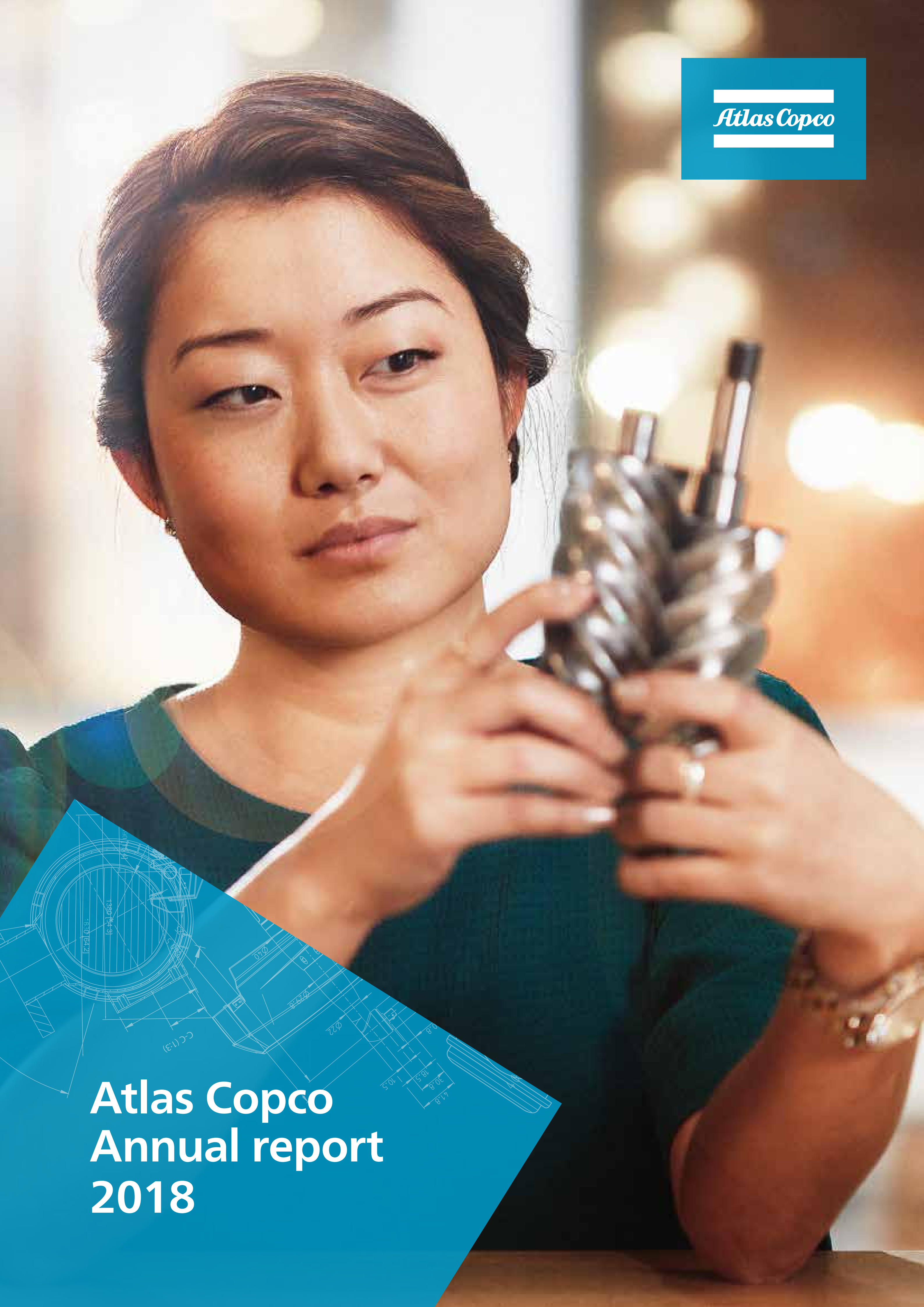

Atlas Copco Annual report 2018

Atlas Copco believes in...

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

CONTENTS

Marked with blue

The audited annual accounts and consolidated accounts can be found on pages 11–39, 44–48 and 51–124. The corporate governance report examined by the auditors can be found on pages 51–59.

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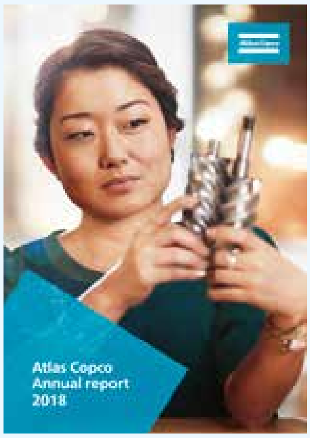
Sustainability information that has been reviewed by the auditors can be found on pages 6–8, 32–43 and 129–138.



Industrial ideas drive development

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

GRI Standards and external review

Atlas Copco reports its sustainability work for 2018 according to GRI Standards, Global Reporting Initiative's reporting guidelines, level Core. Deloitte has reviewed the report and verified this level, see page 139. More information can be found at: www.atlascopcogroup.com The sustainability report 2018 is prepared in accordance with the Annual Accounts Act.

Notice

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

Forward-looking statements

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

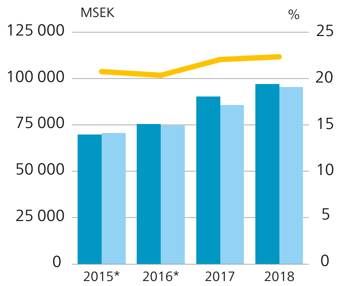
Atlas Copco AB is a public company. Atlas Copco AB and its subsidiaries are sometimes referred to as the Atlas Copco Group, the Group, or Atlas Copco. Atlas Copco AB is also sometimes referred to as Atlas Copco. Any mention of the Board of Directors or the Board refers to the Board of Directors of Atlas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

Welcome to the Atlas Copco Group

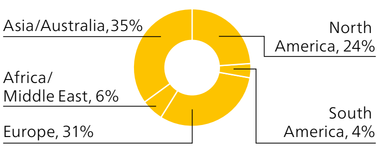
– a decentralized group with four business areas

Orders received, MSEK
Revenues, MSEK
Operating margin, %

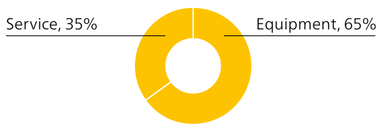
Orders received, revenues and operating margin (Group)



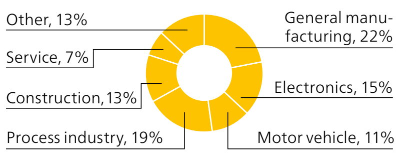
Revenues by region (Group)



Share of revenues (Group)



Orders received by customer category (Group)



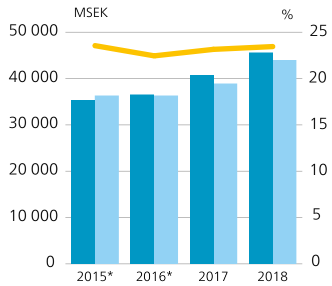
COMPRESSOR TECHNIQUE

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

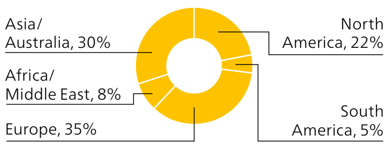
Read more at page 20

Revenues 2018: MSEK 43 972

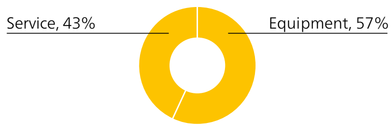
Orders received, revenues and operating margin



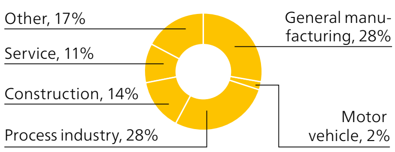
Revenues by region



Share of revenues



Orders received by customer category



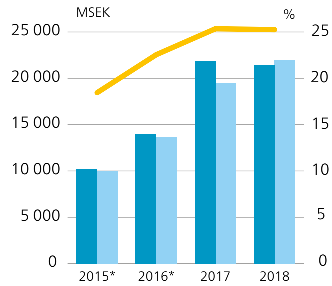
VACUUM TECHNIQUE

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

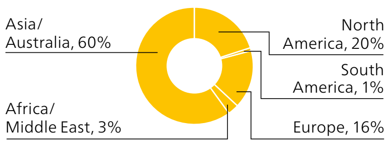
Read more at page 23

Revenues 2018: MSEK 22 007

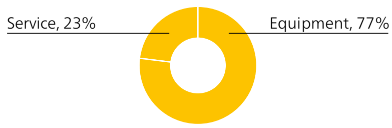
Orders received, revenues and operating margin



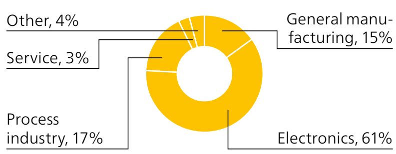
Revenues by region



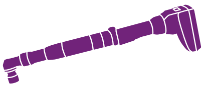
Share of revenues



Orders received by customer category



* Figures for the years 2015–2016 are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.



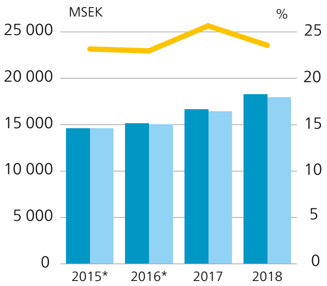
INDUSTRIAL TECHNIQUE

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

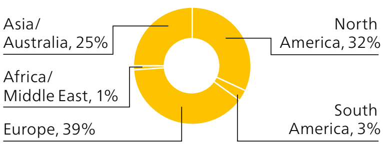
Read more at page 26

Revenues 2018: MSEK 17 933

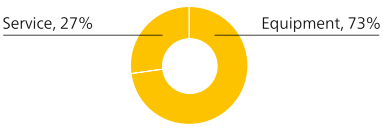
Orders received, revenues and operating margin



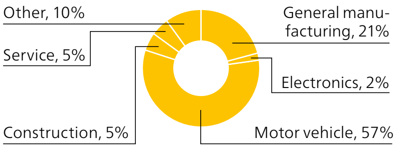
Revenues by region



Share of revenues



Orders received by customer category



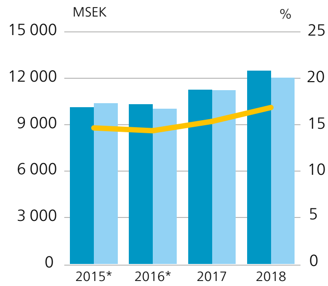
POWER TECHNIQUE

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

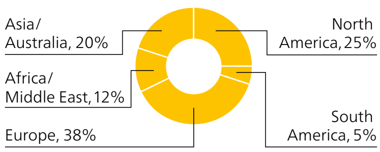
Read more at page 29

Revenues 2018: MSEK 12 042

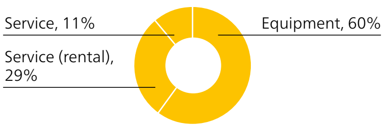
Orders received, revenues and operating margin



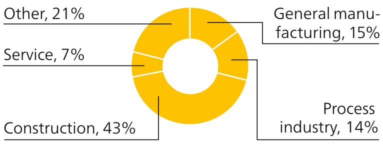
Revenues by region



Share of revenues



Orders received by customer category



* Figures for the years 2015–2016 are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

Atlas Copco in 2018

Record order intake, revenues and profit

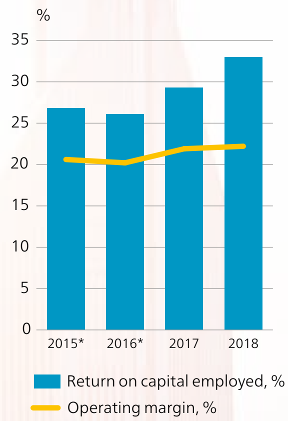
Shareholders received BSEK 18 in ordinary dividend and extra distribution

Distribution of Epiroc AB to shareholders

Revenues, MSEK, 2018	Operating margin, 2018	Return on capital employed, 2018
95 363	**22.2%**	**33%**
+11%		

Orders received and revenues

Return on capital employed and operating margin



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Delivering value and innovation with the future in mind

Atlas Copco achieved record revenues and record profit for 2018. A strong focus on being close to customers and delivering what they find truly valuable is top of mind for all employees throughout the organization.

Mats Rahmström, CEO and President of the Atlas Copco Group, how would you summarize 2018?

As a successful, exciting and memorable year. We continued to launch innovative products and service solutions. By always looking for improvements we deliver value to all our stakeholders. In this past year, I have seen so many examples of how we support our customers to increase their productivity and strengthen their offering. We are a very large organization but still manage to stay close to our customers. I see strong entrepreneurial spirit in our teams and that is something that really stands out.

More specifically, how do you comment on the financial results for 2018?

Financially we performed on record levels and the start of the year was very strong. Our revenues were MSEK 95 363 and our operating profit MSEK 21 187. During the second part of the year there were more uncertainties in the global economy and we experienced a weakened demand in the semi-conductor and automotive industries. PAGE 13

Five business areas became four when Mining and Rock Excavation became a separate, listed company in June 2018. How has the split changed Atlas Copco?

It was a milestone. Today we have a clear focus on industrial customers. I know from experience that we are at our best when we are focused. Embracing change to become even better is an important part of Atlas Copco's success. The split demonstrates that in a very concrete way. The willingness to improve and create customer value in everything we do is at the heart of our company culture.

What trends and change drivers do you see in the world today?

Understanding the world and the conditions we operate in helps us prioritize and seize the right opportunities. Several macro trends will affect us and our customers in the years to come. I am convinced that we have only seen the beginning of digitalization as the demand for data and connectivity will increase. Automation and new manufacturing methods are opportunities that enable new possibilities when it comes to service, quality control and business opportunities – both for Atlas Copco and for our customers. Another change driver is the increased protectionism we experienced during 2018. I am a firm believer in free trade. Our growth is spread quite evenly across the world and we are well prepared to handle different scenarios. We have a strong local presence and a strong portfolio of brands, and we make sure that we have a deep understanding of differences between local markets and that we ensure scale and cost efficiency.

Globalization has been a reality for us for a long time. Just look at the daily interaction between employees and customers taking place within our multinational Group. We strive to encourage mobility across geographical, organizational and cultural boundaries. This is important for developing competence, the possibilities for employees to grow and have challenging and interesting professional lives, and also for successful integration of newly acquired companies. Climate change is also high on our agenda as well as on the agenda of our customers, investors and employees. Our strategy builds on growing in the right way, and we are taking the next steps by implementing new goals during 2019. PAGE 5

Growing in the right way, what does that mean?

I believe it is important that both companies and countries take responsibility to be part of the solutions to global challenges. We want to support the achievement of the UN Sustainable Development Goals. PAGE 33

Growing in the right way is, for me, to create lasting value. It means that we have to be an attractive employer and a profitable investment, develop products that are safe, ergonomic and save energy. It means that we work according to the highest ethical standards, for instance never accepting or giving bribes.

We work hard to enhance our positive impact, mainly by developing even more energy efficient products. Our ambition is to decrease our own carbon footprint, for instance by switching to renewable electricity where possible, although the supply of renewable electricity where we have operations is not always sufficient.

It is important to me that we give our employees fair opportunities to grow and lead fulfilling professional lives regardless of their gender, age or background. We have developed new goals that provide long-term direction for the company and communicate our commitment to areas that are key to our attractiveness and competitiveness. Our products are our core mandate and competence, so we have initiated the process to set goals to reduce the negative environmental impact from a life-cycle perspective. These goals are key drivers for us to continue to deliver lasting value to all our stakeholders.

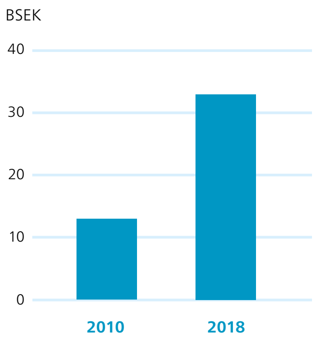
> In this past year, I have seen so many examples of how we support our customers to increase their productivity and strengthen their offering.

Geographically, which regions drive global growth?
More and more of Atlas Copco's revenues are generated in Asia. During 2018, 35 percent of our orders received came from this region. You can't be a global leader unless you are leading in the Asian market. To be able to compete we must further strengthen our position in this region.

What are Atlas Copco's success factors?
I like to highlight our strategic pillars. For example, we operate in segments or niches where we are number one or two, or have a realistic chance of reaching that position.
PAGE 4

We want to grow both organically and through acquisitions. Our products also have strong service potential, which makes us resilient. During 2018, 35 percent of our revenues came from the service business. Staying close to customers by servicing their

Revenues generated from Asia



equipment lets us know more about our customers' needs; this gives us crucial insight that inspires future innovations. Thanks to our size we can devote resources to innovation and the development of market-leading products, which in turn generates further growth. We are leading when it comes to investment in research and development.

We are also able to adjust quickly to the current business climate. We use multiple suppliers for components, but the products' intelligent core will always be developed and designed by us.

What is your focus for 2019?
It is all about the customers' success. To make our customers successful we ourselves need to be even more innovative and deliver the best products and service solutions. I will coach and challenge our organization so that we can continue to embrace industrial ideas and create innovative products that bring value to our customers. Atlas Copco's success is closely related to being a good employer so that we attract and develop competent and motivated people. Every innovation starts with an idea, and ideas are developed by passionate people. This is how we deliver value with the future in mind.

Nacka, Sweden, January 2019

This is Atlas Copco

The Atlas Copco Group is a world-leading provider of sustainable productivity solutions. The Group offers customers innovative compressors, air treatment systems, vacuum solutions, industrial power tools and assembly systems, and power and flow solutions. Atlas Copco develops products and services focused on productivity, energy efficiency, safety and ergonomics. Principal product development and manufacturing is located in Sweden, Belgium, France, Germany, Italy, Czech Republic, United Kingdom, United States, China, India, South Korea and Japan. The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning more than 180 countries. In 2018, Atlas Copco had revenues of BSEK 95 (BEUR 9) and approximately 37 000 employees.

Our vision, mission and strategy

The Atlas Copco Group's vision is to become and remain First in Mind—First in Choice of its customers and other principal stakeholders. The mission is to achieve sustainable, profitable growth. Sustainability plays an important role in Atlas Copco's vision and it is an integral aspect of the Group's mission. An integrated sustainable strategy, backed by ambitious goals, helps the company deliver greater value to all its stakeholders in a way that is economically, environmentally and socially responsible. The Group has identified five strategic pillars for growth: people, innovation, presence, operational excellence, and service. Digital technology supports the development in all these strategic areas.

STRATEGIC PILLARS FOR GROWTH

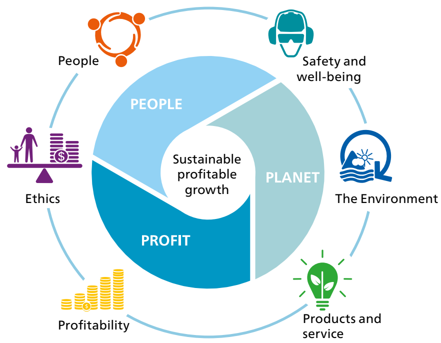
People	Innovation	Presence	Operational excellence	Service
Attract and develop qualified and motivated employees as well as create equal opportunities for a professional career.	Invest in research and development and continuously launch new products and services that increase customers' productivity.	Increase market presence and penetration, and expand the product and service offering in selected market segments.	Continuously strive for improved operational performance with an efficient and responsible use of resources – human, natural and capital.	Increase the service offer, perform service for a larger proportion of the products we sell, and thereby give customers peace of mind.

DIGITALIZATION

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

Our goals

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



FINANCIAL	Revenue growth measured over a business cycle. Target: 8% per annum. Growth should primarily be organic, supported by selective acquisitions.
	Sustained high return on capital employed by constantly striving for operational excellence and generating growth.
	Earnings as dividends to shareholders. Target: about 50%.
PEOPLE	Percentage of Atlas Copco employees who believe there is opportunity for development, mobility and growth should be higher than the global benchmark by 2021. Target to be defined after employee survey in 2019.
	Percentage of Atlas Copco employees who believe we have a work culture of respect, fairness and openness should be higher than the global benchmark by 2021. Target to be defined after employee survey in 2019.
	Atlas Copco should have 30% female employees by 2030.
ETHICS	All Atlas Copco employees confirm compliance with the Business Code of Practice.
	All Atlas Copco employees are trained in the Business Code of Practice.
	All Atlas Copco managers in risk countries lead trainings in the Business Code of Practice.
	All significant suppliers confirm compliance with the Business Code of Practice.
	All significant distributors confirm compliance with the Business Code of Practice.
PRODUCTS AND SERVICE	All projects for new or redesigned products have clear and specific targets set for reduced environmental impact by 2021.
	Projects for new or redesigned products achieve significantly reduced environmental impact. Target to be defined in 2019.
SAFETY AND WELL-BEING	Atlas Copco should have a balanced safety pyramid. To reduce and prevent future injuries, the objective is to increase the reporting of near misses and all types of injuries. The vision is zero injuries.
	Percentage of Atlas Copco employees who believe they have a healthy working environment. Target to be defined in 2019.
THE ENVIRONMENT	CO_2 emissions from energy in operations and transport of goods in relation to cost of sales should be reduced by 50% by 2030.
	Continuous reduction of water consumption in relation to cost of sales.
	Continuous reduction of total waste in relation to cost of sales.
	Continuous increase of significant direct suppliers that have an approved Environmental Management System.

Creating value for all stakeholders

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

A responsible use of resources:

NATURAL RESOURCES
- 360 GWh total energy use
- 255 000 m³ water use in water risk areas
- 75% purchased components

FINANCIAL RESOURCES
- MSEK 64 945 in capital employed
- MSEK 3 000 investments in innovation*

HUMAN RESOURCES
- 37 000 employees in 71 countries
- 43 nationalities among the 381 most senior leaders

… combined with a strong set of capabilities:

- Innovate for customers' success
- Agile setup and asset-light operations
- Close to the customer with application knowledge and professional service
- Decentralized leadership model

... creates value for our stakeholders:

CUSTOMERS
- Increased productivity
- Safe working environment
- Decreased total cost of ownership

EMPLOYEES
- 1.5 million training hours worldwide
- 3% decrease in number of accidents per million working hours

BUSINESS PARTNERS
- More than 4 600 significant suppliers
- Leverage competence
- Market access
- Long-term reliable partner
- Over 800 suppliers were audited for quality, safety, health, environment and ethics

SHAREHOLDERS
- 22.1% annual total return A-share, 10 year
- 33% return on capital employed
- MSEK 14 133 operating cash flow

SOCIETY/ENVIRONMENT
- 95% of managers have signed the Business Code of Practice
- 6% reduced water consumption in relation to cost of sales in water risk areas
- 34% renewable energy of total MWh energy used in operations
- MSEK 16 in community investments

* Investments in product development, including capitalized expenditures

This is how we do business

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

Atlas Copco has a global reach with sales in more than

180

countries

Sales and service is performed by employees with strong application and process knowledge.

AGILITY

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

Approximately

75%

of the production cost of equipment represents purchased components.

Sales and service

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

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

Stable service business

About 35% of revenues are generated from service (spare parts, maintenance, repairs, consumables, accessories, and rental). These revenues are more stable than equipment sales and provide a strong base for the business.

Increase customer loyalty

Customers who have sales and/or service interactions with Atlas Copco receive surveys where they are asked to give their opinion about the interaction and their experience. Customers are often engaged in discussions about their feedback in order to improve products and services.

A number of key performance indicators have been established, such as the availability of spare parts, which are continuously followed up to ensure that customer satisfaction improves.

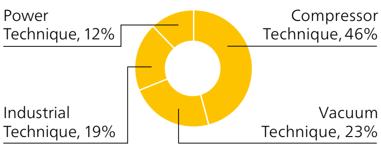
Manufacturing and logistics

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

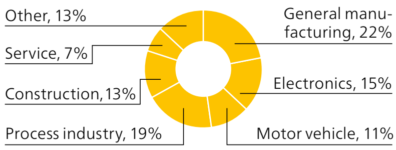
Equipment represents about 65% of revenues and Atlas Copco has organized its manufacturing and logistics to be able to quickly adapt to changes in equipment demand. The manufacturing of equipment is primarily based on customer orders and only some standard, high volume equipment is manufactured based on projected demand.

The assembly of equipment is to a large

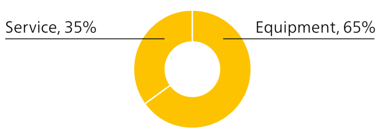
Share of revenues by business area



Orders received by customer category



Share of revenues



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

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, while ensuring highest quality.

Innovation

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

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

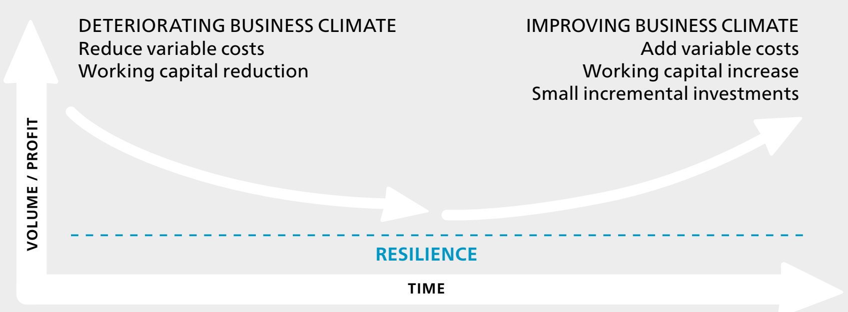
Innovation also includes better processes to improve the flow and utilization of assets and information. Innovation will improve customer satisfaction and contribute to strengthening customer relations, the brand, as well as financial performance. Overcapacities and inefficiencies must always be challenged.

Investments in fixed assets and working capital

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

The working capital requirements of the Group are affected by the relative high share of sales through own customer centers, which affects the amount of inventory and receivables. In an improving business climate with higher volumes, more working capital will be tied up. If the business climate deteriorates, working capital will be released.

AGILE AND RESILIENT OPERATIONAL SETUP



Acquisitions

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

Leadership and human capital

Atlas Copco believes that competent and committed leaders are crucial to achieving sustainable profitable growth and has developed a leadership model. In Atlas Copco, leadership is defined as the ability to create lasting results.

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

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

Organization

As of January 1, 2019

BOARD OF DIRECTORS

PRESIDENT AND CEO

GROUP MANAGEMENT

BUSINESS AREAS AND CORPORATE FUNCTIONS

COMPRESSOR TECHNIQUE	VACUUM TECHNIQUE	INDUSTRIAL TECHNIQUE	POWER TECHNIQUE

DIVISIONS

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

Compressor Technique	Vacuum Technique	Industrial Technique	Power Technique
Compressor Technique Service	Vacuum Technique Service	Industrial Technique Service	Power Technique Service
Industrial Air	Semiconductor Service	MVI Tools and Assembly Systems	Specialty Rental
Oil-free Air	Semiconductor	General Industry Tools and Assembly Systems	Portable Air
Professional Air	Scientific Vacuum	Chicago Pneumatic Tools	Power and Flow
Gas and Process	Industrial Vacuum	Industrial Assembly Solutions	
Medical Gas Solutions			
Airtec			

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

STRUCTURE AND GOVERNANCE

Atlas Copco's organization is based on the principle of decentralized responsibilities and authorities (see the organization chart above). The organization has both operating and legal units. Each operating unit has a business board reflecting the operational structure of the Group. The duty of the business board is to serve in an advisory and decision-making capacity concerning strategic and operative issues. It also ensures the implementation of controls and assessments. Each legal company has a legal board focusing on compliance and reflecting the legal structure of the Group.

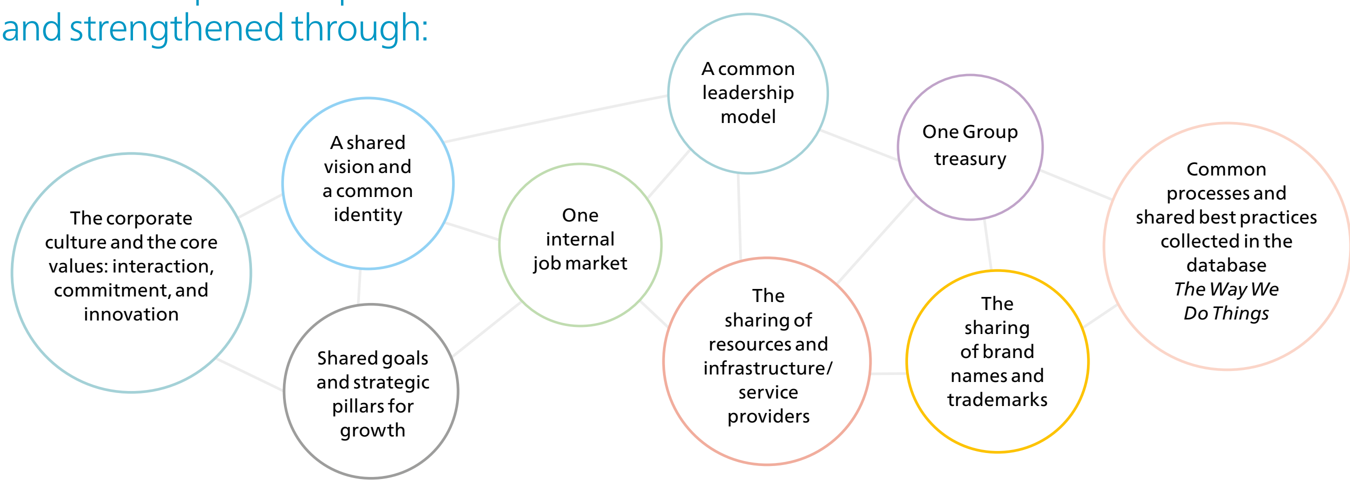
The Board of Directors is responsible for the organization and management of the Group, regularly assessing the Group's financial situation and financial, legal, social and environmental risks, and ensuring that the organization is designed for satisfactory control. The Board approves the Business Code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

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

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

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

The Atlas Copco Group is unified and strengthened through:



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

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

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

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

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

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

THE BUSINESS CODE OF PRACTICE

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

The year in review

Important events

Split of the Group
At the Annual General Meeting on April 24, it was decided to spin-off and distribute the shares of Epiroc AB to the shareholders of Atlas Copco. In June, the shareholders received one Epiroc share for each of their Atlas Copco shares. Epiroc AB was listed on Nasdaq Stockholm on June 18, 2018. On distribution of the Epiroc shares, Atlas Copco recognized a capital gain in discontinued operations of MSEK 87 105, representing the difference between the fair value of Epiroc and the carrying value of Epiroc's net assets at the time of distribution.

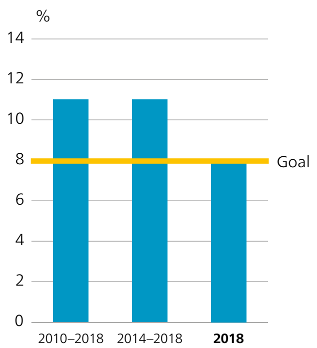
Changes in Group Management
Gisela Lindstrand was appointed Senior Vice President Corporate Communications and Governmental Affairs, effective May 28, 2018. Gisela was previously Senior Vice President Corporate Communications and Public Affairs at the Sweden-based security solutions company Securitas.

Acquisitions and divestments
The Group completed five acquisitions and one smaller divestment during the year. In total, the acquisitions added net revenues of approximately MSEK 530. See also note 2 and the business area sections on pages 18–31.

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

Financial goals – growth and return development

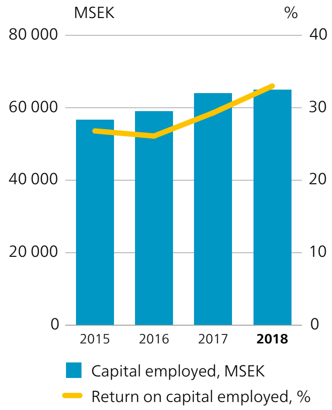
ANNUAL REVENUE GROWTH RATE, AVERAGE*



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

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.

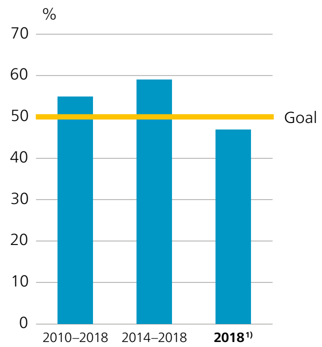
CAPITAL EMPLOYED AND RETURN*



* 2015–2017 figures are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

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

DIVIDEND/EARNINGS PER SHARE, AVERAGE*
including discontinued operations



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

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

Dividend policy history

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

[1] Proposed by the Board of Directors.

Market review and demand development

The overall demand for Atlas Copco's equipment and services improved in 2018. In comparable currencies, the Group's order intake for equipment increased by 4% and the service part, including specialty rental, grew by 11% with positive development in all business areas and in all regions.

Order volumes increased for compressors, primarily driven by increased demand for large industrial compressors and gas and process compressors in Asia and Europe.

The demand for vacuum equipment decreased in 2018 as the demand from the semiconductor and flat panel display industry weakened, primarily in Asia, in the latter half of the year. The demand for equipment to industrial and high vacuum applications remained more stable and the order volumes increased.

The order intake for industrial tools and assembly solutions increased, supported mainly by increased demand from general industry applications in the off-road vehicle, aerospace, and electronics industries. The demand from the motor vehicle industry increased marginally, after a weaker second half of the year.

Order volumes for portable air and power and flow products, such as portable compressors, construction tools, generators and pumps, also increased in the year. More information can be found in the business area section on pages 18–31.

In total, the Group's order intake increased by 8% to a record MSEK 97 132 (90 132). The organic order growth was 5%, while more favorable exchange rates contributed 3% and acquisitions 0%.

North America

The orders received in North America increased 8% in local currencies. The growth was particularly strong for vacuum pumps, industrial and gas and process compressors. Order volumes for industrial tools and assembly solutions were more or less unchanged, mainly due to somewhat weaker demand from the motor vehicle industry. The service business increased in all business areas. North America accounted for 24% (24) of global orders received.

South America

Orders received in South America increased 11% in local currencies, supported by improved demand in the largest market, Brazil. Growth was achieved for both equipment and service. The increased equipment demand was primarily driven by compressors. In total, South America accounted for 4% (4) of orders received.

Europe

The orders received in Europe increased by 8% in local currencies. Order volumes increased for both equipment and service. The service business had a positive order development in all business areas and equipment orders increased for industrial, portable and gas and process compressors, as well as for industrial tools and assembly solutions. The order intake for vacuum pumps decreased as the demand from semiconductor applications weakened. In total, Europe accounted for 31% (30) of orders received.

Africa/Middle East

Orders received in local currencies decreased 2% in Africa/Middle East, which accounted for 6% (6) of the Group's orders received. Order volumes for industrial and portable compressors increased, while order volumes for gas and process compressors and industrial tools and assembly solutions decreased. The service business had a positive development in the region.

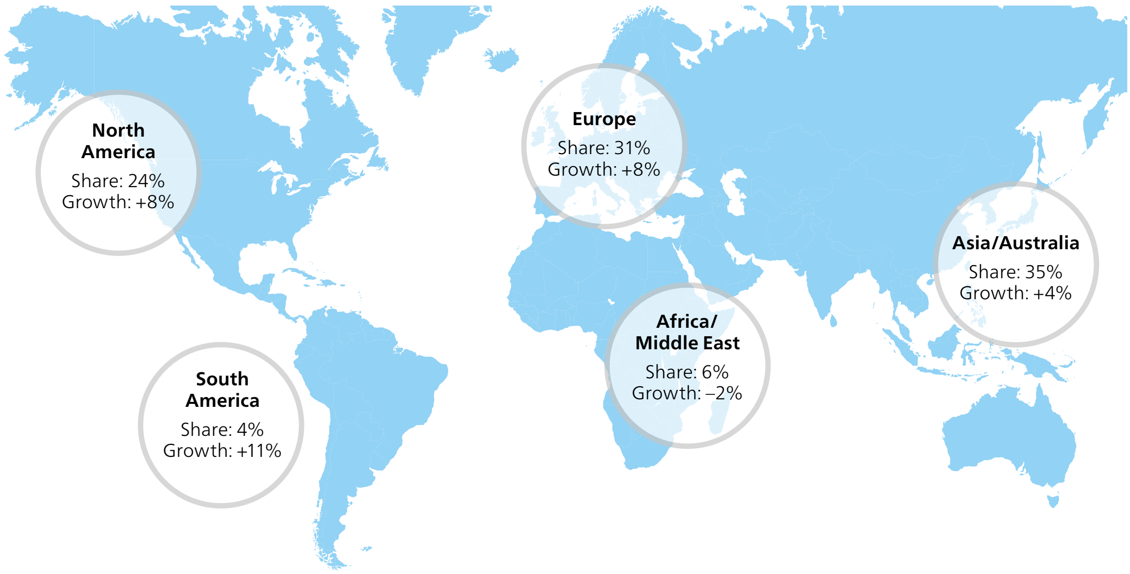
Asia/Australia

The order intake in local currencies in Asia/Australia increased by 4%. The growth was primarily driven by good development for compressors and industrial tools and assembly solutions in China. The order intake for vacuum equipment decreased in the region, mainly due to lower demand from the semiconductor industry in South Korea. The service business continued to have a positive development in the region and grew for all business areas. In total, Asia/Australia accounted for 35% (36) of orders received.

Market presence

In line with the strategic growth pillars, the global presence of the Group was further strengthened by the addition of sales and service engineers in many markets. Atlas Copco had own customer centers in 71 countries and revenues were reported in more than 180 countries.

ORDERS RECEIVED BY REGION AND ORDER GROWTH IN LOCAL CURRENCY



Revenues and return

Revenues

The Group's revenues increased 8% organically and 11% in total to a record MSEK 95 363 (85 653). The goal is to achieve an annual revenue growth of 8% over a business cycle. For the period 2010–2018, the average annual revenue growth has been approximately 11%*.

Operating profit

The operating profit reached an all-time high of MSEK 21 187 (18 748), corresponding to a margin of 22.2% (21.9). Items affecting comparability were MSEK 52 (–76) and the adjusted operating margin was 22.2% (22.0). See also the sales bridge below.

The operating profit for the Compressor Technique business area increased 15% to MSEK 10 263 (8 962), corresponding to a margin of 23.3% (23.0). The margin was positively affected by higher volumes, but negatively impacted by currency and dilution from recent acquisitions.

The operating profit for the Vacuum Technique business area increased 12% to MSEK 5 522 (4 924), corresponding to a margin of 25.1% (25.2). The operating margin was supported by higher revenue volumes, negatively affected by sales mix, while currency had no effect on the margin.

The operating profit for the Industrial Technique business area was MSEK 4 188 (4 194). Previous year included items affecting comparability of MSEK +380, mainly related to a release of liabilities for contingent consideration connected to the Henrob acquisition in 2014. The operating margin was 23.4% (23.2 adjusted). The margin was positively affected by currency, but negatively affected by increased investments in research and development and market presence.

The operating profit for the Power Technique business area increased 18% to MSEK 2 006 (1 705), corresponding to a margin of 16.7% (15.2). The margin was positively affected by a capital gain of MSEK 109 related to the divestment of the Concrete and Compaction business in February 2018, but also supported by volume and sales mix. Currency had a somewhat negative impact on the operating margin. Previous year was affected by restructuring costs related to the move of production and research and development in Europe and India. The adjusted operating margin was 15.8% (15.5).

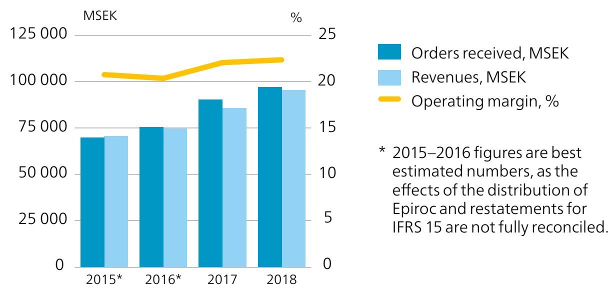
Net costs for common Group items and eliminations were MSEK –792 (–1 037), including the effect the provisions for share-related long-term incentive programs of MSEK –18 (–426).

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

Sales bridge, Atlas Copco Group	Orders received	Revenues
2017	**90 132**	**85 653**
Structural change, %	+0	+0
Currency, %	+3	+3
Organic*, %	+5	+8
Total, %	+8	+11
2018	**97 132**	**95 363**

* Volume, price and mix

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



* 2015–2016 figures are best estimated numbers, as the effects of the distribution of Epiroc and restatements for IFRS 15 are not fully reconciled.

Sales bridge	Compressor Technique		Vacuum Technique		Industrial Technique		Power Technique	
	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues
2017	**40 772**	**38 924**	**21 890**	**19 503**	**16 651**	**16 431**	**11 259**	**11 217**
Structural change, %	+1	+1	+2	+2	+0	+0	–2	–2
Currency, %	+2	+2	+2	+3	+4	+3	+2	+2
Organic*, %	+9	+10	–6	+8	+6	+6	+11	+7
Total, %	+12	+13	–2	+13	+10	+9	+11	+7
2018	**45 580**	**43 972**	**21 471**	**22 007**	**18 264**	**17 933**	**12 498**	**12 042**

* Volume, price and mix

Bridge – revenues and operating profit	**2018**	Volume, price, mix and other	Currency	Acquisitions	Items affecting comparability	Share-based long-term incentive programs	**2017**
Revenues	95 363	6 955	2 305	450	–	–	85 653
Operating profit	21 187	1 746	540	35	–290	408	18 748
Effect on margin, %	22.2	25.1					21.9

Depreciation and EBITDA
Depreciation, amortization and impairment cost were MSEK 3 323 (3 635) and earnings before depreciation and amortization, EBITDA, reached MSEK 24 510 (22 383), corresponding to a margin of 25.7% (26.1).

Net financial items
The Group's net financial items totaled MSEK – 343 (–1 157). The net interest expense decreased to MSEK –644 (–1 071). Other financial items were MSEK 301 (–86) and included a tax-free gain of MSEK 362 from repatriation to Sweden of Euro-denominated equity. See notes 8 and 27.

Profit before tax
Profit before tax increased 18% to MSEK 20 844 (17 591), corresponding to a profit margin of 21.9% (20.5).

Taxes
Taxes for the year amounted to MSEK 4 508 (4 930), corresponding to an effective tax rate of 21.6% (28.0) in relation to profit before tax. The lower tax was mainly due to lower corporate income tax rates in a few countries and tax refunds related to prior years. See note 9.

Profit and earnings per share
Profit for the year increased 29% to MSEK 16 336 (12 661). This corresponds to basic and diluted earnings per share of SEK 13.45 (10.41) and SEK 13.43 (10.31) respectively. Including the effect of the distribution of Epiroc the profit for the year was MSEK 106 435 (16 674) corresponding to basic and diluted earnings per share of SEK 87.49 (13.72) and SEK 87.36 (13.61), respectively.

Key financial data, MSEK	**2018**	**2017**	**Change, %**
Orders received	97 132	90 132	8%
Revenues	95 363	85 653	11%
EBITDA	24 510	22 383	10%
– in % of revenues	25.7	26.1%	
Operating profit	21 187	18 748	13%
– in % of revenues	22.2	21.9	
Adjusted operating profit	21 135	18 824	12%
– in % of revenues	22.2	22.0	
Profit before tax	20 844	17 591	18%
– in % of revenues	21.9	20.5	
Profit for the year, continuing operations	16 336	12 661	29%
Profit for the year from discontinued operations	90 099	4 013	
Profit for the year	106 435	16 674	
Basic earnings per share, SEK	87.49	13.72	538%
of which continuing operations per share, SEK	13.45	10.41	
Diluted earnings per share, SEK	87.36	13.61	542%
of which continuing operations per share, SEK	13.43	10.31	

Revenues and operating profit, MSEK

	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets [1]	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Compressor Technique	43 972	38 924	10 263	8 962	23.3	23.0	107	80	472	358
Vacuum Technique	22 007	19 503	5 522	4 924	25.1	25.2	27	25	844	443
Industrial Technique	17 933	16 431	4 188	4 194	23.4	25.5	40	43	256	259
Power Technique	12 042	11 217	2 006	1 705	16.7	15.2	28	20	1 201	712
Common Group functions/eliminations	–591	–422	–792	–1 037					26	351
Total Group	**95 363**	**85 653**	**21 187**	**18 748**	**22.2**	**21.9**	**33**	**29**	**2 799**	**3 131**

[1] Excluding assets leased. Including Epiroc 2017.

Balance sheet
The Group's total assets decreased 23% to MSEK 96 670 (126 031), whereof the distribution of Epiroc accounted for approximately MSEK 27 550. The distribution is noticeable in most asset types in the balance sheet below. Cash, cash equivalents and other current financial assets decreased to MSEK 16 516 (25 791), as a net effect of strong cash generation, the extra distribution to shareholders via mandatory redemption of shares and repayments of bond loans.

Working capital
The average net working capital defined as inventories and trade receivables less trade payables for continuing operations increased by MSEK 176, as a consequence of the higher revenue volumes. In relation to revenues, the net working capital decreased to 19% (21%).

Capital turnover
The capital employed turnover ratio for continuing operations improved to 1.47 (1.34).

Equity
At year end, Group equity including non-controlling interests was MSEK 42 472 (60 601), corresponding to 44% (48) of total assets. Equity per share was SEK 35 (50, including discontinued operations). Atlas Copco's market capitalization at year end was MSEK 252 130 (420 076), or 594% (691) of net book value. The information related to public takeover bids given for the Parent Company on page 17, is also valid for the Group.

Total comprehensive income for the year increased to MSEK 108 619 (16 064), see page 63 and note 10. Shareholders' transactions include dividends and redemption of shares totaling MSEK –18 201 (–8 255), sales and repurchases of own shares of net MSEK –198 (–236), and share-based payments of net MSEK –13 (–28).

Return on capital employed and return on equity
Return on capital employed increased to 33% (29) and the return on equity to 34% (30 including discontinued operations). The Group uses a weighted average cost of capital (WACC) of 8% (8) as an investment and overall performance benchmark.

Balance sheet in summary, MSEK	**Dec 31, 2018**		**Dec 31, 2017***	
Intangible assets	30 025	31%	35 151	28%
Rental equipment	2 288	2%	2 934	2%
Other property, plant and equipment	8 099	8%	9 523	8%
Other fixed assets	2 520	3%	3 635	3%
Inventories	12 718	13%	18 810	15%
Receivables	24 503	25%	29 994	24%
Current financial assets	102	0%	1 295	1%
Cash and cash equivalents	16 414	17%	24 496	19%
Assets classified as held for sale	1	0%	193	0%
Total assets	**96 670**	**100%**	**126 031**	**100%**
Total equity	42 472	44%	60 601	48%
Interest-bearing liabilities	23 218	24%	28 182	22%
Non-interest-bearing liabilities	30 980	32%	37 192	30%
Liabilities directly associated with assets held for sale	–	0%	56	0%
Total equity and liabilities	**96 670**	**100%**	**126 031**	**100%**

* Including assets and liabilities related to Epiroc reported as discontinued operations.

Equity, MSEK	**2018**	**2017**
Opening balance	60 601	53 177
Change in accounting principles	–37	–102
Profit for the year	106 435	16 674
Distribution of Epiroc AB	–108 299	0
Other comprehensive income for the year	2 184	–610
Shareholders' transactions	–18 412	–8 538
Closing balance	42 472	60 601
Equity attributable to		
– owners of the parent	42 425	60 517
– non-controlling interests	47	84

Interest-bearing debt and net indebtedness

Total interest-bearing debt was MSEK 23 218 (28 182), whereof post-employment benefits MSEK 2 837 (3 034). 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, amounted to MSEK 6 702 (2 466) at year end. The net debt/EBITDA ratio was 0.3 (0.1) and the debt/equity ratio was 16% (4).

Credit rating

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

Operating cash flow and investments (including discontinued operations)

Operating cash surplus was MSEK 28 444 (29 187). Cash flows from financial items were MSEK –675 (329) where the change is primarily due to cash flows from currency hedges of loans of MSEK –211 (+1 416), where the offsetting cash flow from the loans occurs in the future. Net pension funding and payments were MSEK –392 (–1 280). The working capital increased by MSEK 3 391(decrease of 1 398), due to increased revenues and the related increase in inventories and trade receivables. Net investments in rental equipment were MSEK 1 276 (948). Net cash from the above operating activities amounted to MSEK 16 814 (21 380).

Gross investments in property, plant and equipment increased to MSEK 2 000 (1 742) and cash received from sale of property, plant and equipment were MSEK 78 (179). Notable investments in 2018 were made by Vacuum Technique in China, Korea and Japan, by Industrial Technique in United Kingdom and Germany, and by Power Technique in China. Investments by Compressor Technique were spread over many different locations.

Net investments in intangible fixed assets, mainly related to capitalization of development expenditures, were MSEK 846 (1 019). Net investments in other assets were MSEK 124 (negative 784). Previous year included a sale of a portfolio of financing contracts, related to customer financing.

In total, operating cash flow (see page 66) was MSEK 14 133 (18 856). For continuing operations the operating cash flow was approximately MSEK 13 500 (13 300). The net cash flow from structural changes, i.e. acquisitions and divestments amounted to MSEK –1 409 (1 040). See also note 2.

Cash flow from financing (including discontinued operations)

Dividends paid amounted to MSEK –8 496 (–8 255) and the cash outflow from the mandatory redemption of shares (see page 93) was MSEK –9 705. Sales and repurchases of own shares resulted in a net of MSEK –198 (–236), all related to hedging or deliveries of shares for the long-term incentive plans described in page 94. Change in interest-bearing liabilities was MSEK 800 (765).

