ATLAS COPCO

Annual report 2017

Atlas Copco

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.

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The audited annual accounts and consolidated accounts can be found on pages 14–46, 52–55 and 58–129. The corporate governance report examined by the auditors can be found on pages 58–67.

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Sustainability information that has been reviewed by the auditors can be found on pages 10–13, 39–51 and 134–142.

ABOUT THE FRONT PAGE

The picture shows an installation of two of Atlas Copco's latest innovations.

The new energy saving Z VSD+ range of oil free screw compressors which incorporates a new compression element/drive system and extended service intervals to significantly reduce customers' energy and maintenance costs. Also a new air dryer which takes rotary drum drying technology to a new level of performance with guaranteed dew points to protect our customers productivity.

GRI G4 GUIDELINES AND EXTERNAL REVIEW

Atlas Copco reports its sustainability work for 2017 according to GRI G4, Global Reporting Initiative's reporting guidelines, level Core. Deloitte has reviewed the report and verified this level, see page 143. More information and a detailed GRI index can be found at: www.atlascopcogroup.com

The sustainability report 2017 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

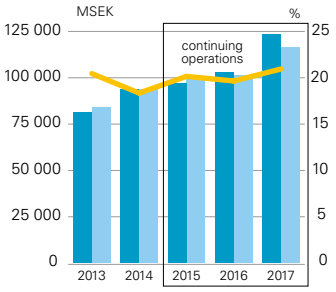
A decentralized group with

5 business areas

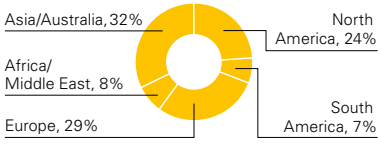
ATLAS COPCO GROUP

Orders received, MSEK
Revenues, MSEK
Operating margin, %

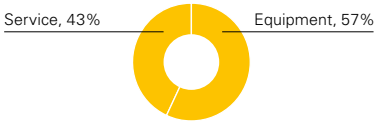
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN (GROUP)



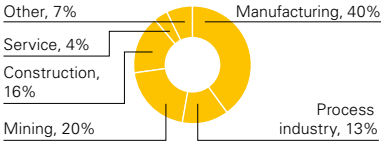
REVENUES BY REGION (GROUP)



SHARE OF REVENUES (GROUP)



ORDERS RECEIVED BY CUSTOMER CATEGORY (GROUP)



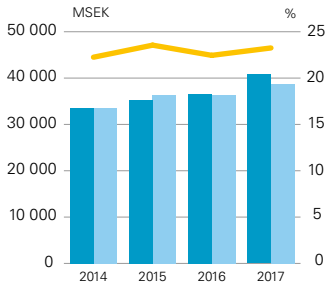
COMPRESSOR TECHNIQUE

Page 24

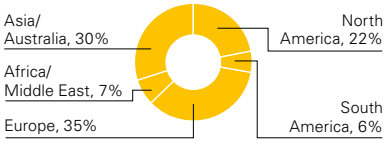
Revenues 2017: MSEK 38 768

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.

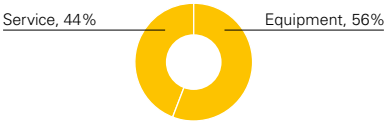
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



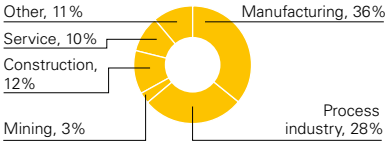
REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED BY CUSTOMER CATEGORY



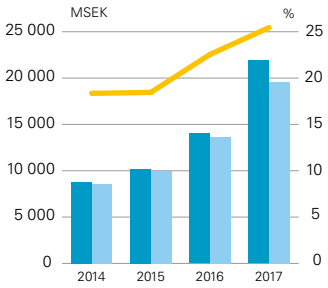
VACUUM TECHNIQUE

Page 27

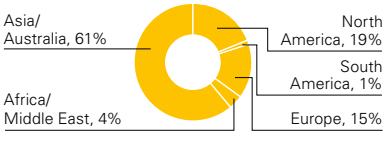
Revenues 2017: MSEK 19 582

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.

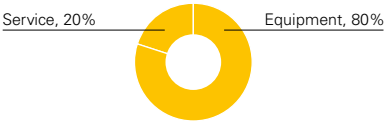
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



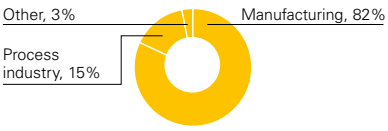
REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED BY CUSTOMER CATEGORY



Copco Group

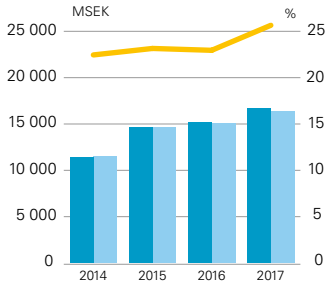
INDUSTRIAL TECHNIQUE

Page 30

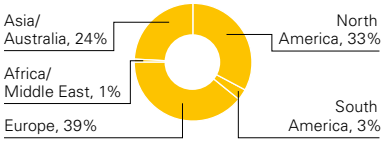
Revenues 2017: MSEK 16 377

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.

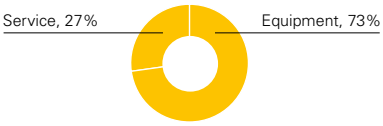
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



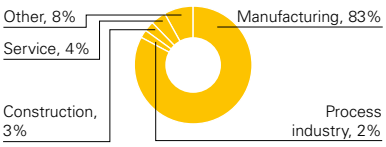
REVENUES BY REGION



SHARE OF REVENUES



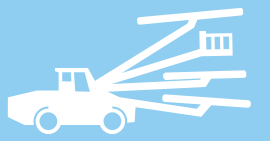
ORDERS RECEIVED BY CUSTOMER CATEGORY



MINING AND ROCK EXCAVATION TECHNIQUE

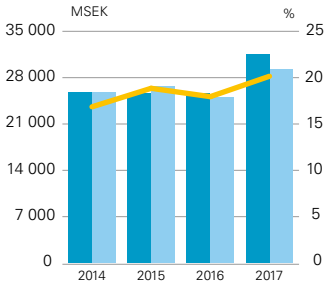
Page 33

Revenues 2017: MSEK 29 166

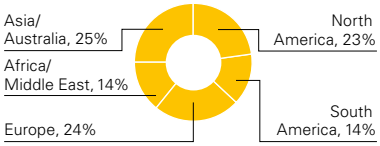


The Mining and Rock Excavation Technique business area provides equipment for drilling and rock excavation, a complete range of related consumables and service through a global network. The business area innovates for sustainable productivity in surface and underground mining, infrastructure, civil works,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

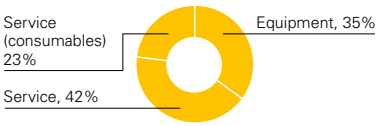
ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



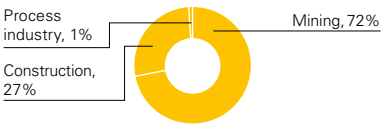
REVENUES BY REGION



SHARE OF REVENUES



ORDERS RECEIVED BY CUSTOMER CATEGORY



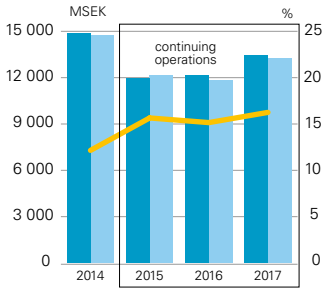
POWER TECHNIQUE

Page 36

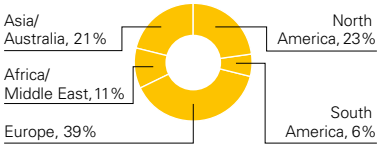
Revenues 2017: MSEK 13 246

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. The business area is headquartered in Belgium. Principal product development and manufacturing units are located in Europe, Asia, South America and North America.

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN

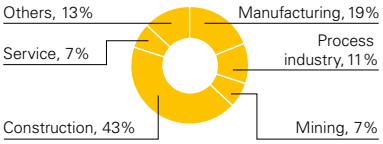


REVENUES BY REGION



SHARE OF REVENUES

ORDERS RECEIVED BY CUSTOMER CATEGORY



Atlas Copco in 2017

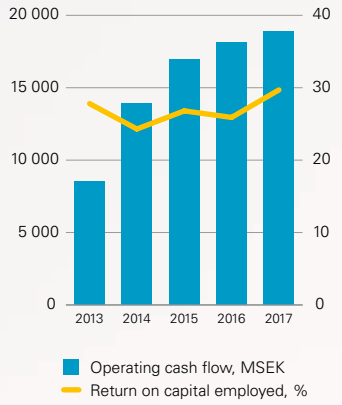
Atlas Copco is a world-leading provider of sustainable productivity solutions. The Group serves customers with innovative compressors, vacuum solutions and air treatment systems, construction and mining equipment, power tools and assembly solutions. Atlas Copco develops products and service focused on 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 2017, Atlas Copco had revenues of BSEK 116 (BEUR 12.1) and more than 45 000 employees.

In 2017 the Board of Directors proposed to spin off mainly the Mining and Rock Excavation Technique business area under the name Epiroc.

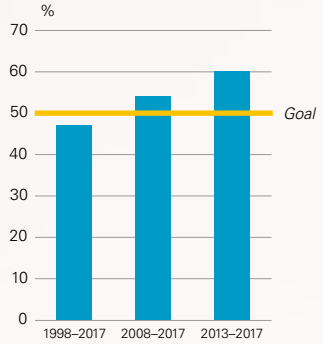
For more information see page 16.

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN

OPERATING CASH FLOW AND RETURN ON CAPITAL EMPLOYED*



DIVIDEND/EARNINGS PER SHARE, AVERAGE*



* Including discontinued operations

MORE THAN

45 000

EMPLOYEES

REVENUES, MSEK, 2017	OPERATING MARGIN, 2017	RETURN ON CAPITAL EMPLOYED, 2017	OPERATING CASH FLOW MSEK, 2017*
116 421	**20.8%**	**30%**	**18 856**
+15%			+4%

* Including discontinued operations

A record year with winning teams

Atlas Copco achieved record profit and order intake in 2017 as all our five business areas grew. Strong customer focus and thorough understanding of their applications and needs supported our growth. In addition, the business climate in 2017 was more favorable than in the previous year. Thanks to our innovative and dedicated teams, we rolled out sustainable products and services that increase customers' productivity, energy efficiency and safety. To maximize customer value, we further digitalized our processes, making us faster and more agile.

Growth on all fronts

Atlas Copco's mission is to deliver sustainable profitable growth. This means that we grow our business in a way that will help us perform well on three bottom lines over the long term: financial, environmental and social. Incorporating this approach in everything we do helps us stay competitive and successful.

In 2017, orders grew in all major geographic regions. Industries such as automotive, off-road and general manufacturing showed solid demand for our compressors, power equipment, industrial tools and assembly systems. The mining market improved significantly, as mining companies began investing again in new equipment and global demand for minerals rose. We also benefited from the growing drive toward automation and digitalization of mines.

Vacuum Technique, the new business area from 2017, achieved the biggest growth. A key driver is that people are using more and more data. This requires more semiconductors, which increases the need for vacuum pumps and abatement systems – where we are a market leader. Atlas Copco provides customers with the most productive and energy-efficient vacuum solutions.

Our service business continued to grow, and accounted for about 43% of revenues. Our almost 14 500 service personnel out in the field ensure optimal machine performance and that we stay on top of customers' needs. Intelligence from our service business is fed to our research and development engineers, who continuously invent new solutions that increase customer value.

> Atlas Copco has always been and continues to be a business disruptor.

Sustainable productivity

Our biggest effect on the environment is when our equipment is used by customers. Therefore it is of highest priority to continue launching energy-efficient products at a high pace.

During the year, we increased our already strong focus on sustainable solutions. Not only is it ethically correct to work for a better environment – as well as for human rights, improved labor conditions and against corruption – it is also good for business. Our business partners know that when they deal with Atlas Copco, transactions are done cleanly. Our customers know they get top-quality products that benefit the environment, in addition to improved productivity. All our employees share these core values.

The climate is key to everyone's future, and we want to be part of finding solutions that decrease CO_2 emissions. One example is our assembly solutions that let automotive manufacturers build lighter and more fuel-efficient vehicles. As a matter of fact, Atlas Copco tools are used to assemble three out of four cars in the world. Similarly, we are now a leading provider of battery-operated, emission-free underground mining vehicles. By using these instead of traditional diesel-operated vehicles, the mines become cleaner and the customers save significant money.

Regardless if we talk about compressors, vacuum pumps, tightening tools, mining trucks or power generators, it is clear that the more our environmentally friendly products and services are used instead of products and services that affect the environment more, the better for the customers and for the planet.

Higher production volumes and customers' requests for quick transports caused air deliveries to increase in 2017. This caused CO_2 emissions from our transports to increase.

Innovation in our genes

Atlas Copco has always been and continues to be a business disruptor. It is part of our DNA to develop solutions that enhance customers' productivity and energy efficiency as well as operator safety and ergonomics. We work hard to understand our customers' needs, and their customers' needs – ideally before they do. Our research and development engineers only pursue activities the customer will find truly valuable – and is willing to pay for. An increasing number of these engineers work on software development to increase machine performance, connectivity and speed. We have about 6 400 active patents globally representing

> To maximize customer value, we further digitalized our processes, making us faster and more agile.

> Digitalization has been on our agenda for years, and it is intensfying.

about 2 100 inventions, showing we are continuously setting new industry standards.

Performance-enhancing products launched in 2017, to name a few, include oil-injected screw compressors for numerous industrial applications, a turbo pump for coating applications used in the manufacturing of products such as smart phone displays, software that supports error proofing in assembly applications, a new generation mechanical hard-rock mining system, and LED-powered light towers.

To highlight how crucial innovation is for Atlas Copco, we annually present the John Munck Award for major technical innovations. In 2017 it was presented to two of our engineers who developed a handheld pneumatic breaker that cuts energy consumption by half while being lighter and highly ergonomic. The breaker has been embraced by customers, who benefit from lower fuel costs, reduced emissions, higher productivity and an improved operator environment.

Sometimes we add to our competence through acquisitions or partnerships. In 2017 we used this approach to take a big leap forward in the area of mining intelligence. We acquired a 34% stake in the Swedish company Mobilaris MCE. Its advanced software solutions increase productivity and safety through real-time positioning and status information on vehicles, equipment and personnel.

Making a digital difference

Digitalization has been on our agenda for years, and it is intensfying. It is a game changer, and we are working to incorporate its possibilities in all our processes to stay ahead: in research and development, production, logistics, sales, marketing as well as in how the customers use the products and services.

Data-driven service is a focus area for all our businesses. One example is the SmartLink data-monitoring system for compressors. More than 85 000 of our compressors are now connected globally, allowing us to continuously monitor their status and do predictive maintenance. This ensures optimal machine performance and benefits customers, the environment and us.

Mats Rahmström

NATIONALITY: Swedish

BORN: 1965

YEARS WITH ATLAS COPCO: 30

MOST RECENT POSITION: President Industrial Technique business area

FAMILY: Wife and son

ENJOY DURING LEISURE TIME: Padel tennis, hiking, music and spending time with family.

RECENTLY READ BOOK: A fascinating biography of Winston Churchill, about his life and leadership.

Our Smart Connected Assembly system is the new big thing in intelligent manufacturing. It is a network system that connects assembly tools and processes with each other. The result: more productivity and lower cost for industrial customers such as automotive manufacturers.

Passionate people

Our strong performance is only possible thanks to our people. During this first year as President and CEO, I visited quite a few of our local operations and customers across the globe. No matter where I went, I met truly innovative, passionate and dedicated people.

Atlas Copco gives all employees clear missions and responsibilities, and a lot of room to act. People feel motivated when they know they can develop their skills and grow within the company. Our decentralized organizational structure is one key to our success. We trust our people to take decisions, which makes us faster in serving our customers. Further, we are transparent and share a powerful set of values. These characteristics are difficult to copy and differentiate us from other companies.

Our global internal job market makes it easier for all employees to find new challenges. More than 85% of our managers are internally recruited, ensuring that our strong culture carries on. With employees in about 90 countries, we know that diversity is an asset, regardless of nationality, gender, age or education. For example, our 459 most senior managers represent 53 nationalities. In 2017, the share of female employees was 18% while 22% of total external hires and 31% of recent graduates hired were female. We want to utilize the full talent pool, and continue our work to get a more even gender balance.

Splitting the Group

In early 2017 the Board of Directors took the first step toward dividing the Group into two companies – Atlas Copco, focused on industrial customers, and Epiroc, focused on customers in the mining, infrastructure and natural resources industries. Both businesses are global leaders in their respective fields but they have different demand drivers and demand characteristics. The split, which must be approved by shareholders at the Annual General Meeting on April 24, 2018, will strengthen the respective abilities of Atlas Copco and Epiroc to create value for customers, grow their businesses further, and attract talent.

Standing strong

Atlas Copco is standing strong for the future. We are on the forefront of innovation, we have passionate and talented teams and are creating even more value through digitalization. We are focused on growing in the right market segments. Major global trends will support us long-term. They include the increasing use of data and customers' drive toward higher productivity and energy efficiency, as well as population growth and urbanization that require major infrastructure investments.

It was a great honor for me to take over as Atlas Copco's 12th President and CEO since the foundation in 1873. I want to thank Ronnie Leten, my predecessor who led the Group successfully for eight years, and also our customers, shareholders, Board of Directors, employees and other stakeholders who are part of our success. Thank you.

Mats Rahmström
President and CEO
Stockholm, January 26, 2018

This is Atlas Copco

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

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 critical for achieving its mission: presence, innovation, service, operational excellence, and people.

To safeguard that the strategic pillars are truly sustainable

This is our strategy for sustainable profitable growth:

PRIORITIES	PEOPLE	INNOVATION
ETHICS	Attract and develop qualified and motivated employees and find ways to reduce their time to competence	Invest in research and development and continuously launch new products and services that increase customers' productivity
SAFETY & WELL-BEING		
INNOVATION		
COMPETENCE		
RESOURCES		

VALUES AND BUSINESS CODE OF PRACTICE

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 services 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.

THE BUSINESS CODE OF PRACTICE

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

and that the Group continuously develops an organization that will deliver results for many years to come, Atlas Copco has established five priorities to complement the strategic pillars. The priorities – ethics, safety and well-being, competence, innovation and resources – were identified following extensive consultation with the Group's stakeholders.

Key perfomance indicators and Group goals were presented during the autumn 2016 and are implemented in the organization. The financial goals, annual revenue growth of 8% over a business cycle, sustained high return on capital employed and to distribute about 50% of earnings as dividends to shareholders, remain unchanged. Results on all key performance indicators are presented throughout this annual report.

PRESENCE	OPERATIONAL EXCELLENCE	SERVICE
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 on a higher share of the installed base of equipment, and give customers peace of mind

Committed to Sustainable Productivity

We stand by our responsibilities towards our customers, towards the environment and the people around us. We make performance stand the test of time. This is what we call – Sustainable Productivity.

→ For further information about governance, the Board of Directors and Group Management, see pages 58–67

→ For further information about risk management, see pages 52–55

→ For comprehensive information about the business areas, see pages 22–38

ORGANIZATION
2017

BOARD OF DIRECTORS

PRESIDENT AND CEO

GROUP MANAGEMENT

BUSINESS AREAS AND CORPORATE FUNCTIONS

COMPRESSOR TECHNIQUE	VACUUM TECHNIQUE	INDUSTRIAL TECHNIQUE	MINING AND ROCK EXCAVATION TECHNIQUE	POWER TECHNIQUE
Compressor Technique Service Industrial Air Oil-free Air Professional Air Gas and Process Medical Gas Solutions Airtec	Vacuum Technique Service Semiconductor Service Semiconductor High Vacuum Industrial Vacuum	Industrial Technique Service MVI Tools and Assembly Systems General Industry Tools and Assembly Systems Chicago Pneumatic Tools Industrial Assembly Solutions	Mining and Rock Excavation Service Underground Rock Excavation Surface and Exploration Drilling Drilling Solutions Rock Drilling Tools Rocktec	Power Technique Service Specialty Rental Portable Energy Construction Tools

DIVISIONS

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

ORGANIZATION VALID FROM JANUARY 2018

In 2017 the Board of Directors proposed to spin off mainly the Mining and Rock Excavation Technique business area under the name Epiroc. For more information see page 16.

BOARD OF DIRECTORS

PRESIDENT AND CEO

GROUP MANAGEMENT

BUSINESS AREAS AND CORPORATE FUNCTIONS

COMPRESSOR TECHNIQUE	VACUUM TECHNIQUE	INDUSTRIAL TECHNIQUE	POWER TECHNIQUE	(EPIROC) MINING AND ROCK EXCAVATION TECHNIQUE
Compressor Technique Service Industrial Air Oil-free Air Professional Air Gas and Process Medical Gas Solutions Airtec	Vacuum Technique Service Semiconductor Service Semiconductor High Vacuum Industrial Vacuum	Industrial Technique Service MVI Tools and Assembly Systems General Industry Tools and Assembly Systems Chicago Pneumatic Tools Industrial Assembly Solutions	Power Technique Service Specialty Rental Portable Air Power and Flow	Mining and Rock Excavation Service Underground Rock Excavation Surface and Exploration Drilling Drilling Solutions Rocktec Rock Drilling Tools Hydraulic Attachment Tools

DIVISIONS

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

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. In 2017, Atlas Copco's operations were organized in five business areas comprised of 27 divisions. From January 1, 2018, the Group is organized in five business areas comprised of 28 divisions. The Mining and Rock Excavation Technique business area belongs to Epiroc, the business that is planned to be distributed to shareholders of Atlas Copco as a dividend (see page 16). See the organization chart on page 8. 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 a business board is to serve in an advisory and decision-making capacity concerning strategic and operative issues. It also ensures the implementation of controls and assessments. 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 formally approves the Business Code of Practice.

The President and CEO is responsible for the ongoing management of the Group following the Board's guidelines and instructions. 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.

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.

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. Atlas Copco's definition of good leadership is the ability to create lasting results.

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.

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 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 and priorities presented on pages 6–7 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.

This is how we do business

Atlas Copco is characterized by focused businesses, a 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 – human, natural and capital.

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 and 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

More than 40% 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 solve problems and 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 in-house those components that are critical for the performance of the equipment. For non-critical components, Atlas Copco leverages the capacity and the competence of business partners and cooperates with them to continuously achieve product and process improvements. Approximately 75% of the production cost of equipment represents purchased components and about 25% are internally manufactured core components, assembly costs and overhead.

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

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

Atlas Copco has a global reach with sales in more than

180

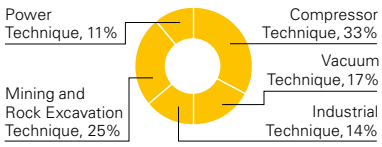
countries

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

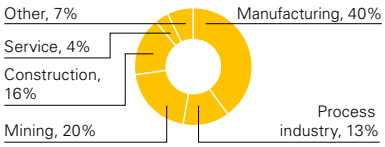
PRIMARY DRIVERS OF REVENUES

	EQUIPMENT	SERVICE
INDUSTRY	Industrial machinery investment	Industrial production
CIVIL ENGINEERING	Investment in infrastructure	Construction activity
MINING	Mining machinery investment	Metal and ore production

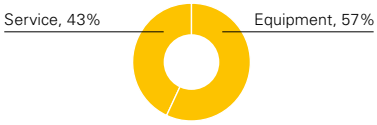
SHARE OF REVENUES BY BUSINESS AREA



ORDERS RECEIVED BY CUSTOMER CATEGORY



SHARE OF REVENUES



Investments in fixed assets and working capital

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

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

Acquisitions

Acquisitions are primarily made in, or very close to, 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.

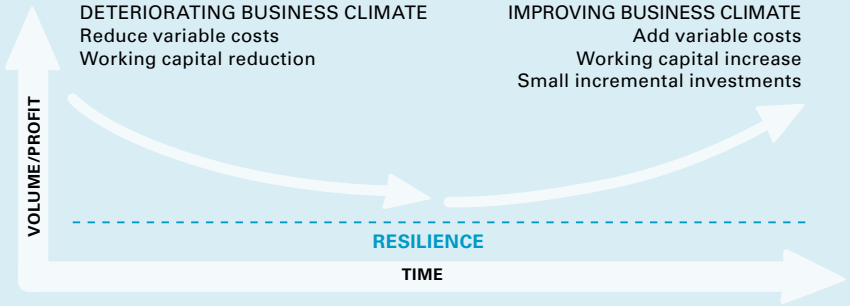
Leadership and human capital

Atlas Copco believes that competent and committed leaders are crucial to achieving sustainable profitable growth and has developed a leadership model.

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 as well as 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 and supported by continuous competence development and an internal job market. Employees are encouraged to grow professionally and take up new positions. If the company needs to adapt capacity in a deteriorating business climate, the first action is to stop recruitment. Layoffs are the last resort.

AGILE AND RESILIENT OPERATIONAL SETUP



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.

Creating value for all stakeholders – The way we do things

Sustainable productivity by a responsible use of resources …

NATURAL RESOURCES

- 506 GWh total energy use
- 312 000 m^3 water use in water risk areas
- 75% purchased components

FINANCIAL RESOURCES

- MSEK 82 318 in capital employed
- MSEK 3 297 investments in innovation*

HUMAN RESOURCES

- 45 986 employees in about 90 countries
- 53 nationalities among the 459 most senior managers

Close to the customer
with application knowledge and professional service

Innovate for customers' success

Agile setup
and asset light operations

Decentralized leadership model

* Investments in product development, including capitalized expenditures

Atlas Copco has a vision to become and remain First in Mind—First in Choice® for all of its 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. On this spread, we illustrate how we with responsible use of resources – human, natural and capital – create value for customers, employees, business partners, shareholders, as well as for society and the environment.

...creates value for our stakeholders:

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

EMPLOYEES
- 1.7 million training hours world wide
- 9% decrease of number of accidents per million working hours

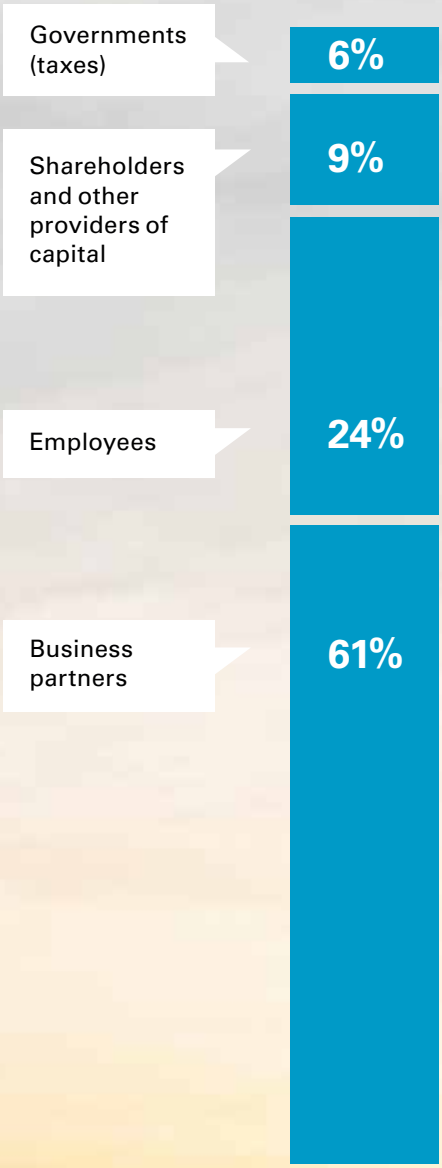
BUSINESS PARTNERS
- More than 5 000 significant suppliers
- Leverage competence
- Market access
- Long term reliable partner
- Over 1 000 suppliers were audited for quality, safety, health, environment and ethics

SHAREHOLDERS
- 17.7% annual total return A-share, 10 year
- 30% return on capital employed
- MSEK 18 856 operating cash flow*

SOCIETY/ENVIRONMENT
- 99% of managers have signed the Business Code of Practice
- 7% reduced water consumption in relation to cost of sales in water risk areas
- 41% renewable share of total MWh energy used in operations
- MSEK 24 in community investments

* Including discontinued operations

...and distributes direct economic value* of MSEK 109 517 to:



* Direct economic value according to Global Reporting Initiative Guidelines includes revenues, other operating income, financial income, profit from divested companies and share of profit in associated companies. More information on page 51. The MSEK 109 517 of distributed economic value above does not include the MSEK 8 316 of economic value retained shown at page 51.

The year in review

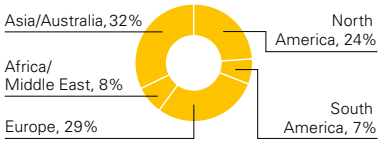
MARKET REVIEW AND DEMAND DEVELOPMENT

The overall order intake for Atlas Copco's equipment and services increased 20% in 2017 to a record MSEK 123 431 (102 812). The organic increase was 15%. Acquisitions contributed with 4% and more favorable exchange rates with 1%. The service business to manufacturing and process customers as well as service in the mining and civil engineering segment both grew and reached in total, 8% growth organically. Consumables for mining and civil engineering achieved about 10% organic growth. The order intake for the specialty rental business in the Power Technique business area increased by 15%.

The orders received for equipment increased by 19% organically. Orders for industrial compressors and gas and process compressors increased. Significant growth was achieved for vacuum equipment, supported by strong demand from the semiconductor and flat panel display industry, as well as from customers with industrial and high vacuum applications. Order volumes for industrial tools and assembly solutions also increased, supported by strong demand from customers in the automotive, off-road, general assembly, electronics, and metal fabrication application segments.

Order volumes for mining and rock excavation equipment increased considerably, driven by expansions of existing mines and replacement investments. Strong growth was also achieved for portable energy and construction equipment. See also business area sections on pages 22–38.

REVENUES BY REGION



North America

The order intake in North America increased 19% in local currencies. Equipment order volumes in all segments increased. The growth was particularly strong for vacuum equipment and mining equipment. Service for industrial, as well as mining and civil engineering customers, had a positive development and the order intake increased. In total, North America accounted for 23% (24) of orders received.

South America

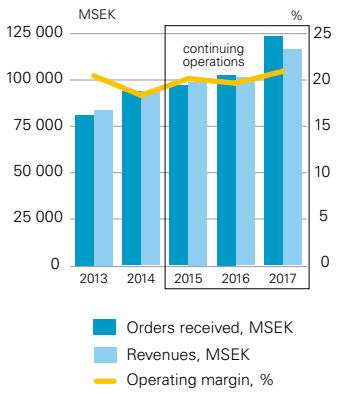
Orders received in South America increased 18% in local currencies, supported by improved demand in the largest market, Brazil. Both equipment and the service business grew. The order growth for equipment was primarily driven by compressors and mining equipment. In total, South America accounted for 7% (7) of orders received.

Europe

The orders received in Europe increased by 15% in local currencies. Service and equipment in all segments had a positive order development. Particular strong growth was achieved for vacuum equipment and mining equipment, even if growth also was achieved for construction equipment, small and medium sized compressors, large compressors and industrial tools and assembly solutions. In total, Europe accounted for 29% (30) of orders received.

SALES BRIDGE	Atlas Copco Group		
	Orders received	Orders on hand, December 31	Revenues
2015	**100 241**	**20 254**	**102 161**
Discontinued operations	–3 239		–3 188
2015	**97 002**		**98 973**
Structural change, %	+3		+3
Currency, %	–1		–1
Price, %	+1		+0
Volume, %	+3		+0
Total, %	**+6**		**+2**
2016	**102 812**	**21 597**	**101 356**
Structural change, %	+4		+4
Currency, %	+1		+1
Price, %	+0		+0
Volume, %	+15		+10
Total, %	**+20**		**+15**
2017	**123 431**	**26 841**	**116 421**

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



Africa/Middle East

Orders received in local currencies increased 7% in Africa/Middle East, which accounted for 8% (9) of the Group's orders received. The service business had a positive development in the region. Order volumes for mining equipment and compressors increased, while construction equipment and industrial tools and assembly solutions decreased.

Asia/Australia

The order intake in local currencies in Asia/Australia increased by 29%. Growth was achieved in most countries, and most significantly in China and South Korea. All equipment segments increased, especially mining and vacuum. The service business continued to have a positive development. In total, Asia/Australia accounted for 33% (30) 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 90 countries and revenues were reported in more than 180 countries.

IMPORTANT EVENTS

New business area

Vacuum Technique was established as a new business area from January 1, 2017. For further information, see pages 8 and 27–29.

New President and CEO

Mats Rahmström was appointed President and CEO of Atlas Copco AB, effective April 27, 2017. Before taking on the role as President and CEO, he was President of the Industrial Technique business area.

Changes in Group Management

Geert Follens was appointed President of the new Vacuum Technique business area and member of Group Management, effective January 1, 2017. He was previously President of the Vacuum Solutions division in the Compressor Technique business area.

Helena Hedblom was appointed President of the Mining and Rock Excavation Technique business area and member of Group Management, effective January 1, 2017. She was previously President of the Rock Drilling Tools division in the Mining and Rock Excavation Technique business area.

Henrik Elmin was appointed President of the Industrial Technique business area and member of Group Management, effective May 1, 2017. He was previously President of the Industrial Technique Service division in the Industrial Technique business area.

Vagner Rego was appointed President of the Compressor Technique business area and member of Group Management, effective August 1, 2017. He was previously President of the Compressor Technique Service division in the Compressor Technique business area.

Cecilia Sandberg was appointed Senior Vice President Human Resources and member of Group Management, effective October 1, 2017. She was previously Senior Vice President Human Resources for Swedish-based power wheelchair manufacturer Permobil.

SALES BRIDGE	Compressor Technique		Vacuum Technique		Industrial Technique		Mining and Rock Excavation Technique		Power Technique	
	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues
2015	**35 306**	**36 282**	**10 152**	**9 955**	**14 612**	**14 578**	**25 587**	**26 665**	**15 166**	**15 300**
Discontinued operations									–3 239	–3 188
2015	**35 306**	**36 282**	**10 152**	**9 955**	**14 612**	**14 578**	**25 587**	**26 665**	**11 927**	**12 112**
Structural change, %	+3	+3	+17	+19	+0	+0	+0	+0	+3	+2
Currency, %	–1	–1	+2	+2	+0	+0	–2	–2	–1	–1
Price, %	+0	+0	–1	–1	+0	+0	+0	+0	+1	+1
Volume, %	+1	–2	+20	+17	+3	+3	+2	–4	–1	–5
Total, %	**+3**	**+0**	**+38**	**+37**	**+3**	**+3**	**+0**	**–6**	**+2**	**–3**
2016	**36 515**	**36 356**	**14 021**	**13 635**	**15 112**	**15 017**	**25 565**	**25 043**	**12 110**	**11 794**
Structural change, %	+3	+3	+23	+23	+1	+1	+0	+0	+2	+2
Currency, %	+0	+0	+0	+0	+0	+0	+2	+2	+1	+1
Price, %	+0	+0	+1	+1	+0	+0	+0	+0	+0	+0
Volume, %	+9	+4	+32	+20	+9	+8	+21	+14	+8	+9
Total, %	**+12**	**+7**	**+56**	**+44**	**+10**	**+9**	**+23**	**+16**	**+11**	**+12**
2017	**40 772**	**38 768**	**21 890**	**19 582**	**16 651**	**16 377**	**31 473**	**29 166**	**13 405**	**13 246**

Acquisitions and divestments

The Group completed seven acquisitions during the year, which added net revenues of approximately MSEK 400.

In October 2017, the divestment of the Road Construction Equipment division was completed. The business was acquired by the French industrial and construction company Fayat Group.

The deal included sales and service operations in 37 countries and production units in five countries: Sweden, Germany, Brazil, India and China. The business had 1 280 employees and revenues of approximately MSEK 2 900 (MEUR 309) in 2016, and is reported as discontinued operations in 2016 and part of 2017.

Recognitions

Atlas Copco was again included in the FTSE4Good Index; was re-confirmed as a constituent of the Ethibel Sustainability Index Excellence Europe and the Ethibel Sustainability Index Excellence Global. In January 2018, Atlas Copco was awarded Prime status in the Oekom Corporate Rating.

FINANCIAL SUMMARY AND ANALYSIS

KEY FINANCIAL DATA, MSEK	*2017*	*2016*	*Change, %*
Orders received	123 431	102 812	+20
Revenues	116 421	101 356	+15
EBITDA	29 263	24 039	
– in % of revenues	25.1	23.7	
Operating profit	24 200	19 798	+22
– in % of revenues	20.8	19.5	
Adjusted operating profit	*24 949*	*20 062*	*+24*
– in % of revenues	*21.4*	*19.8*	
Profit before tax	23 129	18 805	+23
– in % of revenues	19.9	18.6	
Profit for the year, continuing operations	16 762	13 785	+22
Loss for the year from discontinued operations	–69	–1 837	
Profit for the year	16 693	11 948	+40
Basic earnings per share, SEK	13.73	9.81	
of which continuing operations per share, SEK	13.79	11.32	
Diluted earnings per share, SEK	13.63	9.79	
of which continuing operations per share, SEK	13.68	11.30	

PROPOSAL TO SPLIT THE GROUP

In January 2017, Atlas Copco initiated work to propose to the Annual General Meeting 2018 to decide on a split of the Group into two listed companies: one focused on industrial customers and the other on customers in the mining, infrastructure and natural resources segments.

Epiroc AB is a fully-owned subsidiary of Atlas Copco and the name of the business with focus on customers in mining, infrastructure and natural resources. The President and CEO, management team and members of the Board of Directors for Epiroc AB were announced in 2017.

At Atlas Copco's Annual General Meeting on April 24, 2018, the decision will be made whether to dividend out Epiroc to the shareholders of Atlas Copco and then list Epiroc on the Nasdaq Stockholm stock exchange. Provided shareholders agree with the proposal, Atlas Copco will stay focused on creating value for industrial customers, while Epiroc will be a leading productivity partner for customers in mining, infrastructure and natural resources.

For further information, please visit:
http://www.atlascopcogroup.com/investor-relations

Revenues

The Group's revenues increased 15% to MSEK 116 421 (101 356). The goal is to achieve an annual revenue growth of 8% over a business cycle. In the past 10 years, the annual revenue growth has averaged 7%.

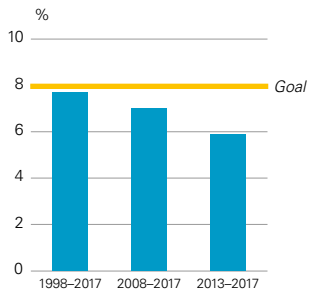
Operating profit

The operating profit was MSEK 24 200 (19 798), corresponding to a margin of 20.8% (19.5). Items affecting comparability were MSEK –749 (–264) and the adjusted operating margin was 21.4% (19.8). See also the bridge below.

The operating profit for the Compressor Technique business area increased 10% to MSEK 8 960 (8 115), corresponding to a margin of 23.1% (22.3). The margin was positively affected by higher volumes, mix and currency, but was negatively impacted by dilution from recent acquisitions.

The operating profit for the Vacuum Technique business area increased 62% to MSEK 4 956 (3 060), corresponding to a margin of 25.3% (22.4). The operating margin was supported by higher volumes, but was negatively affected by currency and dilution from acquisitions.

ANNUAL REVENUE GROWTH RATE, AVERAGE
including discontinued operations



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.

The operating profit for the Industrial Technique business area increased 22% to MSEK 4 175 (3 430) and includes items affecting comparability of MSEK +380, mainly related to a release of liabilities for contingent consideration connected to the Henrob acquisition in 2014. The adjusted operating margin was 23.2% (22.8), and was positively affected by volumes and mix, but negatively impacted by currency.

The operating profit for the Mining and Rock Excavation Technique business area increased 31% to MSEK 5 844 (4 465), corresponding to a margin of 20.0% (17.8). The margin was supported by higher volumes and positively affected by currency.

The operating profit for the Power Technique business area increased 21% to MSEK 2 137 (1 769), corresponding to a margin of 16.1% (15.0), positively affected by higher volumes. Currency and acquisitions had only marginal effect on the operating margin. Adjusted for restructuring costs, related to the move of production and R&D in Europe and India, the margin increased to 16.4%.

Net costs for common Group functions and eliminations were MSEK –1 872 (–1 041). The increase was primarily an effect of costs associated with the proposed split of the Group, and due to the provisions for share-related long-term incentive programs of MSEK –589 (–314).

Depreciation and EBITDA

Depreciation and amortization cost were MSEK 5 063 (4 241) and earnings before depreciation and amortization, EBITDA, reached MSEK 29 263 (24 039), corresponding to a margin of 25.1% (23.7).

Net financial items

The Group's net financial items totaled MSEK –1 071 (–993), whereof net interest expense MSEK –971 (–769) including a one-time interest charge of MSEK –125, related to the European Commission's decision on Belgium's tax rulings (see page 18). Other financial items were MSEK –100 (–224). See notes 8 and 27.

BRIDGE – REVENUES AND OPERATING PROFIT

MSEK	*2017*	Volume, price, mix and other	Currency	Acquisitions	Restructuring and capital gain	Share-based long-term incentive programs	*2016*
Revenues	116 421	10 120	650	4 295	–	–	101 356
Operating profit	24 200	3 992	285	610	–210	–275	19 798
Effect on margin, %	20.8	+1.8	+0.1	–0.3	–0.2	–0.3	19.5

	Revenues		Operating profit		Operating margin, %		Return on capital employed, %		Investments in tangible fixed assets [1]	
MSEK	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*	*2017*	*2016*
Compressor Technique	38 768	36 356	8 960	8 115	23.1	22.3	80	69	358	247
Vacuum Technique	19 582	13 635	4 956	3 060	25.3	22.4	25	19	443	166
Industrial Technique	16 377	15 017	4 175	3 430	25.5	22.8	43	34	259	287
Mining and Rock Excavation Technique	29 166	25 043	5 844	4 465	20.0	17.8	43	32	921	800
Power Technique	13 246	11 794	2 137	1 769	16.1	15.0	20	17	799	762
Common Group functions/eliminations	–718	–489	–1 872	–1 041					351	249
Total Group	**116 421**	**101 356**	**24 200**	**19 798**	**20.8**	**19.5**	**30**	**27**	**3 131**	**2 511**

[1] Excluding assets leased

Profit before tax

Profit before tax amounted to MSEK 23 129 (18 805), corresponding to a profit margin of 19.9% (18.6).

