

Atlas Copco
2012 – a record year



2012
Annual report

Sustainable Productivity



Performance summary 2012

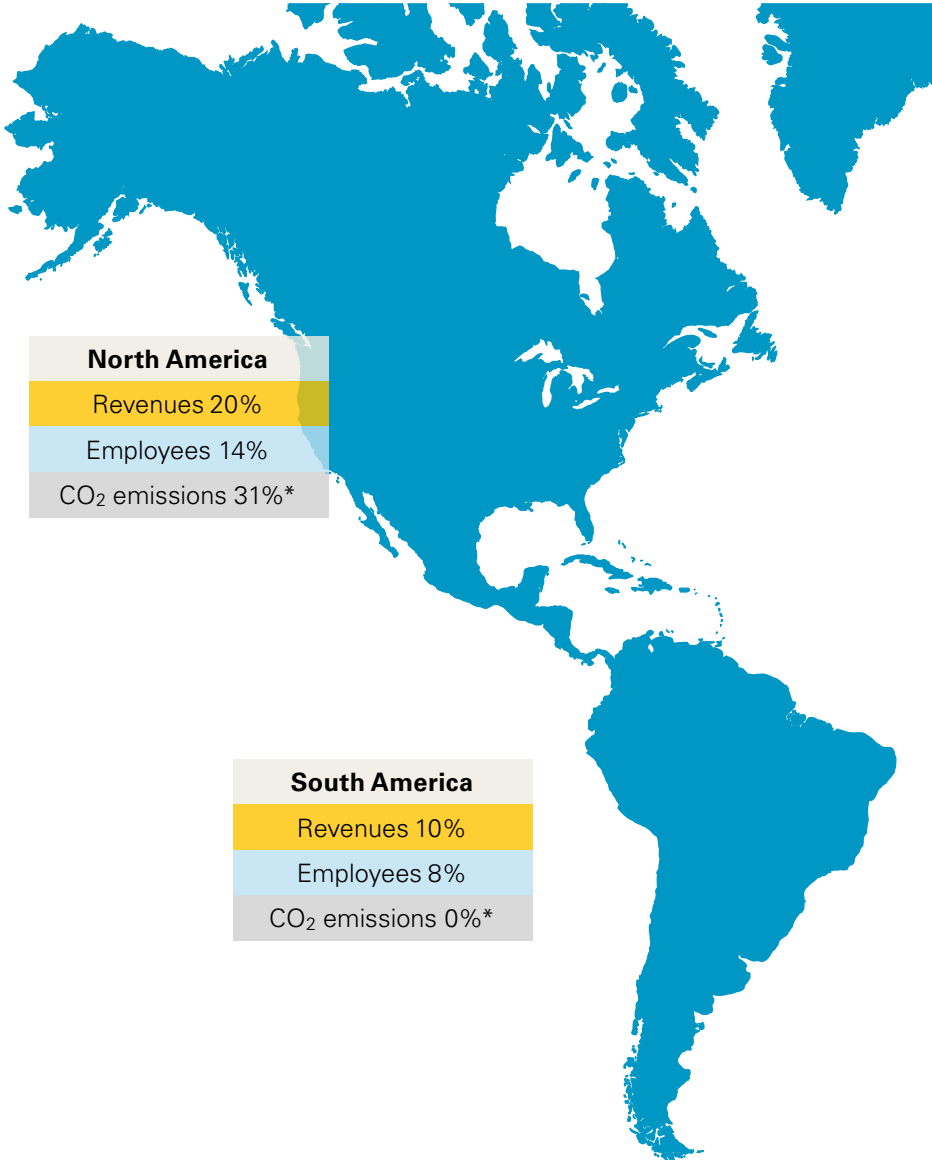
FINANCIAL	Units	Goal	2012	2011	Change, %
Orders received	MSEK		90 570	86 955	+4
Revenues	MSEK	8% growth	90 533	81 203	+11 ●
EBITDA	MSEK		21 892	20 082	+9
Operating profit	MSEK		19 228	17 560	+9
– as a percentage of revenues	%		21.2	21.6	
Profit before tax	MSEK		18 538	17 276	+7
– as a percentage of revenues	%		20.5	21.3	
Profit for the year	MSEK		13 914	12 988	+7
Basic earnings per share	SEK		11.45	10.68	
Diluted earnings per share	SEK		11.43	10.62	
Dividend per share	SEK	About 50% of earnings per share	5.50 ¹⁾	5.00	+10 ●
Equity per share	SEK		29	24	
Operating cash flow	MSEK		12 233	6 292	+94
Return on capital employed	%	Sustained high	35.7	37.2	●
Return on equity	%		44.5	47.6	
ENVIRONMENTAL	Units	Goal	2012	2011	Change
CO ₂ emissions	'000 tonnes		332	340	–8
– from operations (Scope 1+2)	'000 tonnes	–20%/COS ²⁾	105	126	–21 ●
– from transport (Scope 3)	'000 tonnes	–20%/COS ²⁾	227	214	+13 ●
Water consumption	'000 m ³	+–0 m ³ /COS	623	619	+4 ●
Waste	%	Reuse, recover or recycle all waste	92	95	–3 ●
Sustainable construction	number	Increase	4	3	+1 ●
ISO 14001 environmental management systems	% of cost of sales	100	94	95	–1 ●
EMPLOYEES, HEALTH AND SAFETY	Units	Goal	2012	2011	Change
Average number of employees	number		39 113	35 131	+3 982
Competence development	hours/employee		42	45	–3 ●
Yearly appraisals	%	100	83	84	–1 ●
Internal mobility	%	Encourage	8.2	9.3	–1.1 ●
Proportion of women employees	%	Increase	16.9	16.8	+0.1 ●
Diversity in nationality among senior managers	number	Increase	49	44	+5 ●
Sick leave	%	<2.5	2.1	2.0	+0.1 ●
Accidents	number/one million hours	0	5.4	5.7	–0.3 ●
Fatalities	number	0	3	1	+2 ●
OHSAS 18001 health and safety systems	% of cost of sales	100	72	67	+5 ●
GOVERNANCE	Units	Goal	2012	2011	Change
Training in Business Code of Practice, managers	%	100	25	33	–8 ●
Reporting to hotline	number	Encourage	39	25	+14 ●
Suppliers committed to Business Code of Practice	%	Increase	76	75	+1 ●

● Positive trend/goal achieved ● Neutral ● Negative trend/goal not achieved

¹⁾ Proposed by the Board of Directors.

²⁾ –20%/COS by 2020.

Atlas Copco in brief



Atlas Copco is an industrial group with world-leading positions in compressors, expanders and air treatment systems, construction and mining equipment, power tools and assembly systems. With innovative products and services, Atlas Copco delivers solutions for sustainable productivity. The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning more than 170 countries.

Celebrating 140 years

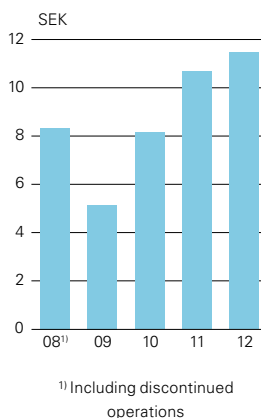


www.atlascopco.com/history

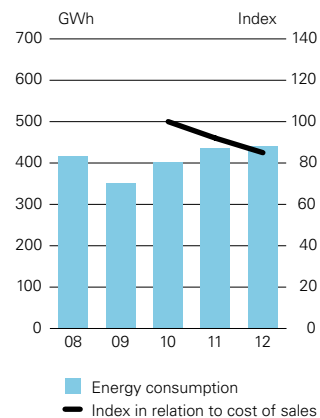
Orders received, revenues and operating margin



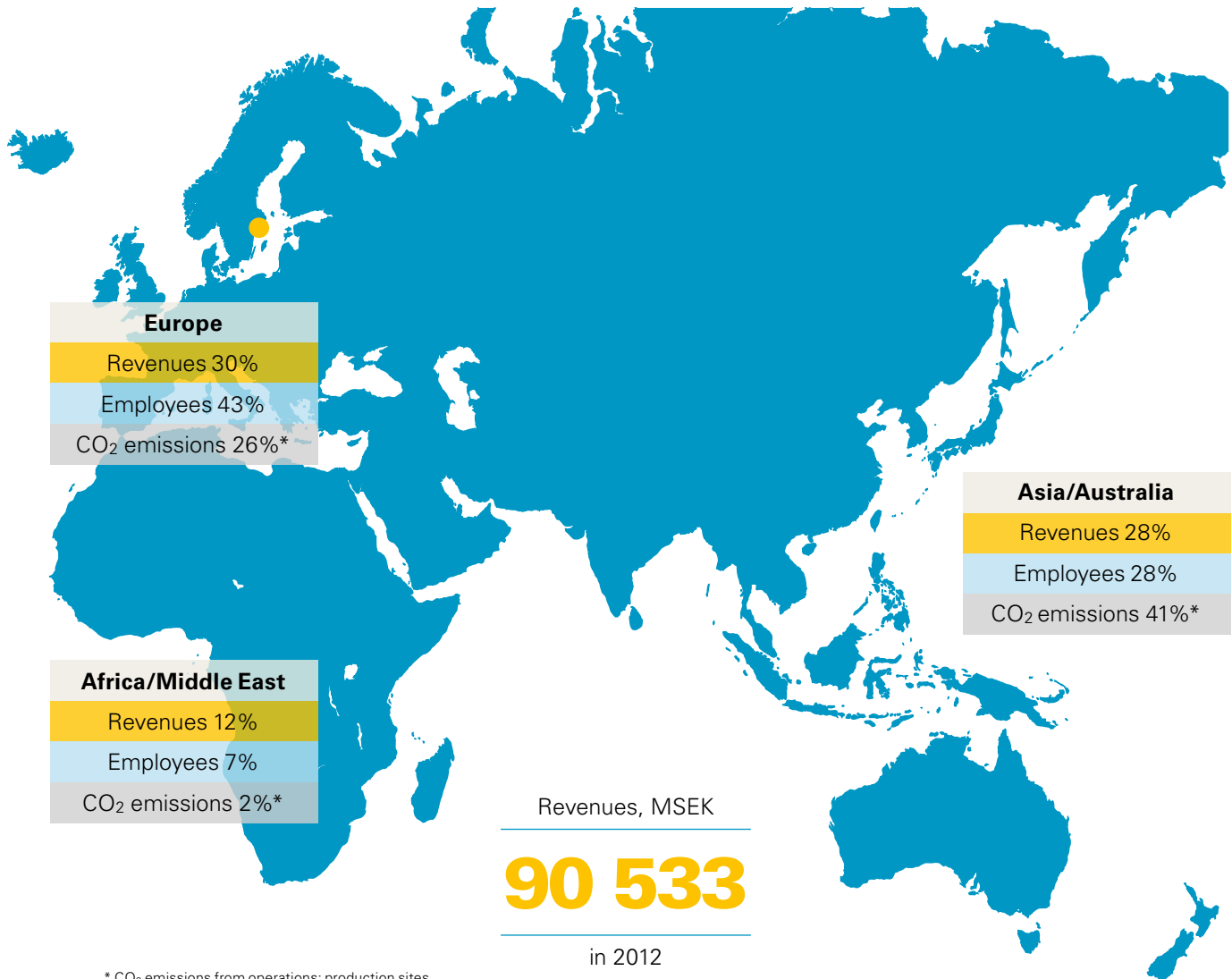
Earnings per share



Energy consumption

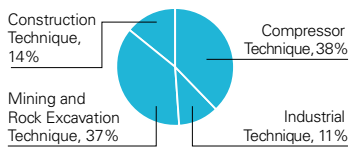


A relative decrease in energy consumption due to investments in more energy-efficient solutions.

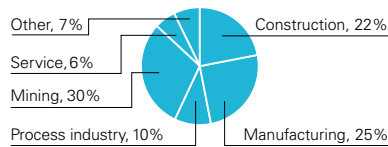


* CO₂ emissions from operations; production sites and distribution centers

Revenues by business area



Orders received by customer category



Share of revenues



Learn more at www.atlascopco.com



Committed to sustainable productivity

Revenues increased	Operating profit up	CO ₂ emissions	Proposed dividend up
11%	9%	-17%	10%
to MSEK 90 533	to MSEK 19 228	from production sites	to SEK 5.50 per share



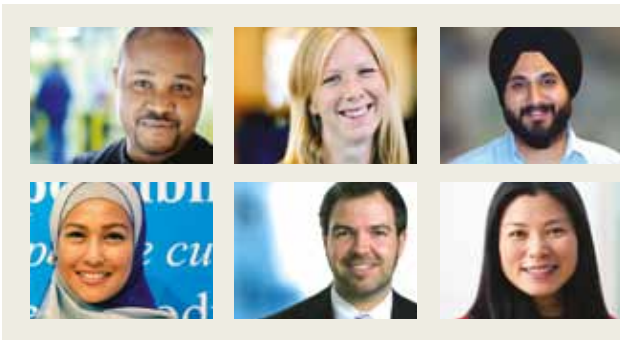
Ronnie Leten, President and CEO

“Atlas Copco achieved a record result for 2012 despite softening conditions in many markets. Previous changes to our organization that strengthened our service offering had a positive effect and we continued with actions to increase customer focus and drive growth.”

PAGE 3

With innovative products and services, Atlas Copco delivers solutions for sustainable productivity. Investments in product development increased 24%.

PAGE 40



Proud employees all over the world

We strive to be First in Mind—First in Choice® for today’s and future employees. Our employee survey for 2012 showed that employees are proud to work for Atlas Copco and that there is a strong customer focus in the Group.

PAGE 42



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

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Water for All has provided access to clean water to more than 1.2 million people.



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About the annual report

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 goal of creating sustainable, profitable development and it integrates financial, sustainability and governance information in order to describe Atlas Copco in a comprehensive and cohesive manner.

The report is divided into two sections for simple navigation.

This is Atlas Copco contains the relevant information about Atlas Copco's vision, mission, strategy, structure and governance, how we do business as well as long-term performance.

The year in review discusses Atlas Copco's annual performance and achievements.

The audited annual accounts and consolidated accounts can be found on pages 13–44 and 56–123 and includes the corporate governance report on pages 56–65.

Sustainability information that have been reviewed by the auditors for limited assurance can be found on pages 9–12, 45–49 and 127–130.

Note: The amounts are presented in MSEK unless otherwise indicated and numbers in parentheses represent comparative figures for the preceding year.

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

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



This symbol indicates that further information is available on Atlas Copco's website, www.atlascopco.com.

Priorities for sustainable, profitable growth

Atlas Copco achieved a record result for 2012 despite softening conditions in many markets. Previous changes to our organization that strengthened our service offering had a positive effect and we continued with actions to increase customer focus and drive growth. We extended our product offerings through innovations and acquisitions that create sustainable productivity for our customers. Internally, we enhanced efficiency and raised further awareness about key issues such as safety and corruption.



Atlas Copco has defined five key priorities to drive sustainable profitable development: service, presence, innovation, operational excellence, and people.

Summary of 2012

During the first six months of the year, the demand from customers in most segments remained on a high level, and we were positively surprised by the good development in North America. The increasingly important service business helped offset the softening of demand for our equipment that we began to see in the second half of the year. In total, we saw an organic 2% increase in orders received for 2012.

The organizational structure introduced in mid-2011 had a positive effect. It increased the number of business areas from three to four and created a service division in each of them to ensure we get as close as possible to the customers.

Atlas Copco has defined five key priorities to drive sustainable profitable development: service, presence, innovation, operational excellence, and people.

Service gives loyal customers

The established business area structure brings a stronger focus on service. In the current challenging business climate we focus more than ever on providing the best support. Service is not just about maintaining and repairing machines. We also see growing demand for training and simulators that let customers get comfortable using equipment in a safe, virtual environment.

One reason why we are so keen on service is because it gives us the opportunity to interact almost daily with our customers. We get to see how the equipment is running to ensure it is working exactly as it should, plus it is a good source for innovation. It lets

us learn about difficulties customers have and about opportunities for us to increase their productivity. Service revenues grew 12% in 2012 and represent 40% of our business. To ensure that we provide great service, we strive to have very motivated and competent service engineers. To achieve that, it is key that we have a good support system with top-notch training and logistics. We are a local company when it comes to service but we offer global support. That is rather unique in our business and a valuable asset.

In early 2012, we began to roll out the uniform Atlas Copco service concept that will include advanced logistics systems and field software. All service personnel across the four business areas now have a common brand identity starting with the workwear. The uniform concept will ensure consistent service to customers anywhere at any time.

Strengthening presence

Atlas Copco continued to expand in growth markets such as Asia, South America and Africa, and opened customer centers in, among others, Mozambique, Burkina Faso and Senegal. Acquisitions included Ekomak, a Turkish manufacturer of industrial screw compressors, which increased Atlas Copco's presence in Eastern Europe. Acquisitions are made for two reasons. First, to intensify our presence, dig deeper into a market. The second reason is to extend the product offers to customers.

We want to be present where there are existing and potential customers. This comes with a challenge because we need to be



» We need to be conscious of the risks with complex markets. We therefore work hard to increase awareness of our zero tolerance for corruption.

conscious of the risks with complex markets. We therefore work hard to increase awareness of our zero tolerance for corruption. About 3 500 managers took the annual corruption awareness



training and signed the compliance of the Business Code of Practice. Atlas Copco is a signatory to the UN Global Compact, 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.

New applications help us strengthen our presence. Our sales people are taking the pulse on the trends and are seeing what our customers need. One example is mining companies' effort to begin production sooner, which is helped by the new Atlas Copco Boomer E1 C-DH face drilling rig that can get started even before water and electricity are installed at the site.

Investing in innovation

We continued to invest heavily in product development, as our success depends on it, and we invested 24% more year-on-year. New products launched include a range of rig-mounted bucket crushers for efficient and economic recycling of all types of material on site such as asphalt, stone and concrete debris as well as mine and quarry material. Other new innovative products include redesigned filters that have much lower pressure drop than their predecessors and hence save energy. Atlas Copco's initiative to boost customer energy efficiency by at least 20% by 2020 by continuously making products more efficient progressed well.

Keeping up the speed of innovation starts with having the best people, and making sure they have the drive to deliver the best products. It is ultimately about seeking to create the highest productivity for our customers. We must also make sure the infrastructure is in place, with test labs, computer systems and other

needed resources. Atlas Copco fosters a culture of innovation by ensuring competent people have the responsibility to understand customer needs and have the freedom to act. We also actively attract external innovators and cooperate with universities.

The Group's John Munck Award, which rewards major technical innovations, was in 2012 presented to developers of a range of light and compact power tools that improved ergonomics, flexibility and productivity.

New innovative products were also added through such acquisitions as Gazcon, a Danish manufacturer of nitrogen and oxygen generators that allow small and medium gas consumers to lower costs and emissions by generating gases on site; MEYCO Equipment, a Swiss producer of mobile equipment for applying sprayed concrete (shotcreting) in underground operations; NewTech Drilling Products, a U.S. maker of durable drilling products designed to be both impact and wear resistant; and GIA Industri, a Swedish manufacturer of electric mine trucks, utility vehicles, continuous loaders and ventilation systems.

Operational excellence

We are continuously finding ways to run the operations more intelligently by for example fine-tuning our lean production and distribution systems around the world and supporting them with sophisticated logistics and IT systems. This creates a more efficient Atlas Copco and further improves customers' experience with the organization.

Our asset-light structure demands speed and efficiency throughout the manufacturing, supplier and distribution chain, as well as in our financial process. We are aiming for a very productive relationship with our suppliers, ensuring they are innovative and highly committed to deliver the right quantities at the right times. To achieve the needed speed we must be close to the customers, and this year we have inaugurated new compressor factories in Pune, India, and in Wuxi, China. Both are top-



... the sales outlets increasingly are not bound to a physical location but leverage the digital world to give customers the best and most efficient experience.

modern facilities built according to the Leadership in Energy and Environmental Design standard.

Atlas Copco is constantly reducing assembly times, providing customers with faster and more reliable delivery, and is enhancing efficiency in other ways. In 2012 we decided to reorganize the production of road construction equipment in Karlskrona, Sweden, to create a more competitive production unit with stronger future growth potential.

We are phasing in customer centers of the future, meaning that the sales outlets increasingly are not bound to a physical location but leverage the digital world to give customers the best and most efficient experience. We started rolling out a new IT system, expanding the use of video conferencing and increasing remote monitoring.

Operational excellence is also about providing a safe and healthy work environment. Our target is to have zero work-related accidents and a sick-leave level of below 2.5%.

Competing with competent people

People are key to everything we do. To ensure we have top talented people all over the world we have to utilize 100% of the talent pool. This means we want full diversity when it comes to nationalities, gender and age. The ratio of female employees increased slightly to about 17%. Among the 371 most senior managers there are 49 nationalities, reflecting our long-term ambition to develop local leaders.

Competence development is key to attracting and keeping skilled employees. We are constantly providing coaching sessions to reduce the time to competence.

Among other employee initiatives, we developed a new concept to raise awareness of safety first to be used throughout the company, an effort that will be rolled out over the coming year.

Looking ahead

Despite the uncertain and mixed business climate, Atlas Copco will continue to benefit long-term from the global trends. One such trend is urbanization, which drives demand for more minerals and infrastructure work. Another megatrend is the geographical expansion in regions such as Asia, Africa and South America. These markets still offer a lot of potential. Last but not least is the industry's constant drive for productivity and energy efficiency, which is core to our operations.

We can rely on our business model that revolves around lean manufacturing, being asset light and giving high priority to service. It is generating a strong cash flow even in tough times as well as a healthy return to shareholders. The Board proposes a 10% increase in dividend to SEK 5.50 per share, which is a good balance of rewarding investors while preserving a strong balance sheet.

In 2013, Atlas Copco is celebrating 140 years of sustainable profitable growth. What a tremendous journey it has been for this company. Key to Atlas Copco's success has been its constant drive to be the most innovative, think long-term, as well as be close to customers and provide them with top service. This drive is deeply rooted in Atlas Copco's genes and will continue this year and beyond. There is always a better way. Thank you all.

Ronnie Leten
President and CEO
Stockholm, January 31, 2013

This is Atlas Copco

Atlas Copco is an industrial group with world-leading positions in compressors, expanders and air treatment systems, construction and mining equipment, power tools and assembly systems. With innovative products and services, Atlas Copco delivers solutions for sustainable productivity.

VISION, MISSION AND STRATEGY

The Atlas Copco Group's vision is to become and remain First in Mind—First in Choice® of its customers and other principal stakeholders. The mission is to achieve sustainable, profitable development. Sustainability plays an important role in Atlas Copco's vision and it is an integral aspect of the Group's mission. An integrated sustainability strategy, backed by ambitious goals, helps the company deliver greater value to all its stakeholders in a way that is economically, environmentally and socially responsible. In order to achieve the mission, the Board of Directors has adopted a number of goals. Strategies and achievements are presented throughout this annual report.

STRUCTURE AND GOVERNANCE

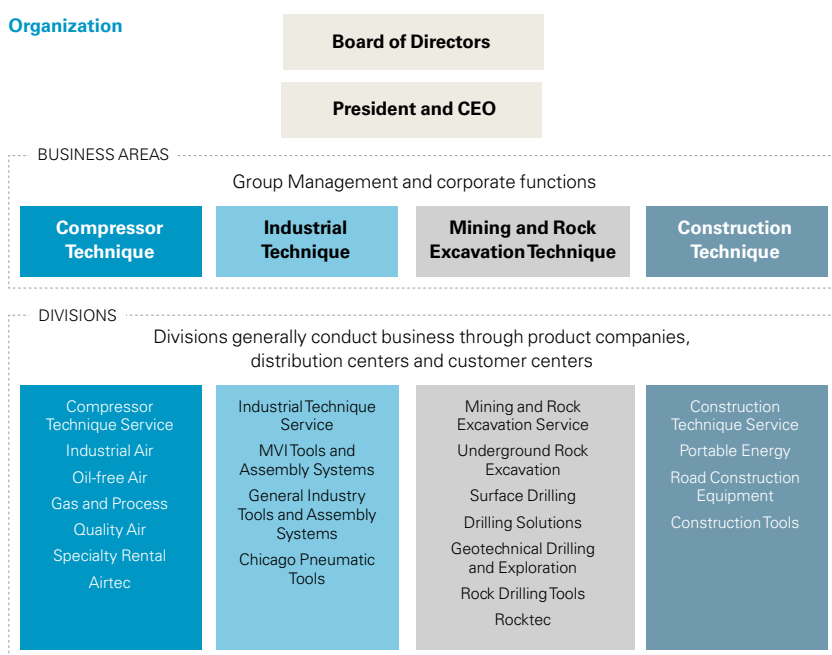
Atlas Copco's organization is based on the principle of decentralized responsibilities and authorities. Atlas Copco's operations are organized in four business areas comprised of 22 divisions. Each operating unit has a business board which reflects the operational structure of the Group. The duty of a business board is to serve in an advisory and decision-making capacity concerning strategic and operative issues. It also ensures the implementation of controls and assessments. In addition, each legal company has a legal board reflecting the legal structure of the Group.

Committed to sustainable productivity

is Atlas Copco's brand promise. This is a promise to ensure reliable, lasting results with a responsible use of resources – human, natural and capital.

→ For further information about governance, the Board of Directors and Group Management, see pages 56–65. For further information about risk management, see pages 36–39. Comprehensive information about the business areas can be found on pages 20–35.

Organization



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

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

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

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

Each business area has a service division with global responsibility for service of the products and solutions of the business area.

Common service providers – internal or external – have been established with the mission to provide services faster, to a higher quality, and at a lower cost, thus allowing the divisions to focus on their core businesses.

Creating value for all stakeholders

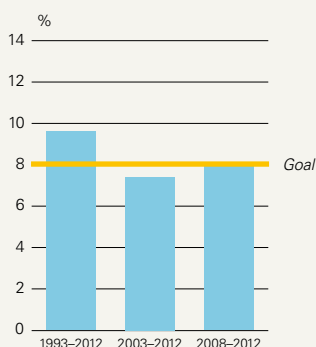
The goals that were introduced in 2011 all aim at continuously delivering sustainable, profitable development. By integrating sustainability into Atlas Copco's customer-focused and operational goals, Atlas Copco can reduce costs, mitigate risks and create business opportunities. The Group creates a positive impact on society and the environment, which in turn positively affects Atlas Copco's financial bottom line – thus, creating shared value. Atlas Copco uses this win-win concept to increase sales, make sound investments and generate economic value.

GOALS FOR SUSTAINABLE, PROFITABLE DEVELOPMENT

<p><i>The customer focused goals will safeguard market expansion as well as customer satisfaction and loyalty. Atlas Copco delivers energy efficient, productive, safe and reliable products and solutions through innovation and continuous improvement.</i></p>	Products, services and solutions	First in Mind—First in Choice® for customers and prospects for all brands.	Increase customer loyalty.	Increase customer energy efficiency by 20% by 2020*.	Offer safe and reliable products and services.
	Operations	First in Mind—First in Choice® employer for current and future employees.	Competence development to achieve good results and yearly coaching/ appraisals for all employees.	Increase diversity in both gender and nationality. Encourage internal mobility.	Safe and healthy working environment for all employees. Zero work-related accidents. Sick leave below 2.5%.
		No corruption or bribes.	Work with business partners committed to high ethical, environmental and social standards.	Develop new products and services with a life cycle perspective.	Construct Atlas Copco buildings according to sustainable building standards.
<p><i>The goals for operations focus on people management, environmental achievements, health and safety, and on business ethics and integrity.</i></p>		Decrease CO ₂ emissions from operations by 20% in relation to cost of sales by 2020*.	Decrease CO ₂ emissions from transport of goods by 20% in relation to cost of sales by 2020*.	Keep water consumption at current level.	Reuse or recycle waste.
<p><i>The financial goals aim to support increased economic value creation.</i></p>	Financials	Annual revenue growth of 8% over a business cycle.	Sustained high return on capital employed.	All acquired businesses to contribute to economic value added.	Annual dividend distribution about 50% of earnings per share.

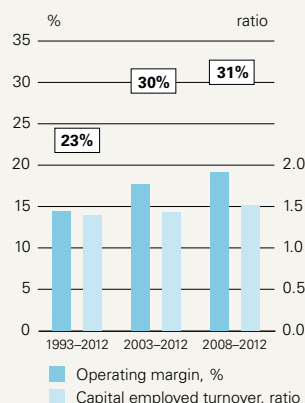
* Base year 2010

Revenue growth, average



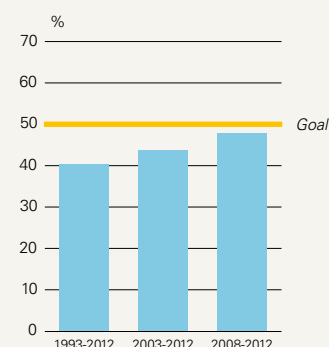
The Group's goal for annual revenue growth is 8%, measured over a business cycle. At the same time the ambition is to grow faster than the most important competitors. Growth should primarily be organic, supported by selective acquisitions.

Return on capital employed, average



The Group's goal is to continue to deliver high return on capital employed, by constantly striving for operational excellence and generating growth. All acquired businesses are expected to make a positive contribution to economic value added (i.e. a return on capital employed above the Group's weighted average cost of capital).

Dividend/earnings per share, average



Atlas Copco aims to have a strong but also 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.

PEOPLE

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

PROCESSES

Group-wide strategies, processes, and shared best practices are collected in the database *The Way We Do Things*. The processes covered are governance, safety, health, environment and quality, accounting and business control, treasury, tax, audit and internal control, information technology, people management, legal, communications and branding, crisis management, administrative services, insurance, Group standards and acquisitions. The information is stored electronically and is available to all employees. Although most of the documentation is 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 principles and guidelines provided.



» Core values

The Atlas Copco core values – interaction, commitment, and innovation – are reflected in how we behave internally and in our relationships with external stakeholders.

We are committed to sustainable productivity which means that we do everything we can to ensure reliable, lasting results with responsible use of resources – human, natural and capital.

The Group operates worldwide with a long-term commitment to our customers in each country and market served. As a customer-centric organization, we interact with and develop close relationships with customers in order to be able to meet and exceed their expectations.

Interaction with customers and end-users is conducted in many different ways and through many different channels. However, we believe that personal contacts are always the most important.

Customers expect the best from Atlas Copco and our objective is to consistently deliver high-quality products and services that contribute to our customers' productivity and prosperity.

The innovative spirit of the Atlas Copco Group should be reflected in everything we do. We believe that there is always a better way to do things.

» The Atlas Copco Group is unified and strengthened through:

A shared vision and a common identity

The sharing of brand names and trademarks

The sharing of resources and infrastructure

Common processes and shared best practices collected in *The Way We Do Things*

Shared financial and human resources, and their free mobility

The corporate culture and the core values: interaction, commitment, and innovation

A common leadership model

Common service providers

STAKEHOLDERS

Atlas Copco's ambitions towards its stakeholders play an important role in shaping the corporate strategy along with its resources and capabilities. The Group gathers continuous feedback and input through stakeholder dialogues, which are held both on a local and a corporate level. Atlas Copco's stakeholders directly and indirectly influence our business. The Group aims to be transparent and strives to address the concerns of every stakeholder to the best of its ability.



VISION	→ Become and remain First in Mind—First in Choice® for customers and other principal stakeholders				
STAKEHOLDER	→ Customers To be the preferred supplier to current and potential customers by developing, manufacturing and delivering productive, reliable and sustainable solutions.	Employees To attract, keep and develop talent within the organization and offer all employees a safe, healthy, ethical and diverse working environment.	Business partners To be the preferred associate for suppliers, distributors, and other business partners with strong business ethics and shared values.	Society and environment To be a good corporate citizen with strong values and maximize the positive impact of our operations.	Shareholders To generate more economic value by focusing on growth while maintaining strong profitability and continuously improving efficiency.

This is how we do business

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



Sales and service

Customer centricity is a guiding principle for Atlas Copco. The ambition is to have close relationships with customers and to help them increase their productivity in a sustainable way. Sales and service is primarily direct, but complemented by alternative sales channels, e.g. through distributors, to maximize presence in the market. The Group has sales in more than 170 countries and about 80% of sales is made directly to the end user.

Sales of equipment are performed by engineers with strong application knowledge that has the ambition to offer the best solution for the customer's specific application. The offer also includes service and maintenance performed by technicians. Service is the responsibility of dedicated organizations 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

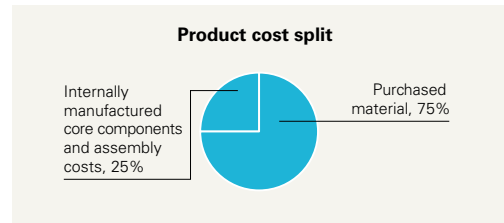
Approximately 40% of revenues is generated from service (spare parts, maintenance, repairs, consumables, accessories, and rental). These revenues are more stable than equipment sales and provide a strong base for the business.

WHY SERVICE?

- Closer relations with customers
- Increased customer satisfaction as service contributes to increased productivity
- Stable revenues
- Optimized business processes
- Enhanced product development
- High growth potential

Manufacturing and logistics

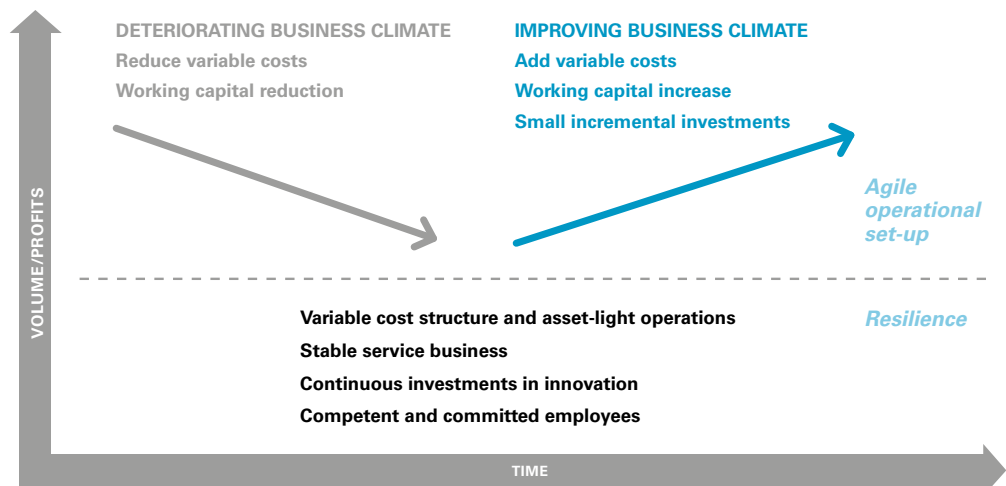
The manufacturing philosophy is to design and manufacture in-house those components that are critical for the performance of the equipment. For non-critical components, Atlas Copco leverages the capacity and the competence of business partners and cooperates with them to continuously achieve product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



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

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

Agile and resilient operations



SERVICE SHARE

40%

Innovation

Atlas Copco believes that there is always a better way of doing things. Innovation and product development are very important for the Group. A key activity is to design new or improved products that provide tangible benefits in terms of productivity, energy efficiency and/or life cycle cost to 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 waste must always be challenged.

Investments in fixed assets and working capital

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

The working capital requirements of the Group are affected by the direct sales and service model, which requires a certain amount of inventory and receivables, as well as by the manufacturing philosophy, which in contrast, is very lean in capital. 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 done in, or very close to, the already existing core businesses. All divisions are required to map and evaluate businesses that are adjacent and can offer tangible synergies with the existing businesses. All acquired businesses are expected to make a positive contribution to economic value added.

Human capital

Atlas Copco strives to be a good employer to attract, develop, and keep qualified and motivated people. Employees are responsible for their professional career and supported by continuous competence development and an internal job market. Employees are encouraged to grow professionally and take up new positions.

If the company needs to adapt capacity in a deteriorating business climate, the first resort is to stop recruitment. Layoffs are the last resort and, if necessary, Atlas Copco will provide support for the employees.

THE BUSINESS CODE OF PRACTICE



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

The Business Code of Practice is based on the UN Bill of Human Rights, the International Labour Organization Declaration on Fundamental Principles and Rights at Work, the United Nations Global Compact (UN GC), and OECD's Guidelines for Multi-national Enterprises. Since 2008, Atlas Copco has been a signatory to the UN GC principles on human rights, labor, the environment and anti-corruption. In 2011, the Group began the process to adopt the United Nations Guiding Principles on Business and Human Rights. Atlas Copco follows both local and international rules (US OFAC, UN and EU) and regulations regarding trading in high-risk countries.

To make it accessible to all employees, the Business Code of Practice has been translated into 26 languages. Through its annual training and compliance process, Atlas Copco ensures that all managers will act in accordance with high ethical standards outlined in the Business Code of Practice. It also means that the managers can provide support and guidance to their organizations and to local external stakeholders.

PRIMARY DRIVERS OF REVENUES

	Equipment, 60%	Service, 40%
Industry	Industrial machinery investment	Industrial production
Construction	Investment in infrastructure	Construction activity
Mining	Mining machinery investment	Metal and ore production

Investments in equipment in various private and public sectors, such as manufacturing, infrastructure, and mining, are drivers for Atlas Copco's revenues. Important customer groups in manufacturing and process industries demand and invest in compressed air products and solutions, industrial tools and assembly systems. Such industrial machinery investments are influenced by customers' ambitions to increase capacity, reduce cost, and improve productivity and quality. Customers in the construction and mining industries invest in equipment, e.g. for rock excavation, demolition and road construction. Large infrastructure investments, such as tunnel construction for roads, railways and hydro-electric power plants often depend on political decisions. Private investments in the construction and mining industries can be influenced by a number of factors, e.g. underlying construction activity, interest rates, metal prices, and metal inventory levels.

There is also demand for service – spare parts, maintenance, repairs, consumables, accessories and rental. The demand arises during the time the equipment is in use, i.e. during industrial production, construction activity and ore production. Additionally, there is an outsourcing trend that is driving demand as customers increasingly look for suppliers that can perform additional services. Demand for service is relatively stable compared to the demand for equipment.

The year in review

The year in review highlights Atlas Copco's performance during 2012 in the economic, social and environmental areas related to the Group's goals for sustainable, profitable development. This part of the annual report includes the administration report (pages 13–44), financial, sustainability and corporate governance information. The year in review is intended to address the information requirements of all stakeholders of the Group. In the table below, the main issues raised by our stakeholders are summarized, together with performance and comments.



Main issues raised in stakeholder dialogues

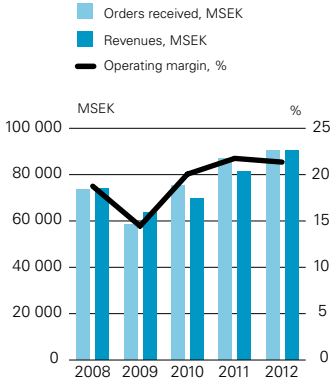
Stakeholder	Stakeholder views	Performance 2012	Comment
Society and the environment	Work to fight corruption.	3 500 managers signed off compliance to the Business Code of Practice and were trained on corruption.	The yearly process for managers to sign off compliance to the Business Code of Practice is continuing and is combined with awareness training.
	Raise human rights awareness.	The Business Code of Practice is updated with the UN Guiding Principles on Human Rights. A Human Rights Statement was published on the Atlas Copco website.	The UN Guiding Principles on Human Rights and the UN Global Compact Children Rights are implemented in the Code and in guidelines at Group level. The awareness training will be conducted in 2013.
	Reduce environmental impact from operations.	9% decrease of energy consumption in relation to cost of sales (COS) ¹⁾ and 24%/COS decrease of CO ₂ emissions in production. 9%/COS decrease of water consumption. 3%/COS increase of waste.	Energy and related CO ₂ emissions depend on investments in new efficient heating equipment and more use of renewable energy. Water is used for non-production related activities. Waste is reused to a large extent.
Customers	Further increase the energy efficiency of products and solutions.	Launch of more energy-efficient products and services.	The work to develop and launch energy-efficient products and solutions is continuing and crucial for sustainable profitable growth.
	Increase customer risk awareness in countries with weak governments ²⁾ .	The tool to increase awareness of customer sustainability performance was further developed and tested.	The customer sustainability assessment tool was further discussed, developed and tested during the year. The tools will be rolled out in 2013.
Employees	Continue to offer a safe and healthy workplace in all operations.	5.4 (5.7) accidents/one million working hours and 23.4 (22.8) incidents/one million working hours. During the year there were three fatal accidents. Sick leave at 2.1% (2.0).	The rate of accidents has slightly decreased due to increased focus on safety. Reporting on incidents is new but will lead to improved safety. The unfortunate fatalities are addressed. Sick-leave is at a stable low level.
	Improve diversity in gender and nationality.	Proportion of female managers increased to 15.1% (14.6). 49 (44) nationalities among senior managers.	Several years of the female mentorship program have resulted in an increased number of female managers.
Business partners	Work with ensuring a sustainable supply chain and set a clear goal on the work.	16% of the significant suppliers evaluated during the year on sustainability aspects.	The work to safeguard a sustainable supply chain is in focus. Long-term relations and close cooperation give opportunities for improvements.
Shareholders	Improve the sustainability performance and the reporting on goals' achievement.	Clear follow-up on Group goals. The sustainability information in the annual report is reviewed by Deloitte for limited assurance.	In this report performance versus goals, including analysis is reported on. It is also available on the Atlas Copco website.
	Economic value creation.	The value creation improved versus 2011 due to record revenues and sustained high return on capital employed.	Increased emphasis on shared value creation and sustainability in shareholders meetings.

¹⁾ Cost of sales when presented in relation to sustainability information refers to cost of sales at standard cost for the Group.

²⁾ OECD definition.

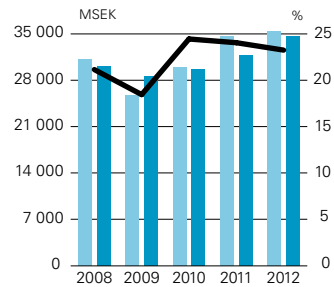
Atlas Copco Group

Atlas Copco is an industrial group with world-leading positions in compressors, expanders and air treatment systems, construction and mining equipment, power tools and assembly systems. With innovative products and services, Atlas Copco delivers solutions for sustainable productivity. The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning more than 170 countries. In 2012, Atlas Copco had 39 800 employees and revenues of BSEK 90.5 (BEUR 10.5).



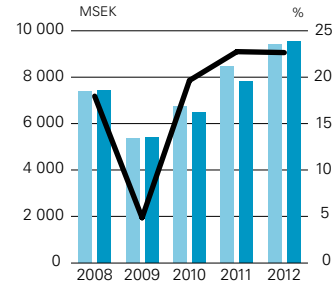
Compressor Technique

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



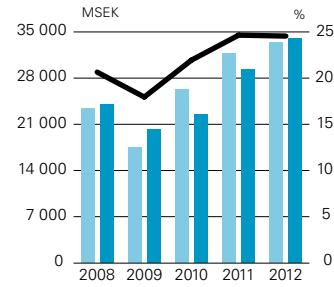
Industrial Technique

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



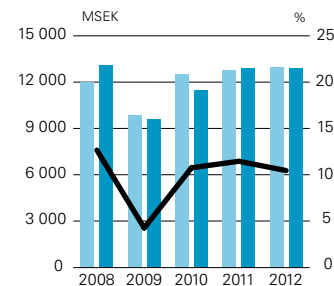
Mining and Rock Excavation Technique

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



Construction Technique

The Construction Technique business area provides construction and demolition tools, portable compressors, pumps and generators, lighting towers, and compaction and paving equipment. It offers service through a global network. Construction Technique innovates for sustainable productivity in infrastructure, civil works and road construction projects. Principal product development and manufacturing units are located in Belgium, Germany, Sweden, China and Brazil.



MARKET REVIEW AND DEMAND DEVELOPMENT

The overall demand for Atlas Copco's products and services remained at a good level. Orders received increased 4% to a record MSEK 90 570 (86 955), corresponding to 2% organic growth. The positive development for the service business (spare parts, maintenance, repairs, consumables, accessories and rental) continued and strong growth was achieved in all business areas. The order intake for equipment, however, decreased somewhat compared to 2011 as customers became more cautious to invest in capital equipment, particularly in the latter part of the year. The order intake of small and medium sized compressors to the manufacturing industry was stable, while orders for large machines for the process industry decreased moderately. Order intake for industrial tools and assembly systems from the motor vehicle, electronics and aerospace industry continued to increase, while it decreased from most other customer groups. The mining industry continued to invest in new equipment, but the order intake did not reach the high level of the previous year. The demand for construction equipment for infrastructure and civil engineering work was, with few exceptions, weak. See also business area sections on pages 20–35.

North America

The order intake increased 4% in local currencies in North America, with the best development in the United States. Growth was achieved for most types of equipment, e.g. industrial compressors, gas and process compressors, industrial tools, and construction equipment, while the orders for mining equipment decreased. The activity level remained high in most customer segments and the service business grew strongly. North America accounted for 20% (19) of orders received.

South America

South America orders grew by 13% in local currencies. All business areas achieved growth with the best development in Mining and Rock Excavation Technique, supported by some large orders. South America accounted for 11% (10) of orders received.

Europe

The demand in Europe was somewhat mixed with a stable level of demand in e.g. Germany, the United Kingdom and the Nordic countries. The southern parts, however, were influenced by the debt crises and the order volumes for equipment decreased in markets like Italy and Spain. The orders received of industrial tools and compressors to manufacturing and process industries had a good development, with strong demand from the motor vehicle industry. Mining and construction equipment, however, had a negative development in most major markets. The service business achieved healthy growth and the order intake was also supported by acquisitions. In total, orders increased 1% in local currencies. Europe accounted for 29% (31) of orders received.

Africa/Middle East

The Africa/Middle East region accounted for 11% (11) of orders received and achieved a growth of 9% in local currencies. The main contributor was a positive development for mining and construction equipment in nearly all markets in the region.

Asia/Australia

Orders received increased 2% in local currencies in Asia/Australia. The positive contribution came from Australia, where the order intake from the mining industry was strong, and from South Korea, India and in Southeast Asia. The order intake decreased in China, where the weak development of construction equipment and industrial compressors was only partly offset by increased orders for industrial tools and mining equipment. The Asia/Australia region accounted for 29% (29) of orders received.

Near-term demand outlook, *Published January 31, 2013*

The overall demand for Atlas Copco's products and services is expected to decrease somewhat.

Sales bridge	Atlas Copco Group			Compressor Technique		Industrial Technique	
	Orders received	Orders on hand December 31	Revenues	Orders received	Revenues	Orders received	Revenues
2010	75 178	18 677	69 875	29 966	29 753	6 730	6 472
Structural change, %	+2		+2	+3	+3	+5	+6
Currency, %	-8		-8	-9	-8	-9	-9
Price, %	+2		+2	+1	+1	+2	+2
Volume, %	+20		+20	+21	+11	+28	+22
Total, %	+16		+16	+16	+7	+26	+21
2011	86 955	24 714	81 203	34 664	31 760	8 462	7 821
Structural change, %	+2		+2	+2	+2	+10	+11
Currency, %	0		0	0	0	-1	-1
Price, %	+2		+2	+1	+1	+1	+1
Volume, %	0		+7	-1	+6	+1	+11
Total, %	+4		+11	+2	+9	+11	+22
2012	90 570	24 020	90 533	35 469	34 714	9 435	9 566

IMPORTANT EVENTS

Market presence

To strengthen the local presence and increase the offering of products and services in Africa, Atlas Copco opened customer centers in Mozambique, Senegal and in Burkina Faso in 2012.

Atlas Copco had own customer centers in 89 (86) countries and production facilities in 22 (21) countries on five continents at the end of the year. Revenues were reported in 176 (176) countries.

Investments in manufacturing

Two facilities to expand the capacity to assemble portable and industrial compressors were built in China and India with the investments amounting to MSEK 150 and MSEK 160, respectively. The facilities will be inaugurated in the beginning of 2013. In Fagersta, Sweden, the largest investment project ever in Atlas Copco's history continued during the year. The investment totaling approximately MSEK 450 will increase the production capacity of rock drilling tools and will be finalized during 2013.

Acquisitions

The Group completed nine acquisitions during the year. The acquisitions added net revenues of MSEK 803 in 2012. See also note 2 and business area sections on pages 20–35.

Adaptation of capacity and reorganization of production

The demand from many customer segments weakened in the second half of the year, which led to actions to adapt the capacity to the level of demand. In Örebro, Sweden, where mining and rock excavation equipment is manufactured, for example, 135 employees received final notice in January 2013.

In addition, several initiatives were taken to reorganize production to create more competitive production units with stronger future growth potential. The production unit for road construction equipment in Karlskrona, Sweden, for example, plans to invest MSEK 30, but also to reduce the workforce. Final notice was given to 78 blue collar employees at the end of September.

Mining and Rock Excavation Technique		Construction Technique	
Orders received	Revenues	Orders received	Revenues
26 356	22 520	12 534	11 485
0	+1	+1	+2
-8	-9	-7	-8
+3	+2	+1	+1
+25	+36	+7	+17
+20	+30	+2	+12
31 751	29 356	12 786	12 918
+1	+1	+2	+2
0	+1	-1	-1
+3	+3	+2	+2
+1	+11	-1	-3
+5	+16	+2	0
33 482	34 054	13 001	12 888

Divestment of financial assets

A portfolio of financing and leasing contracts, related to customer financing, was sold. The value of the portfolio amounted to MSEK 1 400, and a gain of approximately MSEK 100 related to the transaction was reported.

Employee survey

In the 2012 employee survey more than 32 000 employees replied, 85% of all employees. The survey showed that the share of employees that are proud to work for Atlas Copco increased by five percentage points to 82%. This was a significant improvement compared with the previous survey held in 2010. See page 42.

Certifications on quality, environment, health and safety

In September, Atlas Copco decided that all product companies, as well as all sites with 70 or more employees shall have ISO 9001, ISO 14001 and OHSAS 18001 certifications by the end of 2013.

Recognitions

Atlas Copco achieved the following recognitions

- Inclusion in 2012/2013 Dow Jones Sustainability World Index and FTSE4Good.
- One of 100 most innovative companies in the world by Forbes.
- Ranked among world's top sustainable companies by Global 100.

Changes in Group Management

Atlas Copco appointed Håkan Osvald Senior Vice President General Counsel and member of Group Management as from January 1, 2012. He succeeded Hans Sandberg, who retired.

Geographic distribution of orders received, by business area, %

	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Atlas Copco Group
North America	19	26	20	16	20
South America	7	6	15	12	11
Europe	33	46	19	34	29
Africa/Middle East	9	1	17	13	11
Asia/Australia	32	21	29	25	29
	100	100	100	100	100

Orders received, by customer category, %

	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Atlas Copco Group
Construction	9	1	28	62	22
Manufacturing	37	87	0	11	25
Process industry	25	2	0	2	10
Mining	8	0	69	8	30
Service	12	1	1	5	6
Other	9	9	2	12	7
	100	100	100	100	100

Customers are classified according to standard industry classification systems. The classification does not always reflect the industry of the end user.