Employees

In 2018, the average number of employees in the Group increased by 2 263 to 35 894. At year end, the number of employees was 36 862 (34 651) and the number of consultants/external workforce was 3 195 (2 818). For comparable units, the total work-force increased by 2 294. See also pages 37–39.

Average number of employees	2018	2017
Atlas Copco Group	35 894	33 631
– Sweden	1 329	1 278
– Outside Sweden	34 565	32 353
Business areas		
– Compressor Technique	16 981	16 206
– Vacuum Technique	7 064	6 322
– Industrial Technique	7 321	6 739
– Power Technique	3 778	3 542
– Common Group functions	750	822

Parent Company

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

Earnings

Profit before tax increased to MSEK 132 869 (48 890). The increase can mainly be explained by an effect of intra-Group reorganizations, including capitalization, sales, and distribution of shares in subsidiaries. Profit for the year amounted to MSEK 132 847 (48 085).

Financing

The total assets of the Parent Company were MSEK 228 508 (177 990). At year end 2018, cash and cash equivalents amounted to MSEK 5 906 (17 548) and interest-bearing liabilities, excluding post-employment benefits, to MSEK 82 385 (95 193), whereof the main part is Group-internal loans. Equity represented 64% (45) of total assets and the non-restricted equity totaled MSEK 139 521 (75 177). The increase in the Parent Company's non-restricted equity is primarily related to intra-Group reorganizations, where value gains have been realized when shares in subsidiaries have changed owners at fair market values, which have been higher than book values. These transactions are eliminated in the Group accounts since they are internal.

Employees

The average number of employees in the Parent Company was 99 (101).

Remuneration

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

Financial risks, risks and factors of uncertainty

Atlas Copco is subject to currency risks, interest rate risks and other financial risks. Atlas Copco has adopted a policy to control the financial risks to which Atlas Copco AB and other Group companies are exposed. A financial risk management committee meets regularly to make decisions about how to manage these risks. See also Risks, risk management and opportunities on pages 44–48.

Appropriation of profit

The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 6.30 (7.00) per share to be paid for the 2018 fiscal year. The proposed dividend can be compared to an approximate dividend in 2017, for the continuing business of Atlas Copco (excluding Epiroc), of SEK 5.20 per share. The total dividend previous year, including discontinued operations, was SEK 7.00.

Excluding shares currently held by the Company, the proposed dividend corresponds to a total of MSEK 7 640 (8 496).

In order to facilitate a more efficient cash management, the dividend is proposed to be paid in two equal instalments, the first with record date April 29, 2019 and the second with record date October 28, 2019.

SEK	
Retained earnings including reserve for fair value	6 674 780 696
Profit for the year	132 846 746 194
	139 521 526 890
The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a dividend of SEK 6.30 per share	7 640 098 465
To be retained in the business	131 881 428 425
Total	**139 521 526 890**

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 16 779 903 class A shares and 119 159 class B shares held by Atlas Copco, 1 212 714 042 shares were outstanding. Class A shares entitle the owner to one vote while class B shares entitle the owner to one tenth of a vote. Class A shares and class B shares carry equal rights to a part of the Company's assets and profit.

Investor AB is the single largest shareholder in Atlas Copco AB. At year end 2018, Investor AB held a total of 207 645 611 shares, representing 22.3% of the votes and 16.9% of the capital.

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

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

Statutory sustainability report

Atlas Copco has prepared a sustainability report in accordance with the Global Reporting Initiative (GRI) Standards. The sustainability report has been prepared in accordance with disclosure requirements set out in the Swedish Annual Accounts Act chapter 6 paragraph 11. The scope and content of the sustainability report is defined on page 134 in this document.

Business areas

Atlas Copco is a world-leading provider of sustainable productivity solutions. The Group serves customers through its innovative compressors, vacuum solutions, generators, pumps, power tools and assembly systems.

Atlas Copco develops products and services focused on productivity, energy efficiency, safety and ergonomics. The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning more than 180 countries. In 2018, Atlas Copco (excluding Epiroc AB) had revenues of BSEK 95 (BEUR 9) and at year end about 37 000 employees.

Key figures, MSEK	2018	2017	Change, %
Orders received	97 132	90 132	8%
Revenues	95 363	85 653	11%
Operating profit	21 187	18 748	13%
Operating margin, %	22.2	21.9	
Return on capital employed, %	33	29	
Investments	2 799	3 131	
Average number of employees	35 894	33 631	

Compressor Technique

The Compressor Technique business area provides compressed air solutions: industrial compressors, gas and process compressors and expanders, air and gas treatment equipment, and air management systems. The business area has a global service network and innovates for sustainable productivity in the manufacturing, oil and gas, and process industries.

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Key figures, MSEK	2018	2017	Change, %
Orders received	45 580	40 772	12%
Revenues	43 972	38 924	13%
Operating profit	10 263	8 962	15%
Operating margin, %	23.3	23.0	
Return on capital employed, %	107	80	
Investments	472	358	
Average number of employees	16 981	16 206	

Vacuum Technique

The Vacuum Technique business area provides vacuum products, exhaust management systems, valves and related products. The main markets served are semiconductor and scientific, as well as a wide range of industrial segments including chemical process industries, food packaging and paper handling. The business area has a global service network and innovates for sustainable productivity in order to further improve its customers' performance.

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Key figures, MSEK	2018	2017	Change, %
Orders received	21 471	21 890	–2%
Revenues	22 007	19 503	13%
Operating profit	5 522	4 924	12%
Operating margin, %	25.1	25.2	
Return on capital employed, %	27	25	
Investments	844	443	
Average number of employees	7 064	6 322	

Industrial Technique

The Industrial Technique business area provides industrial power tools and systems, industrial assembly solutions, quality assurance products, software and service through a global network. The business area innovates for sustainable productivity for customers in the automotive, aerospace, general industries and maintenance and vehicle service industries.

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Key figures, MSEK	2018	2017	Change, %
Orders received	18 264	16 651	10%
Revenues	17 933	16 431	9%
Operating profit	4 188	4 194	0%
Operating margin, %	23.4	25.5	
Return on capital employed, %	40	43	
Investments	256	259	
Average number of employees	7 321	6 739	

Power Technique

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

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Key figures, MSEK	2018	2017	Change, %
Orders received	12 498	11 259	11%
Revenues	12 042	11 217	7%
Operating profit	2 006	1 705	18%
Operating margin, %	16.7	15.2	
Return on capital employed, %	28	20	
Investments	1 201	712	
Average number of employees	3 778	3 542	

Compressor Technique

Order volumes for both equipment and services increased in 2018. The growth was primarily driven by strong development in Asia, even if growth was achieved in all regions. The business area continued to invest in market presence, service, and product development. Among other things, several new innovations within the oil-free compressor range were launched during the year.

Market development

The demand for the business area's equipment and services was strong. In total, the order intake increased 9% organically. Order volumes for equipment increased in all regions. The strongest growth was achieved in Europe, South America and Asia, particularly in China.

The order intake for large and small/medium-sized industrial compressors increased, with a slightly stronger development for the larger compressors. The demand for gas and process compressors increased and the order volumes increased significantly in the year. The strong growth was primarily driven by increased demand in Asia and Europe, while the order volumes in North America and Africa/Middle East decreased.

The service business developed well and continued to grow in all regions. The strongest growth was achieved in North America, Asia, and Africa/Middle East.

Market presence and organizational development

The business area continued to invest in innovation and market presence by adding resources in research and development, marketing and sales, as well as in service. During the year, several new innovative products for the oil-free compressor product range were introduced to the market, and the product offer for oil-injected compressors was also broadened. With further increased focus on connectivity, the service offer continued to strengthen.

Through selected acquisitions, the business area increased its presence in targeted markets and customer segments. As an example, the acquisition of Walker Filtration has strengthened the business area's position in the air treatment segment.

Investments in solar cells in one factory in India has supported the increased use of renewable energy.

Acquisitions

The business area made two acquisitions in 2018:

- Walker Filtration, a British manufacturer of equipment for the treatment of compressed air, gas, and vacuum. The company had around 220 employees and revenues of approximately MSEK 330 in 2017.
- Reno A/S, a manufacturer and distributor of compressed air solutions. The company is based in Denmark and had revenues in 2017 of about MSEK 153 and about 60 employees.

Revenues, profits and returns

Revenues increased 13% and reached a record of MSEK 43 972 (38 924), corresponding to a 10% organic increase. Operating profit increased 15% to a record of MSEK 10 263 (8 962), corresponding to a margin of 23.3% (23.0). The operating margin was supported by volume, but was negatively impacted by currency and acquisitions. The return on capital employed was 107% (80).

Revenues, MSEK

43 972

2017: 38 924

Operating profit margin

23.3%

2017: 23.0%

Return on capital employed

107%

2017: 80%

Sales bridge	Orders received	Revenues
2017	**40 772**	**38 924**
Structural change, %	+1	+1
Currency, %	+2	+2
Organic*, %	+9	+10
Total, %	**+12**	**+13**
2018	**45 580**	**43 972**

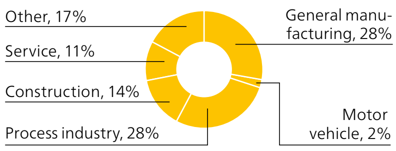
* Volume, price and mix

INNOVATION DURING 2018

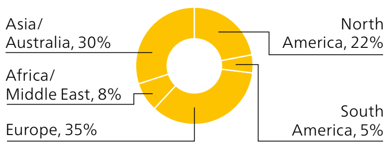
Several new products were introduced during the year, including:

- A dryer for the medical market, offering high energy efficiency, improved reliability, small floor space requirement, and high performance.
- An energy-efficient oil-free screw compressor, targeting applications in the food and beverage, electronics, textile and pharmaceutical industries.
- A high-efficient oil-injected screw compressor ensuring low energy consumption. The compressor is protected from dust and moisture to ensure reliable operations.
- A new oil-injected screw compressor, targeting customers in need of a compact and robust solution. The new compressor requires less floor space than similar competitive products, has high energy efficiency and is designed for optimized reliability.

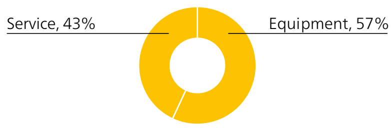
Orders received by customer category



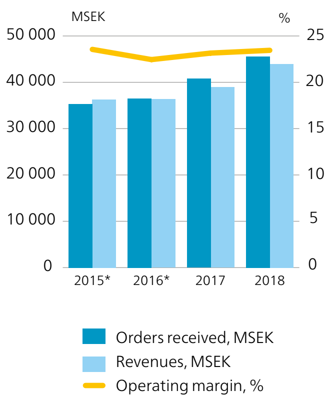
Revenues by region



Share of revenues



Orders received, revenues and operating margin



* 2015–2016 figures not restated per IFRS 15

THE MARKET

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

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

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

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

MARKET TRENDS

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

DEMAND DRIVERS

- Industrial production
- Investments in machinery
- Energy costs

VISION AND STRATEGY

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

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

STRATEGIC ACTIVITIES

- Intensified focus on research and development
- Increase focus on digitalization and connected products
- Increase market coverage and improve presence in targeted markets/segments
- Develop new sustainable products and solutions offering better value and improved energy efficiency to customers
- Extend the product and service offering at current customers and adjacent segments and applications
- Perform more service on a higher share of the installed base of equipment
- Increase operational efficiency
- Further investments in employees and their competence development
- Acquire complementary businesses and integrate them successfully

COMPETITION

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

MARKET POSITION

A leading market position globally in most of its operations.

Products and applications

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

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

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

Piston compressor for various industrial applications

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

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

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

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

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

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

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

Principal product development and manufacturing units are located in:
Belgium, the United States
China, India, Germany and Italy

MANAGEMENT Compressor Technique, January 1, 2019

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BUSINESS AREA PRESIDENT: Vagner Rego

Divisions:

1. Compressor Technique Service
President Dirk Beyts
2. Industrial Air
President Joeri Ooms
3. Oil-free Air
President Philippe Ernens
4. Professional Air
President Alain Lefranc
5. Medical Air Solutions
President Ben Van Hove
6. Gas and Process
President Robert Radimeczky
7. Airtec
President Wouter Ceulemans

Vacuum Technique

The order intake for vacuum equipment decreased in 2018 due to weakened demand from the semiconductor and flat panel display industries in the latter part of the year, primarily in Asia. Further increased focus on service resulted in strong order growth for the service business. The business area continued to invest in market presence, research and development, and production.

Market development

The overall demand for vacuum equipment decreased as the investments in vacuum equipment in the semiconductor and flat panel display industries weakened in the latter half of the year. Overall, the order intake decreased 6% organically.

While order volumes for equipment to the semiconductor and flat panel display industries declined, the overall demand for equipment to industrial and high vacuum equipment was robust. The decline in order volumes for the semiconductor and flat panel display industries was primarily driven by Asia. The order intake for industrial and high vacuum applications increased in North America and Asia, while it was more or less unchanged in Europe.

The order intake for service increased considerably as the service business developed well for both the industrial and high vacuum, and the semiconductor and flat panel display industries. Growth was achieved in all major regions, and most particular in North America.

Market presence and organizational development

The business area continued to invest in innovation, market presence, research and development, marketing, sales, and service.

Additional resources were added for research and development to increase the focus on innovation. Several new products, with new technology, were introduced to the market during the year, especially for industrial and high vacuum applications. In addition to new vacuum pumps and abatement products, a remote monitoring system for the semiconductor industry was launched. Investments were also made to further develop the supply chain and the service offering particularly for industrial vacuum customers.

To increase focus and improve market presence, the existing customer centers in Europe and North America were subdivided.

In production, machining capacity investments were made in China, Korea, and Japan. The business area also signed a contract for 100% renewable energy in its production unit in Cologne, Germany.

Acquisitions

In August 2018, the agreement to acquire the cryogenic business of Brooks Automation, Inc., was announced. The acquisition includes cryogenic pump operations and a worldwide network of sales and service centers. The cryogenic business has about 400 employees and revenues of approximately MUSD 195. The acquisition also includes Brooks Automation's 50% share of Ulvac Cryogenics, Inc., (UCI). UCI had revenues of approximately MUSD 100 in the fiscal year ending June 2017. The revenue for the joint venture is not included in the MUSD 195 as UCI is consolidated using the equity method of accounting.

Revenues, profits and returns

Revenues increased 13% to MSEK 22 007 (19 503), corresponding to an 8% organic increase. Operating profit increased 12% to MSEK 5 522 (4 924), corresponding to a margin of 25.1% (25.2). The operating margin was supported by higher revenue volumes, negatively affected by sales mix, while currency had no effect on the margin. Return on capital employed was 27% (25).

Revenues, MSEK

22 007

2017: 19 503

Operating profit margin

25.1%

2017: 25.2%

Return on capital employed

27%

2017: 25%

Sales bridge	Orders received	Revenues
2017	**21 890**	**19 503**
Structural change, %	+2	+2
Currency, %	+2	+3
Organic*, %	–6	+8
Total, %	**–2**	**+13**
2018	**21 471**	**22 007**

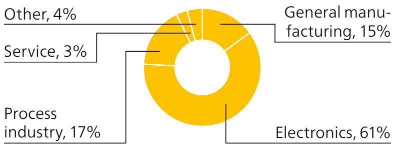
* Volume, price and mix

INNOVATION DURING 2018

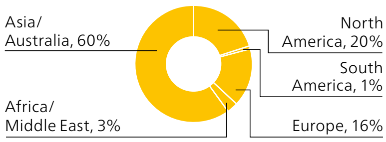
Several new products were introduced during the year, including:

- A pump solution designed for customers with central vacuum systems and requirements for larger process demands and low life-cycle cost.
- A flexible dry vacuum pump with high contaminant handling capabilities for industrial use.
- A dry vacuum pump range for the semiconductor industry built on modular design to respond to emerging processes applications.
- A liquid ring pump based on variable-speed technology offering superior energy efficiency versus competitive products. The pump has connectivity capability and can be used for centralized vacuum solutions.

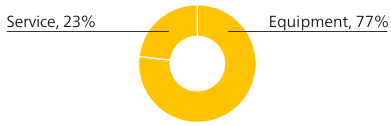
Orders received by customer category



Revenues by region



Share of revenues



Orders received, revenues and operating margin

* 2015–2016 figures not restated per IFRS 15

THE MARKET

Vacuum and abatement solutions are required in a number of industrial applications where the pressure is required to be below atmospheric pressure and/or the environment needs to be clean.

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

The market can be categorized in semiconductor, industrial vacuum and high vacuum. However, each of these sectors contains several sub-sectors and specific applications. Sales to the semiconductor and flat panel display industries represents about 60% of the revenues, and industrial and high vacuum accounts for about 40%.

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

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

MARKET TRENDS

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

DEMAND DRIVERS

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

VISION AND STRATEGY

The vision is to be First in Mind—First in Choice for vacuum and abatement solutions. The strategy is focused on technology leadership, market leadership, and agility to support growth drivers. This will be done by focusing on product research and development programs together with deployment of highly innovative products and services. Continued execution of market leadership will be done by an organization focused on agility, growing market share in our traditional heartlands and further expansion of the geographical footprint. As customers' applications become more complex so do their vacuum requirements. As such, the business area will continue to form strong relationships with customers to ensure the best technical solutions and increased customer loyalty. Additionally, the business area has a strong focus on developing the service business and an efficient and flexible global operations footprint. Market leadership will be further developed by utilizing different brands in the market. The business area is actively looking at acquiring complementary businesses.

Growth shall be achieved in a way that is economically, environmentally and socially responsible.

STRATEGIC ACTIVITIES

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

COMPETITION

Vacuum Technique's principle competitors are:

Semiconductor market: DAS Environmental Expert, Ebara, Kashiyama, Pfeiffer Vacuum, Shimadzu Corporation

Industrial and high vacuum market: Gardner Denver, Pfeiffer Vacuum and Busch

MARKET POSITION

A global market leader for vacuum and abatement solutions.

Products and applications

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

Oil-sealed rotary vane pump for industrial use

Dry vacuum pump used in semiconductor industry

Integrated abatement system

Oil-sealed rotary vane vacuum pumps

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

Dry vacuum pumps

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

Turbomolecular pumps

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

Liquid ring vacuum pumps

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

Abatement and integrated systems

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

Principal product development and manufacturing units are located in:

United Kingdom, Czech Republic, Germany, South Korea, China and Japan

MANAGEMENT Vacuum Technique, January 1, 2019

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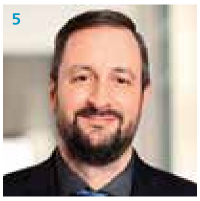
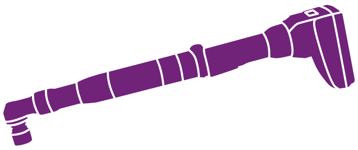


BUSINESS AREA PRESIDENT: Geert Follens

Divisions:

1. **Vacuum Technique Service**
   President Eckart Roettger
2. **Semiconductor Service**
   President Troy Metcalf
3. **Semiconductor**
   President Paul Rawlings
4. **Scientific Vacuum**
   President Martin Tollner
5. **Industrial Vacuum**
   President Koen Lauwers

Industrial Technique



The equipment and service business continued to grow, supported by investments in the automotive and general industries. The growth was primarily driven by strong demand in Asia. Investments were made in market presence, service, product development, and production. New technology was added to the product offering through selective acquisitions.

Market development
The demand for advanced industrial tools and assembly solutions increased, and order volumes from the motor vehicle industry and customers in general industry increased. The strongest growth was achieved in Asia, even if all other major regions also grew. In total, orders received increased by 6% organically.

The order intake for advanced industrial tools and assembly solutions from the motor vehicle industry increased. The growth was supported by customer need for more advanced tools, more electric vehicle projects and new material related projects. Order volumes increased in Asia and South America, but decreased in North America. The order intake in Europe was more or less unchanged.

The order intake for industrial power tools from the general industry increased, supported by strong demand from customers in the off-road, aerospace, and electronics industries. All regions achieved growth, with the strongest development in North America and Asia.

The service business continued to develop strongly, due to the customers' increased demand for service and maintenance support, ranging from ad-hoc maintenance to management of and full maintenance at the customer's site. Growth was achieved in all regions compared to the previous year, particularly in Asia.

Market presence and organizational development
The business area continued to invest in market presence and innovation with an increased number of employees in research and development, service, and marketing and sales. Focused marketing activities on supporting customers' transition into smart factories continued during the year and investments were made in data-driven services, to support customers to improve quality and uptime.

In Asia, additional resources were added to strengthen the market presence.

The business area also added additional assembly technologies to its product offering through the acquisition of Klingel Joining Technologies, a German-based company specialized in flow drill technology (see below). Investments were also made in production and innovation facilities, including a new factory for hydraulic bolting equipment and a bolting center of excellence in Birmingham (United Kingdom), and an innovation center for joining technologies in Bretten (Germany).

The work to reduce the environmental footprint continued, and as an example, three more factories signed agreements for renewable energy.

Acquisitions
The business area made two acquisitions in 2018:

- Klingel Joining Technologies, a German-based company specialized in flow-drill technology, a joining method used in the automotive industry. The business had revenues of approximately MSEK 82 in 2017 and 23 employees joined Atlas Copco.
- QUISS Qualitäts-Inspektionssysteme und Service AG, a German-based company specialized in machine vision solutions for quality inspection for the automotive industry. The company had revenues of approximately MSEK 86 and about 45 employees in 2017.

Revenues, MSEK

17 933

2017: 16 431

Operating profit margin

23.4%

2017: 25.5%, adjusted 23.2%

Return on capital employed

40%

2017: 43%

Revenues, profits and returns
Revenues increased 9% to a record MSEK 17 933 (16 431), corresponding to a 6% organic increase. Operating profit was MSEK 4 188 (4 194), corresponding to a margin of 23.4% (25.5, adjusted 23.2). Previous year included items affecting comparability of MSEK +380, mainly related to a release of liabilities for contingent consideration connected to the Henrob acquisition in 2014. The operating margin was positively affected by currency and higher revenue volumes, but diluted by new investments in research and development and market presence. Return on capital employed was 40% (43, adjusted for items affecting comparability mentioned above 39).

Sales bridge	Orders received	Revenues
2017	**16 651**	**16 431**
Structural change, %	+0	+0
Currency, %	+4	+3
Organic*, %	+6	+6
Total, %	**+10**	**+9**
2018	**18 264**	**17 933**

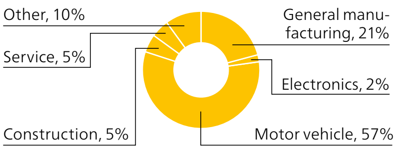
* Volume, price and mix

INNOVATION DURING 2018

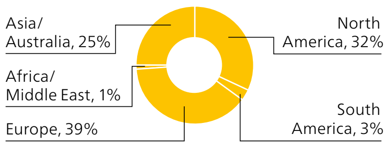
Several new products were introduced during the year, including:

- A new low reaction battery pulse tightening tool offering state of the art ergonomics and high productivity.
- A new test bench that can replicate real joint characteristics and guarantee tool testing in real operating conditions.
- A new control unit for cordless assembly tools that supports customers to adopt Industry 4.0 and flexibility on their assembly lines.
- A new platform for quality assurance in assembly applications, including equipment for testing and calibrating of tools, supervision, connectivity devices, and related software.

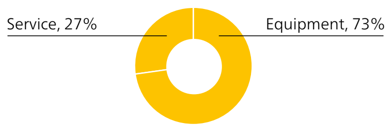
Orders received by customer category



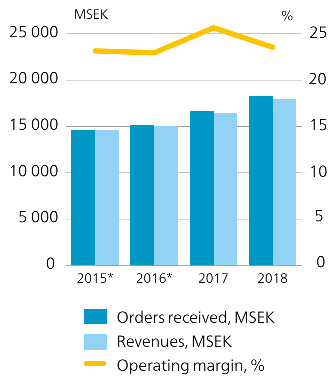
Revenues by region



Share of revenues



Orders received, revenues and operating margin



* 2015–2016 figures not restated per IFRS 15

THE MARKET

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

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

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

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

MARKET TRENDS

- Higher requirements for quality, productivity, flexibility, ergonomics and decreased environmental impact
- More advanced tools and systems and increased importance of service, know-how and training
- Use of light-weight material in transportation-related industries
- Increased demand for electric vehicles
- Automation in customers' production
- Digitalization and demand for connectivity in production

DEMAND DRIVERS

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

VISION AND STRATEGY

The vision is to be First in Mind—First in Choice as a supplier of industrial power tools, assembly solutions, quality assurance products, software, and services to customers in the motor vehicle and general industry. The strategy is to continue to grow the business profitably by building on the technological leadership and continuously offering products and services that improve customers' productivity, quality, safety and ergonomics. Important activities are to extend the product offering and to provide additional services, know-how and training. The business area is also increasing its presence in targeted geographical markets. The presence is enhanced by utilizing a brand portfolio strategy. The business area is actively looking at acquiring complementary businesses. Growth should be achieved in a way that is economically, environmentally and socially responsible.

STRATEGIC ACTIVITIES

- Increase market coverage and improve presence in targeted markets/segments
- Develop new sustainable products and solutions, offering increased quality and productivity, improved ergonomics and reduced environmental impact
- Further increased focus on digitalization, through connected products and solutions, to support customers' productivity, flexibility, and their transformation into Industry 4.0
- Extend the product and service offering at current customers and adjacent segments and applications
- Perform more service on a higher share of the installed equipment base
- Increase operational efficiency
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

COMPETITION

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

MARKET POSITION

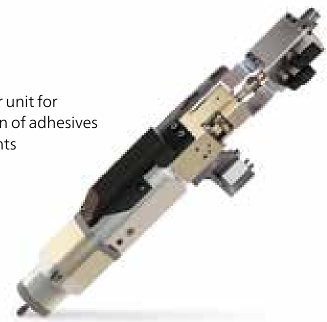
A leading market position globally in most of its operations.

Products and applications

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

Controller for advanced electrical assembly tools

Hand-held battery tool for assembly applications



Applicator unit for application of adhesives and sealants

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

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

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

Flow drill fastening tool

Principal product development and manufacturing units are located in:
Sweden, Germany, Hungary, the United States, United Kingdom, France and Japan

MANAGEMENT Industrial Technique, January 1, 2019

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BUSINESS AREA PRESIDENT: Henrik Elmin

Divisions:

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

Power Technique

The demand for equipment, service and the specialty rental business continued to grow, and the order intake increased in almost all regions. The strongest growth was achieved in Europe, North America, and Africa/Middle East. The business area continued to invest in innovation, market presence and increased its product focus by creating a new division.

Market development

The demand for equipment, services, and the specialty rental business improved in 2018. In total, the order intake increased 11% organically. Double-digit growth was achieved in North America, Europe and in Africa/Middle East, while the order volumes in Asia and South America were largely unchanged.

Orders received for portable compressors increased due to increased demand in Europe and Africa/Middle East. Order volumes were somewhat unchanged in North America and Asia but decreased in South America.

The order intake for power and flow equipment, such as generators and pumps, grew significantly. The good development was primarily driven by strong order growth in North and South America, and in Europe.

The overall order volumes for the service business increased somewhat compared to the previous year. Growth was achieved in South America, while it was more or less unchanged in other regions.

The demand for the specialty rental business remained strong in 2018, and solid order growth was achieved in all regions. The growth was particularly strong in Asia, South America and in Africa/Middle East.

Market presence and organizational development

The business area invested in presence in targeted markets and segments, and in innovation, with an increased number of employees in research and development. Investments were also made in manufacturing, including a new production line and doubling of the capacity for production of light towers in Wuxi (China). The business area increased its use of renewable energy in 2018 by investing in solar cells in a factory in Pune (India).

In 2018, the Power and Flow division was created to increase the business area's focus on the market for generators, light towers, and pumps.

Acquisitions

The business area made one acquisition and one divestment in 2018:

Acquisition

- Location Thermique Service SAS, a French steam boiler specialty rental business, was acquired. The company had 13 employees and revenues of about MSEK 70 in 2016.

Divestment

- The concrete and compaction business was divested to Husqvarna Group in February. The business had revenues of about MSEK 570 in 2016, and about 200 employees.

Revenues, profits and returns

Revenues increased 7% to MSEK 12 042 (11 217), corresponding to a 7% organic increase. Operating profit increased 18% to MSEK 2 006 (1 705). The operating margin was 16.7 % (15.2). The margin was positively affected by a capital gain of MSEK 109 related to the divestment of the Concrete and Compaction business in February 2018, but also supported by volume and sales mix. Currency had a somewhat negative impact on the operating margin. Previous year was affected by restructuring costs related to the move of production, and research and development, in Europe and India. The adjusted operating margin was 15.8% (15.5). The return on capital employed was 28% (20).

Revenues, MSEK

12 042

2017: 11 217

Operating profit margin

16.7%

2017: 15.2%

Return on capital employed

28%

2017: 20%

Sales bridge	Orders received	Revenues
2017	**11 259**	**11 217**
Structural change, %	–2	–2
Currency, %	+2	+2
Organic*, %	+11	+7
Total, %	**+11**	**+7**
2018	**12 498**	**12 042**

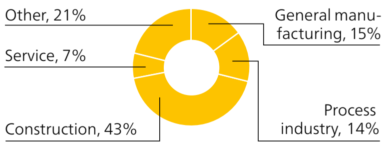
* Volume, price and mix

INNOVATION DURING 2018

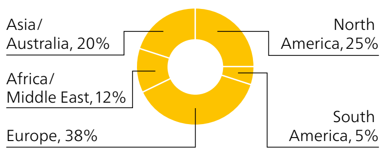
Several new products were introduced during the year, including:

- A TwinPower generator offering increased flexibility and reduced fuel consumption.
- A combined mobile compressor and generator, minimizing the amount of equipment at customers' sites.
- A new range of generators offering 5% reduction in fuel consumption and 20% smaller footprint.
- An oil-free portable compressor for the specialty rental business with optimal efficiency generating a matching airflow for a specific application in any industry.

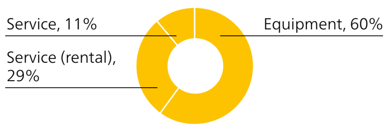
Orders received by customer category



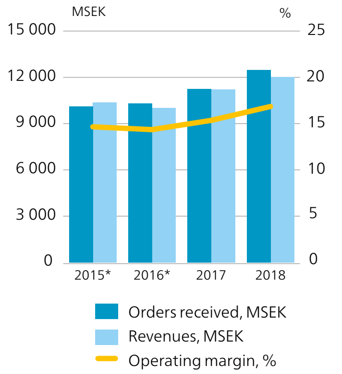
Revenues by region



Share of revenues



Orders received, revenues and operating margin



* 2015–2016 show best estimated numbers, as the effects of the split of Epiroc and restatements for IFRS 15 are not fully reconciled.

THE MARKET

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

Multiple segments are served by the business area's offering. General and civil engineering contractors, often involved in infrastructure projects, demand light construction tools. Mobile air compressors, generators, light towers and pumps provide reliable power sources for tools and applications in the construction sector and numerous industrial applications. Contractors as well as rental companies are important customers for service, including spare parts, maintenance contracts, and repairs.

MARKET TRENDS

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

DEMAND DRIVERS

- Infrastructure growth
- Outdoor events
- Emergency relief efforts
- Engine regulations

VISION AND STRATEGY

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

The strategy is to grow by developing Atlas Copco's market position and presence as a global supplier within portable compressors, pumps, generators and light towers, along with a range of complementary, market specific niche products, such as high-pressure boosters. The strategy also includes further development of specialty rental services as well as development of the service business; increasing revenues by offering more customers more services. Growth should be achieved in a way that is economically, environmentally and socially responsible.

STRATEGIC ACTIVITIES

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

COMPETITION

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

MARKET POSITION

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

Products and applications

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

Portable medium-pressure oil-free compressor

Pumps

Handheld pneumatic breaker

Portable compressors

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

Boosters

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

Generators

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

Lighting towers

Light for safe operations 24/7.

Pumps

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

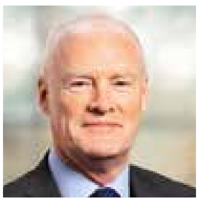
Construction and demolition tools

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

Principal product development and manufacturing units are located in:

Belgium, Spain, the United States, China and India

MANAGEMENT Power Technique, January 1, 2019



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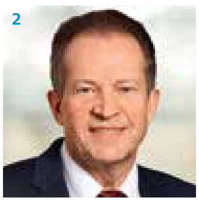

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BUSINESS AREA PRESIDENT: Andrew Walker

Divisions:

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

Growing in the right way

Atlas Copco's mission is to achieve sustainable, profitable growth. This means innovating with a long-term perspective to minimize environmental impact. It means making sure employees are safe and healthy and that the company stays lean and efficient. It also includes growing in a way that is ethical, with zero tolerance for corruption throughout the value chain.

To succeed in delivering lasting value for all stakeholders, Atlas Copco focuses on the following areas for sustainable, profitable growth: products and service, ethics, safety and well-being, people, and the environment. Atlas Copco regards these areas, along with profitability, as necessary to achieve long-term success.

Atlas Copco's Group Management has decided these focus areas for sustainable, profitable growth, key performance indicators (KPIs), three-year targets and monitor progress. KPIs and targets for the first four areas are common for all companies in the Group. Most of the work is implemented in the divisions, which are the highest operational levels of the organization.

In the 2018 materiality process, the focus areas for sustainable, profitable growth were reconfirmed as relevant by internal and external stakeholders. New KPIs and goals, as presented on page 5, will measure progress from 2019. This annual report communicates the Group's progress in relation to the KPIs and goals for the years 2016–2018.

Atlas Copco's drive to innovate for sustainable productivity supports the continuous development of highly energy- and resource-efficient products. Atlas Copco's people are the company's most valuable asset, and to offer healthy and safe working conditions and fair development opportunities is a priority. Atlas Copco lives by the highest ethical standards and demands that business partners do the same. This stance protects the business from risk, enables growth and promotes ethical behavior in society.

FOCUS AREAS	VISION	ISSUES	UN SUSTAINABLE DEVELOPMENT GOALS
Products and service	Our products create lasting value and make a positive impact	• Product eco-efficiency • Life-cycle perspective • Product innovation • Product quality and safety	9 Industry, innovation and infrastructure 12 Responsible consumption and production
Ethics	We are known for ethical behavior, openness and respect	• Business ethics and integrity • Human rights • Transparency and accountability • Responsible supply chain	8 Decent work and economic growth 16 Peace, justice and strong institutions
Safety and well-being	The way we work contributes to our safety and well-being	• Occupational health, safety and well-being	8 Decent work and economic growth
People	Our culture of collaboration and inclusion drives our success	• Employee satisfaction and engagement • Diversity and non-discrimination	5 Gender equality 8 Decent work and economic growth
The environment	Our processes minimize our impact on the environment	• Climate change • Energy use and efficiency • Waste • Water use	6 Clean water and sanitation 7 Affordable and clean energy 9 Industry, innovation and infrastructure 12 Responsible consumption and production

Delivering on the UN Sustainable Development Goals

Atlas Copco's focus areas for sustainable, profitable growth are implemented in the daily operations, supported by policies, training material and monitoring tools. Results are measured and followed up through key performance indicators. Progress in relation to the KPIs contributes to the achievement of the UN Sustainable Development Goals.

Through its core business operations and its value chain, Atlas Copco impacts seven of the 17 Sustainable Development Goals in particular. These are: gender equality (5), clean water and sanitation (6), affordable and clean energy (7), decent work and economic growth (8), industry, innovation and infrastructure (9), responsible consumption and production (12), and peace, justice and strong institutions (16).

In addition to promoting values and actions that support the Sustainable Development Goals in its own operations, Atlas Copco strives to work with its value chain to do the same. Atlas Copco requires all business partners to comply with the company's values as expressed in the Business Code of Practice. Business partners should sign and comply with the business partner contract based on the UN Global Compact and the ILO Declaration of Fundamental Principles and Rights at Work.

Atlas Copco offers equal opportunity for women and men.
Atlas Copco strives to increase the proportion of women in the Group and to grow the number of female managers. In 2018, 23% of total new employees were women. Of recent graduates recruited in 2018, 37% were women. Overall, 19% of the employees in the Group are women.

Atlas Copco works to reduce water consumption in operations, particularly in water-stressed areas.
Local activities that target water consumption and preservation are carried out. In 2018, the consumption of water in water-stressed areas decreased by 6% in relation to cost of sales compared with the previous year. Further, Atlas Copco has supported the employee-driven initiative "Water for All" since 1984. Thanks to the initiative, more than 2 million people have gained access to clean water and sanitation since the start.

Atlas Copco strives to increase the use of renewable energy in our operations and to limit the use of energy overall.
In 2018, 34% of energy used in production came from renewable sources, and energy use decreased by 8% in relation to cost of sales.

Safety and well-being is a focus area for Atlas Copco.
In 2018, the number of accidents per million working hours for employees decreased by 3% and the number of work-related incidents fell by 8%. Atlas Copco requires all business partners to comply with the Group's values as expressed in the Business Code of Practice. Child labor or forced labor is not tolerated and compliance is assessed and audited. Atlas Copco ensures the right to collective bargaining and requires the same from business partners. In 2018, the number of significant suppliers that confirmed commitment was 86%.

Atlas Copco strives to decrease the environmental impact of its products and services.
The main environmental footprint is in the use phase of products. Business areas are encouraged to develop more energy-efficient products, and energy efficiency in products and service is a key performance indicator for the company. Products are developed with a life-cycle perspective, striving to minimize negative impact during the whole life cycle of a product.

Atlas Copco strives to make production as efficient as possible and to reduce waste from operations.
In 2018, 94% of the waste was recycled, reused or recovered. Chemical handling is done following strict protocols. Components that contain conflict minerals are not accepted and Atlas Copco monitors and screens suppliers and smelters.

Atlas Copco has zero tolerance against corruption.
This is clearly communicated in the Business Code of Practice, which all employees and business partners must comply with. In 2018, 86% of significant suppliers confirmed compliance with the criteria. All employees must sign their commitment annually and take multiple trainings. 95% of managers signed compliance with the Business Code of Practice in 2018. An e-learning and classroom trainings in over 30 languages have been rolled out globally to support awareness of the Business Code of Practice.

Innovation with the future in mind

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

Developing innovative products and service solutions with a life-cycle perspective has been identified as one of the highest priorities by all Atlas Copco's stakeholders, internal and external. The innovation KPIs are set by each division to be relevant to their specific businesses.

Increasing customer productivity

Atlas Copco has strong relationships with customers in leading positions in their industries. Technology development and trends such as increased digitalization can be harnessed to transform the efficiency of industrial processes. The challenge is to continue to meet the customers' need for equipment and service that increase their productivity and, at the same time, are sustainable, meaning that they are energy-efficient, safe and ergonomic. Strong service offerings and smart product design can minimize waste and maximize the value of the customers' investments. Products such as stationary compressors, hydraulic breakers and industrial tools are designed so that they can be returned, refurbished and resold as used equipment. Such used equipment meet the same high standards as when it was new in terms of quality, performance and energy efficiency.

Investing in product development

Atlas Copco continued to invest in product development in 2018. Advanced technologies are required to meet customers' demands, and society requires environmentally sound and ergonomic solutions. Increasingly, digital and data-driven service and products are part of the offer. For example, the Industrial Technique business area works with a system where all assembly related tools and processes are connected and integrated into the production network. The data generated is used to control and identify improvements in and between the assembly processes, enabling higher quality and efficiency for customers. Another example is the SmartLink data-monitoring system for compressors. More than 100 000 compressors are now connected globally, enabling continuous monitoring of their status and predictive maintenance.

In 2018, the number of people employed in research and development represented 7.9% (7.5) of Atlas Copco's total workforce. The amount invested in research and development, including capitalized expenditures, increased by 16.1% to MSEK 3 000 (2 583) corresponding to 3.1% (3.0) of revenues and 4.0% (3.8) of operating expenses.

How we innovate with the future in mind

BUSINESS AREAS

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

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

DIVISIONS

Each division identifies two to three KPIs relevant to its business and sets targets on these. The performance is followed up by divisional business boards.

Industrial ideas that add value

Products designed for energy efficiency

Atlas Copco's products are designed to optimize customers' productivity and competitive advantage. Energy savings help reduce CO_2 emissions and contribute to customers' sustainability ambitions and cost savings. The energy efficiency of one or two product families per business area is followed up as a Group KPI.

Compressor Technique

Energy savings

6%

26 500 metric tonnes of CO_2 avoided annually which corresponds to

5 626

passenger cars driven for one year

Compressors for manufacturing industry

Atlas Copco's ZH 1000-3150 oil-free centrifugal air compressor is designed to meet the needs for a larger centrifugal air compressor delivered in a standard package. The most compact air compressor in its size range, it also has energy savings up to 6% compared to previous models thanks to innovation in the cooler, core and package design. The unique design allows maximizing energy savings and minimizing operating costs. In certain applications that operate at reduced flows the compressor can save up to 9% energy compared with the previous model. The ZH 1000-3150 is an all-in-one oil-free air compressor; all elements including internal piping, coolers, motor, inlet guide vanes and control system are supplied in a standard package. Stainless steel cooler cores minimize corrosion and increase operating lifetime. Efficient cooling increases both reliability and energy efficiency and maximizes thermal transfer. Due to the energy efficiency of the compressor, the number of units of ZH 1000-3150 sold on average per year can save around 26 500 metric tonnes of CO_2 on an annual basis compared to previous models.

Vacuum Technique

Energy savings

50%

5 500 metric tonnes of CO_2 avoided annually which corresponds to

1 168

passenger cars driven for one year

Vacuum pumps for process industry

Atlas Copco has extended its range of innovative GHS VSD+ vacuum pumps to include a state of the art high capacity platform. The GHS 3800-5400 VSD+ is the oil injected vacuum pump that can provide the highest flow rate on the market. GHS VSD+ raises the productivity of central vacuum systems by offering energy savings of around 50% compared to fixed-speed competitor units. The energy saving has been confirmed in energy audits. This vacuum pump has a significantly improved oil cooling and oil retention compared to existing technologies, representing a big reduction in total life-cycle cost. GHS VSD+ has the most efficient vacuum element on the market for a given flow, and it is the first technology that automatically controls output according to the real process demand, contributing to significantly reduced energy consumption. By upgrading previous generation vacuum technology to GHS 3800-5400 VSD+, based on the average number of machines sold in 2018, global industrial vacuum customers reduce CO_2 emissions by around 5 500 metric tonnes per year, compared to fixed-speed competitor units.

Industrial ideas that add value

Products designed for energy efficiency

Atlas Copco's products are designed to optimize customers' productivity and competitive advantage. Energy savings help reduce CO_2 emissions and contribute to customers' sustainability ambitions and cost savings. The energy efficiency of one or two product families per business area is followed up as a Group KPI.

Industrial Technique

Energy savings

80%

6 500 metric tonnes of CO_2 avoided annually which corresponds to

1 380

passenger cars driven for one year

Battery-driven tightening tools for the manufacturing industry

Atlas Copco's most advanced handheld tightening tools, the STB battery nutrunners, meet the highest customer standards in a wide range of assembly applications such as the vehicle, energy and aerospace industries. The tools, which are connected to the customers' production system, report and monitor the tightening process. This enables real-time instructions and feedback for the most accurate and flexible production with the highest possible quality. Electric tools are more energy-efficient than pneumatic in many applications and Atlas Copco continuously develops electric tools to replace pneumatic ones and introduces tools for new tightening applications. One battery STB nutrunner typically reduces the energy consumption by approximately 80%. Based on a yearly average of all STB battery nutrunners sold during the period 2016–2018, this amounts to a saving of around 6 500 metric tonnes of CO_2 emissions on average per year when compared to pneumatic tools.

Power Technique

Energy savings

8%

6 500 metric tonnes of CO_2 avoided annually which corresponds to

1 380

passenger cars driven for one year

Generators for power plants

The QAC 1450 TwinPower, part of Atlas Copco's range of containerized generators, delivers versatility, optimized performance and excellent fuel economy in demanding applications, such as power plants and events. The TwinPower operating principle is based around the concept of two generators, with two independent engines, with innovative remote variable speed cooling, inside one box. The QAC 1450 TwinPower is a containerized unit housing two compact generators; powered by V8 engines with double bearing alternators. This configuration, with its fast-paralleling system, allows the two generators to work independently or in parallel with each other. From full load to low load, the TwinPower concept provides the same output, performance and efficiency as a single generator package, thereby achieving up to 8% fuel savings on continuous use in an independent power plant application. This corresponds to approximately 6 500 metric tonnes of CO_2 being avoided in a year per power plant in comparison to the use of a single generator package.

Passionate people create exceptional things

Atlas Copco's people management strategy is to attract, develop and retain qualified and motivated employees. Atlas Copco builds and promotes future-ready leaders who demonstrate key behaviors aligned with company values. Atlas Copco encourages employees to take accountability for their own development and holds leaders responsible for coaching their teams for high performance.

36 862

Number of employees December 31, 2018

Atlas Copco has identified competent teams as a focus area for creating sustainable profitable growth. The objective is to ensure that employees are professionally coached and trained, that diversity increases and that the leadership becomes better and better in guiding the organization.

A fair and diverse workplace

A fundamental belief at Atlas Copco is that diversity inspires innovation and provides insights that help create a better understanding of customers' needs.

Increasing gender diversity is a particular focus and training and mentorship programs take place across the Group. For example, in the Compressor Technique business area, a 12-month sales and marketing program aims to secure that talented and qualified sales and marketing professionals develop sales and marketing management competence. The mentorship and competence development program is open to male and female candidates, with a focus on including women. In its third year in 2018, the program had 14 participants, ten of whom were women.

Striving for increased balance in the number of men and women in the workforce, Atlas Copco undertakes a variety of activities. Recruitment processes that promote diversity and providing fair growth opportunities are key instruments to increase diversity across the Group. The Power Technique business area's operations in China, Japan and Korea, with 40% female managers on the level below general manager, is one successful example. The strategy builds on a combination of factors such as job advertisements that avoid gender bias, and attractive benefits, for instance concerning medical costs for female employees' childbirth and maternity leave.

The proportion of female recent graduates recruited to Atlas Copco in 2018 among white-collar workers increased to 37% (31). The inflow of women to the organization was 23% (23) in 2018.

Atlas Copco strives to create an attractive workplace by promoting equal opportunity and embracing diversity. The company takes a firm stance on discrimination. In 2018, a guideline on diversity and inclusion was developed to support employees and to put extra focus on the importance of an inclusive and fair working environment. The guideline is a complement to the Business Code of Practice.

A new e-learning containing dilemma questions covering discrimination and other ethical dimensions was developed during 2018. The e-learning is available to all employees and parts of the content is mandatory for signing compliance to the Business Code of Practice for employees.

The role of leadership

Atlas Copco's leaders have a key role in developing the business in a responsible way and to support employee development. The Communicative Leadership Index is used to measure leadership success through a

People

58%

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

2017: 57% **GOAL:** 65%

23%

Inflow of women

2017: 23%

GOAL: Continuous improvement

Communicative Leadership Index rating

2016*: 75

GOAL: Continuous improvement

*No measurement made in 2017 and 2018

82%

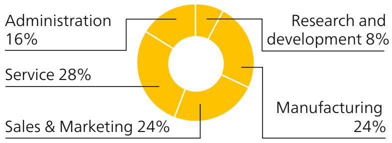
Employees with yearly performance and development discussions

2017: 86%

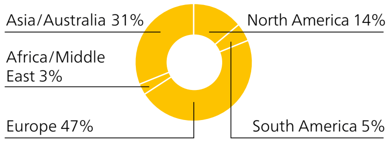
GOAL: 100%

New KPIs and goals, as presented on page 5, will measure progress from 2019.

Professional category spread of employees



Geographical spread of employees



bi-annual employee survey. However, due to the spin-off of Epiroc in 2018, it was decided to postpone the survey.

Atlas Copco seeks to strike a balance between developing the local workforce and offering international opportunities. Managers develop local leaders to attract and retain local competence and talent. In addition, managers who take on international positions play an important role when it comes to strengthening the business culture.

Atlas Copco strives to encourage mobility across geographical, organizational and cultural boundaries. Atlas Copco has managers on international assignments coming from 43 countries and working in 46. In 2018, 70% (67) of all senior managers were locally employed.

Growing and mobilizing talent globally

Constructive and systematic feedback on employees' performance is an important part of being a responsible employer. Performance and development discussions are followed up as a KPI. In 2018, 82% (86) of the employees had yearly discussions. The opportunity for employees to continuously learn and develop new skills is vital. A global competence development platform provides accessible learning opportunities for employees. In 2018, a training program for all employees providing skills training on a wide range of digital competencies and applications was rolled out.

In order to stimulate internal advancement, Atlas Copco assesses managers' performance and potential to take on more challenging tasks. 58% (57) were assessed as having displayed both good results in their current position and potential for advancement.

Developing a leadership pipeline

To retain competence, Atlas Copco has the ambition to recruit 85% of managers internally. The outcome in 2018 was 90%. The internal job market is key to retaining talent while still growing competence and encouraging mobility. In 2018, 4 371 positions were advertised, of which 405 were international. The total internal mobility among employees increased to 9.2% (8.0). Overall external recruitment increased to 15.3% (13.6), excluding acquisitions. Atlas Copco is committed to promoting equal opportunity in its hiring and promotion processes.

