various local misconduct reporting systems to report violations confidentially. • The Group supports fair competition and forbids discussions or agreements with competitors concerning pricing or market sharing. | <ul style="list-style-type: none"> → By fighting against corruption and fraud, Atlas Copco has the opportunity to work with 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 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. |

Examples of risks and how they are handled by Atlas Copco, continued

| RISK | CONTEXT | MITIGATING FACTORS | OPPORTUNITIES |
|---|---|---|---|
| HUMAN RIGHTS | <p>Atlas Copco operates in countries with high risk of human rights abuse, including child labor, forced or compulsory labor, poor working conditions, limitations in the freedom of association and discrimination.</p> <p>Atlas Copco encounters customers who are exposed to human rights issues.</p> <p>Risks to the Group's reputation may arise from relationships with suppliers not complying with internationally accepted ethical, social and environmental standards.</p> | <ul style="list-style-type: none"> • Guidance by and regular interaction with well-established non-governmental organizations to identify and mitigate risks. • Policies and procedures corresponding to the UN Guiding Principles on Business and Human Rights, which Atlas Copco has committed to since 2011. • Due diligence process and integration of internal controls for human rights violations in relevant processes. • The Group customer sustainability assessment tool. • Regular supplier evaluations in accordance with the UN Global Compact. | <ul style="list-style-type: none"> → Following the UN Guiding Principles on Business and Human Rights to "do no harm" significantly reduces risks and costs. In addition, a business' ability to "do good" according to these guidelines also creates business opportunities. → Working with human rights positively impacts both the employer brand and investor relations. → Strong business ethics help promote societal prosperity and a more stable market place. |
| SAFETY AND HEALTH | <p>Ill health is a problem for the individual as well as the company and can cause sick leave.</p> <p>Accidents or incidents at the workplace due to lack of proper safety measures harm employees and can negatively affect Atlas Copco's productivity and employer brand.</p> <p>Atlas Copco recognizes the risk that serious diseases and pandemics can interrupt business operations and harm employees.</p> | <ul style="list-style-type: none"> • 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/ISO 45001 standards. • 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 Group policies including the approach to health and safety. | <ul style="list-style-type: none"> → Improved safety and health in operations increases employee productivity and morale and strengthens the employer brand. → Improving working conditions for customers and suppliers can create long-lasting relationships and result in repeat orders. |
| ENVIRONMENTAL AND CLIMATE (EXTERNAL) | <p>The primary drivers for external environmental risk are physical changes in climate and natural resources, changes in regulations, taxes and resource prices.</p> <p>Natural disasters as a consequence of climate change can disrupt own operations or impact the supply chain.</p> <p>Increased fuel/energy taxes increase operational costs.</p> <p>Regulations and requirements related to carbon-dioxide emissions from products and industrial processes are gradually increasing.</p> <p>Changes in mean precipitation can affect all of Atlas Copco's operations and negatively affect operations either directly or by disrupting the supply chain.</p> <p>Market shifts toward a low-carbon economy can impact the viability of certain sectors.</p> | <ul style="list-style-type: none"> • Atlas Copco consistently develops products with improved energy efficiency, reduced emissions and lower environmental footprint. • Atlas Copco has several key performance indicators (KPIs) that address resource and energy usage in order to reduce carbon-dioxide emissions. • Strict handling processes for hazardous waste and chemicals are implemented in all operational units. Compliance is audited regularly and awareness reinforced by training. • All cooling agents 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). | <ul style="list-style-type: none"> → 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/scarcity, water-efficient or water-recycling products can have a strong customer appeal. 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 consumers' 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. New businesses and business models that are being served by Atlas Copco arise. For instance, increased renewable energy generation and the surge in production of electrical vehicles present opportunities to provide products to the industries. |
| MARKET | <p>A widespread financial crisis and economic downturn would not only affect the Group negatively but 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.</p> | <ul style="list-style-type: none"> • 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. • Agile manufacturing set-up makes it possible to quickly adapt to changes in equipment demand. • Leading position in most market segments provides economies of scale. | <ul style="list-style-type: none"> → A significant competitive advantage as a result of a strong global presence, including growth markets. → Opportunities to positively impact both 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. |
| REPUTATION | <p>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.</p> <p>Unsatisfied employees may potentially detract the Atlas Copco brand.</p> | <ul style="list-style-type: none"> • All Atlas Copco products are tested and quality assured. Product labeling is monitored and there are regular communications trainings. • The Group actively engages in stakeholder dialogue. • Compulsory training in the Business Code of Practice include the yearly signing of a compliance statement. • Clear and well-known brand promise. • An employee survey is carried out every two years and followed up actively. | <ul style="list-style-type: none"> → Brand positioning. → Stakeholder engagement not only mitigates reputational risks in certain cases but it also presents opportunities to increase awareness and credibility of Atlas Copco's brand through improvements and innovations. → Delivering tested and quality-assured products improves customer satisfaction and promotes repeat business. → Attract and develop employees who adhere to the Business Code of Practice. |

Examples of risks and how they are handled by Atlas Copco, continued

| RISK | CONTEXT | MITIGATING FACTORS | OPPORTUNITIES |
|------------------------------------|--|--|--|
| PRODUCTION | <p>Core component manufacturing is concentrated to 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.</p> <p>Production facilities could also have a risk of damaging the environment through operations, e.g. through hazardous waste and emissions.</p> <p>Atlas Copco is directly and indirectly exposed to raw material prices.</p> <p>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.</p> <p>Some sales are made indirectly through distributors and rental companies and their performance may have a negative effect on sales.</p> <p>The distribution of products results in CO₂ emissions from transport.</p> | <ul style="list-style-type: none"> • Manufacturing units continuously monitor the production process, test the safety and quality of products, make risk assessments, and train employees. • Atlas Copco has an internal Loss Prevention Standard to ensure high level of protection. • Production units have developed business continuity plans. • Ambition to certify all manufacturing units in accordance with the ISO 14001 standard. • Physical distribution of products is concentrated to a number of distribution centers and their delivery efficiency 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 total emissions per transport. | <ul style="list-style-type: none"> → Continued opportunities to extensively promote operational excellence to streamline production, minimize inefficiencies and maintain a high flexibility in the production process. → Continue to strengthen the relationship with customers through timely deliveries of products and services. → Transport efficiencies and safe transports can save the customers 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 | <p>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.</p> <p>The availability of many components is dependent on suppliers and if they have interruptions or lack capacity, this may affect deliveries.</p> <p>The use of many suppliers gives rise to the risk that products contain components which are not sustainably produced, e.g. the use of hazardous substances or electronic components containing conflict minerals.</p> | <ul style="list-style-type: none"> • Select and evaluate business partners based on objective factors including quality, delivery, price, and reliability, as well as commitment to environmental and social performance. • Continue to investigate and eradicate the presence of conflict minerals in Atlas Copco's value chain. • Establishment of a global network of sub-suppliers, to prevent supplier dependency. • E-learning for business partners (suppliers and distributors) to raise awareness of the Business Code of Practice, including signing of a compliance statement. • Atlas Copco maintains lists of substances that are prohibited or restricted due to their potential negative impact on health or the environment. Compliance with these lists is part of the business partner statement. | <ul style="list-style-type: none"> → 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. |
| EMPLOYEE | <p>Atlas Copco must have access to and attract skilled and motivated employees and safeguard the availability of competent managers to achieve established strategic and operational objectives.</p> | <ul style="list-style-type: none"> • The competence mapping and plan secure access to people with the right expertise at the right time. Recruitment can be both external and internal. 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. | <ul style="list-style-type: none"> → Motivated and skilled employees and managers are crucial to achieve or exceed business goals and objectives. |
| INFORMATION TECHNOLOGY (IT) | <p>Atlas Copco relies on IT systems in its day-to-day operations. Disruptions or faults in critical systems have a direct impact on production.</p> <p>Errors in the handling of financial systems can affect the company's reporting of results.</p> <p>Theft or modification of intellectual property constitutes a risk to our products and future business success.</p> <p>Cyber security risks are increasing in importance and can have a major impact on Atlas Copco operations.</p> <p>The General Data Protection Regulation (GDPR) came into force in 2018 and has an impact on the handling of personal data. Failure to comply may result in substantial fines and reputational damage.</p> | <ul style="list-style-type: none"> • Atlas Copco has a global IT security policy, including quality-assurance procedures that govern IT operations. Information security is monitored through IT Security audits. Standardized processes are in place for the implementation of new systems, changes to existing systems and daily operations. The system landscape is based on well-proven products. • IT Security tracks globally major downloads of files. Screening of business partners/consultants working in our systems. • Cyber security is regularly discussed, addressed and invested in by the IT Security function. Awareness of cyber security risks increases the readiness to quickly address any attacks. • A GDPR project group assumed the essential activities to ensure compliance with the new regulation. The necessary organizational changes are being executed to incorporate the compliance requirements into the daily operations. | <ul style="list-style-type: none"> → 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. → As the approach has been global, Atlas Copco is well prepared to face future data privacy initiatives in all regions or continents. |

Examples of risks and how they are handled by Atlas Copco, continued

| RISK | CONTEXT | MITIGATING FACTORS | OPPORTUNITIES |
|-------------------------------------|---|---|---|
| ACQUISITIONS AND DIVESTMENTS | <p>When making acquisitions, there are risks related to the selection and valuation of the potential targets as well as the process of acquiring them. Integrating acquired businesses can also be a complex and demanding process. There is no guarantee for an acquisition to be successful even if all steps are done properly.</p> <p>Annual impairment tests are made on acquired goodwill. If the carrying values are not deemed justified in such tests, it can result in a write-down, affecting the Group's result.</p> <p>Acquisitions and divestments can impact local communities and/or the environment, directly or indirectly.</p> | <ul style="list-style-type: none"> • The Group's Acquisitions Process Council 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 after an acquisition. Before any acquisition is completed, a detailed due diligence will be performed in order to evaluate the risks involved. • 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 completed. | <ul style="list-style-type: none"> → Acquisitions bring possibilities to enter new markets, segments, new technologies, new clients, increase revenues, etc. → Identifying the obstacles to integration can allow Atlas Copco to improve the process through methods such as job rotation, training or teambuilding exercises. This would not only result in a smoother process but also lower operational costs by decreasing downtime and allowing newly acquired companies to become even more productive and efficient. |
| PRODUCT DEVELOPMENT | <p>One of the challenges for Atlas Copco's long-term growth and profitability is to continuously develop innovative, sustainable products that consume less 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, recycling, etc. However, there may be increased risk of competition in emerging markets where low-cost products are not affected in the same extent by these rules.</p> | <ul style="list-style-type: none"> • 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 in each division. • Designing products with reduced emissions, vibrations or noise and increased recycling potential to meet legislative requirements. | <ul style="list-style-type: none"> → Substantial opportunities to strengthen the competitive edge by innovating high-quality, sustainable products and creating an integrated value proposition for customers. |

The Atlas Copco share

Share price development and returns

In 2019, the price of the A share increased 77.5% to SEK 373.6 (210.5) and the B share increased 68.2% to SEK 325.2 (193.3). The annual total return on the Atlas Copco A share, equal to dividend, redemption and the change in the share price, including the distribution of Epiroc AB, was on average 20% for the past ten years and 21% for the past five years. The corresponding total return for Nasdaq Stockholm was 12% and 11%, respectively.

Trading and market capitalization

The Atlas Copco shares are listed on Nasdaq Stockholm, which represented 29.3% of the total trading of the A share (40.0% of the B share) in 2019, other markets, so called Multilateral Trading Facilities (MTF), e.g. CBOE and Turquoise accounted for some 28.9% (22.3% of the B share), and the remaining 41.8% (37.7% of the B share) were traded outside public markets, for example through over-the-counter trading.

The market capitalization at year end 2019 was MSEK 440 497 (252 130) and the company represented 5.7% (4.2) of the total market value of Nasdaq Stockholm. Atlas Copco was the first (second) most traded share in 2019 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 depository bank is Citibank N.A. At year-end 2019, there were 25 276 542 ADRs outstanding, of which 24 352 555 represented A shares and 923 987 B shares.

Personnel stock option program and repurchase of own shares

The Board of Directors will propose to the Annual General Meeting 2020 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, 2019 appears in the table below.

Dividend

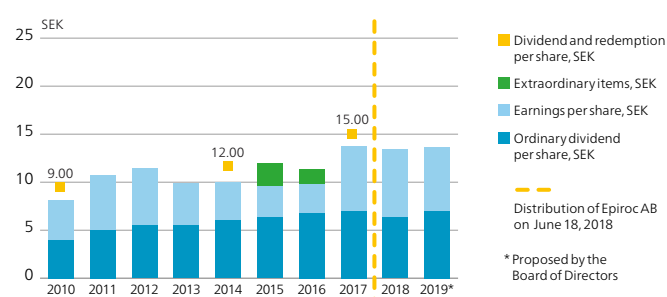
The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 7.00 (6.30) per share be paid for the 2019 fiscal year. Excluding shares currently held by the company, the proposed dividend corresponds to a total of MSEK 8 519 (7 640).

In order to facilitate a more efficient cash management, the dividend is proposed to be paid in two equal instalments, the first with record date April 27, 2020 and the second with record date October 26, 2020.

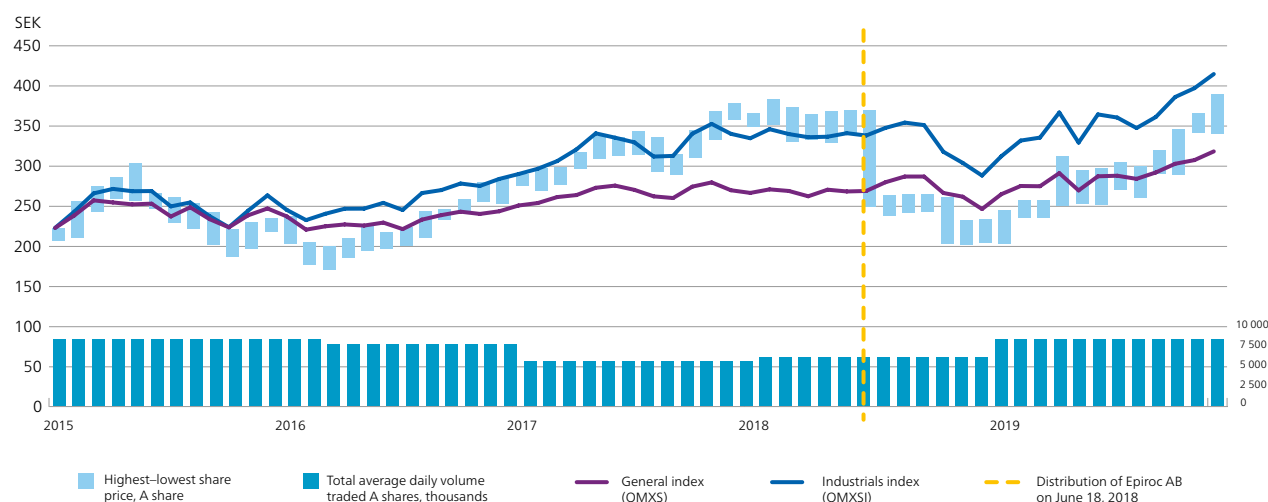
If approved, the dividend has averaged 57% of basic earnings per share during the last five years. The ambition is to distribute about 50% of earnings as dividends to shareholders. See more information on page 19.

| SHARE INFORMATION 2019-12-31 | A share | B share |
|------------------------------------|--------------|--------------|
| Nasdaq Stockholm | ATCO A | ATCO B |
| ISIN code | SE0011166610 | SE0011166628 |
| 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 | | |
| % of votes | 1.4 | 0.0 |
| % of capital | 1.0 | 0.0 |

EARNINGS AND DISTRIBUTION PER SHARE



SHARE PRICE



Ownership structure

At the end of 2019, Atlas Copco had 81 656 shareholders (87 009 at year end 2018). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 34% (35) of the voting rights and 31% (32) of the number of shares. Swedish investors held 47% (51) of the shares and represented 45% (48) of the voting rights.

TEN LARGEST SHAREHOLDERS*

| December 31, 2019 | % of votes | % of capital |
|---------------------------------------|--------------|--------------|
| Investor AB | 22.3 | 16.9 |
| Swedbank Robur fonder | 3.4 | 4.3 |
| Alecta Pensionsförsäkring | 2.7 | 4.4 |
| SEB Investment Management | 1.5 | 1.1 |
| Folksam | 1.1 | 1.1 |
| SPP Fonder AB | 0.7 | 0.8 |
| Länsförsäkringar fondförvaltning AB | 0.6 | 0.5 |
| Handelsbanken fonder | 0.6 | 0.8 |
| Fjärde AP-fonden | 0.5 | 1.0 |
| Nordea Investment Funds | 0.5 | 0.5 |
| Others | 66.1 | 68.6 |
| Total | 100.0 | 100.0 |
| – of which shares held by Atlas Copco | 1.4 | 1.0 |

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

OWNERSHIP STRUCTURE

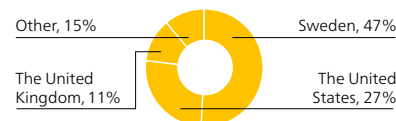
| Number of shares, December 31, 2019 | % of shareholders | % of capital |
|-------------------------------------|-------------------|--------------|
| 1–500 | 71.0 | 0.6 |
| 501–2 000 | 19.3 | 1.4 |
| 2 001–10 000 | 7.6 | 2.1 |
| 10 001–50 000 | 1.3 | 1.9 |
| 50 001–100 000 | 0.2 | 1.0 |
| >100 000 | 0.6 | 93.0 |
| Total | 100.0 | 100.0 |

OWNERSHIP CATEGORY

| December 31, 2019 | % of capital |
|--|--------------|
| Shareholders domiciled abroad (legal entities and individuals) | 52.6 |
| Swedish financial companies | 37.3 |
| Swedish individuals | 4.7 |
| Other Swedish legal entities | 2.2 |
| Swedish social insurance funds | 2.0 |
| Swedish trade organizations | 1.0 |
| Swedish government and municipals | 0.2 |
| Total | 100.0 |

SHAREHOLDERS BY COUNTRY

December 31, 2019
percent of capital



SHARE ISSUES ¹⁾

| | | Change of share capital, MSEK | Amount distributed, MSEK |
|------|--------------------------------|-------------------------------|--------------------------|
| 2011 | Split | 2:1 | |
| | Share redemption ²⁾ | 1 229 613 104 shares at SEK 5 | –393.0 |
| | Bonus issue | No new shares issued | 393.0 |
| 2015 | Split | 2:1 | |
| | Share redemption ³⁾ | 1 229 613 104 shares at SEK 6 | –393.0 |
| | Bonus issue | No new shares issued | 393.0 |
| 2018 | Split | 2:1 | |
| | Share redemption ⁴⁾ | 1 229 613 104 shares at SEK 8 | –393.0 |
| | Bonus issue | No new shares issued | 393.0 |

¹⁾ For more information please visit www.atlascopcogroup.com/investor-relations.

²⁾ 1 213 493 751 shares net of shares held by Atlas Copco.

³⁾ 1 217 444 513 shares net of shares held by Atlas Copco.

⁴⁾ 1 213 080 695 shares net of shares held by Atlas Copco.

IMPORTANT DATES

| | | |
|------|-------------|--|
| 2020 | April 23 | First quarter results |
| | April 23 | Annual General Meeting |
| | April 24* | Shares trade excluding right to dividend of SEK 3.50 |
| | April 30* | Dividend payment date (preliminary) |
| | July 16 | Second quarter results |
| | October 22 | Third quarter results |
| | October 23* | Shares trade excluding right to dividend of SEK 3.50 |
| | October 29* | Dividend payment date (preliminary) |
| 2021 | January 29 | Fourth quarter results 2020 |

* 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 143 in the three-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 objective 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 AB 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 2019.

The corporate governance report has been examined by the auditors, see page 126.

The following information is available at www.atlascopcogroup.com

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

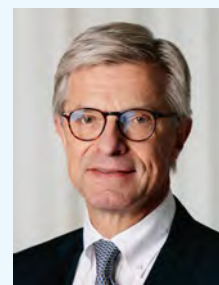
Comment from the Chair

Atlas Copco is a truly global industrial company with customers in over 180 countries. Our ability to ensure that the highest ethical standards are applied everywhere we operate is dependent on the values and behavior of all our employees as well as our business partners. Therefore, it is crucial to communicate and monitor the adherence to the Group's values.

Our Business Code of Practice is our most important tool to make sure that we always act with the highest ethical standards and integrity. In 2019, new yearly e-learning in the Business Code of Practice, mandatory for all employees, and classroom trainings for managers in risk countries were implemented as Group KPIs. The annual signing of the Business Code of Practice, together with the training, support our employees to identify and handle ethical dilemmas and strengthen the awareness of our values and guidelines. This is further supported by a new global system for reporting ethical misconduct.

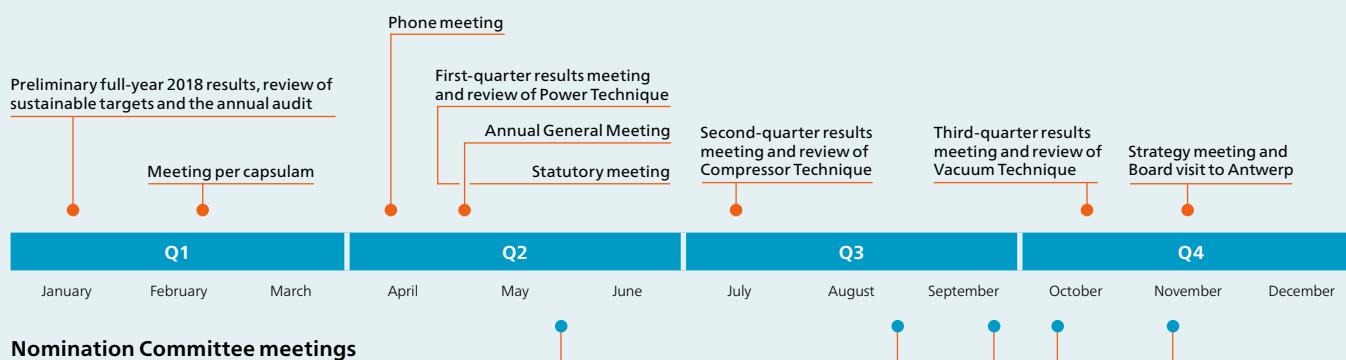
To safeguard our reputation, we rely on solid governance and our leaders' ability to defend our values, including of course internal as well as external audits.

*Hans Stråberg,
Chair since 2014*



The Board's and the Nomination Committee's work during 2019

Board of Directors' meetings and activities:





GOVERNANCE STRUCTURE

1. Shareholders

At the end of 2019, Atlas Copco had 81 656 shareholders (87 009 at year-end 2018). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 34% (35) of the voting rights and 31% (32) of the number of shares. Swedish investors held 47% (51) of the shares and represented 45% (48) of the voting rights.

The largest shareholder is Investor AB, holding 17% of capital and 22% of votes. More information on the Atlas Copco’s shareholders can be found on pages 49–50.

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. 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.atlascopcogroup.com/aggm.

The AGM 2019 was held on April 25, 2019 in Solna, Sweden and 58% of the total number of votes in the Company and 58% of the shares were represented.

Decisions at the AGM 2019 included:

- Adoption of the income statements and balance sheets of Atlas Copco AB and the Group for 2018.
- Discharge of liability of the Company’s affairs during the 2018 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 instalments 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 2019 including mandate for the Board to decide upon repurchase and sales of Atlas Copco shares to hedge the plan and previous similar plans.
- Election of Deloitte AB as auditing company up to and including the Annual General Meeting 2020.

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,
Attn: 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 ATTENDANCE



ANNUAL GENERAL MEETING 2020

The Annual General Meeting will be held on April 23, 2020 at Aula Medica, Nobels väg 6, Solna, Sweden.

3. Nomination Committee

The Nomination Committee's goal is to propose a Board with a broad and complementary experience from a number of important industries and markets, as well as a composition that is characterized by diversity, broadness and gender balance. Experience from manufacturing industry with international coverage is important, as it is Atlas Copco's main focus. The Nomination Committee's diversity policy is based on section 4.1 in the Corporate Governance Code. The nine Board members elected by the shareholders have backgrounds from various industries. Three of the eight non-executive members are women. Three are born in the 1960's, three in the 1950's, two in the 1940's, and one person is born in the 1970's. The Board members are of three different nationalities from Germany and the United States, with a majority of the Board members coming from Sweden. Increasing the diversity of the Board of Directors with regards to gender is a priority for the Nomination Committee.

4. Board of Directors

The Board of Directors is responsible for the overall 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 2019 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

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 to 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 2020. 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 representa-

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 Board's work and distribution of tasks between the Board, the committees and the President as well as the Company's reporting processes.

The Board held eight meetings in 2019. Five meetings were held at Atlas Copco AB in Nacka, Sweden, one per capsulam, one per telephone and one meeting in Antwerp during the study trip in the fall. The attendance at Board meetings is presented on page 56–57.

The Board continuously evaluates the performance of the President and CEO, Mats Rahmström. For the Annual Audit, the company's principal auditor, Thomas Strömberg, 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 Board's working procedures, competence and composition, including the background, experience and diversity of

tives of the four largest shareholders, listed in the shareholders' register as of August 31, 2019, together with the Chair of the Board shall form the Nomination Committee. The members of the Nomination Committee for the AGM 2020 were announced on September 13, 2019, and they represented approximately 31% of all votes in the Company. The members of the Nomination Committee receive no compensation for their work in the Nomination Committee.

Nomination Committee members for the AGM 2020: Petra Hedengran, Investor AB, Chair of the Nomination Committee; Jan Andersson, Swedbank Robur; Ramsay Brufer, Alecta; Hans Ek, SEB Investment Management AB; and Hans Stråberg, Atlas Copco AB, Chair.

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 2019 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 2 325 000.
- Each of the other Board members not employed by the company were granted SEK 740 000.
- An amount of SEK 315 000 was granted to the Chair of the Audit Committee and SEK 200 000 to each of the other members of this committee.
- An amount of SEK 125 000 was granted to the Chair of the Remuneration Committee and SEK 90 000 to each of the other members of this committee was granted.
- An amount of SEK 100 000 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 is selected by the Board at the statutory Board meeting after the Annual General Meeting and until the statutory Board meeting the following year. 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. 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 and new legal entities, delegated by the Board. The Audit Committee work further includes reviewing internal audit procedures, monitoring the external auditor, considering any inspection findings, review and monitor the independence of the external auditor, and assist the Nomination Committee in the selection of the auditor.

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.

The Audit Committee during 2019 was Staffan Bohman, Chair, Gunilla Berg, Johan Forssell and 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 2019 approved the guidelines for remuneration. See also note 5.

The Remuneration Committee had three meetings in 2019. 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 to the Board.

The Remuneration Committee during 2019 was Hans Stråberg, Chair, Peter Wallenberg Jr and 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 2019 the audit firm Deloitte AB, Sweden, was elected external auditor until the AGM 2020 in compliance with a proposal from the Nomination Committee. The principal auditor is Thomas Strömberg, Authorized Public Accountant at Deloitte AB.

At the AGM 2019, Thomas Strömberg 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

Internal Audit and Assurance aims to provide independent and objective assurance on internal control by conducting internal audits. It reports five times per year to the Audit Committee. Read more on pages 60–61.

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's 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 of 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 together with the Group goals presented on pages 5 and 11 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 in various stakeholder dialogues.



9. Group Management

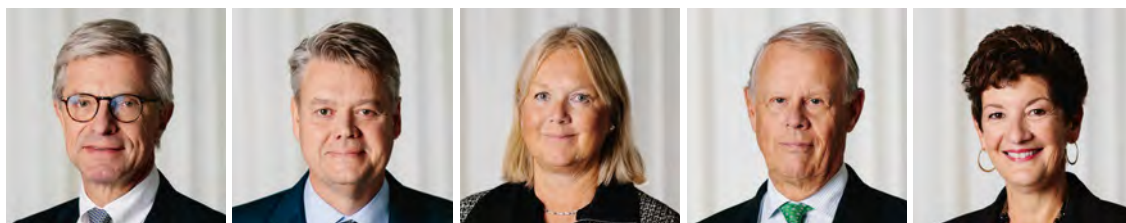
Besides the President and CEO, the Group Management consists of four business area presidents and four senior vice presidents responsible for the main Group functions; Corporate Communications and Governmental Affairs, Human Resources, Controlling and Finance, and Legal. The President and CEO is responsible 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 2019, 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. Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. These goals are based on financial and non-financial parameters and vary between different positions. Non-financial parameters have for example been in relation to the Business Code of Practice. No fees are paid for Board memberships in Group companies or for other duties performed.

Board of Directors



| | | | | | |
|--|---|---|---|--|--|
| Name | Hans Stråberg | Mats Rahmström | Gunilla Berg | Staffan Bohman | Tina Donikowski |
| Position | Chair since 2014 | Board member <i>President and CEO</i> | Board member | Board member | Board member |
| Born | 1957 | 1965 | 1960 | 1949 | 1959 |
| Education | M.Sc. in Mechanical Engineering, Chalmers University of Technology, Gothenburg. | MBA from the Henley Management College, the United Kingdom. | 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, U.S. | B.Sc. in Industrial Management from Gannon University, U.S. |
| Nationality / Elected | Swedish / 2013 | Swedish / 2017 | Swedish / 2016 | Swedish / 2003 | American / 2017 |
| External memberships | Chair of SKF, Roxtec AB, CTEK AB, Vice Chair of Stora Enso Oyj, Finland. Board member of Investor AB, Mellby Gård AB, Anocca AB and Hedson. | Board member of Wärtsilä Oyj Abp, Finland, the Association of Swedish Engineering Industries and of Piab AB. Member of The Royal Swedish Academy of Engineering Sciences. | Board member of ÅF Pöyry AB. | Chair of Electroflux AB, IPCO AB, Upplands Motor Holdings AB, The German-Swedish Chamber of Commerce and The Research Institute for Industrial Economics. Member of The Royal Swedish Academy of Engineering Sciences. | Board member of Circor International, Inc, TopBuild, Advanced Energy and Eriez Magnetics. |
| Principal work experience and other information | Chief Executive Officer and President for Electroflux AB. Various executive positions in the Electroflux Group based in Sweden and the U.S. EU Co-Chair TABD, Trans-Atlantic Business Dialogue. | President and CEO of Atlas Copco AB*. President of the Atlas Copco Tools and Assembly Systems General Industry division. Before he was appointed President and CEO he was Business Area President for Industrial Technique. | Chief Financial Officer at PostNord AB, Chief Financial Officer at Teracom Group AB, SAS AB and KF. | CEO of Sapa AB, Gränges AB and DeLaval AB. | Vice President for Global Locomotive Business, Propulsion Business, Six Sigma Quality Leader, and General Manager Aftermarket Sales and Service, all with GE Transportation. |
| Attendance | | | | | |
| Board meetings | 8 of 8 | 8 of 8 | 8 of 8 | 8 of 8 | 8 of 8 |
| Annual General Meeting | Yes | Yes | Yes | Yes | Yes |
| Independence | | | | | |
| To Atlas Copco and its management | Yes | No ³⁾ | Yes | Yes | Yes |
| To major shareholders | No ⁴⁾ | Yes | Yes | Yes | Yes |
| Fees and holdings | | | | | |
| Total fees 2019, KSEK ¹⁾ | 2 719 | | 933 | 1 136 | 735 |
| Holdings in Atlas Copco AB ²⁾ | 21 500 class B shares 8 383 synthetic shares | 13 087 class A shares 5 000 class B shares 275 588 employee stock options | 500 class B shares 6 309 synthetic shares | 10 000 class A shares 40 000 class B shares 2 667 synthetic shares | 4 093 synthetic shares |

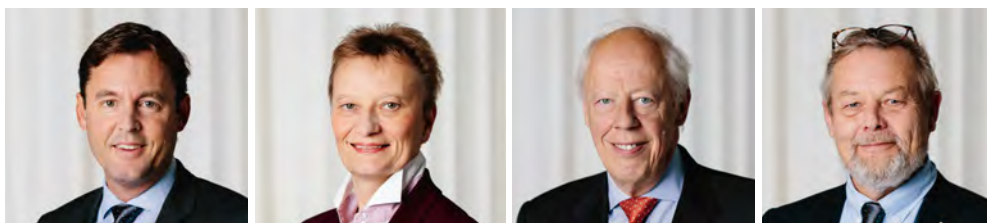
Board members appointed by the unions



Benny Larsson
Position: Board member
Born: 1972
Nationality: Swedish
Elected: 2018
Board meetings: 8 of 8



Mikael Bergstedt
Position: Board member
Born: 1960
Nationality: Swedish
Elected: 2004
Board meetings: 8 of 8



| | | | | |
|--|---|---|---|---|
| Name | Johan Forssell | Sabine Neuß | Anders Ullberg | Peter Wallenberg Jr |
| Position | Board member | Board member | Board member | Board member |
| Born | 1971 | 1968 | 1946 | 1959 |
| Education | M.Sc. in Economics and Business Administration, Stockholm School of Economics. | M.Sc. in Engineering from Coburg University, Germany. | B.Sc. in Economics and Business Administration, Stockholm School of Economics. | BSBA Hotel Administration, University of Denver, U.S. and International Bachaloria, American School, Leysin, Switzerland. |
| Nationality / Elected | Swedish / 2008 | German / 2016 | Swedish / 2003 | Swedish / 2012 |
| External memberships | Board member of EQT AB, Patricia Industries AB, Wärtsilä Oyj Abp, Finland, Epiroc AB and Stockholm School of Economics. | Member of Supervisory Board at Continental AG, Germany. | Chair of Boliden AB and Studsvik AB. Board member of Beijer Alma AB, Epiroc AB and Valeado Partners. | Chair of Knut and Alice Wallenberg Foundation, Wallenberg Foundations AB and The Grand Group AB. Board member of EQT AB. |
| Principal work experience and other information | President and CEO of Investor AB*. Managing Director, Head of Core Investments and member of the management group of Investor AB. | CTO and member of Board of Management at Jungheinrich AG*, Germany. Chief Operating Officer at Kelvion Holding GmbH, Germany, 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. | Vice President Corporate Control Swedyards (Celsius Group), Executive Vice President and CFO, SSAB, Swedish Steel, and President and CEO of SSAB Swedish Steel. | President and CEO of The Grand Hotel Holdings, General Manager, The Grand Hotel, President Hotel Division Stockholm-Saltsjön. |
| Attendance | | | | |
| Board meeting | 8 of 8 | 8 of 8 | 8 of 8 | 8 of 8 |
| Annual General Meeting | Yes | Yes | Yes | Yes |
| Independence | | | | |
| To Atlas Copco and its management | Yes | Yes | Yes | Yes |
| To major shareholders | No ⁵⁾ | Yes | Yes | No ⁶⁾ |
| Fees and holdings | | | | |
| Total fees 2019, KSEK ¹⁾ | 933 | 730 | 908 | 823 |
| Holdings in Atlas Copco AB ²⁾ | 11 000 class B shares 8 123 synthetic shares | | 14 000 class A shares 10 000 class B shares | 166 667 class A shares 8 123 synthetic shares |

Board members appointed by the unions



Jan Larsson
Position: Deputy to Benny Larsson
Born: 1969
Nationality: Swedish
Elected: 2018
Board meetings: 8 of 8



Olle Magnusson
Position: Deputy to Mikael Bergstedt
Born: 1953
Nationality: Swedish
Elected: 2018
Board meetings: 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 2019, including those of close relatives or legal entities and grant for 2019.

³⁾ President and CEO of Atlas Copco AB.

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

⁵⁾ President and CEO of a company, which is a larger owner (Investor AB).

⁶⁾ Board member of an indirect owner of Atlas Copco AB.

* Current position.

Group Management

Besides the President and CEO, Group Management consists of four business area executives and executives responsible for the main Group functions; Corporate Communications and Governmental Affairs, Human Resources, Controlling and Finance, and Legal.



Mats Rahmström
President and CEO



Vagner Rego
Senior Executive Vice President
and Business Area President
Compressor Technique



Geert Follens
Senior Executive Vice President
and Business Area President
Vacuum Technique



Henrik Elmin
Senior Executive Vice President
and Business Area President
Industrial Technique



Andrew Walker
Senior Executive Vice President
and Business Area President
Power Technique



Gisela Lindstrand
Senior Vice President
Corporate Communications
and Governmental Affairs



Hans Ola Meyer
Senior Vice President
Controlling and Finance, CFO



Håkan Osvald
Senior Vice President
General Counsel



Cecilia Sandberg
Senior Vice President
Human Resources

Mats Rahmström

Mats Rahmström has held positions in sales, service, marketing and general management within the Industrial Technique business area. He has been President of the Atlas Copco Tools and Assembly Systems General Industry division. Before he was appointed President and CEO he was Business Area President for Industrial Technique.

Position: President and CEO

Born: 1965

Education: MBA from the Henley Management College, the United Kingdom.

Nationality: Swedish

Employed/In current position since: 1988/2017

External memberships: Board member of Wärtsilä Oyj Abp, Finland, the Association of Swedish Engineering Industries and of Piab AB. Member of The Royal Swedish Academy of Engineering Sciences.

Holdings in Atlas Copco AB*

13 087 class A shares

5 000 class B shares

275 588 employee stock options

Vagner Rego

Vagner Rego joined Atlas Copco as a trainee engineer in São Paulo State, Brazil and was later appointed Business Line Manager for Compressor Technique Service. He later became Vice President Marketing and Sales for the Compressor Technique Service division, in Belgium. Before he was appointed President of the Compressor Technique Service division, he was General Manager for Construction Technique's customer center in Brazil.

Position: Senior Executive Vice President and Business Area President Compressor Technique

Born: 1972

Education: Mechanical engineering from Mackenzie University and an MBA from Ibmec Business School, both in Brazil.

Nationality: Brazilian

Employed/In current position since: 1996/2017

Holdings in Atlas Copco AB*

3 843 class A shares

45 578 employee stock options

Geert Follens

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.

Position: Senior Executive Vice President and Business Area President Vacuum Technique

Born: 1959

Education: M. Sc in Electromechanical Engineering and a post-graduate degree in Business Economics from the University of Leuven, Belgium.

Nationality: Belgian

Employed/In current position since: 1995/2017

External memberships: Board member of SKF.

Holdings in Atlas Copco AB*

4 698 class A shares

60 777 employee stock options

Henrik Elmin

Henrik Elmin joined Atlas Copco as General Manager for Atlas Copco Tools Customer Center Nordic in the Industrial Technique business area. He was later appointed President of the General Industry Tools and Assembly Systems division. Before his current position he was President of the Industrial Technique Service division.

Position: Senior Executive Vice President and Business Area President Industrial Technique

Born: 1970

Education: M.Sc. in Mechanical Engineering from Lund Institute of Technology and an MBA from INSEAD, France.

