

Atlas Copco remuneration report 2020

Introduction

This remuneration report provides an outline of how the guidelines for executive remuneration in Atlas Copco (the “remuneration guidelines”), adopted by the annual general meeting of Atlas Copco AB 2020, have been implemented in 2020. The report provides details on the remuneration of Atlas Copco AB’s President and CEO. In addition, the report contains a summary of Atlas Copco AB’s outstanding share and share-price related incentive programs. The report has been prepared in compliance with Chapter 8, Sections 53 a and 53 b of the Swedish Companies Act (2005:551) and the Swedish Corporate Governance Code and Remuneration Rules issued by the Swedish Corporate Governance Board. Information required by Chapter 5, Sections 40-44 of the Annual Accounts Act (1995:1554) is available in note 5 on p. 79-83 in the Atlas Copco Annual report 2020 (the “annual report 2020”).

Information on the work of the remuneration committee in 2020 is set out in the corporate governance report, which is available on p. 51-60 in the annual report 2020.

Remuneration of the board of directors (the “Board”) is not covered by this report. Such remuneration is resolved annually by the annual general meeting and disclosed in note 5 on p. 80 in the annual report 2020.

Key Developments 2020

Overall company performance in 2020

The performance of the Atlas Copco Group in 2020 is presented in the annual report 2020 which can be accessed at www.atlascopcogroup.com.

Overview of the application of the remuneration guidelines in 2020

The remuneration guidelines have been applied without deviation.

Under the remuneration guidelines, remuneration of executive management shall be market competitive and may consist of the following components: base salary, variable compensation, pension benefits and other benefits. The remuneration guidelines, adopted by the annual general meeting 2020, can be accessed at www.atlascopcogroup.com where also the auditor’s report regarding the company’s compliance with the remuneration guidelines is available.

In addition to remuneration covered by the remuneration guidelines, the annual general meetings of Atlas Copco AB have for a number of years resolved to implement share and share price related programs i.e. long-term incentive programs.

Total remuneration of the President and CEO

Table 1 below sets out Atlas Copco AB's President and CEO's total remuneration for 2020 (KSEK).

| President and CEO | Fixed remuneration | | Variable remuneration | Extraordinary items ¹ | Pension fees | Total remuneration | Proportion of fixed and variable remuneration |
|-------------------|--------------------------|----------------|-----------------------|----------------------------------|--------------|--------------------|---|
| | Base salary ² | Other benefits | | | | | |
| Mats Rahmström | 15 600 | 347 | 704 | 5 120 | 5 625 | 27 396 | 79/21 |

Performance of the President and CEO on variable compensation

The performance criteria for the President and CEO's variable compensation have been selected to contribute to the company's long term and sustainable development. Set out in Table 2 below are the performance criteria decided by the Board early 2020 and a description of how the criteria for payment of variable compensation have been applied during the financial year.

| President and CEO | Description of the performance criteria | Relative weighting of the performance criteria ³ | a) Measured performance |
|-------------------|--|---|-------------------------------------|
| | | | b) Actual outcome (KSEK) |
| Mats Rahmström | Group Economic Value Added (EVA) ⁴ | 80% | a) 9 420 MSEK |
| | | | b) 0 |
| | Group average Net Working Capital as percentage of sales | 10% | a) 22.8% |
| | | | b) 0 |
| | Reduce the CO ₂ emissions in the Group | 5% | a) 3.8 tonnes/MSEK of Cost of Sales |
| | | | b) 640 |
| | Increase the number of female employees in the Group | 5% | a) 20.0% female of total workforce |
| | | | b) 64 |

¹ Since the variable compensation performance criteria in Table 2 were all set prior to the COVID-19 pandemic, the Board decided in August to add an additional performance criterion based on the Group's Operating Profit for Q3 and Q4. The pandemic created a strain on the Group's operations and its employees and to manage these extraordinary circumstances the President and CEO had to perform tasks beyond his ordinary. The extraordinary item had a target of MSEK 9,998 with a span from 90% achievement to 100% and is capped at 32% of base salary. The criterion was reached in full.

² The actual base salary entitlement was KSEK 16 000. The President and CEO decided to abstain 10 % of his base salary for the months April, May and June to a good cause project related to COVID-19 research.

³ Total variable compensation, including Extraordinary Items, is capped at 80 % of the base salary and base salary for the purpose of calculating variable compensation is not reduced for the 10% abstention.

⁴ Defined as the sum of adjusted operating profit and interest income less tax expenses and cost of capital.

Comparative information on the change of remuneration and company performance

Year 2020 is the first reported financial year (RFY) and therefore no year over year development is available. The year over year development, over five years, will be reported and added annually as it becomes available.

| | 2020 |
|---|-------------|
| | RFY-0 |
| Total remuneration | |
| Mats Rahmström, President and CEO | 27 396 KSEK |
| Company's performance | |
| EVA | 9 420 MSEK |
| Profit for the period | 14 783 MSEK |
| Average remuneration on a full-time equivalent basis of employees | |
| Employees of Atlas Copco AB ⁵ | 1 083 KSEK |

Outstanding share and share-price related incentive programs

At the Atlas Copco AB annual general meeting 2016–2020 respectively, it was decided to implement performance-based personnel stock option programs. The decision to grant options was made in April each year and the options were issued in March the following year (issue date). The number of options issued for each program year depended on the value creation in the Atlas Copco Group, measured as EVA, for the respective program year. For the 2020 option program, the number of options varies on a linear basis within a preset EVA interval. The size of each plan and the limits of the interval have been proposed by the Board and approved by each annual general meeting and are compatible with the long-term business plan of the Atlas Copco 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 2016–2020 programs have a term of seven years. The options in the 2016–2020 programs are not transferable and become exercisable at 100% three years after grant.

The 2016–2020 programs include a requirement for group management and division presidents (32 in total) to purchase and keep 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, group management and division presidents 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

⁵ Excluding the President and CEO.

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 2016–2017 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.

More information about share and share price related long-term incentive programs, outstanding and completed in 2020, can be found in the annual report 2020 note 5 on p. 81-82 and note 23 on p. 98-100.