

July 20, 2018

Atlas Copco Second-quarter report 2018

A record quarter

The figures presented in this report refer to continuing operations unless otherwise stated.

- Record orders, revenues and operating profit
- Orders increased 13% to MSEK 25 120 (22 286), organic increase of 10%
- Revenues increased to MSEK 24 461 (21 397), organic growth of 11%
- Operating profit increased 18% to MSEK 5 430 (4 597), corresponding to a margin of 22.2% (21.5)
- Profit before tax amounted to MSEK 5 229 (4 202)
- Profit for the period was MSEK 3 894 (3 038)
- Basic earnings per share were SEK 3.21 (2.50)
- Operating cash flow at MSEK 3 066 (4 838), including discontinued operations

MSEK	April - June			January - June		
	2018	2017		2018	2017	
Orders received	25 120	22 286	13%	49 950	45 611	10%
Revenues	24 461	21 397	14%	46 367	41 975	10%
Operating profit	5 430	4 597	18%	10 263	8 887	15%
– as a percentage of revenues	22.2	21.5		22.1	21.2	
Profit before tax	5 229	4 202	24%	9 742	8 260	18%
– as a percentage of revenues	21.4	19.6		21.0	19.7	
Profit for the period from continuing operations	3 894	3 038	28%	7 234	5 934	22%
Profit for the period from discontinued operations ¹⁾	89 139	1 046		90 220	2 148	
Profit for the period	93 033	4 084		97 454	8 082	
Basic earnings per share, SEK	76.47	3.36		80.11	6.65	
- of which continuing operations	3.21	2.50		5.96	4.88	
Diluted earnings per share, SEK	76.33	3.32		79.74	6.59	
- of which continuing operations	3.20	2.46		5.94	4.82	
Return on capital employed, %	31					

¹⁾ Includes the effect from the distribution of Epiroc, see page 3 and 14 for further information.

Near-term demand outlook

Demand from most customer segments is expected to remain at current high level. Equipment demand from the semiconductor industry is expected to be somewhat lower in the near-term.

Previous near-term demand outlook (published April 25, 2018):

The overall demand for the Group is expected to remain at current high level.

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Summary of half-year results

Orders received in the first six months of 2018 increased by 10% to MSEK 49 950 (45 611), corresponding to an organic increase of 10%. Acquisitions contributed with 1% while currency had a negative effect of 1%. Revenues were MSEK 46 367 (41 975), corresponding to a 10% organic increase.

Operating profit increased by 15% to MSEK 10 263 (8 887). The operating margin was 22.1% (21.2). The negative impact of changes in exchange rates amounted to MSEK 380 for the first half-year.

Profit before tax was MSEK 9 742 (8 260), corresponding to a margin of 21.0% (19.7). Profit for the period totaled MSEK 7 234 (5 934). Basic and diluted earnings per share were SEK 5.96 (4.88) and 5.94 (4.82) respectively.

Operating cash flow before acquisitions, divestments and dividends totaled MSEK 5 790 (8 348).

Review of the second quarter

Market development

The overall demand for Atlas Copco's products and services continued to be strong and order volumes increased to a new record level. All four business areas achieved good organic order growth. Both equipment and the service business grew, and the Group's order intake increased in all major regions.

Order volumes for most types of equipment grew, especially for compressors. The demand for larger industrial compressors was relatively stronger compared to smaller compressors, and order volumes for gas and process compressors increased significantly. Order growth for vacuum equipment was primarily driven by the strong demand from industrial customers. While the underlying demand for electronic devices continued to grow, and the demand for vacuum equipment from the semiconductor industry remained on a high level, order intake was somewhat lower than the same quarter previous year. Industrial assembly tools and solutions saw increased demand from both general industry and the motor vehicle industry. The order intake for power equipment increased, supported primarily by higher demand from equipment rental companies. The specialty rental business benefitted from continued strong demand, and order volumes increased.

Geographic distribution of orders received

Atlas Copco Group		
April - June 2018	Orders Received, %	Change*, %
North America	24	+16
South America	4	+15
Europe	31	+13
Africa/Middle East	5	-1
Asia/Australia	36	+8
Atlas Copco Group	100	+11

*Change in orders received compared to the previous year in local currency.

Geographic distribution, orders received and revenues

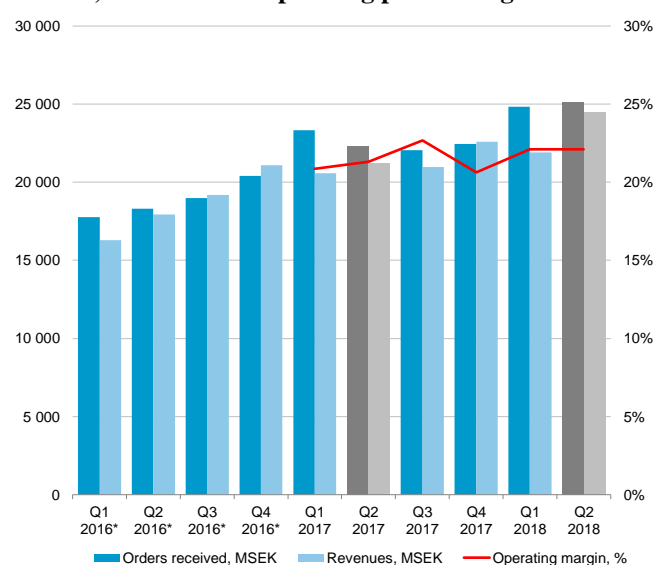
Apr-Jun 2018	Compressor Technique, %		Vacuum Technique, %		Industrial Technique, %		Power Technique, %		Atlas Copco, %	
	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues	Orders received	Revenues
North America	20	22	28	20	30	32	21	26	24	23
South America	6	5	0	0	3	3	5	5	4	4
Europe	35	35	15	16	39	36	39	37	31	31
Africa/Middle East	6	8	1	2	1	1	14	12	5	6
Asia/Australia	33	30	56	62	27	28	21	20	36	36
	100	100	100	100	100	100	100	100	100	100

Sales bridge

MSEK	April - June	
	Orders received	Revenues
2017	22 286	21 397
Structural change, %	+1	+1
Currency, %	+2	+2
Organic*, %	+10	+11
Total, %	+13	+14
2018	25 120	24 461

*Volume, price and mix.

Orders, revenues and operating profit margin



*2016 quarterly figures shows best estimated numbers, as effects of the split of the Group and restatements for IFRS 15, are not fully reconciled.