Nationality: Swedish

Employed/In current position since: 2007/2017

Holdings in Atlas Copco AB*

3 605 class A shares

107 608 employee stock options

Andrew Walker

Andrew Walker has held several different management positions in markets including the United Kingdom, Ireland, Belgium and the United States. Before his current position, he was President of the Service division within Compressor Technique.

Position: Senior Executive Vice President and Business Area President Power Technique

Born: 1961

Education: M.Sc in Industrial Engineering and an MBA from University College Dublin, Ireland.

Nationality: Irish

Employed/In current position since: 1986/2014

Holdings in Atlas Copco AB*

3 982 class A shares

57 928 employee stock options

Gisela Lindstrand

Gisela Lindstrand began her career as a journalist. 1989–1996 she was political adviser and press secretary to the Prime Minister of Sweden. 1996–2007 she held positions as Information Director for SABO, Press Relations Manager at NCC, and Government Affairs Director for Pfizer. Before her current position she was Senior Vice President Corporate Communications and Public Affairs at Securitas.

Position: Senior Vice President Corporate Communications and Governmental Affairs

Born: 1962

Education: BA in Political Science, Macroeconomics and Cultural Geography, from Uppsala University.

Nationality: Swedish

Employed/In current position since: 2018/2018

Holdings in Atlas Copco AB*

677 class A shares

Hans Ola Meyer

Hans Ola Meyer joined Atlas Copco in 1978 to work with Group accounting and controlling. He later moved to Ecuador as Financial Manager. 1984–1991 he held various positions at the broker Penningmarknadsmäklarna. He returned to Atlas Copco as Business Controller in Spain and in 1993 he became Senior Vice President, Finance, for Atlas Copco AB and member of Group Management. He has held his current position since 1999.

Position: Senior Vice President Controlling and Finance, CFO

Born: 1955

Education: B.Sc. in Economics and Business Administration from Stockholm School of Economics.

Nationality: Swedish

Employed/In current position since: 1991/1999

External memberships: Board member of Upplands Motor Holding AB and Electrolux Professional AB.

Holdings in Atlas Copco AB*

7 686 class A shares

35 321 class B shares

116 631 employee stock options

Håkan Osvald

Håkan Osvald has been General Counsel for Atlas Copco North America Inc. and Chicago Pneumatic Tool Company in the United States. He was subsequently 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 Senior Vice President General Counsel and Secretary of the Board of Directors for Atlas Copco AB.

Position: Senior Vice President General Counsel

Born: 1954

Education: Master of Law from Uppsala University.

Nationality: Swedish

Employed/In current position since: 1985/2012

External memberships: Chair of ICC Sweden, reference group Competition and member of the Board of Sweden-China Trade Council.

Holdings in Atlas Copco AB*

6 989 class A shares

2 600 class B shares

37 252 employee stock options

Cecilia Sandberg

Cecilia Sandberg began her career as Human Resources consultant for a travel agency. From 1999 to 2007 she held different Human Resources roles at Scandinavian Airlines and AstraZeneca. Between 2007–2015 Cecilia Sandberg was Vice President Human Resources for Atlas Copco's Industrial Technique business area. Before she started her current position she was Senior Vice President Human Resources at Permobil.

Position: Senior Vice President Human Resources

Born: 1968

Education: B.Sc. in Human Resources and a M.Sc. in Sociology from Stockholm University.

Nationality: Swedish

Employed/In current position since: 2017/2017

Holdings in Atlas Copco AB*

1 705 class A shares

16 309 employee stock options

* Holdings as per end 2019, 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 Audit Committee and CEO. Group Management sets the tone for the organization, influencing the control consciousness of 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 and new accounting policies. The policies and guidelines detail the appropriate accounting for key risk areas such as revenues, trade receivables, including bad debt provisions,

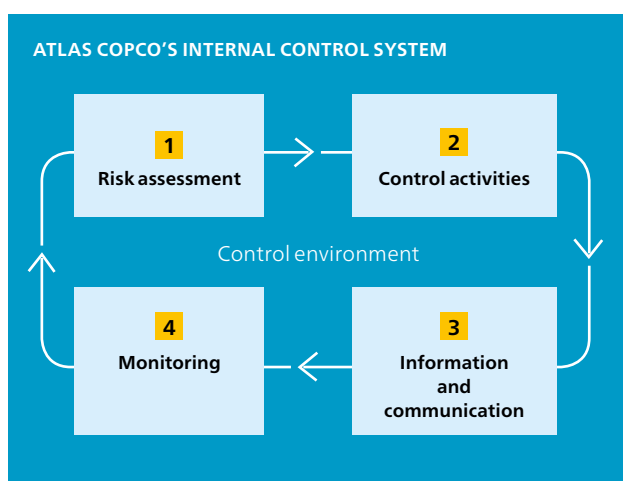
inventory costing and obsolescence, accounting for income taxes (current and deferred), financial instruments and business acquisitions.

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 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 adequate to address the identified risks. The key risk areas for the financial reporting and control activities that are in place to manage the risks are presented in the table below.

| KEY FINANCIAL REPORTING RISKS | Revenues are not recognized in the appropriate accounting period | Trade receivables are not appropriately valued | Inventory is 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 acquisitions 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 provisions for bad debt 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 acquisitions are approved by the Board, CEO or Divisional President. |
| | Revenues are disaggregated and analyzed by type (e.g. goods, services and rental) and by period at local, divisional, 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 divisional 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, divisional, 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 managers and other employees to carry out their responsibilities. Reporting instructions and accounting guidelines are communicated to personnel concerned through the financial reporting accounting policies and guidelines, which are included in the internal database *The Way We Do Things*, and 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 divisional, business area and Group level regularly reviews the financial information and assess compliance to Group policies.
- The Audit Committee and the Board of Directors regularly review reports on financial performance of the Group, 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. 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 and to Group Management.
- A control self-assessment (CSA) is performed primarily to support local unit managers to evaluate the status of their control routines and to address areas for improvement. One of the areas in the CSA is internal control, which includes internal control over financial reporting. Other areas include legal matters, communication and branding, and the Business Code of Practice.
- The Group has a global hotline process complemented with local hotlines 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. The hotline also includes perceived cases of human rights violation, discrimination or corruption. The reports are treated confidentially and the person reporting is guaranteed anonymity. More information about the grievance mechanism can be found on page 132.
- In the compliance process, all managers and all employees are requested to sign a statement confirming understanding and compliance to financial policies, the Business Code of Practice and applicable laws and regulations.

Financial statements and notes

MSEK unless otherwise stated

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Consolidated income statement

| For the year ended December 31, Amounts in MSEK | Note | 2019 | 2018 |
|--|-------------|---------------|----------------------|
| Continuing operations | | | |
| Revenues | 4 | 103 756 | 95 363 |
| Cost of sales | | -59 024 | -54 142 |
| Gross profit | | 44 732 | 41 221 |
| Marketing expenses | | -12 118 | -11 155 |
| Administrative expenses | | -7 226 | -6 056 |
| Research and development expenses | | -3 631 | -3 166 |
| Other operating income | 7 | 297 | 505 |
| Other operating expenses | 7 | -173 | -167 |
| Share of profit in associated companies and joint ventures | 14 | 16 | 5 |
| Operating profit | 4, 5, 6, 16 | 21 897 | 21 187 |
| Financial income | 8 | 161 | 542 |
| Financial expenses | 8 | -486 | -885 |
| Net financial items | | -325 | -343 |
| Profit before tax | | 21 572 | 20 844 |
| Income tax expense | 9 | -5 029 | -4 508 |
| Profit from continuing operation | | 16 543 | 16 336 |
| Discontinued operations | | | |
| Profit from discontinued operations, net of tax | 3 | - | 90 099 ¹⁾ |
| Profit for the year | | 16 543 | 106 435 |
| Profit attributable to: | | | |
| - owners of the parent | | 16 522 | 106 164 |
| - non-controlling interests | | 21 | 271 ¹⁾ |
| Basic earnings per share, SEK | 11 | 13.60 | 87.49 |
| - of which continuing operations | | 13.60 | 13.45 |
| Diluted earnings per share, SEK | 11 | 13.59 | 87.36 |
| - of which continuing operations | | 13.59 | 13.43 |

¹⁾ Includes effect from the distribution of Epiroc.

Consolidated statement of comprehensive income

| For the year ended December 31, Amounts in MSEK | Note | 2019 | 2018* |
|--|------|---------------|----------------|
| Profit for the year | | 16 543 | 106 435 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurements of defined benefit plans | | -626 | 150 |
| Income tax relating to items that will not be reclassified | | 150 | -65 |
| | | -476 | 85 |
| Items that may be reclassified subsequently to profit or loss | | | |
| Translation differences | | | |
| - on foreign operations | | 1 578 | 3 695 |
| - realized and reclassified to income statement | | -32 | -1 308 |
| Hedge of net investments in foreign operations | | -252 | -797 |
| Cash flow hedges | | 43 | 42 |
| Income tax relating to items that may be reclassified | | 71 | 467 |
| | | 1 408 | 2 099 |
| Other comprehensive income for the year, net of tax | 10 | 932 | 2 184 |
| Total comprehensive income for the year | | 17 475 | 108 619 |
| Total comprehensive income attributable to: | | | |
| - owners of the parent | | 17 453 | 108 346 |
| - non-controlling interests | | 22 | 273 |

* 2018 includes discontinued operations.

Consolidated balance sheet

| Amounts in MSEK | Note | Dec. 31, 2019 | Dec. 31, 2018 | Jan.1, 2019* |
|--|---------|----------------|---------------|---------------|
| ASSETS | | | | |
| Non-current assets | | | | |
| Intangible assets | 12 | 36 549 | 30 025 | 30 025 |
| Rental equipment | 13 | 2 858 | 2 288 | 2 286 |
| Other property, plant and equipment | 13 | 8 021 | 8 099 | 8 068 |
| Right-of-use assets | 22 | 3 557 | – | 3 292 |
| Investments in associated companies and joint ventures | 14 | 1 037 | 133 | 133 |
| Other financial assets | 15 | 642 | 676 | 709 |
| Other receivables | | 116 | 92 | 92 |
| Deferred tax assets | 9 | 1 449 | 1 619 | 1 619 |
| Total non-current assets | | 54 229 | 42 932 | 46 224 |
| Current assets | | | | |
| Inventories | 16 | 14 501 | 12 718 | 12 718 |
| Trade receivables | 17 | 20 590 | 18 906 | 18 906 |
| Income tax receivables | | 1 373 | 392 | 392 |
| Other receivables | 18 | 5 898 | 5 205 | 5 187 |
| Other financial assets | 15 | 125 | 102 | 109 |
| Cash and cash equivalents | 19 | 15 005 | 16 414 | 16 414 |
| Assets classified as held for sale | 3 | 1 | 1 | 1 |
| Total current assets | | 57 493 | 53 738 | 53 727 |
| TOTAL ASSETS | | 111 722 | 96 670 | 99 951 |
| EQUITY | | | | |
| | Page 65 | | | |
| Share capital | | 786 | 786 | 786 |
| Other paid-in capital | | 7 622 | 7 201 | 7 201 |
| Reserves | | 8 804 | 7 397 | 7 397 |
| Retained earnings | | 36 019 | 27 041 | 27 041 |
| Total equity attributable to owners of the parent | | 53 231 | 42 425 | 42 425 |
| Non-controlling interests | | 59 | 47 | 47 |
| TOTAL EQUITY | | 53 290 | 42 472 | 42 472 |
| LIABILITIES | | | | |
| Non-current liabilities | | | | |
| Borrowings | 21 | 20 400 | 14 415 | 16 852 |
| Post-employment benefits | 23 | 3 488 | 2 837 | 2 837 |
| Other liabilities | | 261 | 372 | 372 |
| Provisions | 25 | 1 149 | 910 | 910 |
| Deferred tax liabilities | 9 | 702 | 619 | 619 |
| Total non-current liabilities | | 26 000 | 19 153 | 21 590 |
| Current liabilities | | | | |
| Borrowings | 21 | 3 255 | 5 966 | 6 813 |
| Trade payables | | 11 898 | 12 529 | 12 529 |
| Income tax liabilities | | 1 433 | 1 289 | 1 289 |
| Other liabilities | 24 | 14 233 | 13 659 | 13 656 |
| Provisions | 25 | 1 613 | 1 602 | 1 602 |
| Total current liabilities | | 32 432 | 35 045 | 35 889 |
| TOTAL EQUITY AND LIABILITIES | | 111 722 | 96 670 | 99 951 |

* Including effects of IFRS 16 (leases).
Information concerning assets pledged and contingent liabilities is disclosed in note 26.

Consolidated statement of changes in equity

| 2019 | Equity attributable to owners of the parent | | | | | | Non-controlling interests | Total equity |
|--|---|-----------------------|-----------------|---------------------|-------------------|---------------|---------------------------|---------------|
| | Share capital | Other paid-in capital | Hedging reserve | Translation reserve | Retained earnings | Total | | |
| Amounts in MSEK | | | | | | | | |
| Opening balance, Jan. 1 | 786 | 7 201 | 2 | 7 395 | 27 041 | 42 425 | 47 | 42 472 |
| Profit for the year | | | | | 16 522 | 16 522 | 21 | 16 543 |
| Other comprehensive income for the year | | | 38 | 1 369 | -476 | 931 | 1 | 932 |
| Total comprehensive income for the year | | | 38 | 1 369 | 16 046 | 17 453 | 22 | 17 475 |
| Dividend | | | | | -7 653 | -7 653 | -10 | -7 663 |
| Acquisition of series A shares | | | | | -897 | -897 | | -897 |
| Divestment of series A shares | | 394 | | | 1 755 | 2 149 | | 2 149 |
| Divestment of series B shares | | 27 | | | 8 | 35 | | 35 |
| Share-based payment, equity settled | | | | | | | | |
| – expense during the year | | | | | 135 | 135 | | 135 |
| – exercise option | | | | | -416 | -416 | | -416 |
| Closing balance, Dec. 31 | 786 | 7 622 | 40 | 8 764 | 36 019 | 53 231 | 59 | 53 290 |

| 2018 | Equity attributable to owners of the parent | | | | | | Non-controlling interests | Total equity |
|--|---|-----------------------|-----------------|---------------------|-------------------|----------------|---------------------------|----------------|
| | Share capital | Other paid-in capital | Hedging reserve | Translation reserve | Retained earnings | Total | | |
| Amounts in MSEK | | | | | | | | |
| Opening balance, Jan. 1 | 786 | 7 021 | 1 | 5 331 | 47 378 | 60 517 | 84 | 60 601 |
| Change in accounting principles, IFRS 9 | | | | | -37 | -37 | | -37 |
| Profit for the year | | | | | 106 164 | 106 164 | 271 | 106 435 |
| Other comprehensive income for the year | | | 33 | 2 064 | 85 | 2 182 | 2 | 2 184 |
| Transfer of reserves | | | -32 | | 32 | | | - |
| Total comprehensive income for the year | | | 1 | 2 064 | 106 281 | 108 346 | 273 | 108 619 |
| Ordinary dividend | | | | | -8 487 | -8 487 | -9 | -8 496 |
| Distribution of Epiroc AB | | | | | -107 998 | -107 998 | -301 | -108 299 |
| Redemption of shares | -393 | | | | -9 312 | -9 705 | | -9 705 |
| Increase of share capital through bonus issue | 393 | | | | -393 | | | - |
| Acquisition of series A shares | | | | | -843 | -843 | | -843 |
| Divestment of series A shares | | 164 | | | 456 | 620 | | 620 |
| Divestment of series B shares | | 16 | | | 9 | 25 | | 25 |
| Share-based payment, equity settled | | | | | | | | |
| – expense during the year | | | | | 101 | 101 | | 101 |
| – exercise option | | | | | -114 | -114 | | -114 |
| Closing balance, Dec. 31 | 786 | 7 201 | 2 | 7 395 | 27 041 | 42 425 | 47 | 42 472 |

See notes 1, 10 and 20 for additional information.

Consolidated statement of cash flows

| For the year ended December 31, Amounts in MSEK | Note | 2019 | 2018 |
|---|------------|-------------------|----------------|
| Cash flows from operating activities | | | |
| Operating profit from continuing operations | | 21 897 | 21 187 |
| Operating profit from discontinued operations | 3 | – | 3 013 |
| Adjustments for: | | | |
| Depreciation, amortization and impairment | 12, 13, 22 | 4 700 | 3 922 |
| Capital gain/loss and other non-cash items | | 99 | 322 |
| Operating cash surplus | | 26 696 | 28 444 |
| Net financial items received/paid | | –610 | –675 |
| Taxes paid | | –5 501 | –5 896 |
| Pension funding and payment of pension to employees | | –376 | –392 |
| Cash flow before change in working capital | | 20 209 | 21 481 |
| Change in: | | | |
| Inventories | | –951 | –3 280 |
| Operating receivables | | –739 | –2 794 |
| Operating liabilities | | –1 281 | 2 683 |
| Change in working capital | | –2 971 | –3 391 |
| Increase in rental equipment | | –1 140 | –1 462 |
| Sale of rental equipment | | 53 | 186 |
| Net cash from operating activities | | 16 151 | 16 814 |
| Cash flows from investing activities | | | |
| Investments in other property, plant and equipment | 13 | –1 662 | –2 000 |
| Sale of other property, plant and equipment | | 718 ¹⁾ | 78 |
| Investments in intangible assets | 12 | –1 016 | –846 |
| Sale of intangible assets | | 1 | – |
| Acquisition of subsidiaries | 2 | –7 706 | –1 575 |
| Divestment of subsidiaries | 3 | – | 166 |
| Investment in other financial assets, net | | –18 | –124 |
| Net cash from investing activities | | –9 683 | –4 301 |
| Cash flows from financing activities | | | |
| Ordinary dividend | | –7 653 | –8 487 |
| Dividend paid to non-controlling interest | | –10 | –9 |
| Distribution of Epiroc AB ²⁾ | | – | –4 002 |
| Redemption of own shares | | – | –9 705 |
| Repurchase of own shares | | –897 | –843 |
| Divestment of own shares | | 2 184 | 645 |
| Borrowings | | 4 637 | 7 550 |
| Repayment of borrowings | | –5 618 | –6 186 |
| Settlement of CSA ³⁾ | | 367 | –511 |
| Payment of lease liabilities ⁴⁾ | 22 | –1 034 | –53 |
| Net cash from financing activities | | –8 024 | –21 601 |
| Net cash flow for the year | | –1 556 | –9 088 |
| Cash and cash equivalents, Jan. 1 | | 16 414 | 24 496 |
| Net cash flow for the year | | –1 556 | –9 088 |
| Exchange-rate difference in cash and cash equivalents | | 147 | 1 006 |
| Cash and cash equivalents, Dec. 31 | 19 | 15 005 | 16 414 |

¹⁾ Includes MSEK 600 from sale-and-leaseback transactions of properties in the US, see note 28.

²⁾ Cash in Epiroc at the time of distribution.

³⁾ Credit Support Annex, see note 27.

⁴⁾ Including effects of IFRS 16 (leases)

1. Significant accounting principles, critical accounting estimates and judgements

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 disclosures 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 February 28, 2020. The balance sheets and income statements are subject to approval by the Annual General Meeting of the shareholders on April 23, 2020.

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, i.e. 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 or 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, plus 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 exchange 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 recognized at an amount that reflects the expected and entitled consideration for transferring goods and/or services to customers when control has passed to the customer.

Goods sold

Revenue from goods sold are recognized at one point in time when control of the good has been transferred to the customer. This occurs for example when the Group has a present right to payment for the good, the customer has legal title of the good, the good has been delivered to the customer and/or the customer has the significant risks and rewards of the ownership of the good.

When the goods sold are highly customized and an enforceable right to payment is present, revenue is recognized over time using the proportion of cost incurred to date compared to estimated total cost to measure the progress towards complete satisfaction of that performance obligation and thereby transferring the control of the good to the customer.

For buy-back commitments where the buy-back price is lower than the original selling price but there is an economic incentive for the customer to use the buy-back commitment option, the transaction is accounted for as a lease.

1. Significant accounting principles, critical accounting estimates and judgements, continued

Variable consideration

Some contracts with customers provide a right of return, trade discounts or volume rebates. If revenue cannot be reliably measured, the Group defers revenue until the uncertainty is resolved. Such liabilities are estimated at contract inception and updated thereafter.

Rights of return

When a contract with a customer provides a right to return the good within a specified period, the Group accounts for the right of return using the expected value method. The amount of revenue related to the expected returns is deferred and recognized in the statement of financial position within "Other liabilities". A corresponding adjustment is made to the cost of sales and recognized in the statement of financial position within "Inventories".

Rendering of service

Revenue from service is recognized over time by reference to the progress towards satisfaction of each performance obligation. The progress towards satisfaction of each performance obligation is measured by the proportion of cost incurred to date compared to estimated total cost of each performance obligation.

Where the outcome of a service contract cannot be estimated reliably, revenue is recognized to the extent of cost 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 the value of the service performed to the customer corresponds directly to the right to invoice for that service, revenue is recognized to the amount invoiced.

Specialty rental

Income from specialty rental is recognized on a straight-line basis over the rental period. The specialty rental business is considered to be a service for the customers as this includes a complete solution to the customers to fulfill the customer needs. Sale of equipment from the specialty rental business is recognized as revenue when the control of the asset has been transferred to the buyer. Indicators of transfer of control is explained under "Goods sold" see page 67. The carrying value of the specialty rental equipment sold is recognized as cost of sales. Investments in and sales of specialty rental equipment are included in cash flows from operating activities.

Contract assets and contract liabilities

The timing of revenue recognition, billings and cash collections results in billed account receivables, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) in the consolidated balance sheet. Billing occurs either as work progresses in accordance with agreed-upon contractual terms, upon achievement of contractual milestones or when the control of the goods has been transferred to the customer. Atlas Copco sometimes receives advances or deposits from customers, before revenue is recognized, resulting in contract liabilities. These contract assets and contract liabilities are reported in the consolidated balance sheet, in other receivables or other liabilities, on a contract-by-contract basis at the end of each reporting period. Payment terms range from contract to contract and are dependent upon the agreement with the customer.

Practical expedients

The Group has elected to apply the following expedients:

For the disclosure of the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period, the Group does not disclose the value related to the following expedients:

- the performance obligation that is part of the contract that has an original expected duration of one year or less, and
- the entity has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the entity's performance completed to date.

For incremental cost of obtaining the contract, the Group uses the practical expedient of recognizing the incremental cost as an expense if the amortization period of the asset, that otherwise would have been recognized, is one year or less.

Other operating income and expenses

Commissions received 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. 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 2019

1. Significant accounting principles, critical accounting estimates and judgements, continued

amounted to 792 (734). 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 over the useful life of the asset. 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. 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 are 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 | 5–15 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.

Lease – IFRS 16

Transition method

The Group applies the new standard, IFRS 16, from January 1, 2019. The new standard replaces IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. The Group has performed the transition by using the modified retrospective approach, which does not require restatement of comparative periods. The comparative information continues to be reported in accordance with IAS 17 and IFRIC 4. The accounting principles for the com-

parative figures are presented below under the heading "Lease – IAS 17 (comparative figures), page 70. Details of the changes in accounting policies are presented below.

Atlas Copco's lease portfolio consists mainly of leased buildings such as office and warehouse premises, vehicles and production equipment.

Group as a lessee

As a lessee, the Group has elected to apply a number of practical expedients. Recognition exemptions are set per asset category for short-term leases and leases for which the underlying asset is of low value. Leases that, at the commencement date, had a lease term of 12 months or less are not recognized as leases in the balance sheet. The Group has elected to apply the exemption for leases for which the underlying asset is of low value regarding office equipment such as printers and computers.

All finance leases are excluded at transition as well as leases where the lease term ends prior to January 1, 2020. For short-term leases and leases where the underlying asset are of low value, the Group recognized lease payments as an expense on a straight-line basis over the lease term.

Non-lease components such as service components and other variable components that do not depend on an index or price are accounted for as expenses, if they could be separated in the contracts for the leased asset. In most cases service components are variable and based on for example consumption.

For leases of other assets, previously classified as operating leases under IAS 17, the Group recognized right-of-use assets and lease liabilities.

Leases previously classified as finance leases

Leases that were classified as finance leases under IAS 17 were determined at the carrying amount of the right-of-use asset and lease liability at January 1, 2019.

Group as a lessor

Lessor accounting is substantially unchanged from the accounting under IAS 17, except for sub-lease contracts. Under IFRS 16, sub-lease contracts that were previously classified as an operating lease is required to be assessed with reference to the right-of-use asset instead of the underlying asset.

Impacts on financial statements

At transition to IFRS 16, the Group recognized an additional 3 259 MSEK of right-of-use assets and 3 284 MSEK of lease liabilities. The difference between right-of-use assets and lease liabilities refers to prepaid or accrued lease payments and financial lease receivables on agreements from subleasing.

The Group discounted lease payments using its incremental borrowing rate at January 1, 2019, the weighted-average rate for the Group was 2.2% at transition. Incremental borrowing rates are set per country and maturity.

| Effect on balance sheet from adoption of IFRS 16, MSEK | Jan. 1, 2019 |
|--|--------------|
| Rental equipment | 2 |
| Other property, plant and equipment | 3 257 |
| Financial assets | 40 |
| Other receivables | -18 |
| Interest-bearing loans and borrowings, non-current | 2 437 |
| Interest-bearing loans and borrowings, current | 847 |
| Other liabilities | -3 |

The table below presents the difference between operating lease commitments under IAS 17 at December 31, 2018 and the initial application for lease liabilities under IFRS 16, discounted using the incremental borrowing rate at January 1, 2019:

| | |
|---|--------------|
| Operating lease commitment at December 31, 2018 (note 22) | 3 472 |
| Less recognition exemptions | |
| – Leases of low value assets and short-term leases | -217 |
| – Variable lease components | -142 |
| Discounting effect | -247 |
| Operating lease commitment discounted using the incremental borrowing rate | 2 866 |
| Finance lease liabilities recognized as at December 31, 2018 | 20 |
| Residual value guarantees | 7 |
| Extension and termination options reasonably certain to be exercised | 411 |
| Lease liabilities according to IFRS 16 at January 1, 2019 | 3 304 |

Recognizing depreciation of right-of-use assets instead of minimum lease payments had a small positive impact on operating profit. Interest on lease liabilities had a small negative impact on net financial items.

Since the principal payment is recognized as financing activities, cash flow

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from financing activities decreased with a corresponding increase in cash flow from operating activities. The interest portion of the lease payment remains as cash flow from operating activities and is included in net financial items paid.

Group as lessee

Recognition of a lease

Upon initiation, contracts are assessed by the Group, to determine whether a contract is, or contains a lease. If the contract conveys the right to control the use of an identified asset for a certain period of time in exchange for consideration, then it is or contains a lease. The right to control the use of an identifiable asset is assessed by the Group based upon if there is an identifiable asset, if the Group has the right to obtain substantially all economic benefits from the use of the asset and if the Group has the right to steer the use of the asset. The policy is applied to contracts entered into, or changed, on or after January 1, 2019. The Group has elected to separate the non-lease components and also elected to apply a number of practical expedients with regard to short-term leases and leases for which the underlying asset is of low value. In cases where the Group acts as an intermediate lessor, it accounts for its interests in the head-lease and the sub-lease separately.

Measurement of a right-of-use asset and lease liability

Right-of-use asset

On commencement date, the Group measures the right-of-use asset at cost, which includes the following: the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs incurred by the Group as well as an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the lease contract. Cost for dismantling, removing or restoring the site on which it is located and/or the underlying asset is only recognized when the Group incurs an obligation to do so.

The right-of-use asset is depreciated over the lease term, using the straight-line method.

Lease liability

On commencement date, the lease liability is measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease, or if the rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments included in the lease liability comprise of fixed payments, variable lease payments that depend on an index or a rate, amounts to be paid under a residual value guarantee and lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option as well as penalties for early termination of a lease, if the Group is reasonably certain to terminate early. If there is a purchase option present, this will be included if the Group is reasonably certain to exercise the option.

The lease liability is measured at amortized cost by using the effective interest rate method.

Short-term leases and leases for which the underlying asset is of low value

The Group has elected to apply recognition exemptions for short-term leases and leases for which the underlying asset is of low value, for example office equipment such as printers and computers. Lease payments associated with those leases are recognized as an expense on a straight-line basis over the lease term.

Group as a lessor

At inception of a lease contract, the Group assess whether the lease is a finance lease or an operating lease. If the lease transfers substantially all of the risks and rewards incidental to ownership of the asset, it is considered to be a finance lease; if not, it is an operating lease. Under finance leases where the Group acts as lessor, the transaction is recognized as a sale and a lease receivable, comprising the future minimum lease payments and any residual value guaranteed to the Group. Lease payments are recognized as repayment of the lease receivable and interest income. In cases where the Group acts as a lessor under an operating lease, the lease payments are included in profit or loss on a straight-line basis over the term of the lease.

In cases where the Group acts as an intermediate lessor, it accounts for its interests in the head-lease and the sub-lease separately. The Group assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head-lease.

Lease – IAS 17 (comparative figures)

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 Group, 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 Group 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 Group. 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 the 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 Atlas Copco shares are 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.

Supply chain financing

The Group and Banks, with close relations to Atlas Copco, offer suppliers the opportunity to use a supply chain financing scheme ("SCF") which allows them to be paid earlier than the invoice due date. The Group evaluates supplier arrangements against a number of indicators to assess if the payable continues to hold characteristics of a trade payable or should be classified as borrowings; these indicators include whether the payment terms exceed customary payment terms in the industry. These transactions has been recognized as either "Account payables" or "Borrowings" in the Group's balance sheet and as "Change in operating liabilities" or change in "Borrowings" or "Repayment of borrowings" in the statement of cash flows.

1. Significant accounting principles, critical accounting estimates and judgements, continued

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-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

The Group adopted the new Standard, IFRS 9, on the required effective date, January 1, 2018, overall, there was no significant impact on the statement of financial position and equity. The effects on net gain/loss in the 2018 equity are summarized and disclosed below.

| Effect on equity following adoption of IFRS 9 in the Group as of January 1, 2018 | Adjustments | MSEK |
|---|-------------|------------|
| Investments | a) | – |
| Deferred tax liability | b) | 14 |
| Trade receivables and other receivables, including lease receivables and cash equivalents | b) | –51 |
| Total assets | | –37 |
| Retained earnings | | –37 |
| Net gain/loss on equity | | –37 |

a) Classification and valuation

All financial assets that were valued to fair value continue to be valued to fair value. Investments in certain debt instruments prior recognized at amortized cost are recognized at fair value through profit or loss. Investments in liquidity funds are valued to fair value through profit or loss. The Group has made the judgement that account receivables fulfill the criteria to be valued at amortized cost.

b) Impairment

The Group applies the simplified method for accounting of expected losses related to trade receivables and lease receivables, contract assets and certain other financial receivables.

c) Hedge accounting

The Group determined that all existing hedge relationships that were designated as effective hedging relationships will continue to qualify for hedge accounting under IFRS 9.

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.

Gains and losses from derecognition and modifications are recognized in profit or loss.

Measurement of financial instruments

Financial instruments are classified at initial recognition. The classification decides the measurement of the instruments.

Classification and measurement of financial assets

Equity instruments: are classified at fair value through profit or loss (FVTPL).

Derivative instruments: are classified at FVTPL, unless they are classified as a hedging instrument and the effective part of the hedge is recognized in other comprehensive income.

Debt instruments: the classification of financial assets that are debt instruments, including hybrid contracts, is based on the Group's business model for managing the assets and the asset's contractual cash flow characteristics. The instruments are classified at:

- amortized cost,
- fair value through other comprehensive income (FVOCI), or
- fair value through profit or loss (FVTPL).

Financial assets at amortized cost are at initial recognition measured at fair value including transaction costs. After initial recognition, they are measured at the effective interest rate method. Assets classified at amortized cost are held under the business model of collecting the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The assets are subject to a loss allowance for expected credit losses.

1. Significant accounting principles, critical accounting estimates and judgements, continued

Fair value through other comprehensive income (FVOCI) are assets held under the business model of both selling and collecting the contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial instruments in this category are recognized at fair value at initial recognition and changes in fair value are recognized in other comprehensive income (OCI) until derecognition, when the amounts in OCI are reclassified to profit or loss. The assets are subject to a loss allowance for expected credit losses.

Fair value through profit or loss (FVTPL) are all other debt instruments that are not measured at amortized cost or FVOCI. Financial instruments in this category are recognized at fair value at initial recognition and changes in fair value are recognized in profit or loss.

Classification and measurement of financial liabilities

Financial liabilities are classified at amortized cost, except derivatives. Financial liabilities at amortized cost are at initial recognition measured at fair value including transaction costs. After initial recognition, they are measured at the effective interest rate method.

Derivatives are classified at FVTPL, unless they are classified as a hedging instrument and the effective part of the hedge is recognized in other comprehensive income.

Fair value for financial assets and financial liabilities is determined in the manner described in note 27.

Impairment of financial assets

Financial assets, except those classified at fair value through profit and loss (FVTPL), are subject to impairment for expected credit losses. In addition, the impairment model applies to contract assets, loan commitments and financial guarantees that are not measured at FVTPL. The IFRS 9 expected credit loss (ECL) model is forward looking and a loss allowance is recognized when there is an exposure to credit risk, usually at first recognition of an asset or receivable. The ECL reflects the present value of all cash shortfalls related to default events either over the following 12 months or over the expected life of a financial instrument, depending on the type of asset and on the credit deterioration from inception. The ECL reflects an unbiased, probability-weighted outcome that considers multiple scenarios based on reasonable and supportable forecasts.

The simplified model is applied on trade receivables, lease receivables, contract assets and certain other financial receivables. A loss allowance is recognized over the expected lifetime of the receivable or asset. For other items subject to ECL, the impairment model with a three-stage approach is applied. Initially, and at each reporting date, a loss allowance will be recognized for the following 12 months, or a shorter time period depending on the time to maturity (stage 1). If it has been a significant increase in credit risk since origination, a loss allowance will be recognized for the remaining lifetime of the asset (stage 2). For assets that are considered as credit impaired, allowance for credit losses will continue to capture the lifetime expected credit losses (stage 3). For credit impaired receivables and assets, the interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount as in previous stages.

In the respective model applied, the measurement of ECL is based on different methods for different credit risk exposures. For trade receivables, contract assets and certain other financial receivables, the method is based on historical loss rates in combination with forward looking considerations. Lease receivables, certain other financial receivables and cash and cash equivalent are impaired by a rating method, where ECL is measured by the product of the probability of default, loss given default, and exposure at default. Both external credit agencies rating and internally developed rating methods are applied.

The measurement of ECL considers potential collaterals and other credit enhancements in the form of guarantees.

The financial assets are presented in the financial statements at amortized cost, i.e. net of gross carrying amount and the loss allowance. Changes in the loss allowance is recognized in profit or loss as impairment losses.

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 rate 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. IFRS 9 Hedge accounting is applied. In order to qualify for hedge accounting the hedging relationship must be:

- formally identified and designated,
- expected to fulfil the effectiveness requirements, and
- documented.

The Group assesses, evaluates, and documents effectiveness both at hedge inception and on an ongoing basis. Hedge effectiveness is assessed by an analysis of the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk must not dominate the value changes that result from that economic relationship. Further, the hedge ratio, as defined in the Group's risk management strategy, must be the same in the hedging relationship as in the actually hedge performed.

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 is transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. 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 the divestment. The Group uses loans and forward contracts as hedging instruments.

Accounting for discontinuation of hedges: Hedge accounting may not be voluntarily discontinued. Hedge accounting is discontinued:

- when the hedging instrument expires or is sold, terminated, or exercised,
- when there is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk dominates the value changes that result from the economic relationship, or
- when the hedge accounting no longer meets the risk management objectives.

For cash flow hedges, any gain or loss recognized in other comprehensive income and accumulated in equity at the 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. For net investment hedges, any gain and loss recognized in other comprehensive income and accumulated in equity at the time of hedge discontinuation remains in equity until divestment of foreign operations, when the gain or loss accumulated in equity is recycled through profit or loss.

Assets held for sale and discontinued 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. 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 classified 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 are reported separately, the comparative period is not affected. Assets held for sale are carried at the lower of carrying amount and fair value less cost to sell.

Epiroc was distributed during 2018 and has been recognized according to the rules concerning discontinued operations (IFRS 5). Epiroc's profit for the comparative period and up to the distribution and the capital gain generated by the distribution have been recognized in the line – Profit from discontinued operations, net of tax. The Group's cash flows include Epiroc up to the distribution.

1. Significant accounting principles, critical accounting estimates and judgements, continued

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 2019

In addition to IFRS 16 Leases, the following new or amended IFRS standards have been applied by the Group from 2019, with none, or no material impact on the Group.

Amendment to IAS 28: Long-term interests in associates and joint ventures

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures for which the equity method is not used. Furthermore, in applying IFRS 9 to long-term interests in associates and joint ventures, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e. adjustments to the carrying amount of long-term interests in associates and joint ventures arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendment to IFRS 9 clarifies which financial asset may be measured at amortized cost. This amendment permits more assets to be measured at amortized cost than previously allowed, in particular certain pre-payable financial assets with negative compensation. To qualify for the amortized cost measurement, the negative compensation must be reasonable compensation for early termination of the contract. To be applicable for such handling, the asset must be held within a "hold to collect" business model.

This amendment also clarifies that when there are modifications relating to a financial liability measured at amortized cost, which do not lead to derecognition of the financial liability, a gain or loss should be recognized in the profit and loss. This gain or loss is calculated by comparing the initial contractual cash flow with the modified cash flow discounted at the original effective interest rate.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendment clarifies that the Group must, if a plan amendment, curtailment or settlement occurs, determine the current service cost and the net interest for the period using the assumptions it used for the remeasurement. Furthermore, the amendment clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment applies only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied.

IFRIC 23 – Uncertainty over Income Tax Treatments

The interpretation clarifies the application of recognition and measurement requirements of IAS 12 Income Taxes when there is uncertainty over income tax treatments and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

Annual Improvements 2015–2017 Cycle

The annual improvements 2015–2017 cycle sets out amendments to four standards and the related Basis for Conclusion. All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. The standard and amendments are as follows:

IFRS 3 – Business Combinations and IFRS 11 Joint Arrangements

The amendment to IFRS 3 clarifies that when the Group obtains control over the joint operation that is a business, the Group should, according to IFRS 3, remeasure the interest previously held in the joint operation to fair value.

When the Group, that does not have joint control over a joint operation, but reaches joint control over the joint operation, that is a business, the Group should not, according to IFRS 11, remeasure the interest previously held in that joint operation as this does not change the Group's boundaries.

IAS 12 Income Taxes

The amendment clarifies that the Group must recognize all income tax consequences of dividends in profit and loss, other comprehensive income or equity, depending on the nature and where the entity recognized the originating transaction or event.