FINANCIAL SUMMARY AND ANALYSIS

Key financial data

MSEK	2012	2011
Orders received	90 570	86 955
Revenues	90 533	81 203
EBITDA	21 892	20 082
Operating profit	19 228	17 560
– in % of revenues	21.2	21.6
Profit before tax	18 538	17 276
– in % of revenues	20.5	21.3
Profit for the year	13 914	12 988
Basic earnings per share, SEK	11.45	10.68
Diluted earnings per share, SEK	11.43	10.62

Revenues

The Group's revenues increased by 11% to a record MSEK 90 533 (81 203). The Group goal is annual revenue growth of 8% over a business cycle. In the past 10 years, revenue growth has averaged 7%. If the divested businesses related to professional electric tools and equipment rental are excluded, the annual revenue growth has averaged approximately 12%.

Operating profit

Operating profit increased by 9%, to a record MSEK 19 228 (17 560), corresponding to a margin of 21.2% (21.6). Items affecting comparability, including effects from share-related long-term incentive programs, were MSEK –182 (–160) and the adjusted operating margin was 21.4% (21.8). The margin was positively affected by increased volume, higher prices, and currency effects, but this effect was more than offset by investments in the organization, a negative product mix and dilution from acquisitions.

Operating profit for the Compressor Technique business area increased by 6% to MSEK 8 017 (7 592), corresponding to a margin of 23.1% (23.9). The margin benefited from volume, price and currency, but these were more than offset by a negative product mix, higher costs for marketing and product development as well as dilution from acquisitions.

Operating profit for the Industrial Technique business area increased by 22% to MSEK 2 155 (1 767), corresponding to a margin of 22.5% (22.6). Higher volumes affected the profit and margin positively, while the currency effect was negative.

Operating profit for the Mining and Rock Excavation Technique business area increased by 16% to MSEK 8 315 (7 196), corresponding to a margin of 24.4% (24.5). The margin was supported by increased volumes, but it was negatively affected by revenue mix and dilution from acquisitions.

Operating profit for the Construction Technique business area decreased 9% to MSEK 1 326 (1 460), corresponding to a margin of 10.3% (11.3). Restructuring costs and other items affecting comparability were MSEK –65 (–105) and the adjusted operating margin was 10.8% (12.1).

Costs for common group functions and eliminations increased to MSEK –585 (–455), including a gain of MSEK 100 from sales of assets in the customer financing portfolio and an effect from the provision for share-related long-term incentive programs of MSEK –217 (–5). Previous year included restructuring costs of MSEK –50 related to outsourcing of administrative and financial processes.

Depreciation and EBITDA

Depreciation and amortization was MSEK 2 664 (2 522). Earnings before depreciation and amortization, EBITDA, was MSEK 21 892 (20 082), corresponding to a margin of 24.2% (24.7).

Net financial items

The Group's net financial items totaled MSEK –690 (–284). The net interest expense increased to MSEK –644 (–506). Other financial items were MSEK –46 (+222). Previous year include a capital gain of MSEK 350 from the sale of all remaining shares in RSC Holdings Inc. See also note 9 and 27.

Profit before tax

Profit before tax increased by 7% to MSEK 18 538 (17 276), corresponding to a profit margin of 20.5% (21.3).

Bridge – revenues and operating profit

MSEK	2012	Volume, price, mix and other	Currency	Acquisitions	Restructuring and capital gain	Share based long term incentive programs	2011
Revenues	90 533	+7 255	+60	+2 030	–	–	81 203
Operating profit	19 228	+1 315	+250	+135	+190	–212	17 560
Effect on margin, %	21.2	–0.3	+0.2	–0.3	+0.2	–0.2	21.6

The operating margin decreased to 21.2% (21.6). It was negatively affected by the net effect of volume, price, mix and operational costs and dilution from acquisitions, but it was supported by currency. The effect from items affecting comparability was neutral.

MSEK	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets ¹⁾	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Compressor Technique	34 714	31 760	8 017	7 592	23.1	23.9	62	70	987	992
Industrial Technique	9 566	7 821	2 155	1 767	22.5	22.6	43	55	170	155
Mining and Rock Excavation Technique	34 054	29 356	8 315	7 196	24.4	24.5	59	66	1 298	1 294
Construction Technique	12 888	12 918	1 326	1 460	10.3	11.3	10	12	286	150
Common Group functions/eliminations	–689	–652	–585	–455					230	469
Total Group	90 533	81 203	19 228	17 560	21.2	21.6	36	37	2 971	3 060

¹⁾ Excluding assets leased.

Taxes

Taxes for the year totaled MSEK 4 624 (4 288), corresponding to an effective tax rate of 24.9% (24.8) in relation to profit before tax. See also note 10.

Profit and earnings per share

Profit for the year increased by 7% to MSEK 13 914 (12 988), whereof MSEK 13 901 (12 963) and MSEK 13 (25) attributable to owners of the parent and non-controlling interests, respectively. Basic and diluted earnings per share were SEK 11.45 (10.68) and SEK 11.43 (10.62), respectively.

Balance sheet

Balance sheet in summary

MSEK	December 31, 2012		December 31, 2011	
Intangible assets	15 879	20%	15 352	21%
Rental equipment	2 030	2%	2 117	3%
Other property, plant and equipment	6 846	8%	6 538	9%
Other fixed assets	3 836	5%	3 983	5%
Inventories	17 653	22%	17 579	23%
Receivables	21 155	26%	21 996	29%
Current financial assets	1 333	2%	1 773	2%
Cash and cash equivalents	12 416	15%	5 716	8%
Assets classified as held for sale	1	0%	55	0%
Total assets	81 149	100%	75 109	100%
Total equity	35 132	43%	28 839	38%
Interest-bearing liabilities	22 453	28%	21 939	29%
Non-interest-bearing liabilities	23 564	29%	24 331	33%
Total equity and liabilities	81 149	100%	75 109	100%

The Group's total assets increased 8% to MSEK 81 149 (75 109). Currency translation effects were -4% and the effect from the increase of cash, cash equivalents and other current financial assets was +8%. Excluding these effects, assets increased approximately 2% for comparable units. This is partly due to investments in property, plant and equipment and partly due to higher requirements for working capital. Acquisitions added approximately 2% to the assets.

Equity

MSEK	2012	2011
Opening balance	28 839	29 321
Profit for the year	13 914	12 988
Other comprehensive income for the year	-1 559	-505
Shareholders' transactions	-6 062	-12 965
Closing balance	35 132	28 839
Equity attributable to		
– owners of the parent	35 078	28 776
– non-controlling interests	54	63

At year end, Group equity including non-controlling interests was MSEK 35 132 (28 839). Other comprehensive income for the year was MSEK -1 559 (-505), see page 66 and note 10. Shareholders' transactions include dividends and redemption of shares of MSEK -6 070 (-10 920) in total, sales and repurchases of own shares of net MSEK +271 (-1 005), acquisition of non-controlling interest in Atlas Copco (India) Ltd. of MSEK -107 (-991) and share based payments of net MSEK -156 (-49).

Equity per share was SEK 29 (24). Equity accounted for 43% (38) of total assets. Atlas Copco's market capitalization, excluding shares held by the company, at year end was MSEK 208 526 (172 630), or 594% (599) of net book value. The information related to public takeover bids given for the Parent Company, on page 19, is also valid for the Group.

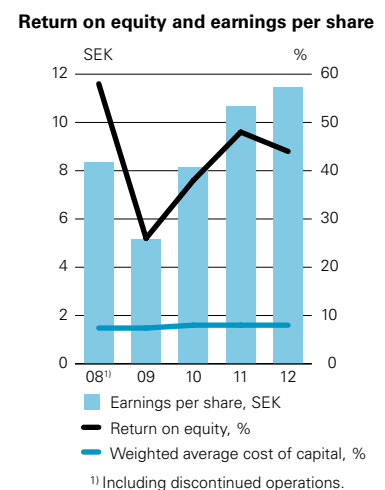
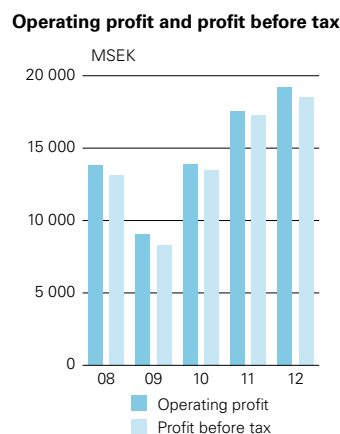
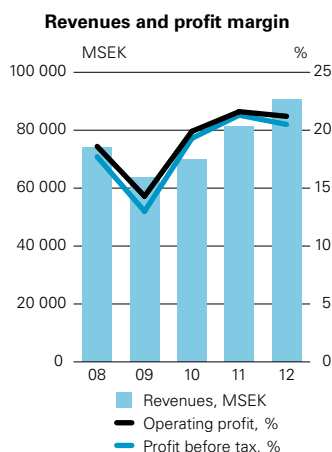
Interest-bearing debt and net indebtedness

Total interest-bearing debt were MSEK 22 453 (21 939), whereof post-employment benefits MSEK 1 401 (1 504). The Group has an average maturity of 4.3 years on interest bearing liabilities. See notes 21 and 23 for additional information.

The Group's net indebtedness, adjusted with MSEK -190 (-256) for the fair value of related interest rate swaps, amounted to MSEK 8 514 (14 194) at year end. The net debt/EBITDA ratio was 0.4 (0.7) and the debt/equity ratio was 24% (49).

Credit rating

Atlas Copco's long-term and short-term debt is rated by Moody's and Standard & Poor's with the long-/short-term rating A2/P1 and A/A1, respectively. Moody's upgraded Atlas Copco in 2012.



Operating cash flow and investments

Operating cash surplus reached MSEK 21 583 (19 906). The working capital increased by MSEK 1 366 (6 115) and the rental equipment increased MSEK 749 (788). Net cash from operating activities amounted to MSEK 13 823 (8 421).

Net investments in property, plant and equipment were MSEK –1 605 (–1 676), 143% (169) of annual depreciation. Notable investments were made by Compressor Technique in China, Belgium, the United States, India and Germany, by Industrial Technique's in Sweden, by Mining and Rock Excavation Technique in Sweden, the United States, China, Canada and Australia and by Construction Technique in China, Germany, Sweden and India.

Net investments in intangible fixed assets, mainly related to capitalization of development expenditures, were MSEK –913 (–607).

Cash flow from other investments were MSEK +928 (+154). This includes a divestment of a portfolio of financing and leasing contracts for MSEK 1 400. Previous year, all remaining shares in RSC Holdings Inc. were sold for MSEK 591. Adjusted for these transactions, other investments were MSEK –472 (–437), mostly related to customer financing activities.

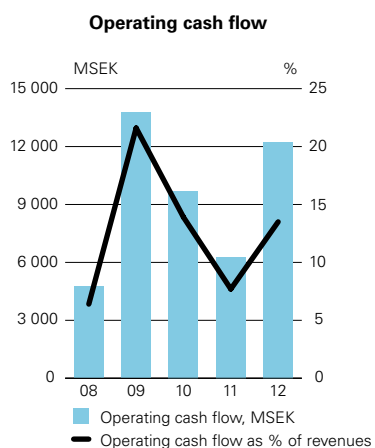
Operating cash flow was MSEK 12 233 (6 292), equal to 14% (8) of Group revenues.

The net cash flow from acquisitions and divestments in subsidiaries decreased, and amounted to MSEK –1 195 (–2 206).

Cash flow from financing

Dividends paid amounted to MSEK 6 070 (4 853) and the mandatory redemption of shares performed previous year was MSEK 6 067. Sales and repurchases of own shares equaled net MSEK +271 (–1 005). Acquisition of non-controlling interest in Atlas Copco (India) Ltd. amounted to MSEK –107 (–991).

A 7-year bond loan of MEUR 500 was issued and a 7-year MEUR 275 loan from the European Investment Bank was taken. Part of the proceeds were used to repurchase MEUR 255, nominal, of a bond loan with maturity in 2014 and to repay a loan of MSEK 2 540. These items are included under change in interest-bearing liabilities, which amounted to MSEK 1 636 (181).



Working capital ratios

The ratio of inventories to revenues at year end was 19.5% (21.6) and trade receivables was 17.6% (20.7). The corresponding average ratios were 20.3% (19.0) and 18.6% (18.3), respectively. Higher average inventories in relation to revenues compared to the previous year is primarily due to strong growth in the mining business, which has a higher inventory ratio than the Group average. Average trade payables in relation to revenues were 8.2% (8.8).

Capital turnover

The capital turnover ratio was 1.15 (1.14) and the capital employed turnover ratio was 1.66 (1.65).

Return on capital employed and return on equity

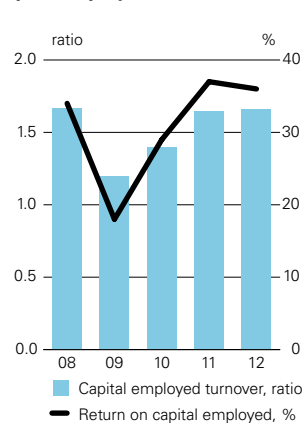
Return on capital employed was 35.7% (37.2) and the return on equity 44.5% (47.6). The Group uses a weighted average cost of capital (WACC) of 8% (8) as an investment and overall performance benchmark.

Personnel

In 2012, the average number of employees in the Atlas Copco Group increased by 3 982 to 39 113. At year end, the number of employees was 39 811 (37 579) and the number of full-time consultants/external workforce was 2 109 (2 198). For comparable units, the total workforce increased by 1 453. Acquisitions added 690 employees. See also pages 42–44.

	2012	2011
Average number of employees, total	39 113	35 131
– Sweden	4 702	4 353
– Outside Sweden	34 411	30 778
Business areas		
– Compressor Technique	15 471	14 187
– Industrial Technique	4 389	3 562
– Mining and Rock Excavation Technique	12 766	10 724
– Construction Technique	5 101	5 339
– Common Group functions	1 386	1 319

Capital employed turnover and return



PARENT COMPANY

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

Earnings

Profit before tax totaled MSEK 3 960 (9 154). Profit for the year amounted to MSEK 3 024 (8 208).

Financing

The total assets of the Parent Company were MSEK 108 741 (104 215). At year end 2012, cash and cash equivalents amounted to MSEK 7 579 (2 788) and interest-bearing liabilities, excluding post-employment benefits, to MSEK 63 485 (57 900), whereof the main part is Group internal loans. Equity represented 38% (42) of total assets and the undistributed earnings totaled MSEK 35 452 (37 510).

Personnel

The average number of employees in the Parent Company was 109 (106).

Fees and other remuneration paid to the Board of Directors, the President and CEO, and other members of Group Management, as well as other statistics and the guidelines regarding remuneration and benefits to the management of the Group as approved by the Annual General Meeting 2012 are specified in note 5.

The Board proposes to the Annual General Meeting 2013 that the same guidelines shall be applied for another year.

Risks and factors of uncertainty

Atlas Copco is subject to currency risks, interest rate risks and other financial risks. Atlas Copco has adopted a policy to control the financial risks to which Atlas Copco AB and the Group are exposed. A financial risk management committee meets regularly to take decisions about how to manage these risks. See also Risks, risk management and opportunities on pages 36–39.

Appropriation of profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 5.50 (5.00) per share, equal to MSEK 6 674 (6 058), be paid for the 2012 fiscal year and that the balance of retained earnings after the dividend be retained in the business as described below.

SEK	
Retained earnings including reserve for fair value	32 427 925 148
Profit for the year	3 023 927 229
	35 451 852 377
The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a dividend of SEK 5.50 per share	6 673 821 963
To be retained in the business	28 778 030 414
	35 451 852 377

Shares and share capital

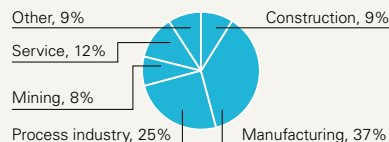
At year end, Atlas Copco's share capital totaled MSEK 786 (786) and a total number of 1 229 613 104 shares divided into 839 394 096 class A shares and 390 219 008 class B shares were issued. Net of 15 372 649 class A shares and 818 280 class B shares held by Atlas Copco, 1 213 422 175 shares were outstanding. Class A shares entitle the owner to one vote while class B shares entitle the owner to one tenth of a vote. Investor AB is the single largest shareholder in Atlas Copco AB. At year end 2012 Investor AB held a total of 206 895 611 shares, representing 22.3% of the votes and 16.8% 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 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 take-over bid. There is no limitation on the number of votes that can be cast at a General Meeting of shareholders.

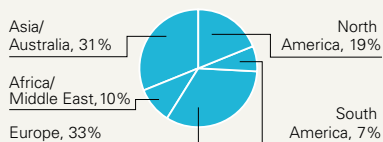
As prescribed by the Articles of Association, the General Meeting has sole authority for the election of Board members, and there are no other rules relating to election or dismissal of Board members or changes in the Articles of Association. Correspondingly, there are no agreements with Board members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

Compressor Technique

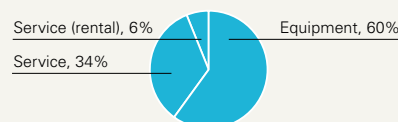
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY GEOGRAPHIC AREA



SHARE OF REVENUES



THE YEAR IN REVIEW

- Healthy demand for compressed air solutions
- Record orders received, revenues and profits
- Acquisitions of new businesses

Business development

The overall demand for industrial compressors remained at a healthy level. Order volumes were largely unchanged for small and medium-sized compressors, while they were somewhat lower for large machines. Geographically, the highest order growth was achieved in North America. Growth was also achieved in Europe, while order intake decreased in Asia.

The demand for energy-efficient solutions continued to be strong. Sales of air treatment equipment, such as compressed air dryers, coolers and filters, continued to grow, reflecting a continued focus on compressed air quality. Orders received for gas and process compressors and expanders remained at a high level, with strong sales in North America. Significant orders were won in Australia and in the Middle East. Orders received in Asia were, however, significantly below the previous year.

The specialty rental business, primarily rental of oil-free and high-pressure equipment, grew in most markets.

The demand for service continued to develop favorably and further investments were made in the service organization.

Orders received grew in all regions, which contributed to a record order intake both for service and for the total business area.

Market presence and organizational development

To further increase the market presence, the number of employees in sales, service and product development increased during the year. The majority of the new employees were added in Asia.

The Quality Air division, dedicated to air and gas treatment equipment, including the medical air business, became operational as of January 1, 2012.

New compressor manufacturing facilities were constructed in China and India during the year to meet the growing demand for compressors in the region. Both facilities will be fully operational in 2013.

Innovation

Several new products and solutions were introduced, including the following examples:

- A range of medium-sized compressors. The range comprises of three product platforms and is used by twelve different brands.
- A range of oil-sealed rotary screw vacuum pumps.
- A central controller, which can control an entire compressed air network. It can help save, on average, 10% energy.
- Several nitrogen and oxygen generators for on-site gas generation. With an independent supply of on-site gas, customers can save on operational costs.
- A redesigned range of filters, which have a much lower pressure drop than their predecessors, leading to substantial energy savings.

Acquisitions

The business area made five acquisitions in 2012:

- Houston Service Industries, Inc., a U.S. manufacturer of low-pressure blowers and vacuum pumps, with revenues of MSEK 240 and 123 employees.
- Wuxi Shengda Air and Gas Purity Equipment Co., Ltd., a Chinese manufacturer of compressed air and gas drying and filtration equipment, with revenues of MSEK 85 and 130 employees.
- Guangzhou Linghein Compressor Co., China, a manufacturer of industrial air compressors with a strong regional presence, with revenues of MSEK 100 and 160 employees.
- Gazcon A/S, located in Denmark, offering nitrogen and oxygen generators, with revenues of MSEK 30 and 21 employees.
- Ekomak Group, a Turkish manufacturer of industrial screw compressors, with revenues of MSEK 200 and 160 employees.

Revenues, profits and returns

Revenues reached a record MSEK 34 714 (31 760), corresponding to an organic growth of 7%. Operating profit increased to a record MSEK 8 017 (7 592), corresponding to a margin of 23.1% (23.9). The positive effects on operating margin from higher volumes, price increases and currency effects were more than offset by unfavorable product mix, higher investments in marketing and product development and dilution from acquisitions. The return on capital employed was 62% (70).

Business Area President:
Stephan Kuhn



REVENUES

+9%

OPERATING PROFIT

+6%

The overall demand for industrial compressed air and gas equipment and services was healthy during 2012. The business area continued to increase market presence, introduce new products and solutions, develop the service business, and invest in competence, capacity and new businesses.

KEY FIGURES

	2012	2011
Orders received	35 469	34 664
Revenues	34 714	31 760
Operating profit	8 017	7 592
Operating margin, %	23.1	23.9
Return on capital employed, %	62	70
Investments	987	992
Average number of employees	15 471	14 187

A HIGH PERFORMER

» ... with improved sustainability and reliability

By focusing on improving the key components, the new range of oil-injected compressors feature major performance increases compared to its predecessors. Thanks to improved component lay-out in the canopy, premium efficiency motors, and highly efficient screw elements, performance could be increased with up to 10% at the same time as the reliability was improved.

The compressor can also be fitted with an integrated energy recovery system, which allows for reuse of the hot air and water generated by the compressor. With this system, up to 75% of the energy input can be recovered without any influence on the compressor's performance.

In addition, the optional integrated dryer makes use of a refrigerant that does not contribute to ozone depletion and that reduces the dryer's power consumption by 50%.

Redesigned, tested and integrated components contribute to sustainable productivity



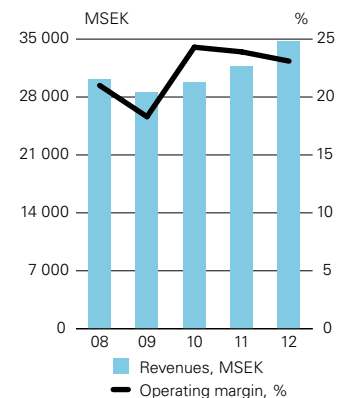
NO OIL AND LESS ENERGY

» ... saving up to 35% in energy consumption costs

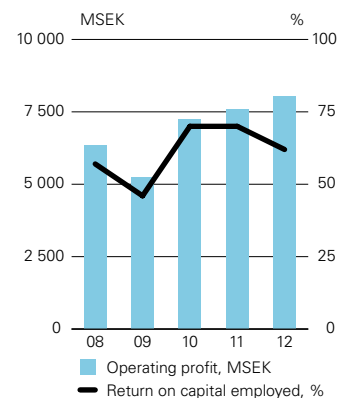
Princes Gate Spring Water in the United Kingdom has achieved significant energy savings and production improvements at a bottling plant by replacing its oil-lubricated compressor installation with Atlas Copco oil-free equipment. The compressors provide a guaranteed supply of high-quality air and ensure the purity of its natural water products.

Princes Gate's compressor upgrade was influenced not only by the need for 100% oil-free air, but also for the environmental benefits of lower operational noise levels and elimination of the time and costs involved in the disposal of oil. What's more, the integrated frequency converter feature of the Atlas Copco VSD (variable speed drive) compressors varies the speed of the drive motor to exactly match the changes in compressed air demand, thus using the minimum amount of energy and saving Princes Gate up to 35% in energy consumption costs.

Revenues and operating margin



Earnings and return



The operations

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

The divisions



Compressor Technique Service
President Andrew Walker



Industrial Air
President Geert Follens



Oil-free Air
President Chris Lybaert



Gas and Process
President Peter Wagner



Quality Air
President Horst Wasel



Specialty Rental
President Ray Löfgren



Airtec
President Philippe Ernens

PRODUCTS AND APPLICATIONS

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

Stationary industrial compressors are available with engine sizes ranging from 1.5–30 000 kW.

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 VSD technology and energy recovery kits.

Oil-free blowers

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

Oil-free centrifugal compressors

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

Gas and process compressors

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

Vacuum equipment

Vacuum pumps offer reliable and efficient vacuum solutions to industries such as printing, plastics, packaging, woodworking and bottling.

Air and gas treatment equipment

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.

Portable oil-free screw compressors

Portable oil-free screw compressors are used to meet a temporary need for oil-free air, primarily in petrochemical and industrial applications. The equipment is rented out through the Specialty Rental division.



Industrial compressor for applications that demand high-quality oil-free air

Multiple brands are used to increase local presence and reach specific customer segments



Vacuum pump with rotary screw element for industrial vacuum



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 which compressed air is either used as a source of power, mainly in the manufacturing industry, or as an integrated part of the industrial processes. An important application is assembly operations, where compressed air is used to power assembly tools. In industrial processes, clean, dry and oil-free air is needed for applications where the compressed air comes into direct contact with the end product, such as in the food, pharmaceutical, electronics, and textile industries. Apart from the process and manufacturing industries, industrial compressors are used in applications as diversified as snow making, fish farming, on high-speed trains, and in hospitals.

Blowers are used in applications with a demand for a consistent flow of low-pressure air, for example wastewater treatment and conveying.

Vacuum is used in industrial applications where the pressure is required to be below atmospheric pressure.

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 services represent about 85% of sales. Large gas and process compressors represent approximately 10% and specialty rental, some 5% of sales.

Market trends

- Energy efficiency and energy recovery – focus on the life-cycle cost of compressors and related equipment
- Increased environmental awareness – energy savings and reduction of CO₂ emissions
- Workplace compressors with low noise levels
- Quality Air – air treatment equipment
- Outsourcing of maintenance and monitoring of compressed air installations
- Energy auditing of installations
- New applications for compressed air
- Specialty rental

Demand drivers

- Investments in machinery
- Industrial production
- Energy costs

Vision and strategy

The vision is to be First in Mind—First in Choice® as a supplier of compressed air 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 field of compressed air and gas, 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 multiple brands. The strategy encompasses giving a continuous focus to the service business as well as developing businesses within focused areas such as air treatment equipment, low pressure compressors, vacuum equipment, and compressor solutions for trains, ships, and hospitals. The ambition is to continue to grow the service business, to further strengthen the position in the specialty rental business and to develop new businesses. The business area is actively looking at acquiring complementary businesses.

Strategic activities

- Increase market coverage and establish presence in new markets
- Invest in employees and competence development
- Extend the offering, development, and marketing of service
- Perform more service on a higher share of the installed base of machines
- Develop new sustainable products and solutions offering better value and improved energy efficiency to customers
- Extend the product offering, including new compressors and air and gas treatment equipment
- Increase operational efficiency
- Acquire complementary businesses

Market position

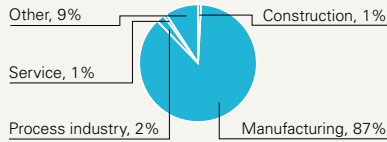
Compressor Technique has a leading market position globally in most of its operations.

Competition

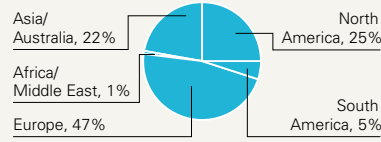
Compressor Technique's principal competitors in the market for industrial compressors and air treatment equipment are Ingersoll-Rand, Kaeser, Hitachi, Gardner-Denver, Cameron, Sullair, and Parker Hannifin. There are also numerous regional and local competitors. In the market for gas and process compressors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

Industrial Technique

ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY GEOGRAPHIC AREA



SHARE OF REVENUES



THE YEAR IN REVIEW

- Record order intake, 2% organic order growth
- Record revenues and record operating profit
- Prestigious awards won for innovations

Business development

The overall demand for industrial tools and assembly systems was healthy. For comparable units, orders received increased 2% with the best development in North America. The order intake was particularly strong in the first half of the year. In total, orders received increased 11% and reached a new record.

The demand for advanced industrial tools and assembly systems to the motor vehicle industry improved as manufacturers continued to equip new assembly lines and upgrade existing ones with new and more productive tools and systems. The order volumes increased in all major markets with strong development in the United States, Germany, the United Kingdom, Eastern Europe, and in China. The adhesive equipment business, which was acquired in October 2011, performed well and contributed to the strong growth.

Order volumes for industrial power tools from the general manufacturing industries decreased somewhat. The sales to the electronics industry and to airplane manufacturers developed well, but most other customer segments in general manufacturing invested less than in the previous year. Geographically, the order volumes were lower in most major markets with the important European market having the weakest development.

Orders received were largely unchanged for the vehicle service business, providing large fleet operators and specialized repair shops with tools and other equipment. It increased in North America, while it decreased in Europe and in Asia.

The service business continued to develop well. Customers increasingly demand service and maintenance support and this was supported by the dedicated service division that was created at the end of 2011. Double-digit order growth was achieved in all major markets; Europe, the United States and China.

Market presence and organizational development

The business area increased its presence in targeted markets and customer segments by adding resources in marketing, product development and service. In North America as well as in Asia, the workforce grew by more than 10% during 2012.

Innovation

Several industrial tools and assembly systems were introduced, including the following examples:

- An advanced assembly tool with a new controller, offering features such as a very quick shut off, leaving very little reaction force for the operator. It also has a built in gyroscope, which ensures that the bolt is tightened in the correct angle.
- A screwdriver system for low torque tightening applications in the electronics industry. The system increases the productivity, end-product quality and offers cost savings by reducing reworking and scrapping rates to a minimum.
- An advanced assembly tool for high torque applications.
- An improved product for torque measurement and testing of assembly tools.
- Numerous pneumatic grinders, drills, percussive tools and impact wrenches.

Achievements

The prestigious RedDot Design Award was won by a range of tightening tools with controllers that provide error proofed tightening and low energy consumption. The tools are well-balanced, user-friendly and have a number of ergonomic features. The controllers offer an intuitive human machine interface and give the operator clear feedback on a screen.

Atlas Copco's two most prestigious awards were presented to two teams within the Industrial Technique business area. The Peter Wallenberg Sales and Marketing Award recognized a successful product launch towards the aerospace industry, while the John Munck Award rewarded the development of an innovative range of power tools.

Revenues, profits and returns

Revenues increased 22% to a record MSEK 9 566 (7 821), up 12% organically. Operating profit increased 22% to MSEK 2 155 (1 767), corresponding to a margin of 22.5% (22.6). The increased operating profit was primarily a result of higher volumes. Return on capital employed was 43% (55) and was affected by acquisitions made at the end of 2011.

Business Area President:
Mats Rahmström



Demand for industrial tools and assembly systems was healthy, supported by investments made by the motor vehicle industry. The business area continued to invest in presence and product development and to further develop the service business.

REVENUES

+22%

OPERATING PROFIT

+22%

KEY FIGURES, MSEK

	2012	2011
Orders received	9 435	8 462
Revenues	9 566	7 821
Operating profit	2 155	1 767
Operating margin, %	22.5	22.6
Return on capital employed, %	43	55
Investments	170	155
Average number of employees	4 389	3 562

ASSEMBLY TECHNOLOGY FOR IMPROVED FUEL EFFICIENCY AND LOWER EMISSIONS

» Atlas Copco is contributing to this development by developing and offering tools that make it possible to assemble these lighter materials

Increased environmental awareness as well as legislation has been driving the demand for increased fuel efficiency in vehicles and airplanes. To facilitate this, manufacturers are increasingly using lighter materials, which require new assembly technologies.

Atlas Copco is contributing to this development by developing and offering tools that make it possible to assemble these lighter materials. For new airplanes that are built with light materials such as carbon fiber, titanium and aluminum, Atlas Copco offers advanced drills to drill close tolerance holes as well as advanced assembly tools for error-free tightening.



Pneumatic drill for advanced drilling, particularly for aircraft assembly

BATTERY TOOLS SAVE UP TO 80% ON ENERGY

» A cordless tool allows the operators to work in more comfortable positions, reducing fatigue

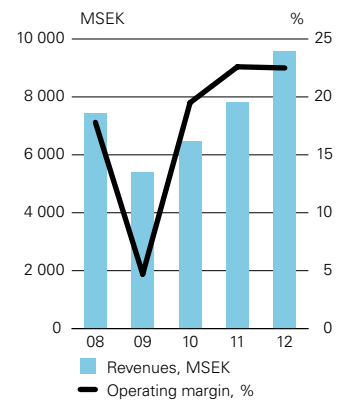
An advanced industrial battery nutrunner was introduced in 2012. The nutrunner offers high joint quality, user-friendliness, operator mobility and low energy costs.

- The tool is programmable, allowing the operator to tighten to a specific torque. It instantly alerts the operator if a bolt is incorrectly tightened and errors can be corrected immediately, avoiding the expense of reworking. The tools use wireless communication for accurate monitoring setup.
- A cordless tool allows the operators to work in more comfortable positions, reducing fatigue. Also, it weighs less than cable-based models.
- The tools' energy consumption is up to 80% lower than a corresponding air tool.

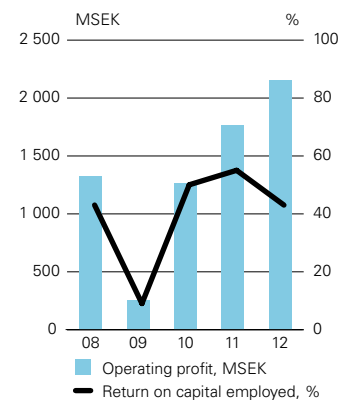


Programmable battery-powered nutrunners with tool location system

Revenues and operating margin



Earnings and return



The operations

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

The divisions



Industrial Technique Service
President Lars Eklöf



MVI Tools and Assembly Systems
President Tobias Hahn



General Industry Tools and Assembly Systems
President Henrik Elmin



Chicago Pneumatic Tools
President Anders Lindqvist

PRODUCTS AND APPLICATIONS

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

Motor vehicle industry

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

General industrial manufacturing

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

Vehicle service

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



Robust and ergonomic impact wrench



Robotic screwdriver for electronics assembly



Advanced electric assembly tool with controller



Pneumatic grinder

The market

The motor vehicle industry, including sub-suppliers, is a key customer segment representing approximately half of Industrial Technique's revenues, and the application served is primarily assembly operations. The motor vehicle industry has been at the forefront of demanding more accurate fastening tools that minimize errors in production and enable recording and traceability of operations. The business area has successfully developed advanced electric industrial tools and assembly systems that assist customers in achieving fastening according to their specifications and minimizing errors and interruptions in production. With the increasing requirement of lower fuel consumption and the use of lighter materials, the motor vehicle industry is increasingly using adhesives. The business area offers dispensing equipment for adhesives and sealants.

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

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

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

Market trends

- More advanced tools and systems and increased importance of service, know-how and training, driven by higher requirements for quality and productivity
- More power tools with electric motors, partly replacing pneumatic tools
- Demand for lower fuel consumption drives demand for alternative assembly methods, e.g. adhesives
- Both general industrial and motor vehicle manufacturing are moving east
- Increasing customer focus on productivity, ergonomics and environment

Demand drivers

- Assembly line investments
- Replacement and service of tools and systems
- Changes in manufacturing methods, e.g. change from pneumatic to electric tools
- Industrial production

Vision and strategy

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

The strategy is to continue to grow the business profitably by building on the technological leadership and continuously offering products and services that improve customers' productivity. Important activities are to extend the product offering, particularly with the motor vehicle industry and to provide additional services, know-how and training. The business area is also increasing its presence in general industrial manufacturing, vehicle service and geographically in targeted markets in Asia and Eastern Europe. The presence is enhanced by utilizing multiple brands. 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
- Develop the service business
- Develop new sustainable products and solutions, offering increased quality and productivity, improved ergonomics and reduced environmental impact
- Invest in employees and competence development
- Extend the product and service offering
- Acquire complementary businesses

Market position

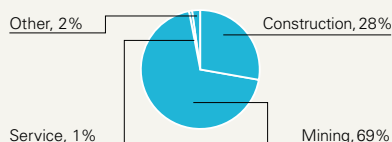
Industrial Technique has a leading market position globally in most of its operations.

Competition

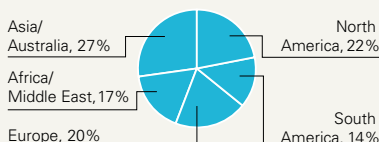
Industrial Technique's competitors in the industrial tools business include Apex Tool Group, Ingersoll-Rand, Stanley Black & Decker, Uryu, Bosch and several local and regional competitors. In the area of adhesive and sealant equipment, the primary competitors are Nordson and Graco.

Mining and Rock Excavation Technique

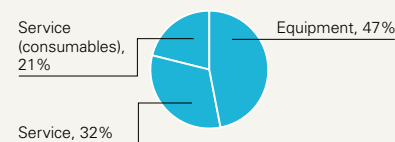
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY GEOGRAPHIC AREA



SHARE OF REVENUES



THE YEAR IN REVIEW

- Record order intake; 4% organic order growth
- Record revenues and record operating profit
- Acquisition of new technology expands offer

Business development

The activity in the mining industry remained high and the demand for new equipment was at a good level, particularly in the beginning of the year. The order intake was significantly higher in the first half of the year compared to the second half, when the customers became more hesitant to take decisions to invest in capital equipment. Order volumes for equipment were lower compared to the previous year, primarily due to lower order intake for underground and exploration equipment, while some large orders for drill rigs for open-pit mining contributed positively. Geographically, the best development was seen in South America and Australia, where several large orders were won.

The demand for drilling equipment for civil engineering projects was weaker than in 2011 and the order volumes for both underground and surface drilling equipment decreased.

Demand for service and spare parts remained strong and the newly created service division continued to invest in the organization and took several initiatives to further develop the business. Orders received developed very favorably and grew with double digits in all regions. The sales of consumables also increased in all regions compared to the previous year, but in the latter part of the year, some customers were cautious in replenishing their inventories, which impacted the order intake negatively.

Total order intake increased 4% organically and reached a new record.

Market presence and organizational development

Atlas Copco opened customer centers in both Mozambique and Burkina Faso, to strengthen the presence in Africa.

Actions to further increase market presence continued and the number of employees in marketing, service and product development increased.

The demand for mining and rock excavation equipment weakened in the second half of the year, which led to actions to adapt the capacity to the weaker demand.

Innovation

Several new products and solutions were introduced, including the following examples:

- Four different versions of underground production drill rigs.
- A drill rig for tunneling applications, equipped with a more powerful rock drill and a new control system.
- A rotary drill rig for open pit mining. The rig has features for reduced fuel consumption, and the control system supports automatic drilling and remote tramming.

Acquisitions

The business area made four acquisitions in 2012:

- Perfora S.p.A., an Italian company that manufactures and sells drilling and cutting equipment for the dimension stone industry with annual revenues of MSEK 90 and 43 employees.
- The underground business of GIA Industri AB, a Sweden-based manufacturer of mine trucks, loaders and utility vehicles for mining and tunneling applications. The business has annual revenues of about MSEK 230 and 113 employees.
- Neumatica, Atlas Copco's distributor of large surface drilling equipment and related services in Colombia, with 15 employees.
- NewTech Drilling Products, a U.S.-based manufacturer of bits for mining and oil and gas drilling with annual revenues of MSEK 45 and 20 employees.

In December, Atlas Copco agreed to acquire MEYCO Equipment, a Swiss manufacturer of mobile equipment for applying sprayed concrete (shotcreting) in underground operations, with annual revenues of MSEK 175 and 40 employees. The acquisition is expected to be closed during the first quarter of 2013.

Revenues, profits and returns

Revenues increased to a record MSEK 34 054 (29 356), corresponding to 14% organic growth. Operating profit increased 16% to MSEK 8 315 (7 196), corresponding to a margin of 24.4% (24.5). The margin was supported by increased revenue volumes, but it was negatively affected by revenue mix and dilution from acquisitions. Return on capital employed was 59% (66).

Business Area President:
Bob Fassl



REVENUES

+16%

OPERATING PROFIT

+16%

The orders received were strong in the beginning of the year, but weakened in the second half as customers became more hesitant to invest. The business area expanded its market presence, continued to invest in service and in product development and made several acquisitions.

KEY FIGURES, MSEK

	2012	2011
Orders received	33 482	31 751
Revenues	34 054	29 356
Operating profit	8 315	7 196
Operating margin, %	24.4	24.5
Return on capital employed, %	59	66
Investments	1 298	1 294
Average number of employees	12 766	10 724

ENERGY-EFFICIENT CONTROL SYSTEM

» *These features lead to up to 45% lower fuel consumption*

The surface drill rigs Smart ROC T35 and T40 are equipped with an innovative, highly energy-efficient control system with new electric, hydraulic and compressed air systems. The system is optimized to supply only the power needed to perform the work.

Engine and compressor speed are self-adjusting according to demand. Three variable hydraulic pumps help lower engine speed during none-drilling time and tramping and the idling speed of the engine is reduced.

These features lead to up to 45% lower fuel consumption. In a typical application this could be 20 000 liters in a year, which amounts to an annual reduction of more than 50 tonnes CO₂ emissions.

The reduced engine load also extends the lifetime of the engine. The new hydraulic system features 50% less hoses and a hydraulic oil tank that is less than half the size of its predecessors.

SIMULATOR TRAINING FOR IMPROVED PRODUCTIVITY

» *Atlas Copco is offering a number of training products to its customers*

The demand for training is continuously increasing. It takes time for employees to become fully productive and with good training this time can be shortened. In addition, with good training the productivity of the employees is also improving. Atlas Copco is offering a number of training products to its customers.

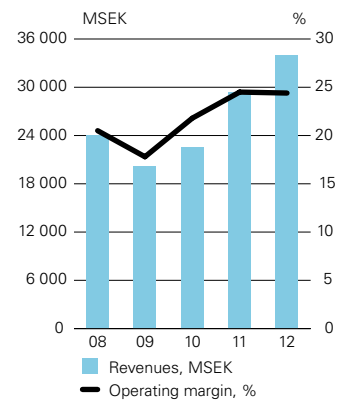
Drilling operators, for example, are offered training programs that include simulator training. Experience indicates that the time it takes to become productive can be cut in half. Also, there is no need to utilize existing machines for training. Instead, they can be used for production.



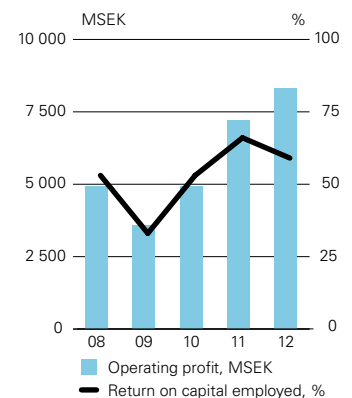
Simulator training contributes to increased customer productivity



Revenues and operating margin



Earnings and return



The operations

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

The divisions



Mining and Rock Excavation Service
President
Andreas Malmberg



Underground Rock Excavation
President
David Shellhammer



Surface Drilling
President
Markku Teräsvasara



Drilling Solutions
President Peter Salditt



Rock Drilling Tools
President Johan Halling



Geotechnical Drilling and Exploration
President Victor Tapia



Rocktec
President Scott Barker

PRODUCTS AND APPLICATIONS

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

Underground rock drilling equipment

Underground drill rigs are used to drill blast holes in hard rock to excavate ore in mines or to excavate rock for road, railway or hydropower tunnels, or underground storage facilities. Holes are also drilled for rock reinforcement with rock bolts. The business area offers drill rigs with hydraulic and pneumatic rock drills, as well as handheld rock drills. Raise boring machines are used to drill large diameter holes, 0.6–6.0 meters, which can be used for ventilation, ore and personnel transportation.

Underground loading and haulage equipment

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

Underground utility vehicles

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

Surface drilling equipment

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

Rock drilling tools

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

Exploration drilling and ground engineering equipment

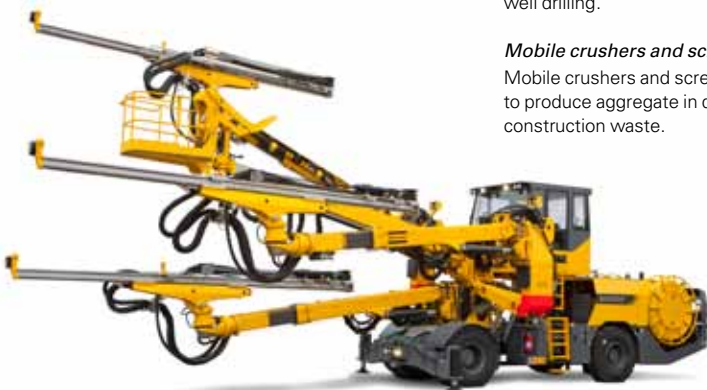
The business area supplies a wide range of equipment for underground and surface exploration applications. An extensive range of equipment for ground engineering, including systems for overburden drilling, is also offered. Applications include anchoring, geotechnical surveying, ground reinforcement and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

Mobile crushers and screeners

Mobile crushers and screeners are used mainly to produce aggregate in quarries and to recycle construction waste.



Rotary blast hole rig for open-pit mining



Underground drilling rig for tunnelling

Underground loader



The market

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

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

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

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

Market trends

- More productive and safe equipment, including solutions for autonomous operations
- More intelligent products and remote control
- Increased focus on environment and safety
- Customer and supplier consolidation
- Performance contracts for service and consumables

Demand drivers

Mining

- Machine investments
- Ore production

Civil engineering

- Infrastructure and public investments
- Non-building construction activity

Vision and strategy

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

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

Strategic activities

- Invest in employees and competence development
- Invest in the service business
- Invest in design, development and production capacity in growth markets such as China and India to meet local demand
- Develop sustainable products and services in line with customer demand for increased productivity, safety and energy efficiency
- Extend the product offering, including options such as computerized control systems, and systems for automation and remote operations
- Acquire complementary businesses
- Increase operational efficiency

Market position

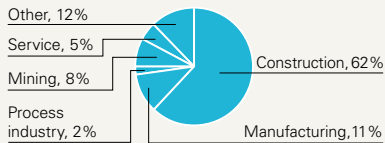
Mining and Rock Excavation Technique has a leading market position globally in most of its operations.

Competition

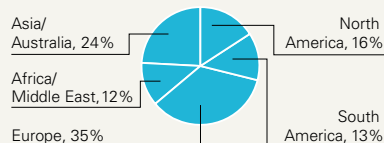
Mining and Rock Excavation Technique's principal competitor in most product areas is Sandvik. Other competitors include Furukawa in the market for underground and surface drilling equipment; Boart Longyear for underground drilling equipment for mining, exploration drilling equipment and rock drilling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

Construction Technique

ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY GEOGRAPHIC AREA



SHARE OF REVENUES



THE YEAR IN REVIEW

- 1% organic order growth
- New dedicated sales and service organizations established in the Middle East, Southeast Asia, Mexico, South Africa, West and Central Africa and Central Europe
- Investments in product development

Business development

The demand for construction equipment was mixed following the weak ending of 2011 and total orders received increased 2%, corresponding to 1% organic growth. The demand in North America and Africa/Middle East developed very well and strong growth in orders received was noted. In North America, investments from rental companies contributed strongly to the growth. This positive development was however largely offset by the decreased order intake in Europe and in Asia, including a negative development in the important Chinese market.

Orders received for portable compressors, generators, pumps and lighting towers increased somewhat with the best development in North America and in Africa/Middle East. Orders for road construction equipment and for construction tools, such as breakers, decreased. The decrease was primarily attributable to a lower order intake in Asia, but it was also lower in Europe and South America. It was only partly offset by an increase in orders received in North America.

The service business for the business area continued to grow, but it was impacted by the overall demand development. This resulted in strong growth in North America, while volumes were somewhat lower in Europe and Asia.

Market presence and organizational development

The business area increased its presence in targeted markets by establishing dedicated Construction Technique sales and service organizations in the Middle East, Southeast Asia, Mexico, South Africa, West and Central Africa and Central Europe, and by adding employees in sales and marketing. In West Africa, a new customer center was established in Senegal. The number of employees increased in North America, Asia, and in Africa/Middle East.

The investments in product development remained high and the number of employees in research and development increased by more than 10%.

Several initiatives were taken to reorganize the production to create more competitive production units with stronger future growth potential. The production unit for road construction equipment in Karlskrona, Sweden, for example, plans to invest MSEK 30, but also to reduce the workforce. Final notice was given to 78 blue collar employees at the end of September.

Innovation

Several new products and solutions were introduced, including the following examples:

- Several large portable compressors with fuel-saving systems.
- A number of rig-mounted attachments, e.g. bucket crushers, for efficient and economic recycling of all types of waste materials.
- A range of mid-size soil rollers and a number of other machines with tier-4 engines that reduce emissions.
- Solar powered light towers.
- Hydraulic breakers that have essential features, such as high performance and low weight, and meet the demands of more customer segments. The breakers are an alternative to premium breakers.
- Several portable compressors and generators, hydraulic and pneumatic construction tools and light compaction equipment.
- Kits for enhanced maintenance and overhaul of construction equipment.

Revenues, profits and returns

Revenues were MSEK 12 888 (12 918). Operating profit decreased to MSEK 1 326 (1 460), corresponding to a margin of 10.3% (11.3). The operating profit includes restructuring costs of MSEK 65 (105). The adjusted operating margin was 10.8% (12.1) and was negatively affected by lower volumes and investments in new customer centers. Return on capital employed was 10% (12).

Business Area President:
Nico Delvaux



REVENUES

±0%

OPERATING PROFIT

-9%

The demand for construction equipment was mixed during 2012. The business area continued to invest in market presence and product development and took several initiatives to improve the structure and the cost of the operations.

KEY FIGURES, MSEK

	2012	2011
Orders received	13 001	12 786
Revenues	12 888	12 918
Operating profit	1 326	1 460
Operating margin, %	10.3	11.3
Return on capital employed, %	10	12
Investments	286	150
Average number of employees	5 101	5 339

INNOVATIVE FEATURES SAVE FUEL

» ... a number of features that increase performance and reduce fuel consumption

Atlas Copco's high-pressure portable compressors suitable for drilling applications have a number of features that increase performance and reduce fuel consumption.

One feature is an electronic control module that regulates engine speed and air intake in order to optimize the fuel consumption for each working condition. This feature can reduce fuel consumption by an average 10%.

Another feature is a system that enables variable regulation of the compressed air. This system allows that the pressure and the flow output is selected according to the application. This feature enables an additional 3% fuel savings.

High pressure compressor for drilling applications



TOOLS FOR EFFICIENT AND ECONOMIC RECYCLING

» The EU directive on waste management demands a recycling quota of 70% for construction and demolition waste by year 2020

The requirements on demolition work have grown significantly in the past few years. The EU directive on waste management demands a recycling quota of 70% for construction and demolition waste by year 2020.

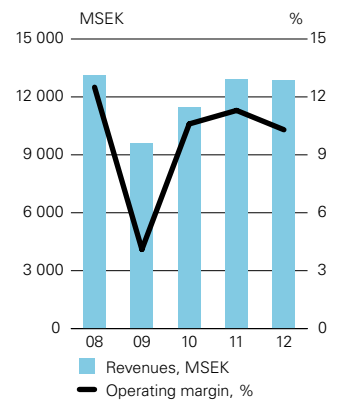
Atlas Copco has an extensive range of rig-mounted and handheld demolition equipment that covers virtually the full spectrum of modern demolition applications.