Revenues, profits and returns

Revenues increased 14% to a record MSEK 24 461 (21 397), corresponding to an organic growth of 11%. Currency and acquisitions contributed with 2% and 1% respectively.

The operating profit increased to MSEK 5 430 (4 597), and includes a change in provision for share-related long-term incentive program of MSEK -55 (-133), reported in Common Group Items.

The adjusted operating profit increased 16% to MSEK 5 485 (4 730), corresponding to a margin of 22.4% (22.1). The higher profit margin was due to the organic revenue growth, while the effect of changes in exchange rates was neutral on the margin. In absolute value, the net currency effect was MSEK +75. Recent acquisitions had a small negative effect on the operating margin.

Net financial items were MSEK -201 (-395). Interest net was MSEK -174 (-342). Previous year included a one-time interest charge of MSEK -125, related to the EU challenge of Belgian tax rulings in January 2016. Other financial items, MSEK -27 (-53) were affected by a one-time charge in connection with re-payment of a public USD bond (previous year's cost related to the split of the Group) and positive financial exchange differences.

Profit before tax amounted to MSEK 5 229 (4 202), corresponding to a margin of 21.4% (19.6).

Profit for the period totaled MSEK 3 894 (3 038) with an effective tax rate of 25.5% (27.7). Basic and diluted earnings per share were SEK 3.21 (2.50) and SEK 3.20 (2.46), respectively.

The return on capital employed during the last 12 months was 31%. Return on equity was 26% (27). The Group uses a weighted average cost of capital (WACC) of 8.0% as an investment and overall performance benchmark.

Cash flow and investments incl. discontinued operations

Operating cash surplus increased to MSEK 8 196 (7 666), mainly due to the higher operating profit. Working capital increased by MSEK 1 727 (decrease of 208), due primarily to increased inventories.

Cash flow from financial items were MSEK -1 002 (608). The main reason for the big difference is currency hedges of loans, where the offsetting cash flow occurs in the future. Net investments in rental equipment were MSEK

-409 (-246). Net investments in property, plant and equipment were MSEK -495 (-329).

In total, operating cash flow, adjusted for currency hedges of loans, reached MSEK 3 066 (4 838). Previous year also included an adjustment for the tax payment related to the tax rulings in Belgium, see page 13.

Net indebtedness

The Group's net indebtedness, adjusted for the fair value of interest rate swaps, amounted to MSEK 14 383 (12 305) of which MSEK 3 034 (3 332) was attributable to post-employment benefits. The Group has an average maturity of 4.8 years on interest-bearing liabilities.

In the quarter, the annual dividend of MSEK 8 487 was paid. In addition, a mandatory redemption of shares for a value of MSEK 9 705 was also made in the second quarter. The net debt/EBITDA ratio was 0.6 (0.5). The net debt/equity ratio was 41% (24).

Acquisition and divestment of own shares

During the quarter, 1 378 464 A shares, net, were sold for a value of MSEK 484. These transactions are in accordance with mandates granted by the Annual General Meeting and relate to the Group's long-term incentive programs.

Employees

On June 30, 2018, the number of employees was 35 995 (33 552). The number of consultants/external workforce was 3 180 (2 614). For comparable units, the total workforce increased by 2 767 from June 30, 2017.

Split of the Group

At the Annual General Meeting on April 24, it was decided to split the Group and distribute the shares of Epiroc AB to the shareholders of Atlas Copco. In June, the shareholders received one Epiroc share for each of their Atlas Copco shares. Epiroc AB was listed on Nasdaq Stockholm on June 18, 2018.

On distribution of the Epiroc shares, Atlas Copco recognized a capital gain in discontinued operations of MSEK 87 105, representing the difference between the fair value of Epiroc and the carrying value of Epiroc's net assets at the time of distribution. See page 14 for further information.

Revenues and operating profit – bridge

MSEK	Q2 2018	Volume, price, mix and other	Currency	Acquisitions	Share-based LTI* programs	Q2 2017
Atlas Copco Group						
Revenues	24 461	2 439	475	150	-	21 397
Operating profit	5 430	670	75	10	78	4 597
	22.2%	27.5%				21.5%

*LTI= Long term incentive

Compressor Technique

MSEK	April - June		January - June			
	2018	2017		2018	2017	
Orders received	11 924	10 279	16%	23 065	20 404	13%
Revenues	11 266	9 667	17%	21 001	18 935	11%
Operating profit	2 638	2 237	18%	4 887	4 367	12%
– as a percentage of revenues	23.4	23.1		23.3	23.1	
Return on capital employed, %	99	71				

- **Strong order growth continues - record order intake and revenues**
- **All major regions contributed to the growth**
- **Solid operating margin at 23.4%**

Sales bridge

MSEK	April - June	
	Orders received	Revenues
2017	10 279	9 667
Structural change, %	+1	+1
Currency, %	+3	+3
Organic, %	+12	+13
Total, %	+16	+17
2018	11 924	11 266

Industrial compressors

The demand for industrial compressors was strong and order volumes remained at a high level. The order intake increased compared to the previous year, while the sequential development was more or less flat. Year-on-year, the order growth was relatively stronger for larger compressors, compared to small and medium-sized compressors.

Geographically, and compared to the previous year, solid growth was achieved in all major regions. The strongest growth was achieved in China supported by strong demand for large turbo compressors.

Gas and process compressors

The order intake for gas and process compressors was strong in the quarter with noticeable growth in both China and Europe. The positive order development was supported by increased demand from air separation and natural gas applications.

Compressor service

The service business continued to grow steadily, with increased demand for more advanced services (e.g. service contracts). Growth was achieved in all regions, particularly in North America and China.

Innovation

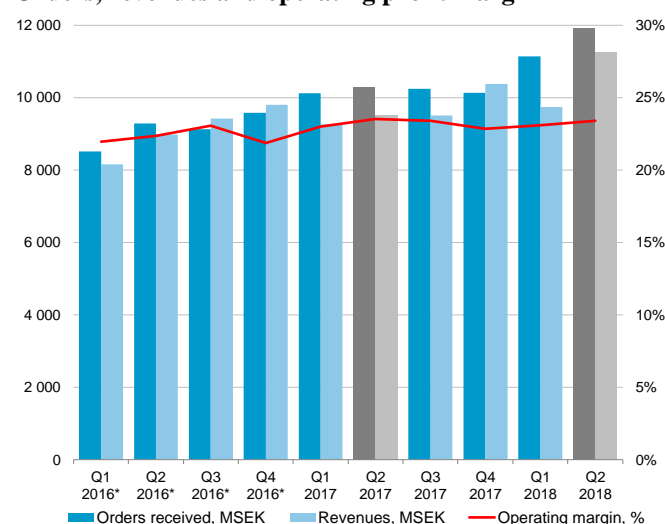
Several new products were launched in the quarter. One of those is a new oil-free rotary screw compressor, targeting applications in the food & beverage, electronics, textile and pharmaceutical industries. This new Variable Speed compressor delivers up to 35% energy savings compared to similar products and it is equipped with two high-efficiency permanent magnet motors, state-of-the-art compressor elements, a new cooler design, and improved monitoring system.