Taxes

Taxes for the year amounted to MSEK 6 367 (5 020). The effective tax rate was 27.5% (26.7). At the end of 2017, both Belgium and the United States have announced major corporate income tax reforms, which are expected to decrease the Group's yearly effective tax rate by 2–3 percentage points.

Following the European Commission's decision in January 2016 on Belgium's tax rulings, 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) during 2016. Atlas Copco has paid the remaining amount, whereof MEUR 68 (MSEK 655) in the second quarter 2017. Atlas Copco has appealed the decision, but it will likely take several years until a final judgment from the European Court of Justice is known. See also note 9.

Profit and earnings per share

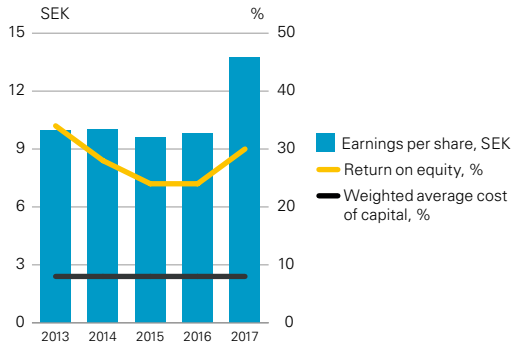
Profit for the year from continuing operations increased 22% to MSEK 16 762 (13 785). This corresponds to basic and diluted earnings per share of SEK 13.79 (11.32) and SEK 13.68 (11.30) respectively. Including discontinued operations the profit for the year was MSEK 16 693 (11 948) corresponding to basic and diluted earnings per share of SEK 13.73 (9.81) and SEK 13.63 (9.79), respectively.

BALANCE SHEET IN SUMMARY

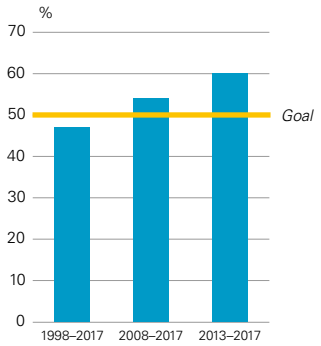
MSEK	*Dec 31, 2017*		*Dec 31, 2016*	
Intangible assets	35 151	28%	37 828	33%
Rental equipment	2 934	2%	3 095	3%
Other property, plant and equipment	9 523	8%	9 793	8%
Other fixed assets	3 614	3%	4 175	4%
Inventories	18 415	15%	16 912	14%
Receivables	30 117	24%	27 685	24%
Current financial assets	1 295	1%	2 455	2%
Cash and cash equivalents	24 496	19%	11 458	10%
Assets classified as held for sale	193	0%	2 491	2%
Total assets	**125 738**	**100%**	**115 892**	**100%**
Total equity	60 723	48%	53 177	46%
Interest-bearing liabilities	28 182	23%	28 629	25%
Non-interest-bearing liabilities	36 777	29%	33 275	28%
Liabilities directly associated with assets held for sale	56	0%	811	1%
Total equity and liabilities	**125 738**	**100%**	**115 892**	**100%**

The Group's total assets increased 13% to MSEK 125 738 (115 892), whereof assets held for sale represent MSEK 193 (2 491). The strong operating cash generation explains the majority of the increase. Cash, cash equivalents and other current financial assets increased to MSEK 25 791 (13 913).

RETURN ON EQUITY AND EARNINGS PER SHARE
including discontinued operations



DIVIDEND/EARNINGS PER SHARE, AVERAGE
including discontinued operations



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

Dividend policy history

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

EQUITY

MSEK	***2017***	***2016***
Opening balance	53 177	46 750
Profit for the year	16 693	11 948
Other comprehensive income for the year	–609	2 785
Shareholders' transactions	–8 538	–8 306
Closing balance	60 723	53 177
Equity attributable to		
– owners of the parent	60 639	53 105
– non-controlling interests	84	72

At year end, Group equity including non-controlling interests was MSEK 60 723 (53 177), corresponding to 48 % (46) of total assets. Equity per share (including discontinued operations) was SEK 50 (44). Atlas Copco's market capitalization at year end was MSEK 420 076 (329 940), or 691 % (620) of net book value.

The information related to public takeover bids given for the Parent Company, on page 21, is also valid for the Group.

Total comprehensive income for the year increased to MSEK 16 084 (14 733), see page 69 and note 10. Shareholders' transactions include dividends totaling MSEK –8 255 (–7 687), sales and repurchases of own shares of net MSEK –236 (–470), and share-based payments of net MSEK –28 (6).

Interest-bearing debt and net indebtedness

Total interest-bearing debt was MSEK 28 182 (28 629), whereof post-employment benefits MSEK 3 034 (3 907). The Group has an average maturity of 4.7 years on interest-bearing liabilities. See notes 21 and 23 for additional information.

The Group's net indebtedness, adjusted with MSEK 75 (113) for the fair value of related interest rate swaps, amounted to MSEK 2 466 (14 829) at year end. The net debt/EBITDA ratio was 0.1 (0.6) and the debt/equity ratio was 4 % (28).

Credit rating

Atlas Copco's long and short-term debt is rated by Standard & Poor's and Fitch with the long-/short-term rating A/A1 and A/F1, respectively.

Operating cash flow and investments (including discontinued operations)

Operating cash surplus was MSEK 29 370 (24 600). Cash flows from financial items were MSEK 329 (–771). The change is primarily due to cash flows from currency hedges of loans of MSEK 1 416 (–10), where the offsetting cash flow from the loans occurs in the future. Net pension funding and payments were MSEK –1 280 (–543). The working capital decreased by MSEK 1 215 (2 875), due to an increase in trade payables and a reduction of inventory. Net investments in rental equipment increased to MSEK 948 (748). Net cash from operating activities amounted to MSEK 21 380 (18 281).

Gross investments in property, plant and equipment increased to MSEK –1 742 (–1 369). Notable investments in 2017 were made by Compressor Technique in Italy, by Vacuum Technique in South Korea, China and Japan, by Industrial Technique in the United Kingdom, Japan and South Korea, by Mining and Rock Excavation Technique in India and in the United States, and by Power Technique in the United States and in Belgium. Sale of property, plant and equipment increased to MSEK 179 (144).

Net investments in intangible fixed assets, mainly related to capitalization of development expenditures, were MSEK –1 019 (–1 012). Investments in other assets were MSEK 784 (–195). The difference compared to the previous year can to a large extent be explained by a sale of a portfolio of financing contracts, related to customer financing.

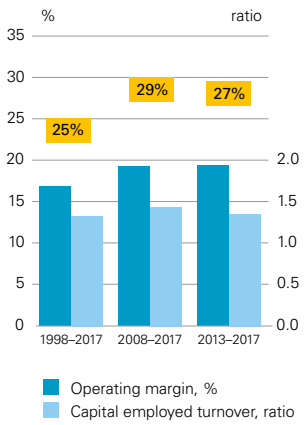
Operating cash flow increased 4 % and reached a record of MSEK 18 856 (18 109). The contribution from discontinued operations to this number was very small.

The net cash flow from acquisitions and divestments amounted to MSEK –1 040 (–4 716). See also note 2.

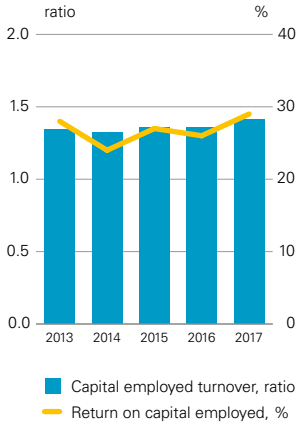
The Group's goal is to deliver sustained high return on capital employed, by constantly striving for operational excellence and generating growth.

% *Average return on capital employed*

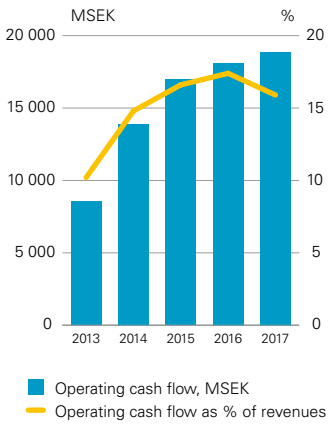
RETURN ON CAPITAL EMPLOYED *including discontinued operations*



CAPITAL EMPLOYED TURNOVER AND RETURN *including discontinued operations*



OPERATING CASH FLOW *including discontinued operations*



Cash flow from financing (including discontinued operations)
Dividends paid amounted to MSEK –8 255 (–7 687). Sales and repurchases of own shares equaled net MSEK –236 (–470). Change in interest-bearing liabilities was MSEK 765 (–766).

Working capital ratios
The ratio of inventories to revenues at year end decreased to 15.8% (16.7), and trade receivables decreased to 19.6% (21.1). Trade payables increased to 12.2% (10.1).

Capital turnover
The capital turnover ratio including discontinued operations was 0.99 (0.95). The capital employed turnover ratio for continuing operations was 1.41 (1.39).

Return on capital employed and return on equity
Return on capital employed was 30% (27) and the return on equity, including discontinued operations, was 30.1% (24.3). The Group uses a weighted average cost of capital (WACC) of 8% (8) as an investment and overall performance benchmark.

Employees
In 2017, the average number of employees in the Atlas Copco Group increased by 3 237 to 45 986. At year end, the number of employees was 47 599 (44 695) and the number of full-time consultants/external workforce was 4 216 (3 300). For comparable units the total workforce increased by 3 511. See also pages 44–46.

AVERAGE NUMBER OF EMPLOYEES	*2017*	*2016*
Atlas Copco Group	45 986	42 749
– Sweden	3 993	3 806
– Outside Sweden	41 993	38 943
Business areas		
– Compressor Technique	16 206	15 275
– Vacuum Technique	6 322	4 737
– Industrial Technique	6 739	6 186
– Mining and Rock Excavation Technique	11 512	10 911
– Power Technique	4 302	4 171
– Common Group functions	905	1 468

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 totaled MSEK 48 890 (9 802). Profit for the year amounted to MSEK 48 085 (9 232).

Financing
The total assets of the Parent Company were MSEK 177 990 (123 098). At year end 2017, cash and cash equivalents amounted to MSEK 17 548 (8 165) and interest-bearing liabilities, excluding post-employment benefits, to MSEK 95 193 (79 797), whereof the main part is Group internal loans. Equity represented 45% (34) of total assets and the non-restricted equity totaled MSEK 75 177 (35 578).

Employees
The average number of employees in the Parent Company was 101 (106).

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 the Group are exposed. A financial risk management committee meets regularly to take decisions about how to manage these risks. See also Risks, risk management and opportunities on pages 52–55.

Appropriation of profit
The Board of Directors proposes to the Annual General Meeting, April 24, 2018 the following:
1. An ordinary dividend of SEK 7.00 (6.80) per share to be paid for the 2017 fiscal year. Excluding shares currently held by the company, this corresponds to a total of MSEK 8 496 (8 258). The record date for the dividend is April 26. Due to the proposed split of the company, the dividend for 2017 is proposed to be paid in one installment. The intention is to return to two installments in the coming years.

2. A mandatory share redemption procedure, whereby each share is split into one ordinary share and one redemption share. The redemption share is then automatically redeemed at SEK 8.00 per share. This corresponds to a total of MSEK 9 710. Combined with the proposed ordinary dividend, shareholders will receive MSEK 18 206. The proposed preliminary record day for the share redemption split is May 11, 2018. The payment of the redemption shares would, if approved, be made around June 11, 2018.

3. A dividend of the shares in Epiroc AB so that the shareholders in Atlas Copco AB will receive for each A-share held in Atlas Copco AB an Epiroc AB A-share and for each B-share an Epiroc AB B-share. The record date for this dividend, and listing of Epiroc AB on Nasdaq Stockholm is planned for June 2018, subject also to the approval of the Nasdaq listing committee.

SEK	
Retained earnings including reserve for fair value	27 091 432 680
Profit for the year	48 085 436 665
	75 176 869 345
The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a dividend of SEK 7.00 per share	8 496 077 443
To be retained in the business	66 680 791 902
Total	**75 176 869 345**

Shares and share capital
At year end, Atlas Copco's share capital totaled MSEK 786 (786) and a total number of 1 229 613 104 shares divided into 839 394 096 class A shares and 390 219 008 class B shares were issued. Net of 15 641 596 class A shares and 246 159 class B shares held by Atlas Copco, 1 213 725 349 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 2017, 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 on the number of votes that can be cast at a General Meeting of shareholders.

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

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

A decentralized Group

Atlas Copco is a world-leading provider of sustainable productivity solutions. The Group serves customers with innovative compressors, vacuum solutions and air treatment systems, construction and mining equipment, power tools and assembly solutions.

Atlas Copco develops products and service 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 2017, Atlas Copco had revenues of BSEK 116 (BEUR 12) and more than 45 000 employees.

KEY FIGURES, MSEK	2017	2016	Change, %
Orders received	123 431	102 812	20%
Revenues	116 421	101 356	15%
Operating profit	24 200	19 798	22%
Operating margin, %	20.8	19.5	
Return on capital employed, %	30	27	
Investments	3 131	2 511	
Average number of employees	45 986	42 749	

Compressor Technique

Atlas Copco's 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	2017	2016	Change, %
Orders received	40 772	36 515	12%
Revenues	38 768	36 356	7%
Operating profit	8 960	8 115	10%
Operating margin, %	23.1	22.3	
Return on capital employed, %	80	69	
Investments	358	247	
Average number of employees	16 206	15 276	

Vacuum Technique

The Vacuum Technique business area provides vacuum products, exhaust management systems, valves and related products. The main markets served are semi-conductor 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.

PAGE 27

KEY FIGURES, MSEK	2017	2016	Change, %
Orders received	21 890	14 021	56%
Revenues	19 582	13 635	44%
Operating profit	4 956	3 060	62%
Operating margin, %	25.3	22.4	
Return on capital employed, %	25	19	
Investments	443	166	
Average number of employees	6 322	4 737	

– five business areas

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	2017	2016	Change, %
Orders received	16 651	15 112	10%
Revenues	16 377	15 017	9%
Operating profit	4 175	3 430	22%
Operating margin, %	25.5	22.8	
Return on capital employed, %	43	34	
Investments	259	287	
Average number of employees	6 739	6 186	

Mining and Rock Excavation Technique

The Mining and Rock Excavation Technique business area provides equipment for drilling and rock excavation, a complete range of related consumables and service through a global network. The business area innovates for sustainable productivity in surface and underground mining, infrastructure, civil works, well drilling and geotechnical applications.

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KEY FIGURES, MSEK	2017	2016	Change, %
Orders received	31 473	25 565	23%
Revenues	29 166	25 043	16%
Operating profit	5 844	4 465	31%
Operating margin, %	20.0	17.8	
Return on capital employed, %	43	32	
Investments	921	800	
Average number of employees	11 512	10 911	

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.

PAGE 36

KEY FIGURES, MSEK	2017	2016	Change, %
Orders received	13 405	12 110	11%
Revenues	13 246	11 794	12%
Operating profit	2 137	1 769	21%
Operating margin, %	16.1	15.0	
Return on capital employed, %	20	17	
Investments	799	762	
Average number of employees	4 302	4 171	

Compressor Technique 2017 in review

The equipment and service business continued to grow. The order intake increased for industrial compressors, gas and process compressors and service. Geographically, order volumes increased in all regions. The business area continued to invest in market presence, service, product development, and production.

Business development

The demand for the business area's equipment and services was strong. In total, the order intake increased 9% organically. Orders received for equipment increased in all major regions.

Both large and small sized industrial compressors achieved good growth. The order development was slightly better in the first half of the year compared to the second half. Order volumes for gas and process compressors increased, primarily due to good order development in Asia and North America.

The service business continued to grow in all regions.

Market presence and organizational development

The business area continued to invest in innovation and market presence by adding resources in research and development, marketing and sales, as well as in service.

Through selected acquisitions, the business area increased its presence in targeted markets and customer segments. As an example, the acquisition of Pressure Compressores in Brazil added important piston compressor technology and strengthened the business area's market position in South America.

Investments were also made in production facilities, including a new automated production for line filters in Italy.

Acquisitions

The business area made five acquisitions in 2017:

- Hb Kompressoren Druckluft- und Industrietechnik GmbH, a German distributor and service provider of industrial air compressors, with 10 employees.
- Orcan Basincli Hava Makinalari San. ve Tic. Ltd., a compressor distributor in the European part of Turkey, with 17 employees.
- Pressure Compressores, a Brazilian manufacturer of piston compressors and related equipment. The company had about 150 employees and revenues in 2016 of about MSEK 145.
- Certain assets of the US-based Atlas Copco compressor distributor Glauber Equipment Corporation was acquired. 16 employees joined Atlas Copco.
- The operating assets of C.H. Spencer & Company Co., a US distributor and service provider of industrial pumps, compressors, and related products. 40 employees joined Atlas Copco.

Revenues, profits and returns

Revenues increased 7% to MSEK 38 768 (36 356), corresponding to a 4% organic increase. Operating profit increased 10% to a record of MSEK 8 960 (8 115), corresponding to a margin of 23.1% (22.3). The operating margin was supported by currency and volume, but was negatively impacted by dilution from acquisitions. The return on capital employed was 80% (69).

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

- Investments in machinery
- Industrial production
- Energy costs

REVENUES, MSEK

38 768

2016: 36 356

OPERATING PROFIT MARGIN

23.1%

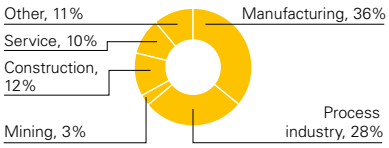
2016: 22.3%

RETURN ON CAPITAL EMPLOYED

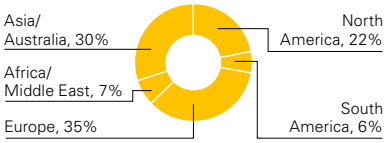
80%

2016: 69%

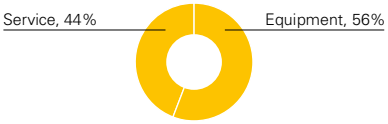
ORDERS RECEIVED BY CUSTOMER CATEGORY



REVENUES BY REGION

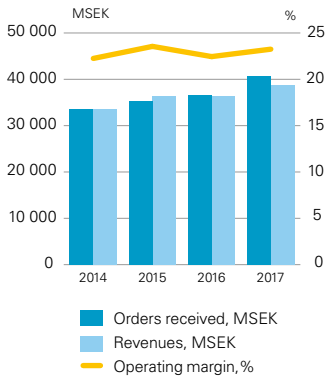


SHARE OF REVENUES



SALES BRIDGE	Orders received	Revenues
2015	**35 306**	**36 282**
Structural change, %	+3	+3
Currency, %	–1	–1
Price, %	+0	+0
Volume, %	+1	–2
Total, %	**+3**	**+0**
2016	**36 515**	**36 356**
Structural change, %	+3	+3
Currency, %	+0	+0
Price, %	+0	+0
Volume, %	+9	+4
Total, %	**+12**	**+7**
2017	**40 772**	**38 768**

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



INNOVATION DURING 2017

Several new products were introduced during the year, including:

A silent and performance-enhancing oil-injected screw compressor range.

A new range of air dryers that provide minimized pressure drop, low energy cost and low noise level.

A low-energy consuming dryer, designed to maximize operational reliability.

A new large oil-free centrifugal compressor offers premium energy efficiency and easy preventive maintenance.

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

- 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
- Perform more service on a higher share of the installed base of equipment
- Increase operational efficiency
- Invest in employees and 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, Cameron, Sullair 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 waste water 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/petro-chemical 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

Business Area President:
Vagner Rego

THE DIVISIONS December 31, 2017

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 2017 in review

The demand for vacuum equipment and services increased considerably in 2017. Order volumes for equipment to the semiconductor and flat panel display industry, as well as industrial and high vacuum applications, increased. The business area invested in market presence, innovation, and production.

Business development

The demand for vacuum equipment and related services was strong. In total, the order intake increased 33% organically. Strong growth was achieved in all major regions.

Order volumes for equipment to the semiconductor and flat panel display industry increased significantly and was supported by strong demand from the electronics industry. The order growth was primarily driven by the development of the semiconductor industry in Asia and North America.

Vacuum equipment for industrial and high vacuum applications also achieved strong growth. Geographically, the order volumes increased markedly in Europe, Asia and North America.

The service business developed well, and the order intake increased considerably. Order growth was achieved in all regions.

Market presence and organizational development

The Vacuum Technique business area was established in 2017. As from January 1, the business area was operational with five divisions focusing on different market segments and product offerings. During 2017, several activities have been carried out to further increase customer focus, organizational agility, and operational efficiency.

The business area invested in innovation and market presence with an increased number of employees in research and development, service, and marketing and sales.

To meet the demand from the favorable business climate, the business area made investments in increased production capacity in Korea, China, and Japan.

Acquisitions and divestments

In addition to continued successful integration of the Leybold and CSK businesses acquired in 2016, the business area completed one acquisition in 2017 – the remaining 45% stake in CSKT Inc., a joint venture in Taiwan that sells and services gas abatement and chemical delivery systems. Atlas Copco acquired a 55% stake in CSKT with the acquisition in 2016 of CSK Inc., a South Korean exhaust management company.

Revenues, profits and returns

Revenues increased 44% to MSEK 19 582 (13 635) with strong contribution from acquisitions. Organically, the revenues increased 21%. Operating profit increased 62% to MSEK 4 956 (3 060), corresponding to a margin of 25.3% (22.4). The operating margin was supported by higher volumes, but was negatively affected by acquisitions and currency. Return on capital employed was 25% (19).

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 sector represent about 60% of the revenues, while 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 and 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 processes

Vacuum Technique 2017 in review, continued

REVENUES, MSEK

19 582

2016: 13 635

OPERATING PROFIT MARGIN

25.3%

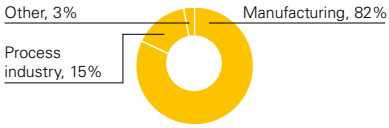
2016: 22.4%

RETURN ON CAPITAL EMPLOYED

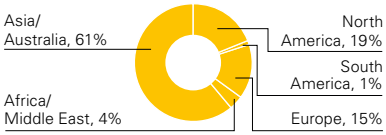
25%

2016: 19%

ORDERS RECEIVED BY CUSTOMER CATEGORY



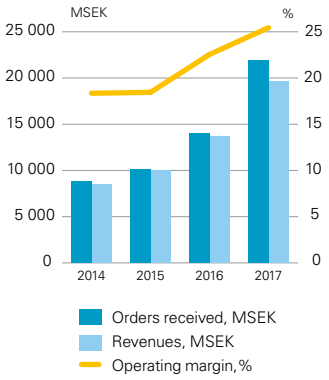
REVENUES BY REGION



SHARE OF REVENUES

SALES BRIDGE	Orders received	Revenues
2015	**10 152**	**9 955**
Structural change, %	+17	+19
Currency, %	+2	+2
Price, %	–1	–1
Volume, %	+20	+17
Total, %	**+38**	**+37**
2016	**14 021**	**13 635**
Structural change, %	+23	+23
Currency, %	+0	+0
Price, %	+1	+1
Volume, %	+32	+20
Total, %	**+56**	**+44**
2017	**21 890**	**19 582**

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



INNOVATION DURING 2017

Several new products were introduced during the year, including:

A vacuum pump for laboratories and research facilities, offering energy savings and reduced noise level.

A new abatement system that eliminates potential harmful gases from semiconductor manufacturing process exhaust.

An energy-efficient turbo pump for industrial coating applications.

A new range of dry scroll pumps offering industrial and R&D customers best in class performance.

VISION AND STRATEGY

The vision is to be First in Mind—First in Choice® for vacuum and abatement solutions. The strategy is focused on the following areas; 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 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/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 and integrate them successfully

COMPETITION

Vacuum Technique's principle competitors are:
Semiconductor sector: DAS Environmental Expert, Ebara, Kashiyama, Pfeiffer Vacuum, Shimadzu Corporation, ULVAC Technologies
Industrial and high vacuum market: Gardner Denver, Pfeiffer Vacuum, ULVAC Technologies, 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

Abatement system

Oil-sealed rotary vane vacuum pumps
The latest generation of oil sealed rotary vane pumps have 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 moulding 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 & 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 & 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

Business Area President:
Geert Follens

THE DIVISIONS December 31, 2017

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

Industrial Technique 2017 in review

The business area continued to grow, and increased order volumes were supported by investments in the automotive industry and general industry, as well as a strong demand for service. Investments were made in market presence, service, product development, and production.

Business development

The demand for advanced industrial tools and assembly solutions continued to be strong, supported by investments from the motor vehicle industry and by customers in general industry. Orders received increased 9% organically.

The orders received for advanced industrial tools and assembly solutions from the motor vehicle industry increased as manufacturers continued to invest in new and upgraded production lines. The growth was supported by positive order development to production of electrical and light vehicle cars. Order volumes increased in Asia, North America and Europe, while they declined in South America.

The order intake for industrial power tools from the general manufacturing industries increased. Order volumes increased in all major regions. The growth was supported by good order development for application segments like general assembly, off-road, metal fabrication and electronics industries.

The orders development for the vehicle service business, which provides large fleet operators and specialized repair shops with tools and other equipment, was more or less flat.

The service business continued to develop strongly. Customers increasingly demand service and maintenance support, ranging from ad-hoc maintenance to management of all tool maintenance at the customer site. Growth was achieved in all regions compared to the previous year.

Market presence and organizational development

The business area invested in market presence and innovation with an increased number of employees in research and development, service, and marketing and sales. During 2017, focused marketing activities were carried out to strengthen the position as a partner for the development of customers' smart factories and industry 4.0.

Investments were also made in production and innovation facilities, including a new production facility for self-pierce riveting and dispensing equipment in Shanghai (China), and innovation centers for self-pierce rivets in the United Kingdom, Japan, and South Korea.

Revenues, profits and returns

Revenues increased 9% to a record MSEK 16 377 (15 017), corresponding to 8% organic increase. Operating profit was MSEK 4 175 (3 430). The margin increased to 25.5% (22.8) and includes items affecting comparability of MSEK +380, mainly related to a release of liabilities for contingent consideration connected to the Henrob acquisition in 2014. The adjusted operating margin was 23.2% (22.8), and was positively affected by volumes, but negatively impacted by currency. Return on capital employed was 43% (34). Return on capital employed, adjusted for the item affecting comparability mentioned above, was 39%.

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 application served is primarily assembly operations. The motor vehicle industry has been at the forefront of demanding more accurate fastening tools that minimize errors in production and enable recording and traceability of operations. The business area has successfully developed advanced electric industrial tools and assembly systems that assist customers in achieving fastening according to their specifications and minimizing errors and interruptions in production. 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 to 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 applications in production facilities.

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

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

MARKET TRENDS

- 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
- Power tools with electric motors, partly replacing pneumatic tools
- Demand for lower fuel consumption drives demand for alternative assembly methods, e.g. adhesives and self-pierce riveting
- Digitalization and demand for connectivity in production

REVENUES, MSEK

16 377

2016: 15 017

OPERATING PROFIT MARGIN

25.5%

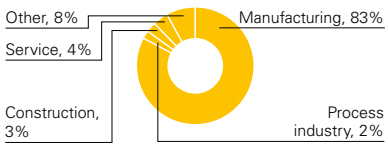
2016: 22.8%

RETURN ON CAPITAL EMPLOYED

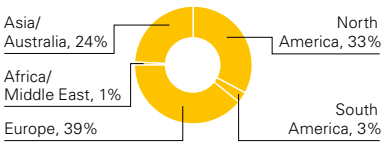
43%

2016: 34%

ORDERS RECEIVED BY CUSTOMER CATEGORY



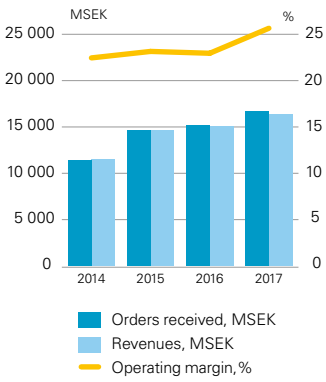
REVENUES BY REGION



SHARE OF REVENUES

SALES BRIDGE	Orders received	Revenues
2015	**14 612**	**14 578**
Structural change, %	+0	+0
Currency, %	+0	+0
Price, %	+0	+0
Volume, %	+3	+3
Total, %	**+3**	**+3**
2016	**15 112**	**15 017**
Structural change, %	+1	+1
Currency, %	+0	+0
Price, %	+0	+0
Volume, %	+9	+8
Total, %	**+10**	**+9**
2017	**16 651**	**16 377**

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



INNOVATION DURING 2017

Several new products were introduced during the year, including:

A mechatronic wrench and connected controller that report tightening results in real time.

A new system for fixtured tightening processes that supports the rebalancing of production lines and can be mounted on robots.

A software that supports error proofing in assembly applications and reduces cost for rework and warranty claims.

A wireless socket selector that offers increased flexibility and improved productivity.

DEMAND DRIVERS

- Investments in industrial tools and systems, e.g. assembly line investments
- Changes in manufacturing methods and higher requirements, e.g. quality assurance and traceability
- Industrial production

VISION AND STRATEGY

The vision is to be First in Mind—First in Choice ® as a supplier of industrial power tools, assembly systems, quality assurance products, software, and services to customers in the motor vehicle industry, in targeted areas in the general manufacturing industry and in vehicle service. The strategy is to continue to grow the business profitably by building on the technological leadership and continuously offering products and services that improve customers' productivity. Important activities are to extend the product offering, particularly with the motor vehicle industry and to provide additional services, know-how and training. The business area is also increasing its presence in general industrial manufacturing, vehicle service and geographically in targeted markets. 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
- Extend the product and service offering
- 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.

Applicator and metering unit for application of adhesives and sealants

Hand-held battery tool for assembly applications

Controller for advanced electrical assembly tools

Motor vehicle industry

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

General industrial manufacturing

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

Vehicle service

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

Self-pierce riveting tool

Principal product development and manufacturing units are located in:

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

MANAGEMENT INDUSTRIAL TECHNIQUE

Business Area President:
Henrik Elmin

THE DIVISIONS December 31, 2017

1. **Industrial Technique Service**
   President Håkan Andersson
2. **MVI Tools and Assembly Systems**
   President Lars Eklöf
3. **General Industry Tools and Assembly Systems**
   President James McAllister
4. **Chicago Pneumatic Tools**
   President Philippe Artzet
5. **Industrial Assembly Solutions**
   President Tobias Hahn

Mining and Rock Excavation Technique
2017 in review

The demand for equipment, services, and consumables was strong, driven by expansions of existing mines and replacement investments. Order volumes for both equipment and services increased in all regions. The business area invested in market presence, innovation and production to meet the favorable business climate.

Business development

The demand for equipment from customers in the mining industry was strong, supported by expansions of existing mines and replacement investments. The order intake showed strong growth for most types of underground and surface equipment.

Order volumes increased in all regions, with the highest growth in North America, Europe and Asia. The order intake for equipment for infrastructure projects increased compared to the previous year.

The demand for service, spare parts and consumables was strong, and the order intake increased in all regions.

In total, the order intake increased by 21% organically for the business area.

Organizational development

The business area increased its presence in targeted market and customer segments by selected acquisitions and by adding resources in service and sales.

Investments were also made in innovation centers and production facilities. In 2017, the business area doubled the capacity of the plant in Hyderabad (India), manufacturing mining drilling consumables. The drilling consumables production facility in Fort Loudon, Pennsylvania (USA), was also expanded.

Acquisitions, joint ventures and partnerships

The business area made one acquisition, entered two joint ventures and announced one partnership in 2017 and three acquisitions were made in January 2018:

- Two joint ventures with Hongwuhuan Group to develop, manufacture and sell equipment for the Chinese mining and civil engineering market.
- 34% of Mobilaris MCE, based in Sweden, was acquired. The business offers software solutions for situational awareness of the mines, real-time positioning and detailed status information on vehicles, equipment and personnel.
- Partnership with Saab AB and its subsidiary Combitech AB, both based in Sweden, to provide mining customers with solutions for advanced and secure digitalized operations.
- In January 2018, the assets of Renegade Drilling Supplies Proprietary Ltd., a South African manufacturer and distributor of drilling consumables for mining exploration with 22 employees was acquired.
- In January 2018, Rockdrill Services Australia Pty. Ltd., a rock drills specialist serving the Australian mining industry, was acquired. The company had revenues of about MSEK 90 and 37 employees.
- In January 2018, the assets of Cate Drilling Solutions LLC., a U.S. company that distributes and services Atlas Copco drilling equipment and components with 35 employees was acquired.

Revenues, profits and returns

Revenues increased 16% to MSEK 29 166 (25 043), corresponding to a 14% organic increase. Operating profit increased 31% to MSEK 5 844 (4 465), corresponding to a margin of 20.0% (17.8). The operating margin was positively affected by higher volumes and by currency. Return on capital employed was 43% (32).

THE MARKET

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

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

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

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

MARKET TRENDS

- More productive and safe equipment, including solutions for autonomous operations and remote control
- Increased focus on environment
- Customer and supplier consolidation
- Performance contracts for service and consumables
- Focus on total cost of operations and optimization of the value chain

DEMAND DRIVERS

Mining

- Investments in equipment
- Ore production

Civil engineering

- Infrastructure and public investments
- Non-building construction activity

Mining and Rock Excavation Technique 2017 in review, continued

REVENUES, MSEK

29 166

2016: 25 043

OPERATING PROFIT MARGIN

20.0%

2016: 17.8%

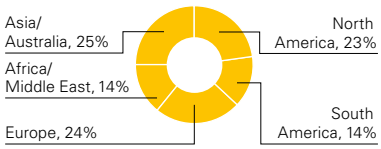
RETURN ON CAPITAL EMPLOYED

43%

2016: 32%

ORDERS RECEIVED BY CUSTOMER CATEGORY

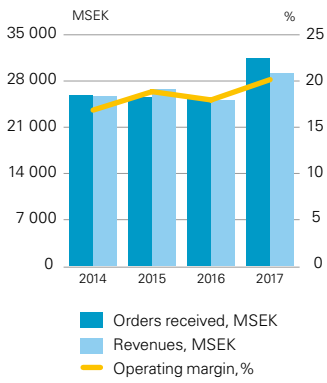
REVENUES BY REGION



SHARE OF REVENUES

SALES BRIDGE	Orders received	Revenues
2015	**25 587**	**26 665**
Structural change, %	+0	+0
Currency, %	–2	–2
Price, %	+0	+0
Volume, %	+2	–4
Total, %	**+0**	**–6**
2016	**25 565**	**25 043**
Structural change, %	+0	+0
Currency, %	+2	+2
Price, %	+0	+0
Volume, %	+21	+14
Total, %	**+23**	**+16**
2017	**31 473**	**29 166**

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



INNOVATION DURING 2017

Several new products were introduced during the year, including:

A surface drilling rig with Power Eco function, reducing fuel consumption by up to 10%.

A new power bit range that provides improved wear resistance and increased productivity.

An electrically powered product line for continuous mechanical mining, offering increased efficiency and safety.

A high capacity mine truck in a compact design prepared for automation.

VISION AND STRATEGY

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

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

STRATEGIC ACTIVITIES

- Increase market coverage and improve presence in targeted markets/segments
- Develop new sustainable products and solutions offering improved productivity and safety in line with customer demand, e.g. computerized control systems, remote control and solutions for autonomous operations
- Invest in design, development and production capacity in growth markets
- Extend the product and service offering
- Perform more service on a higher share of the installed base of machines
- Develop the service business
- Improve agility in cost and working capital
- Invest in employees and competence development
- Acquire complementary businesses and integrate them successfully

COMPETITION

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

MARKET POSITION

A leading market position globally in most of its operations.

Products and applications

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

Battery-driven underground loader for mining applications

Rock drilling tools

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

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

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

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

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

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

Ventilation systems
High-pressure fans designed especially for delivering air through ducts in mining and tunneling.

Principal product development and manufacturing units are located in:
Sweden, the United States, Canada, China and India

Surface drilling rig developed and designed for high performance in demanding construction applications

MANAGEMENT MINING AND ROCK EXCAVATION TECHNIQUE

Business Area President:
Helena Hedblom

THE DIVISIONS
December 31, 2017

1. **Mining and Rock Excavation Service**
   President Jess Kindler
2. **Underground Rock Excavation**
   President Andreas Nordbrandt
3. **Surface and Exploration Drilling**
   President Brian Doffing
4. **Drilling Solutions**
   President José Manuel Sanchez
5. **Rock Drilling Tools**
   President Arunkumar Govindarajan
6. **Rocktec**
   President Jonas Albertson

Power Technique 2017 in review

The demand for equipment, specialty rental and service improved and the order intake increased. The growth was driven by good development in North America, Asia, and Europe. The business area continued to make selective investments in market presence, product development, production, and competence development.

Business development

The demand for equipment and services improved in 2017. In total, the order intake increased 8% organically. Solid order growth was achieved in all regions except Africa/Middle East, where the order intake decreased.

Orders received for construction tools, such as breakers and silenced demolition tools increased. Order growth was achieved in most regions, and mainly driven by increased demand in Europe, Asia and North America.

Strong order growth was achieved for portable energy products, such as portable compressors, generators, pumps and light towers. Order volumes increased in Europe, Asia and the Americas, while order volumes in Africa/Middle East decreased. The order development in China was particularly strong.

The overall order intake for the service business increased compared to the previous year. Order volumes increased in Europe, Asia and North America, but decreased in South America and Africa/Middle East.

The specialty rental business developed well, and order volumes increased. The growth was primarily driven by the development in North America and Europe.

Market presence and organizational development

The business area continued its focus on innovation, and also increased its presence in targeted markets and customer segments by selected acquisitions, and by adding resources in service and sales.

Investments were made in manufacturing and competence development, including a new manufacturing plant for portable compressors and generators in Rock Hill, South Carolina (USA), and a new competence center for the specialty rental business, located in Boom (Belgium).

The name of the business area was changed from Construction Technique to Power Technique, in order to better reflect the current products and customer segments.

Acquisitions and divestments

Two acquisitions and one divestment were made in 2017. One acquisition was made in January 2018:

- Erkat Spezialmaschinen und Service GmbH, a German manufacturer of drum cutter attachments, with 38 employees and revenues in 2015 of about MSEK 110.
- Itubombas Locação Comércio Importação e Exportação, a Brazilian company which rents out pumps to professional customers, with about 40 employees and revenues of about MSEK 50 in 2016.
- Divestment of the Road Construction Equipment division. The business was acquired by the French industrial and construction company Fayat Group. The deal included sales and service operations in 37 countries and production units in five countries: Sweden, Germany, Brazil, India and China. The business had 1 280 employees and revenues of approximately MSEK 2 900 (MEUR 309) in 2016.
- In December it was announced that the business area has agreed to divest its concrete and compaction business to Husqvarna Group's Construction division. The business had revenues of about MEUR 57 (MSEK 570) in 2016. In total, approximately 200 employees will join Husqvarna Group. The divestment was completed in February 2018.
- In January 2018, Atlas Copco acquired Location Thermique Service SAS, a French steam boiler specialty rental business with 13 employees and revenues of about MEUR 7.3 (MSEK 70) in 2016.

Revenues, profits and returns

Revenues increased 12% to MSEK 13 246 (11 794), corresponding to a 9% organic increase. Operating profit increased 21% to MSEK 2 137 (1 769). The operating margin was 16.1% (15.0) and was positively affected by higher volumes. Adjusted for restructuring costs, the margin increased to 16.4% (15.0). Return on capital employed was 20% (17).

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 select 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, such as breakers as well as light compaction and concrete products. Mobile air compressors, generators, light towers and pumps provide reliable power sources for tools and applications in the construction sector as well as for mining and numerous industrial applications.

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

MARKET TRENDS

- 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.

REVENUES, MSEK

13 246

2016: 11 794

OPERATING PROFIT MARGIN

16.1%

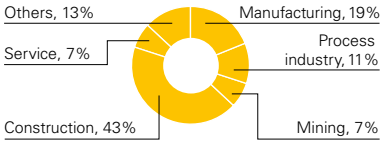
2016: 15.0%

RETURN ON CAPITAL EMPLOYED

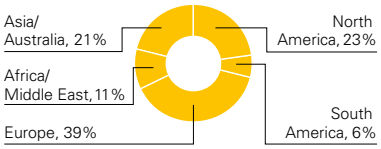
20%

2016: 17%

ORDERS RECEIVED BY CUSTOMER CATEGORY



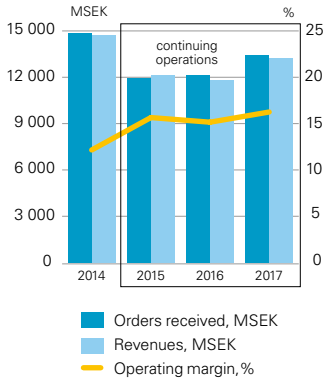
REVENUES BY REGION



SHARE OF REVENUES

SALES BRIDGE	Orders received	Revenues
2015	**11 927**	**12 112**
Structural change, %	+3	+2
Currency, %	–1	–1
Price, %	+1	+1
Volume, %	–1	–5
Total, %	**+2**	**–3**
2016	**12 110**	**11 794**
Structural change, %	+2	+2
Currency, %	+1	+1
Price, %	+0	+0
Volume, %	+8	+9
Total, %	**+11**	**+12**
2017	**13 405**	**13 246**

ORDERS RECEIVED, REVENUES AND OPERATING MARGIN



INNOVATION DURING 2017

Several new products were introduced during the year, including:

A new range of electric dewatering pumps with up to 20% less energy consumption than comparable models.