An example is the range of rig-mounted bucket crushers launched in 2012. Using these crushers, asphalt, stone and concrete debris can be crushed and directly re-used on site.

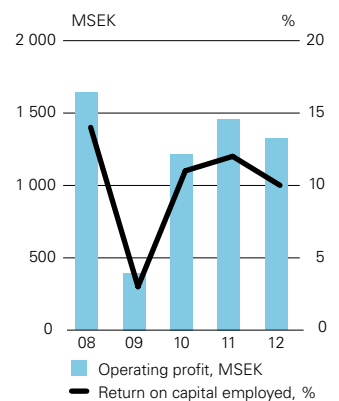
Bucket crusher



Revenues and operating margin



Earnings and return



The operations

The Construction Technique business area provides construction and demolition tools, portable compressors, pumps and generators, lighting towers, and compaction and paving equipment. The business area offers service through a global network. Construction Technique innovates for sustainable productivity in infrastructure, civil works and road construction projects. Principal product development and manufacturing units are located in Belgium, Germany, Sweden, China and Brazil.

The divisions



Construction Technique Service
President Adrian Ridge



Portable Energy
President Norbert Paprocki



Road Construction Equipment
President Peter Lauwers



Construction Tools
President Henk Brouwer

PRODUCTS AND APPLICATIONS

The ConstructionTechnique business area offers a range of products for selected applications in civil engineering, demolition and road building.

Portable compressors

Portable 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.

Boosters

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

Generators

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

Lighting towers

Light for safe operations 24/7.

Pumps

Submersible pumps, primarily for water.

Compaction and paving equipment

The business area offers a range of compaction and paving equipment to the road construction market. Rollers are used to compact all types of soil or newly laid asphalt. Planers are used for removing asphalt and pavers for laying out new asphalt. The product range also includes smaller handheld compaction and concrete equipment.

Construction and demolition tools

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



Solar-powered light tower

Submersible pumps



Double drum roller

The market

The total market for construction equipment is very large. It has a large number of market participants offering a wide range of products for different applications. The Construction Technique business area, however, offers products and services only for selected applications.

The key customer segment is construction, accounting directly for approximately two thirds of revenues. General and civil engineering contractors, often involved in infrastructure projects like road building, other non-building activity and/or demolition work, demand compaction and paving equipment and light construction tools, such as breakers and cutters. Diesel-driven portable compressors and generators are reliable power sources for machines and tools in the construction sector as well as for mining and numerous industrial applications.

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

Market trends

- More productive equipment
- More intelligent products
- Increased focus on environment and safety
- Customer and supplier consolidation
- Increased demands for service support/contracts

Demand drivers

- Infrastructure and public investments
- Road building and other non-building construction activities
- Demolition and recycling
- Flexible/portable equipment

Vision and strategy

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

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

Strategic activities

- Increase operational efficiency
- Increase market coverage and presence
- Capture sales and service synergies between the construction businesses
- Develop new sustainable products and solutions offering enhanced productivity, safety and reduced environmental impact
- Invest in design, development and production capacity in growth markets such as China and India to meet local demand
- Develop more competitive offerings with different value propositions
- Develop the global service concept/competence, extend the service offering and perform more service on a higher share of the installed base of machines
- Invest in employees and competence development
- Acquire complementary businesses

Market position

The Construction Technique business area has leading or strong market positions globally in most of its operations.

Competition

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

RISKS, RISK MANAGEMENT AND OPPORTUNITIES

Risk	Context	Mitigating factors	Opportunities
Market risks	<p>A widespread financial crisis and economic downturn would not only affect the Group negatively but it could also have an impact on the 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, mainly through competitive pricing.</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. Flexible manufacturing setup makes it possible to quickly adapt to changes in equipment demand. Leading position in most market segments, with relatively few competitors of a comparable size, provide 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 the society and environment, through the Group's high quality sustainable products and high ethical standards. Create a better society and business environment which positively impacts Group revenues in the future. To continue to develop close, long-term and strategic relationships with customers and suppliers.
Product development risks	<p>One of the challenges for Atlas Copco's long-term growth and profitability will be to continuously develop innovative, sustainable products that consume less resources (such as energy, water, steel, and human effort) over the entire life cycle. Atlas Copco's product offering is also affected by national and regional legislation, on issues such as emissions, noise, vibrations, and recycling. However, there may be increased risk of competition in emerging markets where low-cost products are not affected by such rules.</p> <p>The risk is deemed minor that a major technological advancement by a competitor could undermine the Group's position in any significant way.</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 for 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.
Production risks	<p>Core component manufacturing is concentrated in a few locations and if there are interruptions or lack of capacity in these locations, this may have an effect on deliveries or on the quality of products.</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>	<ul style="list-style-type: none"> Manufacturing units continuously monitor the production process, test the safety and quality of the products, make risk assessments, and train employees. Manufacturing units invest in modern equipment that can perform multiple operations. Production units are subject to continuous risk management surveys to safeguard that they comply with the Atlas Copco loss prevention standard. Goal to certify all manufacturing units in accordance with the ISO 14001 standard. 	<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. Cost increases for raw materials and components often coincide with strong end-customer demand and can partly be compensated by increased sales to mining customers and by increased market prices.
Supply chain risks	<p>Atlas Copco and its business partners such as suppliers, sub-contractors and joint venture partners, must share the same high standards for the environment, labor and human rights otherwise there is a risk of compromising the Group's reputation and brand. The availability of many components is dependent on suppliers and if they have interruptions or lack capacity, this may have an undesirable effect on deliveries.</p> <p>The use of many suppliers gives rise to the risk that products contain components which are not sustainably produced, e.g. that electronic components contain conflict minerals (whose trade or taxation fund armed groups in conflict areas such as the Democratic Republic of Congo).</p>	<ul style="list-style-type: none"> Select and evaluate business partners on the basis of objective factors including quality, delivery, price, and reliability, as well as commitment to environmental and social performance. Globally implemented internal training on supplier evaluations. Atlas Copco has begun the process to investigate and eradicate the presence of conflict minerals in its value chain. Atlas Copco has established a global network of sub-suppliers, to prevent supplier dependency. Business partners are requested to sign a compliance letter to the Business Code of Practice. E-learning for business partners launched in order to raise awareness of Atlas Copco's Business Code of Practice. 	<ul style="list-style-type: none"> Further increase Atlas Copco's 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.
Distribution risks	<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.</p> <p>Some sales are made indirect through distributors and rental companies and their performance can have a negative effect on Atlas Copco's sales.</p> <p>The distribution of Atlas Copco's products can result in increased CO₂ emissions from transport.</p>	<ul style="list-style-type: none"> Physical distribution of products is concentrated to a number of distribution centers and the delivery efficiency of these is continuously monitored. Significant 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 smarter and more effective transports, including optimizing the vehicle loading to reduce the weight of the shipment and the space used and sending larger or combined deliveries to reduce the total emissions per transport. 	<ul style="list-style-type: none"> Continue to strengthen its relationship with customers through timely deliveries of products and services. Transport efficiencies can save the customer time and cost while reducing the environmental impact of their own operations. Atlas Copco can reduce its own fuel costs and resource requirements which improves business agility for the Group.

Risk	Context	Mitigating factors	Opportunities
Risks with acquisitions and divestments	<p>The integration of acquired businesses is a difficult process and it is not certain that it will be successful or smooth every time. Therefore, costs related to acquisitions can be higher and/or synergies can take longer to materialize than anticipated.</p> <p>Annual impairment tests are made on acquired goodwill. If goodwill is not deemed justified in such impairment tests it can result in a write-down, which would affect the Atlas Copco Group's result.</p> <p>Acquisitions and divestments can impact local communities, e.g. employees, their families and/or the environment, directly or indirectly.</p>	<ul style="list-style-type: none"> ■ The Group has established an Acquisitions Process Council which provides training and supports all business units prior to, during and post an acquisition. ■ Atlas Copco guidelines and policies are applied to assess and manage the environmental and social impact of operations in the affected communities after an acquisition is complete. ■ Human rights and environmental considerations are integrated when acquisitions and divestments are made. 	<ul style="list-style-type: none"> → Identifying the obstacles to integration can allow Atlas Copco to improve the process through methods such as job rotation, training or team building exercises. This would not only result in a smoother integration process but also lower operational costs by decreasing downtime and allowing newly acquired companies to become productive and efficient more rapidly.
Financial risks	<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>Atlas Copco is exposed to the risk of non-payment by any of its extensive number of end customers to whom sales are made on credit.</p>	<ul style="list-style-type: none"> ■ A Financial Risk Management Committee meets regularly to take decisions about how to manage financial risks. ■ The Group's operations continuously monitor and adjust sales prices and costs to limit the transaction risk. These measures can be complemented with hedging. ■ Translation risks are partially hedged by borrowings in foreign currency and financial derivatives. ■ Stringent credit policies are applied and no major concentration of credit risk exists in Atlas Copco. The provision for bad debt is based upon known cases and historical loss levels and is deemed sufficient. In the case of Atlas Copco Customer Finance, an in-house financing operations, risks are mitigated by retaining security in the equipment until full payment is received, by purchasing credit risk insurance and/or by transferring the risk to a third party. 	<ul style="list-style-type: none"> → Working proactively with financial risks improves the profit margin and also creates possibilities for more stable cash flow. Overall, financial risk mitigation has the ability to improve business resilience for Atlas Copco. → Atlas Copco Customer Finance can improve customer relations and attract more customers.
Risks to 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 also potentially detract the Atlas Copco brand if they are not offered a good, safe and diverse working environment.</p>	<ul style="list-style-type: none"> ■ All Atlas Copco products are tested and also quality assured. ■ The Group strictly monitors its product labeling and offers communications training. ■ The Group actively engages in stakeholder dialogue to address concerns and receive insight into opportunities for improvement. ■ The training in the Business Code of Practice. ■ Clear well-known brand promise. ■ A comprehensive employee survey is carried out every two years and followed up actively. 	<ul style="list-style-type: none"> → Brand positioning. → Stakeholder engagement cannot only mitigate reputational risks in certain cases but it also presents opportunities to increase the awareness and credibility of Atlas Copco's brand through improvements and innovations. → Delivering tested and quality assured products improve customer satisfaction and promote repeat business. → Attract, develop and keep people that adhere to the Business Code of Practice.
Reporting risks	<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>Estimations often form a large portion of the sustainability data which is reported, and thus by its nature the numbers presented may not be precise representations of the Group's impact.</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". ■ In order to minimize this risk, the Group has several procedures in place to ensure compliance with Group instructions, standards, laws and regulations. ■ Atlas Copco reports sustainability information according to the GRI 3.0 principles. In order to minimize this risk, Atlas Copco 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 represent the business fairly and accurately. → Improved reporting also directly results in improved risk management, especially when the data has been integrated to highlight interdependencies.

CONTINUED: RISKS, RISK MANAGEMENT AND OPPORTUNITIES

Risk	Context	Mitigating factors	Opportunities
Risks of corruption and fraud	<p>It is clear that corruption and bribery exist in markets where Atlas Copco conducts business. In Transparency International's Corruption Perceptions Index for 2012, 70% of the 176 countries included scored below 50 on a scale from 0 (perceived to be highly corrupt) to 100 (perceived to have very low corruption).</p> <p>Atlas Copco does not tolerate bribes and corruption, including facilitation payments, which is clearly stated in the Business Code of Practice. The company works actively to prevent, detect and respond to potential corruption cases.</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 & Assurance 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 and reduce the risk of corruption. ■ Training in the Business Code of Practice and in fraud awareness as well as workshops held to cover business integrity and ethical dilemmas. Transparency International's Corruption Perception Indices are used in trainings. ■ The Group has established interactive online training modules based on the tools provided by the UN Global Compact. ■ The Group hotline is established globally to report violations confidentially and with no penalties for reporting. ■ The Group supports fair competition and forbids discussions or agreements with competitors concerning pricing or market sharing. 	<ul style="list-style-type: none"> → By fighting against corruption and fraud, Atlas Copco has the opportunity to work with its industry peers to reshape international market practices. Refusing to pay bribes may cause temporary delays and setbacks; however it reduces costs in both the long and short run, builds opportunities to improve operational efficiencies and creates more stability in the society and markets that Atlas Copco operates in. → Working against corruption and fraud improves Atlas Copco's credibility and transparency and creates even more avenues to improve stakeholder relations.
Legal risks	<p>Atlas Copco's business operations are affected by numerous commercial and financial agreements with customers, suppliers, and other counterparties, and by licenses, patents and other intangible property rights. This is normal for a business like Atlas Copco's and the Group is not dependent upon any single agreement or intangible property right. Considering the size of the business operations of the Group, the actual level of the overall legal risk exposure remains low.</p>	<ul style="list-style-type: none"> ■ In-house lawyers present on five continents. ■ An in-depth yearly review of all companies within the Group is performed in addition to a continuous follow-up of the legal risk exposure. The result is compiled, analyzed, and reported to the Board. 	<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 creates the chance to develop reliable partnerships and improve business stability.
Insurable risks	<p>Atlas Copco has a customized insurance program in place to protect all insurable assets and interests of the Group. Each company within the Group is responsible for managing and reporting its insurance-related matters in accordance with guidelines of the Group's insurance program. The scope of insurable risks covered by the insurance program includes properties, various types of liabilities, goods in transit and financial lines. The physical damage to the Group's facilities could have severe financial consequences.</p>	<ul style="list-style-type: none"> ■ The Atlas Copco Group Insurance Program is provided by the Group in-house insurance companies Industria Insurance Company Ltd. and Atlas Copco Reinsurance S.A., which retain part of the risk exposure. ■ Reinsurance capacity is also purchased from leading reinsurers in cooperation with international insurance brokers. ■ Claims management services are purchased on a global basis from leading providers and a network of local fronting insurers are issuing insurance policies on a local basis to ensure legal compliance in all countries. ■ In connection with the insurance program, loss prevention standards have been developed through a large number of risk management surveys. The various findings of the activities are summarized in a grading schedule, which gives the management control over and an overview of the risk exposure throughout the Group. 	<ul style="list-style-type: none"> → Working with insurable risks minimizes costs. → By way of control and conformity in terms of level of risk management, the probability of events that can cause material damage and severely impact the business operation of the Atlas Copco Group is reduced and business can proceed without disruption. → The use of insurance companies owned by Atlas Copco enables a strict control over all insurable interests and liabilities. It also enables a close follow up of each individual insurance claim impacting the Group, which can help to eliminate or reduce future claims.

Risk	Context	Mitigating factors	Opportunities
Safety and health risks	<p>Issues with wellness and sick leave can impact the productivity and efficiency of the operations.</p> <p>Accidents or incidents at the workplace due to lack of proper safety measures or protective equipment can negatively affect productivity and the Atlas Copco 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 Group will implement OHSAS 18001 in all major units. ■ Workplace wellness programs to reduce the impact of pandemic HIV/AIDS are in place in southern Africa, where employees receive testing, awareness training, and consultation and treatment if necessary. ■ Atlas Copco's business partners are trained in the Group's policies including the company's approach to health and safety. 	<ul style="list-style-type: none"> → Improved safety and health in operations increases both employee productivity and morale. → The Atlas Copco brand can continue to be strengthened through safe products, and it is an opportunity for the Group to continue to innovate in order to be seen as industry leaders. → Atlas Copco can also improve working conditions for customers and suppliers, which can create long lasting relationships and repeat orders.
Environmental risks (external)	<p>The primary drivers for external environmental risk are from physical changes in climate and natural resources, changes in regulations, taxes and resource prices. In general, Atlas Copco's exposure to this type of risk is perceived as low.</p> <p>From an operational perspective, increased fuel/energy taxes represent a risk for Atlas Copco as it can increase Atlas Copco's operational costs.</p> <p>Regulations and requirements related to carbon dioxide emissions from products and industrial processes are gradually increasing. At present none of the Group's operations are subject to any emission allowance trading schemes or similar systems.</p> <p>Changes in mean precipitation can affect all of Atlas Copco's operations but especially those operations situated in countries already affected by increased/decreased mean precipitation. Heavy rains or harsh winters can also negatively affect operations either directly or by disrupting the supply chain.</p>	<ul style="list-style-type: none"> ■ Atlas Copco consistently develops products with improved energy efficiency and reduced emissions. ■ In its own operations, Atlas Copco has several goals that address resource and energy usage in order to minimize the costs and negative impact on the environment. ■ All cooling agents used in Atlas Copco products have a zero ozone-depleting impact during the product's lifecycle, and the aim is to continue to introduce cooling agents with lower Global Warming Potential (GWP). ■ Atlas Copco's insurance company assesses the exposure to property risks as a result of extreme weather conditions and the danger of natural disasters. Preventive measures are taken to reduce the risk levels wherever necessary. 	<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 or scarcity, water efficient or water recycling products can have a strong customer appeal. Thus, this presents a strong business opportunity to extend Atlas Copco's innovations to the focused area of water consumption. → Climate change impacts and predictions can induce changes in consumer's habits and behavior. As a result of climate events Atlas Copco's customers can become more risk averse and demand sustainable products from the Group.
Human rights risks	<p>Atlas Copco operates in countries where the risk according to Amnesty International is high of human rights abuse, including child labor, forced or compulsory labor.</p> <p>From time to time, Atlas Copco encounters customers, for instance in the mining industry, who are exposed to problems concerning environmental and human rights issues.</p> <p>Risks to the Group's reputation may also arise from the relationship with suppliers not complying with internationally accepted ethical, social, and environmental standards.</p>	<ul style="list-style-type: none"> ■ Guidance and regular interaction to identify risks with well-established NGOs such as Amnesty International. ■ A thorough risk mapping carried out with support from Amnesty International and Transparency International. ■ Gap analysis of all policies and procedures to match the standards set forth in the UN Guiding Principles for Business and Human rights, which Atlas Copco has committed to since 2011. ■ Due diligence process and the integration of internal checks and controls for human rights violations in all business processes. ■ Integration of children's rights principles with support from UNICEF. ■ Specific human rights training is being developed to increase employee awareness. ■ Managers are repeatedly educated about Atlas Copco's Business Code of Practice. ■ The Group has developed a customer sustainability assessment tool to be used internally for evaluation of reputation and sustainability risks. ■ Supplier evaluations are regularly conducted in accordance with a checklist based on the UN Global Compact. 	<ul style="list-style-type: none"> → Following the UN Guiding Principles for Business and Human Rights to "do no harm" significantly reduces risks and costs; however a business' ability to "do good" according to these guidelines also creates significant business opportunities while creating a positive societal impact. For example: continuing to develop a diverse workforce can significantly increase Atlas Copco's competitive edge and it can also increase the Group's knowledge and capacity to tailor products to the customer's needs and preferences. → Working with human rights positively impacts both employer and investor relations. → Furthermore, strong business ethics promote internal stability while also creating a more stable market place by addressing social concerns, which creates long term business opportunities.

Innovative, sustainable products and services

Atlas Copco develops innovative and sustainable products and services with the objective to increase customers' productivity, safety and energy efficiency. The aim of research and development activities is to support the Group's vision to become and remain First in Mind—First in Choice® for its customers.

The driving forces for new product developments are both internal and external.

Examples of external drivers:

- Customers' demands and requests
- Laws and regulations
- User trends
- Design trends
- Competition
- Increased safety
- Improved ergonomics
- Environmental impact

Examples of internal drivers:

- New technologies
- New applications
- Reduced lead time
- Increased quality
- Increased productivity
- Standardization and modularization
- Increased safety
- Improved ergonomics
- Environmental impact

With world-class customers in every corner of the world Atlas Copco's biggest challenge is to continue to meet their need of sustainable products to increase their productivity. A successful approach of maintaining a leading market position has been to cooperate with customers around the world and to work closely with universities. Further, development is also carried out in cooperation with suppliers or by leveraging their capabilities. At the same time as this approach safeguards customers' productivity and satisfaction, it contributes to Atlas Copco's own sustainability goals to reduce its environmental impact, a win-win situation. By providing high-quality products and services Atlas Copco continuously adds value to its customers.

Product development

The wide span of technologies used by Atlas Copco – from advanced computer control systems, hydraulics and pneumatics to specialized technologies such as air compression or rock drilling – creates an exciting environment for the Group's development engineers in many countries.

Productivity, reliability, safety, and energy efficiency are examples of key criteria in the projects. For example, in a project where energy efficiency is considered a key criterion the project will not be approved if the goal for energy efficiency is not met.

Compressed air is a crucial component in all manufacturing industries. Up to 10% of the total energy consumption in manufacturing worldwide comes from compressed air systems. Atlas Copco is strongly committed to continuously improving energy efficiency for its customers. A good example is the advanced Variable Speed Drive technology, which has achieved average customer savings of 25%. All oil-free compressors are certified to deliver air with no trace of oil.

More energy-efficient tools reduce both energy costs and CO₂ emissions. Electric tools with a modular design are flexible, lighter and easier to disassemble. They vibrate less and make less noise than pneumatic tools. The optimized tool design improves ergonomics, increases efficiency, consumes less energy and reduces waste.

Mining and rock excavation equipment is developed to reduce the environmental impact and the customer's total cost of ownership by enhancing performance and reducing costs. Product development also always takes into account safe operation of the machines.

New construction equipment and services aim to reduce environmental impact by increasing energy efficiency, enhancing performance and reducing costs, such as those for fuel, labor and parts.

The number of product development projects in the Atlas Copco Group increased in 2012, including more projects where the focus is to develop differentiated products in the emerging markets.

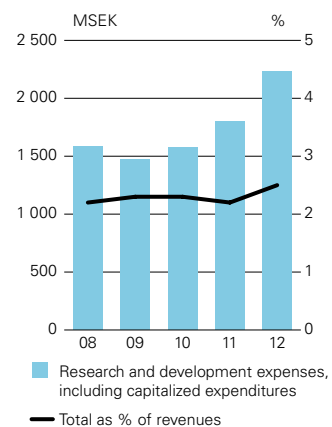
The number of people employed in research and development increased by 18% to 2 483. Most of the employees are based in Europe, but the rate of increase in Asia was very high.

The amount invested in product development, including capitalized expenditures, increased 24% to MSEK 2 231 (1 802) corresponding to 2.5% (2.2) of revenues and 3.1% (2.8) of operating expenses.

RESEARCH & DEVELOPMENT EXPENDITURES

+24%

Research and development expenditures



Product lifecycle

Relevant aspects of ergonomics, safety and health are assessed both in the product development process and in all lifecycle stages of the product or a service.

Seen over the entire product lifecycle, from product development, manufacturing, usage to discards, the largest portion of Atlas Copco's environmental footprint is in the use of its products, with energy consumption making the most significant environmental impact. Therefore each product development project has ambitious targets to reduce energy consumption. The objective is to increase customer energy efficiency by 20% by 2020, measured as weighted total energy consumption of the total number of products sold per year. The Group has started to measure customer energy efficiency. There is, however, a large number of products with different characteristics and to consolidate the figures is difficult. Therefore, no Group figure is presented for 2012. As a minimum, products comply with laws and regulations regarding the environmental impact of the products.

Atlas Copco has taken several initiatives to reduce its use of resources and does its utmost, for example, to optimize packing material.

Products such as stationary compressors, drill rigs, hydraulic breakers and industrial tools can be returned, refurbished and resold as used equipment. Used equipment meets the same high standards as when it was new in terms of quality, performance and energy efficiency.

Product responsibility

During the design stage, products are evaluated from a safety and health perspective, including ergonomics. Further, all Atlas Copco products and services come with relevant product, service and safety information. The product and service information required by the Group's procedures for product and service information and labeling covers aspects such as sourcing of components, content such as substances of concern, safe use and disposal of the product. Customer training is included when relevant, to secure safe handling of the products.

In general, Atlas Copco is not directly covered by the EU Waste Electrical and Electronic Equipment (WEEE) Directive. However, handheld electric tools and monitoring control instruments are defined to be within the scope. Atlas Copco has a responsibility for the disposal of these products. The Group handles the EU WEEE Directive globally.

Atlas Copco strives to follow laws and regulations regarding safety, health and environmental aspects, product information and labeling. No fines

have been paid in 2012 for non-compliance with laws and regulations concerning the provision and use of products and services.

Sales and market communication

Atlas Copco's products and services are marketed and sold on the basis of their quality, productivity, price and service level and other legitimate attributes. The divisions are responsible for marketing and communication as well as training of personnel in features and benefits, customer safety and health, product and service labeling and customer privacy and compliance.

Customer conduct

Atlas Copco recognizes the importance of safeguarding its reputation by working with customers who adhere to the same standards for environmental, ethical and social responsibility. The Group continues to build awareness of its ethical guidelines. The customer sustainability assessment tool will be globally launched in 2013. This tool is already in use in cases of financing by credit export agencies.

Customer loyalty

To measure customer loyalty, the Group makes customer satisfaction surveys. Every day, and following sales and/or service interactions with Atlas Copco, thousands of customers receive surveys where they are asked to give their opinion. Customers are often contacted and engaged in discussions about their feedback in order to solve problems and to improve products and services. To ensure that customer satisfaction improves a number of key performance indicators have been established and are continuously followed up, e.g. availability of spare parts. The overall results of the surveys indicate an improvement in customer satisfaction during 2012, but also several areas where improvement is needed.

Increase brand awareness

To further expand the market and to measure if the Group is First in Mind—First in Choice® among customers and prospects, Atlas Copco conveys brand awareness surveys on different markets. Based on the results actions are put in place to intensify prospecting and to tailor marketing communications to reach the target groups in an attractive and efficient way. The overall objective is to support the growth and strengthen the positioning on a specific market and/or segment.



Each product development project has ambitious targets to reduce energy consumption.

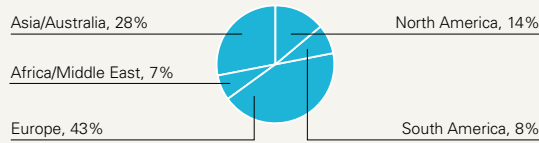
CUSTOMER FOCUSED GOALS

- First in Mind—First in Choice® for customers and prospects for all brands.
- Increase customer loyalty.
- Increase customer energy efficiency by 20% by 2020.
- Offer safe and reliable products and services.

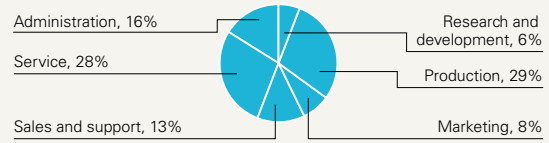
Customer satisfaction surveys indicate an improvement during 2012.

Employees

GEOGRAPHICAL SPREAD OF EMPLOYEES



PROFESSIONAL CATEGORY SPREAD OF EMPLOYEES



Atlas Copco's current and potential employees expect a working environment that sets a high standard for leadership and provides opportunities for each individual to develop professionally. Offering a diverse workplace with good health, safety and labor practices is an important part of Atlas Copco's brand as an employer, and thereby a key success factor for the Group.

First in Mind—First in Choice® employer for today's and future employees.

Atlas Copco's people management strategy is to attract, develop and keep motivated people, while expecting managers to take responsibility for developing their employees, their organizations and themselves.

Employee surveys

Atlas Copco conducts a Group employee survey at least every second year. Local management follows up on areas needing attention and improvement and holds employee workshops on how to improve where there are weaknesses and capitalize on strengths.

Employer/employee relations

The internal database *The Way We Do Things* gives employees information on the Group's people management process, including guidance on recruitment, compensation, performance reviews and competence development.

A non-discrimination policy covers all employees. Labor practices such as the right to collective bargaining are included in the Business Code of Practice, which is updated regularly. In 2012, 41% of all employees were covered by collective bargaining agreements. The Business Code of Practice also covers employee rights. In countries where no independent labor union may exist, Atlas Copco has taken measures to establish forums for employer/employee relations, as in China for example, through environment and safety committees.

Wages and benefits

Atlas Copco's aim is to provide wages and benefits that are fair, consistent and competitive, and in line with industry standards, in order to attract and retain the best people. A fair salary structure is determined through a classification system based

on a specific compensation level for each position, and is benchmarked against similar companies using the same system. For temporary employees, benefits provided are in line with national laws and regulations. This is also valid regarding minimum wages and the minimum notice period in cases of operational changes.

Leadership

Atlas Copco aims to develop managers that have the courage to lead and the engagement to develop committed collaborators. All managers and employees must live and breathe the Atlas Copco values: interaction, commitment and innovation. Leadership and people management trainings, including special training for service managers and team leaders, are continuously conducted with the ambition to improve efficiency and processes.

Atlas Copco strives to have managers that reflects the global structure and requirements. The long-term ambition is to develop local leaders. In 2012, a total of 64% (67) of all senior managers were locally employed. Among the 371 most senior managers 49 nationalities are represented.

The role of the international managers is both to develop local leaders and to get international professional experience for even more demanding positions within the Group. Overall, Atlas Copco has managers on international assignments coming from 55 countries and working in 61. The share of Swedish managers on international assignments has decreased from 23% in 2001 to 14% in 2012.

The proportion of women in management positions increased to 15.1% (14.6). To increase the proportion, Group policy states that when recruiting managers to positions where a university degree is required there must always be at least one female candidate. Atlas Copco's high-level women's mentorship program runs in its fourth consecutive year. The global Atlas Copco women's network supports women's development in the Group.

Management resourcing and recruitment

Competent and committed managers are crucial for realizing the strategy of the Group. The Atlas Copco management resourcing strategy is to have a

SURVEY REPLIES

85%

In 2012, more than 32 000 employees, or 85%, replied to the employee survey. The share of employees that are proud to work for Atlas Copco increased to 82% (77) compared to the previous survey in 2010. The results showed that the Group is a strong and customer focused company, and that employees have a clear understanding of strategies and goals. A need for improvement was identified in the areas of leadership responsibilities, engagement and motivation.

flow of potential leaders within the Group striving towards more and more challenging positions, thereby safeguarding recruitment to management positions.

Internal mobility is a way to increase efficiency and employee motivation, and to avoid stagnation in the organization. When a manager has fulfilled his/her mission, he/she will seek a new mission either in the existing position or in a new position. The target is to have 85% of managers internally recruited, and the outcome in 2012 was 86%.

Atlas Copco employees are encouraged and supported to grow professionally by applying for open positions internally through the Internal Job Market, which was created in 1992. In 2012, 3 759 positions were advertised, of which 461 were international.

Competence mapping is done extensively to establish resource needs, particularly in core areas. External recruitment of young high-potential employees is focused through active promotion of the Atlas Copco employer brand.

Equality, fairness and diversity

Equal opportunities, fairness and diversity are fundamental pillars of Atlas Copco’s people management process. The company aims to have a workforce that reflects the local recruitment base comprising all cultures, religions and nationalities.

The goal is to increase diversity in both nationality and gender. Greater diversity fosters an international mindset, stimulates innovation, and improves the ability to work cross culturally and expand into new markets. It also gives a better understanding of the societies in which Atlas Copco operates. A key success factor of this strategy is to encourage diversity and to integrate the Group’s basic beliefs and values with the local culture.

Atlas Copco companies establish local diversity policies and guidelines in alignment with Group

policy, local laws and regulations, and local ambitions. This can include options regarding reduction of working time for childcare or educational leave.

Diversity remains a challenge and is addressed through initiatives such as the launch of a program with short-term assignments abroad to increase competence development and diversity, mentorship programs, a global network and policies. The Group mainly recruits employees from the local communities where it operates.

In 2012, the ratio of women was 16.9% (16.8). The small increase is explained by focused activities to increase the number of women in all positions. The proportion of female recent graduates recruited during the year among white-collar workers was 26%.

Competence development

Competence development is crucial to attracting and keeping satisfied employees. The goal is to ensure competence development and coaching for every employee. They should receive the training and coaching needed to achieve good results, including on-the-job-training and an appraisal each year, regardless of professional category.

In 2012, the average number of training hours per employee was 42 (45) hours and 83% (84) of all employees had an appraisal.

Workshops and seminars help implement Group policies and processes. All employees receive training in *The Way We Do Things*, the Group’s single most important management tool. All employees should also receive training in the Business Code of Practice. In 2012, approximately 90% of Atlas Copco employees had undergone this training.

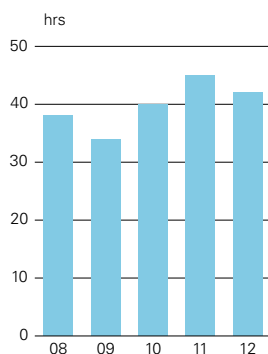
Business areas provide targeted skill-based training in accordance with the organization’s needs. One important area is value-based sales training, in which an understanding of the product

AWARDED IN HUNGARY

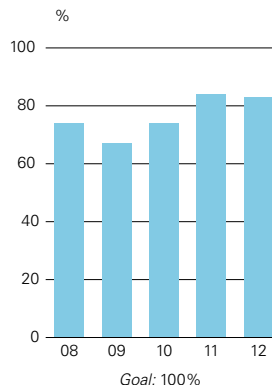


Atlas Copco Hungary received “Best Workplace for Women” award.

Average hours of training per employee



Proportion of appraisals among employees





Atlas Copco runs a two and a half year apprenticeship program in South Africa. See page 51.

INTERNAL MOBILITY

8%

and the customer’s application is essential. Language training, primarily English, is frequently held in order to facilitate easy communication throughout the organization.

One measure of success of the focus on competence building within Atlas Copco is the percentage of employees with a university degree. In 2012, 52% of the white-collar employees had a university degree.

Mobility and employee turnover

Atlas Copco’s goal is to encourage mobility, across geographical, organizational and cultural boundaries. This is important for developing competence, but also for successful integration of newly acquired companies. Experienced managers in senior positions lead the integration process and make it possible to establish the Group’s Business Code of Practice, values and vision in an efficient and pragmatic manner. In 2012, internal mobility among employees was 8.2% (9.3). Overall external recruitment reached 15%, excluding acquisitions. Employee turnover was 8% (8).

Safety and health

Atlas Copco aims to offer a safe and healthy working environment in all its operations, for all stakeholders. The Group has a global Safety, Health and Environmental (SHE) policy. The ambition is that all employees will work in a company with a SHE management system and that major Group companies are certified in accordance with the international standard OHSAS 18001 by 2013. Further, the goals are to have no work-related accidents and to have a sick leave level below 2.5%.

To highlight the significance of safety, an interactive e-learning module is available to all employees. An important part of product and application trainings is related to safety and there have been several dedicated training sessions. In addition, the business areas have been running ‘Safety First’ campaigns globally in their areas of responsibility. To further stress the importance, safety and health is the first point on the agenda of company review meetings.

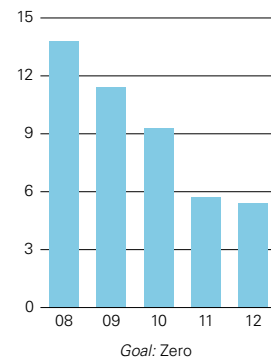
Atlas Copco companies design health and wellness programs to meet the specific needs of their country or region. The HIV/AIDS pandemic is a major concern in some countries where Atlas Copco operates. Since 2002 the Group has been running wellness programs in many Sub-Saharan countries. These programs include testing, awareness training as well as consultations and treat-

ments for those who are diagnosed HIV positive. In the United States diabetes is a growing concern and employees are offered wellness programs including consultation and medication.

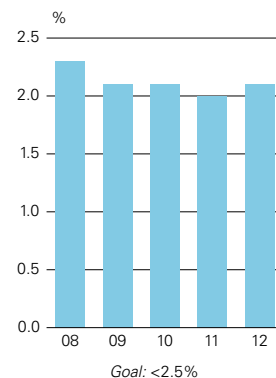
In 2012, 72% of the product companies and major customer centers were certified according to OHSAS 18001, which corresponds to 69% of all employees.

During the year the number of accidents increased to 391 (370). The Group takes the increase seriously and promptly addresses the issue with the concerned entities. In relative terms there was a decrease to 5.4 (5.7) accidents per one million working hours. Sadly, Atlas Copco had three fatalities during the year. Safety awareness training and safety communication increased even further after these tragic incidents. Sick leave was at 2.1% (2.0).

No. of accidents per one million of hours worked



Sick leave



Business partners

GEOGRAPHICAL SPREAD OF SUPPLIERS



When products carry an Atlas Copco brand, the policy is that the same high standards for the environment, labor and human rights should be met at business partners such as suppliers, sub-contractors and joint venture partners.

The Group therefore has a process in place for managing and monitoring its supply chain, recognizing that business partners play an integral role in achieving the Atlas Copco's goals.

The Group goal is to work with business partners committed to high ethical, environmental and social standards. Working with suppliers to improve performance in these aspects plays a crucial role in safeguarding the reputation and brand for Atlas Copco.

There are three focus areas for evaluating suppliers' performance in social and environmental responsibility:

- Business partners' adherence to a 10-point checklist that Atlas Copco has developed based on the UN Global Compact and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and published on the Atlas Copco website.
- The use of Atlas Copco lists of substances of concern.
- Atlas Copco encourages all business partners to implement a safety, health and environmental management system.

The Group's purchasing process is decentralized and managed in the divisions. However, local purchasing (non-core) is mostly carried out by individual companies. Atlas Copco promotes local purchasing since it benefits the region where the Group operates and also facilitates close relationships with local partners to capitalize on opportunities to further improve quality and efficiency, and decrease environmental impact.

Group companies select and evaluate business partners partly on the basis of their commitment to social and environmental performance. Minimizing the risk of violations of the Atlas Copco Business Code of Practice is in focus when selecting and evaluating a business partner.

Business partners are evaluated during and after selection. The supplier evaluation process includes for example the business partner's use of energy and related CO₂ emissions, water use, respect of human rights and labor practices. At times self-assessment checklists are sent to suppliers. On-site evaluations are conducted either at regular intervals or when deemed necessary. These result in a report with concrete suggestions for improvement to be followed up on at an agreed time. Where business

SUPPLIERS COMMITTED TO THE BUSINESS CODE OF PRACTICE



partners' operations indicate a potential conflict with the Business Code of Practice, improvement plans can be agreed upon and Atlas Copco can provide experience and know-how.

Training

The internal training on supplier evaluations is published in the Group database *The Way We Do Things*. Training is given on a worldwide basis.

An e-learning for business partners has been developed and launched on the Atlas Copco website. The aim is to raise awareness of the Business Code of Practice. Business partners such as significant suppliers of direct material are encouraged to take the training either online or during supplier visits.

Performance from supplier evaluations

Group companies report quantitative data on evaluated, approved and rejected suppliers and those requiring further improvement in their practices. A supplier is considered approved if Atlas Copco has performed an assessment at the supplier's site and reported that there is no risk of violating the Code, or that the supplier has acted on all development suggestions from a previous evaluation. The work on supplier evaluations takes place primarily in the product companies.

Prohibited or restricted substances

Atlas Copco maintains lists of substances which are either prohibited or restricted due to their potential negative impact on health or the environment. Prohibited substances are not allowed in the Group's products or processes. Restricted substances are not yet legally excluded for use but should be replaced according to a plan that takes into account technical and financial aspects. Suppliers' use of such substances is regularly checked, and if prohibited substances should be found, they must immediately be replaced with approved alternatives. The lists are continuously revised according to applicable legislation, including REACH. The lists on prohibited and restricted substances are published on the Atlas Copco website.

Conflict minerals

Atlas Copco is a supplier to customers required to report on the Dodd Frank Act, section 1502 in the United States. This means that the Group must ensure that its products and components are free from conflict minerals. This initiative was already started during the year and will continue in the coming years.

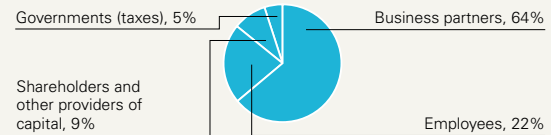
Society

MANAGERS TRAINED IN THE BUSINESS CODE OF PRACTICE*



* In-depth class-room training in ethics for managers

DISTRIBUTION OF DIRECT ECONOMIC VALUE



THE ATLAS COPCO BUSINESS CODE OF PRACTICE

... is translated into 26 languages and available to all employees and business partners. The Code was updated in 2012 primarily in regards of human rights and corruption.

HOTLINE

39

Possible violations of the Code were reported through the hotline during 2012. The nature of the violations was related to organizational changes, economic issues, and personal issues. Activities to address the reports include internal audits, job rotation and communication.

Given its global reach Atlas Copco has an influence on the economic and social development of the countries in which it operates. The Group is expected to demonstrate that influence in a positive way and strive to be a good and reliable corporate citizen creating shared value.

In the long-term, sound business practices are economically profitable since business is more efficient and establishes the Group's reputation as a reliable and trustworthy partner that conducts business with integrity. From a short-term perspective, following Atlas Copco's principles could have an adverse impact on some business opportunities.

Corruption and anti-competitive behavior

Corruption has very negative global consequences and is both a cause of poverty and a barrier to overcoming it. The Atlas Copco Group does not accept corruption. This basic rule strengthens the brand and helps contribute to fair market competition.

Prevent, detect, react

Not accepting corruption may sound simple. However, being a global company that operates in many cultures with different norms means that it is a demanding challenge. The goal of no corruption or bribes is supported by a policy, procedures, training

and monitoring process. The Business Code of Practice clearly states zero tolerance of corruption, including facilitation payments. Firm action will be taken on a case-by-case basis. There will be no negative consequences for employees refusing to receive or pay bribes. Internal control procedures are set up to minimize the risk of corruption and bribes, e.g. segregation of duty. Internal audits include compliance to the Business Code of Practice. Awareness of, and compliance with, principles of integrity in all business dealings is a priority for Atlas Copco.

The Group hotline can be used by employees to report behavior or actions that are, or may be perceived as, violations of laws or of the Business Code of Practice. It serves as a complement to similar processes on country level. The Group Legal department is responsible for managing the hotline and ensures that reports are treated confidentially. The person reporting is guaranteed anonymity.

Training

The Business Code of Practice is given to all new employees and training is provided globally. Managers also receive in-depth classroom training with dilemma cases. The training on corruption developed by the UN Global Compact was taken by 3 500 managers before signing the Business Code of Practice compliance statement.



Anti-corruption principles The work to fight corruption is guided by the following principles, which apply to all employees, managers and the Board of Directors:

Regarding legal compliance

→ Following laws and regulations, in every country in which the Group operates, is a minimum requirement. In situations where the law does not give guidance, the Group applies its own values and standards.

Regarding relationships with business partners and customers

→ Atlas Copco must not offer agents, distributors, customers, potential customers, governments any rewards or benefits in violation of either applicable law or reasonable and generally accepted business practice.

Atlas Copco also takes reasonable steps to prevent its business partners from taking part in practices that violate the principles in the Code.

Human rights

Human rights are integrated in Group goals. The work to integrate the UN Guiding Principles on Business and Human Rights and the Children Rights is ongoing. During the year the Business Code of Practice and internal guidelines were updated accordingly. The Group's Human Rights Statement is published on the Atlas Copco website. The work with conflict minerals was started during the year. Atlas Copco will ensure that its products and components are free from conflict minerals and also ask the same from its suppliers. Human rights' awareness training for employees and managers will be launched during 2013.

Through internal control processes Atlas Copco ensures that Group companies have internal processes in place to inform customers and business partners about its human rights policies and to assess possible reputational risks. To date, approximately 70% of Atlas Copco's companies have established these processes.

Atlas Copco's business partners are expected to observe the same high standards regarding human rights as Atlas Copco does.

Due diligence on human rights

A process to assess and manage the social impact of operations on communities and human rights was developed and tested in Ghana and Kazakhstan in 2011. During 2012 the focus has been to further develop the process.

Community engagement and charity

Atlas Copco has long engaged in the societies where it operates. The Group's community and charity initiatives selected and supported by local companies, focus on providing education, a safe upbringing for children, and fighting diseases such as HIV/AIDS and malaria. The Group's Community Engagement and Charity Policy also encourages companies to give support following natural and humanitarian disasters. The support can be products, time or money. Employee-led initiatives are supported by a financial 'matching' principle. Group companies match employee financial donations with company funds. *Water for All* is recognized as the main initiative of this type of engagement.

The community engagement and charity spend during 2012 was distributed accordingly: cash donations 82%, in kind 4%, and time value 14%.

Development and distribution of economic value

Atlas Copco generated further employment and financial stability through subcontracting manufacturing and other activities. Operating costs including costs to suppliers for goods and services, functional costs deducted for employee wages and benefits amounted to MSEK 53 656 (48 032). Employee wages and benefits paid increased by 14% to MSEK 18 125 (15 910).

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 turn, these stakeholders receive annual dividend and interest. The costs for providers of capital including dividend, increased by 21% to MSEK 7 167 (5 913).

Atlas Copco contributes to economic development within the regions where it operates, through payments to pension funds and social security, and payments of taxes, social costs and other duties. In 2012, the cost for direct taxes to governments was up 12% to MSEK 4 377 (3 902). Community investments amounted to MSEK 11.7 (17.5).

The economic value retained decreased by 5% to MSEK 8 092 (8 517), as a result of increased dividend and salaries.

Atlas Copco has received requests from stakeholders to be more detailed in its reporting about payments to governments through direct tax.

WATER FOR ALL

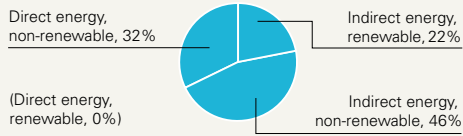
Since 1984, Atlas Copco has supported the voluntary, employee-managed organization *Water for All*, which raises funds to finance water well drilling activities, sanitation and equipment in order to supply clean drinking water to villages and communities. To date, *Water for All* has provided access to clean water to more than 1.2 million people. The initiative is established in 19 countries, with more under way.

Visit www.water4all.org for more information.

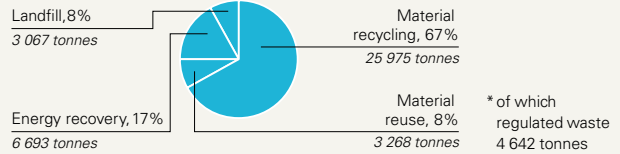


Environment

PROPORTION OF ENERGY CONSUMPTION



WASTE DISPOSAL*



Atlas Copco seeks to meet stakeholders' expectations for sound environmental management of its operations and products.

Life-cycle analysis shows that Atlas Copco's most significant environmental impact is related to CO₂ emissions during the use of the products. Incorporating environmental considerations into new product design, and continuous product development, is a high priority for Atlas Copco and its customers.

Energy consumption and emissions of CO₂ are the most significant environmental indicators, but Atlas Copco also tracks and reports performance on water consumption, materials, and waste.

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. In 2012, there were no major incidents reported concerning these aspects.

Five Swedish companies require permits based on Swedish environmental regulations. These operations account for approximately 20% of the Group's manufacturing and mostly involve machining and assembly of components. The permits relate to areas such as emissions to water and air, as well as noise pollution. During 2012, one permit is under revision. The Group has been granted all permits needed to conduct its business. No penalties relating to environmental permits have been imposed during 2012.

Environmental management systems

To help minimize the environmental impact and to secure that the precautionary approach is applied, Atlas Copco has a target to

implement environmental management systems (EMS) in all operations. All product companies must be certified according to ISO 14001. Acquired product companies are normally certified within a two-year period. In 2012, the proportion of product companies with ISO 14001-certification represents 94% of cost of sales and 88% of their employees.

Sustainable construction

Atlas Copco has a goal to construct its buildings according to a sustainable building standard, such as LEED. This regards both new and reconstructed buildings over 2 000 m². There are Atlas Copco buildings built according to LEED; two in China, one in India and one in the United States. The expected results of the sustainable buildings are reduced environmental impact, reduced maintenance cost and improved working environment for the employees.

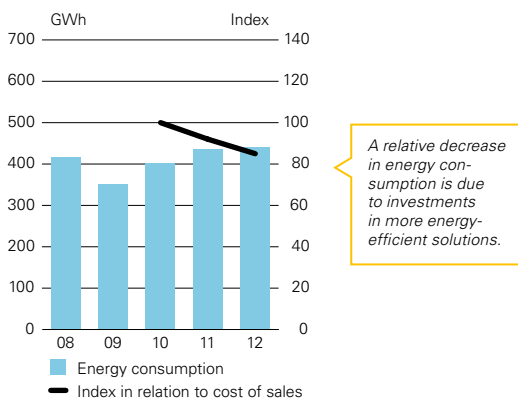
Resource use

The Group works continuously to improve resource efficiency in the manufacturing process. The most important raw materials for Atlas Copco are iron and steel, which in terms of weight represents more than 90% of the raw material, used in production and is to great extent recycled steel.

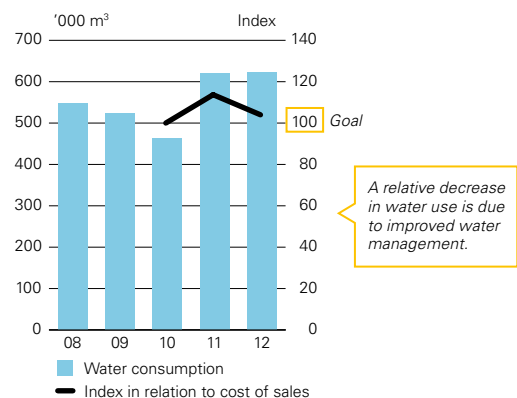
Energy

Group companies invest in increasing energy efficiency, for example, through maintenance of buildings and by improving the manufacturing process. The total energy used in production decreased by 9% in relation to cost of sales. The decrease was due to implementation of more efficient production processes. In 2012, 22% of

Energy consumption



Water consumption



the energy consumption came from renewable resources such as wind energy and solar panels.

The Group goal of increased customer energy efficiency of 20% by 2020 relates to major product categories. Reporting on the performance in relation to this goal started in 2012. The goal will be achieved by providing customers with innovative energy-efficient products and services, which saves both the environment and energy costs. A few examples of these products are presented on the business area pages in this report.

Water

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

The water withdrawal is disclosed as a total figure. Water consumption decreased by 9% in relation to cost of sales. The relative decrease is partly explained by improved water management.

Emissions and waste

Atlas Copco reports CO₂ emissions from direct and indirect energy used in production and from transport to and from production sites. The Group's goal is to reduce the CO₂ emissions from the energy used in production by 20% by 2020 in relation to cost of sales. In 2012, CO₂ emissions from energy at production sites decreased by 24% in relation to cost of sales. The decrease is primarily due to increased use of renewable energy. The major production site in Belgium uses energy from renewable sources, such as hydroelectricity with lower CO₂ emissions.

Atlas Copco is using cooling agents in some products (air dryers) and processes (cooling installations). For products, all cooling agents used have a zero ozone-depleting impact, and the aim is to continue to introduce cooling agents with lower Global Warming

Potential (GWP). The majority of the cooling agents is in closed-loop systems in the products and therefore not released during the operational life of the products.

Transport

Transport of goods to and from production is purchased (i.e. Scope 3 emissions as defined in the GHG protocol). The Group goal is to reduce its CO₂ emissions from transport by 20% by 2020 in relation to cost of sales. In 2012, the CO₂ emissions from transport decreased by 3% in relation to cost of sales. The decrease is primarily due to improved logistics and operational excellence.