IAS 23 Borrowing Costs

The amendment to IAS 23 clarifies that when a qualifying asset is ready for its intended use or sale, and some of the specific borrowings related to this asset are still outstanding at that point, those outstanding borrowing should be included in the funds the company borrows generally and hence be included in the borrowing costs used for deciding the capitalization rate.

New or amended accounting standards effective after 2019

The following standards, interpretations, and amendments have been issued but were not effective as of December 31, 2019 and in some cases had not been adopted by the EU. The Group has not applied the new standards, interpretations or amendments. The current assessment is that these amendments will have none or no material effect on the Group.

Amendment to IFRS 3 – Business Combinations

The amendment clarifies the definition of a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Also the definition of the term "outputs" is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on January 1, 2020 or after, with early application permitted.

Amendment to IAS 1 and IAS 8 – Definition of Material

The amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors are done to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." In particular, the amendment clarifies the concept of "obscuring" material information and the meaning of primary users of general purpose financial statements. Furthermore, IASB also amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term "material" to ensure consistency. The amendments are applied prospectively for annual periods beginning on January 1, 2020 or after, with earlier application permitted.

Interest Rate Benchmark Reform (Amendments to IFRS 7, IFRS 9 and IAS 39)

There is an ongoing project to reform interest rate benchmarks, such as EONIA, EURIBOR and LIBOR, and alternative reference rates, known as "risk-free rates" (RFR's) are being developed and will replace existing interest rate benchmarks. In this process IASB has issued amendments to IFRS 7, IFRS 9 and IAS 39 that deals with hedging relationships that are directly affected by the interest rate benchmark reform and provide temporary exceptions from applying specific hedge accounting requirements during the period of uncertainty arising from the reform. The amendments are applied for annual periods beginning on January 1, 2020 or after, with earlier application permitted.

1. Significant accounting principles, critical accounting estimates and judgements, continued

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial reports requires management's judgement 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 in and in any future periods affected.

The estimates and the judgements 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 judgements are as follows:

Revenue recognition

Key sources of estimation uncertainty

Revenue for services and for highly customized goods where an enforceable right of payment is present is recognized over time in profit or loss by reference to the progress towards satisfaction of the performance obligation at the balance sheet date. The progress towards satisfaction is determined by the proportion of cost incurred to date compared to the estimated total cost of each performance obligation. There is always an uncertainty if the total estimated expenditure is correctly calculated, and if the expenditure incurred reflects accurately the actual costs incurred, which means that there is uncertainty in the estimates of the degree of completion of the work performed. Management has assessed this method of determining the progress towards satisfaction of the performance obligation as most suitable as it reflects the progression of work performed, and the enforceable right of payment from the customer as the costs are incurred on the performance obligations.

Revenue for goods sold is recognized in profit or loss at one point in time when control of the good has been transferred to the customer.

Accounting judgement

Management's judgement is used, for instance, when assessing:

- the degree of progress towards satisfaction of the performance obligations and the estimated total costs for such contracts when revenue is recognized over time, to determine the revenue and cost to be recognized in the current period, and whether any losses need to be recognized,
- if the control has been transferred to the customer (for example the Group has a present right to payment for the good, the customer has legal title of the good, the good has been delivered to the customer and/or the customer has the significant risks and rewards of the ownership of the good), to determine if revenue and cost should be recognized in the current period,
- the transaction price of each performance obligation when a contract includes more than one performance obligation, to determine the revenue and cost to be recognized in the current period,
- certain contracts which include a right of return and/or volume rebates that give rise to variable consideration, variable consideration is assessed to identify possible constraints, 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 judgement

Asset impairment requires management's judgement, 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 judgement

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 judgement on the estimated sales prices, over-stock articles, outdated 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.

Leases

Accounting judgement

The Group has several lease contracts that include extension options. The Group applies judgement in evaluating the lease term, it considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. For leases of premises, the following factors are normally the most relevant:

- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend.
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The renewal periods for leases of offices and warehouse premises with extension options exceeding 10 to 15 years are not included as part of the lease term as these are not reasonably certain to be exercised. In addition, renewal options for leases of motor vehicles are not part of the lease term because the Group typically leases motor vehicles for not more than three to five years and, hence, is not exercising any renewal options.

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew. Refer to note 22 for information on potential future rental payments relating to extension options that are not included in the lease term.

Key sources of estimation uncertainty:

When the Group cannot readily determine the interest rate implicit in the lease, it uses incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over similar terms which requires estimations when no observable rates are available. The Group estimates the IBR by using market interest rates and adjusting with entity specific estimates such as currency and country risk.

1. Significant accounting principles, critical accounting estimates and judgements, continued

Trade and financial receivable

Key sources of estimation uncertainty:

The Group measure the expected credit losses on financial assets classified at amortized cost including trade and financial receivables, lease receivables and contract assets. The expected credit losses for trade receivables and contract assets are an assessment of specific loss provisions corresponding to individually significant exposures as well as historical loss rates in combination with forward looking considerations. The expected credit losses for lease receivables and financial receivables are an assessment that reflects an unbiased, probability-weighted outcome based on reasonable and supportable forecasts.

Accounting judgement:

Management's judgement considers rapidly changing market conditions. An overlay control is performed to ensure that an adequate loss allowance is recognized. 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 healthcare-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 judgement

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 provisions are complex accounting estimates 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 are reviewed at least quarterly as well as when new products are introduced or when other changes occur which may affect the calculation. See note 25.

2. Acquisitions

The following summarizes the acquisitions during 2019 and 2018:

| Closing date | | Country | Business area | Revenues ¹⁾ | Number of employees ¹⁾ |
|--------------|---|----------------|----------------------|------------------------|-----------------------------------|
| 2019 Nov. 6 | WestRon | U.S.A. | Compressor Technique | ²⁾ | 26 |
| 2019 Oct. 18 | Accurate Air Engineering and Compressed Air of California | U.S.A. | Compressor Technique | ²⁾ | 52 |
| 2019 Jul. 2 | MGES Inc. | U.S.A. | Compressor Technique | 48 | 11 |
| 2019 Jul. 2 | Eurochiller S.r.l. | Italy etc. | Compressor Technique | 267 | 90 |
| 2019 Jul. 1 | Brooks' Semiconductor Cryogenics Business | U.S.A. etc. | Vacuum Technique | 1 400 | 400 |
| 2019 Jun. 19 | Powerhouse Equipment & Engineering Co. Inc. | U.S.A. | Power Technique | 347 | 95 |
| 2019 Jun. 17 | Taylor Air Center | U.S.A. | Compressor Technique | ²⁾ | 20 |
| 2019 May 29 | AirCenterSüd GmbH & Co. KG | Germany | Compressor Technique | ²⁾ | 6 |
| 2019 May 27 | Air Compresseur service | France | Compressor Technique | ²⁾ | 10 |
| 2019 May 3 | Bold & Cichos GbR | Germany | Compressor Technique | ²⁾ | 15 |
| 2019 May 2 | Mid South Engine & Power Systems, LLC | U.S.A. | Power Technique | 54 | 28 |
| 2019 Apr. 9 | PSI Compressors of Brockville Incorporated | Canada | Compressor Technique | ²⁾ | 6 |
| 2019 Apr. 3 | Jacob Drucklufttechnik Vertriebs GmbH | Germany | Compressor Technique | ²⁾ | 10 |
| 2019 Apr. 2 | S.A.S. Air Diffusion | France | Compressor Technique | ²⁾ | 15 |
| 2019 Mar. 19 | Class 1 Incorporated | Canada | Compressor Technique | 130 | 50 |
| 2019 Mar. 6 | Woodward Compressor Sales | U.S.A. | Compressor Technique | ²⁾ | 15 |
| 2019 Mar. 1 | Appleton Compressor Service & Supply, Inc. | U.S.A. | Compressor Technique | ²⁾ | 15 |
| 2019 Jan. 4 | German Industrie Pumpen Vertriebs GmbH | Germany | Power Technique | 50 | 20 |
| 2018 Sep. 4 | Reno A/S | Denmark | Compressor Technique | 153 | 60 |
| 2018 Aug. 1 | QUISS Qualitäts- Inspektionssysteme und Service AG | Germany | Industrial Technique | 86 | 45 |
| 2018 Apr. 4 | Klingel Joining Technologies | Germany | Industrial Technique | 82 | 23 |
| 2018 Mar. 1 | Walker Filtration Ltd | United Kingdom | Compressor Technique | 330 | 220 |
| 2018 Jan. 17 | Location Thermique SAS | France | Power Technique | 70 | 13 |

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.

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 closing the 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, except for the Brooks' Semiconductor

Cryogenics Business which is disclosed separately. The fair values related to intangible assets other than goodwill 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 certain of the recently acquired businesses. No adjustments are expected to be material. Adjustments related to the acquisitions made in 2018 are included in the following tables.

2. Acquisitions, continued

| Compressor Technique | Recognized values | |
|---|-------------------|------------|
| | 2019 | 2018 |
| Intangible assets | 519 | 158 |
| Property, plant and equipment ¹⁾ | 47 | 104 |
| Other assets | 266 | 205 |
| Cash and cash equivalents | 28 | 39 |
| Interest-bearing loans and borrowings | -70 | -12 |
| Other liabilities and provisions | -223 | -106 |
| Net identifiable assets | 567 | 388 |
| Goodwill | 241 | 169 |
| Total consideration | 808 | 557 |
| Deferred consideration | 9 | -26 |
| Cash and cash equivalents acquired | -28 | -39 |
| Net cash outflow | 789 | 492 |

¹⁾ Includes right-of-use assets.

In March, the Compressor Technique business area acquired Class 1 Incorporated, a Canadian company that offers design, manufacturing, installation, distribution and service of medical gas solutions. The acquisition will further strengthen Atlas Copco's position as supplier and service provider of medical gas solutions. Intangible assets of 38 and goodwill of 15 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In July, Eurochiller, an Italian manufacturer and distributor of industrial cooling equipment and related products, was acquired. The acquisition will complement Atlas Copco's existing product portfolio. Intangible assets of 136 and goodwill of 187 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In July, the Compressor Technique business area also acquired the operating assets of MGES Inc., a service supplier of medical gas solutions including distribution and service of medical gas systems. The acquisition will give the Group the ability to expand local support to healthcare and laboratory customers in the Texas area. Intangible assets of 31 were recorded on the purchase.

During 2019, the Compressor Technique business area also acquired five distributors in the United States and one in Canada. These acquisitions will all increase Atlas Copco's ability to support customers in the North American market. Intangible assets of 240 and goodwill of 32 were recorded on the purchases. The goodwill is deductible for tax purposes.

During 2019, the Compressor Technique business area also acquired two distributors in France and three distributors in Germany. These acquisitions will all increase Atlas Copco's ability to support customers in the European market. Intangible assets of 74 were recorded on the purchases.

| Vacuum Technique | Recognized values | |
|---|-------------------|------|
| | 2019 | 2018 |
| Intangible assets | 2 779 | - |
| Property, plant and equipment ¹⁾ | 10 | - |
| Other assets | 1 369 | - |
| Other liabilities and provisions | -152 | - |
| Net identifiable assets | 4 006 | - |
| Goodwill | 2 192 | - |
| Total consideration | 6 198 | - |
| Net cash outflow | 6 198 | - |

¹⁾ Includes right-of-use assets.

In July, the Vacuum Technique business area acquired the Brooks' Semiconductor Cryogenics Business. The acquisition included cryo pump operations located in the United States and Mexico, a worldwide sales and service network, and Brooks Automation's 50% share of Ulvac Cryogenics Inc., (UCI). The acquired business will significantly expand Atlas Copco's technology offering to customers in the semiconductor and general vacuum industries. The acquisition complements Atlas Copco's existing technology portfolio with a new range of high vacuum pumps that optimize the removal of water vapor and hydrogen, which is critical to many semiconductor and industrial processes. Intangible assets of 2 779 and goodwill of 2 192 were recorded on the purchases. The goodwill is deductible for tax purposes.

| Industrial Technique | Recognized values | |
|---|-------------------|------------|
| | 2019 | 2018 |
| Intangible assets | - | 186 |
| Property, plant and equipment ¹⁾ | - | 4 |
| Other assets | -3 | 46 |
| Cash and cash equivalents | - | 24 |
| Other liabilities and provisions | - | -50 |
| Net identifiable assets | -3 | 210 |
| Goodwill | 3 | 280 |
| Total consideration | - | 490 |
| Deferred consideration | 21 | 14 |
| Cash and cash equivalents acquired | - | -24 |
| Net cash outflow | 21 | 480 |

¹⁾ Includes right-of-use assets.

The Industrial Technique business area made no acquisition in 2019. Some minor adjustments were made on the Klingel and QUISS acquisitions made in 2018.

| Power Technique | Recognized values | |
|---|-------------------|------------|
| | 2019 | 2018 |
| Intangible assets | 153 | 29 |
| Property, plant and equipment ¹⁾ | 193 | 73 |
| Other assets | 146 | 35 |
| Cash and cash equivalents | 9 | 10 |
| Interest-bearing loans and borrowings | -19 | -31 |
| Other liabilities and provisions | -83 | -42 |
| Net identifiable assets | 399 | 74 |
| Goodwill | 312 | 64 |
| Total consideration | 711 | 138 |
| Deferred consideration | -5 | -6 |
| Cash and cash equivalents acquired | -8 | -10 |
| Net cash outflow | 698 | 122 |

¹⁾ Includes right-of-use assets.

In January, the Power Technique business area acquired German Industrie Pumpen Vertriebs GmbH (IPV). The company is a distributor of industrial pumps for the Varisco brand with the chemical industry as main market. This acquisition will help Atlas Copco to further grow the pumps business and strengthen the presence in the north west of Europe. Intangible assets of 5 and goodwill of 12 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In May, Mid South Engine & Power Systems LLC was acquired. The company is based in Texas, United States and mainly serves the oil and gas market in the US Gulf Coast. Mid South has a strong reputation and capabilities to repair and refurbish portable compressors and engines. The acquisition will strengthen the service offering and core competencies in the Group. Intangible assets of 36 and goodwill of 14 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In June, Powerhouse Equipment & Engineering Co. Inc. was acquired. Powerhouse is a steam boiler rental company based in New Jersey, United States. The acquisition will broaden the Power Technique portfolio of temporary utility solutions. Intangible assets of 112 and goodwill of 286 were recorded on the purchase. The goodwill is not deductible for tax purposes.

2. Acquisitions, continued

| Total fair value of acquired assets and liabilities | Group recognized values | | |
|---|-------------------------|-------------------------------|--------------|
| | 2019 | of which Brooks ²⁾ | 2018 |
| Intangible assets | 3 451 | 2 779 | 373 |
| Property, plant and equipment ¹⁾ | 250 | 10 | 181 |
| Other non-current assets | 926 | 909 | – |
| Inventories | 431 | 255 | 143 |
| Receivables ³⁾ | 393 | 205 | 117 |
| Other current assets | 28 | – | 26 |
| Cash and cash equivalents | 37 | – | 73 |
| Interest-bearing loans and borrowings | –89 | – | –43 |
| Other liabilities and provisions | –360 | –161 | –126 |
| Deferred tax assets/liabilities, net | –98 | 9 | –72 |
| Net identifiable assets | 4 969 | 4 006 | 672 |
| Goodwill | 2 748 | 2 192 | 513 |
| Total consideration | 7 717 | 6 198 | 1 185 |
| Deferred consideration | 25 | – | –18 |
| Cash and cash equivalents acquired | –36 | – | –73 |
| Net cash outflow | 7 706 | 6 198 | 1 094 |

¹⁾ Includes right-of-use assets.

²⁾ Brooks refers to the acquisition of Brooks' Semiconductor Cryogenics Business.

³⁾ The gross amount is 408 (121) of which 15 (4) 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 7 717 (1 185). Deferred consideration includes both deferred consideration not yet paid for acquisitions made in 2019 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the net cash outflow totaled 7 706 (1 094) after deducting cash and cash equivalents acquired of 36 (73).

Acquisition-related costs were included in "Administrative expenses" in the income statement for 33 (22), these include costs for announced acquisitions that will be completed in 2020.

| Contribution from businesses acquired in 2019 and 2018 by business area | Compressor Technique | | Vacuum Technique | | Industrial Technique | | Power Technique | | Group | |
|---|----------------------|------|------------------|------|----------------------|------|-----------------|------|-------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Contribution from date of control | | | | | | | | | | |
| Revenues | 494 | 355 | 669 | – | – | 77 | 232 | 100 | 1 395 | 532 |
| Operating profit | – | 29 | 104 | – | – | –15 | 10 | 20 | 114 | 34 |
| Profit for the year | | | | | | | | | 82 | 24 |
| Contribution if the acquisition had occurred on Jan. 1 | | | | | | | | | | |
| Revenues | 1 148 | 520 | 1 333 | – | – | 148 | 381 | 100 | 2 862 | 768 |
| Operating profit | –34 | 38 | 204 | – | – | –20 | 17 | 20 | 187 | 38 |
| Profit for the year | | | | | | | | | 157 | 27 |

3. Assets held for sale, divestments and discontinued operations

Assets held for sale and divestments

In 2019, there have been no divestments. On February 2, 2018, Atlas Copco's concrete and compaction business, part of the Power Technique business area, was divested to Husqvarna. Some other minor divestments were also made during the year. Net cash effect of these divestments was 404. The divestments resulted in a capital gain of 134 and a result from recycling of accumulated historical translation differences to the income statement of 12. These items are reported under "Other operating income". See note 7. None of these divestments met the criteria to be presented as discontinued operations, and are hence not included in the discontinued operations below.

| Carrying value of assets and liabilities held for sale | 2019 | 2018 |
|--|----------|----------|
| Property, plant and equipment | 1 | 1 |
| Net carrying value | 1 | 1 |

| Carrying value of divested assets and liabilities ¹⁾ | 2019 | 2018 |
|---|----------|------------|
| Intangible assets | – | 116 |
| Property, plant and equipment | – | 43 |
| Inventories | – | 133 |
| Receivables | – | 6 |
| Cash and cash equivalents | – | 12 |
| Interest bearing loans and borrowings | – | –1 |
| Other liabilities and provisions | – | –27 |
| Net identifiable assets | – | 282 |

¹⁾ Does not include Epiroc.

Discontinued operations

At the Annual General Meeting on April 24, 2018, it was decided to split the Group and distribute the shares of Epiroc AB to the shareholders of Atlas Copco. In June, the shareholders received one Epiroc share for each Atlas Copco share. Epiroc AB was listed on Nasdaq Stockholm on June 18, 2018 and the final prices paid that day were SEK 90.85 per Series A share and SEK 85.80 per Series B share, resulting in a market capitalization of MSEK 108 299. On the distribution of the Epiroc shares, Atlas Copco recognized a capital gain in discontinued operations of MSEK 87 105 representing the difference between the fair value of Epiroc and the carrying value of the net assets of the discontinued operations at the time of the distribution. As part of the distribution, all historical translation differences allocated to Epiroc, amounting to MSEK 934, were recycled to the income statement for discontinued operations.

Discontinued operations below also include the effect of the final settlement in 2018 of the divestment of Atlas Copco's Road Construction Equipment division that took place in October 2017.

| Income statement discontinued operations | 2019 | 2018 |
|--|----------|---------------|
| Revenues | – | 15 992 |
| Cost of sales | – | –10 046 |
| Gross profit | – | 5 946 |
| Marketing expenses | – | –1 165 |
| Administrative expenses | – | –1 146 |
| Research and development expenses | – | –439 |
| Other operating income | – | 8 |
| Other operating expenses | – | –191 |
| Operating profit | – | 3 013 |
| Financial income | – | 84 |
| Financial expenses | – | –197 |
| Net financial items | – | –113 |
| Profit before tax | – | 2 900 |
| Income tax expense | – | –731 |
| Profit from operations | – | 2 169 |
| Profit on remeasurement to fair value less cost to sell | | |
| Gain/loss from divestments | – | 86 996 |
| Translation differences recycled | – | 934 |
| Profit for the period from discontinued operations | – | 90 099 |
| Profit attributable to: | | |
| – owners of the parent | – | 89 842 |
| – non-controlling interest | – | 257 |
| Basic earnings per share, SEK | – | 74.04 |
| Diluted earnings per share, SEK | – | 73.93 |

| Cash flow discontinued operations | 2019 | 2018 |
|-----------------------------------|----------|--------------|
| Cash flow from: | | |
| Operating activities | – | 748 |
| Investing activities | – | –1 368 |
| Financing activities | – | 5 902 |
| Net cash flow for the year | – | 5 282 |

4. Segment information

| 2019 | Compressor Technique | Vacuum Technique | Industrial Technique | Power Technique | Common group functions | Eliminations | Group |
|---|-------------------------|---------------------|-------------------------|--------------------|---------------------------|---------------|----------------|
| Revenues from external customers | 47 721 | 23 570 | 18 678 | 13 787 | – | – | 103 756 |
| Inter-segment revenues | 565 | – | 34 | 128 | – | –727 | – |
| Total revenues | 48 286 | 23 570 | 18 712 | 13 915 | – | –727 | 103 756 |
| Operating profit | 11 198 | 5 792 | 4 069 | 2 308 | –1 467 | –3 | 21 897 |
| – of which share of profit in associated companies and joint ventures | – | 19 | –3 | – | – | – | 16 |
| Net financial items | | | | | | | –325 |
| Income tax expense | | | | | | | –5 029 |
| Profit for the year | | | | | | | 16 543 |
| Non-cash expenses | | | | | | | |
| Depreciation/amortization | 1 295 | 1 097 | 929 | 1 111 | 281 | –29 | 4 684 |
| Impairment | – | 1 | 1 | 14 | – | – | 16 |
| Other non-cash expenses | 183 | –135 | 12 | –30 | 263 | – | 293 |
| Segment assets | 29 940 | 33 103 | 14 892 | 12 106 | 2 844 | –1 172 | 91 713 |
| – of which goodwill | 4 389 | 12 281 | 4 931 | 1 156 | – | – | 22 757 |
| Investments in associated companies and joint ventures | 1 | 904 | 132 | – | – | – | 1 037 |
| Unallocated assets | | | | | | | 18 972 |
| Total assets | 29 941 | 34 007 | 15 024 | 12 106 | 2 844 | –1 172 | 111 722 |
| Segment liabilities | 15 835 | 5 321 | 3 830 | 3 188 | 2 204 | –1 048 | 29 330 |
| Unallocated liabilities | | | | | | | 29 102 |
| Total liabilities | 15 835 | 5 321 | 3 830 | 3 188 | 2 204 | –1 048 | 58 432 |
| Capital expenditures | | | | | | | |
| Property, plant and equipment | 1 487 | 581 | 564 | 1 513 | 104 | –60 | 4 189 |
| – of which right-of-use assets | 627 | 177 | 317 | 210 | 56 | – | 1 387 |
| Intangible assets | 122 | 449 | 293 | 120 | 32 | – | 1 016 |
| Total capital expenditures | 1 609 | 1 030 | 857 | 1 633 | 136 | –60 | 5 205 |
| Goodwill acquired | 241 | 2 192 | 3 | 312 | – | – | 2 748 |

| 2019 | Compressor Technique | Vacuum Technique | Industrial Technique | Power Technique | Common group functions | Eliminations | Group |
|---|-------------------------|---------------------|-------------------------|--------------------|---------------------------|--------------|-------|
| Items affecting comparability in Operating profit | – | – | –117 ¹⁾ | – | –663 ²⁾ | – | –780 |

¹⁾ Refers to restructuring costs in the Industrial Technique business area.

²⁾ Refers to a change in provision for share-related long-term incentive programs.

4. Segment information, continued

| 2018 | Compressor Technique | Vacuum Technique | Industrial Technique | Power Technique | Common group functions | Eliminations | Group |
|---|-------------------------|---------------------|-------------------------|--------------------|---------------------------|---------------|-------------------|
| Revenues from external customers | 43 447 | 22 007 | 17 884 | 11 755 | – | – | 95 093 |
| Inter-segment revenues | 525 | – | 49 | 287 | – | –591 | 270 ¹⁾ |
| Total revenues | 43 972 | 22 007 | 17 933 | 12 042 | – | –591 | 95 363 |
| Operating profit | 10 263 | 5 522 | 4 188 | 2 006 | –775 | –17 | 21 187 |
| – of which share of profit in associated companies and joint ventures | – | – | 5 | – | – | – | 5 |
| Net financial items | | | | | | | –343 |
| Income tax expense | | | | | | | –4 508 |
| Profit for the year from continuing operations | | | | | | | 16 336 |
| Profit for the year from discontinued operations | | | | | | | 90 099 |
| Profit for the year | | | | | | | 106 435 |
| Non-cash expenses | | | | | | | |
| Depreciation/amortization | 751 | 846 | 715 | 856 | 145 | –23 | 3 290 |
| Impairment | 49 | 2 | –23 | 5 | – | – | 33 |
| Other non-cash expenses | 202 | 48 | –73 | 54 | –98 | – | 133 |
| Segment assets | 25 276 | 26 317 | 14 670 | 9 696 | 2 468 | –1 073 | 77 354 |
| – of which goodwill | 4 027 | 9 776 | 4 782 | 832 | – | – | 19 417 |
| Investments in associated companies and joint ventures | 1 | – | 132 | – | – | – | 133 |
| Unallocated assets | | | | | | | 19 183 |
| Total assets | | | | | | | 96 670 |
| Segment liabilities | 15 952 | 5 013 | 3 975 | 3 252 | 1 620 | –991 | 28 821 |
| Unallocated liabilities | | | | | | | 25 377 |
| Total liabilities | | | | | | | 54 198 |
| Capital expenditures | | | | | | | |
| Property, plant and equipment | 481 | 844 | 257 | 1 205 | 64 | –38 | 2 813 |
| – of which assets leased | 9 | – | 1 | 4 | – | – | 14 |
| Intangible assets | 132 | 255 | 194 | 64 | 10 | – | 655 |
| Total capital expenditures | 613 | 1 099 | 451 | 1 269 | 74 | –38 | 3 468 |
| Goodwill acquired | 169 | – | 280 | 64 | – | – | 513 |

¹⁾ Includes sales to discontinued operations eliminated within discontinued operations in accordance with IFRS 5.

| 2018 | Compressor Technique | Vacuum Technique | Industrial Technique | Power Technique | Common group functions | Eliminations | Group |
|---|-------------------------|---------------------|-------------------------|--------------------|---------------------------|--------------|-------|
| Items affecting comparability in Operating profit | – | – | – | 109 ¹⁾ | –57 ²⁾ | – | 52 |

¹⁾ Refers to the divestment of the concrete and compaction business in the Power Technique business area.

²⁾ Refers to a change in provision for share-related long-term incentive programs and also costs associated with the split of the Group.

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. The chief operating decision maker uses more than one measure of the operating segments' profit or loss to assess performance and allocate resources. The operating profit of the business areas is the primary profit measure used by the chief operating decision maker, and is reconciled to the consolidated operating profit in the tables on the previous pages. Items affecting comparability are included in a separate table since the chief operating decision maker review also these as part of allocating resources to the different business areas. 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.

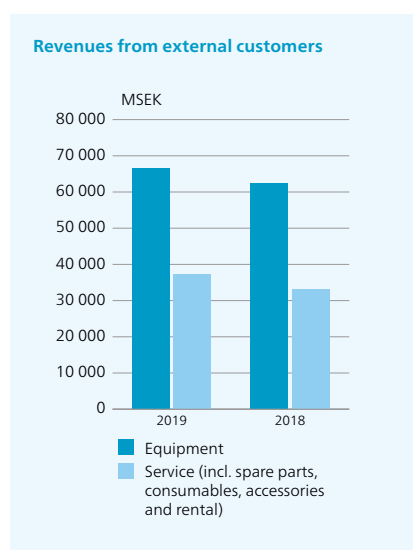
See pages 20–33 for a description of the business areas.

Common group functions, i.e. functions which serve all business areas or the Group as a whole, are 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, right-of-use assets, 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.



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 | |
|----------------------------|----------------|---------------|--------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| North America | | | | |
| Canada | 1 625 | 1 394 | 225 | 85 |
| U.S.A. | 22 417 | 19 533 | 12 968 | 6 695 |
| Other countries | 1 826 | 1 627 | 118 | 67 |
| | 25 868 | 22 554 | 13 311 | 6 847 |
| South America | | | | |
| Brazil | 2 511 | 2 241 | 578 | 486 |
| Chile | 601 | 504 | 94 | 73 |
| Other countries | 989 | 964 | 78 | 33 |
| | 4 101 | 3 709 | 750 | 592 |
| Europe | | | | |
| Belgium | 1 159 | 1 172 | 2 379 | 2 080 |
| France | 3 605 | 3 287 | 719 | 482 |
| Germany | 6 297 | 5 946 | 8 094 | 7 694 |
| Italy | 2 842 | 2 435 | 2 147 | 1 541 |
| Russia | 1 548 | 1 441 | 107 | 65 |
| Sweden | 1 484 | 1 454 | 1 278 | 939 |
| United Kingdom | 2 666 | 2 630 | 14 618 | 14 182 |
| Other countries | 12 180 | 11 518 | 1 654 | 1 064 |
| | 31 781 | 29 883 | 30 996 | 28 047 |
| Africa/Middle East | | | | |
| South Africa | 671 | 604 | 115 | 66 |
| Other countries | 4 957 | 5 092 | 480 | 328 |
| | 5 628 | 5 696 | 595 | 394 |
| Asia/Oceania | | | | |
| Australia | 1 121 | 1 068 | 196 | 111 |
| China | 19 471 | 17 348 | 2 329 | 2 011 |
| India | 4 077 | 3 197 | 316 | 254 |
| Japan | 2 932 | 2 698 | 492 | 367 |
| South Korea | 4 326 | 4 761 | 1 520 | 1 505 |
| Other countries | 4 451 | 4 449 | 480 | 284 |
| | 36 378 | 33 521 | 5 333 | 4 532 |
| Total | 103 756 | 95 363 | 50 985 | 40 412 |

| Geographic distribution | Compressor Technique, % | | Vacuum Technique, % | | Industrial Technique, % | | Power Technique, % | | Group, % | |
|-------------------------|-------------------------|------------|---------------------|------------|-------------------------|------------|--------------------|------------|-----------------|------------|
| | Orders Received | Revenues | Orders Received | Revenues | Orders Received | Revenues | Orders Received | Revenues | Orders Received | Revenues |
| North America | 22 | 22 | 25 | 25 | 32 | 31 | 26 | 25 | 25 | 25 |
| South America | 5 | 5 | 0 | 0 | 3 | 3 | 6 | 6 | 4 | 4 |
| Europe | 34 | 35 | 15 | 15 | 38 | 38 | 34 | 35 | 30 | 31 |
| Africa/Middle East | 7 | 7 | 2 | 2 | 1 | 2 | 12 | 12 | 6 | 5 |
| Asia/Oceania | 32 | 31 | 58 | 58 | 26 | 26 | 22 | 22 | 35 | 35 |
| | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

4. Segment information, continued

Quarterly data

| Revenues by business area MSEK | 2019 | | | | 2018 | | | |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| Compressor Technique | 11 397 | 11 974 | 12 314 | 12 601 | 9 735 | 11 266 | 11 269 | 11 702 |
| – of which external | 11 241 | 11 832 | 12 146 | 12 502 | 9 578 | 11 121 | 11 156 | 11 592 |
| – of which internal | 156 | 142 | 168 | 99 | 157 | 145 | 113 | 110 |
| Vacuum Technique | 5 253 | 5 650 | 6 107 | 6 560 | 5 255 | 5 740 | 5 272 | 5 740 |
| – of which external | 5 253 | 5 650 | 6 107 | 6 560 | 5 255 | 5 740 | 5 272 | 5 740 |
| – of which internal | – | – | – | – | – | – | – | – |
| Industrial Technique | 4 547 | 4 576 | 4 783 | 4 806 | 4 178 | 4 519 | 4 365 | 4 871 |
| – of which external | 4 538 | 4 567 | 4 774 | 4 799 | 4 163 | 4 504 | 4 354 | 4 863 |
| – of which internal | 9 | 9 | 9 | 7 | 15 | 15 | 11 | 8 |
| Power Technique | 3 177 | 3 555 | 3 697 | 3 486 | 2 894 | 3 091 | 2 911 | 3 146 |
| – of which external | 3 149 | 3 531 | 3 649 | 3 458 | 2 756 | 2 980 | 2 893 | 3 126 |
| – of which internal | 28 | 24 | 48 | 28 | 138 | 111 | 18 | 20 |
| Common Group functions/eliminations | –193 | –175 | –225 | –134 | –156 | –155 | –142 | –138 |
| Total | 24 181 | 25 580 | 26 676 | 27 319 | 21 906 | 24 461 | 23 675 | 25 321 |

| Operating profit by business area MSEK | 2019 | | | | 2018 | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| Compressor Technique | 2 618 | 2 773 | 2 897 | 2 910 | 2 249 | 2 638 | 2 667 | 2 709 |
| <i>in % of revenues</i> | 23.0% | 23.2% | 23.5% | 23.1% | 23.1% | 23.4% | 23.7% | 23.1% |
| Vacuum Technique | 1 292 | 1 401 | 1 508 | 1 591 | 1 292 | 1 479 | 1 315 | 1 436 |
| <i>in % of revenues</i> | 24.6% | 24.8% | 24.7% | 24.3% | 24.6% | 25.8% | 24.9% | 25.0% |
| Industrial Technique | 1 008 | 1 016 | 1 051 | 994 | 974 | 1 056 | 1 018 | 1 140 |
| <i>in % of revenues</i> | 22.2% | 22.2% | 22.0% | 20.7% | 23.3% | 23.4% | 23.3% | 23.4% |
| Power Technique | 524 | 619 | 606 | 559 | 547 | 464 | 480 | 515 |
| <i>in % of revenues</i> | 16.5% | 17.4% | 16.4% | 16.0% | 18.9% | 15.0% | 16.5% | 16.4% |
| Common Group functions/eliminations | –394 | –430 | –219 | –427 | –229 | –207 | –217 | –139 |
| Operating profit | 5 048 | 5 379 | 5 843 | 5 627 | 4 833 | 5 430 | 5 263 | 5 661 |
| <i>in % of revenues</i> | 20.9% | 21.0% | 21.9% | 20.6% | 22.1% | 22.2% | 22.2% | 22.4% |
| Net financial items | –141 | –64 | –65 | –55 | –320 | –201 | –95 | 273 |
| Profit before tax | 4 907 | 5 315 | 5 778 | 5 572 | 4 513 | 5 229 | 5 168 | 5 934 |
| <i>in % of revenues</i> | 20.3% | 20.8% | 21.7% | 20.4% | 20.6% | 21.4% | 21.8% | 23.4% |

5. Employees and personnel expenses

| Average number of employees | 2019 | | | 2018 | | |
|------------------------------|--------------|---------------|---------------|--------------|---------------|---------------|
| | Women | Men | Total | Women | Men | Total |
| Parent Company | | | | | | |
| Sweden | 61 | 41 | 102 | 62 | 37 | 99 |
| Subsidiaries | | | | | | |
| North America | 1 127 | 4 474 | 5 601 | 1 006 | 4 154 | 5 160 |
| South America | 369 | 1 496 | 1 865 | 344 | 1 495 | 1 839 |
| Europe | 3 434 | 13 933 | 17 367 | 3 280 | 13 447 | 16 727 |
| – of which Sweden | 292 | 1 020 | 1 312 | 270 | 960 | 1 230 |
| Africa/Middle East | 186 | 893 | 1 079 | 187 | 865 | 1 052 |
| Asia/Oceania | 2 168 | 9 623 | 11 791 | 1 995 | 9 022 | 11 017 |
| Total in subsidiaries | 7 284 | 30 419 | 37 703 | 6 812 | 28 983 | 35 795 |
| Total | 7 345 | 30 460 | 37 805 | 6 874 | 29 020 | 35 894 |

| Females in the Board of Directors and Group Management, % | Dec. 31, 2019 | Dec. 31, 2018 |
|---|---------------|---------------|
| Parent Company | | |
| Board of Directors ¹⁾ | 30 | 30 |
| Group Management | 22 | 22 |

¹⁾ Which excludes President and CEO, includes employee representatives but excludes employees representatives' alternate members.

5. Employees and personnel expenses, continued

| Remuneration and other benefits MSEK | Group | |
|---|---------------|---------------|
| | 2019 | 2018 |
| Salaries and other remuneration | 20 370 | 17 804 |
| Contractual pension benefits | 1 169 | 1 122 |
| Other social costs | 3 681 | 3 203 |
| Total | 25 220 | 22 129 |
| Pension obligations to Board members and Group Management ¹⁾ | 4 | 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 2019 | Adj. due to vesting and change in stock price ²⁾ | Total expense recognized 2019 ³⁾ | Total expense recognized 2018 |
|--|--------------|---|--|--------------------------|--|---|--|----------------------------------|
| | | | | | | | | |
| Chair: | | | | | | | | |
| Hans Stråberg | 1 147 | 1 163 | 4 046 | 409 | 2 719 | 931 | 3 650 | 2 140 ⁴⁾ |
| Other members of the Board: | | | | | | | | |
| Anders Ullberg | 730 | – | – | 178 | 908 | – | 908 | 844 |
| Staffan Bohman | 365 | 370 | 1 288 | 401 | 1 136 | 296 | 1 432 | 1 024 ⁴⁾ |
| Johan Forssell | 365 | 370 | 1 288 | 198 | 933 | 1 226 | 2 159 | 440 |
| Tina Donikowski | 365 | 370 | 1 288 | – | 735 | 539 | 1 274 | 576 |
| Peter Wallenberg Jr | 365 | 370 | 1 288 | 88 | 823 | 1 226 | 2 049 | 321 |
| Sabine Neuß | 730 | – | – | – | 730 | – | 730 | 690 |
| Gunilla Berg | 365 | 370 | 1 288 | 198 | 933 | 917 | 1 850 | 647 |
| Other members of the Board previous year | | | | | | 687 | 687 | –334 |
| Union representatives (4) ⁵⁾ | 80 | – | – | – | 80 | – | 80 | 56 |
| Total 2019 | 4 512 | 3 013 | 10 486 | 1 472 | 8 997 | 5 822 | 14 819 | |
| Total 2018 | 4 785 | 2 850 | 8 240 | 1 349 | 8 984 | –2 580 | | 6 404 |

¹⁾ Refers to fees for membership in board committees.

²⁾ Refers to synthetic shares received in 2014–2019.

³⁾ Provision for synthetic shares as at December 31, 2019 amounted to MSEK 15 (9).

⁴⁾ Hans Stråberg and Staffan Bohman invoiced their fees for the first quarter 2018. The fees received include compensation for social costs and are cost neutral for the Company.