Revenues and profitability

Revenues increased to a record MSEK 11 266 (9 667), corresponding to an organic growth of 13%.

The operating profit increased to MSEK 2 638 (2 237), corresponding to a margin of 23.4% (23.1). Higher revenue volumes were the main explanation for the improved margin, while currency had a negative effect on the margin. Return on capital employed (last 12 months) was 99% (71).

Orders, revenues and operating profit margin



* 2016 figures not restated per IFRS 15.

Vacuum Technique

MSEK	April - June			January - June		
	2018	2017		2018	2017	
Orders received	5 596	4 989	12%	11 588	11 056	5%
Revenues	5 740	4 767	20%	10 995	9 520	15%
Operating profit	1 479	1 193	24%	2 771	2 369	17%
– as a percentage of revenues	25.8	25.0		25.2	24.9	
Return on capital employed, %	28	22				

- **Solid order level and record revenues**
- **Strong order growth in service and industrial vacuum**
- **Solid operating margin at 25.8%**

Sales bridge

MSEK	April - June	
	Orders received	Revenues
2017	4 989	4 767
Structural change, %	+2	+2
Currency, %	+2	+2
Organic, %	+8	+16
Total, %	+12	+20
2018	5 596	5 740

Semiconductor and flat panel display equipment

Supported by the continued strong underlying growth for electronic devices, the demand for equipment to the semiconductor and the flat panel display industry remained on a high level, although slightly below previous year. Sequentially, the order intake also decreased as a result of fewer large orders compared to the first quarter.

In the biggest markets and compared to the previous year, the order volumes increased in USA, was basically flat in China, but decreased in South Korea.

Industrial and high vacuum equipment

The demand for industrial and high vacuum equipment remained strong and the order intake increased significantly compared to the previous year. The growth was primarily driven by a broad range of industrial vacuum applications, and supported by increased market penetration and recently launched products. Sequentially, the order development was more or less flat.

Geographically, and compared to the previous year, the order intake increased in all regions.

Vacuum service

The order intake for the service business increased considerably for both industrial vacuum and the semiconductor industry. The positive order development was generated by growth in all regions.

Innovation

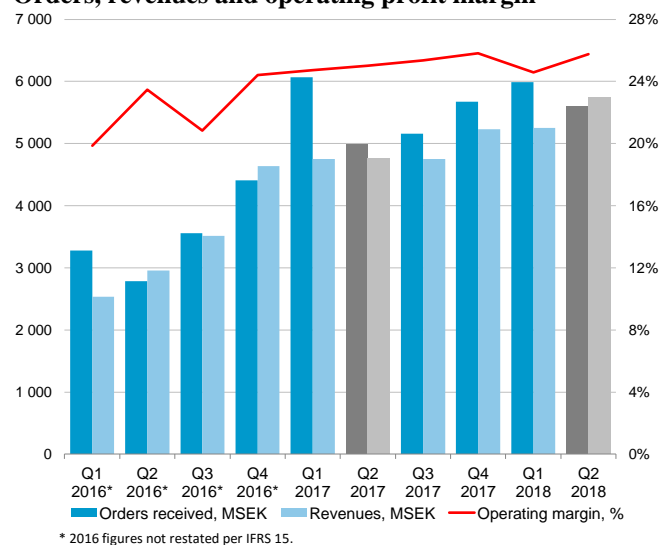
A new dry screw vacuum pump range was launched in the quarter. The new pumps have excellent contaminant handling capabilities in the harshest industrial conditions. A high tolerance for particulates makes the new screw pump range safe and flexible for the chemical processing industry.

Revenues and profitability

Revenues increased to a record MSEK 5 740 (4 767), corresponding to an organic increase of 16%.

The operating profit increased 24% to MSEK 1 479 (1 193) and the operating margin reached 25.8% (25.0). The increased margin was primarily due to the higher volumes while currency had no effect on the margin. Return on capital employed (last 12 months) was 28% (22).

Orders, revenues and operating profit margin



Industrial Technique

MSEK	April - June			January - June		
	2018	2017		2018	2017	
Orders received	4 713	4 230	11%	9 291	8 533	9%
Revenues	4 519	4 153	9%	8 697	8 118	7%
Operating profit	1 056	966	9%	2 030	1 859	9%
– as a percentage of revenues	23.4	23.3		23.3	22.9	
Return on capital employed, %	44	38				

- **Record order intake and revenues, supported by good demand from both motor vehicle and general industry**
- **Strong growth for service in all regions**
- **Solid operating margin at 23.4%**

Sales bridge

MSEK	April - June	
	Orders received	Revenues
2017	4 230	4 153
Structural change, %	+0	+0
Currency, %	+3	+3
Organic, %	+8	+6
Total, %	+11	+9
2018	4 713	4 519

Motor vehicle industry

The demand for advanced industrial tools and assembly solutions to the motor vehicle industry remained strong. The order intake increased compared to the previous year, supported by customers' needs for more advanced tools, more electrical vehicle projects, and increased market penetration in Asia. Sequentially, the order volumes remained at about the same high level as in the first quarter.

Compared to the previous year, order volumes increased in all major regions except North America.

General industry

The overall demand for industrial tools from the general industry was strong and order intake increased noticeably compared to the previous year. Strong demand from off-road, aerospace, general manufacturing, and electronic customers contributed to the good order development.

Geographically, growth was achieved in all major regions.

Service

The service business, including maintenance and calibration services, continued to grow significantly and in all regions.