The Group continues its efforts to monitor emissions caused by business-related travel. Web-based meetings, telephone and video conferences were used to a high extent.

Waste and hazardous waste

The goal is to avoid creation of waste and that all waste is reused, recycled or recovered. As the main raw material going into the process is steel, scrap metal represents the most significant portion of waste. Practically all of this scrap is reused or recycled.

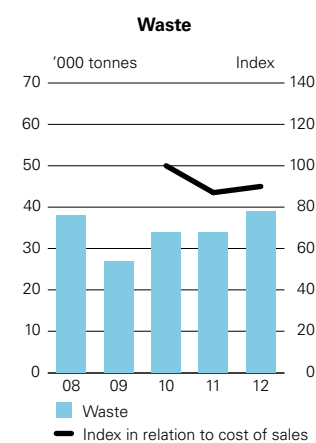
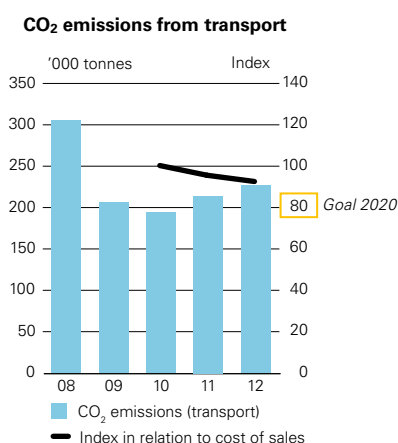
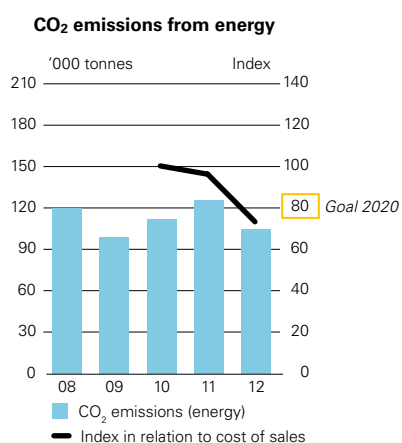
In 2012, the amount of waste in relation to cost of sales increased by 3% and the proportion of reused, recycled or recovered waste was 92%. There are initiatives to reduce landfill waste, for example through separation of waste in cooperation with recycling companies or the separation of scrap metal from oil before sending it to external recycling.

Hazardous waste in Atlas Copco's operations includes primarily cadmium, beryllium and lead. Atlas Copco tracks various categories of waste from the production process, including regulated (sometimes referred to as hazardous) waste. Restricted substances are not yet legally excluded from use but should be replaced according to a plan that takes into account technical and financial aspects. Prohibited substances are not allowed in the Group's products or processes. Group companies monitor the handling of hazardous waste by business partners.

A relative decrease in CO₂ emissions from energy consumption due to the use of more renewable energy.

A relative decrease in CO₂ emissions primarily due to improved logistics.

A relative increase in waste partly due to increased business.

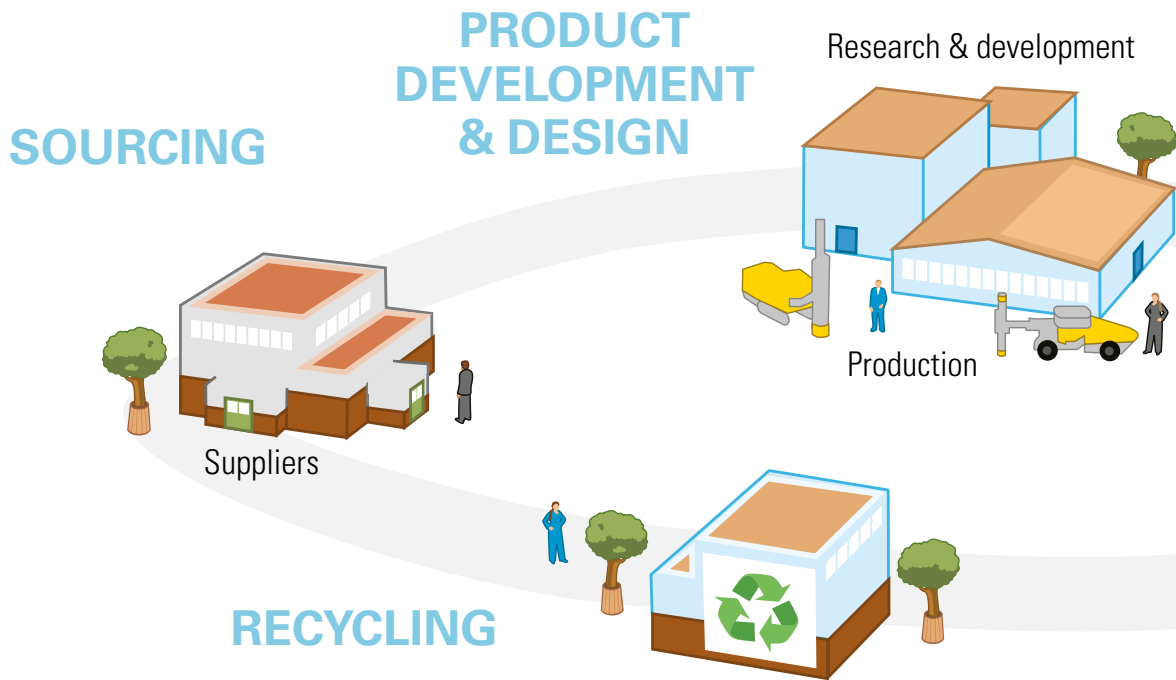


Steps to sustainable, profitable development

Atlas Copco's vision is to become and remain First in Mind—First in Choice® for customers and prospects. In this respect it strives to meet and exceed their productivity and sustainability expectations by providing high-quality innovative products and services and taking economic, environmental and social aspects into consideration in all parts of the value chain. Below are some examples.

LIFE-CYCLE ANALYSIS

Atlas Copco has a goal to design products and services with a life-cycle perspective so that they are energy efficient and easily recyclable. Designers have for example begun to carry out life-cycle analyses of hand held tools. They found that Atlas Copco tools have a high impact on the environment during the use phase. Furthermore, the selection and reduction of materials used to manufacture some products could also significantly reduce the energy needed to produce them.



WATER RISK IN THE SUPPLY CHAIN

Atlas Copco has mapped its global operations in relation to areas that are under water stress or face scarcity using the Global Water Tool by WBCSD. With this tool the Group cannot only adjust its own consumption, but also proactively work to mitigate interruptions in its supply chain that may occur due to water shortages in these specific regions.

REDUCING HAZARDOUS WASTE

An Atlas Copco's product company in the US initiated a partnership with a waste company to maximize the reuse and recycling of its waste as well as minimizing hazardous waste and waste to landfill. After two years the company has increased reuse and recycle of waste by 82% and reduction of waste to landfill by 90%.

SUSTAINABLE BUILDINGS

All new Atlas Copco buildings are constructed according to sustainable building standards such as LEED or comparable criteria. The new R&D center in Nanjing, China was not only built to be energy and resource efficient when in use, but also during the construction with over 20% recycled raw material mostly sourced locally to reduce CO₂ emissions from transport.



There's always a better way

By always questioning the way we do things, we work with continuous improvements.

EVALUATING ENERGY EFFICIENCY

Atlas Copco in the United States has contributed to the development of independent third-party performance verification for measuring compressors' performance. The program helps compressed air users to evaluate the energy efficiency of compressors in the market. It is an ongoing industry-wide initiative managed by the Compressed Air & Gas Institute.

DEDICATED SERVICE DIVISIONS

Since 2012 each Atlas Copco business area has a service division dedicated to supporting customers throughout the lifetime of the products. The divisions have almost 15 000 employees. The service operation offers closer relations to customers and enhanced product development opportunities. It also safeguards that the products operate with the desired energy efficiency and in a highly productive way.

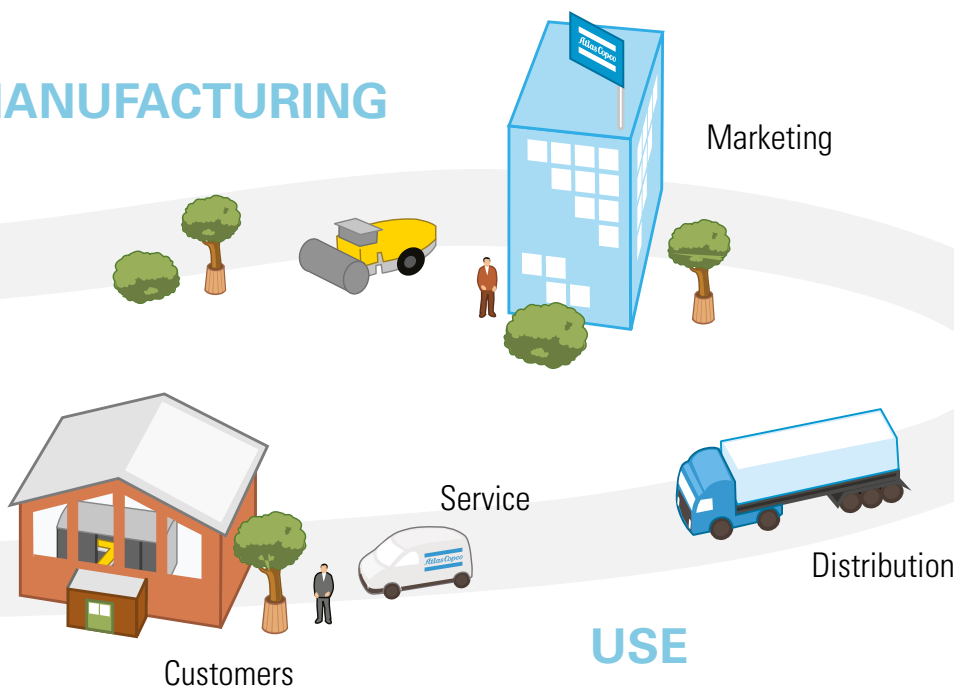
MORE FEMALE MANAGERS

Diversity is a key focus area for Atlas Copco. The Group has seen an increase in the number of female General Managers after focused efforts such as the female mentorship programs, which have been running annually since 2009 and the Group's global women's business network, launched three years ago.

MANUFACTURING

Marketing

SALES



ENERGY-EFFICIENT BLOWER

With a savings goal set at 25% for the Danish wastewater industry, optimizing all parts of the operation, including the aeration, a wastewater treatment plant in Denmark, recently replaced one of its 75 kW lobe blowers with a new 55 kW Atlas Copco ZS screw blower and was able to reduce its energy consumption by 31%.

SAFETY PROGRAM IN HUNGARY

Atlas Copco has a successful safety and health culture in the production unit for industrial tools in Hungary. The Near Miss Program, where employees have to report every single accident, incident, and near miss has run since 2011. By identifying potential risks and by continuous improvements the lost days due to injuries can be minimized. No lost time injuries were reported in 2012.

LEAN DISTRIBUTION

Atlas Copco has initiated a project across business areas to develop its future logistics model. The project focuses on improved customer satisfaction, increased efficiency in the operations, reduced total logistics costs and meeting sustainability targets. The responsibilities have been localized, for example team members in Russia have their responsibilities based on the main logistics functional areas: sales and purchase order administration, inbound shipping and customs, warehousing, customer support and branch logistics. As a result the operation is already more efficient.

APPRENTICESHIP PROGRAM

Since 2007 Atlas Copco in South Africa has had a two-and-a-half year apprenticeship program, which offers an opportunity to learn by spending time working under the guidance of a skilled, qualified artisan. After the program each apprentice undergoes a test at an accredited center, and if successful they are certified as an artisan. Atlas Copco has completed training 55 apprentices and currently has 87 apprentices in the program.

AUTONOMOUS MINING EQUIPMENT

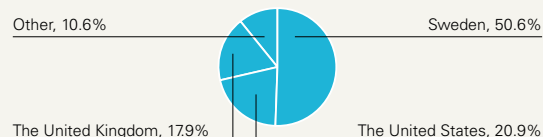
Atlas Copco offers high-tech solutions that make it possible for mining equipment to operate autonomously with remote control and monitoring. The equipment, equipped with computerized control systems, GPS and scanners, offer increased safety and productivity.

The Atlas Copco share

Highlights 2012

- The Atlas Copco share price increased by 20.5%
- Proposed dividend up by 10% to SEK 5.50 per share
- MEUR 500 bond issued in March
- Moody's upgraded credit rating to A2

Shareholders by country, December 31, 2012, percent of capital



Share price development and returns

During 2012, the price of the A share increased by 20.5% to SEK 178.30 (148). The annual total return on the Atlas Copco A share, equal to dividend, redemption and the appreciation of the share price, was on average 26.5% for the past 10 years and 17.2% for the past five years. The corresponding total return for NASDAQ OMX Stockholm was 12.6% (2003–2012) and 3.5% (2008–2012), respectively.

Trading

The trading of the Atlas Copco AB shares primarily takes place on NASDAQ OMX Stockholm, where Atlas Copco shares were the 3rd (4th) most actively traded shares in 2012. The market capitalization at year end was MSEK 208 526 (172 630), excluding shares held by Atlas Copco. Atlas Copco represented 5.4% (5.0) of the total market value of NASDAQ OMX Stockholm.

Trading in Atlas Copco shares also takes place on other markets, so called Multilateral Trading Facilities (MTF), e.g. BATS Chi-X Europe, Turquoise and Burgundy. These account for some 20% of total trading. Additionally, the Atlas Copco share is traded outside public markets, for example through over-the-counter trading, which accounts for 35–40% of the total trading.

Dividend

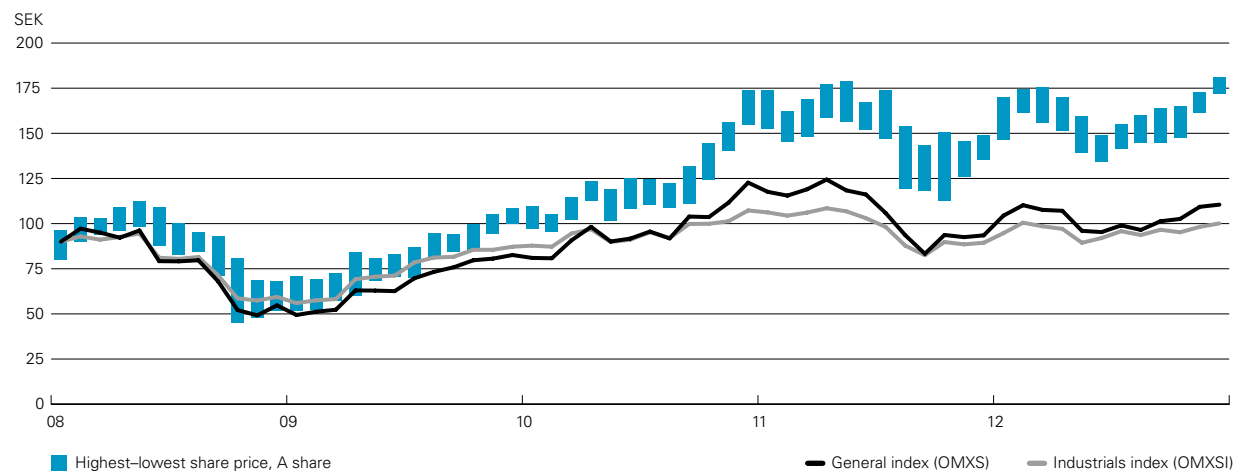
The Board of Directors proposes to the AGM that a dividend of SEK 5.50 (5.00) per share be paid for the 2012 fiscal year. This corresponds to 48% (47) of earnings per share and a total of MSEK 6 674 (6 058) if the shares held by the company are excluded.

If the shareholders approve the Board of Directors' proposal for a dividend of SEK 5.50 per share, the annual dividend growth for the five-year period 2008–2012 will equal 12.9%. During the same period, the dividend has averaged 48% of basic earnings per share.

ADRs in the United States

A program for American Depositary Receipts (ADRs) was established in the United States in 1990. Since then, both A and B shares are available as ADRs in the United States without being formally registered on a United States stock exchange. One ADR corresponds to one share. The depositary bank is Citibank N.A. At year end 2012, there were 8 090 330 ADRs outstanding, of which 6 230 931 represented A shares and 1 859 399 B shares.

Share price



Atlas Copco options

Call options, put options, and futures each linked with 100 Atlas Copco A shares, are listed on NASDAQ OMX Stockholm. In 2012, 1 526 362 (1 039 829) option contracts were traded. Since the options grant the holder the right to buy or sell existing shares only, they have no dilution effect.

Personnel stock option program and repurchase of own shares

The Board of Directors will propose to the AGM 2013 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. For further information on the option programs and repurchase of own shares please see notes 5 and 20. The company's holding of own shares on December 31, 2012 appears in the table below.

Symbols and tickers

	A share	B share
NASDAQ OMX Stockholm	ATCO A	ATCO B
ISIN code	SE0000101032	SE0000122467
Reuters	ATCOa.ST	ATCOb.ST
Bloomberg	ATCOA SS	ATCOB SS
ADR	ATLKY.OTC	ATLCY.OTC

Distribution of shares, December 31, 2012

Class of share	Shares outstanding	% of votes	% of capital
A	839 394 096	95.6	68.3
B	390 219 008	4.4	31.7
Total	1 229 613 104	100.0	100.0
<i>Whereof A-shares held by Atlas Copco</i>	<i>15 372 649</i>	<i>1.8</i>	<i>1.3</i>
<i>Whereof B-shares held by Atlas Copco</i>	<i>818 280</i>	<i>0.1</i>	<i>0.1</i>
Total, net of shares held by Atlas Copco	1 213 422 175		

For more information on the distribution of shares see note 20.

Investor relations

Atlas Copco's investor relations department is to provide the financial community with high quality and accurate information about the Atlas Copco Group.

For further information, please visit www.atlascopco.com/ir or send an e-mail to ir@se.atlascopco.com.

Important dates in 2013–2014

2013

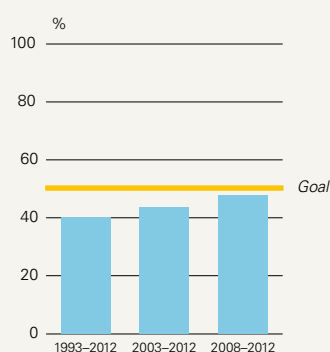
April 29	Annual General Meeting Q1 – first quarter results 2013
April 30	Shares trade excluding right to dividend*
May 8	Dividend distribution date*
July 18	Q2 – second quarter results 2013
October 25	Q3 – third quarter results 2013
November 20	Capital Markets Day

2014

January 30	Preliminary 2013 report Q4 – fourth quarter results 2013
March	Annual Report 2013

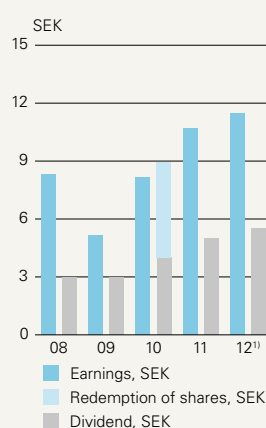
*Board of Directors proposal to the AGM

Dividend/earnings per share, average



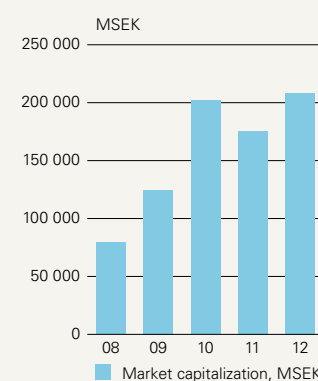
The goal for annual dividend distribution of about 50% of earnings per share was adopted in 2011. Before this, the goal was 40–50% 2004–2010 and 30–40% 1992–2003.

Earnings and distribution per share



¹⁾ Dividend proposed by the Board of Directors.

Market capitalization



Ownership structure

At year end 2012, Atlas Copco had 69 272 (71 379) shareholders. The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 33% (34) of the voting rights and 33% (33) of the number of shares. Non-Swedish investors held 49% (48) of the shares and represented 52% (51) of the voting rights.

Ownership structure, December 31, 2012

Number of shares	Number of shareholders	% of shareholders	% of capital
1–500	39 859	57.5	0.6
501–2 000	18 851	27.2	1.7
2 001–10 000	8 234	11.9	2.8
10 001–50 000	1 563	2.3	2.6
50 001–100 000	227	0.3	1.3
>100 000	538	0.8	91.0
	69 272	100.0	100.0

Atlas Copco in sustainability ratings

Atlas Copco was included in the following sustainability ratings in 2012:

- Global 100, www.global100.org
- Dow Jones Sustainability World and Europe Indexes, www.sustainability-indexes.com
- FTSE4Good Global Index, www.ftse.com
- STOXX® Global ESG Leaders indexes STOXX, www.stoxx.com
- GS Sustain focus list by Goldman Sachs, www.gs.com
- MSCI World ESG Index and MSCI World Socially Responsible Index, www.msci.com
- Folksam Environmental Index (4.1) and Folksam Human Rights Index (4.0), www.folksam.se
- SPP’s investment fund Global Top 100, www.spp.se
- Ethibel PIONEER and Ethibel EXCELLENCE Investment Registers, www.ethibel.org

NUMBER OF SHAREHOLDERS

69 272

ATLAS COPCO AB DEBT

Structure

All external borrowings for Atlas Copco AB are handled by Group Treasury. Group Treasury is responsible for ensuring that each legal unit in the Atlas Copco Group has access to adequate financing on acceptable terms. To ensure access to funding in different currencies and maturities, Atlas Copco AB has several different debt programs outstanding such as commercial papers, Euro Medium Term Notes (EMTN) and a committed credit facility.

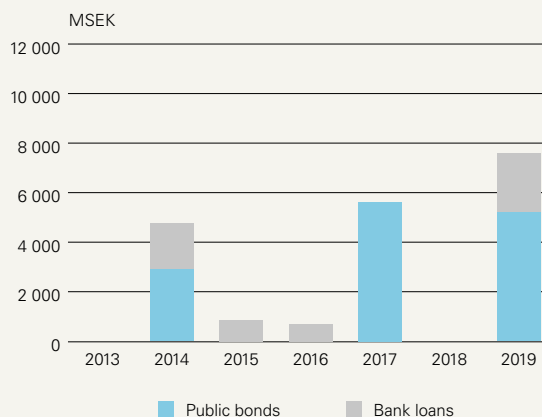
Market information

In March Atlas Copco AB issued a MEUR 500 bond at 2.625%. The bond expires in 2019. Furthermore, Atlas Copco AB repurchased nominal MEUR 255 of bonds maturing in 2014.

Rating

Atlas Copco AB has a long-term debt rating of A2 (A3) from Moody’s Investor Service, Inc. and A (A) from Standard & Poor’s Corporation. Moody’s Investor’s Service upgraded Atlas Copco AB to A2 from A3 in November, 2012. See also note 21 for more information about the Group’s borrowings and note A17 for more information about Atlas Copco AB’s borrowings.

Maturity structure, excluding back-up facilities, December 31, 2012



LONG-TERM DEBT RATING

A2/A

MOODY’S / S&P

10 largest shareholders*, December 31, 2012

	Number of shares	A shares	B shares	% of votes	% of capital
Investor AB	206 895 611	194 803 726	12 091 885	22.3	16.8
Swedbank	53 630 131	22 754 104	30 876 027	2.9	4.4
Alecta	34 238 000	13 750 000	20 488 000	1.8	2.8
AP 4	13 776 939	9 105 172	4 671 767	1.1	1.1
SEB Investment Management	14 894 443	8 322 272	6 572 171	1.0	1.2
Handelsbanken	13 965 552	8 090 779	5 874 773	1.0	1.1
Folksam	10 472 630	6 741 873	3 730 757	0.8	0.9
AMF	32 689 870	4 238 350	28 451 520	0.8	2.7
AP 1	11 518 923	6 461 271	5 057 652	0.8	0.9
AP 2	8 040 867	5 050 283	2 990 584	0.6	0.7
Others	829 490 138	560 076 266	269 413 872	66.8	67.5
Total	1 229 613 104	839 394 096	390 219 008	100.0	100.0
<i>– of which shares held by Atlas Copco</i>	<i>16 190 929</i>	<i>15 372 649</i>	<i>818 280</i>	<i>1.8</i>	<i>1.3</i>
Total, net of shares held by Atlas Copco	1 213 422 175	824 021 447	389 400 728		

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

Key figures per share

SEK	2008	2009	2010	2011	2012	Average growth, five years
Basic earnings	8.33	5.14	8.16	10.68	11.45	13.5%
Diluted earnings	8.33	5.13	8.15	10.62	11.43	
Dividend	3.00	3.00	4.00	5.00	5.50 ¹⁾	12.9%
Dividend as % of basic earnings	36.0%	58.4%	49.0%	46.8%	48.0%	
Dividend yield %	3.5%	3.7%	3.3%	3.4%	3.1%	
Redemption of shares			5.00			
Operating cash flow	3.90	11.32	7.98	5.18	10.08	21.8%
Equity per share	20	21	24	24	29	
Share price, December 31, A share	67	105	170	148	178	12.9%
Share price, December 31, B share	60	93	152	131	158	12.4%
Highest price quoted, A share	113	107	173	177	179	
Lowest price quoted, A share	49	55	96	123	138	
Average price quoted, A share	86	81	123	148	159	
Average number of shares, millions	1 219.1	1 215.9	1 215.9	1 214.3	1 213.8	
Diluted average number of shares, millions	1 219.8	1 216.3	1 217.3	1 217.3	1 215.6	
Number of shareholders, December 31	55 976	61 645	69 275	71 379	69 272	
Market capitalization, December 31, MSEK	78 350	123 440	199 921	172 630	208 526	

¹⁾ Proposed by the Board of Directors.

No adjustment has been made for the redemption of shares in accordance with the recommendation from The Swedish Society of Financial Analysts. To adjust historic figures also for the redemption of shares, use factor 0.98.

Share issues 2003–2012¹⁾

		Change of share capital, MSEK	Amount paid/distributed, MSEK
2005	Split	4:1 quota value SEK 1.25	
	Share redemption	209 602 184 shares at SEK 20	–262.0
2007	Split	3:1 quota value SEK 0.417	
	Share redemption ²⁾	628 806 552 shares at SEK 40	–262.0
	Bonus issue	No new shares issued, quota value SEK 0.625	262.0
	Redemption of shares held by Atlas Copco	28 000 000 shares	–17.5
	Bonus issue	No new shares issued, quota value SEK 0.639	17.5
2011	Split	2:1 quota value SEK 0.320	
	Share redemption ³⁾	1 229 613 104 shares at SEK 5	–393.0
	Bonus issue	No new shares issued, quota value SEK 0.639	393.0

¹⁾ For information before 2003 please visit www.atlascopco.com/ir

²⁾ 610 392 352 shares net of shares held by Atlas Copco.

³⁾ 1 213 493 751 shares net of shares held by Atlas Copco.

Corporate governance

Atlas Copco AB is incorporated under the laws of Sweden with a public listing at NASDAQ OMX Stockholm AB (OMX Stockholm). Reflecting this, the corporate governance of Atlas Copco is based on Swedish legislation and regulations: primarily the Swedish Companies Act, but also the rules of OMX Stockholm, the Swedish Corporate Governance Code, the Articles of Association and other relevant rules. The operational structure and management is described on pages 6–8.

Important events in 2012

- Election of Peter Wallenberg Jr as new Board member
- Håkan Osvald joined Group Management as General Counsel

More information on corporate governance

The following information is available at www.atlascopco.com:

- Corporate governance reports since 2004
- Atlas Copco's Articles of Association
- An item-by-item report on Atlas Copco's compliance with the Swedish Corporate Governance Code
- Business Code of Practice
- Information on Atlas Copco's Annual General Meeting

The Swedish Corporate Governance Code is available at www.corporategovernanceboard.se



SHAREHOLDERS

At year end 2012, Atlas Copco had 69 272 (71 379) shareholders. Swedish investors held 51% (52) of the shares and represented 48% (49) of the voting rights. The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 33% (34) of the voting rights and 33% (33) of the number of shares. The largest shareholder is Investor AB, holding 17% of capital and 22% of votes. A significant share of the Atlas Copco shares held by foreign investors is held in custody, where the investor cannot be identified. More information on Atlas Copco's shareholders is found in the chapter The Atlas Copco share, pages 52–55.

Annual General Meeting (AGM)

The AGM is the event where the shareholders may exercise their voting rights in a number of important issues, such as election of Board members, approval of financial statements, discharge of liability for the President and CEO and the Board, and adoption of the proposed distribution of profits.

The AGM shall be held within six months of the close of the financial year. All shareholders registered in the shareholders' register who have given due notification to the company of their intention to attend may attend the meeting and vote for their total

shareholdings. Shareholders who cannot participate personally may be represented by proxy holders and a proxy form is made available for the shareholders. A shareholder or a proxy holder may be accompanied by two assistants.

At the AGM held on April 27, 2012 in Stockholm, Sweden, shareholders representing 64.6% of the total number of votes in the company and 62.8% of the shares attended. Decisions at the AGM 2012 included:

- adoption of the income statements and balance sheets of the parent company and the Group and the Board's proposal for profit distribution with a dividend of SEK 5 per share
- discharge of liability for the President and CEO and the Board
- resolution of the Board of Directors' fee
- election of nine directors of the Board, including Peter Wallenberg Jr as new Board member
- adoption of guidelines for remuneration to Group management

The details of the AGM are available at: atlascopco.com/AGM

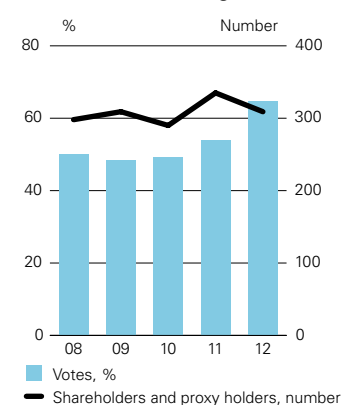
ANNUAL GENERAL MEETING 2013

The Annual General Meeting of Atlas Copco AB will be held in Stockholm, Sweden, on April 29, 2013.

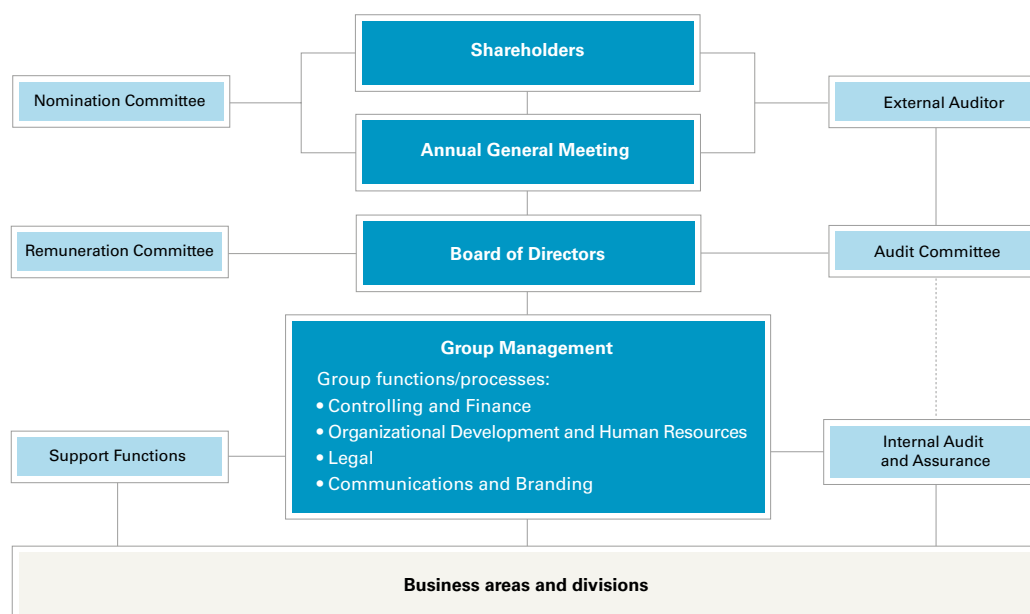
How to contact the Board of Directors

If a shareholder wishes to submit questions or for other reason wants to get in contact with the Board, please contact:
Atlas Copco AB, Att: General Counsel, SE-105 23 Stockholm, Sweden, or e-mail: board@se.atlascopco.com

Annual General Meeting attendance



Governance structure



NOMINATION COMMITTEE

A Nomination Committee is appointed by the major shareholders in accordance with procedures adopted by the AGM 2012.

In compliance with the Swedish Corporate Governance Code and the adopted procedures, the representatives of the four largest shareholders, listed in the shareholders' register as of September 30, together with the Chair of the Board, Sune Carlsson, formed the Nomination Committee for the AGM 2013:

- Petra Hedengran, Investor AB (chair)
- Jan Andersson, Swedbank Robur
- Ramsay Brufer, Alecta Pensionsförsäkring, mutual
- Arne Lööv, Fourth Swedish National Pension Fund
- Sune Carlsson, Atlas Copco AB

The members of the Nomination Committee were announced on October 22, 2012. The Nomination Committee members represented some 28% of all votes in the company.

The Nomination Committee prepares a proposal regarding Chair of the AGM number of Board members, names of the proposed Board members, as well as Chair and Vice Chair of the Board. Further, it also submits its proposal for remuneration to the Chair, the Vice Chair and other Board members not employed by the company, as well as a proposal for remuneration for Board committee work. The various proposals will be published at the latest with the notice to the AGM 2013.

Sune Carlsson has presented to the Nomination Committee his views on Atlas Copco's development and its strategies. He has also described the Board's working procedures and added his comments in respect of the various Board members' contributions. Based on that information and interviews with Board members the Nomination Committee has evaluated the Board's work, competence and composition, including the background, experience, and diversity of the Board members.

The members of the Nomination Committee receives no compensation for their work in the Nomination Committee.

Shareholders who wish to contact the Nomination Committee can do so via e-mail: nominations@atlascopco.com

EXTERNAL AUDITOR

At the AGM 2010 the audit firm Deloitte AB, Sweden was elected external auditor until the 2014 AGM in compliance with a proposal from the Nomination Committee. Jan Berntsson, Authorized Public Accountant, is the principal auditor.

At the AGM 2012, Jan Berntsson recommended adoption of the presented income statements and balance sheets, discharge of liability for the President and CEO and the Board, and adoption of the proposed appropriation of profits.

BOARD OF DIRECTORS

The Board of Directors is overall responsible for the organization, administration and management of Atlas Copco's operations. Besides the general distribution of responsibilities that apply in accordance with the Swedish Companies Act, the Board and its committees have updated and re-adopted the rules of procedure and written instructions at each statutory meeting since 1999.

The Rules of Procedure primarily provide information on:

- The minimum number of Board meetings per year, as well as when and where they are to be held.
- The President's authority to sign quarterly reports for quarter one and three.
- The Board of Directors' delegation of authority to prepare matters for decision by the Board.
- Items normally to be included in the agenda for each Board meeting, e.g. a financial status report, business development

from a financial and operative perspective, acquisitions and divestments of business operations, decisions on investments exceeding MSEK 50, changes in the legal organization, follow-up of acquisitions, and appointments.

- When Board documentation is to be available prior to every meeting.
- Identification of the Chair's major tasks.
- Keeping of Minutes.
- Appointment of the Remuneration Committee and the Audit Committee and the identification of the respective committees' major tasks.
- The Board's right to receive vital information, the right to make statements on behalf of the company, and the obligation to observe confidentiality.

The Written Instructions, which regulate the distribution of tasks between the Board and the President and the company's reporting processes, particularly when it comes to financial reports, deal primarily with:

- The President's responsibility for daily operations, corporate responsibility and for maintaining both the company's operative (business), as well as legal (owner) structure.
- The structure and the contents in the database *The Way We Do Things*, which covers principles, guidelines, processes and instructions of the Atlas Copco Group. *The Way We Do Things* is the Group's single most important management tool, and – for example – contains a detailed plan for all accounting and financial reporting within the company.
- Issues that always require a Board decision or an application to the Board, such as quarterly reports, major investments, changes of the legal structure and certain appointments.
- The order in which the Senior Executive Vice Presidents are to serve in the President's absence.
- The external auditor's reporting to the Board upon completion of the yearly audit.

Board members

The Board of Directors consists of nine elected Board members, including the President and CEO. The Board also has two union members, each with one personal deputy. Atlas Copco fulfilled the 2012 requirements of the OMX Stockholm and the rules of the Swedish Corporate Governance Code regarding independence of board members, which secures that conflicts of interest are avoided. All Board members have participated in the training sessions arranged by OMX Stockholm.

The Board of Directors' work

During the year, the Board has continuously addressed the strategic direction, the financial performance, and the methods to maintain sustainable profitability of the Atlas Copco Group. Corporate responsibility issues were covered, with a special focus on safety and health. Major issues dealt with by the Board during the year include the follow-up of measures to adapt production, cost development and the development of the world economy.

The Board had seven meetings in 2012, five times at Atlas Copco AB in Nacka, Sweden, one per capsulam and one in Charlotte, North Carolina, the United States. All meetings of the Remuneration and Audit Committees have been reported to the Board and the corresponding Minutes have been distributed. Håkan Osvald, General Counsel and Board secretary as well as Hans Ola Meyer, CFO, have been present at all meetings. The four business area presidents Stephan Kuhn, Bob Fassl, Nico Delvaux and Mats Rahmström have been present at one meeting each during the year when they presented in-depth analysis of their respective business areas. Jeanette Livijn, Senior Vice President Organizational Development and Human Resources, and Ken Lagerborg, Group Treasurer, presented the situation in their respective area of responsibility at the April and October meetings.

No dissenting opinions in relation to a decision have been reported in the Minutes during the year. Each Board member has commented on the market/economic development from his/her perspective at the Board meetings.

At the January meeting 2013, the Board evaluated the performance of the President and CEO. At the same meeting the principal auditor, Jan Berntsson, Deloitte, reported his observations from the annual audit 2012; both the September hard close and as of December 31. The Board also had a separate session with the auditor where members of Group Management were not present.

REMUNERATION TO THE BOARD MEMBERS

The 2012 AGM 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 received SEK 1 800 000.
- Each of the other Board members not employed by the company SEK 540 000.
- An amount of SEK 200 000 was granted to the Chair of the Audit Committee and SEK 125 000 to each of the other three members of this committee.
- An amount of SEK 60 000 was granted to each one of the three members of the Remuneration Committee and SEK 60 000 to a Board member who participated in additional committee work decided upon by the Board.
- The AGM further decided that out of the stated fees, 50% of the Board fee could be received in the form of synthetic shares.

AUDIT COMMITTEE

The Audit Committee's primary task is to support the Board in fulfilling its responsibilities in the areas of audit and internal control, accounting, financial reporting and risk management as well as to supervise the financial structure and operations of the Group and approve financial guarantees, delegated by the Board. The work of the Audit Committee is directed by the Audit Committee Charter, adopted by the Board in 2003 and reviewed and approved each year, latest in April 2012.

In 2012, the Audit Committee consisted of Board members Ulla Litzén, Chair, Sune Carlsson, Staffan Bohman, and Johan Forssell. 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 committee convened six times, five physical meetings and one per telephone. All members were present at all meetings. All physical meetings were also attended by the principal auditor Jan Bertsson and Thomas Strömberg, Deloitte, Atlas Copco's

President and CEO, Ronnie Leten, CFO, Hans Ola Meyer and Vice President Group Internal Audit & Assurance, Anders Björkdahl. The Group Treasurer, Ken Lagerborg and The Chief Information Officer, Mats Högberg participated in one meeting each.

The Audit Committee work in 2012 focused on reviewing quarterly reports, follow-up of the 2011 audit, the auditor's review of the half-year report, and the hard close audit carried out as of September 30. Further, the financial risk exposure and the capital and financial structures and the internal audit and control procedures were regularly reviewed.

REMUNERATION COMMITTEE

The Remuneration Committee's primary task is to propose to the Board the remuneration to the President and CEO and its proposal for a long-term incentive plan covering a maximum of 315 key employees.

In 2003, the Board adopted a Remuneration Policy for Group Management aimed at establishing principles for a fair and consistent remuneration with respect to compensation (base pay, variable compensation, any long-term incentive plans), benefits (pension premiums, sickness benefits, and company car), and termination (notice period and severance pay). The base salary is determined by position and performance and the variable compensation is for the achievement of individual goals. The goal with a long-term incentive plan is to align the interests of key personnel with those of the shareholders. The Remuneration Policy is reviewed every year and was presented to the 2012 AGM for approval.

In 2012, the Remuneration Committee consisted of Sune Carlsson, Peter Wallenberg Jr and Anders Ullberg. The Remuneration Committee had one meeting where 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.

BOARD OF DIRECTORS



Name Born Function	Sune Carlsson 1941 Chair of the Board	Ronnie Leten 1956 Board member President and CEO	Ulla Litzén 1956 Board member	Anders Ullberg 1946 Board member	Staffan Bohman 1949 Board member
Education	M.Sc. in Mechanical Engineering, Chalmers University of Technology, Gothenburg, Sweden	M.Sc. in Applied Economics, University of Hasselt, Belgium	M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden, and MBA, Massachusetts Institute of Technology, the United States	M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden	M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden, and Stanford Executive Program, the United States
Nationality / Elected	Swedish / 1997	Belgian / 2009	Swedish / 1999	Swedish / 2003	Swedish / 2003
Board membership	Board member of the investment company Investor AB, Sweden.	Vice Chair of the appliance manufacturer Electrolux AB, Sweden.	Board member of bearing manufacturer AB SKF, the mining company Boliden AB, the industrial company Alfa Laval AB, the construction company NCC AB and outdoor equipment company Husqvarna AB, all based in Sweden.	Chair of the steel wholesaler BE Group AB, the mining company Boliden AB, the publishing company Natur & Kultur, and the technical services company Studsvik AB. Board member of the aluminum profile company Sapa AB, the investment company Beijer Alma, and the roll manufacturer Åkers AB. Chair of the Swedish Financial Reporting Board. All based in Sweden.	Chair of the lift manufacturer Cibes Lift AB, Sweden and the hospital- and social welfare organization Ersta Diakonj, Sweden, Vice Chair of Rezidor Hotel Group AB and of the Board of trustees of SNS, Sweden. Board member of the holding company Inter-IKEA Holding N.V., the Netherlands, the private equity company Ratos AB, Sweden, the mining company Boliden AB, Sweden, and member of the Swedish Corporate Governance Board.
Principal work experience and other information	Vice Chair of Scania AB, Sweden, President and CEO of AB SKF, Sweden, and Executive Vice President of ASEA AB, Sweden, and ABB Ltd., Switzerland.	Business Area President for Atlas Copco Compressor Technique. Division president for the divisions Airtec and Industrial Air as well as several management positions within IT, logistics, business development and manufacturing in the Compressor Technique business area. All positions in Belgium.	President of W Capital Management AB, Sweden, and Managing Director and member of the Management Group, Investor AB, Sweden.	Vice President Corporate Control Swedeyards (Celsius Group), Executive Vice President and CFO, SSAB, Swedish Steel and President and CEO of SSAB Swedish Steel. All positions in Sweden.	CEO of Sapa AB, Gränges AB and DeLaval AB. All positions in Sweden.
Total fees 2012, KSEK ¹⁾	1 754	–	796	656	729
Board meeting attendance	7 of 7 Chair	7 of 7	6 of 7	7 of 7	6 of 7
Remuneration Committee attendance	1 of 1 Chair			1 of 1	
Audit Committee attendance	6 of 6		6 of 6 Chair		6 of 6
Holdings in Atlas Copco AB ²⁾	20 000 class A shares, 34 284 class B shares 33 159 synthetic shares	19 166 class A shares 18 000 class B shares 444 385 synthetic shares/ employee stock options	75 800 class A shares 3 000 class B shares 8 351 synthetic shares	14 000 class A shares 10 000 class B shares 8 351 synthetic shares	10 000 class A shares 30 000 class B shares 10 119 synthetic shares
Independence	No ³⁾	No ⁴⁾	Yes	Yes	Yes
Annual Meeting attendance	Yes	Yes	Yes	Yes	Yes

¹⁾ See note 5 to the consolidated financial statements

²⁾ Holdings as per end of 2012, including those of close relatives or legal entities and grant for 2012.

³⁾ Board member in a company which is a larger owner (Investor AB)

⁴⁾ President and CEO of Atlas Copco

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



Margareth Øvrum
1958
Board member

M.Sc. in Technical Physics, Norwegian University of Science and Technology

Norwegian / 2008

Board member of the private equity company Ratos AB, Sweden.

Executive vice president for Technology, Procurement, Project execution and Drilling in Statoil. Several leading positions within technology, projects, production, maintenance, health/safety/environment, and procurement in Statoil. All positions in Norway.

538

6 of 7

Johan Forssell
1971
Board member

M.Sc. in Economics and Business Administration, Stockholm School of Economics, Sweden

Swedish / 2008

Board member of the defense and security company Saab AB, Sweden.

Managing Director, Head of Core Investments and member of the management team of investment company Investor AB, Sweden. Head of Research, Head of Capital Goods and Healthcare sector, Head of Capital Goods sector and Analyst Core Holdings in Investor AB.

663

7 of 7

6 of 6

5 000 class B shares
11 741 synthetic shares

No⁵⁾

Yes

Gunilla Nordström
1959
Board member

M.Sc. in Electronics, Industrial Marketing Management, Linköping University

Swedish / 2010

Board member of the engineering company Wärtsilä Corporation, Finland.

President and CEO of Electrolux Major Appliances Asia/Pacific, based in Singapore, and Executive Vice President of Electrolux AB. Senior management positions with telecom equipment company Telefonaktiebolaget LM Ericsson and Sony Ericsson in Europe, Latin America and Asia.

471

7 of 7

3 791 synthetic shares

Yes

Yes

Peter Wallenberg Jr
1959
Board member

BSBA Hotel Administration, University of Denver, the United States and International Bachelor, American School, Leysin, Switzerland.

Swedish / 2012

Chair of Foundation Asset Management Sweden AB, The Grand Group, The Royal Swedish Automobile Club and Kungsträdgården Park & Evenemang AB. Vice Chair of The Knut and Alice Wallenberg Foundation. Board member of Aleris Holding AB, Investor AB, Scania AB, SEB Kort Bank AB and Stockholmsmässan AB. All based in Sweden.

President and CEO The Grand Hotel Holdings, General Manager The Grand Hotel, President Hotel Division Stockholm-Saltsjön. All positions in Sweden.

518

2 of 4 as from AGM 2012

1 of 1

1 768 synthetic shares

No³⁾

Yes

Board members and deputies appointed by the unions



Board members

Bengt Lindgren

Born 1957
Chair of IF Metall, Atlas Copco Secoroc AB, Fagersta, Sweden
Elected 1990
Board meeting attendance 5 of 7

Mikael Bergstedt

Born 1960
Chair of PTK, Atlas Copco Tools AB, Tierp, Sweden
Elected 2004
Board meeting attendance 5 of 7



Deputies

Ulf Ström

Born 1961
Chair of IF Metall, Atlas Copco Rock Drills AB, Örebro, Sweden
Elected 2008
Board meeting attendance 7 of 7

Kristina Kanestad

Born 1966
Chair of Unionen, Atlas Copco Rock Drills AB, Örebro, Sweden.
Elected 2007
Board meeting attendance 7 of 7

Honorary Chair



Dr. Peter Wallenberg

Econ. Dr. h.c. and Dr. of Laws h.c., Bachelor of Law, University of Stockholm, Sweden. Honorary Chair of the Board of the investment company Investor AB, Sweden. Chair of the Board of the nonprofit Knut and Alice Wallenberg Foundation, Sweden. Held various positions within the Atlas Copco Group 1953–1974 and was Chair of the Board 1974–1996.

GROUP
MANAGEMENT

Name	Ronnie Leten	Stephan Kuhn	Mats Rahmström	Bob Fassl	Nico Delvaux
Position	President and CEO	Senior Executive Vice President for Atlas Copco AB and Business Area President Compressor Technique	Senior Executive Vice President for Atlas Copco AB and Business Area President Industrial Technique	Senior Executive Vice President for Atlas Copco AB and Business Area President Mining and Rock Excavation Technique	Senior Executive Vice President for Atlas Copco AB and Business Area President Construction Technique
In current position since	2009	2009	2008	2011	2011
Nationality / Employed	Belgian / 1997	German / 2009	Swedish / 1988	Canadian / 1982	Belgian / 1991
Born	1956	1962	1965	1962	1966
Education	M.Sc. in Applied Economics, University of Hasselt, Belgium.	MBA from Bentley College in Waltham MA, USA.	MBA from the Henley Management College, the United Kingdom.	High school diploma in economics, Ekklidens gymnasium, Sweden.	M.Sc. in Electromechanics from the University of Brussels and an MBA from the Handelshogeschool in Antwerp, Belgium.
Principal work experience and other information	Business Area President for Atlas Copco Compressor Technique. Division president for the divisions Airtec and Industrial Air as well as several management positions within IT, logistics, business development and manufacturing in the Compressor Technique business area. All positions in Belgium.	Stephan Kuhn started his career at Atlas Copco in 1995 as manager of an electric tools joint venture in China, and later held General Manager positions in Belgium and Germany. He was President of the Surface Drilling Equipment division within the former Construction and Mining Technique business area until 2008, when he took a position outside the Group for a short period of time.	Mats Rahmström has held positions in sales, service, marketing and general management within the Industrial Technique business area. Between 1998 and 2006 he held the position as General Manager for customer centers in Sweden, Canada, and the United Kingdom. Between 2006 and 2008 he was President of the Atlas Copco Tools and Assembly Systems General Industry division within Industrial Technique.	Bob Fassl held several management positions in Atlas Copco Construction and Mining Technique business area in finance, service, logistics, purchasing and manufacturing, starting 1982. From 1999 he was General Manager for Atlas Copco Exploration Products. Between 2004 to 2011 Fassl was Division President for Drilling Solutions. He has been based in Canada, Sweden, the United Kingdom, and the United States.	Nico Delvaux started his career with Atlas Copco in 1991 and has had positions in sales, marketing, service, acquisition-integration management and general management, in markets including Benelux, Italy, Canada and the United States. Between 2008 and 2011 he was President of the Compressor Technique Service division.
External directorships	Vice Chair of the appliance manufacturer Electrolux AB, Sweden.				
Holdings in Atlas Copco AB ¹⁾	19 166 class A shares 18 000 class B shares 444 385 synthetic shares/ employee stock options	6 682 class A shares 158 916 synthetic shares/ employee stock options	6 680 class A shares 158 651 synthetic shares/ employee stock options	5 151 class A shares 81 077 synthetic shares/ employee stock options	3 668 class A shares 104 466 synthetic shares/ employee stock options

¹⁾ Holdings as per Dec 31, 2012 including those of close relatives or legal entities, grant for the 2012 program and matching shares. See note 23.

**Hans Ola Meyer**Senior Vice President
Controlling and Finance

1999

Swedish / 1991

1955

M.Sc. in Economics and Business Administration from Stockholm School of Economics in Stockholm, Sweden.

