Transcript of the President and CEO Mats Rahmström's speech at the Annual General Meeting on April 25, 2019

I would like to take this opportunity to wish you all a warm welcome. As usual, I almost want to say, we have a record number of attendants. Nearly 650 registered to come and listen to us today, which is truly highly gratifying.

2018, the year I will be reflecting on today, was very exciting but also a little challenging. But on the whole, I have to say, it is extremely rewarding being the President and CEO of Atlas Copco.

I do not do this myself. I have a fantastic management team that I work with. They are here this evening and, if you have time later on, they will join the mingle afterwards if you want to learn about any specific area of Atlas Copco.

Internally, we usually say somewhat cautiously that we want to be the best industrial company in the world. This is a modest ambition to say the least. But when we say that, we are thinking about the products, we are thinking a lot about the service we want to give our customers, the reception they get, and we are also thinking that a key competency is attracting truly skilled people to our company. And on top of that, we must also generate excellent results. Last year, I was honored to stand here and present record results and this year I can do it again. This will therefore be a summary of 2018 and I must say that none of this happened by itself – even though Atlas Copco is an excellent company – our 38,000 employees worldwide have to take multiple decisions every day.

Revenues of SEK 95 billion is a record for us. Our order intake increased somewhat, representing organic growth of about 8%, which was in line with the ambition we have set to deliver over time. We also reported record earnings of SEK 21 billion and an operating margin of 22%. I said that we try to be world-class and I believe that these were extremely strong results in an industrial context.

Let us take a look at the quarterly report we published today. We signaled in the fourth quarter that we could see a somewhat worrying business environment but we still reported a record level of orders received, and our revenues were also very good. We also achieved a healthy margin in relation to the preceding year. And when I think of a healthy margin, I usually connect that to the customers, that this means that the customers understand that we add distinct value in everything we do. And I believe that our power of innovation and how we convey the message is something of a measurement of how we can also deliver profit for our shareholders.

So, we got off to a very good start to the year and we now expect that demand will be at about the same level in the next quarter. And when we say demand, this is also something of a measurement of the level of activity we expect at our customers.

But as you know, the political world and the economic world that we live in have been somewhat turbulent. We have been seen tariffs being set up between different countries, we have been talking about Brexit and about sanctions in certain countries. And for us as a company, it is extremely important to be resistant against such factors and be able to deliver in both good times and bad. One of the strategies we have been working a lot on is how our operations are divided around the world. The blue figures here represent where we sell, how large a share of our sales are in these regions, and the white ones show the orders received in the year-earlier period. And as you can see, if we take a look at North America and Latin America, the figures are 24 plus 4 making 28%. In other words, we are strong in North America. Many companies with a European base are actually strong in

Europe. We are strong in Europe too but as you see here, our strongest region is actually Asia and that is where we are growing the most. So somewhat due to how these political and economic winds are blowing, we always have people in place. We have a good balance between the industries in which we are active and how our revenues are distributed geographically. So, we are probably one of the companies that can cope best with setbacks.

Let me now demonstrate this with the next slide. And that is what I'm going to do. In this slide, the blue represents our revenues, how much they have grown year from year. The objective is to achieve growth of 8% annually, and that brings me back once again to the customers. They do not place orders with us out of loyalty. They are professional buyers and we receive their orders because we continuously provide them with very clear value. And of course, adding distinct value for our customers also ultimately generates highly distinct value creation for our shareholders. With our position of having a profitable business, we get to continue to develop leading products, attract leading people with a strong driving force and focus on the markets we want to develop. And we really need this in order to retain our competitiveness over time, because there are many challengers.

Innovation is one of the things that is most important to Atlas Copco, and I'd like to show you a video to illustrate how we work.

[video in English] *Innovation starts with an idea…*

You just got to meet a few of the people that I have an opportunity to meet all year long. Our management team travels a lot and we meet a lot of people during our travels. At Atlas Copco, we usually say that everything always starts with an idea. Someone has a good idea, perhaps a somewhat crazy idea, and we try to demonstrate our innovativeness by having people test this idea. Naturally, we'd like them to succeed but we're not too hard on those who fail. So, we like to test and we like to invest resources in the new opportunities we envision. The greatest challenges for us are to find people with the right drive, with the right expertise and the right will to succeed.