Innovation

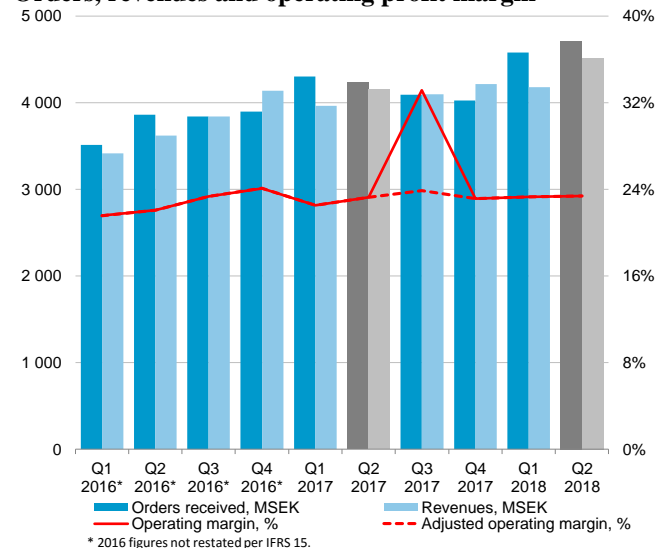
A test bench, with new joint simulating technology for best possible torque and angle testing accuracy, was launched in the quarter. The joint simulation functionalities can replicate real joint characteristics and guarantee tool testing in the real operating conditions without interfering with the production process.

Revenues and profitability

Revenues increased to a record MSEK 4 519 (4 153), corresponding to an organic increase of 6%.

Operating profit reached MSEK 1 056 (966), corresponding to an operating margin of 23.4% (23.3). The margin was supported by higher volumes and currency, which was offset by the effect of new investments in R&D and market presence. Return on capital employed (last 12 months) was 44% (38).

Orders, revenues and operating profit margin



Power Technique

MSEK	April - June			January - June		
	2018	2017		2018	2017	
Orders received	3 091	2 946	5%	6 428	5 881	9%
Revenues	3 091	2 908	6%	5 985	5 593	7%
Operating profit	464	475	-2%	1 011	879	15%
– as a percentage of revenues	15.0	16.3		16.9	15.7	
Return on capital employed, %	18					

- **Equipment order growth driven by Europe and Africa/Middle East**
- **Flat development for service**
- **Operating margin at 15.0%**

Sales bridge

MSEK	April - June	
	Orders received	Revenues
2017	2 946	2 908
Structural change, %	-2	-2
Currency, %	+2	+2
Organic, %	+5	+6
Total, %	+5	+6
2018	3 091	3 091

Equipment

The overall order intake increased compared to the previous year. Volumes for power equipment increased and were supported, among other things, by higher demand from equipment rental companies in USA and Europe. The order intake for portable compressors decreased, primarily in India and USA.

Compared to the previous quarter, and following a typical seasonal pattern, the order intake decreased for most types of equipment.

Specialty rental

The demand for the specialty rental business remained at a good level and the order intake increased compared to the previous year.

Geographically, the order volumes increased in all regions, except North America, where volumes were more or less unchanged.

Service

The service business orders were more or less unchanged, with a positive development in Europe, but a negative development in Asia.

Innovation

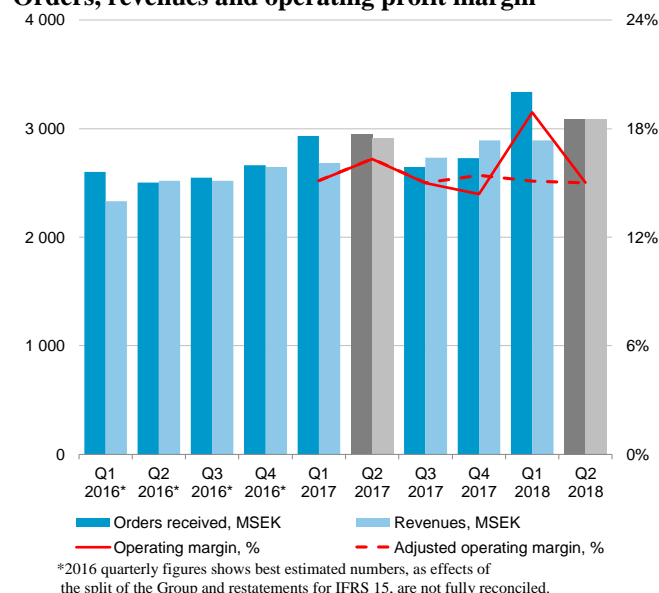
A lightweight and efficient mobile compressor, combined with a generator, was launched in the quarter. The new product will create value in a number of key applications, where the presence of an on-board generator minimizes the amount of equipment needed at customers' sites, to ensure access to power.

Revenues and profitability

Revenues increased to MSEK 3 091 (2 908), corresponding to an organic increase of 6%.

Operating profit was MSEK 464 (475), corresponding to a margin of 15.0% (16.3). The margin was negatively affected by sales mix, and under-absorption due to the recent structural changes (e.g. the split of the Group). Return on capital employed (last 12 months) was 18%.

Orders, revenues and operating profit margin



Accounting principles

The consolidated accounts of the Atlas Copco Group are prepared in accordance with International Financial Reporting Standards (IFRS). The description of the accounting principles and definitions are found in the annual report 2017. The interim report is prepared in accordance with IAS 34 Interim Financial Reporting. Non-IFRS measures are also presented in the report since they are considered to be important supplemental measures of the company's performance. For further information on how these measures have been calculated, please visit:

<http://www.atlascopcogroup.com/investor-relations>

New and amended accounting standards

IASB has issued new standards effective from January 1, 2018.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. The standard is applied by Atlas Copco from January 1, 2018. Comparative information has not been restated. Among other things, IFRS 9 introduces a new model for impairment of financial assets. The model's purpose is to recognize credit losses earlier than IAS 39. Additionally, the classification of some financial instruments has changed. Additional information can be found in the annual report 2017.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers has replaced previous revenue recognition standards. The standard is applied by Atlas Copco from January 1, 2018 with full retrospective application. The effects on relevant lines are detailed in the table below. The main effect comes from certain customized projects being recognized at completion instead of over time.

Balance sheet, MSEK	Dec. 31, 2017
Deferred tax assets	21
Inventories	395
Trade and other receivables	-123
Equity	-122
Deferred tax liabilities	-17
Trade payables and other Liabilities	432
Income statement, MSEK	2017
Revenue	57
Cost of sales	-88
Income tax expense	12

Risks and factors of uncertainty

Market risks

The demand for Atlas Copco's equipment and services is affected by changes in the customers' investment and production levels. A widespread financial crisis and economic downturn affects the Group negatively both in terms of revenues and profitability. However, the Group's sales are well diversified with customers in many industries and countries around the world, which limits the risk.