New LED light towers with high performance and robust design.

Extended range of portable generators that offers electrical power with quick start-up for customers at demanding worksites.

A new designed portable compressor offering improved durability and flexibility.

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, Selwood and Wacker Neuson. 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

Light tower for civil engineering

Handheld electronic fuel injected petrol driven 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 are offered to construction, demolition and mining businesses.

Principal product development and manufacturing units are located in:

Belgium, Spain,
Sweden, the United States,
China and India

MANAGEMENT POWER TECHNIQUE

Business Area President:
Andrew Walker

THE DIVISIONS
December 31, 2017

1. **Power Technique Service**
   President Adrian Ridge
2. **Specialty Rental**
   President Ray Löfgren
3. **Portable Energy**
   President Peter Lauwers
4. **Construction Tools**
   President Vladimir Kozlovskiy

We are committed to sustainable productivity

DRIVING FORCES FOR NEW PRODUCT DEVELOPMENTS

Customers' needs and requests e.g. for productivity, energy efficiency, total cost of ownership, quality, safety and ergonomics.

New technology e.g. Internet of things, machine connectivity and innovations in additive manufacturing.

Sustainable development goals for economic growth, decent work, sustainable industrialization, innovation and the shift to modern energy.

Laws and policies on emissions, energy efficiency, raw materials, safety, taxes, hazardous chemicals, conflict minerals etc.

Climate pledges and governmental action plans post COP 21, to decouple economic growth from emissions.

Ensuring sustainable productivity

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®.

To succeed in delivering leading technology for sustainable productivity to its customers, Atlas Copco implements most of its priorities for sustainable profitable growth at the highest operational levels of the organization. The priorities are: ethical behavior, safety and well-being, innovation, competent teams and resource efficiency. Atlas Copco regards these priorities as necessary to achieve long-term success.

The group management has decided on the Atlas Copco Group priorities for sustainable profitable growth, key performance indicators (KPIs), three-year targets and monitor progress. KPIs and targets for the first four priorities are common for all Atlas Copco companies.

Implementation is mainly done by the divisions, which together constitute the five business areas. The divisions are separate operational units, responsible for delivering results in line with the strategies and objectives set by the business area, both for financial and non-financial targets. 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 decided as a part of the three-year plan, followed-up on at company and divisional level, as well as reported to the Atlas Copco Group. The business areas and divisions have quantified targets for the priorities, such as emissions reduction, diversity and safety performance. The annual report communicates the aggregated results on the Atlas Copco Group level.

Innovation for resource efficiency

Developing innovative products and services with a life cycle perspective has been mapped as the highest priority by all of Atlas Copco's stakeholders, internal and external. The innovation KPIs are set individually by each division to be relevant to its specific businesses.

Atlas Copco has strong relationships with customers in leading positions in their industries. Trends such as increased digitalization and technology development 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, drill rigs, hydraulic breakers and industrial tools are designed so that they can be returned, refurbished and resold as used equipment. Used equipment meets the same high standards as when it was new in terms of quality, performance and energy efficiency.

Atlas Copco continued to invest in product development in 2017, and increasingly also in connectivity. Advanced technologies are required to meet customers' demands, and society requires environmentally sound and labor-friendly solutions.

In 2017, the number of people employed in research and development represented 7.2 % (7.1) of Atlas Copco's total workforce. The amount invested, including capitalized expenditures, increased by 9.4 % to MSEK 3 297 (3 013) corresponding to 2.8 % (3.0) of revenues and 3.6 % (3.7) of operating expenses.

Atlas Copco continues to invest in connectivity, through product- and service development and strategic acquisitions. For example, Atlas Copco acquired parts of a company that provides advanced software that optimizes underground mining operations, by offering situational awareness of the mines, real-time positioning and detailed status information on vehicles, equipment and personnel. The software is used for underground mining, tunneling and other civil engineering.

Atlas Copco supports the UN Sustainable Development Goals to ensure sustainable development.

SUSTAINABLE DEVELOPMENT GOALS

Through its core business operations, Atlas Copco contributes to seven of the seventeen sustainable development goals in particular. These are: gender equality (5), clean water and sanitation (6), accessible 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).

Atlas Copco's drive to innovate for sustainable productivity leads to the continuous development of highly energy- and resource-efficient products. Atlas Copco's people are the company's most valuable asset, and Atlas Copco prioritizes to offer safe working conditions and fair development opportunities. Atlas Copco lives by the highest ethical standards and demands that business partners do the same.

Products designed for energy efficiency
Enhancing productivity has always been a key priority. Increasingly, however, energy is top of mind amid concerns about its price, the impact of its emissions and the geopolitical tensions involved in producing it. A significant portion of Atlas Copco's environmental footprint concerns the use-phase of its products, with energy consumption having the most significant impact. Therefore, Atlas Copco's product development projects have ambitious targets to reduce energy consumption in a wide range of products and applications.

For instance, Atlas Copco has developed new efficient LED light towers for use in construction and mining sites. The use of LED light provides a longer lifespan and the ability to generate greater and wider illumination while consuming less power compared to conventional products. Atlas Copco's award winning LED light towers are capable of illuminating a 5 000 sq. m area, using four lamps of 350 Watts each, resulting in dramatic reductions in fuel consumption of up to 75%. The extended lifespan of LED lamps, compared with conventional light sources, is another big advantage. The expected lifetime of LED lamps under heavy duty use is anticipated at five times the longevity of metal-halide. The share of LED of total sales amounts to close to 50% in 2017.

The Henrob SPR Controller, which is used for quality assurance and monitoring for self-pierce riveting assembly tools in the automotive industry, has been developed using an eco-design process. The most significant achievement is the possibility to equip any older or future controllers with an optional energy efficiency module which reduces electrical consumption per rivet for the customer by on average 20%. The new controller also has a smaller package and weighs 40% less compared to the existing controller, saving material in production and potentially impacting the footprint from transportation positively.

The manufacturing process of semiconductor devices (chips) is conducted in a vacuum environment to ensure quality, cleanliness and control. The vacuum pumps can represent up to 20% of the total energy consumption of a semiconductor manufacturing facility, driving the need to innovate more efficient and sustainable vacuum products. The continuous evolution of Edwards-branded dry vacuum pumps for semiconductor processes demonstrate Atlas Copco's ongoing commitment to innovations leading to energy reduction. In its most recent generation platform (iXM) and its variants, the iXM range of pumps incorporates over ten patented technologies offering energy, performance, size and process compatibility benefits. Customers experience up to 60% less energy consumption with the new lower power iXM product when compared to the previous generation product. The iXM has successfully penetrated new opportunities in the semiconductor industries and has been the selected

> Atlas Copco's VSD+ technology, launched in 2013, has revolutionized the compressed air industry around the globe

How we innovate for sustainable productivity

BUSINESS AREAS

The biggest potential to increase energy efficiency and reduce emissions is through innovative products and service. Therefore, 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 during a couple of years
- It must be possible to audit 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.

Continued

solution by customers in over 50% of all new bids. In addition to the significant electrical energy savings, the iXM also features reduced nitrogen purge and cooling water requirements further reducing plant energy consumption. The physical size reduction and performance increase also saves on critical space and infrastructure in the manufacturing plant. Process compatibility enhancements substantially extend service intervals on challenging applications, reducing material waste.

Atlas Copco pioneered in the variable-speed drive (VSD) technology for compressors as early as in 1994. A VSD compressor automatically adjusts its motor speed to the air demand. The VSD allows for energy savings of 35% on average, compared to a fixed-speed compressor. Considering that 70–80% of a compressor's lifecycle cost comes from the energy consumption, this is key for the total cost of ownership. Atlas Copco's VSD+ technology, launched in 2013, has revolutionized the compressed air industry around the globe. With this breakthrough technology, Atlas Copco's customers are able to lower their compressed air energy bill by 50% on average. Today, the GA VSD+ range of oil-injected compressors is available from 7 kW all the way up to 110 kW, bringing this award-winning innovation to a very wide range of sectors and applications. The relative number of variable-speed drive units on the total number of compressors sold, has seen significant growth over the few past years.

The Scooptram ST7 battery-powered loader is a high-performance loader for tough mining conditions, fully powered by battery, enabling local zero-emission operations. Electric motors and energy efficient design result in a machine that uses 80% less energy compared to the diesel version. The Scooptram ST7 Battery is fully battery-operated, which minimizes the need for mine ventilation, while offering the same or better performance as diesel. This solution reduces cost for infrastructure in the mine as well as long-term operational costs. With an electric underground loader diesel emissions in mines are minimized, as is the impact on the environment. In addition, the battery engine reduces the heat generated inside the mine, further decreasing the need for ventilation and contributing to a better work environment for the operator. The current installed fleet of the first ten Scooptram ST7 Battery contributes to a yearly saving of about 1 750 tonnes CO_2 in local emissions.

Innovations reducing customers' energy consumption

Atlas Copco's innovative spirit and focus on customers' productivity has resulted in many break-through product launches over the years.

2013

COMPRESSORS USED IN MANUFACTURING INDUSTRY

The GA VSD+ offers a space-saving, vertical drivetrain design, energy-saving variable-speed drive (VSD) and a compact, interior permanent magnet motor. Saves up to 50% energy.

GENERATORS FOR PROCESS INDUSTRY

On-site gas generators allow customers to produce nitrogen and oxygen on site which significantly reduces customers' costs and increases energy efficiency with up to 50%.

2014

VACUUM PUMPS FOR MANUFACTURING INDUSTRY

By introducing variable-speed drive and an innovative inlet control valve, the GHS VSD+ brings energy savings of around 50% compared to traditional rotary vane pumps and dramatically reduces lifecycle costs.

GRINDERS FOR MANUFACTURING INDUSTRY

Integrated turbine motor offers 18% higher energy efficiency. Smaller motor gives better ergonomics and sound pressure level.

2015

LIGHT TOWERS FOR CIVIL ENGINEERING

LED lighting technology on the light tower range make them the most energy-efficient product in their category. These light towers are up to 60% more fuel efficient than metal-halide solutions.

COMPRESSORS FOR PROCESS INDUSTRY

High-pressure CO_2 integrally-geared turbo compressor increases energy efficiency by up to 30%.

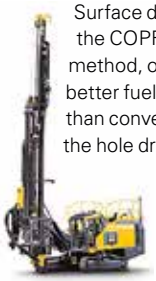
2016

VACUUM PUMPS FOR MANUFACTURING

Best in class in energy usage requiring 50% less energy. The innovative coating technology extends pump life and service intervals.

DRILL RIGS FOR MINING

Surface drill rigs using the COPROD drilling method, offering 50% better fuel efficiency than conventional down the hole drilling.



BREAKERS FOR CIVIL ENGINEERING

Reduces the compressed air consumption with 50%, has 25% lower weight and vibration levels under 5m/s2.

TOOLS FOR MANUFACTURING INDUSTRY

Introduction of 10% smaller and 20% lighter industrial tools to increase uptime and productivity.

(If nothing else is stated the comparison is made with the previous generation of this product range).

2017

COMPRESSORS FOR MANUFACTURING INDUSTRY

The GA VSD+ range offers space saving vertical drive train design, energy-saving variable-speed drive and a compact design. The new models are 8% more energy efficient than previous models.

LOADERS FOR MINING

The electric loader provides cleaner and safer operations. Compared to diesel, the battery operated equipment consumes 80% less energy, with 100% reduction in local emissions, including CO_2.

PORTABLE COMPRESSORS FOR CONSTRUCTION

PACE controller enables adjustment of the pressure and flow of the machine thereby improving fuel efficiency by up to 20%.

VACUUM PUMPS FOR PROCESS INDUSTRY

Air cooled dry vacuum pump, designed for quiet laboratory environments. Low power usage and maintenance costs, using 50% less energy than rotary vane vacuum pumps and with longer maintenance intervals.

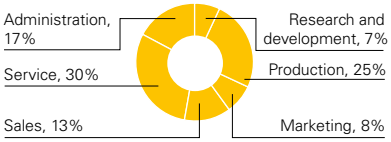
TOOLS FOR MANUFACTURING INDUSTRY

Atlas Copco's new battery pulse tool system, coupled with Power Focus 6000 controller consumes significantly less energy than its pneumatic counterparts. Energy consumption costs can be reduced by 50% up to 70%.

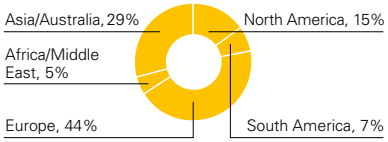
Attract and develop employees

Atlas Copco's people management strategy is to attract and develop qualified and motivated employees. The managers are expected to take responsibility for developing their employees, their organizations and themselves.

PROFESSIONAL CATEGORY SPREAD OF EMPLOYEES



GEOGRAPHICAL SPREAD OF EMPLOYEES



47 599

Number of employees December 31, 2017

To build the most competent teams is identified as one of the key priorities for creating sustainable profitable growth for Atlas Copco. The objective is that talents are professionally coached and trained, that diversity increases and 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 gives insights that help to create a better understanding of customers' needs. Atlas Copco's global diversity policy states that equal opportunity should apply whether Atlas Copco's has the role of employer, supplier, business partner or customer. Atlas Copco companies establish local diversity policies and guidelines in alignment with the Atlas Copco Group policy, local laws and regulations, and local ambitions.

Atlas Copco is committed to promoting equal opportunity in its hiring and promotion processes. A wide range of efforts to attract a diverse workforce are in place globally, such as ensuring job ads are inclusive. Striving for increased balance of the number of men and women in the workforce, Atlas Copco undertakes a variety of activities. Mentorship programs are run across the Group. In a recently launched program in the Vacuum Technique business area, at least 50 % of the up to 25 mentee positions are allocated to female applicants, to support them to take the next step in their career.

Sales leadership programs that focus on gender diversity are conducted both in the Compressor Technique and the Power Technique business areas. The aim is to support young talented sales people from all over the world to go for a front-end sales position. Employees from emerging markets are particularly encouraged to participate.

The proportion of female recent graduates recruited in 2017 among white-collar workers declined to 31% (36). The inflow of women, measured as part of external recruitment overall to the Group, was 22 % (22). Atlas Copco further strengthened its focus on social media channels as a tool to reach and attract talent in various fields of expertise and geographies. Atlas Copco is actively communicating its employee value proposition with real life examples, utilizing Atlas Copco employees as brand ambassadors. Atlas Copco has a common employer branding format in all regions to secure that full attention is paid to recruiting and retaining talent in all markets. Over the year, Atlas Copco has had a global roll-out of employer branding workshops that resulted in aligned and integrated local strategies and activity plans for talent attraction and retention in the regions.

Atlas Copco takes a firm stance on discrimination. In the end of 2017, Atlas Copco made an overview of its policies and processes to hinder sexual harassment and discrimination and took steps to increase the awareness about Atlas Copco's values and rules regarding discrimination.

The role of leadership

Atlas Copco's leaders have a key role in developing the business in a responsible way and to support the growth of employees. The Communicative Leadership Index is

GROWING TALENT

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. The internal job market is Atlas Copco's way to fulfil the principle that everyone has talent and therefore can – and should – get the chance to develop further. All open positions except the CEO are advertised on the internal job market. The objective is to have a talented, experienced workforce, which is the foundation for achieving lasting results.

There are some basic principles for talent 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

used, every other year, as one key performance indicator (KPI) to measure leadership success. The next measurement will take place in 2018.

Atlas Copco seeks to strike a balance between developing the local workforce and offering international opportunities through internal mobility. 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 has managers on international assignments coming from 54 countries and working in 58. In 2017, 66 % (65) of all senior managers were locally employed. 53 nationalities are represented among the 459 most senior managers worldwide.

Growing and mobilizing talent globally

Atlas Copco strives to encourage mobility across geographical, organizational and cultural boundaries. This is important for developing competence, but also for successful integration of newly acquired companies. Experienced senior managers lead the integration process and make it possible to establish Atlas Copco's Business Code of Practice, values and vision in an efficient and pragmatic manner.

Transparent, constructive and systematic feedback on employees' and managers' performance is an important part of being a successful and responsible employer. Performance and development discussions are followed up as a KPI. In 2017, 86 % (88) of the employees had yearly discussions.

The opportunity for employees to continuously learn and develop new skills thereby building competence and knowledge is vital. A new global competence development platform was launched in 2017 to provide relevant, accessible learning opportunities for employees. During the year, the average number of training hours per employee was 37 (37). In 2017, 56 % (56) of the white-collar employees had a university degree.

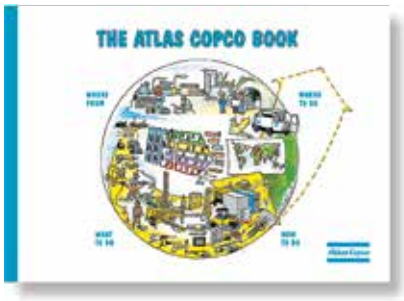
Atlas Copco has initiated a training in online marketing and management together with Lund University, Sweden, for 50 persons per year. The online distance course combines an academic approach with hands-on tools for communicators and marketers. By the end of 2017, the first group of Atlas Copco employees have completed the course and the second class taking the course will be examined during spring 2018.

In order to stimulate internal advancement and talent growth, Atlas Copco uses a KPI assessing managers according to their performance and their potential to take on more challenging tasks. 57 % (67) were assessed as having displayed both good results in their current position and to have potential for advancement. The decline is attributed to the development of a new business area in 2017, creating vacancies that impact the pool of managers.

Developing a leadership pipeline

In order to retain competence within the organization, Atlas Copco has the ambition to recruit 85 % of managers internally. The outcome in 2017 was 88 %. One key success factor to retaining talent while still growing competence and encouraging mobility, is the internal job market. In 2017, 6 149 positions were advertised, of which 600 were international. The total internal mobility among employees increased to 8.8 % (7.8). Overall external recruitment increased to 14.7% (9.6), excluding acquisitions.

MANAGEMENT PHILOSOPHY SINCE 1996



The 10th edition of the Atlas Copco book was released in 2017. The book comprises Atlas Copcos' management philosophy, sets out the Group's vision and mission, and guides and directs on strategy, structure and behavior, applicable to all employees. Five consecutive CEOs have signed off on its message since 1996.

WE BUILD THE MOST COMPETENT TEAMS

57%

Managers with highest assessment rank for performance and potential for higher positions
2016: 67% **GOAL:** 65%

22%

Inflow of women
2016: 22%
GOAL: Continuous improvement

Communicative Leadership Index rating
2016*: 75
GOAL: Continuous improvement
** measured every second year*

86%

Employees with yearly performance and development discussions
2016: 88% **GOAL:** 100%

WE INVEST IN SAFETY AND WELL-BEING

14.6

Incidents per million working hours
2016: 15.2
GOAL: Continuous improvement

2.0%

Sick leave
2016: 2.0% **GOAL:** Below 2.5 %

1

Fatalities
2016: 1 **GOAL:** 0

3.2

Accidents per million working hours
2016: 3.5
GOAL: Continuous improvement

Committed to high labor standards

As a voluntary member of the UN Global Compact since 2008, Atlas Copco ensures that labor practices such as the right to collective bargaining are included in the Business Code of Practice. 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. In 2017, 37 % of all employees were covered by collective bargaining agreements, and it is estimated that several hundred local consultations/negotiations took place with unions regarding working conditions and organizational changes. As a decentralized organization, this engagement and constructive dialogue with labor unions takes place at a local level. In countries where no independent labor union may 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 policy covers all employees and the Business Code of Practice also covers employee rights.

For full disclosure on wages and employee benefits, see note 5.

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 activities during the year has been to promote the behavioral changes that are necessary to create a safety culture in the workplace.

The Atlas Copco annual safety day is held globally, with the purpose to reinforce the safety culture. All activities taking place during Atlas Copco's global safety day are planned and conducted by the local operations, tailored to fulfill their specific challenges and needs. Activities range from life-saving techniques, to fire drills, first aid knowledge and safety on the road. Seminars and fun activities on nutrition and a healthy life-style are also arranged at many workplaces.

The number of accidents per million working hours for Atlas Copco employees decreased to 3.2 (3.5). For the additional workforce, there was an increase to 3.3 (1.4) accidents per million working hours, from 8 to 24 accidents. The increase was mainly due to quick rises in the additional workforce and increases in production. The number of incidents per million working hours decreased somewhat for Atlas Copco employees, and was fairly stable for the additional workforce. Sadly, 1 (1) fatal accident in the workforce was reported in 2017 as a technician was fatally injured while working with a drill rig during troubleshooting.

In 2017, 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 ESG note 4.

COMMITMENT TO SAFETY IN BRAZIL

The Atlas Copco Compressor Technique in São Paulo Brazil registered its latest accident in April 2014. The achievement of not having an accident since 2014 is made possible thanks to a series of actions that have been implemented in recent years by committed employees, for example the "10 Golden Safety Rules program". The company was the winner of the 2017 Atlas Copco Safety and Health award, which aims to inspire companies in their work with safety and well-being for all stakeholders.

WORKPLACE WELLNESS IN SUB-SAHARAN AFRICA

In response to the effect of HIV on employee health and productivity, Atlas Copco started HIV testing in South Africa in 2003. In 2017 the company had programs in the DR Congo, Kenya, Mozambique, Namibia, South Africa, Tanzania, Zambia and Zimbabwe in partnership with the Swedish Workplace HIV and AIDS Programme. The local Atlas Copco units provide employees with access to HIV and biometric testing, disease management and support services. Non-communicable diseases and the general well-being of employees are also addressed. The success is built on the involvement of both employees and management to design and implement effective interventions.

During 2017, a wide range of activities for employees, their families and the wider community were conducted. In Zambia, Atlas Copco has provided support also to its value chain for developing and implementing HIV and wellness programs.

Living by the highest ethical standards

Ensuring that the business grows with a clear stance against corruption and a strong commitment to respecting human rights is the right way to expand Atlas Copco's global presence. Atlas Copco works continuously with its entire value chain to protect the business from risks and to promote better standards in society.

To live by the highest ethical standards is one of the key priorities 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.

A responsible value chain approach

Human rights are 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 (ESG notes 5 and 7).

Responsible sourcing practices

Atlas Copco's business model is agile because of strategic partnerships with business partners such as suppliers, distributors and joint-venture partners. 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's purchasing strategies are decentralized to give the organization higher flexibility and to ensure the right competence. Atlas Copco has a large international supplier base, which presents significant challenges in maintaining supply chain standards. 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.

Atlas Copco prioritizes follow-up activities with significant suppliers, i.e. suppliers who represent the bulk of the annual purchase value as well as the highest risk in markets with corruption or human rights risk. In 2017, 5 310 (4 471) suppliers were within the scope of this risk-based approach. 89% (91) of the 5 310 significant suppliers have been requested to confirm compliance to Atlas Copco's 10 criteria letter. 85% (88) confirmed compliance.

Suppliers within the scope 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 (ESG note 5).

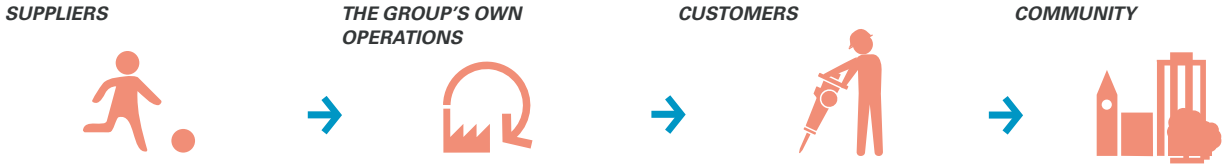
In order to ensure that Atlas Copco's values as stated in the 10 criteria letter are implemented, regular audits are performed by the business operations. In 2017, 1 167 (1 145) significant suppliers were audited for quality and 858 (774) for safety, health, environmental and ethical standards. Of these, none (14) were rejected due to quality issues and 1 (2) for safety, health, environmental or ethical standards. All new suppliers must confirm compliance with the Business Code of Practice. However, for non-red-flag issues (such as having environmental management systems), Atlas Copco seeks to work with suppliers to set up an action plan to help them meet the criteria within 6–12 months' time.

Applying the Business Code to distributors and agents

Approximately 20% of Atlas Copco's revenues are generated through sales via distributors, agents and contractors. The Group has decided that each division should develop its own process for implementing confirmed compliance with the Atlas Copco

HOW ATLAS COPCO WORKS WITH HUMAN RIGHTS IN THE VALUE CHAIN

Atlas Copco's Business Code of Practice supports the UN International Bill of Human Rights and is a central policy to guide the business in working with all issues, including human rights.



	SUPPLIERS	THE GROUP'S OWN OPERATIONS	CUSTOMERS	COMMUNITY
POLICIES	Atlas Copco has integrated the UN Global Compact principles into supplier evaluation and management. Read more on pages 47–48.	Atlas Copco's operational goals strive to create safe, healthy and fair working environments. Read more in the employees section on pages 44–46.	Atlas Copco is strengthening its approach using the UN Guiding Principles on Business and Human Rights. Read more in ESG note 7.	Atlas Copco pays the fair and legal amount of taxes to support the communities the Group operates in. Read more in ESG note 8.
ACTIVITIES	Prohibiting child labor and forced labor, responsible sourcing from high risk or conflict affected regions.	Ensuring that employees have fair labor and working conditions, diversity 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 services, education and safe development of children and vulnerable groups, as well as disaster relief.

WE LIVE BY THE HIGHEST ETHICAL STANDARDS

99%

Managers signed compliance to the Business Code of Practice
GOAL: 100% **2016**: 99%

Managers trained in the Business Code of Practice
Measured locally in 2017.
GOAL: 100%

Share of employees aware of the Group hotline or local hotline
GOAL: 100% **2016***: 64%
** measured every second year*

85%

Significant suppliers that confirmed compliance with the Business Code of Practice
GOAL: 100% **2016**: 88%

Significant agents and distributors that confirmed compliance with the Business Code of Practice
Reported on divisional level.
GOAL: 100%

Business Code of Practice among significant distributors and agents, since the number of and type of distributors and agents differ significantly between the divisions. Measuring started in 2017, and is reported on divisional level.

Sales compliance process

Atlas Copco began using the customer assessment tool in 2013 to investigate potential risks based on environmental, labor, human rights and corruption in markets and industries where Atlas Copco is present (ESG note 7).

In 2017, Atlas Copco increased its focus on opportunities to partner with customers to further understand and address human rights risks in the value chain, for example in the mining sector in South Africa. The customer assessment tool is complemented by in-depth dialogue and if relevant, field visits.

Atlas Copco's compliance board oversees and supports the operations to safeguard that the Group's 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 its 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 impacts, 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 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.

The zero tolerance of corruption is supported by a policy, procedures, training and a monitoring process. Internal control procedures are set up to minimize the risk of corruption and bribes, such as the segregation of duty. Internal audits include compliance to the Business Code of Practice. When incidents are reported, firm action is taken on a case-by-case basis (ESG note 6). 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 Atlas Copco hotline can be used by employees to report behavior or actions that are, or may be perceived as, violations of laws or of the Business Code of Practice. It serves as a complement to similar processes on country level. The Group Legal department is responsible for managing the hotline process and ensures that reports are treated confidentially. The person reporting is guaranteed anonymity.

In 2016, Atlas Copco measured employee awareness of the ethical hotline, through its biennial employee survey. On average, 64 % of the employees stated that they had knowledge of the hotline. In 2017, communication about the hotline was intensified. The process for reporting cases to the hotline was reviewed to further ensure effectiveness and the independence of the set-up.

Atlas Copco takes part in non-political arenas to influence the conditions for doing sustainable business. Through memberships in local business associations and 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

The Business Code of Practice is handed to all new employees and training is provided globally. The training corresponds to the Group's key performance indicators and matches different position levels in the organization. All managers are required to sign the Business Code of Practice each year. In 2017, 99 % of the managers signed the compliance statement. Managers also receive in-depth classroom training with dilemma cases. During 2017, training has been monitored locally, and in 2018 reporting will be done at Group level, using a new, globally applicable, competence development tool.

Efficient and 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.

Ensuring that resources are used in the most responsible and efficient way in production and by products is key to Atlas Copco. Group common goals have been established to track progress. Atlas Copco's strategy for growth relies partly on acquisitions, which can have an influence on the Group's environmental performance.

Enhanced risk management

Atlas Copco faces risks driven by changes in environmental regulations, availability of resources and other developments. Atlas Copco has developed the sustainability KPIs for resource efficiency further to integrate these risks.

Energy security

Diversifying sources of energy to include renewable sources not only has a positive environmental impact but can also benefit the business by protecting it from price fluctuations and the lack of availability of traditional energy sources.

While Atlas Copco prioritizes switching to renewable 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 has an effect on the proportion of renewable energy sources used in these particular markets, and on the overall energy mix.

Water management

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

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

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 6.7 % in 2017 in relation to cost of sales.

Environmental risks in the supply chain

Atlas Copco recognizes the risk and responsibility to manage water and other environmental risks in its value chain, see risks, page 55. Smelters and other resource-intensive activities are often tier 2 suppliers, or further down the value chain. Atlas Copco works with suppliers using its 10 criteria letter and action plans that are developed with business partners. Atlas Copco's business

WE USE RESOURCES RESPONSIBLY AND EFFICIENTLY

8.1

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

GOAL: Continuous reduction year-on-year

2016: 8.2

41%

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

GOAL: Continuous increase year-on-year

2016: 39%

4.2

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

GOAL: Continuous reduction year-on-year

2016: 3.4

5.0

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

GOAL: Continuous reduction year-on-year

2016: 5.3

95%

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

GOAL: Continuous increase year-on-year

2016: 94%

partners must commit to conducting their business with environmental preservation in mind, including water use and waste water treatment.

Ideally, 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 10 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.

Impacts from operations

Atlas Copco has decreased its energy consumption in relation to cost of sales somewhat, however the impact from transportation during 2017 has increased. Atlas Copco's energy consumption from operations in relation to cost of sales decreased with 1%.

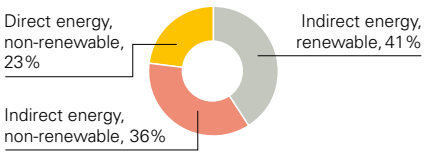
The percentage of renewable energy of total MWh energy used in operations was 41% in 2017. From 2016, the renewable part of the energy mix provided is included in addition to fully renewable energy procured, which means that the proportion is not fully comparable with years prior to that (ESG note 3).

CO_2 (tonnes) from transport have been deemed a major contributor to Atlas Copco's overall CO_2 footprint. In 2017, the CO_2 (tonnes) from transport in relation to cost of sales increased by 24%. This is due mainly to factors such as an increase in business volume and the transport methods being deployed for freight. Acquisitions, for example of Leybold, also contribute to the increase, as did improved reporting processes.

The percentage of waste reused, recycled and recovered of the total waste in internal operations is measured as one of Atlas Copco's KPIs for use of resources. In 2017, this share of the waste in kg/total was 95%. While the amount of reused, recycled and recovered waste is already on a high level, maintained focus should be put on increasing the share in order to benefit both customers and the environment.

Atlas Copco's full environmental performance can be found in ESG note 3.

PROPORTION OF ENERGY CONSUMPTION



WATER CHANGES LIVES

Since 1984 Water for All supports projects that give people in need access to clean drinking water, sanitation and hygiene. It is the Atlas Copco Group's main community engagement initiative financed by voluntary employee donations which are boosted by the company. In 2017, employees in almost 60 countries were working in established Water for All organizations or involved in starting up national chapters. All in all, since the start of the initiative, around 2 million people have received access to clean drinking water through Water for All.

One of the local organizations celebrating an anniversary in 2017 was Italy. They have supported Water for All projects since 2007 through their partner Amref Health Africa. As a way to mark the occasion, a trip was organized in April 2017 to five of Water for All Italy's implemented projects in Kenya. One was this water kiosk, providing a shared water point for the local community.

More information at: www.water4all.net

SETTING NEW STANDARDS IN THE SEMICONDUCTOR INDUSTRY

Atlas Copco makes vacuum pumps and gas abatement systems for the semiconductor industry. The company has played a leading role by co-chairing the development of two industry common protocols for 'Green mode' on pumps and abatement systems in idle mode. By going into 'Green mode' whenever these tools are in idle, their energy use can be significantly reduced, saving the customer money and reducing carbon dioxide emissions. If fully deployed throughout a semiconductor fabrication plant, this technology could reduce the power consumption of a facility by up to 10%, potentially resulting in savings of over 300 000 tonnes of carbon dioxide emissions a year across the global semiconductor industry due to the implementation of SEMI Standard E175.

Development and distribution of economic value

In 2017 Atlas Copco created direct economic value of:

Economic value was distributed to suppliers and business partners, employees, providers of capital, and to governments, and has a positive impact on society. See also page 135.

Atlas Copco creates employment and financial stability through subcontracting manufacturing and other activities. Operating costs including costs to suppliers for goods and services, functional costs deducted for employee wages and benefits amounted to MSEK 66 594 (56 276). Employee wages and benefits increased to MSEK 26 720 (26 046). 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, increased to MSEK 9 636 (8 980), due to an increased ordinary dividend.

Atlas Copco contributes to economic development within the regions where it operates, through payments to pension funds and social security, and payments of taxes, social costs and other duties. In 2017, the cost for direct taxes to governments increased 29 % to 6 567 MSEK (5 087). The Group has been in dialogue with stakeholders regarding disclosure of taxes by country, (note 9 and ESG note 8). Community investments amounted to MSEK 24 (22). The economic value retained amounted to MSEK 8 316 (6 031).

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.

Taxes

Atlas Copco strives to be a good corporate citizen and follows the laws and regulations where it operates. The Group recognizes the importance of tax payments to advance economic development and pay taxes in the countries of operation. Atlas Copco is transparent in line with international accounting standards and believes in sound corporate practice in the area of tax management.

INNOVATION AND SALES AWARDS

Atlas Copco's most prestigious awards recognize the development of a highly energy-efficient and ergonomic breaker, and a compressor monitoring technology that is generating significant savings for customers. The awards were presented to the winners at the Annual General Meeting on April 26, 2017.

The John Munck Award is each year presented to a product developer, designer or a team for outstanding contributions to the overall quality of an Atlas Copco product. In 2017, it was awarded for work with a handheld pneumatic breaker which cuts energy consumption by half, while being lighter and highly ergonomic.

The Peter Wallenberg Marketing and Sales Award recognizes the most innovative successfully implemented method in the field of sales and marketing. In 2017, the award was presented to a team involved in advancing and promoting a groundbreaking data monitoring system for compressors, which lets Atlas Copco remotely measure the equipment performance and anticipate service need.

Risks, risk management and opportunities

All business activities involve risks. Atlas Copco has a structured and proactive approach to manage the company's risks. Well-managed risks can lead to opportunities and add value to the business. 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. However, the ability to prevent, detect and manage the risks is crucial for effective governance and control of the business. The aim is to achieve Group goals with well-managed risk taking in line with the strategy and within the frame of the company manual *The Way We Do Things*. Atlas Copco sees opportunities in 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 at local business board meetings. Group functions for legal, insurance, treasury, tax, controlling and accounting provide policies, guidelines and instructions regarding risk management. The implementation is regularly audited by internal and external audits. Read more on Internal control over financial reporting in the Corporate governance report, pages 66–67.

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 & products liability. Financial lines insurance and business travel insurance are also managed by the Insurance & 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.

Risk surveys

Every year approximately 30 risk surveys are performed at the Group's production facilities by risk consultants. The main purpose is to prevent potential property losses and business interruption by means of loss prevention and control recommendations based on Atlas Copco's Loss Prevention Standard. The results from the risk surveys are consolidated by the Insurance & Risk Management department and reported to Group Management annually and to each Business Area President semi-annually.

Enterprise Risk Management

Atlas Copco has developed its own enterprise risk management methodology to map Group risks. The methodology is applied on divisions, which is the highest operational level in the Group. Hereby risks are identified based on each divisional management team's knowledge of their own core business and area of responsibility. This hands-on approach is also in line with Atlas Copco's decentralized structure. The ownership of managing the risks raised in the risk mappings lies with each division, while the Insurance & Risk Management department manages the overall process, moderates the sessions and consolidates the results on Group level.

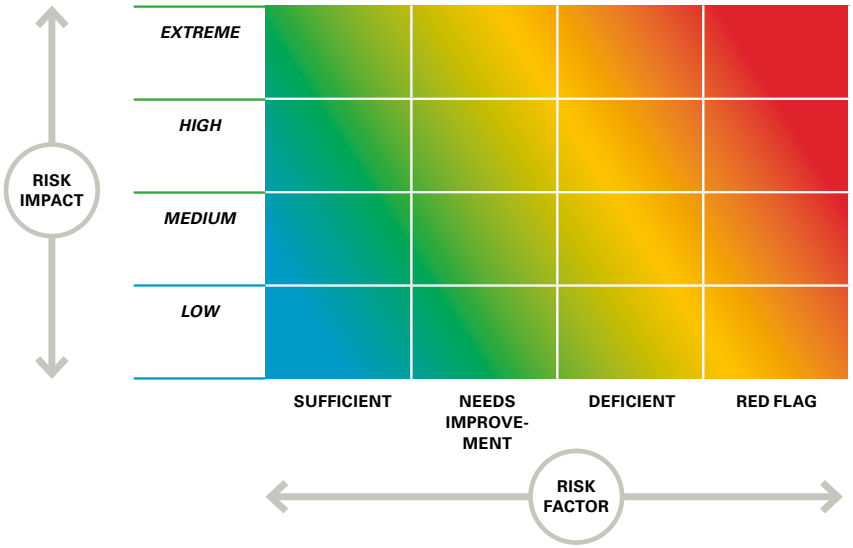
Results of risk mappings are reported to Group Management annually and to each Business Area President semi-annually.

Crisis Management

The crisis management process is managed by the Insurance & Risk Management department and Corporate Communications. It is rolled out to all Atlas Copco entities.

Risk mapping

Risks raised by the divisions in risk mapping sessions are mapped in a risk matrix. Risks are quantified by means of risk impact and risk factor i.e. how well the risk is managed. Risk impact is measured either by loss of life, monetary loss and/or loss of reputation on an impact scale from low to extreme.



Risks, risk management and opportunities, cont.

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
Financial risks, reporting risks and tax *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. Atlas Copco is exposed to the risk of non-payment by any of its extensive number of end customers to whom sales are made on credit.	▪ A Financial Risk Management Committee meets regularly to manage financial risks. ▪ Atlas Copco Financial Solutions is responsible for these risks and also supports Group companies to implement financial policies and guidelines. ▪ The Group's operations continuously monitor and adjust sales prices and costs to limit the transaction risk. These measures can be complemented with hedging. ▪ Translation risks are partially hedged by borrowings in foreign currency and financial derivatives. ▪ Stringent credit policies are applied and 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. In the case of Atlas Copco Financial Solutions, an in-house financing operation, risks are typically mitigated by retaining security in the equipment until full payment is received, by purchasing credit risk insurance and/or by transferring the risk to a third party.	➔ Working proactively with financial risks improves the profit margin and also creates possibilities for more stable cash flow. Overall, financial risk mitigation has the ability to improve business resilience for Atlas Copco. ➔ Atlas Copco Financial Solutions can improve customer relations and attract more customers.
Reporting risks, 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. Transfer pricing policy and agreements are implemented in operations and regularly reviewed. ▪ Tax is regularly monitored and reported to the Board and Group Management. ▪ Atlas Copco reports sustainability information according to G4 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.
Operational and other risks *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. ▪ Flexible 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 fewer 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, and recycling. However, there may be increased risk of competition in emerging markets where low-cost products are not affected by such 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 quality 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. ▪ Manufacturing units invest in modern equipment that can perform multiple operations. ▪ Production units are subject to continuous risk management surveys to safeguard that they comply with the Atlas Copco loss prevention standard. ▪ 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. ➔ Cost increases for raw materials and components often coincide with strong end-customer demand and can partly be compensated by increased sales to mining customers and by increased market prices.

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 can result in increased 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. 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 its value chain. ▪ Establishment of a global network of sub-suppliers, to prevent supplier dependency. ▪ Business partners sign a compliance letter to the Business Code of Practice. ▪ E-learning for business partners developed to raise awareness of the Business Code of Practice.	➔ 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 present 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 within the Group is performed in addition to a continuous follow-up of the legal risk exposure. The result of the legal-risk 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 the targets. Also the integration of acquired businesses can be a complex and demanding process. It is not certain that an acquisition will be successful if not all steps are done properly. Annual impairment tests are made on acquired goodwill. If goodwill is 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 post 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 in 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 integration 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 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 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 also 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 improve customer satisfaction and promote repeat business. ➔ Attract and develop employees that adhere to the Business Code of Practice.

Risks, risk management and opportunities, cont.

RISK	CONTEXT	MITIGATING FACTORS	OPPORTUNITIES
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 new General Data Protection Regulation (GDPR) will impact the handling of personal data. Failure to comply may result in substantial fines.	▪ Atlas Copco has a global IT security policy, including quality assurance procedures that govern IT operations. Information security is monitored through continuous reviews, IT Security audits. Standardized processes are in place for the implementation of new systems, changes to existing systems and daily operations. ▪ IT Security tracks globally major downloads of files. Screening of business partners/consultants working in our systems. ▪ The system landscape is based on well-proven products. ▪ 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 works on ensuring compliance with the new regulations. Training is ongoing to increase awareness among employees.	➔ 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.
Safety and health risks	Issues with wellness and sick leave can impact the productivity and efficiency of the operations. Accidents or incidents at the workplace due to lack of proper safety measures can negatively affect productivity and the Atlas Copco 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 standard. ▪ 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 risks (external)	The primary drivers for external environmental risk are from physical changes in climate and natural resources, changes in regulations, taxes and resource prices. 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.	▪ Atlas Copco consistently develops products with improved energy efficiency and reduced emissions. ▪ 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.
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 its industry peers to reshape international market practices. Refusing to pay bribes may cause temporary delays and setbacks; however it reduces costs in both the long and short run, builds opportunities to improve operational efficiencies and creates more stability in the society and 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 (Esg note 7)	Atlas Copco operates in countries where the risk according to Amnesty International is high of human rights abuse, including child labor, forced or compulsory labor. Atlas Copco encounters customers, for instance in the mining industry, 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

During 2017, the price of the A share increased 27.6% to SEK 354.20 (277.50) and the price of the B share increased 26.5% to SEK 314.60 (248.60). The annual total return on the Atlas Copco A share, equal to dividend, redemption and the appreciation of the share price, was on average 17.7% for the past ten years and 18.3% for the past five years. The corresponding total return for Nasdaq Stockholm was 8.8% and 14.5%, respectively.