⁵⁾ 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 2019 | Total expense recognized 2018 |
|--|---------------|-------------------------------------|------------------------------|---------------|--|---|----------------------------------|----------------------------------|
| | | | | | | | | |
| President and CEO | | | | | | | | |
| Mats Rahmström | 14 000 | 7 840 | 431 | 4 941 | 27 212 | 22 919 | 50 131 | 17 020 |
| Other members of Group Management (8 positions) | | | | | | | | |
| | 27 684 | 13 037 | 5 012 | 8 174 | 53 907 | 33 308 | 87 215 | 35 833 |
| Total 2019 | 41 684 | 20 877 | 5 443 | 13 115 | 81 119 | 56 227 | 137 346 | |
| Total 2018 | 38 170 | 22 489 | 6 282 | 12 189 | 79 130 | –26 277 | | 52 853 |
| Total remuneration and other benefits to the Board and Group Management | | | | | | | 152 165 | 59 257 |

¹⁾ Refers to variable compensation earned in 2019 to be paid in 2020.

²⁾ Refers to vacation pay, company car, medical insurance, and other benefits.

³⁾ Refers to stock options and SARs received in 2015–2019 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 2019 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 2019 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 2019 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 2019. 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 from 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 when the board member resigned or otherwise the original payment date is valid.

Six 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 President and CEO 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. Non-financial parameters have for example been in relation to Atlas Copco Business Code of Practice. The variable compensation is maximized to 80% of the base salary for the President and CEO, 60% for Business Area Presidents, and 50% for other members of Group Management.
- Performance related personnel option program for 2019, see note 23.
- Pension premiums are paid in accordance with a defined contribution plan with premiums set in line with Atlas Copco Group Pension Policy for Swedish Executives and Atlas Copco terms and conditions for expatriate employments.
- Other benefits consist of company car and medical 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 Group Pension Policy for Swedish Executives, which is a defined contribution plan. The retirement age of the President and CEO is set at the age of 65. The contribution is age related and is 35% of the base salary. These pension plans are vested. In addition, premiums for private health insurance are added.

Other members of Group Management

Members of Group Management have defined contribution pension plans, with contribution up to a maximum of 35% of the base salary according to age. The variable compensation is not included in the basis for pension benefits. 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, 2019 | | |
|---|-------------------|-----------------------------------|
| Grant Year | President and CEO | Other members of Group Management |
| 2015 | – | 27 837 |
| 2016 | – | 107 800 |
| 2017 | 147 397 | 156 547 |
| 2018 ¹⁾ | 128 191 | 149 899 |
| 2019 | 187 760 | 233 811 |
| Total | 463 348 | 675 894 |

¹⁾ Estimated grants for the 2018 stock option program including matching shares. The numbers have been adjusted for the effect of the distribution of Epiroc. See note 23 for additional information.

Termination of employment

The President and 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 President and CEO and other members of Group Management 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 President and 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 2019, 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.

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, 52% (52) of all employees work in marketing, sales or service.

| Geographical spread of employees as at Dec. 31, 2019, % | Employees | Nationality of senior managers |
|---|------------|--------------------------------|
| North America | 15 | 8 |
| South America | 5 | 4 |
| Europe | 46 | 72 |
| Africa/Middle East | 3 | 3 |
| Asia/Oceania | 31 | 13 |
| Total | 100 | 100 |

| Employees by professional category, % | 2019 | 2018 |
|---------------------------------------|------------|------------|
| Production | 23 | 24 |
| Marketing | 8 | 9 |
| Sales and support | 15 | 15 |
| Service | 29 | 28 |
| Administration | 16 | 16 |
| Research & development | 9 | 8 |
| Total | 100 | 100 |

6. Remuneration to auditors

| Audit fees and other services | 2019 | 2018 |
|--|-----------|-----------|
| Deloitte | | |
| Audit fee | 70 | 61 |
| Audit activities other than the audit assignment | 1 | 1 |
| Other services, tax | 3 | 4 |
| Other services, other | 6 | 12 |
| Other audit firms | | |
| Audit fee | 8 | 6 |
| Total | 88 | 84 |

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 tax compliance services.

Other services essentially comprise consultancy services, such as due diligence services in connection with acquisitions, trainings, investigations and other services related to the split of the Group in 2018.

At the Annual General Meeting 2019, Deloitte was elected as auditor for the Group up to and including the Annual General Meeting 2020.

7. Other operating income and expenses

| Other operating income | 2019 | 2018 |
|---|-------------|-------------|
| Commissions received | 16 | 9 |
| Income from insurance operations | 64 | 119 |
| Capital gain on sale of property, plant and equipment | 55 | 33 |
| Capital gain on divestment of business | – | 146 |
| Exchange-rate differences | – | 28 |
| Other operating income | 162 | 170 |
| Total | 297 | 505 |
| Other operating expenses | 2019 | 2018 |
| Capital loss on sale of property, plant and equipment | –27 | –35 |
| Exchange-rate differences | –48 | – |
| Other operating expenses | –98 | –132 |
| Total | –173 | –167 |

Capital gain on divestment of business in 2018 mainly relates to the divestment of Atlas Copco's concrete and compaction business, see note 3.

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 25 220 (22 129) whereof expenses for post-employment benefits amounted to 1 169 (1 122). See note 5 for further details.

Government grants relating to expenses have been deducted in the related expenses by 117 (119). 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 2019, amounted to 51 (37).

Included in the operating profit are exchange rate changes on payables and receivables, and the effects from currency hedging. The operating profit also includes 42 (34) of realized foreign exchange hedging result, which were previously recognized in equity. Amortization, depreciation and impairment charge for the year amounted to 4 700 (3 323). See note 12, 13 and 22 for further details. Costs for research and development amounted to 3 631 (3 166).

8. Financial income and expenses

| Financial income and expenses | 2019 | 2018 |
|---|-------------|-------------|
| Interest income | | |
| – cash and cash equivalents | 87 | 77 |
| – derivatives | 19 | – |
| – other | 8 | 5 |
| Capital gain | | |
| – other assets | 24 | 23 |
| Foreign exchange gain, net | 23 | 437 |
| Financial income | 161 | 542 |
| Interest expenses | | |
| – borrowings | –415 | –485 |
| – derivatives | – | –194 |
| – pension provisions, net | –51 | –40 |
| – deferred considerations | –7 | –7 |
| Change in fair value – other liabilities and borrowings | –2 | –158 |
| Impairment loss | –11 | –1 |
| Financial expenses | –486 | –885 |
| Financial expenses, net | –325 | –343 |

Foreign exchange gain/loss, net includes foreign exchange gains of 93 (1 189) on financial assets at fair value through profit or loss and foreign exchange losses of –70 (–752) on other liabilities.

9. Taxes

| Income tax expense | 2019 | 2018 |
|--------------------|---------------|---------------|
| Current taxes | –4 909 | –4 876 |
| Deferred taxes | –120 | 368 |
| Total | –5 029 | –4 508 |

The following is a reconciliation of the companies' weighted average tax based on the nominal tax for the country as compared to the actual tax charge:

| | 2019 | 2018 |
|--|---------------|---------------|
| Profit before tax | 21 572 | 20 844 |
| Weighted average tax based on national rates | –5 353 | –5 022 |
| – in % | 24.8 | 24.1 |
| Tax effect of: | | |
| Non-deductible expenses | –312 | –456 |
| Withholding and other taxes on dividends | –267 | –343 |
| Tax-exempt income | 697 | 665 |
| Adjustments from prior years: | | |
| – current taxes | 251 | 663 |
| – deferred taxes | –17 | 45 |
| Effects of tax losses/credits utilized | 20 | 16 |
| Change in tax rate, deferred tax | 33 | 29 |
| Tax losses not recognized | –1 | –9 |
| Other items | –80 | –96 |
| Income tax expense | –5 029 | –4 508 |
| Effective tax in % | 23.3 | 21.6 |

9. Taxes, continued

The effective tax rate was 23.3% (21.6). Withholding and other taxes on dividends of –267 (–343) relate to provisions on retained earnings in countries where Atlas Copco incur withholding and other taxes on dividends. Tax-exempt income of 697 (665) refers to income that is not subject to taxation or subject to reduced taxation under local law in various countries. Adjustments from prior years - current tax includes the net from tax issues, tax disputes and also one-time positive tax effects in different countries and amounted to 251 (663).

Previously unrecognized tax losses/credits and deductible temporary differences, which have been recognized against current tax expense, amounted to 20 (16). No material unrecognized tax losses/credits or temporary difference have been used to reduce deferred tax expense.

In 2019, effects of income tax rate changes have affected the result with 33 (29).

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 had such tax ruling since 2010.

Following the European Commission decision, Atlas Copco has paid, in total, MEUR 313 (MSEK 2 952). In 2015, Atlas Copco made a provision of MEUR 300 (MSEK 2 802) and paid MEUR 239 (MSEK 2 250) in 2016. In the second quarter of 2017, Atlas Copco paid the remaining amount of MEUR 68 (MSEK 655). During 2017, MEUR 13 (MSEK 125) was expensed as an interest cost.

The Belgian government, as well as Atlas Copco, appealed the decision to the General Court of the European Union (EGC) in Luxembourg and on February 14, 2019 the EGC annulled the decision taken by the European Commission on January 11, 2016.

On May 3, 2019, the European Commission appealed the EGC's annulment. On September 16, 2019, the European Commission also announced the decision to open 39 separate, in-depth investigations to assess if each specific decision granted by Belgium between 2005 and 2014 regarding tax rulings granted to multinationals with regard to "Excess Profit" violated the EU rules for state aid. One of these 39 separate in-depth investigations concerns Atlas Copco. It is likely several years before a final decision is made.

The following table reconciles the net asset balance of deferred taxes at the beginning of the year to the net asset at the end of the year:

| Change in deferred taxes | 2019 | 2018 |
|---|------------|--------------|
| Opening net balance, Jan. 1 | 1 000 | 1 099 |
| Change in accounting principles | – | 14 |
| Business acquisitions | –98 | –72 |
| Discontinued operations | – | –349 |
| Charges to profit for the year | –120 | 368 |
| Tax on amounts recorded to other comprehensive income | –36 | –45 |
| Translation differences | 1 | –15 |
| Net balance, Dec. 31 | 747 | 1 000 |

9. Taxes, continued

The deferred tax assets and liabilities recognized in the balance sheet are attributable to the following:

| Deferred tax assets and liabilities | 2019 | | | 2018 | | |
|---|--------------|--------------|-------------|--------------|--------------|--------------|
| | Assets | Liabilities | Net balance | Assets | Liabilities | Net balance |
| Intangible assets | 81 | 2 269 | -2 188 | 148 | 2 167 | -2 019 |
| Property, plant and equipment ¹⁾ | 271 | 984 | -713 | 243 | 473 | -230 |
| Other financial assets | 26 | 45 | -19 | 5 | 60 | -55 |
| Inventories | 1 242 | 50 | 1 192 | 1 183 | 42 | 1 141 |
| Current receivables | 170 | 76 | 94 | 177 | 95 | 82 |
| Operating liabilities | 725 | 2 | 723 | 744 | 28 | 716 |
| Provisions | 305 | 8 | 297 | 244 | 6 | 238 |
| Post-employment benefits | 888 | 10 | 878 | 778 | 37 | 741 |
| Borrowings ¹⁾ | 761 | 4 | 757 | 434 | - | 434 |
| Loss/credit carry-forwards | 199 | - | 199 | 322 | - | 322 |
| Other items ²⁾ | 72 | 545 | -473 | 58 | 428 | -370 |
| Deferred tax assets/liabilities | 4 740 | 3 993 | 747 | 4 336 | 3 336 | 1 000 |
| Netting of assets/liabilities | -3 291 | -3 291 | - | -2 717 | -2 717 | - |
| Net deferred tax balances | 1 449 | 702 | 747 | 1 619 | 619 | 1 000 |

¹⁾ The gross amount of deferred tax assets and liabilities relating to right-of-use assets and lease liabilities are included in Property, plant and equipment and Borrowings. The net amount of these items is not material.

²⁾ 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. At December 31, the Group had total tax loss carry-forwards of 2 543 (3 388), of which deferred tax assets were recognized for 798 (1 400). The tax value of reported tax loss carry-forwards totals 199 (322). 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 loss carry-forwards for which no deferred tax have been recognized expire in accordance with below table:

| | 2019 | 2018 |
|-------------------------|--------------|--------------|
| Expires after 1–2 years | 32 | 205 |
| Expires after 3–4 years | 84 | 133 |
| Expires after 5–6 years | 27 | 35 |
| No expiry date | 1 602 | 1 615 |
| Total | 1 745 | 1 988 |

Changes in temporary differences during the year that are recognized in the income statement are attributable to the following:

| | 2019 | 2018 |
|---|-------------|------------|
| Intangible assets | -69 | 158 |
| Property, plant and equipment ¹⁾ | -412 | -66 |
| Other financial assets | 33 | -3 |
| Inventories | 23 | -36 |
| Current receivables | 8 | 80 |
| Operating liabilities | -16 | 113 |
| Provisions | 51 | -14 |
| Post-employment benefits | -20 | 39 |
| Borrowings ¹⁾ | 511 | 1 |
| Other items | -103 | -29 |
| Changes due to temporary differences | 6 | 243 |
| Loss/credit carry-forwards | -126 | 125 |
| Charges to profit for the year | -120 | 368 |

¹⁾ Changes in Property, plant and equipment and Borrowings mainly relates to right-of-use asset and lease liabilities. The net amount of these items is not material.

10. Other comprehensive income

| Other comprehensive income for the year | 2019 | | | 2018 | | |
|--|------------|------------|------------|--------------|------------|----------------------|
| | 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 | | | | | | |
| Remeasurements of defined benefit plans | -626 | 150 | -476 | 150 | -65 | 85 |
| Items that may be reclassified subsequently to profit or loss | | | | | | |
| Translation differences | | | | | | |
| – on foreign operations | 1 577 | 22 | 1 599 | 3 694 | 310 | 4 004 |
| – realized and reclassified to income statement | -32 | - | -32 | -1 308 | - | -1 308 ¹⁾ |
| Hedge of net investments in foreign operations | -252 | 54 | -198 | -797 | 166 | -631 |
| Cash flow hedges | 43 | -5 | 38 | 42 | -9 | 33 |
| Total other comprehensive income | 710 | 221 | 931 | 1 781 | 402 | 2 183 |
| Attributable to non-controlling interests | | | | | | |
| Translation differences on foreign operations | 1 | - | 1 | 1 | - | 1 |
| Total other comprehensive income | 711 | 221 | 932 | 1 782 | 402 | 2 184 |

¹⁾ Refers to Epiroc, repatriation to Sweden of Euro-denominated equity and other divested companies.

11. Earnings per share

| Amount in SEK | Basic earnings per share | | Diluted earnings per share | |
|------------------------------------|--------------------------|-------|----------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| Earnings per share | 13.60 | 87.49 | 13.59 | 87.36 |
| – of which continued operations | 13.60 | 13.45 | 13.59 | 13.43 |
| – of which discontinued operations | – | 74.04 | – | 73.93 |

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 | 2019 | 2018 |
|--|--------|---------|
| Profit for the year | 16 522 | 106 164 |
| – of which continued operations | 16 522 | 16 322 |
| – of which discontinued operations | – | 89 842 |

| Average number of shares outstanding | 2019 | 2018 |
|---|---------------|---------------|
| Basic weighted average number of shares outstanding | 1 214 711 277 | 1 213 475 553 |
| Effect of employee stock options | 1 043 065 | 1 777 586 |
| Diluted weighted average number of shares outstanding | 1 215 754 342 | 1 215 253 139 |

Potentially dilutive instruments

As of December 31, 2019, Atlas Copco had five outstanding employee stock option programs. The exercise price including adjustment for remaining vesting costs for the 2017, 2018 and 2019 programs exceeded the average share price

for series A shares, SEK 287.99 per share. These programs are therefore considered anti-dilutive and not included in the calculation of diluted earnings per share. If the average share price, after adjustment with the 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 which also represents the Group's operating segments, the goodwill has therefore been tested for impairment at business area level.

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% (3).

The Group's average weighted cost of capital in 2019 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. The business areas are all relatively diversified and have similar geographical coverage, similar organization and structure and, to a large extent, an industrial customer base. Specific risks, if any, have affected projected cash flows. The same discount rate has therefore been used for all business areas. 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:

| | 2019 | | 2018 | |
|----------------------|--------------|---------------|--------------|---------------|
| | Trademarks | Goodwill | Trademarks | Goodwill |
| Compressor Technique | – | 4 389 | – | 4 027 |
| Vacuum Technique | 2 713 | 12 281 | 1 915 | 9 776 |
| Industrial Technique | – | 4 931 | – | 4 782 |
| Power Technique | – | 1 156 | – | 832 |
| Total | 2 713 | 22 757 | 1 915 | 19 417 |

The trade names of Edwards, Leybold, CTI and Polycold in the Vacuum Technique business area 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:

| | 2019 | | 2018 | |
|-----------------------------------|----------------------|--------------|----------------------|------------|
| | Internally generated | Acquired | Internally generated | Acquired |
| Cost of sales | 26 | 36 | 19 | 32 |
| Marketing expenses | 7 | 639 | 7 | 538 |
| Administrative expenses | 82 | 46 | 80 | 69 |
| Research and development expenses | 371 | 421 | 380 | 354 |
| Total | 486 | 1 142 | 486 | 993 |

Impairment charges on intangible assets totaled 14 (40) of which 0 (2) were classified as cost of sales in the income statement, 14 (26) were classified as research and development expenses, 0 (10) were classified as marketing expenses, and 0 (2) as administrative expenses. Furthermore there was a reversal of impairment charges amounting to 0 (32) classified as marketing expenses. Of the impairment charges, 14 (13) were due to capitalized development costs relating to projects discontinued.

12. Intangible assets, continued

| 2019 | Internally generated intangible assets | | Acquired intangible assets | | | | Goodwill | Total |
|---|--|-------------------------------------|----------------------------|--------------|--------------------------------|-------------------------------------|---------------|---------------|
| | Product development | Other technology and contract based | Product development | Trademark | Marketing and customer related | Other technology and contract based | | |
| Cost | | | | | | | | |
| Opening balance, Jan. 1 | 3 923 | 1 148 | 198 | 3 481 | 6 402 | 5 524 | 19 448 | 40 124 |
| Investments | 761 | 157 | 2 | – | – | 96 | – | 1 016 |
| Business acquisitions | – | – | 411 | 854 | 954 | 1 232 | 2 748 | 6 199 |
| Disposals | –188 | –8 | –29 | –1 | –2 | –26 | – | –254 |
| Reclassifications | 57 | –2 | –49 | – | 2 | 13 | – | 21 |
| Translation differences | 58 | 26 | 5 | 99 | 193 | 191 | 593 | 1 165 |
| Closing balance, Dec. 31 | 4 611 | 1 321 | 538 | 4 433 | 7 549 | 7 030 | 22 789 | 48 271 |
| Amortization and impairment losses | | | | | | | | |
| Opening balance, Jan. 1 | 2 566 | 622 | 48 | 1 029 | 3 348 | 2 455 | 31 | 10 099 |
| Amortization for the period | 357 | 116 | 15 | 115 | 529 | 482 | – | 1 614 |
| Impairment charge for the period | 13 | – | – | – | – | 1 | – | 14 |
| Disposals | –188 | –7 | –29 | –1 | –2 | –25 | – | –252 |
| Reclassifications | 7 | –20 | –7 | –1 | 2 | 19 | – | – |
| Translation differences | 33 | 16 | 1 | 24 | 98 | 74 | 1 | 247 |
| Closing balance, Dec. 31 | 2 788 | 727 | 28 | 1 166 | 3 975 | 3 006 | 32 | 11 722 |
| Carrying amounts | | | | | | | | |
| At Jan. 1 | 1 357 | 526 | 150 | 2 452 | 3 054 | 3 069 | 19 417 | 30 025 |
| At Dec. 31 | 1 823 | 594 | 510 | 3 267 | 3 574 | 4 024 | 22 757 | 36 549 |

| 2018 | Internally generated intangible assets | | Acquired intangible assets | | | | Goodwill | Total |
|---|--|-------------------------------------|----------------------------|--------------|--------------------------------|-------------------------------------|---------------|---------------|
| | Product development | Other technology and contract based | Product development | Trademark | Marketing and customer related | Other technology and contract based | | |
| Cost | | | | | | | | |
| Opening balance, Jan. 1 | 6 161 | 1 541 | 81 | 3 370 | 6 198 | 5 514 | 23 256 | 46 121 |
| Discontinued operations | –2 543 | –304 | – | –125 | –293 | –629 | –5 577 | –9 471 |
| Investments | 501 | 64 | 5 | – | – | 85 | – | 655 |
| Business acquisitions | – | – | – | 80 | 176 | 117 | 513 | 886 |
| Divestment of business | – | – | – | – | –22 | –2 | –1 | –25 |
| Disposals | –182 | –6 | – | –51 | –52 | –36 | – | –327 |
| Reclassifications | –115 | –195 | 105 | – | –2 | 185 | – | –22 |
| Translation differences | 101 | 48 | 7 | 207 | 397 | 290 | 1 257 | 2 307 |
| Closing balance, Dec. 31 | 3 923 | 1 148 | 198 | 3 481 | 6 402 | 5 524 | 19 448 | 40 124 |
| Amortization and impairment losses | | | | | | | | |
| Opening balance, Jan. 1 | 3 825 | 948 | 35 | 995 | 2 967 | 2 163 | 37 | 10 970 |
| Discontinued operations | –1 514 | –259 | – | –66 | –220 | –351 | –7 | –2 417 |
| Amortization for the period | 358 | 112 | 17 | 103 | 472 | 409 | – | 1 471 |
| Impairment charge for the period | 13 | 3 | – | 1 | 6 | –15 | – | 8 |
| Divestment of business | – | – | – | – | –9 | –1 | – | –10 |
| Disposals | –179 | –6 | – | –51 | –52 | –36 | – | –324 |
| Reclassifications | –7 | –195 | –3 | – | –2 | 185 | – | –22 |
| Translation differences | 70 | 19 | –1 | 47 | 186 | 101 | 1 | 423 |
| Closing balance, Dec. 31 | 2 566 | 622 | 48 | 1 029 | 3 348 | 2 455 | 31 | 10 099 |
| Carrying amounts | | | | | | | | |
| At Jan. 1 | 2 336 | 593 | 46 | 2 375 | 3 231 | 3 351 | 23 219 | 35 151 |
| At Dec. 31 | 1 357 | 526 | 150 | 2 452 | 3 054 | 3 069 | 19 417 | 30 025 |

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

| 2019 | Buildings and land | Machinery and equipment | Construction in progress and advances | Total | Rental equipment |
|---|--------------------|-------------------------|---------------------------------------|---------------|------------------|
| Cost | | | | | |
| Opening balance, Jan. 1 ¹⁾ | 6 371 | 10 997 | 706 | 18 074 | 5 005 |
| Investments | 208 | 682 | 772 | 1 662 | 1 140 |
| Business acquisitions | 21 | 34 | 5 | 60 | 151 |
| Disposals | -716 | -594 | - | -1 310 | -447 |
| Reclassifications | 300 | 651 | -940 | 11 | -36 |
| Translation differences | 169 | 230 | 22 | 421 | 167 |
| Closing balance, Dec. 31 | 6 353 | 12 000 | 565 | 18 918 | 5 980 |
| Depreciation and impairment losses | | | | | |
| Opening balance, Jan. 1 ¹⁾ | 2 381 | 7 625 | - | 10 006 | 2 719 |
| Depreciation for the period | 253 | 1 042 | - | 1 295 | 725 |
| Impairment charge for the period | - | - | - | - | 2 |
| Disposals | -94 | -541 | - | -635 | -406 |
| Reclassifications | - | 27 | - | 27 | -21 |
| Translation differences | 53 | 151 | - | 204 | 103 |
| Closing balance, Dec. 31 | 2 593 | 8 304 | - | 10 897 | 3 122 |
| Carrying amounts | | | | | |
| At Jan. 1 ¹⁾ | 3 990 | 3 372 | 706 | 8 068 | 2 286 |
| At Dec. 31 | 3 760 | 3 696 | 565 | 8 021 | 2 858 |

¹⁾ Finance leases from 2018, previously included in note 13 Property, plant and equipment are presented in note 22 Leases.

| 2018 | Buildings and land | Machinery and equipment | Construction in progress and advances | Total | Rental equipment |
|---|--------------------|-------------------------|---------------------------------------|---------------|------------------|
| Cost | | | | | |
| Opening balance, Jan. 1 | 6 934 | 14 852 | 752 | 22 538 | 6 455 |
| Discontinued operations | -1 126 | -5 063 | -218 | -6 407 | -2 261 |
| Investments | 120 | 690 | 941 | 1 751 | 1 062 |
| Business acquisitions | 57 | 52 | - | 109 | 72 |
| Divestment of business | - | -8 | - | -8 | - |
| Disposals | -118 | -465 | -8 | -591 | -433 |
| Reclassifications | 253 | 607 | -784 | 76 | -33 |
| Translation differences | 260 | 400 | 23 | 683 | 158 |
| Closing balance, Dec. 31 | 6 380 | 11 065 | 706 | 18 151 | 5 020 |
| Depreciation and impairment losses | | | | | |
| Opening balance, Jan. 1 | 2 610 | 10 405 | - | 13 015 | 3 521 |
| Discontinued operations | -457 | -3 678 | - | -4 135 | -1 046 |
| Depreciation for the period | 231 | 998 | - | 1 229 | 590 |
| Impairment charge for the period | - | 22 | - | 22 | 3 |
| Divestment of business | - | -4 | - | -4 | - |
| Disposals | -112 | -413 | - | -525 | -398 |
| Reclassifications | 19 | 66 | - | 85 | -27 |
| Translation differences | 93 | 272 | - | 365 | 89 |
| Closing balance, Dec. 31 | 2 384 | 7 668 | - | 10 052 | 2 732 |
| Carrying amounts | | | | | |
| At Jan. 1 | 4 324 | 4 447 | 752 | 9 523 | 2 934 |
| At Dec. 31 | 3 996 | 3 397 | 706 | 8 099 | 2 288 |

For information regarding depreciation, see note 1.

14. Investments in associated companies and joint ventures

| Accumulated capital participation | 2019 | 2018 |
|--------------------------------------|--------------|------------|
| Opening balance, Jan. 1 | 133 | 212 |
| Discontinued operations | – | –94 |
| Acquisitions of joint ventures | 909 | – |
| Dividends | –38 | –2 |
| Profit for the year after income tax | 16 | 5 |
| Translation differences | 17 | 12 |
| Closing balance, Dec. 31 | 1 037 | 133 |

| 2019 | | | | | | | |
|--|---------|--------|-------------|--------|-------------------|---------------------|--------------------------------|
| Summary of financial information for associated companies and joint ventures | Country | Assets | Liabilities | Equity | Revenues | Profit for the year | Group's share, % ¹⁾ |
| Associated companies | | | | | | | |
| Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd. | China | 74 | 22 | 52 | 39 | –3 | 25 |
| Reintube S.L. | Spain | 6 | 3 | 3 | 9 | 0 | 47 |
| Joint ventures | | | | | | | |
| Toku-Hanbai Group | Japan | 423 | 186 | 237 | 799 | –4 | 50 |
| Ulvac Cryogenics Inc. | Japan | 1 272 | 506 | 766 | 331 ²⁾ | 39 ²⁾ | 50 |

| 2018 | | | | | | | |
|--|---------|--------|-------------|--------|----------|---------------------|--------------------------------|
| Summary of financial information for associated companies and joint ventures | Country | Assets | Liabilities | Equity | Revenues | Profit for the year | Group's share, % ¹⁾ |
| Associated companies | | | | | | | |
| Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd. | China | 77 | 22 | 55 | 44 | 1 | 25 |
| Reintube S.L. | Spain | 6 | 3 | 3 | 8 | 0 | 47 |
| Joint ventures | | | | | | | |
| Toku-Hanbai Group | Japan | 414 | 181 | 233 | 730 | 8 | 50 |

¹⁾ The Atlas Copco percentage share of each holding represents both ownership interest and voting power.

²⁾ Included from the date of acquisition.

The above table is based on the most recent financial reporting available from associated companies and joint ventures.

On July 1, 2019, Atlas Copco completed the acquisition of Brooks' Semiconductor Cryogenics Business. Included in the acquisition was a 50% share of Japan based Ulvac Cryogenics Inc. (UCI). UCI manufactures and sells cryopumps and cryogenic equipment such as cryogenic refrigerators and provides various support services in advanced technology fields such as analysis equipment and medical care.

15. Other financial assets

The fair value of financial instruments under other financial assets corresponds to their carrying value.

| | 2019 | 2018 |
|---|------------|------------|
| Non-current | | |
| Pension and other similar benefit assets (note 23) | 478 | 535 |
| Financial asset at fair value through OCI | 13 | 12 |
| Financial assets at fair value through profit or loss | 20 | 97 |
| Financial assets measured at amortized cost | | |
| – lease receivables | 94 | 3 |
| – other financial receivables | 37 | 29 |
| Closing balance, Dec. 31 | 642 | 676 |
| Current | | |
| Financial assets at fair value through profit or loss | 73 | – |
| Financial assets measured at amortized cost | | |
| – lease receivables | 32 | 1 |
| – other financial receivables | 20 | 101 |
| Closing balance, Dec. 31 | 125 | 102 |

See note 22 for information on leases and note 27 for information on credit risk.

16. Inventories

| | 2019 | 2018 |
|---------------------------------|---------------|---------------|
| Raw materials | 1 886 | 1 591 |
| Work in progress | 2 833 | 2 569 |
| Semi-finished goods | 3 720 | 3 337 |
| Finished goods | 6 062 | 5 221 |
| Closing balance, Dec. 31 | 14 501 | 12 718 |

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 411 (510). Reversals of write-downs which were recognized in earnings totaled 43 (155). Previous write-downs have been reversed as a result of improved market conditions in certain markets. Inventories recognized as expense amounted to 42 893 (40 886).

17. Trade receivables

The fair value for trade receivables corresponds to their carrying value. Trade receivables are measured at amortized cost.

| | 2019 | 2018 |
|--|------------|------------|
| Provisions for bad debts, trade | | |
| Provisions at Jan. 1 | 716 | 1 017 |
| Discontinued operations | – | –336 |
| Business acquisitions and divestments | 15 | 4 |
| Provisions recognized for potential losses | 337 | 325 |
| Amounts used for established losses | –211 | –180 |
| Release of unnecessary provisions | –162 | –135 |
| Translation differences | 16 | 21 |
| Closing balance, Dec. 31 | 711 | 716 |

Trade receivables of 20 590 (18 906) are reported net of provisions for doubtful accounts and other impairments amounting to 711 (716).

Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 125 (325).

For credit risk information, see note 27.

19. Cash and cash equivalents

The fair value of cash and cash equivalents corresponds to their carrying value. Cash and cash equivalents are measured at amortized cost.

| | 2019 | 2018 |
|---------------------------------|---------------|---------------|
| Cash | 13 421 | 9 978 |
| Cash equivalents | 1 584 | 6 436 |
| Closing balance, Dec. 31 | 15 005 | 16 414 |

During 2019, cash and cash equivalents had an estimated average effective interest rate of 0.66% (0.45). Estimated average effective interest rate remained at a low level due to a generally low interest environment. The committed, but unutilized, credit lines were MEUR 1 440 (1 440), which equaled to MSEK 15 030 (14 816).

See note 27 for additional information.

20. Equity

| Shares outstanding | 2019 | | | 2018 | | |
|--|--------------------|--------------------|----------------------|----------------------|--------------------|----------------------|
| | 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 | – | – | – | –823 107 846 | –389 972 849 | –1 213 080 695 |
| Redemption of shares held by Atlas Copco | – | – | – | –16 286 250 | –246 159 | –16 532 409 |
| 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 | –12 557 941 | –8 899 | –12 566 840 | –16 779 903 | –119 159 | –16 899 062 |
| Total shares outstanding, Dec. 31 | 826 836 155 | 390 210 109 | 1 217 046 264 | 822 614 193 | 390 099 849 | 1 212 714 042 |

At December 31, 2019 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.

18. Other receivables

The fair value for other receivables corresponds to their carrying value.

| | 2019 | 2018 |
|--|--------------|--------------|
| Derivatives | | |
| – at fair value through profit or loss | 277 | 24 |
| – at fair value through OCI | 78 | – |
| Financial assets measured at amortized cost | | |
| – other receivables | 2 461 | 2 558 |
| – contract assets | 2 393 | 2 024 |
| Prepaid expenses | 689 | 599 |
| Closing balance, Dec. 31 | 5 898 | 5 205 |

Other receivables consist primarily of VAT claims and advances to suppliers. Contract assets relate mainly to service and construction projects. Impairment losses recognized on contract assets were insignificant. Prepaid expenses include items such as rent, insurance, interest, IT and employee costs.

See note 27 for information on the Group's derivatives.

20. Equity, continued

| Repurchases/ Divestment of shares | Number of shares held by Atlas Copco | | | | | | Cost value affecting equity | |
|--------------------------------------|--------------------------------------|----------------------------------|----------------------------------|-------------------|----------------------------------|----------------------------------|-----------------------------|--------------|
| | 2019 | AGM mandate 2019 Apr.–Dec. | AGM mandate 2018 Jan.–Mar. | 2018 | AGM mandate 2018 Apr.–Dec. | AGM mandate 2017 Jan.–Mar. | 2019 | 2018 |
| Opening balance, Jan. 1 | 16 899 062 | | | 15 887 755 | | | 4 077 | 3 699 |
| Repurchase of A shares | 3 000 000 | 1 200 000 | 1 800 000 | 3 000 000 | 1 500 000 | 1 500 000 | 897 | 843 |
| Divestment of A shares | -7 221 962 | -5 439 956 | -1 782 006 | -1 861 693 | -1 724 672 | -137 021 | -1 755 | -456 |
| Divestment of B shares | -110 260 | -110 260 | - | -127 000 | -127 000 | - | -8 | -9 |
| Closing balance, Dec. 31 | 12 566 840 | | | 16 899 062 | | | 3 211 | 4 077 |
| Percentage of shares outstanding | 1.0% | | | 1.4% | | | | |

The 2019 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 4 250 000 series A shares, whereof a maximum 4 150 000 may be transferred to personnel stock option holders under the performance stock option plan 2019.
- 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 11 000 000 series A and B shares in order to cover the obligations under the performance stock option plans 2014, 2015 and 2016.

At the Annual General Meeting on April 24 2018, it was decided to spin-off and distribute the shares of Epiroc AB to the shareholders of Atlas Copco. In June, 2018, the shareholders received one Epiroc share for each of their Atlas Copco shares. Epiroc AB was listed on Nasdaq Stockholm on June 18, 2018. For further information see note 3.

Atlas Copco has generated significant cash flows in recent years, resulting in a strong financial position. To adjust the Group's capital structure without jeopardizing the capacity to finance further growth, the 2018 Annual General Meeting approved a redemption procedure and the following transactions were performed in 2018:

- Split of each series A and series B shares into one ordinary share and one redemption share.
- Reduction of the share capital for repayment to the shareholders by way of redemption of 1 229 613 104 redemption shares at SEK 8 per share. This corresponded to a total distribution of SEK 9 704 644 888 to the shareholders taking into account that 16 532 409 shares were held by Atlas Copco and thus not eligible for repayment.
- Increase of share capital by MSEK 393 by way of a bonus issue whereby the Company's non-restricted equity was used.

The 2018 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 next AGM and allowed:

- The purchase of not more than 3 300 000 series A shares, whereof a maximum 2 300 000 may be transferred to personnel stock option holders under the performance stock option plan 2018.
- 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 6 200 000 series A and B shares in order to cover the obligations under the performance stock option plans 2013, 2014 and 2015.

Repurchases and sales are subject to market conditions, regulatory restrictions, and the capital structure at any given time. During 2019, 3 000 000 series A shares were repurchased while 7 221 962 series A shares and 110 260 series B shares were divested in accordance with mandates granted by the 2018 and 2019 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 2015–2019 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 amounts to 59 (47). Five subsidiaries have non-controlling interest, one of which is Atlas Copco (India) Ltd. The non-controlling interests are not material to the Group.

Appropriation of profit

The Board of Directors proposes a dividend of SEK 7.00 (6.30) per share, totaling SEK 8 519 323 848 if shares held by the company on December 31, 2019 are excluded.

| SEK | |
|--|------------------------|
| Retained earnings including reserve for fair value | 132 874 385 406 |
| Profit for the year | 11 341 490 775 |
| | 144 215 876 181 |

The Board of Directors proposes that these earnings be appropriated as follows:

| | |
|---|------------------------|
| To the shareholders, a dividend of SEK 7.00 per share | 8 519 323 848 |
| To be retained in the business | 135 696 552 333 |
| Total | 144 215 876 181 |

The proposed dividend for 2018 of SEK 6.30 per share, as approved by the AGM on April 25, 2019, was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 7 652 662 988.

21. Borrowings

| | Maturity | Repurchased nominal amount | 2019 | | 2018 | |
|--|----------|----------------------------|-----------------|---------------|-----------------|---------------|
| | | | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-current | | | | | | |
| Medium Term Note Program MEUR 500 | 2019 | | – | – | 5 145 | 5 170 |
| Medium Term Note Program MEUR 500 | 2023 | | 5 207 | 5 655 | 5 130 | 5 604 |
| Medium Term Note Program MEUR 500 | 2026 | | 5 212 | 5 352 | 5 137 | 4 997 |
| Medium Term Note Program MEUR 300 | 2029 | | 3 105 | 3 050 | – | – |
| Bilateral borrowings NIB MEUR 200 | 2024 | | 2 088 | 2 140 | 2 058 | 2 120 |
| Bilateral borrowings EIB MEUR 300 | 2022 | MEUR 100 | 2 088 | 2 103 | 2 058 | 2 078 |
| Other bank loans | | | 15 | 15 | 18 | 18 |
| Less current portion of long-term borrowings | | | –11 | –11 | –5 154 | –5 179 |
| Total non-current bonds and loans | | | 17 704 | 18 304 | 14 392 | 14 808 |
| Lease liabilities | | | 2 670 | 2 670 | 10 | 10 |
| Other financial liabilities | | | 26 | 26 | 13 | 13 |
| Total non-current borrowings | | | 20 400 | 21 000 | 14 415 | 14 831 |
| Current | | | | | | |
| Current portion of long-term borrowings | | | 11 | 11 | 5 154 | 5 179 |
| Short term loans | | | 2 271 | 2 271 | 802 | 802 |
| Lease liabilities | | | 973 | 973 | 10 | 10 |
| Total current borrowings | | | 3 255 | 3 255 | 5 966 | 5 991 |
| Closing balance, Dec. 31 | | | 23 655 | 24 255 | 20 381 | 20 822 |

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.

In 2019, a MEUR 500 bond matured and was repaid. During the year, Atlas Copco AB entered into a 7-year MEUR 300 loan agreement with the European Investment Bank. The facility is undrawn. In September, Atlas Copco Finance DAC issued a 10-year MEUR 300 bond.