Financial risks

Atlas Copco is subject to currency risks, interest rate risks, tax risks, and other financial risks. In line with the overall goals with respect to growth, return on capital, and protecting creditors, Atlas Copco has adopted a policy to control the financial risks to which the Group is exposed. A financial risk management committee meets regularly to manage and follow up financial risks, in line with the policy.

Production risks

Many components are sourced from sub-suppliers. The availability is dependent on the sub-suppliers and if they have interruptions or lack capacity, this may adversely affect production. To minimize these risks, Atlas Copco has established a global network of sub-suppliers, which means that in most cases there are more than one sub-supplier that can supply a certain component.

Atlas Copco is also directly and indirectly exposed to raw material prices. Cost increases for raw materials and components often coincide with strong end-customer demand and can partly be compensated for by increased sales prices.

Acquisitions

Atlas Copco has the ambition to grow all its business areas, primarily through organic growth, complemented by selected acquisitions. The integration of acquired businesses is a difficult process and it is not certain that every integration will be successful. Therefore, costs related to acquisitions can be higher and/or synergies can take longer to materialize than anticipated.

For further information, see the annual report 2017.

Forward-looking statements

Some statements in this report are forward-looking, and the actual outcome could be materially different. In addition to the factors explicitly discussed, other factors could have a material effect on the actual outcome. 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

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 mentioning of the Board of Directors, the Board or the Directors refers to the Board of Directors of Atlas Copco AB.

Consolidated income statement

MSEK	3 months ended		6 months ended	
	Jun. 30 2018	Jun. 30 2017	Jun. 30 2018	Jun. 30 2017
Continuing operations				
Revenues	24 461	21 397	46 367	41 975
Cost of sales	-13 898	-12 061	-26 202	-23 708
Gross profit	10 563	9 336	20 165	18 267
Marketing expenses	-2 830	-2 526	-5 415	-4 987
Administrative expenses	-1 630	-1 411	-3 062	-2 841
Research and development costs	-826	-696	-1 575	-1 358
Other operating income and expenses	153	-106	150	-194
Operating profit	5 430	4 597	10 263	8 887
- as a percentage of revenues	22.2	21.5	22.1	21.2
Net financial items	-201	-395	-521	-627
Profit before tax	5 229	4 202	9 742	8 260
- as a percentage of revenues	21.4	19.6	21.0	19.7
Income tax expense	-1 335	-1 164	-2 508	-2 326
Profit for the period from continuing operations	3 894	3 038	7 234	5 934
Discontinued operations				
Profit for the period from discontinued operations ¹⁾	89 139	1 046	90 220	2 148
Profit for the period	93 033	4 084	97 454	8 082
Profit attributable to				
- owners of the parent	92 774	4 079	97 189	8 071
- non-controlling interests	259	5	265	11
Basic earnings per share, SEK	76.47	3.36	80.11	6.65
- of which continuing operations	3.21	2.50	5.96	4.88
Diluted earnings per share, SEK	76.33	3.32	79.74	6.59
- of which continuing operations	3.20	2.46	5.94	4.82
Basic weighted average number of shares outstanding, millions	1 213.1	1 213.5	1 213.3	1 213.9
Diluted weighted average number of shares outstanding, millions	1 215.4	1 215.1	1 215.8	1 215.4
Key ratios				
Equity per share, period end, SEK	29	43		
Return on capital employed, 12 month values, %	31			
Return on equity, 12 month values, %	26	27 ²⁾		
Debt/equity ratio, period end, %	41	24 ²⁾		
Equity/assets ratio, period end, %	38	43 ²⁾		
Number of employees, period end	35 995	33 552		

¹⁾ 2018 includes effect from the distribution of Epiroc ²⁾Including discontinued operations.

Consolidated statement of comprehensive income, including discontinued operations

MSEK	3 months ended		6 months ended	
	Jun. 30 2018	Jun. 30 2017	Jun. 30 2018	Jun. 30 2017
Profit for the period	93 033	4 084	97 454	8 082
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit pension plans	-29	-2	141	-172
Income tax relating to items that will not be reclassified	17	2	-18	56
	-12	0	123	-116
Items that may be reclassified subsequently to profit or loss				
Translation differences on foreign operations	1 509	-982	4 699	-948
- realized and reclassified to income statement	-934	-	-946	-
Hedge of net investments in foreign operations	-227	-230	-1 034	-198
Cash flow hedges	-25	79	45	109
Income tax relating to items that may be reclassified	146	126	634	100
	469	-1 007	3 398	-937
Other comprehensive income for the period, net of tax	457	-1 007	3 521	-1 053
Total comprehensive income for the period	93 490	3 077	100 975	7 029
Total comprehensive income attributable to				
- owners of the parent	93 230	3 076	100 708	7 019
- non-controlling interests	260	1	267	10

Consolidated balance sheet

MSEK	Jun. 30, 2018	Jun. 30, 2017*	Dec. 31, 2017*
Intangible assets	30 263	36 295	35 151
Rental equipment	2 078	2 892	2 934
Other property, plant and equipment	7 890	9 450	9 523
Financial assets and other receivables	1 118	2 287	2 098
Deferred tax assets	1 997	1 626	1 537
Total non-current assets	43 346	52 550	51 243
Inventories	12 926	18 341	18 810
Trade and other receivables	25 562	28 677	29 994
Other financial assets	98	1 754	1 295
Cash and cash equivalents	9 521	14 550	24 496
Assets classified as held for sale	1	3 231	193
Total current assets	48 108	66 553	74 788
TOTAL ASSETS	91 454	119 103	126 031
Equity attributable to owners of the parent	34 952	51 607	60 517
Non-controlling interests	50	74	84
TOTAL EQUITY	35 002	51 681	60 601
Borrowings	14 671	23 315	23 635
Post-employment benefits	3 034	3 332	3 034
Other liabilities and provisions	1 366	1 729	1 720
Deferred tax liabilities	658	611	438
Total non-current liabilities	19 729	28 987	28 827
Borrowings	6 297	1 869	1 513
Trade payables and other liabilities	28 694	33 785	33 008
Provisions	1 732	1 903	2 026
Liabilities directly associated with assets classified as held for sale	-	878	56
Total current liabilities	36 723	38 435	36 603
TOTAL EQUITY AND LIABILITIES	91 454	119 103	126 031

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

Fair value of derivatives, cash equivalents and borrowings

The carrying value and fair value of the Group's outstanding derivatives, liquidity funds and borrowings are shown in the tables below. The fair values of bonds are based on level 1 and the fair values of derivatives, liquidity funds and other loans are based on level 2 in the fair value hierarchy. Compared to 2017, no transfers have been made between different levels in the fair value hierarchy for derivatives and borrowings and no significant changes have been made to valuation techniques, inputs or assumptions. Liquidity funds, reported under cash equivalents, are according to IFRS 9 classified at fair value through profit and loss.