Trading and market capitalization

The Atlas Copco shares are listed on Nasdaq Stockholm, which represented 36% of the total trading of the A share (47% of the B share) in 2017. Other markets, so called Multilateral Trading Facilities (MTF), e.g. CBOE and Turquoise accounted for some 37% (32% of the B share), and the remaining 27% (21% of the B share) were traded outside public markets, for example through over-the-counter trading.

The market capitalization at year end 2017 was MSEK 420 076 (329 940) and the company represented 6.3% (5.4) of the total market value of Nasdaq Stockholm. Atlas Copco was the second (fifth) most traded name in 2017 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 2017, there were 16 705 547 ADRs outstanding, of which 15 327 588 represented A shares and 1 377 959 B shares.

SHARE INFORMATION 2017-12-31	*A SHARE*	*B SHARE*
Nasdaq Stockholm	ATCO A	ATCO B
ISIN code	SE0006886750	SE0006886768
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	15 641 596	246 159
% of votes	1.8	0.0
% of capital	1.3	0.0

Personnel stock option program and repurchase of own shares

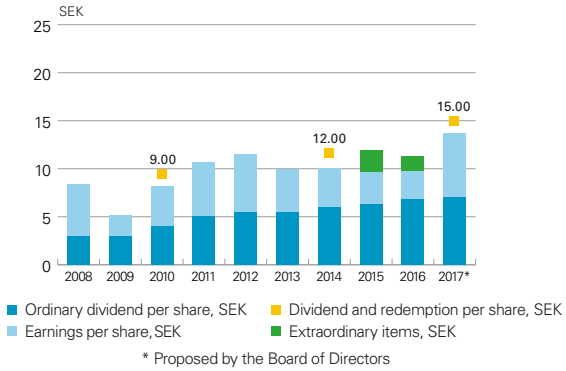
The Board of Directors will propose to the Annual General Meeting 2018 a similar performance-based long-term incentive program as in previous years. The intention is to cover the plan through the repurchase of the company's own shares. The company's holding of own shares on December 31, 2017 appears in the table below.

Dividend and mandatory redemption of shares

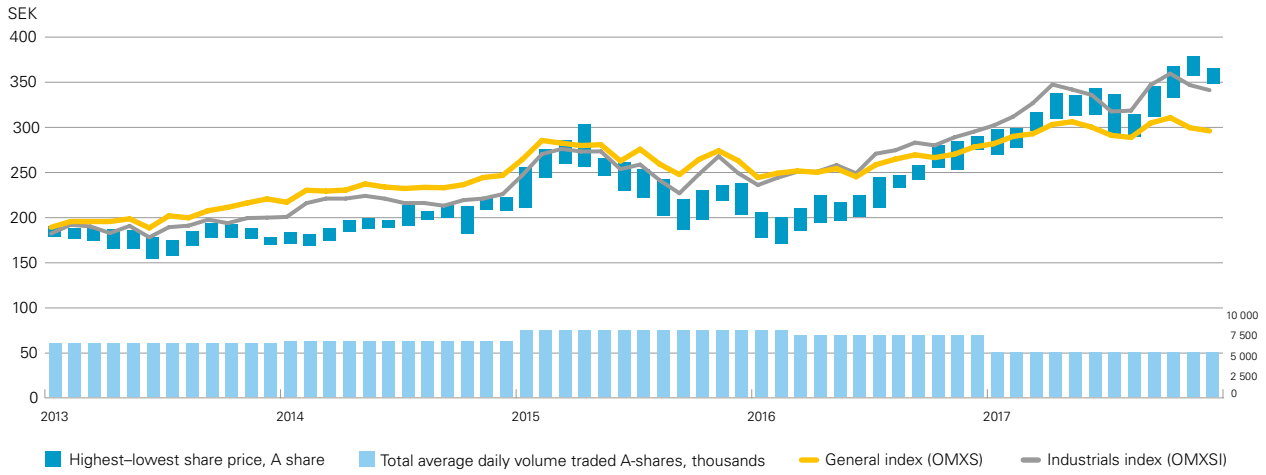
The Board of Directors proposes to the Annual General Meeting that a dividend of SEK 7.00 (6.80) per share be paid for the 2017 fiscal year. Due to the proposed split of the company, the dividend for 2017 is proposed to be paid in one installment. The intention is to return to two installments in the coming years. If approved, the annual dividend growth for the five-year period 2013–2017 will equal 4.9%. During the same period, the dividend has averaged 60% of basic earnings per share. The ambition is to distribute about 50% of earnings as dividends to shareholders.

The Board also proposes a mandatory share redemption procedure, whereby every share is split into one ordinary share and one redemption share. The redemption share is then automatically redeemed at SEK 8.00 per share. The dividend and the redemption is subject to approval at the Annual General Meeting 2018. See more information on page 21.

EARNINGS AND DISTRIBUTION PER SHARE



SHARE PRICE



Ownership structure

At the end of 2017, Atlas Copco had 80 846 shareholders (76 058 at year end 2016). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 34% (36) of the voting rights and 31% (33) of the number of shares. Swedish investors held 50% (53) of the shares and represented 47% (51) of the voting rights.

*TEN LARGEST SHAREHOLDERS**

December 31, 2017	*% of votes*	*% of capital*
Investor AB	22.3	16.9
Swedbank Robur fonder	3.3	4.6
Alecta Pensionsförsäkring	3.1	4.1
SEB Investment Management	1.7	1.3
Folksam	0.8	0.8
Fjärde AP-fonden	0.6	1.1
SPP Fonder AB	0.6	0.6
Avanza Fonder	0.4	0.4
Tredje AP-fonden	0.4	0.7
Länsförsäkringar fondförvaltning AB	0.4	0.4
Others	66.3	69.1
Total	**100.0**	**100.0**
– of which shares held by Atlas Copco	1.8	1.3

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

OWNERSHIP STRUCTURE, DECEMBER 31, 2017

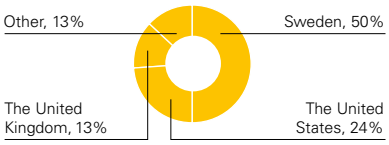
Number of shares	*% of shareholders*	*% of capital*
1–500	67.3	0.7
501–2 000	21.1	1.5
2 001–10 000	8.5	2.3
10 001–50 000	1.8	2.6
50 001–100 000	0.4	1.7
>100 000	0.9	91.2
Total	**100.0**	**100.0**

OWNERSHIP CATEGORY, DECEMBER 31, 2017

	% of capital
Shareholders domiciled abroad (legal entities and individuals)	49.9
Swedish financial companies	38.8
Swedish individuals	5.0
Other Swedish legal entities	3.1
Swedish social insurance funds	1.9
Swedish trade organizations	1.2
Swedish government & municipals	0.2
Total	**100.0**

SHAREHOLDERS BY COUNTRY

December 31, 2017
Percent of capital



SHARE ISSUES [1]

			Change of share capital, MSEK	*Amount distributed, MSEK*
2007	Split	3:1		
	Share redemption [2]	628 806 552 shares at SEK 40	–262.0	–24 415.7
	Bonus issue	No new shares issued	262.0	
	Cancellation of shares held by Atlas Copco	28 000 000 shares	–17.5	
	Bonus issue	No new shares issued	17.5	
2011	Split	2:1		
	Share redemption [3]	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 [4]	1 229 613 104 shares at SEK 6	–393.0	–7 304.7
	Bonus issue	No new shares issued	393.0	

[1] For more information please visit www.atlascopcogroup.com/investor-relations
[2] 610 392 352 shares net of shares held by Atlas Copco
[3] 1 213 493 751 shares net of shares held by Atlas Copco
[4] 1 217 444 513 shares net of shares held by Atlas Copco

IMPORTANT DATES

2018	April 24	Annual General Meeting
	April 25	First quarter results
	April 25*	Shares trade excluding right to dividend of SEK 7.00
	May 2*	Dividend payment date (preliminary)
	May 9*	Shares trade excl. right to redemption share of SEK 8.00
	June 11*	Redemption payment date (preliminary)
	July 20	Second quarter results
	October 19	Third quarter results
2019	January 28	Fourth quarter results 2018

* 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 144 in the five-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 2017.

The corporate governance report has been examined by the auditors, see page 131.

The following information is available at www.atlascopcogroup.com

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

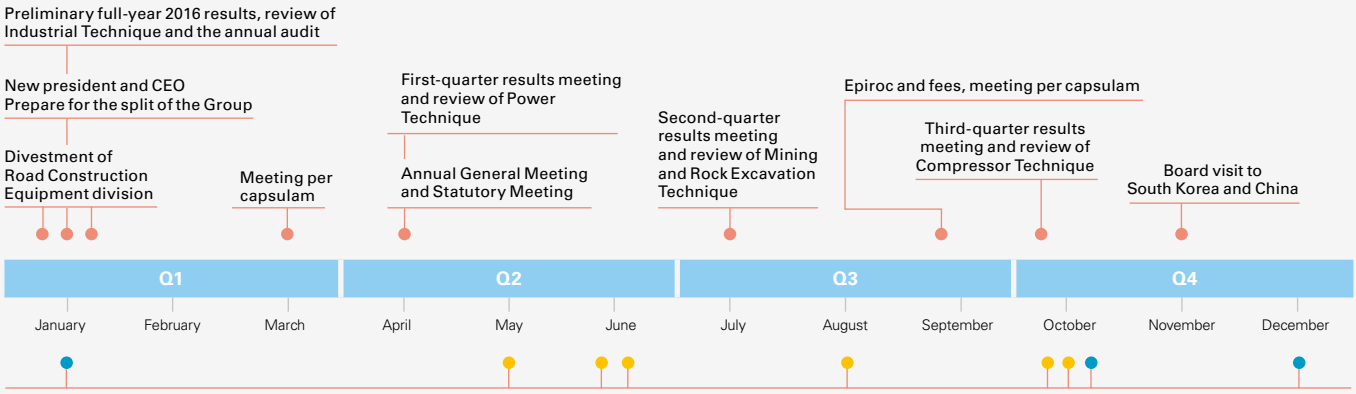
Comment from the Chair

Atlas Copco is a truly global company with customers in more than 180 countries. Laws, environmental standards and social conditions vary from country to country. We want to make sure that we always act with the highest ethical standards and integrity. In this respect, our Business Code of Practice is our most important tool. 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.

Hans Stråberg, Chair since 2014

The Board and the Nomination Committee's work during 2017

Board of Directors meetings and activities:



Nomination Committee meetings:

- Concerning Atlas Copco AB
- Concerning Epiroc AB

GOVERNANCE STRUCTURE

1. Shareholders

At the end of 2017, Atlas Copco had 80 846 shareholders (76 058 at year end 2016). The ten largest shareholders registered directly or as a group with Euroclear Sweden, the Swedish Central Securities Depository, by voting rights, accounted for 34 % (36) of the voting rights and 31 % (33) of the number of shares. Swedish investors held 50 % (53) of the shares and represented 47 % (51) of the voting rights.

The largest shareholder is Investor AB, holding 17 % of capital and 22 % of votes. More information on Atlas Copco's shareholders can be found on pages 56–57.

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. The shareholders may exercise their voting rights in a number of important issues, such as the election of Board members and auditors, approval of financial statements, discharge of liability for the President and CEO, and the Board, and the adoption of the proposed distribution of profits. 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.atlascopco-group.com/agm.

The AGM 2017 was held on April 26, 2017 in Stockholm, Sweden and 61 % of the total number of votes in the company and 60 % of the shares were represented.

Decisions at the AGM 2017 included:

- Adoption of the income statements and balance sheets of the Atlas Copco AB and the Group for 2016
- Discharge of liability of the company's affairs during the 2016 financial year for the President and CEO and the Board of Directors
- Adoption of the Board's proposal for profit distribution with a dividend of SEK 6.80 per share to be paid in two equal installments of SEK 3.40 each
- That the number of directors elected by the AGM for a term ending at the next AGM would be nine directors and no alternates
- Election of the Board of Directors
- A resolution of the Board of Directors' fee
- Approval of the guidelines for remuneration to management
- Approval of the reported scope and principals for a performance based employee stock option plan for 2017 including mandate for the Board to decide upon re-purchase and sales of Atlas Copco shares to hedge the plan and previous similar plans
- Election of Deloitte AB as auditing company until AGM 2018

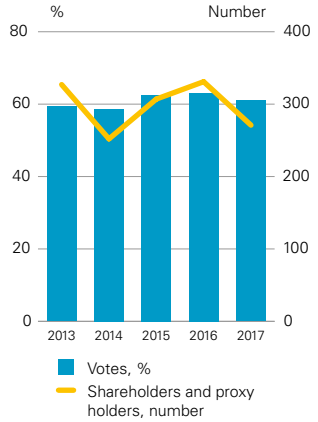
ANNUAL GENERAL MEETING 2018
The Annual General Meeting will be held on April 24, 2018 at Aula Medica, Nobels väg 6, Solna, Sweden.

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 takes aspects of diversity when it comes to experience, age, nationality and gender into consideration when proposing members of the Board. 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 are born 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 for 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 2018. 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, 2017, together with the Chair of the Board shall form the Nomination Committee. The members of the Nomination Committee for the AGM 2018 were announced on September 21, 2017, 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.

The Nomination Committee has also, during 2017, supported the Board of Atlas Copco to find suitable candidates for Epiroc AB's Board. At such meetings Ronnie Leten has replaced Hans Stråberg.

Nomination Committee members for the AGM 2018

Petra Hedengran, Investor AB, Chair of the Nomination Committee
Jan Andersson, Swedbank Robur
Ramsay Brufer, Alecta
Hans Ek, SEB Fonder
Hans Stråberg, Atlas Copco AB, Chair

4. Board of Directors

The Board of Directors is overall responsible for the 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 2017 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 Boards' work and distribution of tasks between the Board, the committees and the President as well as the Company's reporting processes.

The Board held nine meetings in 2017. All meetings were held at Atlas Copco AB in Nacka, Sweden, except two per capsulam. The attendance at Board members is presented on pages 62–63. In addition, the Board made a study trip to South Korea and China to visit own product companies as well as customers.

Further to its yearly recurring tasks the Board has during the year followed up on the progress of the split project. The Board has through two extra committees been searching for a new President and CEO of Atlas Copco and a President and CEO for Epiroc AB. Through recommendations from the Nomination Committee the Board has appointed the Board of Epiroc AB.

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 Boards' working procedures, competence and composition, including the background, experience, and diversity of the 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 2017 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 2 100 000
- Each of the other Board members not employed by the Company were granted SEK 660 000
- An amount of SEK 250 000 was granted to the Chair of the Audit Committee and SEK 160 000 to each of the other members of this committee
- An amount of SEK 100 000 was granted to the Chair of the Remuneration Committee and SEK 75 000 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'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. 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.

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.

Audit Committee 2017–2018
Staffan Bohman, Chair
Gunilla Berg
Johan Forssell
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 2017 approved the guidelines for remuneration. See also note 5.

The Remuneration Committee had four meetings in 2017. 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.

Remuneration Committee 2017–2018
Hans Stråberg, Chair
Peter Wallenberg Jr
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 2017 the audit firm Deloitte AB, Sweden, was elected external auditor until the AGM 2018 in compliance with a proposal from the Nomination Committee. The principal auditor is Thomas Strömberg, Authorized Public Accountant at Deloitte AB.

At the AGM 2017, Jan Berntsson (resigned principal auditor ends at AGM 2017) 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 66–67.

9. Group Management

Besides the President and CEO, the Group Management consists of five business area presidents and senior vice president 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 2017, 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.

> "During 2017, obviously a lot of focus from the Board and the Management has been on preparing a successful split of Atlas Copco into Atlas Copco and Epiroc.

Board of Directors

Name **Born** **Function**	**Hans Stråberg** 1957 Chair since 2014	**Mats Rahmström** 1965 Board member President and CEO	**Anders Ullberg** 1946 Board member	**Staffan Bohman** 1949 Board member	**Johan Forssell** 1971 Board member
Education	M.Sc. in Mechanical Engineering, Chalmers University of Technology, Gothenburg.	MBA from the Henley Management College, the United Kingdom.	B.Sc. in Economics and Business Administration, Stockholm School of Economics.	B.Sc. in Economics and Business Administration, Stockholm School of Economics and Stanford Executive Program, the U.S.	M.Sc. in Economics and Business Administration, Stockholm School of Economics.
Nationality / Elected	Swedish / 2013	Swedish / 2017	Swedish / 2003	Swedish / 2003	Swedish / 2008
Board memberships	Chair of 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.	Chair of Boliden AB and Studsvik AB. Board member of Beijer Alma AB, Valedo Partners and Epiroc AB.	Chair of Höganäs AB, IPCO AB, Upplands Motor Holdings AB, Swedish Tax Delegation for Industry and Commerce and The German-Swedish Chamber of Commerce.	Board member of EQT AB, Patricia Industries AB, Wärtsilä and Epiroc AB.
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 within Industrial Technique. Before he was appointed President and CEO he was Business Area President for Industrial Technique.	Vice President Corporate Control Swedyards (Celsius Group), Executive Vice President and CFO, SSAB, Swedish Steel, and President and CEO of SSAB Swedish Steel.	CEO of Sapa AB, Gränges AB and DeLaval AB.	President and CEO of Investor AB*. Managing Director, Head of Core Investments and member of the management group of Investor AB.
Total fees 2017, KSEK [1]	3 214	–	831	1 171	918
Board meeting attendance	9 of 9	4 of 9 [7]	8 of 9	9 of 9	8 of 9
Remuneration Committee attendance	4 of 4 Chair	–	4 of 4	–	–
Audit Committee attendance	5 of 5	–	–	5 of 5 Chair	5 of 5
Holdings in Atlas Copco AB [2]	21 500 class B shares 7 952 synthetic shares	6 786 class A shares 131 393 employee stock options	14 000 class A shares 10 000 class B shares	10 000 class A shares 30 000 class B shares	5 000 class B shares 7 312 synthetic shares
Independence to Atlas Copco and its management	Yes	No [3]	Yes	Yes	Yes
Independence to major shareholders	No [4]	Yes	Yes	Yes	No [5]
Annual General Meeting attendance	Yes	Yes	Yes	Yes	Yes

Board members appointed by the unions

Bengt Lindgren
Board member
Born 1957
Chair of IF Metall, Atlas Copco, Fagersta
Elected 1990
Board meeting attendance 9 of 9

Mikael Bergstedt
Board member
Born 1960
Chair of PTK, Atlas Copco, Tierp Works
Elected 2004
Board meeting attendance 9 of 9

Peter Wallenberg Jr 1959 Board member	**Sabine Neuß** 1968 Board member	**Gunilla Berg** 1960 Board member	**Tina Donikowski** 1959 Board member
BSBA Hotel Administration, University of Denver, the U.S. and International Bachaloria, American School, Leysin, Switzerland.	M.Sc. in Engineering from Coburg University, Germany.	B.Sc. in Finance from the Stockholm School of Economics.	B.Sc. in Industrial Management from Gannon University, the U.S.
Swedish / 2012	German / 2016	Swedish / 2016	American / 2017
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.	Member of Supervisory Board at Continental AG, Germany.	Board member of ÅF AB.	Board member of Circor International, Inc and Eriez Manufacturing Co.
President and CEO of The Grand Hotel Holdings, General Manager, The Grand Hotel, President Hotel Division Stockholm-Saltsjön.	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.	Chief Financial Officer at PostNord AB*, Chief Financial Officer at Teracom Group AB, SAS AB and KF.	Vice President for Global Locomotive Business, Propulsion Business, Six Sigma Quality Leader, and General Manager Aftermarket Sales and Service, all with GE Transportation.
731	651	814	578
9 of 9	9 of 9	9 of 9	4 of 9 [7]
4 of 4	–	–	–
–	–	5 of 5	–
166 667 class A shares 7 312 synthetic shares	–	500 class B shares 2 564 synthetic shares	1 004 synthetic shares
Yes	Yes	Yes	Yes
No [6]	Yes	Yes	Yes
Yes	Yes	No	Yes

Kristina Kanestad
Deputy to Mikael Bergstedt
Born 1966
Chair of Unionen, Atlas Copco Rock Drills AB, Örebro
Elected 2007
Board meeting attendance 9 of 9

Mårten Karlsson
Deputy to Bengt Lindgren
Born 1978
Chair of IF Metall, Atlas Copco, Örebro
Elected 2017
Board meeting attendance 4 of 9 [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 2017, including those of close relatives or legal entities and grant for 2017.

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 at the Annual General Meeting in April 2017.

* Current position.

Group Management

HENRIK ELMIN

Senior Executive Vice President and Business Area President Industrial Technique
In current position since 2017

NATIONALITY/EMPLOYED/BORN
Swedish / 2007 / Born 1970

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

PRINCIPAL WORK EXPERIENCE AND OTHER INFORMATION
Henrik Elmin started his Atlas Copco career in 2007 as General Manager for Atlas Copco Tools Customer Center Nordic in the Industrial Technique business area. In 2012, he was appointed President of the General Industry Tools and Assembly Systems division. Before his current position he was President of the Industrial Technique Service division.

HOLDINGS IN ATLAS COPCO AB *
2 602 class A shares
84 149 employee stock options

CECILIA SANDBERG

Senior Vice President Human Resources
In current position since 2017

NATIONALITY/EMPLOYED/BORN
Swedish / 2017 / Born 1968

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

PRINCIPAL WORK EXPERIENCE AND OTHER INFORMATION
Cecilia Sandberg has held several positions in HR from the airline, pharmaceutical and medtech industry. 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.

HOLDINGS IN ATLAS COPCO AB *
720 class B shares

HANS OLA MEYER

Senior Vice President Controlling and Finance
In current position since 1999

NATIONALITY/EMPLOYED/BORN
Swedish / 1991 / Born 1955

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

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

Member of The Swedish Financial Reporting Board and member of the Board of Upplands Motor Holding AB and PRI Pensionsgaranti (Mutual).

HOLDINGS IN ATLAS COPCO AB *
7 286 class A shares
25 021 class B shares
87 439 employee stock options

ANDREW WALKER

Senior Executive Vice President and Business Area President Power Technique
In current position since 2014

NATIONALITY/EMPLOYED/BORN
Irish / 1986 / Born 1961

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

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

HOLDINGS IN ATLAS COPCO AB *
3 998 class A shares
88 390 employee stock options

MATS RAHMSTRÖM

President and CEO
In current position since 2017

NATIONALITY/EMPLOYED/BORN
Swedish / 1988 / Born 1965

EDUCATION
MBA from the Henley Management College, the United Kingdom.

PRINCIPAL WORK EXPERIENCE AND OTHER INFORMATION
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 within Industrial Technique. Before he was appointed President and CEO he was Business Area President for Industrial Technique.

Board member of Permobil Holding AB.

HOLDINGS IN ATLAS COPCO AB *
6 786 class A shares
131 393 employee stock options

ANNIKA BERGLUND

Senior Vice President Corporate Communications and Governmental Affairs
In current position since 1997

NATIONALITY/EMPLOYED/BORN
Swedish / 1979 / Born 1954

EDUCATION
B.Sc. in Economics and Business Administration from Stockholm School of Economics and an MBA from the University of Antwerp, Belgium.

PRINCIPAL WORK EXPERIENCE AND OTHER INFORMATION
Annika Berglund has held a number of positions related to marketing, sales, and business controlling in Europe. Prior to her current position, she was Marketing Manager for the electronic company Atlas Copco Controls (Danaher Motion).

Board member of Peter Wallenberg Water For All Foundation.

HOLDINGS IN ATLAS COPCO AB *
7 151 class A shares
7 090 class B shares
56 066 employee stock options

VAGNER REGO

Senior Executive Vice President and Business Area President Compressor Technique
In current position since 2017

NATIONALITY/EMPLOYED/BORN
Brazilian / 1996 / Born 1972

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

PRINCIPAL WORK EXPERIENCE AND OTHER INFORMATION
Vagner Rego has held positions in service, marketing and sales. In 2010, he became Vice President Marketing and Sales for the Compressor Technique Service division, based in Belgium. Before his position as President for the Compressor Technique Service division 2014–2016, he was General Manager for Construction Technique's customer center in Brazil.

HOLDINGS IN ATLAS COPCO AB *
2 992 class A shares
56 696 employee stock options

HÅKAN OSVALD

Senior Vice President General Counsel
In current position since 2012

NATIONALITY/EMPLOYED/BORN
Swedish / 1985 / Born 1954

EDUCATION
Master of Law from Uppsala University.

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

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

HOLDINGS IN ATLAS COPCO AB *
5 610 class A shares
2 600 class B shares
85 341 employee stock options

GEERT FOLLENS

Senior Executive Vice President and Business Area President Vacuum Technique
In current position since 2017

NATIONALITY/EMPLOYED/BORN
Belgian / 1995 / Born 1959

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

PRINCIPAL WORK EXPERIENCE AND OTHER INFORMATION
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.

HOLDINGS IN ATLAS COPCO AB *
5 097 class A shares
72 226 employee stock options

HELENA HEDBLOM

Senior Executive Vice President and Business Area President Mining and Rock Excavation Technique
In current position since 2017

NATIONALITY/EMPLOYED/BORN
Swedish/ 2000 / Born 1973

EDUCATION
M.Sc. in Material Technology from the Royal Institute of Technology of Stockholm.

PRINCIPAL WORK EXPERIENCE AND OTHER INFORMATION
Helena Hedblom has held several roles within research and development and as General Manager for the product company Secoroc. Before her current position she was President of the Rock Drilling Tools division, based in Sweden.

HOLDINGS IN ATLAS COPCO AB *
2 266 class A shares
56 742 employee stock options

* Holdings as per December 31, 2017, 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 the 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.

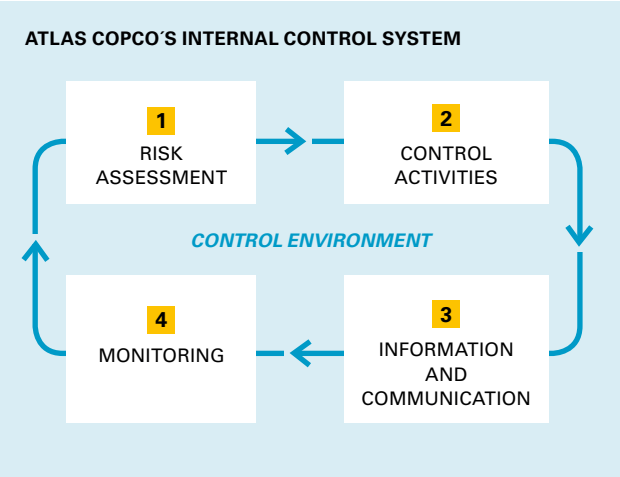
The financial reporting accounting policies and guidelines are issued by Group management to all subsidiaries which are followed up with newsletters and conference calls. Trainings are also held for complex accounting areas. The policies and guidelines detail the appropriate accounting for key risk areas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

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 regulatory 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 improved over previously identified risks. The key risk areas for the financial reporting and control activities that are in place to manage the risks are presented below.

Key financial reporting risks	*Revenues are not recognized in the appropriate accounting period*	*Trade receivables are not appropriately valued*	*Inventory are 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 combinations 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 cash balances 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 combinations are approved by the Board.
	Revenues are disaggregated and analyzed by type (e.g. goods, services and rental) and by period at local, division, 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 division 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, division, 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 employees and managers to carry out their responsibilities. Reporting instructions and accounting guidelines are communicated to personnel concerned in the internal database *The Way We Do Things*, supported by, for example, training programs for different categories of employees. 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 division, business area and Group level regularly reviews the financial information and assess compliance to Group policies.
- The Audit Committee and the Board of Directors 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 weak areas. One of the areas in the CSA is internal control, which includes internal control over financial reporting. Other areas include legal issues, 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 also includes perceived cases of human rights violation, discrimination or corruption. The reports are treated confidentially and the person who is reporting is guaranteed anonymity.
- In the compliance process, Group Management, divisional management and all managers responsible for an operational or holding unit and certain other key positions are requested to sign a statement confirming compliance to financial policies, the Business Code of Practice and applicable laws and regulations.

Financial statements and notes

MSEK unless otherwise stated

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Consolidated income statement

For the year ended December 31, Amounts in MSEK	Note	2017	2016
Continuing operations			
Revenues	4	116 421	101 356
Cost of sales		–68 105	–61 237
Gross profit		**48 316**	**40 119**
Marketing expenses		–12 423	–11 044
Administrative expenses		–7 719	–6 824
Research and development expenses		–3 723	–3 096
Other operating income	7	1 085	757
Other operating expenses	7	–1 339	–121
Share of profit in associated companies and joint ventures	14	3	7
Operating profit	4, 5, 6, 16	**24 200**	**19 798**
Financial income	8	309	300
Financial expenses	8	–1 380	–1 293
Net financial items		**–1 071**	**–993**
Profit before tax		**23 129**	**18 805**
Income tax expense	9	–6 367	–5 020
Profit from continuing operation		**16 762**	**13 785**
Discontinued operations			
Loss from discontinued operations, net of tax	3	–69	–1 837
Profit for the year		**16 693**	**11 948**
Profit attributable to:			
– owners of the parent		16 671	11 931
– non-controlling interests		22	17
Basic earnings per share, SEK	11	13.73	9.81
– of which continuing operations		*13.79*	*11.32*
Diluted earnings per share, SEK	11	13.63	9.79
– of which continuing operations		*13.68*	*11.30*

Consolidated statement of comprehensive income

For the year ended December 31, Amounts in MSEK	Note	2017	2016
Profit for the year		**16 693**	**11 948**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		120	–113
Income tax relating to items that will not be reclassified		–61	–3
		59	**–116**
Items that may be reclassified subsequently to profit or loss			
Translation differences on foreign operations		–650	3 201
– realized and reclassified to income statement		55	–
Hedge of net investments in foreign operations		–492	–762
Cash flow hedges		142	–25
Income tax relating to items that may be reclassified		277	487
		–668	**2 901**
Other comprehensive income for the year, net of tax	10	**–609**	**2 785**
Total comprehensive income for the year		**16 084**	**14 733**
Total comprehensive income attributable to:			
– owners of the parent		16 064	14 711
– non-controlling interests		20	22

Consolidated balance sheet

Amounts in MSEK	Note	Dec. 31, 2017	Dec. 31, 2016
ASSETS			
Non-current assets			
Intangible assets	12	35 151	37 828
Rental equipment	13	2 934	3 095
Other property, plant and equipment	13	9 523	9 793
Investments in associated companies and joint ventures	14	212	138
Other financial assets	15	1 803	2 102
Other receivables		83	46
Deferred tax assets	9	1 516	1 889
Total non-current assets		**51 222**	**54 891**
Current assets			
Inventories	16	18 415	16 912
Trade receivables	17	22 853	21 353
Income tax receivables		634	476
Other receivables	18	6 630	5 856
Other financial assets	15	1 295	2 455
Cash and cash equivalents	19	24 496	11 458
Assets classified as held for sale	3	193	2 491
Total current assets		**74 516**	**61 001**
TOTAL ASSETS		**125 738**	**115 892**
EQUITY	Page 71		
Share capital		786	786
Other paid-in capital		7 021	6 599
Reserves		5 332	6 053
Retained earnings		47 500	39 667
Total equity attributable to owners of the parent		**60 639**	**53 105**
Non-controlling interests		84	72
TOTAL EQUITY		**60 723**	**53 177**
LIABILITIES			
Non-current liabilities			
Borrowings	21	23 635	23 148
Post-employment benefits	23	3 034	3 907
Other liabilities		373	492
Provisions	25	1 347	1 097
Deferred tax liabilities	9	455	1 028
Total non-current liabilities		**28 844**	**29 672**
Current liabilities			
Borrowings	21	1 513	1 574
Trade payables		14 206	10 283
Income tax liabilities		2 400	3 002
Other liabilities	24	15 970	15 234
Provisions	25	2 026	2 139
Liabilities classified as held for sale	3	56	811
Total current liabilities		**36 171**	**33 043**
TOTAL EQUITY AND LIABILITIES		**125 738**	**115 892**

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

Consolidated statement of changes in equity

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
Profit for the year					16 671	16 671	22	16 693
Other comprehensive income for the year			111	–832	114	–607	–2	–609
Total comprehensive income for the year			**111**	**–832**	**16 785**	**16 064**	**20**	**16 084**
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**	**47 500**	**60 639**	**84**	**60 723**

2016	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	6 405	–96	3 253	36 243	46 591	159	46 750
Profit for the year					11 931	11 931	17	11 948
Other comprehensive income for the year			–14	2 910	–116	2 780	5	2 785
Total comprehensive income for the year			**–14**	**2 910**	**11 815**	**14 711**	**22**	**14 733**
Dividends					–7 665	–7 665	–22	–7 687
Acquisition of series A shares					–1 294	–1 294		–1 294
Divestment of series A shares		183			626	809		809
Divestment of series B shares		11			4	15		15
Change of non-controlling interests					–68	–68	–87	–155
Share-based payment, equity settled								
– expense during the year					82	82		82
– exercise option					–76	–76		–76
Closing balance, Dec. 31	**786**	**6 599**	**–110**	**6 163**	**39 667**	**53 105**	**72**	**53 177**

See note 10 and 20 for additional information.

Consolidated statement of cash flows

For the year ended December 31, Amounts in MSEK	Note	2017	2016
Cash flows from operating activities			
Operating profit from continuing operations		24 200	19 798
Operating loss from discontinued operations	3	–16	–85
Adjustments for:			
Depreciation, amortization and impairment	12, 13	5 110	4 392
Capital gain/loss and other non-cash items		76	495
Operating cash surplus		**29 370**	**24 600**
Net financial items received/paid		329	–771
Taxes paid		–7 306	–7 132 [1]
Pension funding and payment of pension to employees		–1 280	–543
Cash flow before change in working capital		**21 113**	**16 154**
Change in:			
Inventories		–1 888	1 229
Operating receivables		–2 840	–810
Operating liabilities		5 943	2 456
Change in working capital		**1 215**	**2 875**
Increase in rental equipment		–1 412	–1 207
Sale of rental equipment		464	459
Net cash from operating activities		**21 380**	**18 281**
Cash flows from investing activities			
Investments in other property, plant and equipment		–1 742	–1 369
Sale of other property, plant and equipment		179	144
Investments in intangible assets	12	–1 021	–1 027
Sale of intangible assets		2	15
Acquisition of subsidiaries	2	–520	–4 716
Divestment of subsidiaries	3	1 560	–
Investment in other financial assets, net		784	–195
Net cash from investing activities		**–758**	**–7 148**
Cash flows from financing activities			
Dividends paid		–8 252	–7 665
Dividend paid to minority		–3	–22
Acquisition of non-controlling interest		–19	–68
Repurchase of own shares		–1 465	–1 294
Divestment of own shares		1 229	824
Borrowings		1 476	8 008
Repayment of borrowings		–1 599	–7 747
Settlement of CSA [2]		972	–915
Payment of finance lease liabilities		–84	–112
Net cash from financing activities		**–7 745**	**–8 991**
Net cash flow for the year		**12 877**	**2 142** [3]
Cash and cash equivalents, Jan. 1		11 492 [3]	8 861
Net cash flow for the year		12 877	2 142
Exchange-rate difference in cash and cash equivalents		127	489
Cash and cash equivalents, discontinued operations		–	–34
Cash and cash equivalents, Dec. 31	19	**24 496**	**11 458**

[1] Includes tax payment in Belgium of MSEK 2 250.
[2] Credit Support Annex, see note 27.
[3] Includes cash flows from discontinued operations, see note 3 for cash flows from discontinued operations.

1. Significant accounting principles, 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 28, 2018. The balance sheets and income statements are subject to approval by the Annual General Meeting of the shareholders on April 24, 2018.

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 exchanges rates at the end of the reporting period and the income statements are translated at the average rates for the reporting period. Foreign exchange differences arising on such translation are recognized in other comprehensive income and are accumulated in the currency translation reserve in equity. Exchange rates for major currencies that have been used for the consolidated financial statements are shown in note 27.

Segment reporting

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and reduced for value added tax, estimated customer returns, discounts and other similar deductions. See note 4 for further information on revenue by segment and by geographical area.

Goods sold

Revenue from goods sold is recognized when the significant risks and rewards of ownership have been transferred to the buyer, i.e. when the Group retains neither continuing right to dispose of the goods nor hold effective control of the goods sold, recovery of the consideration is probable and the amount of the revenue and associated costs can be measured reliably. When the product requires installation and this constitutes a significant part of the contract, revenue is recognized when the installation is completed. Revenue is not recorded for buy-back commitments if the substance of the agreement is that the risks and rewards of ownership have not been transferred to the buyer. No revenue is recognized if there is significant uncertainty regarding the possible return of goods.

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

Services rendered
Revenue from services is recognized by reference to the stage of completion of the contract. The stage of completion is determined by the proportion of costs incurred to date compared to the estimated total costs of the transaction. Where the outcome of a service contract cannot be estimated reliably, revenue is recognized to the extent of costs incurred that are expected to be recoverable. When it is probable that total contract costs will exceed total revenue, the expected loss is recognized as an expense immediately. When services are performed by an indeterminate number of activities over the service contract period, revenue is recognized linearly over that period.

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.

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 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 five 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 2017 amounted to 1 135 (838). 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

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

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.

Leasing

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 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, is recorded. 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.

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.

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

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

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.

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 ulti-

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

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

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 2017
The following amended IFRS standards have been applied by the Group from 2017 but had none or no material impact on the Group.

Amendments to IAS 7 Statement of Cash Flows
The amendments require disclosures of changes in liabilities from financing activities, including both changes from cash flows and non-cash changes.

Amendments to IAS 12 Income taxes: Recognition of Deferred Tax Assets for Unrealised Losses
The amendment to IAS 12 provides guidance on how future taxable profits should be determined and explain under which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. Furthermore, the amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses.

New or amended accounting standards effective after 2017
The following standards, interpretations, and amendments have been issued but were not effective as of December 31, 2017 and have not been applied by the Group.

IFRS 16 Leases
The standard defines the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The changes relate to the accounting treatment by the lessee. IFRS 16 introduces a single accounting model and requires the recognition of substantially all leases in the balances sheet and the separation of depreciation of lease assets from interest on lease liabilities in the income statement. IFRS 16 is effective from January 1, 2019. The Group has made a preliminary assessment of the effect of IFRS 16 during 2017 and will continue to assess the effect during 2018. The lessee accounting for the Group will be affected by IFRS 16 since substantially all operating lease contracts under IAS 17 will be recognized in the balance sheet.

IFRS 9 Financial Instruments
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. Similar to IAS 39, financial assets are classified into different categories, whereas some are valued at amortized cost and some at fair value. IFRS 9 introduces a new classification model for financial assets that is more based on principles than the current requirements under IAS 39. Financial assets are classified according to their contractual cash flow characteristics and the business models under which they are held. Additionally, IFRS 9 introduces a new model for impairment of financial assets. The model's purpose is to recognize credit losses earlier than IAS 39. The classification of financial liabilities remains largely unchanged compared with IAS 39. The only change introduced by IFRS 9 in respect of financial liabilities is related to liabilities designated as fair value through profit or loss. The part of the fair value changes of such financial liabilities that is attributable to the change in the entity's own credit risk is presented in other comprehensive income instead of profit or loss, unless doing so would introduce an accounting mismatch. Changed criteria for hedge accounting may lead to more economic hedging strategies fulfilling the requirements for hedge accounting according to IFRS 9 than IAS 39.

IFRS 9 Financial Instruments is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Group and Parent Company plan to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity. Additionally, the classification of some financial instruments will change. Expected effects are summarized and disclosed below. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018.

Effect on equity following adoption of IFRS 9 in the Group as of 1 January 2018	Adjustments	MSEK
Investments	a)	–
Deferred tax	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 which are valued to fair value presently are expected to continue to be valued at fair value. Investments in certain debt instruments currently recognized at amortized cost will be recognized at fair value through profit or loss. Investments in liquidity funds will be valued to fair value trough profit or loss. The Group has made the judgement that accounts receivables also continue to fulfill the criteria to be valued at amortized cost.

b) Impairment
The Group will apply the simplified method for accounting of expected losses related to trade receivables, lease receivables, contract assets and certain other financial receivables.

c) Hedge accounting
The Group determined that all existing hedge relationships that are currently designated as 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 will not have a significant impact on the Group's financial statements.

d) Other adjustments
Other than above mentioned adjustments some other items in the financial reports may be affected, such as deferred tax and translation differences.

IFRS 15 Revenue from Contracts with Customers
This new standard will replace existing revenue recognition standards and establishes a five-step model to account for revenue from contracts with customers. Revenue recognized will reflect the expected and entitled consideration for transferring goods and/or services to customers. Mandatory effective date of the new standard is January 1, 2018 for annual periods beginning on or after January 1, 2018. The Group plans to adopt the new standard on the effective date using the full retrospective method using 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 performed a preliminary assessment of the effects of IFRS 15 during 2016. This assessment continued with a more detailed analysis and was completed during 2017. The below implications have been identified to affect the timing of revenue from contracts with customers:

a) Sale 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. Currently, these projects are 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

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

assessment is therefore that for these contracts, the control is transferred at one point in time when the performance obligation has been satisfied.

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 obligations under IFRS 15, the assessment of identified performance obligations might differ from identified deliverables according to the current revenue recognition standard. 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.

Presentation and disclosure
IFRS 15 presentation and disclosure requirements are more detailed compared to current revenue recognition standard. This will be a significant change from what is currently disclosed and will increase the volume of disclosures required in the financial statement. Development and testing of appropriate systems, internal controls and procedures to collect and disclose the required information continued during 2017.