The Group's back-up facilities are specified in the table below.

| Back-up facilities | Nominal amount | Maturity | Utilized |
|-----------------------------------|--------------------|----------|----------|
| Commercial papers ^{1,2)} | MSEK 10 175 | – | – |
| Credit-line | MEUR 640 | 2024 | – |
| Credit-line | MEUR 800 | 2021 | – |
| Equivalent in SEK | MSEK 25 205 | | – |

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 MEUR 400 and MSEK 6 000 corresponding to a total of MSEK 10 175 (10 116).

Lease liabilities increased by MSEK 3 284 on January 1, 2019 due to transition from IAS17 to IFRS16. Short term loans include supply chain financing contracts with remaining payment terms exceeding 180 days.

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 short-term and long-term borrowings are distributed among the currencies detailed in the table below.

| Currency | 2019 | | | 2018 | | |
|--------------|---------------------------|---------------|------------|---------------------------|---------------|------------|
| | Local currency (millions) | MSEK | % | Local currency (millions) | MSEK | % |
| EUR | 1 950 | 20 354 | 86 | 1 912 | 19 677 | 96 |
| SEK | 307 | 307 | 1 | – | – | – |
| USD | 104 | 968 | 4 | 12 | 108 | 1 |
| Other | – | 2 026 | 9 | – | 596 | 3 |
| Total | | 23 655 | 100 | | 20 381 | 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 |
|----------------|---------------|------------------------|-----------------|---------------|
| 2020 | 2 231 | 1 024 | 3 255 | 3 255 |
| 2021 | 797 | – | 797 | 797 |
| 2022 | 588 | 2 088 | 2 676 | 2 691 |
| 2023 | 5 621 | – | 5 621 | 6 068 |
| 2024 | 289 | 2 088 | 2 377 | 2 429 |
| 2025 | 207 | – | 207 | 207 |
| 2026 | 5 334 | – | 5 334 | 5 474 |
| 2027 | 102 | – | 102 | 102 |
| 2028 and after | 3 286 | – | 3 286 | 3 232 |
| Total | 18 455 | 5 200 | 23 655 | 24 255 |

¹⁾ Floating interest in the table corresponds to borrowings with fixings shorter or equal to six months.

21. Borrowings, continued

| 2019 | Reconciliation of liabilities from financing activities | Opening balance, Jan. 1 | Change in accounting principles, IFRS 16 | Cash changes | | | Non cash changes | | | | | Closing balance, Dec. 31 |
|--------------------|---|-------------------------|--|----------------------|-----------------|------------------|-----------------------------|-------------------------------|----------------------------------|------------|------------------|--------------------------|
| | | | | Financing cash flows | Lease additions | Lease deductions | Acquired/divested companies | Fair value change through P/L | Fair value change through equity | FX change | Reclassification | |
| Non-current | | | | | | | | | | | | |
| | Non-current bonds and loans | 14 392 | – | 3 122 | – | – | 48 | –22 | 165 | 5 | –6 | 17 704 |
| | Lease liabilities | 10 | 2 437 | – | 898 | –76 | 29 | 34 | – | 66 | –728 | 2 670 |
| | Other financial liabilities | 13 | – | – | – | – | 12 | 1 | – | 0 | – | 26 |
| | Total non-current | 14 415 | 2 437 | 3 122 | 898 | –76 | 89 | 13 | 165 | 71 | –734 | 20 400 |
| Current | | | | | | | | | | | | |
| | Current portion of long term borrowings | 5 154 | – | –5 250 | – | – | – | – | 105 | 1 | 1 | 11 |
| | Short term loans | 802 | – | 1 147 | – | – | 1 | 0 | – | 15 | 5 | 1 970 |
| | Lease liabilities | 10 | 847 | –1 098 | 496 | –85 | 11 | 41 | – | 23 | 728 | 973 |
| | Total current | 5 966 | 847 | –5 201 | 496 | –85 | 12 | 41 | 105 | 39 | 734 | 2 954 |
| | Total | 20 381 | 3 284 | –2 079 | 1 394 | –161 | 101 | 54 | 270 | 110 | – | 23 354 |

| 2018 | Reconciliation of liabilities from financing activities | Opening balance, Jan. 1 | Discontinued operations | Cash changes | | | Non cash changes | | | | | Closing balance, Dec. 31 |
|--------------------|---|-------------------------|-------------------------|----------------------|-----------------|------------------|-----------------------------|-------------------------------|----------------------------------|------------|------------------|--------------------------|
| | | | | Financing cash flows | Lease additions | Lease deductions | Acquired/divested companies | Fair value change through P/L | Fair value change through equity | FX change | Reclassification | |
| Non-current | | | | | | | | | | | | |
| | Non-current bonds and loans | 23 558 | –19 | –5 020 | – | – | 17 | 5 | 797 | 214 | –5 160 | 14 392 |
| | Lease liabilities | 76 | –62 | –16 | 5 | – | 10 | – | – | – | –3 | 10 |
| | Other financial liabilities | 1 | 0 | –1 | – | – | – | 13 | – | 0 | 0 | 13 |
| | Total non-current | 23 635 | –81 | –5 037 | 5 | – | 27 | 18 | 797 | 214 | –5 163 | 14 415 |
| Current | | | | | | | | | | | | |
| | Current portion of long term borrowings | 6 | –1 | –14 | – | – | 0 | – | – | 1 | 5 162 | 5 154 |
| | Short term loans | 1 281 | –659 | 148 | – | – | 11 | –2 | – | 24 | –1 | 802 |
| | Lease liabilities | 55 | –41 | –18 | 9 | – | 5 | – | – | 2 | –2 | 10 |
| | Total current | 1 342 | –701 | 116 | 9 | – | 16 | –2 | – | 27 | 5 159 | 5 966 |
| | Total | 24 977 | –782 | –4 921 | 14 | – | 43 | 16 | 797 | 241 | –4 | 20 381 |

Cash flow from financing activities also includes net "Settlement of CSA" (Credit Support Annex) of MSEK 367 (–181) which is not included in the table above. In December 2019, the financial liability related to CSA amounted to MSEK 301 (0).

22. Leases

Group as a lessee

Atlas Copco's lease portfolio consists mainly of leased buildings such as offices and warehouses, vehicles and production equipment. There are several lease contracts with extension options and variable lease payments.

Carrying amounts and movements of the right-of-use asset are presented in the below table:

| Right-of-use assets | | | | |
|---|--------------------|-------------------------|------------------|--------------|
| 2019 | Buildings and land | Machinery and equipment | Rental equipment | Total |
| Cost | | | | |
| Opening balance, Jan. 1 ¹⁾ | 9 | 68 | 15 | 92 |
| Change in accounting principles, IFRS 16 | 2 350 | 907 | 2 | 3 259 |
| Additions | 782 | 594 | 11 | 1 387 |
| Business acquisitions | 33 | 6 | – | 39 |
| Deductions | –66 | –161 | – | –227 |
| Reclassifications | 11 | –32 | 19 | –2 |
| Translation differences | 57 | 26 | – | 83 |
| Closing balance, Dec. 31 | 3 176 | 1 408 | 47 | 4 631 |
| Depreciation and impairment losses | | | | |
| Opening balance, Jan. 1 ¹⁾ | 3 | 43 | 13 | 59 |
| Depreciation for the period | 614 | 427 | 9 | 1 050 |
| Deductions | –5 | –9 | – | –14 |
| Reclassifications | 2 | –16 | – | –14 |
| Translation differences | –4 | –3 | – | –7 |
| Closing balance, Dec. 31 | 610 | 442 | 22 | 1 074 |
| Carrying amounts | | | | |
| At Jan. 1 ¹⁾ | 6 | 25 | 2 | 33 |
| At Dec. 31 | 2 566 | 966 | 25 | 3 557 |

¹⁾ Finance leases 2018 were presented in note 13 Property, plant and equipment.

For carrying amounts and movements of lease liabilities related to the right-of-use assets, see note 21. The maturity analysis of lease liabilities is disclosed in note 27.

The following amounts have been recognized in profit or loss:

| Leasing in income statement | 2019 |
|--|---------------|
| Depreciation expense on right-of-use assets | –1 050 |
| Interest expense on lease liabilities | –75 |
| Expense relating to leases of low value assets | –43 |
| Expense relating to short-term leases | –146 |
| Expense relating to variable lease payments | –49 |
| Income from subleasing right-of-use assets | 12 |
| Gains or losses from sale and leaseback transactions | 20 |
| Total amount recognized in profit or loss | –1 331 |

For cash outflows related to leases, the principal payment amounts to 1 034 and the interest portion of lease payments to 64. The principal payment is recognized as cash flow from financing activities and the interest portion of the lease payment as cash flow from operating activities, net financial items paid. For further information, see consolidated statements of cash flow and note 21.

Lease contracts that include extension options are mainly related to premises, machinery and equipment. Management uses significant judgement in determining whether these extension options are reasonably certain to be exercised. Extension options reasonably certain to be exercised are included in the lease term. Future cash outflow relating to extension options expected not to be exercised amounts to 167. For leases that have not yet commenced, the future cash outflow amounts to 31.

22. Leases, continued

Group as a lessor

As a lessor, the Group has finance and operating lease contracts, see note 1 for further information.

Finance lease – lessor

Atlas Copco has equipment which is leased to customers under finance leases. Future payments to be received fall due as follows:

| | 2019 | | 2018 | |
|-----------------------------|------------------|---|------------------|---|
| | Gross investment | Present value of minimum lease payments | Gross investment | Present value of minimum lease payments |
| Less than one year | 34 | 32 | 1 | 1 |
| Between one and five years | 83 | 77 | 3 | 3 |
| More than five years | 11 | 11 | 1 | 0 |
| Total | 128 | 120 | 5 | 4 |
| Unearned finance income | – | 2 | – | 1 |
| Unguaranteed residual value | – | 6 | – | – |
| Total | 128 | 128 | 5 | 5 |

Operating leases – lessor

Atlas Copco has equipment which is leased to customers under operating leases. Future payments for non-cancellable operating leasing contracts fall due as follows:

| | 2019 | 2018 |
|----------------------------|------------|------------|
| Less than one year | 78 | 79 |
| Between one and five years | 118 | 89 |
| More than five years | 23 | 10 |
| Total | 219 | 178 |

Contingent rent recognized as income amounted to 3 (6).

Comparative information for 2018 in accordance with IAS 17

Atlas Copco has chosen to perform the transition to IFRS 16 by use of the modified retrospective approach, which does not require restatement of comparative periods. The comparative information continues to be reported in accordance with IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. The operating lease commitment as per December 2018 included low-value and short-term leases as well as variable lease payments.

Operating leases – lessee

The leasing costs of assets under operating leases amounted to 1 190, and were derived primarily from leased premises, machinery, computer and office equipment. The total leasing cost included minimum lease payments of 1 188, contingent rent of 17, and sublease payments received of –15. Future payments for non-cancellable operating leasing contracts fell due as follows:

| | 2018 |
|----------------------------|--------------|
| Less than one year | 1 078 |
| Between one and five years | 2 131 |
| More than five years | 263 |
| Total | 3 472 |

The total of future minimum sublease payments expected to be received were –34.

Finance leases – lessee

| Assets utilized under finance leases | Machinery and equipment | Rental equipment |
|--------------------------------------|-------------------------|------------------|
| Carrying amounts, Jan. 1, 2018 | 55 | 5 |
| Carrying amounts, Dec. 31, 2018 | 31 | 2 |

Assets utilized under finance leases primarily consisted of vehicles.

Future payments for assets held under finance leases as lessee fell due as follows:

| | 2018 | | |
|----------------------------|------------------------|----------|-----------|
| | Minimum lease payments | Interest | Principal |
| Less than one year | 11 | 1 | 10 |
| Between one and five years | 11 | 1 | 10 |
| More than five years | – | – | – |
| Total | 22 | 2 | 20 |

23. Employee benefits

Post-employment benefits

Atlas Copco provides post-employment defined benefit 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, 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 and are all unfunded.

In Canada, the pension plan and the supplemental retirement pension benefit plan for executives, both funded, were wound up in 2019. There are also two unfunded plans, a post-retirement benefit plan and a post-employment plan.

The plans in Germany cover pensions, early retirements and jubilee. The plans are funded.

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 for calculating the net pension obligation is not available.

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 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 asset classes, markets and issuers should be utilized. An asset and 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:

| | 2019 | 2018 |
|-----------------------------|--------------|--------------|
| Financial assets (note 15) | -478 | -535 |
| Post-employment benefits | 3 488 | 2 837 |
| Other provisions (note 25) | 91 | 84 |
| Closing balance, net | 3 101 | 2 386 |

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 3 101 (2 386). The weighted average duration of the obligation is 15.5 (14.5) years.

| Post-employment benefits | | | | | |
|---|----------------------|-----------------------|--------------------|----------------------|--------------|
| 2019 | Funded pension plans | Unfunded pension plan | Other funded plans | Other unfunded plans | Total |
| Present value of defined benefit obligations | 10 151 | 1 268 | 77 | 169 | 11 665 |
| Fair value of plan assets | -8 511 | - | -75 | - | -8 586 |
| Present value of net obligations | 1 640 | 1 268 | 2 | 169 | 3 079 |
| Other long-term service obligations | - | - | 22 | - | 22 |
| Net amount recognized in the balance sheet | 1 640 | 1 268 | 24 | 169 | 3 101 |

| Post-employment benefits | | | | | |
|---|----------------------|-----------------------|--------------------|----------------------|--------------|
| 2018 | Funded pension plans | Unfunded pension plan | Other funded plans | Other unfunded plans | Total |
| Present value of defined benefit obligations | 9 602 | 1 199 | 76 | 176 | 11 053 |
| Fair value of plan assets | -8 656 | - | -75 | - | -8 731 |
| Present value of net obligations | 946 | 1 199 | 1 | 176 | 2 322 |
| Effect of asset ceiling | 42 | - | - | - | 42 |
| Other long-term service obligations | - | - | 22 | - | 22 |
| Net amount recognized in the balance sheet | 988 | 1 199 | 23 | 176 | 2 386 |

23. Employee benefits, continued

| Plan assets consist of the following: | 2019 | | | 2018 |
|---------------------------------------|---------------------|-----------------------|--------------|--------------|
| | Quoted market price | Unquoted market price | Total | |
| Debt instruments | 1 968 | – | 1 968 | 3 844 |
| Equity instruments | 673 | – | 673 | 584 |
| Property | 620 | 331 | 951 | 632 |
| Assets held by insurance companies | 259 | 1 704 | 1 963 | 938 |
| Cash | 484 | – | 484 | 718 |
| Investment funds | 1 553 | – | 1 553 | 1 442 |
| Derivatives | 7 | – | 7 | –18 |
| Others | 987 | – | 987 | 591 |
| Closing balance, Dec 31 | 6 551 | 2 035 | 8 586 | 8 731 |

| Movements in plan assets | 2019 | 2018 |
|--|--------------|--------------|
| Fair value of plan assets at Jan. 1 | 8 731 | 9 786 |
| Discontinued operations | – | –1 149 |
| Interest income | 217 | 208 |
| Remeasurement – return on plan assets | 430 | –355 |
| Settlements | –943 | –50 |
| Employer contributions | 128 | 188 |
| Plan members contributions | 16 | 22 |
| Administrative expenses | –9 | –14 |
| Benefit paid by the plan | –372 | –352 |
| Reclassifications | 22 | 138 |
| Translation differences | 366 | 309 |
| Fair value of plan assets, Dec 31 | 8 586 | 8 731 |

| The plan assets are allocated among the following geographic areas: | 2019 | 2018 |
|---|--------------|--------------|
| Europe | 7 285 | 6 709 |
| North America | 708 | 1 506 |
| Rest of the world | 593 | 516 |
| Total | 8 586 | 8 731 |

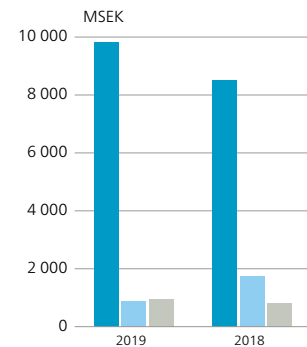
| Asset ceiling | 2019 | 2018 |
|--------------------------------|----------|-----------|
| Asset ceiling at Jan. 1 | 42 | – |
| Remeasurements – asset ceiling | –44 | 41 |
| Translation difference | 2 | 1 |
| Asset ceiling, Dec. 31 | – | 42 |

| Movement in present value of the obligations for defined benefits | 2019 | 2018 |
|--|---------------|---------------|
| Defined benefit obligations at Jan. 1 | 11 053 | 12 335 |
| Discontinued operations | – | –1 338 |
| Current service cost | 336 | 345 |
| Past service cost | –52 | 41 |
| Interest expense (+) | 269 | 248 |
| Actuarial gains (–)/ losses (+) arising from experience adjustments | 32 | 29 |
| Actuarial gains (–)/ losses (+) arising from financial assumptions | 1 232 | –407 |
| Actuarial gains (–)/ losses (+) arising from demographic assumptions | –150 | –165 |
| Business acquisitions | 21 | – |
| Settlements | –943 | –51 |
| Benefits paid from plan or company assets | –600 | –586 |
| Reclassifications | 56 | 165 |
| Translation differences | 411 | 437 |
| Defined benefit obligations, Dec. 31 | 11 665 | 11 053 |

For continuing operations, remeasurements recognized in other comprehensive income amounted to 626 (–149) and 14 (2) in profit and loss. The Group expects to pay 352 (304) in contributions to defined benefit plans in 2020.

The defined benefit obligations for employee benefits are comprised of plans in the following geographic areas:

■ Europe
■ North America
■ Rest of the world



| Expenses recognized in the income statement | 2019 | 2018 |
|---|------------|------------|
| Current service cost | 336 | 345 |
| Past service cost | –52 | 41 |
| Net interest cost | 52 | 40 |
| Employee contribution/ participant contribution | –16 | –23 |
| Remeasurement of other long-term benefits | 14 | 2 |
| Administrative expenses | 8 | 13 |
| Total | 342 | 418 |

The total benefit expense for defined benefit plans amounted to 342 (418), whereof 290 (379) have been charged to operating expenses and 52 (40) to financial expenses. Expenses related to defined contribution plans amounted to 879 (743).

| Principal actuarial assumptions at the balance sheet date (expressed as weighted averages in %) | 2019 | 2018 |
|---|------|------|
| Discount rate | | |
| Europe | 1.32 | 2.24 |
| North America | 2.98 | 3.28 |
| Future salary increases | | |
| Europe | 1.57 | 1.69 |
| North America | 0.41 | 0.18 |
| Medical cost trend rate | | |
| North America | 7.01 | 7.01 |

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 +0.5% | –784 | –38 |
| Change in discount rate –0.5% | 882 | 40 |
| Increase in life expectancy, +1 year | 388 | 19 |

23. Employee benefits, continued

Share value based incentive programs

In 2015–2018, 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 2019, the Annual General Meeting decided on a performance-based personnel stock option program for 2019 similar to the 2015–2018 programs.

Option programs 2015–2019

At the Annual General Meeting 2015–2019 respectively, it was decided to implement performance-based 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 for each program year depended on the value creation in the Group, measured as Economic Value Added (EVA), for the respective program year. For the 2019 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 2015 program has a term of five years from the grant date whereas the 2016–2019 programs have a term of seven years. The options in the 2014–2019 programs are not transferable and become exercisable at 100% three years after grant.

The 2015–2019 programs include a requirement for senior executives (31 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 2015–2018 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 2018 and 2019, the fair value of the options/SARs was based on the following assumptions:

| Financial income and expenses | 2019 Program (Dec. 31, 2019) | 2018 Program (at issue date) |
|-------------------------------|---------------------------------|---------------------------------|
| Expected exercise price | SEK 411/280 ¹⁾ | SEK 264/180 ^{1) 2)} |
| Expected volatility | 30% | 30% |
| Expected options life (years) | 4.6 | 4.4 |
| Expected share price | SEK 373.60 | SEK 275.60 |
| Expected dividend (growth) | SEK 6.3 (6%) | SEK 6.3 (6%) |
| Risk free interest rate | 1.00% | 1.00% |
| Expected average grant value | SEK 66.90/111.90 | SEK 58.70/92.80 |
| Maximum number of options | 4 081 165 | 2 915 027 ³⁾ |
| – of which forfeited | 21 259 | 79 865 |
| Number of matching shares | 27 622 | 41 616 |

¹⁾ Matching shares for senior executives.

²⁾ Actual.

³⁾ Adjusted for the effect of the distribution of Epiroc

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.

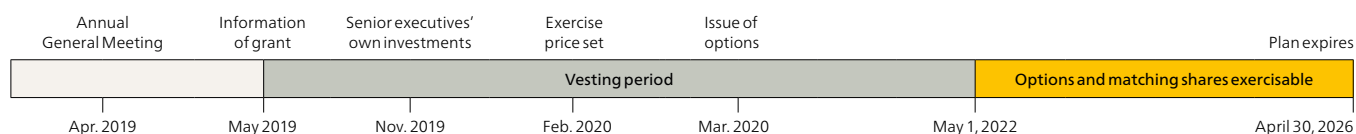
When determining the expected option life, assumptions have been made regarding the expected exercising behavior of different categories of optionees.

For the stock options in the 2015–2019 programs, the fair value is recognized as an expense over the following vesting periods:

| Program | Vesting period | | Exercise period | |
|---------|----------------|------------|-----------------|------------|
| | From | To | From | To |
| 2015 | May 2015 | April 2018 | May 2018 | April 2020 |
| 2016 | May 2016 | April 2019 | May 2019 | April 2023 |
| 2017 | May 2017 | April 2020 | May 2020 | April 2024 |
| 2018 | May 2018 | April 2021 | May 2021 | April 2025 |
| 2019 | May 2019 | April 2022 | May 2022 | April 2026 |

For the 2019 program, a new valuation of the fair value has been made and will be made at each reporting date until the issue date.

Timeline 2019 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 2019 for all share-based incentive programs, excluding social costs, amounted to 525 (73) of which 135 (101) refer 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 264 (120). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2015–2019, 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 | | | | | | | |
| 2013 | 250 | – | N/a | N/a | N/a | N/a | – |
| 2014 | 263 | 5 100 614 | Apr. 30, 19 | 199.66 | A | 52.90 | – |
| 2015 | 254 | 3 430 049 | Apr. 30, 20 | 144.14 | A | 33.90 | – |
| 2016 | 256 | 7 279 231 | Apr. 30, 23 | 230.18 | A | 66.70 | – |
| 2017 | 262 | 3 046 532 | Apr. 30, 24 | 286.81 | A | 64.20 | – |
| 2018 | 269 | 2 401 107 | Apr. 30, 25 | 264.00 | A | 58.70 | – |
| Matching shares | | | | | | | |
| 2013 | 28 | 44 704 | Apr. 30, 18 | 128.91 | A | 58.00 | – |
| 2014 | 28 | 53 259 | Apr. 30, 19 | 136.46 | A | 96.30 | – |
| 2015 | 29 | 52 357 | Apr. 30, 20 | 98.54 | A | 63.20 | – |
| 2016 | 27 | 41 048 | Apr. 30, 23 | 157.38 | A | 106.20 | – |
| 2017 | 34 | 36 743 | Apr. 30, 24 | 195.62 | A | 108.40 | – |
| 2018 | 29 | 41 616 | Apr. 30, 25 | 180.00 | A | 92.80 | – |
| Share appreciation rights | | | | | | | |
| 2013 | 58 | – | N/a | N/a | N/a | N/a | – |
| 2014 | 59 | 1 014 107 | Apr. 30, 19 | 199.66 | A | – | 173.94 |
| 2015 | 64 | 748 096 | Apr. 30, 20 | 144.14 | A | – | 229.46 |
| 2016 | 64 | 1 586 550 | Apr. 30, 23 | 230.18 | A | – | 143.42 |
| 2017 | 61 | 606 994 | Apr. 30, 24 | 286.81 | A | – | – |
| 2018 | 57 | 434 055 | Apr. 30, 25 | 264.00 | A | – | – |
| Number of options/rights 2019 | | | | | | | |
| 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 | | | | | | | |
| 2014 | 1 191 496 | 1 191 496 | – | – | – | – | 250 |
| 2015 ¹⁾ | 1 423 420 | 1 188 902 | – | 234 518 | 234 518 | 4 | 294 |
| 2016 ²⁾ | 5 354 532 | 3 534 984 | 71 862 | 1 747 686 | 1 747 686 | 16 | 320 |
| 2017 ³⁾ | 2 327 745 | – | 39 164 | 2 288 581 | – | 28 | – |
| 2018 ⁴⁾ | 2 401 107 | – | 7 615 | 2 393 492 | – | 40 | – |
| Matching shares | | | | | | | |
| 2014 | 15 232 | 15 232 | – | – | – | – | 250 |
| 2015 | 24 410 | 16 192 | – | 8 218 | 8 218 | 4 | 297 |
| 2016 | 36 217 | 21 126 | – | 15 091 | 15 091 | 16 | 321 |
| 2017 | 28 228 | – | – | 28 228 | – | 28 | – |
| 2018 | 41 616 | – | – | 41 616 | – | 40 | – |
| Share appreciation rights | | | | | | | |
| 2014 | 187 302 | 187 302 | – | – | – | – | 247 |
| 2015 | 360 047 | 327 215 | – | 32 832 | 32 832 | 4 | 272 |
| 2016 | 1 176 539 | 719 113 | 23 954 | 433 472 | 433 472 | 16 | 321 |
| 2017 | 430 804 | – | 9 791 | 421 013 | – | 28 | – |
| 2018 | 434 055 | – | – | 434 055 | – | 40 | – |

All numbers have been adjusted for the effect of the distribution of Epiroc and the redemptions in 2015 and 2018 in line with the method used by Nasdaq Stockholm to adjust exchange-traded options contracts.

¹⁾ Of which 34 748 have been accounted for as cash settled.

²⁾ Of which 334 735 have been accounted for as cash settled.

³⁾ Of which 437 520 have been accounted for as cash settled.

⁴⁾ Of which 427 427 have been accounted for as cash settled.

23. Employee benefits, continued

| Number of options/rights 2018 | | | | | | | | |
|----------------------------------|--------------------|-----------|-----------|--------------------|---------------------|-----------------------|-------------------------------|--|
| 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 | | | | | | | | |
| 2014 | 1 612 336 | – | 420 840 | – | 1 191 496 | 1 191 496 | 4 | 339 |
| 2015 | 2 471 411 | – | 1 022 873 | 25 118 | 1 423 420 | 1 423 420 | 16 | 338 |
| 2016 | 5 524 421 | – | – | 169 889 | 5 354 532 | – | 28 | – |
| 2017 | 2 364 437 | – | – | 36 692 | 2 327 745 | – | 40 | – |
| 2018 | – | 2 401 107 | – | – | 2 401 107 | – | 52 | – |
| Matching shares | | | | | | | | |
| 2013 | 14 081 | – | 14 081 | – | 0 | – | – | 325 |
| 2014 | 27 373 | – | 12 141 | – | 15 232 | 15 232 | 4 | 341 |
| 2015 | 38 408 | – | 13 998 | – | 24 410 | 24 410 | 16 | 308 |
| 2016 | 37 419 | – | – | 1 202 | 36 217 | – | 28 | – |
| 2017 | 29 178 | – | – | 950 | 28 228 | – | 40 | – |
| 2018 | – | 41 616 | – | – | 41 616 | – | 52 | – |
| Share appreciation rights | | | | | | | | |
| 2014 | 340 911 | – | 153 609 | – | 187 302 | 187 302 | 4 | 324 |
| 2015 | 567 498 | – | 207 451 | – | 360 047 | 360 047 | 16 | 306 |
| 2016 | 1 260 087 | – | – | 83 548 | 1 176 539 | – | 28 | – |
| 2017 | 464 954 | – | – | 34 150 | 430 804 | – | 40 | – |
| 2018 | – | 434 055 | – | – | 434 055 | – | 52 | – |

All numbers have been adjusted for the effect of the distribution of Epiroc and the redemptions in 2015 and 2018 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 | 2019 | 2018 |
|--|---------------|---------------|
| Derivatives | | |
| – at fair value through profit and loss | 17 | 24 |
| – at fair value through OCI | 2 | 8 |
| Other financial liabilities | | |
| – other liabilities | 1 976 | 2 028 |
| – accrued expenses | 6 865 | 6 826 |
| Prepaid income other | 34 | 27 |
| Contract liabilities | | |
| – advances from customers | 2 781 | 2 734 |
| – deferred revenues construction contracts | 714 | 477 |
| – deferred revenues service contracts | 1 844 | 1 535 |
| Closing balance, Dec. 31 | 14 233 | 13 659 |

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.

The amounts included in contract liabilities at the beginning of the year have been recognized as revenue during the year except for 530 (467). The main reason for revenues not recognized during the year is that they are related to performance obligations that will be performed in future periods.

As of end of 2019, transaction price allocated to remaining performance obligations was 13 604 (11 283) and the majority will be recognized as revenue over the next 3 years. The transaction price does not include consideration that is constrained.

25. Provisions

| 2019 | Product warranty | Restructuring | Other | Total |
|---------------------------------|------------------|---------------|--------------|--------------|
| Opening balance, Jan. 1 | 1 086 | 273 | 1 153 | 2 512 |
| During the year | | | | |
| – provisions made | 1 116 | 203 | 969 | 2 288 |
| – provisions used | –964 | –245 | –478 | –1 687 |
| – provisions reversed | –132 | –12 | –310 | –454 |
| Business acquisitions | 61 | – | – | 61 |
| Reclassification | 1 | – | –1 | – |
| Translation differences | 25 | 6 | 11 | 42 |
| Closing balance, Dec. 31 | 1 193 | 225 | 1 344 | 2 762 |
| Non-current | 201 | 29 | 919 | 1 149 |
| Current | 992 | 196 | 425 | 1 613 |
| Total | 1 193 | 225 | 1 344 | 2 762 |

| 2018 | Product warranty | Restructuring | Other | Total |
|---------------------------------|------------------|---------------|--------------|--------------|
| Opening balance, Jan. 1 | 1 280 | 438 | 1 655 | 3 373 |
| Discontinued operations | –201 | –54 | –294 | –549 |
| During the year | | | | |
| – provisions made | 788 | 55 | 457 | 1 300 |
| – provisions used | –674 | –169 | –521 | –1 364 |
| – provisions reversed | –164 | –13 | –153 | –330 |
| Discounting effect | – | – | –1 | –1 |
| Business acquisitions | 3 | – | – | 3 |
| Reclassification | – | 1 | –1 | – |
| Translation differences | 54 | 15 | 11 | 80 |
| Closing balance, Dec. 31 | 1 086 | 273 | 1 153 | 2 512 |
| Non-current | 180 | 25 | 705 | 910 |
| Current | 906 | 248 | 448 | 1 602 |
| Total | 1 086 | 273 | 1 153 | 2 512 |

| Maturity 2019 | Product warranty | Restructuring | Other | Total |
|----------------------------|------------------|---------------|--------------|--------------|
| Less than one year | 992 | 196 | 425 | 1 613 |
| Between one and five years | 193 | 9 | 541 | 743 |
| More than five years | 8 | 20 | 378 | 406 |
| Total | 1 193 | 225 | 1 344 | 2 762 |

Other provisions consist primarily of amounts related to share-based payments including social fees, other long-term employee benefits (see note 23), and asset restoration obligations.

26. Assets pledged and contingent liabilities

| Assets pledged for debts to credit institutions and other commitments | 2019 | 2018 |
|---|------------|------------|
| Inventory and property, plant and equipment | 80 | 74 |
| Endowment insurances | 190 | 164 |
| Other receivables | – | 62 |
| Total | 270 | 300 |
| Contingent liabilities | 2019 | 2018 |
| Notes discounted | 5 | 3 |
| Sureties and other contingent liabilities | 229 | 389 |
| Total | 234 | 392 |

Sureties and other contingent liabilities relate primarily to pension commitments and commitments related to customer claims and various legal matters.

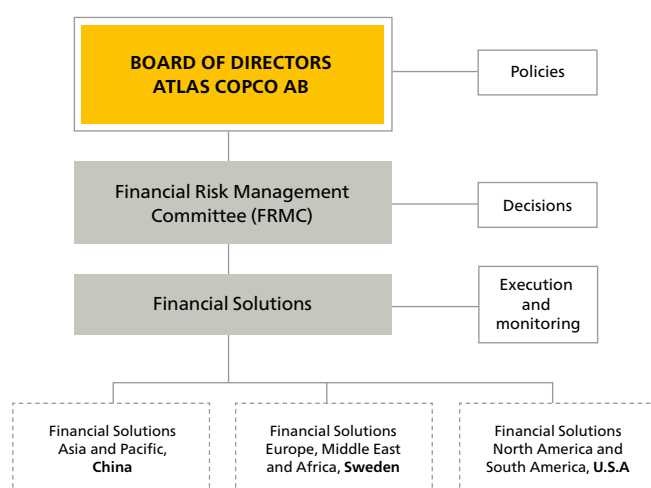
27. Financial exposure and principles for control of financial risks

FINANCIAL RISKS

The Group is exposed to various financial risks in its operations. These financial risks include: Funding and liquidity risk, Interest rate risk, Currency risk, Credit risk and Other market and price risks

The Board of Directors establishes the overall financial policies and monitors compliance with 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 and Group Treasurer. 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.

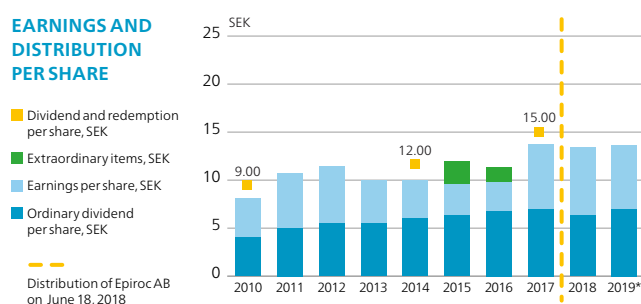


Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled MSEK 76 945 (62 853). 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 ambition 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.

EARNINGS AND DISTRIBUTION PER SHARE



* Proposed by the Board of Directors

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.

Policy

The Group's policy refers to Atlas Copco AB, Atlas Copco Airpower n.v. and Atlas Copco Finance DAC 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.
- The average tenor, time to maturity, of the Group's external debt shall be at least 3 years.
- No more than MSEK 8 000 of the Group's external debt may mature within the next 12 months.
- 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's policy.

| Funding and liquidity risk | 2019 | 2018 |
|-----------------------------|--------|--------|
| Committed credit facilities | 15 030 | 14 816 |
| Cash and cash equivalents | 15 005 | 16 414 |
| Average tenor, years | 5.6 | 4.3 |
| External debt maturities | – | 5 145 |

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 the 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 with maturity 2021 and 2024 to secure liquidity.

| Financial instruments | Up to 1 year | 1–3 years | 4–5 years | Over 5 years |
|---|---------------|--------------|--------------|--------------|
| Liabilities | | | | |
| Bonds and loans | 192 | 2 453 | 7 528 | 8 398 |
| Lease liabilities | – | 1 454 | 743 | 640 |
| Other financial liabilities | – | 16 | 6 | 5 |
| Other liabilities | – | 72 | 33 | 48 |
| Non-current financial liabilities | 192 | 3 995 | 8 310 | 9 091 |
| Bonds and loans | 2 275 | – | – | – |
| Lease liabilities | 1 034 | – | – | – |
| Current portion of interest-bearing liabilities | 11 | – | – | – |
| Derivatives | 19 | – | – | – |
| Other accrued expenses | 6 865 | – | – | – |
| Trade payables | 11 898 | – | – | – |
| Other liabilities | 1 976 | – | – | – |
| Current financial liabilities | 24 078 | – | – | – |
| Financial liabilities | 24 270 | 3 995 | 8 310 | 9 091 |

27. Financial exposure and principles for control of financial risks, continued

Interest rate risk

Interest rate risk is the risk that the Group is negatively affected by changes in the interest rate levels.

Policy

The Group's 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. In January 2020, the Board decided to update the Group's policy to state that the average duration should be a minimum of 6 months and without limit.

Status at year end

The Group's borrowings have a mix of fixed and floating rates. No interest rate swaps are used to convert interest. For more information about the Group's borrowings, see note 21.

| Interest risk | 2019 | 2018 |
|--|------|------|
| Effective interest rate on bonds and loans | 1.0% | 1.6% |
| Effective interest rate on lease liabilities | 2.1% | – |
| Duration (months) | 56 | 38 |

24% (24) of the Group's bonds and loans have floating interest rates. A shift of one percentage point upward of all floating rates would impact the Group's interest net with MSEK –42 (–41). Same shift downwards would impact the Group's interest net with MSEK 0 (10), based on the assumption that the interest rate on the Group's bonds and loans cannot be negative.

The book value of the Group's bonds and loans are not exposed to market interest rate risk at year end as all bonds and loans are reported at amortized cost, compared to if borrowings were reported at fair value where cash flows are discounted using market interest rate.

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. The exposure occurs in relation to payments in foreign currency (transaction exposure) and when translating foreign subsidiaries' balance sheets and income statements into SEK (translation exposure).

– Transaction exposure

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 global presence, there are inflows and outflows in different currencies. As a normal part of business, net surpluses or deficits in specific currencies emerge. The values of these net positions fluctuate subject to changes in currency rates and, thus, render transaction exposure for the Group.

Policy

The Group's policy states that exposure 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. The Financial Risk Management Committee can decide to hedge part of the transaction exposure. Transactions shall then qualify for hedge accounting in accordance with IFRS and hedging beyond 18 months is not allowed. Financial transaction exposure is fully hedged.

Status at year end

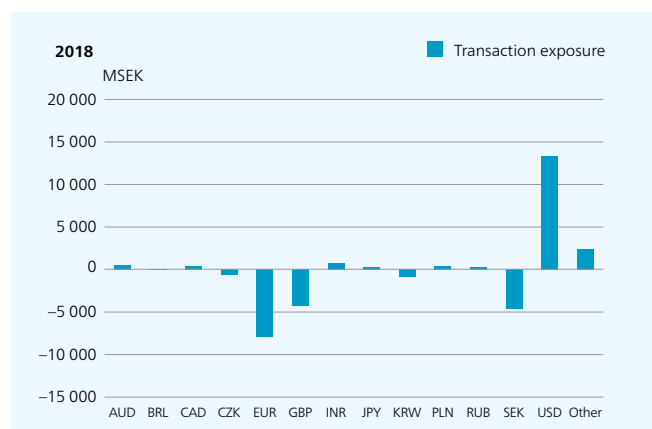
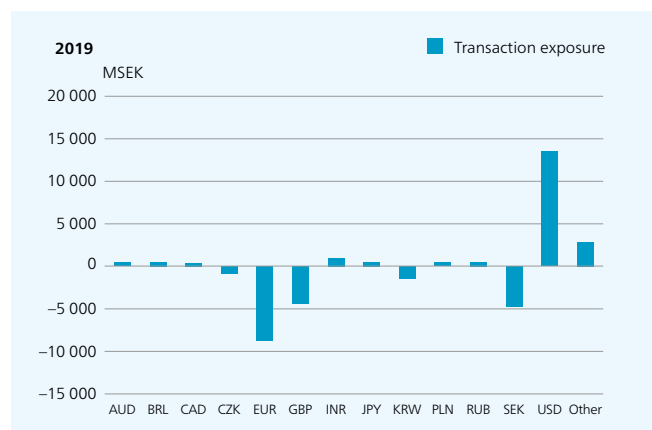
The Group has continued to manage transaction exposures primarily by matching in- and outflows in the same currencies. Graph 1 shows the net of in- and outflows per currency for currencies which have the largest surplus or deficit. The operational transaction exposure is defined as the net operational cash flow exposure and amounts to MSEK –4 711 (–4 670). The estimated amounts are based on the Group's operational external payments from customers and to suppliers.