INTERNAL JOB MARKET

Atlas Copco has a simple proven philosophy on how to grow talent: employees are encouraged to take on new challenges and do many different jobs. However, to do this they need to take control of their own careers and apply for positions in the internal job market. All open positions except the CEO are advertised on the job market. The objective is to have a talented and experienced workforce, which is the foundation for achieving lasting results.

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

1. Results give freedom 2. Learning by doing

3. You must take care of your own career 4. The job market is open to everybody

Safety and well-being enhance productivity

Atlas Copco has a global Safety, Health and Environmental policy to ensure that workplaces have robust standards for safety and well-being. The major focus of the Group's activities is to promote behavioral changes that are necessary to create a health and safety culture in the workplace.

Atlas Copco's annual safety day is held globally, with the purpose to emphasize safety at work and to reinforce the safety and well-being culture. All activities during this day are planned and conducted by the local operations, tailored to their specific challenges and needs. Activities range from life-saving techniques, to fire drills, lectures on a healthy lifestyle, joint physical exercises, first aid knowledge and safety on the road.

The number of accidents per million working hours for Atlas Copco employees decreased to 2.8 (2.9) in 2018. For the additional workforce, there was a significant increase to 4.3 (2.4) accidents per million working hours, from 12 to 26 accidents. The increase was mainly due to quick rises in the additional workforce and increased production volumes. The number of incidents per million working hours decreased significantly for Atlas Copco employees, as well as for the additional workforce. There was no fatality in 2018 (0).

In 2018, sick leave among Atlas Copco's employees due to own illness was 2.0% (2.0), which is below the accepted level of 2.5%. For full disclosure about incidents, accidents and sick leave, see the sustainability notes on page 131.

SAFETY CULTURE GIVES OUTSTANDING RESULTS

The Edwards facility in Niagara Falls USA, which builds nonstandard vacuum and abatement systems, supports all divisions within the Vacuum Technique business area. The safety culture established over many years has helped produce a world-class safety record with one single lost-time accident in 16 years. The employees continue to develop innovative ways to improve and then share these improvements throughout the business. Leading examples include coordinating full-scale drill scenarios with local emergency response teams. The facility, with over 200 employees, received the Atlas Copco annual safety award in 2018.

Safety and well-being

13.3

Incidents per million working hours

2017: 14.5
GOAL: Continuous improvement

2.0%

Sick leave

2017: 2.0% **GOAL:** Below 2.5%

0

Fatalities

2017: 0 **GOAL:** 0

2.8

Accidents per million working hours

2017: 2.9
GOAL: Continuous improvement

New KPIs and goals, as presented on page 5, will measure progress from 2019.

WELLNESS AT THE WORKPLACE IN SUB-SAHARAN AFRICA

Since 2003, Atlas Copco have supported HIV and AIDS workplace interventions for employees in sub-Saharan Africa. The interventions are a proactive measure to enhance employee health and avert absenteeism due to illness, increased medical and insurance costs associated with the HIV epidemic. Partnership with the Swedish Workplace HIV and AIDS Programme (SWHAP) saw successful spread of the programs to entities across sub-Saharan Africa. The interventions provide employees with access to voluntary HIV testing, care, treatment and support services.

In line with global trends of addressing HIV within a broader wellness context, employees can also access testing and treatment for other communicable and non-communicable diseases. Interventions have been extended to families, communities and the value chain through outreach initiatives and supply-chain programs that build capacity within the value chain to address HIV and AIDS.

Employees formed the iconic World AIDS Day ribbon at Atlas Copco in South Africa as part of World AIDS Day 2018 commemorations. Access to voluntary HIV and wellness testing was provided for all employees during the day.

Living by the highest ethical standards

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

To live by the highest ethical standards is a priority for creating sustainable, profitable growth for Atlas Copco. The Group's ability to ensure that the highest ethical standards are applied is dependent on the values and behavior of employees, management and business partners. Therefore, significant weight is put on communicating and monitoring the adherence to Atlas Copco's values. In 2018, the process was further strengthened by expanding the scope for annual signing of the Business Code of Practice to all employees. New e-learnings and classroom trainings were developed to further support employees and to strengthen awareness of Atlas Copco's values and guidelines.

A responsible value chain approach

Respect for human rights is integrated into Atlas Copco's processes. The efforts are driven in the organization by the Business Code of Practice, supported by both the supplier and the customer sustainability assessment tools and criteria, and reinforced by targeted training (sustainability notes, page 131).

Responsible sourcing practices

Atlas Copco has a large international supplier base, which presents significant challenges. Purchased components represent about 75% of the product cost. Working with business partners who share the Group's high standards of quality, business ethics and resource efficiency is necessary to effectively manage risks, and to enhance productivity in the value chain.

Atlas Copco uses a risk-based approach and prioritizes follow-up activities with significant suppliers who represent the bulk of the annual purchase value and operate in markets with high corruption or human rights risk. In 2018, 4 660 (4 023) suppliers were identified as such significant suppliers. 95% (87) of the significant suppliers have been requested to confirm compliance to the Business Code of Practice. 86% (82) confirmed compliance. There are ongoing efforts to continue to increase the number of suppliers that confirm their compliance.

Significant suppliers are impartially evaluated on parameters including price, quality and reliability as well as key environmental, social and ethical concerns. The checklist is based on the UN Global Compact and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. On-site visits are made to ensure compliance, (sustainability notes, page 132).

Regular audits are performed by the business operations to ensure that Atlas Copco's values as stated in the business partner criteria are implemented. In 2018, 996 (1 031) significant suppliers were audited for quality and 845 (723) for safety, health, environmental and ethical standards. Of these, 4 (0) were rejected due to quality issues and none (1) was rejected for safety, health, environmental or ethical standards.

In 2018, the document setting out the criteria for business partners was updated and translated into more than 30 languages. All language versions are published on the corporate website and on the intranet.

Applying the Business Code of Practice to distributors and agents

Approximately 20% of Atlas Copco's revenues are generated through sales via distributors, agents and contractors. Atlas Copco requires all business partners to adhere to the Business Code of Practice, including suppliers, distributors and agents. Since the number and type of distributors and agents differ significantly between the divisions, each division develops its own process for implementing confirmed compliance with the Business Code of Practice among significant distributors and agents. Progress is measured and reported at divisional level.

HOW ATLAS COPCO WORKS WITH HUMAN RIGHTS IN THE VALUE CHAIN

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

Business partners	The Group's own operations	Customers	Community
POLICIES			
Atlas Copco has integrated the UN Global Compact principles into business partner evaluation and management. Read more above.	The Group's goals strive to create safe, healthy and fair working environments. Read more in the employees section on pages 37–39.	The Group is strengthening its approach using the UN Guiding Principles on Business and Human Rights. Read more in the sustainability notes, page 131.	Atlas Copco pays the fair, and legal amount of taxes to support the communities the Group operates in. Read more in the sustainability notes, page 131.
ACTIVITIES			
Prohibiting child labor and forced labor, responsible sourcing from high risk or conflict-affected regions.	Ensuring fair labor and working conditions, non-discrimination in the workplace and the right to join trade unions.	Product safety, protecting standard of life by minimizing environmental impact through usage of products, issues related to community relocation and security concerns.	Community engagement activities increases the access to health, education and safe development of children and vulnerable groups, as well as disaster relief.

Sales compliance process

Atlas Copco uses a customer assessment tool to investigate potential environmental, labor, human rights and corruption risks in markets and industries where Atlas Copco is present, (sustainability notes, page 131).

Atlas Copco strives to partner with customers to further understand and address human rights risks in the value chain. If relevant, the customer assessment tool is complemented by in-depth dialogue and field visits.

Atlas Copco's compliance board oversees and supports the operations to safeguard that the Business Code of Practice is implemented and complied with. The compliance board works to ensure that Atlas Copco is not complicit in human rights violations in accordance with the Group's commitment to the UN Guiding Principles on Business and Human Rights. The lacking enforcement of legal and political infrastructure in some complex markets represents a challenge. Bilateral engagements with civil society and investors are crucial for Atlas Copco to successfully escalate issues in challenging markets.

Zero tolerance against corruption

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

There are no negative consequences, such as demotion, penalty or other reprisals, for employees refusing to receive or pay bribes or for reporting violations. The Group's whistleblowing system can be used by employees or other stakeholders to report behavior or actions that are, or may be perceived as, violations of laws or of the Business Code of Practice. The person reporting can choose to be anonymous.

Employee awareness of the whistleblowing system is measured, through the Group's employee survey, usually biannually. However, in 2018, the survey was postponed due to the spin-off of Epiroc. In the last survey in 2016, 64% of the employees stated that they had knowledge of the whistleblowing system. Since then, strengthened communication efforts have been undertaken to increase awareness.

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

Training for employees worldwide

All new employees receive the Business Code of Practice and training, both digital and class-room training, is provided globally. Atlas Copco's employees and employees in the additional workforce have access to these trainings.

Starting in 2018, all employees are requested to sign their compliance to the Business Code of Practice annually. The procedure requires employees to take a short e-learning before signing. The e-learning aims to support awareness and understanding of the content and to reinforce the importance of the Business Code of Practice.

The percentage of managers signing compliance with the Business Code of Practice is a key performance indicator for the Group. In 2018, 95% of the managers signed the compliance statement. The process for signing was updated during the year, therefore the result is not fully comparable to previous years'. Continuous communication about the new process and follow-up of the results is done to ensure that all managers sign. Managers receive in-depth classroom training with dilemma cases. In 2018, follow-up of the training for managers was done at local level but was not aggregated at Group level.

Ethics

95%

Managers signed compliance to the Business Code of Practice

GOAL: 100% **2017:** new scope

Managers trained in the Business Code of Practice. Measured locally in 2018

GOAL: 100%

Share of employees aware of the whistleblowing system

GOAL:100% **2016*:** 64%

*No measurement made in 2017 and 2018.

86%

Significant suppliers that confirmed compliance with the Business Code of Practice

GOAL: 100% **2017:** 82%

Significant agents and distributors that confirmed compliance with the Business Code of Practice Reported on divisional level

GOAL: 100%

New KPIs and goals, as presented on page 5, will measure progress from 2019.

Responsible use of resources

Atlas Copco strives to reduce its environmental footprint across the value chain and delivers energy-efficient products designed with a life-cycle approach. The impacts of climate change presents both challenges and opportunities for Atlas Copco, who wants to be part of a solution to this increasing global concern.

Climate change presents an enormous challenge to businesses, as well as to society as a whole. Atlas Copco strives for a reduced environmental and climate impact by ensuring that its operations are run in the most responsible and resource-efficient way throughout the value chain. For the same reason, customers are increasingly requesting energy-efficient products and solutions to decrease their carbon footprint. Atlas Copco has a high ambition when it comes to meeting customers' need for such sustainable products and has established Group common goals to track progress within this area.

Enhanced risk management

Atlas Copco faces risks driven by climate change, such as changes in environmental regulations, availability of resources, changing consumer behavior and other developments. Among the risks are also increased energy prices and energy taxes, and regulations related to carbon dioxide emissions. Atlas Copco's work with resource efficiency mitigates such risks.

Market shifts toward a low-carbon economy can impact the viability for certain sectors and give rise to new businesses and business models that can be served by Atlas Copco. For instance, increased generation of renewable energy and the surge in production of electrical vehicles present business opportunities to provide products to these industries.

Energy security

The ambition to reduce negative climate impact has also spurred an increased use of renewable energy in the Group's operations. Diversifying sources of energy to include renewable energy has a positive environmental impact and can also benefit the business by protecting it from price fluctuations and the lack of availability of traditional energy sources.

In some growth markets, renewable energy may not be readily available or is a minor component in the country's energy mix. This affects the proportion of renewable energy sources used in these particular markets, and the overall energy mix.

Water management

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

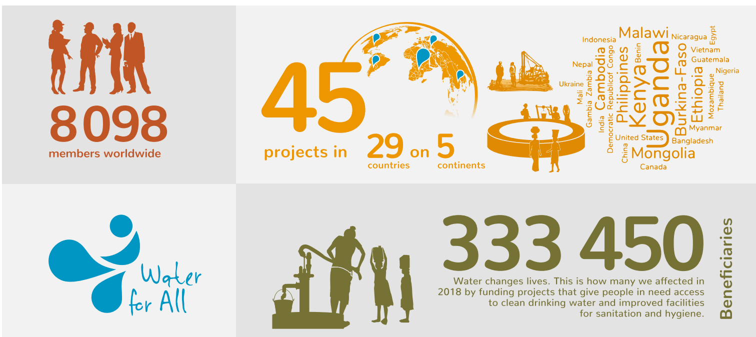
Atlas Copco uses water indices to identify operations located in water-risk areas, from physical, legislative or cost perspectives. Group companies in such areas should implement a water-risk management plan. Innovative product design also aims to reduce water use.

WATER CHANGES LIVES

Water for All is Atlas Copco's main community engagement initiative. Through the dedicated and passionate work of volunteering employees, Water for All funds projects which empower people through access to clean drinking water, sanitation and hygiene. All employee donations are matched with twice as much by Atlas Copco.

In 2018, more than 40 water and sanitation projects were implemented in 29 countries in all parts of the world, in total reaching more than 330 000 people.

Water for All is the main community engagement initiative of both Atlas Copco and Epiroc. The numbers convey Water for All's global achievements in 2018 including both companies.



–8%

MWh energy from operations/cost of sales

–6%

Water consumption in water risk areas/cost of sales

Atlas Copco has established a KPI measuring consolidated water consumption in risk areas in relation to cost of sales. Water consumption in water risk areas decreased by 6% in 2018 in relation to cost of sales. Water consumption in absolute numbers increased by 5%, mainly because of one-time events such as refilling of water tanks or increased production.

Environmental risks in the supply chain

Atlas Copco recognizes the responsibility to manage environmental risks in its value chain, (sustainability notes, page 132). Atlas Copco works with tier-one suppliers using its business partner criteria and action plans that are developed together with business partners. Smelters and other resource-intensive activities are often tier-two suppliers, or further down the value chain.

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

Impact from operations

Atlas Copco has decreased its energy consumption in relation to cost of sales during 2018. In comparison with 2017, the consumption in MWh fell by 8% in relation to cost of sales. The energy consumption in MWh rose somewhat in absolute numbers, largely due to increases in production. The percentage of renewable energy of total energy used in operations was 34% in 2018.

Carbon dioxide emissions from transport is a major contributor to Atlas Copco's overall footprint. In 2018, the CO_2 (tonnes) from transport in relation to cost of sales decreased by 3%. In absolute terms the CO_2 emissions rose, mainly due to increased production volumes and urgent deliveries requiring air freight.

The percentage of waste reused, recycled and recovered of the total waste in internal operations is measured as a KPI for use of resources. In 2018, this share was 94%. While the amount of reused, recycled and recovered waste is already at a high level, focus should be maintained on increasing the percentage, to the benefit of both customers and the environment.

AWARD FOR OUTSTANDING TECHNICAL INNOVATION

The John Munck Award is presented each year to a product developer, designer, or a team, for outstanding contributions to the overall quality of an Atlas Copco product.

In 2018, the John Munck Award for technical innovations was presented to a team in the Semiconductor division in Atlas Copco's Vacuum Technique business area for developing the iXM dry pump. The pump, used in the semiconductor manufacturing process, improves service life and reliability and is smaller, more silent and more energy efficient than its competitors. The vacuum pump was developed in South Korea, where a large part of the world's semiconductors are manufactured.

The environment

7.2

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

GOAL: Continuous improvement
2017: 7.8

34%

Renewable share of total MWh energy used in operations; 12M

GOAL: Continuous improvement
2017: 34%

3.4

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

GOAL: Continuous improvement
2017: 3.5

5.1

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

GOAL: Continuous improvement
2017: 5.4

94%

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

GOAL: Continuous improvement
2017: 94%

New KPIs and goals, as presented on page 5, will measure progress from 2019.

Risks, risk management and opportunities

All business activities involve risks, therefore there is a need for a structured and proactive approach to manage the company's risks. Well managed risks can lead to opportunities and add value to the business while risks that are not well managed can lead to incidents and losses.

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

The Group's risk management approach follows the decentralized structure of Atlas Copco. Local companies are responsible for their own risk management, which is monitored and followed up regularly e.g. at local business board meetings. Group functions for legal, insurance, sustainability, treasury, tax, controlling and accounting provide policies, guidelines and instructions regarding risk management. This is regularly audited by internal and external audits. Read more about Internal control over financial reporting on pages 60–61.

Insurance

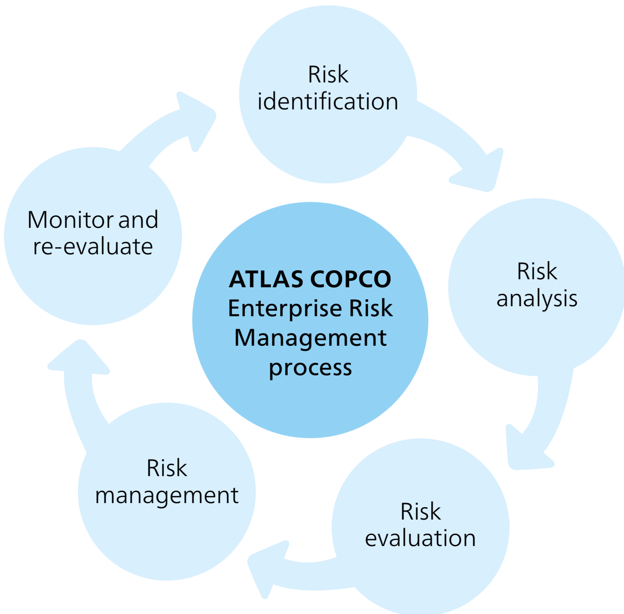
The Group Insurance Program is provided by the in-house insurance company Industria Insurance Company Ltd. which retains part of the risk exposure for the following insurance lines; property damage, business interruption, transport, and general and products liability. Financial lines insurance and business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

Loss prevention

The main purpose of Atlas Copco's loss prevention process is to prevent potential property losses and business interruptions. Atlas Copco's Loss Prevention Standard stipulates Group requirements in regards of loss prevention for product and distribution facilities, including areas like: construction, safety systems, loss prevention procedures and plans that need to be prepared. In order to ensure alignment with the standard and to support sites understanding how the standard applies to each site, around 30 risk surveys are performed annually. The results from the risk surveys are consolidated and reported to Group Management.

Enterprise risk management

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



Risk process

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

Risks, risk management and opportunities, cont.

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

Risks, risk management and opportunities, cont.

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
DISTRIBUTION RISKS	Atlas Copco primarily distributes products and services directly to the end customer. If the distribution is not efficient, it may impact customer satisfaction, sales and profits. Damages and losses during the course of distribution can be costly. Some sales are made indirect through distributors and rental companies and their performance can have a negative effect on sales. The distribution of products results in CO_2 emissions from transport.	• Physical distribution of products is concentrated to a number of distribution centers and the delivery efficiency of these is continuously monitored. • Resources are allocated to training and development of the service organization. • As indirect sales are local/regional, the negative impact of poor performance is limited. • Increased focus on safer and more effective transports to reduce losses, costs and the total emissions per transport.	→ Continue to strengthen the relationship with customers through timely deliveries of products and services. → Transport efficiencies and safe transports can save the customer time and cost while reducing the environmental impact of their own operations. → Reduce fuel costs and resource requirements which improves business agility for the Group.
SUPPLY CHAIN RISKS	Atlas Copco and its business partners such as suppliers, sub-contractors and joint venture partners, must share the same values as expressed in Atlas Copco's Business Code of Practice. The availability of many components is dependent on suppliers and if they have interruptions or lack capacity, this may have an undesirable effect on deliveries. The use of many suppliers gives rise to the risk that products contain components which are not sustainably produced, e.g. the use of hazardous substances or that electronic components contain conflict minerals (whose trade or taxation fund armed groups in conflict areas such as the Democratic Republic of Congo).	• Select and evaluate business partners on the basis of objective factors including quality, delivery, price, and reliability, as well as commitment to environmental and social performance. • Continue the process to investigate and eradicate the presence of conflict minerals in Atlas Copco's value chain. • Establishment of a global network of sub-suppliers, to prevent supplier dependency. • E-learning for business partners (both suppliers and distributors) developed to raise awareness of the Business Code of Practice, including signing of a compliance statement. • Atlas Copco maintains lists of substances that are either prohibited or restricted due to their potential negative impact on health or the environment. Compliance with these lists is part of the business partner statement.	→ Further increase business agility and reduce costs by improving supplier inventory management in response to changes in demand. → Continue to be a preferred business partner and promote efficiency, sustainability and safety. Good supplier relations help to improve Atlas Copco's competitive position. → Opportunity to strengthen customer relationships by being ready to support customers who are impacted by the Dodd Frank legislation on conflict minerals. → Promote human rights and work towards improving labor conditions, reducing corruption and conflicts.
LEGAL RISKS AND COMPLIANCE	Atlas Copco's business operations are affected by numerous laws and regulations as well as commercial and financial agreements with customers, suppliers, and other counterparties, and by licenses, patents and other intangible property rights.	• In-house lawyers on five continents supporting entities with advice on laws and regulations including compliance as well as support with contract reviews. Pro-active training is also done. • A yearly legal risk survey of all companies in the Group is performed in addition to a continuous follow-up of the legal risk exposure. The result of the survey is compiled, analyzed, and reported to the Board and the auditors.	→ Complying with legal norms and laws minimizes costs and increases opportunities to strengthen Atlas Copco's reputation. It also creates the chance to develop reliable partnerships and improve business stability.
RISKS WITH ACQUISITIONS AND DIVESTMENTS	When making acquisitions there are risks related to the selection and valuation of the potential targets as well as the process of acquiring them. The integration of acquired businesses can also be a complex and demanding process. It is not certain that an acquisition will be successful if all steps are not done properly. Annual impairment tests are made on acquired goodwill. If the carrying values are not deemed justified in such tests, it can result in a write-down, affecting the Group's result. Acquisitions and divestments can impact local communities and/or the environment, directly or indirectly.	• The Group has an Acquisitions Process Council, which has established a process for acquisitions. The process is continually updated and improved to address and mitigate risks. The Council also provides training and supports all business units prior to, during and after an acquisition. Before any acquisition is completed, a detailed due diligence will be performed in order to evaluate risks involved. • Atlas Copco guidelines and policies are applied to assess and manage the environmental and social impact of operations in the affected communities after an acquisition is complete. • Human rights and environmental considerations are integrated when acquisitions and divestments are made.	→ Acquisitions give possibility to enter new markets, market segments, new technologies, new clients, increase revenues, etc. → Identifying the obstacles to integration can allow Atlas Copco to improve the process through methods such as job rotation, training or team-building exercises. This would not only result in a smoother process but also lower operational costs by decreasing downtime and allowing newly acquired companies to become productive and efficient more rapidly.
EMPLOYEE RISKS	Atlas Copco must have access to and attract skilled and motivated employees and safeguard the availability of competent managers to achieve established strategic and operational objectives.	• The competence mapping and plan secures access to people with the right expertise at the right time. Recruitment can take place both externally and internally. Internal recruitment and job rotation are facilitated by the "Internal job market". • Salaries and other conditions are adapted to the market and linked to business priorities. Atlas Copco strives to maintain good relationships with unions.	→ Motivated and skilled employees and managers are crucial to achieve or exceed business goals and objectives.

Risks, risk management and opportunities, cont.

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
RISKS TO REPUTATION	The Group's reputation is a valuable asset which can be affected in part through the operation or actions of the Group and in part through the actions of external stakeholders. Products must deliver the brand promise and be of high quality, safe and have a low negative impact on the environment when used by the customer. There is potential for reputational risk from non-compliance to product labeling standards or if there are cases of false advertising. Unsatisfied employees may also potentially detract the Atlas Copco brand.	• All Atlas Copco products are tested and quality assured. Monitoring of product labeling and regular communications training. • The Group actively engages in stakeholder dialogue. • Training in the Business Code of Practice includes the yearly signing of a compliance statement. • Clear well-known brand promise. • A comprehensive employee survey is carried out every two years and followed up actively.	→ Brand positioning. → Stakeholder engagement cannot only mitigate reputational risks in certain cases but it also presents opportunities to increase the awareness and credibility of Atlas Copco's brand through improvements and innovations. → Delivering tested and quality assured products improves customer satisfaction and promotes repeat business. → Attract and develop employees that adhere to the Business Code of Practice.
INFORMATION TECHNOLOGY (IT) RISKS	The Group relies on IT systems in its day-to-day operations. Disruptions or faults in critical systems have a direct impact on production. Errors in the handling of financial systems can affect the company's reporting of results. Theft or modification of intellectual property constitutes a risk to our products and future business success. Cyber security risks are increasing in importance and can have a major impact on Atlas Copco operations. The General Data Protection Regulation (GDPR) came into force in 2018 and has an impact on the handling of personal data. Failure to comply may result in substantial fines and reputational damage.	• Atlas Copco has a global IT security policy, including quality assurance procedures that govern IT operations. Information security is monitored through IT security audits. Standardized processes are in place for the implementation of new systems, changes to existing systems and daily operations. The system landscape is based on well-proven products. • IT Security tracks globally major downloads of files. Screening of business partners/consultants working in our systems. • Cyber security is regularly discussed, addressed and invested in by the IT Security function. Awareness of cyber security risks increases the readiness to quickly address any attacks. • A GDPR project group assumed the essential activities to ensure compliance with the new regulation. The necessary organizational changes are being executed to incorporate the compliance requirements into our daily operations.	→ Stable IT systems, secure IT environment and standardized processes increase efficiencies and reduce costs. → Quick action on major download of product development files minimizes the potential damage. → Quick action to address a cyber-attack gives opportunity to stable work environment and business continuity. → As the approach has been global, Atlas Copco is well prepared to face future data privacy initiatives in other regions or continents.
SAFETY AND HEALTH RISKS	Issues with wellness and sick leave can impact the productivity and efficiency of operations. Accidents or incidents at the workplace due to lack of proper safety measures can negatively affect productivity and Atlas Copco's employer brand. Atlas Copco recognizes the risk that serious diseases and pandemics can interrupt business operations and harm employees.	• The Group regularly assesses and manages safety and health risks in operations. • The ambition is to certify all major units in accordance with the OHSAS 18001/ISO 45001 standards. • Workplace wellness programs to reduce the impact of pandemic HIV/AIDS are in place in Sub-Saharan Africa. • Atlas Copco's business partners are trained in the Group's policies including the approach to health and safety.	→ Improved safety and health in operations increases both employee productivity and morale. → Atlas Copco is strengthened through safe products. The Group continues to be seen as industry leader. → Improving working conditions for customers and suppliers can create long lasting relationships and repeat orders.
ENVIRONMENTAL AND CLIMATE RISKS (EXTERNAL)	The primary drivers for external environmental risk are physical changes in climate and natural resources, changes in regulations, taxes and resource prices. Natural disasters as a consequence of climate change can disrupt own operations or impact the supply chain. Increased fuel/energy taxes can increase operational costs. Regulations and requirements related to carbon dioxide emissions from products and industrial processes are gradually increasing. Changes in mean precipitation can affect all of Atlas Copco's operations and negatively affect operations either directly or by disrupting the supply chain. Market shifts toward a low carbon economy can impact the viability for certain sectors.	• Atlas Copco consistently develops products with improved energy efficiency, reduced emissions and smaller environmental footprint. • In its own operations, Atlas Copco has several key performance indicators (KPIs) that address resource and energy usage in order to minimize the costs and impact on the environment. • All cooling agents used in Atlas Copco products have a zero ozone-depleting impact during the product's lifecycle, and the aim is to continue to introduce cooling agents with lower Global Warming Potential (GWP).	→ Working proactively with environmental risks can provide significant opportunities to drive innovation at Atlas Copco. → Given that many customers are operating in areas of extreme water stress or scarcity, water efficient or water recycling products can have a strong customer appeal. Thus, this presents a strong business opportunity to extend Atlas Copco's innovations to the focused area of water consumption. → Climate change impacts and predictions can induce changes in consumer's habits and behavior. As a result of climate events, Atlas Copco's customers can become more risk averse and demand sustainable products from the Group. New businesses and business models that are being served by Atlas Copco arise. For instance, increased renewable energy generation and the surge in production of electrical vehicles present business opportunities to provide products to the industries.

Risks, risk management and opportunities, cont.

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
RISKS OF CORRUPTION AND FRAUD	Corruption and bribery exist in many markets where Atlas Copco conducts business. Fraud is wrongful or criminal deception intended to result in financial or personal gain, which is always present where there are persons with bad intentions.	• Zero tolerance policy on bribery and corruption, including facilitation payments. • Internal control routines in place aimed at preventing and detecting deviations. The Internal Audit function is established to ensure compliance with the Group's corporate governance, internal control and risk management policies. • Control self-assessment tool to analyze internal control processes. • Training in the Business Code of Practice, including fraud awareness and workshops. • The global Group hotline and various local hotlines to report violations confidentially. • The Group supports fair competition and forbids discussions or agreements with competitors concerning pricing or market sharing.	→ By fighting against corruption and fraud, Atlas Copco has the opportunity to work with industry peers to reshape international market practices. Refusing to pay bribes may cause temporary delays and setbacks; however it reduces costs in both the long and short run, builds opportunities to improve operational efficiencies and creates more stability in society and in markets where the Group operates. → Working against corruption and fraud improves Atlas Copco's credibility and transparency and creates even more avenues to improve stakeholder relations.
HUMAN RIGHTS RISKS	Atlas Copco operates in countries where the risk, according to Amnesty International, of human rights abuse, including child labor, forced or compulsory labor is high. Atlas Copco encounters customers who are exposed to problems concerning environmental and human rights issues. Risks to the Group's reputation may also arise from the relationship with suppliers not complying with internationally accepted ethical, social, and environmental standards.	• Guidance and regular interaction to identify risks with well-established non-governmental organizations. • Policies and procedures to match the standards in the UN Guiding Principles for Business and Human rights, which Atlas Copco has committed to since 2011. • Due diligence process and the integration of internal controls for human rights violations in all processes. • The Group customer sustainability assessment tool is used. • Supplier evaluations are regularly conducted in accordance with the UN Global Compact.	→ Following the UN Guiding Principles for Business and Human Rights to "do no harm" significantly reduces risks and costs; however a business' ability to "do good" according to these guidelines also creates business opportunities. For example: continuing to develop a diverse workforce can significantly increase Atlas Copco's competitive edge and also increase the knowledge and capacity to tailor products to the customer's needs. → Working with human rights positively impacts both the employer brand and investor relations. → Strong business ethics promote internal stability while also creating a more stable market place.

The Atlas Copco share

Share price development and returns
In 2018, until the distribution of Epiroc AB at 12th of June, the price of the A share increased 3.9% to SEK 368.0 (December 31, 2017: 354.2) and the B share increased 6.2% to SEK 334.0 (December 31, 2017: 314.6). The annual total return on the Atlas Copco A share, equal to dividend, redemption and the change in the share price, was on average 22.1% for the past ten years and 20.9% for the past five years. The corresponding total return for Nasdaq Stockholm was 15.9% and 11.4%, respectively.

After the distribution of Epiroc in June 2018, the price of the A share decreased 25.9% to SEK 210.5 (opening price June 13, 2018: 284.2) and the price of the B share decreased 23.7% to SEK 193.3 (opening price June 13, 2018: 253.5).

Trading and market capitalization
The Atlas Copco shares are listed on Nasdaq Stockholm, which represented 33.2% of the total trading of the A share (50.4% of the B share) in 2018. Other markets, so called Multilateral Trading Facilities (MTF), e.g. CBOE and Turquoise accounted for some 34.0% (24.9% of the B share), and the remaining 32.8% (24.7% of the B share) were traded outside public markets, for example through over-the-counter trading.

The market capitalization at year end 2018 was MSEK 252 130 (420 076) and the company represented 4.2% (6.3) of the total market value of Nasdaq Stockholm. Atlas Copco was the second (second) most traded share in 2018 by total turnover.

A program for American Depositary Receipts (ADRs) was established in the United States in 1990. One ADR corresponds to one share. The depositary bank is Citibank N.A. At year-end 2018, there were 19 536 115 ADRs outstanding, of which 18 541 998 represented A shares and 994 117 B shares.

Personnel stock option program and repurchase of own shares
The Board of Directors will propose to the Annual General Meeting 2019 a similar performance-based long-term incentive program as in previous years. The intention is to cover the plan through the repurchase of the company's own shares. The company's holding of own shares on December 31, 2018 appears in the table below.

Dividend
The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 6.30 per share be paid for 2018. The proposed dividend can be compared to an approximate dividend in 2017, for the continuing business of Atlas Copco (excluding Epiroc), of SEK 5.20 per share. The total dividend previous year, including discontinued operations, was SEK 7.00. Excluding shares currently held by the company, the proposed dividend corresponds to a total of MSEK 7 640 (8 496).

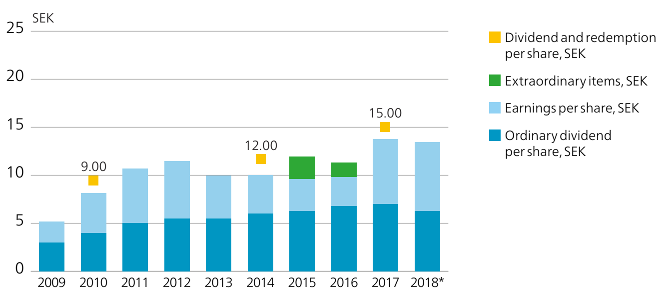
In order to facilitate a more efficient cash management, the dividend is proposed to be paid in two equal instalments, the first with record date April 29, 2019 and the second with record date October 28, 2019.

If approved, the dividend has averaged 59% of basic earnings per share during the last five years. The ambition is to distribute about 50% of earnings as dividends to shareholders. See more information on page 16.

SHARE INFORMATION 2018-12-31

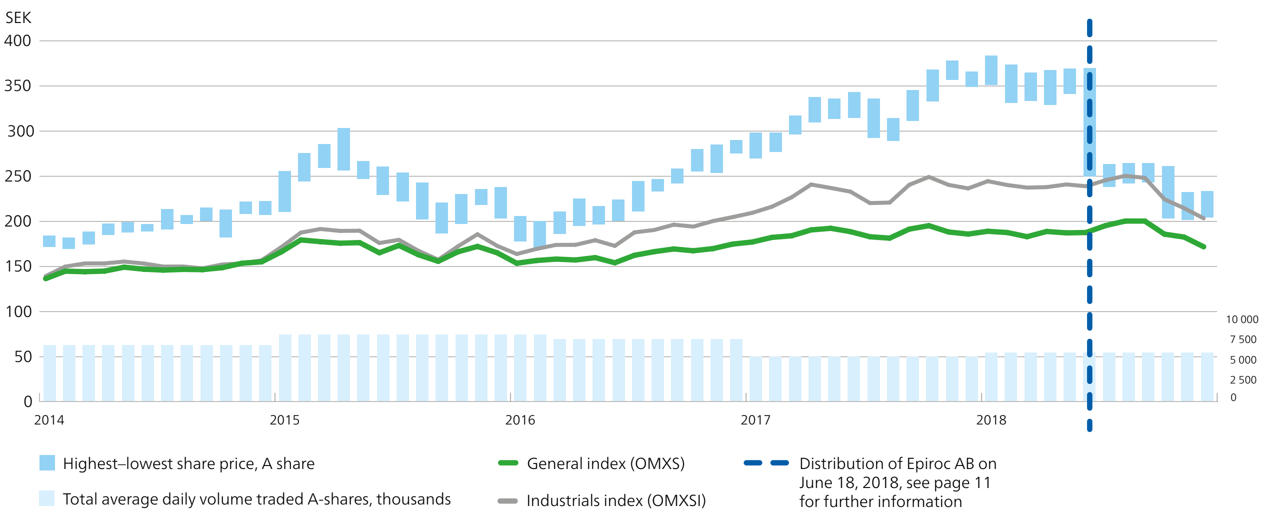
	A share	B share
Nasdaq Stockholm	ATCO A	ATCO B
ISIN code	SE0011166610	SE0011166628
ADR	ATLKY.OTC	ATLCY.OTC
Total number of shares	839 394 096	390 219 008
% of votes	95.6	4.4
% of capital	68.3	31.7
Whereof shares held by Atlas Copco	16 779 903	119 159
% of votes	1.9	0.0
% of capital	1.4	0.0

EARNINGS AND DISTRIBUTION PER SHARE



* Proposed by the Board of Directors and the first year after the distribution of Epiroc AB, continuing operations.

SHARE PRICE



Ownership structure

At the end of 2018, Atlas Copco had 87 009 shareholders (80 846 at year end 2017). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 35% (34) of the voting rights and 32% (31) of the number of shares. Swedish investors held 51% (50) of the shares and represented 48% (47) of the voting rights.

TEN LARGEST SHAREHOLDERS*

December 31, 2018	% of votes	% of capital
Investor AB	22.3	16.9
Swedbank Robur fonder	3.9	5.1
Alecta Pensionsförsäkring	3.4	4.8
SEB Investment Management	1.6	1.1
Folksam	1.0	1.0
SPP Fonder AB	0.6	0.7
Första AP-fonden	0.6	0.6
Fjärde AP-fonden	0.6	1.0
Länsförsäkringar fondförvaltning AB	0.6	0.5
Tredje AP-fonden	0.5	0.7
Others	65.1	67.7
Total	**100.0**	**100.0**
– of which shares held by Atlas Copco	1.9	1.4

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

OWNERSHIP STRUCTURE

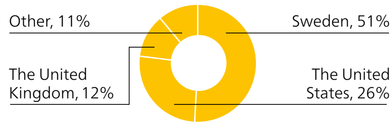
Number of shares, December 31, 2018	% of shareholders	% of capital
1–500	70.0	0.7
501–2 000	20.1	1.5
2 001–10 000	7.8	2.3
10 001–50 000	1.4	2.0
50 001–100 000	0.2	1.0
>100 000	0.5	92.5
Total	**100.0**	**100.0**

OWNERSHIP CATEGORY

December 31, 2018	% of capital
Shareholders domiciled abroad (legal entities and individuals)	49.3
Swedish financial companies	39.1
Swedish individuals	5.1
Other Swedish legal entities	2.9
Swedish social insurance funds	2.3
Swedish trade organizations	1.1
Swedish government and municipals	0.2
Total	**100.0**

SHAREHOLDERS BY COUNTRY

December 31, 2018
Percent of capital



SHARE ISSUES [1]

			Change of share capital, MSEK	Amount distributed, MSEK
2011	Split	2:1		
	Share redemption [2]	1 229 613 104 shares at SEK 5	–393.0	–6 067.0
	Bonus issue	No new shares issued	393.0	
2015	Split	2:1		
	Share redemption [3]	1 229 613 104 shares at SEK 6	–393.0	–7 304.7
	Bonus issue	No new shares issued	393.0	
2018	Split	2:1		
	Share redemption [4]	1 229 613 104 shares at SEK 8	–393.0	–9 704.6
	Bonus issue	No new shares issued	393.0	

[1] For more information please visit www.atlascopcogroup.com/investor-relations.
[2] 1 213 493 751 shares net of shares held by Atlas Copco.
[3] 1 217 444 513 shares net of shares held by Atlas Copco.
[4] 1 213 080 695 shares net of shares held by Atlas Copco.

IMPORTANT DATES

2019	April 25	Annual General Meeting
	April 25	First quarter results
	April 26*	Shares trade excluding right to dividend of SEK 3.15
	May 3*	Dividend payment date (preliminary)
	July 15	Second quarter results
	October 21	Third quarter results
	October 25*	Shares trade excluding right to dividend of SEK 3.15
	October 31*	Dividend payment date (preliminary)
2020	January 28	Fourth quarter results 2019

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

More information

– More data per share can be found on page 140 in the two-year summary.

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

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

Corporate governance

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

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

Atlas Copco does not report any deviations from the Code for the financial year 2018.

The corporate governance report has been examined by the auditors, see page 127.

The following information is available at www.atlascopcogroup.com

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

Comment from the Chair

Atlas Copco is a truly global industrial company with customers in over 180 countries.

Our Business Code of Practice, including training and a Compliance Statement that all employees need to sign, is our most important tool to make sure that we always act with the highest ethical standards and integrity. Laws, environmental standards and social conditions vary from country to country. We insist on upholding our high standards also in challenging environments where national legislation is weaker. Our business partners are expected to do the same. To make this happen and to safeguard our reputation, we rely on solid governance and our leaders' ability to defend our values, including of course internal as well as external audits.

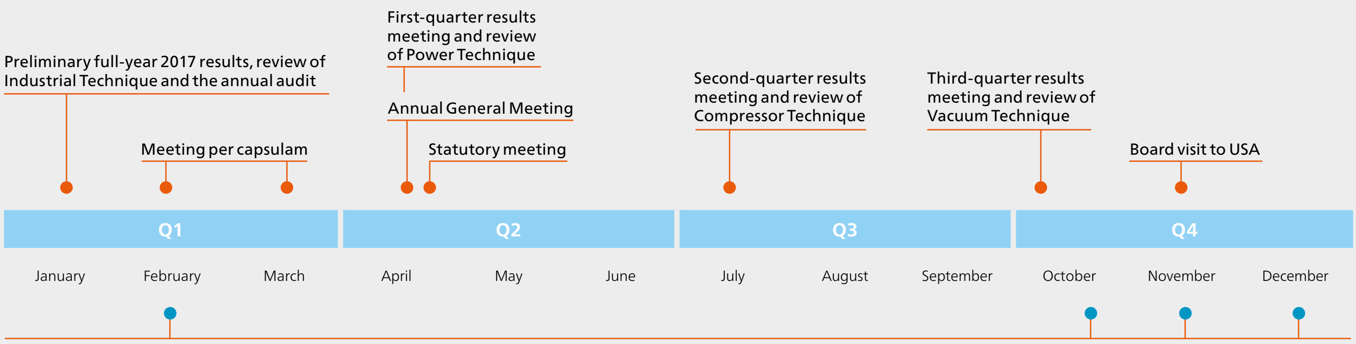
In 2018, the focus on industrial customers increased when the Annual General Meeting approved a split of the Group into two listed companies, Atlas Copco and Epiroc (the Mining and Rock Excavation business area).

The split was done through a share distribution, whereby Atlas Copco AB's shareholders received shares in Epiroc AB in proportion to their existing shareholding. In June 2018, Epiroc was listed on the Nasdaq Stockholm stock exchange in Stockholm, Sweden.

Hans Stråberg, Chair since 2014

The Board's and the Nomination Committee's work during 2018

Board of Directors meetings and activities:



Nomination Committee meetings

GOVERNANCE STRUCTURE

1. Shareholders

At the end of 2018, Atlas Copco had 87 009 shareholders (80 846 at year end 2017). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 35% (34) of the voting rights and 32% (31) of the number of shares. Swedish investors held 51% (50) of the shares and represented 48% (47) of the voting rights.

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

2. Annual General Meeting

The Annual General Meeting (AGM) is Atlas Copco's supreme decision-making body in which all shareholders are entitled to take part. All shareholders registered in the shareholders' register who have given due notification to the Company of their intention to attend, may join the meeting and vote for their total shareholdings. Atlas Copco encourages all shareholders to attend the AGM and shareholders who cannot participate personally may be represented by proxy holders. A shareholder or a proxy holder may be accompanied by two assistants and a proxy form can be found prior to the AGM at www.atlascopcogroup.com/agm.

The AGM 2018 was held on April 24, 2018 in Stockholm, Sweden and 58% of the total number of votes in the Company and 57% of the shares were represented.

Decisions at the AGM 2018 included:

- Adoption of the income statements and balance sheets of Atlas Copco AB and the Group for 2017.
- Discharge of liability of the Company's affairs during the 2017 financial year for the President and CEO and the Board of Directors.
- Approve the Board's proposal of distribution of all shares in Epiroc AB, meaning that all registered shareholders in the Company on the record date will receive the same amount of shares in Epiroc AB as they own in Atlas Copco AB. For each series A share in the Company, a series A share in Epiroc is issued and for each series B share in the Company, a series B share in Epiroc is issued.
- Adoption of the Board's proposal for profit distribution with a dividend of SEK 7 per share.
- A resolution on a share split with automatic redemption resulting in an extra distribution to the shareholders of SEK 8 per share.
- That the number of directors elected by the AGM for a term ending at the next AGM would be nine directors and no alternates.
- Election of the Board of Directors.
- A resolution of the Board of Directors' fee.
- Approval of the guidelines for remuneration to management.
- Approval of the reported scope and principals for a performance based employee stock option plan for 2018 including mandate for the Board to decide upon repurchase and sales of Atlas Copco shares to hedge the plan and previous similar plans.
- Election of Deloitte AB as auditing company until AGM 2019.

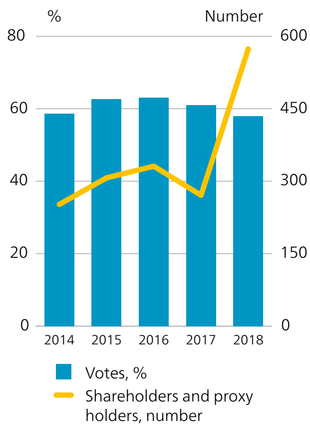
ANNUAL GENERAL MEETING 2019
The Annual General Meeting will be held on April 25, 2019 at Aula Medica, Nobels väg 6, Solna, Sweden.

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

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

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

ANNUAL GENERAL MEETING ATTENDANCE



3. Nomination Committee

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

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

The proposals and the Nomination Committee's statement will be published at the latest with the notice to the AGM 2019. In the Nomination Committee's strive to reach gender balance, for example in case of equal competence, the candidate that will lead to improved gender balance should be proposed.

In compliance with the Swedish Corporate Governance Code and the procedures adopted by the AGM 2016, the representatives of the four largest shareholders, listed in the shareholders' register as of August 31, 2018, together with the Chair of the Board shall form the Nomination Committee. The members of the Nomination Committee for the AGM 2019 were announced on September 21, 2018, and they represented approximately 31% of all votes in the Company. The members of the Nomination Committee receive no compensation for their work in the Nomination Committee.

Nomination Committee members for the AGM 2019: Petra Hedengran, Investor AB, Chair of the Nomination Committee; Jan Andersson, Swedbank Robur; Ramsay Brufer, Alecta; Hans Ek, SEB Fonder; and Hans Stråberg, Atlas Copco AB, Chair.

4. Board of Directors

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

Board of Directors' members

The Board of Directors consists of nine elected members, including the President and CEO. The Board also has two union members, each with one personal deputy. Atlas Copco fulfilled the 2018 requirements of Nasdaq Stockholm and the rules of the Swedish Corporate Governance Code regarding independency of board members.

The Board of Directors' work

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

The Board held seven meetings in 2018. Four meetings were held at Atlas Copco AB in Nacka, Sweden, one in Tierp, Sweden and two per capsulam. The attendance at Board meetings is presented on pages 56–57. In addition, the Board made a study trip to the USA.

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

Evaluation of the Board of Directors' work

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

Remuneration to the Board of Directors

Remuneration and fees are based on the work performed by the Board. The AGM 2018 decided to adopt the Nomination Committee's proposal for remuneration to the Chair and other Board members not employed by the company, and the proposed remuneration for committee work. See also note 5.

- The Chair was granted an amount of SEK 2 200 000.
- Each of the other Board members not employed by the company were granted SEK 700 000.
- An amount of SEK 300 000 was granted to the Chair of the Audit Committee and SEK 190 000 to each of the other members of this committee.
- An amount of SEK 110 000 was granted to the Chair of the Remuneration Committee and SEK 80 000 to each of the other members of this committee was granted.
- An amount of SEK 60 000 was granted to each non-executive director who, in addition, participates in committee work decided upon by the Board.
- The meeting further resolved that 50% of the director's Board fee could be received in the form of synthetic shares.

5. Audit Committee

The Audit Committee is selected by the Board at the statutory Board meeting after the Annual General Meeting and until the statutory Board meeting the following year. The work of the Audit Committee is directed by the Audit Committee Charter, which is reviewed and approved annually by the Board. The Chair of the committee has the accounting competence required by the Swedish Companies Act and two of the members are independent from the Company and its main shareholder. The Audit Committee's primary task is to support the Board of Directors in fulfilling its responsibilities in the areas of audit and internal control, accounting, financial reporting and risk management as well as to supervise the financial structure and operations of the Group and approve financial guarantees and new legal entities, delegated by the Board. The Audit Committee work further includes reviewing internal audit procedures, monitoring the external auditor, considering any inspection findings, review and monitor the independence of the external auditor, and assist the Nomination Committee in the selection of the auditor.

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

The Audit Committee during 2018 was Staffan Bohman, Chair, Gunilla Berg, Johan Forssell and Hans Stråberg.

6. Remuneration Committee

The Remuneration Committee's primary task is to propose to the Board the remuneration to the President and CEO and a long-term incentive plan for key employees. The goal with a long-term incentive plan is to align the interests of key personnel with those of the shareholders. The Remuneration Policy for Group Management aims to establish principles for a fair and consistent remuneration with respect to compensation, benefits, and termination. The base salary is determined by position and performance and the variable compensation is for the achievement of individual goals. The Remuneration Policy is reviewed annually and the AGM 2018 approved the guidelines for remuneration. See also note 5.

The Remuneration Committee had four meetings in 2018. All members were present. During the year, the Remuneration Committee also supported the President and CEO in determining remuneration to the other members of Group Management. All meetings of the Remuneration Committee have been reported to the Board and the corresponding Minutes have been distributed to the Board.

The Remuneration Committee during 2018 was Hans Stråberg, Chair, Peter Wallenberg Jr and Anders Ullberg.