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 exchange difference on translation of foreign operations will be affected and adjusted accordingly.

Summary
In summary, the impact of the implementation of IFRS 15 is expected to be, as follows:
The below table shows the impact on equity of December 31, 2017. Impact on equity of January 1, 2017 was MSEK –102.

Effect on equity following adoption of IFRS 15 in the Group as of 1 January 2018	Adjustments	MSEK
Assets		
Deferred tax assets	d)	21
Inventories	a) b)	395
Other receivables	a) b) c)	–123
Total assets		**293**
Liabilities		
Deferred tax liabilities	d)	–17
Other liabilities (non-current)	a) b) c)	432
Total liabilities		**415**
Retained earnings		–122
Non-controlling interest		0

Impact on the Consolidated income statement for 2017	Adjustments	MSEK
Revenue	a) b) c)	–218
Cost of sales	a) b) c)	187
Income tax expense	d)	12
Net impact on profit for the year		**–19**
Profit attributable to:		
– owners of the parent		–19
– non controlling interest		0
Basic earnings per share, SEK		–0.02
Diluted earnings per share, SEK		–0.02

Impact on Consolidated statement of comprehensive income	Adjustments	MSEK
Translation differences on foreign operations		0
Net impact on Consolidated statement of comprehensive income		–19

In addition to the above, other new or revised accounting standards have been published, but are not yet effective. They are not considered to have a material impact on the financial statements of Atlas Copco.

New accounting principles from January 1, 2018
The following new accounting principles will be applied by the Group from January 2018.

Financial assets and liabilities – financial instruments from January 1, 2018
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.

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

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.

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

Critical accounting estimates and judgements for trade and financial receivables from January 1, 2018

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 judgement: Management's judgment considers rapidly changing market conditions which may be particularly sensitive in customer financing operations. 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.

Revenue recognition from January 1, 2018
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 occur 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 is 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.

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

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 services
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.

Critical accounting estimates and judgements for revenue recognition from January 1, 2018

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.

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 (i. e. 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, 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.

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

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

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, overstock 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.

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

Trade and financial receivable

Key sources of estimation uncertainty

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

Accounting judgment

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

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 significant acquisitions during 2017 and 2016:

Closing date		Country	Business area	Revenues [1]	Number of employees [1]
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 Feb. 2	Erkat Spezialmaschinen und Service	Germany	Power Technique	110	38
2017 Jan. 3	HB Kompressoren Druckluft und Industrietechnik	Germany	Compressor Technique	[2]	10
2016 Dec. 22	Air Power of Nebraska	U.S.A.	Compressor Technique	[2]	12
2016 Nov. 24	Phillip-Tech	China	Industrial Technique	[2]	45
2016 Sep. 1	Leybold	Germany etc.	Compressor Technique [3]	3 150	1 600
2016 Aug. 5	CSK	South Korea etc.	Compressor Technique [3]	870	400
2016 Aug. 2	Schneider Druckluft	Germany, Slovakia and Czech Republic	Compressor Technique	250	110
2016 July 4	Roxel Rental	Norway	Power Technique	12	2
2016 June 14	Bondtech	Sweden	Industrial Technique	32	12
2016 May 2	Kohler Druckluft	Austria, Switzerland and Liechtenstein	Compressor Technique	[2]	30
2016 Apr. 15	Scales Industrial Technologies	U.S.A.	Compressor Technique	[2]	180
2016 Apr. 4	Air et Fluides Lyonnais	France	Compressor Technique	[2]	6
2016 Mar. 2	FIAC	Italy etc.	Compressor Technique	640	400
2016 Jan. 12	Varisco	Italy etc.	Power Technique	270	135
2016 Jan. 5	Capitol Research Equipment	U.S.A.	Compressor Technique [3]	22	15

[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.
[3] Included in Vacuum Technique as from 2017.

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 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 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 the 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	
	2017	2016
Intangible assets	135	393
Property, plant and equipment	16	108
Other assets	108	541
Cash and cash equivalents	3	41
Interest-bearing loans and borrowings	–24	–272
Other liabilities and provisions	–59	–444
Net identifiable assets	**179**	**367**
Goodwill	153	220
Total consideration	**332**	**587**
Deferred consideration	–49	52
Cash and cash equivalents acquired	–3	–41
Net cash outflow	**280**	**598**

In January, the Compressor Technique business area acquired the business of hb Kompressoren Druckluft- und Industrietechnik GmbH, a German distributor and service provider of industrial air compressors and related systems. The acquisition strengthens Atlas Copco's presence in the south-western region of Germany. Intangible assets of 4 were recorded on the purchase.

In March, Orcan Basincli Hava Makinalari San. ve Tic. Ltd., a Turkish distributor and service provider of Atlas Copco industrial air compressors and related products, was acquired. The acquisition strengthens Atlas Copco's presence in Turkey. Intangible assets of 8 were recorded on the purchase.

In May, Pressure Compressores Ltda., a Brazilian manufacturer of piston compressors and related equipment was acquired. The company offers a broad range of piston compressors, screw compressors and air treatment products, serving mainly the Brazilian market but also some other South American countries. The acquisition strengthens Atlas Copco's presence in the region. Intangible assets of 28 and goodwill of 43 were recorded on the purchase.

In August, Atlas Copco acquired the compressor-related business of Glauber Equipment Corporation, an Atlas Copco compressed air distributor and service provider that is active in Upstate and Western New York. The acquisition will give increased focus on and direct access to more customers in the region. Intangible assets of 11 and goodwill of 6 were recorded on the purchase.

In September, the operating assets of C.H. Spencer & Company Co., a U.S. distributor and service provider of industrial pumps, compressors and related products, were acquired. The company is based in Salt Lake City, Utah, and also operates in the states of Nevada, Wyoming and Idaho in the central United States. The acquisition gives Atlas Copco access to a reliable service network and high-quality products. Intangible assets of 124 and goodwill of 71 were recorded on the purchase.

Some adjustments were made to the acquisition of Schneider Druckluft, reducing intangible assets with 38, deferred tax liabilities with 11 and increasing goodwill with 27.

Vacuum Technique	Recognized values	
	2017	2016
Intangible assets	–	1 984
Property, plant and equipment	–	996
Other assets	–	1 384
Cash and cash equivalents	–	896
Interest-bearing loans and borrowings	–	–2 604
Other liabilities and provisions	7	–995
Net identifiable assets	**7**	**1 661**
Non-controlling interests	–	–6
Goodwill	–34	2 570
Total consideration	**–27**	**4 225**
Deferred consideration	6	4
Cash and cash equivalents acquired	–	–896
Net cash outflow	**–21**	**3 333**

The Vacuum Technique business area made no acquisitions in 2017. Some minor adjustments were made to the acquisitions of CSK and Leybold.

Industrial Technique	Recognized values	
	2017	2016
Intangible assets	–	68
Property, plant and equipment	–	4
Other assets	–6	29
Other liabilities and provisions	2	–11
Net identifiable assets	**–4**	**90**
Goodwill	–3	50
Total consideration	**–7**	**140**
Deferred consideration	36	244
Net cash outflow	**29**	**384**

The Industrial Technique business area made no acquisitions in 2017. Some minor adjustments were made to the acquisition of Phillip-Tech.

Power Technique	Recognized values	
	2017	2016
Intangible assets	54	138
Property, plant and equipment	50	83
Other assets	74	147
Cash and cash equivalents	15	12
Interest-bearing loans and borrowings	–15	–13
Other liabilities and provisions	–65	–97
Net identifiable assets	**113**	**270**
Goodwill	71	143
Total consideration	**184**	**413**
Deferred consideration	–18	–
Cash and cash equivalents acquired	–15	–12
Net cash outflow	**151**	**401**

In February, the Power Technique business area acquired Erkat Spezialmaschinen und Service GmbH. The company makes drum cutter attachments for excavators used primarily in construction and demolition and for quarries and tunnels. Drum cutters are a complementary product for Atlas Copco as a solution provider in rock excavation, tunnel and foundation profiling and demolition. Intangible assets of 25 and goodwill of 28 were recorded on the purchase.

In May, Itubombas Locação Comércio Importação e Exportação Ltda was acquired. Itubombas is based in Itu in the state of São Paulo, Brazil and rents out diesel and electric driven centrifugal pumps to professional customers in the oil and gas, construction and mining sectors in Brazil. The acquisition strengthens Atlas Copco's rental product offering to customers in this market. Intangible assets of 28 and goodwill of 43 were recorded on the purchase.

2. Acquisitions, continued

Total fair value of acquired assets and liabilities	Group recognized values	
	2017	2016
Intangible assets	189	2 583
Property, plant and equipment	66	1 191
Other non-current assets	–	3
Inventories	61	988
Receivables [1]	115	1 093
Other current assets	–	17
Cash and cash equivalents	18	949
Interest-bearing loans and borrowings	–39	–2 889
Other liabilities and provisions	–103	–1 218
Deferred tax assets/liabilities, net	–12	–329
Net identifiable assets	**295**	**2 388**
Non-controlling interests	–	–6
Goodwill	187	2 983
Total consideration	**482**	**5 365**
Deferred consideration	–25	300
Cash and cash equivalents acquired	–18	–949
Net cash outflow	**439**	**4 716**

[1] The gross amount is 123 (1 131) of which 8 (38) 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 482. Deferred consideration includes both deferred consideration not yet paid for acquisitions made in 2017 and settlement of deferred consideration for acquisitions made in prior years. For all acquisitions, the net cash outflow totaled 439 after deducting cash and cash equivalents acquired of 18.

Acquisition-related costs amounted to 12 (53) and were included mainly in "Administrative expenses" in the income statement for 2017.

Contribution from businesses acquired in 2017 and 2016 by business area	Compressor Technique		Vacuum Technique		Industrial Technique		Power Technique		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Contribution from date of control										
Revenues	218	993	–	1 809	–	31	165	270	383	3 103
Operating profit	–1	–31	–	–74	–	–1	34	17	33	–89
Profit for the year									25	–28
Contribution if the acquisition had occurred on Jan. 1										
Revenues	494	1 379	–	4 370	–	75	203	277	697	6 101
Operating profit	13	–61	–	33	–	3	44	17	57	–8
Profit for the year									41	–24

3. Assets held for sale and divestments

Assets held for sale

On December 22, 2017, Atlas Copco announced that the Group's concrete and compaction business, part of the Power Technique business area, will be divested to Husqvarna Group. The divestment was completed on February 2, 2018, see note 29. As from the fourth quarter 2017, the assets and liabilities of this business are classified as assets and liabilities held for sale.

In 2016, assets and liabilities held for sale consisted mainly of the assets and liabilities of the Road Construction Equipment division. This business was divested in 2017. For more information, see below under "Divestments and discontinued operations".

Assets held for sale also includes 1 (4) that is made up of buildings related to neither the divestment of the concrete and compaction business nor the Road Construction Equipment Division.

Divestments and discontinued operations

In January 2017, Atlas Copco announced the agreement to sell its Road Construction Equipment division to the French industrial and construction company Fayat Group. On October 5, 2017, the division was divested. Atlas Copco received the preliminary purchase price, net of cash in the divested entities, of 1 560.

The divestment resulted in an impairment of intangible assets of 1 754, net after tax, in Q4 2016. On divestment completion, –55 related to translation differences previously reported in other comprehensive income were recycled over the income statement. The Road Construction Equipment division has been reported as discontinued operations and assets held for sale in the Atlas Copco Group's financial statements. The following tables present the divested assets and liabilities and the income statement and cash flow for the Road Construction Equipment division until the time of divestment.

Carrying value of assets and liabilities held for sale	2017	2016
Intangible assets	102	70
Property, plant and equipment	39	334
Financial assets	–	4
Deferred tax assets	–	42
Inventories	50	1 067
Receivables	1	936
Cash and cash equivalents	–	34
Interest-bearing loans and borrowings	–1	–117
Other liabilities and provisions	–55	–689
Deferred tax liabilities	–	–5
Net carrying value	**136**	**1 676**

Carrying value of divested assets and liabilities	2017	2016
Intangible assets	102	–
Property, plant and equipment	230	–
Financial assets	21	–
Deferred tax assets, net	39	–
Inventories	988	–
Receivables	1 043	–
Cash and cash equivalents	506	–
Interest bearing loans and borrowings	–187	–
Other liabilities and provisions	–790	–
Net identifiable assets	**1 952**	**–**

Income Statement discontinued operations	2017	2016
Revenues	2 504	2 912
Cost of sales	–2 069	–2 415
Gross profit	**435**	**497**
Marketing expenses	–224	–310
Administrative expenses	–148	–125
Research and development expenses	–50	–144
Other operating income	7	–
Other operating expenses	–36	–3
Operating loss	**–16**	**–85**
Financial income	7	2
Financial expenses	–12	–14
Net Financial items	**–5**	**–12**
Loss before tax	**–21**	**–97**
Income tax expense	7	14
Loss from operations	**–14**	**–83**
Loss on remeasurement to fair value less cost to sell		
Impairment of intangible assets	–	–2 094
Income tax on remeasurement	–	340
Translation differences recycled	–55	–
Loss for the period from discontinued operations	**–69**	**–1 837**
Basic earnings per share, SEK	–0.06	–1.51
Diluted earnings per share, SEK	–0.05	–1.51

Cash Flow discontinued operations	2017			2016		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Cash flow from:						
Operating activities	21 443	–63	21 380	18 164	117	18 281
Investing activities	–2 244	1 486	–758	–7 024	–124	–7 148
– of which divestment of subsidiaries		1 560	1 560	–	–	–
Financing activities	–7 798	53	–7 745	–8 991		–8 991
Net cash flow for the year	**11 401**	**1 476**	**12 877**	**2 149**	**–7**	**2 142**
Cash and cash equivalents, Jan. 1			11 492			8 861
Exchange-rate difference in cash and cash equivalents			127			489
Cash and cash equivalents, Dec. 31			**24 496**			**11 492**

4. Segment information

2017	Compressor Technique	Vacuum Technique	Industrial Technique	Mining and Rock Excavation Technique	Power Technique	Common group functions	Eliminations	Group
Revenues from external customers	38 371	19 582	16 322	29 095	12 809	242	–	116 421
Inter-segment revenues	397	–	55	71	437	89	–1 049	–
Total revenues	**38 768**	**19 582**	**16 377**	**29 166**	**13 246**	**331**	**–1 049**	**116 421**
Operating profit	**8 960**	**4 956**	**4 175**	**5 844**	**2 137**	**–1 836**	**–36**	**24 200**
– of which share of profit in associated companies and joint ventures	*–*	*–*	*4*	*–1*	*–*	*–*	*–*	*3*
Net financial items								–1 071
Income tax expense								–6 367
Profit for the year from continuing operations								16 762
Loss for the year from discontinued operations								–69
Profit for the year								**16 693**
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	**22 653**	**23 294**	**13 103**	**20 245**	**13 461**	**4 099**	**–1 496**	**95 359**
– 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, continuing operations								125 738
Total assets								**125 738**
Segment liabilities	**13 343**	**4 709**	**3 533**	**6 688**	**2 951**	**3 705**	**–1 318**	**33 611**
Unallocated liabilities								31 404
Total liabilities, continuing operations								65 015
Total liabilities								**65 015**
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	–	71	–	–	187

4. Segment information, continued

2016	Compressor Technique	Vacuum Technique	Industrial Technique	Mining and Rock Excavation Technique	Power Technique	Common group functions	Eliminations	Group
Revenues from external customers	36 051	13 635	14 972	24 995	11 473	230	–	101 356
Inter-segment revenues	305	–	45	48	321	71	–790	–
Total revenues	**36 356**	**13 635**	**15 017**	**25 043**	**11 794**	**301**	**–790**	**101 356**
Operating profit	**8 115**	**3 060**	**3 430**	**4 465**	**1 769**	**–1 063**	**22**	**19 798**
– of which share of profit in associated companies and joint ventures	–	–	*7*	–	–	–	–	*7*
Net financial items								–993
Income tax expense								–5 020
Profit for the year from continuing operations								13 785
Loss for the year from discontinued operations								–1 837
Profit for the year								**11 948**
Non-cash expenses								
Depreciation/amortization	825	619	650	1 011	773	363	–79	4 162
Impairment	8	–	67	–	4	–	–	79
Other non-cash expenses	–109	354	12	–59	–12	198	–	384
Segment assets	**22 581**	**24 194**	**14 002**	**18 915**	**12 916**	**4 095**	**–1 465**	**95 238**
– of which goodwill	*3 674*	*9 708*	*4 430*	*1 555*	*4 742*	–	–	*24 109*
Investments in associated companies and joint ventures	1	–	122	15	–	–	–	138
Unallocated assets								17 585
Total assets, continuing operations								112 961
Total assets, discontinued operations*								2 931
Total assets								**115 892**
Segment liabilities	**11 357**	**3 957**	**4 019**	**5 033**	**2 481**	**2 951**	**–1 794**	**28 004**
Unallocated liabilities								33 343
Total liabilities, continuing operations								61 347
Total liabilities, discontinued operations*								1 368
Total liabilities								**62 715**
Capital expenditures								
Property, plant and equipment	258	167	289	865	766	344	–95	2 594
– of which assets leased	*11*	*1*	*2*	*65*	*4*	–	–	*83*
Intangible assets	99	211	161	270	125	70	–	936
Total capital expenditures	**357**	**378**	**450**	**1 135**	**891**	**414**	**–95**	**3 530**
Goodwill acquired	220	2 570	50	–	143	–	–	2 983

* Includes inter-segment receivables and liabilities.

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. 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 22–38.

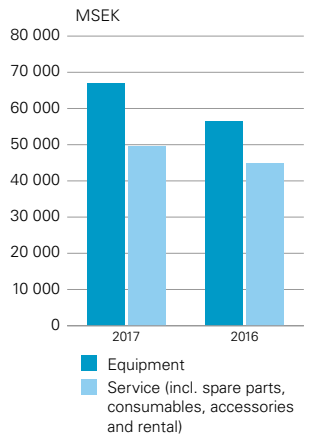
Common group functions, i.e. functions which serve all business areas or the Group as a whole, is not considered a segment.

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	
	2017	2016	2017	2016
North America				
Canada	3 792	3 367	324	350
U.S.A.	20 694	18 367	7 510	8 450
Other countries	2 988	2 657	104	123
	27 474	**24 391**	**7 938**	**8 923**
South America				
Brazil	2 642	2 371	524	348
Chile	2 156	1 930	176	178
Other countries	2 921	2 352	118	154
	7 719	**6 653**	**818**	**680**
Europe				
Belgium	1 116	985	1 976	2 059
France	3 285	3 111	267	281
Germany	5 724	4 851	7 215	7 095
Italy	2 519	2 265	1 623	1 650
Russia	3 272	2 590	112	97
Sweden	2 109	1 955	7 045	7 376
United Kingdom	2 744	2 632	13 130	14 801
Other countries	13 495	11 986	1 237	1 278
	34 264	**30 375**	**32 605**	**34 637**
Africa/Middle East				
South Africa	2 274	1 893	154	169
Other countries	7 016	7 099	280	280
	9 290	**8 992**	**434**	**449**
Asia/Australia				
Australia	3 968	3 365	264	335
China	15 453	12 459	2 690	2 750
India	4 356	3 932	587	620
Japan	2 471	2 254	522	561
South Korea	5 719	3 857	1 423	1 407
Other countries	5 707	5 078	327	354
	37 674	**30 945**	**5 813**	**6 027**
Total	**116 421**	**101 356**	**47 608**	**50 716**

4. Segment information, continued

Quarterly data

Revenues by business area MSEK	2017 1	2017 2	2017 3	2017 4	2016 1	2016 2	2016 3	2016 4
Compressor Technique	9 361	9 597	9 505	10 305	8 156	8 976	9 421	9 803
– of which external	9 283	9 507	9 411	10 170	8 075	8 894	9 359	9 723
– of which internal	78	90	94	135	81	82	62	80
Vacuum Technique	4 768	4 777	4 801	5 236	2 536	2 953	3 511	4 635
– of which external	4 768	4 777	4 801	5 236	2 536	2 953	3 511	4 635
– of which internal	–	–	–	–	–	–	–	–
Industrial Technique	4 031	4 154	4 010	4 182	3 417	3 622	3 841	4 137
– of which external	4 017	4 140	3 998	4 167	3 406	3 611	3 830	4 125
– of which internal	14	14	12	15	11	11	11	12
Mining and Rock Excavation Technique	6 882	7 157	7 116	8 011	5 736	6 124	6 212	6 971
– of which external	6 849	7 155	7 086	8 005	5 723	6 111	6 204	6 957
– of which internal	33	2	30	6	13	13	8	14
Power Technique	3 177	3 496	3 236	3 337	2 718	3 042	2 961	3 073
– of which external	3 061	3 390	3 145	3 213	2 628	2 954	2 890	3 001
– of which internal	116	106	91	124	90	88	71	72
Common Group functions/eliminations	–192	–151	–169	–206	–110	–152	–103	–124
Total	**28 027**	**29 030**	**28 499**	**30 865**	**22 453**	**24 565**	**25 843**	**28 495**

Operating profit by business area MSEK	2017 1	2017 2	2017 3	2017 4	2016 1	2016 2	2016 3	2016 4
Compressor Technique	2 102	2 242	2 218	2 398	1 792	2 007	2 173	2 143
in % of revenues	*22.5%*	*23.4%*	*23.3%*	*23.3%*	*22.0%*	*22.4%*	*23.1%*	*21.9%*
Vacuum Technique	1 181	1 198	1 225	1 352	504	693	732	1 131
in % of revenues	*24.8%*	*25.1%*	*25.5%*	*25.8%*	*19.9%*	*23.5%*	*20.8%*	*24.4%*
Industrial Technique	933	964	1 311	967	737	799	897	997
in % of revenues	*23.1%*	*23.2%*	*32.7%*	*23.1%*	*21.6%*	*22.1%*	*23.4%*	*24.1%*
Mining and Rock Excavation Technique	1 361	1 414	1 440	1 629	866	1 041	1 163	1 395
in % of revenues	*19.8%*	*19.8%*	*20.2%*	*20.3%*	*15.1%*	*17.0%*	*18.7%*	*20.0%*
Power Technique	520	616	532	469	408	484	449	428
in % of revenues	*16.4%*	*17.6%*	*16.4%*	*14.1%*	*15.0%*	*15.9%*	*15.2%*	*13.9%*
Common Group functions/eliminations	–386	–446	–458	–582	–137	–255	–340	–309
Operating profit	**5 711**	**5 988**	**6 268**	**6 233**	**4 170**	**4 769**	**5 074**	**5 785**
in % of revenues	*20.4%*	*20.6%*	*22.0%*	*20.2%*	*18.6%*	*19.4%*	*19.6%*	*20.3%*
Net financial items	–215	–368	–201	–287	–181	–341	–304	–167
Profit before tax	**5 496**	**5 620**	**6 067**	**5 946**	**3 989**	**4 428**	**4 770**	**5 618**
in % of revenues	*19.6%*	*19.4%*	*21.3%*	*19.3%*	*17.8%*	*18.0%*	*18.5%*	*19.7%*

5. Employees and personnel expenses

Average number of employees	2017 Women	2017 Men	2017 Total	2016 Women	2016 Men	2016 Total
Parent Company						
Sweden	61	40	101	60	46	106
Subsidiaries						
North America	1 177	5 513	6 690	1 097	5 226	6 323
South America	494	2 640	3 134	473	2 471	2 944
Europe	3 754	16 372	20 126	3 310	15 162	18 472
– of which Sweden	*757*	*3 134*	*3 891*	*689*	*3 011*	*3 700*
Africa/Middle East	375	2 050	2 425	384	2 144	2 528
Asia/Australia	2 318	11 192	13 510	2 188	10 188	12 376
Total in subsidiaries	**8 118**	**37 767**	**45 885**	**7 452**	**35 191**	**42 643**
Total	**8 179**	**37 807**	**45 986**	**7 512**	**35 237**	**42 749**

Females in the Board of Directors and Group Management, %	Dec. 31, 2017	Dec. 31, 2016
Parent Company		
Board of Directors [1]	33	33
Group Management	30	22

[1] In line with the EU calculation model, which excludes CEO and includes employee representatives.

5. Employees and personnel expenses, continued

Remuneration and other benefits MSEK	Group 2017	 2016
Salaries and other remuneration	21 601	19 865 [2]
Contractual pension benefits	1 268	820
Other social costs	3 992	3 570 [2]
Total	**26 861**	**24 255**
Pension obligations to Board members and Group Management [1]	5	5

[1] Refers to former members of Group Management.
[2] Restated.

Remuneration and other benefits to the Board KSEK	Fee	Value of synthetic shares at grant date	Number of shares at grant date	Other fees [1]	Total fees incl. value of synthetic shares at grant date **2017**	Adj. due to vesting and change in stock price [2]	Total expense recognized **2017** [3]	Total expense recognized **2016**
Chairman:								
Hans Stråberg [4]	2 718	–	–	496	3 214	676	3 890	3 572
Other members of the Board:								
Anders Ullberg	651	–	–	180	831	–	831	750
Staffan Bohman [4]	758	–	–	413	1 171	111	1 282	1 168
Margareth Övrum [5]	83	–	–	–	83	754	837	1 213
Johan Forssell	326	330	994	262	918	695	1 613	1 363
Tina Donikowski [6]	248	330	994	–	578	–59	519	–
Peter Wallenberg Jr	326	330	994	75	731	695	1 426	1 286
Sabine Neuss	651	–	–	–	651	–	651	469
Gunilla Berg	326	330	994	158	814	181	995	668
Other members of the Board previous year	–	–	–	–	–	253	253	786
Union representatives (4) [7]	64	–	–	–	64	–	64	46
Total 2017	**6 151**	**1 320**	**3 976**	**1 584**	**9 055**	**3 306**	**12 361**	
Total 2016	5 858	1 248	6 112	1 243	8 349	2 972		11 321

[1] Refers to fees for membership in board committees.
[2] Refers to synthetic shares received in 2012–2017.
[3] Provision for synthetic shares as at December 31, 2017 amounted to MSEK 11 (11).
[4] Hans Stråberg and Staffan Bohman invoiced their fees. The fees received include compensation for social costs and are cost neutral for the Company.
[5] Margareth Övrum left the board in 2017. The fees received refer to Q1, 2017.
[6] Tina Donikowski was elected board member at the Annual General Meeting 2017.
[7] 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 **2017**	Total expense recognized **2016**
President and CEO								
Mats Rahmström, from April 27, 2017	7 333	5 133	236	2 567	15 269	7 238	22 507	–
Ronnie Leten, until April 26, 2017 [4]	4 807	3 845	1 409	1 682	11 744	47 419	59 162	51 852
Other members of Group Management (9 positions)	25 519	14 015	3 693	8 173	51 399	26 646	78 046	73 068
Total 2017	**37 659**	**22 993**	**5 338**	**12 422**	**78 412**	**81 303**	**159 715**	
Total 2016	41 939	25 465	4 013	13 709	85 126	39 794		124 920
Total remuneration and other benefits to the Board and Group Management							172 076	136 241

[1] Refers to variable compensation earned in 2017 to be paid in 2018.
[2] Refers to vacation pay, company car, medical insurance, and other benefits.
[3] Refers to stock options and SARs received in 2013–2017 and includes recognized costs due to change in stock price and vesting period, see also note 23.
[4] Ronnie Leten resigned during 2017, which means that the unrealized value of all outstanding stock options has been recognized at full expense in 2017 instead of over the remaining vesting period, in accordance with IFRS 2. See also note 23.

5. Employees and personnel expenses, continued

Remuneration and other fees for members of the Board, the President and CEO, and other members of Group Management

Principles for remuneration to the Board and Group Management
The principles for remuneration to the Board and Group Management are approved at the Annual General Meeting of the shareholders. The principles approved by the 2017 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 2017 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 2017 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 2017. The share rights are earned 25% per quarter as long as the member remains on the Board. After five years, the synthetic shares give the right to receive a cash payment per synthetic share based upon an average price for series A shares during 10 trading days following the release of the first quarterly interim report of the year of payment. The board members will receive dividends on series A shares until payment date in the form of new synthetic shares. If a board member resigns his or her position before the stipulated payment date as stated above, the board member has the right to request a prepayment. The prepayment will be made twelve months after the date from when the board member resigned or otherwise the original payment date is valid.

Four board members accepted the right to receive synthetic shares. The number and costs at grant date and at the end of the financial year are disclosed by board member in the table on the previous page.

Group Management
Group Management consists of the 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 2017, 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 private health 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 President and CEO is entitled to retire at the age of 65. The contribution is age related and is 35% of the base salary. These pension plans are vested.

Other members of Group Management
Members of Group Management employed in Sweden have a defined contribution pension plan, with contribution ranging from 25% to 35% of the base salary according to age. The variable compensation is not included in the basis for pension benefits. Members of Group Management not based in Sweden also have a defined contribution pension plan. These pension plans are vested. 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, 2017

Grant Year	President and CEO	Other members of Group Management
2013	2 040	5 772
2014	41 281	97 619
2015	28 149	156 331
2016	59 923	327 327
2017 [1]	108 399	153 012
Total	**239 792**	**740 061**

[1] Estimated grants for the 2017 stock option program including matching shares. 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 executive receives from employment or other business activity, whilst severance pay is being paid, will reduce the amount of severance pay accordingly.

Severance pay for the CEO and other members of Group Management is calculated only on the base salary and does not include variable compensation. Severance pay cannot be elected by the employee, but will only be paid if employment is terminated by the Company.

Remuneration and other committees
In 2017, 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.

In addition Hans Stråberg, Johan Forssell and Anders Ullberg formed the CEO Epiroc Search Committee.

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, 51% of all employees work in marketing, sales or service.

Geographical spread of employees, %	Employees	Nationality of senior managers
North America	15	7
South America	7	4
Europe	44	71
Africa/Middle East	5	6
Asia/Australia	29	12
Total	**100**	**100**

Employees by professional category, %	2017	2016
Production	25	25
Marketing	8	8
Sales and support	13	13
Service	30	30
Administration	17	17
Research & development	7	7
Total	**100**	**100**

6. Remuneration to auditors

Audit fees and other services	2017	2016
Deloitte		
Audit fee	74	67
Audit activities other than the audit assignment	2	2
Other services, tax	9	11
Other services, other	16	5
Other audit firms		
Audit fee	7	7
Total	**108**	**92**

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 consultancy services related to the preparation of the split of the Group.

At the Annual General Meeting 2017, Deloitte was elected as auditor for the Group until the Annual General Meeting 2018.

7. Other operating income and expenses

Other operating income	2017	2016
Commissions received	2	4
Income from insurance operations	189	152
Capital gain on assets held for sale	5	–
Capital gain on sale of property, plant and equipment	77	43
Exchange-rate differences	–	2
Other operating income	812	556
Total	**1 085**	**757**

Other operating expenses	2017	2016
Capital loss on sale of property, plant and equipment	–62	–52
Exchange-rate differences	–665	–
Other operating expenses	–612	–69
Total	**–1 339**	**–121**

Other operating expenses include 500 for costs associated with the proposed split of the Group. Other operating income includes a release of liabilities for contingent consideration from the Henrob acquisition in 2014. For 2016 other operating income included the release of a pension provision of 380, related to the acquisition of Edwards 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 26 861 (26 046) whereof expenses for post-employment benefits amounted to 1 268 (820). See note 5 for further details.

Government grants relating to expenses have been deducted in the related expenses by 60 (77). 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 2017, amounted to 39 (64).

Included in the operating profit are exchange rate changes on payables and receivables, and the effects from currency hedging. The operating profit also includes –28 (–55) of realized foreign exchange hedging result, which were previously recognized in equity. Amortization, depreciation and impairment charge for the year amounted to 5 063 (4 241), including discontinued operations. See note 12 and 13 for further details. Costs for research and development amounted to 3 723 (3 096).

8. Financial income and expenses

Financial income and expenses	2017	2016
Interest income		
– cash and cash equivalents	78	126
– finance lease receivables	187	167
– other	6	6
Capital gain		
– other assets	12	–
– change in fair value – other assets	26	–
Foreign exchange gain, net	–	1
Financial income	**309**	**300**
Interest expenses		
– borrowings	–659	–754
– derivatives for fair value hedges	–384	–244
– pension provisions, net	–56	–58
– deferred considerations	–18	–12
– other	–125	–
Change in fair value – other liabilities and borrowings	–	–150
Foreign exchange loss, net	–78	–
Impairment loss	–60	–75
Financial expenses	**–1 380**	**–1 293**
Financial expenses, net	**–1 071**	**–993**

"Foreign exchange gain/loss, net" includes foreign exchange gains of 2 246 (655) on financial assets at fair value through profit and loss and foreign exchange losses of –2 324 (–654) on other liabilities. See note 27 for additional information. "Interest expenses, other" consists of a one time effect from an interest charge of MSEK –125, related to the EU challenge of Belgian tax rulings, see note 9.

9. Taxes

Income tax expense	2017			2016		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Current taxes	–6 567	1	–6 566	–5 087	37	–5 050
Deferred taxes	200	6	206	67	317	384
Total	**–6 367**	**7**	**–6 360**	**–5 020**	**354**	**–4 666**

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:

	2017	2016
Profit before tax continuing operations	23 129	18 805
Loss before tax discontinued operations	–76	–2 191
Profit before tax	**23 053**	**16 614**
Weighted average tax based on national rates	–6 159	–4 740
– in %	26.7	28.5
Tax effect of:		
Non-deductible expenses	–411	–455
Withholding tax on dividends	–309	–356
Tax-exempt income	739	737
Adjustments from prior years:		
– current taxes	269	245
– deferred taxes	17	–187
Effects of tax losses/credits utilized	65	92
Change in tax rate, deferred tax	–126	65
Tax losses not recognized	–13	–94
Other items	–432	27
Income tax expense	**–6 360**	**–4 666**
Effective tax in %	27.6	28.1

9. Taxes, continued

The effective tax rate including discontinued operations was 27.6% (28.1) and 27.5% (26.7) for continuing operations. Withholding tax on dividends of –309 (–356) relates to provisions on retained earnings in countries where Atlas Copco incurs withholding taxes on repatriation of income. Tax-exempt income of 739 (737) 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 and disputes in different countries amounted to 269 (245).

Previously unrecognized tax losses/credits and deductible temporary differences, which have been recognized against current tax expense, amounted to 65 (92). No material unrecognized tax losses/credits or temporary difference have been used to reduce deferred tax expense.

At the end of 2017, both Belgium and the United States have announced major corporate income tax reforms which are expected to decrease the Group's yearly effective tax rate by 2–3 percentage points. For 2017 "Change in tax rate, deferred tax", mainly includes the effect of income tax rate changes in Belgium the United States. "Other items" amounting to –432 (27) include –330 related to the legal restructurings in connection with the preparations for the Epiroc split.

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. Atlas Copco has paid the remaining amount, whereof MEUR 68 (MSEK 655) in the second quarter 2017. MEUR 13 (MSEK 125) is expensed as an interest cost during 2017.

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 decision by the EGC can be appealed to the European Court of Justice, it will likely take several years until final judgement is rendered. If the judgement is positive for Atlas Copco, the additional taxes paid will be returned to Atlas Copco.

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	2017	2016
Opening net balance, Jan. 1	861	326
Business acquisitions	–12	–330
Discontinued operations	–	–36
Charges to profit for the year	200	384
Tax on amounts recorded to other comprehensive income	–28	466
Translation differences	40	51
Net balance, Dec. 31	**1 061**	**861**

9. Taxes, continued

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

Deferred tax assets and liabilities	2017			2016		
	Assets	Liabilities	Net balance	Assets	Liabilities	Net balance
Intangible assets	215	2 540	–2 325	144	2 872	–2 728
Property, plant and equipment	376	626	–250	310	708	–398
Other financial assets	15	68	–53	12	36	–24
Inventories	1 894	33	1 861	1 988	43	1 945
Current receivables	207	220	–13	255	172	83
Operating liabilities	831	118	713	874	178	696
Provisions	322	7	315	415	14	401
Post-employment benefits	827	63	764	900	20	880
Borrowings	419	2	417	392	1	391
Loss/credit carry-forwards	218	–	218	255	–	255
Other items [1]	50	636	–586	10	650	–640
Deferred tax assets/liabilities	**5 374**	**4 313**	**1 061**	**5 555**	**4 694**	**861**
Netting of assets/liabilities	–3 858	–3 858	–	–3 666	–3 666	–
Net deferred tax balances	**1 516**	**455**	**1 061**	**1 889**	**1 028**	**861**

[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 3 491 (5 185), of which deferred tax assets were recognized for 870 (1 029). The tax value of reported tax loss carry-forwards totals 218 (255). 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 losses carry-forwards for which no deferred tax have been recognized expires in accordance with below table:

	2017	2016
Expires after 1–2 years	526	449
Expires after 3–4 years	126	643
Expires after 5–6 years	74	42
No expiry date	1 895	3 022
Total	**2 621**	**4 156**

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

	2017	2016
Intangible assets	293	185
Property, plant and equipment	124	57
Other financial assets	–5	–1
Inventories	–60	244
Current receivables	–84	68
Operating liabilities	115	–70
Provisions	–70	–15
Post-employment benefits	–89	–100
Borrowings	–4	–70
Other items	12	55
Changes due to temporary differences	**232**	**353**
Loss/credit carry-forwards	–32	31
Charges to profit for the year	**200**	**384**

10. Other comprehensive income

Other comprehensive income for the year	2017			2016		
	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						
Remeasurments of defined benefit plans	120	–61	59	–113	–3	–116
Items that may be reclassified subsequently to profit or loss						
Translation differences on foreign operations	–648	200	–448	3 196	308	3 504
–realized and reclassified to income statement	55	–	55	–	–	–
Hedge of net investments in foreign operations	–492	108	–384	–762	168	–594
Cash flow hedges	142	–31	111	–25	11	–14
Total other comprehensive income	**–823**	**216**	**–607**	**2 296**	**484**	**2 780**
Attributable to non-controlling interests						
Translation differences on foreign operations	–2	–	–2	5	–	5
Total other comprehensive income	**–825**	**216**	**–609**	**2 301**	**484**	**2 785**

11. Earnings per share

Amounts in SEK	Basic earnings per share		Diluted earnings per share	
	2017	2016	2017	2016
Earnings per share	13.73	9.81	13.63	9.79
– of which continued operations	*13.79*	*11.32*	*13.68*	*11.30*
– of which discontinued operations	*–0.06*	*–1.51*	*–0.05*	*–1.51*

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	2017	2016
Profit for the year	16 671	11 931
– of which continued operations	*16 740*	*13 768*
– of which discontinued operations	*–69*	*–1 837*

Average number of shares outstanding	2017	2016
Basic weighted average number of shares outstanding	1 214 068 643	1 216 105 455
Effect of employee stock options	1 730 279	702 116
Diluted weighted average number of shares outstanding	**1 215 798 922**	**1 216 807 571**

Potentially dilutive instruments
As of December 31, 2017, Atlas Copco had four outstanding employee stock option programs, of which the exercise price, including adjustment for remaining vesting costs for the 2017 programs, exceeded the average share price for series A shares, SEK 322 per share. These programs are, therefore, considered anti-dilutive and are not included in the calculation of diluted earnings per share. If the average share price, adjusted in accordance 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 except as stated below.

Businesses acquired in 2017 as well as those in previous years, and their related cash flows, have in most cases been integrated with other Atlas Copco operations soon after the acquisition. In instances where the acquired business is not yet integrated and hence is monitored separately, the associated goodwill is tested for impairment separately.

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%.

The Group's average weighted cost of capital in 2017 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. 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:

	2017		2016	
	Trademarks	Goodwill	Trademarks	Goodwill
Compressor Technique	–	3 633	–	3 674
Vacuum Technique	1 781	9 066	1 884	9 708
Industrial Technique	–	4 215	–	4 430
Mining and Rock Excavation Technique	–	1 508	–	1 555
Power Technique	–	4 797	–	4 742
Total	**1 781**	**23 219**	**1 884**	**24 109**

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:

	2017		2016	
	Internally generated	Acquired	Internally generated	Acquired
Cost of sales	8	38	9	35
Marketing expenses	5	804	16	571
Administrative expenses	283	72	80	98
Research and development expenses	632	503	490	348
Total	**928**	**1 417**	**595**	**1 052**

Impairment charges on intangible assets totaled 588 (72) of which 171 (28) were classified as research and development expenses in the income statement, 223 (10) were classified as marketing expenses, and 194 (34) as administrative expenses. Of the impairment charges, 95 (4) were due to capitalized development costs relating to projects discontinued. The impairment charges related to other technology and contract based intangibles, trademark and marketing and customer related intangibles were mainly related to a partial impairment of capitalized costs for a Group common IT system which Epiroc will not utilize and to a partial impairment of intangible assets acquired as part of the Henrob acquisition in 2014.