The transaction exposure sensitivity analysis is based on the operational transaction exposure. It shows how the cash flow and profit before tax would theoretically be impacted by a five percentage point change in SEK, USD or EUR, against all other currencies. The analysis is based on the assumption that no hedging transaction has been undertaken and is done before any impact of offsetting price adjustments or similar measures.

As an example, the net transaction exposure of in- and outflow payments in EUR is a deficit as shown in graph 1. A strengthening in the EUR currency rate against all other currencies with +5% would have a negative impact on the cash flow and profit before tax of MSEK –438, and a weakening would have a positive impact of MSEK 438.

| Transaction exposure sensitivity | 2019 | 2018 |
|----------------------------------|------|------|
| SEK exchange rate + 5% | –236 | –234 |
| USD exchange rate + 5% | 675 | 670 |
| EUR exchange rate + 5% | –438 | –395 |

GRAPH 1 Estimated operational transaction exposure in the Group's most important currencies



| Outstanding derivative instruments related to transaction exposure | 2019 | | 2018 | |
|--|---|------|---|------|
| | Nominal amount, net in transaction currency | | Nominal amount, net in transaction currency | |
| Foreign exchange forwards | | | | |
| EUR | | 0 | | 2 |
| GBP | | 137 | | 88 |
| JPY | | – | | 20 |
| NOK | | – | | –18 |
| USD | | –175 | | –113 |

The Financial Risk Management Committee has decided to hedge part of the transaction exposure with foreign exchange forward contracts. All contracts mature within 12 months. The fair value of all outstanding contracts is MSEK 46 (1) for assets and MSEK 2 (8) for liabilities. Out of the net nominal amounts in the table, the largest cross is GBP/USD with nominal amounts of MGBP 137/MUSD –175 (MGBP 88/MUSD –113).

27. Financial exposure and principles for control of financial risks, continued

– Translation exposure

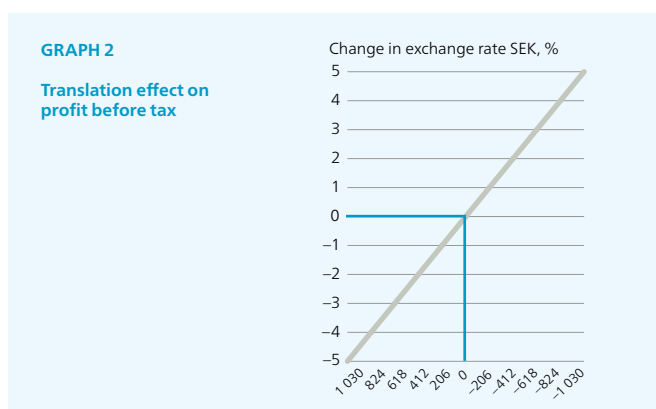
Translation exposure risk is the risk that the value of the Group's net investments in foreign currencies is negatively affected by changes in exchange rates. The Group's global presence creates currency effects when subsidiaries' financial statements with functional currencies other than SEK are translated to SEK in the Group's consolidated financial statements. Translation of subsidiaries' profit affects the Group's profit and balance sheet translation affect other comprehensive income. The translation exposure is measured as the net of assets and liabilities in a specific currency.

Policy

The Group's policy states that translation exposure should be reduced by matching assets and liabilities in the same currencies. The Financial Risk Management Committee can decide to hedge part or all remaining translation exposure. Any hedge of translation exposure shall qualify for hedge accounting in accordance with IFRS.

Status at year end

Graph 2 shows the Group's sensitivity to currency translation effects when earnings of foreign subsidiaries are translated to SEK. A five percentage points upward change in SEK would impact the Groups' profit before tax with MSEK –1 030 (–935).



The Group has hedged part of the translation exposure using loans and foreign exchange forward contracts. The hedges have reduced the exposure on net investments in EUR in the consolidated financial statements and the exchange rate risk related to net assets in subsidiaries. The hedges 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 | 2019 | | 2018 | |
|---|---------------|----------------|---------------|----------------|
| | Effect in OCI | Nominal amount | Effect in OCI | Nominal amount |
| Derivatives | MSEK 31 | MEUR 300 | – | – |
| Loans in EUR ¹⁾ | MSEK –1 682 | MEUR 1 400 | MSEK –2 488 | MEUR 1 700 |

¹⁾ In the balance sheet, loans designated as net investment hedges are reported at amortized cost and not at fair value.

Most of the Group's bonds and loans are designated as net investments hedges, and movements in currency rates are accounted for in other comprehensive income. A five percentage points upward change in EUR against SEK would affect other comprehensive income with MSEK 614 (685) (see also note 1, Significant accounting principles, Financial assets and liabilities – financial instruments).

Credit risk

Credit risk can be divided into operational and financial credit risk. These risks are described further in the following sections.

– Operational credit risk

Operational credit risk is the risk that the Group's customers do not meet their payment obligations.

Policy

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

The table below shows the total credit risk exposure related to assets classified as financial instruments as per December 31.

| Credit risk | 2019 | 2018 |
|---|---------------|---------------|
| Receivables at amortized cost | | |
| – trade receivables | 20 705 | 18 998 |
| – lease receivables | 126 | 4 |
| – other financial receivables | 57 | 130 |
| – other receivables | 2 107 | 2 233 |
| – contract assets | 2 393 | 2 024 |
| – cash and cash equivalents | 15 005 | 16 414 |
| Financial assets at fair value through OCI | 13 | 12 |
| Financial assets at fair value through profit or loss | 20 | 97 |
| Derivatives | 355 | 24 |
| Total | 40 781 | 39 936 |

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.

Provision for credit risks

The business units establish provisions for their expected credit losses in respect of trade and other receivables. The IFRS 9 expected credit loss (ECL) model is forward looking and a loss allowance is recognized when there is an exposure to credit risk. For assets such as trade receivables, lease receivables, contract assets and certain other financial receivables, the simplified model is applied. The main component of this provision are specific loss provisions corresponding to individually significant exposures as well as historical loss rates in combination with forward looking considerations. Lease receivables, certain other financial receivables and cash and cash equivalents are impaired by a rating method, where ECL is measured by the product of the probability of default, loss given default, and exposure at default. At year end 2019, the provision for bad debt amounted to 3.3% (3.6) 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.

27. Financial exposure and principles for control of financial risks, continued

| Trade receivables | 2019 | | 2018 | |
|---|---------------|------------|---------------|------------|
| | Gross | Impairment | Gross | Impairment |
| Not past due | 15 494 | 48 | 13 904 | 16 |
| Past due but not individually impaired | | | | |
| 0–30 days | 2 593 | – | 2 569 | – |
| 31–60 days | 954 | – | 961 | – |
| 61–90 days | 491 | – | 506 | – |
| More than 90 days | 1 649 | – | 1 546 | – |
| Past due and individually impaired | | | | |
| 0–30 days | 56 | 1 | 63 | 1 |
| 31–60 days | 19 | 1 | 22 | 2 |
| 61–90 days | 13 | 2 | 12 | 3 |
| More than 90 days | 147 | 126 | 131 | 118 |
| Collective impairment | – | 533 | – | 576 |
| Total | 21 416 | 711 | 19 714 | 716 |

The total estimated fair value of collateral for trade receivables amounted to 44 (59). 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 lease receivables amounted to 126 (11), of which 0 (6) have been impaired, and the gross amount of other financial receivables amounted to 65 (131), of which 8 (1) have been impaired.

There are no significant amounts past due that have not been impaired. The total estimated fair value of collateral for lease receivables and other finance receivables was 0 (0) and 0 (0) respectively.

– Financial credit risk

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

Policy

The Groups financial credit risk is measured differently depending on transaction type, investment transactions or derivative transactions.

Investment transactions

Cash and cash equivalent may only be invested with a counterparty if the counterparty rating is above a rating threshold. The threshold for cash and cash equivalent is set at A-/A3 (as rated by Standard & Poor's, Fitch Ratings and Moody's). Investments in structured financial products are not allowed, unless approved by the Financial Risk Management Committee. Furthermore, counterparty exposure, tenor and liquidity of the investment are considered before any investment is made. A list of each approved counterparty and its maximum exposure limit is maintained and monitored.

Derivative transactions

Derivative 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 subsidiary, 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

Investment transactions in form of cash and cash equivalents amounted to MSEK 15 005 at year end. These consist of cash, short term bank deposits and investments in liquidity funds. At year end, the measured credit risk on derivatives, taking into account the market value and collaterals, amounted to MSEK 42 (56).

The table below presents the reported value of the Group's derivatives.

| Outstanding derivative instruments | 2019 | 2018 |
|------------------------------------|------|------|
| Assets | 355 | 24 |
| Liabilities | 19 | 32 |

No financial assets or liabilities are offset in the balance sheet. Derivative instruments are subject to master netting agreements, 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 | 355 | – | 355 | –355 | 0 | 0 |
| Liabilities | | | | | | |
| Derivatives | 19 | – | 19 | –355 | 301 | –35 |

The negative net position in liabilities is due to the fact that the 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 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. 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 | 165 | 20 | 145 | – |
| Other receivables | 116 | – | 116 | – |
| Non-current financial assets | 281 | 20 | 261 | – |
| Trade receivables | 20 590 | – | 20 590 | – |
| Financial assets | 125 | 73 | 52 | – |
| Other receivables | 2 107 | – | 2 107 | – |
| Derivatives | 355 | – | 355 | – |
| Contract assets | 2 393 | – | 2 393 | – |
| Current financial assets | 25 570 | 73 | 25 497 | – |
| Financial assets | 25 851 | 93 | 25 758 | – |
| Bonds and loans | 18 304 | 14 057 | 4 247 | – |
| Other financial liabilities | 26 | – | 26 | – |
| Other liabilities | 153 | – | 100 | 53 |
| Non-current financial liabilities | 18 483 | 14 057 | 4 373 | 53 |
| Current portion of long-term loans | 11 | – | 11 | – |
| Short-term loans | 2 271 | – | 2 271 | – |
| Derivatives | 19 | – | 19 | – |
| Other accrued expenses | 6 865 | – | 6 865 | – |
| Trade payables | 11 898 | – | 11 898 | – |
| Other liabilities | 1 976 | – | 1 946 | 30 |
| Current financial liabilities | 23 040 | – | 23 010 | 30 |
| Financial liabilities | 41 523 | 14 057 | 27 383 | 83 |

In other liabilities, MSEK 83 (99) relate to contingent considerations for acquisitions. The fair value of these liabilities has been calculated based on the expected outcome of the targets set out in the contracts, given a discount rate of 10.5%. For information about changes due to acquisitions, see note 2.

| 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 2019 | 99 | – | –26 | 7 | – | 3 | 83 | –7 |

| Currency rates used in the financial statements | Value | Code | Year-end rate | | Average rate | |
|---|-------|------|---------------|--------|--------------|--------|
| | | | 2019 | 2018 | 2019 | 2018 |
| Australia | 1 | AUD | 6.51 | 6.33 | 6.56 | 6.49 |
| Canada | 1 | CAD | 7.13 | 6.59 | 7.10 | 6.70 |
| China | 1 | CNY | 1.33 | 1.31 | 1.37 | 1.31 |
| EU | 1 | EUR | 10.44 | 10.29 | 10.57 | 10.26 |
| Hong Kong | 100 | HKD | 119.68 | 114.61 | 120.28 | 110.95 |
| United Kingdom | 1 | GBP | 12.22 | 11.36 | 12.02 | 11.57 |
| U.S.A. | 1 | USD | 9.32 | 8.98 | 9.42 | 8.70 |

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% (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 56–59.

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.

In 2019, Atlas Copco entered into a sale and leaseback transaction with the Group's German pension trust related to buildings in the US. The buildings were sold for a consideration of 629, resulting in a gain of 20. The lease terms are for 10 years. Both the consideration and the lease terms are on market 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:

| | 2019 | 2018 |
|--------------------|------|------|
| Revenues | 34 | 42 |
| Goods purchased | 25 | 24 |
| Service purchased | 48 | 39 |
| At Dec. 31: | | |
| Trade receivables | 7 | 6 |
| Trade payables | 8 | 10 |

Compensation to key management personnel

Compensation to the Board and to Group Management is disclosed in note 5.

29. Subsequent events

The acquisition of Scheugenpflug AG that was announced on October 25, 2019, was completed on January 3, 2020. The Company offers dispensing solutions including adhesive bonding and potting solutions, used in various industries and is specialized in highly automated system solutions such as dispensing cells and vacuum potting chambers.

Scheugenpflug AG has more than 600 employees and is based in Neustadt an der Donau near Munich, Germany. In 2018, the company had revenues of approximately MEUR 80 (MSEK 850).

The acquired business is part of the Industrial Technique business area.

On February 10, 2020, Atlas Copco and German-listed Isra Vision AG signed a Business Combination Agreement (BCA) to create a new division for Isra Vision within the Business Area Industrial Technique. As part of the agreement, Atlas Copco will launch a voluntary public takeover offer at EUR 50 (approximately SEK 532.50) per share in cash for all outstanding shares of Isra Vision.

Isra Vision specializes in machine vision solutions with leading technologies for surface inspection and 3D vision for robot guidance, quality inspection and metrology, operating through two business lines, Industrial Automation and Surface Vision. The company has a global presence with operations in 25 locations and more than 800 employees and is headquartered in Darmstadt, Germany. In the fiscal year 2018/2019 the company had revenues of approximately MEUR 154 (MSEK 1 619) and an EBIT of approximately MEUR 34 (MSEK 357) corresponding to an EBIT margin of 22%.

The offer price corresponds to an enterprise value of MEUR 1 094 (MSEK 11 651), net of treasury shares, including net debt of MEUR 0.7. The offer has the full support from both the Management Board and the Supervisory Board of Isra Vision. Atlas Copco had at announcement already secured 34.9 percent of the shares via irrevocable undertakings and a share purchase agreement. The tender offer was launched on February 28, 2020, after approval by the German Financial Supervisory Authority (BaFin), and is subject to the approval by anti-trust authorities and the Committee on Foreign Investment in the United States (CFIUS).

On February 28, 2020 Atlas Copco acquired Dekker Vacuum Technologies, Inc. The company is a supplier of vacuum equipment and service solutions for industrial applications. Dekker Vacuum Technologies, Inc., is based in Michigan City, Indiana and has approximately 70 employees. In 2019, Dekker Vacuum Technologies had revenues of approximately MUSD 23 (MSEK 217).

The acquired business is part of the Vacuum Technique business area.

Financial statements, Parent Company

Income statement

| For the year ended December 31, Amounts in MSEK | Note | 2019 | 2018 |
|--|------|---------------|----------------|
| Administrative expenses | A2 | -746 | -499 |
| Other operating income | A3 | 109 | 110 |
| Other operating expenses | A3 | -5 | -22 |
| Operating loss | | -642 | -411 |
| Financial income | A4 | 62 528 | 156 133 |
| Financial expenses | A4 | -52 442 | -26 343 |
| Profit after financial items | | 9 444 | 129 379 |
| Appropriations | A5 | 1 930 | 3 490 |
| Profit before tax | | 11 374 | 132 869 |
| Income tax | A6 | -33 | -22 |
| Profit for the year | | 11 341 | 132 847 |

Statement of comprehensive income

| For the year ended December 31, Amounts in MSEK | Note | 2019 | 2018 |
|--|------|---------------|----------------|
| Profit for the year | | 11 341 | 132 847 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Translation of net investment | | - | -1 922 |
| Cash flow hedges | | - | 75 |
| Income tax relating to items that may be reclassified | | - | -17 |
| Other comprehensive income for the year, net of tax | | - | -1 864 |
| Total comprehensive income for the year | | 11 341 | 130 983 |

Balance sheet

| As at December 31, Amounts in MSEK | Note | 2019 | 2018 |
|---------------------------------------|----------|----------------|----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | A7 | 16 | 21 |
| Tangible assets | A8 | 37 | 43 |
| Financial assets | | | |
| Deferred tax assets | A9 | 68 | 53 |
| Shares in Group companies | A10, A21 | 158 255 | 208 602 |
| Other financial assets | A11 | 208 | 201 |
| Total non-current assets | | 158 584 | 208 920 |
| Current assets | | | |
| Income tax receivables | | 730 | - |
| Other receivables | A12 | 15 573 | 13 682 |
| Cash and cash equivalents | A13 | 36 | 5 906 |
| Total current assets | | 16 339 | 19 588 |
| TOTAL ASSETS | | 174 923 | 228 508 |
| 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 | | -1 180 | -1 180 |
| Retained earnings | | 134 054 | 7 854 |
| Profit for the year | | 11 341 | 132 847 |
| Total non-restricted equity | | 144 215 | 139 521 |
| TOTAL EQUITY | | 150 000 | 145 306 |
| PROVISIONS | | | |
| Post-employment benefits | A15 | 195 | 171 |
| Other provisions | A16 | 429 | 183 |
| Total provisions | | 624 | 354 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Borrowings | A17 | 18 888 | 17 025 |
| Total non-current liabilities | | 18 888 | 17 025 |
| Current liabilities | | | |
| Borrowings | A17 | 5 061 | 65 360 |
| Tax liabilities | | - | 25 |
| Other liabilities | A18 | 350 | 438 |
| Total current liabilities | | 5 411 | 65 823 |
| TOTAL EQUITY AND LIABILITIES | | 174 923 | 228 508 |

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, 2019 | 1 212 714 042 | 786 | 4 999 | -1 180 | 140 701 | 145 306 |
| Total comprehensive income for the year | | | | | 11 341 | 11 341 |
| Ordinary dividend | | | | | -7 653 | -7 653 |
| Acquisition series A shares | -3 000 000 | | | | -897 | -897 |
| Divestment series A shares | 7 221 962 | | | | 2 149 | 2 149 |
| Divestment series B shares | 110 260 | | | | 35 | 35 |
| Share-based payment, equity settled | | | | | | |
| – expense during the year | | | | | 135 | 135 |
| – exercise of options | | | | | -416 | -416 |
| Closing balance, Dec. 31, 2019 | 1 217 046 264 | 786 | 4 999 | -1 180 | 145 395 | 150 000 |
| Opening balance, Jan. 1, 2018 | 1 213 725 349 | 786 | 4 999 | 684 | 74 493 | 80 962 |
| Total comprehensive income for the year | | | | -1 864 | 132 847 | 130 983 |
| Ordinary dividend | | | | | -8 487 | -8 487 |
| Distribution of Epiroc AB | | | | | -48 237 | -48 237 |
| Redemption of shares | | -393 | | | -9 311 | -9 704 |
| Increase of share capital through bonus issue | | 393 | | | -393 | - |
| Acquisition series A shares | -3 000 000 | | | | -843 | -843 |
| Divestment series A shares | 1 861 693 | | | | 620 | 620 |
| Divestment series B shares | 127 000 | | | | 25 | 25 |
| Share-based payment, equity settled | | | | | | |
| – expense during the year | | | | | 101 | 101 |
| – exercise of options | | | | | -114 | -114 |
| Closing balance, Dec. 31, 2018 | 1 212 714 042 | 786 | 4 999 | -1 180 | 140 701 | 145 306 |

See note A14 for additional information.

Statement of cash flows

| For the year ended December 31, Amounts in MSEK | 2019 | 2018 |
|---|---------------|---------------|
| Cash flows from operating activities | | |
| Operating loss | -642 | -411 |
| Adjustments for: | | |
| Depreciation | 12 | 13 |
| Capital gain/loss and other non-cash items | -1 679 | -4 353 |
| Operating cash deficit | -2 309 | -4 751 |
| Net financial items received | 62 237 | 64 127 |
| Group contributions received | 3 490 | 6 603 |
| Taxes paid | -803 | 32 |
| Cash flow before change in working capital | 62 615 | 66 011 |
| Change in | | |
| Operating receivables | -3 424 | -7 656 |
| Operating liabilities | -115 | 62 |
| Change in working capital | -3 539 | -7 594 |
| Net cash from operating activities | 59 076 | 58 417 |

| For the year ended December 31, Amounts in MSEK | 2019 | 2018 |
|---|----------------|----------------|
| Cash flow from investing activities | | |
| Investments in tangible assets | -2 | -3 |
| Investments in intangible assets | - | 0 |
| Investments in subsidiaries | -162 | -1 048 |
| Repayments/investments in financial assets | 19 | -5 |
| Net cash from investing activities | -145 | -1 056 |
| Cash flow from financing activities | | |
| Dividends paid | -7 653 | -18 191 |
| Repurchase and divestment of own shares | 1 287 | -198 |
| Change in interest-bearing liabilities | -58 435 | -50 614 |
| Net cash from financing activities | -64 801 | -69 003 |
| Net cash flow for the year | -5 870 | -11 642 |
| Cash and cash equivalents, Jan. 1 | 5 906 | 17 548 |
| Net cash flow for the year | -5 870 | -11 642 |
| Cash and cash equivalents, Dec. 31 | 36 | 5 906 |

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 74.

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 expensed continuously on a straight-line basis over the lease term. Leases are not carried as assets, since the risk and rewards associated with ownership of the assets have not been transferred to the Parent Company.

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 according to IFRS 9. 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 reporting 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, as fair value hedge accounting is applied.

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 | 2019 | | | 2018 | | |
|-----------------------------|--------|-----|-------|-------|-----|-------|
| | Women | Men | Total | Women | Men | Total |
| | Sweden | 61 | 41 | 102 | 62 | 37 |

| Women in Atlas Copco Board and Management, % | Dec. 31, 2019 | Dec. 31, 2018 |
|--|---------------|---------------|
| Board of Directors excl. union representatives | 33 | 33 |
| Group Management | 22 | 22 |

| Salaries and other remuneration | 2019 | | 2018 | |
|---------------------------------|--|-----------------|--|-----------------|
| | Board members and Group Management ¹⁾ | Other employees | Board members and Group Management ¹⁾ | Other employees |
| Sweden | 107 | 159 | 33 | 96 |
| of which variable compensation | 18 | | 16 | |

¹⁾ Includes 8 (8) Board members who receive fees from Atlas Copco AB as well as the President and CEO and 6 (6) 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 | 2019 | 2018 |
|---|------------|-----------|
| Contractual pension benefits for Board members and Group Management | 10 | 10 |
| Contractual pension benefits for other employees | 21 | 20 |
| Other social costs | 104 | 47 |
| Total | 135 | 77 |
| Pension obligations to former members of Group Management | 4 | 5 |

Remunerations to auditors

Audit fees and consultancy fees for advice or assistance other than audit, were as follows:

| | 2019 | 2018 |
|--|-----------|-----------|
| Deloitte | | |
| – audit fee | 6 | 5 |
| – audit activities other than audit assignment | 1 | 2 |
| – other services | 4 | 10 |
| Total | 11 | 17 |

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 tax compliance services.

Other services essentially comprise consultancy services, such as consultancy services related to the preparation of the split of the Group.

At the Annual General Meeting 2019, Deloitte was elected as auditor for the Group up and including the Annual General Meeting 2020.

A3. Other operating income and expense

| Pension benefits and other social costs | 2019 | 2018 |
|---|------------|------------|
| Commissions received | 109 | 110 |
| Other operating income | 0 | 0 |
| Total other operating income | 109 | 110 |
| Exchange-rate differences, net | 1 | -1 |
| Other operating expense | -6 | -21 |
| Total other operating expense | -5 | -22 |

Other operating expense, 6 (21) MSEK, essentially comprise costs associated with the split of the Group.

A4. Financial income and expenses

| Financial income and expenses | 2019 | 2018 |
|--|----------------|----------------|
| Interest income | | |
| – cash and cash equivalents | 0 | 11 |
| – receivables from Group companies | 38 | 244 |
| – derivatives | 8 | – |
| Dividend income from Group companies | 62 478 | 144 929 |
| Capital gain | – | 8 999 |
| Foreign exchange gain, net | 4 | 1 950 |
| Financial income | 62 528 | 156 133 |
| Interest expense | | |
| – borrowings | -238 | -460 |
| – derivatives | – | -109 |
| – liabilities to Group companies | -54 | -195 |
| Change in fair value | | |
| – other liabilities | 0 | -160 |
| Impairment loss | | |
| – writedown of shares in Group Companies | -52 150 | -25 419 |
| Financial expenses | -52 442 | -26 343 |
| Financial income, net | 10 086 | 129 790 |

Writedown of shares in Group Companies due to the internal restructuring 2018.

The following table presents the net gain or loss by category of financial instruments.

| | 2019 | 2018 |
|--|---------------|----------------|
| Net gain/loss on | | |
| – loans and receivables, incl. bank deposits | 42 | 2 045 |
| – other liabilities | -292 | -655 |
| – derivatives | 8 | -109 |
| Profit from shares in Group companies | 10 328 | 128 509 |
| Total | 10 086 | 129 790 |

Profit from shares in Group companies mainly refers to dividend income from subsidiaries and capital gains from transfer of shares in subsidiaries. These transactions are eliminated in the Group accounts since they are internal. For further information about the hedges, see note 27 of the consolidated financial statements.

A5. Appropriations

| | 2019 | 2018 |
|------------------------------|--------------|--------------|
| Group contributions paid | 0 | 0 |
| Group contributions received | 1 930 | 3 490 |
| Total | 1 930 | 3 490 |

A6. Income tax

| | 2019 | 2018 |
|---|------------|-------------|
| Current tax | -48 | -12 |
| Deferred tax | 15 | -10 |
| Total | -33 | -22 |
| Profit before taxes | 11 374 | 132 869 |
| The Swedish corporate tax rate, % | 21.4 | 22.0 |
| National tax based on profit before taxes | -2 434 | -29 231 |
| Tax effects of: | | |
| Non-deductible expenses | -11 167 | -3 197 |
| Tax exempt income | 13 370 | 31 884 |
| Deductible expenses, not recognized in Income statement | 286 | 462 |
| Tax financial net | -30 | - |
| Change in tax rate, deferred tax | - | -2 |
| Controlled foreign company taxation | -39 | -31 |
| Adjustments from prior years | -19 | 93 |
| Total | -33 | -22 |
| Effective tax in % | 0.3 | 0.02 |

The Parent Company's effective tax rate of 0.3% (0.02) is primarily affected by non-taxable income such as dividends from Group companies.

A7. Intangible assets

| | Capitalized expenditures for computer programs | |
|---------------------------------|--|-----------|
| | 2019 | 2018 |
| Accumulated cost | | |
| Opening balance, Jan. 1 | 67 | 67 |
| Investments | - | 0 |
| Closing balance, Dec. 31 | 67 | 67 |
| Accumulated depreciation | | |
| Opening balance, Jan. 1 | 46 | 41 |
| Depreciation for the year | 5 | 5 |
| Closing balance, Dec. 31 | 51 | 46 |
| Carrying amount | | |
| Opening balance, Jan. 1 | 21 | 26 |
| Closing balance, Dec. 31 | 16 | 21 |

A8. Property, plant and equipment

| | 2019 | | | 2018 | | |
|---------------------------------|--------------------|-------------------------|------------|--------------------|-------------------------|------------|
| | Buildings and land | Machinery and equipment | Total | Buildings and land | Machinery and equipment | Total |
| Accumulated cost | | | | | | |
| Opening balance, Jan. 1 | 46 | 59 | 105 | 45 | 57 | 102 |
| Investments | - | 2 | 2 | 1 | 2 | 3 |
| Disposals | - | -1 | -1 | - | - | - |
| Closing balance, Dec. 31 | 46 | 60 | 106 | 46 | 59 | 105 |
| Accumulated depreciation | | | | | | |
| Opening balance, Jan. 1 | 11 | 51 | 62 | 9 | 45 | 54 |
| Depreciation for the year | 3 | 4 | 7 | 2 | 6 | 8 |
| Disposals | - | 0 | 0 | - | - | - |
| Closing balance, Dec. 31 | 14 | 55 | 69 | 11 | 51 | 62 |
| Carrying amount | | | | | | |
| Opening balance, Jan. 1 | 35 | 8 | 43 | 36 | 12 | 48 |
| Closing balance, Dec. 31 | 32 | 5 | 37 | 35 | 8 | 43 |

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, such as rented premises, cars and office equipment are reported among administrative expenses and amounted to 57 (60). Future payments for non-cancelable leasing contracts amounted to 337 (301) and fall due as follows:

| | 2019 | 2018 |
|----------------------------|------------|------------|
| Less than one year | 58 | 61 |
| Between one and five years | 226 | 237 |
| More than five years | 53 | 3 |
| Total | 337 | 301 |

A9. Deferred tax assets and liabilities

| | 2019 | | | 2018 | | |
|--------------------------|-----------|-------------|-------------|-----------|-------------|-------------|
| | Assets | Liabilities | Net balance | Assets | Liabilities | Net balance |
| Fixed assets | 0 | – | 0 | 0 | – | 0 |
| Post-employment benefits | 41 | – | 41 | 41 | – | 41 |
| Other provisions | 27 | – | 27 | 12 | – | 12 |
| Total | 68 | – | 68 | 53 | – | 53 |

The following reconciles the net balance of deferred taxes at the beginning of the year to that at the end of the year:

| | 2019 | 2018 |
|---------------------------------------|-----------|-----------|
| Net balance, Jan. 1 | 53 | 80 |
| Charges to other comprehensive income | – | –17 |
| Charges to profit for the year | 15 | –10 |
| Net balance, Dec. 31 | 68 | 53 |

A10. Shares in Group companies

| | 2019 | 2018 |
|---------------------------------|----------------|----------------|
| Accumulated cost | | |
| Opening balance, Jan. 1 | 235 611 | 152 080 |
| Investments | 0 | 183 790 |
| Net investment hedge | 1 192 | 2 008 |
| Shareholders' contribution | 611 | 114 702 |
| Divestments | – | –216 969 |
| Closing balance, Dec. 31 | 237 414 | 235 611 |
| Accumulated write-up | | |
| Opening balance, Jan. 1 | 600 | 600 |
| Closing balance, Dec. 31 | 600 | 600 |
| Accumulated write-down | | |
| Opening balance, Jan. 1 | –27 609 | –2 190 |
| Write-down | –52 150 | –25 419 |
| Closing balance, Dec. 31 | –79 759 | –27 609 |
| Total | 158 255 | 208 602 |

For further information about Group companies, see note A21.

A11. Other financial assets

| | 2019 | 2018 |
|---|------------|------------|
| Endowment insurances | 190 | 164 |
| Financial assets measured at amortized cost | | |
| – other financial receivables | 18 | 37 |
| Closing balance, Dec. 31 | 208 | 201 |

Endowment insurances relate to defined contribution pension plans and are pledged to the pension beneficiary (see note A15 and A20).

A12. Other receivables

| | 2019 | 2018 |
|---|---------------|---------------|
| Receivables from Group companies | 15 484 | 13 556 |
| Derivatives | | |
| – at fair value through profit or loss | 0 | 5 |
| – at fair value through OCI | 32 | – |
| Financial assets measured at amortized cost | | |
| – other receivables | 18 | 82 |
| Prepaid expenses and accrued income | 39 | 39 |
| Closing balance, Dec. 31 | 15 573 | 13 682 |

A13. Cash and cash equivalents

| | 2019 | 2018 |
|--|-----------|--------------|
| Cash and cash equivalents measured at amortized cost | | |
| – cash | 36 | 271 |
| – cash equivalents | – | 5 635 |
| Closing balance, Dec. 31 | 36 | 5 906 |

The Parent Company's guaranteed, but unutilized, credit lines equaled to 6 680 (6 585). The reduction of Parent Company's cash and cash equivalents is due to that the Group has centralized its cash management to another subsidiary.

A14. Equity

For information on share transactions and mandates approved by the Annual General Meeting and proposed dividend for 2019, 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

| | 2019 | | | 2018 | | |
|---------------------------------|-----------------------------------|------------------------------|------------|-----------------------------------|------------------------------|------------|
| | Defined contribution pension plan | Defined benefit pension plan | Total | Defined contribution pension plan | Defined benefit pension plan | Total |
| Opening balance, Jan. 1 | 164 | 7 | 171 | 146 | 8 | 154 |
| Provision made | 29 | -1 | 28 | 20 | - | 20 |
| Provision used | -3 | -1 | -4 | -2 | -1 | -3 |
| Closing balance, Dec. 31 | 190 | 5 | 195 | 164 | 7 | 171 |

The Parent Company has endowment insurances of 190 (164) 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 two 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 retired former senior employees. These pension arrangements are provided for.

| | 2019 | | | 2018 | | |
|---|----------------|------------------|----------|----------------|------------------|----------|
| | Funded pension | Unfunded pension | Total | Funded pension | Unfunded pension | Total |
| Defined benefit obligations | 148 | 5 | 153 | 141 | 7 | 148 |
| Fair value of plan assets | -391 | - | -391 | -369 | - | -369 |
| Present value of net obligations | -243 | 5 | -238 | -228 | 7 | -221 |
| Not recognized surplus | 243 | - | 243 | 228 | - | 228 |
| Net amount recognized in balance sheet | 0 | 5 | 5 | 0 | 7 | 7 |

| | 2019 | | | 2018 | | |
|--|----------------|------------------|------------|----------------|------------------|------------|
| | Funded pension | Unfunded pension | Total | Funded pension | Unfunded pension | Total |
| Reconciliation of defined benefit obligations | | | | | | |
| Defined benefit obligations at Jan. 1 | 141 | 7 | 148 | 138 | 8 | 146 |
| Service cost | 5 | -1 | 4 | 5 | - | 5 |
| Interest expense | 5 | - | 5 | 5 | - | 5 |
| Benefits paid from plan | -8 | - | -8 | -7 | -1 | -8 |
| Other changes in obligations | 5 | -1 | 4 | - | - | - |
| Defined benefit obligations at Dec. 31 | 148 | 5 | 153 | 141 | 7 | 148 |

| | 2019 | | | 2018 | | |
|---|----------------|------------------|------------|----------------|------------------|------------|
| | Funded pension | Unfunded pension | Total | Funded pension | Unfunded pension | Total |
| Reconciliation of plan assets | | | | | | |
| Fair value of plan assets at Jan. 1 | 369 | - | 369 | 362 | - | 362 |
| Return on plan assets | 30 | - | 30 | 7 | - | 7 |
| Payments/ Renumeration of plan assets | -8 | - | -8 | - | - | - |
| Fair value of plan assets at Dec. 31 | 391 | - | 391 | 369 | - | 369 |

A15. Post-employment benefits, continued

| | 2019 | 2018 |
|---|-----------|-----------|
| Pension commitments provided for in the balance sheet | | |
| Costs excluding interest | 5 | 20 |
| Total | 5 | 20 |
| Pension commitments provided for through insurance contracts | | |
| Service cost | 20 | 21 |
| Total | 20 | 21 |
| Net cost for pensions, excluding taxes | 25 | 41 |
| Special employer's contribution | 4 | 10 |
| Total | 29 | 51 |

Pension expenses excluding taxes for the year, included within administrative expenses amounted to 25 (41) of which the Board members and Group Management 10 (10) and others 15 (39).

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amounts to 391 (369) and is allocated as follows:

| | 2019 | 2018 |
|---------------------------|------------|------------|
| Equity securities | 31 | 15 |
| Bonds | 191 | 211 |
| Real estate | 149 | 140 |
| Cash and cash equivalents | 20 | 3 |
| Total | 391 | 369 |

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 8.2% (2.9) inclusive of MSEK 8 paid remuneration.

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 3.8% (3.8). The Parent Company estimates MSEK 12 will be paid to defined benefit pension plans during 2020.

A16. Other provisions

| | 2019 | 2018 |
|---------------------------------|------------|------------|
| Opening balance, Jan. 1 | 183 | 548 |
| During the year | | |
| – provisions made | 530 | –217 |
| – provisions used | –284 | –148 |
| Closing balance, Dec. 31 | 429 | 183 |

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 | 2019 | | 2018 | |
|--|----------|----------------------------|-----------------|---------------|-----------------|---------------|
| | | | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-current | | | | | | |
| Medium Term Note Program MEUR 500 | 2019 | | – | – | 4 458 | 5 170 |
| Medium Term Note Program MEUR 500 | 2023 | | 4 545 | 5 655 | 4 541 | 5 604 |
| Medium Term Note Program MEUR 500 | 2026 | | 5 072 | 5 352 | 5 071 | 4 997 |
| Bilateral borrowings EIB MEUR 300 | 2022 | MEUR 100 | 1 851 | 2 103 | 1 852 | 2 078 |
| Bilateral borrowings NIB MEUR 200 | 2024 | | 2 100 | 2 140 | 2 058 | 2 120 |
| Non-current borrowings from Group companies | | | 5 320 | 5 387 | 3 503 | 4 075 |
| Less current portion of long-term borrowings | | | – | – | –4 458 | –5 170 |
| Total non-current borrowings | | | 18 888 | 20 637 | 17 025 | 18 874 |
| Current | | | | | | |
| Current portion of long-term borrowings | | | – | – | 4 458 | 5 170 |
| Current borrowings from Group companies | | | 5 061 | 5 061 | 60 902 | 60 902 |
| Total current borrowings | | | 5 061 | 5 061 | 65 360 | 66 072 |
| Closing balance, Dec. 31 | | | 23 949 | 25 698 | 82 385 | 84 946 |
| Whereof external borrowings | | | 13 568 | 15 250 | 17 980 | 19 969 |

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. In 2019, a MEUR 500 bond matured and was repaid. During the year, Atlas Copco AB entered into a 7-year MEUR 300 loan agreement with the European Investment Bank. The facility is undrawn.

A17. Borrowings, continued

The following table shows the maturity structure of the Parent Company's external borrowings.

| Maturity | Fixed | Floating ¹⁾ | Carrying amount | Fair value |
|--------------|--------------|------------------------|-----------------|---------------|
| 2022 | | 1 851 | 1 851 | 2 103 |
| 2023 | 4 545 | | 4 545 | 5 655 |
| 2024 | | 2 100 | 2 100 | 2 140 |
| 2026 | 5 072 | | 5 072 | 5 352 |
| Total | 9 617 | 3 951 | 13 568 | 15 250 |

¹⁾ Floating interest in the table is borrowings with fixings shorter or equal to six months.