Hans Ola Meyer was employed in 1978 to work with Group accounting and controlling. Later he moved to Ecuador as Financial Manager. Between 1984 and 1991, he held various positions at the broker Penningmarknadsmäklarna, Sweden. Meyer returned to Atlas Copco in 1991 as Financial Manager in Spain and in 1993 he became Senior Vice President, Finance, for Atlas Copco AB and a member of Group Management.

Member of The Swedish Financial Reporting Board and member of the Board of Trustees for The Bank of Sweden Tercentenary.

7 286 class A shares
18 021 class B shares
149 616 synthetic shares/
employee stock options

**Jeanette Livijn**Senior Vice President
Organizational Development
and Human
Resources

2007

Swedish / 1987

1963

M.Sc. in Business Administration from Växjö högskola, Sweden.

Jeanette Livijn started to work for Atlas Copco in the field of financial and business controlling in 1987 and held various positions in this function. Since 1997 Jeanette Livijn has held managerial positions within human resource management. Before she took up this present position she was Vice President Human Resources for the Industrial Technique business area.

3 414 class A shares
87 168 synthetic shares/
employee stock options

**Håkan Osvald**Senior Vice President
General Counsel

2012

Swedish / 1985

1954

Master of Law from Uppsala University, Sweden.

Håkan Osvald joined Atlas Copco in 1985 as Legal Counsel. From 1989 he was General Counsel for Atlas Copco North America Inc. and Chicago Pneumatic Tool Company, the United States. In 1991 he was appointed Vice President Deputy General Counsel Atlas Copco Group, with a special responsibility for acquisitions. Prior to his current position, he was General Counsel Operations. From 2012 he is Secretary of the Board of Directors for Atlas Copco AB.

Chair of ICC Sweden, reference group Competition.

1 330 class A shares
2 600 class B shares
61 364 synthetic shares/
employee stock options

**Annika Berglund**Senior Vice
President Corporate
Communications

1997

Swedish / 1979

1954

M.Sc. in Economics and Business Administration from Stockholm School of Economics, Sweden, and MBA from the University of Antwerp, Belgium.

Annika Berglund began her career in marketing analysis and market research with Atlas Copco in 1979. Since then, she has held a number of positions in the Group related to marketing, sales, and business controlling in Europe. Prior to her current position, she was Marketing Manager for the electronic company Atlas Copco Controls (Danaher Motion), Sweden.

10 467 class A shares
7 900 class B shares
96 145 synthetic shares/
employee stock options

The Atlas Copco Group Management consists of the President and CEO, four business area presidents and four senior vice presidents in charge of Group functions.

REMUNERATION TO GROUP MANAGEMENT

The Remuneration Policy is reviewed and presented to the AGM by the Board of Directors for approval every year. In 2012, the AGM decided to adopt the Board's proposal for remuneration.

The remuneration covers an annual base salary, variable compensation, possible long term incentive (personnel options), pension premium and other benefits. The variable compensation is limited to a maximum percentage of the base salary. No fees are paid for Board memberships in Group companies or for other duties performed outside the immediate scope of the individual's position. See note 5 and 23.

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 basis for the internal control is defined by the overall control environment. This environment is established by the Board of Directors and the Group Management and sets the tone for the organization, influencing the control consciousness of the people. 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 authorities to act are clearly defined and communicated through guiding documents such as internal policies, guidelines, manuals, and codes.

The company applies different processes to assess and identify the main risks relating to financial reporting misstatements. The risk assessment process is regularly performed to identify new risks and follow-up that internal control is improved over previously identified risks.

Identified risks are managed through the control activities in the company, which are documented in process and internal control descriptions on the Company, Division, Business area, and Group levels. These include instructions for attestations and authority to pay and controls in business systems as well as accounting and business reporting processes.

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

The company continuously monitors the adherence to internal policies, guidelines, manuals, and codes as well as efficiency in the control activities. Internal control is continuously evaluated in the operations, including regular management reviews and supervisory activities. Moreover, separate evaluations are performed through internal audits and control self-assessments. The Audit Committee has an important role in supporting the Board of Directors to monitor whether the internal control processes facilitate adequate internal control over financial reporting.

Atlas Copco's internal control processes

PROKURA The delegation of the authority to act both with respect to a third party and internally, or Prokura, as it is referred to within the Atlas Copco Group, aims at defining how responsibility is allocated to positions and, reflecting this, to individuals. Each position is covered by a Prokura and follows a predetermined authority to act, with stated rights and obligations. The goal is that each individual with any authority to act on behalf of a Group company should have such a defined written Prokura.

The entrustment of authority in the Group starts with the Board delegating the authority to be in charge of operations to the President and CEO. He then delegates to those reporting to him and so on down the line throughout the legal and operational structure of the Group.

BUSINESS CONTROL Each unit has a business controller responsible for ensuring that, among other things, there are adequate internal control processes over financial reporting, that the Group's control processes are implemented, and that any risk exposures are addressed and reported. The controller is also responsible for ensuring that *The Way We Do Things* is applied in all respects and that reports are correct, complete, and delivered on time. This involves analyzing trends and identifying outliers, such as declining sales in a growing market or increased energy consumption. Additionally, there are controllers at the Division, Business area, and Group levels with corresponding responsibilities for these aggregated levels.

REPORTING Monthly operative reports are prepared to measure and analyze profitability per product category, Company, Business line, Division, and Business area. Each Division consolidates its units and reports adjustments and eliminations. Quarterly these reports are completed with additional information and specifications in accordance with a standardized reporting routine. These reports constitute the basis for the Group's quarterly and annual consolidated reports.

Quarterly and yearly reports are also prepared to measure and analyze social and environmental performance per Company, Division, and Business area. Consolidated reports constitute the basis for the Group's quarterly and annual sustainability reporting.

The Group uses a common system for consolidation of the reports which also provides certain system based validation reports. Information is stored in central databases from which it can be retrieved for analysis and follow-up. The analysis package includes a series of standardized scorecards used to analyze and follow up key indicators and trends in relation to the set targets. These scorecards cover key financial aspects, as well as other important operational performance measures.

BUSINESS BOARDS An internal board structure, organized according to operational responsibilities (i.e. parallel to the legal company board structure), and Company Review Meetings between local management and responsible Division management are essential tools to follow up the adherence to internal policies, guidelines, instructions and codes as well as the efficiency in the control activities over financial reporting.

INTERNAL AUDITS In Atlas Copco, the Internal Audit process is intended to add value to each operational unit by providing an independent and objective assurance and consulting function to identify and recommend improvements. 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 initiated by the Division in charge of operations or the responsible Holding company or by Group functions. An internal audit is performed each time there is a change of General Manager in a company or, for instance, after major negative events or structural changes, remarks from external auditors, when a new company is formed or acquired, if a long time has passed since the last audit, or as a planned risk-driven audit.

The target is that all operational units should be audited at least once every four years. Internal audits are normally performed by an inter-disciplinary team of people appointed from various parts of the organization with suitable competence for the audit to be conducted. There are standardized tools for planning and risk assessment before an audit, as well as audit programs and forms for reports and follow-up activities.

Atlas Copco has operations in several complex markets, where the risk of human rights abuses and corruption are high. Therefore, the adherence to the Business Code of Practice is evaluated in the internal audit process, including environmental aspects and business partner relationships.

The content of the audit varies depending on type of audit, but normally include assessments of areas that directly or indirectly has an impact on the quality and controls over financial reporting.

FOCUSED AREAS On request from the Audit Committee, management has during the year identified some specific areas, in which the risks are assessed, activities to control these risks are identified and monitored. Examples of such focus areas are specific countries/regions, structural changes, certain accounting principles, business processes, fraud risks and information technology systems.

CONTROL SELF ASSESSMENT The objective of this process is primarily to support local unit managers in understanding and evaluating the status of their responsibilities. One of the areas is internal control which includes internal control over financial reporting. Other areas include legal issues, communication and branding, and Business Code of Practice. Unit managers annually review extensive questionnaires to personally assess to what extent their units comply with the defined requirements. The

answers are used by the respective unit managers to plan necessary improvement measures and, aggregated, for statistical assessments of the control routines and as a base for improvement of Group processes, clarification of instructions etc.

HOTLINE The Group has a process where employees can report on behavior or actions that are, or may be perceived as, violations of laws or of Group policies including violation of accounting and financial reporting guidelines and policies. This also includes perceived cases of human rights violation, discrimination or corruption. This process serves as a complement to similar processes that exist in certain countries. The reports are treated confidentially and the person who is reporting is guaranteed anonymity. Efforts have been made to increase the awareness of this process among all employees, e.g. through Business Code of Practice and fraud awareness training offered to managers and employees throughout the Group.

COMPLIANCE PROCESS Atlas Copco has implemented a process whereby Group Management, divisional managements and all managers responsible for an operational or holding entity and certain other positions have been requested to sign a statement confirming compliance to the Group's Business Code of Practice and applicable laws. The process is repeated on an annual basis.

Internal control statistics

	2012	2011	2010
Operative units in the Group	438	407	388
Internal audits conducted	88	94	105
Control self assessments completed	299	284	280

Internal control routines – overview

Procedure	Scope	Frequency
PROKURA	Defining how responsibility is delegated to individuals	When a person is recruited to a new position
BUSINESS CONTROL	Ensures adequate control routines, implementation of Group processes and reporting of risk exposure	Continuously
REPORTING	Financial reporting is prepared to measure profitability and constitute basis for Group consolidated (public) reports.	Monthly, quarterly, annually
	Reporting is also prepared to measure progress in fields related to environmental and social performance	Quarterly, annually
BUSINESS BOARDS AND COMPANY REVIEW MEETINGS	Follow-up on adherence to <i>The Way We Do Things</i> and on efficiency in control activities	3–4 times per year
INTERNAL AUDITS	To provide independent objective assurance and consultancy, recommend improvements, and contribute to employee professional development. To ensure compliance with the Group's corporate governance and internal control procedures	All units at least once every four years
FOCUSED AREAS	To identify, assess and control major risks and monitor actions taken	Annually
CONTROL SELF ASSESSMENT	To support the unit manager in taking appropriate actions and to assess control routines on the Group level	Annually
HOTLINE	To highlight possible violations through anonymous reporting	As required
COMPLIANCE STATEMENT	To confirm compliance to Business Code of Practice and applicable laws	Annually

Consolidated income statement

For the year ended December 31,			
Amounts in MSEK	Note	2012	2011
Revenues	4	90 533	81 203
Cost of sales	7	-55 779	-50 051
Gross profit		34 754	31 152
Marketing expenses		-8 659	-7 625
Administrative expenses		-4 982	-4 334
Research and development expenses		-2 042	-1 805
Other operating income	8	475	293
Other operating expenses	8	-319	-127
Share of profit in associated companies	14	1	6
Operating profit	4, 5, 6, 7, 16	19 228	17 560
Financial income	9	408	778
Financial expenses	9	-1 098	-1 062
Net financial items		-690	-284
Profit before tax		18 538	17 276
Income tax expense	10	-4 624	-4 288
Profit for the year		13 914	12 988
Profit attributable to:			
– owners of the parent		13 901	12 963
– non-controlling interests		13	25
Basic earnings per share, SEK	11	11.45	10.68
Diluted earnings per share, SEK	11	11.43	10.62

Consolidated statement of comprehensive income

For the year ended December 31,			
Amounts in MSEK	Note	2012	2011
Profit for the year		13 914	12 988
Other comprehensive income			
Translation differences on foreign operations		-1 917	-350
– realized and reclassified to income statement		–	-2
Hedge of net investments in foreign operations		645	93
Cash flow hedges		-22	68
Available-for-sale investments		–	111
– realized and reclassified to income statement		–	-351
Income tax relating to components of other comprehensive income	10	-265	-74
Other comprehensive income for the year, net of tax	10	-1 559	-505
Total comprehensive income for the year		12 355	12 483
Total comprehensive income attributable to:			
– owners of the parent		12 346	12 476
– non-controlling interests		9	7

Consolidated balance sheet

As at December 31,			
Amounts in MSEK	Note	2012	2011
ASSETS			
Non-current assets			
Intangible assets	12	15 879	15 352
Rental equipment	13	2 030	2 117
Other property, plant and equipment	13	6 846	6 538
Investments in associated companies	14	107	124
Other financial assets	15	2 581	2 713
Other receivables		38	94
Deferred tax assets	10	1 110	1 052
Total non-current assets		28 591	27 990
Current assets			
Inventories	16	17 653	17 579
Trade receivables	17	15 960	16 783
Income tax receivables		632	533
Other receivables	18	4 563	4 680
Other financial assets	15	1 333	1 773
Cash and cash equivalents	19	12 416	5 716
Assets classified as held for sale	3	1	55
Total current assets		52 558	47 119
TOTAL ASSETS		81 149	75 109
EQUITY			
	Page 68		
Share capital		786	786
Other paid-in capital		5 628	5 412
Reserves		-1 107	448
Retained earnings		29 771	22 130
Total equity attributable to owners of the parent		35 078	28 776
Non-controlling interests		54	63
TOTAL EQUITY		35 132	28 839
LIABILITIES			
Non-current liabilities			
Borrowings	21	20 150	17 013
Post-employment benefits	23	1 401	1 504
Other liabilities		342	368
Provisions	25	751	671
Deferred tax liabilities	10	1 876	1 390
Total non-current liabilities		24 520	20 946
Current liabilities			
Borrowings	21	902	3 422
Trade payables		6 700	7 696
Income tax liabilities		1 642	2 005
Other liabilities	24	11 062	10 995
Provisions	25	1 191	1 206
Total current liabilities		21 497	25 324
TOTAL EQUITY AND LIABILITIES		81 149	75 109

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

Consolidated statement of changes in equity

2012	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Hedging reserve	Fair value reserve	Trans-lation reserve	Retained earnings	Total		
Opening balance, Jan. 1	786	5 412	-25	-	473	22 130	28 776	63	28 839
Total comprehensive income for the year			-21		-1 534	13 901	12 346	9	12 355
Dividends						-6 069	-6 069	-1	-6 070
Change in non-controlling interests						-90	-90	-17	-107
Acquisition of series A shares						-477	-477		-477
Divestment of series A shares held by Atlas Copco AB		178				498	676		676
Divestment of series B shares held by Atlas Copco AB		38				34	72		72
Share-based payment, equity settled									
– expense during the year						50	50		50
– exercise of options						-206	-206		-206
Closing balance, Dec. 31	786	5 628	-46	-	-1 061	29 771	35 078	54	35 132

2011	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Other paid-in capital	Hedging reserve	Fair value reserve	Trans-lation reserve	Retained earnings	Total		
Opening balance, Jan. 1	786	5 312	-98	240	793	22 108	29 141	180	29 321
Total comprehensive income for the year			73	-240	-320	12 963	12 476	7	12 483
Dividends*						-4 851	-4 851	-2	-4 853
Redemption of shares	-393					-5 674	-6 067		-6 067
Increase of share capital through bonus issue	393					-393	-		-
Change in non-controlling interests						-869	-869	-122	-991
Acquisition of series A shares						-1 368	-1 368		-1 368
Divestment of series A shares held by Atlas Copco AB		73				236	309		309
Divestment of series B shares held by Atlas Copco AB		27				27	54		54
Share-based payment, equity settled									
– expense during the year						34	34		34
– exercise of options						-83	-83		-83
Closing balance, Dec. 31	786	5 412	-25	-	473	22 130	28 776	63	28 839

* Net of dividend repaid of 1.

See notes 10 and 20 for additional information.

Consolidated statement of cash flows

For the year ended December 31,			
Amounts in MSEK	Note	2012	2011
Cash flows from operating activities			
Operating profit		19 228	17 560
Adjustments for:			
Depreciation, amortization and impairment	7	2 664	2 522
Capital gain/loss and other non-cash items		-309	-176
Operating cash surplus		21 583	19 906
Net financial items received/paid		-592	-1 275
Taxes paid		-5 053	-3 307
Cash flow before change in working capital		15 938	15 324
Change in:			
Inventories		-639	-4 267
Operating receivables		-71	-3 834
Operating liabilities		-656	1 986
Change in working capital		-1 366	-6 115
Increase in rental equipment		-1 299	-1 332
Sale of rental equipment		550	544
Net cash from operating activities		13 823	8 421
Cash flows from investing activities			
Investments in other property, plant and equipment		-1 672	-1 728
Sale of other property, plant and equipment		67	52
Investments in intangible assets		-920	-619
Sale of intangible assets		7	12
Sale of investments		1 455	610
Acquisition of subsidiaries	2	-1 195	-2 298
Divestment of subsidiaries	3	-	92
Investment in other financial assets, net		-527	-456
Net cash from investing activities		-2 785	-4 335
Cash flows from financing activities			
Dividends paid		-6 069	-4 851
Dividend paid to non-controlling interests		-1	-2
Redemption of shares		-	-6 067
Acquisition of non-controlling interests		-107	-991
Repurchase and divestment of own shares		271	-1 005
Borrowings		6 857	497
Repayment of borrowings		-5 163	-259
Payment of finance lease liabilities		-58	-57
Net cash from financing activities		-4 270	-12 735
Net cash flow for the year		6 768	-8 649
Cash and cash equivalents, Jan. 1		5 716	14 264
Net cash flow for the year		6 768	-8 649
Exchange-rate difference in cash and cash equivalents		-68	101
Cash and cash equivalents, Dec. 31	19	12 416	5 716

Notes to the consolidated financial statements

MSEK unless otherwise stated

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1. Significant accounting principles, accounting estimates and judgments

Significant accounting principles

The consolidated financial statements of Atlas Copco AB (also referred to as the “Company”) comprise Atlas Copco AB and its subsidiaries (together referred to as “the Group” or Atlas Copco) and the Group’s interest in associated companies.

Atlas Copco is an industrial group with world-leading positions in compressors, expanders and air treatment systems, construction and mining equipment, power tools, and assembly systems. The company is headquartered in Nacka, Sweden.

Basis of preparation

Statement of compliance

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 detail certain additional disclosure requirements for Swedish consolidated financial statements prepared in accordance with IFRS.

The accounting principles as set out in the following paragraphs have, unless otherwise stated, been consistently applied to all periods presented in the consolidated financial statements 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, 2013. Balance sheets and income statements are subject to the approval of the Annual General Meeting of the shareholders to be held on April 29, 2013.

Functional currency and presentation currency

These financial statements are presented in Swedish krona, which is the functional currency for Atlas Copco AB and also the presentation currency for the Group’s financial reporting. Unless otherwise indicated, the amounts are presented in millions of Swedish kronor.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for certain financial assets and liabilities that are measured at their fair value: financial instruments at fair value through profit or loss, derivative financial instruments, and financial assets classified as available-for-sale.

Non-current assets and disposal groups held for sale are carried at the lower of carrying amount and fair value less costs to sell as of the date of the initial classification as held for sale.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments as well as estimates and assumptions that affect the application of accounting principles and the carrying amounts of assets and liabilities. Critical accounting estimates and judgments made by management that can have a significant effect on the financial statements are further discussed on pages 77–78.

Classification

Non-current assets and non-current liabilities are comprised primarily of amounts that are expected to be realized or paid more than 12 months after the balance sheet date. Current assets and current liabilities are comprised primarily of amounts expected to be settled within 12 months of the balance sheet date.

Changes in accounting principles

The following revised and amended IFRS standard issued by the International Accounting Standards Board (IASB) is applicable for the Group and has been applied from 2012.

- *Amendments to IFRS 7 Financial instruments: Disclosures – Transfers of Financial Assets*

The amendments provide users with more information about an entity’s exposure to the risks of transferred financial assets,

particularly those that involve securitization of financial assets.

The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments have had a limited impact on the consolidated financial statements.

Business combinations and consolidation

The consolidated income statement and balance sheet of the Group include all companies in which the Company, directly or indirectly, has control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

The consolidated financial statements have been prepared in accordance with the acquisition method. According to this method, business combinations are seen as if the Group directly acquires the assets and assumes the liabilities of the entity acquired. 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.

Consideration transferred is measured at its fair value. It includes the sum of the acquisition date fair values of the assets transferred, liabilities incurred to the previous owners of the acquiree, and equity interests issued by the Group. Contingent consideration is initially measured at its acquisition-date fair value. Any subsequent change in such fair value is recognized in profit or loss, unless the contingent consideration is classified as equity. In that case, there is no remeasurement and the subsequent settlement is accounted for within equity.

Transaction costs that the Group incurs in connection with a business combination, such as finder’s fee, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest 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 amounts of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but tested for impairment at least annually.

Non-controlling interest is initially measured either at fair value or at the non-controlling interest’s proportionate share of the fair value of the acquiree’s identifiable net assets. This means that goodwill is either recorded in “full” (on the total acquired net assets) or in “part” (only on the Group’s share of net assets). The choice of measurement basis is made on an acquisition-by-acquisition basis.

Subsequent profit or loss and other components of comprehensive income attributable to the non-controlling interest are allocated to the non-controlling interest even if doing so causes the non-controlling interest to be 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. Accordingly, goodwill does not arise in conjunction with such transactions. Gains and losses from sales of non-controlling interest that do not result in loss of control are also recognized in equity.

Earnings from the acquirees are reported in the consolidated income statement from the date of control.

Intra-group balances and transactions such as income, expenses, and dividends are eliminated in preparing the consolidated financial statements. Profits and losses resulting 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.

Associated companies

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 to 50% of the voting power, it is presumed that significant influence exists unless it can be clearly demonstrated that this is not the case.

Holdings in associated companies are reported in the consolidated

1. Continued

financial statements in accordance with the equity method from when significant influence has been established and until significant influence ceases. Under the equity method, the carrying value of interests in an associate corresponds to the Group's share of reported equity of the associate, any goodwill, and any other remaining fair value adjustments recognized at acquisition date. The Group's profit or loss includes "Share of profit in associated companies", which comprises the Group's share of the associate'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 reduce the carrying value of the investment.

Unrealized gains and losses arising from transactions with an associate are eliminated to the extent of the Group's interest, but losses only to the extent that there is no evidence of impairment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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.

Foreign currency

Foreign currency transactions

Functional currency is the currency of the primary economic environment in which an entity operates. Transactions in foreign currencies (those which are denominated in other than the functional currency) are translated at the foreign exchange rate ruling at the date of the transaction. Receivables and liabilities and other monetary items denominated in foreign currencies are translated using the foreign exchange rate at the balance sheet date. Exchange gains and losses related to trade receivables and payables, and other operating receivables and payables are included in "Other operating income and expenses". The exchange gains and losses relating to other financial assets and liabilities are included in "Financial income and expenses".

Exchange rate differences on translation to functional currency are reported in profit or loss, except when reported in other comprehensive income in the following cases:

- translation of available-for-sale equity instruments,
- 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, or
- cash flow hedging of currency risks (when the hedge is qualified for hedge accounting) to the extent that the hedge is effective.

Exchange rates for major currencies used in the year-end accounts are shown in note 27.

Translation of accounts of foreign entities

The assets and liabilities of foreign entities, including goodwill and fair value adjustments arising on consolidation, are translated to Swedish kronor at the exchange rates ruling at the balance sheet date. Revenues, expenses, gains, and losses are translated at average exchange rates, which approximate the exchange rate for the respective transaction. Foreign exchange differences arising on translation are recognized in other comprehensive income and are accumulated in a separate component of equity as a translation reserve. On divestment of foreign entities, the accumulated exchange differences, net after impact of currency hedges of net investments, are recycled through profit or loss, increasing or decreasing the profit or loss on divestments.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of sales taxes, goods returned, and discounts and other similar deductions. Revenue is recognized when recovery of the consideration is considered probable and the revenue and associated costs can be measured reliably.

Goods sold

Revenue from sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, which in most cases occurs in connection with delivery. When the product requires installation and this constitutes a significant part of the contract, revenue is recognized when the installation is completed. Revenue is not recorded for buy-back commitments if the substance of the agreement is that the risks and rewards of ownership have not been transferred to the buyer. No revenue is recognized if there are significant uncertainties regarding the possible return of goods.

Services rendered

Revenue from services is recognized in profit or loss by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction. Where the outcome of a service contract cannot be estimated reliably, revenue is recognized to the extent of costs incurred that are expected to be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total revenue, the expected loss is recognized as an expense immediately. When services are performed by an indeterminate number of acts over the service contract period, revenues are recognized on a straight-line basis.

Rental operations

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

Other operating income and expenses

Commissions and royalties are recognized on an accrual basis in accordance with the financial substance of the agreement.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount. Such gains and losses are recognized net within "Other operating income" or "Other operating expenses".

Government grants

A government grant is recognized when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it. Government grants that compensate the Group for expenses incurred are recognized in profit or loss on a systematic basis in the same periods in which expenses are incurred and are presented net of the related expense.

Financial income and expenses

Interest income and interest expense 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 9 for additional information.

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

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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.

Intangible assets

Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired in the business combination.

Goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the combination and is tested at least annually for impairment. In the case of reorganization or divestment of a cash generating unit to which goodwill has been allocated, goodwill is reallocated to the units affected based on their relative values.

Technology-based intangible assets

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge, is expensed in profit or loss as incurred. Research projects acquired as part of business combinations are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, research projects acquired as part of business combinations are carried at cost less amortization and impairment losses.

Expenditure on development activities are expensed as incurred unless the activities are applied to a plan or a design for the production of new or substantially improved products or processes. In such instances, development activities are capitalized if the product or process is technically and commercially feasible and the Group has the intent and ability to complete, sell or use the intangible. The expenditure capitalized includes the cost of materials, direct labor, and other costs directly attributable to the development project. Capitalized development expenditure is carried at cost less accumulated amortization and impairment losses.

Computer software is capitalized and is carried at cost less accumulated amortization and impairment losses.

Trademarks

Trademarks acquired by the Group are capitalized based on their fair value at the time of acquisition (which is regarded as their cost). 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, such as customer relations and other similar items, are capitalized based on their fair value at the time of acquisition (which is regarded as their cost) and 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 (which is regarded as their cost) and carried at cost less accumulated amortization and impairment losses.

Expenditure on internally generated goodwill, trademarks, and similar items is expensed as incurred.

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

The following useful lives are used for depreciation and amortization:

	Years
Technology-based intangible assets	3–15
Trademarks with definite lives	5–15
Marketing and customer related intangible assets	5–10
Buildings	25–50
Machinery and equipment	3–10
Vehicles	4–5
Computer hardware and software	3–8
Rental equipment	3–12

The useful lives and residual values are reassessed annually. Land, goodwill, and trademarks with indefinite lives are not depreciated or amortized.

Leased assets

In the course of business, the Group acts both as lessor and lessee. In the consolidated financial statements, 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.

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in accordance with the effective interest rate method.

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Impairment of non-financial assets

The carrying amount of the Group's non-financial assets, such as intangible assets and property, plant and equipment, are reviewed at least at each reporting date to determine whether there is any indication of impairment. If any indication of impairment exists, the asset's recoverable amount is estimated. For goodwill and other assets that have an indefinite useful life, impairment tests are performed at a minimum on an annual basis. Annual impairment tests are also carried out for intangible assets not yet ready for use.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. If largely independent cash inflows cannot be linked to an individual asset, the recoverable amount is estimated for the smallest group of assets that includes the asset and generates cash inflows that are largely independent, i.e. a cash-generating unit. Goodwill is always allocated to a cash-generating unit or groups of cash-generating units and tested at the lowest level within the Group at which the goodwill is monitored for internal management purpose.

The recoverable amount is the greater of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. Impairment losses are recognized in profit or loss.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. Impairment losses are assessed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Inventories

Inventories are valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. The cost of inventories is based on the first-in, first-out principle and includes the costs 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.

Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the outflow can be estimated reliably. The amount recognized as a provision is the best estimate of the expenditure 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 at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with the contract.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss when employees provide services entitling them to the contributions.

Defined benefit plans

The Group has a number of defined benefit plans related to pensions and post-employment health care benefits in countries where operations are located. The net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The amount of future benefits is discounted to determine its present value and the fair value of any plan assets is deducted.

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. The obligations are valued at the present value of the expected future disbursements, taking into consideration assumptions such as expected future pay increases, rate of inflation, and increases in medical cost and mortality rates. The discount rate used is the equivalent of the interest rate for high-quality corporate or government bonds with a remaining term approximating that of the actual commitments.

Changes in actuarial assumptions and experience adjustments of obligations and the fair value of plan assets result in actuarial gains or losses. Such gains or losses, within 10% of the obligation or asset value that is within the 'corridor', are not immediately recognized. Gains or losses exceeding the 10% corridor are amortized over the remaining estimated service period of the employees.

Plan assets are measured at fair value. Funded plans with net assets, i.e. plans with assets exceeding the commitments, are reported as financial non-current assets, limited to the amount of accumulated actuarial losses and the present value of economic benefits available to the Group from the plan assets.

The interest portion of pension and other post-employment benefit costs and expected return on plan assets is not classified as an operating expense but is shown as interest expense. See notes 9 and 23 for additional information.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value and the fair value of any related assets is deducted. The discount rate used is the same as for the defined benefit plans. The calculation is performed using the Projected Unit Credit Method. Any actuarial gains or losses are recognized in the period in which they arise.

Share-based payments

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, which is to recognize the value 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-

1. Continued

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 (or liability amount transferred to equity when employees have a choice and choose to settle in shares) at settlement.

Social security charges are paid in cash. Social security charges are accounted for consistent with the principles for cash-settled share-based payments, regardless of whether they are related to equity- or cash-settled share-based payments.

Financial assets and liabilities

Recognition and derecognition

Financial assets and liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Purchases and sales 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 to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been removed from the Group. The Group derecognizes (fully or partially) a financial liability 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 legally enforceable right to set off the recognized amounts and there is an intention to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Measurement and classification

Financial assets and liabilities not measured at fair value through profit or loss are, at initial recognition, measured at fair value with addition or deduction of transaction costs. For financial assets and liabilities carried at fair value through profit or loss, transaction costs are expensed.

Financial assets and liabilities are upon initial recognition classified in accordance with the categories in IAS 39 based on the purpose of the acquisition of the instrument. This determines the subsequent accounting and measurement for financial assets and liabilities.

The Group classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Assets available for sale

The Group classifies its financial liabilities in the following categories:

- Financial liabilities at fair value through profit or loss
- Other financial liabilities measured at amortized cost using the effective interest method

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities are classified as fair value through profit or loss if they are held for trading or are designated as such upon initial recognition.

A financial asset or liability is classified as held for trading if the Group manages such investments and makes purchase and sale decisions based on their fair value. A derivative not part of hedge accounting is also categorized as held for trading. Financial assets and liabilities at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receiv-

ables are subsequently measured at amortized cost using the effective interest method, less any impairment losses.

Trade receivables, other receivables, and cash and cash equivalents are included in this category. In most cases, short-term receivables are not carried at amortized cost due to short expected time to payment. Cash and cash equivalents include cash balances and short-term highly liquid investments that are readily convertible to known amounts of cash which are not subject to a significant risk of changes in value. An investment normally only qualifies as cash equivalent if it, upon acquisition, only has three months or less to maturity.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Group has the positive intention and ability to hold to maturity. Fixed or determinable payments and fixed maturity mean that a contractual arrangement defines the amounts and dates of payments to the holder, such as interest and principal payments. Held to maturity investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment losses.

Assets available for sale

Financial assets available for sale are non-derivative financial assets that are designated as available for sale. Subsequent to initial recognition, these assets are measured at fair value. Changes therein are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on available-for-sale monetary items which are recognized in profit or loss.

For financial assets available for sale that are not monetary items, e.g. equity instruments, the gain or loss that is recognized in other comprehensive income includes any related foreign exchange component. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other financial liabilities

Other financial liabilities are, subsequent to initial recognition, measured at amortized cost using the effective interest rate method.

Borrowing costs are recognized as an expense in the period in which they are incurred unless they are directly attributable to the acquisition, construction or production of a qualifying asset.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Impairment of financial assets

Financial assets, except for such assets classified as fair value through profit or loss, are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are regularly tested for impairment on an individual basis or, in some cases, assessed collectively in groups with similar credit risks. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. For an available-for-sale financial asset, a decline in the fair value of the asset below its cost is evidence that the asset is impaired. In that case, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the asset previously recognized in profit or loss, is removed from other comprehensive income and recognized in profit and loss. Impairment losses

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on financial assets of all other categories are recognized directly in profit or loss.

An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized in other comprehensive income.

Derivatives and hedge accounting

Derivative instruments

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their 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. The Group designates derivatives qualifying for hedge accounting as fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

Changes in fair value are reported as operating or financial income or expenses based on the purpose of the use of the derivatives and whether the instruments relate to operational or financial items.

For derivatives that are designated as hedging instruments, fair value changes are recognized in profit or loss unless the derivatives are designated as hedging instruments in cash flow or net investment hedges (see section below about hedge accounting). Changes in fair values of cross currency swaps and foreign exchange contracts are divided into three components and are accounted for as follows: interest is recognized as interest income/expense, foreign exchange effect as foreign exchange difference, and other changes in fair values as gains and losses from financial instruments.

Interest payments for interest swaps are recognized as interest income/expense, whereas changes in fair value of future payments are presented as gains and losses from financial instruments.

Hedge accounting

In order to qualify for hedge accounting, the hedging relationship must be formally designated, the hedge expected to be highly effective and the hedge relationship documented. The Group assesses, evaluates, and documents effectiveness both at hedge inception and on an ongoing basis. The method of recognizing a gain or loss resulting from hedging instruments is dependent on the type of hedge relationship, i.e. which type of risk exposure that is reduced by the hedging instrument.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. These changes in the fair value of the hedged asset or liability are recognized in profit or loss to offset the effect of gain or loss on the hedging instrument.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

The Group applies fair value hedge accounting for interest rate swaps used for hedging fixed interest risk on borrowings.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge 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. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The cumulative gain or loss previously recognized in equity through other comprehensive income remains there until the forecast transaction affects profit or loss. The amount recognized in equity through other comprehensive income is recycled to profit or loss in the same period in which the hedged item affects profit or loss (for example when the forecast sale that is hedged takes place). However, when the hedged item is a non-

financial asset (for example inventory or fixed asset), the amount recognized in equity through other comprehensive income is transferred to the carrying amount of the asset when it is initially recognized.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when it no longer qualifies for hedge accounting. Any cumulative gain or loss which at that time remains in equity 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.

Following decisions by the Financial Risk Management Committee, the Group uses foreign currency forwards to hedge part of the future cash flows from forecasted transactions denominated in foreign currencies.

Hedges of net investments in foreign operations

The Group hedges a substantial part of net investments in foreign operations. Gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in equity. Gain or loss relating to the ineffective portion is 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 divestments. The Group uses loans and forward contracts as hedging instruments.

Equity

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

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs net of any tax effects, is recognized as a deduction from equity. 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.

Income taxes

Income taxes include both current and deferred taxes in the consolidated accounts. Income taxes are reported in profit or loss unless the underlying transaction is reported in other comprehensive income or in equity. In those cases, the related income tax is also reported in other comprehensive income or in equity.

A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current or prior years.

Deferred tax is recognized using the balance sheet liability method. The calculation of deferred taxes is based on either the differences between the values reported in the balance sheet and their respective values for taxation, which are referred to as temporary differences, or the carry forward of unused tax losses and tax credits. Temporary differences related to the following 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 and associated companies to the extent that they will probably not reverse in the foreseeable future.

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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. In the calculation of deferred taxes, enacted or substantively enacted tax rates are used for the individual tax jurisdictions.

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.

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Assets held for sale

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

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 and amended accounting standards after 2012

The following standards, interpretations, and amendments to standards have been issued but have not become effective as of December 31, 2012 and have not been applied by the Group. The assessment of the effect that the implementation of these standards and interpretations could have on the consolidated financial statements is preliminary.

- *Amendments to IAS 1 Presentation of Items of Other Comprehensive Income*
The amendments require a change in the way other comprehensive income is presented, requiring separate subtotals for elements which may be “recycled” (e.g. cash-flow hedging and foreign currency translation) and those elements that will not (e.g. remeasurement under IAS 19). The standard is applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted.
- *Amendments to IAS 19 Employee Benefits*
The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, hence eliminating the “corridor method” permitted under the previous version of IAS 19 and accelerating the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated financial statements to reflect the full value of the plan deficit or surplus. Additionally, the amendments replace interest cost and expected return on plan assets with net interest on the net defined benefit liability/asset.

The amended version of IAS 19 will be adopted by Atlas Copco as from January 1, 2013, with full retrospective application. The Group’s net pension liability will increase by approximately 1 300 and have the following impact on the consolidated financial statement for the period 2012.

– Other financial assets:	–500
– Equity:	–950
– Post-employment liabilities:	+800
– Net deferred tax liabilities:	–350

The removal of the amortization of the actuarial gains/losses and the modified net interest calculation would have increased the net income for the period by approximately 20. Other comprehensive income would have been negatively affected for the period by approximately 350.

- *Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities*
The standard clarifies existing application issues relating to the requirements for offset of financial assets and financial liabilities. The effective date is January 1, 2014, and the impact is yet to be assessed by the Group.

- *Amendments to IFRS 7 Financial Instruments: Disclosures offsetting Financial Assets and Financial Liabilities*
The amendments clarify the disclosure requirements about rights to offset financial assets and financial liabilities. Applicable for financial year starting on or after January 1, 2013.
- *IFRS 9 Financial Instruments**
The standard is intended to replace IAS 39 Financial Instruments: Recognition and Measurements, and addresses the classification and measurement of financial instruments. It is likely to affect the Group’s accounting of financial assets and financial liabilities. The effective date is January 1, 2015, and the Group is yet to assess the full impact of IFRS 9.
- *IFRS 13 Fair value measurement*
The standard establishes a single framework for all fair value measurements when fair value is required or permitted by IFRS. The standard does not change when an entity is required to use fair value, but rather describes how to measure fair value under IFRS when it is required or permitted by IFRS. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Except for additional disclosures, the implementation of IFRS 13 is not expected to have any material effects for the Group.
- *“The package of five”*
Below are the standards in the “package of five”. These are in the EU effective for annual periods beginning on or after January 1, 2014. The implementation in 2014 is not expected to have any material effect on the consolidated financial statements.
 - IFRS 10 Consolidated Financial Statements
 - IFRS 11 Joint Arrangements
 - IFRS 12 Disclosure of Interests in Other Entities
 - IAS 27 Separate Financial Statements (Revised 2011)
 - IAS 28 Investments in Associates and Joint Ventures (Revised 2011)
- *Improvements to IFRSs 2009-2011 issued in May 2012**
The improvements include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013.

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

Critical accounting estimates and judgments

The preparation of financial reports requires management’s judgment and the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. 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 results may differ from those estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period in which they are revised and in any future periods affected.

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

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

Key sources of estimation uncertainty

In accordance with IFRS, 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

1. Continued

impairment. The impairment tests are based on a review of the recoverable amount, which is estimated based on management's projections of future cash flows using internal business plans and forecasts.

Accounting judgment

Asset impairment requires Management's judgment, particularly in assessing:

- whether an event has occurred that may affect asset values,
- whether the carrying value of an asset can be supported by the net present value of future cash flows, which are estimated based upon the continued use of the asset in the business, and
- the appropriate assumptions to be applied in preparing cash flow projections.

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

At December 31, 2012, goodwill amounted to 10 180 (9 952), of which accumulated impairment losses were 26 (27). Trademarks not being amortized amounted to 1 225 (1 328). Additional information is included in note 12.

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, expected return on plan assets, future salary increases, mortality rates, and health care cost trend rates. The actuarial assumptions are reviewed on an annual basis and are changed when it is deemed appropriate. Actuarial gain and loss resulting from the difference between the assumptions and actual results are amortized over the expected average remaining working life of the employees in accordance with the "corridor method".

At December 31, 2012, defined benefit obligations for pensions and other post-employment benefits amounted to 1 401 (1 504) and fair value of plan assets to 662 (608). See note 23 for additional information regarding assumptions used in the calculation of pension and post-employment obligations.

Trade and financial receivable

Key sources of estimation uncertainty

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

Accounting judgment

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

Total allowances for estimated losses as of December 31, 2012, were 827 (766) for trade receivables, finance lease receivables, and other financial receivables with a corresponding gross amount of 19 617 (20 956).

Inventory

Accounting judgment

The Group values inventory at the lower of historical cost, based on the first-in, first-out basis, and net realizable value. The calculation of net realizable value involves management's judgment as to over-stock articles, out-dated articles, damaged goods, and handling and other 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.

Legal proceedings

Accounting judgment

In accordance with IFRS, 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. To the extent that management's assessment of the factors considered are not reflected in subsequent developments, the financial statements could be affected.

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.

At December 31, 2012, the value of deferred tax assets amounted to 1 110 (1 052), see note 10 for additional information.

Revenue recognition

Key sources of estimation uncertainty

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

Accounting judgment

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

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

Warranty provisions

Key sources of estimation uncertainty

Provisions for product warranties should cover future commitments for the sales volumes already realized. Warranty provision is a complex accounting estimate due to the variety of variables which are included in the calculations. The calculation methods are based on the type of products sold and historical data for level of repairs and replacements. The underlying estimates for calculating the provision is reviewed at least quarterly as well as when new products are being introduced or when other changes occur which may affect the calculation. Total provisions for product warranties as of December 31, 2012, amounted to 925 (938).

2. Acquisitions

The following summarizes the significant acquisitions during 2012 and 2011:

Closing date		Country	Business area	Revenues ¹⁾	Number of employees ¹⁾
2012 Oct. 26	NewTech Drilling Products	U.S.A.	Mining and Rock Excavation Technique	45	20
2012 Aug. 2	Ekomak	Turkey and others	Compressor Technique	200	160
2012 Aug. 1	Gazcon A/S	Denmark	Compressor Technique	30	21
2012 Mar. 16	Guangzhou Linghein Compressor	China	Compressor Technique	100	160
2012 Feb. 13	Wuxi Shengda Air/Gas Purity Equipment Co., Ltd.	China	Compressor Technique	85	130
2012 Jan. 31	Neumatica	Colombia	Mining and Rock Excavation Technique	²⁾	15
2012 Jan. 31	GIA Industri AB	Sweden	Mining and Rock Excavation Technique	230	113
2012 Jan. 12	Perfora S.p.A.	Italy	Mining and Rock Excavation Technique	90	43
2012 Jan. 4	Houston Service Industries, Inc.	U.S.A.	Compressor Technique	240	123
2011 Nov. 21	Seti-Tec S.A.S.	France	Industrial Technique	40	14
2011 Nov. 1	Kalibrierdienst Stenger	Germany	Industrial Technique	6	7
2011 Oct. 7	SCA Schucker	Germany and others	Industrial Technique	600	280
2011 Aug. 17	Penlon Medical Gas Solutions	United Kingdom	Compressor Technique	120	100
2011 Jul. 15	Grupo Electr6genos GESAN S.A.	Spain	Construction Technique	510	160
2011 Jul. 1	Sogimair S.A. and Aircom S.A.	Spain	Compressor Technique	124	75
2011 May 31	Tencarva	U.S.A.	Compressor Technique	²⁾	37
2011 Apr. 1	ABAC Catalunya	Spain	Compressor Technique	²⁾	8
2011 Mar. 7	J.C. Carter	U.S.A.	Compressor Technique	175	70

¹⁾ Annual revenues and number of employees at time of acquisition.

²⁾ Former distributor of Atlas Copco products. No revenues are disclosed for former Atlas Copco distributors.

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

The amounts presented in the following tables detail the recognized amounts aggregated by business area, as the relative amounts of the individual acquisitions are not considered significant. The fair values related to intangible assets are amortized over 5–15 years. For those acquisitions that include a contingent consideration clause, the fair value of the contingent consideration has been calculated based on a discount rate of 4–10.5%. The Group is in the process of reviewing the final values for the acquired businesses. No adjustments are expected to be material.

Compressor Technique	Recognized values	
	2012	2011
Intangible assets	292	140
Property, plant and equipment	74	17
Other assets	267	173
Cash and cash equivalents	24	15
Interest-bearing loans and borrowings	–132	–5
Other liabilities and provisions	–150	–88
Net identifiable assets	375	252
Goodwill	274	141
Total consideration	649	393
Deferred consideration	14	7
Cash and cash equivalents acquired	–24	–15
Net cash outflow	639	385

The Compressor Technique business area made five acquisitions in 2012.

In January, Houston Services Industries, Inc. was acquired. The company manufactures low-pressure blowers and vacuum pumps in the United States and has a strong domestic position in equipment for the wastewater treatment and industrial process sectors. The acquisition fits well with Atlas Copco's ambition to develop a globally leading position in the market for low pressure equipment, extending the product offering to blowers of nearly all sizes. It also offers sales synergies with Atlas Copco's existing products in these market segments. Intangible assets of 97 and goodwill of 77 were recorded on the purchase. The goodwill is not deductible for tax.

Wuxi Shengda Air/Gas Purity Equipment Co., Ltd. was acquired in February. The company manufactures compressed air and gas drying, and filtration equipment. It will continue to operate under the Shengda brand. The acquisition extends Atlas Copco's market presence and product offering in China. Intangible assets of 20 and goodwill of 36 were recorded on the purchase. The goodwill is not deductible for tax.

In March, certain assets of Chinese Guangzhou Linghein Compressor Co., Ltd. were acquired. The acquisition adds a brand of industrial compressors with a strong regional presence. Intangible assets of 69 and goodwill of 51 were recorded on the purchase. The goodwill is deductible for tax.

Danish Gazcon A/S, a manufacturer of nitrogen and oxygen generators, was acquired in August. The acquisition extends Atlas Copco's offering of nitrogen generators and adds oxygen generators to the range. Intangible assets of 9 and goodwill of 13 were recorded on the purchase. The goodwill is not deductible for tax.

The Ekomak group, a manufacturer of industrial screw compressors, was also acquired in August. The company has manufacturing in Turkey and its own sales and service operations in Russia and Germany. The acquisition strengthens Atlas Copco's market position in the region. Intangible assets of 101 and goodwill of 90 were recorded on the purchase. The goodwill is not deductible for tax.

Some adjustments related to the 2011 acquisitions of Sogimair S.A. and Aircom S.A., and Tencarva have been made, resulting in a total increase of 5 in the amount of goodwill recognized.

Total consideration for all acquisitions was 649.

2. Continued

Industrial Technique	Recognized values	
	2012	2011
Intangible assets	1	670
Property, plant and equipment	–	104
Other assets	1	401
Cash and cash equivalents	–	79
Other liabilities and provisions	–11	–198
Net identifiable assets	–9	1 056
Goodwill	–15	1 076
Total consideration	–24	2 132
Deferred consideration	244	–373
Cash and cash equivalents acquired	–	–79
Net cash outflow	220	1 680

The Industrial Technique business area made no acquisitions in 2012. Some adjustments related to the 2011 acquisition of SCA Schucker have however been made, resulting in a decrease of 14 in the amount of goodwill recognized.

Mining and Rock Excavation Technique	Recognized values	
	2012	2011
Intangible assets	121	12
Property, plant and equipment	9	–8
Other assets	174	–
Cash and cash equivalents	9	–
Interest-bearing loans and borrowings	–117	–
Other liabilities and provisions	–62	–
Net identifiable assets	134	4
Goodwill	229	1
Total consideration	363	5
Deferred consideration	–21	11
Cash and cash equivalents acquired	–9	–
Net cash outflow	333	16

The Mining and Rock Excavation Technique business area made four acquisitions in 2012.

In January, Italian Perfora S.p.A., was acquired. The company manufactures and sells drilling and cutting equipment for the dimension stone industry, i.e. quarries that produce raw stone blocks. The acquisition is expected to bring good growth opportunities. As part of Atlas Copco, Perfora becomes a unique global supplier of tailor-made equipment for dimension stone producers. Intangible assets of 32 and goodwill of 71 were recorded on the purchase. The goodwill is not deductible for tax.

The underground business of Swedish GIA Industri AB was also acquired in January. With this acquisition, Atlas Copco broadens its offering with products such as electric mine trucks, utility vehicles, and ventilation systems. Intangible assets of 31 and goodwill of 97 were recorded on the purchase. The goodwill is not deductible for tax.

Also in January, Atlas Copco took over the sales of drilling equipment and related services from its distributor Neumatica Del Caribe S.A. in Colombia. The acquisition provides an opportunity to further strengthen Atlas Copco's local service activities and develop relations with customers in other mining segments. Intangible assets of 20 were recorded on the purchase.

U.S. based NewTech Drilling Products was acquired in October. The company develops and manufactures drilling products with a focus on rotary PDC (polycrystalline diamond compact) drilling bits as well as klaw bits for rotary soft rock mining. The acquisition broadens Atlas Copco's range of products and extends the Group's expertise for existing customers in the mining, construction, and oil and gas industries. Intangible assets of 32 and goodwill of 61 were recorded on the purchase. The goodwill is deductible for tax.

Total consideration for all acquisitions was 363. This includes contingent consideration with a fair value of 13 related to the acquisition of NewTech Drilling Products. For the maximum amount to be paid, certain revenue targets must be met the first three years after the acquisition. The fair value of the contingent consideration has been calculated based on the assumption that the maximum amount will be paid.

Construction Technique	Recognized values	
	2012	2011
Intangible assets	–	80
Property, plant and equipment	–	31
Other assets	1	294
Cash and cash equivalents	–	114
Interest-bearing loans and borrowings	–	–24
Other liabilities and provisions	–5	–203
Net identifiable assets	–4	292
Goodwill	7	57
Total consideration	3	349
Deferred consideration	–	–18
Cash and cash equivalents acquired	–	–114
Net cash outflow	3	217

The Construction Technique business area made no acquisition in 2012. Some adjustments related to the 2011 acquisition of Grupo Electrógenos GESAN S.A. have however been made, resulting in an increase of 7 in the amount of goodwill recognized.

Total fair value of acquired assets and liabilities	Group recognized values	
	2012	2011
Intangible assets	414	902
Property, plant and equipment	83	144
Deferred tax assets, net	–	1
Other non-current assets	–	5
Inventories	209	368
Receivables*	233	480
Other current assets	1	14
Cash and cash equivalents	33	208
Interest-bearing loans and borrowings	–249	–29
Other liabilities and provisions	–184	–489
Deferred tax liabilities, net	–44	–
Net identifiable assets	496	1 604
Goodwill	495	1 275
Total consideration	991	2 879
Deferred consideration	237	–373
Cash and cash equivalents acquired	–33	–208
Net cash outflow	1 195	2 298

* The gross amount is 243 (506) of which 10 (26) 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 991. Total consideration includes deferred consideration not yet paid for acquisitions made in 2012 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the outflow totaled 1 195 after deducting cash and cash equivalents acquired of 33.

Acquisition-related costs amounted to 11 (27) and were included in "Administrative expenses" in the income statement for 2012.