7. Auditor

The task of the external auditor is to examine Atlas Copco's annual accounts and accounting practices, as well as to review the Board and the CEO's management of the Company. At the AGM 2018 the audit firm Deloitte AB, Sweden, was elected external auditor until the AGM 2019 in compliance with a proposal from the Nomination Committee. The principal auditor is Thomas Strömberg, Authorized Public Accountant at Deloitte AB.

At the AGM 2018, Thomas Strömberg referred to the auditor's report for the Company and the Group in the annual report and explained the process applied when performing the audit. He also recommended adoption of the presented income statements and balance sheets, discharge of liability for the President and CEO and the Board of Directors, and adoption of the proposed distribution of profits.

8. Internal Audit and Assurance

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

9. Group Management

Besides the President and CEO, the Group Management consists of four business area presidents and senior vice presidents responsible for the main Group functions; Corporate Communications and Governmental Affairs, Human Resources, Controlling and Finance, and Legal. The President and CEO is responsible for the ongoing management of the Group following the Board's guidelines and instructions.

Remuneration to Group Management

The Remuneration Policy is reviewed and presented to the AGM by the Board of Directors for approval every year. In 2018, the AGM decided to adopt the Board's proposal.

The remuneration covers an annual base salary, variable compensation, possible long-term incentive (personnel options), pension premium and other benefits. The variable compensation is limited to a maximum percentage of the base salary. Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. These goals are based on financial and non-financial parameters and vary between different positions. Non-financial parameters have for example been in relation to the Business Code of Practice. No fees are paid for Board memberships in Group companies or for other duties performed.

Statement of materiality and significant audiences

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

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

The strategic pillars together with the Group goals presented on page 4–5 all aim at continuously delivering sustainable, profitable growth for the Group. This means an increased economic value creation and, simultaneously, a positive impact on society and the environment, thus creating shared value.

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

Board of Directors





Name **Position** **Born**	**Hans Stråberg** Chair since 2014 1957	**Mats Rahmström** Board member *President and CEO* 1965	**Gunilla Berg** Board member 1960	**Staffan Bohman** Board member 1949	**Tina Donikowski** Board member 1959
Education	M.Sc. in Mechanical Engineering, Chalmers University of Technology, Gothenburg.	MBA from the Henley Management College, the United Kingdom.	B.Sc. in Finance from the Stockholm School of Economics.	B.Sc. in Economics and Business Administration, Stockholm School of Economics and Stanford Executive Program, the U.S.	B.Sc. in Industrial Management from Gannon University, the U.S.
Nationality / Elected	Swedish / 2013	Swedish / 2017	Swedish / 2016	Swedish / 2003	American / 2017
External memberships	Chair of SKF, Roxtec AB, CTEK AB, Nikkarit Holding AB, Vice Chair of Orchid Orthopedics Inc. and Stora Enso Oyj, Finland. Board member of Investor AB, N Holding AB, Mellby Gård AB and Hedson.	Board member of Permobil Holding AB, the Association of Swedish Engineering Industries and Piab AB.	Board member of ÅF AB.	Chair of Electrolux AB, IPCO AB, Upplands Motor Holdings AB and The German-Swedish Chamber of Commerce. Member of The Royal Swedish Academy of Engineering Sciences.	Board member of Circor International, Inc, TopBuild, Advanced Energy and Eriez Manufacturing Co.
Principal work experience and other information	Chief Executive Officer and President for Electrolux AB. Various executive positions in the Electrolux Group based in Sweden and the U.S. EU Co-Chair TABD, Trans-Atlantic Business Dialogue.	President and CEO of Atlas Copco AB*. President of the Atlas Copco Tools and Assembly Systems General Industry division. Before he was appointed President and CEO he was Business Area President for Industrial Technique.	Chief Financial Officer at PostNord AB*, Chief Financial Officer at Teracom Group AB, SAS AB and KF.	CEO of Sapa AB, Gränges AB and DeLaval AB.	Vice President for Global Locomotive Business, Propulsion Business, Six Sigma Quality Leader, and General Manager Aftermarket Sales and Service, all with GE Transportation.
Attendance					
Board meetings	7 of 7	7 of 7	7 of 7	7 of 7	7 of 7
Annual General Meeting	Yes	Yes	Yes	Yes	Yes
Independence					
To Atlas Copco and its management	Yes	No [3]	Yes	Yes	Yes
To major shareholders	No [4]	Yes	Yes	Yes	Yes
Fees and holdings					
Total fees 2018, KSEK [1]	2 990		878	1 164	695
Holdings in Atlas Copco AB [2]	21 500 class B shares 11 858 synthetic shares	10 776 class A shares 5 000 class B shares 323 283 employee stock options	500 class B shares 4 912 synthetic shares	10 000 class A shares 40 000 class B shares 1 349 synthetic shares	2 744 synthetic shares

Board members appointed by the unions

Benny Larsson
Position: Board member
Born: 1972
Nationality: Swedish
Elected: 2018
External commitment: Cashier at the workshop club, Atlas Copco Tierp, IF Metall
Board meetings: 3 of 7 [7]

Mikael Bergstedt
Position: Board member
Born: 1960
Nationality: Swedish
Elected: 2004
External commitment: Chair of PTK, Atlas Copco, Tierp Works
Board meetings: 7 of 7




Name **Position** **Born**	**Johan Forssell** Board member 1971	**Sabine Neuß** Board member 1968	**Anders Ullberg** Board member 1946	**Peter Wallenberg Jr** Board member 1959
Education	M.Sc. in Economics and Business Administration, Stockholm School of Economics.	M.Sc. in Engineering from Coburg University, Germany.	B.Sc. in Economics and Business Administration, Stockholm School of Economics.	BSBA Hotel Administration, University of Denver, the U.S. and International Bachaloria, American School, Leysin, Switzerland.
Nationality / Elected	Swedish / 2008	German / 2016	Swedish / 2003	Swedish / 2012
External memberships	Board member of EQT AB, Patricia Industries AB, Wärtsilä, Epiroc AB and Stockholm School of Economics.	Member of Supervisory Board at Continental AG, Germany.	Chair of Boliden AB and Studsvik AB. Board member of Beijer Alma AB, Valedo Partners and Epiroc AB.	Chair of Knut and Alice Wallenberg Foundation, Wallenberg Foundations AB and The Grand Group AB. Board member of Scania AB, Aleris Holdings AB and EQT Holdings AB.
Principal work experience and other information	President and CEO of Investor AB*. Managing Director, Head of Core Investments and member of the management group of Investor AB.	Chief Operating Officer at Kelvion Holding GmbH*, Germany, Chief Operating Officer at Linde Material Handling GmbH, Germany, Managing Director at TRW Automotive Safety Systems GmbH, Germany, and management positions at Behr GmbH & Co KG in Germany and in the United States, several management positions at Brose Fahrzeugteile GmbH in Germany.	Vice President Corporate Control Swedyards (Celsius Group), Executive Vice President and CFO, SSAB, Swedish Steel, and President and CEO of SSAB Swedish Steel.	President and CEO of The Grand Hotel Holdings, General Manager, The Grand Hotel, President Hotel Division Stockholm-Saltsjön.
Attendance				
Board meeting	7 of 7	7 of 7	7 of 7	7 of 7
Annual General Meeting	Yes	Yes	Yes	Yes
Independence				
To Atlas Copco and its management	Yes	Yes	Yes	Yes
To major shareholders	No [5]	Yes	Yes	No [6]
Fees and holdings				
Total fees 2018, KSEK [1]	893	690	844	774
Holdings in Atlas Copco AB [2]	11 000 class B shares 8 968 synthetic shares		14 000 class A shares 10 000 class B shares	166 667 class A shares 8 968 synthetic shares

Board members appointed by the unions

Jan Larsson
Position: Deputy to Benny Larsson
Born: 1969
Nationality: Swedish
Elected: 2018
External commitment: Board member at the workshop club, Atlas Copco Tierp, IF Metall
Board meetings: 3 of 7 [7]

Olle Magnusson
Position: Deputy to Mikael Bergstedt
Born: 1953
Nationality: Swedish
Elected: 2018
External commitment: Unionen Vice Chairman Atlas Copco
Board meetings: 3 of 7 [7]

REFERENCES:
All educational institutions and companies are based in Sweden, unless otherwise indicated.
1) See more information on the calculation of fees in note 5.
2) Holdings as per end of 2018, including those of close relatives or legal entities and grant for 2018.
3) President and CEO of Atlas Copco AB.
4) Board member in a company, which is a larger owner (Investor AB).
5) President and CEO of a company, which is a larger owner (Investor AB).
6) Board member of an indirect owner of Atlas Copco AB.
7) Full attendance since their election.
* Current position.

Group Management

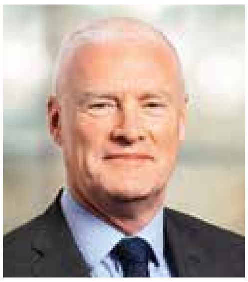
Besides the President and CEO, the Group Management consists of four business area executives and executives responsible for the main Group functions; Corporate Communications and Governmental Affairs, Human Resources, Controlling and Finance, and Legal.

Mats Rahmström
President and CEO

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

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

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



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

Gisela Lindstrand
Senior Vice President Corporate Communications and Governmental Affairs

Hans Ola Meyer
Senior Vice President Controlling and Finance, CFO

Håkan Osvald
Senior Vice President General Counsel

Cecilia Sandberg
Senior Vice President Human Resources

Mats Rahmström

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

Position: President and CEO

Born: 1965

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

Nationality: Swedish

Employed since: 1988

External memberships: Board member of Permobil Holding AB, the Association of Swedish Engineering Industries and of Piab AB.

Holdings in Atlas Copco AB*
10 776 class A shares
5 000 class B shares
323 283 employee stock options

Vagner Rego

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

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

Born: 1972

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

Nationality: Brazilian

Employed since: 1996

Holdings in Atlas Copco AB*
3 629 class A shares
96 751 employee stock options

Geert Follens

Geert Follens has held positions in purchasing, supply chain and general management. He has served as General Manager of Atlas Copco Compressor Technique customer center in the United Kingdom. Before he became President of the Vacuum Solutions division he was first President of the Portable Energy division and then of the Industrial Air division.

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

Born: 1959

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

Nationality: Belgian

Employed since: 1995

Holdings in Atlas Copco AB*
2 511 class A shares
109 756 employee stock options

Henrik Elmin

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

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

Born: 1970

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

Nationality: Swedish

Employed since: 2007

Holdings in Atlas Copco AB*
3 202 class A shares
129 817 employee stock options

Andrew Walker

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

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

Born: 1961

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

Nationality: Irish

Employed since: 1986

Holdings in Atlas Copco AB*
3 982 class A shares
115 856 employee stock options

Gisela Lindstrand

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

Position: Senior Vice President Corporate Communications and Governmental Affairs

Born: 1962

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

Nationality: Swedish

Employed since: 2018

External memberships: Board member of The Swedish Communication Association

Holdings in Atlas Copco AB*
No holdings

Hans Ola Meyer

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

Position: Senior Vice President Controlling and Finance, CFO

Born: 1955

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

Nationality: Swedish

Employed since: 1991

External memberships: Board member of Upplands Motor Holding AB.

Holdings in Atlas Copco AB*
7 686 class A shares
35 321 class B shares
137 410 employee stock options

Håkan Osvald

Håkan Osvald has been General Counsel for Atlas Copco North America Inc. and Chicago Pneumatic Tool Company in the United States. He was subsequently appointed Vice President Deputy General Counsel Atlas Copco Group, with a special responsibility for acquisitions. Prior to his current position, he was General Counsel Operations. Since 2012 he is Secretary of the Board of Directors for Atlas Copco AB.

Position: Senior Vice President General Counsel

Born: 1954

Education: Master of Law from Uppsala University.

Nationality: Swedish

Employed since: 1985

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

Holdings in Atlas Copco AB*
6 989 class A shares
2 600 class B shares
134 919 employee stock options

Cecilia Sandberg

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

Position: Senior Vice President Human Resources

Born: 1968

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

Nationality: Swedish

Employed since: 2017

Holdings in Atlas Copco AB*
1 042 class A shares

* Holdings as per end 2018, including those held by related natural or legal persons. See note 23 for more information on the option programs and matching shares.

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

Internal control over financial reporting

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

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

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

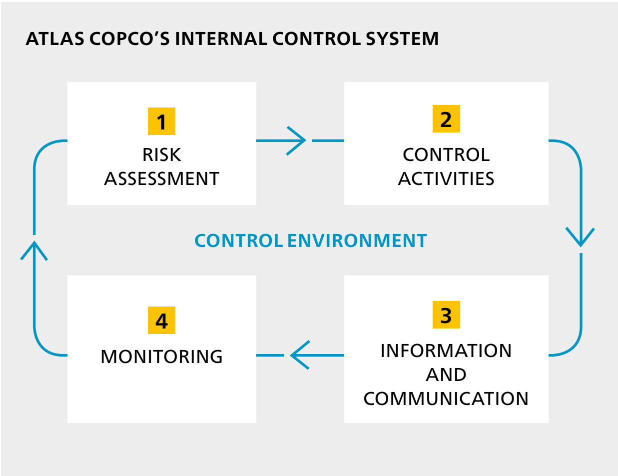
The financial reporting accounting policies and guidelines are issued by Group Management to all subsidiaries, which are followed up with newsletters and conference calls. Trainings are also held for complex accounting areas and new accounting policies. The policies and guidelines detail the appropriate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

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

1 RISK ASSESSMENT

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

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



3 INFORMATION AND COMMUNICATION

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

4 MONITORING

Examples of monitoring activities for the financial reporting include:

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

Financial statements and notes

MSEK unless otherwise stated

Consolidated income statement

For the year ended December 31, Amounts in MSEK	Note	2018	2017
Continuing operations			
Revenues	4	95 363	85 653
Cost of sales		–54 142	–48 631
Gross profit		**41 221**	**37 022**
Marketing expenses		–11 155	–10 143
Administrative expenses		–6 056	–5 599
Research and development expenses		–3 166	–2 928
Other operating income	7	505	1 005
Other operating expenses	7	–167	–613
Share of profit in associated companies and joint ventures	14	5	4
Operating profit	4, 5, 6, 16	**21 187**	**18 748**
Financial income	8	542	76
Financial expenses	8	–885	–1 233
Net financial items		**–343**	**–1 157**
Profit before tax		**20 844**	**17 591**
Income tax expense	9	–4 508	–4 930
Profit from continuing operation		**16 336**	**12 661**
Discontinued operations			
Profit from discontinued operations, net of tax	3	90 099 [1]	4 013
Profit for the year		**106 435**	**16 674**
Profit attributable to:			
– owners of the parent		106 164	16 652
– non-controlling interests		271	22
Basic earnings per share, SEK	11	87.49	13.72
– of which continuing operations		*13.45*	*10.41*
Diluted earnings per share, SEK	11	87.36	13.61
– of which continuing operations		*13.43*	*10.31*

[1] Includes effect from the distribution of Epiroc.

Consolidated statement of comprehensive income

For the year ended December 31, Amounts in MSEK	Note	2018	2017
Profit for the year		**106 435**	**16 674**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		150	120
Income tax relating to items that will not be reclassified		–65	–61
		85	**59**
Items that may be reclassified subsequently to profit or loss			
Translation differences on foreign operations		3 695	–651
– realized and reclassified to income statement		–1 308	55
Hedge of net investments in foreign operations		–797	–492
Cash flow hedges		42	142
Income tax relating to items that may be reclassified		467	277
		2 099	**–669**
Other comprehensive income for the year, net of tax	10	**2 184**	**–610**
Total comprehensive income for the year		**108 619**	**16 064**
Total comprehensive income attributable to:			
– owners of the parent		108 346	16 044
– non-controlling interests		273	20

Consolidated balance sheet

Amounts in MSEK	Note	Dec. 31, 2018	Dec. 31, 2017*
ASSETS			
Non-current assets			
Intangible assets	12	30 025	35 151
Rental equipment	13	2 288	2 934
Other property, plant and equipment	13	8 099	9 523
Investments in associated companies and joint ventures	14	133	212
Other financial assets	15	676	1 803
Other receivables		92	83
Deferred tax assets	9	1 619	1 537
Total non-current assets		**42 932**	**51 243**
Current assets			
Inventories	16	12 718	18 810
Trade receivables	17	18 906	22 853
Income tax receivables		392	634
Other receivables	18	5 205	6 507
Other financial assets	15	102	1 295
Cash and cash equivalents	19	16 414	24 496
Assets classified as held for sale	3	1	193
Total current assets		**53 738**	**74 788**
TOTAL ASSETS		**96 670**	**126 031**
EQUITY	Page 65		
Share capital		786	786
Other paid-in capital		7 201	7 021
Reserves		7 397	5 332
Retained earnings		27 041	47 378
Total equity attributable to owners of the parent		**42 425**	**60 517**
Non-controlling interests		47	84
TOTAL EQUITY		**42 472**	**60 601**
LIABILITIES			
Non-current liabilities			
Borrowings	21	14 415	23 635
Post-employment benefits	23	2 837	3 034
Other liabilities		372	373
Provisions	25	910	1 347
Deferred tax liabilities	9	619	438
Total non-current liabilities		**19 153**	**28 827**
Current liabilities			
Borrowings	21	5 966	1 513
Trade payables		12 529	14 206
Income tax liabilities		1 289	2 400
Other liabilities	24	13 659	16 402
Provisions	25	1 602	2 026
Liabilities classified as held for sale	3	–	56
Total current liabilities		**35 045**	**36 603**
TOTAL EQUITY AND LIABILITIES		**96 670**	**126 031**

* Including assets and liabilities related to Epiroc reported as discontinued operations.

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

Consolidated statement of changes in equity

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

2017	Equity attributable to owners of the parent							
Amounts in MSEK	Share capital	Other paid-in capital	Hedging reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Opening balance, Jan. 1	786	6 599	–110	6 163	39 667	53 105	72	53 177
Change in accounting principles, IFRS 15					–102	–102	–	–102
Profit for the year					16 652	16 652	22	16 674
Other comprehensive income for the year			111	–832	113	–608	–2	–610
Total comprehensive income for the year			**111**	**–832**	**16 765**	**16 044**	**20**	**16 064**
Dividends					–8 252	–8 252	–3	–8 255
Acquisition of series A shares					–1 465	–1 465		–1 465
Divestment of series A shares		401			801	1 202		1 202
Divestment of series B shares		21			6	27		27
Change of non-controlling interests					–14	–14	–5	–19
Share-based payment, equity settled								
– expense during the year					143	143		143
– exercise option					–171	–171		–171
Closing balance, Dec. 31	**786**	**7 021**	**1**	**5 331**	**47 378**	**60 517**	**84**	**60 601**

See notes 1, 10 and 20 for additional information.

Consolidated statement of cash flows

For the year ended December 31, Amounts in MSEK	Note	2018	2017
Cash flows from operating activities			
Operating profit from continuing operations		21 187	18 748
Operating profit from discontinued operations	3	3 013	5 404
Adjustments for:			
Depreciation, amortization and impairment	12, 13	3 922	5 110
Capital gain/loss and other non-cash items		322	–75
Operating cash surplus		**28 444**	**29 187**
Net financial items received/paid		–675	329
Taxes paid		–5 896	–7 306
Pension funding and payment of pension to employees		–392	–1 280
Cash flow before change in working capital		**21 481**	**20 930**
Change in:			
Inventories		–3 280	–1 913
Operating receivables		–2 794	–2 849
Operating liabilities		2 683	6 160
Change in working capital		**–3 391**	**1 398**
Increase in rental equipment		–1 462	–1 412
Sale of rental equipment		186	464
Net cash from operating activities		**16 814**	**21 380**
Cash flows from investing activities			
Investments in other property, plant and equipment	13	–2 000	–1 742
Sale of other property, plant and equipment		78	179
Investments in intangible assets	12	–846	–1 021
Sale of intangible assets		–	2
Acquisition of subsidiaries	2	–1 575	–520
Divestment of subsidiaries	3	166	1 560
Investment in other financial assets, net		–124	784
Net cash from investing activities		**–4 301**	**–758**
Cash flows from financing activities			
Ordinary dividend		–8 487	–8 252
Dividend paid to non-controlling interest		–9	–3
Distribution of Epiroc AB [1]		–4 002	–
Redemption of own shares		–9 705	–
Acquisition of non-controlling interest		–	–19
Repurchase of own shares		–843	–1 465
Divestment of own shares		645	1 229
Borrowings		7 550	1 476
Repayment of borrowings		–6 186	–1 599
Settlement of CSA [2]		–511	972
Payment of finance lease liabilities		–53	–84
Net cash from financing activities		**–21 601**	**–7 745**
Net cash flow for the year		**–9 088**	**12 877**
Cash and cash equivalents, Jan. 1		24 496	11 492
Net cash flow for the year		–9 088	12 877
Exchange-rate difference in cash and cash equivalents		1 006	127
Cash and cash equivalents, Dec. 31	19	**16 414**	**24 496**

[1] Cash in Epiroc at the time of distribution.
[2] Credit Support Annex, see note 27.

1. Significant accounting principles, critical accounting estimates and judgments

SIGNIFICANT ACCOUNTING PRINCIPLES

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

Basis of preparation

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

The accounting principles set out below have been consistently applied to all periods presented, unless otherwise stated, and for all entities included in the consolidated financial statements. The annual report for the Group and for Atlas Copco AB, including financial statements, was approved for issuance on February 27, 2019. The balance sheets and income statements are subject to approval by the Annual General Meeting of the shareholders on April 25, 2019.

Basis of consolidation

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

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

Business combinations

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

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

Non-controlling interest is initially measured either

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

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

Associated companies and joint ventures

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

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

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

Functional currency and foreign currency translation

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

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

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

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

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

Segment reporting

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

Revenue recognition – Transition method

The Group adopted the new standard, IFRS 15, on the required effective date, January 1, 2018, using the full retrospective method. The Group has applied the following expedients: for completed contracts, the Group has not restated contracts that were completed before the beginning of the earliest period presented (2017). For all reporting periods presented before the initial application, the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Group expects to recognize that amount as revenue will not be disclosed. The Group has assessed that there is no requirement to present the accounting principle under IAS 18 as the full retrospective method has been applied.

The below implications affect the timing of revenue from contracts with customers:

(a) Sales of goods

In some cases, the Group provides customized equipment to customers, which includes installation and commissioning. Under these circumstances, the Group's assessment is that the customer simultaneously receives and consumes the benefits provided by the Group. Under IAS 18, these projects was accounted for over time. However, in some contracts with customers the Group does not fulfill all requirements in IFRS 15 to recognize revenue over time. The Group's assessment is therefore that for these contracts, the control is transferred at one point in time when the performance obligation has been satisfied.

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

(b) Rendering of service

The Group provides installation, commissioning, extended warranty and other services with certain equipment. These services are either sold separately in contracts with customers or bundled together with the sale of the equipment to the customer. Due to the more detailed requirements for determining whether goods or services are performance obligation under IFRS 15, the assessment of identified performance obligation might differ from identified deliverables according to IAS 18. IFRS 15 also requires allocation of the transaction price to the identified performance obligations.

(c) Variable consideration

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

(d) Other adjustments

In addition to the adjustments described above, on the implementation of IFRS 15, other items of the financial statement such as deferred tax and operations and exchange difference on translation of foreign operations have been affected and adjusted accordingly.

In summary, the impact of the implementation of IFRS 15 was as follows:

Impact on assets, liabilities and equity as at 1 January, 2018	MSEK	As previously reported	IFRS 15 adjustments	As restated
Assets				
Deferred tax assets	d)	1 516	21	1 537
Inventories	a) b)	18 415	395	18 810
Other receivables	a) b) c)	6 630	–123	6 507
Total assets		**125 738**	**293**	**126 031**
Liabilities				
Deferred tax liabilities	d)	455	–17	438
Other liabilities (current)	a) b) c)	15 970	432	16 402
Total liabilities		**65 015**	**415**	**65 430**
Retained earnings		47 500	–122	47 378

Impact on the Consolidated income statement for 2017	MSEK	As previously reported	IFRS 15 adjustments	As restated
Revenue	a) b) c)	85 520	133	85 653
Cost of sales	a) b) c)	–48 487	–144	–48 631
Income tax expense	d)	–4 937	7	–4 930
Profit from discontinued operations net of tax		4 028	–15	4 013
Profit for the year		**16 693**	**–19**	**16 674**
Profit attributable to:				
–owners of the parent		16 671	–19	16 652
–non controlling interest		22	–	22
Basic earnings per share, SEK		13.73	–0.01	13.72
Diluted earnings per share, SEK		13.63	–0.02	13.61

Impact on Consolidated statement of comprehensive income for 2017	MSEK	As previously reported	IFRS15 adjustments	As restated
Net impact on Consolidated statement of comprehensive income		16 083	–19	16 064

Revenue recognition

Revenue recognition

Revenue is recognized at an amount that reflects the expected and entitled consideration for transferring goods and/or services to customers when control has passed to the customer.

Goods sold

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

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

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

Variable consideration

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

Rights of return

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

Rendering of service

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

Where the outcome of a service contract cannot be estimated reliably, revenue is recognized to the extent of cost incurred that are expected to be recoverable. When it is probable that total contract costs will exceed total revenue, the expected loss is recognized as an expense immediately. When the value of the service performed to the customer corresponds directly to the right to invoice for that service, revenue will be recognized to the amount invoiced.

Rental operations

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

Contract assets and contract liabilities

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

Practical expedients

The Group has elected to apply the following expedients:

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

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

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

Other operating income and expenses

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

Financial income and expenses

Interest income and interest expenses are recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss on the

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

date that the Group's right to receive payment is established. See note 8 for additional information.

Income taxes

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

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

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

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

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

Earnings per share

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

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

Intangible assets

Goodwill

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

Technology-based intangible assets

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

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

The expenditure capitalized includes the cost of materials, direct labor, and other costs directly attributable to the project. Capitalized development expenditure is carried at cost less accumulated amortization and impairment losses. Amortization related to research and development expenditure for 2018 amounted to 734 (870). This has been reported as part of research and development costs in the income statement since the Group follows up on the research and development function as a whole.

Trademarks

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

Marketing and customer related intangible assets

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

Other intangible assets

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

Property, plant and equipment

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

Rental equipment

The rental fleet is comprised of diesel and electric powered air compressors, generators, air dryers, and to a lesser extent general construction equipment. Rental equipment is initially recognized at cost and is depreciated over the estimated useful lives of the equipment. Rental equipment is depreciated to a residual value estimated at 0–10% of cost.

Depreciation and amortization

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

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

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

Lease

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

Group as lessee

For the lessee, a financial lease implies that the fixed asset leased is recognized as an asset in the balance sheet. Initially, a corresponding liability is recorded. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Fixed assets under finance leases are depreciated over their estimated useful lives, while the lease payments are reported as interest and amortization

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

of the lease liability. For operating leases, the lessee does not account for the leased asset in its balance sheet. The costs of operating leases are recorded in the income statement on a straight-line basis over the term of the lease.

Group as lessor

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

Impairment of non-financial assets

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

Inventories

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

Equity

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

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

Supply chain financing

The Group and banks, with close relations to Atlas Copco, offer suppliers the opportunity to use a supply chain financing scheme ("SCF") which allows them to be paid earlier than the invoice due date. The Group evaluates supplier arrangements against a number of indicators to assess if the payable continues to hold characteristics of a trade payable or should be classified as borrowings; these indicators include whether the payment terms exceed customary payment terms in the industry. At December 31, 2018 none of the payables subject to supplier financing arrangements was classified as borrowings. These transactions has been recognized as account payables in the Group's balance sheet and as change in operating liabilities in the statement of cash flows.

Provisions

Provisions are recognized:

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

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

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

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

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

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

Post-employment benefits

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

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

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

Share-based compensation

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

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

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

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

Financial assets and liabilities – financial instruments – IFRS 9

Transition method

The Group adopted the new Standard, IFRS 9, on the required effective date, January 1, 2018, and has not restated the comparative figures. The accounting principle for the comparative figures are presented after the accounting principle for financial assets and liabilities – financial instruments for the current year. See page 71.

Overall, there was no significant impact on the statement of financial position and equity. Additionally, the classification of some financial instruments has changed. The effects are summarized and disclosed below.

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

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

a) Classification and valuation

All financial assets that was valued to fair value is continued to be valued to fair value. Investments in certain debt instruments prior recognized at amortized cost are recognized at fair value through profit or loss. Investments in liquidity funds is valued to fair value through P/L. The Group has made the judgement that accounts receivables fulfills the criteria to be valued as amortized cost.

b) Impairment

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

c) Hedge accounting

The Group determined that all existing hedge relationships that was designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 has not had a significant impact on the Group's financial statements.

Recognition and derecognition

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

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

Measurement of financial instruments

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

Classification and measurement of financial assets

Equity instruments: are classified at fair value through profit or loss (FVTPL) unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to classify them at fair value through other comprehensive income (FVOCI) with no subsequent reclassification to profit or loss. The Group classify equity instruments at FVTPL.

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

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

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

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

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

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

Classification and measurement of financial liabilities

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

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

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

Impairment of financial assets

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

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

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

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

Derivatives and hedge accounting

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

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

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

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

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

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

The amount recognized in equity through other comprehensive income is reversed to profit or loss in the same period in which the hedged item affects profit or loss. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the amount previously recognized in other comprehensive income and accumulated in equity is transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. The Group uses foreign currency forwards to hedge part of the future cash flows from forecasted transactions in foreign currencies. Interest rate swaps are also used as cash flow hedges for hedging interest on borrowings with variable interest.

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

Accounting for discontinuation of hedges: Hedge accounting may not be voluntarily discontinued. Hedge accounting is discontinued:
- when the hedging instrument expires or is sold, terminated, or exercised,
- when there is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk dominates the value changes that result from the economic relationship, or
- when the hedge accounting no longer meets the risk management objectives.

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

Financial assets and liabilities – financial instruments – IAS 39 (comparative figures)

Recognition and derecognition

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

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

Measurement of financial instruments

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

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

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

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

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

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

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

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

Impairment of financial assets

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

Derivatives and hedge accounting

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

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

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

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

Fair value hedges: Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss together with any changes in the fair value of the hedged asset or liability.

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

The amount recognized in equity through other comprehensive income is reversed to profit or loss in the same period in which the hedged item affects profit or loss. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the amount previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. The Group uses foreign currency forwards to hedge part of the future cash flows from forecasted transactions in foreign currencies. Interest rate swaps are also used as cash flow hedges for hedging interest on borrowings with variable interest.

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

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

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

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

Assets held for sale and discontinued operations

Assets are classified as held for sale if their value, within one year, will be recovered through a sale and not through continued use in the operations. On the reclassification date, assets and liabilities are measured at the lower of fair value less selling expenses and the carrying amount. Gains and losses recognized on remeasurements and disposals are reported in profit or loss.

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

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

Contingent liabilities

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

New or amended accounting standards in 2018

In addition to IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers, the following amended IFRS standards have been applied by the Group from 2018 but had none or no material impact on the Group.

IFRIC 22 Interpretation of Foreign Currency Transactions and Advance Considerations

The interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability relating to the advance consideration or prepayment before the entity recognizes the related asset, income or expense. The Interpretation clarifies that the date of transaction, for the purpose of determining the exchange rate, is the date upon which the entity initially recognizes the non-monetary asset or non-monetary liability.

Amendment to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendment intends to eliminate the different practices used by entities within three areas: (1) The effects of vesting and non-vesting conditions on the measurement of a cash-settled share-based transaction. (2) The classification of a share-based payment transaction with net settlement features. (3) The accounting where a modification to the terms and conditions of a share-based payment transactions changes its classification from cash-settled to equity-settled.

New or amended accounting standards effective after 2018

The following standards, interpretations, and amendments have been issued but were not effective as of December 31, 2018 and have not been applied by the Group.

IFRS 16 Leases

IFRS 16 Leases is effective from January 1, 2019 and replaces IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The changes relate mainly to the accounting treatment of the lessee. IFRS 16 introduces a single accounting model for leases and requires the recognition of substantially all leases in the balance sheet and the separation of depreciation of right-of-use assets from interest of lease liabilities in the income statement.

Atlas Copco has chosen to perform the transition by use of the modified retrospective approach, which does not require restatement of comparative periods. The comparative information continues to be reported in accordance with IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a lease. Lease liabilities are measured at the present value of the remaining lease payments discounted using the Group´s incremental borrowing rate at 1 January, 2019. Details of the changes in accounting policies are presented below.

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

Group as a lessee

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

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

Variable non-lease components such as service components and other variable components are to be accounted for as an expense, if they can be separated in the contracts for the leased asset. In most cases service components are variable and based on consumption for example.

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

Leases previously classified as finance leases

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

Group as a lessor

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

Impacts on financial statements

During 2018, the Group performed a detailed assessment on the impact of the adoption of IFRS 16. The impact is expected to be as follows:

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

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

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

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

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

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

Since the principal payment will be recognized as financing activities, cash flow from financing activities will decrease with a corresponding increase in cash flow from operating activities. The interest portion of the lease payment will remain as cash flow from operating activities and be included in net financial items paid.

Amendment to IAS 28: Long-term interests in associates and joint ventures – Clarification that measuring investees at fair value through profit and loss is an investment-by-investment choice (endorsed by EU)
The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28). The amendments apply retrospectively to annual reporting periods beginning on or after January 1, 2019." This amendment has not been applied by the Group and the preliminary assessment is that it will have none or no material impact on the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation (endorsed by the EU)
The amendment to IFRS 9 clarifies what financial asset may be measured at amortized cost, with this amendment permitting more assets to be measured at amortized cost than previously allowed, in particular certain pre-payable financial assets with negative compensation. To qualify for the amortized cost measurement, the negative compensation must be reasonable compensation for early termination of the contract. To be applicable for such handling, the asset must be held within a "held to collect" business model.

This amendment also clarifies that when there are modifications relating to a financial liability measured at amortized cost, which do not lead to derecognition of the financial liability, a gain or loss should be recognized in the profit and loss. The entity will calculate this gain or loss by comparing the initial contractual cash flow with the modified cash flow discounted at the original effective interest rate. The amendment applies to annual periods beginning on or after January 1, 2019. This amendment has not been applied by the Group and the preliminary assessment is that it will have none or no material impact on the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (not yet endorsed by the EU)
The Amendment clarifies that the entity must, if a plan amendment, curtailment or settlement occurs, determine the current service cost and the net interest for the period using the assumptions it used for the remeasurement. Furthermore, the amendment clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after January 1, 2019 This amendment has not been applied by the Group and the preliminary assessment is that it will have none or no material impact on the Group.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments (endorsed by the EU)
The interpretation clarifies application of recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments and is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. This interpretation has not been applied by the Group and the preliminary assessment is that it will have none or no material impact on the Group.

Annual Improvements 2015–2017 Cycle (not yet endorsed by the EU)
The annual improvements 2015–2017 cycle sets out amendments to four standards and the related Basis for Conclusion. All the amendments are effective for annual periods beginning on or after January 1, 2019 and generally require prospective application. The standard and amendments are as follows:

IFRS 3 – Business Combinations and IFRS 11 Joint Arrangements – previously held interest in joint operation.
When a party in a joint operation gains control over the joint operation that is a business, this party should, according to IFRS 3, remeasure the interest previously held in the joint operation to fair value.

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

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity.
The amendment clarifies that an entity must recognize all income tax consequences of dividend in profit and loss, other comprehensive income or equity, depending on the nature and where the entity recognized the originating transaction or event.

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

This annual improvement cycle has not been applied by the Group and the preliminary assessment is that it will have none or no material impact on the Group.

New accounting principles from January 1, 2019
The following new accounting principles will be applied by the Group from January 2019.

IFRS 16 Leases
Group as lessee
Recognition of a lease
Upon initiation, contracts will be assessed by the Group, to determine whether a contract is, or contains a lease. If the contract conveys the right to control the use of an identified asset for a certain period of time in exchange for consideration, then it is or contains a lease. The right to control the use of an identifiable asset is assessed by the Group based upon if there is an identifiable asset, if the Group has the right to obtain substantially all economic benefits from use of the asset and if the Group has the right to direct the use of the asset. The policy is applied to contracts entered into, or changed, on or after January 1, 2019. The Group has elected to separate the non-lease components and also elected to apply a number of practical expedients with regard to short-term leases and leases for which the underlying asset is of low value. In cases where the Group acts as an intermediate lessor, it accounts for its interests in the head-lease and the sub-lease separately.

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

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

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

Lease liability

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

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

Short-term leases and leases of low value asset

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

Group as a lessor

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

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Revenue recognition

Key sources of estimation uncertainty

Revenue for services and for highly customized goods where an enforceable right of payment is present are recognized over time in profit or loss by reference to the progress towards satisfaction of the performance obligation at the balance sheet date. The progress towards satisfaction is determined by the proportion of cost incurred to date compared to estimated total cost of each performance obligation. Management has assessed this method of determining the progress towards satisfaction on the contracts as most suitable as it reflects the progression of work performed, and the enforceable right of payment from the customer as the costs are incurred on the contracts.

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

Accounting judgement

Management's judgment is used, for instance, when assessing:
- the degree of progress towards satisfaction of the performance obligations and the estimated total costs for such contracts when revenue is recognized over time, to determine the revenue and cost to be recognized in the current period, and whether any losses need to be recognize,
- if the control has been transferred to the customer (for example the Group has a present right to payment for the good, the customer has legal title of the good, the good has been delivered to the customer and/or the customer has the significant risks and rewards of the ownership of the good), to determine if revenue and cost should be recognized in the current period,
- the transaction price of each performance obligation when a contract includes more than one performance obligation, to determine the revenue and cost to be recognized in the current period,
- certain contracts which include a right of return and/or volume rebates that give rise to variable consideration, variable consideration is assessed to identify possible constrains, and
- the customer credit risk (i.e the risk that the customer will not meet the payment obligation), to determine and justify the revenue recognized in the current period.

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

Key sources of estimation uncertainty

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

Accounting judgment

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

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

Deferred taxes

Key sources of estimation uncertainty

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

Inventory

Accounting judgment

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

Trade and financial receivable – IFRS 9

Key sources of estimation uncertainty: The Group measure the expected credit losses on financial assets classified at amortized cost including trade and financial receivables, lease receivables and contract assets. The expected credit losses are an assessment that reflects an unbiased, probability-weighted outcome based on reasonable and supportable forecasts.

Accounting judgment: Management's judgment considers rapidly changing market conditions. An overlay control is performed to ensure that an adequate loss allowance is recognized. Additional information is included in section "Credit risk" in note 27.

Trade and financial receivable – IAS 39 (comparative figures)

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.

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

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

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

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

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

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

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

2. Acquisitions

The following summarizes the acquisitions during 2018 and 2017:

Closing date		Country	Business area	Revenues [1]	Number of employees [1]
2018 Sep. 4	Reno A/S	Denmark	Compressor Technique	153	60
2018 Aug. 1	QUISS Qualitäts- Inspektionssysteme und Service AG	Germany	Industrial Technique	86	45
2018 Apr. 4	Klingel Joining Technologies	Germany	Industrial Technique	82	23
2018 Mar. 1	Walker Filtration Ltd	United Kingdom	Compressor Technique	330	220
2018 Jan. 17	Location Thermique SAS	France	Power Tecnique	70	13
2017 Sep. 7	C.H. Spencer & Company Co.	U.S.A.	Compressor Technique	[2]	40
2017 Aug. 8	Glauber Equipment Corporation (certain assets)	U.S.A.	Compressor Technique	[2]	16
2017 May 3	Itubombas Locação Comércio Importação e Exportação	Brazil	Power Technique	50	40
2017 May 3	Pressure Compressores	Brazil	Compressor Technique	145	150
2017 Mar. 2	Orcan Basincli	Turkey	Compressor Technique	[2]	17
2017 Jan. 3	HB Kompressoren Druckluft und Industrietechnik	Germany	Compressor Technique	[2]	10

[1] Annual revenues and number of employees at the time of acquisition.
[2] Former distributor of Atlas Copco products. No revenues are disclosed for former Atlas Copco distributors.

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

The amounts presented in the following tables detail the recognized amounts aggregated by business area, as the relative amounts of the individual acquisitions are not considered significant. The fair values related to intangible assets other than goodwill are amortized over 5–15 years. For those acquisitions that include a contingent consideration clause, the fair value of the contingent consideration has been calculated based on a discount rate of 10.5%. For more information about the valuation of contingent consideration, see note 27. The Group is in the process of reviewing the final values for certain of the recently acquired businesses. No adjustments are expected to be material. Adjustments related to the acquisitions made in 2017 are included in the following tables.

2. Acquisitions, continued

Compressor Technique	Recognized values	
	2018	2017
Intangible assets	158	135
Property, plant and equipment	104	16
Other assets	205	108
Cash and cash equivalents	39	3
Interest-bearing loans and borrowings	–12	–24
Other liabilities and provisions	–106	–59
Net identifiable assets	**388**	**179**
Goodwill	169	153
Total consideration	**557**	**332**
Deferred consideration	–26	–49
Cash and cash equivalents acquired	–39	–3
Net cash outflow	**492**	**280**

In March, the Compressor Technique business area acquired Walker Filtration Ltd., a British manufacturer of equipment for treatment of compressed air, gas and vacuum. The company will strengthen the Group's presence and competence in the business for the treatment of compressed air, gas and vacuum. Intangible assets of 109 and goodwill of 133 were recorded on the purchase. The goodwill is not deductible for tax purposes.

In September, Reno A/S, a Danish manufacturer and distributor of compressed air solutions was acquired. The company has a large equipment distribution and aftermarket network and operates in several segments of the compressed air business. The acquisition will increase Atlas Copco's service presence in the region. Intangible assets of 46 and goodwill of 39 were recorded on the purchase. The goodwill is not deductible for tax purposes.

Total consideration of 557 includes contingent consideration for Walker Filtration Ltd. with a fair value of 38. Contingent consideration to be paid is dependent on the revenues and result 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.

Vacuum Technique	Recognized values	
	2018	2017
Intangible assets	–	–
Property, plant and equipment	–	–
Other assets	–	–
Cash and cash equivalents	–	–
Interest-bearing loans and borrowings	–	–
Other liabilities and provisions	–	7
Net identifiable assets	**–**	**7**
Goodwill	–	–34
Total consideration	**–**	**–27**
Deferred consideration	–	6
Cash and cash equivalents acquired	–	–
Net cash outflow	**–**	**–21**

The Vacuum Technique business area made no acquisitions in 2018.

Industrial Technique	Recognized values	
	2018	2017
Intangible assets	186	–
Property, plant and equipment	4	–
Other assets	46	–6
Cash and cash equivalents	24	–
Interest-bearing loans and borrowings	–	–
Other liabilities and provisions	–50	2
Net identifiable assets	**210**	**–4**
Goodwill	280	–3
Total consideration	**490**	**–7**
Deferred consideration	14	36
Cash and cash equivalents acquired	–24	–
Net cash outflow	**480**	**29**

In April, the Industrial Technique business area acquired the assets of the German company Klingel Joining Technologies. The company specializes in flow drill technology, a joining method used in the automotive industry. Flow drill technology is a mechanical joining method used for aluminum and mixed material applications. The acquisition will broaden Atlas Copco's offering in joining technologies and also gives access to automated screw feeding equipment and automation expertise for the automotive industry. Intangible assets of 94 and goodwill of 111 were recorded on the purchase. The goodwill is deductible for tax purposes.

In August, QUISS Qualitäts-Inspektionssysteme und Service AG was acquired. QUISS is a German company specialized in machine vision solutions for quality inspection of adhesive dispensing applications and robot guidance mainly used in the automotive industry. Quiss' core competence is image processing, algorithms, as well as system design including hardware and software. Intangible assets of 91 and goodwill of 168 were recorded on the purchase. The goodwill is not deductible for tax purposes.

Total consideration includes contingent consideration with a fair value of 9 related to the Klingel acquisition. Contingent consideration to be paid is dependent on the revenues 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.

Power Technique	Recognized values	
	2018	2017
Intangible assets	29	28
Property, plant and equipment	73	47
Other assets	35	14
Cash and cash equivalents	10	5
Interest-bearing loans and borrowings	–31	–5
Other liabilities and provisions	–42	–26
Net identifiable assets	**74**	**63**
Goodwill	64	43
Total consideration	**138**	**106**
Deferred consideration	–6	–8
Cash and cash equivalents acquired	–10	–5
Net cash outflow	**122**	**93**

In January, the Power Technique business area acquired Location Thermique Service SAS, a French steam boiler rental company. The company rents out steam boilers, which are typically critical in the production process for customers in the manufacturing, power, chemical, oil and gas sectors. Intangible assets of 29 and goodwill of 64 were recorded on the purchase. The goodwill is not deductible for tax purposes.

Total consideration includes contingent consideration with a fair value of 6. Contingent consideration to be paid is dependent on the revenues and result the first four 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.

2. Acquisitions, continued

Total fair value of acquired assets and liabilities	Group recognized values	
	2018	2017
Intangible assets	373	163
Property, plant and equipment	181	63
Inventories	143	32
Receivables [1]	117	84
Other current assets	26	–
Cash and cash equivalents	73	8
Interest-bearing loans and borrowings	–43	–29
Other liabilities and provisions	–126	–71
Deferred tax assets/liabilities, net	–72	–5
Net identifiable assets	**672**	**245**
Goodwill	513	159
Total consideration	**1 185**	**404**
Deferred consideration	–18	–15
Cash and cash equivalents acquired	–73	–8
Net cash outflow	**1 094**	**381**

[1] The gross amount is 121 (92) of which 4 (8) 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 1 185 (404). Deferred consideration includes both deferred consideration not yet paid for acquisitions made in 2018 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the net cash outflow totaled 1 094 (381) after deducting cash and cash equivalents acquired of 73 (8).

Acquisition-related costs amounted to 22 (8) and were included mainly in "Administrative expenses" in the income statement for 2018.

Contribution from businesses acquired in 2018 and 2017 by business area	Compressor Technique		Vacuum Technique		Industrial Technique		Power Technique		Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Contribution from date of control										
Revenues	355	218	–	–	77	–	100	55	532	273
Operating profit	29	–1	–	–	–15	–	20	17	34	16
Profit for the year									24	13
Contribution if the acquisition had occurred on Jan. 1										
Revenues	520	494	–	–	148	–	100	83	768	577
Operating profit	38	13	–	–	–20	–	20	26	38	39
Profit for the year									27	28

3. Assets held for sale, divestments and discontinued operations

Asset held for sale and divestments

On February 2, 2018, Atlas Copco's concrete and compaction business, part of the Power Technique business area, was divested to Husqvarna. The assets and liabilities of this business were classified as assets and liabilities held for sale as of December 31, 2017. Some other minor divestments were also made during the year. Net cash effect of these divestments was 404. The divestments resulted in a capital gain of 134 and a result from recycling of accumulated historical translation differences to the income statement of 12. These items are reported under "Other operating income". See note 7. None of these divestments met the criteria to be presented as discontinued operations, and are hence not included in the discontinued operations below.

Discontinued operations

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

On October 5, 2017, Atlas Copco divested its Road Construction Equipment division, previously included in the Power Technique business area, to the Fayat Group for a preliminary purchase price, net of cash in the divested entities, of 1 560. On divestment completion, –55 related to translation differences previously reported in other comprehensive income were recycled over the income statement. The final settlement of the divestment in 2018 resulted in a cash outflow of 238 and an amount of –109 included in result from discontinued operations.

Epiroc is included in the discontinued operations below for 2018 and 2017, and Road Construction Equipment for 2017.

Carrying value of assets and liabilities held for sale	2018	2017
Intangible assets	–	102
Property, plant and equipment	1	40
Inventories	–	50
Receivables	–	1
Interest-bearing loans and borrowings	–	–1
Other liabilities and provisions	–	–55
Net carrying value	**1**	**137**

Carrying value of divested assets and liabilities [1]	2018	2017
Intangible assets	116	102
Property, plant and equipment	43	230
Financial assets	–	21
Deferred tax assets, net	–	39
Inventories	133	988
Receivables	6	1 043
Cash and cash equivalents	12	506
Interest bearing loans and borrowings	–1	–187
Other liabilities and provisions	–27	–790
Net identifiable assets	**282**	**1 952**

[1] Does not include Epiroc

Balance sheet discontinued operations included in consolidated balance sheet	2018	2017
Intangible assets	–	7 054
Property, plant and equipment	–	3 487
Financial assets (non-current)	–	1 195
Deferred tax assets	–	424
Inventories	–	8 440
Financial assets (current)	–	1 152
Receivables	–	7 920
Cash and cash equivalents	–	1 808
Borrowings and interest-bearing liabilities (non-current)	–	–262
Other liabilities and provisions (non-current)	–	–287
Borrowings and interest-bearing liabilities (current)	–	–701
Other liabilities and provisions (current)	–	–7 779
Net identifiable assets	**–**	**22 451**

Income Statement discontinued operations	2018	2017
Revenues	15 992	33 329
Cost of sales	–10 046	–21 631
Gross profit	**5 946**	**11 698**
Marketing expenses	–1 165	–2 504
Administrative expenses	–1 146	–2 269
Research and development expenses	–439	–845
Other operating income	8	87
Other operating expenses	–191	–763
Operating profit	**3 013**	**5 404**
Financial income	84	208
Financial expenses	–197	–126
Net Financial items	**–113**	**82**
Profit before tax	**2 900**	**5 486**
Income tax expense	–731	–1 418
Profit from operations	**2 169**	**4 068**
Profit on remeasurement to fair value less cost to sell		
Gain/loss from divestments	86 996	–
Translation differences recycled	934	–55
Profit for the period from discontinued operations	**90 099**	**4 013**
Profit attributable to:		
– owners of the parent	89 842	4 013
– non-controlling interest	257	–
Basic earnings per share, SEK	74.04	3.31
Diluted earnings per share, SEK	73.93	3.30

Cash flow discontinued operations	2018	2017
Cash flow from:		
Operating activities	748	5 178
Investing activities	–1 368	–176
Financing activities	5 902	115
Net cash flow for the year	**5 282**	**5 117**

4. Segment information

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

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

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

1) Refers to the divestment of the concrete and compaction business in the Power Technique business area.
2) Refers to a change in provision for share-related long-term incentive programs and also costs associated with the split of the Group.