12. Intangible assets, continued

2017	Internally generated intangible assets		Acquired intangible assets					
	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**

2016	Internally generated intangible assets		Acquired intangible assets					
	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	6 045	1 339	69	3 814	5 134	4 905	20 558	41 864
Discontinued operations	–801	–22	–46	–1 225	–	–38	–516	–2 648
Investments	673	124	54	–	–	85	–	936
Business acquisitions	–	–	24	756	1 118	685	2 983	5 566
Disposals	–326	–40	–	–	–65	–97	–	–528
Reclassifications	6	4	–4	29	–	14	–	49
Translation differences	137	50	4	169	344	172	1 121	1 997
Closing balance, Dec. 31	**5 734**	**1 455**	**101**	**3 543**	**6 531**	**5 726**	**24 146**	**47 236**
Amortization and impairment losses								
Opening balance, Jan. 1	3 434	562	27	735	2 019	1 531	36	8 344
Discontinued operations	–407	–17	–42	–	–	–27	–	–493
Amortization for the period	478	113	2	125	461	396	–	1 575
Impairment charge for the period	4	–	10	2	14	42	–	72
Disposals	–321	–25	–	–	–65	–97	–	–508
Reclassifications	9	3	–	29	–	6	–	47
Translation differences	103	25	–5	38	132	77	1	371
Closing balance, Dec. 31	**3 300**	**661**	**–8**	**929**	**2 561**	**1 928**	**37**	**9 408**
Carrying amounts								
At Jan. 1	2 611	777	42	3 079	3 115	3 374	20 522	33 520
At Dec. 31	**2 434**	**794**	**109**	**2 614**	**3 970**	**3 798**	**24 109**	**37 828**

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. Intangible assets of 102, including goodwill, have been 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

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**

2016	Buildings and land	Machinery and equipment	Construction in progress and advances	Total	Rental equipment
Cost					
Opening balance, Jan. 1	5 822	13 807	770	20 399	6 086
Discontinued operations	–283	–484	–4	–771	–54
Investments	92	673	614	1 379	1 215
Business acquisitions	712	432	19	1 163	28
Disposals	–105	–737	–	–842	–775
Reclassifications	251	475	–678	48	–357
Translation differences	258	587	20	865	420
Closing balance, Dec. 31	**6 747**	**14 753**	**741**	**22 241**	**6 563**
Depreciation and impairment losses					
Opening balance, Jan. 1	2 319	9 133	–	11 452	3 010
Discontinued operations	–110	–361	–	–471	–24
Depreciation for the period	242	1 364	–	1 606	981
Impairment charge for the period	–	7	–	7	–
Disposals	–56	–648	–	–704	–487
Reclassifications	–2	52	–	50	–227
Translation differences	116	392	–	508	215
Closing balance, Dec. 31	**2 509**	**9 939**	–	**12 448**	**3 468**
Carrying amounts					
At Jan. 1	3 503	4 674	770	8 947	3 076
At Dec. 31	**4 238**	**4 814**	**741**	**9 793**	**3 095**

Property plants and equipment of 39 have been 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	2017	2016
Opening balance, Jan. 1	138	125
Acquisitions of associated companies	81	–
Dividends	–2	–4
Profit for the year after income tax	3	7
Translation differences	–8	10
Closing balance, Dec. 31	**212**	**138**

[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]
2017							
Associated companies							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	70	19	51	35	–	25
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	129	61	68	112	4	25
Zhejiang GIA Machinery Manufacturing Co., Ltd	China	34	1	33	36	–	49
Reintube S.L.	Spain	7	4	3	11	–	47
Mobilaris MCE AB	Sweden	74	29	45	13	–7	34
Joint ventures							
Toku-Hanbai Group	Japan	369	161	208	850	8	50
2016							
Associated companies							
Qingdao Qianshao Pneumatic Tool Manufacturing Tech Ltd.	China	67	14	53	37	–	25
Shenzen Nectar Engineering & Equipment Co. Ltd.	China	134	63	71	96	1	25
Reintube S.L.	Spain	9	6	3	13	–	47
Joint ventures							
Toku-Hanbai Group	Japan	388	170	218	754	13	50

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. In 2016, the Group exercised the option to swap the shares in Yanggu Wuyue Special Steel Co. Ltd to the remaining non-controlling interest in Shandong Rock Drilling Tools Co. Ltd.

15. Other financial assets

Fair value of financial instruments under other financial assets, except held-to-maturity investments, corresponds to their carrying value.

	2017	2016
Non-current		
Pension and other similar benefit assets (note 23)	588	422
Available-for-sale investments	9	6
Held-to-maturity investments	–	27
Financial asset at fair value through profit and loss	101	123
Financial assets classified as loans and receivables		
– finance lease receivables	428	435
– other financial receivables	677	1 089
Closing balance, Dec. 31	**1 803**	**2 102**
Current		
Held-to-maturity investments	25	144
Financial assets at fair value through profit and loss	37	–
Financial assets classified as loans and receivables		
– finance lease receivables	478	510
– other financial receivables	755	1 801
Closing balance, Dec. 31	**1 295**	**2 455**

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

16. Inventories

	2017	2016
Raw materials	1 527	1 423
Work in progress	3 721	3 094
Semi-finished goods	4 005	3 537
Finished goods	9 162	8 858
Closing balance, Dec. 31	**18 415**	**16 912**

Provisions for obsolescence and other write-downs of inventories recorded as cost of sales amounted to 949 (1 090). Reversals of write-downs which were recognized in earnings totaled 340 (347). Previous write-downs have been reversed as a result of improved market conditions in certain markets.

Inventories recognized as expense amounted to 49 684 (45 936).

17. Trade receivables

Fair value for trade receivables corresponds to their carrying value. Trade receivables are categorized as loans and receivables.

Provisions for bad debts, trade	2017	2016
Provisions at Jan. 1	1 103	1 053
Discontinued operations	–	–16
Business acquisitions and divestments	8	35
Provisions recognized for potential losses	575	525
Amounts used for established losses	–295	–268
Release of unnecessary provisions	–331	–284
Change in discounted amounts	0	–1
Translation differences	–43	59
Closing balance, Dec. 31	**1 017**	**1 103**

Trade receivables of 22 853 (21 353) are reported net of provisions for doubtful accounts and other impairments amounting to 1 017 (1 103).

Provisions for doubtful accounts and impairment losses recognized in the income statement totaled 575 (525).

For credit risk information, see note 27.

18. Other receivables

Fair value for other receivables corresponds to their carrying value.

	2017	2016
Derivatives		
– held for trading	441	117
– designated for hedge accounting	25	11
Financial assets classified as loans and receivables		
– other receivables	3 452	2 849
– accrued income	1 955	2 057
Prepaid expenses	757	822
Closing balance, Dec. 31	**6 630**	**5 856**

Other receivables consist primarily of VAT claims and advances to suppliers. Accrued income relates mainly to service and construction projects. 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 for cash and cash equivalents corresponds to their carrying value. Cash and cash equivalents are classified as loans and receivables.

	2017	2016
Cash	6 613	4 122
Cash equivalents	17 883	7 336
Closing balance, Dec. 31	**24 496**	**11 458**

During 2017, cash and cash equivalents had an estimated average effective interest rate of 0.43% (0.65). Estimated average effective interest rate has decreased due to lower interest rates. The committed, but unutilized, credit lines are MEUR 1 440 (1 440), which equals to MSEK 14 170 (13 770).

See note 27 for additional information.

20. Equity

	2017			2016		
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
Total number of shares, Dec. 31	**839 394 096**	**390 219 008**	**1 229 613 104**	**839 394 096**	**390 219 008**	**1 229 613 104**
– of which held by Atlas Copco	–15 641 596	–246 159	–15 887 755	–14 813 384	–332 659	–15 146 043
Total shares outstanding, Dec. 31	**823 752 500**	**389 972 849**	**1 213 725 349**	**824 580 712**	**389 886 349**	**1 214 467 061**

At December 31, 2017 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						Cost value affecting equity	
	2017	AGM mandate 2017 Apr.–Dec.	AGM mandate 2016 Jan.–Mar.	2016	AGM mandate 2016 Apr.–Dec.	AGM mandate 2015 Jan.–Mar.	2017	2016
Opening balance, Jan. 1	15 146 043			13 516 982			3 041	2 377
Repurchase of A shares	4 510 000	1 510 000	3 000 000	5 160 000	3 660 000	1 500 000	1 465	1 294
Divestment of A shares	–3 681 788	–2 368 565	–1 313 223	–3 469 719	–2 291 100	–1 178 619	–801	–626
Divestment of B shares	–86 500	–86 500	–	–61 220	–61 220	–	–6	–4
Closing balance, Dec. 31	**15 887 755**			**15 146 043**			**3 699**	**3 041**
Percentage of shares outstanding	1.3%			1.2%				

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.

The 2016 AGM approved a mandate for the Board of Directors to repurchase and sell series A shares and series B shares on Nasdaq Stockholm in order to fulfill the obligations under the performance stock option plan. The mandate was valid until the AGM 2017 and allowed:

- The purchase of not more than 7 250 000 series A shares, whereof a maximum 7 000 000 may be transferred to personnel stock option holders under the performance stock option plan 2016.
- 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 5 500 000 series A and B shares in order to cover the obligations under the performance stock option plans 2011, 2012 and 2013.

Repurchases and sales are subject to market conditions, regulatory restrictions, and the capital structure at any given time. During 2017, 4 510 000 series A shares were repurchased while 3 681 788 series A shares and 86 500 series B shares were divested in accordance with mandates granted by the 2016 and 2017 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 2013–2017 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 84 (72). In the first quarter Atlas Copco founded the subsidiary GIA Mining Equipment Co., Ltd with a non-controlling interest of 49%. In the second quarter, Atlas Copco acquired the remaining non-controlling interest in CSKT Inc. in Taiwan. In the fourth quarter the Group acquired part of the non-controlling interest in Atlas Copco Maroc SA. In connection with the Epiroc split a new subsidiary in India was founded, Epiroc Mining India Ltd, the non-controlling interest is the same as in the former subsidiary in India. In total six subsidiaries, have non-controlling interest. None of these are material to the Group.

Appropriation of profit
The Board of Directors proposes a dividend of SEK 7.00 (6.80) per share, totaling SEK 8 496 077 443 if shares held by the company on December 31, 2017 are excluded.

SEK	
Retained earnings including reserve for fair value	27 091 432 680
Profit for the year	48 085 436 665
	75 176 869 345
The Board of Directors proposes that these earnings be appropriated as follows:	
To the shareholders, a dividend of SEK 7.00 per share	8 496 077 443
To be retained in the business	66 680 791 902
Total	**75 176 869 345**

The proposed dividend for 2016 of SEK 6.80 per share, as approved by the AGM on April 26, 2017, was accordingly paid by Atlas Copco AB. Total dividend paid amounted to SEK 8 252 689 970.

Mandatory share redemption
The Board of Directors also proposes a mandatory share redemption procedure, whereby each share is split into one ordinary share and one redemption share. The redemption share is then automatically redeemed at SEK 8.00 per share. This corresponds to a total of MSEK 9 710. Combined with the proposed ordinary dividend, shareholders will receive MSEK 18 206. The proposed preliminary record day for the share redemption split is May 11, 2018. The payment of the redemption split is May 11, 2018. The payment of the redemption share would, if approved, be made around June 11, 2018.

Dividend of shares in Epiroc AB
The Board of Directors also proposes a dividend of shares in Epiroc AB so that the shareholders in Atlas Copco AB will receive for each A-share held in Atlas Copco AB an Epiroc AB A-share and for each B-share an Epiroc AB B-share. The record date for this dividend, and listing of Epiroc AB on Nasdaq Stockholm is planned for June 2018, subject also to the approval of the Nasdaq listing committee.

21. Borrowings

	Maturity	Repurchased nominal amount	2017 Carrying amount	2017 Fair value	2016 Carrying amount	2016 Fair value
Non-current						
Medium Term Note Program MEUR 500	2019		4 920	5 080	4 781	4 993
Medium Term Note Program MEUR 500	2023		4 903	5 434	4 762	5 247
Medium Term Note Program MEUR 500	2026		4 912	4 779	4 773	4 627
Capital market borrowings MUSD 150	2019	MUSD 7.5	1 172	1 275	1 295	1 519
Bilateral borrowings EIB MEUR 275	2019		2 706	2 730	2 630	2 666
Bilateral borrowings NIB MEUR 200	2024		1 968	2 037	1 912	1 989
Bilateral borrowings EIB MEUR 300	2022		2 953	2 989	2 869	2 912
Other bank loans			30	30	69	69
Less current portion of long-term borrowings			–6	–6	–43	–43
Total non-current bonds and loans			**23 558**	**24 348**	**23 048**	**23 979**
Financial lease liabilities			76	76	100	100
Other financial liabilities			1	1	–	–
Total non-current borrowings			**23 635**	**24 425**	**23 148**	**24 079**
Current						
Current portion of long-term borrowings			6	6	43	43
Short term loans			1 452	1 452	1 461	1 461
Financial lease liabilities			55	55	70	70
Total current borrowings			**1 513**	**1 513**	**1 574**	**1 574**
Closing balance, Dec. 31			**25 148**	**25 938**	**24 722**	**25 653**

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.

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.

		CASH changes	NON CASH changes						
Reconciliation of liabilities from financing activities	Opening balance, Jan. 1	Financing cash flows	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 972 which is not included in the table above. In December 2017, the financial liability related to CSA amounted to MSEK 171 (0).

21. Borrowings, continued

The Group's back-up facilities are specified in the table below.

Back-up facilities	Nominal amount	Maturity	Utilized
Commercial papers [1, 2]	MSEK 9 936	–	–
Credit-line	MEUR 640	2020	–
Credit-line	MEUR 800	2021	–
Equivalent in SEK	**MSEK 24 106**		–

[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 9 936 (18 913).

The Group's short-term and long-term borrowings are distributed among the currencies detailed in the table below.

	2017			2016		
Currency	Local currency (millions)	MSEK	%	Local currency (millions)	MSEK	%
EUR	2 305	22 679	91	2 305	22 040	89
SEK	26	26	0	26	26	0
USD	164	1 348	5	184	1 675	7
Other	–	1 095	4	–	981	4
Total		**25 148**	**100**		**24 722**	**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
2018	–	1 513	1 513	1 513
2019	8 798	67	8 865	9 152
2020	–	24	24	24
2021	–	8	8	8
2022	–	2 953	2 953	2 989
2023	4 903	2	4 905	5 436
2024	–	1 968	1 968	2 037
2025	–	–	–	–
2026 and after	4 912	–	4 912	4 779
Total	**18 613**	**6 535**	**25 148**	**25 938**

[1] Floating interest in the table is borrowings with fixings shorter or equal to six months.

22. Leases

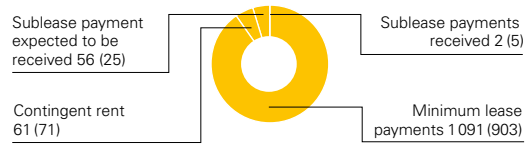
Operating leases – lessee

The leasing costs of assets under operating leases amounted to 1 150 (969), and are derived primarily from rented premises, machinery, and computer and office equipment. Operating leasing contracts for office and factory facilities typically run for a period of 10 to 15 years. 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 1 091 (903), contingent rent of 61 (71), and sublease payments received of 2 (5). Future payments for non-cancelable operating leasing contracts fall due as follows:

	2017	2016
Less than one year	808	769
Between one and five years	1 656	1 660
More than five years	434	449
Total	**2 898**	**2 878**

The total of future minimum sublease payments expected to be received was 56 (25).

Leasing cost under operating leases – Lessee



Operating leases – lessor

Atlas Copco has equipment which is leased to customers under operating leases. Long-term operating lease contracts are financed and administrated by Atlas Copco Financial Solutions and certain other subsidiaries. Future payments for non-cancelable operating leasing contracts fall due as follows:

	2017	2016
Less than one year	537	446
Between one and five years	457	279
More than five years	22	25
Total	**1 016**	**750**

Contingent rent recognized as income amounted to 28 (53).

Finance leases – lessee

Assets utilized under finance leases	Machinery and equipment	Rental equipment
Carrying amounts, Jan. 1, 2017	132	72
Carrying amounts, Dec. 31, 2017	126	46
Carrying amounts, Jan. 1, 2016	136	42
Carrying amounts, Dec. 31, 2016	132	72

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:

	2017			2016		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year	60	5	55	83	13	70
Between one and five years	78	6	72	112	14	98
More than five years	5	1	4	2	–	2
Total	**143**	**12**	**131**	**197**	**27**	**170**

Finance leases – lessor

The Group offers lease financing to customers via Atlas Copco Customer Finance and certain other subsidiaries. See note 27 for information on financial exposure and principles for control of financial risks. Future lease payments to be received fall due as follows:

	2017		2016	
	Gross investment	Present value of minimum lease payments	Gross investment	Present value of minimum lease payments
Less than one year	513	478	519	510
Between one and five years	432	424	446	425
More than five years	4	4	12	10
	949	**906**	**977**	**945**
Unearned finance income	–	43	–	32
Total	**949**	**949**	**977**	**977**

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. In 2016, Canada had a curtailment in one of its pension plans resulting in a gain of MSEK 81, included in settlement gain.

The German plans include those for pensions, early retirements and jubilee. The plans are funded. In 2016, the pension plans in Germany increased by BSEK 1.8 due to the acquisition of Leybold. These plans have been funded in 2017 through a payment of MSEK 772 in employer contribution to the CTA fund.

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 2016, a release of a pension provision related to the acquisition of Edwards occurred, resulting in a gain on settlement of MSEK 380.

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:

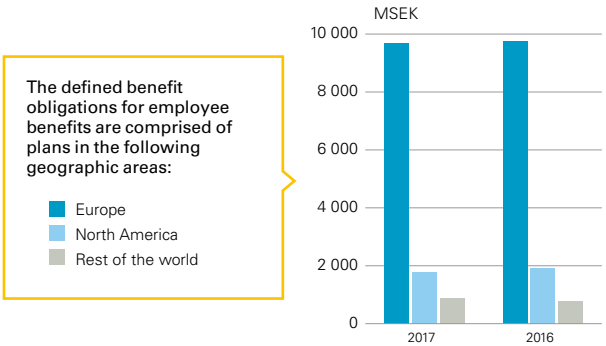
	2017	2016
Financial assets (note 15)	–588	–422
Post-employment benefits	3 034	3 907
Other provisions (note 25)	121	116
Closing balance, net	**2 567**	**3 601**

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 2 567 (3 601). The weighted average duration of the obligation is 15.6 (16.6) in years.

Post-employment benefits **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**
2016					
Present value of defined benefit obligations	9 200	2 902	93	250	12 445
Fair value of plan assets	– 8 825	–	– 86	–	– 8 911
Present value of net obligations	**375**	**2 902**	**7**	**250**	**3 534**
Other long-term service obligations	–	–	67	–	67
Net amount recognized in balance sheet	**375**	**2 902**	**74**	**250**	**3 601**

23. Employee benefits, continued

Plan assets consist of the following:	2017 Quoted market price	2017 Unquoted market price	2017 Total	2016
Debt instruments	4 177	–	4 177	4 446
Equity instruments	1 078	–	1 078	906
Property	284	660	944	999
Assets held by insurance companies	426	516	942	1 107
Cash	1 070	–	1 070	610
Investment funds	1 138	119	1 257	746
Derivatives	3	–	3	1
Others	315	–	315	96
Closing balance, Dec 31	**8 491**	**1 295**	**9 786**	**8 911**



Movement in plan assets	2017	2016
Fair value of plan assets at Jan 1	8 911	7 972
Discontinued operations	–	–110
Business acquisitions	–	160
Interest income	240	255
Remeasurement – return on plan assets	269	505
Settlements	–217	–32
Employer contributions	1 088	317
Plan members contributions	27	32
Administrative expenses	–17	–10
Benefit paid by the plan	–393	–337
Reclassifications	–21	143
Translation differences	–101	16
Fair value of plan assets at Dec 31	**9 786**	**8 911**

The plan assets are allocated among the following geographic areas:	2017	2016
Europe	7 708	6 971
North America	1 552	1 508
Rest of the world	526	432
Total	**9 786**	**8 911**

Movement in present value of the obligations for defined benefits	2017	2016
Defined benefit obligations at Jan. 1	12 445	9 928
Discontinued operations	–	–129
Current service cost	421	392
Past service cost	–60	2
Gain/loss on settlement	–2	–466
Interest expense (+)	294	314
Actuarial gains (–)/ losses (+) arising from experience adjustments	81	14
Actuarial gains (–)/ losses (+) arising from financial assumptions	194	619
Actuarial gains (–)/ losses (+) arising from demographic assumptions	–110	–4
Business acquisitions	–	2 078
Settlements	–217	–32
Benefits paid from plan or company assets	–637	–570
Reclassifications	10	159
Translation differences	–84	140
Defined benefit obligations, Dec. 31	**12 335**	**12 445**

Remeasurements recognized in other comprehensive income amounts to 120 (–113) and –17 (–12) in profit and loss. The Group expects to pay 397 (484) in contributions to defined benefit plans in 2018.

Expenses recognized in the income statement	2017	2016
Current service cost	421	392
Past service cost	–60	2
Gain/ loss on settlements	–2	–466
Net interest cost	54	59
Employee contribution/ participant contribution	–27	–32
Remeasurement of other long-term benefits	17	12
Administrative expenses	16	9
Total	**419**	**–24**

The total benefit expense for defined benefit plans amounted to 419 (–24), whereof 365 (–83) has been charged to operating expenses and 54 (59) to financial expenses. Expenses related to defined contribution plans amounted to 903 (903).

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages in %)	2017	2016
Discount rate		
Europe	1.99	2.15
North America	2.99	3.52
Future salary increases		
Europe	1.77	1.81
North America	1.71	1.81
Medical cost trend rate		
North America	6.81	7.01

The Group has identified discount rate, future salary increases, and mortality as the primary actuarial assumptions for determining defined benefit obligations. Changes in those actuarial assumptions affect the present value of the net obligation. The discount rate is determined by reference to market yields at the balance sheet date using, if available, high quality corporate bonds (AAA or AA) matching the duration of the pension obligations. In countries where corporate bonds are not available, government bonds are used to determine the discount rate. In Sweden in line with prior years, mortgage bonds are used for determining the discount rate.

Atlas Copco's mortality assumptions are set by country, based on the most recent mortality studies that are available. Where possible, generational mortality assumptions are used, meaning that they include expected improvements in life expectancy over time.

The table below shows the sensitivity analysis for discount rate and increase in life expectancy and describes the potential effect on the present value of the defined pension obligation.

Sensitivity analysis	Europe	North America
Change in discount rate + 0.50%	–723	–86
Change in discount rate – 0.50%	860	93
Increase in life expectancy, +1 year	240	4

23. Employee benefits, continued

Share value based incentive programs

In 2013–2016, 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 2017, the Annual General Meeting decided on a performance based personnel stock option program for 2017 similar to the 2013–2016 programs.

Option programs 2013–2017

At the Annual General Meeting 2013–2017 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 2017 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 2013–2015 programs have a term of five years from the grant date whereas the 2016–2017 programs have a term of seven years. The options in the 2013–2017 programs are not transferable and become exercisable at 100 % three years after grant.

The 2013–2017 programs include a requirement for senior executives (38 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 2013–2017 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. 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 2016 and 2017, the fair value of the options/SARs was based on the following assumptions:

Key assumptions	2017 Program (Dec. 31, 2017)	2016 Program (at issue date)
Expected exercise price	SEK 396/270	SEK 313/214 [1] [2]
Expected volatility	30%	30%
Expected options life (years)	4.64	4.40
Expected share price	SEK 360.10	SEK 318.90
Expected dividend (growth)	SEK 6.80 (6%)	SEK 6.80 (6%)
Risk free interest rate	1.00%	1.00%
Expected average grant value	SEK 62.50/105.10	SEK 66.70/106.20
Maximum number of options	2 814 434	7 084 053
– of which forfeited	94 031	563 752
Number of matching shares	27 044	30 209

[1] Matching shares for senior executives. [2] Actual.

The expected volatility has been determined by analyzing the historic development of the Atlas Copco A share price as well as other shares on the stock market.

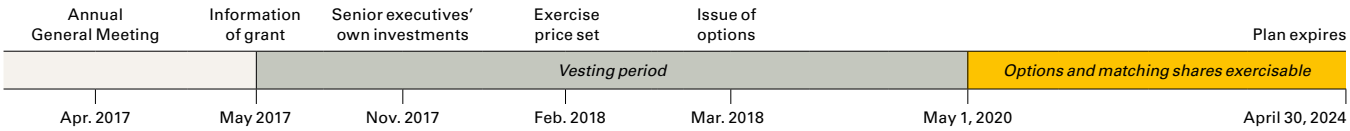
When determining the expected option life, assumptions have been made regarding the expected exercising behavior of different categories of optionees.

For the stock options in the 2013–2017 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
2013	June 2013	April 2016	May 2016	April 2018
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

For the 2017 program, a new valuation of the fair value has been made and will be made at each reporting date until the issue date.

Timeline 2017 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 2017 for all share-based incentive programs amounted to 503 (268) excluding social costs of which 143 (82) 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 417 (195). Atlas Copco shares are held by the Parent Company in order to cover commitments under the programs 2013–2017, see also note 20.

Summary of share value based incentive programs

Program	Initial number of employees	Initial number of options	Expiration date	Exercise price, SEK	Type of share	Fair value on grant date	Intrinsic value for vested SARs
Stock options							
2011	224	2 801 249	Apr. 30. 16	179.70	A	22.47	–
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	Apr. 30. 19	271.50	A	52.90	–
2015	254	2 522 760	Apr. 30. 20	196.00	A	33.90	–
2016	256	5 353 473	Apr. 30. 23	313.00	A	66.70	–
Matching shares							
2011	20	40 438	Apr. 30. 16	122.08	A	41.23	–
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	Apr. 30. 19	185.56	A	96.30	–
2015	29	38 531	Apr. 30. 20	134.00	A	63.20	–
2016	27	30 209	Apr. 30. 23	214.00	A	106.20	–
Share appreciation rights							
2011	48	543 215	Apr. 30. 16	179.70	A	–	174.50
2012	56	720 806	Apr. 30. 17	195.32	A	–	158.88
2013	58	–	N/a	N/a	N/a	N/a	–
2014	59	745 866	Apr. 30. 19	271.50	A	–	82.70
2015	64	550 225	Apr. 30. 20	196.00	A	–	–
2016	64	1 166 828	Apr. 30. 23	313.00	A	–	–

Number of options/rights 2017

Program	Outstanding Jan.1	Exercised	Expired/ forfeited	Outstanding Dec. 31	*–of which exercisable*	Time to expiration, in months	Average stock price for exercised options, SEK
Stock options							
2012	1 199 518	1 199 518	–	–	–	–	299
2014 [1]	3 484 737	1 901 762	114 922	1 468 053	*1 468 053*	16	345
2015 [2]	2 497 204	–	135 560	2 361 644	–	28	–
2016 [3]	5 353 473	–	88 085	5 265 388	–	40	–
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	–
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	–

All numbers have been adjusted for the effect of the redemption in 2015 in line with the method used by Nasdaq Stockholm to adjust exchange-traded options contracts.

[1] Of which 407 154 have been accounted for as cash settled.
[2] Of which 834 078 have been accounted for as cash settled.
[3] Of which 1 906 720 have been accounted for as cash settled.

23. Employee benefits, continued

Number of options/rights 2016 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								
2011	1 313 819	–	1 302 400	11 419	–	–	–	204
2012	2 818 339	–	1 618 534	287	1 199 518	*1 199 518*	4	257
2014	3 673 964	–	–	189 227	3 484 737	–	28	–
2015	2 522 760	–	–	25 556	2 497 204	–	40	–
2016	–	5 353 473	–	–	5 353 473	–	52	–
Matching shares								
2011	22 203	–	22 203	–	–	–	–	203
2012	29 261	–	8 820	–	20 441	*20 441*	4	241
2013	36 708	–	7 027	–	29 681	*29 681*	16	230
2014	36 469	–	–	3 057	33 412	–	28	–
2015	38 531	–	–	1 234	37 297	–	40	–
2016	–	30 209	–	–	30 209	–	52	–
Share appreciation rights								
2011	117 791	–	117 790	1	–	–	–	203
2012	526 996	–	379 645	–	147 351	*147 351*	4	255
2014	745 866	–	–	12 421	733 445	–	28	–
2015	550 225	–	–	8 309	541 916	–	40	–
2016	–	1 166 828	–	–	1 166 828	–	52	–

All numbers have been adjusted for the effect of the redemptions in 2011 and 2015 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	2017	2016
Derivatives		
– held for trading	179	648
– designated for hedge accounting	–	82
Other financial liabilities		
– other liabilities	2 945	3 128
– accrued expenses	8 196	7 468
Advances from customers	3 006	2 393
Deferred revenues construction contracts	307	284
Deferred revenues service contracts	1 337	1 231
Closing balance, Dec 31	**15 970**	**15 234**

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.

25. Provisions

2017	Product warranty	Restructuring	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**

2016	Product warranty	Restructuring	Other	Total
Opening balance, Jan. 1	1 165	232	817	2 214
Discontinued operations	–28	–3	–25	–56
During the year				
– provisions made	1 271	391	828	2 490
– provisions used	–975	–154	–389	–1 518
– provisions reversed	–231	–3	–255	–489
Discounting effect	1	–	2	3
Business acquisitions	96	–	21	117
Reclassification	–9	–	331	322
Translation differences	69	17	67	153
Closing balance, Dec. 31	**1 359**	**480**	**1 397**	**3 236**
Non-current	199	50	848	1 097
Current	1 160	430	549	2 139
Total	**1 359**	**480**	**1 397**	**3 236**

2017, Maturity	Product warranty	Restructuring	Other	Total
Less than one year	1 095	373	558	2 026
Between one and five years	181	8	826	1 015
More than five years	4	57	271	332
Total	**1 280**	**438**	**1 655**	**3 373**

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	2017	2016
Inventory and property, plant and equipment	46	34
Endowment insurances	293	134
Other receivables	105	854
Total	**444**	**1 022**

Contingent liabilities	2017	2016
Notes discounted	13	13
Sureties and other contingent liabilities	234	323
Total	**247**	**336**

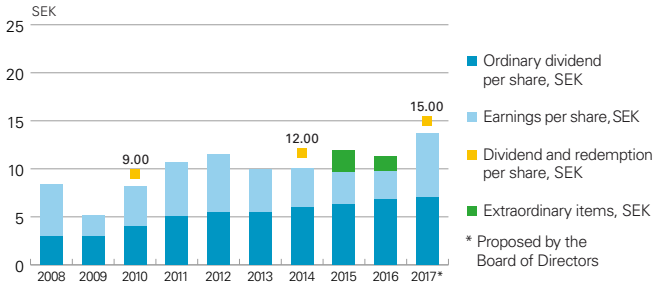
Sureties and other contingent liabilities relate primarily to pension commitments and commitments related to customer claims and various legal matters.

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 85 871 (77 899). 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.



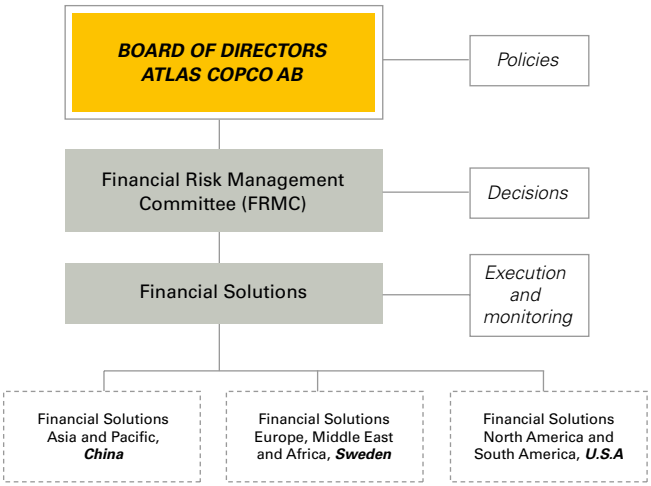
Financial risks

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 14 170 (13 770).
- 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 4.7 years (5.7).
- No more than MSEK 8 000 of the Group's external debt may mature within the next 12 months. In 2018 no debt 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 totaled MSEK 24 496 (11 458). 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 14 170 with maturity 2020 and 2021 to secure liquidity.

Financial instruments	Up to 1 year	1–3 years	3–5 years	Over 5 years
Liabilities				
Liabilities to credit institutions	418	9 450	3 305	12 063
Other financial liabilities	–	1	–	–
Derivatives	46	46	–	–
Other liabilities	–	100	33	–
Non-current financial liabilities	**464**	**9 597**	**3 338**	**12 063**
Liabilities to credit institutions	1 550	–	–	–
Current portion of interest-bearing liabilities	6	–	–	–
Derivatives	179	–	–	–
Other accrued expenses	8 196	–	–	–
Trade payables	14 206	–	–	–
Other liabilities	2 945	–	–	–
Current financial liabilities	**27 082**	**–**	**–**	**–**
Financial liabilities	**27 546**	**9 597**	**3 338**	**12 063**

Derivatives classified as assets designated for hedge accounting amounts to MSEK 25 (11) and derivatives classified as liabilities designated for hedge accounting amounts to MSEK 89 (208). Other derivatives are classified as held for trading.

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. The Group has interest rate swaps to convert variable interest rates to fixed interest rates on the loan of MEUR 275. These swaps are designated as cash flow hedging instruments and the hedged item is the floating interest rate of the loan. The forecasted cash flows have due dates every six months until September 2019. 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 2.0% (2.0) and 41 months (50) respectively. Excluding derivatives, the Group's effective interest rate was 1.7 % (1.8) and the average interest duration was 39 months (47).

Outstanding derivative instruments related to interest rate risk	2017		2016	
	Fair value	Nominal amount	Fair value	Nominal amount
Interest rate swaps, cash flow hedge				
Assets	–	–	–	–
Liabilities	MSEK 89	MEUR 275	MSEK 126	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. 74% (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 can not 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. Certain loans are reported at amortized cost and are therefore not affected by changes in interest rate levels.

Interest sensitivity, earnings	2017	2016
	Earnings impact	Earnings impact
Market interest rate +1%	–49	–48
Market interest rate –1%	10	10

Interest sensitivity, fair value	2017		2016	
	Earnings impact	OCI impact	Earnings impact	OCI impact
Market interest rate +1%	–	41	–	67
Market interest rate –1%	–	–42	–	–70

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.

Outstanding derivative instruments related to transaction exposure	2017 Nominal amount, net in transaction currency	2016 Nominal amount, net in transaction currency
Foreign exchange forwards		
AUD	–6	–72
EUR	9	13
GBP	46	92
NOK	–25	–39
SEK	39	477
USD	–65	–133

Out of the net nominal amounts in the table the largest cross is GBP/USD and with nominal amounts of MGBP 46/MUSD –59. 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	2017 Fair value	2016 Fair value
Foreign exchange forwards		
Assets	35	13
Liabilities	0	98

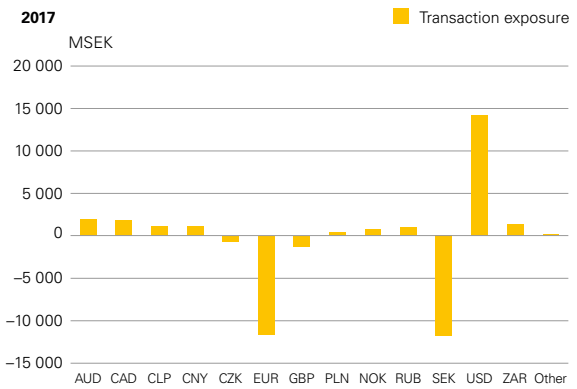
The largest operational surplus and deficit currencies are shown in Graph 1 including discontinued operations. The amounts presented in Graph 1 represent estimates of the Group's net exchangeable amounts in different currencies. Estimates are based on the Group's intercompany payments and on payment flows from customers and to suppliers in the most significant currencies. The operational transaction exposure in MSEK is –11 794 (–10 902) and is calculated as the net operational cash flow exposure.

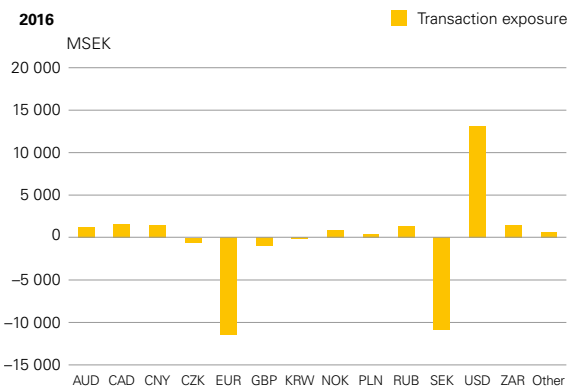
The following table indicates the effect from one percentage point weakening or strengthening of the SEK against all other currencies based on the transaction exposure.

Transaction exposure sensitivity	2017	2016
SEK exchange rate +1%	–118	–109
SEK exchange rate –1%	118	109

The table on the next page 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 2017.

GRAPH 1 Estimated operational transaction exposure in the Group's most important currencies 2017 and 2016





27. Financial exposure and principles for control of financial risks, continued

Transaction exposure sensitivity	2017	2016
USD Currency rate +1%	142	131
USD Currency rate –1%	–142	–131
EUR Currency rate +1%	–117	–115
EUR Currency rate –1%	117	115

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	2017		2016	
	Fair value	Nominal amount	Fair value	Nominal amount
External loans				
Loans in EUR [1]	MSEK –2 602	MEUR 1 775	MSEK –2 144	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 38 (37) (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 –195 (–153) if SEK is strengthened by 1%. A 1% SEK weakening would affect the Group's pretax earnings by 195 (153).

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	2017	2016
Loans and receivables		
– trade receivables	22 936	21 399
– finance lease receivables	906	945
– other financial receivables	1 432	2 890
– other receivables	3 166	2 567
– accrued income	1 955	2 057
– cash and cash equivalents	24 496	11 458
Held-to-maturity investments	25	171
Available-for-sale investments	8	6
Fair value through profit and loss	139	123
Derivatives	466	128
Total	**55 529**	**41 744**

Operational credit risk

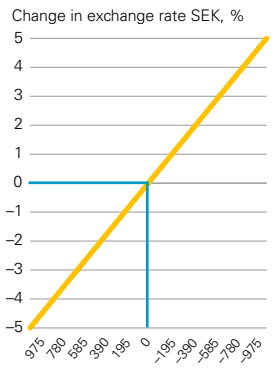
Group credit risk policy

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

The Group has an in-house customer finance operation (part of Financial Solutions) as a means of supporting equipment sales. At December 31, the credit portfolio of the customer finance operations totaled approximately 2 253 (2 965) consisting of 65 (96) reported as trade receivables, 894 (925) reported as finance lease receivables, and 1 294 (1 944) reported as other financial receivables. In addition, Financial Solutions also has non-cancelable operating lease contracts of 705 (731). There were no significant concentrations of customer risks in these operations. No customer represented more than 5 % of the total outstanding receivables. For further information, see note 22.

Atlas Copco Financial Solutions maintains collateral for its credit portfolio primarily through repossession rights in equipment. Business units may also partly transfer the commercial risk insurance to external entities (normally to an export credit agency).

Provision for credit risks

The business units establish provisions for their estimate of incurred losses in respect of trade and other receivables. The main components of this provision are specific loss provisions corresponding to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have not yet been identified. The collective loss provision is determined based on historical default statistics for similar financial assets. At year-end 2017, the provision for bad debt amounted to 4.3% (4.9) 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.

	2017		2016	
Trade receivables	Gross	Impairment	Gross	Impairment
Not past due	16 181	10	15 205	20
Past due but not impaired				
0–30 days	3 776	–	3 517	–
31–60 days	1 012	–	864	–
61–90 days	542	–	473	–
More than 90 days	1 860	–	1 883	–
Past due and individually impaired				
0–30 days	238	13	87	4
31–60 days	23	5	26	6
61–90 days	7	3	22	10
More than 90 days	222	191	379	230
Collective impairment	–	795	–	833
Total	**23 861**	**1 017**	**22 456**	**1 103**

The total estimated fair value of collateral for trade receivables amounted to 389 (405). 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 954 (984), of which 48 (39) have been impaired, and the gross amount of other financial receivables amounted to 1 520 (3 050), of which 88 (160) 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 534 (573) and 1 031 (1 712) respectively, consisting primarily of repossession rights.

Financial credit risk

Group credit risk policy

Credit risk on financial transactions is the risk that the Group incurs losses as a result of non-payment by 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 at least: A-/A3 in case of financial counterparties and funds, BBB-/Baa3 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 2017, the measured credit risk on derivatives, taking into account the market-to-market value and collaterals, amounted to MSEK 101 (138).

The table below presents the reported value of the Group's derivatives.

Outstanding derivative instruments related to financial exposures	2017	2016
Interest rate swaps		
Assets	–	–
Liabilities	89	126
Foreign exchange forwards		
Assets	431	115
Liabilities	179	632

Outstanding derivative instruments related to operational exposures	2017	2016
Assets	35	13
Liabilities	0	98

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 466 (128) for assets and 268 (856) 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	466	–	466	–466	0	0
Liabilities						
Derivatives	268	–	268	–466	119	–79

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 offset by increased sales to mining customers and compensated for by increased market prices. Therefore, the Group does not hedge commodity-price risks.

Fair value of financial instruments

In Atlas Copco's balance sheet, financial instruments are carried at fair value or at amortized cost. 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 and held-to-maturity investments. 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	110	101	9	–
Other receivables	1 188	–	1 188	–
Non-current financial assets	**1 298**	**101**	**1 197**	**–**
Trade receivables	22 853	–	22 853	–
Financial assets	1 295	38	1 257	–
Other receivables	3 166	–	3 166	–
Derivatives	466	–	466	–
Other accrued income	1 955	–	1 955	–
Current financial assets	**29 735**	**38**	**29 697**	**–**
Financial assets	**31 033**	**139**	**30 894**	**–**
Borrowings	24 347	16 568	7 779	–
Other financial liabilities	77	–	77	–
Derivatives	89	–	89	–
Other liabilities	133	–	65	68
Non-current financial liabilities	**24 646**	**16 568**	**8 010**	**68**
Borrowings	1 458	–	1 458	–
Derivatives	179	–	179	–
Other accrued expenses	8 196	–	8 196	–
Trade payables	14 206	–	14 206	–
Other liabilities	2 945	–	2 944	1
Current financial liabilities	**26 984**	**–**	**26 983**	**1**
Financial liabilities	**51 630**	**16 568**	**34 993**	**69**

In other liabilities, MSEK 69 (861) 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%.

In 2017, the remaining liability related to the Henrob acquisition in 2014 was released. The payment of the contingent consideration for Henrob was dependent on achieving future milestones as targets for revenue and growth within three years of the acquisition. Part of the liability was settled in 2016.

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 2017	861	–7	–29	17	–716	–57	**69**	699

Currency rates used in the financial statements			Year-end rate		Average rate	
	Value	Code	**2017**	**2016**	**2017**	**2016**
Australia	1	AUD	6.42	6.56	6.53	6.36
Canada	1	CAD	6.56	6.74	6.57	6.46
China	1	CNY	1.26	1.31	1.26	1.29
EU	1	EUR	9.84	9.56	9.63	9.44
Hong Kong	100	HKD	105.24	117.19	109.69	110.50
United Kingdom	1	GBP	11.09	11.17	11.03	11.60
U.S.A.	1	USD	8.22	9.09	8.55	8.58

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 % 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 62–65.