2. Continued

Contribution from businesses acquired in 2012 and 2011 by business area										
	Compressor Technique		Industrial Technique		Mining and Rock Excavation Technique		Construction Technique		Group	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Contribution from date of control										
Revenues	497	268	–	266	306	–	–	270	803	804
Operating profit	–30	–20	–	59	–20	–	–	8	–50	47
Profit for the year									–42	2
Contribution if the acquisition had occurred on Jan. 1										
Revenues	724	441	–	970	309	–	–	589	1 033	2 000
Operating profit	–13	–20	–	228	–19	–	–	19	–32	227
Profit for the year									–28	153

In December 2012, Atlas Copco agreed to acquire the Swiss-based MEYCO Equipment business. MEYCO has about 40 employees and in 2011, the company had revenues of around MEUR 20 (MSEK 175). The acquisition broadens Atlas Copco's offering with mobile equipment for applying sprayed concrete (shotcreting) in underground operations. It will be part of the Mining and Rock Excavation Technique Business Area.

On February 28, 2013, Atlas Copco acquired Air et Techniques Energies Provence, a distributor of industrial compressors and related products based in Aix-en-Provence, France. The company has about 30 employees and annual revenues of approximately MEUR 6 (MSEK 50). The acquisition will be part of the Compressor Technique Business Area and further strengthens Atlas Copco's presence in France.

3. Assets held for sale and divestments

Divestment during 2011						
Closing date	Operations	Country	Business area	Revenues ¹⁾	Number of employees ¹⁾	
2011 Oct. 7	Self drilling anchors	Austria	Mining and Rock Excavation Technique	100	45	

¹⁾ Annual revenues and number of employees at time of divestment.

Divestments

There were no divestments in 2012.

In October 2011, Atlas Copco MAI GmbH divested its business related to self drilling anchors, i.e. rock bolts that are primarily used in civil engineering. The divestment in the Mining and Rock Excavation Technique business area is part of Atlas Copco's strategy within rock reinforcement to focus on products for the mining industry. The gain on the divestment, amounting to 8, was reported under "Other operating income", see note 8.

The following table presents the carrying value of the divested operations on the date of divestment.

Carrying value of divested assets and liabilities		
	2012	2011
Goodwill	–	61
Other intangible assets	–	1
Other property, plant and equipment	–	9
Inventories	–	17
Other liabilities and provisions	–	–2
Net carrying value	–	86
Capital gain	–	8
Translation differences recycled	–	–2
Consideration and cash received	–	92

Assets held for sale

A portfolio of financing and leasing contracts related to Atlas Copco Customer Finance, amounting to 1 268, was reclassified to assets held for sale in 2012. In July, these assets were sold to an independent bank.

Following the restructuring of certain production facilities, those facilities were reclassified to assets held for sale during 2011. Assets held for sale from prior years, amounting to 54, were sold during 2012.

The above sales resulted in capital gains of 137 which were included in "Other operating income", see note 8.

4. Segment information

2012	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Common group functions	Eliminations	Group
Revenues from external customers	34 638	9 536	33 998	12 119	242	–	90 533
Inter-segment revenues	76	30	56	769	77	–1 008	–
Total revenues	34 714	9 566	34 054	12 888	319	–1 008	90 533
Operating profit	8 017	2 155	8 315	1 326	–627	42	19 228
– of which share of profit in associated companies	–	–1	2	–	–	–	1
Net financial items							–690
Income tax expense							–4 624
Profit for the year							13 914
Non-cash expenses							
Depreciation/amortization	1 030	250	798	280	361	–129	2 590
Impairment	16	–	53	5	–	–	74
Other non-cash expenses	75	23	–7	21	26	–	138
Segment assets	21 081	6 686	19 702	14 075	3 636	–1 960	63 220
– of which goodwill	2 678	1 481	1 079	4 942	–	–	10 180
Investments in associated companies	1	98	8	–	–	–	107
Unallocated assets							17 822
Total assets							81 149
Segment liabilities	8 103	1 841	5 561	1 928	3 902	–1 584	19 751
Unallocated liabilities							26 266
Total liabilities							46 017
Capital expenditures							
Property, plant and equipment	1 003	171	1 337	289	499	–269	3 030
– of which assets leased	16	1	39	3	–	–	59
Intangible assets	189	102	332	138	159	–	920
Total capital expenditures	1 192	273	1 669	427	658	–269	3 950
Goodwill acquired	274	–15	229	7	–	–	495

2011	Compressor Technique	Industrial Technique	Mining and Rock Excavation Technique	Construction Technique	Common group functions	Eliminations	Group
Revenues from external customers	31 674	7 791	29 264	12 226	248	–	81 203
Inter-segment revenues	86	30	92	692	66	–966	–
Total revenues	31 760	7 821	29 356	12 918	314	–966	81 203
Operating profit	7 592	1 767	7 196	1 460	–374	–81	17 560
– of which share of profit in associated companies	–	4	2	–	–	–	6
Net financial items							–284
Income tax expense							–4 288
Profit for the year							12 988
Non-cash expenses							
Depreciation/amortization	957	201	792	281	339	–121	2 449
Impairment	2	–	1	70	–	–	73
Other non-cash expenses	–210	–13	–56	51	–18	–	–246
Segment assets	21 281	6 742	18 964	14 894	4 127	–2 536	63 472
– of which goodwill	2 524	1 553	921	4 954	–	–	9 952
Investments in associated companies	1	116	7	–	–	–	124
Unallocated assets							11 513
Total assets							75 109
Segment liabilities	8 929	1 866	6 329	2 283	3 351	–2 131	20 627
Unallocated liabilities							25 643
Total liabilities							46 270
Capital expenditures							
Property, plant and equipment	1 006	159	1 328	154	706	–237	3 116
– of which assets leased	14	4	34	4	–	–	56
Intangible assets	171	117	238	80	13	–	619
Total capital expenditures	1 177	276	1 566	234	719	–237	3 735
Goodwill acquired	141	1 076	1	57	–	–	1 275

4. Continued

The Group is organized in separate and focused but still integrated business areas, each operating through divisions. The business areas offer different products and services to different customer groups. They are also the basis for management and internal reporting and are regularly reviewed by the Group's President and CEO, the chief operating decision maker. All business areas are managed on a worldwide basis and their role is to develop, implement and follow up the objectives and strategies within their respective business. For a description of the business areas, see pages 20–35.

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

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

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

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

Revenues from external customers are comprised of the following categories:	2012	2011
Sale of equipment	53 897	48 374
Service (incl. spare parts, consumables, accessories, and rental)	36 636	32 829
	90 533	81 203

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, deferred tax assets, and post-employment benefit assets.

By geographic area/country	Revenues		Non-current assets	
	2012	2011	2012	2011
North America				
Canada	4 029	3 348	258	200
U.S.A.	11 231	9 501	4 042	3 927
Other countries in North America	2 931	2 316	83	81
	18 191	15 165	4 383	4 208
South America				
Brazil	3 839	3 992	304	345
Chile	2 411	2 111	112	86
Other countries in South America	3 128	2 510	46	53
	9 378	8 613	462	484
Europe				
Belgium	823	827	1 425	1 307
France	2 409	2 345	234	235
Germany	3 888	3 504	2 743	2 962
Italy	1 633	1 805	995	951
Russia	4 196	3 427	158	131
Sweden	2 041	1 856	9 157	8 607
Other countries in Europe	11 970	11 463	1 642	1 583
	26 960	25 227	16 354	15 776
Africa/Middle East				
South Africa	3 443	3 143	158	169
Other countries in Africa/Middle East	7 207	5 489	230	186
	10 650	8 632	388	355
Asia/Australia				
Australia	5 708	5 423	236	439
China	10 199	9 526	1 686	1 424
India	3 182	3 022	558	522
Other countries in Asia/Australia	6 265	5 595	688	799
	25 354	23 566	3 168	3 184
	90 533	81 203	24 755	24 007

4. Continued

Quarterly data

Revenues by business area MSEK	2012				2011			
	1	2	3	4	1	2	3	4
Compressor Technique	8 306	8 692	8 599	9 117	6 989	7 676	8 264	8 831
– of which external	8 287	8 672	8 584	9 095	7 000	7 699	8 171	8 804
– of which internal	19	20	15	22	–11	–23	93	27
Industrial Technique	2 471	2 420	2 280	2 395	1 768	1 800	1 816	2 437
– of which external	2 464	2 414	2 271	2 387	1 763	1 792	1 807	2 429
– of which internal	7	6	9	8	5	8	9	8
Mining and Rock Excavation Technique	8 434	8 846	8 278	8 496	6 516	6 994	7 642	8 204
– of which external	8 418	8 807	8 265	8 508	6 485	6 987	7 609	8 183
– of which internal	16	39	13	–12	31	7	33	21
Construction Technique	3 206	3 697	3 074	2 911	3 063	3 599	3 292	2 964
– of which external	3 006	3 477	2 910	2 726	2 930	3 422	3 090	2 784
– of which internal	200	220	164	185	133	177	202	180
Common Group functions/eliminations	–163	–218	–137	–171	–113	–118	–275	–146
	22 254	23 437	22 094	22 748	18 223	19 951	20 739	22 290

Operating profit by business area MSEK	2012				2011			
	1	2	3	4	1	2	3	4
Compressor Technique	1 833	1 910	2 065	2 209	1 701	1 840	1 990	2 061
<i>in % of revenues</i>	22.1	22.0	24.0	24.2	24.3	24.0	24.1	23.3
Industrial Technique	592	552	479	532	401	392	398	576
<i>in % of revenues</i>	24.0	22.8	21.0	22.2	22.7	21.8	21.9	23.6
Mining and Rock Excavation Technique	2 072	2 191	2 031	2 021	1 537	1 641	1 959	2 059
<i>in % of revenues</i>	24.6	24.8	24.5	23.8	23.6	23.5	25.6	25.1
Construction Technique	342	488	355	141	449	499	390	122
<i>in % of revenues</i>	10.7	13.2	11.5	4.8	14.7	13.9	11.8	4.1
Common Group functions/eliminations	–235	–122	–12	–216	–101	–195	63	–222
Operating profit	4 604	5 019	4 918	4 687	3 987	4 177	4 800	4 596
<i>in % of revenues</i>	20.7	21.4	22.3	20.6	21.9	20.9	23.1	20.6
Net financial items	–115	–180	–184	–211	69	–96	–97	–160
Profit before tax	4 489	4 839	4 734	4 476	4 056	4 081	4 703	4 436
<i>in % of revenues</i>	20.2	20.6	21.4	19.7	22.3	20.5	22.7	19.9

5. Employees and personnel expenses

Average number of employees	2012			2011		
	Women	Men	Total	Women	Men	Total
Parent Company						
Sweden	61	48	109	58	48	106
Subsidiaries						
North America	974	4 603	5 577	816	4 017	4 833
South America	468	2 653	3 121	424	2 472	2 896
Europe	2 810	14 123	16 933	2 594	13 079	15 673
– of which Sweden	783	3 810	4 593	702	3 545	4 247
Africa/Middle East	393	2 211	2 604	361	1 964	2 325
Asia/Australia	1 901	8 868	10 769	1 662	7 636	9 298
Total in subsidiaries	6 546	32 458	39 004	5 857	29 168	35 025
	6 607	32 506	39 113	5 915	29 216	35 131

Women in Atlas Copco Board and Management, %	Dec. 31,	
	2012	2011
Parent Company		
Board of Directors excl. union representatives	33	33
Group Management	22	22 ¹⁾

¹⁾ Average 24%.

5. Continued

Remuneration and other benefits	Group		Parent Company	
	2012	2011	2012	2011
Salaries and other remuneration	14 419	12 610	161	123
Contractual pension benefits	898	781	15	15
Other social costs	2 808	2 519	69	49
	18 125	15 910	245	187
Pension obligations to Board members and Group Management ¹⁾	15	16	15	16

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 2012	Adj. due to change in stock price and vesting period ²⁾	Total expense recognized 2012 ³⁾	Total expense recognized 2011 ³⁾
Chair of the Board:								
Sune Carlsson	1 569	–	–	185	1 754	1 354	3 108	1 542
Vice Chair:								
Jacob Wallenberg (until Apr 2012)	81	–	–	–	81	496	577	560
Other members of the Board:								
Staffan Bohman	334	270	1 768	125	729	258	987	554
Peter Wallenberg Jr (from Apr 2012)	203	270	1 768	45	518	–34	484	–
Margareth Øvrum	268	270	1 768	–	538	374	912	407
Johan Forssell	268	270	1 768	125	663	374	1 037	532
Ulla Litzén	536	–	–	260	796	293	1 089	689
Anders Ullberg	536	–	–	120	656	293	949	549
Gunilla Nordström	471	–	–	–	471	190	661	485
Other members of the Board previous year:								–99
Union representatives (4 positions)	48	–	–	–	48	–	48	44
Total	4 314	1 080	7 072	860	6 254	3 598	9 852	5 263
Total 2011	3 308	1 986	11 884	875	6 169	–906		5 263

¹⁾ Refers to fees for membership in board committees.

²⁾ Refers to synthetic shares received in 2008, 2009, 2010, 2011 and 2012.

³⁾ Provision for synthetic shares as at December 31, 2012, amounted to 18 (14).

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 2012	Total expense recognized 2011
President and CEO								
Ronnie Leten	9 500	5 750 ⁴⁾	1 424	3 325	19 999	5 755	25 754	19 197
Other members of Group Management (8 positions)								
	23 099	10 839	3 807	6 878	44 623	9 538	54 161	37 856
Total	32 599	16 589	5 231	10 203	64 622	15 293	79 915	57 053
Total 2011 (9 positions) ⁵⁾	29 028	14 021	3 270	9 686	56 005	1 048		57 053
Total remuneration and other benefits to the Board and Group Management							89 767	62 316

¹⁾ Refers to variable compensation earned in 2012 to be paid in 2013.

²⁾ Refers to vacation pay, company car, medical insurance, and house allowance.

³⁾ Refers to stock options and SARs received in 2008, 2009, 2010, 2011, and 2012 and includes recognized costs due to change in stock price and vesting period, see also note 23.

⁴⁾ The CEO has not exercised the option to have his compensation for 2012 as an additional pension contribution.

⁵⁾ Four business areas from July 1, 2011.

5. 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 proposals approved by the 2012 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 2012 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 2012 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 2012. The share rights are earned 25% per quarter as long as the member remains on the Board. After five years, the synthetic shares give the right to receive a cash payment per synthetic share based upon an average price for series A shares during 10 trading days following the release of the first quarterly interim report of the year of payment. The board members will receive dividends on series A shares until payment date in the form of new synthetic shares. If a board member resigns his or her position before the stipulated payment date as stated above, the board member has the right to request a prepayment. The prepayment will be made twelve months after the date from when the board member resigned or otherwise the original payment date is valid.

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

Group Management

Group Management consists of the President and the other eight members of the Management Committee. The compensation to Group Management shall consist of base salary, variable compensation, possible long term incentive (personnel options), pension premium, and other benefits. The following describes the various guidelines in determining the amount of remuneration:

- Base salary is determined by position, qualification, and individual performance.
- Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. The variable compensation is maximized to 70% of the base salary for the Group President, 50% for Business Area Presidents, and 40% for other members of the Management Committee.
- Performance related personnel option program for 2012 as approved by the Board, see note 23.
- Pension premiums are paid in accordance with a defined contribution plan with premiums ranging between 25–35% of base salary depending on age.
- Other benefits consist of company car and private health insurance.
- For the expatriates, certain benefits are paid in compliance with the Atlas Copco expatriate employment policy.

A mutual notice of termination of employment of six months shall apply. Compensation for termination is maximized to an amount corresponding to 24 months base salary.

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 70% of the base salary. The variable compensation is not included in the basis for pension benefits. According to an agreement, the President and CEO has the option to receive variable compensation in the form of cash payment or as a pension contribution.

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

Other members of Group Management

Members of Group Management employed in Sweden have a defined contribution pension plan, with contribution ranging from 25% to 35% of the base salary according to age. The variable compensation is not included in the basis for pension benefits. Members of Group Management not based in Sweden also have a defined contribution pension plan. These pension plans are vested and are lifetime payments upon retirement. 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, 2012		
Grant Year	CEO	Other members of Group Management
2007	–	20 255
2008	60 511 ²⁾	56 510
2009	54 459	74 882
2010	126 857	265 780
2011	93 175	241 690
2012 ¹⁾	109 383	238 286
	444 385	897 403

¹⁾ Estimated grants for the 2012 stock option program including matching shares.

²⁾ Includes options/share appreciation rights from previous positions.

See note 23 for additional information.

Termination of employment

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

Other members of Group Management are entitled to severance pay if the Company terminates their employment. The amount of severance pay is dependent on the length of employment with the Company and the age of the executive, but is never less than twelve months and never more than 24 months salary.

Any income that the executive receives from employment or other business activity, whilst severance pay is being paid, will reduce the amount of severance pay accordingly.

Severance pay for the CEO and other members of Group Management is calculated only on the base salary and does not include variable compensation. Severance pay cannot be elected by the employee, but will only be paid if employment is terminated by the Company.

Remuneration and other committees

In 2012, the Chair of the Board, Sune Carlsson and Board Members 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 for the other members of Group Management.

In addition, three members of the Board participated in a committee regarding repurchase and sale of own shares.

6. Remuneration to auditors

	2012	2011
Deloitte		
Audit fee	51	48
Audit activities other than the audit assignment	1	–
Other services, tax	5	4
Other services, other	12	5
Other audit firms		
Audit fee	2	3
	71	60

At the Annual General Meeting 2010, Deloitte was elected as auditor for the Group for a four year period. Audit fees and consultancy fees for advice or assistance other than audit are detailed above.

7. Operating expenses

Amortization, depreciation and impairment	2012	2011
Product development	320	429
Trademark	114	63
Marketing and customer related assets	190	151
Other technology and contract based assets	236	172
Buildings	184	149
Machinery and equipment	939	842
Rental equipment	681	716
	2 664	2 522

Amortization and impairment of intangible assets are recognized in the following line items in the income statement:

	2012		2011	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	16	23	17	18
Marketing expenses	23	293	16	215
Administrative expenses	54	47	37	35
Research and development expenses	312	92	411	66
	405	455	481	334

Impairment charges on intangible assets totaled 54 (67) of which 19 (64) were classified as development expenses in the income statement, 34 (–) as marketing expenses, and 1 (–) as cost of sales. Of the impairment charges, 18 (64) were due to capitalized development costs relating to projects discontinued.

8. Other operating income and expenses

	2012	2011
Other operating income		
Commissions received	24	18
Income from insurance operations	175	198
Capital gain on assets held for sale	137	–
Capital gain on sale of fixed assets	19	15
Capital gain on divestment of business	–	8
Exchange-rate differences, net	–	4
Other operating income	120	50
	475	293

	2012	2011
Other operating expenses		
Capital loss on sale of fixed assets	–19	–26
Exchange-rate differences, net	–183	–
Other operating expenses	–117	–101
	–319	–127

The operating profit includes –36 (15) of realized foreign exchange hedging result, which were previously recognized in equity.

9. Financial income and expenses

	2012	2011
Interest income		
– cash and cash equivalents	129	207
– finance lease receivables	217	215
– other	8	6
Capital gain		
– available-for-sale financial assets	–	348
– other assets	3	–
Change in fair value – other assets	–	2
Foreign exchange gain, net	51	–
Financial income	408	778
Interest expense		
– borrowings	–753	–697
– derivatives for fair value hedges	–175	–127
– pension provisions, net	–70	–110
Change in fair value – other liabilities and borrowings	–83	–80
Foreign exchange loss, net	–	–32
Impairment loss	–17	–16
Financial expenses	–1 098	–1 062
Financial expenses, net	–690	–284

Interest rates have been lower compared to 2011, resulting in lower interest income on cash and cash equivalents.

In 2011, Atlas Copco sold all remaining assets available for sale in RSC Holding Inc., which resulted in a capital gain of 350.

“Foreign exchange gain, net” includes foreign exchange gains of 387 (459) on financial assets at fair value through profit and loss and foreign exchange losses of 336 (491) on other liabilities.

See note 27 for additional information.

10. Taxes

Income tax expense	2012	2011
Current taxes	–4 377	–3 902
Deferred taxes	–247	–386
	–4 624	–4 288

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

	2012	2011
Profit before tax	18 538	17 276
Weighted average tax based on national rates	–5 485	–5 095
– in %	29.6	29.5
Tax effect of:		
Non-deductible expenses	–417	–286
Withholding tax on dividends	–117	–514
Tax-exempt income	1 145	1 356
Adjustments from prior years:		
– current taxes	7	216
– deferred taxes	63	32
Effects of tax losses/credits utilized	23	54
Change in tax rate, deferred tax	185	29
Tax losses not valued	–24	–82
Other items	–4	2
Income tax expense	–4 624	–4 288
Effective tax in %	24.9	24.8

The effective tax rate was 24.9% (24.8). Withholding tax on dividends relates to provisions on increased profits in countries where Atlas Copco incurs withholding taxes on repatriation of income. The net from tax issues and disputes in different countries was a positive amount of 7 (216).

Previously unrecognized tax losses/credits and deductible temporary differences, which have been recognized against current tax expense, amounted to 23 (54). No material unrecognized tax losses/credits or temporary difference have been used to reduce deferred tax expense. The decrease in tax rate in Sweden, effective from January 1, 2013, has had a positive impact included in “Change in tax rate, deferred tax” in the table above.

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

Change in deferred taxes	2012	2011
Net balance, Jan. 1	–338	142
Business acquisitions	–44	1
Charges to profit for the year	–247	–386
Tax on amounts recorded to equity	–66	–85
Translation differences	–71	–10
Net balance, Dec. 31	–766	–338

10. Continued

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

Deferred tax assets and liabilities	2012			2011		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	14	790	-776	17	771	-754
Property, plant and equipment	267	559	-292	294	570	-276
Other financial assets	3	207	-204	1	198	-197
Inventories	1 492	6	1 486	1 571	31	1 540
Current receivables	212	195	17	214	192	22
Operating liabilities	534	83	451	545	4	541
Provisions	287	1	286	268	1	267
Post-employment benefits	165	7	158	165	6	159
Borrowings	12	838	-826	11	848	-837
Loss/credit carry forwards	221	-	221	162	-	162
Other items ¹⁾	3	1 290	-1 287	9	974	-965
Deferred tax assets/liabilities	3 210	3 976	-766	3 257	3 595	-338
Netting of assets/liabilities	-2 100	-2 100	-	-2 205	-2 205	-
Net deferred tax balances	1 110	1 876	-766	1 052	1 390	-338

¹⁾ Other items primarily include tax deductions which are not related to specific balance sheet items.

At December 31, the Group had total tax loss carry-forwards of 2 297 (2 377), of which deferred tax assets were not recognized for 1 518 (1 728) as it is not considered probable that future taxable profit will be available from which the Group can utilize the benefits. There is no expiration date for utilization of the major part of the tax losses for which no deferred tax assets have been recorded.

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

	2012	2011
Intangible assets	15	-4
Property, plant and equipment	-21	-84
Other financial assets	-11	21
Inventories	-22	390
Current receivables	-6	-118
Operating liabilities	-54	137
Provisions	34	-20
Post-employment benefits	4	-7
Borrowings	65	96
Other items	-318	-512
Changes due to temporary differences	-314	-101
Loss/credit carry-forwards	67	-285
	-247	-386

Consolidated statement of comprehensive income

Other comprehensive income for the year	2012			2011		
	Before tax	Tax	After Tax	Before tax	Tax	After Tax
Attributable to owners of the parent						
Translation differences on foreign operations	-1 913	-124	-2 037	-332	-54	-386
- realized and reclassified to income statement	-	-	-	-2	-	-2
Hedge of net investments in foreign operations	645	-142	503	93	-25	68
Cash flow hedges	-22	1	-21	68	5	73
Available-for-sale investments	-	-	-	111	-	111
- realized and reclassified to income statement	-	-	-	-351	-	-351
	-1 290	-265	-1 555	-413	-74	-487
Attributable to non-controlling interests						
Translation differences on foreign operations	-4	-	-4	-18	-	-18
	-1 294	-265	-1 559	-431	-74	-505

11. Earnings per share

Amounts in SEK	Basic earnings per share		Diluted earnings per share	
	2012	2011	2012	2011
Earnings per share	11.45	10.68	11.43	10.62

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	2012	2011
Profit for the year	13 901	12 963

Average number of shares outstanding	2012	2011 ¹⁾
Basic weighted average number of shares outstanding	1 213 848 110	1 214 287 007
Effect of employee stock options	1 746 377	2 964 903
Diluted weighted average number of shares outstanding	1 215 594 487	1 217 251 910

¹⁾ The redemption procedure approved by the 2011 Annual General Meeting, whereby every share was split into one ordinary share and one redemption share which was then automatically redeemed, did not have any impact on the weighted average number of shares.

Potentially dilutive instruments

As of December 31, 2012, Atlas Copco had six outstanding employee stock option programs, of which the exercise price for the 2010, 2011 and 2012 programs exceeded the average share price for series A shares, SEK 159 per share. These programs are, therefore, considered anti-dilutive and are not included in the calculation of diluted earnings per share. If the average share price 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.

In 2011, the Group changed from three to four business areas and divisions were split into equipment and aftermarket divisions. Since then, current goodwill is monitored for internal management purposes at business area level. The goodwill has therefore been tested for impairment at business area level.

All businesses acquired in 2012 as well as those in previous years, and their related cash flows, have been integrated with other Atlas Copco operations soon after the acquisition. In instances where the acquired business would not be integrated and hence be monitored separately, the associated goodwill will be tested for impairment separately.

The recoverable amounts of the cash generating units have been calcu-

lated 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 percentage for the period after five years is estimated at 3%. The Group's average weighted cost of capital in 2012 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 following table presents the carrying value of goodwill and trademarks with indefinite useful lives allocated by business area.

Carrying value of goodwill and intangible assets with indefinite useful lives by cash generating unit	2012		2011	
	Trademarks	Goodwill	Trademarks	Goodwill
Compressor Technique	–	2 678	–	2 524
Industrial Technique	–	1 481	103	1 553
Mining and Rock Excavation Technique	–	1 079	–	921
Construction Technique	1 225	4 942	1 225	4 954
Total	1 225	10 180	1 328	9 952

The trademark Dynapac in the Road Construction Equipment division represents a strong trademark that has been used for a long time in its industry. Management's intention is that this trademark will be used indefinitely. The estimated useful life of the trademark Rodcraft in the Chicago Pneumatic Tools division has been reevaluated during 2012 and is no longer considered to be indefinite.

12. Continued

2012	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	3 404	538	61	2 261	1 804	1 472	9 979	19 519
Investments	636	221	–	–	–	63	–	920
Business acquisitions	–	–	3	83	222	107	495	910
Disposals	–72	–68	–1	–4	–1	–29	–	–175
Reclassifications	–8	15	–	–	–	–7	–	–
Translation differences	–80	–14	1	–47	–84	–67	–268	–559
Closing balance, Dec. 31	3 880	692	64	2 293	1 941	1 539	10 206	20 615
Amortization and impairment losses								
Opening balance, Jan. 1	2 091	342	57	280	761	609	27	4 167
Amortization for the period	300	89	2	88	183	144	–	806
Impairment charge for the period	16	–	2	26	7	3	–	54
Business acquisitions	–	–	–	–	–	1	–	1
Disposals	–65	–68	–	–4	–1	–29	–	–167
Reclassifications	6	–4	–5	–	–	12	–	9
Translation differences	–48	–7	1	–15	–34	–30	–1	–134
Closing balance, Dec. 31	2 300	352	57	375	916	710	26	4 736
Carrying amounts								
At Jan. 1	1 313	196	4	1 981	1 043	863	9 952	15 352
At Dec. 31	1 580	340	7	1 918	1 025	829	10 180	15 879

2011	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	2 913	509	66	2 086	1 554	916	8 796	16 840
Investments	492	34	–	–	–	93	–	619
Business acquisitions	–	–	–	175	249	478	1 275	2 177
Divestment of business	–	–	–	–	–	–2	–61	–63
Disposals	–24	–10	–	–1	–9	–11	–	–55
Reclassifications	32	6	–6	–	–	6	–	38
Translation differences	–9	–1	1	1	10	–8	–31	–37
Closing balance, Dec. 31	3 404	538	61	2 261	1 804	1 472	9 979	19 519
Amortization and impairment losses								
Opening balance, Jan. 1	1 688	277	50	216	610	508	27	3 376
Amortization for the period	352	62	13	63	151	107	–	748
Impairment charge for the period	64	3	–	–	–	–	–	67
Divestment of business	–	–	–	–	–	–1	–	–1
Disposals	–15	–8	–	–	–9	–6	–	–38
Reclassifications	10	6	–6	–1	–	2	–	11
Translation differences	–8	2	–	2	9	–1	–	4
Closing balance, Dec. 31	2 091	342	57	280	761	609	27	4 167
Carrying amounts								
At Jan. 1	1 225	232	16	1 870	944	408	8 769	13 464
At Dec. 31	1 313	196	4	1 981	1 043	863	9 952	15 352

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, see notes 1 and 7. See note 2 for information on business acquisitions.

13. Property, plant and equipment

2012	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	4 203	10 191	648	15 042	4 455
Investments	119	829	781	1 729	1 301
Business acquisitions	49	61	–	110	–
Disposals	–23	–386	–	–409	–753
Reclassifications ¹⁾	140	355	–554	–59	–572
Translation differences	–197	–356	–18	–571	–174
Closing balance, Dec. 31	4 291	10 694	857	15 842	4 257
Depreciation and impairment losses					
Opening balance, Jan. 1	1 672	6 832	–	8 504	2 338
Depreciation for the period	181	922	–	1 103	681
Impairment charge for the period	3	17	–	20	–
Business acquisitions	5	22	–	27	–
Disposals	–14	–331	–	–345	–421
Reclassifications ¹⁾	–5	–5	–	–10	–275
Translation differences	–72	–231	–	–303	–96
Closing balance, Dec. 31	1 770	7 226	–	8 996	2 227
Carrying amounts					
At Jan. 1	2 531	3 359	648	6 538	2 117
At Dec. 31	2 521	3 468	857	6 846	2 030

¹⁾ A portfolio of financing and leasing contracts related to Atlas Copco Customer Finance was reclassified to assets held for sale in 2012, see note 3. The net book value of the rental equipment reclassified amounted to 258.

2011	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	3 839	9 600	244	13 683	3 993
Investments	318	986	477	1 781	1 335
Business acquisitions	83	61	–	144	–
Divestment of business	–	–43	–	–43	–
Disposals	–29	–382	–	–411	–857
Reclassifications ¹⁾	–14	9	–80	–85	–
Translation differences	6	–40	7	–27	–16
Closing balance, Dec. 31	4 203	10 191	648	15 042	4 455
Depreciation and impairment losses					
Opening balance, Jan. 1	1 566	6 415	–	7 981	2 150
Depreciation for the period	149	836	–	985	716
Impairment charge for the period	–	6	–	6	–
Divestment of business	–	–34	–	–34	–
Disposals	–22	–329	–	–351	–511
Reclassifications ¹⁾	–23	–32	–	–55	–
Translation differences	2	–30	–	–28	–17
Closing balance, Dec. 31	1 672	6 832	–	8 504	2 338
Carrying amounts					
At Jan. 1	2 273	3 185	244	5 702	1 843
At Dec. 31	2 531	3 359	648	6 538	2 117

¹⁾ In accordance with IFRS 5, fixed assets related to operations in France were reclassified as assets held for sale during the fourth quarter, see note 3 for additional information.

For information regarding depreciation, see notes 1 and 7. See note 22 for information on finance leases.

14. Investments in associated companies

Accumulated capital participation	2012	2011
Opening balance, Jan. 1	124	108
Acquisitions of associated companies	–	1
Dividends	–4	–
Profit for the year after income tax	1	6
Translation differences	–14	9
Closing balance, Dec. 31	107	124

Summary of financial information for associated companies							
	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, % ¹⁾
2012							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	49	5	44	35	–2	25
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	81	42	39	137	6	25
Toku-Hanbai Group	Japan	280	106	174	677	–	50
Reintube S.L.	Spain	6	4	2	13	–	47
2011							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	54	6	48	40	–	25
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	59	23	36	134	9	25
Toku-Hanbai Group	Japan	350	141	209	858	8	50
Reintube S.L.	Spain	6	4	2	7	–	47

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

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

15. Other financial assets

	2012	2011
Non-current		
Pension and other similar benefit assets (note 23)	662	608
Derivatives		
– not designated for hedge accounting	1	3
– designated for hedge accounting	257	281
Available-for-sale investments	2	3
Held-to-maturity investments	182	103
Financial assets classified as loans and receivables		
– finance lease receivables	503	598
– other financial receivables	974	1 117
	2 581	2 713
Current		
Held-to-maturity investments	18	175
Financial assets classified as loans and receivables		
– finance lease receivables	429	465
– other financial receivables	886	1 133
	1 333	1 773

The maturity structure for held-to-maturity investments have changed from current to non-current. Fair value for other financial assets corresponds to carrying value shown in the table above. See note 22 on finance leases and note 27 for information on fair value derivatives, derivatives designated for hedge accounting, and credit risk.

16. Inventories

	2012	2011
Raw materials	608	560
Work in progress	2 840	2 822
Semi-finished goods	4 530	4 693
Finished goods	9 675	9 504
	17 653	17 579

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 527 (349). Reversals of write-downs which were recognized in earnings totaled 146 (157). Previous write-downs have been reversed as a result of improved market conditions in certain markets.

Inventories recognized as expense amounted to 41 823 (38 650). Inventories pledged as security for liabilities amounted to 23 (23), see note 26 for additional information.

17. Trade receivables

Provisions for bad debts, trade	2012	2011
Provisions at Jan. 1	705	659
Business acquisitions	10	26
Provisions recognized for potential losses	417	366
Amounts used for established losses	-199	-215
Release of unnecessary provisions	-130	-124
Change in discounted amounts	-	-4
Translation differences	-36	-3
Provisions at Dec.31	767	705

Trade receivables of 15 960 (16 783) are reported net of provisions for doubtful accounts and other impairments amounting to 767 (705). Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 417 (366).

Fair value for trade receivables corresponds to carrying value stated above. Trade receivables are categorized as loans and receivables. For credit risk information, see note 27.

19. Cash and cash equivalents

	2012	2011
Cash and cash equivalents classified as loans and receivables		
- cash	5 377	2 975
- cash equivalents	7 039	2 741
	12 416	5 716

The increase in cash and cash equivalents was the result of continued profitability. During 2012, cash and cash equivalents had an estimated average effective interest rate of 0.73% (1.47). The committed but unutilized credit facilities equaled 6 390 (15 757).

Fair value for cash and cash equivalents corresponds to carrying value shown in the table above. See note 27 for additional information.

18. Other receivables

	2012	2011
Current		
Derivatives		
- not designated for hedge accounting	180	40
- designated for hedge accounting	20	467
Financial assets classified as loans and receivables		
- other receivables	2 240	2 597
- accrued income	1 336	1 005
Prepaid expenses	787	571
	4 563	4 680

The decrease in value of derivatives designated for hedge accounting is an effect of the weakening of the USD to the EUR and lower interest rates levels.

Other receivables consist primarily of VAT claims and advances to suppliers. Accrued income consists primarily of work in progress. Prepaid expenses include items such as rent, insurance, interest, licenses, premiums, and commissions.

Fair value for other receivables corresponds to carrying value shown in the table above. See note 27 for additional information on fair value derivatives and derivatives designated for hedge accounting.

20. Equity

Shares outstanding	2012			2011		
	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	–	–	–	–824 811 735	–388 682 016	–1 213 493 751
Redemption of shares held by AtlasCopco	–	–	–	–14 582 361	–1 536 992	–16 119 353
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	–15 372 649	–818 280	–16 190 929	–16 687 630	–1 311 446	–17 999 076
Total shares outstanding, Dec. 31	824 021 447	389 400 728	1 213 422 175	822 706 466	388 907 562	1 211 614 028

At December 31, 2012, 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.

Atlas Copco generated significant cash flows during the 2009 financial crisis and also in 2010, resulting in a strong financial position. To adjust the Group's capital structure without jeopardizing the capacity to finance further growth, the 2011 Annual General Meeting (AGM) approved a redemption procedure that was carried out during 2011. The total distribution to the shareholders was SEK 6 067 468 755, taking into account that 16 119 353 shares were held by Atlas Copco AB and thus not eligible for repayment.

Repurchases/ Divestment of shares	Number of shares						Cost value affecting equity	
	2012	AGM mandate 2012	AGM mandate 2011	2011	AGM mandate 2011	AGM mandate 2010	2012	2011
		Apr.–Dec.	Jan.–Mar.		Apr.–Dec.	Jan.–Mar.		
Opening balance, Jan. 1	17 999 076			11 236 873			2 116	1 011
Repurchase of A shares	2 751 525	2 451 525	300 000	9 169 360	3 369 360	5 800 000	477	1 368
Divestment of A shares	–4 066 506	–1 798 487	–2 268 019	–2 006 570	–1 715 809	–290 761	–498	–236
Divestment of B shares	–493 166	–320 599	–172 567	–400 587	–279 427	–121 160	–34	–27
Closing balance, Dec. 31	16 190 929			17 999 076			2 061	2 116
Percentage of shares outstanding	1.3%			1.5%				

The 2012 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on the NASDAQ OMX Stockholm in order to fulfill the obligations under the performance stock option plan or to adapt the capital structure of the Company. The mandate is valid until the next AGM and allows:

- The purchase of not more than 4 550 000 series A shares, whereof a maximum 3 500 000 may be transferred to personnel stock option holders under the performance stock option plan 2012.
- 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 15 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum of 4 700 000 series A shares in order to cover the obligations under the performance stock option plans 2008 and 2009, and the sale of maximum 1 200 000 series B shares to cover the corresponding costs for the plan 2007.

The 2011 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on the NASDAQ OMX Stockholm in order to fulfill the obligations under the performance stock option plan or to adapt the capital structure of the Company. The mandate was valid until the 2012 AGM and allowed:

- The purchase of not more than 4 300 000 series A shares, whereof a maximum 3 420 000 may be transferred to personnel stock option holders under the performance stock option plan 2011.
- 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 70 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 4 700 000 series A shares and maximum 1 500 000 series B shares then held by the company, for the purpose of covering costs of fulfilling obligations related to the performance stock option plans 2006–2009.

Repurchases and sales are subject to market conditions, regulatory restrictions, and the capital structure at any given time. During 2012, 1 314 981 series A shares and 493 166 series B shares were divested, net, in accor-

dance with mandates granted in the 2011 and 2012 AGMs. 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 2007, 2008, 2009, 2010, 2011 and 2012 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.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognized or impaired. See note 27 for information on capital management.

Appropriation of profit

The Board of Directors proposes a dividend of SEK 5.50 (5.00) per share, totaling SEK 6 673 821 963 if shares held by the company on December 31, 2012 are excluded. For further information see appropriation of profit on page 19.

The proposed dividend for 2011 of SEK 5.00 per share, as approved by the AGM on April 27, 2012, was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 6 068 822 070.

21. Borrowings

	Maturity	Repurchased nominal amount	2012		2011	
			Carrying amount	Fair value	Carrying amount	Fair value
Non-current						
Medium Term Note Program MSEK 3 000	2012	MSEK 505	–	–	2 540	2 557
Medium Term Note Program MEUR 600	2014	MEUR 260	3 042	3 173	5 665	6 046
Medium Term Note Program MEUR 500	2019		4 307	4 731	–	–
Capital market borrowings MUSD 800	2017		5 860	6 604	6 273	7 086
Capital market borrowings MUSD 150	2019	MUSD 75	931	1 358	985	1 453
Bilateral borrowings EIB MEUR 213	2014		1 834	1 837	1 903	1 909
Bilateral borrowings EIB MEUR 275	2019		2 369	2 460	–	–
Bilateral borrowings NIB MEUR 100	2015		862	866	894	900
Bilateral borrowings NIB MSEK 705	2016		705	718	705	721
Other bank loans			392	392	452	452
Less current portion of long-term borrowings			–272	–272	–2 664	–2 681
Total non-current loans			20 030	21 867	16 753	18 443
Financial lease liabilities			72	72	66	66
Other financial liabilities			48	48	194	194
			20 150	21 987	17 013	18 703
Current						
Current portion of long-term borrowings			272	272	2 664	2 681
Short term loans			593	593	718	718
Financial lease liabilities			37	37	40	40
			902	902	3 422	3 439
			21 052	22 889	20 435	22 142

The difference between carrying value and fair value is due to that certain liabilities are reported at their amortized cost, and not at fair value. See additional information about the Group's exposure to interest rate risk and foreign currency risk in note 27.

Atlas Copco has a long-term debt rating of A2 (A3) from Moody's Investor Service, Inc. and A (A) from Standard & Poor's Corporation. Other than standard undertakings such as negative pledge and pari passu, the various interest-bearing loans and borrowings do not contain any financial covenants.

The Group's back-up facilities are specified in the table below.

	Nominal amount	Maturity	Utilized
Back-up facilities			
Medium Term Note Program 1, 3)	MUSD 3 000	–	MUSD 1 451
Commercial papers 1, 2)	MSEK 15 977	–	–
Credit-line	MSEK 6 390	2017	–
Equivalent in SEK	MSEK 41 959		MSEK 9 476

1) Interest is based on market conditions at the time when the facility is utilized.

Maturity date is set when the facility is utilized.

2) The maximum amounts available under these programs total MUSD 1 000, MEUR 400 and MSEK 6 000 corresponding to a total of MSEK 15 977 (16 484).

3) Utilized nominal amounts MEUR 600 and MEUR 500, which corresponds to MUSD 1 451.

The Group's short-term and long-term loans are distributed among the currencies detailed in the table below.

Currency	2012			2011		
	Local currency (millions)	MSEK	%	Local currency (millions)	MSEK	%
EUR	1 451	12 502	59	980	8 758	43
SEK	820	820	4	3 278	3 278	16
USD	1 051	6 865	33	1 072	7 406	36
Other	–	865	4	–	993	5
	21 052	100		20 435	100	

The following table shows the maturity structure of the Group's loans and includes the effect of interest rate swaps.

2012 Maturity	Fixed	Floating	Carrying amount	Fair value
2013	–	902	902	902
2014	3 042	1 965	5 007	5 142
2015	–	905	905	910
2016	–	736	736	748
2017	4 395	1 495	5 890	6 633
2018	–	1	1	1
2019	7 607	1	7 608	8 550
2020	–	3	3	3
	15 044	6 008	21 052	22 889

22. Leases

Operating leases – lessee

The leasing costs of assets under operating leases amounted to 803 (716), and are derived primarily from rented premises, machinery, and computer and office equipment. Operating leasing contracts for office and factory facilities typically run for a period of 10 to 15 years. The total leasing cost includes minimum lease payments of 768 (683), contingent rent of 47 (40), and sublease payments received of 12 (7). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2012	2011
Less than one year	588	560
Between one and five years	1 080	1 086
More than five years	218	278
	1 886	1 924

The total of future minimum sublease payments expected to be received was 36 (41).

Finance leases – lessee

Assets utilized under finance leases	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1, 2012	114	12
Carrying amounts, Dec. 31, 2012	119	7
Carrying amounts, Jan. 1, 2011	106	13
Carrying amounts, Dec. 31, 2011	114	12

Assets utilized under finance lease are comprised primarily of vehicles.

Future payments for assets provided under finance leases as lessee will fall due as follows:

	2012			2011		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	43	6	37	48	8	40
Between one and five years	80	10	70	73	8	65
More than five years	2	–	2	1	–	1
	125	16	109	122	16	106

Finance leases – lessor

The Group offers lease financing to customers via Atlas Copco Customer Finance and certain other subsidiaries.

Future lease payments to be received fall due as follows:

	2012		2011	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	451	429	524	465
Between one and five years	534	485	642	565
More than five years	20	18	36	33
	1 005	932	1 202	1 063
Unearned finance income	–	73	–	139
	1 005	1 005	1 202	1 202

Operating leases – lessor

Atlas Copco has equipment which is leased to customers under operating leases. Future payments for non-cancelable operating leasing contracts fall due as follows:

	2012	2011
Less than one year	261	492
Between one and five years	246	420
More than five years	39	17
	546	929

The decrease in operating leases is primarily due to the sale of leasing contracts related to Atlas Copco Customer Finance, see note 3.

23. Employee benefits

Post-employment benefits

The net pension obligations have been recorded in the balance sheets as follows:		
	2012	2011
Financial assets (note 15)	-662	-608
Post-employment benefits	1 401	1 504
Other provisions (note 25)	85	76
Total, net	824	972

Atlas Copco provides post-employment defined benefit pensions and benefits in most of its major locations. The most significant countries in terms of size of plans are Belgium, Canada, Germany, Sweden, the United Kingdom and the United States. Some plans are funded in advance with certain assets or funds held separately from the Group for future benefit payment obligations. Other plans are unfunded and the benefits from those plans are paid by the Group as they fall due.

The plans in Belgium cover early retirement, jubilee, and termination indemnity. All of the plans are unfunded.

In Canada, Atlas Copco provides a pension plan and a supplemental retirement pension benefit plan for executives. Both plans are funded. There are also two unfunded plans, a post-retirement benefit plan and a post-employment plan.

The German plans include those for pensions, early retirements and jubilee. All German plans are unfunded.

There are three defined benefit pension plans in Sweden. The ITP plan is a final salary pension plan covering the majority of white collar employees in Sweden. Atlas Copco finances the benefits through a pension foundation. The second plan relates to a group of employees earning more than ten income base amounts that has opted out from the ITP plan. This plan is insured. The third defined benefit pension plan relates to former senior

employees now retired. In Sweden, in addition to benefits relating to retirement pensions, Atlas Copco has obligations for family pensions for many of the Swedish employees, which are funded through a third party insurer, Alecta. This plan is accounted for as a defined contribution plan as sufficient information is not available for calculating the net pension obligation.

There is a final salary pension plan in the United Kingdom. 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 tables below show the Group's benefit obligations, the assumptions used to determine these obligations and the assets relating to the benefit obligations, as well as the amounts recognized in the income statements and the balance sheets.

The provision for post-employment benefits amounted to 813 (955). The decrease of 142 is primarily due to that the increase of defined benefit obligations are offset by an increase in unrecognized actuarial losses and minor increase in plan assets. The increase in defined benefit obligations is mainly due to lower discount rates used in 2012 compared to the discount rates used in 2011. The unrecognized actuarial losses increased with 440 to 1 209 (769) primarily due to the decrease in discount rates.

The actual return on plan assets totaled 256 (543). Return on plan assets for the Group was overall in line with expectations, with higher than expected returns in the United States, Sweden, Switzerland and Canada being offset by lower return on investments in the United Kingdom.

The total benefit expense for defined benefit plans amounted to 274 (291), whereof 204 (181) has been charged to operating expenses and 70 (110) to financial expenses.

Post-employment benefits				
	Funded pension plans	Unfunded pension plan	Other unfunded plans	Total
2012				
Present value of defined benefit obligations	5 912	1 543	235	7 690
Fair value of plan assets	-5 659	-	-	-5 659
Present value of net obligations	253	1 543	235	2 031
Unrecognized past service cost	-3	-6	-	-9
Unrecognized actuarial gains (+) / losses (-)	-940	-309	40	-1 209
Recognized liability for defined benefit obligations	-690	1 228	275	813
Other long-term service liabilities	-	-	11	11
Net amount recognized in balance sheet	-690	1 228	286	824
2011				
Present value of defined benefit obligations	5 640	1 424	221	7 285
Fair value of plan assets	-5 553	-	-	-5 553
Present value of net obligations	87	1 424	221	1 732
Unrecognized past service cost	-1	-7	-	-8
Unrecognized actuarial gains (+) / losses (-)	-728	-101	60	-769
Recognized liability for defined benefit obligations	-642	1 316	281	955
Other long-term service liabilities	-	-	17	17
Net amount recognized in balance sheet	-642	1 316	298	972

23. Continued

Movement in plan assets	2012	2011
Fair value of plan assets at Jan. 1	5 553	5 078
Expected return on plan assets	243	211
Difference between expected and actual return on plan assets	13	332
Settlements	-32	-82
Employer contributions	191	358
Plan members contributions	16	16
Benefits paid by the plan	-205	-407
Translation differences	-120	47
Fair value of plan assets at Dec. 31	5 659	5 553

Plan assets consist of the following:	2012	2011
Equity securities	669	657
Bonds	2 740	3 466
Other	1 968	1 167
Cash	282	263
	5 659	5 553

The plan assets are allocated among the following geographic areas:	2012	2011
Europe	4 042	3 990
North America	1 566	1 520
Rest of the world	51	43
	5 659	5 553

Plan assets include 12 (11) of Atlas Copco AB series B shares. Plan assets do not include any property which is occupied by members of the Group.

Movement in present value of the obligations for defined benefits	2012	2011
Defined benefit obligations at Jan. 1	7 285	6 742
Service cost	171	155
Interest expense	313	321
Actuarial experience gains (-) / losses (+)	106	-18
Actuarial assumptions gains (-) / losses (+)	416	544
Business acquisitions/ divestments	23	-2
Settlements	-33	-81
Benefits paid from plan or company assets	-399	-407
Other	1	-1
Translation differences	-193	32
Defined benefit obligations at Dec. 31	7 690	7 285

The defined benefit obligations for employee benefits are comprised of plans in the following geographic areas:	2012	2011
Europe	5 626	5 412
North America	1 900	1 743
Rest of the world	164	130
	7 690	7 285

Expenses recognized in the income statement	2012	2011
Service cost	171	155
Interest expense	313	321
Expected return on plan assets	-243	-211
Employee contribution	-16	-16
Past service cost	-1	1
Amortization of unrecognized actuarial loss	45	18
Settlement/curtailment	5	23
	274	291

The expenses are recognized in the following line items in the income statement:	2012	2011
Cost of sales	78	66
Marketing expenses	53	44
Administrative expenses	48	55
Research and development expenses	25	16
Financial expenses (note 9)	70	110
	274	291

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages, in %)	2012	2011
Discount rate		
Europe	3.64	4.19
North America	3.92	4.88
Expected return on plan assets		
Europe	3.80	4.58
North America	3.30	4.85
Future salary increases		
Europe	2.84	2.91
North America	3.51	3.51
Medical cost trend rate		
North America	9.00	9.00
Future pension increases		
Europe	1.98	2.28
North America	0.38	0.34

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.

The expected return on plan assets is based on yields for government bonds with the addition of an equity risk premium in respect of equity related instruments. The assumption also reflects the allocation of assets for the respective plans as well as the particular yields for the respective country or region.

Expected salary increase is in most countries based on a real salary increase of 1% plus inflation. Although the absolute rate of earnings increase granted from year to year may appear volatile, over the longer term a higher degree of stability is seen when increases are expressed in real terms.

23. Continued

Assumed healthcare cost trend rates have a significant effect on the amounts recognized in profit and loss for post-employment medical plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

Medical cost trend rate	One percentage point increase	One percentage point decrease
Effect on aggregate service cost, in %	11.50	-9.90
Effect on defined benefit obligation, in %	7.90	-6.80

Historical information	2012	2011	2010	2009	2008
Present value of defined benefit obligations	7 690	7 285	6 725	6 695	6 741
Fair value of plan assets	5 659	5 553	5 064	4 852	4 863
Present value of net obligations	2 031	1 732	1 661	1 843	1 878

Experience adjustments relating to:	2012	2011	2010	2009	2008
Plan assets	13	332	289	-152	-293
Plan liabilities	106	-18	125	-56	-33

The Group expects to pay 308 (270) in contributions to defined benefit plans in 2013. Expenses related to defined contribution plans amounted to 677 (585).