4. Segment information, continued

2017	Compressor Technique	Vacuum Technique	Industrial Technique	Mining and Rock Excavation Technique	Power Technique	Common group functions	Eliminations	Group
Revenues from external customers	38 527	19 503	16 377	–	10 807	–	–	85 214
Inter-segment revenues	397	–	54	–	410	–	–422	439 [1)]
Total revenues	**38 924**	**19 503**	**16 431**	**–**	**11 217**	**–**	**–422**	**85 653**
Operating profit	**8 962**	**4 924**	**4 194**	**–**	**1 705**	**–1 001**	**–36**	**18 748**
– of which share of profit in associated companies and joint ventures	*–*	*–*	*4*	*–*	*–*	*–*	*–*	*4*
Net financial items								–1 157
Income tax expense								–4 930
Profit for the year from continuing operations								12 661
Profit for the year from discontinued operations								4 013
Profit for the year								**16 674**
Non-cash expenses								
Depreciation/amortization	797	790	701	1 048	830	364	–80	4 450
Impairment	19	66	317	–	18	193	–	613
Other non-cash expenses	–88	–52	45	–7	–8	244	–	134
Segment assets	**22 744**	**23 303**	**13 107**	**20 413**	**13 461**	**4 120**	**–1 496**	**95 652**
– of which goodwill	*3 633*	*9 066*	*4 215*	*1 508*	*4 797*	*–*	*–*	*23 219*
Investments in associated companies and joint ventures	1	–	117	94	–	–	–	212
Unallocated assets								30 167
Total assets								**126 031**
Segment liabilities	**13 468**	**4 769**	**3 533**	**6 918**	**2 951**	**3 705**	**–1 318**	**34 026**
Unallocated liabilities								31 404
Total liabilities								**65 430**
Capital expenditures								
Property, plant and equipment	367	444	267	958	800	499	–148	3 187
– of which assets leased	*9*	*1*	*8*	*37*	*1*	*–*	*–*	*56*
Intangible assets	132	201	196	226	88	125	–	968
Total capital expenditures	**499**	**645**	**463**	**1 184**	**888**	**624**	**–148**	**4 155**
Goodwill acquired	153	–34	–3	–	43	–	–	159

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

2017	Compressor Technique	Vacuum Technique	Industrial Technique	Mining and Rock Excavation Technique	Power Technique	Common group functions	Eliminations	Group
Items affecting comparability in Operating profit	–	–	380 [1)]	–	–30 [2)]	–426 [3)]	–	–76

1) Refers mainly to a release of liabilities for contingent consideration from the Henrob acquisition in 2014.
2) Refers to restructuring of production and R&D in the Power Technique business area.
3) Refers to a change in provision for share-related long-term incentive programs.

4. Segment information, continued

The Group is organized in separate and focused but still integrated business areas, each operating through divisions. The business areas offer different products and services to different customer groups. They are also the basis for management and internal reporting and are regularly reviewed by the Group's President and CEO, the chief operating decision maker. The chief operating decision maker uses more than one measure of the operating segments' profit or loss to assess performance and allocate resources. The operating profit of the business areas included in the previous tables is therefore the one that sums to the operating profit in the consolidated income statement. Items affecting comparability are included in a separate table since the chief operating decision maker review also these as part of allocating resources to the different business areas. All business areas are managed on a worldwide basis and their role is to develop, implement and follow up the objectives and strategies within their respective business.

For a description of the business areas, see pages 18–31.

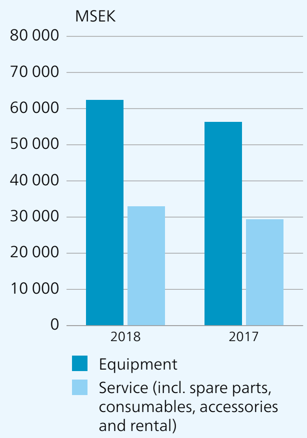
Common group functions, i.e. functions which serve all business areas or the Group as a whole, is not considered a segment.

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

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

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

Revenues from external customers



Geographical information

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

By geographic area/country	Revenues		Non-current assets	
	2018	**2017**	**2018**	**2017**
North America				
Canada	1 394	1 351	85	324
U.S.A.	19 533	17 537	6 695	7 510
Other countries	1 627	1 577	67	104
	22 554	**20 465**	**6 847**	**7 938**
South America				
Brazil	2 241	2 038	486	524
Chile	504	460	73	176
Other countries	964	921	33	118
	3 709	**3 419**	**592**	**818**
Europe				
Belgium	1 172	1 085	2 080	1 976
France	3 287	3 052	482	267
Germany	5 946	5 339	7 694	7 215
Italy	2 435	2 328	1 541	1 623
Russia	1 441	1 391	65	112
Sweden	1 454	1 057	939	7 045
United Kingdom	2 630	2 462	14 182	13 130
Other countries	11 518	10 000	1 064	1 237
	29 883	**26 714**	**28 047**	**32 605**
Africa/Middle East				
South Africa	604	583	66	154
Other countries	5 092	4 623	328	280
	5 696	**5 206**	**394**	**434**
Asia/Australia				
Australia	1 068	972	111	264
China	17 348	13 814	2 011	2 690
India	3 197	3 181	254	587
Japan	2 698	2 253	367	522
South Korea	4 761	5 583	1 505	1 423
Other countries	4 449	4 046	284	327
	33 521	**29 849**	**4 532**	**5 813**
Total	**95 363**	**85 653**	**40 412**	**47 608**

Geographic distribution	Compressor Technique, %		Vacuum Technique, %		Industrial Technique, %		Power Technique, %		Group, %	
	Orders Received	Revenues	Orders Received	Revenues	Orders Received	Revenues	Orders Received	Revenues	Orders Received	Revenues
North America	21	22	23	20	31	32	24	25	24	24
South America	6	5	0	1	3	3	5	5	4	4
Europe	34	35	16	16	38	39	39	38	31	31
Africa/Middle East	7	8	2	3	1	1	12	12	6	6
Asia/Australia	32	30	59	60	27	25	20	20	35	35
	100	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

4. Segment information, continued

Quarterly data

Revenues by business area MSEK	2018 1	2018 2	2018 3	2018 4	2017 1	2017 2	2017 3	2017 4
Compressor Technique	9 735	11 266	11 269	11 702	9 268	9 667	9 552	10 437
– of which external	9 578	11 121	11 156	11 592	9 190	9 577	9 458	10 302
– of which internal	157	145	113	110	78	90	94	135
Vacuum Technique	5 255	5 740	5 272	5 740	4 753	4 767	4 754	5 229
– of which external	5 255	5 740	5 272	5 740	4 753	4 767	4 754	5 229
– of which internal	–	–	–	–	–	–	–	–
Industrial Technique	4 178	4 519	4 365	4 871	3 965	4 153	4 098	4 215
– of which external	4 163	4 504	4 354	4 863	3 951	4 139	4 086	4 201
– of which internal	15	15	11	8	14	14	12	14
Power Technique	2 894	3 091	2 911	3 146	2 685	2 908	2 732	2 892
– of which external	2 756	2 980	2 893	3 126	2 571	2 803	2 651	2 782
– of which internal	138	111	18	20	114	105	81	110
Common Group functions/eliminations	–156	–155	–142	–138	–93	–98	–103	–128
Total	**21 906**	**24 461**	**23 675**	**25 321**	**20 578**	**21 397**	**21 033**	**22 645**

Operating profit by business area MSEK	2018 1	2018 2	2018 3	2018 4	2017 1	2017 2	2017 3	2017 4
Compressor Technique	2 249	2 638	2 667	2 709	2 130	2 237	2 225	2 370
in % of revenues	*23.1%*	*23.4%*	*23.7%*	*23.1%*	*23.0%*	*23.1%*	*23.3%*	*22.7%*
Vacuum Technique	1 292	1 479	1 315	1 436	1 176	1 193	1 205	1 350
in % of revenues	*24.6%*	*25.8%*	*24.9%*	*25.0%*	*24.7%*	*25.0%*	*25.3%*	*25.8%*
Industrial Technique	974	1 056	1 018	1 140	893	966	1 359	976
in % of revenues	*23.3%*	*23.4%*	*23.3%*	*23.4%*	*22.5%*	*23.3%*	*33.2%*	*23.2%*
Power Technique	547	464	480	515	404	475	410	416
in % of revenues	*18.9%*	*15.0%*	*16.5%*	*16.4%*	*15.0%*	*16.3%*	*15.0%*	*14.4%*
Common Group functions/eliminations	–229	–207	–217	–139	–313	–274	–197	–253
Operating profit	**4 833**	**5 430**	**5 263**	**5 661**	**4 290**	**4 597**	**5 002**	**4 859**
in % of revenues	*22.1%*	*22.2%*	*22.2%*	*22.4%*	*20.8%*	*21.5%*	*23.8%*	*21.5%*
Net financial items	–320	–201	–95	273	–232	–395	–222	–308
Profit before tax	**4 513**	**5 229**	**5 168**	**5 934**	**4 058**	**4 202**	**4 780**	**4 551**
in % of revenues	*20.6%*	*21.4%*	*21.8%*	*23.4%*	*19.7%*	*19.6%*	*22.7%*	*20.1%*

5. Employees and personnel expenses

Average number of employees	2018 Women	2018 Men	2018 Total	2017 Women	2017 Men	2017 Total
Parent Company						
Sweden	62	37	99	61	40	101
Subsidiaries						
North America	1 006	4 154	5 160	910	3 958	4 868
South America	344	1 495	1 839	334	1 395	1 729
Europe	3 280	13 447	16 727	2 950	12 832	15 782
– of which Sweden	*270*	*960*	*1 230*	*258*	*919*	*1 177*
Africa/Middle East	187	865	1 052	179	856	1 035
Asia/Australia	1 995	9 022	11 017	1 809	8 307	10 116
Total in subsidiaries	**6 812**	**28 983**	**35 795**	**6 182**	**27 348**	**33 530**
Total	**6 874**	**29 020**	**35 894**	**6 243**	**27 388**	**33 631**

Females in the Board of Directors and Group Management, %	Dec. 31, 2018	Dec. 31, 2017
Parent Company		
Board of Directors [1]	30	30
Group Management	22	30

[1] Which excludes CEO, includes employee representatives but excludes employees representatives´ alternate members.

5. Employees and personnel expenses, continued

Remuneration and other benefits	Group	
MSEK	2018	2017
Salaries and other remuneration	17 804	15 959
Contractual pension benefits	1 122	965
Other social costs	3 203	3 085
Total	**22 129**	**20 009**
Pension obligations to Board members and Group Management 1)	5	5

1) Refers to former members of Group Management.

Remuneration and other benefits to the Board KSEK	Fee	Value of synthetic shares at grant date	Number of synthetic shares at grant date	Other fees 1)	Total fees incl. value of synthetic shares at grant date **2018**	Adj. due to vesting and change in stock price 2)	Total expense recognized **2018** 3)	Total expense recognized **2017**
Chairman:								
Hans Stråberg 4)	1 515	1 100	3 180	375	2 990	–850	2 140	3 890
Other members of the Board:								
Anders Ullberg	690	–	–	154	844	–	844	831
Staffan Bohman 4)	454	350	1 012	360	1 164	–140	1 024	1 282
Johan Forssell	345	350	1 012	198	893	–453	440	1 613
Tina Donikowski	345	350	1 012	–	695	–119	576	519
Peter Wallenberg Jr	345	350	1 012	79	774	–453	321	1 426
Sabine Neuss	690	–	–	–	690	–	690	651
Gunilla Berg	345	350	1 012	183	878	–231	647	995
Other members of the Board previous year						–334	–334	1 090
Union representatives (4) 5)	56	–	–	–	56	–	56	64
Total 2018	**4 785**	**2 850**	**8 240**	**1 349**	**8 984**	**–2 580**	**6 404**	
Total 2017	6 151	1 320	3 976	1 584	9 055	3 306		12 361

1) Refers to fees for membership in board committees.
2) Refers to synthetic shares received in 2013–2018.
3) Provision for synthetic shares as at December 31, 2018 amounted to MSEK 9 (11).
4) Hans Stråberg and Staffan Bohman invoiced their fees for first quarter. The fees received include compensation for social costs and are cost neutral for the Company.
5) Union representatives receive compensation to prepare for their participation in board meetings.

Remuneration and other benefits to Group Management KSEK	Base salary	Variable compensation 1)	Other benefits 2)	Pension fees	Total, excl. recognized costs for share based payments	Recognized costs for share based payments 3)	Total expense recognized **2018**	Total expense recognized **2017**
President and CEO								
Mats Rahmström	12 500	8 750	425	4 403	26 078	–9 058	17 020	81 669 4)
Other members of Group Management (8 positions) 5)	25 670	13 739	5 857	7 786	53 052	–17 219	35 833	78 046
Total 2018	**38 170**	**22 489**	**6 282**	**12 189**	**79 130**	**–26 277**	**52 853**	
Total 2017	37 659	22 993	5 338	12 422	78 412	81 303		159 715
Total remuneration and other benefits to the Board and Group Management							**59 257**	172 076

1) Refers to variable compensation earned in 2018 to be paid in 2019.
2) Refers to vacation pay, company car, medical insurance, and other benefits.
3) Refers to stock options and SARs received in 2014–2018 and includes recognized costs due to change in stock price and vesting period, see also note 23.
4) Refers to compensation for Mats Rahmström and Ronnie Leten 2017, of which 22 507 related to Mats Rahmström.
5) Group Management, excl CEO, consisted of nine members during January. Thereafter left the Head of Business Area Mining and Rock Excavation Technique Group Management as part of the Epiroc split.

5. Employees and personnel expenses, continued

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

Principles for remuneration to the Board and Group Management
The principles for remuneration to the Board and Group Management are approved at the Annual General Meeting of the shareholders. The principles approved by the 2018 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 2018 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 2018 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 2018. 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.

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

Group Management
Group Management consists of the Group President and eight other members of the Executive Committee. During the period January 1 to January 31, 2018 the Group Management consisted of the Group President and nine other members of the Executive Committee. The compensation to Group Management shall consist of base salary, variable compensation, possible long-term incentive (personnel options), pension premium, and other benefits.

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

- Base salary is determined by position, qualification, and individual performance.
- Variable compensation is dependent upon how certain quantitative and qualitative goals set in advance are achieved. Non-financial parameters have for example been in relation to the Business Code of Practice. The variable compensation is maximized to 70% of the base salary for the Group President, 60% for Business Area Presidents, and 50% for other members of Group Management.
- Performance related personnel option program for 2018, see note 23.
- Pension premiums are paid in accordance with a defined contribution plan with premiums set in line with Atlas Copco Group Pension Policy for Swedish Executives and Atlas Copco terms and conditions for expatriate employments.
- Other benefits consist of company car and medical insurance.
- For the expatriates, certain benefits are paid in compliance with the Atlas Copco terms and conditions for expatriate employment.

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

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

President and CEO
The variable compensation can give a maximum of 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 Group Pension Policy for Swedish Executives, which is a defined contribution plan. The retirement age of the President and CEO is set at the age of 65. The contribution is age related and is 35% of the base salary. These pension plans are vested. In addition, premiums for private health insurance are added.

Other members of Group Management
Members of Group Management have defined contribution pension plans, with contribution up to a maximum of 35% of the base salary according to age. The variable compensation is not included in the basis for pension benefits. These pension plans are vested. The retirement age is 65.

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

Stock Options/share appreciations rights holdings as at Dec. 31, 2018

Grant Year	President and CEO	Other members of Group Management
2014	56 131	100 586
2015	38 275	126 593
2016	81 480	341 783
2017	147 397	156 547
2018 [1]	128 191	149 899
Total	**451 474**	**875 408**

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

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

Other members of Group Management are entitled to severance pay if the Company terminates their employment. The amount of severance pay is dependent on the length of employment with the Company and the age of the executive, but is never less than 12 months and never more than 24 months' salary.

Any income that the CEO and other members of Group Management receives from employment or other business activity, whilst severance pay is being paid, will reduce the amount of severance pay accordingly.

Severance pay for the 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 2018, Hans Stråberg, Chair, Peter Wallenberg Jr and Anders Ullberg were members of the remuneration committee. The committee proposed compensation to the President and CEO for approval by the Board. The committee also supported the President and CEO in determining the compensation to the other members of Group Management.

Staffan Bohman, Chair, Gunilla Berg, Johan Forssell and Hans Stråberg formed the Audit Committee.

Anders Ullberg, Chair, Staffan Bohman and Hans Stråberg participated in a committee regarding repurchase and sale of Atlas Copco shares.

5. Employees and personnel expenses, continued

Workforce profile

Atlas Copco strives to grow local leaders where it operates. The geographical spread of employees and senior managers is in continuous development.
As a customer-focused company, 52% (52) of all employees work in marketing, sales or service.

Geographical spread of employees, %	Employees	Nationality of senior managers
North America	14	7
South America	5	5
Europe	47	71
Africa/Middle East	3	4
Asia/Australia	31	13
Total	**100**	**100**

Employees by professional category, %	2018	2017
Production	24	24
Marketing	9	8
Sales and support	15	16
Service	28	28
Administration	16	16
Research & development	8	8
Total	**100**	**100**

6. Remuneration to auditors

Audit fees and other services	2018	2017
Deloitte		
Audit fee	61	55
Audit activities other than the audit assignment	1	2
Other services, tax	4	8
Other services, other	12	14
Other audit firms		
Audit fee	6	6
Total	**84**	**85**

Audit fee refers to audit of the financial statements and the accounting records. For the Parent Company this also includes the administration of the business by the Board of Directors, the President and CEO.

Audit activities other than the audit assignment refer for example to comfort letters and the limited assurance report on Atlas Copco's sustainability report.

Tax services include both tax consultancy services and tax compliance services.

Other services essentially comprise consultancy services, such as services related to the split of the Group.

At the Annual General Meeting 2018, Deloitte was elected as auditor for the Group up to and including the Annual General Meeting 2019.

7. Other operating income and expenses

Other operating income	2018	2017
Commissions received	9	–
Income from insurance operations	119	189
Capital gain on assets held for sale	–	5
Capital gain on sale of property, plant and equipment	33	32
Capital gain on divestment of business	146	–
Exchange-rate differences	28	–
Other operating income	170	779
Total	**505**	**1 005**

Other operating expenses	2018	2017
Capital loss on sale of property, plant and equipment	–35	–32
Exchange-rate differences	–	–499
Other operating expenses	–132	–82
Total	**–167**	**–613**

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

Other operating income 2017 included 690 from a release of liabilities for contingent consideration from the Henrob acquisition in 2014.

Additional information on costs by nature

Cost of goods sold includes expenses for inventories, see note 16, warranty costs, environmental fees, and transportation costs.

Salaries, remunerations and employer contributions amounted to 22 129 (20 009) whereof expenses for post-employment benefits amounted to 1 122 (965). See note 5 for further details.

Government grants relating to expenses have been deducted in the related expenses by 119 (50). Government grants related to assets have been recognized as deferred income in the balance sheet and will be recognized as income over the useful life of the assets. The remaining value of these grants, at the end of 2018, amounted to 37 (39).

Included in the operating profit are exchange rate changes on payables and receivables, and the effects from currency hedging. The operating profit also includes 34 (–28) of realized foreign exchange hedging result, which were previously recognized in equity. Amortization, depreciation and impairment charge for the year amounted to 3 323 (3 635), excluding discontinued operations. See note 12 and 13 for further details. Costs for research and development amounted to 3 166 (2 928).

8. Financial income and expenses

Financial income and expenses	2018	2017
Interest income		
– cash and cash equivalents	77	64
– other	5	6
Capital gain		
– other assets	23	6
Foreign exchange gain, net	437	–
Financial income	**542**	**76**
Interest expenses		
– borrowings	–485	–577
– derivatives	–194	–370
– pension provisions, net	–40	–51
– deferred considerations	–7	–18
– other	–	–125
Change in fair value – other liabilities and borrowings	–158	–5
Foreign exchange loss, net	–	–45
Impairment loss	–1	–42
Financial expenses	**–885**	**–1 233**
Financial expenses, net	**–343**	**–1 157**

"Foreign exchange gain/loss, net" includes foreign exchange gains of 1 189 (2 115) on financial assets at fair value through profit or loss and foreign exchange losses of –752 (–2 160) on other liabilities. Of the 437, 362 is a tax-free gain from repatriation to Sweden of Euro-denominated equity. See note 27 for additional information. In 2017, "Interest expenses, other" consists of a one-time effect from an interest charge of 125, related to the EU challenge of Belgian tax rulings, see note 9.

9. Taxes

Income tax expense	2018	2017
Current taxes	–4 876	–5 047
Deferred taxes	368	117
Total	**–4 508**	**–4 930**

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

	2018	2017
Profit before tax	**20 844**	**17 591**
Weighted average tax based on national rates	–5 022	–4 822
– in %	24.1	27.4
Tax effect of:		
Non-deductible expenses	–456	–342
Withholding and other taxes on dividends	–343	–263
Tax-exempt income	665	706
Adjustments from prior years:		
– current taxes	663	272
– deferred taxes	45	36
Effects of tax losses/credits utilized	16	71
Change in tax rate, deferred tax	29	–138
Tax losses not recognized	–9	–
Other items	–96	–450
Income tax expense	**–4 508**	**–4 930**
Effective tax in %	21.6	28.0

The effective tax rate was 21.6% (28.0%). Withholding and other taxes on dividends of –343 (–263) relate to provisions on retained earnings in countries where Atlas Copco incur withholding and other taxes on dividends. Tax-exempt income of 665 (706) refers to income that is not subject to taxation or subject to reduced taxation under local law in various countries. The net from tax issues, tax disputes and also one-time positive tax effects in different countries amounted to 663 (272).

Previously unrecognized tax losses/credits and deductible temporary differences, which have been recognized against current tax expense, amounted to 16 (71). No material unrecognized tax losses/credits or temporary difference have been used to reduce deferred tax expense.

In 2018, effects of income tax rate changes have affected the result with 29 (–138).

European Commission's decision on Belgium's tax rulings

On January 11, 2016, the European Commission announced its decision that Belgian tax rulings granted to companies with regard to "Excess Profit" shall be considered as illegal state aid and that unpaid taxes shall be reclaimed by the Belgian state. Atlas Copco had such tax ruling since 2010.

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

The Belgian government, as well as Atlas Copco, has appealed the decision to the General Court of the European Union (EGC) in Luxembourg. There are several other companies that have been affected by the decision of January 11, 2016 in the same way as Atlas Copco; most of those companies have also appealed to EGC. Given that the European Commission, following the decision by the EGC that was announced on February 14, 2019, can take alternative courses of actions if it wants to continue claiming its state-aid position, it will likely take several years until the final outcome is known. See note 29 for further information.

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

Change in deferred taxes	2018	2017
Opening net balance, Jan. 1	1 099	861
Change in accounting principles	14	26
Business acquisitions	–72	–12
Discontinued operations	–349	–
Charges to profit for the year	368	212
Tax on amounts recorded to other comprehensive income	–45	–28
Translation differences	–15	40
Net balance, Dec. 31	**1 000**	**1 099**

9. Taxes, continued

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

Deferred tax assets and liabilities	2018			2017		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	148	2 167	–2 019	215	2 540	–2 325
Property, plant and equipment	243	473	–230	376	626	–250
Other financial assets	5	60	–55	15	68	–53
Inventories	1 183	42	1 141	1 815	68	1 747
Current receivables	177	95	82	258	176	82
Operating liabilities	744	28	716	847	77	770
Provisions	244	6	238	322	7	315
Post-employment benefits	778	37	741	827	63	764
Borrowings	434	–	434	419	2	417
Loss/credit carry-forwards	322	–	322	218	–	218
Other items [1]	58	428	–370	50	636	–586
Deferred tax assets/liabilities	**4 336**	**3 336**	**1 000**	**5 362**	**4 263**	**1 099**
Netting of assets/liabilities	–2 717	–2 717	–	–3 825	–3 825	–
Net deferred tax balances	**1 619**	**619**	**1 000**	**1 537**	**438**	**1 099**

[1] Other items primarily include tax deductions which are not related to specific balance sheet items.

Deferred tax assets regarding tax loss carry-forwards are reported to the extent that realization of the related tax benefit through future taxable results is probable. To the extent that it is not probable that taxable results will be available against which the unused tax losses can be utilized, a deferred tax asset is not recognized. At December 31, the Group had total tax loss carry-forwards of 3 388 (3 170), of which deferred tax assets were recognized for 1 400 (770). The tax value of reported tax loss carry-forwards totals 322 (191) for continuing operations. There is no expiration date for utilization of the major part of the tax losses carry-forwards for which deferred tax assets have been recognized.

Tax loss carry-forwards for which no deferred tax have been recognized expire in accordance with below table:

	2018	2017
Expires after 1–2 years	205	473
Expires after 3–4 years	133	31
Expires after 5–6 years	35	1
No expiry date	1 615	1 895
Total	**1 988**	**2 400**

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

	2018	2017
Intangible assets	158	192
Property, plant and equipment	–66	93
Other financial assets	–3	–12
Inventories	–36	–67
Current receivables	80	–188
Operating liabilities	113	212
Provisions	–14	–53
Post-employment benefits	39	–79
Borrowings	1	–1
Other items	–29	54
Changes due to temporary differences	**243**	**151**
Loss/credit carry-forwards	125	–34
Charges to profit for the year	**368**	**117**

10. Other comprehensive income

Other comprehensive income for the year	2018			2017		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Attributable to owners of the parent						
Items that will not be reclassified to profit or loss						
Remeasurements of defined benefit plans	150	–65	85	120	–61	59
Items that may be reclassified subsequently to profit or loss						
Translation differences on foreign operations	3 694	310	4 004	–649	200	–449
–realized and reclassified to income statement	–1 308	–	–1 308 [1]	55	–	55
Hedge of net investments in foreign operations	–797	166	–631	–492	108	–384
Cash flow hedges	42	–9	33	142	–31	111
Total other comprehensive income	**1 781**	**402**	**2 183**	**–824**	**216**	**–608**
Attributable to non-controlling interests						
Translation differences on foreign operations	1	–	1	–2	–	–2
Total other comprehensive income	**1 782**	**402**	**2 184**	**–826**	**216**	**–610**

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

11. Earnings per share

Amount in SEK	Basic earnings per share		Diluted earnings per share	
	2018	2017	2018	2017
Earnings per share	87.49	13.72	87.36	13.61
– of which continued operations	*13.45*	*10.41*	*13.43*	*10.31*
– of which discontinued operations	*74.04*	*3.31*	*73.93*	*3.30*

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	2018	2017
Profit for the year	106 164	16 652
– of which continued operations	*16 322*	*12 639*
– of which discontinued operations	*89 842*	*4 013*

Average number of shares outstanding	2018	2017
Basic weighted average number of shares outstanding	1 213 475 553	1 214 068 643
Effect of employee stock options	1 777 586	1 730 279
Diluted weighted average number of shares outstanding	1 215 253 139	1 215 798 922

Potentially dilutive instruments

As of December 31, 2018, Atlas Copco had five outstanding employee stock option programs. The exercise price including adjustment for remaining vesting costs for the 2017 program exceeded the average share price for series A shares, SEK 291.28 per share. This program is therefore considered anti-dilutive and not included in the calculation of diluted earnings per share. If the average share price, after adjustment with above exceeds the strike price in the future, these options will be dilutive.

12. Intangible assets

Impairment tests for cash-generating units with goodwill and for intangible assets with indefinite useful lives

Impairment tests (including sensitivity analyses) are performed as per September 30 each year.

Current goodwill is monitored for internal management purposes at business area level. The goodwill has therefore been tested for impairment at business area level.

The recoverable amounts of the cash generating units have been calculated as value in use based on management's five-year forecast for net cash flows where the most significant assumptions are revenues, operating profits, working capital, and capital expenditures.

All assumptions for the five-year forecast are estimated individually for each of the business areas based on their particular market position and the characteristics and development of their end markets. The forecasts represent management's assessment and are based on both external and internal sources. The perpetual growth for the period after five years is estimated at 3% (3).

The Group's average weighted cost of capital in 2018 was 8% (8) after tax (approximately 10.5 % (10.5) before tax) and has been used in discounting the cash flows to determine the recoverable amounts. The business areas are all relatively diversified and have similar geographical coverage, similar organization and structure and, to a large extent, an industrial customer base. Specific risks, if any, have affected projected cash flows. The same discount rate has therefore been used for all business areas. All business areas are expected to generate a return well above the values to be tested, including sensitivity analyses/worst-case scenarios.

The following table presents the carrying value of goodwill and trademarks with indefinite useful lives allocated by business area.

Carrying value of goodwill and intangible assets with indefinite useful lives by cash generating unit:

	2018		2017	
	Trademarks	Goodwill	Trademarks	Goodwill
Compressor Technique	–	4 027	–	3 633
Vacuum Technique	1 915	9 776	1 781	9 066
Industrial Technique	–	4 782	–	4 215
Mining and Rock Excavation Technique	–	–	–	1 508
Power Technique	–	832	–	4 797
Total	**1 915**	**19 417**	**1 781**	**23 219**

Goodwill in the amount of 4 062, previously reported in the business area Power Technique, was allocated to discontinued operations in 2018.

The trade names of Edwards and Leybold in the Vacuum Technique business area represent strong trade names that have been used for a long time in their industries. Management's intention is that these trade names will be used for an indefinite period of time. Apart from the assessment of future customer demand and the profitability of the business, future marketing strategy decisions involving the trade names, can affect the carrying value of these intangible assets.

Amortization and impairment of intangible assets are recognized in the following line items in the income statement:

	2018		2017	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	19	32	7	34
Marketing expenses	7	538	4	773
Administrative expenses	80	69	86	62
Research and development expenses	380	354	395	475
Total	**486**	**993**	**492**	**1 344**

Impairment charges on intangible assets totaled 40 (418) of which 2 (0) were classified as Cost of Sales in the income statement, 26 (171) were classified as research and development expenses, 10 (223) were classified as marketing expenses, and 2 (24) as administrative expenses. Furthermore there was a reversal of impairment charges amounting to 32 (–) classified as marketing expenses. Of the impairment charges, 13 (95) were due to capitalized development costs relating to projects discontinued. The impairment charges 2017 related to other technology and contract based intangibles, trademark and marketing and customer related intangibles were mainly related to a partial impairment of intangible assets acquired as part of the Henrob acquisition in 2014, which was related to that certain targets for revenue and growth were not reached.

12. Intangible assets, continued

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

	Internally generated intangible assets		Acquired intangible assets					
2017	Product development	Other technology and contract based	Product development	Trademark	Marketing and customer related	Other technology and contract based	Goodwill	**Total**
Cost								
Opening balance, Jan. 1	5 734	1 455	101	3 543	6 531	5 726	24 146	47 236
Investments	508	132	132	–	–	196	–	968
Business acquisitions	–	–	–	19	164	6	187	376
Disposals	–46	–36	–6	–61	–23	–82	–	–254
Reclassifications	21	–17	–148	24	–110	–113	–27	–370
Translation differences	–56	7	2	–155	–364	–219	–1 050	–1 835
Closing balance, Dec. 31	**6 161**	**1 541**	**81**	**3 370**	**6 198**	**5 514**	**23 256**	**46 121**
Amortization and impairment losses								
Opening balance, Jan. 1	3 300	661	–8	929	2 561	1 928	37	9 408
Amortization for the period	527	117	61	113	486	453	–	1 757
Impairment charge for the period	95	189	13	21	194	76	–	588
Disposals	–45	–32	–6	–61	–23	–80	–	–247
Reclassifications	–43	15	–24	18	–103	–148	–	–285
Translation differences	–9	–2	–1	–25	–148	–66	–	–251
Closing balance, Dec. 31	**3 825**	**948**	**35**	**995**	**2 967**	**2 163**	**37**	**10 970**
Carrying amounts								
At Jan. 1	2 434	794	109	2 614	3 970	3 798	24 109	37 828
At Dec. 31	**2 336**	**593**	**46**	**2 375**	**3 231**	**3 351**	**23 219**	**35 151**

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. In 2017, intangible assets of 102, including goodwill, was reclassified to assets held for sale, see note 3.

For information regarding amortization and impairment principles, see note 1.

See note 2 for information on business acquisitions.

13. Property, plant and equipment

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

2017	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	6 747	14 753	741	22 241	6 563
Investments	102	779	894	1 775	1 412
Business acquisitions	2	21	–	23	43
Disposals	–148	–827	–	–975	–855
Reclassifications	345	388	–864	–131	–396
Translation differences	–114	–262	–19	–395	–312
Closing balance, Dec. 31	**6 934**	**14 852**	**752**	**22 538**	**6 455**
Depreciation and impairment losses					
Opening balance, Jan. 1	2 509	9 939	–	12 448	3 468
Depreciation for the period	272	1 435	–	1 707	986
Impairment charge for the period	10	15	–	25	–
Disposals	–144	–751	–	–895	–548
Reclassifications	6	–79	–	–73	–220
Translation differences	–43	–154	–	–197	–165
Closing balance, Dec. 31	**2 610**	**10 405**	**–**	**13 015**	**3 521**
Carrying amounts					
At Jan. 1	4 238	4 814	741	9 793	3 095
At Dec. 31	**4 324**	**4 447**	**752**	**9 523**	**2 934**

In 2017 property plants and equipment of 39 was reclassified to assets held for sale, see note 3.

For information regarding depreciation, see note 1.

14. Investments in associated companies and joint ventures

Accumulated capital participation	2018	2017
Opening balance, Jan. 1	212	138
Discontinued operations	–94	–
Acquisitions of associated companies	–	81
Dividends	–2	–2
Profit for the year after income tax	5	3[1]
Translation differences	12	–8
Closing balance, Dec. 31	**133**	**212**

[1] Includes discontinued operations

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

Summary of financial information for associated companies and joint ventures	Country	Assets	Liabilities	Equity	Revenues	Profit for the year	Group's share, % [1]
2018							
Associated companies							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	77	22	55	44	1	25
Reintube S.L.	Spain	6	3	3	8	0	47
Joint ventures							
Toku-Hanbai Group	Japan	414	181	233	730	8	50
2017							
Associated companies							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	70	19	51	35	–	25
Shenzen Nectar Engineering & Equipment Co. Ltd. [2]	China	129	61	68	112	4	25
Zhejiang GIA Machinery Manufacturing Co., Ltd. [2]	China	34	1	33	36	–	49
Reintube S.L.	Spain	7	4	3	11	–	47
Mobilaris MCE AB [2]	Sweden	74	29	45	13	–7	34
Joint ventures							
Toku-Hanbai Group	Japan	369	161	208	850	8	50

[2] Associated company in Epiroc

The above table is based on the most recent financial reporting available from associated companies and joint ventures. In 2017 a 49% interest in the Chinese company Zhejiang GIA Machinery Manufacturing Co., Ltd and a 34% interest in the Swedish company Mobilaris MCE AB were acquired.

15. Other financial assets

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

	2018	2017
Non-current		
Pension and other similar benefit assets (note 23)	535	588
Financial asset at fair value through OCI	12	9
Financial assets at fair value through profit or loss	97	101
Financial assets measured at amortized cost		
– finance lease receivables	3	428
– other financial receivables	29	677
Closing balance, Dec. 31	**676**	**1 803**
Current		
Financial assets at fair value through OCI	–	25
Financial assets at fair value through profit or loss	–	37
Financial assets measured at amortized cost		
– finance lease receivables	1	478
– other financial receivables	101	755
Closing balance, Dec. 31	**102**	**1 295**

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

16. Inventories

	2018	2017
Raw materials	1 591	1 527
Work in progress	2 569	3 948
Semi-finished goods	3 337	4 005
Finished goods	5 221	9 330
Closing balance, Dec. 31	**12 718**	**18 810**

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 510 (640). Reversals of write-downs which were recognized in earnings totaled 155 (201). Previous write-downs have been reversed as a result of improved market conditions in certain markets.

Inventories recognized as expense amounted to 40 886 (35 558).

17. Trade receivables

Fair value for trade receivables corresponds to their carrying value. Trade receivables measured at amortized cost.

	2018	2017
Provisions for bad debts, trade		
Provisions at Jan. 1	1 017	1 103
Discontinued operations	–336	–
Business acquisitions and divestments	4	8
Provisions recognized for potential losses	325	575
Amounts used for established losses	–180	–295
Release of unnecessary provisions	–135	–331
Translation differences	21	–43
Closing balance, Dec. 31	**716**	**1 017**

Trade receivables of 18 906 (22 853) are reported net of provisions for doubtful accounts and other impairments amounting to 716 (1 017).

Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 325 (409).

For credit risk information, see note 27.

18. Other receivables

Fair value for other receivables corresponds to their carrying value.

	2018	2017
Derivatives		
– at fair value through profit or loss	24	441
– at fair value through OCI	–	25
Financial assets measured at amortized cost		
– other receivables	2 558	3 452
– contract assets	2 024	1 832
Prepaid expenses	599	757
Closing balance, Dec. 31	**5 205**	**6 507**

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

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

19. Cash and cash equivalents

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

	2018	2017
Cash	9 978	6 613
Cash equivalents	6 436	17 883
Closing balance, Dec. 31	**16 414**	**24 496**

During 2018, cash and cash equivalents had an estimated average effective interest rate of 0.45% (0.46). Estimated average effective interest rate remained at low level due to a generally low interest environment. The committed, but unutilized, credit lines were MEUR 1 440 (1 440), which equaled to MSEK 14 816 (14 170).

See note 27 for additional information.

20. Equity

	2018			2017		
Shares outstanding	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	–	–	–
	1 678 788 192	**780 438 016**	**2 459 226 208**	**839 394 096**	**390 219 008**	**1 229 613 104**
Redemption of shares	–823 107 846	–389 972 849	–1 213 080 695	–	–	–
Redemption of shares held by Atlas Copco	–16 286 250	–246 159	–16 532 409	–	–	–
Total number of shares, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**	**839 394 096**	**390 219 008**	**1 229 613 104**
– of which held by Atlas Copco	–16 779 903	–119 159	–16 899 062	–15 641 596	–246 159	–15 887 755
Total shares outstanding, Dec. 31	**822 614 193**	**390 099 849**	**1 212 714 042**	**823 752 500**	**389 972 849**	**1 213 725 349**

At December 31, 2018 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.

20. Equity, continued

Repurchases/ Divestment of shares	Number of shares held by Atlas Copco 2018	AGM mandate 2018 Apr.–Dec.	AGM mandate 2017 Jan.–Mar.	2017	AGM mandate 2017 Apr.–Dec.	AGM mandate 2016 Jan.–Mar.	Cost value affecting equity 2018	2017
Opening balance, Jan. 1	15 887 755			15 146 043			3 699	3 041
Repurchase of A shares	3 000 000	1 500 000	1 500 000	4 510 000	1 510 000	3 000 000	843	1 465
Divestment of A shares	–1 861 693	–1 724 672	–137 021	–3 681 788	–2 368 565	–1 313 223	–456	–801
Divestment of B shares	–127 000	–127 000	–	–86 500	–86 500	–	–9	–6
Closing balance, Dec. 31	**16 899 062**			**15 887 755**			**4 077**	**3 699**
Percentage of shares outstanding	1.4%			1.3%				

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

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

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

The 2018 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on Nasdaq Stockholm in order to fulfill the obligations under the performance stock option plan. The mandate is valid until the next AGM and allows:

- The purchase of not more than 3 300 000 series A shares, whereof a maximum 2 300 000 may be transferred to personnel stock option holders under the performance stock option plan 2018.
- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to board members who have opted to receive synthetic shares as part of their board fee.
- The sale of not more than 30 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 6 200 000 series A and B shares in order to cover the obligations under the performance stock option plans 2013, 2014 and 2015.

The 2017 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on Nasdaq Stockholm in order to fulfill the obligations under the performance stock option plan. The mandate is valid until the next AGM and allows:

- The purchase of not more than 2 950 000 series A shares, whereof a maximum 2 900 000 may be transferred to personnel stock option holders under the performance stock option plan 2017.
- The purchase of not more than 70 000 series A shares, later to be sold on the market in connection with payment to board members who have opted to receive synthetic shares as part of their board fee.
- The sale of not more than 30 000 series A shares to cover costs related to previously issued synthetic shares to board members.
- The sale of maximum 5 100 000 series A and B shares in order to cover the obligations under the performance stock option plans 2012, 2013 and 2014.

Repurchases and sales are subject to market conditions, regulatory restrictions, and the capital structure at any given time. During 2018, 3 000 000 series A shares were repurchased while 1 861 693 series A shares and 127 000 series B shares were divested in accordance with mandates granted by the 2017 and 2018 AGM. Further information regarding repurchases and sales in accordance with AGM mandates is presented in the table above. The series A shares are held for possible delivery under the 2014–2018 personnel stock option programs.

The series B shares held can be divested over time to cover costs related to the personnel stock option programs, including social insurance charges, cash settlements or performance of alternative incentive solutions in countries where allotment of employee stock options is unsuitable. The total number of shares of series A and series B held by Atlas Copco is presented in the table above.

Reserves

Consolidated equity includes certain reserves which are described below:

Hedging reserve

The hedging reserve comprises the effective portion of net changes in fair value for certain cash flow hedging instruments.

Translation reserve

The translation reserve comprises all exchange differences arising from the translation of the financial statements of foreign operations, the translation of intra-group receivables from or liabilities to foreign operations that in substance are part of the net investment in the foreign operations, as well as from the translation of liabilities that hedge the company's net investments in foreign operations.

Non-controlling interest

Non-controlling interest amounts to 47 (84). In connection with the Epiroc split two entities, Epiroc Mining India Ltd and GIA Mining Equipment Co became part of the Epiroc Group. Remaining in the Group are in total five subsidiaries with non-controlling interest, one of which is Atlas Copco (India) Ltd. The non-controlling interests are not material to the Group.

Appropriation of profit and dividend of shares in Epiroc

The Board of Directors proposes a dividend of SEK 6.30 (7.00) per share, totaling SEK 7 640 098 465 if shares held by the company on December 31, 2018 are excluded.

SEK	
Retained earnings including reserve for fair value	6 674 780 696
Profit for the year	132 846 746 194
	139 521 526 890
The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a dividend of SEK 6.30 per share	7 640 098 465
To be retained in the business	131 881 428 425
Total	**139 521 526 890**

The proposed dividend for 2017 of SEK 7.00 per share, as approved by the AGM on April 24, 2018, was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 8 486 521 261.

The AGM 2018 approved the mandatory share redemption procedure, whereby each share was split into one ordinary share and one redemption share. The redemption share was then automatically redeemed at SEK 8.00 per share, corresponding to a total of MSEK 9 705. Combined with the approved ordinary dividend, shareholders received MSEK 18 191.

The AGM approved a dividend of shares in Epiroc AB so that the shareholders in Atlas Copco AB received for each A-share held in Atlas Copco AB an Epiroc AB A-share and for each B-share an Epiroc B-share. The listing of Epiroc AB on Nasdaq Stockholm was June 18, 2018. For further information see note 3.

21. Borrowings

	Maturity	Repurchased nominal amount	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Non-current						
Medium Term Note Program MEUR 500	2019		5 145	5 170	4 920	5 080
Medium Term Note Program MEUR 500	2023		5 130	5 604	4 903	5 434
Medium Term Note Program MEUR 500	2026		5 137	4 997	4 912	4 779
Capital market borrowings MUSD 150	2019	MUSD 150	–	–	1 172	1 275
Bilateral borrowings EIB MEUR 275	2019	MEUR 275	–	–	2 706	2 730
Bilateral borrowings NIB MEUR 200	2024		2 058	2 120	1 968	2 037
Bilateral borrowings EIB MEUR 300	2022	MEUR 100	2 058	2 078	2 953	2 989
Other bank loans			18	18	30	30
Less current portion of long-term borrowings			–5 154	–5 179	–6	–6
Total non-current bonds and loans			**14 392**	**14 808**	**23 558**	**24 348**
Financial lease liabilities			10	10	76	76
Other financial liabilities			13	13	1	1
Total non-current borrowings			**14 415**	**14 831**	**23 635**	**24 425**
Current						
Current portion of long-term borrowings			5 154	5 179	6	6
Short term loans			802	802	1 452	1 452
Financial lease liabilities			10	10	55	55
Total current borrowings			**5 966**	**5 991**	**1 513**	**1 513**
Closing balance, Dec. 31			**20 381**	**20 822**	**25 148**	**25 938**

The difference between carrying value and fair value relates to the measurement method as certain liabilities are reported at amortized cost and not at fair value. Changes in interest rates and credit margins create the difference between fair value and amortized cost. See additional information about the Group's exposure to interest rate risk and foreign currency risk in note 27.

During 2018 Atlas Copco AB has reduced its external borrowings. In March the MEUR 275 EIB loan was repurchased, in April the outstanding MUSD 142.5 of the MUSD 150 public bond was repurchased, and in June MEUR 100 of the MEUR 300 EIB loan was repaid as this part of the loan was related to the mining business which now is Epiroc.

Atlas Copco has a long-term debt rating of A+ (A) from Standard & Poor's Corporation and A+ (A) from Fitch Ratings. Other than standard undertakings such as negative pledge and pari passu, interest-bearing loans, borrowings and committed credit lines are not subject to any financial covenants.

The Group's back-up facilities are specified in the table below.

Back-up facilities	Nominal amount	Maturity	Utilized
Commercial papers [1, 2]	MSEK 10 116	–	–
Credit-line	MEUR 640	2020	–
Credit-line	MEUR 800	2021	–
Equivalent in SEK	**MSEK 24 932**		**–**

1) Interest is based on market conditions at the time when the facility is utilized. Maturity is set when the facility is utilized.
2) The maximum amounts available under these programs total MEUR 400 and MSEK 6 000 corresponding to a total of MSEK 10 116 (9 936).

The Group's short-term and long-term borrowings are distributed among the currencies detailed in the table below.

Currency	2018 Local currency (millions)	2018 MSEK	2018 %	2017 Local currency (millions)	2017 MSEK	2017 %
EUR	1 912	19 677	96	2 305	22 679	91
SEK	–	–	–	26	26	0
USD	12	108	1	164	1 348	5
Other	–	596	3	–	1 095	4
Total		**20 381**	**100**		**25 148**	**100**

The following table shows the maturity structure of the Group's borrowings and includes the effect of interest rate swaps.

Maturity	Fixed	Floating [1]	Carrying amount	Fair value
2019	5 145	821	5 966	5 991
2020	–	12	12	12
2021	–	3	3	3
2022	–	2 059	2 059	2 078
2023	5 130	–	5 130	5 604
2024	–	2 058	2 058	2 120
2025	–	–	–	–
2026	5 137	–	5 137	4 997
2027 and after	–	16	16	17
Total	**15 412**	**4 969**	**20 381**	**20 822**

1) Floating interest in the table is borrowings with fixings shorter or equal to six months.

21. Borrowings, continued

2018 Reconciliation of liabilities from financing activities	Opening balance, Jan. 1	Discontinued operations	Cash changes: Financing cash flows	Non cash changes: New leases	Acquired/ divested companies	Fair value change through P/L	Fair value change through equity	FX change	Reclassi-fication	Closing balance, Dec. 31
Non-current										
Non-current bonds and loans	23 558	–19	–5 020	–	17	5	797	214	–5 160	14 392
Financial lease liabilities	76	–62	–16	5	10	–	–	–	–3	10
Other financial liabilities	1	0	–1	–	–	13	–	0	0	13
Total non-current	**23 635**	**–81**	**–5 037**	**5**	**27**	**18**	**797**	**214**	**–5 163**	**14 415**
Current										
Current portion of long term borrowings	6	–1	– 14	–	0	–	–	1	5 162	5 154
Short term loans	1 281	–659	148	–	11	– 2	–	24	–1	802
Financial lease liability	55	–41	– 18	9	5	–	–	2	–2	10
Total current	**1 342**	**–701**	**116**	**9**	**16**	**–2**	**–**	**27**	**5 159**	**5 966**
Total	**24 977**	**–782**	**–4 921**	**14**	**43**	**16**	**797**	**241**	**–4**	**20 381**

2017 Reconciliation of liabilities from financing activities	Opening balance, Jan. 1	Discontinued operations	Cash changes: Financing cash flows	Non cash changes: New leases	Acquired/ divested companies	Fair value change through P/L	Fair value change through equity	FX change	Reclassi-fication	Closing balance, Dec. 31
Non-current										
Non-current bonds and loans	23 048	–	–4	–	4	5	492	15	–2	23 558
Financial lease liabilities	100	–	–40	30	–	–	–	–7	–7	76
Other financial liabilities	–	–	–1	–	2	–	–	–	–	1
Total non-current	**23 148**	**–**	**–45**	**30**	**6**	**5**	**492**	**8**	**–9**	**23 635**
Current										
Current portion of long term borrowings	43	–	–34	–	–	–	–	–5	2	6
Short term loans	1 461	–	–137	–	32	–8	–	–67	–	1 281
Financial lease liability	70	–	–44	26	–	–	–	–4	7	55
Total current	**1 574**	**–**	**–215**	**26**	**32**	**–8**	**–**	**–76**	**9**	**1 342**
Total	**24 722**	**–**	**–260**	**56**	**38**	**–3**	**492**	**–68**	**0**	**24 977**

Cash flow from financing activities also includes net "Settlement of CSA" (Credit Support Annex) of MSEK –181 (972) which is not included in the table above. In December 2018, the financial liability related to CSA amounted to MSEK 0 (171).