A18. Other liabilities

| | 2019 | 2018 |
|--|------------|------------|
| Accounts payable | 36 | 17 |
| Liabilities to Group companies | 52 | 58 |
| Derivatives | | |
| – at fair value through profit or loss | – | 18 |
| – at fair value through OCI | – | 8 |
| Other financial liabilities | | |
| – other liabilities | 57 | 4 |
| Accrued expenses and prepaid income | 205 | 333 |
| Closing balance, Dec. 31 | 350 | 438 |

Other liabilities of MSEK 57 (4) mainly refers to CSA (Credit Support Annex) agreements used to limit the credit risk on derivative transactions. Accrued expenses include items such as social costs, vacation pay liability, and accrued interest.

Financial exposure and principles for control

A19. of financial risks

Parent Company borrowings

Atlas Copco AB had MSEK 13 568 (17 980) of external borrowings and MSEK 10 381 (64 405) of internal borrowings at December 31, 2019. 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 2 091 (2 391) and derivatives of MEUR 300 (0). The deferral hedge accounting of the loans is based on a RFR 2 exemption.

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 | 2019 | 2018 |
|----------------------------------|---------------|---------------|
| Cash and cash equivalents | 36 | 5 906 |
| Receivables from Group companies | 15 484 | 13 557 |
| Derivatives | 32 | 5 |
| Other | 75 | 159 |
| Total | 15 627 | 19 627 |

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

| | 2019 | 2018 |
|--|---------------|--------------|
| Assets pledged for derivative contracts | | |
| Other receivables | 0 | 62 |
| Assets pledged for pension commitments | | |
| Endowment insurances | 190 | 164 |
| Total | 190 | 226 |
| Contingent liabilities | | |
| Sureties and other contingent liabilities | | |
| – for external parties | 3 | – |
| – for Group companies | 11 718 | 8 517 |
| Total | 11 721 | 8 517 |

Sureties and other contingent liabilities include bank and commercial guarantees, CSA-agreements, and performance bonds. Sureties and other contingent liabilities for Group companies have increased during the year as a 10-year MEUR 300 bond issued during 2019 is guaranteed by the Parent Company.

A21. Directly owned subsidiaries

| | 2019 | | | 2018 | | |
|--|------------------|----------------------|----------------|------------------|----------------------|----------------|
| | 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 | 46 390 | 76 415 | 100 | 46 162 |
| Gazcon A/S, Lyngø | – | – | – | 500 | 100 | 23 |
| Directly owned customer centers | | | | | | |
| AGRE Kompressoren GmbH, Steyr | 200 000 | 100 | 7 | 200 000 | 100 | 7 |
| Atlas Copco (Cyprus) Ltd., Nicosia | 99 998 | 100 | 0 | 99 998 | 100 | 0 |
| Atlas Copco (India) Ltd., Pune | 21 731 912 | 96 | 817 | 21 731 912 | 96 | 793 |
| Atlas Copco (Ireland) Ltd., Dublin | 250 000 | 100 | 28 | 250 000 | 100 | 28 |
| Atlas Copco (Malaysia), Sdn. Bhd., Shah Alam | 1 000 000 | 100 | 10 | 1 000 000 | 100 | 16 |
| Atlas Copco (Philippines) Inc., Binan | 121 995 | 100 | 6 | 121 995 | 100 | 6 |
| Atlas Copco (Schweiz) AG., Studen | 8 000 | 100 | 62 | 8 000 | 100 | 61 |
| Atlas Copco (South East Asia) Pte.Ltd., Singapore | 4 500 000 | 100 | 33 | 1 500 000 | 100 | 10 |
| Atlas Copco Argentina S.A.C.I., Buenos Aires | 5 120 025 | 93/100 ¹⁾ | 84 | 5 120 025 | 93/100 ¹⁾ | 84 |
| Atlas Copco Brasil Ltda., Barueri | 70 358 841 | 100 | 248 | 70 358 841 | 100 | 246 |
| Atlas Copco Canada Inc., Toronto | 9 496 | 100 | 665 | 9 496 | 100 | 526 |
| Atlas Copco Chile SpA, Santiago | 24 998 | 100 | 6 | 24 998 | 100 | 4 |
| Atlas Copco Compressor AB, 556155-2794, Nacka | 60 000 | 100 | 32 | 60 000 | 100 | 25 |
| Atlas Copco Eastern Africa Limited., Nairobi | 482 999 | 100 | 40 | 482 999 | 100 | 40 |
| Atlas Copco Equipment Egypt S.A.E., Cairo | 5 | 0/100 ¹⁾ | 4 | 5 | 0/100 ¹⁾ | 3 |
| Atlas Copco GmbH, Vienna | 1 | 100 | 43 | 1 | 100 | 43 |
| Atlas Copco Indoeuropeiska AB, 556155-2760, Nacka | 3 500 | 100 | 20 | 3 500 | 100 | 25 |
| Atlas Copco KK, Tokyo | 100 000 | 100 | 38 | 100 000 | 100 | 36 |
| Atlas Copco Kompressortechnik A/S, Albertslund | 4 000 | 100 | 5 | 4 000 | 100 | 4 |
| Atlas Copco Maroc SA., Casablanca | 3 960 | 99 | 6 | 3 960 | 99 | 6 |
| Atlas Copco Services Middle East OMC, Manama | 500 | 100 | 16 | 500 | 100 | 12 |
| Atlas Copco Venezuela SA, Valencia | 25 812 000 | 100 | 0 | 25 812 000 | 100 | 0 |
| Servatechnik AG, Oftringen | 3 500 | 100 | 28 | 3 500 | 100 | 28 |
| Soc. Atlas Copco de Portugal Lda., Porto Salvo | 1 | 100 | 14 | 1 | 100 | 13 |
| Directly owned holding companies and others | | | | | | |
| AB Atlas Diesel | 1 000 | 100 | 0 | 1 000 | 100 | 51 474 |
| Atlas Copco A/S, Langhus | 2 500 | 100 | 44 | 2 500 | 100 | 43 |
| Atlas Copco Beheer B.V., Zwijndrecht | 15 712 | 100 | 247 | 15 712 | 100 | 288 |
| Atlas Copco Deutschland GmbH, Essen | 1 | 100 | 32 | 1 | 100 | 24 |
| Atlas Copco Finance Belgium BVBA, Wilrijk | 1 | 0/100 ¹⁾ | 0 | 1 | 0/100 ¹⁾ | 0 |
| Atlas Copco Finance DAC, Dublin | 5 162 000 001 | 100 | 54 228 | 5 162 000 001 | 100 | 53 037 |
| Atlas Copco Finance S.á.r.l., Luxembourg | 50 004 | 100 | 0 | 50 004 | 100 | 0 |
| Atlas Copco France Holding S.A., Cergy Pontoise | 278 225 | 100 | 305 | 278 255 | 100 | 282 |
| Atlas Copco Germany Holding AG, Frankfurt | 50 000 | 100 | 1 | – | – | – |
| Atlas Copco Holding GmbH, Essen | 2 | 100 | 1 220 | 2 | 100 | 1 213 |
| Atlas Copco Internationaal B.V., Zwijndrecht | 10 002 | 100 | 27 338 | 10 002 | 100 | 27 280 |
| Atlas Copco Järla Holding AB, 556062-0212, Nacka | 95 000 | 100 | 1 165 | 95 000 | 100 | 1 764 |
| Atlas Copco Nacka Holding AB, 556397-7452, Nacka | 100 000 | 100 | 12 | 100 000 | 100 | 12 |
| Atlas Copco Sickla Holding AB, 556309-5255, Nacka | 1 000 | 100 | 24 971 | 1 000 | 100 | 24 894 |
| Atlas Copco USA Holdings Inc., Parsippany | – | – | – | 100 | 100 | 0 |
| Capanyd AB i likvidation, 556655-0421, Nacka | 75 000 | 100 | 0 | 75 000 | 100 | 0 |
| 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 | 33 |
| Power Tools Distribution n.v., Hoeselt | 1 | 0/100 ¹⁾ | 1 | 1 | 0/100 ¹⁾ | 1 |
| Saltus Industrial Technique AB, 559053-5455, Nacka | 500 | 100 | 9 | 500 | 100 | 9 |
| Carrying amount, Dec. 31 | | | 158 255 | | | 208 602 |

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 56–59.

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:

| | 2019 | 2018 |
|--------------------|---------------|---------------|
| Revenues | | |
| Dividends | 62 478 | 144 929 |
| Group contribution | 1 930 | 3 490 |
| Interest income | 38 | 244 |
| Expenses | | |
| Group contribution | 0 | 0 |
| Interest expenses | -54 | -195 |
| Receivables | 15 484 | 13 557 |
| Liabilities | 10 433 | 64 463 |
| Guarantees | 11 718 | 8 517 |

The following details directly and indirectly owned holding and operational subsidiaries (excluding branches), presented by country of incorporation.

| Country/Area | Company | Location (City) |
|-------------------|--|----------------------|
| Algeria | SPA Atlas Copco Algérie | Algiers |
| Angola | Atlas Copco Angola Ltd | Luanda |
| Argentina | Atlas Copco Argentina S.A.C.I | Buenos Aires |
| Australia | Atlas Copco Australia Pty Ltd | Blacktown |
| | SCS Filtration | Melbourne |
| | Walker Filtration Pty. Australia | Melbourne |
| Austria | AGRE Kompressoren GmbH | Steyr |
| | Atlas Copco GmbH | Vienna |
| 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 Finance Belgium BVBA | Wilrijk |
| | Atlas Copco Rental Europe n.v. | Boom |
| | Atlas Copco Support Services N.V. | Wilrijk |
| | EDMAC Europe N.V. | Wilrijk |
| | Edwards Vacuum NV | Estaimpuis |
| | International Compressor Distribution n.v. | Wilrijk |
| | MultiAir BELUX NV | Deinze |
| | Power Tools Distribution n.v. | Hoeselt |
| Bolivia | Atlas Copco Bolivia S.A Compresores, Maquinaria y Servicio | Santa Cruz |
| Brazil | Atlas Copco Brasil Ltda | Barueri |
| | Chicago Pneumatic Brasil Ltda | Barueri |
| | Edwards Vacuo Ltda | São Paulo |
| | Itubombas Locação, Comércio, Importação E Exportação Ltda. | Itu |
| | Leybold do Brasil Ltda. | Jundiaí |
| | Pressure Compressores Ltda. | Maringá |
| | Schucker do Brazil Ltda | São José dos Pinhais |
| Bulgaria | Atlas Copco Bulgaria EOOD | Sofia |
| Canada | Atlas Copco Canada Inc. | Toronto |
| | Chicago Pneumatic Tool Co. Canada Ltd. | Toronto |
| | Class 1 Incorporated | Cambridge |
| | Westron Rotating Solutions Canada Inc. | Calgary |
| Chile | Atlas Copco Chile SpA | Santiago |
| China | Atlas Copco (Wuxi) Compressor Co., Ltd. | Wuxi |
| | Atlas Copco (Wuxi) Energy Conservation Engineering Co., Ltd. | Wuxi |
| | Atlas Copco (Shanghai) Equipment Rental Co., Ltd. | Shanghai |
| | Atlas Copco Industrial Technique (Shanghai) Co., Ltd. | Shanghai |
| | Atlas Copco (China) Investment Co., Ltd. | Shanghai |
| | Atlas Copco (Shanghai) Process Equipment Co., Ltd. | Shanghai |
| | Atlas Copco (Shanghai) Trading Co., Ltd. | Shanghai |
| | Bolaite (Shanghai) Trading Co. Ltd | Shanghai |

| Country/Area | Company | Location (City) |
|-----------------------|---|---------------------|
| China | CSK China Co. Ltd | Wuxi |
| | CSK Xian China Co. Ltd | Xian |
| | 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 |
| | Factory for Industrial Air Compressors (Jiangmen) Co., Ltd. | Jiangmen |
| | Guangzhou Linghein Compressor Co., Ltd | Guangzhou |
| | Kunshan Q-Tech Air System Technologies Ltd. | Kunshan |
| | Leybold Equipment (Tianjin) Co., Ltd. | Tianjin |
| | Leybold (Tianjin) International Trade Co.Ltd. | Tianjin |
| | Linghein (Shanghai) Gas Technologies Co., Ltd | Shanghai |
| | Liutech Machinery Equipment Co., Ltd | Liuzhou |
| | 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 |
| | Wuxi Pneumatech Air/Gas Purity Equipment Co., Ltd. | Wuxi |
| | Wuxi Shengda Air/Gas Purity Equipment Co., Ltd | Wuxi |
| Colombia | Atlas Copco Colombia Ltda | Bogotá |
| Cyprus | Atlas Copco (Cyprus) Ltd. | Nicosia |
| Czech Republic | ALUP CZ spol. S.r.o | Breclav |
| | Atlas Copco s.r.o. | Prague |
| | Atlas Copco Services s.r.o. | Brno |
| | Edwards s.r.o. | Lutin |
| | Schneider Bohemia spol s.r.o. | Line |
| Denmark | Atlas Copco Kompressorteknik A/S | Albertslund |
| | RENO A/S | Give |
| Egypt | Atlas Copco Equipment Egypt S.A.E. | Cairo |
| | Atlas Copco Service Egypt | Cairo |
| Finland | Oy Atlas Copco Ab | Vantaa |
| | Oy Atlas Copco Kompressorit Ab | Vantaa |
| | Oy Atlas Copco Tools Ab | Vantaa |
| France | ABAC France S.A.S. | Valence |
| | Air Compresseur Service S.A.S. | Saint-Ouen-L'Aumône |
| | Atlas Copco Applications Industrielles S.A.S. | Cergy Pontoise |
| | Atlas Copco Crépelle S.A.S. | Lille |
| | Atlas Copco France Holding S.A. | Cergy Pontoise |
| | Atlas Copco France SAS | Cergy Pontoise |
| | Edwards SAS | Herblay |

A22. Related parties, continued

| Country/Area | Company | Location (City) | Country/Area | Company | Location (City) |
|---------------------------------------|--|--|---|---|-----------------|
| France | ETS Georges Renault S.A.S. | Saint-Herblain | Japan | Atlas Copco KK | Tokyo |
| | Eurochiller France S.a.r.l. | Neuve-Église (Villé) | | Edwards Japan Ltd | Chiba |
| | Exlair S.A.S. | Saint Ouen L'Aumône | | Fuji Industrial Technique Co., Ltd. | Osaka |
| | Leybold France SAS | Bourg-Les-Valence | Leybold Japan Co. Ltd. | Kohoku-Ku, Yokohama-Shi | |
| | Location Thermique Service SAS | Carvin | Shin-Yokohama AK bldg | | |
| | MultiAir France S.A.S | Chambly | Kazakhstan | Atlas Copco AirPower Central Asia LLP | Almaty |
| Seti-Tec S.A.S. | Lognes | Kenya | Atlas Copco Eastern Africa Limited | Nairobi | |
| Germany | ALUP-Kompressoren GmbH ¹⁾ | Reutlingen | Latvia | Atlas Copco Baltic SIA | Riga |
| | Atlas Copco Beteiligungs GmbH ¹⁾ | Essen | Lebanon | Atlas Copco Levant S.A.L. | Beirut |
| | Atlas Copco Deutschland GmbH ¹⁾ | Essen | Luxembourg | Atlas Copco Finance S.á.r.l. | Luxembourg |
| | Atlas Copco Energas GmbH ¹⁾ | Cologne | Malaysia | Atlas Copco (Malaysia) Sdn. Bhd. | Shah Alam |
| | Atlas Copco Germany Holding AG | Essen | Edwards Technologies Malaysia Sdn. Bhd. | Puchong | |
| | Atlas Copco Holding GmbH ¹⁾ | Essen | Mexico | Atlas Copco Mexicana S. A. de C.V. | Tlalnepantla |
| | Atlas Copco IAS GmbH ¹⁾ | Bretten | Desarrollos Tecnológicos ACMSA S.A. de C.V. | Tlalnepantla | |
| | Atlas Copco Industry GmbH ¹⁾ | Essen | Desoutter Tools Mexico SA de CV | Tlalnepantla | |
| | Atlas Copco Kompressoren und Drucklufttechnik GmbH ¹⁾ | Essen | Morocco | Atlas Copco Maroc SA | Casablanca |
| | Atlas Copco Power Technique GmbH ¹⁾ | Essen | Myanmar | Atlas Copco Services Myanmar Co., Ltd. | Yangon |
| | Atlas Copco Technology GmbH ¹⁾ | Essen | Netherlands | Alup Grassair Kompressoren BV | Oss |
| | Atlas Copco Tools Central Europe GmbH ¹⁾ | Essen | Atlas Copco Beheer B.V. | Zwijndrecht | |
| | Desoutter GmbH ¹⁾ | Maintal | Atlas Copco Internationaal B.V. | Zwijndrecht | |
| | Edwards GmbH | Kirchheim | Creemers Compressors B.V. | Oss | |
| | IPV Industrie-Pumpen Vertriebs GmbH Dresden | Dresden | Leybold Nederland B.V. | Utrecht | |
| | KDS Kompressoren- und Druckluftservice GmbH ¹⁾ | Essen | New Zealand | Atlas Copco (N.Z.) Ltd. | Auckland |
| | Leybold Dresden GmbH | Dresden | Exlair (NZ) Limited | Auckland | |
| | Leybold GmbH | Cologne | Nigeria | Atlas Copco Nigeria Ltd. | Lagos |
| | Leybold Real Estate GmbH ¹⁾ | Cologne | Norway | Atlas Copco A/S | Langhus |
| | PMH Druckluft GmbH ¹⁾ | Moers | Atlas Copco Kompressorertechnik A/S | Langhus | |
| | QUISS Qualitäts-Inspektionssysteme und Service GmbH ¹⁾ | Puchheim | Atlas Copco Tools A/S | Langhus | |
| | Schneider Druckluft GmbH ¹⁾ | Reutlingen | Berema A/S | Langhus | |
| | Synatec GmbH ¹⁾ | Leinfelden- Echterdingen | Pakistan | Atlas Copco Pakistan (Private) Limited | Lahore |
| Greece | Atlas Copco Hellas AE | Koropi | Peru | Atlas Copco Perú S.A.C. | Lima |
| Hong Kong | Atlas Copco China/Hong Kong Ltd | Hong Kong | Philippines | Atlas Copco (Philippines) Inc. | Binan |
| Hungary | Atlas Copco Hungary Kft | Szigetszentmiklós | Poland | ALUP Kompressoren Polska sp. z o.o. | Janki |
| India | Atlas Copco (India) Ltd. | Pune | Atlas Copco Polska Sp. z o.o. | Warsaw | |
| | Edwards India Private Ltd | Pune | Portugal | Sociedade Atlas Copco de Portugal Lda | Porto Salvo |
| | Leybold India Pvt Ltd. | Pune | Romania | Atlas Copco Romania S.R.L. | Bucharest |
| Indonesia | PT Atlas Copco Indonesia | Jakarta | Russia | Airgrupp LLC | Moscow |
| Iraq | Atlas Copco Iraq LLC | Erbil | JSC Atlas Copco | Moscow | |
| Ireland | Atlas Copco (Ireland) Ltd. | Dublin | Serbia | Atlas Copco Srbija doo | Belgrade |
| | Atlas Copco Finance DAC | Dublin | Singapore | Atlas Copco (South East Asia) Pte. Ltd. | Singapore |
| Edwards Vacuum Technology Ireland Ltd | Dublin | Edwards Technologies Singapore PTE Ltd | Singapore | | |
| Israel | Edwards Israel Vacuum Ltd | Kiryat Gat | Singapore | Leybold Singapore Pte Ltd | Singapore |
| Italy | ABAC Aria Compressa S.r.l | Robassomero | Slovakia | Atlas Copco s.r.o | Bratislava |
| | Atlas Copco BLM S.r.l. | Milan | Schneider – Slovensko tlaková vzduchotechnika spol. s r.o. | Nitra | |
| | Atlas Copco Italia S.r.l. | Milan | Slovenia | Atlas Copco d.o.o. | Trzin |
| | Ceccato Aria Compressa S.r.l | Vicenza | South Africa | Atlas Copco Industrial South Africa (Pty) Ltd | Boksburg |
| | Edwards S.p.A. | Milan | Rand Air South Africa (Pty) Ltd | Boksburg | |
| | Eurochiller S.r.l. | Castello d'Agogna (Pv) | South Korea | Atlas Copco Korea Co., Ltd. | Seongnam |
| | Fiac Professional Air Compressors | Bologna | CP Tools Korea Co., Ltd. | Anyang | |
| | FIAC S.r.l. | Bologna | CSK Inc. | Yongin | |
| | Leybold Italia S.r.l | Milan | Edwards Korea Ltd | Cheonan | |
| | MultiAir Italia S.r.l | Cinisello Balsamo | Leybold Korea Ltd | Bundang | |
| | Varisco S.r.l. | Padova | Spain | Aire Comprimido Industrial Iberia, S.L. | Madrid |
| | Varisco Wellpoint srl | Padova | Atlas Copco S.A.E. | Madrid | |
| | | | Grupos Electrógenos Europa, S.A | Zaragoza | |
| | | Leybold Hispanica S.A. | Cornellá de Llobregat | | |

¹⁾ For the business year ending December 31, 2019 several German subsidiaries will make use of the §§ 264, 291 Handelsgesetzbuch (German Commercial Code) exemption rules of filing their own (consolidated) financial statements

A22. Related parties, continued

| Country/Area | Company | Location (City) | Country/Area | Company | Location (City) |
|-----------------------------|---|-----------------|---------------------------|---|-----------------|
| Sweden | Atlas Copco Compressor AB | Nacka | U.S.A. | Appleton Compressor Service & Supply Inc. | Menasha |
| | Atlas Copco Industrial Technique AB | Nacka | | Atlas Copco Compressors LLC | Rock Hill |
| | Atlas Copco Järla Holding AB | Nacka | | Atlas Copco Comptec LLC | Voorheesville |
| | Atlas Copco LCC AB | Nacka | | Atlas Copco IAS LLC | Auburn Hills |
| | Atlas Copco Nacka Holding AB | Nacka | | Atlas Copco Mafi-Trench Company LLC | Santa Maria |
| | Atlas Copco Sickla Holding AB | Nacka | | Atlas Copco North America LLC | Parsippany |
| | Industria Insurance Company Ltd Industria Försäkringsaktiebolag | Nacka | | Atlas Copco Rental LLC | Laporte |
| Switzerland | Atlas Copco (Schweiz) AG | Studen | | Atlas Copco Tools & Assembly Systems LLC | Auburn Hills |
| | Leybold Schweiz AG | Steinhausen | | Atlas Copco USA Holdings Inc. | Parsippany |
| | Servatechnik AG | Oftringen | | BeaconMedaes LLC | Rock Hill |
| Taiwan | Atlas Copco Taiwan Ltd. | Taoyuan | | C H Spencer LLC | Salt Lake City |
| | CSKT Inc. | Jubei | | Chicago Pneumatic International Inc. | Rock Hill |
| | Edwards Technologies Ltd | Jhunyan | | Chicago Pneumatic Tool Company LLC | Rock Hill |
| | Leybold Taiwan Ltd | Hsin-Chu | | CSK TS Inc | Austin |
| Thailand | Atlas Copco (Thailand) Limited | Bangkok | | Edwards Vacuum, LLC | Wilmington |
| | Atlas Copco Makinalari Imalat AS | Istanbul | | Henrob Corporation | New Hudson |
| Turkey | Chicago Pneumatic Endüstriyel Ürünler Ticaret A.Ş | Istanbul | | Innovative Vacuum Solutions, Inc | Thonotosassa |
| | Dost Kompresör Endüstri Makinaları İmal Bakım ve Ticaret A.Ş | Istanbul | | Leybold USA Inc | Wilmington |
| | Ekomak Endüstriyel Kompresör Makine Sanayi ve Ticaret A.Ş | Istanbul | | Mid-South Engine & Power Systems LLC | White Oak |
| | | | | Powerhouse Equipment & Engineering Co. Inc. | Delanco |
| | | | | Power Technique North America LLC | Rock Hill |
| Ukraine | Atlas Copco Ukraine LLC | Kiev | Quincy Compressor LLC | Bay Minette | |
| | | | Vacuum Trading Inc. | Parsippany | |
| United Arab Emirates | Atlas Copco Middle East FZE | Dubai | Walker Filtration Inc. US | Erie | |
| United Kingdom | Air Compressors and Tools Limited | Hemel Hempstead | Venezuela | Atlas Copco Venezuela SA | Valencia |
| | Atlas Copco IAS UK Limited | Flintshire | Vietnam | Atlas Copco Vietnam Company Ltd. | Hanoi |
| | Atlas Copco Ltd. | Hemel Hempstead | Zambia | Atlas Copco Industrial Zambia Limited | Kitwe |
| | Atlas Copco Medical Ltd | Staveley | | | |
| | Atlas Copco UK Holdings Ltd. | Hemel Hempstead | | | |
| | Edwards High Vacuum International Ltd | Burgess Hill | | | |
| | Edwards Ltd | Burgess Hill | | | |
| | Isocool Limited | Braintree | | | |
| | Leybold UK Ltd | Chessington | | | |
| | Tentec Ltd. | Birmingham | | | |
| | Walker Filtration Ltd. UK | Washington | | | |

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, February 28, 2020
Atlas Copco AB

Hans Stråberg
Chair

Gunilla Berg
Board member

Staffan Bohman
Board member

Tina Donikowski
Board member

Johan Forssell
Board member

Sabine Neuß
Board member

Mats Rahmström
President and CEO

Anders Ullberg
Board member

Peter Wallenberg Jr
Board member

Mikael Bergstedt
Board member
Union representative

Benny Larsson
Board member
Union representative

Our audit report was submitted on February 28, 2020
Deloitte AB

Thomas Strömberg
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 6, 2020.

Audit report

To the annual general 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 January 1, 2019 – December 31, 2019 except for the corporate governance statement on pages 51–61. The annual accounts and consolidated accounts of the company are included on pages 13–39, 44–48 and 51–125 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 December 31, 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of December 31, 2019 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 51–61. 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.

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

Basis for Opinions

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

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 parts of the receivables will not 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 are 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 of 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.

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.

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, and
- assessing management's processes for monitoring compliance with income tax legislation and transfer pricing requirements in the different geographies.

Audit report, continued

Accounting for business combinations and valuation of associated goodwill and intangible assets

In 2019 the group completed 18 acquisitions for a total consideration of 7 717 MSEK. Accounting for business combinations requires significant judgments and estimates by management to identify and separately recognize acquired assets and assumed liabilities, and to determine acquisition date fair value of acquired assets and assumed liabilities. Considering that there is often no active market for these assets and liabilities, valuation models have to be applied to determine their fair values requiring the application of significant judgment and estimates by management.

In note 1 the group's policy for accounting for acquisitions is described, and note 2 provides disclosures of acquisitions made.

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.

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 2–12, 40–43, 49–50 and 129–144. 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 is 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 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.

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 potential 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.

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 January 1, 2019 – December 31, 2019 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.

Audit report, continued

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 51–61 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.

Deloitte AB was appointed auditor of Atlas Copco AB by the annual general meeting of the shareholders on April 25, 2019 and has been the company's auditors since April 28, 2010.

Nacka, February 28, 2020
Deloitte AB

Thomas Strömberg
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, changes in provision for share-related long-term incentive program and other items with the character of affecting comparability.

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 and currency hedges of loans.

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 www.atlascopcogroup.com/investor-relations/key-figures

Sustainability notes

Atlas Copco's mission is sustainable, profitable growth. The sustainability report is an integrated part of the Group's annual report. The sustainability notes on the following pages, include complementary information about the materiality analysis, stakeholder dialogue, governance, results and reporting principles.

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Materiality analysis and stakeholder engagement

Atlas Copco's sustainability report should provide stakeholders with relevant information about the Group's economic, environmental and social impact. In defining the report content, Atlas Copco applies GRI's reporting principles on stakeholder inclusiveness, sustainability context, materiality and completeness.

Atlas Copco's Business Code of Practice defines the Group's five key stakeholders, and each group are consulted for the materiality mapping process. Stakeholders are defined as those who can be significantly affected by the Group's operations. Internal stakeholders include multiple functions such as research and development, logistics, human resources and purchasing. For external stakeholders' input, Atlas Copco directly and indirectly engages 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's guidance for materiality and the materiality process is summarized online at www.atlascopcogroup.com.

During 2018, a renewed materiality analysis was undertaken involving internal and external stakeholders through surveys and interviews. A survey asking stakeholders to prioritize a set of pre-defined issues was posted on the intranet and spread externally in order to capture a broad array of stakeholder views. In-depth interviews with representative stakeholder groups such as customers, employees, investors, NGOs, peers and board members complemented the survey. The result was discussed in internal workshops with for example the specialist safety, health, environment and quality functions and reviewed by Group Management.

Atlas Copco uses the stakeholder input together with UN Global Compact's ten principles, mapping of the business' impact on the UN Sustainable Development Goals, and risk and opportunity assessments based on the business strategy to define the Group's significant environmental, economic and social impact. The result of the materiality process was used in the review of the Group's focus areas for sustainability. The analysis also served as input to the formulation of the KPIs and goals, as presented on page 11, that measures Atlas Copco's progress from 2019.

Stakeholders and their key topics and concerns

As a global Group, it is vital for Atlas Copco to ensure accountability for its actual and potential impact on stakeholders.

For external stakeholders' input, Atlas Copco engages with international NGOs, unions, key investors, civil society, customers and business partners in a number of ways, both directly and indirectly.

| Stakeholder group | Key topics and concerns | Dialogue form |
|--|--|--|
| Customers | <ul style="list-style-type: none"> – Product safety – Product innovation – Resource efficient products – Climate and environmental impact | <ul style="list-style-type: none"> – Customer visits – Customer surveys and interviews – Customer events – Website |
| Investors, analysts, shareholders | <ul style="list-style-type: none"> – Financial targets – Growth – Risk management – Business ethics | <ul style="list-style-type: none"> – Investor meetings, capital market days – Annual general meeting – Website |
| Employees | <ul style="list-style-type: none"> – Health and safety – Working conditions – Competence development – Compensation and benefits | <ul style="list-style-type: none"> – Yearly appraisal – Employee surveys – Work councils – Employee representatives on the Board |
| Society | <ul style="list-style-type: none"> – Climate and environmental impact – Social and environmental compliance – Human rights – Labor market issues | <ul style="list-style-type: none"> – Memberships in international collaborations and industry initiatives – Local engagements – Website – Surveys and interviews |
| Business partners | <ul style="list-style-type: none"> – Occupational health and safety – Labor conditions – Human rights – Business ethics | <ul style="list-style-type: none"> – Collaborations with suppliers – On-site evaluation and audits – Surveys and interviews |

Material topics and boundaries

Based on the materiality analyses in 2015 and 2018, Atlas Copco has identified material topics according to the GRI Standards framework. No significant changes to the material topics were made in 2019. Atlas Copco's work with the material topics impacts the different parts of the value chain as described in the table below.

| | Impact on suppliers | Impact on Atlas Copco | Impact on customers |
|---------------------------------|---------------------|-----------------------|---------------------|
| ECONOMIC IMPACT | | | |
| Economic performance | | ● | |
| Anti-corruption | ● | ● | ● |
| ENVIRONMENTAL IMPACT | | | |
| Energy and emissions | ● | ● | ● |
| Environmental compliance | | ● | |
| Supplier assessment | ● | ● | |
| SOCIAL IMPACT | | | |
| Employment | | ● | |
| Occupational health and safety | ● | ● | ● |
| Training and education | | ● | |
| Diversity and equal opportunity | | ● | |
| Non-discrimination | | ● | |
| Human rights assessment | ● | ● | ● |
| Supplier assessment | ● | ● | |
| Product responsibility | ● | ● | ● |
| Socioeconomic compliance | ● | ● | |

Sustainability governance

Atlas Copco implements most of its focus areas for sustainability at the highest operational levels of the organization. The focus areas are: products and service, people, safety and well-being, ethics and the environment. Atlas Copco regards these areas, along with profitability and growth, as necessary to achieve long-term success.

The Group Management has decided on the Group's focus areas for sustainability, key performance indicators (KPIs), three-year targets and monitor progress. Implementation is mainly done by the divisions, which together constitute the four business areas. The divisions are separate operational units, responsible for delivering results in line with the strategies and objectives set by the business area. The divisional presidents are responsible for integrating the priorities into the divisions' operations. It is the responsibility of the divisional presidents and the general managers to safeguard that targets are set as a part of the three-year plan, followed-up on company and divisional level, as well as reported to the Group. The business areas and divisions set quantified targets for delivering on the Group goals, for instance on emissions and gender diversity. The annual report communicates the aggregated results on Group level.

External initiatives and membership of associations

Atlas Copco's central guiding policy, the Business Code of Practice, supports the United Nations International Bill of Human Rights, The International Labour Organization Declaration on Fundamental Principles and Rights at Work, and The OECD Guidelines for Multinational Enterprises.

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.

Atlas Copco is a member of the Swedish Leadership for Sustainable Development, a business network for accelerating the implementation of the Sustainable Development Goals, coordinated by the Swedish International Development Cooperation Agency.

Atlas Copco is also active in a number of international organizations and industry collaborations and initiatives, among them the Stockholm Chamber of Commerce, the International Council of Swedish Industry, Transparency International Sweden, the Association of Swedish Engineering Industries, the European Committee of Manufacturers of Compressors, Vacuum Technology, Pneumatic Tools, Air Treatment Equipment and Condensate Treatment Equipment and the Responsible Minerals Initiative.

ECONOMIC IMPACT

Economic performance

Direct economic value generated and distributed

Atlas Copco creates employment and financial stability through subcontracting manufacturing and other activities. In 2019, operating costs including costs to suppliers for goods and services, functional costs deducted for employee wages and benefits amounted to MSEK 56 952 (52 557). Employee wages and benefits increased to MSEK 25 220 (22 129). 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 was MSEK 8 149 (9 381).

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. The cost for direct taxes to governments increased 0.6% to MSEK 4 909 (4 876). The Group has been in dialogue with stakeholders regarding disclosure of taxes by country (note 9). Community investments amounted to MSEK 22. The economic value retained amounted to MSEK 9 000 (7 472).

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.

Anti-corruption and anti-competitive behavior

Atlas Copco has zero tolerance against corruption. The Business Code of Practice is the Group's central policy document, accessible to all employees in the internal database. All employees are required to sign the compliance statement for adherence to the Business Code of Practice, and take online trainings annually. Division presidents have the ultimate responsibility for adherence to the values and policies of the Group. Internal control is exercised through distribution of responsibility and internal audits. The compliance board oversees compliance with the Business Code of Practice.

Grievance mechanism

A new misconduct reporting system handled by a third-party organization, was implemented at the turn of the year 2019/2020 replacing the previous system. The system offers reporting opportunities in all Group languages and is accessible 24/7. It can be used by employees or other stakeholders to report behavior or actions that are, or may be perceived as, violations of laws or of the Business Code of Practice. The Group legal department handles and documents cases. The Group is positive to receiving reports through the system since it provides the possibility to act in such cases.

| Reported potential violations, number | 2019 |
|--|-----------|
| Fraud | 8 |
| Labor relations, including discrimination and harassment | 54 |
| Corruption | 6 |
| Other | 0 |
| Total | 68 |

11 cases are still being investigated, whereof 3 are related to fraud, 2 to corruption, 5 to labor relations and 1 to harassment. In 13 cases there were no evidence of wrongdoing, in 17 cases there were no wrongdoing, in 9 cases the investigation led to some form of consequence for the person responsible for the wrongdoing. In 17 cases the internal process has been changed. 1 case was in court.

There were no significant fines or non-monetary sanctions for non-competitive behavior or for non-compliance with laws and/or regulations in the social and economic area during the year.

ENVIRONMENTAL IMPACT

Atlas Copco has integrated the most material environmental KPIs into its strategic work. The KPIs drive improvement and efficiency, while reducing the Group's impact on the environment.

Environmental performance is monitored and reported on unit level and aggregated to Group level. General managers are responsible for overseeing the implementation of divisional strategies and goals, including undertaking initiatives to curb energy use and emissions as well as to increase the proportion of renewable energy used.

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 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.

Atlas Copco strives for all major operating units to be triple-certified according to ISO 9001, ISO 14001 and OHSAS 18001/ISO 45001. All production units with more than ten employees and all customer companies and rental companies with more than 70 employees are to be triple-certified. By the end of 2019 the share of required units not being triple-certified constituted 7% of the total number of operational units. The same measure for each individual certification is 4% for ISO 9001, 6% for ISO 14001 and 7% for OHSAS 18001/ISO 45001.

These units are mainly acquisitions still within the two-year timeframe to comply, or newly restructured units. Some units not yet triple-certified are in the process of becoming so, and a smaller portion has lacked the resources so far to commit to a triple certification.

Atlas Copco requires direct significant suppliers to have a precautionary approach and to have an environmental management system. As of 2019, there is a Group KPI measuring this approach and the ambition is that a growing number of significant direct suppliers should have an approved environmental management system. The definition is an environmental management system that fulfills the ISO14001 requirements, which can be confirmed by one of the two approaches below:

- The supplier is third-party certified according to ISO 14001 and holds a valid certificate.
- The supplier has been audited on-site by Atlas Copco in the last five years ensuring that ISO 14001 requirements are met, even though the supplier does not hold certificate.

Energy consumption within the organization

| Energy consumption*, % | 2019 |
|---|------|
| Direct energy, renewable | 0 |
| Direct energy, non-renewable | 28 |
| Indirect energy, renewable (incl. renewable of mix) | 41 |
| Indirect energy, non-renewable | 31 |

* The calculation of indirect energy, i.e. energy purchased externally by the company, includes electricity (95%) and district heating (5%) used at the sites. Atlas Copco does not report cooling or steam separately. The calculation of direct energy, i.e. energy generated by the company for its own production or operation, comprises all fuels used on the sites, including diesel, bio-fuel, gasoline, solar, geothermal, propane and natural gas.

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 0 (1) accident(s) resulting in adverse environmental effects and there were no monetary sanctions for non-compliance according to reporting.

Two 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 1 permit needed to conduct its business and 1 was under revision in 2019.

SOCIAL IMPACT

Employment

Information on employees and other workers

With 38 774 employees at year end in 71 countries, Atlas Copco is a significant employer in the global market. The Group reports the number of employees as full time equivalents (FTE) per geographical spread and per professional category, as well as divided between white-collar and blue-collar employees.

New employee hires and employee turnover

The total number and rate of external new employee hires in 2019 was 5 003 (5 506) which constitutes 13.2% (15.3) of the total average number of employees during the year. The percentage of externally recruited females was 25% (23). The total number of resignations was 2 214 (2 380), which constitutes 5.9% (6.6) of the total average number of employees during the year.

The Group's KPIs for employee satisfaction and engagement measure employees' perceived opportunities to grow in the company and their perception of the company culture. The goal for both KPIs are to be above the global benchmark. The benchmark reflects the employee engagement survey provider's proprietary benchmark for global companies. The benchmark incorporates both anonymized data from the survey provider's global customer base with tens of millions of responses across more than 150 countries, as well as data from industry panel studies to produce robust and unbiased normative data.