Financial instruments recorded to fair value

MSEK	Jun. 30, 2018	Dec. 31, 2017*
<i>Non-current assets and liabilities</i>		
Assets	-	-
Liabilities	-	90
<i>Current assets and liabilities</i>		
Assets	867	466
Liabilities	44	179

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

Carrying value and fair value of borrowings

MSEK	Jun. 30, 2018	Jun. 30, 2018	Dec. 31, 2017*	Dec. 31, 2017*
	Carrying value	Fair value	Carrying value	Fair value
Bonds	15 606	16 156	15 907	16 568
Other loans	5 362	5 454	9 241	9 370
	20 968	21 610	25 148	25 938

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

Consolidated statement of changes in equity

MSEK	Equity attributable to		Total equity
	owners of the parent	non-controlling interests	
Opening balance, January 1, 2018	60 517	84	60 601
Change in accounting principles	-37	-	-37
Changes in equity for the period			
Total comprehensive income for the period	100 708	267	100 975
Ordinary dividend	-8 487	-	-8 487
Distribution of Epiroc AB	-107 998	-301	-108 299
Redemption of shares	-9 705	-	-9 705
Acquisition and divestment of own shares	5	-	5
Share-based payments, equity settled	-51	-	-51
Closing balance, June 30, 2018	34 952	50	35 002

MSEK	Equity attributable to		Total equity
	owners of the parent	non-controlling interests	
Opening balance, January 1, 2017	53 105	72	53 177
Change in accounting principles	-102	-	-102
Changes in equity for the period			
Total comprehensive income for the period	7 019	10	7 029
Dividends	-8 246	-3	-8 249
Change of non-controlling interests	-12	-5	-17
Acquisition and divestment of own shares	-121	-	-121
Share-based payments, equity settled	-36	-	-36
Closing balance, June 30, 2017	51 607	74	51 681

Consolidated statement of cash flows, including discontinued operations

MSEK	April - June		January - June	
	2018	2017	2018	2017
Cash flows from operating activities				
Operating profit, continuing operations	5 430	4 597	10 263	8 887
Operating profit, discontinued operations	1 498	1 399	3 013	2 830
Depreciation, amortization and impairment (see below)	1 137	1 138	2 231	2 296
Capital gain/loss and other non-cash items	131	532	156	644
Operating cash surplus	8 196	7 666	15 663	14 657
Net financial items received/paid	-1 002	608	-609	-215
Taxes paid	-2 208	-2 616	-3 552	-4 436
Pension funding and payment of pension to employees	-77	-885	-179	-994
Change in working capital	-1 727	208	-3 435	-147
Investments in rental equipment	-498	-349	-906	-583
Sale of rental equipment	89	103	170	192
Net cash from operating activities	2 773	4 735	7 152	8 474
Cash flows from investing activities				
Investments in property, plant and equipment	-513	-359	-974	-722
Sale of property, plant and equipment	18	30	37	45
Investments in intangible assets	-239	-230	-483	-481
Sale of intangible assets	-	-	-	2
Acquisition of subsidiaries and associated companies	-220	-124	-1 185	-185
Divestment of subsidiaries	260	-	556	-
Other investments, net	-44	33	-178	41
Net cash from investing activities	-738	-650	-2 227	-1 300
Cash flows from financing activities				
Annual dividends paid	-8 487	-4 126	-8 487	-4 125
Distribution of Epiroc AB	-4 002 *	-	-4 002 *	-
Acquisition of non-controlling interest	-	-23	-	-17
Redemption of shares	-9 705	-	-9 705	-
Repurchase and sales of own shares	484	399	5	-121
Change in interest-bearing liabilities	3 510	-343	1 129	850
Net cash from financing activities	-18 200	-4 093	-21 060	-3 413
Net cash flow for the period	-16 165	-8	-16 135	3 761
Cash and cash equivalents, beginning of the period	23 249	15 191	24 496	11 492
Exchange differences in cash and cash equivalents	182	-178	1 160	-166
Cash and cash equivalents discontinued operations	2 255	-455	-	-537
Cash and cash equivalents, end of the period	9 521	14 550	9 521	14 550

*Cash in Epiroc closing balance at the time of distribution.

Depreciation, amortization and impairment

	2018	2017	2018	2017
<i>Rental equipment</i>	253	246	497	508
<i>Other property, plant and equipment</i>	404	440	815	891
<i>Intangible assets</i>	480	452	919	897
<i>Total</i>	1 137	1 138	2 231	2 296

Calculation of operating cash flow

MSEK	April - June		January - June	
	2018	2017	2018	2017
Net cash flow for the period	-16 165	-8	-16 135	3 761
Add back:				
Change in pensions	-	772	-	772
Change in interest-bearing liabilities	-3 510	343	-1 129	-850
Repurchase and sales of own shares	-484	-399	-5	121
Annual dividends paid	8 487	4 126	8 487	4 125
Redemption of shares	9 705	-	9 705	-
Distribution of Epiroc AB	4 002	-	4 002	-
Acquisition of non-controlling interest	-	23	-	17
Acquisitions and divestments	-40	124	629	185
Currency hedges of loans	1 071	-798	236	-438
Tax payment related to Belgian tax rulings	-	655	-	655
Operating cash flow	3 066	4 838	5 790	8 348

Discontinued operations (Epiroc and other divested businesses)

At the Annual General Meeting on April 24, 2018, it was decided to split the Group and distribute the shares of Epiroc AB to the shareholders of Atlas Copco. In June, the shareholders received one Epiroc share for each Atlas Copco share. Epiroc AB was listed on Nasdaq Stockholm on June 18, 2018.

Epiroc has been reported as discontinued operations since January 2018 with a retrospective effect in the income statement. On distribution of the Epiroc shares, Atlas Copco recognized a capital gain in discontinued operations of MSEK 87 105 representing the difference between the fair

value of Epiroc and the carrying value of Epiroc's net assets at the time of distribution. As part of the distribution, all historical translation differences allocated to Epiroc, amounting to MSEK 934, have been recycled to the income statement for discontinued operations.

As a reference, assets and liabilities held for sale on March 31, 2018 are shown below.

The Road Construction Equipment division within the Power Technique business area was divested on October 5, 2017 and reported as discontinued operations and assets held for sale since Q4 2016.