22. Leases

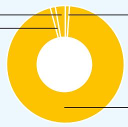
Operating leases – lessee

The leasing costs of assets under operating leases amounted to 1 190 (1 038), and are derived primarily from rented premises, machinery, computer and office equipment. Operating leasing contracts for office and factory facilities typically run for a period of 10 to 15 years. For a limited number of operating leasing contracts, purchase and renewal options exist for machinery and renewal options exist for premises. The total leasing cost includes minimum lease payments of 1 188 (1 007), contingent rent of 17 (33), and sublease payments received of –15 (–2). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2018	2017
Less than one year	1 078	718
Between one and five years	2 131	1 494
More than five years	263	274
Total	**3 472**	**2 486**

The total of future minimum sublease payments expected to be received was –34 (–55).

Leasing cost under operating leases – Lessee



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:

	2018	2017
Less than one year	79	83
Between one and five years	89	42
More than five years	10	4
Total	**178**	**129**

Contingent rent recognized as income amounted to 6 (23).

Finance leases – lessee

Assets utilized under finance leases	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1, 2018	55	5
Carrying amounts, Dec. 31, 2018	31	2
Carrying amounts, Jan. 1, 2017	132	72
Carrying amounts, Dec. 31, 2017	55	5

Assets utilized under finance leases are comprised primarily of vehicles. For a limited number of finance leasing contracts, both purchase and renewal options exist.

Future payments for assets held under finance leases as lessee will fall due as follows:

	2018			2017		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	11	1	10	60	5	55
Between one and five years	11	1	10	78	6	72
More than five years	–	–	–	5	1	4
Total	**22**	**2**	**20**	**143**	**12**	**131**

Finance lease – Lessor

Finance lease receivables amounts to 4 (906). The 2017 balance was almost exclusively related to the Customer Finance business in discontinued operations.

23. Employee benefits

Post-employment benefits

Atlas Copco provides post-employment defined benefits pensions and other long-term employee benefits in most of its major locations. The most significant countries in terms of size of plans are Belgium, Canada, Germany, Sweden, the United Kingdom and the United States. Some plans are funded in advance with certain assets or funds held separately from the Group for future benefit payment obligations. Other plans are unfunded and the benefits from those plans are paid by the Group as they fall due.

The plans in Belgium cover early retirement, jubilee, and termination indemnity and are all 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. The plans are funded.

There are three defined benefit pension plans in Sweden. The ITP plan is a final salary pension plan covering the majority of white-collar employees in Sweden. Atlas Copco finances the benefits through a pension foundation. The second plan relates to a group of employees earning more than ten income base amounts that has opted out from the ITP plan. This plan is insured. The third defined benefit pension plan relates to former senior employees now retired. In Sweden, in addition to benefits relating to retirement pensions, Atlas Copco has obligations for family pensions for many of the Swedish employees, which are funded through a third-party insurer, Alecta. This plan is accounted for as a defined contribution plan as sufficient information is not available for calculating the net pension obligation.

In the United Kingdom, there is a final salary pension plan. This plan is funded. In 2010, the plan was converted to a defined contribution plan for future services.

In the United States, Atlas Copco provides a pension plan, a post-retirement medical plan, and a number of supplemental retirement pension benefits for executives. The pension plan is funded while the other plans are unfunded.

The Group identifies a number of risks in investments of pension plan assets. The main risks are interest rate risk, market risk, counterparty risk, liquidity and inflation risk, and currency risk. The Group is working on a regular basis to handle the risks and has a long-term investment horizon. The investment portfolio should be diversified, which means that multiple asset classes, markets and issuers should be utilized. An asset liability management assessment should be conducted periodically. The study should include a number of elements. The most important elements are, the duration of the assets and the timing of liabilities, the expected return of the assets, the expected development of liabilities, the forecasted cash flows and the impact of a shift in interest rates on the obligation.

The net obligations for post-employment benefits and other long-term employee benefits have been recorded in the balance sheet as follows:

	2018	2017
Financial assets (note 15)	–535	–588
Post-employment benefits	2 837	3 034
Other provisions (note 25)	84	121
Closing balance, net	**2 386**	**2 567**

The tables below show the Group's obligations for post-employment benefits and other long-term employee benefits, the assumptions used to determine these obligations and the assets relating to these obligations for employee benefits, as well as the amounts recognized in the income statement and the balance sheet. The net amount recognized in balance sheet amounted to 2 386 (2 567). The weighted average duration of the obligation is 14.5 (15.6) years.

Post-employment benefits **2018**	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	**Total**
Present value of defined benefit obligations	9 602	1 199	76	176	11 053
Fair value of plan assets	–8 656	–	–75	–	–8 731
Present value of net obligations	**946**	**1 199**	**1**	**176**	**2 322**
Effect of asset ceiling	42	–	–	–	42
Other long-term service obligations	–	–	22	–	22
Net amount recognized in balance sheet	**988**	**1 199**	**23**	**176**	**2 386**

2017	Funded pension plans	Unfunded pension plan	Other funded plans	Other unfunded plans	**Total**
Present value of defined benefit obligations	9 011	3 006	91	227	12 335
Fair value of plan assets	–9 696	–	–90	–	–9 786
Present value of net obligations	**–685**	**3 006**	**1**	**227**	**2 549**
Other long-term service obligations	–	–	18	–	18
Net amount recognized in balance sheet	**–685**	**3 006**	**19**	**227**	**2 567**

23. Employee benefits, continued

Plan assets consist of the following:	2018 Quoted market price	2018 Unquoted market price	2018 Total	2017
Debt instruments	3 844	–	3 844	4 177
Equity instruments	584	–	584	1 078
Property	334	298	632	944
Assets held by insurance companies	243	695	938	942
Cash	718	–	718	1 070
Investment funds	1 442	–	1 442	1 257
Derivatives	–18	–	–18	3
Others	591	–	591	315
Closing balance, Dec 31	**7 738**	**993**	**8 731**	**9 786**

Movement in plan assets	2018	2017
Fair value of plan assets at Jan 1	9 786	8 911
Discontinued operations	– 1 149	–
Interest income	208	240
Remeasurement – return on plan assets	–355	269
Settlements	–50	–217
Employer contributions	188	1 088
Plan members contributions	22	27
Administrative expenses	–14	–17
Benefit paid by the plan	–352	–393
Reclassifications	138	–21
Translation differences	309	–101
Fair value of plan assets, Dec 31	**8 731**	**9 786**

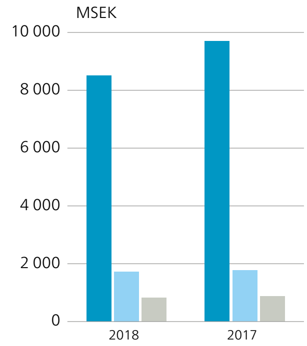
The plan assets are allocated among the following geographic areas:	2018	2017
Europe	6 709	7 708
North America	1 506	1 552
Rest of the world	516	526
Total	**8 731**	**9 786**

Asset ceiling	2018	2017
Asset ceiling at Jan. 1	–	–
Remeasurements – asset ceiling	41	–
Translation difference	1	–
Asset ceiling, Dec. 31	**42**	**–**

Movement in present value of the obligations for defined benefits	2018	2017
Defined benefit obligations at Jan. 1	12 335	12 445
Discontinued operations	–1 338	–
Current service cost	345	421
Past service cost	41	–60
Gain/loss on settlement	–	–2
Interest expense (+)	248	294
Actuarial gains (–)/ losses (+) arising from experience adjustments	29	81
Actuarial gains (–)/ losses (+) arising from financial assumptions	–407	194
Actuarial gains (–)/ losses (+) arising from demographic assumptions	–165	–110
Settlements	–51	–217
Benefits paid from plan or company assets	–586	–637
Reclassifications	165	10
Translation differences	437	–84
Defined benefit obligations, Dec. 31	**11 053**	**12 335**

For continuing operations remeasurements recognized in other comprehensive income amounts to –149 (–55) and 2 (8) in profit and loss. The Group expects to pay 304 (349) in contributions to defined benefit plans in 2019.

The defined benefit obligations for employee benefits are comprised of plans in the following geographic areas:



Expenses recognized in the income statement	2018	2017
Current service cost	345	360
Past service cost	41	–42
Gain/ loss on settlements	–	–2
Net interest cost	40	50
Employee contribution/ participant contribution	–23	–26
Remeasurement of other long-term benefits	2	8
Administrative expenses	13	16
Total	**418**	**364**

The total benefit expense for defined benefit plans amounted to 418 (364), whereof 379 (314) has been charged to operating expenses and 40 (50) to financial expenses. Expenses related to defined contribution plans amounted to 743 (651).

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages in %)	2018	2017
Discount rate		
Europe	2.24	1.99
North America	3.28	2.99
Future salary increases		
Europe	1.69	1.77
North America	1.34	1.71
Medical cost trend rate		
North America	7.01	6.81

The Group has identified discount rate, future salary increases, and mortality as the primary actuarial assumptions for determining defined benefit obligations. Changes in those actuarial assumptions affect the present value of the net obligation. The discount rate is determined by reference to market yields at the balance sheet date using, if available, high quality corporate bonds (AAA or AA) matching the duration of the pension obligations. In countries where corporate bonds are not available, government bonds are used to determine the discount rate. In Sweden in line with prior years, mortgage bonds are used for determining the discount rate.

Atlas Copco's mortality assumptions are set by country, based on the most recent mortality studies that are available. Where possible, generational mortality assumptions are used, meaning that they include expected improvements in life expectancy over time.

The table below shows the sensitivity analysis for discount rate and increase in life expectancy and describes the potential effect on the present value of the defined pension obligation.

Sensitivity analysis	Europe	North America
Change in discount rate + 0.50%	–634	–78
Change in discount rate – 0.50%	717	93
Increase in life expectancy, +1 year	186	6

23. Employee benefits, continued

Share value based incentive programs

In 2014–2017, the Annual General Meeting decided on performance-based personnel stock option programs based on a proposal from the Board on an option program for the respective years. In 2018, the Annual General Meeting decided on a performance based personnel stock option program for 2018 similar to the 2014–2017 programs.

Option programs 2014–2018

At the Annual General Meeting 2014–2018 respectively, it was decided to implement performance related personnel stock option programs. The decision to grant options was made in April each year and the options were issued in March the following year (issue date). The number of options issued each program year depended on the value creation in the Group, measured as Economic Value Added (EVA), for the respective program year. For the 2018 option program, the number of options varies on a linear basis within a preset EVA interval. The size of the plan and the limits of the interval have been established by the Board and have been approved by the Annual General Meeting and are compatible with the long-term business plan of the Group.

In connection to the issue, the exercise price was calculated as 110% of the average trading price for series A shares during a ten-day period following the date of the publishing of the fourth quarter report. The options were issued without compensation paid by the employee and the options remain the property of the employee only to the extent that they are exercisable at the time employment is terminated. The 2014–2015 programs have a term of five years from the grant date whereas the 2016–2018 programs have a term of seven years. The options in the 2014–2018 programs are not transferable and become exercisable at 100% three years after grant.

The 2014–2018 programs include a requirement for senior executives (31 in total) to purchase Atlas Copco A shares for 10% of their gross base salary in order to be granted options. A lower amount of investment will reduce the number of options proportionately. Further, senior executives who have invested in Atlas Copco A shares will have the option to purchase one matching share per each share purchased at a price equal to 75% of the average trading price for series A shares during a ten day period following the date of the publishing of the fourth quarter report. This right applies from three years after grant until the expiration of the stock option program.

The Board had the right to decide to implement an alternative incentive solution (SARs) for key persons in such countries where the grant of personnel options was not feasible.

In the 2014–2018 programs, the options may, on request by an optionee in Sweden, be settled by the Company paying cash equal to the excess of the closing price of the shares over the exercise price on the exercise day, less any administrative fees. Due to this choice of settlement by the Swedish employees, these options are classified for accounting purposes as cash-settled in accordance with IFRS 2.

The Black-Scholes model is used to calculate the fair value of the options/SARs in the programs at issue date. For the programs in 2017 and 2018, the fair value of the options/SARs was based on the following assumptions:

Financial income and expenses	2018 Program (Dec. 31, 2018)	2017 Program (at issue date)
Expected exercise price	SEK 228/156 [1]	SEK 390/266 [1) 2)]
Expected volatility	30%	30%
Expected options life (years)	4.6	4.4
Expected share price	SEK 207.60	SEK 356.70
Expected dividend (growth)	SEK 7.0 (6%)	SEK 7.0 (6%)
Risk free interest rate	1.0%	1.0%
Expected average grant value	SEK 27.80/49.40	SEK 64.20/108.40
Maximum number of options	2 915 027 [3]	2 814 434
– of which forfeited	49 585	127 375
Number of matching shares	41 616	27 044

1) Matching shares for senior executives. 2) Actual.
3) Adjusted for the effect of the distribution of Epiroc.

The expected volatility has been determined by analyzing the historic development of the Atlas Copco A share price as well as other shares on the stock market.

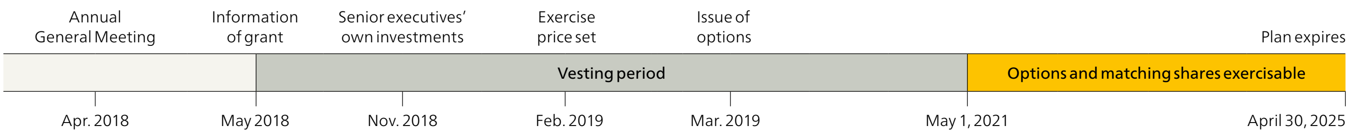
When determining the expected option life, assumptions have been made regarding the expected exercising behavior of different categories of optionees.

For the stock options in the 2014–2018 programs, the fair value is recognized as an expense over the following vesting periods:

Program	Vesting period		Exercise period	
Stock options	From	To	From	To
2014	May 2014	April 2017	May 2017	April 2019
2015	May 2015	April 2018	May 2018	April 2020
2016	May 2016	April 2019	May 2019	April 2023
2017	May 2017	April 2020	May 2020	April 2024
2018	May 2018	April 2021	May 2021	April 2025

For the 2018 program, a new valuation of the fair value has been made and will be made at each reporting date until the issue date.

Timeline 2018 option plan



23. Employee benefits, continued

For SARs and the options classified as cash-settled, the fair value is recognized as an expense over the same vesting period; the fair value is, however, remeasured at each reporting date and changes in the fair value after the end of the vesting period continue to be recognized as a personnel expense.

In accordance with IFRS 2, the expense in 2018 for all share-based incentive programs, including discontinued operations but excluding social costs, amounted to 73 (503) of which 101 (143) 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 120 (417). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2014–2018, see also note 20.

Summary of share value based incentive programs

Program	Initial number of employees	Initial number of options	Additional number of options, redemption 2018	Additional number of options, distribution of Epiroc 2018	Expiration date	Exercise price, SEK	Type of share	Fair value on grant date	Intrinsic value for vested SARs
Stock options									
2012	248	3 522 144	–	–	Apr. 30, 17	195.32	A	28.30	–
2013	250	–	–	–	N/a	N/a	N/a	N/a	–
2014	263	3 751 402	86 427	1 262 785	Apr. 30, 19	199.66	A	52.90	–
2015	254	2 522 760	58 052	849 237	Apr. 30, 20	144.14	A	33.90	–
2016	256	5 353 473	123 436	1 802 322	Apr. 30, 23	230.18	A	66.70	–
2017	262	2 240 632	51 655	754 245	Apr. 30, 24	286.81	A	64.20	–
Matching shares									
2012	28	43 286	–	–	Apr. 30, 17	132.82	A	52.30	–
2013	28	44 704	–	–	Apr. 30, 18	128.91	A	58.00	–
2014	28	39 191	892	13 176	Apr. 30, 19	136.46	A	96.30	–
2015	29	38 531	873	12 953	Apr. 30, 20	98.54	A	63.20	–
2016	27	30 209	685	10 154	Apr. 30, 23	157.38	A	106.20	–
2017	34	27 044	611	9 088	Apr. 30, 24	195.62	A	108.40	–
Share appreciation rights									
2012	56	720 806	–	–	Apr. 30, 17	195.32	A	–	15.18
2013	58	–	–	–	N/a	N/a	N/a	N/a	–
2014	59	745 866	17 176	251 065	Apr. 30, 19	199.66	A	–	10.84
2015	64	550 225	12 652	185 219	Apr. 30, 20	144.14	A	–	66.36
2016	64	1 166 828	26 894	392 828	Apr. 30, 23	230.18	A	–	–
2017	61	446 427	10 291	150 276	Apr. 30, 24	286.81	A	–	–

Number of options/rights 2018

Program	Outstanding Jan. 1	Additional number of options, redemption and distribution of Epiroc	Options distributed to Epiroc	Exercised	Expired/ forfeited	Outstanding Dec. 31	*–of which exercisable*	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options									
2014[1]	1 468 053	339 038	194 755	420 840	–	1 191 496	*1 191 496*	4	339
2015[2]	2 361 644	433 820	324 053	1 022 873	25 118	1 423 420	*1 423 420*	16	338
2016[3]	5 265 388	1 470 778	1 211 745	–	169 889	5 354 532	–	28	–
2017[4]	2 240 632	635 207	511 402	–	36 692	2 327 745	–	40	–
Matching shares									
2013	14 081	–	–	14 081	–	0	–	–	325
2014	23 704	4 456	787	12 141	–	15 232	*15 232*	4	341
2015	33 013	7 558	2 163	13 998	–	24 410	*24 410*	16	308
2016	30 209	9 941	2 731	–	1 202	36 217	–	28	–
2017	27 044	7 828	5 694	–	950	28 228	–	40	–
Share appreciation rights									
2014	360 672	69 188	88 949	153 609	–	187 302	*187 302*	–	324
2015	533 607	111 036	77 145	207 451	–	360 047	*360 047*	16	306
2016	1 149 211	329 254	218 378	–	83 548	1 176 539	–	28	–
2017	446 427	121 629	103 102	–	34 150	430 804	–	40	–

All numbers have been adjusted for the effect of the distribution of Epiroc and the redemptions in 2015 and 2018 in line with the method used by Nasdaq Stockholm to adjust exchange-traded options contracts.

[1] Of which 302 315 have been accounted for as cash settled.
[2] Of which 267 151 have been accounted for as cash settled.
[3] Of which 1 338 642 have been accounted for as cash settled.
[4] Of which 447 311 have been accounted for as cash settled.

23. Employee benefits, continued

Number of options/rights 2017 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								
2012	1 199 518	–	1 199 518	–	–	–	–	299
2014	3 484 737	–	1 901 762	114 922	1 468 053	*1 468 053*	16	345
2015	2 497 204	–	–	135 560	2 361 644	–	28	–
2016	5 353 473	–	–	88 085	5 265 388	–	40	–
2017	–	2 240 632	–	–	2 240 632	–	52	–
Matching shares								
2012	20 441	–	20 441	–	–	–	–	298
2013	29 681	–	15 600	–	14 081	*14 081*	4	319
2014	33 412	–	7 240	2 468	23 704	*23 704*	16	342
2015	37 297	–	–	4 284	33 013	–	28	–
2016	30 209	–	–	–	30 209	–	40	–
2017	–	27 044	–	–	27 044	–	52	–
Share appreciation rights								
2012	147 351	–	147 054	297	–	–	–	299
2014	733 445	–	372 773	–	360 672	*360 672*	16	342
2015	541 916	–	–	8 309	533 607	–	28	–
2016	1 166 828	–	–	17 617	1 149 211	–	40	–
2017	–	446 427	–	–	446 427	–	52	–

All numbers have been adjusted for the effect of the distribution of Epiroc and the redemptions in 2015 and 2018 in line with the method used by Nasdaq Stockholm to adjust exchange-traded options contracts.

24. Other liabilities

Fair value of other liabilities corresponds to carrying value.

Other current liabilities	2018	2017
Derivatives		
– at fair value through profit and loss	24	179
– at fair value through OCI	8	–
Other financial liabilities		
– other liabilities	2 028	2 963
– accrued expenses	6 826	8 134
Prepaid income other	27	38
Contract liabilities		
– Advances from customers	2 734	3 427
– Deferred revenues construction contracts	477	311
– Deferred revenues service contracts	1 535	1 350
Closing balance, Dec 31	**13 659**	**16 402**

Accrued expenses include items such as social costs, vacation pay liability, accrued interest, and accrued operational expenses.

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

For continuing operations, the amounts included in contract liabilities at the beginning of the year have been recognized as revenue during the year except for 467 (470). The main reason for revenues not recognized during the year is that they are related to performance obligations that will be performed in future periods.

As of end of 2018 transaction price allocated to remaining performance obligations is 11 283 and the majority will be recognized as revenue over the next 3 years. The transaction price does not include consideration that is constrained.

25. Provisions

2018	Product warranty	Restruc-turing	Other	Total
Opening balance, Jan. 1	1 280	438	1 655	3 373
Discontinued operations	–201	–54	–294	–549
During the year				
– provisions made	788	55	457	1 300
– provisions used	–674	–169	–521	–1 364
– provisions reversed	–164	–13	–153	–330
Discounting effect	–	–	–1	–1
Business acquisitions	3	–	–	3
Reclassification	–	1	–1	–
Translation differences	54	15	11	80
Closing balance, Dec. 31	**1 086**	**273**	**1 153**	**2 512**
Non-current	180	25	705	910
Current	906	248	448	1 602
Total	**1 086**	**273**	**1 153**	**2 512**

2017	Product warranty	Restruc-turing	Other	Total
Opening balance, Jan. 1	1 359	480	1 397	3 236
During the year				
– provisions made	862	142	1 190	2 194
– provisions used	–776	–151	–687	–1 614
– provisions reversed	–135	–41	–215	–391
Business acquisitions	2	–	6	8
Reclassification	–3	1	3	1
Translation differences	–29	7	–39	–61
Closing balance, Dec. 31	**1 280**	**438**	**1 655**	**3 373**
Non-current	185	65	1 097	1 347
Current	1 095	373	558	2 026
Total	**1 280**	**438**	**1 655**	**3 373**

Maturity 2018	Product warranty	Restruc-turing	Other	Total
Less than one year	906	248	448	1 602
Between one and five years	173	14	500	687
More than five years	7	11	205	223
Total	**1 086**	**273**	**1 153**	**2 512**

Other provisions consist primarily of amounts related to share-based payments including social fees, other long-term employee benefits (see note 23), and environmental remediation obligations.

26. Assets pledged and contingent liabilities

Assets pledged for debts to credit institutions and other commitments	2018	2017
Inventory and property, plant and equipment	74	46
Endowment insurances	164	146
Other receivables	62	52
Total	**300**	**244**

Contingent liabilities	2018	2017
Notes discounted	3	13
Sureties and other contingent liabilities	389	223
Total	**392**	**236**

Sureties and other contingent liabilities relate primarily to pension commitments and commitments related to customer claims and various legal matters.

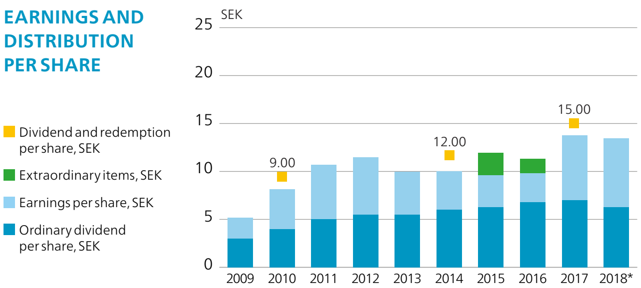
27. Financial exposure and principles for control of financial risks

Capital management

Atlas Copco defines capital as borrowings and equity, which at December 31 totaled MSEK 62 853 (85 749). The Group's policy is to have a capital structure to maintain investor, creditor and market confidence and to support future development of the business. The Board's decision is that the annual dividend shall correspond to about 50% of earnings per share. In recent years, the Board has also proposed, and the Annual General Meeting has approved, distributions of "excess" equity to the shareholders through share redemptions and share repurchases.

There are no external capital requirements imposed on the Group.

EARNINGS AND DISTRIBUTION PER SHARE



* Proposed by the Board of Directors and the first year after the distribution of Epiroc AB, continuing operations.

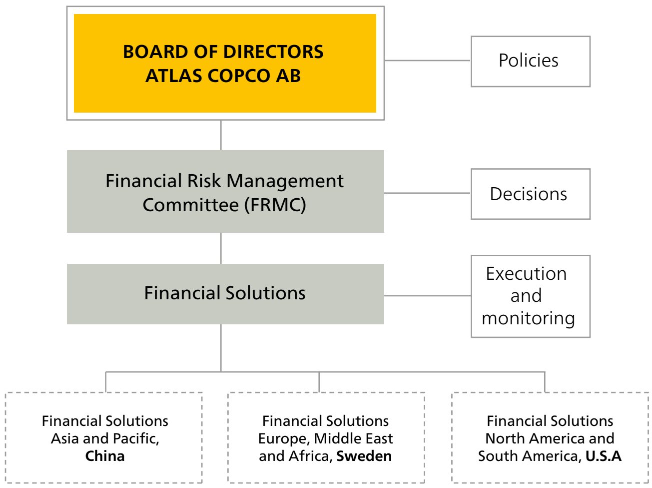
Financial risks

The Group is exposed to various financial risks in its operations. These financial risks include:

- Funding and liquidity risk
- Currency risk
- Other market and price risks
- Interest rate risk
- Credit risk

The Board of Directors establishes the overall financial policies and monitors compliance to the policies. The Group's Financial Risk Management Committee (FRMC) manages the Group's financial risks within the mandate given by the Board of Directors. The members of the FRMC are the CEO, CFO, Group Treasurer, and Head of Business Control, Financial Solutions. The FRMC meets on a quarterly basis or more often if circumstances require.

Financial Solutions has the operational responsibility for financial risk management in the Group. Financial Solutions manages and controls financial risk exposures, ensures that appropriate financing is in place through loans and committed credit facilities, and manages the Group's liquidity.



Funding and liquidity risk

Funding risk is the risk that the Group does not have access to adequate financing on acceptable terms at any given point in time. Liquidity risk is the risk that the Group does not have access to its funds, when needed, due to poor market liquidity.

27. Financial exposure and principles for control of financial risks, continued

Group funding risk policy

The Group's funding risk policy refers to Atlas Copco AB and Atlas Copco Airpower n.v. as external borrowings mainly are held in these entities.

- The Group should maintain minimum MSEK 8 000 committed credit facilities to meet operational, strategic and rating objectives. Actual amount at year-end was MEUR 1 440 (1 440) which corresponds to MSEK 14 816 (14 170).
- The average tenor (i.e. time to maturity) of the Group's external debt shall be at least 3 years. Actual average tenor at year-end was 4.3 years (4.7).
- No more than MSEK 8 000 of the Group's external debt may mature within the next 12 months. In 2019 MSEK 5 145 is maturing (0).
- Adequate funding at subsidiary level shall at all times be in place.

Status at year-end

As per December 31, there were no deviations from the Group funding risk policy. Cash and cash equivalents amounted to MSEK16 414 (24 496). The overall liquidity of the Group is strong considering the maturity profile of the external borrowings, the balance of cash and cash equivalent as of year-end, and available back-up credit facilities from banks. Please refer to note 21 for information on utilized borrowings, maturity, and back-up facilities.

The following table shows maturity structure of the Group's financial liabilities. The figures shown are contractual undiscounted cash flows based on contracted date, when the Group is liable to pay, including both interest and nominal amounts. The short-term assets are well matched with the short-term liabilities in terms of maturity. Furthermore, the Group has back-up facilities of MSEK 14 816 with maturity 2020 and 2021 to secure liquidity.

Financial instruments	Up to 1 year	1–3 years	4–5 years	Over 5 years
Liabilities				
Liabilities to credit institutions	312	375	7 547	7 307
Other financial liabilities	–	4	5	4
Other liabilities	–	68	68	–
Non-current financial liabilities	**312**	**447**	**7 620**	**7 311**
Liabilities to credit institutions	817	–	–	–
Current portion of interest-bearing liabilities	5 154	–	–	–
Derivatives	32	–	–	–
Other accrued expenses	6 826	–	–	–
Trade payables	12 529	–	–	–
Other liabilities	2 028	–	–	–
Current financial liabilities	**27 386**	**–**	**–**	**–**
Financial liabilities	**27 698**	**447**	**7 620**	**7 311**

Derivatives classified as assets at fair value through OCI amounted to MSEK 0 (25) and derivatives classified as liabilities at fair value through OCI amounted to MSEK 8 (89). Other derivatives are classified as fair value through profit or loss.

Interest rate risk

Interest rate risk is the risk that the Group is negatively affected by changes in the interest rate levels.

Group interest rate risk policy

The interest rate risk policy states that the average duration (i.e. period for which interest rates are fixed) should be a minimum of 6 months and a maximum of 48 months.

Status at year-end

The Group uses interest rate swap agreements to a limited extent to convert interest on loans. In March 2018, the Group made an early repayment of the MEUR 275 EIB loan. At the same time, three interest rate swaps that used to hedge the loan were closed to a cost of MSEK –72, booked in profit or loss. As per December 31, there were no interest rate swaps in the Group. For more information about the Group's borrowings, see note 21.

Including the effect of derivatives, the effective interest rate and interest duration of the Group's borrowings at year-end was 1.6% (2.0) and 38 months (41) respectively. Excluding derivatives, the Group's effective interest rate was 1.6% (1.7) and the average interest duration was 38 months (39).

Outstanding derivative instruments related to interest rate risk	2018 Fair value	2018 Nominal amount	2017 Fair value	2017 Nominal amount
Interest rate swaps, cash flow hedge				
Assets	–	–	–	–
Liabilities	–	–	MSEK 89	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. 76% (74) of the Groups loan portfolio have fixed interest rates. The interest costs for these loans are not affected by a movement in market interest rates. The simulation is based on the assumption that interest on loans cannot be negative. For all the interest rate swaps, cash flow hedge accounting is applied with no impact on earnings as changes in fair value affect other comprehensive income.

The second table shows the fair value effect on loans and interest rate swaps reported at fair value. All loans as of December 31, 2018 are reported at amortized cost and are therefore not affected by changes in interest rate levels.

Interest sensitivity, earnings	2018 Earnings impact	2017 Earnings impact
Market interest rate +1%	–41	–49
Market interest rate –1%	10	10

Interest sensitivity, fair value	2018 Earnings impact	2018 OCI	2017 Earnings impact	2017 OCI
Market interest rate +1%	–	–	–	41
Market interest rate –1%	–	–	–	–42

27. Financial exposure and principles for control of financial risks, continued

Currency risk

The Group is present in various geographical markets and undertakes transactions denominated in foreign currencies and is consequently exposed to exchange rate fluctuations. This affects both transaction exposure (cash flow) and translation exposure (balance sheet). These two exposures are explained separately below.

Transaction exposure

Group currency risk policy

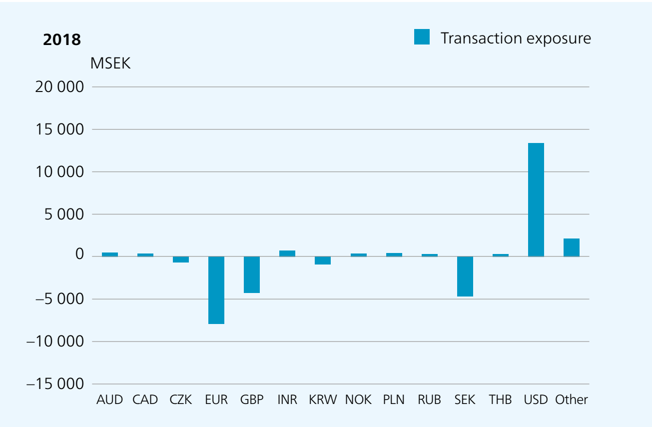
Transaction exposure risk is the risk that profitability is negatively affected by changes in exchange rates, affecting cash flows in foreign currencies in the operations. Due to the Group's presence in various markets, there are inflows and outflows in different currencies. As a normal part of business, net surpluses or deficits in specific currencies merge. The values of these net positions fluctuate subject to changes in currency rates and, thus, render transaction exposure. The following describes the Group's general policies for managing transaction exposure:

- Exposures shall be reduced by matching in and outflows of the same currencies.
- Business area and divisional management are responsible for maintaining readiness to adjust their operations (price and cost) to compensate for adverse currency movements.
- Based on the assumption that hedging does not have any significant effect on the Group's long-term result, the policy recommends to leave transaction exposures unhedged on an ongoing basis. In general, business areas and divisions shall not hedge currency risks. Hedging can, however, be motivated in case of long-term contracts where there is no possibility to adjust the contract price or the associated costs. Financial transaction exposure is fully hedged.
- The FRMC decides if parts of the transaction exposure shall be hedged. Transactions shall qualify for hedge accounting in accordance with IFRS and hedging beyond 18 months is not allowed.

Status at year end

The Group has continued to manage transaction exposures primarily by matching in- and outflows in the same currencies. A part of the transaction exposure has after FRMC decision been hedged with derivative instruments. The net nominal amounts of the derivative instruments are shown in the table.

GRAPH 1 Estimated operational transaction exposure in the Group's most important currencies 2018



Outstanding derivative instruments related to transaction exposure	2018 Nominal amount, net in transaction currency	2017 Nominal amount, net in transaction currency
Foreign exchange forwards		
AUD	–	–6
EUR	2	9
GBP	88	46
JPY	20	–
NOK	–18	–25
SEK	–	39
USD	–113	–65

Out of the net nominal amounts in the table the largest cross is GBP/USD and with nominal amounts of MGBP 88/MUSD –113. Out of the outstanding amounts, 100% is maturing within one year. No hedging beyond 18 months is in place.

In the table below, fair value for all outstanding derivative instruments related to transaction exposure is shown.

Outstanding derivative instruments related to transaction exposure	2018 Fair value	2017 Fair value
Foreign exchange forwards		
Assets	1	35
Liabilities	8	0

The largest operational surplus and deficit currencies are shown in Graph 1. The amounts presented in Graph 1 represent estimates of the Group's net exchangeable amounts in different currencies. Estimates are based on the Group's intercompany payments and on payment flows from customers and to suppliers in the most significant currencies. The operational transaction exposure in MSEK is –4 670 (–11 794) and is calculated as the net operational cash flow exposure.

The following table indicates the effect on the Group's pretax earnings, of a five percentage points weakening or strengthening of the SEK against all other currencies based on the transaction exposure.

Transaction exposure sensitivity	2018	2017 [1]
SEK exchange rate +5%	–234	–
SEK exchange rate –5%	234	–

[1] The exposure has changed significantly since the split of Epiroc, therefore there are no adequate comparison figures for 2017.

The table below indicates the effect on the Group's pretax earnings that one-sided fluctuations in USD and EUR exchange rates may have. The indication is based on the assumptions that no hedging transactions have been undertaken, and before any impact of offsetting price adjustments or similar measures. The sensitivity analysis is based on the operational transaction exposure for 2018.

Transaction exposure sensitivity	2018	2017
USD Currency rate +1%	134	142
USD Currency rate –1%	–134	–142
EUR Currency rate +1%	–79	–117
EUR Currency rate –1%	79	117

27. Financial exposure and principles for control of financial risks, continued

Translation exposure

Group currency risk policy

Translation exposure risk is the risk that the value of the Group's net investments in foreign currencies is negatively affected by changes in exchange rates. The Group's worldwide presence creates a currency effect since the financial statements of entities with functional currencies other than SEK are translated to SEK when preparing the consolidated financial statements. The net exposure in each currency represents the net of assets and liabilities denominated in that currency. The effect of currency rate fluctuations on these net positions is the translation effect.

The following describes the Group's general policies for managing translation exposure:

- Translation exposure should be reduced by matching assets and liabilities in the same currencies.
- The FRMC may decide to hedge part or all of the remaining translation exposure. Any hedge of translation exposure shall qualify for hedge accounting in accordance with IFRS.

Status at year end

The Group uses loans to reduce the translation exposure on net investments in EUR in the consolidated financial statements and to reduce the exchange rate risk related to net assets in subsidiaries. These instruments are designated as net investment hedges in the consolidated financial statements.

The financial instruments shown in the table below are used to hedge EUR-denominated net assets.

Outstanding financial instruments related to translation exposure	2018 Fair value	2018 Nominal amount	2017 Fair value	2017 Nominal amount
External loans				
Loans in EUR [1]	MSEK –2 488	MEUR 1 700	MSEK –2 602	MEUR 1 775

[1] In the balance sheet, loans designated as net investment hedges are reported at amortized cost and not at fair value.

The Group's loan portfolio is also exposed to movement in currency rates. However, the impact on the net income would be limited as a majority of all of the Group´s loans are designated as hedges of net investments and the effect is accounted for in other comprehensive income. Loans not designated as net investment hedges affect net income. These loans are hedged with FX-forward contracts, also affecting net income. The impact of a 1% movement in the EUR/SEK rate would affect other comprehensive income with MSEK 137 (136) (see also note 1, Accounting principles, Financial assets and liabilities).

Graph 2 indicates the Group's sensitivity to currency translation effects when earnings of foreign subsidiaries are translated. The graph indicates for example that the translation effect on the Group's pretax earnings would be –187 (–195) if SEK is strengthened by 1%. A 1% SEK weakening would affect the Group's pretax earnings by 187 (195).

Credit risk

Credit risk can be divided into operational and financial credit risk. These risks are described further in the following sections. The table below shows the total credit risk exposure related to assets classified as financial instruments as per December 31.

Credit risk	2018	2017
Receivables at amortized cost		
– trade receivables	18 998	22 936
– finance lease receivables	4	906
– other financial receivables	130	1 432
– other receivables	2 233	3 166
– contract assets	2 024	1 955
– cash and cash equivalents	16 414	24 496
Financial assets at fair value through OCI	12	34
Financial assets at fair value through profit or loss	97	138
Derivatives	24	466
Total	**39 936**	**55 529**

Operational credit risk

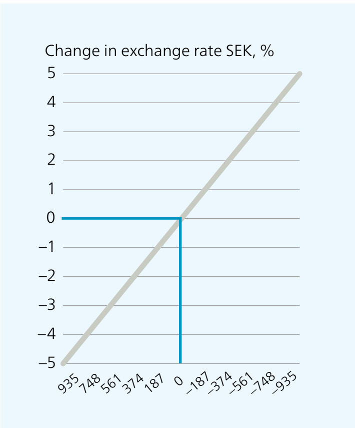
Group credit risk policy

Operational credit risk is the risk that the Group's customers do not meet their payment obligations. The Group's operational credit risk policy is that business areas, divisions and individual business units are responsible for the commercial risks arising from their operations. The operational credit risk is measured as the net aggregate value of receivables on a customer.

Status at year end

Since the Group's sales are dispersed among many customers, of whom no single customer represents a significant share of the Group's commercial risk, the monitoring of commercial credit risks is primarily done at the business area, divisional or business unit level. Each business unit is required to have an approved commercial risk policy.

GRAPH 2
Translation effect on earnings before tax



27. Financial exposure and principles for control of financial risks, continued

Provision for credit risks

The business units establish provisions for their expected credit losses in respect of trade and other receivables. The IFRS 9 expected credit loss (ECL) model is forward looking and a loss allowance is recognized when there is an exposure to credit risk. For assets such as trade receivables, lease receivables, contract assets and certain other financial receivables, the simplified model is applied. The main component of this provision are specific loss provisions corresponding to individually significant exposures as well as historical loss rates in combination with forward looking considerations. Lease receivables, certain other financial receivables and cash and cash equivalents are impaired by a rating method, where ECL is measured by the product of the probability of default, loss given default, and exposure at default. At year-end 2018, the provision for bad debt amounted to 3.6% (4.3) of gross total customer receivables. The following table presents the gross value of trade receivables, both current and non-current, by maturity together with the related impairment provisions.

	2018		2017	
Trade receivables	Gross	Impairment	Gross	Impairment
Not past due	13 904	16	16 264	10
Past due but not individually impaired				
0–30 days	2 569	–	3 776	–
31–60 days	961	–	1 012	–
61–90 days	506	–	542	–
More than 90 days	1 546	–	1 860	–
Past due and individually impaired				
0–30 days	63	1	238	13
31–60 days	22	2	23	5
61–90 days	12	3	7	3
More than 90 days	131	118	222	191
Collective impairment	–	576	–	795
Total	**19 714**	**716**	**23 944**	**1 017**

The total estimated fair value of collateral for trade receivables amounted to 59 (389). The collateral mainly consisted of repossession rights and export credit insurance. Based on historical default statistics and the diversified customer base, the credit risk is assessed to be limited.

The gross amount of finance lease receivables amounted to 11 (954), of which 6 (48) have been impaired, and the gross amount of other financial receivables amounted to 131 (1 520), of which 1 (88) have been impaired.

There are no significant amounts past due that have not been impaired. The total estimated fair value of collateral for finance lease receivables and other finance receivables was 0 (534) and 0 (1 031) respectively, consisting primarily of repossession rights. The finance lease receivables and other financial receivables have changed significantly since the split of the Group. Comparison figures for 2017 include discontinued operations and the connected Customer Finance operation.

Financial credit risk

Group credit risk policy

Credit risk on financial transactions is the risk that the Group incurs losses as a result of non-payment by counterparts related to the Group's investments, bank deposits or derivative transactions. The financial credit risk is measured differently depending on transaction type.

Investment transactions

Efficient cash management systems should be maintained in order to minimize excess cash in operations where it cannot be invested or used to reduce interest-bearing debt. Cash may only be invested if at least one of the credit ratings (as rated by Standard & Poor's, Fitch Ratings or Moody's) of the approved counterpart or underlying investment is A-/A3 or higher in case of financial counterparties and funds, and BBB-/Baa3 or higher in case of non-financial counterparties. Investments in structured financial products are not allowed, unless approved by the FRMC. Furthermore, counterparty exposure, tenor and liquidity of the investment are considered before any investment is made. A list of each approved counterpart and its maximum exposure limit is maintained and monitored.

Derivative transactions

As part of the Group's management of financial risks, the Group enters into derivative transactions with financial counterparts. Such transactions may only be undertaken with approved counterparts for which credit limits are established and with which ISDA (International Swaps and Derivatives Association) master agreements and CSA (Credit Support Annex) agreements are in force. Derivative transactions may only be entered into by Atlas Copco Financial Solutions or in rare cases by another entity, but only with approval from the Group Treasurer. Atlas Copco primarily uses derivatives as hedging instruments and the policy allows only standardized (as opposed to structured) derivatives.

Status at year-end

At year-end 2018, the measured credit risk on derivatives, taking into account the mark-to-market value and collaterals, amounted to MSEK 56 (101).

The table below presents the reported value of the Group's derivatives.

Outstanding derivative instruments related to financial exposures	2018	2017
Interest rate swaps		
Assets	–	–
Liabilities	–	89
Foreign exchange forwards		
Assets	23	431
Liabilities	24	179

Outstanding derivative instruments related to operational exposures	2018	2017
Assets	1	35
Liabilities	8	0

No financial assets or liabilities are offset in the balance sheet. Derivative instruments are subject to master netting agreements and the fair values of derivatives that are not offset in the balance sheet are 24 (466) for assets and 32 (268) for liabilities. The table below shows derivatives covered by master netting agreements.

Outstanding net position for derivative instruments	Gross	Offset in BS	Net in BS	Master netting agreement	Cash collateral	Net position
Assets						
Derivatives	24	–	24	–24	0	0
Liabilities						
Derivatives	32	–	32	–24	–62	–54

The negative net position in liabilities is due to that exchange of security is done on a weekly basis.

27. Financial exposure and principles for control of financial risks, continued

Other market and price risks

Commodity-price risk is the risk that the cost of direct and indirect materials could increase as underlying commodity prices rise in global markets. The Group is directly and indirectly exposed to raw material price fluctuations. Cost increases for raw materials and components often coincide with strong end-customer demand and are compensated for by increased market prices. Therefore, the Group does not hedge commodity-price risks.

Fair value of financial instruments

In Atlas Copco's balance sheet, financial instruments are carried at fair value or at amortized cost. The fair value is established according to a fair value hierarchy. The hierarchy levels should reflect the extent to which fair value is based on observable market data or own assumptions. Below is a description of each level and valuation methods used for each financial instrument.

Level 1

In the Level 1 method, fair value is based on quoted (unadjusted) prices in active markets for identical assets or liabilities. A market is considered as active if quoted prices from an exchange, broker, industry group, pricing service, or supervisory body are readily and regularly available and those prices represent actual and regularly occurring market transactions at arm's length.

Level 2

In the Level 2 method, fair value is based on models that utilize observable data for the asset or liability other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Such observable data may be market interest rates and yield curves.

Level 3

In the Level 3 method, fair value is based on a valuation model, whereby significant input is based on unobservable market data.

Valuation methods

Derivatives

Fair values of forward exchange contracts are calculated based on prevailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows. Discounted cash flow models are used for the valuation.

Interest-bearing liabilities

Fair values are calculated based on market rates and present value of future cash flows.

Finance leases and other financial receivables

Fair values are calculated based on market rates for similar contracts and present value of future cash flows.

The Group's financial instruments by level

The carrying value for the Group's financial instruments corresponds to fair value in all categories except for borrowings . See note 21 for additional information about the Group's borrowings.

The following table includes financial instruments at their fair value and by category.

Financial instruments by fair value hierarchy	Fair value	Level 1	Level 2	Level 3
Financial assets	141	97	44	–
Other receivables	93	–	93	–
Non-current financial assets	**234**	**97**	**137**	–
Trade receivables	18 906	–	18 906	–
Financial assets	102	–	102	–
Other receivables	2 233	–	2 233	–
Derivatives	24	–	24	–
Contract assets	2 024	–	2 024	-
Current financial assets	**23 289**	**–**	**23 289**	–
Financial assets	**23 523**	**97**	**23 426**	–
Borrowings	14 808	10 592	4 216	–
Other financial liabilities	23	–	23	–
Derivatives	–	–	–	–
Other liabilities	136	–	54	82
Non-current financial liabilities	**14 967**	**10 592**	**4 293**	**82**
Borrowings	5 981	5 179	802	–
Derivatives	32	–	32	–
Other accrued expenses	6 826	–	6 826	–
Trade payables	12 529	–	12 529	–
Other liabilities	2 028	–	2 011	17
Current financial liabilities	**27 396**	**5 179**	**22 200**	**17**
Financial liabilities	**42 363**	**15 771**	**26 493**	**99**

In other liabilities, MSEK 99 (69) relate to contingent considerations for acquisitions. The fair value of these liabilities has been calculated based on the expected outcome of the targets set out in the contracts, given a discount rate of 10.5 %. For information about changes due to acquisitions, see note 2.

Reconciliation of financial liabilities in Level 3 (MSEK)	Opening balance	Business acquisitions	Settlement	Interest	Remeasurement	Translation	Closing balance	Profit/loss related to liabilities included in closing balance
Deferred considerations 2018	69	53	–27	7	–6	3	**99**	–1

Currency rates used in the financial statements	Value	Code	Year-end rate		Average rate	
			2018	**2017**	**2018**	**2017**
Australia	1	AUD	6.33	6.42	6.49	6.53
Canada	1	CAD	6.59	6.56	6.70	6.57
China	1	CNY	1.31	1.26	1.31	1.26
EU	1	EUR	10.29	9.84	10.26	9.63
Hong Kong	100	HKD	114.61	105.24	110.95	109.69
United Kingdom	1	GBP	11.36	11.09	11.57	11.03
U.S.A.	1	USD	8.98	8.22	8.70	8.55

28. Related parties

Relationships

The Group has related party relationships with the Company's largest shareholder, its associates, joint ventures and with its Board members and Group Management. The Company's largest shareholder, Investor AB, controls approximately 22 % (22) of the voting rights in Atlas Copco.

The subsidiaries that are directly owned by the Parent Company are presented in note A21 to the financial statements of the Parent Company. Holding companies and operating subsidiaries are listed in note A22. Information about associated companies and joint ventures is found in note 14. Information about Board members and Group Management is presented on pages 56–59.

In 2017 Atlas Copco sold a portfolio of financing and leasing contracts, related to customer financing, to the Group's German pension trust for a consideration of MSEK 737 resulting in a capital gain of 2. The consideration is on market terms. This transaction was accounted for within discontinued operations.

Transactions and outstanding balances

The Group has not had any transactions with Investor AB during the year, other than dividends declared and has no outstanding balances with Investor AB.

Investor AB has controlling or significant influence in companies with which Atlas Copco may have transactions within the normal course of business. Any such transactions are made on commercial terms.

Transactions with associated companies and joint ventures

The Group sold various products and purchased goods through certain associated companies and joint ventures on terms generally similar to those prevailing with unrelated parties.

The following table summarizes the Group's related party transactions with its associates and joint ventures:

	2018	2017
Revenues	42	23
Goods purchased	24	21
Service purchased	39	37
At Dec, 31:		
Trade receivables	6	6
Trade payables	10	9

Compensation to key management personnel

Compensation to the Board and to Group Management is disclosed in note 5.

29. Subsequent events

On February 14 2019, the General Court of the European Union annulled the European Commission's decision of January 11, 2016 that certain Belgian tax rulings granted to multinationals with regard to "Excess Profit" shall be considered as illegal state aid. The 2016 decision, which Atlas Copco appealed, concerned the years 2010–2015. As communicated earlier, Atlas Copco paid the amount to cover the potential liability, in total MEUR 313 (MSEK 2 952), to the Belgian Government to avoid further interest charges. The Commission can appeal the decision to the European Court of Justice within approximately two months from the date of the annulment.