Share value based incentive programs

In 2007, 2008, 2009, 2010 and 2011, the Annual General Meeting decided on performance based personnel stock option programs based on a proposal from the Board reflecting an option program for the respective years. In 2012, the Annual General Meeting decided on a performance based personnel stock option program for 2012 similar to the 2007, 2008, 2009, 2010 and 2011 programs.

Option programs 2007–2012

At the Annual General Meeting 2007, 2008, 2009, 2010, 2011 and 2012 respectively, it was decided to implement performance related personnel stock option programs. The decision to grant options was made in May/June each year and the options were issued in March the following year (issue date). The number of options issued each program year depended on the value creation in the Group, measured as Economic Value Added (EVA), for the respective program year. For the 2012 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 issued 2007–2008 remain the property of the employee also if the employment is terminated. For the 2009, 2010, 2011 and 2012 programs the options remain the property of the employee only to the extent that they are exercisable at the time employment is terminated. The 2007–2009 programs have a term of five years from the issue date and the options are not transferable. The 2010, 2011 and 2012 programs have a term of five years from the grant date and the options are not transferable. The options in the

programs 2007–2009 are exercisable at a rate of one third per year, starting one year after the issue date. The options in the 2010, 2011 and 2012 programs become exercisable at 100% three years after grant.

The 2010, 2011 and 2012 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. In the 2011 and 2012 programs there is also a choice to deposit privately owned shares as an alternative to purchase shares. 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 or deposited (2011 and 2012 programs) 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 2008–2012 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. Since the issue date for the 2012 program will be in March 2013, the fair value has been simulated through a Monte Carlo model of what it may be established at in March 2013. For the programs in 2012 and 2011, the fair value of the options/SARs was based on the following assumptions:

Key assumptions	2012 Program (Dec. 31, 2012)	2011 Program (at issue date)
Expected exercise price	SEK 197/134 ¹⁾	SEK 184/125 ^{1) 2)}
Expected volatility	35%	35%
Expected options life (years)	3.05	3.05
Expected share price	SEK 179.10	SEK 157.50
Expected dividend (growth)	SEK 5.50 (10%)	SEK 5.00 (10%)
Risk free interest rate	0.80%	1.20%
Expected average grant value	SEK 28.30/50.34 ¹⁾	SEK 22.47/41.23 ^{1) 2)}
Maximum number of options	4 385 494	3 464 760
– of which forfeited	166 094	198 432
Number of matching shares	43 646	39 495

¹⁾ Matching shares for senior executives. ²⁾ Actual.

The expected volatility has been determined by analyzing the historic development of the Atlas Copco A share price as well as other shares on the stock market.

When determining the expected option life, assumptions have been made regarding the expected exercising behavior of different categories of optionees.

For stock options in the 2007–2008 programs, the fair value is recognized as an expense over the period May through March the following year, while for the stock options in the 2009 program, the fair value is recognized as an expense over the period June 2009 through March 2013. For the stock options in the 2010 program, the fair value is recognized as an expense over the period June 2010 through April 2013. For the stock options in the 2011 program, the fair value is recognized as an expense over the period June 2011 through April 2014. For the stock options in the 2012 program, the fair value is recognized as an expense over the period June 2012 through April 2015. For the 2012 program, a new valuation of the fair value has been made and will be made at each reporting date until the issue date.

Timeline 2012 option plan

Annual General Meeting	Information of grant	Senior executives own investments	Exercise price set	Issue of options	Plan expires
Apr. 2012	Jun. 2012	Nov. 2012	Feb. 2013	Mar. 2013	May 1, 2017
<i>Vesting period</i>				<i>Options and matching shares exercisable</i>	

23. 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 2012 for all share-based incentive programs amounted to 184 (15) excluding social costs of which 50 (34) refers to equity-settled options. The related costs for social security

contributions are accounted for in accordance with the statement from the Swedish Financial Reporting Board (UFR 7) and are classified as personnel expenses.

In the balance sheet, the provision for share appreciation rights and stock options classified as cash-settled as of December 31 amounted to 223 (191). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2007–2012, 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							
2006	183	3 297 784	Mar. 30, 12	107.83	A	32.78	–
2007	177	3 222 149	Mar. 30, 13	101.94	A	132.50	–
2008	198	3 570 079	Mar. 20, 14	68.93	A	22.32	–
2009	222	3 902 878	Mar. 20, 15	104.86	A	28.59	–
2010	221	3 796 922	Apr. 30, 15	166.99	A	28.32	–
2011	224	2 735 804	Apr. 30, 16	184.00	A	22.47	–
Matching shares							
2010	21	38 334	Apr. 30, 15	113.59	A	53.40	–
2011	20	39 495	Apr. 30, 16	125.00	A	41.23	–
Share appreciation rights							
2006	36	559 608	Mar. 30, 12	107.83	A	–	70.47
2007	38	589 966	Mar. 30, 13	101.94	A	–	76.36
2008	41	635 348	Mar. 20, 14	68.93	A	–	109.37
2009	47	741 240	Mar. 20, 15	104.86	A	–	73.44
2010	49	756 351	Apr. 30, 15	166.99	A	–	11.31
2011	48	530 524	Apr. 30, 16	184.00	A	–	–5.70

Number of options/rights 2012								
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								
2006	893 092	–	771 949	121 143	–	–	–	168
2007	1 813 790	–	1 370 688	–	443 102	443 102	3	167
2008 ¹⁾	2 635 218	–	1 279 344	–	1 355 874	1 355 874	15	165
2009 ²⁾	1 573 712	–	359 368	13 614	1 200 730	658 419	27	166
2010 ³⁾	3 615 378	–	–	90 763	3 524 615	–	28	–
2011 ⁴⁾	2 735 804	–	–	32 481	2 703 323	–	40	–
Matching shares								
2010	31 344	–	–	3 564	27 780	–	28	–
2011	39 495	–	–	–	39 495	–	40	–
Share appreciation rights								
2006	82 746	–	82 746	–	–	–	–	169
2007	211 146	–	158 138	–	53 008	53 008	3	168
2008	395 834	–	224 432	–	171 402	171 402	15	167
2009	292 703	–	60 725	–	231 978	125 333	27	167
2010	756 351	–	–	–	756 351	–	28	–
2011	530 524	–	–	10 827	519 697	–	40	–

All numbers have been adjusted for the effect of share split in 2007 and the redemption in 2011 in line with the method used by NASDAQ OMX Stockholm to adjust exchange-traded options contracts.

¹⁾ Of which 537 668 have been accounted for as cash settled.

²⁾ Of which 483 850 have been accounted for as cash settled.

³⁾ Of which 1 361 447 have been accounted for as cash settled.

⁴⁾ Of which 1 068 439 have been accounted for as cash settled.

23. Continued

Number of options/rights 2011								
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								
2006	1 770 105	-	861 886	15 127	893 092	893 092	3	157
2007	2 396 100	-	582 310	-	1 813 790	1 813 790	15	155
2008	2 980 107	-	344 889	-	2 635 218	1 520 906	27	158
2009	1 738 083	-	103 106	61 265	1 573 712	470 955	39	160
2010	3 796 922	-	-	181 544	3 615 378	-	40	-
2011	-	2 735 804	-	-	2 735 804	-	52	-
Matching shares								
2010	38 334	-	-	6 990	31 344	-	40	-
2011	-	39 495	-	-	39 495	-	52	-
Share appreciation rights								
2006	171 216	-	88 470	-	82 746	82 746	3	156
2007	371 657	-	160 511	-	211 146	211 146	15	160
2008	505 142	-	109 308	-	395 834	199 195	27	150
2009	324 468	-	27 227	4 538	292 703	79 415	39	163
2010	756 351	-	-	-	756 351	-	40	-
2011	-	530 524	-	-	530 524	-	52	-

All numbers have been adjusted for the effect of share split in 2007 and the redemption in 2011 in line with the method used by NASDAQ OMX Stockholm to adjust exchange-traded options contracts.

24. Other liabilities

	2012	2011
Current		
Derivatives		
- not designated for hedge accounting	40	224
- designated for hedge accounting	741	370
Other financial liabilities		
- other liabilities	2 320	2 315
- accrued expenses	4 900	4 769
Advances from customers	2 429	2 724
Prepaid income	63	54
Deferred revenues service contracts	569	539
	11 062	10 995

Accrued expenses and prepaid income include items such as social costs, vacation pay liability, accrued interest, and accrued operational expenses.

Fair value for other liabilities corresponds to carrying value shown in the table above. See note 27 for information on the Group's derivatives.

25. Provisions

2012	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	938	156	783	1 877
During the year				
– provisions made	988	117	311	1 416
– provisions used	–839	–89	–163	–1 091
– provisions reversed	–134	–31	–37	–202
Business acquisitions	12	–	5	17
Translation differences	–40	–3	–32	–75
Closing balance, Dec. 31	925	150	867	1 942
Non-current	107	35	609	751
Current	818	115	258	1 191
	925	150	867	1 942

2012, Maturity	Product warranty	Restructuring	Other	Total provisions
Less than one year	818	115	258	1 191
Between one and five years	106	14	522	642
More than five years	1	21	87	109
	925	150	867	1 942

2011	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	906	84	1 140	2 130
During the year				
– provisions made	854	108	204	1 166
– provisions used	–715	–32	–406	–1 153
– provisions reversed	–118	–4	–137	–259
Business acquisitions	13	–	–	13
Translation differences	–2	–	–18	–20
Closing balance, Dec. 31	938	156	783	1 877
Non-current	84	39	548	671
Current	854	117	235	1 206
	938	156	783	1 877

Other provisions consist primarily of amounts related to share-based payments including social fees, jubilee benefits (see note 23), and environmental remediation obligations.

26. Assets pledged and contingent liabilities

	2012	2011
Assets pledged for debts to credit institutions and other commitments		
Inventory and tangible fixed assets	32	36
Endowment insurances	55	55
Other receivables	38	–
	125	91

	2012	2011
Contingent liabilities		
Notes discounted	7	16
Sureties and other contingent liabilities	155	97
	162	113

Sureties and other contingent liabilities relate primarily to pension commitments and commitments related to customer claims and various legal matters.

27. Financial exposure and principles for control of financial risks

Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled 56 130 (49 211). The Group's policy is to have an adequate capital structure to maintain investor, creditor and market confidence and to support future development of the business. The Board's opinion is that the dividend over a business cycle should correspond to about 50% of earnings per share. In recent years, the Board has also proposed, and the Annual General Meeting has approved, distributions of "excess" equity to the shareholders through share redemptions and share repurchases.

There are no external capital requirements imposed on the Group.

Financial risks

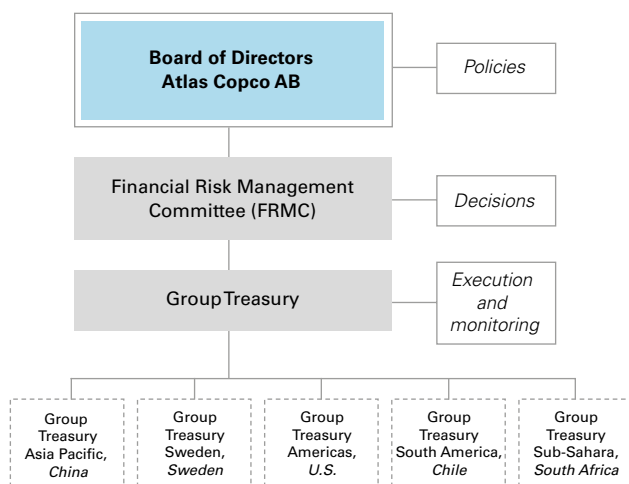
The Group is exposed to various financial risks in its operations.

These financial risks include:

- Funding and liquidity risk
- Interest rate risk
- Currency risk
- Credit risk
- Other market and price risks

The Group's Financial Risk Management Committee (FRMC) establishes the overall policies and systems to ensure the monitoring and management of the Group's financial risks. The members of the FRMC are the CEO, CFO, Group Treasurer, and Head of Treasury Control. The FRMC meets on a quarterly basis or more often if circumstances require.

Group Treasury has the operational responsibility for financial risk management in the Group. Group Treasury 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.



The following table shows maturity structure of the Group's financial assets and liabilities. The figures shown are contractual undiscounted cash flows based on contracted date, when the Group is liable to pay or eligible to receive, and includes both interest and nominal amounts.

Financial Instruments	up to 1 year	1-5 years	Over 5 years
Assets			
Financial assets	–	1 634	76
Other receivables	–	38	–
Derivatives	61	213	–
Non-current financial assets	61	1 885	76
Trade receivables	15 960	–	–
Financial assets	1 372	–	–
Other receivables	1 869	–	–
Derivatives	200	–	–
Other accrued income	1 336	–	–
Cash and cash equivalents	12 416	–	–
Current financial assets	33 153	–	–
Financial assets	33 214	1 885	76
Liabilities			
Liabilities to credit institutions	680	14 585	8 045
Other financial liabilities	–	48	–
Derivatives	23	128	23
Other liabilities	–	113	–
Non-current financial liabilities	703	14 874	8 068
Liabilities to credit institutions	636	–	–
Current portion of interest-bearing liabilities	272	–	–
Derivatives	781	–	–
Other accrued expenses	4 900	–	–
Trade payables	6 700	–	–
Other liabilities	2 320	–	–
Current financial liabilities	15 609	–	–
Financial liabilities	16 312	14 874	8 068

Derivatives classified as assets dedicated for hedge accounting amount to 277 (748) and derivatives classified as liabilities classified for hedge accounting amount to 808 (370). Other derivatives are classified as held for trading.

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.

Group funding risk policy

- The Group should maintain a minimum of MSEK 6 000 committed credit facilities to meet operational, strategic and rating objectives. Actual amount at year-end is 6 390 (15 757).
- The average tenor (i.e. time until maturity) of the external debt should be at least 3 years. Actual tenor at year-end is 4.3 years (3.4).
- No more than MSEK 5 000 of Atlas Copco AB's external debt may mature within the next 12 months. No external debt is maturing within the next twelve months (2 513).
- Adequate funding at subsidiary level shall at all times be in place.
- The market liquidity should be considered before entering into any financial transaction.

Status at year-end

As per December 31, there were no deviations from the Group funding risk policy. Cash and cash equivalents totaled 12 416 (5 716). 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.

27. Continued

Interest rate risk

Interest rate risk is the risk that the Group is negatively affected by changes in the interest rate level.

Group interest rate risk policy

The interest rate risk policy states that the average duration (i.e. period for which interest rates are fixed) should be a minimum of 6 months (6) and a maximum of 48 months (36).

Status at year-end

To manage interest rate risk, the Group uses interest rate swap agreements to convert interest on loans. The Group has entered into interest rate swaps to convert fixed interest rates to variable interest rates. These swaps are designated as fair value hedging instruments, with a nominal amount of MUSD 200 (unchanged from previous year). During 2012, the Group has also entered into interest rate swaps to convert variable interest rates to fixed interest rates on the loan of MEUR 275 which was drawn in September 2012 (for more information about loans, see note 21). These swaps are designated as cash-flow hedging instruments.

Including the effect of the derivatives, the effective interest rate and interest duration of the Group's borrowings at year-end was 2.8% (2.9) and 41 months (28) respectively. Excluding any derivatives, the Group's effective interest rate was 3.7% (4.7) and the average interest duration was 33 months (31).

Outstanding derivative instruments related to interest rate risk	2012		2011	
	Fair value	Nominal amount	Fair value	Nominal amount
Interest rate swaps, fair value hedge				
Assets	MSEK 257	MUSD 200	MSEK 281	MUSD 200
Liabilities	-	-	-	-
Interest rate swaps, cash-flow hedge				
Assets	-	-	-	-
Liabilities	MSEK 68	MEUR 275	-	-

The following tables show the estimated effect, in MSEK, of a parallel upward and downward shift of one percentage point (100 basis points) in all interest rates on external loans and on interest rate swaps hedging the loans.

The first table shows the estimated effect on the profit and loss before taxes. The second table shows the fair value effect on loans and interest rate swaps reported at fair value. Certain loans are reported at their amortized cost and are therefore not affected by changes in interest rate levels. For the interest rate swaps classified as cash flow hedges, the fair value effect is recognized in other comprehensive income in cases where the asset or liability is identified for hedge accounting.

Interest sensitivity, earnings	2012		2011	
	Earnings impact	Earnings impact	Earnings impact	Earnings impact
Market interest rate +1 %	-51		-44	
Market interest rate -1 %	51		46	

Fair value interest sensitivity	2012		2011	
	Earnings impact	OCI impact	Earnings impact	OCI impact
Market interest rate +1 %	4	146	3	-
Market interest rate -1 %	-4	-158	-3	-

Currency risk

The Group is present in various geographical markets and undertakes transactions denominated in foreign currencies and consequently, exposures to exchange rate fluctuations arise. This affects both transaction exposure (flow) and translation exposure (balance sheet). These two different exposures are explained separately below.

Transaction exposure

Group currency risk policy

Transaction exposure risk is the risk that profitability is negatively affected by changes in exchange rates, affecting flows in foreign currencies in the operations. Due to the Group's presence in various markets, there are

inflows and outflows in different currencies. As a normal part of business, net surpluses or deficits in specific currencies are created. The value of these net positions fluctuates with the changes in currency rates and, thus, a transaction exposure is created. The following describes the Group's general policies for managing transaction exposure:

- Exposures should 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 positive or negative effect on the Group's results over the long term, the policy does not recommend transaction exposures to be hedged on an ongoing basis. Business areas and divisions should normally not hedge currency risks. Hedging can, however, be motivated in case of long-term contracts where there is no possibility to adjust the contract price or the associated costs.
- The FRMC can from time to time decide if parts of the transaction exposure should be hedged. Transactions shall qualify for hedge accounting in accordance with IFRS and hedging beyond 18 months is not allowed.

Status at year-end

The Group has continued to manage transaction exposures primarily by matching in- and outflows in the same currencies. Derivative instruments have only been used to a limited extent to hedge operational flows and have primarily been used to hedge transactions in Australian dollars. The nominal outstanding amount in Australian dollar is 176 (126). The hedge ratio at December 31 was 6.8% (7.1). The fair value of the outstanding foreign currency forward contracts at December 31 was 18 (-45).

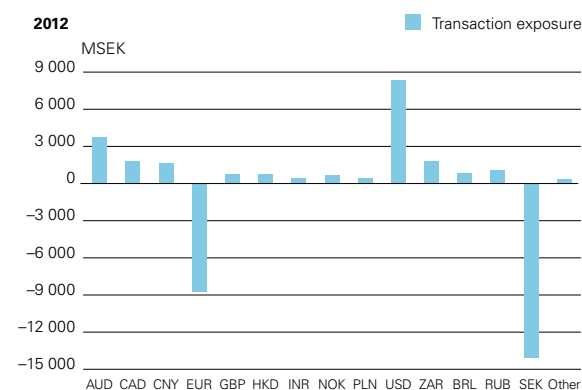
In addition, the Group has foreign exchange forward contracts, to a limited extent, hedging transaction exposure in other currencies than AUD. The Group has bought currencies to a nominal amount of 389 (290) and sold currencies to a nominal amount of 399 (285). These nominal amounts have been translated to SEK from the original currency with the year-end exchange rate. In the table below, fair value for all outstanding derivative instruments related to transaction exposure is shown.

Outstanding derivative instruments related to transaction exposure	2012		2011	
	Fair value	Fair value	Fair value	Fair value
Foreign exchange forwards				
Assets	32		7	
Liabilities	4		49	

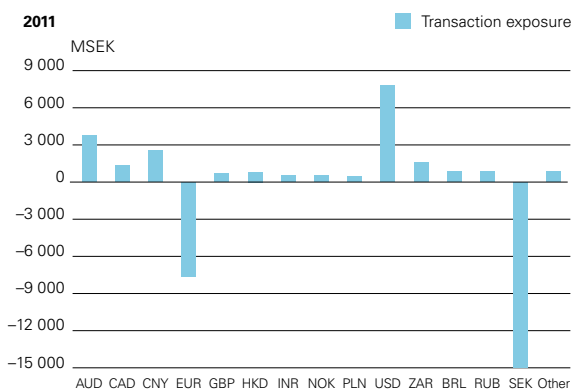
The Group also has a MUSD 700 forward contract to hedge an intercompany loan. At December 31, the fair value of the forward contract of -351 (-325) was accounted for through other comprehensive income. The cash flows related to the repayment of the loan and the maturity of the forward contract will occur in 2013.

The largest operational surplus and deficit currencies are shown in Graph 1. The amounts presented in Graph 1 represent the estimate of the net amounts the Group has to exchange in different currencies. The estimates are based on the Group's intercompany payments and on payment flows from customers and to suppliers in the most significant currencies. The operational transaction exposure in MSEK is 14 054 (14 986) and is calculated as the net operational exposed flows.

Graph 1: Estimated operational transaction exposure in the Group's most important currencies 2012 and 2011



27. Continued

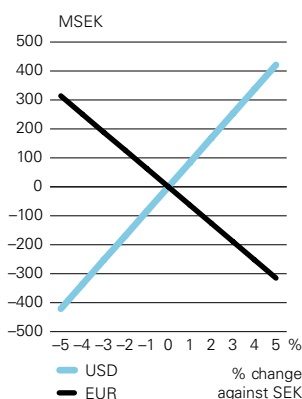


The following table illustrates the effect that one percentage point weakening or strengthening of the SEK against all other currencies would have on the transaction exposure.

Transaction exposure sensitivity	2012	2011
Currency rate +1 %	-133	-131
Currency rate -1 %	133	130

Graph 2 illustrates the effect on the Group pre-tax earnings of one-sided fluctuations in USD and EUR exchange rates if no hedging transactions have been undertaken, and before any impact of offsetting price adjustments or similar measures. The graph indicates e.g. that the Group's pre-tax earnings of estimated net USD flows would decrease by approximately 420 (400) if the USD would weaken by 5%.

Graph 2
Operational transaction exposure effect of EUR and USD before hedging



Translation exposure

Group currency risk policy

Translation exposure risk is the risk that the value of the Group's net investments in foreign currencies is negatively affected by changes in exchange rates. The Group's worldwide presence creates a currency effect since the financial statements of entities with functional currencies other than SEK are translated to SEK when preparing the consolidated financial statements. The exposure is the net of assets and liabilities denominated in the specific currency. The effect of currency rate fluctuation on these net positions is the translation effect.

The following describes the Group's general policies for managing translation exposure:

- Translation exposure should be reduced by matching assets and liabilities in the same currencies.
- The FRMC may decide to hedge part or all of the remaining translation exposure. Any hedge of translation exposure shall qualify for hedge accounting in accordance with IFRS.

Status at year-end

The Group uses loans and derivatives to reduce the translation exposure on net investments in USD and EUR in the consolidated financial statements and to reduce the exchange rate risk related to net assets in subsidiaries. These instruments are designated as net investment hedges in the consolidated financial statements.

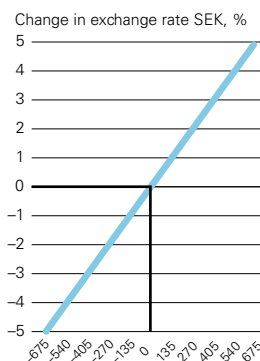
The Group has a cross currency swap to convert an underlying MUSD 800 loan to a EUR liability. Including the MUSD 800 loan converted to EUR, the external loans used to hedge EUR-denominated net assets amount to MEUR 2 080 (1 473). As of December 31, the change in fair value of the EUR-denominated hedging instruments was -98 (290), of which the currency effect was 554 (685). The Group also uses loans totaling MUSD 58 (58) to hedge the corresponding net assets in USD. The fair value of the USD-denominated hedging instruments as of December 31, 2012 was -72 (-111).

Outstanding derivative instruments related to translation exposure	2012		2011	
	Fair value	Nominal amount	Fair value	Nominal amount
Cross currency swap				
Assets	-		MSEK 467	MUSD 800
Liabilities	MSEK 389	MUSD 800	-	-

The Group's loan portfolio is also exposed to movement in currency rates. Although the impact on the net income would be very limited as substantially all of the Group's loans are designated as hedges of net investments and the effect is accounted for in other comprehensive income (see also note 1, Accounting principles, Financial assets and liabilities).

Graph 3 indicates the Group's sensitivity to currency translation effects when earnings of foreign subsidiaries are translated. The graph indicates e.g. that the translation effect on the Group's pretax earnings would be 135 (135) if SEK strengthen by 1%. A SEK weakening by 1% would affect the the Group's pretax earnings by -135 (-135).

Graph 3
Translation effect on earnings before tax



Credit risk

Credit risk can be divided into operational and financial credit risk. These risks are described further in the following sections. The table below shows the total exposure related to financial assets as at December 31.

Credit risk	2012	2011
Loans and receivables		
- trade receivables	15 998	16 877
- finance lease receivables	932	1 063
- other financial receivables	1 860	2 250
- other receivables	1 870	2 115
- accrued income	1 336	1 005
- cash and cash equivalents	12 416	5 716
Held to maturity investments	200	278
Available-for-sale assets	2	3
Derivatives	458	791
	35 072	30 098

27. Continued

Operational credit risk

Group credit risk policy

Operational credit risk is the risk that the Group's customers will not meet their payment obligations. The Group's operational credit risk policy is that business areas, divisions and individual business units are responsible for the commercial risks arising from their operations. The operational credit risk is measured as the net aggregate value of receivables on a customer.

Status at year end

Since the Group's sales are dispersed among thousands of customers, of which 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.

The Group has an in-house customer finance operation (Atlas Copco Customer Finance) as a means of supporting equipment sales. At December 31, the credit portfolio of their customer finance operations totaled approximately 2 672 (3 233) consisting of 83 (127) reported as trade receivables, 917 (1 062) reported as financial lease receivables, and 1 672 (2 044) reported as other financial receivables. In addition, Atlas Copco Customer Finance also has non-cancelable operating lease contracts of 317 (682). There were no significant concentrations of customer risks in these operations. No customer represented more than 5% of the total outstanding receivables. For further information, see note 22.

Atlas Copco Customer Finance maintains collateral for its credit portfolio primarily through repossession rights in equipment. Business units may also, partly, transfer the commercial risk insurance to external entities (normally to an export credit agency).

Provision for impairment of credit risks

The business units establish provisions for impairment that represent their estimate of incurred losses in respect of trade and other receivables. The main components of this provision are specific loss provisions corresponding to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have not yet been identified. The collective loss provision is determined based on historical data of default statistics for similar financial assets. At year-end 2012, the provision for bad debt amounted to 4.6% (4.0) of gross total customer receivables. The following table presents the gross value of trade receivables by ageing category together with the related impairment provisions.

Trade receivables	2012		2011	
	Gross	Impairment	Gross	Impairment
Not past due	11 057	15	12 207	20
Past due but not impaired				
0–30 days	2 617	–	2 697	–
31–60 days	831	–	824	–
61–90 days	432	–	386	–
More than 90 days	1 288	–	1 057	–
Past due and individually impaired				
0–30 days	120	2	84	4
31–60 days	37	3	37	4
61–90 days	22	3	17	7
More than 90 days	361	267	273	239
Collective impairment	–	477	–	431
	16 765	767	17 582	705

The total estimated fair value of collateral for trade receivables amounted to 692 (735). Approximately 50% of collateral consisted of repossession rights and 50% of export credit insurance. Based on historical default statistics and the diversified customer base, the credit risk is assessed to be limited.

The gross amount of finance lease receivables amounted to 944 (1 075), of which 12 (12) have been impaired and the gross amount of other financial receivables amounted to 1 908 (2 299), of which 48 (49) have been impaired. There are no significant amounts past due that are not impaired. The total estimated fair value of collateral to finance lease receivables and other finance receivables was 485 (680) and 1 091 (1 635), respectively, consisting primarily of repossession rights.

Financial credit risk

Group credit risk policy

Credit risk on financial transactions is the risk that the Group incurs losses as a result of non-payment by counterparties related to the Group's investments, bank deposits or derivative transactions. The financial credit risk is measured differently depending on the transaction type.

Investment transactions

Efficient cash management systems should be maintained in order to minimize excess cash in operations where it cannot be invested or used to reduce interest-bearing debt. Cash may only be invested if at least one of the credit ratings (as rated by Standard & Poor's or Moody's) of the approved counterparty or underlying investment is at least A-/A3 in case of financial counterparties, funds or sovereigns and BBB-/Baa3 in case of non-financial counterparties. Investments in structured financial derivatives are not allowed even if they meet the rating criteria, unless approved by the FRMC. Other criteria which are considered when investing include limiting the exposure with any single counterparty, the tenor, and liquidity of the investment. A list of approved counterparties with a maximum exposure limit for each counterparty is maintained and monitored.

Derivative transactions

As part of the Group's management of financial risks, the Group enters into derivative transactions with financial counterparties. Such transactions may only be undertaken with approved counterparties for which credit limits have been established and with which ISDA (International Swaps and Derivatives Association) master agreements are in force. Derivative transactions may only be entered into by Group Treasury or in rare cases by another entity, but only after the approval of 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

During 2012 Atlas Copco has entered into CSA agreements (Credit Support Annex) with most of the Group's main banking partners in order to reduce credit risks in derivative transactions.

At year-end 2012, the measured credit risk on derivatives, taking into account the nominal value of the transaction, a time add-on, and the market value (if positive for Atlas Copco), amounted to 400 (796).

The table below presents the Group's total holdings in derivatives.

Outstanding derivative instruments related to financial exposures	2012	2011
	Cross currency swaps	
Assets	–	467
Liabilities	389	–
Interest rate swaps		
Assets	258	283
Liabilities	84	10
Foreign exchange forwards		
Assets	168	34
Liabilities	387	536
Outstanding derivative instruments related to operational exposures	2012	2011
Assets	32	7
Liabilities	4	49

Other market and price risks

Commodity-price risk is the risk that the cost of direct and indirect materials could increase as underlying commodity prices rise in global markets. The Group is directly and indirectly exposed to raw material price fluctuations. Cost increases for raw materials and components often coincide with strong end-customer demand and are offset by increased sales to mining customers and compensated for by increased market prices. Therefore, the Group does not hedge commodity-price risks.

Fair value of financial instruments

In Atlas Copco's balance sheet, financial instruments are carried at fair value or at amortized cost. According to IFRS 7 Financial Instruments: Disclosures, fair value is established according to a fair value hierarchy consisting of three levels. These 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 in the fair value hierarchy and also valuation methods used for each financial instrument.

27. Continued

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.

Level 1

Level 1 comprises financial instruments for which 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. For Atlas Copco, cash and cash equivalent are carried as level 1.

Level 2

Level 2 comprises financial instruments for which 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). Example of observable data is data that can serve as a basis for assessing prices, such as market interest rates and yield curves. Level 2 mainly includes certificates and non-standard derivative instruments (such as interest rate and currency swaps) that are not traded in an active market. For Atlas Copco, all derivatives are carried as level 2 instruments.

Level 3

Level 3 comprises financial instruments for which fair value is based on a valuation model, whereby significant input is based on unobservable market data. The Group has no instruments categorized as level 3.

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.

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 category

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.

Currency rates used in the financial statements	Value	Code	Year-end rate		Average rate	
			2012	2011	2012	2011
Australia	1	AUD	6.78	7.01	6.99	6.72
Canada	1	CAD	6.56	6.77	6.74	6.55
EU	1	EUR	8.61	8.94	8.71	9.02
Hong Kong	100	HKD	84.25	88.92	86.84	83.30
United Kingdom	1	GBP	10.51	10.66	10.70	10.37
U.S.A.	1	USD	6.53	6.91	6.74	6.48

28. Related parties

Relationships

The Group has related party relationships with the Company's largest shareholder, its associates and with its Board members and Group Management. The Company's largest shareholder, the Investor Group, controls approximately 22% of the voting rights in Atlas Copco.

The subsidiaries that are directly owned by the Parent Company are presented in note A21 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed in note A22. Information about associated companies is found in note 14. Information about Board members and Group Management is presented on pages 60–63.

Transactions and outstanding balances

The Group has not had any transactions with Investor during the year, other than dividends declared, and has no outstanding balances with Investor.

The Investor Group has controlling or significant influence in companies which Atlas Copco may have transactions within the normal course of business. Any such transactions are made on commercial terms.

Transactions with associated companies

The Group sold various products and purchased goods through certain associated companies on terms generally similar to those prevailing with unrelated parties.

The following table summarizes the Group's related party transactions with its associates:

	2012	2011
Revenues	74	16
Goods purchased	30	67
Services purchased	30	29
At Dec. 31:		
Trade receivables	2	13
Trade payables	7	7
Other liabilities	–	2
Other interest-bearing liabilities	8	9
Guarantees	10	10

Compensation to key management personnel

Compensation to the Board and to Group Management is disclosed in note 5.

29. Subsequent events

On February 28, 2013, Atlas Copco issued within its EMTN program a 10-year MEUR 500 bond with a coupon of 2.5%. No other events have occurred subsequent to the balance sheet date which require adjustment of, or disclosure in, the financial statements.

Financial statements, Parent Company

Income statement

For the year ended December 31,			
Amounts in MSEK	Note	2012	2011
Administrative expenses	A2	-453	-392
Other operating income	A3	218	181
Other operating expenses	A3	-1	-8
Operating loss		-236	-219
Financial income	A4	1 375	6 043
Financial expenses	A4	-1 907	-2 407
Profit after financial items		-768	3 417
Appropriations	A5	4 728	5 737
Profit before tax		3 960	9 154
Income tax	A5, A6	-936	-946
Profit for the year		3 024	8 208

Statement of comprehensive income

For the year ended December 31,			
Amounts in MSEK	Note	2012	2011
Profit for the year		3 024	8 208
Other comprehensive income			
Translation of net investment		872	152
Other comprehensive income of the year, net of tax		872	152
Total comprehensive income for the year		3 896	8 360

Balance sheet

As at December 31,			
Amounts in MSEK	Note	2012	2011
ASSETS			
Non-current assets			
Intangible assets	A7	20	24
Tangible assets	A8	38	46
Financial assets			
Shares in Group companies	A10, A21	92 903	91 298
Other financial assets	A11	398	822
Total non-current assets		93 359	92 190
Current assets			
Other receivables	A12	7 803	9 237
Cash and cash equivalents	A13	7 579	2 788
Total current assets		15 382	12 025
TOTAL ASSETS		108 741	104 215
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		2 688	1 816
Retained earnings		29 740	27 486
Profit for the year		3 024	8 208
Total non-restricted equity		35 452	37 510
TOTAL EQUITY		41 237	43 295
Untaxed reserves	A5	1 255	-
PROVISIONS			
Post-employment benefits	A15	75	74
Other provisions	A16	307	274
Deferred tax liabilities	A9	674	629
Total provisions		1 056	977
LIABILITIES			
Non-current liabilities			
Borrowings	A17	48 863	49 557
Other liabilities		82	21
Total non-current liabilities		48 945	49 578
Current liabilities			
Borrowings	A17	14 622	8 343
Income tax liabilities		140	894
Other liabilities	A18	1 486	1 128
Total current liabilities		16 248	10 365
TOTAL EQUITY AND LIABILITIES		108 741	104 215
Assets pledged	A20	94	55
Contingent liabilities	A20	368	410

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, 2012	1 211 614 028	786	4 999	1 816	35 694	43 295
Total comprehensive income for the year				872	3 024	3 896
Dividends					-6 069	-6 069
Acquisition series A shares	-2 751 525				-477	-477
Divestment series A shares	4 066 506				676	676
Divestment series B shares	493 166				72	72
Share-based payment, equity settled						
– expense during the year					50	50
– exercise of options					-206	-206
Closing balance, Dec. 31, 2012	1 213 422 175	786	4 999	2 688	32 764	41 237
Opening balance, Jan. 1, 2011	1 218 376 231	786	4 999	1 664	39 458	46 907
Total comprehensive income for the year				152	8 208	8 360
Dividends*					-4 851	-4 851
Redemption of shares		-393			-5 674	-6 067
Increase of share capital through bonus issue		393			-393	-
Acquisition series A shares	-9 169 360				-1 368	-1 368
Divestment series A shares	2 006 570				309	309
Divestment series B shares	400 587				54	54
Share-based payment, equity settled						
– expense during the year					34	34
– exercise of options					-83	-83
Closing balance, Dec. 31, 2011	1 211 614 028	786	4 999	1 816	35 694	43 295

* Net of dividend repaid of 1.

See note A14 for additional information.

Statement of cash flows

For the year ended December 31,		
Amounts in MSEK	2012	2011
Cash flows from operating activities		
Operating loss	-236	-219
Adjustments for:		
Depreciation	13	7
Capital gain/loss and other non-cash items	949	-139
Operating cash deficit	726	-351
Net financial items received/paid	-130	3 945
Group contributions received/paid	4 314	3 538
Taxes paid	-1 742	-9
Cash flow before change in working capital	3 168	7 123
Change in		
Operating receivables	1 770	-360
Operating liabilities	289	-204
Change in working capital	2 059	-564
Net cash from operating activities	5 227	6 559

For the year ended December 31,		
Amounts in MSEK	2012	2011
Cash flow from investing activities		
Investments in tangible assets	-1	-30
Investments in subsidiaries	-1 625	-1 216
Divestment of subsidiaries/repatriation of equity	-	-
Investments in financial assets	396	237
Net cash from investing activities	-1 230	-1 009
Cash flow from financing activities		
Dividends paid	-6 069	-4 851
Redemption of shares	-	-6 067
Repurchase and divestment of own shares	271	-1 005
Change in interest-bearing liabilities	6 592	-1 652
Net cash from financing activities	794	-13 575
Net cash flow for the year	4 791	-8 025
Cash and cash equivalents, Jan. 1	2 788	10 813
Net cash flow for the year	4 791	-8 025
Cash and cash equivalents, Dec. 31	7 579	2 788

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 part of Group 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 tax legislation.

The financial statements are presented in Swedish kronor (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 to the Group's consolidated financial statements, except for those disclosed in the following sections.

For discussion regarding accounting estimates and judgments, see page 77.

Changes in accounting principles

The Parent Company has applied the amendments to RFR 2 regarding group contributions in advance of the effective date (annual periods beginning on or after January 1, 2013). Under the amendments the principal rule is that group contributions to a parent company should be recognized as financial income. Group contributions from a parent company should be recognized as an increase of shares in group companies. Under the alternative rule group contributions should be recognized as appropriations in the income statement.

The Parent Company has chosen to apply the alternative rule with retrospective effect.

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 by the Parent Company accounted for as part of the acquisition costs and are not expensed.

Lease contracts

All lease contracts entered into by the Parent Company are accounted for as operating leases.

Employee benefits

Defined benefit plans

Defined benefit plans are not accounted for in accordance with IAS 19, but are accounted for according to Swedish GAAP which are based on the Swedish law regarding pensions, "Tryggandelagen" and regulations issued by the Swedish Financial Supervisory Authority. The primary differences as compared to IAS 19 is 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 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 as an increase of Shares in Group companies. This increase is accrued over the same period as in the Group and with a corresponding increase in Equity for equity-settled programs and as an increase in liabilities for cash-settled programs.

Financial guarantees

Financial guarantees issued by the Parent Company for the benefit of subsidiaries are not valued at fair value. They are reported as contingent liabilities, unless it becomes probable that the guarantees will lead to payments. In such case, provisions will be recorded.

Hedge accounting

External interest-bearing liabilities denominated in other currencies than SEK, used to hedge currency exposure from investments in shares of foreign subsidiaries are not remeasured according to exchange rates prevailing on the date of the balance sheet, but measured based on the exchange rate the day that the hedging relation was established.

Derivatives used to hedge investments in shares in foreign subsidiaries are recognized at fair value and changes therein are recognized in profit or loss. The corresponding fair value change on shares in subsidiaries is recognized in profit or loss.

Group and shareholder's contributions

In Sweden, Group contributions are deductible for tax purposes but shareholder's contributions are not. Group contributions are recognized as appropriations in the income statement.

A2. Employees and personnel expenses and remunerations to auditors

	Average number of employees					
	2012			2011		
	Women	Men	Total	Women	Men	Total
Sweden	61	48	109	58	48	106

	Women in Atlas Copco Board and Management, %	
	Dec. 31, 2012	Dec. 31, 2011
	Board of Directors excl. union representatives	33
Group Management	22	22 ¹⁾

¹⁾ Average 24%

	Salaries and other remuneration			
	2012		2011	
	Board members and Group Management ¹⁾	Other employees	Board members and Group Management ¹⁾	Other employees
Sweden	58	101	44	77
of which variable compensation	12		12	

¹⁾ Includes 8 (9) Board members who receive fees from Atlas Copco AB as well as the President and CEO and 6 (7) members of Group Management who are employed by and receive salary and other remuneration from the Company.

For information regarding remuneration and other fees for members of the Board, the President and CEO, and other members of the Group Management, see note 5 to the consolidated financial statements.

	2012	2011
Pension benefits and other social costs		
Contractual pension benefits for Board members and Group Management	8	9
Contractual pension benefits for other employees	22	16
Other social costs	69	49
	99	74
Capitalized pension obligations to Board members and Group Management	14	15

Remunerations to auditors

Audit fees and consultancy fees for advice or assistance other than audit, were as follows:

	2012	2011
Deloitte		
– audit fee	7	6
– other	1	3
	8	9

At the Annual General Meeting in 2010, Deloitte was elected as auditor for the Parent Company for a four year period.

Other fees are primarily consultancy for tax and accounting matters.

A3. Other operating income and expenses

	2012	2011
Commissions received	218	181
Total other operating income	218	181
Exchange-rate differences, net	–1	–8
Total other operating expenses	–1	–8

A4. Financial income and expenses

	2012	2011
Interest income		
– cash and cash equivalents	87	158
– Group Companies	237	212
Dividend income from Group Companies	1 004	5 640
Change in fair value – other assets	–	2
Foreign exchange gain, net	47	31
Financial income	1 375	6 043
Interest expense		
– borrowings	–660	–606
– derivatives for fair value hedges	–174	–126
– Group Companies	–1 013	–1 665
– pension provisions, net	–1	–1
Change in fair value – other liabilities and borrowings	–59	–9
Financial expenses	–1 907	–2 407
Financial expenses, net	–532	3 636

The decrease in net financial income and expenses is primarily due to lower dividend income from Group Companies.

In accordance with RFR 2 the parent company has in 2012 changed its accounting principle, with retrospective application, for received group contribution from being recognized as a financial item to being recognized as an appropriation. Comparable figures for 2011 have been adjusted accordingly.

The above financial income and expenses include the following in respect of assets and liabilities not at fair value through profit or loss:

	2012	2011
Total interest income on financial assets	324	370
Total interest expense on financial liabilities	–1 674	–2 272

The following table presents the net gain or loss by financial instrument category:

	2012	2011
Net gain/loss on		
– loans and receivables, incl bank deposits	371	403
– other liabilities	–1 733	–2 281
– fair value hedge	–174	–126
Profit from shares in Group companies	1 004	5 640
	–532	3 636

For further information about the hedges, see note 27 of the consolidated financial statements.

A5. Appropriations

	2012	2011
Untaxed provisions		
Allocation to accrual fund	1 255	–
Appropriations		
Group contributions paid	–167	–268
Group contributions received	6 150	6 005
Allocation to accrual fund Tax 2013	–1 255	–
	4 728	5 737

A6. Income tax

	2012	2011
Current tax	-1 001	-971
Deferred tax	65	25
	-936	-946
Profit before taxes	3 960	9 154
The Swedish corporate tax rate, %	26.3	26.3
National tax based on profit before taxes	-1 041	-2 408
Tax effects of:		
Non-deductible expenses	-3	-7
Tax exempt income	265	1 483
Deductible expenses, not recognized in Income statement	-176	28
Prior year adjustment, deferred tax	88	7
Change in tax rate, deferred tax	-17	-
Controlled Foreign Company taxation	-54	-42
Adjustments from prior years	2	-7
	-936	-946
Effective tax in %	23.6	10.3

The Parent Company's effective tax rate of 23.6% (10.3) is primarily affected by non-taxable dividends and one adjustment of deferred tax prior year.

A7. Intangible assets

	Capitalized expenditures for computer programs	
	2012	2011
Accumulated cost		
Opening balance, Jan. 1	36	36
Investments	0	0
Closing balance, Dec. 31	36	36
Accumulated depreciation		
Opening balance, Jan. 1	12	7
Depreciation for the year	4	5
Closing balance, Dec. 31	16	12
Carrying amount		
Closing balance, Dec. 31	20	24
Opening balance, Jan. 1	24	29

A8. Tangible assets

	2012				2011			
	Buildings and land	Machinery and equipment	Construction in progress	Total	Buildings and land	Machinery and equipment	Construction in progress	Total
Accumulated cost								
Opening balance, Jan. 1	23	38	-	61	4	22	24	50
Investments	-	1	-	1	-	17	13	30
Reclassifications	-	-	-	-	23	8	-31	-
Disposals	-	-	-	-	-4	-9	-6	-19
Closing balance, Dec. 31	23	39	-	62	23	38	-	61
Accumulated depreciation								
Opening balance, Jan. 1	1	14	-	15	4	15	-	19
Depreciation for the year	2	7	-	9	1	1	-	2
Disposals	-	-	-	-	-4	-2	-	-6
Closing balance, Dec. 31	3	21	-	24	1	14	-	15
Carrying amount								
Closing balance, Dec. 31	20	18	-	38	22	24	-	46
Opening balance, Jan. 1	22	24	-	46	-	7	24	31

The asset Buildings and land relates to improvements in leased properties. Depreciation is accounted for under administrative expenses in the Income Statement.

The leasing costs for assets under operating leases, such as rented premises, cars and office equipment are reported among administrative expenses and amounted to 29 (25). Future payments for non-cancelable leasing contracts amounted to 251 (269) and fall due as follows:

	2012	2011
Less than one year	30	29
Between one and five years	118	113
More than five years	103	127
	251	269

A9. Deferred tax assets and liabilities

	2012			2011		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Fixed assets	0	–	0	0	–	0
Post-employment benefits	16	–	16	19	–	19
Other provisions	14	–	14	16	–	16
Non-current liabilities	–	–704	–704	–	–664	–664
	30	–704	–674	35	–664	–629

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

	2012	2011
Net balance, Jan. 1	–629	–600
Charges to other comprehensive income	–110	–54
Charges to profit for the year	65	25
Net balance, Dec. 31	–674	–629

A10. Shares in Group Companies

	2012	2011
Accumulated cost		
Opening balance, Jan. 1	91 822	90 634
Investments	1 263	991
Net investment hedge	–186	–40
Shareholder's contribution	528	237
Disposals	–	–
Closing balance, Dec. 31	93 427	91 822
Accumulated write-up		
Opening balance, Jan. 1	600	600
Closing balance, Dec. 31	600	600
Accumulated write-down		
Opening balance, Jan. 1	–1 124	–1 124
Closing balance, Dec. 31	–1 124	–1 124
	92 903	91 298

For further information about Group Companies, see note A21.

A11. Other financial assets

	2012	2011
Receivables from Group Companies	20	417
Derivatives		
– not designated for hedge accounting	1	3
– designated for hedge accounting	257	281
Endowment insurances	56	55
Financial assets classified as loans and receivables		
– other financial receivables	64	66
	398	822

Endowment insurances relate to defined contribution pension plans and are pledged to the pension beneficiary (see note A15 and A20).

A12. Other receivables

	2012	2011
Receivables from Group Companies	7 495	8 582
Derivatives		
– not designated for hedge accounting	180	40
– designated for hedge accounting	20	467
Financial assets classified as loans and receivables		
– other receivables	36	91
Prepaid expenses and accrued income	72	57
	7 803	9 237

A13. Cash and cash equivalents

	2012	2011
Cash and cash equivalents classified as loans and receivables		
– cash	1 937	202
– cash equivalents	5 642	2 586
	7 579	2 788

The committed, but unutilized, credit facilities equaled 6 390 (15 757).

A14. Equity

For information on share transactions and mandates approved by the Annual General Meeting, 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.

A15. Post-employment benefits

	2012			2011		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	55	19	74	52	24	76
Provision made	1	–	1	3	–	3
Provision used	–	–	–	–	–5	–5
Closing balance, Dec. 31	56	19	75	55	19	74

The Parent Company has endowment insurances of 56 (55) relating to defined contribution pension plans. The insurances are recognized as other financial assets, and pledged to the pension beneficiary.

Description of defined benefit pension plans

The Parent Company has three defined benefit pension plans. The ITP plan is a final salary pension plan covering the majority of salaried employees in Atlas Copco AB which benefits are secured through the Atlas Copco pension trust. The second plan relates to a group of employees earning more than 10 income base amounts who have opted out from the ITP plan. This plan is insured. The third plan relates to retired former senior employees. These pension arrangements are provided for.

	2012			2011		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations	131	19	150	133	19	152
Fair value of plan assets	–221	–	–221	–208	–	–208
Present value of net obligations	–90	19	–71	–75	19	–56
Not recognized surplus	90	–	90	75	–	75
Net amount recognized in balance sheet	–	19	19	–	19	19

Reconciliation of defined benefit obligations	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations at Jan. 1	133	19	152	127	24	151
Service cost	5	2	7	4	–	4
Interest expense	4	1	5	4	1	5
Other changes in obligations	–1	–	–1	9	–	9
Benefits paid from plan	–10	–3	–13	–11	–6	–17
Defined benefit obligations at Dec. 31	131	19	150	133	19	152

Reconciliation of plan assets	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Fair value of plan assets at Jan. 1	208	–	208	202	–	202
Return on plan assets	13	–	13	6	–	6
Payments	–	–	–	–	–	–
Fair value of plan assets at Dec. 31	221	–	221	208	–	208

A15. Continued

	2012	2011
Pension commitments provided for in the balance sheet		
Costs excluding interest	13	9
Interest expense	1	1
	14	10
Pension commitments provided for through insurance contracts		
Service cost	17	15
	17	15
Reimbursement from the Atlas Copco pension trust		
	–	–
	–	–
Net cost for pensions, excluding taxes	31	25
Special employer's contribution	7	7
Credit insurance costs	0	0
	38	32

Pension expenses for the year included within administrative expenses amounted to 30 (25) of which the Board members and Group Management 8 (9) and others 22 (16).

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amounts to 221 (208) and is allocated as follows:

	2012	2011
Equity securities	30	33
Bonds	140	145
Real estate	30	27
Cash and cash equivalents	21	3
	221	208

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 7.2% (3.1).

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 13 will be paid to defined benefit pension plans during 2013.