Assets and Liabilities held for sale

MSEK	Jun. 30, 2018	Jun. 30, 2017
Non-current assets	-	395
Current assets	-	2 826
Total Assets	-	3 221
Non-current liabilities	-	40
Current liabilities	-	838
Total Liabilities	-	878

Assets and Liabilities held for sale

MSEK	Mar. 31 2018
Non-current assets	12 817
Current assets	21 385
Total Assets	34 202
Non-current liabilities	507
Current liabilities	9 435
Total Liabilities	9 942

Income Statement

MSEK	3 months ended		6 months ended	
	Jun. 30 2018	Jun. 30 2017	Jun. 30 2018	Jun. 30 2017
Revenues	7 969	8 790	15 992	16 830
Cost of sales	-5 030	-5 737	-10 046	-10 890
Gross profit	2 939	3 053	5 946	5 940
Marketing expenses	-565	-675	-1 165	-1 313
Administrative expenses	-582	-607	-1 146	-1 174
Research and development costs	-217	-200	-439	-409
Other operating income and expenses	-77	-172	-183	-214
Operating profit	1 498	1 399	3 013	2 830
- as a percentage of revenues	18.8	15.9	18.8	16.8
Net financial items	-44	22	-101	42
Profit before tax	1 454	1 421	2 912	2 872
- as a percentage of revenues	18.2	16.2	18.2	17.1
Income tax expense	-354	-375	-731	-724
Remeasurement to fair value	87 105	-	87 105	-
Translation differences recycled	934	-	934	-
Profit for the period	89 139	1 046	90 220	2 148

Cash flows from discontinued operations

MSEK	April - June		January - June	
	2018	2017	2018	2017
Cash flows from				
Operating activities	86	1 466	748	2 756
Investing activities	-75	-154	-951	-495
Financing activities	5 863	-165	5 902	-56
Net cash flow for the period	5 874	1 147	5 699	2 205

Revenues by business area

MSEK (by quarter)	2016 ¹⁾				2017				2018	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Compressor Technique	8 156	8 976	9 421	9 803	9 268	9 667	9 552	10 437	9 735	11 266
- of which external	8 075	8 894	9 359	9 723	9 190	9 577	9 458	10 302	9 578	11 121
- of which internal	81	82	62	80	78	90	94	135	157	145
Vacuum Technique	2 536	2 953	3 511	4 635	4 753	4 767	4 754	5 229	5 255	5 740
- of which external	2 536	2 953	3 511	4 635	4 753	4 767	4 754	5 229	5 255	5 740
- of which internal	0	0	0	0	0	0	0	0	0	0
Industrial Technique	3 417	3 622	3 841	4 137	3 965	4 153	4 098	4 215	4 178	4 519
- of which external	3 406	3 611	3 830	4 125	3 951	4 139	4 086	4 201	4 163	4 504
- of which internal	11	11	11	12	14	14	12	14	15	15
Power Technique	2 331	2 519	2 519	2 647	2 685	2 908	2 732	2 892	2 894	3 091
- of which external	2 242	2 435	2 449	2 575	2 571	2 803	2 651	2 782	2 756	2 980
- of which internal	89	84	70	72	114	105	81	110	138	111
Common Group Items / Eliminations	-135	-122	-100	-133	-93	-98	-103	-128	-156	-155
Atlas Copco Group	16 305	17 948	19 192	21 089	20 578	21 397	21 033	22 645	21 906	24 461

¹⁾2016 quarterly figures shows best estimated numbers, as effects of the split and restatements for IFRS 15, are not fully reconciled.

Operating profit by business area

MSEK (by quarter)	2017				2018	
	Q1	Q2	Q3	Q4	Q1	Q2
Compressor Technique	2 130	2 237	2 225	2 370	2 249	2 638
- as a percentage of revenues	23.0	23.1	23.3	22.7	23.1	23.4
Vacuum Technique	1 176	1 193	1 205	1 350	1 292	1 479
- as a percentage of revenues	24.7	25.0	25.3	25.8	24.6	25.8
Industrial Technique	893	966	1 359	976	974	1 056
- as a percentage of revenues	22.5	23.3	33.2	23.2	23.3	23.4
Power Technique	404	475	410	416	547	464
- as a percentage of revenues	15.0	16.3	15.0	14.4	18.9	15.0
Common Group Items / Eliminations	-313	-274	-197	-253	-229	-207
Operating profit	4 290	4 597	5 002	4 859	4 833	5 430
- as a percentage of revenues	20.8	21.5	23.8	21.5	22.1	22.2
Net financial items	-232	-395	-222	-308	-320	-201
Profit before tax	4 058	4 202	4 780	4 551	4 513	5 229
- as a percentage of revenues	19.7	19.6	22.7	20.1	20.6	21.4

Acquisitions and divestments

Date	Acquisitions	Divestments	Business area*	Revenues MSEK**	Number of employees**
2018 Jun. 18		Epiroc AB		31 440	12 948
2018 Apr. 4	Klingel Joining Technologies		Industrial Technique	82	23
2018 Mar. 1	Walker Filtration Ltd.		Compressor Technique	330	220
2018 Feb. 2		Concrete and compaction business	Power Technique	570	200
2018 Jan. 17	Location Thermique Service SAS		Power Technique	70	13
2017 Oct. 5		Road Construction Equipment division	Power Technique	2 900	1 280
2017 Sep. 7	C.H. Spencer & Company Co. <i>Distributor USA</i>		Compressor Technique		40
2017 Aug. 8	Glauber Equipment Corporation (certain assets) <i>Distributor USA</i>		Compressor Technique		16
2017 May 3	Itubombas Locação Comércio Importação e Exportação		Construction Technique	50	40
2017 May 3	Pressure Compressores		Compressor Technique	145	150
2017 Mar. 2	Orcan Basincli <i>Distributor Turkey</i>		Compressor Technique		17
2017 Feb. 2	Erkat Spezialmaschinen und Service		Construction Technique	110	38
2017 Jan. 3	hb Kompressoren Druckluft- und Industrietechnik <i>Distributor Germany</i>		Compressor Technique		10

*Effective July 17, 2017, Construction Technique has changed name to Power Technique.

**Annual revenues and number of employees at time of acquisition/divestment. No revenues are disclosed for former Atlas Copco distributors. Due to the relatively small size of the acquisitions and divestments made in 2018, full disclosure as per IFRS 3 is not given in this interim report. Disclosure will be given in the annual report 2018. See the annual report for 2017 for disclosure of acquisitions made in 2017.