Financial statements, Parent Company

Income statement

For the year ended December 31, Amounts in MSEK	Note	2018	2017
Administrative expenses	A2	–499	–722
Other operating income	A3	110	157
Other operating expenses	A3	–22	–312
Operating loss		**–411**	**–877**
Financial income	A4	156 133	44 408
Financial expenses	A4	–26 343	–1 244
Profit after financial items		**129 379**	**42 287**
Appropriations	A5	3 490	6 603
Profit before tax		**132 869**	**48 890**
Income tax	A6	–22	–805
Profit for the year		**132 847**	**48 085**

Statement of comprehensive income

For the year ended December 31, Amounts in MSEK	Note	2018	2017
Profit for the year		**132 847**	**48 085**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Translation of net investment		–1 922	–
Cash flow hedges		75	38
Income tax relating to items that may be reclassified		–17	–8
Other comprehensive income for the year, net of tax		**–1 864**	**30**
Total comprehensive income for the year		**130 983**	**48 115**

Balance sheet

As at December 31, Amounts in MSEK	Note	2018	2017
ASSETS			
Non-current assets			
Intangible assets	A7	21	26
Tangible assets	A8	43	48
Financial assets			
Deferred tax assets	A9	53	80
Shares in Group companies	A10, A21	208 602	150 490
Other financial assets	A11	201	179
Total non-current assets		**208 920**	**150 823**
Current assets			
Income tax receivables		–	19
Other receivables	A12	13 682	9 600
Cash and cash equivalents	A13	5 906	17 548
Total current assets		**19 588**	**27 167**
TOTAL ASSETS		**228 508**	**177 990**
EQUITY			
Restricted equity			
Share capital		786	786
Legal reserve		4 999	4 999
Total restricted equity		**5 785**	**5 785**
Non-restricted equity			
Reserve for fair value		–1 180	684
Retained earnings		7 854	26 408
Profit for the year		132 847	48 085
Total non-restricted equity		**139 521**	**75 177**
TOTAL EQUITY		**145 306**	**80 962**
PROVISIONS			
Post-employment benefits	A15	171	154
Other provisions	A16	183	548
Total provisions		**354**	**702**
LIABILITIES			
Non-current liabilities			
Borrowings	A17	17 025	55 450
Other liabilities		–	90
Total non-current liabilities		**17 025**	**55 540**
Current liabilities			
Borrowings	A17	65 360	39 743
Tax liabilities		25	–
Other liabilities	A18	438	1 043
Total current liabilities		**65 823**	**40 786**
TOTAL EQUITY AND LIABILITIES		**228 508**	**177 990**

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, 2018	1 213 725 349	786	4 999	684	74 493	80 962
Total comprehensive income for the year				–1 864	132 847	130 983
Ordinary dividend					–8 487	–8 487
Distribution of Epiroc AB					–48 237	–48 237
Redemption of shares		–393			–9 311	–9 704
Increase of share capital through bonus issue		393			–393	–
Acquisition series A shares	–3 000 000				–843	–843
Divestment series A shares	1 861 693				620	620
Divestment series B shares	127 000				25	25
Share-based payment, equity settled						
– expense during the year					101	101
– exercise of options					–114	–114
Closing balance, Dec. 31, 2018	**1 212 714 042**	**786**	**4 999**	**–1 180**	**140 701**	**145 306**
Opening balance, Jan. 1, 2017	1 214 467 061	786	4 999	654	34 924	41 363
Total comprehensive income for the year				30	48 085	48 115
Dividends					–8 252	–8 252
Acquisition series A shares	–4 510 000				–1 465	–1 465
Divestment series A shares	3 681 788				1 202	1 202
Divestment series B shares	86 500				27	27
Share-based payment, equity settled						
– expense during the year					143	143
– exercise of options					–171	–171
Closing balance, Dec. 31, 2017	**1 213 725 349**	**786**	**4 999**	**684**	**74 493**	**80 962**

See note A14 for additional information.

Statement of cash flows

For the year ended December 31, Amounts in MSEK	2018	2017
Cash flows from operating activities		
Operating loss	–411	–877
Adjustments for:		
Depreciation	13	11
Capital gain/loss and other non-cash items	–4 353	–8 258
Operating cash deficit	**–4 751**	**–9 124**
Net financial items received	64 127	10 797
Group contributions received	6 603	5 031
Taxes paid	32	–766
Cash flow before change in working capital	**66 011**	**5 938**
Change in		
Operating receivables	–7 656	–3 943
Operating liabilities	62	–698
Change in working capital	**–7 594**	**–4 641**
Net cash from operating activities	**58 417**	**1 297**

For the year ended December 31, Amounts in MSEK	2018	2017
Cash flow from investing activities		
Investments in tangible assets	–3	–10
Investments in intangible assets	0	2
Investments in subsidiaries	–1 048	1 225
Repayments/investments in financial assets	–5	–3
Net cash from investing activities	**–1 056**	**1 214**
Cash flow from financing activities		
Dividends paid	–18 191	–8 252
Repurchase and divestment of own shares	–198	–236
Change in interest-bearing liabilities	–50 614	15 360
Net cash from financing activities	**–69 003**	**6 872**
Net cash flow for the year	**–11 642**	**9 383**
Cash and cash equivalents, Jan. 1	17 548	8 165
Net cash flow for the year	–11 642	9 383
Cash and cash equivalents, Dec. 31	**5 906**	**17 548**

Notes to the Parent Company financial statements

MSEK unless otherwise stated

A1. Significant accounting principles

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

The financial statements of Atlas Copco AB have been prepared in accordance with the Swedish Annual Accounts Act and the recommendation RFR 2, "Accounting for Legal Entities", hereafter referred to as "RFR 2", issued by the Swedish Financial Reporting Board. In accordance with RFR 2, parent companies that issue consolidated financial statements according to International Financial Reporting Standards (IFRS), as endorsed by the European Union, shall present their financial statements in accordance with IFRS, to the extent these accounting principles comply with the Swedish Annual Accounts Act and may use exemptions from IFRS provided by RFR 2 due to Swedish accounting or tax legislation.

The financial statements are presented in Swedish krona (SEK), rounded to the nearest million. The parent company's accounting principles have been consistently applied to all periods presented unless otherwise stated. The financial statements are prepared using the same accounting principles as described in note 1 in the Group's consolidated financial statements, except for those disclosed in the following sections.

For discussion regarding accounting estimates and judgments, see page 74.

Subsidiaries

Participations in subsidiaries are accounted for by the Parent Company at historical cost. The carrying amounts of participations in subsidiaries are reviewed for impairment in accordance with IAS 36, Impairment of Assets. See the Group's accounting policies, Impairment of financial assets, for further details.

Transaction costs incurred in connection with a business combination are accounted for by the Parent Company as part of the acquisition costs and are not expensed.

Lease contracts

All lease contracts entered into by the Parent Company are accounted for as operating leases.

Employee benefits

Defined benefit plans

Defined benefit plans are not accounted for in accordance with IAS 19. In the Parent Company defined benefit plans are accounted for according to the Swedish law regarding pensions, "Tryggandelagen" and regulations issued by the Swedish Financial Supervisory Board. The primary differences as compared to IAS 19 are the way discount rates are fixed, that the calculation of defined benefit obligations is based on current salary levels, without consideration of future salary increases and that all actuarial gains and losses are included in profit or loss as they occur.

Share-based payments

The share-based payments that the Parent Company has granted to employees in the Parent Company are accounted for using the same principle as described in note 1 in the Group's consolidated financial statements.

The share-based payments that the Parent Company has granted to employees in subsidiaries are not accounted for as an employee expense in the Parent Company, but are recognized against Shares in Group companies. This vesting cost is accrued over the same period as in the Group and with a corresponding increase in equity for equity-settled programs and as a change in liabilities for cash-settled programs.

Financial guarantees

Financial guarantees issued by the Parent Company for the benefit of subsidiaries are not valued according to IFRS 9. They are reported as contingent liabilities, unless it becomes probable that the guarantees will lead to payments. In such case, provisions will be recorded.

Hedge accounting

Interest-bearing liabilities denominated in other currencies than SEK, used to hedge currency exposure from investments in shares of foreign subsidiaries are not translated using the foreign exchange rates on the reporting date, but measured based on the exchange rate the day that the hedging relation was established.

Derivatives used to hedge investments in shares in foreign subsidiaries are recognized at fair value and changes therein are recognized in profit or loss. The corresponding fair value change on shares in subsidiaries is recognized in profit or loss, as fair value hedge accounting is applied.

Group and shareholders' contributions

In Sweden, Group contributions are deductible for tax purposes but shareholders' contributions are not. Group contributions are recognized as appropriations in the income statement. Shareholders' contributions are recognized as an increase of Shares in Group companies and tested for impairment.

A2. Employees and personnel expenses and remunerations to auditors

Average number of employees	2018			2017		
	Women	Men	Total	Women	Men	Total
Sweden	62	37	99	61	40	101

Women in Atlas Copco Board and Management, %	Dec. 31, 2018	Dec. 31, 2017
Board of Directors excl. union representatives	33	33
Group Management	22	30

Salaries and other remuneration	2018		2017	
	Board members and Group Management [1]	Other employees	Board members and Group Management [1]	Other employees
Sweden	33	96	143	106
of which variable compensation	16		18	

[1] Includes 8 (8) Board members who receive fees from Atlas Copco AB as well as the President and CEO and 6 (6) members of Group Management who are employed by and receive salary and other remuneration from the Company.

For information regarding remuneration and other fees for members of the Board, the President and CEO, and other members of Group Management, see note 5 of the consolidated financial statements.

Pension benefits and other social costs	2018	2017
Contractual pension benefits for Board members and Group Management	10	10
Contractual pension benefits for other employees	20	20
Other social costs	47	97
Total	**77**	**127**
Pension obligations to former members of Group Management	5	5

Remunerations to auditors

Audit fees and consultancy fees for advice or assistance other than audit, were as follows:

	2018	2017
Deloitte		
– audit fee	5	6
– audit activities other than audit assignment	2	1
– other services, tax	–	2
– other services, other	10	12
Total	**17**	**21**

Audit fee refers to audit of the financial statements and the accounting records. For the Parent Company the audit also includes the administration of the business by the Board of Directors, the President and CEO.

Audit activities other than the audit assignment refer for example to comfort letters and the limited assurance report on Atlas Copco's sustainability report.

Tax services include both tax consultancy services and tax compliance services.

Other services essentially comprise consultancy services, such as consultancy services related to the preparation of the split of the Group.

At the Annual General Meeting 2018, Deloitte was elected as auditor for the Group up and including the Annual General Meeting 2019.

A3. Other operating income and expense

Pension benefits and other social costs	2018	2017
Commissions received	110	157
Other operating income	0	–
Total other operating income	**110**	**157**
Exchange-rate differences, net	–1	–2
Other operating expense	–21	–310
Total other operating expense	**–22**	**–312**

Other operating expense, 21 MSEK, essentially comprise costs associated with the split of the Group.

A4. Financial income and expenses

Financial income and expenses	2018	2017
Interest income		
– cash and cash equivalents	11	1
– receivables from Group companies	244	416
Dividend income from Group companies	144 929	16 362
Capital gain	8 999	27 593
Foreign exchange gain, net	1 950	36
Financial income	**156 133**	**44 408**
Interest expense		
– borrowings	–460	–466
– derivatives	–109	–384
– liabilities to Group companies	–195	–303
Change in fair value		
– other liabilities	–160	–42
Impairment loss		
– writedown of shares in Group Companies	–25 419	–49
Financial expenses	**–26 343**	**–1 244**
Financial income, net	**129 790**	**43 164**

The following table presents the net gain or loss by category of financial instruments.

	2018	2017
Net gain/loss on		
– loans and receivables, incl. bank deposits	2 045	411
– other liabilities	–655	–769
– derivatives	–109	–384
Profit from shares in Group companies	128 509	43 906
Total	**129 790**	**43 164**

Profit from shares in Group companies mainly refers to dividend income from subsidiaries and capital gains from transfer of shares in subsidiaries which are related to internal restructurings. These transactions are eliminated in the Group accounts since they are internal. For further information about the hedges, see note 27 of the consolidated financial statements.

A5. Appropriations

Appropriations	2018	2017
Group contributions paid	0	–4
Group contributions received	3 490	6 607
Total	**3 490**	**6 603**

A6. Income tax

	2018	2017
Current tax	–12	–819
Deferred tax	–10	14
Total	**–22**	**–805**
Profit before taxes	132 869	48 890
The Swedish corporate tax rate, %	22.0	22.0
National tax based on profit before taxes	–29 231	–10 756
Tax effects of:		
Non-deductible expenses	–3 197	–38
Tax exempt income	31 884	9 657
Deductible expenses, not recognized in Income statement	462	282
Withholding tax on sale of shares	–	–35
Change in tax rate, deferred tax	–2	–
Controlled foreign company taxation	–31	–16
Adjustments from prior years	93	101
Total	**–22**	**–805**
Effective tax in %	**0.02**	**1.6**

The Parent Company's effective tax rate of 0.02% (1.6) is primarily affected by non-taxable income such as dividends from Group companies.

A7. Intangible assets

	Capitalized expenditures for computer programs	
	2018	**2017**
Accumulated cost		
Opening balance, Jan. 1	67	69
Investments	0	–2
Closing balance, Dec. 31	**67**	**67**
Accumulated depreciation		
Opening balance, Jan. 1	41	37
Depreciation for the year	5	4
Closing balance, Dec. 31	**46**	**41**
Carrying amount		
Opening balance, Jan. 1	26	32
Closing balance, Dec. 31	**21**	**26**

A8. Property, plant and equipment

	2018			2017		
	Buildings and land	Machinery and equipment	**Total**	Buildings and land	Machinery and equipment	**Total**
Accumulated cost						
Opening balance, Jan. 1	45	57	102	40	52	92
Investments	1	2	3	5	5	10
Closing balance, Dec. 31	**46**	**59**	**105**	**45**	**57**	**102**
Accumulated depreciation						
Opening balance, Jan. 1	9	45	54	8	39	47
Depreciation for the year	2	6	8	1	6	7
Closing balance, Dec. 31	**11**	**51**	**62**	**9**	**45**	**54**
Carrying amount						
Opening balance, Jan. 1	36	12	48	32	13	45
Closing balance, Dec. 31	**35**	**8**	**43**	**36**	**12**	**48**

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 60 (60). Future payments for non-cancelable leasing contracts amounted to 301 (321) and fall due as follows:

	2018	2017
Less than one year	61	59
Between one and five years	237	212
More than five years	3	50
Total	**301**	**321**

A9. Deferred tax assets and liabilities

	2018			2017		
	Assets	Liabi-lities	Net balance	Assets	Liabi-lities	Net balance
Fixed assets	0	–	0	1	–	1
Post-employment benefits	41	–	41	37	–	37
Other provisions	12	–	12	25	–	25
Non-current liabilities	–	–	–	17	–	17
Total	**53**	**–**	**53**	**80**	**–**	**80**

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

	2018	2017
Net balance, Jan. 1	80	74
Charges to other comprehensive income	–17	–8
Charges to profit for the year	–10	14
Net balance, Dec. 31	**53**	**80**

A10. Shares in Group companies

	2018	2017
Accumulated cost		
Opening balance, Jan. 1	152 080	112 138
Investments	183 790	28 817
Net investment hedge	2 008	1 217
Shareholders' contribution	114 702	48 426
Divestments	–216 969	–38 518
Closing balance, Dec. 31	**235 611**	**152 080**
Accumulated write-up		
Opening balance, Jan. 1	600	600
Closing balance, Dec. 31	**600**	**600**
Accumulated write-down		
Opening balance, Jan. 1	–2 190	–2 141
Write-down	–25 419	–49
Closing balance, Dec. 31	**–27 609**	**–2 190**
Total	**208 602**	**150 490**

For further information about Group companies, see note A21.

A11. Other financial assets

	2018	2017
Endowment insurances	164	146
Financial assets measured at amortized cost		
– other financial receivables	37	33
Closing balance, Dec. 31	**201**	**179**

Endowment insurances relate to defined contribution pension plans and are pledged to the pension beneficiary (see note A15 and A20).

A12. Other receivables

	2018	2017
Receivables from Group companies	13 556	9 011
Derivatives		
– at fair value through profit or loss	5	441
– at fair value through OCI	–	25
Financial assets classified as amortized cost		
– other receivables	82	74
Prepaid expenses and accrued income	39	49
Closing balance, Dec. 31	**13 682**	**9 600**

Other receivables of 82 (74) mainly refers to CSA (Credit Support Annex) agreements used to limit the credit risk on derivative transactions.

A13. Cash and cash equivalents

	2018	2017
Cash and cash equivalents measured at amortized cost		
– cash	271	508
– cash equivalents	5 635	17 040
Closing balance, Dec. 31	**5 906**	**17 548**

The Parent Company's guaranteed, but unutilized, credit lines equaled to 6 585 (6 298).

A14. Equity

For information on share transactions and mandates approved by the Annual General Meeting and proposed dividend for 2018, see note 20 in the consolidated financial statements.

Reserves
The Parent Company's equity includes certain reserves which are described as follows:

Legal reserve
The legal reserve is a part of the restricted equity and is not available for distribution.

Reserve for fair value – Translation reserve
The reserve comprises translation of intragroup receivables from or liabilities to foreign operations that in substance are part of the net investment in the foreign operations, as well as cash flow hedges to convert variable interest rates to fixed interest rates.

A15. Post-employment benefits

	2018			2017		
	Defined contribution pension plan	Defined benefit pension plan	**Total**	Defined contribution pension plan	Defined benefit pension plan	**Total**
Opening balance, Jan. 1	146	8	154	134	8	142
Provision made	20	–	20	14	–	14
Provision used	–2	–1	–3	–2	0	–2
Closing balance, Dec. 31	**164**	**7**	**171**	**146**	**8**	**154**

The Parent Company has endowment insurances of 164 (146) 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.

	2018			2017		
	Funded pension	Unfunded pension	**Total**	Funded pension	Unfunded pension	**Total**
Defined benefit obligations	141	7	148	138	8	146
Fair value of plan assets	–369	–	–369	–362	–	–362
Present value of net obligations	–228	7	–221	–224	8	–216
Not recognized surplus	228	–	228	224	–	224
Net amount recognized in balance sheet	**0**	**7**	**7**	**–**	**8**	**8**

	2018			2017		
Reconciliation of defined benefit obligations	Funded pension	Unfunded pension	**Total**	Funded pension	Unfunded pension	**Total**
Defined benefit obligations at Jan. 1	138	8	146	137	8	145
Service cost	5	–	5	6	–	6
Interest expense	5	–	5	4	–	4
Benefits paid from plan	–7	–1	–8	–9	0	–9
Defined benefit obligations at Dec. 31	**141**	**7**	**148**	**138**	**8**	**146**

	2018			2017		
Reconciliation of plan assets	Funded pension	Unfunded pension	**Total**	Funded pension	Unfunded pension	**Total**
Fair value of plan assets at Jan. 1	362	–	362	327	–	327
Return on plan assets	7	–	7	35	–	35
Fair value of plan assets at Dec. 31	**369**	**–**	**369**	**362**	**–**	**362**

A15. Post-employment benefits, continued

	2018	2017
Pension commitments provided for in the balance sheet		
Costs excluding interest	20	20
Total	**20**	**20**
Pension commitments provided for through insurance contracts		
Service cost	21	19
Total	**21**	**19**
Net cost for pensions, excluding taxes	**41**	**39**
Special employer's contribution	10	10
Total	**51**	**49**

Pension expenses excluding taxes for the year, included within administrative expenses amounted to 41 (39) of which the Board members and Group Management 10 (10) and others 39 (29).

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amounts to 369 (362) and is allocated as follows:

	2018	2017
Equity securities	15	28
Bonds	211	196
Real estate	140	128
Cash and cash equivalents	3	10
Total	**369**	**362**

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 2.9% (6.0).

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 3.8% (2.8). The Parent Company estimates 11 MSEK will be paid to defined benefit pension plans during 2018.

A16. Other provisions

	2018	2017
Opening balance, Jan. 1	548	271
During the year		
– provisions made	–217	444
– provisions used	–148	–167
Closing balance, Dec. 31	**183**	**548**

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	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Non-current						
Medium Term Note Program MEUR 500	2019		4 458	5 170	4 457	5 080
Medium Term Note Program MEUR 500	2023		4 541	5 604	4 538	5 434
Medium Term Note Program MEUR 500	2026		5 071	4 997	4 912	4 779
Capital market borrowings MUSD 150	2019	MUSD 150	–	–	1 172	1 275
Bilateral borrowings EIB MEUR 275	2019	MEUR 275	–	–	2 330	2 730
Bilateral borrowings EIB MEUR 300	2022	MEUR 100	1 852	2 078	2 778	2 989
Bilateral borrowings NIB MEUR 200	2024		2 058	2 120	1 886	2 037
Non-current borrowings from Group companies			3 503	4 075	33 377	33 949
Less current portion of long-term borrowings			–4 458	–5 170	–	–
Total non-current borrowings			**17 025**	**18 874**	**55 450**	**58 273**
Current						
Current portion of long-term borrowings			4 458	5 170	–	–
Current borrowings from Group companies			60 902	60 902	39 743	39 743
Total current borrowings			**65 360**	**66 072**	**39 743**	**39 743**
Closing balance, Dec. 31			**82 385**	**84 946**	**95 193**	**98 016**
Whereof external borrowings			**17 980**	**19 969**	**22 073**	**24 324**

The difference between carrying value and fair value relates to the measurement method as certain liabilities are reported at amortized cost and not at fair value. Changes in interest rates and credit margins create the difference between fair value and amortized cost.

A17. Borrowings, continued

The following table shows the maturity structure of the Parent Company's external borrowings.

Maturity	Fixed	Floating [1]	Carrying amount	Fair value
2019	4 458		4 458	5 170
2022		1 852	1 852	2 078
2023	4 541		4 541	5 604
2024		2 058	2 058	2 120
2026	5 071		5 071	4 997
Total	**14 070**	**3 910**	**17 980**	**19 969**

[1] Floating interest in the table is borrowings with fixings shorter or equal to six months.

A18. Other liabilities

	2018	2017
Accounts payable	17	40
Liabilities to Group companies	58	90
Derivatives		
– at fair value through profit or loss	18	158
– at fair value through OCI	8	–
Other financial liabilities		
– other liabilities	4	389
Accrued expenses and prepaid income	333	366
Closing balance, Dec. 31	**438**	**1 043**

Accrued expenses include items such as social costs, vacation pay liability, and accrued interest.

A19. Financial exposure and principles for control of financial risks

Parent Company borrowings

Atlas Copco AB had MSEK 17 980 (22 073) of external borrowings and MSEK 64 405 (73 120) of internal borrowings at December 31, 2018. Derivative instruments are used to manage the currency and interest rate risk in line with policies set by the Financial Risk Management Committee, see note 27 in the consolidated financial statements.

Hedge accounting

The Parent Company hedges shares in subsidiaries through loans of MEUR 2 391 (5 039). The deferral hedge accounting of the loans is based on a RFR 2 exemption.

The interest rate risk can partly be managed with interest rate swaps, designated as cash flow hedges. At December 31, 2018 there were no interest rate swaps. Note 27 of the consolidated financial statements include fair value of these swaps and further details.

Financial credit risk

Credit risk on financial transactions is the risk that the Parent Company incurs losses as a result of non-payment by counterparts related to the Parent Company's investments, bank deposits or derivative transactions. For further information regarding investment and derivative transactions, see note 27 of the consolidated financial statements.

The table below shows the actual exposure of financial instruments as per December 31.

Financial credit risk	2018	2017
Cash and cash equivalents	5 906	17 548
Receivables from Group companies	13 557	9 011
Derivatives	5	466
Other	159	151
Total	**19 627**	**27 176**

Fair value hierarchy

Fair values are based on observable market prices or, in the case that such prices are not available, on observable inputs or other valuation techniques. Amounts shown in other notes are unrealized and will not necessarily be realized.

For more information about fair value hierarchy, see note 27 of the consolidated financial statements. There are no level 3 instruments in the Parent Company.

Valuation methods

Derivatives

Fair values of forward exchange contracts are calculated based on prevailing markets. Interest rate swaps are valued based on market rates and present value of future cash flows.

Interest-bearing liabilities

Fair values are calculated based on market rates and present value of future cash flows.

The Parent Company's financial instruments by category

The carrying value for the Parent Company's financial instruments corresponds to fair value in all categories except for borrowings.

See A17 for additional information.

A20. Assets pledged and contingent liabilities

	2018	2017
Assets pledged for derivative contracts		
Other receivables	62	53
Assets pledged for pension commitments		
Endowment insurances	164	146
Total	**226**	**199**
Contingent liabilities		
Sureties and other contingent liabilities		
– for external parties	–	–
– for Group companies	8 517	8 355
Total	**8 517**	**8 355**

Sureties and other contingent liabilities include bank and commercial guarantees, CSA-agreements, and performance bonds. Sureties and other contingent liabilities for Group companies has increased during the year mostly due to currency effects when the Swedish krona has weakened in relation to Euro.

A21. Directly owned subsidiaries

	2018			2017		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
Directly owned product companies						
Atlas Copco Airpower n.v., Wilrijk	76 415	100	46 162	76 415	100	46 143
Epiroc AB, 556041-2149, Nacka	–	–	–	206 885	100	43 979
Gazcon A/S, Lynge	500	100	23	500	100	23
Directly owned customer centers						
AGRE Kompressoren GmbH, Garsten-St. Ulrich	200 000	100	7	200 000	100	7
Atlas Copco (Cyprus) Ltd., Nicosia	99 998	100	0	99 998	100	0
Atlas Copco (India) Ltd., Pune	21 731 912	96	793	21 731 582	96	798
Atlas Copco (Ireland) Ltd., Dublin	250 000	100	28	250 000	100	28
Atlas Copco (Malaysia), Sdn. Bhd., Shah Alam	1 000 000	100	16	1 000 000	100	16
Atlas Copco (Philippines) Inc., Binan	121 995	100	6	121 995	100	7
Atlas Copco (Schweiz) AG., Studen	8 000	100	53	8 000	100	52
Atlas Copco (South East Asia) Pte.Ltd., Singapore	1 500 000	100	10	1 500 000	100	10
Atlas Copco Argentina S.A.C.I., Buenos Aires	5 120 025	93/100[1)]	84	5 120 025	93/100[1)]	62
Atlas Copco Brasil Ltda., Barueri	70 358 841	100	246	70 358 841	100	243
Atlas Copco Canada Inc., Toronto	9 496	100	526	9 496	100	526
Atlas Copco Chile SpA, Santiago	24 998	100	4	24 998	100	3
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	25	60 000	100	16
Atlas Copco Eastern Africa Limited., Nairobi	482 999	100	40	482 999	100	31
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/100[1)]	3	5	0/100[1)]	2
Atlas Copco GmbH, Vienna	1	100	43	1	100	43
Atlas Copco Indoeuropeiska AB, 556155-2760, Nacka	3 500	100	25	3 500	100	25
Atlas Copco KK, Tokyo	100 000	100	36	375 001	100	33
Atlas Copco Kompressorteknik A/S, Copenhagen	4 000	100	4	4 000	100	4
Atlas Copco Maroc SA., Casablanca	3 960	99	6	3 960	99	5
Atlas Copco Services Middle East OMC, Manama	500	100	12	500	100	10
Atlas Copco Venezuela SA, Caracas	25 812 000	100	0	25 812 000	100	15
Epiroc Mining India Ltd, Pune	–	–	–	21 731 582	96	1 045
Kohler Druckluft AG, Oberriet	1 000	100	8	1 000	100	8
Servatechnik AG, Oftringen	3 500	100	28	3 500	100	28
Soc. Atlas Copco de Portugal Lda., Porto Salvo	1	100	13	1	100	11
Directly owned holding companies and others						
AB Atlas Diesel	1 000	100	51 474	–	–	–
AtCoBtech AB, 559053-5455, Nacka	500	100	9	500	100	9
Atlas Copco A/S, Langhus	2 500	100	43	2 500	100	45
Atlas Copco Beheer B.V., Zwijndrecht	15 712	100	288	15 712	100	2 699
Atlas Copco Deutschland GmbH, Essen	1	100	24	1	100	15
Atlas Copco Finance Belgium BVBA, Wilrijk	1	0/100[1]	0	1	0/100[1)]	0
Atlas Copco Finance DAC, Dublin	5 162 000 001	100	53 037	–	–	–
Atlas Copco France Holding S.A., Cergy Pontoise	278 255	100	282	278 255	100	278
Atlas Copco Holding GmbH, Essen	2	100	1 213	2	100	1 070
Atlas Copco Internationaal B.V., Zwijndrecht	10 002	100	27 280	10 002	100	27 218
Atlas Copco Järla Holding AB, 556062-0212, Nacka	95 000	100	1 764	95 000	100	20 570
Atlas Copco Nacka Holding AB, 556397-7452, Nacka	100 000	100	12	100 000	100	12
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	1 000	100	24 894	–	–	–
Atlas Copco UK Holdings Ltd., Hemel Hempstead	–	–	–	150 623 666	100	1 481
Atlas Copco USA Holdings Inc., Parsippany	100	100	0	100	100	2 499
Capanyd AB, 556655-0421, Nacka	75 000	100	0	75 000	100	0
Econus S A, Montevideo	21 582 605	100	17	21 582 605	100	17
Industria Försäkrings AB, 516401-7930, Nacka	300 000	100	30	300 000	100	30
Oy Atlas Copco AB, Vantaa	150	100	33	150	100	34
Power Tools Distribution n.v., Hoeselt	1	0/100[1]	1	1	0/100[1)]	1
0 (1) dormant companies	–	–	–		100	0
Net investment hedge						1 339
Carrying amount, Dec. 31			**208 602**			**150 490**

[1)] First figure; percentage held by Parent Company, second figure; percentage held by Atlas Copco Group.

A22. Related parties

Relationships

The Parent Company has related party relationships with its largest shareholder, its subsidiaries, its associates, its joint ventures and with its Board members and Group Management.

The Parent Company's largest shareholder, Investor AB, controls approximately 22% of the voting rights in Atlas Copco AB.

The subsidiaries that are directly owned by the Parent Company are presented in note A21 and all directly and indirectly owned operating subsidiaries are listed on the following pages.

Information about Board members and Group Management is presented on pages 56–59.

Transactions and outstanding balances

The Group has not had any transactions with Investor AB during the year other than dividends declared and has no outstanding balances with Investor AB.

Investor AB has controlling or significant influence in companies which Atlas Copco AB may have transactions with in the normal course of business. Any such transactions are made on commercial terms.

The following table summarizes the Parent Company's transactions with Group companies:

	2018	2017
Revenues		
Dividends	144 929	16 362
Group contribution	3 490	6 607
Interest income	244	416
Expenses		
Group contribution	0	–4
Interest expenses	–195	–302
Receivables	**13 557**	**9 011**
Liabilities	**64 463**	**73 210**
Guarantees	**8 517**	**8 355**

The following details directly and indirectly owned holding and operational subsidiaries (excluding branches), presented by country of incorporation.

Country	Company	Location (City)
Algeria	SPA Atlas Copco Algérie	*Algiers*
Angola	Atlas Copco Angola Ltd	*Luanda*
Argentina	Atlas Copco Argentina S.A.C.I	*Buenos Aires*
Australia	Atlas Copco Australia Pty Ltd	*Blacktown*
	SCS Filtration	*Melbourne*
	Walker Filtration Pty. Australia	*Melbourne*
Austria	AGRE Kompressoren GmbH	*Garsten-St. Ulrich*
	Atlas Copco GmbH	*Vienna*
Bahrain	Atlas Copco Services Middle East OMC	*Manama*
Bangladesh	Atlas Copco Bangladesh Ltd.	*Dhaka*
Belgium	Atlas Copco Airpower n.v.	*Wilrijk*
	Atlas Copco Belgium n.v.	*Overijse*
	Atlas Copco Finance Belgium BVBA	*Wilrijk*
	Atlas Copco Rental Europe n.v.	*Boom*
	Atlas Copco Support Services N.V.	*Wilrijk*
	EDMAC Europe n.v.	*Wilrijk*
	Edwards Vacuum NV	*Estaimpuis*
	International Compressor Distribution n.v.	*Wilrijk*
	MultiAir BELUX NV	*Deinze*
	Power Tools Distribution n.v.	*Hoeselt*
Bolivia	Atlas Copco Bolivia S.A Compresores, Maquinaria y Servicio	*Santa Cruz*
Brazil	Atlas Copco Brasil Ltda	*Barueri*
	Chicago Pneumatic Brasil Ltda	*Barueri*
	Edwards Vacuo Ltda	*São Paulo*
	EVO Air Locação e Vendas de Compressores Ltda.	*São Paulo*
	Itubombas Locação, Comércio, Importação E Exportação Ltda.	*Itu*
	Leybold do Brasil Ltda.	*Jundiaí*
	Pressure Compressores Ltda.	*Maringa*
	Schucker do Brazil Ltda	*São José dos Pinais*
Bulgaria	Atlas Copco Bulgaria EOOD	*Sofia*
Canada	Atlas Copco Canada Inc.	*Toronto*
	Chicago Pneumatic Tool Co. Canada Ltd.	*Toronto*
Chile	Atlas Copco Chile SpA	*Santiago*
China	Atlas Copco (Wuxi) Compressor Co., Ltd.	*Wuxi*
	Atlas Copco (Wuxi) Energy Conservation Engineering Co., Ltd.	*Wuxi*
	Atlas Copco (Shanghai) Equipment Rental Co., Ltd.	*Shanghai*
	Atlas Copco Industrial Technique (Shanghai) Co., Ltd.	*Shanghai*
	Atlas Copco (China) Investment Co., Ltd.	*Shanghai*
	Atlas Copco (Shanghai) Process Equipment Co., Ltd.	*Shanghai*
	Atlas Copco (Shanghai) Trading Co., Ltd.	*Shanghai*
	Bolaite (Shanghai) Compressor Co., Ltd.	*Shanghai*
	Bolaite (Shanghai) Trading Co. Ltd	*Shanghai*

Country	Company	Location (City)
China	CSK China Co. Ltd	*Wuxi*
	CSK Xian China Co. Ltd	*Xian*
	Edmac (Shanghai) Trading Co., Ltd.	*Shanghai*
	Edwards Technologies Trading (Shanghai) Company Ltd	*Shanghai*
	Edwards Technologies Vacuum Engineering (Qingdao) Company Ltd	*Qingdao*
	Edwards Technologies Vacuum Engineering (Shanghai) Company Ltd	*Shanghai*
	Edwards Technologies Vacuum Engineering (Xian) Company Ltd	*Xian*
	Factory for Industrial Air Compressors (Jiangmen) Co., Ltd.	*Jiangmen*
	Guangzhou Linghein Compressor Co., Ltd	*Guangzhou*
	Kunshan Q-Tech Air System Technologies Ltd.	*Kunshan*
	Leybold Equipment (Tianjin) Co., Ltd.	*Tianjin*
	Leybold (Tianjin) International Trade Co.Ltd.	*Tianjin*
	Liutech Machinery Equipment Co., Ltd	*Liuzhou*
	Liuzhou Tech Machinery Co., Ltd.	*Liuzhou*
	Pan-Asia Gas Technology (Wuxi) Co., Ltd.	*Wuxi*
	Shanghai Beacon Medaes Medical Gas Engineering Consulting Co., Ltd.	*Shanghai*
	Shanghai Tooltec Industrial Tool Co., Ltd.	*Shanghai*
	Wuxi Pneumatech Air/Gas Purity Equipment Co., Ltd.	*Wuxi*
	Wuxi Shengda Air/Gas Purity Equipment Co., Ltd	*Wuxi*
Colombia	Atlas Copco Colombia Ltda	*Bogotá*
Cyprus	Atlas Copco (Cyprus) Ltd.	*Nicosia*
Czech Republic	ALUP CZ spol. S.r.o	*Breclav*
	Atlas Copco s.r.o.	*Prague*
	Atlas Copco Services s.r.o.	*Brno*
	Edwards s.r.o.	*Lutin*
	Schneider Bohemia spol s.r.o.	*Line*
Denmark	Atlas Copco Kompressorteknik A/S	*Copenhagen*
	Gazcon A/S	*Lynge*
	RENO A/S	*Give*
Egypt	Atlas Copco Equipment Egypt S.A.E.	*Cairo*
Finland	Oy Atlas Copco Ab	*Vantaa*
	Oy Atlas Copco Kompressorit Ab	*Vantaa*
	Oy Atlas Copco Tools Ab	*Vantaa*
France	ABAC France S.A.S.	*Valence*
	Atlas Copco Applications Industrielles S.A.S.	*Cergy Pontoise*
	Atlas Copco Crépelle S.A.S.	*Lille*
	Atlas Copco France Holding S.A.	*Cergy Pontoise*
	Atlas Copco France SAS	*Cergy Pontoise*
	Edwards SAS	*Herblay*
	ETS Georges Renault S.A.S.	*Nantes*

A22. Related parties, continued

Country	Company	Location (City)
France	Exlair S.A.S.	*Cergy Pontoise*
	Leybold France SAS Z. I. De Marcerolles	*Bourg-Les-Valence*
	Location Thermique Service SAS	*Carvin*
	MultiAir France S.A.S	*Chambly*
	Seti-Tec S.A.S.	*Lognes*
Germany	ALUP Kompressoren GmbH [1]	*Köngen*
	Atlas Copco Beteiligungs GmbH [1]	*Essen*
	Atlas Copco Deutschland GmbH [1]	*Essen*
	Atlas Copco Energas GmbH [1]	*Cologne*
	Atlas Copco Holding GmbH [1]	*Essen*
	Atlas Copco IAS GmbH [1]	*Bretten*
	Atlas Copco Industry GmbH [1]	*Essen*
	Atlas Copco Kompressoren und Drucklufttechnik GmbH [1]	*Essen*
	Atlas Copco Power Technique GmbH [1]	*Essen*
	Atlas Copco Technology GmbH [1]	*Essen*
	Atlas Copco Tools Central Europe GmbH [1]	*Essen*
	Desoutter GmbH [1]	*Maintal*
	Edwards GmbH	*Kirchheim*
	KDS Kompressoren- und Druckluftservice GmbH [1]	*Essen*
	Leybold Dresden GmbH	*Dresden*
	Leybold GmbH	*Cologne*
	Leybold Real Estate GmbH [1]	*Cologne*
	PMH Druckluft GmbH [1]	*Moers*
	QUISS Qualitäts-Inspektionssysteme und Service AG	*Puchheim*
	Saltus Industrial Technique GmbH [1]	*Solingen*
	Schneider Druckluft GmbH [1]	*Reutlingen*
	Synatec GmbH [1]	*Leinfelden-Echterdingen*
Greece	Atlas Copco Hellas AE	*Koropi*
Hong Kong	Atlas Copco China/Hong Kong Ltd	*Kowloon*
Hungary	Atlas Copco Hungary Kft	*Budapest*
India	Atlas Copco (India) Ltd.	*Pune*
	Edwards India Private Ltd	*Pune*
	Leybold India Pvt Ltd.	*Pune*
Indonesia	PT Atlas Copco Indonesia	*Jakarta*
Iraq	Atlas Copco Iraq LLC	*Erbil*
Ireland	Atlas Copco (Ireland) Ltd.	*Dublin*
	Atlas Copco Finance DAC	*Dublin*
	Edwards Vacuum Technology Ireland Ltd	*Dublin*
Israel	Edwards Israel Vacuum Ltd	*Kiryat Gat*
Italy	ABAC Aria Compressa S.p.A	*Robassomero*
	Atlas Copco BLM S.r.l.	*Milan*
	Atlas Copco Italia S.p.A.	*Milan*
	Ceccato Aria Compressa S.r.l	*Vicenza*
	Edwards S.p.A.	*Milan*
	FIAC S.p.a.	*Bologna*
	Leybold Italia Srl	*Milan*
	MultiAir Italia S.r.l	*Cinisello Balsamo*
	Varisco S.r.l.	*Padova*
	Varisco Wellpoint srl	*Padova*
Japan	Atlas Copco KK	*Tokyo*
	Edwards Japan Ltd	*Chiba*
	Fuji Industrial Technique Co., Ltd.	*Osaka*
	Leybold Japan Co.Ltd. Shin-Yokohama AK bldg	*Kohoku-Ku, Yokohama-Shi*
Kazakhstan	Atlas Copco AirPower Central Asia LLP	*Almaty*
Kenya	Atlas Copco Eastern Africa Limited	*Nairobi*
Latvia	Atlas Copco Baltic SIA	*Riga*
Lebanon	Atlas Copco Levant S.A.L.	*Beirut*
Luxembourg	Atlas Copco Finance S.á.r.l.	*Luxembourg*

[1] For the business year ending December 31, 2018 several German subsidiaries will make use of the §§ 264, 291 Handelsgesetzbuch (German Commercial Code) exemption rules of filing their own (consolidated) financial statements.

Country	Company	Location (City)
Malaysia	Atlas Copco (Malaysia) Sdn. Bhd.	*Shah Alam*
	Edwards Technologies Malaysia Sdn. Bhd.	*Petaling Jaya*
Mexico	Atlas Copco Mexicana S.A. de C.V.	*Tlalnepantla*
	Desarrollos Técnologicos ACMSA S.A. de C.V.	*Tlalnepantla*
	Desoutter Tools Mexico SA de CV	*Tlalnepantla*
Morocco	Atlas Copco Maroc SA	*Casablanca*
Myanmar	Atlas Copco Services Myanmar Co., Ltd.	*Yangon*
Netherlands	Alup Grassair Kompressoren BV	*Oss*
	Atlas Copco Beheer B.V.	*Zwijndrecht*
	Atlas Copco Internationaal B.V.	*Zwijndrecht*
	Creemers Compressors B.V.	*Oss*
	Leybold Nederland B.V.	*Utrecht*
New Zealand	Atlas Copco (N.Z.) Ltd.	*Auckland*
	Exlair (NZ) Limited	*Auckland*
Nigeria	Atlas Copco Nigeria Ltd.	*Lagos*
Norway	Atlas Copco A/S	*Langhus*
	Atlas Copco Kompressorteknikk A/S	*Langhus*
	Atlas Copco Tools A/S	*Langhus*
	Berema A/S	*Langhus*
Pakistan	Atlas Copco Pakistan (Pvt) Ltd.	*Lahore*
Peru	Atlas Copco Perú S.A.C.	*Lima*
Philippines	Atlas Copco (Philippines) Inc.	*Binan*
Poland	ALUP Kompressoren Polska sp. z.o.o.	*Janki*
	Atlas Copco Polska Sp. z o.o.	*Warsaw*
Portugal	Sociedade Atlas Copco de Portugal Lda	*Porto Salvo*
Romania	Atlas Copco Romania S.R.L.	*Bucharest*
Russia	Airgrupp LLC	*Moscow*
	Ekomak Industrial	*Moscow*
	JSC Atlas Copco	*Moscow*
Serbia	Atlas Copco Srbija doo	*Belgrade*
Singapore	Atlas Copco (South East Asia) Pte. Ltd.	*Singapore*
	Edwards Technologies Singapore PTE Ltd	*Singapore*
	Leybold Singapore Pte Ltd	*Singapore*
Slovakia	Atlas Copco s.r.o	*Bratislava*
	Schneider – Slovensko tlaková vzduchotechnika spol. s r.o.	*Nitra*
Slovenia	Atlas Copco d.o.o.	*Trzin*
South Africa	Atlas Copco Industrial South Africa (Pty) Ltd	*Boksburg*
	Rand Air South Africa (Pty) Ltd	*Boksburg*
South Korea	Atlas Copco Korea Co., Ltd.	*Seongnam*
	CP Tools Korea Co., Ltd.	*Anyang*
	CSK Inc.	*Yongin*
	Edwards Korea Ltd	*Cheonan*
	Leybold Korea Ltd	*Bundang*
Spain	Aire Comprimido Industrial Iberia, S.L.	*Madrid*
	Atlas Copco S.A.E.	*Madrid*
	Grupos Electrógenos Europa, S.A	*Zaragoza*
	Leybold Hispanica S.A.	*Cornellá de Llobregat*
Sweden	Atlas Copco Compressor AB	*Nacka*
	Atlas Copco Industrial Technique AB	*Nacka*
	Atlas Copco Järla Holding AB	*Nacka*
	Atlas Copco LCC AB	*Nacka*
	Atlas Copco Nacka Holding AB	*Nacka*
	Atlas Copco Sickla Holding AB	*Nacka*
	Industria Insurance Company Ltd Industria Försäkringsaktiebolag	*Nacka*
Switzerland	Atlas Copco (Schweiz) AG	*Studen*
	Leybold Schweiz AG	*Steinhausen*
	Servatechnik AG	*Oftringen*
Taiwan	Atlas Copco Taiwan Ltd.	*Taoyuan*
	CSKT Inc.	*Jubei*
	Edwards Technologies Ltd	*Jhunan*
	Leybold Taiwan Ltd	*Hsin-Chu*

A22. Related parties, continued

Country	Company	Location (City)
Thailand	Atlas Copco (Thailand) Limited	*Bangkok*
Turkey	Atlas Copco Makinalari Imalat AS	*Istanbul*
	Chicago Pneumatic Endüstriyel Ürünler Ticaret A.Ş	*Istanbul*
	Dost Kompresör Endüstri Makinaları İmal Bakım ve Ticaret A.Ş	*Istanbul*
	Ekomak Endüstriyel Kompresör Makine Sanayi ve Ticaret A.Ş	*Istanbul*
	Orcan Basincli Hava Makinalari Sanayi Ve Ticaret Limited Sirketi	*Istanbul*
Ukraine	Atlas Copco LLC	*Kiev*
United Arab Emirates	Atlas Copco Middle East FZE	*Jebel Ali free zone, Dubai*
	Atlas Copco Services Middle East SPC	*Abu Dhabi*
United Kingdom	Air Compressors and Tools Limited	*Hemel Hempstead*
	Atlas Copco Ltd.	*Hemel Hempstead*
	Atlas Copco Medical Ltd	*Staveley*
	Atlas Copco UK Holdings Ltd.	*Hemel Hempstead*
	Edwards High Vacuum International Ltd	*Burgess Hill*
	Edwards Ltd	*Burgess Hill*
	Henrob Ltd	*Flintshire*
	Leybold UK Ltd	*Chessington*
	SCA Schucker UK Ltd.	*Didcot*
	Tentec Ltd.	*Birmingham*
	Walker Filtration Ltd. UK	*Washington*
U.S.A.	Atlas Copco Compressors LLC	*Rock Hill*
	Atlas Copco Comptec LLC	*Voorheesville*
	Atlas Copco IAS LLC	*Auburn Hills*
	Atlas Copco Mafi-Trench Company LLC	*Santa Maria*
	Atlas Copco North America LLC	*Parsippany*
	Atlas Copco Rental LLC	*Laporte*
	Atlas Copco Tools & Assembly Systems LLC	*Auburn Hills*
	Atlas Copco USA Holdings Inc.	*Parsippany*
	BeaconMedaes LLC	*Rock Hill*
	C H Spencer LLC	*Salt Lake City*
	Chicago Pneumatic International Inc.	*Rock Hill*
	Chicago Pneumatic Tool Company LLC	*Rock Hill*
	CSK TS Inc	*Austin*
	Edwards Vacuum, LLC	*Wilmington*
	Henrob Corporation	*New Hudson*
	Innovative Vacuum Solutions, Inc	*Thonotosassa*
	Leybold USA Inc	*Wilmington*
	MedaesUSCo Inc.	*Rock Hill*
	Power Technique North America LLC	*Rock Hill*
	Quincy Compressor LLC	*Bay Minette*
	Scales Industrial Technologies, Inc.	*New York*
	Vacuum Trading Inc.	*Parsippany*
	Walker Filtration Inc. US	*Erie*
Venezuela	Atlas Copco Venezuela SA	*Caracas*
Vietnam	Atlas Copco Vietnam Company Ltd.	*Hanoi*
Zambia	Atlas Copco Industrial Zambia Limited	*Chingola*

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, 2019
Atlas Copco AB

Hans Stråberg
Chair

Gunilla Berg
Board member

Staffan Bohman
Board member

Tina Donikowski
Board member

Johan Forssell
Board member

Sabine Neuß
Board member

Mats Rahmström
President and CEO

Anders Ullberg
Board member

Peter Wallenberg Jr
Board member

Mikael Bergstedt
Board member
Union representative

Benny Larsson
Board member
Union representative

Our audit report was submitted on February 28, 2019
Deloitte AB

Thomas Strömberg
Authorized Public Accountant

Atlas Copco AB is required to publish information included in this annual report in accordance with the Swedish Securities Market Act. The information was made public on March 8, 2019.

Audit report

To the annual general meeting of the shareholders of Atlas Copco AB
Corporate identity number 556014-2720

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Atlas Copco AB for the financial year January 1, 2018 – December 31, 2018 except for the corporate governance statement on pages 51–61. The annual accounts and consolidated accounts of the company are included on pages 11–39, 44–48 and 51–124 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of December 31, 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of December 31, 2018 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 51–61. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

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

Basis for Opinions

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

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

Key Audit Matters

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

Recognition of revenue in the appropriate period

The group generates revenues from product and product related offerings ranging from equipment, service and rental to customers in multiple geographies. The time of delivery of the different offerings ranges from a specific point in time to over several years, and the sales agreements may include complex terms such as buy-back commitments, return rights, and a single transaction may contain separate revenue components such as product delivery, installation and servicing of equipment sold. All these complexities managed by several hundred subsidiaries require policies and procedures as well as management judgment to determine the appropriate method and period to properly recognize revenues.