Then there is no denying that at Atlas Copco we work extremely hard but we also try to have a lot of fun, so that we find a good work-life balance. And we usually talk about the fact that having a good process is interesting but that the process must never be more important than the personal responsibility. What I mean is that when someone takes on a challenge, we usually take a look at "how will we get this to work?" and if we then need to work a bit more with entrepreneurship to reach our goal, then we do that too. So that is something we think is important.

We have realized that there is a strong correlation between how much we invest in innovation and R&D and how successful we are in the market. We have said that it is a rule of thumb for us that we should always invest more than our competitors.

I now thought we should take a little look at the products we have but perhaps from a slightly different perspective. You are most likely more used to finding our products in industrial environments but I thought we should challenge ourselves and see if we could find our applications in somebody's home, maybe in an everyday situation. It is possible that you can already see our applications but otherwise I will give you a bit of help.

Let's start with products from Industrial Technique. This business area focuses a lot on assembly, assembly with nuts and bolts, it engages in assembly with adhesives, on riveting. These are the core areas of joining technologies. If you look at this first slide, you will see a tiny screwdriver that is connected to the phone. In fact, almost all of the phones you have in your pockets, hopefully turned off, have more than 20 screws in them. And not only do we control the actual tightening, we also control the process of the customer – how the screws are to be driven. And in this market segment, we work with all of the major phone suppliers worldwide. So that is an important application for us.

If we look at the automotive industry, which represents slightly more than half of revenues in Industrial Technique, we account for these different assembly processes. But if you look at the blue color in the slide, you'll see that today we also provide a lot of software to our customers. As you know when you order a car, you have a large number of options to determine exactly what your car should look like. This is something we incorporate in the production lines of today. Firstly, we choose the right machine for the right application, we make sure that they tighten the right screw, but we also make sure that the right component ends up on the right car. In other words, we now take much greater responsibility here than we have done before.

What is happening now – I know that you have noticed it yourselves – perhaps you are thinking about buying a battery-operated car next time, which is quite a strong trend. This means that the engine is taken out of the equation. On the other hand, we get this entire battery package. So, for those of you who came here by car today, I can guarantee that our products have accounted for the screwdriving in about 75% of all of the cars in the world and we have a very strong position for the future in terms of the new generation of hybrids and electric cars too.

Another way is to look at renewable energy that can come from a wind farm. You may be wondering what we do there. Well, various sections are integrated into the foundation of a wind turbine, and these have to be tightened using enormous bolts. Then you come to the very top of a wind turbine, where you find the gear steps. These are built in an industrial environment, where we also take part in the assembly process. The last thing we do has to do with all these wings, which have to be in extremely precise balance. That is where our sanding machines are used to achieve this. And hopefully we can help to get more renewable energy into our homes.

Now let's take a look at Vacuum Technique. Someone who was trying to be funny told me that when you started to invest in this you paid for nothing. But that is not quite true. Let's start with monitors, like the ones you have in front of you, and me too, you on your phones, perhaps on your I-pads, maybe on your television screens at home... There are multiple applications that are made under vacuums, which makes this a gigantic application for our Vacuum Technique business area too.

Now I want to talk a bit about potato chips. And you know how potato chips taste the next day – no one wants to eat them. Because they become a bit soft and don't taste so good. But the next time you take out a bag of potato chips and open it, take a look at this little layer of foil. This is put in place using a vacuum to ensure that the potato chips keep their crispiness. All of this is a feature of the food industry, so you can naturally also see many other examples when you go to the supermarket, since quite a lot of items are vacuum packed nowadays. So, this is an application.