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.

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:

	2017	2016
Revenues	27	18
Goods purchased	89	103
Service purchased	39	54
At Dec, 31:		
Trade receivables	5	3
Trade payables	15	3

Compensation to key management personnel
Compensation to the Board and to Group Management is disclosed in note 5.

29. Subsequent events

On February 2, 2018, the divestment of Atlas Copco's concrete and compaction business to Husqvarna Group, which was announced in December 2017, was completed. The business, previously included in the Power Technique business area, had revenues of approximately MEUR 57 (MSEK 570) in 2016. In total, approximately 200 employees will join Husqvarna Group. Products include complete ranges for concrete and compaction, such as plate compactors, tandem rollers and concrete vibrators. The transaction includes the production facility in Ruse, Bulgaria, and production assets in Nashik, India, along with sales and service operations worldwide.

On February 22, 2018, Standard & Poor's raised Atlas Copco's long-term issuer credit rating to "A+" from "A". The outlook is stable.

Financial statements, Parent Company

Income statement

For the year ended December 31, Amounts in MSEK	Note	2017	2016
Administrative expenses	A2	–722	–619
Other operating income	A3	157	171
Other operating expense	A3	–312	–
Operating loss		**–877**	**–448**
Financial income	A4	44 408	7 085
Financial expenses	A4	–1 244	–1 866
Profit after financial items		**42 287**	**4 771**
Appropriations	A5	6 603	5 031
Profit before tax		**48 890**	**9 802**
Income tax	A6	–805	–570
Profit for the year		**48 085**	**9 232**

Statement of comprehensive income

For the year ended December 31, Amounts in MSEK	Note	2017	2016
Profit for the year		**48 085**	**9 232**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges		38	9
Income tax relating to items that may be reclassified		–8	–2
Other comprehensive income of the year, net of tax		**30**	**7**
Total comprehensive income for the year		**48 115**	**9 239**

Balance sheet

As at December 31, Amounts in MSEK	Note	2017	2016
ASSETS			
Non-current assets			
Intangible assets	A7	26	32
Tangible assets	A8	48	45
Financial assets			
Deferred tax asset	A9	80	74
Shares in Group companies	A10, A21	150 490	110 597
Other financial assets	A11	179	164
Total non-current assets		**150 823**	**110 912**
Current assets			
Income tax receivable		19	44
Other receivables	A12	9 600	3 977
Cash and cash equivalents	A13	17 548	8 165
Total current assets		**27 167**	**12 186**
TOTAL ASSETS		**177 990**	**123 098**
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		684	654
Retained earnings		26 408	25 692
Profit for the year		48 085	9 232
Total non-restricted equity		**75 177**	**35 578**
TOTAL EQUITY		**80 962**	**41 363**
PROVISIONS			
Post-employment benefits	A15	154	142
Other provisions	A16	548	271
Total provisions		**702**	**413**
LIABILITIES			
Non-current liabilities			
Borrowings	A17	55 450	53 074
Other liabilities		90	126
Total non-current liabilities		**55 540**	**53 200**
Current liabilities			
Borrowings	A17	39 743	26 723
Other liabilities	A18	1 043	1 399
Total current liabilities		**40 786**	**28 122**
TOTAL EQUITY AND LIABILITIES		**177 990**	**123 098**

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, 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**
Opening balance, Jan. 1, 2016	1 216 096 122	786	4 999	647	33 821	40 253
Total comprehensive income for the year				7	9 232	9 239
Dividends					–7 665	–7 665
Acquisition series A shares	–5 160 000				–1 294	–1 294
Divestment series A shares	3 469 719				809	809
Divestment series B shares	61 220				15	15
Share-based payment, equity settled						
– expense during the year					82	82
– exercise of options					–76	–76
Closing balance, Dec. 31, 2016	**1 214 467 061**	**786**	**4 999**	**654**	**34 924**	**41 363**

See note A14 for additional information.

Statement of cash flows

For the year ended December 31, Amounts in MSEK	2017	2016
Cash flows from operating activities		
Operating loss	–877	–448
Adjustments for:		
Depreciation	11	10
Capital gain/loss and other non-cash items	–8 258	–332
Operating cash deficit	**–9 124**	**–770**
Net financial items received	10 797	5 636
Group contributions received	5 031	4 523
Taxes paid	–766	–690
Cash flow before change in working capital	**5 938**	**8 699**
Change in		
Operating receivables	–3 943	–496
Operating liabilities	–698	516
Change in working capital	**–4 641**	**20**
Net cash from operating activities	**1 297**	**8 719**

For the year ended December 31, Amounts in MSEK	2017	2016
Cash flow from investing activities		
Investments in tangible assets	–10	–19
Investments in intangible assets	2	–21
Investments in subsidiaries	1 225	–58
Repayments/investments in financial assets	–3	–
Net cash from investing activities	**1 214**	**–98**
Cash flow from financing activities		
Dividends paid	–8 252	–7 665
Repurchase and divestment of own shares	–236	–470
Change in interest-bearing liabilities	15 360	3 368
Net cash from financing activities	**6 872**	**–4 767**
Net cash flow for the year	**9 383**	**3 854**
Cash and cash equivalents, Jan. 1	8 165	4 311
Net cash flow for the year	9 383	3 854
Cash and cash equivalents, Dec. 31	**17 548**	**8 165**

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 80.

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 at fair value. They are reported as contingent liabilities, unless it becomes probable that the guarantees will lead to payments. In such case, provisions will be recorded.

Hedge accounting
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 balance sheet 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.

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.

New or amended accounting standards effective after 2017
The following standards, interpretations, and amendments have been issued but were not effective as of December 31, 2017 and have not been applied by the Parent Company.

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.

A2. Employees and personnel expenses and remunerations to auditors

Average number of employees	2017			2016		
	Women	Men	Total	Women	Men	Total
Sweden	61	40	101	60	46	106

Women in Atlas Copco Board and Management, %	Dec. 31, 2017	Dec. 31, 2016
Board of Directors excl. union representatives	33	33
Group Management	30	22

Salaries and other remuneration	2017		2016	
	Board members and Group Management [1]	Other employees	Board members and Group Management [1]	Other employees
Sweden	143	106	106	103
of which variable compensation	18		22	

[1] Includes 8 (8) Board members who receive fees from Atlas Copco AB as well as the President and CEO and 6 (7) members of Group Management who are employed by and receive salary and other remuneration from the Company.

For information regarding remuneration and other fees for members of the Board, the President and CEO, and other members of Group Management, see note 5 of the consolidated financial statements.

Pension benefits and other social costs	2017	2016
Contractual pension benefits for Board members and Group Management	10	12
Contractual pension benefits for other employees	20	20
Other social costs	97	76
Total	**127**	**108**
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:

	2017	2016
Deloitte		
– audit fee	6	6
– audit activities other than audit assignment	1	1
– other services, tax	2	1
– other services, other	12	2
Total	**21**	**10**

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 2017, Deloitte was elected as auditor for the Group until the Annual General Meeting 2018.

A3. Other operating income and expense

	2017	2016
Commissions received	157	166
Exchange-rate differences, net	–	4
Other operating income	–	1
Total other operating income	**157**	**171**
Exchange-rate differences, net	–2	–
Other operating expense	–310	–
Total other operating expense	**–312**	**–**

Other operating expenses, 310, essentially comprise costs associated with the proposed split of the Group.

A4. Financial income and expenses

Financial income and expenses	2017	2016
Interest income		
– cash and cash equivalents	1	52
– receivables from Group companies	416	306
Dividend income from Group companies	16 362	6 727
Capital gain	27 593	–
Foreign exchange gain, net	36	–
Financial income	**44 408**	**7 085**
Interest expense		
– borrowings	–466	–567
– derivatives for fair value hedges	–384	–244
– liabilities to Group companies	–303	–485
Change in fair value		
– other assets	–42	–142
Foreign exchange loss, net	–	–26
Impairment loss		
– writedown of shares in Group Companies	–49	–402
Financial expenses	**–1 244**	**–1 866**
Financial income, net	**43 164**	**5 219**

The following table presents the net gain or loss by category of financial instruments.

	2017	2016
Net gain/loss on		
– loans and receivables, incl. bank deposits	411	190
– other liabilities	–769	–1 052
– derivatives for fair value hedges	–384	–244
Profit from shares in Group companies	43 906	6 325
Total	**43 164**	**5 219**

Profit from shares in Group companies mainly refers to dividend income from subsidiaries and capital gains from transfers of shares in subsidiaries related to the legal restructurings in connection with the preparations for the Epiroc split. For further information about the hedges, see note 27 of the consolidated financial statements.

A5. Appropriations

Appropriations	2017	2016
Group contributions paid	–4	–213
Group contributions received	6 607	5 244
Total	**6 603**	**5 031**

A6. Income tax

	2017	2016
Current tax	–819	–560
Deferred tax	14	–10
Total	**–805**	**–570**
Profit before taxes	48 890	9 802
The Swedish corporate tax rate, %	22.0	22.0
National tax based on profit before taxes	–10 756	–2 156
Tax effects of:		
Non-deductible expenses	–38	–179
Tax exempt income	9 657	1 481
Deductible expenses, not recognized in Income statement	282	28
Withholding tax on sale of shares	–35	–
Controlled foreign company taxation	–16	–18
Adjustments from prior years	101	274
Total	**–805**	**–570**
Effective tax in %	**1.6**	**5.8**

The Parent Company's effective tax rate of 1.6 % (5.8) is primarily affected by non-taxable income such as dividends from Group companies.

A7. Intangible assets

	Capitalized expenditures for computer programs	
	2017	2016
Accumulated cost		
Opening balance, Jan. 1	69	48
Investments	–2	21
Closing balance, Dec. 31	**67**	**69**
Accumulated depreciation		
Opening balance, Jan. 1	37	33
Depreciation for the year	4	4
Closing balance, Dec. 31	**41**	**37**
Carrying amount		
Opening balance, Jan. 1	32	15
Closing balance, Dec. 31	**26**	**32**

A8. Property, plant and equipment

	2017			2016		
	Buildings and land	Machinery and equipment	Total	Buildings and land	Machinery and equipment	Total
Accumulated cost						
Opening balance, Jan. 1	40	52	92	27	46	73
Investments	5	5	10	13	6	19
Closing balance, Dec. 31	**45**	**57**	**102**	**40**	**52**	**92**
Accumulated depreciation						
Opening balance, Jan. 1	8	39	47	6	35	41
Depreciation for the year	1	6	7	2	4	6
Closing balance, Dec. 31	**9**	**45**	**54**	**8**	**39**	**47**
Carrying amount						
Opening balance, Jan. 1	32	13	45	21	11	32
Closing balance, Dec. 31	**36**	**12**	**48**	**32**	**13**	**45**

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 (70). Future payments for non-cancelable leasing contracts amounted to 321 (399) and fall due as follows:

	2017	2016
Less than one year	59	71
Between one and five years	212	233
More than five years	50	95
Total	**321**	**399**

A9. Deferred tax assets and liabilities

	2017			2016		
	Assets	Liabi-lities	Net balance	Assets	Liabi-lities	Net balance
Fixed assets	1	–	1	1	–	1
Post-employment benefits	37	–	37	34	–	34
Other provisions	25	–	25	14	–	14
Non-current liabilities	17	–	17	25	–	25
Total	**80**	**–**	**80**	**74**	**–**	**74**

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

	2017	2016
Net balance, Jan. 1	74	86
Charges to other comprehensive income	–8	–2
Charges to profit for the year	14	–10
Net balance, Dec. 31	**80**	**74**

A10. Shares in Group companies

	2017	2016
Accumulated cost		
Opening balance, Jan. 1	112 138	111 774
Investments	28 817	39
Net investment hedge	1 217	72
Shareholders' contribution	48 426	253
Divestments	–38 518	–
Closing balance, Dec. 31	**152 080**	**112 138**
Accumulated write-up		
Opening balance, Jan. 1	600	600
Closing balance, Dec. 31	**600**	**600**
Accumulated write-down		
Opening balance, Jan. 1	–2 141	–1 739
Write-down	–49	–402
Closing balance, Dec. 31	**–2 190**	**–2 141**
Total	**150 490**	**110 597**

For further information about Group companies, see note A21.

A11. Other financial assets

	2017	2016
Endowment insurances	146	134
Financial assets classified as loans and receivables		
– other financial receivables	33	30
Closing balance, Dec. 31	**179**	**164**

Endowment insurances relate to defined contribution pension plans and are pledged to the pension beneficiary (see note A15 and A20).

A12. Other receivables

	2017	2016
Receivables from Group companies	9 011	2 814
Derivatives		
– held for trading	441	117
– designated for hedge accounting	25	11
Financial assets classified as loans and receivables		
– other receivables	74	968
Prepaid expenses and accrued income	49	67
Closing balance, Dec. 31	**9 600**	**3 977**

Other receivables of 74 (968) mainly refers to CSA agreements used to limit the credit risk on derivative transactions.

A13. Cash and cash equivalents

	2017	2016
Cash and cash equivalents classified as loans and receivables		
– cash	508	1 645
– cash equivalents	17 040	6 520
Closing balance, Dec. 31	**17 548**	**8 165**

The Parent Company's guaranteed, but unutilized, credit lines equaled to 6 298 (6 120).

A14. Equity

For information on share transactions and mandates approved by the Annual General Meeting and proposed dividend for 2017, 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

	2017			2016		
	Defined contribution pension plan	Defined benefit pension plan	Total	Defined contribution pension plan	Defined benefit pension plan	Total
Opening balance, Jan. 1	134	8	142	126	9	135
Provision made	14	–	14	10	–	10
Provision used	–2	0	–2	–2	–1	–3
Closing balance, Dec. 31	**146**	**8**	**154**	**134**	**8**	**142**

The Parent Company has endowment insurances of 146 (134) 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.

	2017			2016		
	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations	138	8	146	137	8	145
Fair value of plan assets	–362	–	–362	–327	–	–327
Present value of net obligations	–224	8	–216	–190	8	–182
Not recognized surplus	224	–	224	190	–	190
Net amount recognized in balance sheet	**–**	**8**	**8**	**–**	**8**	**8**

Reconciliation of defined benefit obligations	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Defined benefit obligations at Jan. 1	137	8	145	134	9	143
Service cost	6	–	6	7	–	7
Interest expense	4	–	4	4	–	4
Benefits paid from plan	–9	0	–9	–8	–1	–9
Defined benefit obligations at Dec. 31	**138**	**8**	**146**	**137**	**8**	**145**

Reconciliation of plan assets	Funded pension	Unfunded pension	Total	Funded pension	Unfunded pension	Total
Fair value of plan assets at Jan. 1	327	–	327	296	–	296
Return on plan assets	35	–	35	31	–	31
Fair value of plan assets at Dec. 31	**362**	**–**	**362**	**327**	**–**	**327**

A15. Post-employment benefits, continued

	2017	2016
Pension commitments provided for in the balance sheet		
Costs excluding interest	20	13
Total	**20**	**13**
Pension commitments provided for through insurance contracts		
Service cost	19	19
Total	**19**	**19**
Net cost for pensions, excluding taxes	**39**	**32**
Special employer's contribution	10	10
Total	**49**	**42**

Pension expenses excluding taxes for the year, included within administrative expenses amounted to 39 (32) of which the Board members and Group Management 10 (12) and others 29 (20).

The Parent Company's share in plan assets fair value in the Atlas Copco pension trust amounts to 362 (327) and is allocated as follows:

	2017	2016
Equity securities	28	45
Bonds	196	201
Real estate	128	73
Cash and cash equivalents	10	8
Total	**362**	**327**

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 6.0% (11.1).

The Parent Company adheres to the actuarial assumptions used by The Swedish Pension Registration Institute (PRI) i.e. discount rate 2.8% (3.8). The Parent Company estimates 9 MSEK will be paid to defined benefit pension plans during 2018.

A16. Other provisions

	2017	2016
Opening balance, Jan. 1	271	132
During the year		
– provisions made	444	252
– provisions used	–167	–113
Closing balance, Dec. 31	**548**	**271**

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	2017 Carrying amount	2017 Fair value	2016 Carrying amount	2016 Fair value
Non-current						
Medium Term Note Program MEUR 500	2019		4 457	5 080	4 458	4 993
Medium Term Note Program MEUR 500	2023		4 538	5 434	4 534	5 247
Medium Term Note Program MEUR 500	2026		4 912	4 779	4 773	4 627
Capital market borrowings MUSD 150	2019	MUSD 7.5	1 172	1 275	1 295	1 519
Bilateral borrowings EIB MEUR 275	2019		2 330	2 730	2 329	2 666
Bilateral borrowings EIB MEUR 300	2022		2 778	2 989	2 778	2 912
Bilateral borrowings NIB MEUR 200	2024		1 886	2 037	1 886	1 989
Non-current borrowings from Group companies			33 377	33 949	31 021	32 167
Total non-current borrowings			**55 450**	**58 273**	**53 074**	**56 120**
Current						
Current borrowings from Group companies			39 743	39 743	26 723	26 747
Total current borrowings			**39 743**	**39 743**	**26 723**	**26 747**
Closing balance, Dec. 31			**95 193**	**98 016**	**79 797**	**82 867**
Whereof external borrowings			**22 073**	**24 324**	**22 053**	**23 953**

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 and includes the effect of interest rate swaps.

Maturity	Fixed	Floating [1]	Carrying amount	Fair value
2019	7 959	–	7 959	9 085
2022	2 778	–	2 778	2 989
2023	4 538	–	4 538	5 434
2024	–	1 886	1 886	2 037
2026	4 912	–	4 912	4 779
Total	**20 187**	**1 886**	**22 073**	**24 324**

[1] Floating interest in the table is borrowings with fixings shorter or equal to six months.

A18. Other liabilities

	2017	2016
Accounts payable	40	21
Liabilities to Group companies	90	288
Derivatives		
– held for trading	158	648
– designated for hedge accounting	–	82
Other financial liabilities		
– other liabilities	389	10
Accrued expenses and prepaid income	366	350
Closing balance, Dec. 31	**1 043**	**1 399**

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 22 073 (22 053) of external borrowings and MSEK 73 120 (57 744) of internal borrowings at December 31, 2017. 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 5 039 (5 038). The deferral hedge accounting of the loans is based on a RFR 2 exemption.

The interest rate risk is partly managed with interest rate swaps, designated as cash flow hedges. 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	2017	2016
Cash and cash equivalents	17 548	8 165
Receivables from Group companies	9 011	2 814
Derivatives	466	128
Other	151	1 065
Total	**27 176**	**12 172**

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

	2017	2016
Assets pledged for derivative contracts		
Other receivables	53	854
Assets pledged for pension commitments		
Endowment insurances	146	134
Total	**199**	**988**
Contingent liabilities		
Sureties and other contingent liabilities		
– for external parties	–	3
– for Group companies	8 355	8 158
Total	**8 355**	**8 161**

Sureties and other contingent liabilities include bank and commercial guarantees, CSA-agreements, (Credit Support Annex) 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 weakend in relation to Euro.

A21. Directly owned subsidiaries

	2017			2016		
	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	46 143	76 415	100	46 068
Atlas Copco GIA AB, 556040-0870, Grängesberg	–	–	–	50 000	100	130
Construction Tools PC AB, 556069-7228, Kalmar	–	–	–	60 000	100	2 053
Dynapac Compaction Equipment AB, 556068-6577, Karlskrona	–	–	–	80 000	100	889
Dynapac do Brasil Indústria e Comércio de Máquinas Ltda, São Paulo	–	–	–	25 777 505	100	258
Epiroc AB, 556041-2149, Nacka	206 885	100	43 979	200 000	100	46
Epiroc Drilling Tools AB, 556001-9019, Fagersta	–	–	–	2 325 000	100	185
Epiroc Meyco AG, Zürich	–	–	–	9 000	100	64
Epiroc Rock Drills AB, 556077-9018, Örebro	–	–	–	1 000 000	100	517
Epiroc Welltech AB, 556577-2240, Jonsered	–	–	–	20 000	100	78
Gazcon A/S, Lynge	500	100	23	500	100	23

A21. Directly owned subsidiaries, continued

	2017			2016		
	Number of shares	Percent held	Carrying value	Number of shares	Percent held	Carrying value
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	21 731 582	96	798	21 731 582	96	1 827
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	15
Atlas Copco (Philippines) Inc., Binan	121 995	100	7	121 995	100	6
Atlas Copco (Schweiz) AG., Studen	8 000	100	52	8 000	100	52
Atlas Copco (South East Asia) Pte.Ltd., Singapore	1 500 000	100	10	1 500 000	100	5
Atlas Copco Argentina S.A.C.I., Buenos Aires	5 120 025	93/100[1]	62	5 120 025	93/100[1]	62
Atlas Copco Brasil Ltda., Barueri	70 358 841	100	243	70 358 841	100	240
Atlas Copco Canada Inc., Toronto	9 496	100	526	–	–	–
Atlas Copco Chile SpA, Santiago	24 998	100	3	–	–	–
Atlas Copco Compressor AB, 556155-2794, Nacka	60 000	100	16	60 000	100	13
Atlas Copco Eastern Africa Limited., Nairobi	482 999	100	31	482 999	100	31
Atlas Copco Equipment Egypt S.A.E., Cairo	5	0/100[1]	2	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	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	5	3 888	97	3
Atlas Copco Services Middle East OMC, Manama	500	100	10	500	100	9
Atlas Copco Venezuela SA, Caracas	25 812 000	100	15	25 812 000	100	42
Epiroc Chile S.A.C., Santiago	–	–	–	24 998	100	14
Epiroc Japan KK, Tokyo	–	–	–	375 001	100	32
Epiroc Mining India Ltd, Pune	21 731 582	96	1 045	–	–	–
Epiroc Sweden AB, 556100-1453, Nacka	–	–	–	103 000	100	100
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	11	1	100	27
Directly owned holding companies and others						
AtCoBtech AB, 559053-5455, Nacka	500	100	9	500	100	31
Atlas Copco A/S, Langhus	2 500	100	45	2 500	100	42
Atlas Copco Beheer B.V., Zwijndrecht	15 712	100	2 699	15 712	100	2 501
Atlas Copco Deutschland GmbH, Essen	1	100	15	1	100	6
Atlas Copco Finance Belgium BVBA, Wilrijk	1	0/100[1]	0	1	0/100[1]	0
Atlas Copco Finance Europe n.v., Wilrijk	–	–	–	1	0/100[1]	1
Atlas Copco France Holding S.A., Cergy Pontoise	278 255	100	278	278 255	100	264
Atlas Copco Holding GmbH, Essen	2	100	1 070	2	100	1 063
Atlas Copco Internationaal B.V., Zwijndrecht	10 002	100	27 218	–	–	–
Atlas Copco Järla Holding AB, 556062-0212, Nacka	95 000	100	20 570	95 000	100	20 570
Atlas Copco Nacka Holding AB, 556397-7452, Nacka	100 000	100	12	–	–	–
Atlas Copco Sickla Holding AB, 556309-5255, Nacka	–	–	–	1 000	100	27 311
Atlas Copco UK Holdings Ltd., Hemel Hempstead	150 623 666	100	1 481	150 623 666	100	1 471
Atlas Copco USA Holdings Inc., Parsippany	100	100	2 499	100	100	3 464
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
Epiroc Financial Solutions Chile Ltda, Santiago	–	–	–	6 317 500	0/100[1]	0
Epiroc Treasury AB, 556277-9537, Nacka	–	–	–	700 500	100	724
Industria Försäkrings AB, 516401-7930, Nacka	300 000	100	30	300 000	100	30
Oy Atlas Copco AB, Vantaa	150	100	34	150	100	33
Power Tools Distribution n.v., Hoeselt	1	0/100[1]	1	1	0/100[1]	1
1 (2) dormant companies		100	0		100	12
Net investment hedge			1 339			122
Carrying amount, Dec. 31			**150 490**			**110 597**

[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 62–65.

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:

	2017	2016
Revenues		
Dividends	16 362	6 727
Group contribution	6 607	5 244
Interest income	416	306
Expenses		
Group contribution	–4	–213
Interest expenses	–302	–485
Receivables	**9 011**	**2 814**
Liabilities	**73 210**	**58 032**
Guarantees	**8 355**	**8 158**

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*
	Epiroc Argentina S.A.C.I	*Buenos Aires*
Australia	Atlas Copco Australia Pty Ltd	*Blacktown*
	Epiroc Australia Pty Ltd	*Blacktown*
	Epiroc Financial Solutions Australia Pty Ltd	*Blacktown*
	Epiroc South Pacific Holdings Pty Ltd	*Blacktown*
Austria	AGRE Kompressoren GmbH	*Garsten-St. Ulrich*
	Atlas Copco GmbH	*Vienna*
	Epiroc Österreich 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 Business Services n.v.	*Wilrijk*
	Atlas Copco Finance Belgium BVBA	*Wilrijk*
	Atlas Copco Rental Europe n.v.	*Wilrijk*
	EDMAC Europe n.v.	*Wilrijk*
	Edwards Vacuum NV	*Estaimpuis*
	International Compressor Distribution n.v.	*Wilrijk*
	Maes Compressoren NV	*Deinze*
	Power Tools Distribution n.v.	*Hoeselt*
Bolivia	Atlas Copco Boliviana S.A.	*La Paz*
	Epiroc Bolivia S.A.	*Santa Paz*
Bosnia and Herzegovina	Epiroc B-H d.o.o.	*Sarajevo*
Botswana	Epiroc (Botswana) (Pty) Ltd	*Gaborone*
Brazil	Atlas Copco Brasil Ltda	*Barueri*
	Chicago Pneumatic Brasil Ltda	*Barueri*
	Edwards Vacuo Ltda	*São Paulo*
	Epiroc Brasil Comercializacao De Produtos E Servicos Para Mineracao E Construcao Ltda	*Sao 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*
	Construction Tools EOOD	*Roseau*
	Epiroc Bulgaria EOOD	*Sofia*
Burkina Faso	Epiroc Burkina Faso SARL	*Ouagadougou*
Cameroon	Atlas Copco Afrique Centrale SA	*Douala*
Canada	Atlas Copco Canada Inc.	*Toronto*
	Chicago Pneumatic Tool Co. Canada Ltd.	*Toronto*
	Epiroc Canada Holding Inc	*Toronto*
	Epiroc Canada Inc.	*Toronto*

Country	Company	Location (City)
Chile	Atlas Copco Chile SpA	*Santiago*
	Epiroc Chile S.A.C.	*Santiago*
	Epiroc Financial Solutions Chile Limitada	*Santiago*
China	Atlas Copco (Wuxi) Compressor Co., Ltd.	*Wuxi*
	Atlas Copco (Shenyang) Construction and Mining Equipment Ltd.	*Shenyang*
	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) Compressor Trading Co. Ltd	*Shanghai*
	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*
	Epiroc (Nanjing) Construction & Mining Equipment Ltd	*Nanjing*
	Epiroc (Zhangjiakou) Construction & Mining Equipment Ltd	*Zhangjiakou*
	Epiroc Financial Leasing Co., Ltd.	*Shanghai*
	Epiroc Trading Co Ltd	*Nanjing*
	Fiac Air Compressors (Jiangmen) Co Ltd	*Jiangmen*
	GIA (Shanghai) Mining Equipment Co., Ltd	*Shanghai*
	Golden Fluid Pumps (Tianjin) Co. Ltd	*Tianjin*
	Guangzhou Linghein Compressor Co., Ltd	*Guangzhou*
	Kunshan Q-Tech Air System Technologies Ltd.	*Kunshan*
	Leybold (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*
	Shandong Rock Drilling Tools Co Ltd	*Yanggu*
	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*

A22. Related parties, continued

Country	Company	Location (City)
Colombia	Atlas Copco Colombia Ltda	*Bogotá*
	Epiroc Colombia S.A.S	*Bogotá*
Croatia	Epiroc Croatia d.o.o.	*Zagreb*
Cyprus	Atlas Copco (Cyprus) Ltd.	*Nicosia*
Czech Republic	ALUP CZ spol. S.r.o	*Breclav*
	Atlas Copco s.r.o.	*Prague*
	Edwards s.r.o.	*Lutin*
	Edwards Services s.r.o.	*Brno*
	Epiroc Czech Republic s.r.o.	*Prague*
	Schneider Bohemia spol s.r.o.	*Line*
Democratic Republic of the Congo	Epiroc DRC SARL	*Lubumbashi*
Denmark	Atlas Copco Kompressorteknik A/S	*Copenhagen*
	Gazcon A/S	*Lynge*
Egypt	Atlas Copco Equipment Egypt S.A.E.	*Cairo*
Finland	Epiroc Finland Oy Ab	*Vantaa*
	Oy Atlas Copco Ab	*Vantaa*
	Oy Atlas Copco Kompressorit Ab	*Vantaa*
	Oy Atlas Copco Tools Ab	*Vantaa*
	Oy Epiroc Drilling Tools Ab	*Tampere*
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*
	Epiroc France S.A.S.	*Cergy Pontoise*
	ETS Georges Renault S.A.S.	*Nantes*
	Exlair S.A.S.	*Cergy Pontoise*
	Leybold France SAS Z. I. De Marcerolles	*Bourg-Les-Valence*
	MultiAir France S.A.S	*Chambly*
	Seti-Tec S.A.S.	*Lognes*
Germany	ALUP Kompressoren GmbH[1)]	*Köngen*
	Anbaufräsen PC GmbH	*Thüringen*
	Atlas Copco ACE GmbH[1)]	*Essen*
	Atlas Copco Berg-und Tunnelbautechnik GmbH[1)]	*Essen*
	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 Kompressoren und Drucklufttechnik GmbH[1)]	*Essen*
	Atlas Copco Power Technique GmbH[1)]	*Essen*
	Atlas Copco Road Construction GmbH[1)]	*Essen*
	Atlas Copco Tools Central Europe GmbH[1)]	*Essen*
	Construction Tools GmbH	*Essen*
	Desoutter GmbH[1)]	*Maintal*
	Edwards GmbH	*Kirchheim*
	Epiroc Deutschland GmbH	*Essen*
	GEFAHARD Industrieelectronic GmbH[1)]	*Michelstadt*
	Henrob GmbH[1)]	*Herford*
	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*
	Saltus Industrial Technique GmbH[1)]	*Solingen*
	SCA Schucker GmbH & Co KG[1)]	*Bretten*
	Schneider Druckluft GmbH[1)]	*Reutlingen*
	Synatec GmbH[1)]	*Leinfelden-Echterdingen*
Ghana	Secoroc Ghana Ltd	*Accra*
Greece	Atlas Copco Hellas AE	*Koropi*
	Epiroc Hellas S.A.	*Koropi*

[1)] Starting for the year 2017 several German subsidiaries will make use of the § 264 HGB/ § 291 HGB exemption rules of filing their own (consolidated) financial statements.

Country	Company	Location (City)
Hong Kong	Atlas Copco China/Hong Kong Ltd	*Kowloon*
	Epiroc Hong Kong Ltd.	*Hongkong*
Hungary	Atlas Copco Hungary Kft	*Budapest*
India	Atlas Copco (India) Ltd.	*Pune*
	Edwards India Private Ltd	*Pune*
	Epiroc Mining India Limited	*Pune*
	Leybold India Pvt Ltd.	*Pune*
Indonesia	PT Atlas Copco Indonesia	*Jakarta*
	PT Epiroc Southern Asia	*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*
	Epiroc Italia S.R.L.	*Milan*
	Epiroc Stonetec S.r.L.	*Bagnolo Piemonte*
	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*
	Epiroc Japan KK	*Tokyo*
	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*
	Epiroc Central Asia LLP	*Almaty*
Kenya	Atlas Copco Eastern Africa Limited	*Nairobi*
	Epiroc 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*
Malaysia	Atlas Copco (Malaysia) Sdn. Bhd.	*Shah Alam*
	Edwards Technologies Malaysia Sdn. Bhd.	*Petaling Jaya*
Mali	Epiroc Mali SARL	*Bamako*
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*
	Epiroc México, S.A. de C.V.	*Tlalnepantla*
Mongolia	Epiroc Mongolia LLC	*Ulaanbaatar*
Morocco	Atlas Copco Maroc SA	*Casablanca*
	Epiroc Maroc SARL	*Casablanca*
Mozambique	Epiroc Mocambique Limitada	*Maputo*
Myanmar	Atlas Copco Services Myanmar Co., Ltd.	*Yangon*
Namibia	Epiroc Mining (Namibia) (Pty) Ltd.	*Windhoek*
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*
	Epiroc Norge AS	*Langhus*
Pakistan	Atlas Copco Pakistan (Pvt) Ltd.	*Lahore*
Panama	Epiroc Central América S.A.	*Panama*

A22. **Related parties,** continued

Country	Company	Location (City)
Peru	Atlas Copco Perú S.A.C.	*Lima*
	Epiroc Peru S.A.	*Lima*
Philippines	Atlas Copco (Philippines) Inc.	*Binan*
	Epiroc Philippines, Inc.	*Laguna*
Poland	ALUP Kompressoren Polska sp. z.o.o.	*Janki*
	Atlas Copco Polska Sp. z o.o.	*Warsaw*
	Epiroc Polska Sp. z o.o.	*Warsaw*
Portugal	Epiroc Portugal Unipessoal LDA	*Porto Salvo*
	Sociedade Atlas Copco de Portugal Lda	*Porto Salvo*
Romania	Atlas Copco Romania S.R.L.	*Bucharest*
Russia	Airgrupp LLC	*Moscow*
	Ekomak Industrial	*Moscow*
	Epiroc Russia LLC	*Khimki*
	JSC Atlas Copco	*Moscow*
Serbia	Atlas Copco SRB D.O.O Beograd	*Belgrade*
	Epiroc SRB A.D. Beograd	*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 SA Proprietary Limited	*Johannesburg*
	Epiroc Holdings South Africa Proprietary Ltd.	*Boksburg*
	Epiroc South Africa Proprietary Limited	*Boksburg*
	Rand Air South Africa Proprietary Limited	*Johannesburg*
South Korea	Atlas Copco Korea Co., Ltd.	*Seongnam*
	CP Tools Korea Co., Ltd.	*Anyang*
	CSK Inc.	*Yongin*
	Edwards Korea Ltd	*Cheonan*
	Epiroc Korea Co., Ltd.	*Seongnam*
	Leybold Korea Ltd	*Bundang*
Spain	Aire Comprimido Industrial Iberia, S.L.	*Madrid*
	Atlas Copco S.A.E.	*Madrid*
	Epiroc Minería e ingenieria civil España, S.L.	*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 Nacka Holding AB	*Nacka*
	Atlas Copco Sickla Holding AB	*Nacka*
	Construction Tools PC AB	*Kalmar*
	Epiroc Drilling Tools AB	*Fagersta*
	Epiroc Financial Solutions AB	*Nacka*
	Epiroc Rock Drills AB	*Örebro*
	Epiroc Sweden AB	*Nacka*
	Epiroc Treasury AB	*Nacka*
	Epiroc Welltech AB	*Jonsered*
	Epiroc AB	*Nacka*
	Industria Insurance Company Ltd Industria Försäkringsaktiebolag	*Nacka*
Switzerland	Atlas Copco (Schweiz) AG	*Studen*
	Epiroc MEYCO AG	*Zurich*
	Kohler Druckluft AG	*Oberriet*
	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*

Country	Company	Location (City)
Tanzania	Epiroc Tanzania Limited	*Dar es Salaam*
Thailand	Atlas Copco (Thailand) Limited	*Bangkok*
	Epiroc (Thailand) Limited	*Chachongsao*
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*
	Epiroc Makina Anonim Şirketi	*Istanbul*
	Orcan Basincli Hava Makinalari Sanayi Ve Ticaret Limited Sirketi	*Istanbul*
Ukraine	Atlas Copco LLC	*Kiev*
	Epiroc Ukraine LLC	*Kiev*
United Arab Emirates	Atlas Copco Middle East FZE	*Jebel Ali free zone, Dubai*
	Atlas Copco Services Middle East SPC	*Abu Dhabi*
	Epiroc Middle East FZE	*Dubai*
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*
	Epiroc UK and Ireland Limited	*Hemel Hempstead*
	Henrob Ltd	*Flintshire*
	Leybold UK Ltd	*Chessington*
	SCA Schucker UK Ltd.	*Didcot*
	Tentec Ltd.	*Birmingham*
USA	Atlas Copco Assembly Systems LLC	*Auburn Hills*
	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*
	Epiroc Drilling Solutions LLC	*Garland*
	Epiroc Drilling Tools LLC	*Grand Prairie*
	Epiroc Financial Solutions USA LLC	*Parsippany*
	Epiroc North America Corp	*Parsippany*
	Epiroc USA LLC	*Commerce City*
	Henrob Corporation	*New Hudson*
	Innovative Vacuum Solutions, Inc	*Thonotosassa*
	Leybold USA Inc	*Wilmington*
	MedaesUSCo Inc.	*Rock Hill*
	Power Technique North America LLC	*Franklin*
	Quincy Compressor LLC	*Bay Minette*
	Scales Industrial Technologies, Inc.	*New York*
	Vacuum Trading Inc.	*Parsippany*
Uzbekistan	Epiroc Tashkent LLC	*Tashkent*
Venezuela	Atlas Copco Venezuela SA	*Caracas*
Vietnam	Atlas Copco Vietnam Company Ltd.	*Hanoi*
Zambia	Atlas Copco Industrial Zambia Limited	*Chingola*
	Epiroc Zambia Limited	*Chingola*
Zimbabwe	Epiroc Zimbabwe (Private) Limited	*Harare*

Signatures of the Board of Directors

The Parent Company financial statements have been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statements have been prepared in accordance with International Accounting Standards as prescribed by the European Parliament and the Regulation (EC) No 1606/2002 dated July 19, 2002 on the application of International Accounting Standards. The Parent Company financial statements and the consolidated financial statements give a true and fair view of the Parent Company's and the Group's financial position and results of operations.

The administration report for the Group and Parent Company provides a true and fair overview of the development of the Group's and Parent Company's business activities, financial position and results of operations as well as the significant risks and uncertainties which the Parent Company and its subsidiaries are exposed to.

Nacka, February 28, 2018

Hans Stråberg
Chair

Mats Rahmström
President and CEO

Sabine Neuß
Board member

Anders Ullberg
Board member

Staffan Bohman
Board member

Tina Donikowski
Board member

Johan Forssell
Board member

Gunilla Berg
Board member

Peter Wallenberg Jr
Board member

Bengt Lindgren
Union representative

Mikael Bergstedt
Union representative

Our audit report was submitted on February 28, 2018
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, 2018.

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, 2017 – December 31, 2017 except for the corporate governance statement on pages 58–67. The annual accounts and consolidated accounts of the company are included on pages 14–46, 52–55 and 58–129 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 31 December 2017 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 31 December 2017 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 58–67. 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 the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on our best knowledge and belief, no prohibited services referred to in the Auditors Regulation (537/2014) Article 5.1 has been provided to the audited company or, where applicable, its parent company or its controlled companies in the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Recognition of revenue in the appropriate period

The group generates revenues from product and product related offerings ranging from equipment, service and rental to customers in multiple geographies. The time of delivery of the different offerings ranges from a specific point in time to over several years, and the sales agreements may include complex terms such as buy-back commitments, return rights, and a single transaction may contain separate revenue components such as product delivery, installation and servicing of equipment sold. All these complexities managed by several hundred subsidiaries require policies and procedures as well as management judgment to determine the appropriate method and period to properly recognize revenues.

In note 1 the group's revenue recognition policy together with critical accounting estimates and judgments is described, and note 4 provides disclosures of revenues separated on different product offerings and geographies.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy for revenue recognition and its compliance with IFRS,
- analytical review of revenues disaggregated on different product offerings and geographies, and
- on a sample basis testing of sales transaction for revenue recognition in the appropriate period.

Valuation of trade receivables

The group has significant amounts of trade receivables from its sales to customers in around 180 countries. There is a risk that parts of the receivables will not be paid. The risk may be higher in some geographies due to weaker economic conditions or geopolitical uncertainties. Procedures for collecting payments and assessing customers' ability to pay together with appropriate accounting policies to recognize provisions for doubtful receivables are important factors to ensure a fair valuation of trade receivables.

In note 1 the group's policy for recognizing impairment of trade receivables is described, and note 17 describes the provisions for bad debts and note 27 disclose the ageing of trade receivables.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy for recognizing bad debt for compliance with IFRS,
- evaluating processes and controls for credit assessments and approval of credit limits,
- on a sample basis confirming trade receivables against customer statements alternatively against cash receipts, and
- evaluating management's estimates of the provision for doubtful receivables.

Valuation of inventory

The group carries significant inventories of goods and spare parts produced and held by several production companies and customer centres in many countries. Valuation of inventory requires clear policies and is subject to management's estimates for determining its cost, judgment about its saleability and its net realizable value as well as procedures for safeguarding and keeping track of the inventory.

In note 1 the group's inventory accounting policy and critical accounting estimates and judgments are described, and note 16 provides disclosures of the group's inventory obsolescence provisions.

Our audit procedures

Our audit procedures included, but were not limited to:

- assessing the group's accounting policy and the individual entities' accounting for inventory in compliance with IFRS,
- observations of physical inventory counts,
- on a sample basis testing of the valuation of inventory,
- evaluating management's estimates of the obsolescence reserve, and
- review of eliminations of intragroup profits in inventory.

Accounting for Income taxes

Accounting for income taxes are subject to complex tax legislation requiring management's interpretation and judgment. The interpretations made by management may be challenged by different tax authorities, other authorities and courts. The group's geographical footprint also requires adherence to tax legislation and transfer pricing requirements in many different countries. 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 provides disclosures of income taxes as well as the accounting treatment regarding the European Commission's decision 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.
- evaluating the tax effects of the legal restructurings in preparation for the proposed Epiroc split.