In note 1 the group's revenue recognition policy together with critical accounting estimates and judgments is described, and note 4 provides disclosures of revenues separated on different product offerings and geographies.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy for revenue recognition and its compliance with IFRS,
- analytical review of revenues disaggregated on different product offerings and geographies, and
- on a sample basis testing of sales transaction for revenue recognition in the appropriate period.

Accounting for Income taxes

Accounting for income taxes are subject to complex tax legislation requiring management's interpretation and judgment. The interpretations made by management may be challenged by different tax authorities, other authorities and courts. The group's geographical footprint also requires adherence to tax legislation and transfer pricing requirements in many different countries. The European Commission's decision on January 11, 2016, that Belgian tax rulings granted to multinationals with regard to "Excess Profit" shall be considered as illegal state aid and that unpaid taxes shall be reclaimed by the Belgian state, requires management's judgment of the final outcome as the decision has been appealed by Atlas Copco.

In note 1 the group's accounting policy for income taxes together with critical accounting estimates and judgments is described, and note 9 and 29 provides disclosures of income taxes as well as the accounting treatment of regarding the European Commission's on the Belgian "Excess Profit" tax rulings.

Our audit procedures

Our audit procedures included, but were not limited to:

- review of tax calculations to assess if the income tax expense and tax assets and liabilities have been appropriately accounted for,
- assessing management's processes for monitoring compliance with income tax legislation and transfer pricing requirements in the different geographies, and
- evaluating the accounting associated with the European Commission's decision regarding Belgian "Excess Profit" tax rulings.

Accounting for the split and distribution of Epiroc AB

At the Annual General Meeting on April 24, 2018, the decision to split the Group into two listed companies, Atlas Copco and Epiroc was approved. The split was completed on June 18, 2018 through a distribution of shares, where Atlas Copco AB's shareholders received shares in Epiroc AB in proportion to their existing shareholding. On distribution of the Epiroc shares, Atlas Copco recognized a capital gain in discontinued operations of SEK 87 105 million, representing the difference between the fair value of Epiroc and the carrying value of Epiroc's net assets at the time of distribution. The decision to split the Group has further led to Epiroc being presented as discontinued operations in the consolidated income statement separately from continuing operations with comparative numbers represented accordingly. Accounting for discontinued operations requires identifying and separating the financial effects from continuing and discontinued operations as well as ensuring that the criteria in IFRS are fulfilled to account for discontinued operations.

In note 1 the group's policy for assets held for sale and discontinued operations and note 3 provides disclosures of assets held for sale and discontinued operations.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing Atlas Copco's policies and procedures for accounting for discontinued operations in compliance with IFRS,
- assessment of the financial effects from the discontinued operations and that they have been appropriately separated from continuing operations, and
- evaluation of the presentation of the gain from the distribution of Epiroc and its compliance with IFRS

Audit report, continued

Other information than the annual accounts and consolidated accounts
This document also contains other information than the annual accounts and consolidated accounts and is found on pages 2–10, 40–43, 49–50 and 128–140. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.
In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information is otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this information, we are required to report that fact. We have nothing to report in this regards.

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any potential significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Atlas Copco AB for the financial year January 1, 2018 – December 31, 2018 and the proposed appropriations of the company's profit or loss.

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

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

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

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which

Audit report, continued

the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 51–61 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Deloitte AB was appointed auditor of Atlas Copco AB by the annual general meeting of the shareholders on April 24, 2018 and has been the company´s auditors since April 28, 2010.

Nacka, February 28, 2018
Deloitte AB

Thomas Strömberg
Authorized Public Accountant

Financial definitions*

Reference is made in the Annual Report to a number of financial performance measures which are not defined according to IFRS. These performance measures provide complementary information and are used to help investors as well as group management analyze the company's operations and facilitate an evaluation of the performance. Since not all companies calculate financial performance measures in the same manner, these are not always comparable with measures used by other companies. These financial performance measures should therefore not be regarded as a replacement for measures as defined according to IFRS.

Adjusted operating profit
Operating profit (earnings before interest and tax), excluding items affecting comparability.

Adjusted operating profit margin
Operating profit margin excl. items affecting comparability.

Average number of shares outstanding
The weighted average number of shares outstanding before or after dilution. Shares held by Atlas Copco are not included in the number of shares outstanding. The dilutive effects arise from the stock options that are settled in shares or that at the employees' choice can be settled in shares or cash in the share based incentive programs. The stock options have a dilutive effect when the average share price during the period exceeds the exercise price of the options.

Capital employed
Average total assets less non-interest-bearing liabilities/provisions. Capital employed for the business areas excludes cash, tax liabilities and tax receivables.

Capital employed turnover ratio
Revenues divided by average capital employed.

Capital turnover ratio
Revenues divided by average total assets.

Debt/equity ratio
Net indebtedness in relation to equity, including non-controlling interests.

Dividend yield
Dividend divided by the average share price quoted.

Earnings per share
Profit for the period attributable to owners of the parent divided by the average number of shares outstanding.

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization
Operating profit plus depreciation, impairment and amortization.

EBITDA margin
EBITDA as a percentage of revenues.

Equity/assets ratio
Equity including non-controlling interests, as a percentage of total assets.

Equity per share
Equity including non-controlling interests divided by the average number of shares outstanding.

Items affecting comparability
Restructuring costs, capital gains/losses, impairments, changes in provision for share-related long-term incentive program and other items with the character of affecting comparability.

Net cash flow
Change in cash and cash equivalents excluding currency exchange rate effects.

Net debt/EBITDA ratio
Net indebtedness in relation to EBITDA.

Net indebtedness/net cash position
Borrowings plus post-employment benefits minus cash and cash equivalents and other current financial assets, adjusted for the fair value of interest rate swaps.

Net interest expense
Interest expense less interest income.

Operating cash flow
Cash flow from operations and cash flow from investments, excluding company acquisitions/divestments.

Operating cash surplus
Operating profit adding back depreciation, amortization and impairments as well as capital gains/losses and other non-cash items.

Operating profit
Revenues less all costs related to operations, but excluding net financial items and income tax expense.

Operating profit margin
Operating profit as a percentage of revenues.

Organic growth
Sales growth that excludes translation effects from exchange rate differences, and acquisitions/divestments.

Profit margin
Profit before tax as a percentage of revenues.

Return on capital employed (ROCE)
Profit before tax plus interest paid and foreign exchange differences (for business areas: operating profit) as a percentage of capital employed.

Return on equity
Profit for the period, attributable to owners of the parent as a percentage of average equity, excluding non-controlling interests.

Total return to shareholders
Share price performance including reinvested dividends and share redemptions.

Weighted average cost of capital (WACC)

$$\frac{\text{interest-bearing liabilities} \times i + \text{market capitalization} \times r}{\text{interest-bearing liabilities} + \text{market capitalization}}$$

i: An estimated average risk-free interest rate of 4% plus a premium of 0.5%.
An estimated standard tax rate has been applied.
r: An estimated average risk-free interest rate of 4% plus an equity risk premium of 5%.

* Atlas Copco has chosen to present the company's alternative performance measures in accordance with the guidance by the European Securities and Markets Authority (ESMA) in a separate appendix. The appendix is published on http://www.atlascopcogroup.com/investor-relations/key-figures

Sustainability notes

Atlas Copco's mission is sustainable, profitable growth. The sustainability report is an integrated part of the Group's annual report. The sustainability notes on the following pages, include complementary information about the materiality analysis, stakeholder dialogue, governance, results and reporting principles.

Materiality analysis and stakeholder engagement

Atlas Copco's sustainability report should provide stakeholders with relevant information about the Group's economic, environmental and social impact. In defining the report content Atlas Copco applies GRI's reporting principles on stakeholder inclusiveness, sustainability context, materiality and completeness.

Atlas Copco's Business Code of Practice defines the Group's five key stakeholders, and each group are consulted for the materiality mapping process. Stakeholders are defined as those who can be significantly affected by the Group's operations. Internal stakeholders include multiple functions such as research and development, logistics, human resources and purchasing for the Group's strategy. For external stakeholders' input, Atlas Copco directly and indirectly engages with international NGOs, unions, key investors, civil society and business advocacy groups, customers and business partners. This stakeholder-driven approach takes inspiration from the GRI's guidance for materiality and the materiality process is summarized online at www.atlascopcogroup.com.

During 2018, a renewed materiality analysis was undertaken involving internal and external stakeholders through surveys and interviews. A survey asking stakeholders to prioritize a set of pre-defined issues was posted on the intranet and spread externally in order to capture a broad array of stakeholder views. In-depth interviews with representative stakeholder groups such as customers, employees, investors, NGOs, peers and board members complemented the survey. The result was discussed in internal workshops with for example the specialist safety, health, environment and quality functions and reviewed by Group Management.

Atlas Copco uses this stakeholder input together with the UN Global Compact ten principles, mapping of the business' impact on the UN Sustainable Development Goals, and risk and opportunity assessments based on the business strategy to define the Group's significant environmental, economic and social impact. The result of the materiality process was used in the review of the Group's focus areas for sustainable, profitable growth. The analysis also served as input to the formulation of new KPIs and goals, as presented on page 5, that will measure Atlas Copco's progress from 2019. This annual report for 2018 reports and discusses progress in relation to the KPIs and goals for 2016–2018.

Stakeholders and their key topics and concerns

As a global Group, it is vital for Atlas Copco to ensure accountability for its actual and potential impact on stakeholders.

For external stakeholders' input, Atlas Copco engages with international NGOs, unions, key investors, civil society, customers and business partners in a number of ways, both directly and indirectly.

STAKEHOLDER	Key topics and concerns	Dialogue form
Customers	- Product safety - Product innovation - Resource efficient products - Climate and environmental impact	- Customer visits - Customer surveys and interviews - Customer events - Website
Investors/analysts/ shareholders	- Financial targets - Growth - Risk management - Business ethics	- Investor meetings, capital market days - Annual general meeting - Website
Employees	- Health and safety - Working conditions - Competence development - Compensation and benefits	- Yearly appraisal - Employee surveys - Work councils - Employee representatives on the Board
Society	- Climate and environmental impact - Social and environmental compliance - Human rights - Labor market issues	- Memberships in international collaborations and industry initiatives - Local engagements - Website - Surveys and interviews
Business partners	- Occupational health and safety - Labor conditions - Human rights - Business ethics	- Collaborations with suppliers - On-site evaluation and audits - Surveys and interviews

Material topics and boundaries

Based on the materiality analyses in 2015 and 2018, Atlas Copco has identified material topics according to the GRI Standards framework. No significant changes to the material topics have been made in 2018 following the analysis. Atlas Copco's work with the material topics impacts the different parts of the value chain as described in the table below.

	Impact on suppliers	Impact on Atlas Copco	Impact on customers
ECONOMIC IMPACT			
Economic performance		●	
Anti-corruption	●	●	●
ENVIRONMENTAL IMPACT			
Energy and emissions	●	●	●
Environmental compliance		●	
Supplier assessment	●	●	
SOCIAL IMPACT			
Employment		●	
Occupational health and safety	●	●	●
Training and education		●	
Diversity and equal opportunity		●	
Non-discrimination		●	
Human rights assessment	●	●	●
Supplier assessment	●	●	
Product responsibility	●	●	●
Socioeconomic compliance	●	●	

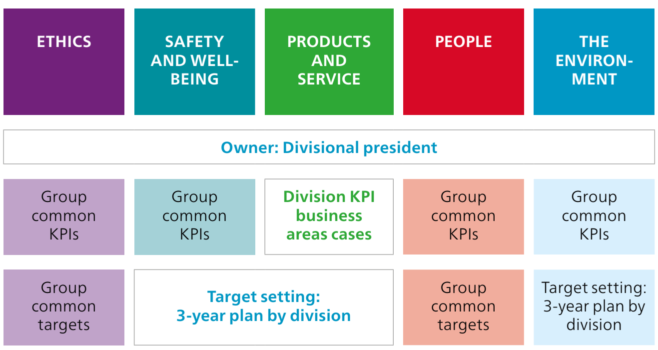
Sustainability governance

Atlas Copco implements most of its focus areas for sustainable profitable growth at the highest operational levels of the organization. The focus areas are: ethics, safety and well-being, people, the environment, products and service. Atlas Copco regards these areas, along with profitability, as necessary to achieve long-term success.

The Group Management has decided on the Group's focus areas for sustainable growth, key performance indicators (KPIs), three-year targets and monitor progress. KPIs and targets for the first four areas are common for all Atlas Copco companies.

Implementation is mainly done by the divisions, which together constitute the four business areas. The divisions are separate operational units, responsible for delivering results in line with the strategies and objectives set by the business area. The divisional presidents are responsible for implementing the priorities and integrating them into the divisions' operations. It is the responsibility of the divisional presidents and the general managers to safeguard that targets are set as a part of the three-year plan, followed-up on company and divisional level, as well as reported to the Group.

The business areas and divisions set quantified targets for delivering on the Group goals, for instance on emissions and safety performance. The annual report communicates the aggregated results on Group level.



External initiatives and membership of associations

Atlas Copco's central guiding policy, the Business Code of Practice, supports the United Nations International Bill of Human Rights, The International Labour Organization Declaration on Fundamental Principles and Rights at Work, and The OECD Guidelines for Multinational Enterprises.

Atlas Copco is a signatory to the UN Global Compact since 2008, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.

Atlas Copco is a member of the Swedish Leadership for Sustainable Development, a business network for accelerating the implementation of the Sustainable Development Goals coordinated by the Swedish International Development Cooperation Agency, to strengthen its work to deliver on the Sustainable Development Goals.

Atlas Copco is also active in a number of international organizations and industry collaborations and initiatives, among them the Stockholm Chamber of Commerce, the International Council of Swedish Industry, the International Crisis Group, the Association of Swedish Engineering Industries and the European Committee of Manufacturers of Compressors, Vacuum Technology, Pneumatic Tools, Air Treatment Equipment and Condensate Treatment Equipment.

ECONOMIC IMPACT

Economic performance

Direct economic value generated and distributed

Atlas Copco creates employment and financial stability through subcontracting manufacturing and other activities. In 2018, operating costs including costs to suppliers for goods and services, functional costs deducted for employee wages and benefits amounted to MSEK 52 557 (47 905). Employee wages and benefits increased to MSEK 22 129 (20 009). The Group's providers of capital, for example shareholders and creditors, provide funds to finance the asset base that is used to create economic value. In return, these stakeholders receive annual dividend and interest. The costs for providers of capital including dividend was MSEK 9 381 (9 488).

Atlas Copco contributes to economic development within the regions where it operates, through payments to pension funds and social security, and payments of taxes, social costs and other duties. The cost for direct taxes to governments decreased 3% to 4 876 MSEK (5 047). The Group has been in dialogue with stakeholders regarding disclosure of taxes by country, (note 9). Community investments amounted to MSEK 16. The economic value retained amounted to MSEK 7 472 (4 289).

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

Anti-corruption and anti-competitive behavior

Atlas Copco has a zero tolerance stance against corruption. The Business Code of Practice is the Group's central policy document, accessible to all employees in the internal database. Guidelines and trainings, both classroom training and online, are provided. Division presidents have the ultimate responsibility for adherence to the values and policies of the Group. Internal control is exercised through distribution of responsibility and internal audits, and the compliance board oversees compliance with the Business Code of Practice.

Grievance mechanism

Atlas Copco's ethical helpline, the hotline, is the Group's whistleblower function for perceived violations of the Business Code of Practice. The global whistleblower system is complemented by local whistleblower systems. 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. The hotline is administered by the Group legal department which handles and documents cases. The whistleblowing system can be used by employees or other stakeholders to report behavior or actions that are, or may be perceived as, violations of laws or of the Business Code of Practice. The person reporting can choose to be anonymous.

Reported potential violations, number	2018
Fraud	13
Labor relations, including discrimination	35
Corruption	6
Other	0
Total	**54**

Six cases are still being investigated, whereof two are related to fraud, two to corruption and two to labor relations. In 13 cases there were no evidence of wrongdoing, in ten cases there were no wrongdoing, in eight cases the investigation led to some form of consequence for the person responsible for the wrongdoing. In five cases the internal process has been changed. Three cases are in court.

There were no significant fines and no non-monetary sanctions for non-competitive behavior or for non-compliance with laws and/or regulations in the social and economic area during the year.

ENVIRONMENTAL IMPACT

Atlas Copco has integrated its most material environmental KPIs into its strategic work. The KPIs drive improvements and efficiency, while reducing the Group's impact on the environment.

Environmental performance is monitored and reported on unit level and aggregated to Group level. General managers have the responsibility to oversee the implementation of divisional strategies and goals, including undertaking initiatives to curb energy use, emissions and increase the proportion of renewal energy in electricity consumption.

Environmental management systems

To help minimize the environmental impact and to secure that the precautionary approach is applied, Atlas Copco has the ambition to implement environmental management systems in all operations. All product companies should be certified according to ISO 14001 in order to manage and reduce their environmental impact. Acquired product companies are normally certified within a two-year period.

Atlas Copco strives for all major operating units to be triple-certified for ISO 9001, ISO 14001 and OHSAS 18001/ISO 45001. All production units with more than ten employees and all customer companies and rental companies above 70 employees are to be triple-certified. By the end of 2018 the number of required units not being triple-certified constituted 6% of the total number of operational units. Same measure for each individual certification is 4% for ISO 9001, 5% for ISO 14001 and 6% for OHSAS 18001/ISO 45001. These units are mainly acquisitions still within the recommended two-year timeframe to comply or units that are newly restructured. Some units not yet triple-certified are in the process of doing so, and a smaller portion has lacked the resources so far to commit to a triple certification.

Energy consumption within the organization

Energy consumption*, %	2018
Direct energy, renewable	0
Direct energy, non-renewable	29
Indirect energy, renewable (incl. renewable of mix)	34
Indirect energy, non-renewable	37

* The calculation of indirect energy, i.e. energy purchased externally by the company, includes electricity (99%) and district heating (1%) used at the sites. Atlas Copco does not report cooling or steam separately. The calculation of direct energy, i.e. energy generated by the company for its own production or operation, comprises all fuels used on the sites, including diesel, gasoline, solar, geothermal, propane and natural gas.

Environmental compliance

Atlas Copco follows applicable environmental laws in all countries where the Group operates. Incidents or fines are reported for non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages. There were 1 (0) accident resulting in adverse environmental effects and in penalty for non-compliance according to reporting. The monetary sanctions for non-compliance was below SEK 1 000.

Two Swedish companies require permits based on Swedish environmental regulations. These operations mostly involve machining and assembly of components. The permits relate to areas such as emissions to water and air, as well as noise pollution. The Group has been granted one permit needed to conduct its business and one was under revision in 2018.

SOCIAL PERFORMANCE

Employment

Information on employees and other workers

With 36 862 employees at year end in 71 markets, Atlas Copco is a significant employer in the global market. The Group reports the number of employees as full time equivalents (FTE) per geographical spread and per professional category, as well as divided between white-collar and blue-collar employees.

Collective bargaining agreements

In 2018, 34% of all employees were covered by collective bargaining agreements.

New employee hires and employee turnover

The total number and rate of external new employee hires in 2018 was 5 506 which constitutes 15.3% of the total average number of employees during the year. The percentage of externally recruited females was 23%. The total number of resignations in 2018 was 2 380, which constitutes 6.6% of the total average number of employees during the year.

Occupational health and safety

Safety and well-being are key priority areas for Atlas Copco, and all divisions set targets and make action plans to enhance awareness and improve behavior, policies and processes. Group companies shall have an Atlas Copco verified Safety Health Environment and Quality management system, which is documented, implemented and maintained on an ongoing basis. Customer companies and rental companies with more than 70 employees and all product companies shall be certified according to OHSAS 18001/ISO 45001.

Continuous efforts are put on behavioral based health and safety. Safety days have been arranged in the Group since 2014. In 2018, the number of accidents for Atlas Copco employees was 194 (184). The relative number of accidents decreased to 2.8 (2.9) per one million working hours. The largest increase was reported from operations in South America and particular attention will be put on reducing this number. For several years, the majority of the accidents reported have been in Europe.

The number of incidents for Atlas Copco employees decreased to 914 (934) and the relative number decreased to 13.3 (14.5) incidents per one million working hours. Among the additional workforce, the accidents increased from 12 to 26 accidents and the relative number to 4.3 (2.4) accidents per million working hours. The biggest increase was reported from Europe. The main reasons for the rise in numbers are related to an increase in production volumes and quick increase in external recruitment. The number of incidents for the additional workforce decreased to 149 (164) corresponding to 24.9 (33.0) per million working hours. Group consolidated targets and results are presented on page 39.

Geographical spread of incidents and accidents among Atlas Copco employees, %	Spread of employees %	Work-related incidents %	Work-related accidents %
North America	14	9	15
South America	5	6	11
Europe	47	75	59
Africa/Middle East	3	1	3
Asia/Australia	31	9	12
Total	**100**	**100**	**100**

Diversity and equal opportunity

Atlas Copco's global diversity policy states that equal opportunity should apply whether Atlas Copco has the role of employer, supplier, business partner or customer. Atlas Copco companies establish local diversity policies and guidelines in alignment with the Group policy, local laws and regulations, and local ambitions.

Freedom of association and collective bargaining

Atlas Copco views trade unions and employee representatives as a necessary and valuable support system for its employees, and fosters relationships based on mutual respect and constructive dialogue. As a voluntary member of the UN Global Compact, Atlas Copco ensures that labor practices such as the right to collective bargaining are included in the Business Code of Practice.

As a decentralized organization, the engagement and dialogue with labor unions takes place at a local level. In countries where no independent labor union exist, Atlas Copco has taken measures to establish forums for employer/employee relations, for example in China, through environment and safety committees. A non-discrimination guideline covers all employees and the Business Code of Practice also covers employee rights.

Labor relations are followed-up regularly on the operational level and reviewed by the internal audit. Suppliers in the risk scope are audited according to compliance to the Atlas Copco's Business Code of Practice based on international guidelines and frameworks such as the UN Global Compact and the ILO core conventions.

Human rights assessment

Atlas Copco's central guiding policy is the Business Code of Practice. Atlas Copco is also a signatory of the UN Global Compact and is committed to working with the ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption. The Atlas Copco Business Code of Practice also supports the International Labour Organization Declaration on Fundamental Principles and Rights at Work, as well as the OECD's Guidelines for Multinational Enterprises.

The Group committed to the UN Guiding Principles for Business and Human Rights when it was launched in 2011. In accordance with requirements of the framework, Atlas Copco has an ongoing process to identify, prevent, mitigate and account for the human rights impacts related to Atlas Copco's business and business relations.

Human rights are monitored by the compliance board, which contains two members of Group Management. The compliance board addresses training needs, impact assessment and the action points related to the implementation of the UN Guiding Principles. The Group strives to work according to the UN Guiding Principles across the value chain, covering procurement, human resources, sales, marketing and other business processes. The Group's commitment covers all individuals and groups who may be impacted by its activities or through its business relationships.

Human rights due diligence is carried out when deemed relevant for specific markets, for instance when Atlas Copco enters a market that is perceived as presenting severe human rights risks.

The Atlas Copco whistleblower system can be used to report perceived human rights violations. Atlas Copco's human rights statement can be found at the corporate website: www.atlascopcogroup.com.

Training on human rights policies and procedures

Atlas Copco has developed human rights specific training in addition to training in the Business Code of Practice to increase employee awareness. The training is available to all employees through the Group's intranet.

Taxes

The Group recognizes the key role that tax plays in advancing economic development and also considers it vital to combat corruption and support sound business practices in order to create the most value for society. Atlas Copco believes in good corporate practice in the area of tax management, balancing the interests of various stakeholders, including customers, investors and the governments and communities in the countries in which the Group operates. Atlas Copco does not engage in aggressive tax planning, but takes care to pay the correct taxes in its countries of operation. Atlas Copco's tax policy can be found at the corporate website. See note 9 of the consolidated financial statements for the details of taxes paid, reported according to the international financial reporting standards.

Disclosing tax by country

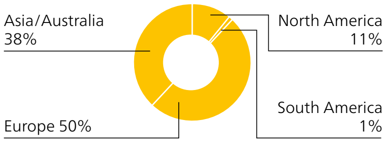
Atlas Copco has been in dialogue with investors, NGOs and peers regarding disclosure of tax paid per country. At present, there is no international standard for reporting taxes paid by country and therefore the resulting data is not comparable between different companies. Atlas Copco is not opposed to reporting tax paid by country if guidelines are broadened to apply to all companies in the industry so that the data is comparable and can be analyzed fairly.

Responsible sourcing

Atlas Copco has a large international supplier base and the ambition is to work with suppliers who share the same high standards as the Group and that comply with the Business Code of Conduct. Around 75% of product cost stems from purchased components. Local purchasing is encouraged.

Atlas Copco's purchasing strategies are decentralized to give the organization higher flexibility and to ensure the right competence. Purchasing councils oversee supply chain management at divisional level, and come together as a part of the Group purchasing council to develop central policies and tools that impact all operations.

Geographical spread of suppliers



Business partner evaluation process

Business partner	Role in the value chain	Primary responsible for risk management and compliance
Suppliers, subcontractors	Provide key parts as well as manufacturing services	Purchasing councils
Joint ventures	Partly owned companies that provide complementary products and services	Division presidents
Agents, distributors	Sell and distribute products to customers on the Group's behalf	Marketing councils

Supply chain management process: Suppliers are evaluated during and after selection by product companies, primarily by personnel in the purchasing function. Internal training on how to carry out supplier evaluations is published in the Group database *The Way We Do Things.*

The supplier evaluation process examines:

- Business partners' record of governance, ethics and stance against corruption
- Labor issues: Rejection of forced, compulsory or child labor, elimination of discrimination, safeguarding employee health and safety, collective bargaining rights
- Environmental performance: Managing waste, minimizing emissions, and reducing consumption of natural resources
- Human rights issues: Responsible sourcing and respect for human rights in operations

At times, self-assessment checklists are sent to suppliers and on-site evaluations are conducted either at regular intervals or when deemed necessary. These result in a report with concrete suggestions in the form of an action plan or improvement to be followed up on at an agreed time. Atlas Copco can provide experience and know-how to suppliers who need support in order to comply with the minimum standards set forth in the business partner compliance document. However, suppliers who fail to meet the criteria and do not show a willingness to improve are rejected. Supplier evaluations regarding safety, health, social and environment aspects including factors such as quality and financial data are performed throughout the Group.

Definition of significant supplier for reporting

Atlas Copco's definition of significant suppliers are all external suppliers of goods and services, direct and indirect, with a purchasing value above a set threshold, based on 12-month values from October previous year to September current year. For suppliers in countries with a heightened risk for human rights violations, environmental risks or corruption etc., the purchasing threshold is lower (approximately 13% of set value). In 2018, the number of significant suppliers increased compared with 2017 partly due to increase in business.

Suppliers' commitment	2018	2017
Significant suppliers, number	4 660	4023
Safety, health and social and environment evaluated suppliers [1]	845	723
Approved suppliers (no need to follow up)	820	685
Conditionally approved suppliers (monitored)	24	37
Rejected suppliers (relationship ended) [2]	1	1
Suppliers asked on commitment to the Business Code of Practice, number	4 405	3 482
Significant suppliers that have confirmed their commitment to the Code, %	86	82

[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 or no fulfillment of environmental laws. Suppliers are rejected if they do not meet Atlas Copco requirements and are not willing to improve. The Group does not keep any black lists of business partners.

Conflict minerals

Responsible sourcing of minerals is essential to Atlas Copco and though Atlas Copco is not directly impacted by the Dodd-Frank Act or the EU regulation on minerals many of the Group's customers are. To ensure responsible sourcing of minerals included in Atlas Copco products and support customers' obligations, Atlas Copco investigates the use of conflict minerals in sourced products using the Conflict Mineral Reporting Template (CMRT). In accordance with the upcoming EU conflict mineral rule EU 2017/821 (due to enter into force in January, 2021), Atlas Copco undertakes due diligence to ensure its supply chains are not contributing to armed conflict and instability in the DRC and surrounding countries. Atlas Copco reports the identified origin of tin, tungsten, tantalum and gold in products to customers. Atlas Copco is a member of the Responsible Minerals Initiative (RMI) and adheres to its guidelines to increase the transparency of possible conflict minerals in the supply chain.

Product responsibility

As a minimum, all products comply with laws and regulations regarding their environmental impact and they are tested for safety prior to delivery. Further, all Atlas Copco products and services come with relevant product, service and safety information. The information required by the Group's procedures for product and service information and labeling covers aspects such as sourcing of components, content such as substances of concern, safe use and disposal of the product. Customer training is included when relevant, to secure safe handling of the products.

In general, a limited proportion of Atlas Copco products falls under the EU Waste Electrical and Electronic Equipment (WEEE) Directive, for example, handheld electric tools and monitoring control instruments qualify. Atlas Copco has a responsibility for the disposal of products that fall under the directive. Atlas Copco strives to follow laws and regulations regarding safety, health and environmental aspects, product information and labeling.

Atlas Copco maintains lists of substances which are either prohibited or must be declared due to their potential negative impact on health or the environment. Prohibited substances are not allowed in Group's products or processes. Declarable substances should be limited in use, additionally any use of such substances in items must be declared. Suppliers' use of listed substances is regularly checked, and if prohibited substances should be found, they must immediately be replaced with appropriate alternatives. The lists are continuously revised according to applicable legislation, including REACH. The lists on prohibited and declarable substances are published on the Atlas Copco website.

Incidents of non-compliance

There were no cases filed in 2018 for non-compliance with laws and regulations concerning the provision and use of products and services in 2018.

Calculations of product energy efficiency on pages 35–36
The energy efficiency calculations for the products detailed in the report are based on estimates provided by Atlas Copco's research and development departments. Carbon dioxide emissions factors used for the calculations come from open source calculators or standards. The calculation of the number of cars driven for one year corresponding to the carbon emission savings by the products was made using the US Environmental Protection Agency's Greenhouse Gas Equivalencies Calculator.

Compressor
Based on the average loaded hours (8 000 hrs), the average power consumption per unit and the yearly quantity of units sold per year, a total energy consumption of the units sold per year is calculated to be 649 600 MWh. To come to a single efficiency gain of ZH 1000-3150 compared to previous models, a weighted average of efficiency gains per pressure variant is taken, based on all orders received up to November 11, 2018. From the above analysis, an average efficiency gain of the new product is determined to be 6 %. The yearly saving of energy is thus 37 400 MWh. The calculation of CO_2 savings is based on the

Energy savings (37 400 MWh)
x CO_2 emissions per MWh (0.707 metric tonnes)
= 26 447 metric tonnes of CO_2 per year

Vacuum pump
The energy savings were calculated for a smaller size model with similar performance on the basis of 50% energy savings on average power for each pump, considering 40 running hours per week. In 12 months up to October 2018, the number of machines placed on the market during that period saved a total of 7 848 280 kWh of energy compared to displaced fixed-speed competitor units. The calculation of CO_2 savings is based on the

Energy savings (7 848 280 kWh)
x CO_2 emissions per kWh (0.000707 metric tonnes/kWh)
= 5 550 metric tonnes of CO_2

Generator
An Independent Power Plant (IPP) is the core application for QAC 1450 TwinPower generator. The fuel savings are calculated considering that the generator is used in an independent power plant using 16MW. A 16MW IPP built with 16 single engine machines of 1MW each will consume 33 400 000 liters of diesel per year, calculated on the basis of 8 000 running hours. The same IPP size built with Atlas Copco Twin Power Concept, with fewer machines, will consume 30 900000 liters of diesel. As a consequence, the fuel savings of the IPP are 2 500 000 liters per year or 8%. The carbon dioxide avoided was calculated on the basis that 1 liter of diesel burnt emits 2.6 kg of CO_2

Reduction of 2 500 000 liters of diesel
x 2.6
= 6 500 000 kg CO_2

Battery tool
The calculations are based on applications where a nutrunner is used 340 days per year, two shifts per day, seven hours per shift and making three tightenings per minute. The energy consumption of STB battery nutrunner is approximately 80% less than a pneumatic LTV nutrunner in the same application. Converting the energy savings from using the electric tools instead of the pneumatic, gives a reduction of CO_2 emissions by around 6 500 metric tonnes yearly, based on the average energy reduction of all STB battery nutrunners sold during 2016–2018.

About the sustainability report

Atlas Copco has prepared its sustainability report in accordance with the Global Reporting Initiative (GRI) guidelines since 2001. The sustainability report is published annually and the most recent report, prior to this report, was published in March 2018 as a part of Atlas Copco's annual report 2017.

Atlas Copco regards sustainability as an integral part of its business model and reports both financial and non-financial data in a consolidated annual report. It provides the Group's stakeholders with a relatively complete overview of the Atlas Copco Group's most important activities contributing to sustainable development and increasing stakeholder value.

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. Atlas Copco is also a signatory of the UN Global Compact since 2008, and this report is Atlas Copco's Communication on Progress (COP), a report on performance in relation to Global Compact's ten principles on human rights, labor law, the environment and anti-corruption.

The sustainability report has been subject to limited assurance by the Group's external auditors, Deloitte, see the Auditor's report on page 139.

Report boundary

The sustainability report includes information regarding aspects where Atlas Copco has a significant economic, environmental and social impact. The materiality principle of GRI Standards has been the guiding principle when determining the content of the report. It covers the material issues that have the highest priority to Atlas Copco's stakeholders.

The report covers Atlas Copco's operations for the fiscal year 2018, unless otherwise stated. Operations divested during the year are excluded, acquired units are included. This may at times cause changes in reported performance. Environmental data covers production units and distribution centers. Business partner data covers production units and distribution centers. Employee data covers all operations.

At the Annual General Meeting on April 24, it was decided to spin-off and distribute the shares of Epiroc AB to the shareholders of Atlas Copco. Epiroc AB was listed on Nasdaq Stockholm on June 18, 2018. It is therefore not possible to compare data in this report with data in previous years' annual sustainability reports.

The sustainability report and the corporate governance report are integrated in the 2018 annual report. Sustainability information in the annual report is primarily presented on pages 32–43, 51–55 and 129–138.

Data collection

Reported facts and figures in the sustainability report have been verified in accordance with Atlas Copco's procedures for internal control. Data collection is integrated into the Group reporting consolidation systems and collected on a quarterly basis. Reported values are normally not corrected retroactively. When a restatement of historically reported numbers is made, this can be due to a change of calculation method or scope.

Responsibility for reporting rests with the general manager of each company. Data is reported at local operating unit level, aggregated to division/business area and Group level. Data verification is performed at each level before submitting to external auditors for verification.

For questions regarding the report and its contents,
please contact Sofia Svingby,
Vice President Corporate Responsibility
cr@se.atlascopco.com.

GRI content index

GRI Standards	Description	Page	Comment
Organizational profile			
102-1	Name of organization	Inside cover	
102-2	Activities, brands, products, and services	Inside cover, 18–31	
102-3	Location of headquarters	4	
102-4	Location of operations	4	
102-5	Ownership and legal form	51–55	
102-6	Markets served	Inside cover, 21, 24, 27, 30, 38	
102-7	Scale of the reporting organization	Inside cover, 6, 12–16, 18–31, 38, 82	
102-8	Information on employees and other workers	4, 6, 16, 38, 83–86	Atlas Copco reports the aggregate number of full-time equivalents, not how many employees work full-time or part-time. Additional workforce can be either temporary or permanent, generally employed through a third party. Omission: Atlas Copco does not report additional workforce by gender.
102-9	Supply chain	8, 40, 132	
102-10	Significant changes to the organization and its supply chain	11	
102-11	Precautionary principle or approach	32, 40–43, 130	
102-12	External initiatives	130	
102-13	Membership of associations	130	
Strategy and analysis			
102-14	Statement from senior decision-maker	2–3, 51, 55	

GRI content index, cont.

GRI Standards	Description	Page	Comment
Ethics and integrity			
102-16	Values, principles, standards and norms of behavior	10, 40, 42	
Governance			
102-18	Governance structure	9–10, 51–59, 130	
Stakeholder engagement			
102-40	List of stakeholder groups	129	
102-41	Collective bargaining agreements	131	
102-42	Identifying and selecting stakeholders	129	
102-43	Approach to stakeholder engagement	129	
102-44	Key topics and concerns raised	129	
Reporting practice			
102-45	Entities included in the consolidated financial statements	120–123	
102-46	Process for defining report content and topic boundaries	129	
102-47	List of material topics	129	
102-48	Restatements of information	11, 134	
102-49	Changes in reporting	129, 134	
102-50	Reporting period	134	
102-51	Date of most recent report	134	
102-52	Reporting cycle	134	
102-53	Contact point for questions regarding the report	134	
102-54	Claims of reporting in accordance with GRI Standards	134	
102-55	GRI content index	134–137	
102-56	External assurance	139	

ECONOMIC IMPACT

GRI Standards	Description	Page	Comment
Economic performance			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 129, 130	
201-1	Direct economic value generated and distributed	130, 137, 138	
Anti-corruption			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 129, 130	
205-3	Confirmed incidents of corruption and actions taken	130	
Anti-competitive behavior			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 129, 130	
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	130	

ENVIRONMENTAL IMPACT

GRI Standards	Description	Page	Comment
Energy			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 42–43, 129, 130	
302-1	Energy consumption within the organization	43, 130, 138	Omission: Atlas Copco reports energy consumption in MWh, not in joule.
302-3	Energy intensity	138	
Emissions			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 129, 130	
305-1	Direct greenhouse gas emissions (Scope 1)	137, 138	
305-2	Energy direct greenhouse gas emissions (Scope 2)	137, 138	
305-3	Other indirect greenhouse gas emissions (Scope 3)	137, 138	
305-4	Greenhouse gas emissions intensity	137, 138	

GRI content index, cont.

GRI Standards	Description	Page	Comment
Environment – compliance			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 129, 130	
307-1	Non-compliance with environmental laws and regulations	130	
Supplier environmental assessment			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 129, 132	
308-1	New suppliers that were screened using environmental criteria	40, 132 , 138	Atlas Copco uses a risk-based approach to identify significant suppliers. The scope can include new and old suppliers every year. Omission: Data for new suppliers specifically is not disclosed. Environmental and social screening is reported jointly.
SOCIAL IMPACT			
Employment			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 37–39, 129, 130, 131	
401-1	New employee hires and employee turnover	131, 138	Omission: Atlas Copco does not report turnover by age group and gender.
Occupational health and safety			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 39, 129, 131	
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	39, 131, 138	An accident is defined as an event that requires at least one day of absence beyond the actual event and medical treatment beyond first aid. Incidents do not require leave of absence or other medical treatment than first aid.
Training and education			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 37–38, 129	
404-3	Percentage of employees receiving regular performance and career development reviews	38, 138	
Diversity and equal opportunity			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 37, 129, 131	
405-1	Diversity of governance bodies and employees	56–59, 37, 38, 138	Omission: Age group is not disclosed at Group level. Minority group membership is not reported on in the Group.
Non-discrimination			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 37, 129, 131	
406-1	Incidents of discrimination and corrective actions taken	130	
Human rights assessment			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 40, 129, 131	
412-2	Employee training on human rights policies or procedures	38, 40, 41, 131	All employees are trained in the Business Code of Practice, which includes respect for human rights. Omission: Employee training is not reported by category of training at Group level.

GRI content index, cont.

GRI Standards	Description	Page	Comment
Supplier social assessment			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 40, 129, 132	
414-1	New suppliers that were screened using social criteria	40, 132, 138	Atlas Copco uses a risk based approach to identify significant suppliers. The scope can include new and old suppliers every year. Omission: Data for new suppliers specifically is not disclosed. Environmental and social screening is reported jointly.
Customer health and safety			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 129, 132	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	132	
Marketing and labeling			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 129, 132	
417-2	Incidents of non-compliance concerning product and service information and labeling	132	
Socioeconomic compliance			
103-1/2/3	Explanation of the material topic, its boundary and management approach	5, 129, 130	
419-1	Non-compliance with laws and regulations in the social and economic area	130	

Footnotes to Environmental, social and governance (ESG) performance on page 138

1) Calculations according to GRI Standard Guidelines, www.globalreporting.org.

2) Revenues include revenues, other operating income, financial income, profit from divested companies and share of profit in associated companies.

3) Operating costs include cost of sales, marketing expenses, administration expenses, research and development expenses, other operating expenses, deducted for employee wages and benefits. COS when presented in relation to sustainability information refers to cost of sales at standard cost in MSEK.

4) Costs for providers of capital include financial costs and dividend, but exclude redemption of shares and repurchase of own shares.

5) The total energy includes both indirect and direct energy used. The calculation of indirect energy, i.e. energy purchased externally by the company, includes electricity (99%) and district heating (1%) used at the sites. Atlas Copco does not report cooling or steam separately. The calculation of direct energy, i.e. energy generated by the company for its own production or operation, comprises all fuels used on the sites, including diesel, gasoline, solar, geothermal, propane and natural gas.

6) The reporting of greenhouse gas emissions is done in accordance with the GHG Protocol (ghgprotocol.org). Country factors used for energy come from the International Energy Agency. Indirect energy (Scope 2) is presented both as market-based and location-based according to the GHG Protocol. Where nothing else is stated a market-based apprach has been applied. Factors from NTM (transportmeasures.org) are used for transport of goods when emission data is not provided by transport company. Scope 3 emissions include inbound and outbound transport of goods that the company is responsible for as defined by Incoterm.

7) Water risk mapping was carried out using the water risk maps generated by Verisk Maplecroft. Water risk as defined by Verisk Maplecroft water stress index, where categories “medium, high and extreme” are used in Atlas Copco’s water risk scope.

8) In 2018, the process and scope for employees signing the Business Code of Practice was reviewed and updated. This means that the result for the KPI “managers signing the Business Code of Practice” is not comparable with previous years.

9) Results are, as a rule, collected every two years through the Group’s employee survey “Insight”. The survey was not conducted in 2017 and 2018.

Environmental, social and governance (ESG) performance [1)]

ECONOMIC VALUE	2017	2018	Target*
Direct economic value	86 738	96 415	
Revenues [2)]	85 653	95 363	
Economic value distributed			
Operating costs [3)]	47 905	52 557	
Employee wages and benefits, including other social costs	20 009	22 129	
Costs for providers of capital [4)]	9 488	9 381	
Costs for direct taxes to governments	5 047	4 876	
Economic value retained	4 289	7 472	
– Redemption of shares	–	9 705	
THE ENVIRONMENT			
Renewable energy for operations, % of total energy use	34	34	increase
Direct energy use in GWh [5)]	92	104	
Indirect energy use in GWh [5)]	258	256	
Total energy use in GWh [5)]	350	360	
Total energy use in MWh/COS [5)]	7.8	7.2	decrease
CO_2 emissions '000 tonnes (direct energy) – scope 1 [6)]	19	21	
CO_2 emissions '000 tonnes (indirect energy) – scope 2 [6)]	86	72	
CO_2 emissions '000 tonnes (total energy) – scope 1+2 [6)]	105	93	
CO_2 emissions '000 tonnes (indirect energy, location-based) – scope 2 [6)]	107	95	
CO_2 emissions '000 tonnes (transports) – scope 3 [6)]	156	170	
CO_2 emissions tonnes (transports)/COS [6)]	3.5	3.4	decrease
Proportion of reused or recycled waste, %	94	94	increase
Water consumption in water risk areas ('000 m^3) [7)]	244	255	
Water consumption in water risk areas (in m^3)/COS [7)]	5.4	5.1	decrease
PEOPLE			
White-collar employees, %	68	69	
Blue-collar employees, %	32	31	
Employee turnover white-collar employees, %	6.5	6.1	
Employee turnover blue-collar employees, %	6.9	7.7	
Total turnover, voluntary leave, %	6,7	6.6	
Yearly performance and development discussion, %	86	82	100%
Proportion of women employees, %	18.6	19.2	
Proportion of women managers, %	17.7	18.9	
Inflow of women into the Group, share of total external recruitment, %	23	23	increase
Nationalities among senior managers, number	42	43	
Managers with highest assessment rank for performance and potential for higher positions, %	56	57	65%
Communicative Leadership Index, rate 1–100 [8)]	–	–	increase
SAFETY AND WELL-BEING			
Work-related accidents, number	184	194	
Work-related accidents, number per one million working hours	2.9	2.8	decrease
Lost days due to accidents, number per one million working hours	87	57	
Work-related incidents, number	934	914	
Work-related incidents, number per one million working hours	14.5	13.3	decrease
Fatalities	0	0	0
Sick leave due to diseases, %	2.0	2.0	below 2.5%
Sick leave due to diseases and accidents, %	2.0	2.0	
ETHICS			
Global managers with signed compliance to the Business Code of Practice, % [8)]	–	95	100%
Employees aware of the Group ethical hotline or local helpline, % [9)]	–	–	100%
Significant suppliers committed to the Business Code of Practice, % [10)]	82	86	100%

* Targets for Atlas Copco Group's key performance indicators for sustainable, profitable growth.

See footnotes on page 137

Auditor's Limited Assurance Report on Atlas Copco AB's Sustainability Report and statement regarding the Statutory Sustainability Report

This is the translation of the auditor's report in Swedish.

To Atlas Copco AB, corporate identity number 556014-2720

Introduction

We have been engaged by the Board of Directors of Atlas Copco AB to undertake a limited assurance engagement of the Atlas Copco AB's Sustainability Report for the year 2018. The Company has defined the scope of the Sustainability Report on page 134 and the Statutory Sustainability Report on page 17.

Responsibilities of the Board of Directors and the Executive Management

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with the applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 134 in the Sustainability Report, and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative), which are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility also includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on the limited assurance procedures we have performed and to express an opinion regarding the Statutory Sustainability Report.

We conducted our limited assurance engagement in accordance with *ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR's accounting standard RevR 12 The auditor's opinion regarding the Statutory Sustainability Report.

A limited assurance engagement and an examination according to RevR 12 is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Atlas Copco AB in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The limited assurance procedures performed and the examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. The conclusion based on a limited assurance engagement and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on an audit.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

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

Conclusion

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

A Statutory Sustainability Report has been prepared.

Stockholm, February 28, 2019
Deloitte AB

Thomas Strömberg
Authorized Public Accountant

Lennart Nordqvist
Expert Member of FAR

Two years in summary

ORDERS, REVENUES AND PROFIT	2017	2018
Orders, MSEK	90 132	97 132
Revenues MSEK	85 653	95 363
Change, organic from volume, price and mix, %	N/A	8
EBITDA, MSEK	22 383 [2]	24 510
EBITDA margin, %	26.1 [2]	25.7
Operating profit, MSEK	18 748	21 187
Operating profit margin, %	21.9	22.2
Net interest expense, MSEK	–1 071	–644
Profit before tax, MSEK	17 591	20 844
Profit margin, %	20.5	21.9
Profit for the year, MSEK	12 661	16 336

EMPLOYEES	2017	2018
Average number of employees	33 631	35 894
Revenues per employee, SEK thousands	2 547	2 657

CASH FLOW [2]	2017	2018
Operating cash surplus, MSEK	29 187	28 444
Cash flow before change in working capital, MSEK	20 930	21 481
Change in working capital, MSEK	1 398	–3 391
Cash flow from investing activities, MSEK	–758	–4 301
Gross investments in other property, plant and equipment, MSEK	–1 742	–2 000
Gross investments in rental equipment, MSEK	–1 412	–1 462
Net investments in rental equipment, MSEK	–948	–1 276
Cash flow from financing activities, MSEK	–7 745	–21 601
of which dividends paid, MSEK	–8 255	–8 496
Operating cash flow, MSEK	18 856	14 133

FINANCIAL POSITION AND RETURN	2017	2018
Total assets, MSEK	126 031 [2]	96 670
Capital turnover ratio, MSEK	0.68 [2]	0.99
Capital employed, average MSEK	64 096	64 945
Capital employed turnover ratio, MSEK	1.34	1.47
Return on capital employed, %	29.0	33.0
Net indebtedness, MSEK	2 466 [2]	6 702
Net debt/EBITDA, MSEK	0.1 [2]	0.3
Equity, MSEK	60 601 [2]	42 472
Debt/equity ratio, %	4 [2]	16
Equity/assets ratio, %	48.1 [2]	43.9
Return on equity, %	30.1 [2]	33.7

KEY FIGURES PER SHARE	2017 [2]	2018
Basic earnings / diluted earnings, SEK	13.72 / 13.61	13.45 / 13.43
Dividend, SEK	7.00	6.30 [3]
Dividend as % of basic earnings	51.0%	47.0%
Dividend yield %	2.2%	2.2%
Redemption of shares, SEK	8.00	N/A
Operating cash flow, SEK	15.53	11.65
Equity, SEK	50	35
Share price, December 31, A share / B share, SEK	354.2 / 314.6	210.5 / 193.3
Highest price quoted, A share / B share, SEK	375.8 / 338.1	380.8 / 339.7
Lowest price quoted, A share / B share, SEK	277.0 / 247.1	205.3 / 187.7
Average closing price, A share / B share, SEK	322.0 / 289.6	291.3 / 264.0
Average number of shares, millions	1 214.1	1 213.5
Diluted average number of shares, millions	1 215.8	1 215.3
Number of shareholders, December 31	80 846	87 009
Market capitalization, December 31, MSEK	420 076	252 130

[1] Restated for IFRS 15 and continuing operations [2] Restated for IFRS 15 and including discontinued operations [3] Proposed by the Board of Directors.

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