There are also other types of chips that are actually even more important for us at Atlas Copco and for Vacuum Technique. I'm talking about the chips that store all the logic and all the memory. And where is the memory located? Well, in your phones, your cameras, your servers, increasingly in your cars, which require a lot of memory, and in industry where memory capacity is currently being expanded to operate industrial processes too. A microchip is actually a tiny bit of silicon on which electric circuits – conductors and semiconductors – are added in various stages. And they are welded into place in different layers. A microchip can require up to 100 different processes. The negative aspect of this process is that the process gives rise to a lot of greenhouse gases and, to take care of these, we also provide products that incinerate these gases. And if we just look at the installations we have around the world today, we can state that the processes that we supply to our customers help to save 16 million tons of carbon dioxide. It may be difficult to take in exactly how much this is. The whole of Atlas Copco emits 263,000 metric tons. So, when we take our products and make them available to the users, this has an enormous environmental impact.

If we take a look at Compressor Technique, which is perhaps a little more difficult to see on this slide, this business area accounts for about 47% of Atlas Copco's revenues, so it is extremely important to us. And compressors are found in essentially all applications and all industries worldwide. For example, compressed air is used when PET bottles are manufactured. At first, only a tiny ball of plastic is required, which is expanded using compressed air. Compressed air is also used in the production of glass bottles. So, this is one of our applications.

I think this is a bit interesting. If you have a geothermal power plant, you actually extract energy from the earth's crust. And when doing so, turbo expanders are used, and our generators too. And this tiny gas that you see on this slide mainly comprises hydrogen gas, also known as water steam.

The final example within Compressor Technique is fabrics. Compressed air is used in spinning mills and weaving mills. Today, of course, oil-free compressed air is used so that we do not stain our clothes. And here we are talking about enormous applications all over the world.

Power Technique provides mobile compressors, mobile generators, lighting towers and pumps. That is its core areas. Let us now return to the lighting tower that you see on this slide. Traditionally, lighting towers have been driven by a small diesel engine and the best ones we have can illuminate up to 3,000 square meters. But in an urban environment or at an event, what is needed might be a quiet application, so we are now also launching battery-powered lighting towers too. And naturally this means that we eliminate essentially all carbon emissions, depending on how the batteries are charged. In other words, our products take into account a great deal of environmental considerations.

Another thing: you may be fortunate to live in Sweden where we have a stable power grid, as they do in most parts of the world. However, many countries lack a functional power grid and these tend to have backup generators, which can be a typical application for a family.

I must admit that the final application is a bit of a stretch of the imagination. So, we had to add the pool in the background, because we want to show a pump too. Normally, one could say that pumps are used primarily at construction sites and to deal with floods and similar things. But you can also empty a pool or extinguish a fire and do a variety of other things using a pump.

And the examples I have shown today are only a fraction of what we do. So, we naturally have an enormous product portfolio and I, personally, if you haven't already suspected, believe that the field of product development is extremely interesting. And this harmonizes perfectly with what we so successfully do at Atlas Copco. It is very much this product development and innovation that attract the customers and enable us to add very distinct value for them.

So, this can perhaps provide a little broader picture and these products over here are ones that we have launched primarily in the past year. And what is it that we are developing? Usually, it is something that is more energy-efficient, perhaps it offers better ergonomic performance, it could be safer and it might make it easier to service the machines we offer. So continuously, from the moment we have an idea to do something, we ask ourselves: OK, when the customer gets this, what financial and operational benefits will he or she gain? If the idea that we have is not good enough, we start again from scratch. For us, a development project lasts perhaps 2.5–3 years.

And we reinvest slightly more than 3% of our revenues in development. We have now challenged our R&D managers around the world and asked them: if you were permitted to spend a little bit more, what would you choose to do? And we have told them that they can't use these funds doing what they already do but must spend them on other products that are closely related and create value. And that is the process we currently find ourselves in. I believe we have approved about five to six projects that are now in progress. So, my promise to you is that we will continue to develop world-class products that have an extremely clear service content, are easy to service and that add considerable value for our customers.