Financial instruments and foreign currency exposures
To manage its financial risk exposure the group uses different financial instruments, including derivatives. Accounting for derivatives is complex and movements in fair values, measurement of effectiveness and application of hedging strategies could have a significant impact on the reported results and financial position of the group. In addition to derivative instruments the group uses external loans to hedge the currency exposure associated with its net investments in foreign operations.

In note 1 the group's accounting policy for financial instruments is described and note 27 provides disclosures regarding financial instruments and foreign currency exposures as well as the group's financial risk management procedures.

Our audit procedures
Our audit procedures included, but were not limited to:
- review of hedging strategies and policies,
- review of hedging activities to ensure that these are properly authorized and accounted for,
- evaluation of hedge effectiveness, and
- review of the relevance of market data and methodologies used to determine fair value of derivative contracts.
- review of disclosures regarding the sensitivity of key assumptions.

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 2–13, 47–51, 56–57 and 133–144. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information is otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this information, we are required to report that fact. We have nothing to report in this 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, 2017 – December 31, 2017 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 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 58–67 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 26, 2017 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 and other non-recurring items.

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

Notes to the environmental, social and governance (ESG) performance

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Environmental, social and governance (ESG) performance [1)]

		Including discontinued operations		Continuing operations			
ECONOMIC VALUE	**Note**	**2013**	**2014**	**2015**	**2016**	**2017**	**Target***
Direct economic value							
Revenues [2)]		84 803	94 614	99 869	102 420	117 833	
Economic value distributed							
Operating costs [3)]		49 079	56 460	56 051	56 276	66 594	
Employee wages and benefits, including other social costs		18 274	20 826	23 619	26 046	26 720	
Costs for providers of capital [4)]		7 853	7 919	8 658	8 980	9 636	
Costs for direct taxes to governments		4 286	4 169	7 484	5 087	6 567	
Economic value retained		5 311	5 240	4 057	6 031	8 316	
– Redemption of shares		–	–	7 305	–	–	
WE USE RESOURCES EFFICIENTLY AND RESPONSIBLY							
Renewable energy for operations, % of total energy		–	33	33	33	31	
Renewable energy for operations incl. renewable of mix, % of total energy		–	–	–	39	41	increase
Direct energy use in GWh [5)]	3	132	127	117	104	119	
Indirect energy use in GWh [5)]	3	288	337	343	349	387	
Total energy use in GWh [5)]	3	420	464	460	454	506	
Total energy use in MWh/COS [5)]		–	9.1	8.6	8.2	8.1	decrease
CO_2 emissions '000 tonnes (direct energy) – scope 1 [6)]		28	27	24	22	25	
CO_2 emissions '000 tonnes (indirect energy) – scope 2 [6)]		75	95	99	100	114	
CO_2 emissions '000 tonnes (total energy) – scope 1+2 [6)]		103	122	123	122	139	
CO_2 emissions '000 tonnes (transports) – scope 3 [6)]		193	199	211	191	262	
CO_2 emissions tonnes (transports)/COS [6)]		–	3.9	4.0	3.4	4.2	decrease
Proportion of reused or recycled waste, %		93	93	94	94	95	increase
Water consumption in water risk areas ('000 m^3) [7)]		–	–	320	296	312	
Water consumption in water risk areas (in m^3)/COS [7)]		–	–	6.0	5.3	5.0	decrease
WE BUILD THE MOST COMPETENT TEAMS							
White-collar employees, %		63	63	64	65	64	
Blue-collar employees, %		37	37	36	35	36	
Employee turnover white-collar employees, %		7.4	6.6	6.2	5.8	6.3	
Employee turnover blue-collar employees, %		9.7	6.0	5.4	4.9	6.1	
Total turnover, voluntary leave %		–	6.4	5.9	5.5	6.3	
Yearly performance and development discussion, %		82	82	84	88	86	100%
Proportion of women employees, %		16.7	16.9	17.3	17.6	17.8	
Proportion of women managers, %		16.3	16.6	17.1	17.5	17.7	
Inflow of women into the Group, share of total external recruitment, %		–	–	21	22	22	increase
Nationalities among senior managers, number		52	53	52	57	53	
Managers in the fourth quadrant of the performance/potential matrix, %		–	–	–	67	57	65%
Communicative Leadership Index, rate 1–100 [8)]		–	68	–	74	–	increase
WE INVEST IN SAFETY AND HEALTH							
Work-related accidents, number	4	403	381	292	285	285	
Work-related accidents, number per one million working hours	4	5.4	4.7	3.6	3.5	3.2	decrease
Lost days due to accidents, number per one million working hours	4	139	129	114	109	88	
Work-related incidents, number		–	1 688	1 395	1 232	1 287	
Work-related incidents, number per one million working hours	4	21.2	21.0	17.3	15.2	14.6	decrease
Fatalities	4	0	1	0	1	1	0
Sick leave due to diseases, %		2.0	1.9	1.9	2.0	2.0	below 2.5%
Sick leave due to diseases and accidents, %		2.1	2.0	2.0	2.1	2.1	
WE LIVE BY THE HIGHEST ETHICAL STANDARDS							
% Global managers with signed compliance to Business Code of Practice		–	–	99	99	99	100%
% of employees aware of the Group ethical hotline or local helpline [8)]		–	–	–	64	–	100%
% Significant suppliers committed to the Business Code of Practice [9)]	5	76	81	88	88	85	100%

* Targets for Atlas Copco Group's key performance indicators for sustainable, profitable growth.

See footnotes on next page

1. Reporting principles of the environmental, social and governance performance

Since 2001, the report has been prepared yearly in accordance with the Global Reporting Initiative (GRI) guidelines. This is the third report that follows the G4 Core guidelines. The most recent sustainability report, prior to this report, was published in March 2017 as part of the annual report 2016.

This report is also Atlas Copco's Communication on Progress (COP), a report on performance in relation to the UN Global Compact's ten principles. It can be found at www.atlascopcogroup.com/investor-relations and on UN Global Compact's website at unglobalcompact.org/cop.

Atlas Copco adheres to the following internationally recognized voluntary standards and principles:

- UN Global Compact. 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.
- Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines. The guidelines (G4) include an internationally recognized set of indicators for economic, environmental and social aspects of business performance that enables stakeholders to compare companies' performance. Atlas Copco's reporting according to the reporting principles and guidance, including required disclosures, can be found at www.atlascopcogroup.com/investor-relations.

Data collection and reporting

The sustainability report and the corporate governance report are integrated in the 2017 annual report. Sustainability information in the annual report is primarily presented on pages 10–13, 39–51 and 134–142, and in the GRI Compliance Index. Reported facts and figures have been verified in accordance with Atlas Copco's procedures for internal control. Data collection is integrated into the Group reporting consolidation systems and collected on a quarterly basis. When a restatement of historically reported numbers is done, this can be due to a change of calculation method or scope. Reported values are normally not corrected retroactively.

Environmental data covers production units and distribution centers. Business partner data covers production units and distribution centers. Employee data covers all operations. Responsibility for reporting rests with the General Manager of each company. Data is reported at local operating unit level, aggregated to division/business area and Group level. Data verification is performed at each level before submitting to external auditors for verification.

The reporting of greenhouse gas emissions is done in accordance with the GHG Protocol (ghgprotocol.org) and the International Energy Agency (iea.org). The Group is a member of the Swedish Network for Transport and Environment (NTM) and closely follows its recommendations, which may impact the reporting guideline of CO_2 emissions from transport.

Scope

The annual report includes information regarding all aspects where Atlas Copco has a significant economic, environmental and social impact. The report covers Atlas Copco's operations for the fiscal year 2017, unless otherwise stated. Operations divested during the year are excluded; units that were acquired are included. This may at times cause major changes in reported performance. Limitations and reporting principles are explained in the relevant section of the report. For the reporting period of 2017 all publicly disclosed sustainability information can be found in the publication Atlas Copco's annual report 2017, except for the GRI Compliance Index, which is available on the Atlas Copco website, www.atlascopcogroup.com/investor-relations.

Atlas Copco reports in accordance with the Swedish Annual Accounts Act, including the requirements for reporting on sustainability. The annual report contains information about sustainability aspects necessary for understanding Atlas Copco's development and results, as well as the impacts from the operations. Information is given about material issues, risks, relevant policies, activities and results. Atlas Copco's annual report 2017 includes a general overview of the Group's environmental situation in accordance with the requirements of Swedish legislation regarding environmental information in the Administration Report. Further, environmental and social information has been integrated into the annual report where appropriate to provide a more complete picture of the Group. In addition, Atlas Copco reports with reference to the content elements and guiding principles of the Inaugural Integrated Reporting Framework developed by the International Integrated Reporting Council.

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. The integrated report provides investors and stakeholders with a relatively complete and easily accessible overview of the Atlas Copco Group's most important activities contributing to sustainable development and increasing shareholder value.

Materiality impact on reporting

The GRI core indicators reported and analyzed are those that are understood to be material to the Atlas Copco Group and its stakeholders, and which facilitate benchmarking with other companies in a broader sense. The contents of Atlas Copco's annual report 2017 are based on the GRI G4 Principles for Defining Report Content, and are guided by stakeholder inclusiveness, the Group's sustainability context, materiality and completeness. Key issues are identified through extensive consultation with the Group's stakeholders. The material aspects identified in this report include, but are not limited to, the GRI G4 indicators and aspects. The Group's materiality process also guides the disclosure for the Group's UN Global Compact Communication on Progress and Atlas Copco's work with the UN Sustainable Development Goals. A GRI G4 and UNGC COP compliance index accompanies this Annual Report and can be found online. For more information about how the materiality analysis was conducted, visit www.atlascopcogroup.com/sustainability.

Stakeholder dialogue

As a global Group, it is vital for Atlas Copco to ensure accountability for its actual and potential impact on its stakeholders. In discussions with for example NGOs, GOs and other influencers, it takes advice and/or learns from listening to their views. In 2017 continuous dialogue was undertaken with relevant stakeholders from investors, shareholders, NGOs, customers and employees, at certain occasions with the participation of members of Group management. Sustainability priorities and results were raised at the annual Capital Markets Day providing an additional arena to engage on the issues for major stakeholders. Major issues are collected and form the basis for development of strategic responses to challenges.

Footnotes to page 135

1) Calculations according to GRI G4 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 and district heating used at the sites. 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, coal, bio-fuel, propane and natural gas.
6) Standardized conversion factors published by the Greenhouse Gas Protocol Initiative and International Energy Agency are used to calculate CO_2 emissions, see www.ghgprotocol.org and www.iea.org.
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) Collected every two years through the Group's employee survey Insight.
9) For 2017, the scope of business partner reporting in the annual report includes distribution centers in addition to the previous scope including only production units. The change in scope does not have a significant impact on the KPI:s compared with previous years.

Reporting principles of the environmental, social and governance performance, continued

Review/audit
Atlas Copco has self-declared the report to be in accordance to GRI G4 Core. The report covers Standard Disclosures, all Disclosures on Management Approach and at least one indicator per material aspect, in accordance to the GRI G4 guidelines. The annual report has been reviewed and approved by Atlas Copco's Group Management and the Atlas Copco Board of Directors. The sustainability information in the annual report 2017 has been subject to limited assurance by Deloitte AB.

Additional ESG Disclosure
Atlas Copco uses a materiality driven approach and the GRI G4 guidelines to disclose environmental, social and governance information to customers, investors and other stakeholders. The Group strives to be as transparent as possible, partaking in rankings, ratings and sharing information insofar it is relevant to the business. By and large the relevant information is communicated in a transparent way in the annual report. Atlas Copco is a signatory of the UN Global Compact since 2008, reporting according to the "comprehensive" option.

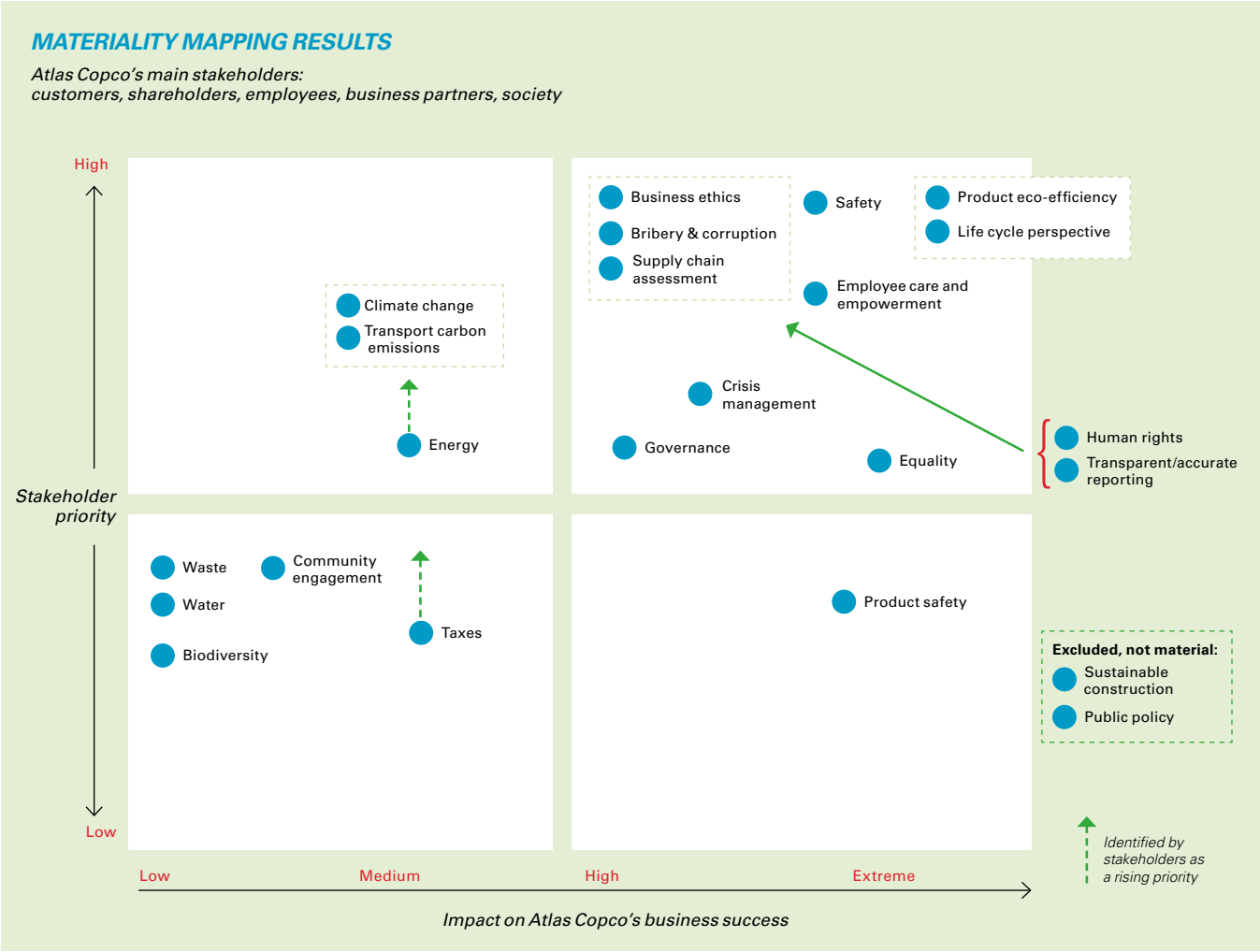
Atlas Copco received the following recognitions in 2017:
Atlas Copco was again included in the FTSE4Good Index; was re-confirmed as a constituent of the Ethibel Sustainability Index Excellence Europe and the Ethibel Sustainability Index Excellence Global. In January 2018 Atlas Copco was awarded Prime status in the Oekom Corporate Rating. Atlas Copco has never paid for inclusion in rankings or lists, irrespective of the size of the fee requested, and has no ambition to change its position in the future. Atlas Copco does not actively contribute to external analyses of the company's sustainability performance. However, in 2017, Atlas Copco participated in the Carbon Disclosure Project (CDP). The company regards the annual report and the corporate website as the main sources to provide a comprehensive and accurate understanding of Atlas Copco.

2. Materiality

In 2015, Atlas Copco completed consultation with 200 institutional stakeholders, which was conducted over an eight-month period to identify the key sustainability priorities that impact, and are impacted by the Group's business. A comprehensive review of the materiality assessment will be done in 2018.

In ongoing dialogue, material issues are discussed with internal and external stakeholders. The management team reviews the progress of the KPI:s of material issues continuously. Analysis of a wide range of sources such as investor questions, media coverage, legislative development and NGO engagement continuously inform the work. Colleagues responsible for health, environment, safety and quality for the business areas have analyzed the materiality matrix and gaps in its implementation in an internal workshop. External stakeholder dialogues are ongoing with one-on-one meetings with major stakeholders from NGO:s, owners and investors. As in 2016, the annual Capital Markets Day invited stakeholders to engage on sustainability issues also in 2017.

Selection criteria for aspects to be mapped
The selection of the aspects was partly defined by the GRI G4 guidelines, but it also included topics outside of the reporting framework that were raised by stakeholders. More information can be found at www.atlascopcogroup.com/sustainability. Economic value creation and Atlas Copco's financial targets



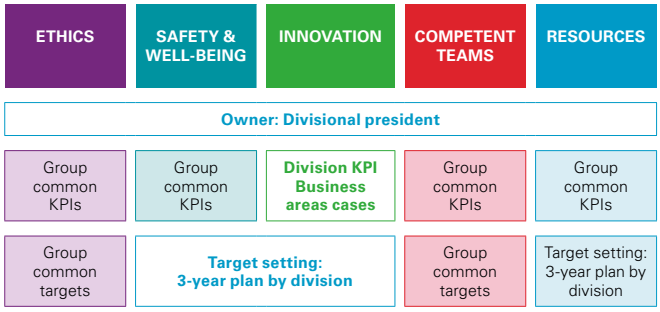
Materiality, continued

were excluded from the scope in the consultation to keep the mapping and dialogue focused on the long-term environmental, social and governance aspects below.

Selection of stakeholders for consultation
Atlas Copco's Business Code of practice defines its five key stakeholders, and each group was consulted for the materiality mapping process. Internal stakeholders included multiple functions such as research and development, logistics, purchasing and divisional management teams for the Group's strategy. For external stakeholders' input, Atlas Copco directly and indirectly engaged 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 G4 guidance for materiality and the full materiality process is summarized online and in the GRI appendix which can be found online at www.atlascopcogroup.com. The materiality results overlap partially with the GRI G4 indicators.

Impact on Atlas Copco's non-financial targets
The materiality process identified the priorities for the success of Atlas Copco's long-term strategy to create value for all stakeholders. As a result, the Group has adapted its KPIs to reflect these priorities. The Group strives to link the KPIs and goals to support the Sustainable Development Goals and outcomes of the UN Climate Conference in Paris (COP 21). KPIs address and manage the risks, opportunities and impacts of the Group's business in parts of the value chain where they have been found to be material during the consultation with stakeholders. The formulation of these KPIs have been guided by the GRI G4 aspects, but not limited to the definitions as proposed in the guidelines. The Group consolidated targets on selected key performance indicators are presented throughout this report.

Responsibility and implementation of key performance indicators and targets



3. Environmental impact

Environmental performance
Atlas Copco has integrated its most material environmental KPIs into its planning process. The KPIs drive improvements and efficiency, while reducing the environmental impact for the Group.

Environment 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.

Energy consumption*, %	2017
Direct energy, renewable	0
Direct energy, non-renewable	23
Indirect energy, renewable (incl. renewable of mix)	41
Indirect energy, non-renewable	36

* Direct energy is defined as purchased and consumed fuel for own production; this includes oil, coal, natural gas, gasoline and diesel. Indirect energy is defined as energy from external sources, for example purchased electricity and district heating required.

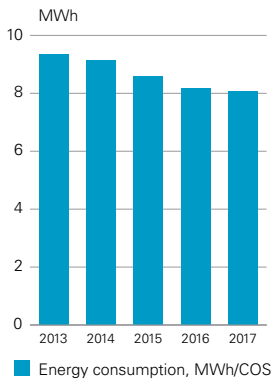
Environmental compliance
Atlas Copco follows applicable environmental laws in all countries where the Group operates. Incidents or fines are reported for non-compliance with environmental legislation, as well as incidents involving chemical, oil or fuel spillages. There were 7 (3) accidents resulting in adverse environmental effects according to reporting. All accidents were addressed fully and comprehensively and clean-up costs amounted to KSEK 33 (2 885).

Five 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 four permits needed to conduct its business and one was under revision in 2017.

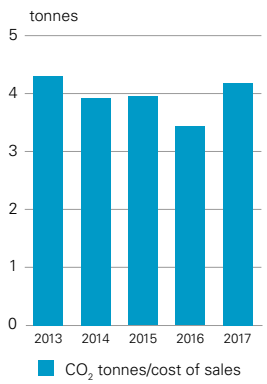
Environmental management systems
To help minimize the environmental impact and to secure that the precautionary approach is applied, Atlas Copco has the ambition to implement environmental management systems (EMS) in all operations. All product companies should be certified according to ISO 14001 in 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. All production units with more than

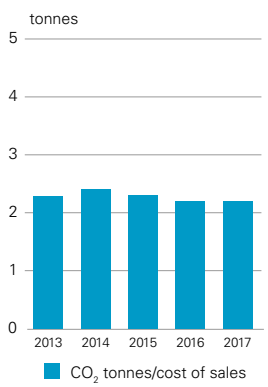
Energy consumption MWh/COS



CO_2 emissions from transport/COS



CO_2 emissions from energy consumption/COS



Environmental impact, continued

ten employees and all other entities above 70 employees are to be triple certified. By the end of 2017 the number of required units not being triple certified constitute 8 % of the total number of operational units. Same measure for each individual certification is 5 % for ISO 9001, 7 % for ISO 14001 and 8 % for OHSAS 18001. 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.

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 product and service information required by the Group's procedures for product and service information and labeling covers aspects such as sourcing of components, content such as substances of concern, safe use and disposal of the product. Customer training is included when relevant, to secure safe handling of the products.

In general, a limited proportion of Atlas Copco products fall under the EU Waste Electrical and Electronic Equipment (WEEE) Directive. For example, handheld electric tools and monitoring control instruments qualify but not large mining and other capital equipment. 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.

No cases have been filed in 2017 for non-compliance with such laws and regulations concerning the provision and use of such products and services.

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.

4. Safety and well-being

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 consolidated targets and results are presented on page 46.

Continuous efforts have been put on behavioral based safety and safety days have been arranged in the Atlas Copco Group since 2014. In 2017, the number of accidents for Atlas Copco employees was stable at 285 (285). The relative number of accidents decreased to 3.2 (3.5) per one million working hours. The largest decrease was reported from operations in South America. The largest increase was reported for Asia/Australia and particular attention will be put on reducing this number. For several years, the majority of the accidents reported have been in Europe.

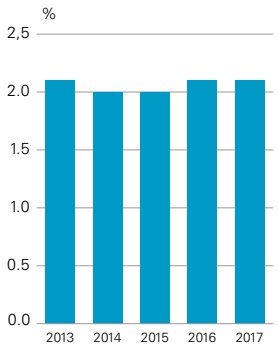
The number of incidents for Atlas Copco employees increased to 1 287 (1 232) and the relative number decreased to 14.6 (15.2) incidents per one million working hours. Improvements were most significant in South America and North America. Among the additional workforce, the accidents and incidents rose, with an increase in the number of accidents from 8 to 24 and 3.3 (1.4) accidents per million working hours. The increase in incidents was to 28.5 (28.3) per million working hours. The main reasons were quick increases in the additional workforce and production volumes.

Atlas Copco 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 centers and other units with more than 70 employees and all product companies shall be certified according to OHSAS 18001.

Geographical spread of incidents and accidents among Atlas Copco employees, %	Spread of employees, %	Work-related incidents %	Work-related accidents %
North America	15	11	19
South America	7	1	4
Europe	44	78	55
Africa/Middle East	5	2	6
Asia/Australia	29	8	16
Total	**100**	**100**	**100**

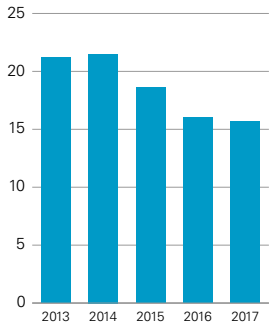
Definitions: An accident is an event that requires at least one day of absence beyond the actual event and medical treatment beyond first aid. Incidents do not require leave of absence or other medical treatment than first aid.

Total sick-leave in total workforce



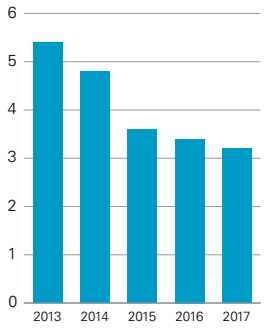
Goal: <2.5%

No. of incidents per million working hours in total workforce



Goal: Continuous improvement

No. of accidents per million working hours in total workforce



Goal: Continuous improvement

5. Business partners

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 require support in order to comply with the minimum standards set forth in the 10-criteria checklist; however, suppliers who fail to meet red-flag criteria (such as zero-tolerance of corruption) or do not show a willingness to improve are rejected. Supplier evaluations regarding safety, health, social and environment aspects including objective factors such as quality and financial data are performed throughout the Group.

Definition of significant supplier for reporting

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 prior year to September current year. For suppliers in high-risk countries listed below, suppliers are determined to be significant based on a significantly lower purchasing threshold (approximately 13% of set value) and are reported.

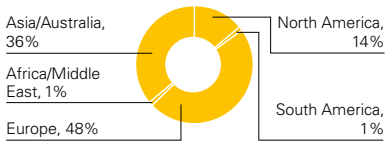
High-risk countries

Angola, Bolivia, China, Colombia, Democratic Republic of Congo, Indonesia, Iran, Nigeria, Russia, Saudi Arabia, Uzbekistan, Zimbabwe. These countries are identified as having a heightened risk of human rights violations or corruption based on risk mapping provided by Amnesty International and Transparency International in 2011. In 2017, the number of significant suppliers increased compared with 2016, partly due to the inclusion of distribution centers in the reporting scope.

Supplier's commitment	2017	2016
Significant suppliers, number	5 310	4 471
Safety, health and social and environment evaluated suppliers [1], %	16	17
Approved suppliers (no need to follow up), %	94	95
Conditionally approved suppliers (monitored), %	6	5
Rejected suppliers (relationship ended) [2], %	0	0
Suppliers asked on commitment to the Business Code of Practice, number	4 745	4 075
Significant suppliers that have confirmed their commitment to the Code, %	85	88

[1] Evaluations or audits are conducted by Atlas Copco teams directly at the suppliers' sites.
[2] Reasons for rejection include for example safety in the workplace, personal protection for workers and no fulfillment of environmental laws. Suppliers are rejected if they do not meet Atlas Copco requirements and are not willing to improve. The Group does not keep any black lists of business partners.

Geographical spread of suppliers



Customer assessment

Atlas Copco assesses risks related to customers and, if deemed relevant, performs customer sustainability assessments. The risk evaluation covers risks relating to the environment, ethics and social aspects. Atlas Copco's customer centers make a sustainability assessment on customers that could be considered to have a negative impact on the environment, not follow international human rights or labor standards etc. Seven parameters covering corruption, human rights, environment and occupational health and safety are included in the customer sustainability assessment tool. Guidelines and training are provided in the internal database. Follow-up is done in the internal audit as well as in control self-assessment questionnaires.

6. Governance

The Business Code of Practice is the central policy document of Atlas Copco. Policies and guidelines connected to the Code are accessible to all employees in the internal database. Trainings, both classroom training and on-line are provided. Internal control is exercised through distribution of responsibility and internal audits. Division presidents have the ultimate responsibility for adherence to the values and policies of the Atlas Copco Group. The compliance board oversees compliance with the Business Code of Practice.

Atlas Copco's hotline is the Group's whistleblower function of the Business Code of Practice. The global hotline is complemented by local hotlines. 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, guaranteeing anonymity, handling and documentation of cases.

During the year, the hotline has been promoted globally among employees and business partners to increase awareness. The process for receiving cases was updated to further ensure efficiency and independence of the process.

Reported potential violations, number	2017
Fraud	19
Labor relations	34
Corruption	5
Discrimination	7
Other (personal, organizational issues)	0
Total	**65**

Eleven cases of labor relations, four cases of fraud, one case of discrimination and one case of corruption were substantiated and led to personal consequences such as dismissal, or change in processes to prevent future occurrences. The alleged case of sexual harassment was not substantiated and closed after investigation. Eleven cases are still under investigation, whereof two concern corruption, five fraud, one harassment, one discrimination and two labor relations.

No single case was material during the year. No fines related to the hotline have been paid during the year. There have been no other instances of anti-competitive behavior brought to the attention of Group Management.

7. Human rights

Commitment to human rights

Atlas Copco's central guiding policy is the Business Code of Practice which was updated in 2012 to support the United Nations International Bill of Human Rights. 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. In 2011, Atlas Copco took on the commitment to protect, respect and provide access to remedy with regards to human rights as proposed in the UN Guiding Principles on Business and Human Rights. 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 or business relations. 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, such as Myanmar.

Atlas Copco's human rights approach

Working with human rights is a continuous process of learning, development and implementation. Atlas Copco strives to work with issues within its scope across the value chain. Atlas Copco does not view human rights in isolation, but as rather a cross-connected issue which can be impacted by working with corruption and environmental aspects according to the Business Code of Practice. 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 with its commitment to the UN Guiding Principles across the value chain, covering procurement, human resources, sales, marketing and other business

Human rights, continued

processes. In 2017, Atlas Copco has increased its focus on assessing human rights risks in the sales process. For example, Atlas Copco has initiated dialogue with business partners to enhance the ability to assess and mitigate human rights risks in various markets in Africa.

Atlas Copco's human rights statement

The Business Code of Practice is the central policy document, based on which Atlas Copco has a public human rights statement. Atlas Copco's human rights statement is available publicly on the Group website, and has been approved by Group Management after internal and external consultation.

Atlas Copco commits to undertake all in its power to avoid causing or contributing to adverse human right impacts and to address such impacts when they do occur. Through the application of human rights due diligence procedures, Atlas Copco furthermore seeks to prevent, detect and correct adverse human rights impacts that are linked to its operations, products or services by its business relationships, even if Atlas Copco has not contributed to those impacts.

Atlas Copco has developed human rights specific training in addition to training on the Business Code of Practice to increase employee awareness and capacity building. Atlas Copco's commitment covers all individuals and groups who may be impacted by its activities or through its business relationships. It is available to all employees through the Group's intranet. Business partners are referred to the human rights statement during business negotiations and also during trainings.

Human rights issues are raised in continuous dialogue with external stakeholders, such as workers in the company's value chain, trade unions, communities, customers, NGOs and governmental authorities. According to the human rights statement, the Atlas Copco hotline can be used to report perceived human rights violations and in cases where the stakeholder(s) or employee(s) are not satisfied with the solution provided by the ethical hotline, Atlas Copco will provide for mediation at the Stockholm Chamber of Commerce Arbitration Institute. There were no changes to the Group's human rights policy during 2017.

Integrating the rights of children, women and special vulnerable groups

Atlas Copco strives to be inclusive in its human rights work to ensure that the rights of vulnerable groups such as children or minorities are covered by policies and processes.

Atlas Copco explores public-private partnerships on a local and Group level in order to support the implementation of the UN Guiding Principles and to increase leverage to respect human rights. In 2014, Atlas Copco joined the Swedish Leadership for Sustainable Development, a business network run by the Swedish International Development Cooperation Agency, to strengthen its approach on environment, human rights and anti-corruption. The Group also participated in cross-industry dialogues in order to share best practices and tools from the implementation process.

Conflict minerals

Responsible sourcing of minerals is essential for Atlas Copco and even if Atlas Copco is not directly impacted by the Dodd-Frank Act or upcoming EU regulation on conflict minerals many of Atlas Copco's customers are. To ensure responsible sourcing of all conflict minerals included in Atlas Copco products and support customers' obligations under the Dodd-Frank Act, Atlas Copco investigates the use of Conflict Minerals in sourced products using the Conflict Mineral Reporting Template (CMRT). Atlas Copco Group reports the identified origin of tin, tungsten, tantalum and gold in products to customers.

8. Taxes

Atlas Copco strives to be a good and reliable corporate citizen, observing the spirit as well as the letter of the laws of the countries in which the Group operates. 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 acts in accordance with all applicable laws and are at all times guided by relevant international standards, chiefly the OECD and UN guidelines. 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. Key stakeholders have identified taxes as a rising priority. See note 9 of the consolidated financial statements for the details of taxes paid, reported according to the international financial reporting standards.

Opinion on disclosing tax by country

Atlas Copco has been in dialogue with investors, NGOs and peers regarding the 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.

Presence in countries classified as tax havens

Atlas Copco has companies in over 90 countries in order to support customers in more than 180 countries. Sometimes these companies are in countries that can be classified as tax havens. 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.

9. Product energy efficiency

The energy efficiency calculations for the products detailed in the report were based on estimates provided by Atlas Copco's research and development departments.

Compressor GA VSD+

Evaluation of the energy efficiency has been done by applying certain air demand patterns to each of the compressors. In this pattern, the air demand varies between a minimum of 9 l/s and a maximum of 29.5 l/s over a period of 10 080 seconds. Free air delivery was measured continuously according to ISO1217, as well as the consumed power. Independent measurements show that a variable speed driven GA11VSD saves on average 35 % on energy consumption compared to a stationary GA11 compressor. It also shows that the new GA11VSD+ saves on average another 16 % compared to the GA11VSD, which brings the total energy saving of the new GA11VSD+ at 45 % compared to a stationary compressor given the specified load profile.

Battery pulse tool with eco controller

The typical energy consumption for the Self Pierce Riveting (SPR) battery pulse tool is 0.72 W/hour per rivet, based on 500 rivets/hour with a standard SPR controller. Using the Eco controller with the energy efficiency module the energy consumption was reduced to 0.576W/hour per rivet, based on 500 rivets/hour. A typical customer using the SPR technology in car assembly uses around 2 750 rivets per car. With a production volume around 550 cars per day, this equates to 1.5125 million rivets per day, which gives an energy saving of 217.8Kw/h per day.

Battery scooptram for underground mining

Replacing the diesel engine with electric motors and removing components like the converter from the drive train have resulted in very energy efficient drive train. One liter of diesel contains about 10kWh of energy. The ST7 Diesel consumes about 165kWh/h or 16.5 l diesel per hour. Each liter of diesel results in about 2.65kg of CO_2. The battery model of the ST7 consumes about 32 kWh/h of electricity. An underground mining machine is used between 2 000–6 500h/y, a typical average number is 4 000h. 4 000h/y * 16.5 * 2.65 = 174 900kg CO_2 per diesel machine and year. When powered by renewable energy the CO_2 emissions from the electric machine are 0.

Dry vacuum pump

The energy savings were calculated by comparing the normal running condition power consumption of the five different capacity variants from the new iXM product range, with the power consumption of the equivalent previous generation products of the same capacity and for similar applications.
The five variants are – iXM200, saving 0.2kW compared to iGX100MTI. iXM600, saving 1.5kW compared to iXH610. iXM1200, saving 1.9kW compared to iXH1210, iXM1200 MK1, saving 1.8kW compared to iXH1210. iXM1800 saving 1.6kW compared to iXH1820. Real sales data was used to determine the total cumulative run time of newly installed iXM product, from which a total power saving compared to running the same size population of previous generation products was determined.

LED light tower

The energy savings per light tower are based on calculations making the following assumptions: 220 days working per year for six hours on average = 1 320 hours. HiLight H5+ LED (0.5 liters fuel per hour) = 660 liters per year; HiLight V4 Metal Halide (2 liters fuel per hour) = 2 640. Both models were tested in Atlas Copco laboratory in accordance with ISO 8528.

Auditor's opinion on Atlas Copco AB´s Sustainability Report

Auditor's Limited Assurance Report on Atlas Copco AB's Sustainability Report

To Atlas Copco AB

Introduction

We have been engaged by the Board of Directors and the President of Atlas Copco AB to undertake a limited assurance engagement of the Atlas Copco AB Sustainability Report for the year 2017. The Company has defined the scope of the Sustainability Report on page 136.

Responsibilities of the Board of Directors and the Executive Management for the Sustainability Report

The Board of Directors and the Executive Management are responsible for the preparation of the Sustainability Report in accordance with the applicable criteria, as explained on page 136 in the Sustainability Report, and are the parts of the Sustainability Reporting Guidelines (published by The Global Reporting Initiative (GRI)) 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.

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. The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with IAASB's Standards on Auditing and other 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 procedures performed consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

Accordingly, the conclusion of the procedures performed do not express a reasonable assurance conclusion.

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.

Nacka, February 28, 2018
Deloitte AB

Thomas Strömberg
Authorized Public Accountant

Lennart Nordqvist
Expert Member of FAR

Auditor´s Report on the Statutory Sustainability Report

To the annual general meeting of the shareholders of Atlas Copco AB, corporate identity number 556014-2720

Engagement and responsibility

It is the Board of Directors who is responsible for the statutory sustainability report for the year 2017 as defined by the Board of Directors on page 136 and that it has been prepared in accordance with the Annual Accounts Act.

The scope of the audit

Our examination has been conducted in accordance with FAR's auditing standard RevR 12 The auditor´s opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is substantially different and 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 opinion.

Opinion

A statutory sustainability report has been prepared.

Nacka, February 28, 2018
Deloitte AB

Thomas Strömberg
Authorized Public Accountant

This report is a translation of the Swedish language original. In the events of any differences between this translation and the Swedish original, the latter shall prevail.

Five years in summary

	Including discontinued operations		Continuing operations		
MSEK	2013	2014	2015	2016	2017
ORDERS, REVENUES AND PROFIT					
Orders	81 290	93 873	97 002	102 812	123 431
Revenues	83 888	93 721	98 973	101 356	116 421
Change, organic from volume and price, %	–4	–2	–2	0	10
EBITDA	19 759	20 724	23 952	24 039	29 263
EBITDA margin, %	23.6	22.1	24.2	23.7	25.1
Operating profit	17 056	17 015	19 772	19 798	24 200
Operating profit margin, %	20.3	18.2	20.0	19.5	20.8
Net interest expense	–730	–699	–750	–769	–971
Profit before tax	16 266	16 091	18 875	18 805	23 129
Profit margin, %	19.4	17.2	19.1	18.6	19.9
Profit for the year	12 082	12 175	11 777	13 785	16 672
EMPLOYEES					
Average number of employees	40 159	43 645	42 308	42 749	45 986
Revenues per employee, SEK thousands	2 089	2 147	2 339	2 371	2 532
CASH FLOW					
Operating cash surplus	19 205	20 426	23 547	24 600	29 370
Cash flow before change in working capital	13 426	15 634	17 350	16 154	21 113
Change in working capital	–538	2 056	1 599	2 875	1 215
Cash flow from investing activities	–4 472	–10 565	–3 853	–7 148	–758
Gross investments in other property, plant and equipment	–1 255	–1 548	–1 705	–1 369	–1 742
Gross investments in rental equipment	–1 456	–1 719	–1 263	–1 207	–1 412
Net investments in rental equipment	–1 021	–1 303	–837	–748	–948
Cash flow from financing activities	–2 535	–14 358	–14 497	–8 991	–7 745
of which dividends paid [1]	–6 669	–6 682	–14 639	–7 687	–8 255
Operating cash flow	8 532	13 916	16 955	18 109	18 856
FINANCIAL POSITION AND RETURN					
Total assets	87 891	105 281	103 010	115 892	125 738
Capital turnover ratio	0.98	0.98	0.97	0.95	0.99
Capital employed	62 683	70 953	71 372	72 987	82 318
Capital employed turnover ratio	1.34	1.32	1.39	1.39	1.41
Return on capital employed, %	27.8	24.3	28.3	27.2	29.7
Net indebtedness	7 504	15 428	14 806	14 829	2 466
Net debt/EBITDA	0.38	0.74	0.62	0.62	0.08
Equity	39 794	50 753	46 750	53 177	60 723
Debt/equity ratio, %	18.9	30.4	31.7	27.9	3.9
Equity/assets ratio, %	45.3	48.2	45.4	45.9	48.3
Return on equity, %	33.6	28.1	24.3	24.3	30.1
KEY FIGURES PER SHARE					
Basic earnings / diluted earnings, SEK	9.95 / 9.92	10.01 / 9.99	9.62 / 9.58	9.81 / 9.79	13.73 / 13.63
Dividend, SEK	5.50	6.00	6.30	6.80	7.00 [2]
Dividend as % of basic earnings	55.3%	59.9%	65.5%	69.3%	51.0%
Dividend yield %	3.1%	3.1%	2.6%	3.0%	2.2%
Redemption of shares, SEK	–	6.00	–	–	8.00 [2]
Operating cash flow, SEK	7.0	11.5	13.9	14.9	15.5
Equity, SEK	33	42	38	44	50
Share price, December 31, A share / B share, SEK	178.3 / 163.2	218.4 / 200.9	208.4 / 195.3	277.5 / 248.6	354.2 / 314.6
Highest price quoted, A share / B share, SEK	194.1 / 176.4	222.6 / 204.3	303.1 / 270.0	290.0 / 259.4	375.8 / 338.1
Lowest price quoted, A share / B share, SEK	154.3 / 136.2	169.6 / 155.9	186.9 / 173.7	171.0 / 162.6	277.0 / 247.1
Average closing price, A share / B share, SEK	179.0 / 160.6	196.4 / 181.1	238.7 / 217.5	229.9 / 210.0	322.0 / 338.1
Average number of shares, millions	1 212.8	1 215.6	1 217.4	1 216.1	1 214.1
Diluted average number of shares, millions	1 214.4	1 216.6	1 218.7	1 216.8	1 215.8
Number of shareholders, December 31	72 738	70 914	79 926	76 058	80 846
Market capitalization, December 31, MSEK	213 348	261 719	251 140	329 940	420 076

[1] Includes share redemption in 2015 [2] Proposed by the Board of Directors

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Committed to sustainable productivity

We stand by our responsibilities towards our customers,
towards the environment and the people around us.
We make performance stand the test of time.
This is what we call – Sustainable Productivity.

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