Freedom of association and collective bargaining

Atlas Copco 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. As a voluntary member of the UN Global Compact, Atlas Copco ensures that labor practices such as the right to collective bargaining are included in the Business Code of Practice. In 2019, 34% (34) of all employees were covered by collective bargaining agreements.

As a decentralized organization, the engagement and dialogue with labor unions takes place at a local level. In countries where no independent labor union 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 guideline covers all employees and the Business Code of Practice also covers employee rights.

Labor relations are followed-up regularly on the operational level and reviewed by internal audit. Suppliers in the risk scope are audited according to compliance to Atlas Copco's Business Code of Practice based on international guidelines and frameworks such as the UN Global Compact and the International Labour Organization Declaration on Fundamental Principles and Rights at Work.

Diversity and equal opportunity

Atlas Copco's global diversity policy states that equal opportunity should apply whether Atlas Copco has the role of employer, supplier, business partner or customer. Atlas Copco companies establish local diversity policies and guidelines in alignment with the Group policy, local laws and regulations, and local ambitions.

In 2019, Atlas Copco established the Diversity and Inclusion Council chaired by President and CEO Mats Rahmström. The council consists of representatives from all business areas, along with the corporate communications, human resources and accounting and controlling functions. The council meets regularly to follow up on action plans and results in the operations.

The Group strives to increase the share of women in the organization, and has established a KPI measuring the progress. The goal is that by 2030, there should be 30% women in the Group. Anti-harassment and non-discrimination are addressed in the Business Code of Practice training that all employees take yearly.

Atlas Copco has managers on international assignments coming from 46 countries and working in 45. In 2019, a total of 72% (70%) of all senior managers were locally employed. 44 nationalities are represented among the 450 most senior managers worldwide. The share of Swedish managers on international assignments has decreased from 23% in 2001 to 5% in 2019.

| | Per million working hours | Number |
|--|---------------------------|------------|
| Total recordable injuries, 2019 | | |
| Recordable injuries total workforce | 5.16 | 406 |
| Recordable injuries Atlas Copco employees | 5.08 | 368 |
| Recordable injuries additional workforce | 6.10 | 38 |
| Fatalities total workforce | 0.01 | 1 |
| Fatalities Atlas Copco employees | 0.01 | 1 |
| Fatalities additional workforce | 0.00 | 0 |
| High-consequence injuries total workforce | 0.08 | 6 |
| High-consequence injuries Atlas Copco employees | 0.08 | 6 |
| High-consequence injuries additional workforce | 0.00 | 0 |

Occupational health and safety

Safety and well-being are key priority areas for Atlas Copco, and all divisions set targets and make action plans to enhance awareness and improve behavior, policies and processes. 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 companies and rental companies with more than 70 employees and all product companies shall be certified according to OHSAS 18001/ISO 45001. Continuous efforts are put on behavioral based health and safety. Safety days have been arranged in the Group since 2014.

The safety pyramid

In 2019, the Group started using the safety pyramid for reporting to support awareness and encourage safe behavior to decrease risks and ultimately prevent injuries in the workforce. Using the pyramid supports transparent reporting, risk averse behavior and behavior change. The definitions of different severity of incidents and injuries were changed to align with international standards. It is therefore not possible to compare the number and rate of incidents and injuries with previous years.

The Group KPI for safety-related measures is to have a balanced safety pyramid. This means that more near misses than minor injuries, and more minor injuries than recordable injuries are reported.

The results of the 2019 reporting in the safety pyramid model is described in the table and in the illustration below. Major hazards reported for high-consequence injuries were road travel, slips and trips, lone working and manual handling. Common injuries were for instance cuts from operating machines and sprains from slipping. Actions undertaken to mitigate hazards were among others defensive driving training, awareness training and risk assessment of working environment, inspections, mechanical handling aids and ensuring safe access to equipment.

There was 1 (0) work-related fatality in the Group in 2019. It occurred when an employee in South America was involved in a road accident on a business trip.

Human rights assessment

Atlas Copco's central guiding policy is the Business Code of Practice. 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 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.

The Group committed to the UN Guiding Principles for Business and Human Rights when it was launched in 2011 and works to develop the implementation of the principles. In accordance with the framework's requirements, Atlas Copco has an ongoing process to identify, prevent, mitigate and account for the human rights impacts related to Atlas Copco's business and business relations.

The Group strives to work according to the UN Guiding Principles across the value chain, covering procurement, human resources, sales, marketing and other business processes. The Group's commitment covers all individuals and groups who may be impacted by its activities or through its business relationships. Human rights are monitored by the compliance board, which has two members of Group Management: the SVP general counsel and the SVP Communications and Governmental Affairs. The compliance board addresses training needs, impact assessment and the action points related to the implementation of the UN Guiding Principles. Human rights due diligence is carried out when

The safety pyramid 2019

Total workforce, number



deemed relevant for specific markets, for instance when Atlas Copco enters a market that is perceived as presenting severe human rights risks.

The Atlas Copco misconduct reporting system can be used to report perceived human rights violations. Atlas Copco's human rights statement can be found at the corporate website: www.atlascopcogroup.com.

Training on human rights policies and procedures

Atlas Copco has developed human rights specific training in addition to training in the Business Code of Practice to increase employee awareness. The training is available to all employees through the Group's intranet.

Taxes

The Group recognizes the key role that tax plays in advancing economic development and also considers it vital to combat corruption and support sound business practices in order to create the most value for society. Atlas Copco believes in good corporate practice in the area of tax management, balancing the interests of various stakeholders, including customers, investors as well as the governments and communities in the countries in which the Group operates. Atlas Copco does not engage in aggressive tax planning, but instead takes care to pay the correct taxes in its countries of operation. Atlas Copco's tax policy can be found at the corporate website. See note 9 of the consolidated financial statements for the details of taxes paid, reported according to the international financial reporting standards.

Disclosing tax by country

Atlas Copco has been in dialogue with investors, NGOs and peers regarding disclosure of tax paid per country. At present, there is no established international standard for reporting taxes paid by country and the resulting data is therefore 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.

Responsibility throughout the value chain

Working with business partners who share the Group's high standards regarding quality, business ethics, the environment and resource efficiency is necessary to effectively manage risks, and to enhance productivity in the value chain. The ambition is to work with suppliers and distributors who share these standards and that comply with the Business Code of Conduct.

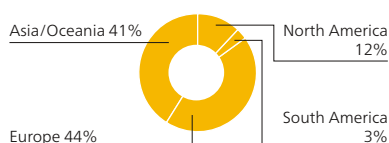
| Business partner | Role in the value chain | Primary responsible for risk management and compliance |
|---------------------------|---|--|
| Suppliers, subcontractors | Provide key parts as well as manufacturing services | Purchasing councils |
| Joint ventures | Partly owned companies that provide complementary products and services | Division presidents |
| Agents, distributors | Sell and distribute products to customers on the Group's behalf | Marketing councils |

Evaluation of suppliers

Atlas Copco has a large international supplier base. Around 75% of product cost stems from purchased components. Local purchasing is encouraged.

Atlas Copco's purchasing strategies are decentralized to give the organization higher flexibility and to ensure the right competence. 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.

Geographical spread of suppliers



Supplier evaluation 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 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 need support in order to comply with the minimum standards set forth in the business partner compliance document. However, suppliers who fail to meet the criteria and do not show a willingness to improve are rejected. Supplier evaluations regarding safety, health, social and environment aspects including factors such as quality and financial data are performed throughout the Group.

| Suppliers' commitment | 2019 | 2018 |
|---|-------|-------|
| Significant suppliers, number | 5 079 | 4 660 |
| Safety, health and social and environment evaluated suppliers ¹⁾ | 1 116 | 845 |
| Approved suppliers (no need to follow up) | 1 084 | 820 |
| Conditionally approved suppliers (monitored) | 31 | 24 |
| Rejected suppliers (relationship ended) ²⁾ | 1 | 1 |
| Suppliers asked on commitment to the Business Code of Practice, number | 4 897 | 4 405 |
| Significant suppliers that have confirmed their commitment to the Code, % | 90 | 86 |

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, labor conditions, environment issues, or no fulfillment of laws. Suppliers are rejected if they do not meet Atlas Copco requirements and are not willing to improve. The Group does not keep black lists of business partners. In 2019, one business partner was rejected due to environmental, health & safety issues, no business partner was rejected due to corruption in 2019.

Definition of significant supplier

Atlas Copco's definition of significant suppliers are 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 previous year to September current year. For suppliers in countries with a heightened risk for human rights violations, environmental risks or corruption etc., the purchasing threshold is lower (approximately 13% of set value). In 2019, the number of significant suppliers increased compared with 2018 partly due to increase in business and a review of the risk country list.

Responsible sourcing of conflict minerals

Responsible sourcing of minerals is essential to Atlas Copco and though the Group does not procure directly from smelters, some parts of the supply chain do. To ensure responsible sourcing of minerals, Atlas Copco has a comprehensive program to investigate the possible use of conflict minerals included in components used in Atlas Copco products.

Atlas Copco is not in the scope of Dodd-Frank Act, but based on concerns of violations of human rights, and to support our customers' obligation to the Act, the Group has measures to detect and prevent the use of conflict minerals in its supply chain. In accordance with the upcoming EU conflict mineral rule EU 2017/821 (due to enter into force in January, 2021), Atlas Copco undertakes due diligence to ensure its supply chains are not contributing to armed conflict and instability in the Democratic Republic of Congo and surrounding countries.

As a member of the Responsible Minerals Initiative (RMI), Atlas Copco adheres to its guidelines by encouraging suppliers to source from smelters verified by a third party such as RMI's Responsible Minerals Assurance Process, commits to transparency by submitting reporting templates to customers about smelters in the supply chain and collaborates with stakeholders.

Evaluation of distributors

Atlas Copco has a large international distributor base. Around 20% of revenues are generated via distributors and agents. Atlas Copco's sales strategies are set by the divisions on a global level and are tuned for local market needs by the customer centers. These sales strategies include the choice of sales channels and distributor management. The marketing councils ensure cross-divisional alignment and develop central policies and tools that impact all operations.

Starting in 2019, the percentage of significant distributors that sign the Atlas Copco business criteria is a Group KPI covering all significant distributors for the Group. In 2019, 59% of all significant distributors signed the business partner criteria (74% of the significant distributors were asked to sign the criteria, and 80% of them did so). Continued efforts will be made to increase this share.

Definition of significant distributors: Atlas Copco's definition of significant distributors are all external distributors, including agents and resellers with sales of the Group's goods and services for a value above a set threshold, based on 12-month values from October previous year to September current year. For distributors, agents and resellers in countries with a heightened risk for human rights violations, environmental risks or corruption etc., the sales threshold is set to include all active distributors.

Product responsibility

Atlas Copco follows laws and regulations regarding safety, health and environmental aspects, product information and labeling. All products shall, at a minimum, be compliant with laws and regulations regarding their environmental impact and are tested for safety prior to delivery. Further, all Atlas Copco

products and services come with relevant product, service and safety information. The 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, all electrically driven Atlas Copco products sold into the EU fall under the EU Waste Electrical and Electronic Equipment (WEEE) Directive. This includes compressors, vacuum pumps, handheld electric tools and monitoring control instruments. Atlas Copco is responsible for, and arranges with our customers, the disposal of products that fall under the directive.

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 such substances in items must be declared. Atlas Copco informs suppliers on regulatory updates and if prohibited substances should be found, they must immediately be replaced with appropriate alternatives. The lists are continuously revised according to applicable legislations, this includes REACH and U.S. State of California Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65). The lists on prohibited and declarable substances are also published on the Atlas Copco website.

Incidents of non-compliance

No cases have been filed in 2019 (0) for non-compliance with such laws and regulations concerning the provision and use of such products and services.

Calculations of product energy efficiency on pages 22–33

The energy efficiency calculations for the products detailed in the report are based on estimates provided by Atlas Copco's research and development departments. Carbon dioxide emissions factors used for the calculations come from open source calculators or standards. The calculation of the number of cars driven for one year, corresponding to the carbon emission savings by the products, was made using the US Environmental Protection Agency's Greenhouse Gas Equivalencies Calculator.

Oil-free compressor

Per power variant, the power consumption and efficiency of the old and new generation ZR Variable Speed Drive machines at four identical points in the turndown range is weighed according to a widely accepted compressor load distribution. These numbers are then consolidated over the different power variants according to the first year sales numbers, leading to the energy and CO₂ savings for the whole ZR VSD+ range.

Vacuum pump

The measurement criteria for this exercise is the total energy and CO₂ reduction resulting from the use of the new product where the saving is achieved by using fewer pumps per chamber for the same performance. The number of new pumps sold each year since the launch is used to calculate the total cumulative run hours of the new product in the field, and hence the energy saved compared to continuing to use the old products for the application.

Electric portable compressor

The CO₂ savings is obtained by calculating the emissions from a diesel-driven XATS138 and subtracting the calculated emissions from an electricity-driven H250VSD which replaces it for the same average usage: 750 hours per year and an air consumption at 75% of the maximum. One XATS138 consumes 6.7 m³ of diesel this way, translating to 18 metric tonnes of CO₂ in one year. In comparison, one H250VSD compressor consumes 23 065 kWh of electricity under the same conditions.

Multiplying by the average European CO₂ intensity for power electricity generation (0.46 kg CO₂/kWh, see https://www.eumayors.eu/IMG/pdf/technical_annex_en.pdf) gives 10.6 metric tonnes of CO₂ per year. Energy savings are calculated based on the H250VSD energy consumption in relation to a corresponding reference consumption for the previous diesel model.

Battery drill

The comparison was made by measuring the electricity required to fully charge a battery and drill holes in aluminum till it is fully discharged. The amount of compressed air needed to drill the same number of holes with a pneumatic tool have been calculated and converted in electric energy to drive a compressor. This resulted in about 48.7 mWh per drilled hole with the battery technology and about 704 mWh per drilled hole with the pneumatic technology. The result showed that EBB26 requires about 93% less energy per drilled hole in this case.

About the sustainability report

Atlas Copco has prepared its sustainability report in accordance with the Global Reporting Initiative (GRI) guidelines since 2001. The sustainability report is published annually and the most recent report, prior to this report, was published in March 2019 as a part of Atlas Copco's annual report 2018.

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. It provides the Group's stakeholders with a relatively complete overview of the Atlas Copco Group's most important activities contributing to sustainable development and increasing stakeholder value.

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. Atlas Copco is also a signatory of the UN Global Compact since 2008, and this report is Atlas Copco's Communication on Progress (COP), a report on performance in relation to Global Compact's ten principles on human rights, labor law, the environment and anti-corruption.

The sustainability report has been subject to limited assurance by the Group's external auditors, Deloitte, see the Auditor's report on page 141.

Report boundary

The sustainability report includes information regarding aspects where Atlas Copco has a significant economic, environmental and social impact. The materiality principle of GRI Standards has been the guiding principle when determining the content of the report. It covers the material issues that have the highest priority to Atlas Copco's stakeholders.

The report covers Atlas Copco's operations for the fiscal year 2019, unless otherwise stated. Operations divested during the year are excluded, acquired

units are included. This may at times cause changes in reported performance. Environmental data covers production units and distribution centers. Supplier data covers production units and distribution centers, distributor data covers all applicable units. Employee data covers all operations.

The sustainability report and the corporate governance report are integrated in the 2019 annual report. Sustainability information in the annual report is primarily presented on pages 5, 22–31, 34–43 and 130–142.

Data collection

Reported facts and figures in the sustainability report 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. When a restatement of historically reported numbers is made, this can be due to a change of calculation method or scope.

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.

For questions regarding the report and its contents, please contact Sofia Svingby, Vice President Sustainability sustainability@atlascopco.com.

GRI content index

| GRI Standards | Description | Page | Comment |
|-------------------------------|--|--------------------------------|---|
| Organizational profile | | | |
| 102-1 | Name of organization | Inside cover | |
| 102-2 | Activities, brands, products, and services | Inside cover, 20–33 | |
| 102-3 | Location of headquarters | Inside cover | |
| 102-4 | Location of operations | Inside cover | |
| 102-5 | Ownership and legal form | 51–54 | |
| 102-6 | Markets served | Inside cover, 23, 26, 29, 32 | |
| 102-7 | Scale of the reporting organization | Inside cover, 13–18, 20–32, 82 | |
| 102-8 | Information on employees and other workers | 6, 18, 36–37, 133 | Atlas Copco reports the aggregate number of full-time equivalents, not how many employees work full-time or part-time. Additional workforce can be either temporary or permanent, generally employed through a third party. Omission: Atlas Copco does not report additional workforce by gender. |
| 102-9 | Supply chain | 8, 40, 134–135 | |
| 102-10 | Significant changes to the organization and its supply chain | 13 | |
| 102-11 | Precautionary principle or approach | 34, 40–43, 132 | |
| 102-12 | External initiatives | 131 | |
| 102-13 | Membership of associations | 131 | |
| Strategy and analysis | | | |
| 102-14 | Statement from senior decision-maker | 2–4, 51, 54 | |
| Ethics and integrity | | | |
| 102-16 | Values, principles, standards and norms of behavior | 10, 40–41 | |

GRI content index, cont.

| GRI Standards | Description | Page | Comment |
|----------------------------------|---|--------------------|---|
| Governance | | | |
| 102-18 | Governance structure | 9–10, 51–59, 131 | |
| Stakeholder engagement | | | |
| 102-40 | List of stakeholder groups | 130 | |
| 102-41 | Collective bargaining agreements | 133 | |
| 102-42 | Identifying and selecting stakeholders | 130 | |
| 102-43 | Approach to stakeholder engagement | 130 | |
| 102-44 | Key topics and concerns raised | 130–131 | |
| Reporting practice | | | |
| 102-45 | Entities included in the consolidated financial statements | 121–124 | |
| 102-46 | Process for defining report content and topic boundaries | 130–131 | |
| 102-47 | List of material topics | 131 | |
| 102-48 | Restatements of information | 13, 136 | |
| 102-49 | Changes in reporting | 131, 136 | |
| 102-50 | Reporting period | 136 | |
| 102-51 | Date of most recent report | 136 | |
| 102-52 | Reporting cycle | 136 | |
| 102-53 | Contact point for questions regarding the report | 136 | |
| 102-54 | Claims of reporting in accordance with GRI Standards | 136 | |
| 102-55 | GRI content index | 136–139 | |
| 102-56 | External assurance | 141 | |
| ECONOMIC IMPACT | | | |
| Economic performance | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 131–132 | |
| 201-1 | Direct economic value generated and distributed | 132, 140 | |
| Anti-corruption | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 131–132 | |
| 205-3 | Confirmed incidents of corruption and actions taken | 132, 134 | |
| Anti-competitive behavior | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 131–132 | |
| 206-1 | Legal actions for anti-competitive behavior, anti-trust, and monopoly practices | 132 | |
| ENVIRONMENTAL IMPACT | | | |
| Energy | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 42–43, 131–132 | |
| 302-1 | Energy consumption within the organization | 132, 140 | Omission: Atlas Copco reports energy consumption in MWh, not in joule. |
| 302-3 | Energy intensity | 140 | |
| Emissions | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 42–43, 131–132 | |
| 305-1 | Direct greenhouse gas emissions (Scope 1) | 140 | |
| 305-2 | Energy direct greenhouse gas emissions (Scope 2) | 140 | |
| 305-3 | Other indirect greenhouse gas emissions (Scope 3) | 140 | Atlas Copco reports on CO ₂ emissions related to transports of goods within Scope 3. |
| 305-4 | Greenhouse gas emissions intensity | 140 | |

GRI content index, cont.

| GRI Standards | Description | Page | Comment |
|--|--|--------------------------|---|
| Environment – compliance | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 131–132 | |
| 307-1 | Non-compliance with environmental laws and regulations | 132 | |
| Supplier environmental assessment | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 132, 134 | |
| 308-1 | New suppliers that were screened using environmental criteria | 40, 134, 140 | Atlas Copco uses a risk-based approach to identify significant suppliers. The scope can include new and old suppliers every year. Omission: Data for new suppliers specifically is not disclosed. Environmental and social screening is reported jointly. |
| SOCIAL IMPACT | | | |
| Employment | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 36–37, 131, 133 | |
| 401-1 | New employee hires and employee turnover | 133, 140 | Omission: Atlas Copco does not report turnover by age group and gender. |
| Occupational health and safety | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 39, 131, 133 | |
| 403-9 | Work-related injuries | 39, 133, 140 | Atlas Copco is applying the 2018 GRI standard for occupational health and safety. |
| Training and education | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 36–38, 131 | |
| 404-3 | Percentage of employees receiving regular performance and career development reviews | 133, 140 | Omission: Atlas Copco does not report breakdown by gender or employee category. |
| Diversity and equal opportunity | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 36–37, 130–131, 133 | |
| 405-1 | Diversity of governance bodies and employees | 56–59, 36–37, 133, 140 | Omission: Age group is not disclosed at Group level. Minority group membership is not reported on in the Group. |
| Non-discrimination | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 36–37, 131–133 | |
| 406-1 | Incidents of discrimination and corrective actions taken | 132 | |
| Human rights assessment | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 40–41, 131, 133–134 | |
| 412-2 | Employee training on human rights policies or procedures | 40–41, 133–134, 140, 142 | All employees are trained in the Business Code of Practice, which includes respect for human rights. Omission: Employee training is not reported by category of training at Group level. |

GRI content index, cont.

| GRI Standards | Description | Page | Comment |
|-----------------------------------|---|------------------|---|
| Supplier social assessment | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 40, 131, 134 | |
| 414-1 | New suppliers that were screened using social criteria | 40, 134, 140 | Atlas Copco uses a risk-based approach to identify significant suppliers. The scope can include new and old suppliers every year. Omission: Data for new suppliers specifically is not disclosed. Environmental and social screening is reported jointly. |
| Customer health and safety | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 131, 135 | |
| 416-2 | Incidents of non-compliance concerning the health and safety impacts of products and services | 135 | |
| Marketing and labeling | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 131, 135 | |
| 417-2 | Incidents of non-compliance concerning product and service information and labeling | 135 | |
| Socioeconomic compliance | | | |
| 103-1/2/3 | Explanation of the material topic, its boundary and management approach | 11, 131–132 | |
| 419-1 | Non-compliance with laws and regulations in the social and economic area | 132 | |

Footnotes to Environmental, social and governance (ESG) performance on page 140

- ¹⁾ Calculations according to GRI Standard Guidelines, www.globalreporting.org.
- ²⁾ Direct economic value includes 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 total energy includes both indirect and direct energy used. The calculation of indirect energy, i.e. energy purchased externally by the company, includes electricity (95%) and district heating (5%) used at the sites. Atlas Copco does not report cooling or steam separately. The calculation of direct energy, i.e. energy generated by the company for its own production or operation, comprises all fuels used on the sites, including diesel, biofuel, gasoline, solar, geothermal, propane and natural gas.
- ⁶⁾ The reporting of greenhouse gas emissions is done in accordance with the GHG Protocol (ghgprotocol.org). Country factors used for energy come from the International Energy Agency. Indirect energy (Scope 2) is presented both as market-based and location-based according to the GHG Protocol. Where nothing else is stated a market-based approach has been applied. Factors from NTM (transportmeasures.org) are used for transport of goods when emission data is not provided by the transport company. Scope 3 emissions include inbound and outbound transport of goods that the company is responsible for as defined by Incoterm. Out of scope emissions data for direct CO₂ emissions from biologically sequestered carbon (e.g. CO₂ from burning biomass/biofuels) was 255 tonnes in 2019.
- ⁷⁾ Results are, as a rule, collected every two years through the Group's employee survey "Insight". The survey was conducted in 2019.
- ⁸⁾ The reporting model and the definition of different kinds of severity of incidents and injuries were changed in 2019 and the results can therefore not be compared with previous safety-related measurements.
- ⁹⁾ The process and scope for employees' signing and training in the Business Code of Practice was reviewed and updated in 2018 and 2019.
- ¹⁰⁾ The scope for distributors signing the Business Code of Practice was reviewed and updated in 2019.

Environmental, social and governance (ESG) performance ¹⁾

| ECONOMIC VALUE | 2018 | 2019 |
|---|-------------|-------------|
| Direct economic value ²⁾ | 96 415 | 104 230 |
| Revenues | 95 363 | 103 756 |
| Economic value distributed | | |
| Operating costs ³⁾ | 52 557 | 56 952 |
| Employee wages and benefits, including other social costs | 22 129 | 25 220 |
| Costs for providers of capital ⁴⁾ | 9 381 | 8 149 |
| Costs for direct taxes to governments | 4 876 | 4 909 |
| Economic value retained | 7 472 | 9 000 |
| – Redemption of shares | 9 705 | – |
| ENVIRONMENT | | |
| Renewable energy for operations, % of total energy use | 34 | 41 |
| Direct energy use in GWh ⁵⁾ | 104 | 105 |
| Indirect energy use in GWh ⁵⁾ | 256 | 264 |
| Total energy use in GWh ⁵⁾ | 360 | 369 |
| Total energy use in MWh/COS ⁵⁾ | 7.2 | 6.8 |
| CO ₂ emissions '000 tonnes (direct energy) – scope 1 ⁶⁾ | 21 | 22 |
| CO ₂ emissions '000 tonnes (indirect energy) – scope 2 ⁶⁾ | 72 | 60 |
| CO ₂ emissions '000 tonnes (total energy) – scope 1+2 ⁶⁾ | 93 | 82 |
| CO ₂ emissions '000 tonnes (indirect energy, location-based) – scope 2 ⁶⁾ | 95 | 98 |
| CO ₂ emissions '000 tonnes (transport) – scope 3 ⁶⁾ | 170 | 150 |
| CO ₂ emissions tonnes (transport)/COS ⁶⁾ | 3.4 | 2.8 |
| CO ₂ emissions tonnes total energy and transport (scope 1, 2, 3)/COS ⁶⁾ | 5.3 | 4.3 |
| Waste (in kg)/COS | 667 | 597 |
| Water consumption (m ³)/COS ⁷⁾ | 8.7 | 7.2 |
| Significant direct suppliers with an approved environmental management system, % | – | 28 |
| PEOPLE | | |
| White-collar employees, % | 69 | 69 |
| Blue-collar employees, % | 31 | 31 |
| Employee turnover white-collar employees, % | 6.1 | 6.0 |
| Employee turnover blue-collar employees, % | 7.7 | 5.6 |
| Total turnover, voluntary leave, % | 6.6 | 5.9 |
| Yearly performance and development discussion, % | 82 | 84 |
| Proportion of female employees, % year end | 19.1 | 19.8 |
| Proportion of female managers, % year end | 19.2 | 19.5 |
| Degree to which employees agree that there are opportunities to learn and grow in the company (score) ⁷⁾ | – | 71 |
| Degree to which employees agree that we have a work culture of respect, fairness and openness (score) ⁷⁾ | – | 74 |
| SAFETY AND WELL-BEING | | |
| Recordable injuries total workforce, number ⁸⁾ | – | 406 |
| Recordable injuries per million working hours total workforce ⁸⁾ | – | 5.2 |
| Minor injuries total workforce, number ⁸⁾ | – | 997 |
| Minor injuries per million working hours total workforce ⁸⁾ | – | 12.7 |
| Fatalities, number | 0 | 1 |
| Fatalities per million working hours total workforce | 0 | 0.01 |
| Sick leave due to diseases and recordable injuries, % | 2.0 | 2.0 |
| Degree to which employees agree that Atlas Copco takes a genuine interest in their well-being (score) ⁷⁾ | – | 69 |
| A balanced safety pyramid (yes/no) | – | yes |
| ETHICS | | |
| Employees signed compliance to the Business Code of Practice, % ⁹⁾ | – | 98 |
| Employees trained in the Business Code of Practice, % ⁹⁾ | – | 94 |
| Managers in risk countries held trainings in the Business Code of Practice, % | – | 91 |
| Significant distributors committed to the Business Code of Practice, % ¹⁰⁾ | – | 59 |
| Significant suppliers committed to the Business Code of Practice, % | 86 | 90 |

See footnotes on page 139

Auditor's Limited Assurance Report on Atlas Copco AB's Sustainability Report and statement regarding the Statutory Sustainability Report

This is the translation of the auditor's report in Swedish.

To Atlas Copco AB, corporate identity number 556014-2720

Introduction

We have been engaged by the Board of Directors of Atlas Copco AB to undertake a limited assurance engagement of the Atlas Copco AB Sustainability Report for the year 2019. The Company has defined the scope of the Sustainability Report on page 136 and the Statutory Sustainability Report on page 19.

Responsibilities of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with the applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 136 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (Global Reporting Initiative), 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 and to express an opinion regarding the Statutory Sustainability Report. Our engagement is limited to historical information presented and does therefore not cover future-oriented information.

We conducted our limited assurance engagement in accordance with ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. 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. Our examination regarding the Statutory Sustainability Report has been conducted

in accordance with FAR's accounting standard RevR 12. The auditor's opinion regarding the Statutory Sustainability Report. A limited assurance engagement and an examination according to RevR 12 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.

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. We are independent of Atlas Copco AB in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

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.

A Statutory Sustainability Report has been prepared.

Stockholm, February 28, 2020
Deloitte AB

Thomas Strömberg
Authorized Public Accountant

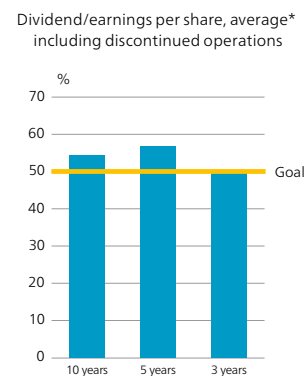
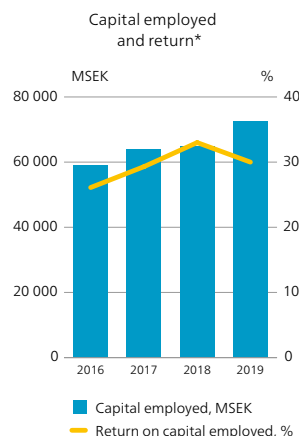
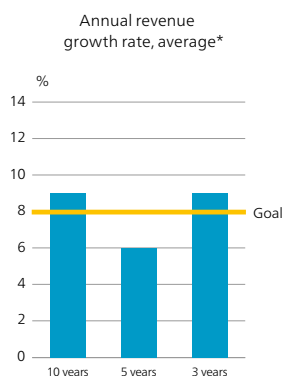
Lennart Nordqvist
Expert Member of FAR

Goal performance



FINANCIAL GOALS

Revenue growth measured over a business cycle. Target: 8% per annum
Sustained high return on capital employed by constantly striving for operational excellence and generating growth
Earnings as dividends to shareholders. Target: about 50%



PEOPLE, KPI

The degree to which Atlas Copco employees agree there is opportunity to learn and grow should be above the global benchmark and continuously increase

The degree to which Atlas Copco employees agree we have a work culture of respect, fairness and openness should be above the global benchmark and continuously increase

Share of female employees (year end). Target by 2030

| | 2018 | 2019 | Target** |
|---|-------|-------|----------|
| The degree to which Atlas Copco employees agree there is opportunity to learn and grow should be above the global benchmark and continuously increase | n/a | 71 | >70 |
| The degree to which Atlas Copco employees agree we have a work culture of respect, fairness and openness should be above the global benchmark and continuously increase | n/a | 74 | >74 |
| Share of female employees (year end). Target by 2030 | 19.1% | 19.8% | 30% |



ETHICS, KPI

Employees sign the Business Code of Practice

Employees are trained in the Business Code of Practice

Managers in risk countries lead trainings in the Business Code of Practice

Significant suppliers sign the Business Code of Practice

Significant distributors sign the Business Code of Practice

| | 2018 | 2019 | Target** |
|--|------|------|----------|
| Employees sign the Business Code of Practice | n/a | 98% | 100% |
| Employees are trained in the Business Code of Practice | n/a | 94% | 100% |
| Managers in risk countries lead trainings in the Business Code of Practice | n/a | 91% | 100% |
| Significant suppliers sign the Business Code of Practice | 86% | 90% | 100% |
| Significant distributors sign the Business Code of Practice | n/a | 59% | 100% |



PRODUCTS & SERVICE, KPI

Projects for new or redesigned products with targets for reduced environmental impact by 2021

Projects for new or redesigned products that have achieved significantly reduced environmental impact

| | 2018 | 2019 | Target** |
|---|------|------|---------------|
| Projects for new or redesigned products with targets for reduced environmental impact by 2021 | n/a | n/a | 100% |
| Projects for new or redesigned products that have achieved significantly reduced environmental impact | n/a | n/a | to be defined |



SAFETY & WELL-BEING, KPI

The degree to which Atlas Copco employees agree that the company takes a genuine interest in employees' well-being should continuously increase

Balanced safety pyramid, meaning that more near misses than minor injuries, and more minor injuries than recordable injuries are reported

| | 2018 | 2019 | Target** |
|---|------|------|----------|
| The degree to which Atlas Copco employees agree that the company takes a genuine interest in employees' well-being should continuously increase | n/a | 69 | increase |
| Balanced safety pyramid, meaning that more near misses than minor injuries, and more minor injuries than recordable injuries are reported | n/a | yes | yes |



ENVIRONMENT, KPI

CO₂ emissions from energy in operations and transport (tonnes) in relation to cost of sales. Target by 2030. Base year: 2018

Waste (kg) in relation to cost of sales

Water consumption (m³) in relation to cost of sales

Significant direct suppliers with an approved environment management system

| | 2018 | 2019 | Target** |
|--|------|------|----------|
| CO ₂ emissions from energy in operations and transport (tonnes) in relation to cost of sales. Target by 2030. Base year: 2018 | 5.3 | 4.3 | -50% |
| Waste (kg) in relation to cost of sales | 667 | 597 | decrease |
| Water consumption (m ³) in relation to cost of sales | 8.7 | 7.2 | decrease |
| Significant direct suppliers with an approved environment management system | n/a | 28% | increase |

* Figures for the years between 2010 and 2017 are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

** For more information about the sustainability focus areas, targets and processes, please see pages 34–43 and the sustainability notes on pages 130–140.

Three years in summary

| ORDERS, REVENUES AND PROFIT ¹⁾ | 2017 | 2018 | 2019 |
|--|---------------------------|---------------------------|--------------------|
| Orders, MSEK | 90 132 | 97 132 | 106 104 |
| Revenues, MSEK | 85 653 | 95 363 | 103 756 |
| Change, organic from volume, price and mix, % | n/a | 8 | 2 |
| EBITDA, MSEK | 22 383 | 24 510 | 26 597 |
| EBITDA margin, % | 26.1 | 25.7 | 25.6 |
| Operating profit, MSEK | 18 748 | 21 187 | 21 897 |
| Operating profit margin, % | 21.9 | 22.2 | 21.1 |
| Net interest expense, MSEK | -1 071 | -644 | -359 |
| Profit before tax, MSEK | 17 591 | 20 844 | 21 572 |
| Profit margin, % | 20.5 | 21.9 | 20.8 |
| Profit for the year, MSEK | 12 661 | 16 336 | 16 543 |
| EMPLOYEES | 2017 | 2018 | 2019 |
| Average number of employees | 33 631 | 35 894 | 37 805 |
| Revenues per employee, SEK thousands | 2 547 | 2 657 | 2 745 |
| CASH FLOW ¹⁾ | 2017 ²⁾ | 2018 ²⁾ | 2019 |
| Operating cash surplus, MSEK | 29 187 | 28 444 | 26 696 |
| Cash flow before change in working capital, MSEK | 20 930 | 21 481 | 20 209 |
| Change in working capital, MSEK | 1 398 | -3 391 | -2 971 |
| Cash flow from investing activities, MSEK | -758 | -4 301 | -9 683 |
| Gross investments in other property, plant and equipment, MSEK | -1 742 | -2 000 | -1 662 |
| Gross investments in rental equipment, MSEK | -1 412 | -1 462 | -1 140 |
| Net investments in rental equipment, MSEK | -948 | -1 276 | -1 087 |
| Cash flow from financing activities, MSEK | -7 745 | -21 601 | -8 024 |
| of which dividends paid, MSEK | -8 255 | -8 496 | -7 663 |
| Operating cash flow, MSEK | 18 856 | 14 133 | 14 625 |
| FINANCIAL POSITION AND RETURN ¹⁾ | 2017 | 2018 | 2019 |
| Total assets, MSEK | 126 031 ²⁾ | 96 670 | 111 722 |
| Capital turnover ratio | 0.68 ²⁾ | 0.99 | 0.98 |
| Capital employed, average MSEK | 64 096 | 64 945 | 72 732 |
| Capital employed turnover ratio | 1.34 | 1.47 | 1.43 |
| Return on capital employed, % | 29 | 33 | 30 |
| Net indebtedness, MSEK | 2 466 ²⁾ | 6 702 | 12 013 |
| Net debt/EBITDA, MSEK | 0.1 ²⁾ | 0.3 | 0.5 |
| Equity, MSEK | 60 601 ²⁾ | 42 472 | 53 290 |
| Debt/equity ratio, % | 4 ²⁾ | 16 | 23 |
| Equity/assets ratio, % | 48.1 ²⁾ | 43.9 | 48 |
| Return on equity, % | 30.1 ²⁾ | 33.7 | 35 |
| KEY FIGURES PER SHARE ¹⁾ | 2017 ²⁾ | 2018 | 2019 |
| Basic earnings / diluted earnings, SEK | 13.72 / 13.61 | 13.45 / 13.43 | 13.60 / 13.59 |
| Dividend, SEK | 7.00 | 6.30 | 7.00 ³⁾ |
| Dividend as % of basic earnings | 51.0% | 47.0% | 51.5% |
| Dividend yield, % | 2.2% | 2.2% | 2.4% |
| Redemption of shares, SEK | 8.00 | n/a | - |
| Operating cash flow, SEK | 15.53 | 11.65 | 12.04 |
| Equity, SEK | 50 | 35 | 44 |
| Share price, December 31, A share / B share, SEK | 354.2 / 314.6 | 210.5 / 193.3 | 373.6 / 325.2 |
| Highest price quoted, A share / B share, SEK | 375.8 / 338.1 | 380.8 / 339.7 | 386.5 / 336.9 |
| Lowest price quoted, A share / B share, SEK | 277.0 / 247.1 | 205.3 / 187.7 | 205.0 / 188.5 |
| Average closing price, A share / B share, SEK | 322.0 / 289.6 | 291.3 / 264.0 | 288.0 / 258.8 |
| Average number of shares, millions | 1 214.1 | 1 213.5 | 1 214.7 |
| Diluted average number of shares, millions | 1 215.8 | 1 215.3 | 1 215.8 |
| Number of shareholders, December 31 | 80 846 | 87 009 | 81 656 |
| Market capitalization, December 31, MSEK | 420 076 | 252 130 | 440 497 |

¹⁾ Figures for 2017 have been restated for IFRS 15. ²⁾ Including discontinued operations ³⁾ Proposed by the Board of Directors.

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