We also intend to grow. I would say by 8% over a business cycle. And if we look at Atlas Copco's track record over the past ten years, we have succeeded with this and comfortably so. The first piece of the puzzle represents organic growth, the growth we manage internally through product development, developing new markets. The second piece of growth is achieved by adding operations through company acquisitions. It is not difficult to buy companies; the tricky bit is buying the right companies. And we spend a lot of time analyzing this. Does this potential acquisition have a leading position in terms of a product or a market? We also want them to have products that are significant to our customers' business processes. To find out about this, we have to talk about the process rather than the price. So, we understand extremely clearly what we aim to achieve.

Their products must also offer a distinct service opportunity. We want to be really close to our customers and we want to come back to them, take care of their products and make sure that the customers receive maximum value from their investment. And the last aspect we look at is the corporate culture. As you know, each company has a specific culture and we have our own. If these cultures do not match, it is usually very difficult to succeed. So, these are a few of the factors we consider when we look at potential acquisitions.

We don't want to grow for growth's sake; we want to grow in a favorable and safe manner. And then we want to achieve sustainable, profitable growth. This is a little piece of the challenge we give ourselves. And by growing in this way, we want to achieve a balance between the "planet" – the environment, the people who work for us; that we offer a good workplace and that we will continue

to focus on our profitability. These considerations must be pretty much in synch, they must be managed together in a very clear way.

And last year, we took a look at our objectives and we asked ourselves: how do we want them to look? And then we addressed these issues – if you want to look at them closer, they are clearly presented in the Annual Report. I would say that there are two areas that we have focused on a little more. Carbon dioxide: we have said that we aim to reduce our carbon emissions by 50% by 2030. We did not adopt this objective before we had identified highly tangible activities to achieve it. But its achievement is also linked to innovation from those who help us with our transportation; these could be trucks or planes. That's because transport actually accounts for the largest part of our emissions.

Another aspect that we think – no that we know – that we are definitely good at is working with many different cultures and we also see that there are increasing numbers of women who have really good educations and are highly talented. Today, women account for about 20% of our workforce, but we want to make sure that we have a very attractive company because we want to ensure that we can attract the best talent from around the world. So that is another objective we have set.

If we take a look at the world and a little at the capabilities that we have, we naturally believe in free trade. We believe that it is good for us. We believe that it is good for the global economy. But we have all seen in recent years that there is a lot of talk about becoming locked into more protectionism. There are those who want to limit competition. This could involve negotiations between the United States and China, or the United States and Europe or between other nations. Then there is Brexit. I believe that it is easy to initially view all of this as a serious problem. But if you then think about Atlas Copco, if you think about the slide I showed in the beginning about the geographical breakdown of our operations, we have manufacturing in most of these areas and many of our product series have unique brands. So, we have begun to think more in terms of "if this is the normal situation that we see today, we must make sure that we can handle it as well as possible." And we are one of the companies that have excellent potential to achieve this.

I would now like to mention a couple of trends that we must adapt ourselves to:

Electrification is a very distinct trend.

Emissions are becoming subject to more and more regulations.

We see consumers demanding products that have to be manufactured the right way.

We also see employees, the young generation of people that we want to employ, who look at us and ask: "Are you or are you not a good company? How do you work with these issues?"

For us, it is very important to be an attractive company. One of the most important aspects is helping people get from where they are today to where they want to be and here you see the distinct trend of moving over to battery operation, we have seen the compressors, we have seen the lighting towers, we are selling more and more battery-powered tools and we have this fantastic position in the automotive industry, which I must say makes Atlas Copco unique.

And essentially all major manufacturers are offering both hybrids and battery models. So, these are some of the major trends, and that means that we have to constantly adapt our product portfolio to the latest trend.