A16. Other provisions

	2012	2011
Opening balance, Jan. 1	274	358
During the year		
– provisions made	170	–
– provisions used	–137	–51
– provisions reversed	–	–33
Closing balance, Dec. 31	307	274

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	2012		2011	
			Carrying amount	Fair value	Carrying amount	Fair value
Non-current						
Medium Term Note Program MSEK 3 000	2012	MSEK 505	–	–	2 540	2 557
Medium Term Note Program MEUR 600	2014	MEUR 260	3 416	3 173	5 814	6 046
Medium Term Note Program MEUR 500	2019		4 458	4 731	–	–
Capital market borrowings MUSD 800	2017		5 860	6 604	6 273	7 086
Capital market borrowings MUSD 150	2019	MUSD 75	973	1 358	973	1 453
Bilateral borrowings EIB MEUR 213	2014		2 008	1 837	2 008	1 909
Bilateral borrowings EIB MEUR 275	2019		2 329	2 460	–	–
Bilateral borrowings NIB MEUR 100	2015		943	866	943	900
Bilateral borrowings NIB MSEK 705	2016		705	718	705	721
Non-current borrowings from Group Companies			28 171	29 991	32 841	34 713
Less current portion of long-term borrowings			–	–	–2 540	–2 557
Total non-current loans			48 863	51 738	49 557	52 828
Current						
Current portion of long-term borrowings			–	–	2 540	2 557
Short term loans			25	25	8	8
Current borrowings from Group Companies			14 597	14 606	5 795	5 795
			14 622	14 631	8 343	8 360
			63 485	66 369	57 900	61 188
Whereof external loans			20 717	21 772	19 264	20 680

The difference between carrying value and fair value is because certain liabilities are reported at their amortized cost, and not at fair value.

The following table shows the maturity structure of the Parent Company's loans and includes the effect of interest rate swaps.

2012 Maturity	Fixed	Float	Carrying amount	Fair value
2013	–	25	25	25
2014	3 416	2 008	5 424	5 010
2015	–	943	943	866
2016	–	705	705	718
2017	4 395	1 465	5 860	6 604
2018	–	–	–	–
2019	7 760	–	7 760	8 549
	15 571	5 146	20 717	21 772

A18. Other liabilities

	2012	2011
Accounts payable	18	30
Liabilities to Group Companies	341	120
Derivatives		
– not designated for hedge accounting	40	221
– designated for hedge accounting	741	370
Other financial liabilities		
– other liabilities	4	7
Accrued expenses and prepaid income	342	380
	1 486	1 128

Accrued expenses and prepaid income include items such as social costs, vacation pay liability, and accrued interest.

A19. Financial exposure and principles for control of financial risks

Parent Company borrowings

Atlas Copco AB had MSEK 20 717 (19 264) of external borrowings and MSEK 42 768 (38 636) of internal borrowings at December 31, 2012. 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 external loans of MEUR 1 428 (913) and MUSD 142 (142), and derivatives of MEUR 652 (565). The deferral hedge accounting of the external loans is based on a RFR 2 exemption. The derivatives are accounted as fair value hedges.

The interest rate risk is managed with interest rate swaps, designated as fair value hedges. Note 27 of the consolidated financial statements includes fair value of these swaps and further details.

Financial credit risk

Credit risk on financial transactions is the risk that the Parent Company incurs losses as a result of non-payment by counterparts related to the Parent Company's investments, bank deposits or derivative transactions. For further information regarding investment and derivative transactions, see Note 27 of the consolidated financial statements.

The table below shows the actual exposure of financial instruments as at December 31:

Financial credit risk	2012	2011
Cash and cash equivalents	7 579	2 788
Receivables from Group companies	7 515	8 999
Derivatives	458	791
Other	172	213
	15 724	12 791

A19. Continued

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.

Level 1

Level 1 comprises financial instruments for which 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. For the Parent Company, cash and cash equivalent are carried as level 1.

Level 2

Level 2 comprises financial instruments for which 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). Example of observable data is data that can serve as a basis for assessing prices, such as market interest rates and yield curves. Level 2 mainly includes certificates and non-standard derivative instruments (such as interest rate and currency swaps) that are not traded in an active market. For the Parent Company, all derivatives are carried as level 2 instruments.

Level 3

Level 3 comprises financial instruments for which fair value is based on a valuation model, whereby significant input is based on unobservable market data. The Parent Company has no instruments categorized as level 3.

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

	2012	2011
Assets pledged for pension commitments		
Other receivables	38	–
Endowment insurances	56	55
	94	55
Contingent liabilities		
Sureties and other contingent liabilities		
– for external parties	3	3
– for Group companies	365	407
	368	410

Sureties and other contingent liabilities include bank and commercial guarantees as well as performance bonds.

A21. Directly owned subsidiaries

	2012			2011		
	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	45 826	76 415	100	45 807
Atlas Copco Construction Tools AB, 556069-7228, Nacka	60 000	100	116	60 000	100	118
Atlas Copco Craelius AB, 556041-2149, Märsta	200 000	100	44	200 000	100	37
Atlas Copco MAI GmbH, Feistritz an der Drau	1	100	129	1	100	129
Atlas Copco Rock Drills AB, 556077-9018, Örebro	1 000 000	100	426	1 000 000	100	405
Atlas Copco Secoroc AB, 556001-9019, Fagersta	2 325 000	100	169	2 325 000	100	159
Atlas Copco GIA AB, 556040-0870, Grängesberg	50 000	100	138	–	–	–
Gazcon A/S, Lynge	500	100	23	–	–	–
Dynapac Compaction Equipment AB, 556068-6577, Karlskrona	80 000	100	915	–	–	–
Dynapac Brasil Industria e Comercio Ltda, São Paulo	25 777 505	100	82	–	–	–
Directly owned customer centers						
Atlas Copco (Cyprus) Ltd., Nicosia	99 998	100	0	99 998	100	0
Atlas Copco Argentina S.A.C.I., Buenos Aires	525 000	75/100 ¹⁾	11	525 000	75/100 ¹⁾	11
Atlas Copco (India) Ltd., Mumbai	21 723 714	96	1 700	21 431 921	95	1 592
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	90	250 000	100	37
Atlas Copco (Malaysia), Sdn. Bhd., Kuala Lumpur	1 000 000	100	15	1 000 000	100	14
Atlas Copco (Philippines) Inc., Paranaque	121 995	100	6	121 995	100	6
Atlas Copco (Switzerland) AG., Studen/Biel	8 000	100	51	8 000	100	51
GreenField Brasil Ltda, São Paulo	–	–	–	5 997	100	4
Atlas Copco (South East Asia) Pte.Ltd., Singapore	1 500 000	100	5	1 500 000	100	5
Atlas Copco Brasil Ltda., São Paulo	70 358 841	100	234	22 909 089	100	229
Atlas Copco Chilena S.A.C., Santiago de Chile	24 998	100	9	24 998	100	8
Atlas Copco CMT Sweden AB, 556100-1453, Nacka	103 000	100	14	103 000	100	12
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	12	60 000	100	11
Atlas Copco Customer Finance Chile Ltd., Santiago de Chile	6 317 500	95/100 ¹⁾	0	6 317 500	95/100 ¹⁾	0
GreenField AG, Birsfelden	–	–	–	–	–	–
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/100 ¹⁾	2	5	0/100 ¹⁾	2
Atlas Copco Ges.m.b.H., Vienna	1	100	332	1	100	54
Atlas Copco Iran AB, 556155-2760, Nacka	3 500	100	32	3 500	100	1
Atlas Copco Eastern Africa Ltd., Nairobi	482 999	100	5	482 999	100	5
Atlas Copco KK, Tokyo	375 001	100	29	375 001	100	27
Atlas Copco Kompressorteknik A/S, Copenhagen	4 000	100	3	4 000	100	3
Atlas Copco Maroc SA., Casablanca	3 854	96	1	3 854	96	1
Atlas Copco Services Middle East OMC, Bahrain	500	100	4	500	100	3
Atlas Copco Venezuela S.A., Caracas	38 000	100	15	38 000	100	15
Chicago Pneumatic Construction Equipment AB, 556197-5375, Stockholm	30 000	100	62	30 000	100	56
CP Scanrotor Aktiebolag, 556103-0080, Tanum	1 500	100	2	1 500	100	2
Servatechnik AG., Oftringen	3 500	100	28	3 500	100	28
Soc. Atlas Copco de Portugal Lda., Lisbon	1	100	24	1	100	24
AGRE Kompressoren GmbH, Garsten-St. Ulrich	200 000	100	29	200 000	100	29
Directly owned holding companies and others						
Atlas Copco A/S, Langhus	2 498	100	18	2 498	100	17
Atlas Copco Beheer b.v., Zwijndrecht	15 712	100	718	15 712	100	679
Atlas Copco Dynapac AB, 556655-0413, Nacka	86 993 823	100	5 512	86 993 823	100	5 508
Atlas Copco Finance Belgium bvba, Wilrijk	1	0/100 ¹⁾	0	1	0/100 ¹⁾	0
Atlas Copco Finance Europe n.v., Wilrijk	1	0/100 ¹⁾	1	1	0/100 ¹⁾	0
Atlas Copco France Holding S.A., St. Ouen l'Aumône	278 255	100	179	278 255	100	180
Atlas Copco Holding GmbH, Essen	1	100	290	1	100	278
Atlas Copco Järla Holding AB, 556062-0212, Nacka	95 000	100	20 570	95 000	100	20 570
Atlas Copco Lugnet Treasury AB, 556277-9537, Nacka	700 500	100	721	700 500	100	720
Atlas Copco Reinsurance SA, Luxembourg	4 999	100	16	4 999	100	16
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	10 620	1 000	100	10 605
Atlas Copco UK Holdings Ltd., Hemel Hempstead	50 623 666	100	299	50 623 666	100	299
Atlas Copco USA Holdings Inc., Pine Brook, NJ	100	100	3 411	100	100	3 389
CP Scanrotor Global AB, 556337-5897, Tanum	1 000	100	0	1 000	100	0
Dynapac Nordic AB, 556653-3658, Stockholm	1 000	100	19	1 000	100	19

A21. Continued

	2012			2011		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
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	31	150	100	31
Power Tools Distribution n.v., Hoeselt	1	0/100 ¹⁾	1	1	0/100 ¹⁾	1
16 dormant companies		100	33		100	34
Net investment hedge			-166			20
Carrying amount, Dec. 31			92 903			91 298

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 and its associates and with its Board members and Group Management.

The Parent Company's largest shareholder, the Investor Group, controls approximately 22 % of the voting rights in Atlas Copco AB.

The subsidiaries that are directly owned by the Parent Company are presented in note A21 and all directly and indirectly owned operating subsidiaries are listed on the following pages.

Information about Board members and Group Management is presented on pages 60–63.

Transactions and outstanding balances

The Group has not had any transactions with Investor during the year other than dividends declared and has no outstanding balances with Investor.

The Investor Group 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:

	2012	2011
Revenues		
Dividends	1 003	5 640
Group contribution	6 150	6 005
Interest income	237	212
Expenses		
Group contribution	-167	-268
Interest expenses	-1 013	-1 665
Receivables	7 515	8 999
Liabilities	43 109	38 756
Guarantees	365	407

The following details directly and indirectly owned holding and operational subsidiaries (excluding branches), presented by country of incorporation.

Country	Company	Location (City)	Country	Company	Location (City)
Algeria	SPA Atlas Copco Algérie	Alger	Bolivia	Atlas Copco Boliviana SA	La Paz
Angola	Atlas Copco Angola Lda	Luanda	Bosnia and Herzegovina	Atlas Copco BH d.o.o.	Sarajevo
Argentina	Atlas Copco Argentina S.A.C.I	Buenos Aires	Botswana	Atlas Copco (Botswana) (Pty) Ltd.	Gaborone
	Atlas Copco Servicios Mineros S.A.	Buenos Aires	Brazil	Atlas Copco Brasil Ltda	São Paulo
Australia	Atlas Copco Australia Pty Limited	Blacktown		Chicago Pneumatic Brasil Ltda	São Carlos
	Atlas Copco Customer Finance Australia Pty Limited	Blacktown		Dynapac Brasil Industria e Comercio Ltda	São Paulo
	Atlas Copco South Pacific Holdings Pty Ltd.	Blacktown		Schucker do Brazil Ltda	São José dos Pinais
Austria	AGRE Kompressoren GmbH	Garsten-st. Ulrich	Bulgaria	Atlas Copco Bulgaria EOOD	Sofia
	Atlas Copco Ges.m.b.H.	Wien		Atlas Copco Lifton EOOD	Rouse
	Atlas Copco Powercrusher GmbH	St. Valentin	Burkina Faso	Atlas Copco Burkina Faso SARL	Ouagadougou
Bahrain	Atlas Copco Services Middle East OMC	Bahrain	Cameroon	Atlas Copco Afrique Centrale SA	Douala
Bangladesh	Atlas Copco Bangladesh Ltd.	Dhaka	Canada	Atlas Copco Canada Inc.	Dorval
Belgium	Atlas Copco Airpower n.v.	Wilrijk		Chicago Pneumatic Tool Co. Canada Ltd.	Toronto
	Atlas Copco Business Services n.v.	Wilrijk	Chile	Atlas Copco Chilena S.A.C.	Santiago
	Atlas Copco Belgium n.v.	Overijse		Atlas Copco Customer Finance Chile Ltda	Santiago
	Atlas Copco Finance Belgium BVBA	Wilrijk	China	Atlas Copco (China) Investment Co., Ltd.	Shanghai
	Atlas Copco Finance Europe n.v.	Wilrijk		Atlas Copco (Nanjing) Construction and Mining Equipment Ltd.	Nanjing
	Atlas Copco Rental Europe n.v.	Wilrijk		Atlas Copco (Shanghai) Equipment Rental Co., Ltd.	Shanghai
	EDMAC Europe n.v.	Wilrijk		Atlas Copco (Shanghai) Process Equipment Co., Ltd.	Shanghai
	International Compressor Distribution NV	Wilrijk			
	Power Tools Distribution n.v.	Hoeselt			

A22. Continued

Country	Company	Location (City)	Country	Company	Location (City)	
China	Atlas Copco (Shanghai) Trading Co., Ltd.	<i>Shanghai</i>	Germany	Atlas Copco MCT GmbH	<i>Essen</i>	
	Atlas Copco (Shenyang) Construction and Mining Equipment Ltd.	<i>Shenyang</i>		Atlas Copco Tools Central Europe GmbH	<i>Essen</i>	
	Atlas Copco (Wuxi) Compressor Co., Ltd.	<i>Wuxi</i>		Chicago Pneumatic Tool Verwaltungs GmbH	<i>Geisenheim</i>	
	Atlas Copco (Wuxi) Exploration Equipment Ltd.	<i>Wuxi</i>		Desoutter GmbH	<i>Maintal</i>	
	Atlas Copco (Wuxi) Research and Development Center Co., Ltd.	<i>Wuxi</i>		Ekotak Kompressoren GmbH	<i>Moers</i>	
	Atlas Copco (Zhangjiakou) Construction & Mining Equipment Ltd.	<i>Zhangjiakou City</i>		Dynapac GmbH	<i>Wardenburg</i>	
	Bolaite (Shanghai) Compressor Co., Ltd.	<i>Shanghai</i>		Dynapac Holding GmbH	<i>Wardenburg</i>	
	Dynapac (China) Compaction & Paving Eq Co., Ltd.	<i>Tiajin</i>		IRMER + ELZE Kompressoren GmbH	<i>Oyenhausen</i>	
	Edmac (Shanghai) Trading Co., Ltd.	<i>Shanghai</i>		SCA Schucker GmbH & Co KG	<i>Bretten</i>	
	Guangzhou Linghein Compressor Co., Ltd	<i>Guangzhou</i>		SCA Schucker Verwaltungs-GmbH	<i>Bretten</i>	
	Kunshan Q-Tech Air System Technologies Ltd.	<i>Kunshan</i>		TBB Industrial Tools Services GmbH	<i>Dingolfing</i>	
	Liuzhou Tech Machinery Co., Ltd.	<i>Liuzhou City</i>		Atlas Copco Ghana Ltd.	<i>Accra</i>	
	SCA Schucker Automation Equipment (Shanghai) Co., Ltd.	<i>Shanghai</i>		Ghana	Ghana	
	Shanghai Beacon Medaes Medical Gas Engineering Consulting Co., Ltd.	<i>Shanghai</i>		Greece	Greece	
	Shanghai Tooltec Industrial Tool Co., Ltd.	<i>Shanghai</i>		Hong Kong	Hong Kong	
	Tooltec (Qingdao) Tool Co., Ltd.	<i>Qingdao</i>		Atlas Copco China/Hong Kong Ltd.	<i>Kowloon</i>	
	Wuxi Pneumatech Air/Gas Purity Equipment Co., Ltd.	<i>Wuxi</i>		CP China/Hong Kong Ltd.	<i>Kowloon</i>	
	Wuxi Shengda Air/Gas Punty Equipment Co., Ltd	<i>Wuxi</i>		Hungary	Hungary	
	Colombia	Atlas Copco Colombia Ltda		<i>Bogotá</i>	Atlas Copco Kft.	<i>Budapest</i>
	Croatia	Atlas Copco d.o.o.		<i>Zagreb</i>	Industrial Technique Hungary Kft.	<i>Budapest</i>
	Cyprus	Atlas Copco (Cyprus) Ltd.		<i>Nicosia</i>	India	Atlas Copco (India) Ltd.
Czech Republic	ALUP CZ spol. S.r.o	<i>Breclav</i>	Indonesia	PT Atlas Copco Indonesia	<i>Jakarta</i>	
Democratic Republic of the Congo	Atlas Copco DRC sprl	<i>Lubumbashi</i>	PT Atlas Copco Nusantara	<i>Jakarta</i>		
Denmark	Atlas Copco Kompresorteknik A/S	<i>Copenhagen</i>	Atlas Copco Iraq LLC	<i>Erbil</i>		
Egypt	Atlas Copco Equipment Egypt S.A.E.	<i>Cairo</i>	Ireland	Atlas Copco (Ireland) Ltd.	<i>Dublin</i>	
Finland	Oy Atlas Copco Ab	<i>Masaby</i>	Italy	ABAC Aria Compressa S.p.A	<i>Robassomero</i>	
France	Oy Atlas Copco Kompessorit Ab	<i>Masaby</i>	Atlas Copco BLM S.r.l.	<i>Milan</i>		
	Oy Atlas Copco Louhintekniikka Ab	<i>Masaby</i>	Atlas Copco Customer Finance Italia S.p.A	<i>Milan</i>		
	Oy Atlas Copco Rotex Ab	<i>Tammerfors</i>	Atlas Copco Italia S.p.A.	<i>Milan</i>		
	Oy Atlas Copco Tools Ab	<i>Masaby</i>	Atlas Copco Perfora S.p.A.	<i>Bagnolo</i>		
	ABAC France S.A.S.	<i>Valence</i>	Ceccato Aria Compressa S.p.A.	<i>Vicenza</i>		
	Atlas Copco Applications Industrielles S.A.S.	<i>Franconville</i>	MultiAir Italia S.r.l.	<i>Cinisello Balsamo</i>		
	Atlas Copco Compresseurs S.A.S	<i>Franconville</i>	Atlas Copco KK	<i>Tokyo</i>		
	Atlas Copco Crépelle S.A.S.	<i>Lille</i>	Fuji Air Tools Co., Ltd.	<i>Osaka</i>		
	Atlas Copco Forage et Construction S.A.S.	<i>Franconville</i>	SCA Schucker Japan Co., Ltd.	<i>Yokohama</i>		
	Atlas Copco France Holding S.A.	<i>Franconville</i>	Atlas Copco Central Asia LLP	<i>Almaty</i>		
	Compresseurs Mauguière S.A.S.	<i>Sermamagny</i>	Kenya	Atlas Copco Eastern Africa Limited	<i>Nairobi</i>	
	Compresseurs Worthington Creyssensac S.A.S.	<i>Meru</i>	Latvia	Atlas Copco Baltic SIA	<i>Riga</i>	
	ETS Georges Renault S.A.S.	<i>Nantes</i>	Lebanon	Atlas Copco Levant S.A.L.	<i>Beirut</i>	
	EXLAIR S.A.S.	<i>Chereng</i>	Luxembourg	Atlas Copco Finance S.á.r.l.	<i>Luxembourg</i>	
	Seti-Tec S.A.S.	<i>Lognes</i>	Atlas Copco Reinsurance SA	<i>Luxembourg</i>		
	Vibratechniques S.A.S.	<i>Saint Valéry-En-Caux</i>	Atlas Copco (Malaysia) Sdn. Bhd.	<i>Kuala Lumpur</i>		
Germany	ALUP Kompressoren GmbH	<i>Köngen</i>	Mali	Atlas Copco Mali Sarl	<i>Bamako</i>	
	Atlas Copco Application Center Europe GmbH	<i>Essen</i>	Mexico	Atlas Copco Mexicana S.A. de C.V.	<i>Tlalnepantla</i>	
	Atlas Copco Berg und Tunnelbautechnik GmbH	<i>Essen</i>	Atlas Copco Rental Mexico	<i>Monterrey</i>		
	Atlas Copco Beteiligungs GmbH	<i>Essen</i>	Desarrollos Tecnológicos ACMSA S.A. de C.V.	<i>Tlalnepantla</i>		
	Atlas Copco Construction Tools GmbH	<i>Essen</i>	SCA Schucker de Mexico S.A. de C.V.	<i>Puebla</i>		
	Atlas Copco Energas GmbH	<i>Cologne</i>	Mongolia	Atlas Copco Mongolia LLC	<i>Ulaanbaatar</i>	
	Atlas Copco Holding GmbH	<i>Essen</i>	Morocco	Atlas Copco Maroc SA	<i>Casablanca</i>	
	Atlas Copco Kompressoren und Drucklufttechnik GmbH	<i>Essen</i>	Mozambique	Atlas Copco Mozambique	<i>Maputo</i>	
			Namibia	Atlas Copco Namibia (Pty) Ltd.	<i>Windhoek</i>	
			Netherlands	ALUP Kompressoren B.V.	<i>Nieuwegein</i>	
				Atlas Copco Beheer B.V.	<i>Zwijndrecht</i>	
				Atlas Copco Internationaal B.V.	<i>Zwijndrecht</i>	
				Atlas Copco Nederland B.V.	<i>Zwijndrecht</i>	
				Cirmac International B.V.	<i>Apeldoorn</i>	
				Creemers Compressors B.V.	<i>Eindhoven</i>	
				Grass-Air Compressoren B.V.	<i>Oss</i>	
			New Zealand	Atlas Copco (N.Z.) Ltd.	<i>Lower Hutt</i>	
			Nigeria	Atlas Copco Nigeria Ltd.	<i>Lagos</i>	
			Norway	Atlas Copco Anlegg- og Gruveteknikk A/S	<i>Langhus</i>	
				Atlas Copco A/S	<i>Langhus</i>	
				Atlas Copco Kompresorteknikk A/S	<i>Langhus</i>	
				Atlas Copco Tools A/S	<i>Langhus</i>	
				Berema A/S	<i>Langhus</i>	
			Pakistan	Atlas Copco Pakistan (Pvt) Ltd.	<i>Lahore</i>	
			Panama	Atlas Copco Central América SA	<i>Panama</i>	
				Atlas Copco Panama SA	<i>Ciudad de Panama</i>	

A22. Continued

Country	Company	Location (City)	Country	Company	Location (City)
Peru	Atlas Copco Peruana SA	Lima	Switzerland	Servatechnik AG	Ofringen
Philippines	Atlas Copco (Philippines) Inc.	Paranaque	Taiwan	Atlas Copco Taiwan Ltd.	Taipei
Poland	ALUP Kompressoren Polska sp. z o.o.	Warszawa	Tanzania	Atlas Copco Tanzania Limited	Geita
	Atlas Copco Polska Sp. z o.o.	Warszawa	Thailand	Atlas Copco (Thailand) Limited	Bangkok
Portugal	Sociedade Atlas Copco de Portugal Lda	Lisbon	Turkey	Atlas Copco Makinalari Imalat AS	Istanbul
Romania	Atlas Copco Romania S.R.L.	Bucharest		Eko Teknik Endüstriyel	Istanbul
Russia	Ekomak Industrial	Moscow		Ekomak Endüstriyel	Istanbul
	ZAO Atlas Copco	Moscow		Ekoser Endüstriyel	Istanbul
Senegal	Atlas Copco Senegal SARL	Dakar		Scanrotor Otomotiv Ticaret A.S.	Bursa
Serbia	Atlas Copco A.D.	Beograd	Ukraine	LLC Atlas Copco Ukraine	Kiev
Singapore	ABAC DMS Air Compressors Pte. Ltd.	Singapore	United Arab Emirates	Atlas Copco Middle East FZE	Jebel Ali free zone, Dubai
	Atlas Copco (South East Asia) Pte. Ltd.	Singapore		Atlas Copco Services Middle East SPC	Abu Dhabi
	Fluidcon Services Pte. Ltd.	Singapore	United Kingdom	Air Compressors and Tools Ltd.	Hemel Hempstead
Slovakia	Atlas Copco Compressors Slovakia s.r.o.	Trencin		Atlas Copco Ltd.	Hemel Hempstead
	Industrial Technique s.r.o.	Bratislava		Atlas Copco UK Holdings Ltd.	Hemel Hempstead
Slovenia	Atlas Copco d.o.o.	Trzin		Atlas Copco (NI) Ltd.	Lisburn
South Africa	Atlas Copco Holdings South Africa (Pty) Ltd.	Boksburg		Medaes Limited	Staveley
	Atlas Copco Investment Company (Pty) Ltd.	Johannesburg		SCA Schucker UK Ltd.	Didcot
	Atlas Copco South Africa (Pty) Ltd.	Boksburg	Uruguay	Econus S A	Montevideo
	ZAQ Coalfields Drilling Services (Pty) Ltd.	Middelburg	USA	Atlas Copco Assembly Systems LLC	Auburn Hills, MI
South Korea	Atlas Copco Mfg. Korea Co., Ltd.	Seoul		Atlas Copco Compressors LLC	Rock Hill, SC
	CP Tools Korea Co., Ltd.	Seoul		Atlas Copco Comptec LLC	Voorheesville, NY
	SCA Korea Co., Ltd.	Gyunggi-do		Atlas Copco Construction Mining Technique USA LLC	Commerce City, CO
Spain	Aire Comprimido Industrial Iberia, S.L.	Pinto (Madrid)		Atlas Copco Customer Finance USA LLC	Parsippany, NJ
	Atlas Copco S.A.E.	Madrid		Atlas Copco Drilling Solutions LLC	Garland, TX
	Grupos Electrógenos Europa, S.A.	Zaragoza		Atlas Copco Hurricane LLC	Franklin, IN
Sweden	Atlas Copco Mining and Rock Excavation Technique Sweden AB	Nacka		Atlas Copco Mafi-Trench Company LLC	Santa Maria, CA
	Atlas Copco Compressor AB	Nacka		Atlas Copco North America LLC	Parsippany, NJ
	Atlas Copco Construction Tools AB	Kalmar		Atlas Copco Rental LLC	Laporte, TX
	Atlas Copco Craelius AB	Märsta		Atlas Copco Secoroc LLC	Grand Prairie, TX
	Atlas Copco Customer Finance AB	Nacka		Atlas Copco Specialty Rental LLC	Humble, TX
	Atlas Copco Dynapac AB	Nacka		Atlas Copco Tools & Assembly Systems LLC	Auburn Hills, MI
	Atlas Copco GIA AB	Grängesberg		Atlas Copco USA Holdings Inc.	Parsippany, NJ
	Atlas Copco Industrial Technique AB	Nacka		BeaconMedaes LLC	Rock hill, SC
	Atlas Copco Järila Holding AB	Nacka		Bond Acquisition LLC	Parsippany, NJ
	Atlas Copco Lugnet Treasury AB	Nacka		Chicago Pneumatic International Inc.	Rock Hill, SC
	Atlas Copco Rock Drills AB	Örebro		Chicago Pneumatic Tool Company LLC	Rock Hill, SC
	Atlas Copco Secoroc AB	Fagersta		Houston Service Industries	Houston, TX
	Atlas Copco Sickla Holding AB	Nacka		Quincy Compressor LLC	Bay Minette, AL
	Chicago Pneumatic Construction Equipment AB	Nacka	Uzbekistan	Atlas Copco Compressors and Mining Technique LLC	Tashkent
	Dynapac Compaction Equipment AB	Karlskrona	Venezuela	Atlas Copco Venezuela SA	Caracas
	Dynapac International AB	Malmö	Vietnam	Atlas Copco Vietnam Company Ltd.	Ho Chi Minh City
	Industria Försäkringsaktiebolag	Nacka	Zambia	Atlas Copco (Zambia) Ltd.	Ndola
Switzerland	Atlas Copco (Schweiz) AG	Studen	Zimbabwe	Atlas Copco Zimbabwe (Private) Ltd.	Harare

Signatures of the Board of Directors

The Parent Company financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statements have been prepared in accordance with International Accounting Standards as prescribed by the European Parliament and the Regulation (EC) No 1606/2002 dated July 19, 2002 on the application of International Accounting Standards. The Parent Company financial statements and the consolidated financial statements give a true and fair view of the Parent Company's and the Group's financial position and results of operations.

The administration report for the Group and Parent Company provides a true and fair overview of the development of the Group's and Parent Company's business activities, financial position and results of operations as well as the significant risks and uncertainties which the Parent Company and its subsidiaries are exposed to.

Nacka, February 28, 2013

Sune Carlsson
Chair

Ronnie Leten
President and CEO

Ulla Litzén
Board Member

Anders Ullberg
Board Member

Staffan Bohman
Board Member

Margareth Øvrum
Board Member

Johan Forssell
Board Member

Gunilla Nordström
Board Member

Peter Wallenberg Jr
Board Member

Bengt Lindgren
Union representative

Mikael Bergstedt
Union representative

Our audit report was submitted on February 28, 2013
Deloitte AB

Jan Berntsson
Authorized Public Accountant

Atlas Copco AB is required to publish information included in this annual report in accordance with the Swedish Securities Market Act. The information was made public on March 19, 2013.

Audit report

To the annual meeting of the shareholders of Atlas Copco AB Corporate identity number 556014-2720

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Atlas Copco AB for the financial year 2012, except for the corporate governance statement on pages 56–65. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 13–44 and 56–123.

Responsibilities of the Board of Directors and the President for the annual accounts and consolidated accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the President 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.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 56–65.

The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the President of Atlas Copco AB for the financial year 2012. We have also conducted a statutory examination of the corporate governance statement.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the President are responsible for administration under the Companies Act and that the corporate governance statement has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

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.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the President is liable to the company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory 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.

Opinions

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the President be discharged from liability for the financial year.

A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and consolidated accounts.

Nacka, February 28, 2013

Deloitte AB

Jan Berntsson
Authorized Public Accountant

Financial definitions

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.

Interest coverage ratio

Profit before tax plus interest paid and foreign exchange differences divided by interest paid and foreign exchange differences.

Net cash flow

Change in cash and cash equivalents excluding currency exchange rate effects.

Net debt/EBITDA ratio

Net indebtedness in relation to EBITDA.

Net indebtedness/net cash position

Borrowings plus post-employment benefits minus cash and cash equivalents and other current financial assets, adjusted for the fair value of interest rate swaps.

Net interest expense

Interest expense less interest income.

Operating cash flow

Cash flow from operations and cash flow from investments, excluding company acquisitions/divestments.

Operating 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.

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.

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%.

Pre-tax WACC

WACC divided by (1 – estimated standard tax rate).

FIVE YEARS IN SUMMARY

MSEK	2008	2009	2010	2011	2012
Orders received	73 572	58 451	75 178	86 955	90 570
Revenues and profit					
Revenues	74 177	63 762	69 875	81 203	90 533
Change, %	17	-14	10	16	11
Change, excluding currency, %	17	-22	14	24	11
Change, organic from volume and price, %	12	-22	12	22	9
EBITDA	15 886	11 560	16 413	20 082	21 892
EBITDA margin, %	21.4	18.1	23.5	24.7	24.2
Operating profit	13 806	9 090	13 915	17 560	19 228
Operating profit margin, %	18.6	14.3	19.9	21.6	21.2
Net interest expense	-1 243	-808	-423	-506	-644
as a percentage of revenues	-1.7	-1.3	-0.6	-0.6	-0.7
Interest coverage ratio	8.5	8.2	18.1	18.9	20.6
Profit before tax	13 112	8 271	13 495	17 276	18 538
Profit margin, %	17.7	13.0	19.3	21.3	20.5
Profit from continuing operations	10 006	6 276	9 944	12 988	13 914
Profit for the year	10 190	6 276	9 944	12 988	13 914
Employees					
Average number of employees	34 119	31 085	31 214	35 131	39 113
Revenues per employee, SEK thousands	2 174	2 051	2 239	2 311	2 315
Cash flow ¹⁾					
Operating cash surplus	15 805	11 434	16 673	19 906	21 583
Cash flow before change in working capital	11 874	7 889	12 555	14 536	15 938
Change in working capital	-2 291	6 715	-1 730	-6 115	-1 366
Cash flow from investing activities	-4 352	-1 014	-2 818	-4 335	-2 785
Gross investments in other property, plant and equipment	-1 741	-954	-868	-1 728	-1 672
as a percentage of revenues	-2.3	-1.5	-1.2	-2.1	-1.8
Gross investments in rental equipment ¹⁾	-1 158	-769	-825	-1 332	-1 299
Net investments in rental equipment ¹⁾	-739	-212	-345	-788	-749
as a percentage of revenues	-1.0	-0.3	-0.5	-1.0	-0.8
Cash flow from financing activities	-2 706	-6 804	-4 740	-12 735	-4 270
of which dividends paid ²⁾	-3 667	-3 652	-3 650	-10 920	-6 070
Operating cash flow	4 751	13 761	9 698	6 292	12 233
Financial position and return					
Total assets	75 394	67 874	71 622	75 109	81 149
Capital turnover ratio	1.16	0.89	1.02	1.14	1.15
Capital employed	44 372	53 160	50 006	49 086	54 579
Capital employed turnover ratio	1.67	1.20	1.40	1.65	1.66
Return on capital employed, %	33.5	17.7	28.6	37.2	35.7
Net indebtedness	21 686	10 906	5 510	14 194	8 514
Net debt/EBITDA	1.37	0.94	0.34	0.71	0.39
Equity	23 768	25 671	29 321	28 839	35 132
Debt/equity ratio, %	91.2	42.5	18.8	49.2	24.2
Equity/assets ratio, %	31.5	37.8	40.9	38.4	43.3
Return on equity, %	57.7	25.8	37.6	47.6	44.5

For definitions, see page 125.

Per share data, see page 55.

Key financial data is published also on www.atlascopco.com/ir.

¹⁾ Cash flow from increase and sale of rental equipment has been reclassified from investing to operating activities as from 2009.

²⁾ Includes share redemption in 2011.

Notes to the environmental, social and governance (ESG) performance

1. Reporting principles of the environmental, social and governance performance

Since 2001, the report has been prepared yearly in accordance with the Global Reporting Initiative (GRI) guidelines. Since 2006 the report has followed the GRI 3.0 version guidelines. The most recent sustainability report was published in March 2012 as part of the annual report 2011.

This report is also Atlas Copco's Communication on Progress (COP), a report on performance in relation to the UN Global Compact's ten principles. It can be found at www.atlascopco.com/ir and on UN Global Compact's website at unglobalcompact.org/COP.

Atlas Copco adheres to the following internationally recognized voluntary standards and principles:

- UN Global Compact. As a signatory to the UN Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.
- Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines. The guidelines (G3) include an internationally recognized set of indicators for economic, environmental and social aspects of business performance that enables stakeholders to compare companies' performance. Atlas Copco's reporting according to the reporting principles and guidance, including required disclosures, can be found at www.atlascopco.com/ir.

Reporting data collection and reporting

The sustainability report and the corporate governance report are integrated in the 2012 annual report. Reported facts and figures have been verified in accordance with Atlas Copco's procedures for internal control. Data collection is integrated into the Group reporting consolidation systems and collected on a quarterly basis. Reported values are not corrected retroactively. Environmental data covers production units and distribution centers. Business partner data covers production units and employee data covers all operations. Responsibility for reporting rests with the General Manager of each company. Data is reported at local operating unit level, aggregated to division/business area and Group level. Data verification is performed at each level before submitting to external auditors for verification.

The reporting of greenhouse gas emissions is done in accordance with the Greenhouse Gas Reporting (GHG) protocol, www.ghgprotocol.org. The Group is a member of the Swedish Network for Transport and Environment (NTM) and closely follows its recommendations, which may impact the reporting guideline of CO₂ emissions from transport.

Scope

The Annual Report includes information regarding all three aspects of the Group's strategy i.e. where Atlas Copco has a significant economic, environmental and social impact. The report covers Atlas Copco's operations for the fiscal year 2012, unless otherwise stated. Operations divested during the year are excluded; units that were acquired are included. This may at times cause major changes in reported performance. Limitations and reporting principles as well as any restatement of the reporting are explained in the relevant section of the report. For the reporting period of 2012 all publicly disclosed sustainability information can be found in the publication Atlas Copco's annual report 2012, except for the GRI Compliance Index, which is available on the Atlas Copco website, www.atlascopco.com/ir.

Atlas Copco's annual report 2012 includes a general overview of the Group's environmental situation in accordance with the requirements of Swedish legislation regarding environmental information in the Board of Director's Report. In addition, environmental and social information has been integrated into the annual report where appropriate in order to provide a more complete picture of the Group. In addition, Atlas Copco reports with reference to the content elements and guiding principles of the Inaugural Integrated Reporting Framework developed by the International Integrated Reporting Council. The framework is currently in a pilot phase. However, Atlas Copco is currently not a part of the pilot program.

The reason for integrating the sustainability information in the annual report is to provide investors and stakeholders with a relatively complete and easily accessible overview of the Atlas Copco Group's most important activities contributing to sustainable development and increasing shareholder value.

Materiality

The GRI core indicators reported and analyzed are those that are understood to be relevant and material to the Atlas Copco Group and its stakeholders, and which facilitate benchmarking with other companies in a broader sense. Key issues are identified through ongoing stakeholder engagement and are addressed by programs or action plans with clear measurable targets.

Stakeholder dialogue

As a global Group, it's vital for Atlas Copco to ensure accountability for its actual and potential impact on its stakeholders. In discussions with for example NGO's, GO's and other influencers, it takes advice and/or learns from listening to their views. In 2012, one formal stakeholder dialogue was conducted with major shareholders, with the participation of members of Group management. Other stakeholder dialogues are conducted at different levels in the Group. Major issues are collected and form the basis for development of strategic responses to challenges, see table on page 12 in the annual report. One result from stakeholder influence is that the report integrates financial, environmental and social aspects in the annual report.

Review/audit

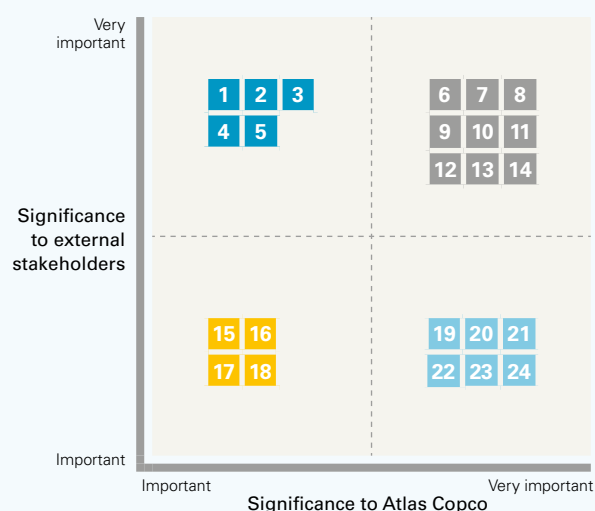
Atlas Copco has self-declared the report to be GRI B+ level compliant. The report covers all Profile Disclosures, all Disclosures on management Approach and at least 20 Performance Indicators. The annual report has been reviewed and approved by Atlas Copco's Group management and the Atlas Copco Board. The sustainability information in the annual report 2012 has been subject to limited assurance by Deloitte.

2. Materiality

Atlas Copco takes inspiration from the GRI criteria for materiality to ensure that the Annual Report addresses all the sustainability issues that impact or are influenced by the Group's operations. The materiality analysis identifies relevant indicators that present significant risks or opportunities to the Group, and whether their impact can be reasonably estimated through reliable and sound investigative methods. Indicators which do not qualify on all accounts are regarded as immaterial and not reported. The remaining material indicators are prioritized based on their relevance to internal and external stakeholders. The issues that have the greatest relevance to both stakeholder groups and deemed business critical are included in the annual report. Other material issues with less priority are published on the Atlas Copco website, www.atlascopco.com/corporateresponsibility.

2. Continued

The result from stakeholder dialogues is illustrated in the materiality matrix below and reflected in this report.



- 1 Supply chain management and responsible sourcing
- 2 Water risk management
- 3 Climate change impact
- 4 Employer/employee relations
- 5 Operating margin
- 6 Energy and resource consumption/efficiency
- 7 Product innovation
- 8 Marketing of sustainable products and solutions
- 9 Hazardous substances in products and components
- 10 Reduce emissions to air and water
- 11 Corruption or bribery
- 12 Safety and health
- 13 Shared value/economic value added
- 14 Operational excellence
- 15 Transparent communication
- 16 Waste reuse and recovery
- 17 Sustainable construction
- 18 Public Policy and lobbying
- 19 Corporate governance
- 20 Risk and crisis management
- 21 Human rights/diversity
- 22 Investments and acquisitions
- 23 Community engagement
- 24 Talent attraction, retention and development

3. Environmental impact ¹⁾

The major part of the Group's environmental impact from operations comes from the materials and energy consumed as part of the production and the waste resulting from these operations. The resource use follows to a great extent the business development for example regarding the use of steel. Atlas Copco strives to reduce the carbon dioxide emissions from operations. As a result of efforts taken within this area the share of indirect energy originating from renewable sources slightly increased in 2012. The waste increased both in total volumes and in relation to cost of sales. The increase is partly due to an increase in business.

3. Continued

Material use	2012
Material use ²⁾ in tonnes (iron and steel)	142 011
Aluminum	754
Rubber	1 246
Hydrocarbons	2 086
Volatile organic compounds	285
Gas	4 130

¹⁾ Production units and distribution centers.

²⁾ The finished products include parts or components which are not accounted for.

Energy consumption*, %	2012
Direct energy, renewable	0
Direct energy, non-renewable	32
Indirect energy, renewable	22
Indirect energy, non-renewable	46

* Direct energy is defined as purchased and consumed fuel for own production; this includes oil, coal, natural gas, gasoline and diesel. Indirect energy is defined as energy from external sources, for example energy required to produce and deliver purchased electricity and district heating.

Waste disposal, tonnes and (%)*	2012
Energy recovery	6 693 (17)
Material reuse	3 268 (8)
Material recycling	25 975 (67)
Landfill	3 067 (8)

* Of which regulated or hazardous waste 4 642 tonnes.

Atlas Copco follows applicable laws in all countries where it operates and reports incidents or fines for non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages, in accordance with these laws. No major incidents have been reported in 2012 and no major fines have been paid.

4. Employees

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 almost 50% of all employees work in marketing, sales or service.

Geographical spread of employees, %	Employees	Nationality of senior managers
Africa/Middle east	7	6
Asia/Australia	28	12
Europe	43	69
North America	14	9
South America	8	4
Total	100	100

Employees by professional category, %	2012
Production	29
Marketing	8
Sales and support	13
Service	28
Administration	16
Research & development	6
	100

5. Safety and health

Atlas Copco has a focused work on safety. The number of accidents increased to 391 (370). The Group takes the increase seriously and promptly addresses the issue with the concerned entities. The relative number of accidents decreased to 5.4 (5.7) per one million working hours. The reporting of incidents is new and the number of incidents was 1 710 (1 490). The Group encourages units to report accidents and incidents to be able to address safety issues at an early stage. In Asia there is a number of new and modern production sites, which partly explains the low portion of incidents or accidents.

Geographical spread of incidents and accidents, %	Work-related incidents	Work-related accidents
Africa/Middle east	3	5
Asia/Australia	8	11
Europe	72	57
North America	14	16
South America	3	11
	100	100

6. Suppliers

Supplier evaluations regarding safety, health, social and environment aspects including objective factors such as quality and financial data are performed throughout the Group. The Group encourages sourcing close to production sites for business reasons and for the environmental and social benefit. Continuous work to condense the number of significant suppliers is ongoing with the aim to increase focus and materiality of activities in the supply chain. This has resulted in a lower number of significant suppliers in 2012 compared to 2011.

Significant suppliers* by geographical spread	%
Africa/Middle East	0
Asia/Australia	25
Europe	56
North America	17
South America	2
	100

* A significant supplier supplies direct material to products and components or indirect material if relevant, such as oil and lubricants.

Supplier's commitment	2012	2011*	Goal
Significant suppliers, number	10 920	14 763	
Safety, health and social (SHS) evaluated suppliers ¹⁾ , %	16	15	100
Approved suppliers (no need to follow up), %	95	92	N/a
Conditionally approved suppliers (monitored), %	4	7	N/a
Rejected suppliers (relationship ended) ²⁾ , %	1	1	N/a
Suppliers asked on commitment to the Business Code of Practice, number	6 139	5 958	N/a
Suppliers that have confirmed their commitment to the Code, % of asked	76	75	N/a

* Revised numbers regarding 2011.

¹⁾ Evaluations or audits are conducted by Atlas Copco teams directly at the suppliers' sites.

²⁾ Reasons for rejection include for example safety in the workplace, personal protection for workers and no fulfillment of environmental laws. Suppliers are rejected if they do not meet Atlas Copco requirements and are not willing to improve. The Group does not keep any black lists of its business partners.

7. Governance

Atlas Copco's hotline is the Group's whistleblower function of the Business Code of Practice. The Group is positive to receiving reports through the hotline since it provides the possibility to act on potential misconduct to the Business Code of Practice. During the year the hotline has been promoted globally among employees and business partners.

Reported potential violations, number	2012
Fraud	16
Labor relations	18
Corruption	2
Discrimination	1
Other (personal, organizational issues)	2
	39

Four cases regarding alleged fraud are still under investigation. The alleged cases of corruption and discrimination were not substantiated and closed after investigation. Cases of fraud and labor relations were substantiated in 16 cases and led to organizational changes or disciplinary actions such as dismissal. There have been no other instances of anti-competitive behavior or corruption brought to the attention of Group management. There are no pending legal actions in this area and no fines have been paid during the year.

During the year there have been no instances of incidents involving indigenous rights among the Group's own employees and no human rights violations brought to the attention of Group management.

8. Public policy

Atlas Copco belongs to trade organizations such as The Association of Swedish Engineering Industries, the Federation for the Technology Industry in Belgium, the Compressed Air and Gas Institute in the United States, the German Engineering Federation, and many others. Since 1959, Atlas Copco has been actively involved in Pneurop, the European committee of manufacturers of compressors, vacuum pumps, pneumatic tools and allied equipment. Pneurop acts on behalf of members in European and international forums regarding the harmonization of technical, normative and legislative development of construction equipment.

Atlas Copco is a member of the Committee for the European Construction Equipment Industry (CECE) which works, for example, in removing technical barriers and improving safety standards and environmental aspects of construction equipment. In addition, the company participates in ongoing development of international standards, including the ISO committee ISO/TC 118 and the CEN committee CEN 232.

The Atlas Copco Group does not take political stands and does not use Group funds or assets to support political campaigns or candidates, or otherwise provides services to political endeavors. Atlas Copco does not receive any significant assistance from governments.

Audit review report on sustainability information

To the readers of Atlas Copco AB's annual report

Introduction

We have been engaged by the the Board of Directors and the President of Atlas Copco AB to review the sustainability information included in the annual report for the financial year 2012. Our review is limited to the information related to the financial year ended December 31, 2012, included in the printed version of this document on pages 9–12, 45–49 and 127–130, and the Atlas Copco 2012 – GRI compliance Index, disclosed on the Company's website (www.atlascopco.com). The Board of Directors and the President are responsible for the activities regarding environment, health & safety, social responsibility and sustainable development, and for the preparation and presentation of sustainability information included in the annual report in accordance with applicable criteria. Our responsibility is to express a conclusion on the sustainability information based on our review.

The scope of the review

We have performed our review in accordance with RevR 6 Assurance of Sustainability Reports issued by FAR. A review consists of making inquiries of persons responsible for the preparation of the sustainability information in the annual report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Sweden. The procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our assurance does not cover an assessment of the assumptions used by the Company or to what extent it is possible for the Company to reach certain future targets described in the report (e.g. goals, expectations and ambitions).

Our review is based on the criteria laid out in the parts of the Sustainability Reporting Guidelines G3, published by The Global Reporting Initiative (GRI), which are applicable to the sustainability information in the annual report, as well as the specific accounting and calculation principles that the Company has developed and disclosed. We consider these criteria suitable for the preparation of the sustainability information in the annual report.

The main procedures of our review have included the following:

- assessment of suitability and application of the criteria referred to above considering stakeholders' need of information,
- assessment of the result of the Company's stakeholder dialogue,
- interviews with management at group level and at selected business units with the aim to assess management's process for gathering the qualitative and quantitative sustainability information stated in the annual report to ensure that it is complete, accurate and sufficient,
- examination of internal and external documents to assess if the sustainability information stated in the annual report is complete, accurate and sufficient,
- performance of analytical review procedures of reported information,
- assessment of the Company's stated application level according to the GRI's guidelines,
- assessment of the overall impression of the sustainability information, and its format, taking into consideration the consistency of the stated information with applicable criteria.

Conclusion

Based on our procedures performed, nothing has come to our attention that causes us to believe that the sustainability information for the financial year 2012 has not, in all material respects, been prepared in accordance with the above stated criteria.

Nacka, February 28, 2013
Deloitte AB

Jan Berntsson
Authorized Public Accountant

Lennart Nordqvist
Expert Member of FAR

Financial information

Welcome to the Annual General Meeting

Atlas Copco shareholders are hereby notified that the Annual General Meeting will be held on Monday April 29, 2013 at 4 p.m. in Aula Magna, Stockholm University, Frescativägen 6, Stockholm, Sweden.

Financial information from Atlas Copco

Atlas Copco will publish the following financial reports:

April 29, 2013	Q1 – first quarter results
July 18, 2013	Q2 – second quarter results
October 25, 2013	Q3 – third quarter results
January 30, 2014	Q4 – fourth quarter results
March, 2014	Annual report 2013



Order the Annual report from

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Media: *Ola Kimmander*, Media Relations Manager, media@se.atlascopco.com

Sustainability: *Karin Holmquist*, Vice President Corporate Responsibility, cr@se.atlascopco.com

The web site **www.atlascopco.com** serves Atlas Copco's stakeholders with information in several languages.

In the investor section, **www.atlascopco.com/ir**, available in English and Swedish, you will find financial reports and key figures in ready-to-use digital formats and you can subscribe to information from the Group. Investor presentations can be downloaded and you can view and/or listen to presentations of quarterly reports.

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Committed to sustainable productivity



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