Parent company**Income statement**

MSEK	April - June		January - June	
	2018	2017	2018	2017
Administrative expenses	-166	-208	-294	-399
Other operating income and expenses	22	-26	31	11
Operating profit/loss	-144	-234	-263	-388
Financial income and expenses	14 073	5 550	50 082	5 341
Appropriations	-	-	-	-
Profit/loss before tax	13 929	5 316	49 819	4 953
Income tax	102	360	312	445
Profit/loss for the period	14 031	5 676	50 131	5 398

Balance sheet

MSEK	Jun. 30	Jun. 30	Dec. 31
	2018	2017	2017
Total non-current assets	140 761	112 194	150 823
Total current assets	8 732	14 653	27 167
TOTAL ASSETS	149 493	126 847	177 990
Total restricted equity	5 785	5 785	5 785
Total non-restricted equity	58 891	32 589	75 177
TOTAL EQUITY	64 676	38 374	80 962
Total provisions	460	566	702
Total non-current liabilities	49 086	54 524	55 540
Total current liabilities	35 271	33 383	40 786
TOTAL EQUITY AND LIABILITIES	149 493	126 847	177 990
Assets pledged	155	337	199
Contingent liabilities	8 582	8 348	8 355

Accounting principles

Atlas Copco AB is the ultimate Parent Company of the Atlas Copco Group. The financial statements of Atlas Copco AB have been prepared in accordance with the Swedish Annual Accounts Act and the accounting standard RFR 2, Accounting for Legal Entities. The same accounting principles and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements. See also accounting principles, page 8.

Parent company

Distribution of share capital

Share capital equaled MSEK 786 (786) at the end of the period, distributed as follows:

Class of share	Shares
A shares	839 394 096
B shares	390 219 008
Total	1 229 613 104
- of which A shares held by Atlas Copco	15 628 242
- of which B shares held by Atlas Copco	246 159
Total shares outstanding, net of shares held by Atlas Copco	1 213 738 703

Performance-based personnel option plan

The Annual General Meeting 2018 approved a performance-based long-term incentive program. For Group Management and division presidents, the plan requires management's own investment in Atlas Copco shares. The intention is to cover Atlas Copco's obligation under the plan through the repurchase of the company's own shares. For further information, see www.atlascopcogroup.com/agm.

Transactions in own shares

Atlas Copco has mandates to acquire and sell own shares as per below:

- Acquisition of not more than 3 300 000 series A shares, whereof a maximum of 2 300 000 may be transferred to personnel stock option holders under the performance-based stock option plan 2018.
- Acquisition of not more than 70 000 series A shares to hedge the obligation of the company to pay remuneration to Board members who have chosen to receive 50% of the remuneration in synthetic shares.
- 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 a maximum 6 200 000 series A and B shares currently held by the company, for the purpose of covering costs of fulfilling obligations related to the option plans 2013, 2014 and 2015.
- The shares may only be acquired or sold on NASDAQ Stockholm at a price within the registered price interval at any given time.

During the first six month of 2018, 13 354 series A shares, net, were divested. These transactions are in accordance with mandates granted. The company's holding of own shares at the end of the period appears in the table to the left.

Risks and factors of uncertainty

Financial risks

Atlas Copco is subject to currency risks, interest rate risks, tax risks, and other financial risks. In line with the overall goals with respect to growth, return on capital, and protecting creditors, Atlas Copco has adopted a policy to control the financial risks to which Atlas Copco AB and the Group is exposed. A financial risk management committee meets regularly to manage and follow up financial risks, in line with the policy.

For further information, see the 2017 annual report.

Related parties

There have been no significant changes in the relationships or transactions with related parties for the Group or Parent Company compared with the information given in the annual report 2017.

This is Atlas Copco

Atlas Copco is a world-leading provider of sustainable productivity solutions. The Group serves customers through its innovative compressors, vacuum solutions, generators, pumps, power tools and assembly systems. Atlas Copco develops products and services focused on productivity, energy efficiency, safety and ergonomics. The company was founded in 1873, is based in Stockholm, Sweden, and has a global reach spanning more than 180 countries. In 2017, Atlas Copco (excluding Epiroc AB) had revenues of BSEK 86 (BEUR 9) and about 34 000 employees.

Business areas

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

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.

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.

The **Industrial Technique** business area provides, through a global network, industrial power tools and assembly solutions, including tightening, bolting, riveting, adhesive dispensing, quality assurance products, material removal, software and service. 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, United States, United Kingdom, France, Japan and Hungary.

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.

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 sustainability strategy, backed by ambitious goals, helps the company deliver greater value to all its stakeholders in a way that is economically, environmentally and socially responsible.

For further information

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Conference call

A presentation for investors, analysts and media will be held on July 20, at 3.00 PM CEST.

The dial-in numbers are:

- Sweden: +46 8 566 427 00
- United Kingdom: +44 20 300 898 16
- United States: +1 855 831 5947

The conference call will be broadcasted. Please see our website for link and presentation material:

<http://www.atlascopcogroup.com/investor-relations>.

The recorded audio presentation will be available on our homepage following the conference call.

Third-quarter report 2018

The Q3 2018 report will be published on October 19, 2018. (Silent period starts September 20, 2018)

Capital Markets Day 2018

Atlas Copco will host its annual Capital Markets Day on November 15, 2018, in Stockholm, Sweden. More detailed information and instructions on how to register will be distributed prior to the event.

Fourth-quarter report 2018

The Q4 2018 report will be published on January 28, 2019. (Silent period starts December 31, 2018)

This information is information that Atlas Copco AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 12.00 CEST on July 20, 2018.

The Board of Directors and President declare that the interim report gives a fair view of the business development, financial position and result of operation of the Parent Company and the consolidated Group, and describes significant risks and uncertainties that the parent company and its subsidiaries are facing.

Nacka, July 20, 2018

Atlas Copco AB

Hans Stråberg
Chairman

Gunilla Berg
Director

Staffan Bohman
Director

Tina Donikowski
Director

Johan Forssell
Director

Sabine Neuß
Director

Mats Rahmström
Director
President and CEO

Anders Ullberg
Director

Peter Wallenberg Jr
Director

Mikael Bergstedt
Director
Union representative

Benny Larsson
Director
Union representative

Auditors' Review Report

Introduction

We have reviewed the interim report for Atlas Copco AB for the period January 1 - June 30, 2018. The Board of Directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other

review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with ISA and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not, in all material respects, prepared for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Nacka, July 20, 2018

Deloitte AB

Thomas Strömberg
Authorized Public Accountant