Another trend involving Asia, and particularly China – Southeast Asia and China – is extremely tangible. We can see the areas of the world that are accounting for the main growth. And if you remember, I said that Asia already accounts for 35% of our revenues, which is a hugely impressive figure. You can then understand why internally in Atlas Copco we talk about it not being possible to be a market leader if we are not a market leader in China. This is actually the world's largest automotive market today. It is the world's largest compressor market. It has the world largest infrastructure and construction markets and it is naturally investing enormous amounts in memory, semiconductor technologies, too. So, for all of our core segments, the largest market is definitely China. And China has actually moved from being active as a low-cost manufacturer to developing increasing amounts of technology. I'm sure that we will see many of the Chinese companies that we are working with today starting to view their market as not China alone but will also start to export robust and good technological products. So, we have to secure a leading position in Asia.

Another trend, that you have undoubtedly seen, is the vast increase in online and computerized technology. And then you can say that when you connect a compressor, for example, we have 120,000 hooked-up compressors in the world. You then say it shouldn't be so difficult to obtain this data. So, we ask the customer for permission: "Can we have this data? We will take care of it for you" and then over time we can learn a little about what the data says about us. But moving from data to valuable information is a challenge. Eventually, however, we will see how we can really move from planned maintenance of a product to preventive maintenance and, for example, be able to predict which component will actually break down. So that when we make a service visit, we can bring along the right component as early as the first visit. And this is an area in which all of our business areas are really working actively on today. And this is part of our service offering.

Another thing that is important to us is, of course, the people that we can engage in our company and when I meet someone who is really knowledgeable, really professional, driven and passionate about something, it is easy to become pretty enthusiastic oneself. And that is something of what the company wants to be. And it is something that we work with all the time; making sure that the customers are met by skilled, professional people with that extra drive. Today, however, it is difficult to find people with the right skills, and later on also difficult to retain them in the company. In that respect, we are very fortunate that those who start working at Atlas Copco usually have a long career with us because here they have an opportunity to do many different jobs.

In my opinion, there is almost nothing better than winning as a team, so we talk a lot about team work at Atlas Copco. And then you might think that this presentation is being held in Sweden but if you look at the Atlas Copco of today, Sweden accounts for less than 1% of our sales and of a total of 38,000 employees, only 1,400 work in Sweden. We focus a lot of effort on the value base underlying how we work, and this Swedish approach of working as team to win is a very clear feature of our company. However, if we look at those who actually work in our reality – we have people from different religions, with different origins and from different cultures – there is no doubt that

integration works really well at Atlas Copco because regardless of where we travel, we always feel very much at home. So, I would say that this is an extremely important feature.

Another aspect we truly devote a lot of effort to is ensuring that those who work really close to our customers are given distinct responsibilities. We call this decentralization with responsibility but we also have a framework for it.

I now thought we could watch another video.

This is Atlas Copco globally, our Group Center is in Nacka Stockholm, Sweden. The orange dots are product companies. It is in the product companies that we conduct our manufacturing. We conduct a lot of development, so we have many R&D centers. Then you have distribution centers. These are the green dots that you can see almost everywhere, and the customer centers, which are our sales companies worldwide. And maybe you think I am showing you all this because it looks impressive but every dot actually represents one of our companies, so what I am trying to say is that you find us all over the world. This shows a little of the team work. All of these slides, not a single purchased photo. Just Atlas Copco people in these pictures.

I managed to get in on a corner of one of the photos. But if you look at this, one could say that it is what characterizes working at Atlas Copco. What is it that we want to do for our customers and our shareholders? One aspect that is extremely important is the personal responsibility. Each of our employees has a well-defined assignment and is given a distinct framework for what we want them to accomplish. Within this framework, there is scope for entrepreneurship and creativity for doing the right things. On top of this, we should add that we are extremely performance-oriented and we follow up activities globally to make sure they are performing well. We also think it is important that, regardless of background, gender or religion, everyone at Atlas Copco should have an opportunity for professional and solid development. So, everyone has an opportunity to apply for positions globally and we always look at the candidate, what he or she has delivered in their earlier assignments and, if everything looks OK, we ask ourselves if this person is worth a chance for further development. And that is the type of business we want to operate. So, for us it is not only important to deliver what we achieved in the first quarter but to deliver a favorable result for you, and also for our employees and our customers every quarter, every single year and also in the next decade.

Thank you very much!